Message from the CFO

> "We are transforming into a global medtech company through long-term oriented resource allocation."

Chikashi Takeda
Executive Officer and Chief Financial Officer

Review of Fiscal Year 2020

Looking at the results for fiscal year 2020, the effects of the COVID-19 pandemic were seen in the fourth quarter, but we finished the year with increased revenue and profit, consolidated revenue having increased 0.4% year on year to ¥797.4 billion, while operating profit surged by 195% to ¥83.5 billion. On an organic basis, excluding any foreign exchange impact, consolidated revenue grew 4% year on year, and operating profit was up 232%.

In terms of consolidated revenue, the medical field, which combines the Endoscopic Solutions Division and the Therapeutic Solutions Division, achieved record high revenue for three consecutive years and led overall revenue. In the medical field, sales of gastrointestinal endoscopy systems were particularly strong in China, and sales increased by 22% on an organic basis, excluding the effect of foreign exchange, compared with the previous fiscal year. We aim for high growth in China going forward. There was a significant increase in profit compared with the previous fiscal year, as in addition to the optimization of expenses, which included those for R&D, sales promotion, and travel, there were none of the extraordinary items (loss related to securities litigation, the restructuring costs for the Imaging business' manufacturing subsidiary, etc.) that had been incurred under other expenses in the previous fiscal year.

Although the results visible in the financial statements are still limited, we conducted a number of initiatives under *Transform Olympus* to optimize costs and improve operational efficiency. We have selected over a thousand themes, but here I would like to take this opportunity to introduce two finance function initiatives.

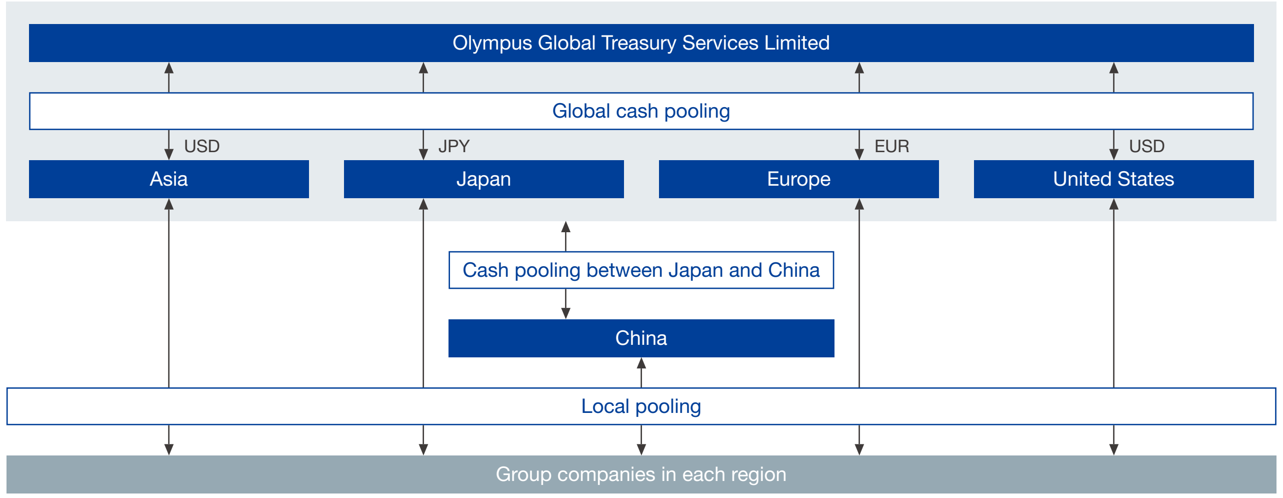
The first is the setup of a global cash management system. We have established a global cash pooling system by strengthening and expanding cash pooling, which had previously been concluded in each region, and consolidating funds in a financial subsidiary (Olympus Global Treasury Services Limited) located in the United Kingdom. Taking advantage of this mechanism, we have also introduced settlement netting for intragroup transactions among Japan, the United States, and Europe. As a result of these moves, "borders" will be removed in terms of cash, and we can expect strengthening of capital efficiency and financial management.

The second initiative is the setup of a framework and organization that will carry out procurement activities globally. We will also install a range of tools to completely change procurement activities, which had been carried out within a limited range and with limited information, and capture previously hidden value. These are by no means an advanced or even an original initiative, but with regard to those themes in which there is still room for improvement, we believe that the first endeavor in creating value is to unhesitatingly incorporate best practices and promote them at an accelerated pace.

The impact of COVID-19 from the latter half of the fiscal year forced a financial slowdown in the fourth quarter, but including these efforts, I evaluate the fiscal year under review as one in which steady progress was made.

