

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.



Approx. **96,000** people

Number of healthcare professionals who have participated in Olympus training courses over the past five years*2 (including approximately 75,000 online participants)

Around **50** years

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

China's Potential Market*3

Hospitals with an interest in advanced medical diagnosis and treatment, and in increasing the number of endoscopic procedures

Number of Beds per Hospital Class

Class III hospital: Over 500
Class II hospital: 100-499
Class I hospital: 20-99

*2 FY2019 to FY2023

*3 As of March 31, 2023

Providing Sustainable Growth Opportunities and Total Solutions for the Chinese Market

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 healthcare professionals. 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. With such a strong foundation, our business in China has grown significantly. Despite short-term fluctuations due to COVID-19 and other factors, the long-term growth potential for China is high and we will continue to place this market as strategically important. Specifically, Olympus continues to invest aggressively to grow the business through three key initiatives: 1. Invest in clinician education and training; 2. Assess unmet needs from Chinese healthcare professionals; and 3. Local Manufacturing Strategy. In addition to our current three in-house training centers in Shanghai, Beijing, and Guangzhou, we support the training of endoscopists across China through our collaborative training centers that

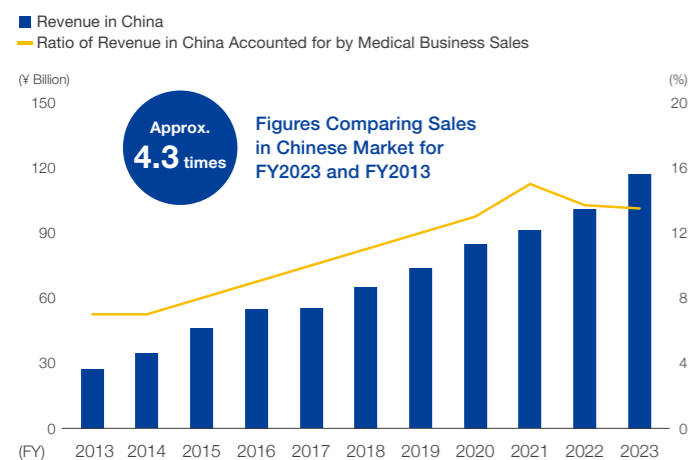
are affiliated with around 20 hospitals nationwide*1. Recently, we have expanded our services to include hybrid online and on-site training programs, online video educational materials that explain how to use products and procedures, and learning support for diagnosing cases using smartphones. The service expansion has been well received by healthcare professionals.

By capturing the inputs of local healthcare professionals and market insights, Olympus is also working on future product and service developments. In addition to product sales, we are further solidifying our relationship with healthcare professionals by increasing contact with them through various proposals for improving the convenience of endoscopy rooms based on our unique knowledge.

Olympus is preparing a local manufacturing site in Suzhou, China, so that we can provide "Made in China" products for the local market. Furthermore, all seven service centers provide inspection and maintenance for endoscopic products, creating an industry-leading system. We will continue to achieve business growth not only by launching high value-added and differentiated products, but also by proposing total solutions that include our services and training activities.

*1 As of September 2023

Chinese Sales Growth Trends in the Medical Business



Chinese Service Centers, Training Centers and a Manufacturing Site

● Service Centers ● Training Centers ● Manufacturing site (under construction)



PEST Analysis in Chinese Market

P

Politics

- **"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.

Note: Policies by the Chinese government are introduced above.

E

Economy

- **Outlook for the Chinese healthcare market:** Despite being affected by COVID-19, CAGR of gross domestic product for the five years up to 2022 remained at approximately 5%, while total national health expenditure grew at a CAGR of approximately 11% for the five years up to 2021, according to the National Bureau of Statistics. Although the healthcare market has been affected by lockdowns due to the zero-COVID policy until 2022, 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 28,000 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, especially in mid-tier and rural hospitals.

S

Society

- **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 million people remains low (Japan: 282 endoscopists, China: 28 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.

T

Technology

- **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