

Overview of Operating Results and Others

Analysis of Business Results

Olympus Corporation and Consolidated Subsidiaries
For the fiscal year ended March 31, 2021

Analysis of the Overall Operations

The global economy faced challenging conditions in the fiscal year ended March 31, 2021 due to the impact of the global spread of the novel coronavirus disease (COVID-19). While economic activities are gradually reopening and vaccinations are gradually progressing, the global economy continued to face highly uncertain conditions including a second (or more) wave of infection in some regions. The Japanese economy faced challenging conditions, as was the case for the global economy, due to the impact of COVID-19, despite showing signs of recovery in exports and a diminished effect of COVID-19 on corporate earnings.

Under such circumstances, the Olympus Group has been carrying out activities toward sustainable growth under its business transformation plan *Transform Olympus* announced in January 2019, aiming to develop itself as a truly global medtech company, and a medium- and long-term corporate strategy, which was announced in November 2019, based on *Transform Olympus*.

The Company has set “focus its corporate portfolio” as one of the core components for business growth and enhanced profitability in this corporate strategy. As a measure to implement this strategy, on September 30, 2020, the Company divested its Imaging Business to a newly established wholly owned subsidiary of the Company (the “New Imaging Company”) through an absorption-type split. In addition, the Company concluded a final agreement with Japan Industrial Partners, Inc. concerning the transfer of 95% of the shares of the New Imaging Company to OJ Holdings, Ltd., a special purpose company established by JIP. Based on this agreement, on January 1, 2021, the Company completed the transfer of the shares in question. Due to this, the Imaging Business is presented as a discontinued operation from the second quarter of the fiscal year ended March 31, 2021. As a result, in line with our presentation format for the fiscal year ended March 31, 2021, we have partially reorganized the presentation in our Consolidated Statements of Profit or Loss, Consolidated Statements of Cash Flows, and the related Notes to Consolidated Financial Statements for the fiscal year ended March 31, 2020. Furthermore, in February 2021, to realize the corporate strategy amid a challenging external environment, the Company solicited voluntary retirement through a career support for external opportunity to (i) promote an external career opportunity for employees wishing to leverage their skills to use outside Olympus Group, (ii) recruit and promote people who can be active moving forward to the right positions, and (iii) achieve the profitability befitting a global medtech company.

Business Results

Business results of continuing operations are presented in (1) to (7).

(1) Revenue

Revenue decreased by ¥24,687 million year on year to ¥730,544 million. This decrease was due to a decrease in revenue in the Endoscopic Solutions Business, Therapeutic Solutions Business and Scientific Solutions Business, despite an increase in revenue in other businesses. Details are as described in “Analysis of the performance by segment” on the next page.

(2) Cost of sales

Cost of sales decreased by ¥1,442 million year on year to ¥271,014 million. The cost-to-sales ratio deteriorated 1.0 percentage points year on year to 37.1%.

In the fiscal year ended March 31, 2020, we decided to conduct voluntary transition from fixed-endcap type to new disposable-endcap type that are easy to clean and disinfect, targeting duodenoscopes owned by customers, and recorded a provision for market response expense of approximately ¥10,400 million. At the same time, in the fiscal year ended March 31, 2021, Endoscopic Solutions Business recorded expenses of approximately ¥6,000 million for the voluntary recall of bronchoscopes and cholangioscopes, and Therapeutic Solutions Business recorded expenses of approximately ¥2,000 million for the voluntary recall of endotherapy products. Furthermore, factory utilization rates have declined as a result of reduced production volume because of the impact of COVID-19.

(3) Selling, general and administrative expenses

Selling, general and administrative expenses decreased by ¥24,139 million year on year to ¥357,032 million. This was mainly due to a decrease in travel and transportation expenses, advertising and promotion expenses, etc., as a result of restrictions on sales activities due to the spread of COVID-19, and a decrease of approximately ¥5,200 million in depreciation as amortization of intangible assets recorded when Gyrus Group PLC was acquired in 2008 finished in the fiscal year ended March 31, 2020.

Revenue/Operating Margin



*From the second quarter of the fiscal year ended March 31, 2021, imaging division has been reclassified as a discontinued operation. Accordingly, we restated figures for fiscal years ended March 31, 2020 and 2021.

