



Aiming for Sustainable Growth as a Truly Global Medtech Company

Message from the CEO

Yasuo Takeuchi
 Director, Representative Executive Officer,
 President and CEO

Becoming a Sustainable Company That Thrives in the Next 100 Years

Takeshi Yamashita founded Takachiho Seisakusho on October 12, 1919 with the aim of achieving the domestic production of microscopes. This signaled the beginning of Olympus. After that, we applied the optical technology we amassed in microscopes to cameras and endoscopes, thereby laying the foundations for today. The year 2019 marks the milestone of our 100th anniversary. I would like to express my sincerest appreciation for the warm support and kindness we have received throughout our history.

It is my honor to be appointed Representative Executive Officer, President and CEO in such an auspicious year. My

mission is to transform Olympus into a sustainable company that continues to make a mark over the next 100 years and ensure that we keep achieving Our Purpose of “making people’s lives healthier, safer and more fulfilling.” Although one of our mainstay products, the gastrointestinal endoscope, has commanded high market share over a long period, it’s unclear whether the same future can be guaranteed amid the current difficult business environment. I feel strongly that now is the time to change given it’s our centenary so that we can remain a company at the forefront of the industry for the next 100 years and beyond.

Review of Medium-Term Management Plan 16CSP

In 2011, Olympus was faced with a critical management juncture after issues with past activities regarding the deferral in the posting of losses came to light. We therefore positioned the four years between 2012 and 2016 as a reconstruction phase and made efforts to strengthen our compliance system and streamline non-business domains. Since 2016, we have moved on to the sustainable growth phase in which we

have been promoting our medium-term management plan, 16CSP (Corporate Strategic Plan), aimed at strengthening the foundations of our business and developing a strong business portfolio. Our core Medical Business has achieved steady business growth on the back of a required investment split between its five business units. Despite this, however, we have unfortunately not been able to accomplish the goals we set

under 16CSP due primarily to the strengthening of laws and regulations in different countries and delays in new product introductions. It is extremely important that we accurately identify changes in the market environment and swiftly take action with a view to the future. The Scientific Solutions Division is making steady progress toward achieving its target of a 10% operating margin. The Imaging Division functions as a driver of Companywide technologies supporting the technological capabilities of Olympus even though performance was down mainly due to intensifying competition and the discontinuation of operations at a manufacturing subsidiary in China.

Under 16CSP, we set management goals for return on equity (ROE), operating margin, earnings before interest, taxes, depreciation, and amortization (EBITDA), and equity ratio. The recording of significant one-time costs that included securities litigation settlements was a major factor behind the low level of

ROE for fiscal 2019. We also recognize that the results for the operating margin and EBITDA have left us with challenges. The equity ratio has improved markedly from 4.6% at the end of fiscal 2012 to 47.3% at the end of fiscal 2019 with continued efforts to bolster the soundness of our financial structure bearing fruit.

