Analysis of Business Results

Company Overview

In the global economy during the fiscal year under review, although the Asia region, particularly China, remained strong as a result of an expansion in internal demand, the global economy overall remained stagnant due to continued high unemployment rates in the U.S. and uncertainty over fiscal prospects in some parts of Europe. The Japanese economy continued to remain in a difficult situation owing partly to restrictions on electricity supply and appreciation of the yen, although restoration efforts are progressing in the aftermath of the Great East Japan Earthquake.

Amid this business environment, the Olympus Group worked to "transform Olympus into a more globally competitive company" and "strengthen our business presence in the emerging markets" based on the "2010 Corporate Strategic Plan," which commenced in the fiscal year ended March 31, 2011.

In the Medical Business, we implemented a variety of measures to minimize the impact of the earthquake on product supply, and developed large-scale new products in the gastrointestinal endoscope field and the surgical and therapeutic devices field. In the Life Science & Industrial Business, we launched new products in ultrasonographic inspection systems, microscopes and industrial endoscopes. Regarding the Imaging Business, we enhanced the lineup of products compliant with the "Micro Four-Thirds System" standard and worked to implement cost reductions. As a Groupwide initiative, we also worked to implement fundamental reform of our corporate governance system in light of our reflections on the problem of deferred posting of losses, which was discovered in November 2011.

The Olympus Group's overall consolidated net sales remained nearly at the same level as the previous fiscal year, increasing 0.2% year on year to ¥848,548million. This was due to the impact of the transfer of the inkjet printer business, as well as a decline in revenue in the Medical Business caused by the effects of foreign exchange and the earthquake, despite an increase in revenue in the Information & Communication Business. Although the operating loss in the Imaging Business was reduced, operating income decreased 7.5% year on year to ¥35,518 million as a result of foreign exchange effects and other factors.

Net loss was posted at ¥48,985 million (compared with a net income of ¥3,866 million in the previous fiscal year). This was due to factors such as the posting of impairment loss on business assets in the Imaging Business, and the recording of ¥39,282 million in income taxes including reversal of deferred tax assets due to a review of future taxable income.

During the fiscal year under review, the Olympus Group invested ¥61,356 million on research and development, and spent ¥37,961 million on capital investments.

Regarding foreign exchange, the yen appreciated against both the U.S. dollar and the euro compared to the previous fiscal year, reaching a record-high level particularly against the U.S. dollar. The average exchange rate during the period was ¥79.08 against the U.S. dollar (¥85.72 in the previous fiscal year) and ¥108.98 against the euro (¥113.12 in the previous fiscal year), which caused net sales and operating income to drop by ¥25,500 million and ¥5,700 million, respectively, year on year. At a constant rate of exchange, net sales and operating income rose 3.2% and 7.5%, respectively, year on year.

Results of Operations

Consolidated net sales in the Medical Business amounted to ¥349,246 million (down 1.7% year on year), while operating income amounted to ¥68,188 million (down 4.9% year on year).

In the surgical and therapeutic devices field, sales of disposable guide wires used for endoscope treatment such as for pancreatic ducts continued to be favorable, particularly in Japan, while sales grew for the VISERA ELITE integrated endoscopic video system, which supports endoscopic surgery with improved observation capability. There was an overall decline in revenue in the Medical Business for the period. This was the result of temporary difficulties in the procurement of parts in our flagship gastrointestinal endoscope field due to the impact of the Great East Japan Earthquake and the resulting adjustments we made to the production of some products. However, sales were solid in the period from October to March, when product supply recovered.

Operating income in the Medical Business declined due to a decrease in revenue resulting from the impacts of the earthquake and foreign exchange.

At a constant rate of exchange, consolidated net sales and operating income rose 2.8% and 4.3%, respectively, year on year.

Consolidated net sales in the Life Science & Industrial Business amounted to ¥92,432 million (down 8.3% year on year), while operating income amounted to ¥5,439 million (down 36.4% year on year).

In the life science field, although sales of products for research such as the BX3 series of inverted research microscopes grew in Japan and Asia, net sales decreased due to worsened market conditions in Europe and the U.S. and foreign exchange effects.

In the industrial field, revenue increased. This was the result of sales growth from the ultrasonic nondestructive testing equipment OmniScan MX2, which contributes to the safety and peace of mind of society, and new industrial videoscope product IPLEX UltraLite, the lightest and most compact model in the IPLEX series, as well as a favorable performance in sales of products such as industrial microscopes and optical measuring devices thanks to brisk conditions in markets related to electrical components and semiconductors.

However, there was a decrease in revenue in the Life Science & Industrial Business overall, partly due to the impact of a decrease in revenue resulting from the transfer of the inkjet printer business in March 2011.

Operating income in the Life Science & Industrial Business decreased due to the transfer of the inkjet printer business and the negative results in the life science field, despite an increase in operating income in the industrial field.

At a constant rate of exchange, consolidated net sales and operating income fell 4.1% and 14.1%, respectively, year on year.

Consolidated net sales in the Imaging Business amounted to ¥128,561 million (down 2.2% year on year), while operating loss amounted to ¥10,760 million (a ¥4,259 million contraction in operating loss compared with the previous fiscal year).

