2016 Corporate Strategic Plan (16CSP)

Hiroyuki Sasa
President and Representative Director
Olympus Corporation
March 30, 2016
Today’s Agenda

1. Corporate Philosophy and Vision
2. Positioning of 16CSP
3. Review of Medium-Term Vision (From FY2013)
4. Operating Environment
5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Today’s Agenda

1. Corporate Philosophy and Vision
2. Positioning of 16CSP
3. Review of Medium-Term Vision (From FY2013)
4. Operating Environment
5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Corporate Philosophy and Vision

Social IN

"The Olympus Group strives to realize better health and happiness for people by being integral members of society, sharing common values, and proposing new values through its business activities."

INtegrity  INnovation  INvolvement

Vision

Olympus contributes to society by making people’s lives healthier, safer and more fulfilling around the world.
Today’s Agenda

1. Corporate Philosophy and Vision

2. Positioning of 16CSP

3. Review of Medium-Term Vision (From FY2013)

4. Operating Environment

5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Positioning of 16CSP

Strengthening foundations and developing an aggressive business portfolio for sustainable growth beyond the 100th anniversary (2019)

Recover trust and strengthen internal systems

2012

Management reconstruction stage

2016

16CSP

Strengthen foundations and develop aggressive business portfolio

2019 (100th anniversary)

Become leading global player in medical field

2021

Sustainable growth stage

Vision

Olympus contributes to society by making people’s lives healthier, safer and more fulfilling around the world
Today’s Agenda

1. Corporate Philosophy and Vision
2. Positioning of 16CSP
3. Review of Medium-Term Vision (From FY2013)
4. Operating Environment
5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Review of Medium-Term Vision (From FY2013) (1)

1. Rebuilding of business portfolio / optimizing allocation of management resources

- Grew Medical Business, restructure Imaging Business, and improve profitability of life science field operations and expanded industrial field operations (Scientific Solutions Business)

- Failed to achieve projected performance levels in Imaging Business and Scientific Solutions Business, but realized impressive growth in Medical Business (obstacles still remain impeding drastic reform of Imaging Business)

2. Reorganized non-core businesses

- Transferred Information & Communication Business (ITX), withdrew from biologics business, and completed other reorganizations of non-core businesses ahead of schedule

- Failed to achieve projected performance levels in Imaging Business and Scientific Solutions Business, but realized impressive growth in Medical Business (obstacles still remain impeding drastic reform of Imaging Business)

Review and reduction of costs

- Reorganized manufacturing sites in China, other parts of Asia, and North America (total sites worldwide: 30 → 21) and optimized staff numbers

* Net sales and operating income figures for FY2013 exclude amounts attributed to the transferred Information & Communication Business (ITX).
3 Restoration of financial health

Raised equity ratio to more than 30% by improving performance, commencing business and capital alliance with Sony, and conducting capital increase.

Resumed dividend payments in FY2015

4 Restructuring of corporate governance

Removed Security on Alert designation from Company’s stock.

Restructured governance systems, strengthened internal controls, and reinforced compliance systems.
Review of Medium-Term Vision (From FY2013) (3)

- Achieved operating margin and equity ratio targets ahead of schedule
- Nearly accomplished ROIC target (forecast)

### Performance Indices

<table>
<thead>
<tr>
<th></th>
<th>FY2012 (Actual)</th>
<th>FY2015 (Actual)</th>
<th>FY2016 (Forecast)</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on invested capital (ROIC)</td>
<td>3%</td>
<td>8%</td>
<td>9%</td>
<td>More than 10%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>4%</td>
<td>12%</td>
<td>12%</td>
<td>More than 10%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(¥4.8 billion)</td>
<td>¥27.2 billion</td>
<td>–</td>
<td>More than ¥70 billion</td>
</tr>
<tr>
<td>(Cash flow from operating activities + cash flow from investing activities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity ratio</td>
<td>5%</td>
<td>33%</td>
<td>39%</td>
<td>More than 30%</td>
</tr>
</tbody>
</table>

### Summary

- Overall, reorganized non-core businesses, made progress in strengthening corporate governance and compliance systems, nearly achieved performance index targets, and escaped state of crisis and began recovering trust
- Left issues to be addressed in reconstruction of business portfolio due to failure to complete drastic reform of Imaging Business
Today’s Agenda

1. Corporate Philosophy and Vision
2. Positioning of 16CSP
3. Review of Medium-Term Vision (From FY2013)
4. Operating Environment
5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Operating Environment

Megatrends

- “Great Rebalancing”: Growing presence of emerging countries in global market
- Declining birthrates and aging populations: Rising medical needs and growing pressure to limit medical costs
- ICT development and advances: ICT-driven industry structure changes (diversification)

Growing pressure to limit medical costs

Increase in case numbers and decrease in facility numbers

Institution of more-stringent regulations and more-rigorous requirements

Diversification of customer needs in Scientific Solutions Business

Market structure changes exemplified by growing presence of GPOs and IDNs in North America

Economic slowdown and potential of China

Contraction of digital camera market

Response to technological innovations

Rising presence and growing business potential of emerging countries
## Operating Environment

