Proactively Face Environmental Changes through the Visualization of Business Management

Message from the CFO

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Executive Officer and
Chief Financial Officer

Support Execution of Business Strategy and Ensure Implementation

I was appointed Chief Financial Officer (CFO) in April 2019. In today's world, with its drastically changing business environment, I aim to make management decisions that go a step further by always trying to anticipate the future based on objective reasoning.

Under *Transform Olympus*, our corporate transformation plan, we expect to be able to create further value by improving speed and efficiency. As CFO and entrusted with the Company's financial function, I believe that I have an important role to play in supporting business strategy and making sure it is implemented properly.

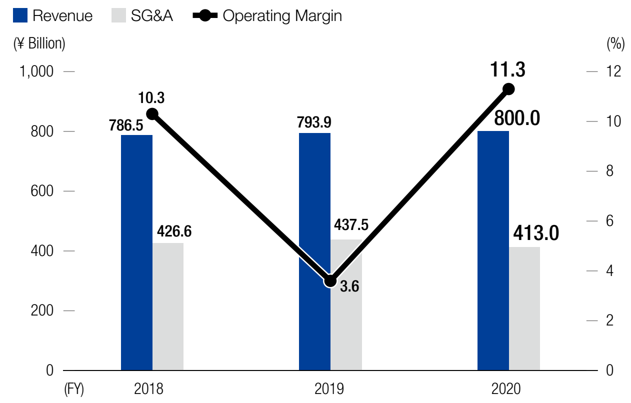
Review of Fiscal 2019 and Outlook for Fiscal 2020

Looking at results for fiscal 2019, the third year of the medium-term management plan 16CSP, consolidated revenue increased 1% year on year to ¥793.9 billion and operating profit decreased 65% year on year to ¥28.3 billion. The marked decrease in profit compared with the previous fiscal year was due to the recording of major one-time expenses that included the settlement of securities litigations related to past deferral in posting of losses, expenses associated with the plea agreement with the U.S. Department of Justice, and with the ceasing of operations at a Chinese manufacturing subsidiary. However, we are confident that we have mitigated the risk that has challenged us since the past.

In our mainstay Medical Business, steady performance was maintained in every field, namely the gastrointestinal endoscope, surgical, and endotherapy fields, resulting in record high sales. In the Scientific Solutions Division, the operating margin increased by 1.4pt year on year to 7.8% due to increased sales revenue and efficient control of expenses. This result marks steady progress toward our operating margin goal of 10%. On the other hand, in the Imaging Division, weak performance was caused by the impact of the restructuring of manufacturing bases and an increasingly competitive environment. Despite this, we completed the transfer of production to our Vietnamese manufacturing subsidiary and expect to realize the benefits of structural reform from fiscal 2020.

As presented in the *Transform Olympus* plan, we will strengthen efforts to improve profitability and capital efficiency as a top priority. As the first step, we aim to control business operations by keeping selling, general and administrative (SG&A) expenses down to ¥413.0 billion in fiscal 2020, which is under the amount of ¥426.6 billion registered in fiscal 2018. In addition to the absence of the one-time expenses that were posted in the previous fiscal year, we forecast a significant improvement in all profit indicators by curbing SG&A expenses. Accordingly, we project sales revenue of ¥800.0 billion in fiscal 2020 as well as operating profit of ¥90.0 billion, around three times that of the previous fiscal year.