Revenue declined in the Imaging Business, mainly due to intensified competition and the impact of the floods in Thailand. This was despite favorable sales of new products in the OLYMPUS PEN series of interchangeable lens system digital cameras compliant with the "Micro Four-Thirds System" standard and the contribution from sales of OLYMPUS OM-D E-M5, the compact, lightweight and high-performance camera equipped with an electronic viewfinder, in addition to growth in sales of high-value added models of compact cameras such as the XZ-1, which is of the highest standard of picture quality for compact cameras.

Regarding the bottom line, operating loss in the Imaging Business was reduced thanks to an improvement in cost to sales ratio as well as cost reductions.

At a constant rate of exchange, consolidated net sales rose 1.5% year on year and the operating loss contracted by ¥2,042 million compared with the previous fiscal year.

Consolidated net sales for the Information & Communication Business amounted to ¥229,399 million (up 9.5% year on year), while operating income amounted to ¥5,277 million (up 0.7% year on year).

Net sales in the Information & Communication Business increased thanks not only to expanded sales channels for mobile phones, but also to favorable sales of smartphones.

Operating income in the Information & Communication Business was close to the same level as the previous fiscal year, mainly due to the impact of the amortization of goodwill from our making ITX Corporation into a wholly owned subsidiary by means of a share exchange in March 2011.

Consolidated net sales for the Others business amounted to ¥48,910 million (down 2.3% year on year) and operating loss was ¥7,992 million (compared with an operating loss of ¥3,606 million in the same period of the previous fiscal year).

Net sales for the Others business were down owing to overseas market deterioration.

However, operating loss for the Others business expanded because of increased research and development costs related to the acquisition of a regenerative medicine-related business.

Financial Position

As of the end of the fiscal year under review, total assets decreased ¥52,634 million compared to the end of the previous fiscal year to ¥966,526 million. Current assets decreased ¥6,976 million due to a decrease in cash and time deposits, and fixed assets decreased ¥45,658 million due to factors such as depreciation, amortization of goodwill and sales of investment securities.

Total liabilities increased ¥14,917 million compared to the end of the previous fiscal year to ¥918,498 million due mainly to an increases in long-term borrowings, less current maturities of ¥29,099 million, despite a decrease in short-term borrowings of ¥35,220 million.

Net assets decreased ¥67,551 million compared to the end of the previous fiscal year to ¥48,028 million, mainly because there was a net loss in the current fiscal year of ¥48,985 million and a decline in accumulated other comprehensive income of ¥14,219 million.

As a result of the foregoing, the equity ratio decreased from 11.0% as of the end of the previous fiscal year to 4.6%.

Cash Flows

Cash flows provided by operating activities were ¥30,889 million, compared with ¥30,469 provided by operating activities in the previous fiscal year. This was mainly due to ¥33,787 million in depreciation and amortization, ¥15,839 million in impairment loss, and ¥12,283 million in amortization of goodwill. In contrast, decreasing factors mainly included ¥19,929 million in income taxes paid, ¥13,990 million in interest payments and an increase of ¥11,681 million in accounts receivable.

Cash flows used in investing activities were ¥35,735 million, compared with ¥19,003 million provided by investing activities in the previous fiscal year. This was mainly due to purchase of property, plant and equipment totaling ¥22,761 million, purchases of intangible assets of ¥12,483 million, and payments for acquisition of new consolidated subsidiaries related to changes in scope of consolidation of ¥6,584 million. In contrast, increasing factors included ¥4,155 million in sales and redemption of investment securities.

Cash flows used in financing activities were ¥5,761 million, compared with ¥37,359 million used in financing activities in the previous fiscal year. This was mainly due to ¥63,197 million in repayments of long-term borrowings, less current maturities and ¥4,004 million in dividends paid. In contrast, increasing factors mainly included proceeds from long-term borrowing, less current maturities of ¥60,244 million.

As a result, cash and cash equivalents at the end of the current fiscal year amounted to ¥198,661 million, a decrease of ¥11,724 million compared to the end of the previous fiscal year.

Fiscal 2013 Outlook

Although there is expected a moderate trend towards recovery in the global economy going forward, there is a chance that it may underperform expectations due to downside factors including the protracted nature of fiscal uncertainty in Europe and the rising price of crude oil. Regarding the Japanese economy, while a positive contribution is expected from demand related to earthquake recovery projects in the immediate future, difficult conditions are expected to continue.

Given this environment, the Olympus Group will work to promote growth in core businesses by concentrating management resources on core technologies, with improvements in our profitability and financial standing as our top priorities.

In the Medical Business, we will work to achieve further growth with the launch of new products including THUNDERBEAT, an energy device, and EVIS EXERA III, the next-generation endoscopy platform system, which is the first renewal of its series for seven years. We will work to expand sales and improve revenue in the Life Science & Industrial Business by gradually launching new products such as element analysis devices in the industrial field, while enhancing products and strengthening sales in the markets of emerging countries in the life science field. In the Imaging Business, we will focus on high-value added products such as the OM-D series, a new generation camera, and carry on the transition to a business structure that steadily yields profit through cost reduction.

The forecast of consolidated financial results for the fiscal year ending March 31, 2013 is currently being formulated by the new management team that was appointed at the Extraordinary General Meeting of Shareholders held on April 20, 2012. The forecast will be disclosed as soon as we are able to announce it.