



## Yasuo Takeuchi

Director, Vice President and  
Chief Financial Officer

# Message from the CFO

## Progress of the Financial and Capital Strategies of 16CSP

### Issuer Rating Upgrade from Rating Institution

For Olympus, responding to the securities litigations related to the deferred posting of past losses and recovering financial credibility have been important management tasks. I take great pride as CFO in our ability to report to stakeholders that we have been making steady progress in addressing these tasks. Specifically, we reached a settlement in the last remaining securities litigation with institutional investors in July 2018. This settlement marks the resolution of all the issues that had previously presented risks with regard to the past scandals.

As CFO, reinforcing our financial position has been one of my priorities, and Olympus has been seeing improvements in return on equity (ROE) and equity capital in accordance with plans. In terms of our financial soundness, a massive recovery has been seen in the equity ratio. While this ratio stood at 4.6% on March 31, 2012, it soared to 45.2% on March 31, 2018, as our financial position was fortified through the reduction of interest-bearing debt. The 50% equity ratio goal set forth by 16CSP is thus now within our reach.

### Progress in Financial and Capital Strategies under 16CSP

16CSP target: ROE of 15% ▶ 14% in fiscal 2018 (progress in line with plans)

Goals	Initiatives	Progress
<b>Increase profitability (profit attributable to owners of parent)</b>	Strengthen financial position	• Equity ratio target of 50% forecast to be achieved ahead of schedule due to reduction of interest-bearing debt
	Improve credit ratings	• Issuer rating raised to single A, an increase of two levels during 16CSP (R&I)
	Diversify funding sources	• Fund procurement costs down (issuance of publicly available corporate bonds and commercial paper)
<b>Improve asset efficiency</b>	Reduce fixed assets	<ul style="list-style-type: none"> <li>• Appropriate control of shares held for purposes other than pure investment (sale of stock in Terumo Corporation and financial institutions)</li> <li>• Downsizing of balance sheet (sale of U.S. lease receivables and global reorganization and sale of fixed assets)</li> </ul>
<b>Control financial leverage</b>	Improve shareholder returns	• Phased increase in dividend payments targeting total return ratio of 30%

Note: Olympus adopted International Financial Reporting Standards (IFRS) from fiscal 2018. "Equity ratio" under Japanese GAAP (JGAAP) is equivalent to "ratio of equity attributable to owners of parent to total assets" under IFRS and "total net assets" under JGAAP is equivalent to "total equity" under IFRS.

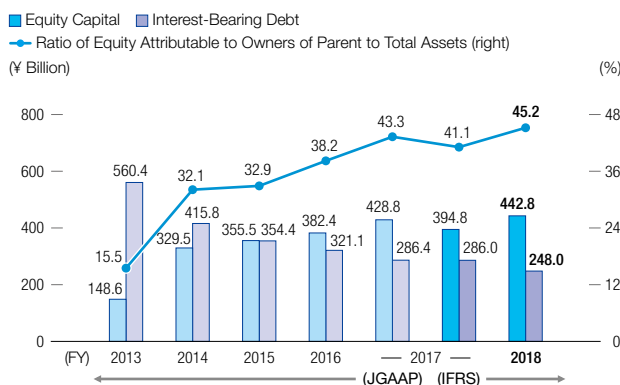
By optimally allocating and fully utilizing our management capital and resources, we will generate cash flows and achieve growth that exceeds capital costs in our pursuit of improved corporate value.

As a result of the ongoing improvement in our financial position, we have succeeded in improving our credit ratings. For example, Rating and Investment Information, Inc. (R&I), raised our issuer rating to a single A in July 2018. Reasons cited for this decision included our earnings rooted in our world-leading gastrointestinal endoscope operations and our relatively high competitiveness in the surgical device field. In addition, R&I referenced the high reliability of our overall ability to generate earnings and cash flows and the continuous improvements to our financial balance being achieved through profit accumulation and debt reduction. Praise was also directed toward our efforts to enhance our management structure in such a way as to allow for management that actively incorporates outside input as well as other improvements to stability.

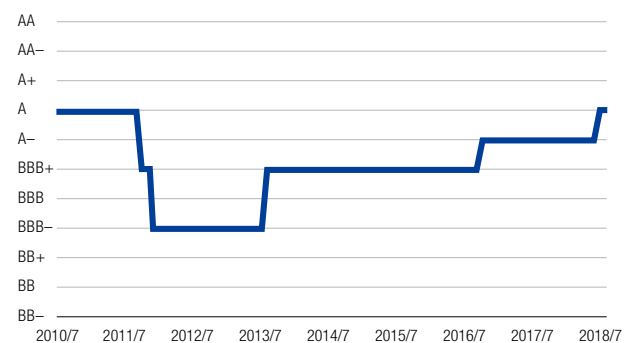
Credit ratings are crucial to being able to easily procure funds from global capital markets. Accordingly, we will continue working to improve our ratings by remaining mindful of financial stability and capital efficiency. Moreover, we are balancing overseas assets and liabilities to instill an added degree of resilience to foreign exchange rate fluctuations into our financial position.