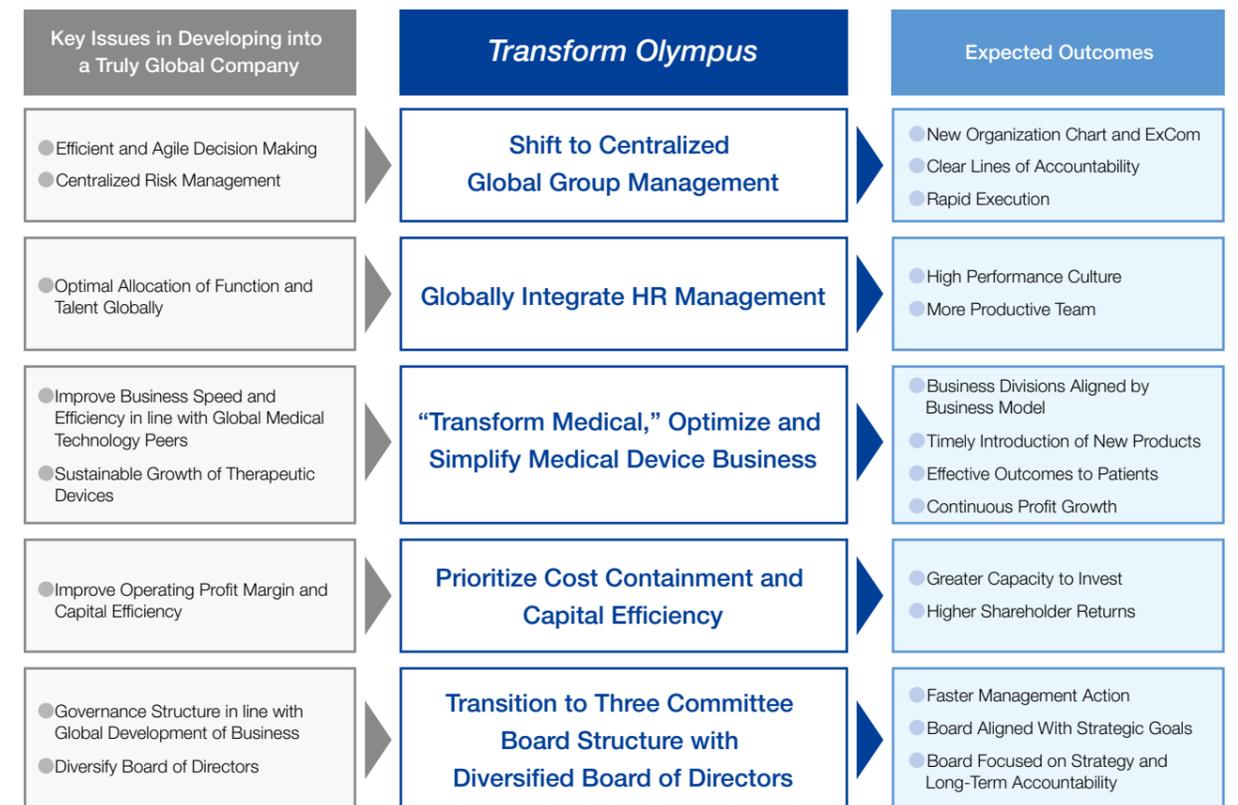
With regard to shareholder returns, Olympus has continued to increase dividends since resuming payments in fiscal 2015 after refraining from doing so during the prior three years. A year-end dividend of ¥30 per share was paid for fiscal 2019. We plan to issue dividend payments of ¥10* per share in fiscal 2020. In this way, we have evaluated our financial and capital strategies as being successful.

* Olympus conducted a four-for-one stock split of common stock on April 1, 2019.

Enhancement of Speed and Efficiency under *Transform Olympus*

Olympus announced *Transform Olympus*, our corporate transformation plan, in January 2019 with the aim of delivering continuous growth as a global medtech company. This plan is the culmination of years examining the challenges facing Olympus in consultation between our management team, including former president Sasa, and global business

consultants. To ensure ongoing growth going forward, we recognized the issue of enhancing the speed and efficiency of response to the external environment, which led to the formulation of the plan. Although approximately 80% of Olympus’ revenue is accounted for by the medical field, there is still room for significant improvement in efficiency and



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profitability in comparison with global medical device industry peers. We will seek to leap forward to becoming a global medtech company by implementing the five policies outlined in *Transform Olympus*.

Let me briefly explain the details and progress of these five policies.

First, we will shift to centralized global group management and clarify roles and responsibilities. Starting April 1, 2019, an executive management team consisting of five executive officers took on oversight of the entire organization. In addition to Chief Executive Officer (CEO), the team includes the Chief Operating Officer (COO), Chief Technology Officer (CTO), Chief Financial Officer (CFO), and Chief Administrative Officer (CAO), who have responsibility for formulating and achieving Companywide management strategies and plans. Overall responsibility and decision-making authority regarding the execution of plans has been delegated to Division Heads and Function Heads to speed up decision making. The effects of this policy have already started to emerge, including faster decisions being made.