Control of SG&A, Revenue and Operating Profit Forecasts



Results and Challenges of the 16CSP Financial Strategy

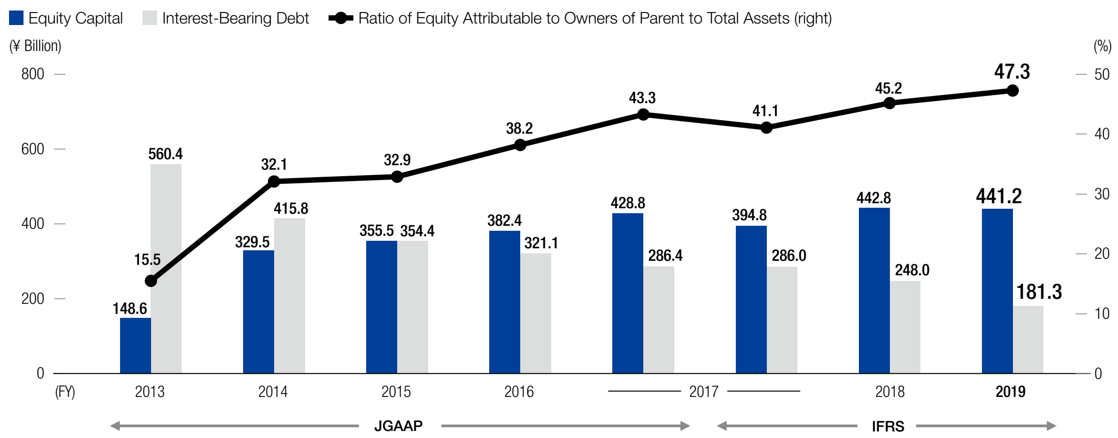
A focus of 16CSP has been to improve financial soundness. Equity attributable to owners of parent to total assets stood at 47.3% as of the end of fiscal 2019, which is approaching our target figure, due to an improvement in financial condition, including a reduction in interest-bearing debt. In light of this situation, it is extremely important to enhance business growth and management efficiency in order to leap forward as a truly global medical technology company. We would like to generate cash flow enabling appropriate investment, and as a result, will advance a financial strategy that further boosts corporate value.

To achieve this, although we have traditionally focused on financial indicators related to profitability, going forward we believe we need to concentrate on the balance sheet as well, which includes strengthening the management system.

"Visualization" is a key component in bolstering the management system. This refers to visualization not only of sales contents and indicators but also of product costs, SG&A expenses such as R&D costs, inventory, and capital investment, among other items, which will in turn enhance our monitoring capabilities once a plan-do-check-act (PDCA) cycle is set in motion.

I am committed to fulfilling my role in a financial capacity by following up on results as well as by swiftly recognizing signs of change and linking these to possible future scenarios. This also entails taking steps that help promote business based on this, or in other words, responding proactively to changes in the environment.

Equity Capital / Interest-Bearing Debt / Ratio of Equity Attributable to Owners of Parent to Total Assets



Message from the CFO

Financial Guidance in Corporate Strategy

In the corporate strategy announced in November 2019, an operating margin of 20% was established as a financial guidance. We are currently promoting improvement of profitability as a critical challenge to be achieved through initiatives primarily under *Transform Olympus*. By fiscal 2023, we aim to boost the operating margin from around 11%, the forecast for fiscal 2020, to approximately 20%. This is the most important target for the next three years in terms of medium-term financial indicators.

Olympus has stated three supporting financial indicators for fiscal 2023. The first is free cash flow growth. This indicator has been set from the point of view of firmly enhancing earning power in core businesses and generating future investment resources. The goal is to achieve an average annual growth rate of at least 20% over the three years to fiscal 2023.

The second indicator is return on invested capital (ROIC), set from the perspective of measuring efficiency in earning power and profitability in each business. The goal is to increase ROIC to at least 20% by fiscal 2023. By monitoring both the growth axis as measured by free cash flow and the efficiency axis as measured by ROIC, we believe that healthy business growth can be achieved. Further, the effective use of ROIC will enable us to more readily make decisions based on the characteristics of each business and product lifecycle.

The third indicator is earnings per share (EPS) growth. Ultimately, our intention is to maximize shareholder value by improving earning power through growth in free cash flow and ensuring appropriate ROIC to improve efficiency. In the three years to fiscal 2023, we will place greater emphasis on achieving annual growth of approximately 25% and maintaining this level.

These financial indicators are vital to create an efficient structure enabling swift response to changes in the environment. We aim to achieve the goals set for these financial indicators under our corporate strategy by making them an integral part of our business activities and fostering a corporate culture that encourages high performance.