(4) Share of profit (loss) of investments accounted for using equity method/Other income/Other expenses

The sum of share of profit (loss) of investments accounted for using equity method, other income, and other expenses amounted to ¥(20,513) million, and the loss increased by ¥11,109 million year on year. Other income increased due to factors such as government subsidies of approximately ¥2,400 million associated with COVID-19 measures. On the other hand, other expenses increased due to factors such as expenses of approximately ¥12,000 million for special additional payment associated with implementing the career support for external opportunity, expenses of approximately ¥5,200 million for business restructuring related to the establishment and transfer of a new company due to the divestiture of the Imaging Business, which was carried out to promote selection of and concentration on the corporate portfolio, and an increase of approximately ¥2,700 million in related expenses for the promotion of the corporate transformation plan *Transform Olympus*.

(5) Operating profit

Reflecting the factors stated above, operating profit decreased by ¥10,215 million year on year to ¥81,985 million.

(6) Finance income (loss)

Finance loss, which reflects finance income and finance costs, improved ¥408 million year on year to ¥5,175 million. The main factor for this improvement of loss was a decrease in exchange losses.

(7) Income taxes

Income taxes decreased by ¥14,895 million year on year to ¥11,140 million. The decrease was mainly due to newly increased deferred tax assets, as taxable income is expected to increase in the future due to improved profitability mainly due to the divestiture of the Imaging Business.

(8) Profit attributable to owners of parent (the aggregate of continuing operations and discontinued operations)

Reflecting the factors stated above, profit attributable to owners of parent decreased by ¥38,752 million year on year to ¥12,918 million.

Analysis of the Performance by Segment

From the fiscal year ending March 31, 2022, bronchoscopes, which were classified in the gastrointestinal endoscope segment of ESD, have been transferred into the respiratory segment of TSD. Figures in this section are before restated (figures in other sections are restated).

Figures for continuing operations are presented below.

Endoscopic Solutions Business

Consolidated revenue in the Endoscopic Solutions Business amounted to ¥419,466 million (down 1.5% year on year), while

operating profit amounted to ¥104,705 million (down 4.3% year on year).

In the Endoscopic Solutions Business, in April 2020 in Europe and Asia, and in July in Japan, we introduced the new flagship endoscope system EVIS X1, but due to the impact of COVID-19, postponement/cancellation of gastrointestinal endoscopy was recommended by each academic society, the number of procedures decreased, and there were restrictions on sales promotion activities such as restrictions on visits to medical institutions or postponement/cancellation of business negotiations. As a result, revenue in the Endoscopic Solutions Business declined.

Operating profit in the Endoscopic Solutions Business decreased. This was mainly because we decided to conduct voluntary transition from fixed-endcap type to new disposable-endcap type that are easy to clean and disinfect, targeting duodenoscopes sold, and recorded a provision for market response expense of approximately ¥10,400 million, depressing profit in the fiscal year ended March 31, 2020. In addition, in the fiscal year ended March 31, 2021, while profitability improved to the extent that raising cost efficiency was promoted, the decline in revenue due to the spread of COVID-19, and recording a provision for expenses of approximately ¥6,000 million for the voluntary recall of bronchoscopes and cholangioscopes, as well as recording approximately ¥4,200 million as expenses mainly for special additional payment associated with implementing the career support for external opportunity in other expenses resulted in profits declining.

Revenue decreased 0.5% year on year, and operating profit decreased 0.3% year on year, excluding the impact of the foreign exchange rate.

Therapeutic Solutions Business

Consolidated revenue in the Therapeutic Solutions Business amounted to ¥206,040 million (down 4.6% year on year), while operating profit amounted to ¥24,633 million (down 5.9% year on year).

Due to the impact of COVID-19, postponement/cancellation of surgery was recommended by each academic society, the number of procedures decreased, and there were restrictions on sales promotion activities such as restrictions on visits to medical institutions or postponement/cancellation of business negotiations. As a result, revenue in the Therapeutic Solutions Business declined.

Operating profit in the Therapeutic Solutions Business decreased. Although depreciation decreased approximately ¥5,200 million due to amortization of intangible assets recorded when Gyrus Group PLC was acquired in 2008 finished in the fiscal year ended March 31, 2020, and raising cost efficiency was promoted, the decline in revenue, recording approximately ¥2,000 million as expense for the voluntary recall of endotherapy products in the nine months ended December 31, 2020 in cost of sales, and recording approximately ¥1,400 million as expenses mainly for special additional payment associated with implementing the career support for external opportunity in other expenses resulted in profits declining.