Second, we will globally integrate human resources management. We will look to secure and utilize talent capable of management and business operation that help realize a truly global company. At the outset, we will establish the infrastructure to ensure that outstanding human resources in the Olympus Group are placed in optimal positions globally and promote the management of our talent so that we can retain exceptional individuals throughout the Group as we accelerate global growth. I am confident that reforming our Companywide management structure will lead to more professional human resources with a more rounded global outlook and therefore greater business efficiency while cultivating a corporate culture that encourages the pursuit of high performance. In April 2019, we changed our management-level human resource program in Japan from a capability-based system to a job-based system

to promote the use of global human resources.

Third, in April 2019, we reorganized the Olympus medical business into two global divisions: the Endoscopic Solutions Division for the handling of capital products such as endoscopes and the Therapeutic Solutions Division for the handling mainly of single-use devices. For the Therapeutic Solutions Division, we have established a global business headquarters in the United States and are working to build business foundations, which will give us better access to medical industry clusters as well as major clients in the United States, the largest therapeutic device market in the world.

Fourth, we will prioritize cost containment and capital efficiency. Olympus recognizes that there is a significant opportunity to improve the operating margin and capital efficiency in line with global medical device industry peers. To begin with, we aim to contain SG&A expenses to ¥413.0 billion in fiscal 2020 in order to enhance Companywide cost awareness, and we are strengthening initiatives toward this goal.

Fifth, we resolved to shift to a Three Committees Board Structure with a more diversified Board of Directors. By transitioning to such a structure, we intend to accelerate decision making on business execution, reinforce governance, further improve transparency, enhance the Board of Director's focus on supervising management's implementation of strategy, and increase management agility. In addition, we newly appointed three non-Japanese directors with proven global management experience in June 2019 to provide a more diversified Board.

While implementing these five policies, we have also evaluated our significant potential to boost profitability and have formulated a number of measures to realize this. Each of our employees is currently striving to drive this major transformation to becoming a global medtech company.

Realize an Operating Margin of 20%, the Same Level as Global Medtech Peers

Olympus unveiled a new corporate strategy in November 2019 to replace 16CSP. Under this corporate strategy, the Company's strategic aspiration is to grow into a globally leading medtech company contributing to people's lives by delivering innovative solutions that benefit patients, healthcare professionals, payors, and providers. We will aim for an annual average growth rate of 5-6% over the long term, an operating margin of at least 20%, and to get a leading position in therapeutic areas.

In order to achieve this strategic aspiration and the performance metrics of our corporate strategy, we will promote four core components aimed at bolstering business growth and profitability as well as four measures to ensure stronger organizational functions. The four core components for business growth and enhanced profitability are to (A) Focus our corporate portfolio, (B) Further strengthen leadership in endoscopy, (C) Focus and scale our TSD business, and (D) Lead in next-gen minimally invasive surgery.

Lead in next-gen minimally invasive surgery. It is imperative to strengthen organizational capabilities to support this business growth and we are promoting four measures to heighten our organizational functions, namely (1) Improving our operational and financial performance, (2) Build capabilities fit for growth (3) Evolving our corporate culture, and (4) Focusing on the customer and value.

This corporate strategy is our basic direction. We plan to implement an action plan in pursuit of ongoing improvement in line with changes in the environment. By undertaking these initiatives, we aim to achieve an annual average growth rate of 6% in the Endoscope Solutions Division and 8% in the Therapeutic Solutions Division within the mainstay medical field.

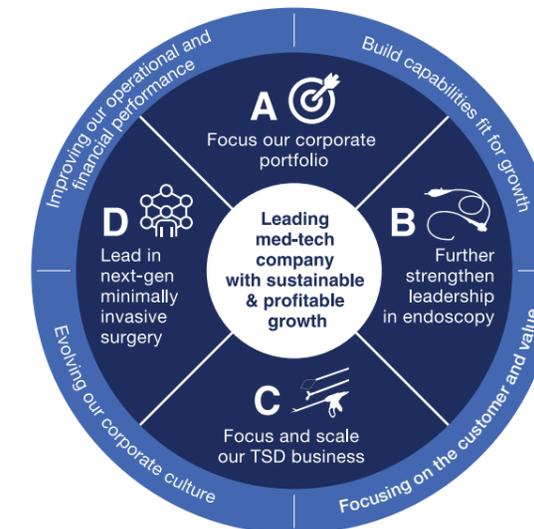
As initiatives to realize future growth and transformation, we are committed to progressing in three steps. First, we will focus on measures that can bring us short-term results in