FY2023/3 Financial Guidance and Supporting Financial Indicators

		FY2020/3	Target FY2023/3
Financial Guidance	Operating Margin*	Approx. 11%	>20%
Supporting Financial Indicators	Free Cash Flow Growth*	Approx. ¥50 Billion	>20% CAGR from FY2020/3
	ROIC*	Approx. 10%	>20%
	EPS Growth*	¥47	>25% CAGR from FY2020/3

*Adjusted for extraordinary items

Initiatives to Enhance Capital Efficiency

The global centralized management of capital, a management resource, and optimization of procurement are indispensable strategies for Olympus, in which around 80% of total sales revenue is now accounted for overseas (fiscal 2019). As such, we are enhancing global cash management as part of efforts to improve capital efficiency. From April 2020, we will start pooling capital by consolidating surplus funds from Group companies in Japan, the United States, and Europe into a global financial hub in Europe. We believe that by unifying the settlement date of receivables and debts at Group companies and adding settlement netting to offset each party's payments, we can reduce the amount of working capital required at a scale of ¥10.0 billion.

Credit ratings are also important to ensure smooth financing globally. Olympus enhanced its credit rating by two levels during the period of 16CSP in recognition of continuous improvement in financial structure. Going forward, the Company will work to reduce fund procurement costs by making the most of its financial leverage while maintaining an effective rating level for funding.

Moreover, in terms of sales of endoscopes, demand has been increasing yearly for procedure-based models, particularly in the United States. With the application of the new leases accounting standard (IFRS 16) in fiscal 2020 and the implementation of various measures, the role of the financial function will become increasingly critical in business. We are already working on the liquidation of lease receivables and will continue undertaking measures that take the balance sheet into consideration in order to contribute to the execution of business.

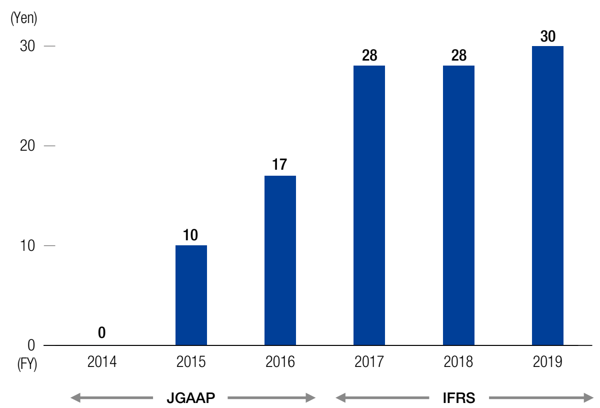
Steps to Optimize Global Capital Efficiency

Optimization of Individual Companies	Partial Optimization within Region and Sales Channel	Total Optimization within Region	Total Global Optimization
•Conduct capital management at each company.	•Improve capital efficiency between Group companies within region and sales channel.	•Enhance capital efficiency at the regional level.	•Enhance capital efficiency at the global level.

Cash Allocation Policies

We are now even more conscious of investing for growth in terms of cash allocation. With regard to business investment, we will prioritize investment not only aimed at driving growth but also to strengthen functions. In particular, in the Therapeutic Solutions Division we will more actively consider M&A based on business strategy. With regard to shareholders return, we aim to achieve a level of 30% as policy under our medium-term management plan 16CSP by fiscal 2021. From that point, we will maintain the proactive shareholder return policy considering corporate priorities and shareholders' value.

Annual Dividends per Share



Olympus Cash Allocation

Business Investment	•Prioritize allocation of funds toward growth investments as well as quality enhancement. •Strategic consideration of M&A based on business strategy
Shareholder Return	•Maintain current policy to achieve 30% total shareholders return by FY2021 as stated in 16CSP. (Olympus will achieve its 16CSP target of a 30% total return ratio in FY2020/3.) •Maintain the proactive shareholder return policy considering corporate priorities and shareholders' value.