Financial Strategy

Yasuo Takeuchi
Director, Senior Executive Managing Officer,
Head of Corporate Management Office, CFO
Olympus Corporation
March 30, 2016
Today’s Agenda

1. Financial Strategy Directives
2. Management Goals
3. Performance Indices and Targets
4. Targets for Business Segments
5. Management Emphasizing ROE
   - Profitability: Ratio of Net Income to Net Sales
   - Asset Efficiency: Total Asset Turnover
   - Financial Leverage
6. Operating Margin Improvement
7. EPS
8. Policies for Allocating Management Resources (Capital, Funds, Etc.)
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Financial Strategy Directives

Directive

- Ensure financial soundness and improve capital efficiency through efficient cash flow allocation
  - Clarify cash flow allocation policies (financial soundness, growth investments, and shareholder returns) and link to accomplishment of management goals
  - Strengthen financial governance systems and prioritize Groupwide optimization to improve capital efficiency within Group

Medium-Term Vision

- Improve financial soundness

16CSP

- Secure financial soundness
  - Increase equity capital
  - Reduce interest-bearing debt
  - Quickly resume dividend payments
  - Strategically control interest-bearing debt
  - Secure stable equity capital levels
  - Realize phased increase in shareholder returns
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Management Goals

- Working secure an appropriate level of financial soundness, we will constantly achieve ROE of 15% through balanced improvements in profitability and business growth as well as financial soundness, and double the bottom line (EPS) over the next five years.

<table>
<thead>
<tr>
<th>Capital Efficiency</th>
<th>ROE</th>
<th>15%</th>
<th>(FY2016 estimate: 14%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure appropriate level of financial soundness and then target balanced improvements in profitability and business growth to maintain ROE of 15% over long term</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Profitability</th>
<th>Operating margin</th>
<th>15%</th>
<th>(FY2016 estimate: 12%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve profitability by boosting earnings in 3 surgical device businesses (GS, URO/GYN, and ENT), advancing selection and concentration measures in Scientific Solutions Business, and at least breaking even in Imaging Business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce manufacturing costs, increase development efficiency, and streamline back-office work and processes to reduce SG&amp;A expenses and thereby improve profitability</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Growth</th>
<th>EBITDA</th>
<th>Double-digit growth*</th>
<th>(FY2016 estimate: ¥150 billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieve sales growth that exceeds market growth rates in Medical Business while eliminating operational inefficiencies to realize high-quality growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhance earnings capacity measured by excluding accounting factors (depreciation, amortization of goodwill, etc.)</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Soundness</th>
<th>Equity Ratio</th>
<th>50%</th>
<th>(FY2016 estimate: 39%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase equity capital from perspectives of securing financial soundness matched to risk levels and appropriately managing financial leverage</td>
<td></td>
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</tbody>
</table>

* Compound annual growth rate (CAGR)
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### Performance Indices and Targets

- Record forecast figures of ¥1,100 billion for net sales and ¥170 billion for operating income in FY2021 by accomplishing management goals.

<table>
<thead>
<tr>
<th></th>
<th>FY2021 (Forecast)</th>
<th>FY2016 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥1,100 billion</td>
<td>CAGR 6%</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥170 billion</td>
<td>CAGR 11%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>More than ¥250 billion</td>
<td>Total in 5 years</td>
</tr>
<tr>
<td>EPS</td>
<td>¥320</td>
<td>–</td>
</tr>
</tbody>
</table>

After securing stable financial base, prioritize allocation of funds toward investments in growth fields and use remainder of funds to provide shareholders with appropriate returns that match their expectations (target total return ratio of 30% in future).
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### Targets for Business Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2016 (Forecast)</th>
<th>FY2021 (Forecast)</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Business</td>
<td>615</td>
<td>900</td>
<td>8%</td>
</tr>
<tr>
<td>Scientific Solutions Business</td>
<td>106</td>
<td>130</td>
<td>4%</td>
</tr>
<tr>
<td>Imaging Business</td>
<td>80</td>
<td>55</td>
<td>-7%</td>
</tr>
<tr>
<td>Others</td>
<td>15</td>
<td>15</td>
<td>0%</td>
</tr>
<tr>
<td>Elimination or corporate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>816</td>
<td>1,100</td>
<td>6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2016 (Forecast)</th>
<th>FY2021 (Forecast)</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Business</td>
<td>137</td>
<td>225</td>
<td>10%</td>
</tr>
<tr>
<td>Scientific Solutions Business</td>
<td>8</td>
<td>13</td>
<td>10%</td>
</tr>
<tr>
<td>Imaging Business</td>
<td>0</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>(12)</td>
<td>(70)</td>
<td>-</td>
</tr>
<tr>
<td>Elimination or corporate</td>
<td>(33)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>170</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2016 (Forecast)</th>
<th>FY2021 (Forecast)</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>110</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Foreign exchange rate assumptions:*
- US$ = ¥115
- Euro = ¥130
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Management Emphasizing ROE