Our Strategic Aspiration and Performance Metrics

Our aspiration is to **become a globally-leading medtech company** contributing to people's lives by delivering innovative solutions that **benefit patients, healthcare professionals, payors and providers**

-  Sustain **5-6%** Growth Annually
-  Deliver **>20%** consolidated corporate operating margin*
-  Become **leaders** in the therapeutic areas where we compete (GI-ET, urology and respiratory)

Our Corporate Strategy



- A** Focus the corporate portfolio, centering on Medical
- B** Maintain leadership in reusable endoscopes
Complement our portfolio with single-use endoscopes to accelerate growth and address unmet needs
Evolve the endoscopy commercial model – shift towards service-based offerings and procedure-based business models
- C** Focus and scale prioritized therapeutic areas (GI-ET, urology and respiratory)
- D** Develop a leading position in next-generation minimally invasive surgery by **delivering integrated technologies designed to improve clinical and economic outcomes**

FY2023/3 Financial Guidance and Supporting Financial Indicators

		FY2020/3	Target FY2023/3
Financial Guidance	Operating Margin*	Approx. 11%	>20%
	Free Cash Flow Growth*	Approx. ¥50 Billion	>20% CAGR from FY2020/3
Supporting Financial Indicators	ROIC*	Approx. 10%	>20%
	EPS Growth*	¥47	>25% CAGR from FY2020/3

*Adjusted for extraordinary items

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procurement, our R&D portfolio, and inventory management. We will then accelerate efforts to enhance profitability based on *Transform Olympus*, and through this, achieve an operating margin of 20% in three years by fiscal 2023. Finally, after transforming into a lean and efficient corporate structure,

we will embark on efforts to strengthen competitiveness to stimulate sustainable growth such as mergers and acquisitions and large-scale investments using the free cash flow we have generated as the source.

expect the situation to become even stricter moving forward. As such, we will invest more management resources in an effort to keep pace with these changes. We will also focus on driving innovation based on the customer's perspective and needs, and introduce products in a timely manner that incorporate technology that differentiates us from our competitors and that meets market requirements.

Olympus has established a position as a global player in

business centered on medical fields. But there is still room for improvement in terms of reinforcing and coordinating functions on a global basis. As we move into the future, we will look to maximize the performance of the entire Olympus Group and build up strong capabilities through the global management of talent, the strengthening of IT infrastructure, the appropriate allocation of resources, and more robust business development.

Aim to Expand the Therapeutic Solutions Division While Strengthening Our Dominant Position in the Endoscope Solutions Division

In the Endoscope Solutions Division, our largest business, we aim to have the most comprehensive endoscopy portfolio on the market, supported by the evolution of a commercial model, to enhance the value we bring in early diagnosis. In the next few years, we expect further innovation in the gastrointestinal endoscope market, and as a leading company in the industry, we aim to grow and expand our business with a focus on early diagnosis and minimally invasive therapy.

First, we will endeavor to strengthen our leadership position in reusable endoscopes, one of our traditional areas of advantage, through continued innovation and commercial excellence.

We already command a dominant position in industrialized nations, and going forward we project high growth mainly in regions with significant scope for market expansion such as China and India. Additionally, in next-generation gastrointestinal endoscope systems, we will introduce technologies that drive innovation in detection, characterization, staging, and treatment of lesions with the aim of setting new standards for endoscopic diagnosis and therapy.

Next, we will seek to build a leading product portfolio for all endoscopic medical areas and reinforce our competitiveness by adding single-use endoscopes to our lineup. We are forecasting a high average annual growth rate of 20-40% in the single-use market over the next five years and believe single-use endoscopes are becoming the preferred choice in cases

requiring urgent and convenient preparation and high-level infection control and also since no maintenance is required. We are currently developing single-use endoscopes for the duodenum, biliary duct, and urinary tract.

Also, in line with the concept on value-based healthcare, we will shift to a commercial model based on medical cases and maintenance services. We will initiate trials of evidence or procedure-based payment models for targeted products and regions, and scale up pilot programs of all-inclusive maintenance services that include reprocessing (cleaning, disinfection, sterilization). Through these three strategies, we will further reinforce our current dominant position.