Conversely, we recognize that the slow progress with regard to EBITDA, an indicator of business growth potential for which a target has been set in 16CSP, is an issue. This issue is due in part to delays from our initial schedule for introducing new products. We therefore must maintain financial soundness to ensure that we are able to conduct the investments necessary for compensating for these delays going forward.

### Equity Capital / Interest-Bearing Debt / Ratio of Equity Attributable to Owners of Parent to Total Assets



### Issuer Ratings



Message from the CFO

**Policy Regarding Allocation of Management Resources**

Our policy for allocating management resources over the medium-to-long term is to focus on strengthening our balance sheet while effectively utilizing capital to fund further growth. We are essentially done with the reorganization of non-core business domains, and we next plan to prioritize the allocation of resources to growth fields centered on the Medical Business. R&D expenditures will be conducted selectively while carefully discerning the anticipated benefits of each investment. At the same time, we will actively invest in innovation to remain in step with new technological advancements and continue growing into the future.

▶ For details, please refer to "Message from the President" on page 14.



As for capital expenditures, we are augmenting manufacturing equipment and repair bases centered on the Medical Business with an eye to 10 years down the line. The three Tohoku factories, our principal manufacturing bases, were expanded and renovated to improve production efficiency and allow them to better accommodate the growth of the Medical Business. We are now moving ahead with the reorganization, consolidation, and establishment of repair bases in Europe, North America, and other overseas regions. The basic strategy of 16CSP is to target organic growth. However, we will also proactively examine potential mergers and acquisitions as necessary to facilitate and accelerate the advancement strategies.

Furthermore, we recognize the need to turn our attention to the efficient allocation of management resources toward improving our non-financial value. By this, I refer primarily to the Olympus brand, our expertise, and our human capital, which are all sources of pride. Part of my job is to guide us in generating cash flows by fully utilizing our management resources.

**Shareholder Returns**

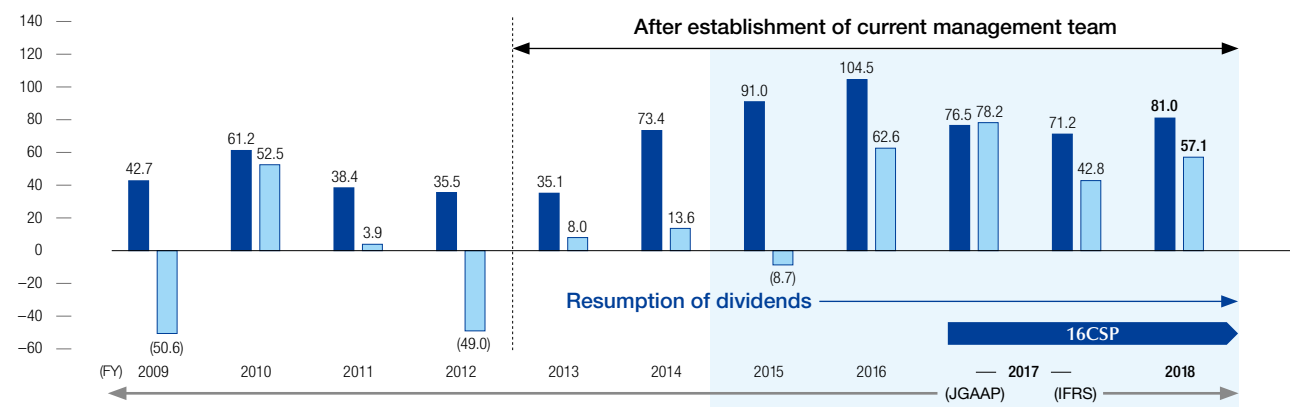
Our basic policy is to issue ongoing shareholder returns while maintaining a sound financial base and prioritizing investments in the Medical Business and other growth fields to improve corporate value. It was in fiscal 2015 that we resumed dividend payments after having refrained from making payments during the prior three years. We have continued to issue shareholder returns each year thereafter. In fiscal 2018, we issued

dividend payments of ¥28 per share, making for a dividend payout ratio of 17% and a total return ratio of 23%. We plan to issue dividend payments of ¥30 per share in fiscal 2019. Our financial position has improved substantially, putting our goal of an equity ratio of 50% within reach. We are therefore committed to living up to shareholder expectations through phased increases in dividend payments.