- Achieve ROE level necessary to compete with global companies and realize ongoing growth
- Improve profitability and capital efficiency (growth potential) to maintain ROE of 15% over long term

<table>
<thead>
<tr>
<th>Profitability</th>
<th>FY2016 (Forecast)</th>
<th>FY2021 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of net income to net sales</td>
<td>Approx. 7%</td>
<td>Approx. 10%</td>
</tr>
<tr>
<td>Asset efficiency turnover</td>
<td>Approx. 0.8 times</td>
<td>Approx. 0.9 times</td>
</tr>
<tr>
<td>Financial leverage</td>
<td>Approx. 2.6 times</td>
<td>Approx. 2.0 times</td>
</tr>
</tbody>
</table>

- Increase operating margin
- Improve balance of other income and expenses
- Increase net sales
- Improve business asset efficiency
- Improve corporate asset efficiency
- Manage financial leverage
- Conduct BS-based management

ROE 15%

Profitability:
- Net income / Net sales

Asset efficiency:
- Net sales / Total asset turnover

Financial leverage:
- Total assets / Equity capital
Profitability: Ratio of Net Income to Net Sales

- Improve profit margins by increasing business earnings, reducing corporate and manufacturing costs, and managing balance of other income and expenses

<table>
<thead>
<tr>
<th>Profitability</th>
<th>Increase operating margin</th>
<th>FY2016 (Forecast)</th>
<th>Approx. 12%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of net income to net sales</td>
<td>Improve balance of other income and expenses</td>
<td>FY2016 (Forecast)</td>
<td>¥(14.0 billion)</td>
</tr>
<tr>
<td>Net income</td>
<td>FY2021</td>
<td>FY2021</td>
<td>15%</td>
</tr>
<tr>
<td>Net sales</td>
<td>Approx. 7%</td>
<td>10%</td>
<td></td>
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FY2021

- Reduce ratio of manufacturing costs to net sales (down 1 pt)
- Reduce ratio of SG&A expenses to net sales (down 2 pt)

Lower interest payments by reducing interest-bearing debt, etc.

- Reduce interest burden (strategically control interest-bearing debt)
- Manage foreign exchange translation adjustments
Asset Efficiency: Total Asset Turnover

- Maintain high growth rates while managing total assets

<table>
<thead>
<tr>
<th>Asset efficiency</th>
<th>Increase net sales</th>
<th>Improve total asset efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total asset turnover</td>
<td>FY2016 (Forecast)</td>
<td>FY2016 (Forecast)</td>
</tr>
<tr>
<td></td>
<td>¥816 billion</td>
<td>Approx. ¥1,020 billion</td>
</tr>
</tbody>
</table>

- Maximize net sales (grow business by steadily advancing BU strategies)
  - Net sales growth: 46% in Medical Business, 23% in Scientific Solutions Business

- Improve inventory efficiency (optimize inventories through enhanced SCM)
- Utilize Medical Business demo products and loaners with higher levels of efficiency
- Reduce cash and deposits by managing funds on consolidated basis
- Appropriately manage capital tie-up shares
  - Conduct evaluations from medium-to-long-term perspective based on Basic Policy for Corporate Governance and curtail or liquidate holdings that lack rationality or necessity

FY2016 (Forecast)

- Approx. 0.8 times

FY2021

- Approx. 0.9 times
- Up 35% (¥1,100 billion)
- Limit increase to approx. 20%

FY2021 (Forecast)

- Maximize net sales (grow business by steadily advancing BU strategies)
  - Net sales growth: 46% in Medical Business, 23% in Scientific Solutions Business

- Improve inventory efficiency (optimize inventories through enhanced SCM)
- Utilize Medical Business demo products and loaners with higher levels of efficiency
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Financial Leverage

- Realize appropriate level of financial soundness from perspective of securing extra leeway for responding to risks