Overview of Operating Results and Others

Revenue decreased 4.1% year on year, and operating profit was flat year on year, excluding the impact of the foreign exchange rate.

Scientific Solutions Business

Consolidated revenue in the Scientific Solutions Business amounted to ¥95,861 million (down 8.9% year on year), while operating profit amounted to ¥4,949 million (down 50.5% year on year).

In China, the business environment recovered, primarily for cancer research and regenerative medicine in the life science field, and for semiconductor-related industries in the industrial field, and sales were favorable from the fourth quarter. However, overall, in addition to a reduced desire for capital investment mainly in the aviation industry, restrictions on sales promotion activities including restrictions on visits to clients or postponement/cancellation of business negotiations due to the impact of COVID-19 led to decreased revenue in the Scientific Solutions Business.

Operating profit in the Scientific Solutions Business decreased mainly due to the recording of approximately ¥1,200 million as expenses mainly for special additional payment associated with implementing the career support for external opportunity in other expenses in addition to decreased revenue and a decline in operating levels at manufacturing bases as a result of reduced production volume due to the impact of COVID-19 despite the progress in cost efficiency.

Revenue decreased 7.9% year on year, and operating profit decreased 39.6% year on year, excluding the impact of the foreign exchange rate.

Others

In other businesses, the Olympus Group conducts R&D and exploratory activities for new businesses in addition to engaging in R&D, manufacturing, and sales of biomedical materials, such as synthetic bone filler, and orthopedic equipment.

Consolidated revenue for other businesses amounted to ¥9,177 million (up 11.6% year on year) and operating loss was ¥682 million (compared with an operating loss of ¥2,864 million in the fiscal year ended March 31, 2020). Revenue increased with the addition of sales of ¥1,735 million from FH ORTHO SAS, which became a subsidiary in November 2020.

Operating profit for other businesses improved through recording a gain on the sale of ¥1,770 million as other income through the sale of all shares of Olympus RMS Corporation, which had been a subsidiary of the Company, to ROHTO Pharmaceutical Co., Ltd. in March 2021.

Analysis of Financial Position and Cash Flows

Analysis of Assets, Liabilities and Equity

In several business combinations that occurred during the year ended March 31, 2021, figures may be adjusted during the first year after the acquisition date if additional information becomes available regarding the facts and circumstances that existed at the acquisition date with respect to the measurement of the fair value of the assets acquired and liabilities assumed. The consolidated statement of financial position may also be adjusted accordingly.

Assets

As of the end of the fiscal year ended March 31, 2021, total assets increased by ¥165,354 million from the end of the fiscal year ended March 31, 2020 to ¥1,181,017 million. This was mainly because cash and cash equivalents increased by ¥54,984 million due to the issuance of bonds payable and the financing through borrowings, and goodwill and intangible assets increased by ¥32,485 million and ¥25,643 million, respectively, mainly due to the effects of the acquisition of

subsidiaries. In addition, property, plant and equipment increased by ¥36,818 million, mainly due to the impact of the acquisition of right-of-use assets etc., as a result of the consolidation of offices mainly in the Therapeutic Solutions Business in the U.S. and redevelopment of the head office in Europe. At the same time, during the three months ended June 30, 2020, retirement benefits assets decreased by ¥8,434 million mainly due to the impact of implementing a pension buy-in in the UK subsidiary's pension plan. Through the pension buy-in, a portion of plan assets held was contributed to an insurance company, and an agreement was concluded whereby the pension fund can receive the amount required for the pension benefits of beneficiaries from the insurance company in the future.

Liabilities

Total liabilities increased by ¥141,832 million from the end of the fiscal year ended March 31, 2020 to ¥785,537 million. The main factor was an increase of ¥123,838 million in bonds payable and borrowings in non-current liabilities due to the issuance of bonds payable and the financing through borrowings. In view of the impact of COVID-19 on business performance, we procured ¥100,000 million in long-term borrowings in May 2020 and issued ¥50,000 million in bonds payable in July 2020 to secure liquidity on hand. On the other hand, bonds and borrowings in current liabilities decreased by ¥49,489 million mainly due to the impact of the redemption of commercial papers.

