Q: How much did revenue and operating profit exceed the internal plans in Q3 (Oct-Dec)? Also, tell us about the strengths and weaknesses across business segments.

A: Medical Business and Scientific Solutions Division slightly exceeded our expectations. In Imaging Division, we saw an improvement in numbers due to the effect of new products, but still lower than planned.

Q: Consolidated operating profit in Q3 (Oct-Dec) was ¥27.5 billion. Was the internal plan around ¥22-23 billion?

A: Operating profit in Q3 (Oct-Dec) exceeded our expectations.

Q: Regarding full-year forecasts, in what cost line the approx. ¥10 billion for duodenoscopes is included on page 17 of the presentation material for the financial results?
Also, Elimination and Corporate is expected to see an increase due to upfront investments for Transform Olympus. What are the details?

A: The duodenoscope-related expense is included in COGS. One of the examples of upfront investments for Transform Olympus is expenses for strengthening our IT infrastructure.

Q: If Endoscopic Solutions Division (ESD) factored in the duodenoscope-related expense of ¥10 billion, can we understand that ESD’s profit guidance would have been revised upward by ¥15 billion without the expense as it was revised upward by ¥5 billion in the new guidance?

A: Your understanding is correct.

Q: Tell us about the inventory level of Imaging Division (IMD) at the end of December 2019, compared to the previous year and the end of September 2019. What are your thoughts on the current level?

A: The inventory as of the end of December 2019 was ¥18.6 billion in terms of value, unchanged from the end of September 2019. We view it as slightly high, partly due to the introduction of new products in Q3, but we would like to keep working on to control it to an appropriate level by promoting sales toward the end of the fiscal year.

Q: Was Q3 (Oct-Dec) really just a slight increase?

A: Q3 operating profit increased by approx. ¥6.0 billion compared with our internal plans.

Q: SG&A expenses were reduced by ¥26.2 billion YoY through Q3. The latest full-year guidance shows a reduction of ¥27.5 billion, meaning that you have almost achieved its revised full-year target. Tell us about the details of the reduction through Q3.

A: The breakdown is 1) approx. ¥8.0 billion from foreign exchange impact, 2) approx. ¥9.0 billion from R&D, and 3) approx. ¥8.0 billion from indirect expenses.

Q: Of the ¥27.5 billion full-year reduction target in SG&A expenses, how much do you expect from the foreign exchange impact? Also, in your explanation at Q2, there was a delay in expenses of around ¥5.0 billion mainly for sales promotion, but is it expected to be incurred within this fiscal year?

A: Of the total full-year SG&A expenses reduction, the estimated impact of foreign
exchange remains unchanged from Q2 at around ¥10 billion. In Q4, the pace of reduction is expected to slow down compared with the past 9 months, due to upfront investments for Transform Olympus and strengthening QA/RA functions. We also expect that costs that had been delayed will be incurred to some extent by the end of the fiscal year in making the new full-year SG&A guidance.

Q: Duodenoscope business’s annual sales is estimated to be only around ¥10 billion, so the cost of ¥10 billion to respond to the market sounds big. Explain the details.
A: It is the cost for transition from fixed-endcap duodenoscopes to disposable endcap.

Q: Is it a kind of recall expense?
A: It is not a recall expense. The company will voluntarily buy back fixed-endcap type and sell disposable-endcap type for transition.

Q: Will the transition be completed during this fiscal year? Is it good to understand that this cost will not continue in the next fiscal year?
A: All costs will be incurred in this Q4, but actual transition will be implemented from the next fiscal year and onward.

Q: In the Corporate Strategy announced on Nov. 6 2019, you announced that single-use endoscopes will be launched by 2023. Has that plan been moved forward with this transition?
A: The launch schedule for single-use endoscopes remains unchanged.

Q: How much impact should we assume from the new Coronavirus in China? Boston Scientific recently commented that sales in China might be down by 15% in this Jan-Mar quarter. Should Olympus also assume a negative impact of 15-20%?
A: We are not able to quantify the impact at this point because of ongoing constraints on business activities over there.

Q: On page 5 of the presentation material for the financial results, the actual SG&A reduction excluding forex impact was 6% for the period from Apr to Dec and 7% in Q3 (Oct-Dec). The reduction in Q3 appears to be large compared with the previous year. Can you give us major items that contributed to it?
A: There has been no trend change in terms of main reduction items. They are R&D and indirect expenses such as outsourcing and travel expenses. In other words, there is no special item that contributed to the reduction in Q3.

Q: Tell us why the number of the employees in ESD is increasing while the one in Therapeutic Solutions Division (TSD) is decreasing from the end of March 2019 and from the end of September 2019 according to Financial Data?
A: Starting from the beginning of this fiscal year, Medical Business has been reorganized from five business units to two divisions - ESD and TSD. Therefore, it is difficult to compare the breakdown of ESD and TSD like an apple and apple comparison vs the previous year. However, the number of the total employees for Medical as a whole in the data is correct.

Q: What are the major reasons why both revenue and operating profit for ESD grew significantly YoY in Q3?
A: ESD performed well due to continued strong momentum in China following Q2 and Russia’s government-led cancer prevention (oncology) project. On the operating profit side, in addition to selling relatively high-margin products in China and Russia, the progress we have made in controlling SG&A expenses on a companywide basis contributed to a higher growth in margin than that in revenue.

Q: Why is ESD also performing well in North America?
A: In North America, in addition to sales promotions taking effects, sales of refurbished products is trending strongly.

Q: The gastrointestinal segment in old classification is doing well in North America and Europe on an operational basis. Is it reasonable to think that there will be little purchase restraint prior to the new product launch? Plus, I remember that your original full-year guidance for both regions were pretty much flat YoY, correct?
A: We are having sales promotions to prevent such a purchase restraint. The full-year outlook for revenue growth in North America and Europe is roughly flat vs the previous year.

Q: Then, does that mean that the revenue growth rate will slow down in Q4 in North
America and Europe, where you have seen good momentum through Q3?
A: ESD mainly comprises systems and scopes for gastrointestinal endoscopes and surgical endoscopes. Revenue in gastrointestinal endoscopes is expected to be flat YoY but the one in surgical endoscopes, on the other hand, is expected to grow slightly.

Q: What is Olympus’s view on Boston Scientific’s single-use scopes, which received a clearance in Europe, following the US?
A: We are paying close attention to Boston Scientific. Some say that the reimbursement price will rise, but this is not the case yet. We understand that it is still in limited launch. So we continue to see the development in the market.

Q: Revenue growth rate of ESD in China on an operational basis was very high. Do you expect this to continue in Q4? How do you think about the impact of the Coronavirus?
A: As I mentioned earlier, it is difficult to quantify the impact of the Coronavirus at this point.
We imagine that hospitals must prioritize their budgets before making decisions for endoscopes given the situation. In addition, we have to anticipate various business constraints such as logistics disruptions.

(End)