<table>
<thead>
<tr>
<th>Financial leverage</th>
<th>BS-based management</th>
<th>Pursue appropriate financial balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity capital</td>
<td></td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>FY2016 (Forecast)</th>
<th>FY2021</th>
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<tr>
<td>Approx. 2.6 times</td>
<td>Approx. 2.0 times</td>
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<table>
<thead>
<tr>
<th>Equity ratio</th>
<th>Mar. 31, 2016 (Forecast)</th>
<th>FY2021</th>
</tr>
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<tbody>
<tr>
<td>Approx. 39%</td>
<td></td>
<td>Approx. 50%</td>
</tr>
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</table>

- Enhance internal reserves as global player in medical field
- Conduct growth investments to expand operations
- Issue appropriate shareholder returns
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### Operating Margin Improvement

- Achieve operating margin of 15% (approx. 3 pt increase vs FY2016 estimate)

#### Improvements on consolidated level

<table>
<thead>
<tr>
<th>Ratio of SG&amp;A expenses to net sales (2 pt improvement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016: 54%</td>
</tr>
<tr>
<td>FY2021: 52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of sales ratio (1 pt improvement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016: 34%</td>
</tr>
<tr>
<td>FY2021: 33%</td>
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<table>
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<tr>
<th>Operating margin</th>
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<tr>
<td>FY2016: 12%</td>
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<tr>
<td>FY2021: 15%</td>
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#### Operating margin improvements by segment

- **Medical Business**
  - 3 pt improvement
  - Improve profitability of gastrointestinal endoscopes
  - Boost earnings capacity of 3 surgical device businesses

- **Scientific Solutions Business**
  - 2 pt improvement
  - Conduct selection and concentration based on customer segment oriented strategies

- **Imaging Business**
  - 4 pt improvement
  - Implement ongoing business structure reforms
  - Focus on sales of high-margin OM-D series cameras and PRO lenses

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**Ratio of SG&A expenses to net sales**

- **FY2016**: 54%  
- **FY2021**: 52%

**Cost of sales ratio**

- **FY2016**: 34%  
- **FY2021**: 33%

**Operating margin**

- **FY2016**: 12%  
- **FY2021**: 15%
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Consistently realize ROE of 15% and double EPS over 5-year period of 16CSP

Path to ROE of 15% and doubled EPS

1. Consistently realize ROE of 15% through balanced improvements in profitability, business growth, and financial soundness

2. Double EPS (to ¥320)

Consistently realize ROE of 15% through balanced improvements in profitability, business growth, and financial soundness

Double EPS (vs FY2016)
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## Policies for Allocating Management Resources (Capital, Funds, etc.)

<table>
<thead>
<tr>
<th>Management resources (capital, funds, etc.)</th>
<th>After securing stable financial base, prioritize allocation of funds toward growth investments in Medical Business and use remainder of funds to provide shareholders with appropriate returns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prioritize reinforcement of financial base in consideration of business characteristics and risks and stably increase equity capital (equity ratio of 50%)</td>
</tr>
<tr>
<td></td>
<td>Continue conducting growth investments to accelerate growth speed centered on Medical Business</td>
</tr>
<tr>
<td></td>
<td>Staff investments: Effectively utilize resources in cross-Company manner and conduct investments primarily aimed at Medical Business and highly specialized fields</td>
</tr>
<tr>
<td></td>
<td>Capital expenditures: Increase amounts of production equipment, demo products, and loaners in conjunction with sales growth centered on Medical Business</td>
</tr>
<tr>
<td></td>
<td>R&amp;D investments: Conduct investments with balanced distribution for new product development, next-generation product technology creation, and new technology research</td>
</tr>
<tr>
<td></td>
<td>Primarily pursue organic growth while considering M&amp;A when necessary for advancing strategies</td>
</tr>
<tr>
<td></td>
<td>Increase total return ratio (to 30%)</td>
</tr>
</tbody>
</table>

### Internal reserves
- Financial soundness
  - Prioritize reinforcement of financial base in consideration of business characteristics and risks and stably increase equity capital (equity ratio of 50%)

### Cash outflows
- Growth investments
  - Continue conducting growth investments to accelerate growth speed centered on Medical Business
    - Staff investments: Effectively utilize resources in cross-Company manner and conduct investments primarily aimed at Medical Business and highly specialized fields
    - Capital expenditures: Increase amounts of production equipment, demo products, and loaners in conjunction with sales growth centered on Medical Business
    - R&D investments: Conduct investments with balanced distribution for new product development, next-generation product technology creation, and new technology research
  - Primarily pursue organic growth while considering M&A when necessary for advancing strategies
- Shareholder returns
  - Increase total return ratio (to 30%)