<table>
<thead>
<tr>
<th>Operating Environment</th>
<th>Strategic Directives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing pressure to limit medical costs</td>
<td>Rising importance of Company-emphasized early diagnosis and minimally invasive treatments and growing business opportunities to be realized by further advertising medical economic benefits</td>
</tr>
<tr>
<td>Increase in case numbers and decrease in facility numbers</td>
<td>Growing business opportunities to be realized by reducing downtime, shifting from capital products to disposable devices, and developing procedure based medical business model</td>
</tr>
<tr>
<td>Diversification of customer needs in Scientific Solutions Business</td>
<td>Shift from product segment based strategies to customer segment oriented strategies</td>
</tr>
<tr>
<td>Contraction of digital camera market</td>
<td>Further contraction of DSLR and other digital camera markets, need to transition from value and price focused mass-marketing approach to respond to needs of core users and provide them with unique value at appealing prices</td>
</tr>
</tbody>
</table>
Today’s Agenda

1. Corporate Philosophy and Vision
2. Positioning of 16CSP
3. Review of Medium-Term Vision (From FY2013)
4. Operating Environment

5. 16CSP
   - Policies
   - Priority Strategies
   - Positioning of Each Business within Portfolio
   - 16CSP Framework and Management Goals
Strengths and Business Domain

Business to Specialist
To be the greatest “Business to Specialist” Company

We will strive to be the most valuable partner to experts and customers with high aspirations through the timely provision of appropriate solutions that meet their high-level needs.

We will achieve this goal by utilizing our innovative thinking, expertise in advancing technology, operational excellence, and high ethical standards.

Through these efforts as well as through sustainable growth, Olympus will meet the expectations of all stakeholders and act as a good corporate citizen.
We will maximize performance of the entire Olympus Group by sharing values and strategies and making full use of the management resources (people, money, assets, and knowledge) on a global and Groupwide basis.

We will pursue optimization on a Groupwide basis to maximize performance. We encourage sharing the results throughout the Group.

We will strive to a balance between establishing an appropriate level of headquarters control (centripetal force) and realizing highly empowered operating sites (centrifugal force).
Priority Strategies

1. Take action to grow businesses
2. Acquire necessary management resources in a timely manner and fully leverage these resources
3. Advance forward-looking preparation to realize continued growth
4. Pursue further business efficiency improvements
5. Enhance management on global and groupwide basis
6. Strengthen Quality/Regulatory Assurance and Internal control, promote strict compliance
Priority Strategies—(1)

Strategy

Take action to grow businesses

- Expand lineups and promote sales of strategic products
- Shift from installation based medical business model to procedure based medical business model
- Pursue growth opportunities in peripheral businesses
Priority Strategies– (2)

Acquire necessary management resources in a timely manner and fully leverage these resources

- Manage portfolio of business in fields with low growth potential and shift management resources to growing business fields
- Recruit and develop capable human resources in a timely manner
- Optimize global R&D systems and production systems (production site planning)
Priority Strategies– (3)

**Strategy**

Advance forward-looking preparation to realize continued growth

- Develop businesses and conduct upfront investments from a long-term perspective (technology research, exploration, and development)
- Promote developing new business to advance "Minimally invasive treatment"
- Advance long-term measures for expanding businesses in emerging countries
Priority Strategies—(4)

Strategy

Pursue further business efficiency improvements

- Reduce costs and improve efficiency by optimizing product lineups
- Standardize processes and improve inventory management
Priority Strategies— (5)

Strategy

Enhance management on global and groupwide basis

- Strengthen and improve the efficiency of Functions
- Develop a mindset to realize One Olympus
Strengthen Quality/Regulatory Assurance and Internal control, promote strict compliance

- Enhance Quality Management System and organization for further business expansion in Medical field
- Further promote Internal Control function
- Construct and implement compliance systems suited to a truly global company
Appropriate response to changes in and contraction of the digital camera market will be swiftly taken. Technologies and resources will be utilized on groupwide basis.

New Business Initiatives will be strengthened to create new businesses.

Positioning of Each Business within Portfolio

**Directive**

Prioritize allocation of management resources to Medical Business

<table>
<thead>
<tr>
<th>FY2016 (Forecast)</th>
<th>FY2021 (Target)</th>
<th>Long-term vision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td><strong>Net Sales</strong></td>
<td></td>
</tr>
<tr>
<td>¥ 816 billion</td>
<td>¥ 1,100 billion</td>
<td></td>
</tr>
</tbody>
</table>

Expand our business scope focused on early diagnosis and minimally invasive therapies in order to boost earnings capacity.

Customer group oriented strategies will be advanced to establish and reinforce earnings foundations.

Imaging Business

New Business

Become leading global player in medical field

Scientific Solutions Business

Medical Business

Long-term vision
**16CSP Framework and Management Goals**

- **Generate management resources (capital, funds, etc.)**
  - **Priority Strategies**
    - Take action to grow businesses
    - Advance forward-looking preparation to realize continued growth
    - Enhance management on global and groupwide basis
    - Acquire necessary management resources in a timely manner and fully leverage these resources
    - Pursue further business efficiency improvements
    - Strengthen Quality/Regulatory Assurance and Internal control, promote strict compliance
  - **Effectively utilize capital and funds**
    - Growth investments (R&D, M&A, etc.)
    - Internal reserve enhancement
    - Appropriate shareholder returns (total return ratio of 30%)

- **Management Goals**
  - **EBITDA**
    - Average annual growth rate: double-digit
  - **ROE**
    - 15%
  - **Capital Efficiency**
    - Operating Margin 15%
  - **Profitability**
  - **Equity Ratio**
    - 50%
  - **Financial Soundness**
  - **Business Growth**
  - **Manage-**