**Consolidated Performance**

■ Operating Profit ■ Profit (Loss) Attributable to Owners of Parent

(¥ Billion)



## Capital Cost and ROE Policies

In 16CSP, we have defined four important management indicators, based on which quantitative performance is to be evaluated. These indicators are ROE, the operating margin, the growth rate of EBITDA, and the equity ratio. The underlying principle behind our decision to set these indicators is for us to maintain ROE of 15% over the long term through earnest business reforms to improve profitability and asset efficiency, even as our financial leverage decreases due to efforts to ensure financial soundness. The target figure of 15% for ROE represents a level that will exceed our capital costs after financial soundness has been achieved through an appropriate capital structure. In addition, this is the level that Olympus will have to reach in order to stand shoulder-to-shoulder with other global medical equipment manufacturers and continue growing indefinitely.

Moreover, we believe that responding to the expectations of our shareholders and other stakeholders, and pursuing a balanced increase in the differing types of value sought by shareholders, customers, employees, and business partners, will in turn lead to improved corporate value. Sustained improvements to corporate value will require that we continue to generate returns that meet the expectations of our stakeholders while maintaining financial soundness, thereby ensuring that our business can achieve stable growth over the medium-to-long term. We will also need to maintain the financial position necessary for supporting efforts to meet these needs. Based on this premise, we will practice management that emphasizes the four management indicators I just mentioned, the perspectives they represent, and the balance among them with the aim of improving corporate value.

### Management Emphasizing ROE

ROE of 15%		Profit*							
		Equity capital							
				(JGAAP)		(IFRS)			
				FY2016 (Results)	FY2017 (Results)	FY2018 (Results)	FY2021 (Targets)		
Profitability	Ratio of profit* to revenue	=	$\frac{\text{Profit}^*}{\text{Revenue}}$	7.8%	10.5%	5.8%	Approx. 11%		
						7.3%	<ul style="list-style-type: none"> <li>Increase operating margin</li> <li>Improve balance of other income and expenses</li> </ul>		
Asset efficiency	Total asset turnover	=	$\frac{\text{Revenue}}{\text{Total assets}}$	0.8 times	0.8 times	0.8 times	Approx. 0.9 times		
						0.8 times	<ul style="list-style-type: none"> <li>Improve business asset efficiency</li> <li>Improve corporate asset efficiency</li> </ul>		
Financial leverage	Total assets Equity capital	=	$\frac{\text{Total assets}}{\text{Equity capital}}$	2.6 times	2.3 times	2.4 times	Approx. 2.2 times		
						2.2 times	<ul style="list-style-type: none"> <li>Manage financial leverage</li> <li>Conduct BS-based management</li> </ul>		

\* Profit attributable to owners of parent

## Tasks to Be Accomplished in Surviving Global Competition

Olympus is developing its business around the world. I am therefore tasked with the important responsibility of exercising headquarters functions in overseeing the regional management in charge of operations in specific regions. I feel strongly that Olympus will need to place great emphasis on global ideas going forward if it hopes to achieve ongoing growth. Equally important will be to fully and efficiently utilize our management resources on a global scale. The revision to Japan's Corporate Governance Code has made the possibility of appointing non-Japanese directors a topic of discussion from the perspective of diversity within boards of directors. For Olympus, however, I think that diversity of management needs to be prioritized before diversity of the Board of Directors. Effective global coordination among functions can increase our ability to execute strategies in research and development, sales, services, and all other areas of the value chain. However, this type of global coordination will expose us to various different cultures, ways of thinking,

and laws. For this reason, heightening our effectiveness along the value chain will require that we strengthen the headquarters functions that are responsible for global oversight. Moreover, it will be vital to strengthen these functions not as Japanese headquarters functions but as global headquarters functions. Such strengthening will be impossible if our headquarters functions consist entirely of Japanese people who do not understand foreign cultures and ways of thinking. If we do not appoint more non-Japanese individuals to management positions at our Tokyo headquarters, we will not be able to generate the ideas and make the decisions necessary to compete on the global stage. It is true that massive changes have been made to Olympus' corporate governance over the past six years. However, the Company still lacks the necessary speed when it comes to transforming its business operations. Diversity is crucial to Olympus at the moment. As we practice global and Groupwide management going forward, I will seek to fulfill the role of promoting diversity.