Global Cash Management System

From April 2020 Expanding cash pooling to a global level



Ensuring Liquidity on Hand

	FY2017	FY2018	FY2019	FY2020
Cash and cash equivalents	¥199.5 billion	¥191.2 billion	¥114.4 billion	¥162.5 billion
Interest-bearing debt	¥286.0 billion	¥248.0 billion	¥181.3 billion	¥280.9 billion

FY2023 Financial Guidance and Supporting Financial Indicators

		FY2023 Targets
Financial guidance	Operating margin*1	> 20%
Supporting financial indicators	Free cash flow growth*1	> 20%*2
	ROIC*1	> 20%
	EPS growth*1	> 25%*2

*1 Adjusted for extraordinary items
*2 CAGR from FY2020

Response to COVID-19 and Moving toward Achievement of Financial Guidance for Fiscal Year 2023

We shared some financial targets in the corporate strategy announced in November 2019. In the current fiscal year, ending March 31, 2021, which is the first year for promoting various activities toward these targets, we started by responding to the unprecedented situation of the COVID-19 pandemic. In addition to revise the annual business plan, which had been temporarily formulated in mid-March 2020, we undertook initial measures by focusing on two points: ensuring liquidity on hand and strictly controlling expenditures.

With regard to ensuring liquidity on hand, we performed financial simulations on the assumption that the impact of COVID-19 on business performance would continue for the coming year. To ensure the necessary working capital, we then issued ¥60 billion in commercial paper by the end of March and raised ¥150 billion in long-term funds from April onward. This financing has enabled us to continue supplying our products and services to the patients and healthcare professionals who need them as well as to secure future business opportunities.

Next, we conducted a review of expenditures on a zero basis to ensure operating cash flow even in a business environment that we were expecting would be harsh. Each division thoroughly discussed the necessity of expenditures with the finance function and we significantly reduced SG&A expenses compared with the original plan by reviewing non-urgent expenses.

After three months had passed, anticipating the time after the lifting of the state of emergency and the situation returning to normal, we identified those activities that should be focused on in the current fiscal year to achieve our strategic goals and shared them with all the parties concerned. Specifically, there were five activities: focus our corporate portfolio; structural reform of fixed costs; the successful launch of next-generation gastrointestinal endoscopy system, EVIS X1; continued steady investment in product development for future growth; and driving efficiency in our R&D operations. These are only activities related to solving issues, such as how to grow and how to allocate management resources as a medtech company. While always considering the risks from COVID-19, we cannot focus exclusively on the situation in front of us. I will be resolutely prepared not to put off making tough and difficult decisions to achieve sustainable growth toward the achievement of the stated targets.

Maximize Corporate Value and Shareholder Value through Resource Allocation

I think that the most important mission of a CFO is resource allocation. A CFO must optimally allocate the resources that a company has at its disposal and maximize its corporate value. Olympus' business is characterized by the fact that, while product development (investment) takes time, we can expect the effect of sales (returns) to span several years. For that reason, investment evaluations from a medium- to long-term perspective are important. Also, an important requirement in discussing and considering where and how much to allocate is that the analysis methods and evaluation criteria be unified. Of course, it goes without saying that you need to have a good understanding of projects.

Under the corporate strategy, in addition to the financial guidance of "operating margin of over 20%," return on invested capital (ROIC), cash flow, and earning per share (EPS) have also been adopted as supporting financial indicators. In particular, ROIC is positioned as a major indicator for measuring returns on invested assets, and the finance function is making efforts to further enhance related methods to enable the multifaceted analysis and evaluation for each individual project. We are also working to create a system that enables us to collaborate more as a partner of the business divisions. The finance function believes that it is necessary not only to evaluate projects, but also to actively support business divisions in creating added value. Through these kinds of efforts to realize the optimal allocation of resources, I would like to maximize the future cash flow generated from each project and maximize the corporate value that is the sum of them. I believe that these efforts will lead to improvements in corporate value for all, including doctors and other healthcare professionals, the patients, shareholders and investors, employees, and business partners.

I consider time to be another management resource, and always maintain an awareness of how I allocate time. What I should be doing now, how fast should I do it, or what I should stop doing. I think how to use time, which is allocated equally to everyone, is very important. In terms of its time resources, Olympus only has the same as other global medtech companies. In that sense, it is a resource of which I am particularly aware.

Optimal Capital Structure Policy

With regard to capital structure, I aim to optimize the cost of capital. In 16CSP, the previous medium-term management plan, we set an equity ratio target figure of 50% or more. This took into consideration the risks that were present when 16CSP was formulated, and I think it was the required level at that time. At the present time, however, the risks that we had at that time have been eliminated, and underpinned by the solid Endoscopic Solutions Division, so we now expect the generation of a stable operating cash flow. I think it is time to focus on exercising leverage and move to management policies that give more consideration to the optimization of capital costs.