In the Therapeutic Solutions Division, where further growth is expected, we will focus on our highly competitive domains. The fields of gastrointestinal endotherapy, urology, and respiratory endotherapy are positioned for us to aim for leading positions in the market, and we believe we can increase the feasibility of growth by expanding products and spreading procedures backed up with strong sales practices. We established the global headquarters for this division in the United States in April 2019 and will pursue unique value through aggressive merger and acquisition activities, concurrent product development, and the strengthening of functions with regulatory and clinical affairs departments.

Contribute to Realizing a Sustainable Society by Taking a Proactive Stance on ESG

Amid drastic changes in global and social environments, Olympus needs to undertake its business activities from an ESG perspective in order for us to grow sustainably. We are making strides in identifying material issues (materiality) and have formulated six ESG areas of high importance to the Company. Going forward, we will make stronger efforts in particular for four actions within these six ESG areas ((1) Healthcare access and outcomes, (2) Compliance, product quality and safety, (3) Responsible procurement and (4) Employee diversity and inclusion).

Since our founding, Olympus has provided value to society through products and services in medical, scientific, and imaging fields, among others. As we forge ahead, we will look to fulfill our responsibility to society and stakeholders by carrying out these four actions, and at the same time, seek to improve our economic value and realize sustainable growth.

We will Actively Engage on Six ESG Areas:



Olympus will Focus on Improving:

-  Healthcare access and outcomes
-  Compliance, product quality and safety
-  Responsible procurement
-  Employee diversity and inclusion

Strengthening Organizational Capabilities Supporting Business Growth

To drive further growth in the medical field going forward, Olympus must reinforce the capabilities that serve as our foundation. We will work on reforming the mindset of employees while reviewing organizational structures and systems so that we continue to be a company that can generate high profitability and efficiency. In this respect, two of the key challenges to be addressed are "improving our operational and financial performance" and "build capabilities fit for growth."

First, in terms of improving our operating and financial performance, we will strive to enhance profitability by implementing various measures formulated under *Transform Olympus* over the next 3-4 years. We will aim to achieve an operating margin of 20%, the same level as global medtech peers, by significantly boosting profitability through efforts to

drive growth in profit via greater efficiency in addition to growth via sales gains.

Next, to build capabilities fit for growth, we will make efforts to strengthen our medical affairs functions in pursuit of business expansion in the medical field. We will endeavor to maximize customer value and contribute to the realization of a safe and secure medical environment by shifting from the provision of conventional value based on product offering and technological expertise to the provision of value based on medical evidence and medical data. In addition, we will bolster quality and regulatory functions with a view to the next 5-10 years in order to continue to expand business in the medical field and provide safe, high-quality products to stakeholders. We believe that it is a matter of course for laws and regulations to be strengthened and for legal requirements to increase as time passes and

Aiming to Foster a Culture of High Performance Based on Individual Awareness of Productivity

I am of the opinion that the most important point in becoming a sustainable company is to change the corporate culture rooted in that company. Olympus has developed many products that contribute to society, and we are a company with lots of opportunities and potential. Our medical devices provide value in the form of early diagnosis and minimally invasive therapy, thereby helping to improve the quality of life of patients while reducing their medical expenses, which are on the rise globally. Our scientific products play a part in life science research and the realization of a safe society, and our imaging products capture those irreplaceable moments in life and help make people's lives more fulfilling.

On the other hand, when looking at the external environment, the market has been changing at an unprecedented speed in recent years, and in order to respond quickly to these changes and survive, it is necessary to swiftly drive innovation and

meet the new era head on. In such times, it is imperative to establish a corporate culture that is customer oriented and encourages speed of action and efficiency. As we continue along our journey to become a global medtech company, we must change to a corporate culture that encourages high performance in which each employee is conscious of productivity. I will take the lead in advancing reform of the corporate culture for the entire organization while being careful to express what each individual needs to do in order to help us fulfill this goal.

November 2019



Yasuo Takeuchi

Director, Representative Executive Officer, President and CEO