

Medical Business Strategy: Chinese Market

Chinese Market with High Growth Potential

Further development of endoscopic medicine is expected in the Chinese market. In this section, we outline Olympus strengths and describe the market conditions and future growth potential.

Providing Total Solutions Unique to Olympus

Since entering the Chinese market about 50 years ago, Olympus has strengthened its business foundation ahead of other companies. Through active cooperation with doctors, hospitals, and academic societies, we have spread endoscopy and have built relationships of trust with doctors. At the same time, we have been supporting doctors so that they can perform endoscopic screenings and treatments safely by strengthening our after-sales service at our service sites and training support. Most recently, since October 2021, three new service centers have been established in Hangzhou, Xian, and Chengdu, for a total of seven locations in operation, strengthening the system for quicker inspection and maintenance of endoscopic products. In addition, we offer various proposals for improving the convenience of endoscopy rooms based on our unique knowledge, taking into consideration hospital conditions and the needs of healthcare professionals. For example, we propose endoscopy room layouts that enable doctors to perform screenings and treatments safely and efficiently, as well as the equipment and tools required for such layouts. Our service activities are expanding year by year as we utilize our expertise as a leading endoscopy company. We will continue to achieve business growth through total solutions that include our service network and training activities, which are our unique strengths, along with our long-standing relationships of trust with doctors.

Chinese Service Centers and Training Centers



Supporting Endoscopist Training

At our three in-house training centers in Shanghai, Beijing, and Guangzhou, we provide hands-on training (on-site training) by each disease/procedure, online training including e-learning, and contests for trainees to report their learning outcomes. Recently, we have expanded our online educational material offerings and developed more hybrid online and on-site training programs, which have led to a rapid increase in the number of training participants. Various learning programs are also offered at collaborative training centers that are affiliated with around 20 hospitals nationwide*1. Olympus provides remote training and support by clinically experienced doctors from our own training centers, thereby supporting the training of endoscopists throughout China.

*1 As of September 2022



The "Gastrointestinal Early-Stage Cancer Treatment Operation Skills Series Course" co-hosted by Olympus and East Hospital Affiliated To Tongji University Online lecture (top) and on-site lecture (bottom) by Prof. Xu Qinwei, from the university

Approx. **62,000** people

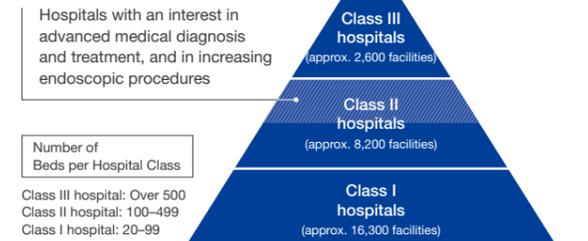
Number of doctors who have participated in Olympus training programs over the past five years*2 (including approximately 42,000 online participants)

Around **50** years

Number of years Olympus has been expanding in the Chinese market and building relationships of trust with local doctors

*2 FY2018 to FY2022

China's Potential Market*3



*3 As of March 31, 2022

PEST Analysis in Chinese Market



- **"Made in China 2025" released in 2015:** The Chinese government announced that the country aims to become a true manufacturing powerhouse, including in R&D, instead of the current one focusing on goods assembly. The goal is to become one of the top manufacturing nations in the world by 2049. There are 10 target fields, one of which includes biotechnology and medical device.
- **"Healthy China 2030" released in 2016:** This policy promotes the health of the Chinese people and building of a healthy nation. Priority items are early detection and treatment of chronic diseases including cancer, fixing regional disparities in the medical service area, and expansion of medical institutions. To support this, the aim is also to achieve technological innovation and development in the medical industry.
- **"Working plan for improvement of comprehensive capabilities of county-level hospitals" released in 2019:** This policy aims to raise the healthcare standards of 500 county-level hospitals and 500 Traditional Chinese Medicine (TCM) hospitals to the same level as a class III hospital or a class III TCM hospital.
- **Volume-based procurement (VBP):** A type of centralized purchasing procurement program initiated by provinces, cities, and other regions with the initial goal of reducing medical costs for high-value medical devices. While bidding companies are forced to offer heavy price cuts due to stiff cost competition, in exchange, the winners are guaranteed a certain volume of sales.

Note: Policies by the Chinese government are introduced above.



- **Outlook for the Chinese healthcare market:** Even in the face of COVID-19, CAGR of gross domestic product for the five years up to 2021 remained at approximately 6%, while total national health expenditure grew at a CAGR of approximately 12% for the five years up to 2020, according to the National Bureau of Statistics. Although the healthcare market has been affected by lockdowns due to the recent zero-COVID policy, the market is expected to grow steadily and significantly over the medium to long term.
- **Increased investment in mid-tier and rural hospitals:** In China, about 27,000 medical facilities are divided into classes III, II, and I, etc., and there is a tendency for patients to converge on class III hospitals where medical standards are high. Moreover, there is a significant shortage of rural hospitals, and to resolve this disparity in healthcare, investment in infrastructure is expected to continue to grow after 2022, especially in mid-tier and rural hospitals.



- **Increase in the number of endoscopic screenings and treatments:** In recent years, demand in China for early diagnosis and minimally invasive treatments has been increasing due to the growing health awareness among its people. In addition to providing both of these values, endoscopy can help reduce medical costs, and the number of screenings and treatments is growing rapidly.
- **Installation of new endoscopy rooms:** With the Chinese government's policies and the increase in the number of endoscopic screenings and treatments, endoscopy rooms are being actively introduced in newly established or expanded hospitals, leading to the development of endoscopy.
- **Shortage of endoscopists:** The number of endoscopists per 100,000 people remains low (Japan: 25 endoscopists, China: 2.2 endoscopists*4). In medical institutions, the number of endoscopists are unable to keep up with the growing number of patients, making the development of new endoscopists an urgent matter.



- **Gastrointestinal endoscope:** Olympus maintains an advantage over local manufacturers. NBI*5 technology and magnifying endoscopes that meet clinical needs have contributed to the improvement of endoscopic diagnosis and treatment technology in China. In addition, diagnostic methods based on our technology, represented by magnifying endoscopes and NBI, are becoming the standard in endoscopy, maintaining our superiority in the market.
- **Surgical endoscope:** With the rapid development of CMOS technology, local manufacturers are improving their technology level, and the competitive environment in this market is intensifying.
- **GI-Endotherapy devices:** The competitive environment is becoming severe for low-end products, where price is more important than technology and added value. On the other hand, we have established a strong position in the market for high-end products such as ESD*6 and other advanced procedures, on which we are focusing.

*4 Source: Calculated by Olympus using publicly available data

*5 Narrow Band Imaging

*6 Endoscopic Submucosal Dissection