Equity

Total equity increased by ¥23,522 million from the end of the fiscal year ended March 31, 2020 to ¥395,480 million. While paying dividends from retained earnings, recording profit attributable to owners of parent of ¥12,918 million resulted in an increase in retained earnings of ¥2,410 million, and in addition, as a result of the change in foreign currency translation adjustment due to the impact of depreciation of the yen, other components of equity increased by ¥21,404 million, which were the main factors.

As a result of the foregoing, equity attributable to owners of parent to total assets decreased from 36.5% as of the fiscal year ended March 31, 2020 to 33.4%.

Analysis of Cash Flows

Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2021 was ¥124,122 million (compared with ¥133,544 million provided for the fiscal year ended March 31, 2020). Profit before tax of ¥76,810 million and adjustment for depreciation of ¥59,937 million were the main factors for the increase.

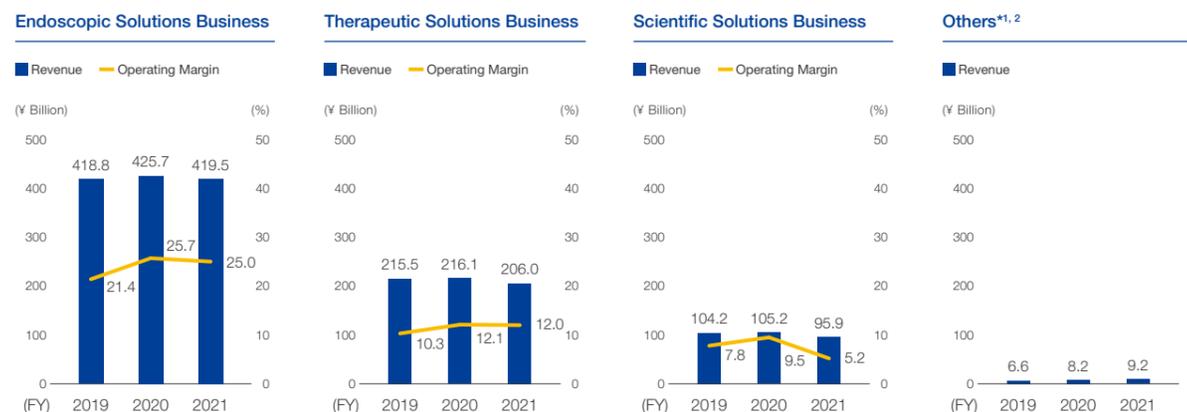
Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2021 was ¥118,918 million (compared with ¥62,430 million used for the fiscal year ended March 31, 2020). The main factors were ¥44,541 million for payments for the acquisition of subsidiaries such as Arc Medical Design Ltd. and Veran Medical Technologies, Inc., and expenditure of ¥27,830 million associated with the transfer of the Imaging Business. In addition, uses of cash included purchase of property, plant and equipment for manufacturing equipment, demo devices, etc. of ¥38,660 million, and purchase of intangible assets such as R&D assets of ¥20,567 million.

Cash flows from financing activities

Net cash provided by financing activities for the fiscal year ended March 31, 2021 was ¥40,800 million (compared with ¥19,462 million used for the fiscal year ended March 31, 2020). The main factors were ¥99,230 million in proceeds from long-term borrowings and ¥49,757 million in proceeds from issuance of bonds. On the other hand, decreasing factors mainly included ¥67,721 million in decrease in short-term borrowings and commercial papers mainly due to the impact of the redemption of commercial papers, and ¥12,856 million in dividends paid. Regarding proceeds from long-term borrowings and issuance of bonds, this was because financing was carried out in order to secure on-hand liquidity in light of the impact of COVID-19 on business results.

As a result of the foregoing, cash and cash equivalents at the end of the fiscal year ended March 31, 2021 reached ¥217,478 million, an increase of ¥54,761 million compared to the end of the fiscal year ended March 31, 2020.



*1 From the second quarter of the fiscal year ended March 31, 2021, imaging division has been reclassified as a discontinued operation. Accordingly, we restated figures for the fiscal year ended March 31, 2020 and 2021 of "Others".
 *2 The operating margin is not shown for the "Others" because it has recorded an operating loss from the fiscal year ended March 2019 to 2021.

Free Cash Flows