Specifically, we will pursue a balance between financial soundness and capital efficiency while remaining aware of financing costs (rating levels). Currently, our credit ratings are A for R&I and BBB+ for S&P, but if conscious of the financing costs, the rating levels that should be aimed for and maintained are A- to A+ for R&I and BBB+ to A- for S&P. Going forward, we will work to reduce the cost of capital by referring not only to the equity ratio but also to the interest-bearing debt/EBITDA ratio as a financial KPI.

Ratings (As of July 20, 2020)

	Types of bonds	Rating
Rating and Investment Information, Inc. (R&I)	Long-term bond	A
	Short-term bond	a-1
S&P Global Ratings Japan Inc. (S&P)	Long-term bond	BBB+
	Short-term bond	—

Meeting Shareholder Expectations by Growing the Business

I think that what shareholders and investors expect from us is to invest in the business opportunities that only Olympus can, to deliver innovative solutions that benefit patients, healthcare professionals, payors and providers and to achieve returns. The top priority is investing in business. We would like to grow our business and meet the expectations of our shareholders.

As a guide, the total return ratio is being maintained at 30% until fiscal year 2021. We will pay dividends in a stable and continuous manner. With regard to the buyback, we will actively consider any surplus funds after having secured a certain amount of liquidity on hand for working capital and investment.

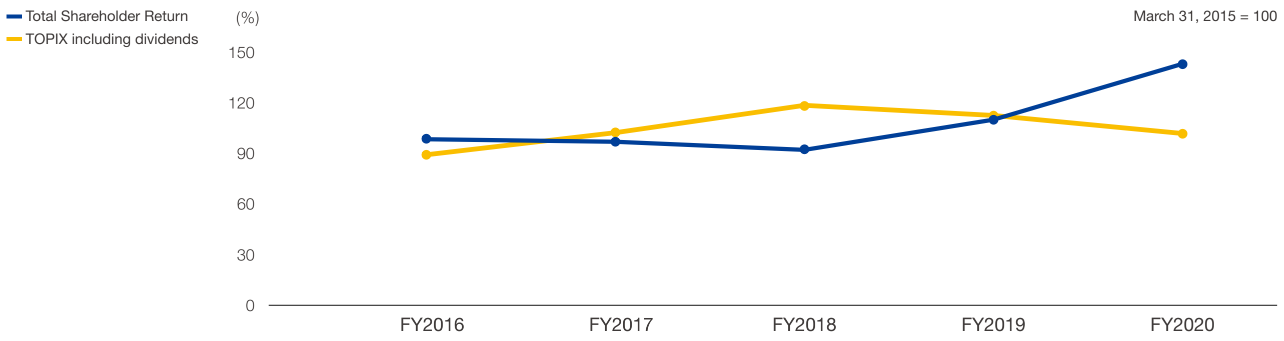
We are currently considering the future direction of shareholder returns so that they will be at a level commensurate for the type of global medtech company to which we aspire.

Management Team Evaluations Are Judged by the Market

I believe that management evaluations are what the market judges, or in other words, what appears in the stock price. In the executive compensation system newly introduced this year, the ratio of long-term incentives to compensation has almost doubled, and Total Shareholder Return (TSR) has been adopted as one of the evaluation indices for long-term incentives. Shareholders choose to invest in our company from among a variety of investment targets in the market, and our stock price performance compared with those of our competitors also leads to profit for our shareholders. By linking management compensation to TSR, which compares us to competitors, the system emphasizes a shared interest.

Working so that the stock price evaluates at a proper value is one of the CFO's missions. We may not be fully conveying its value to our stakeholders. It is possible that we are not ascertaining the matters of concern and interest to our various stakeholders, such as shareholders and investors. To fill a gap between stakeholders' demands and our disclosure in the months and years to come, we will, for example, further expand the disclosure of information on product pipeline that are the growth drivers for a medtech company and, at the same time, more actively engage in dialogues with all relevant parties in the capital markets.

Total Shareholder Return



Shareholder Return

	FY2016	FY2017	FY2018	FY2019	FY2020
Cash dividends per share	¥17	¥28	¥28	¥30	¥10
Payout ratio (consolidated)	9.3%	22.4%	16.8%	125.7%	25.4%
Total return ratio (consolidated)	9.3%	22.4%	23.2%	125.7%	205.6%

Note: The Company conducted a stock split at the ratio of four shares for one ordinary share on April 1, 2019. Figures prior to the FY2019 represent actual cash dividends before the stock split. Figures for the FY2020 represent the amounts after the stock split.
(Reference) Cash dividends per share without stock split: ¥40 (FY2020)