Message from the CFO

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Executive Officer and
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Progress in Fiscal Year 2021

- Ensured business continuity under the COVID-19 pandemic situation
- From the second half of the fiscal year, when the market environment began to recover, implemented measures that contributed to the maximization of corporate value by resource reallocation

Future Priority Measures

- Moving the Finance Transformation, one of the strategic priorities of *Transform Olympus* to the execution stage, while working to maximize corporate value, through realization of potential value, the reconstruction of operation models, and the evolution of dialogue with stakeholders
- Pursuing a balance between financial soundness and capital efficiency while remaining aware of optimal capital structure
- Undertaking capital allocations prioritizing business investment

“Aiming for enhancement of sustainable corporate value, we will achieve both business growth and efficiency by optimizing the allocation of management resources.”

The Medical Business’s Resilience in Dealing with the COVID-19 Pandemic

Fiscal year 2021 was the first year of the three-year period up to the fiscal year 2023 which is regarded as a milestone in the corporate strategy announced in November 2019. We had expected further growth from fiscal year 2020, but unfortunately revenue and operating profit decreased. The biggest factor was the decrease in sales due to the impacts of the COVID-19 pandemic, but the recovery trend starting in the second half, was remarkable. Especially, in the fourth quarter, both the Endoscopic Solutions Division (ESD) and the Therapeutic Solutions Division (TSD) recorded double-digit growth compared to the previous fourth quarter. I am expecting this momentum to continue in the current fiscal year and anticipate significant increases in revenue and operating profit.

In the fiscal year 2021, we faced the unprecedented situation of COVID-19 pandemic and took various emergency measures. In March 2020, when the impacts of the COVID-19 pandemic had gradually become apparent, we raised additional funding, having decided that securing funds would be our top priority, so we could ensure business continuity and continue to supply products to all our patients and healthcare professionals. At the same time, we conducted a review of the internal budget on a zero basis, and first worked to curb expenditures. When the market environment showed signs of recovery, we shifted to taking positive steps toward sustainable growth.

Looking back, I can see now that fiscal year 2021 was an opportunity to reaffirm our strengths and weaknesses. For example, in the first half of the fiscal year 2021, when the impacts of COVID-19 pandemic were at a high level, I strongly felt that the fixed cost ratio was an issue for us and that there was room for improvement. In the Medical Business, which began to recover as soon as the market environment started to improve, we were able to demonstrate that resilience was in place against the backdrop of a robust platform centered on gastrointestinal (GI) endoscopes. By such employees attribute as a sense of mission to continue delivering products, and the will to push forward with new initiatives for sustainable growth, we were also able to confirm the strength of our employees’ commitment to our stakeholders, who include patients, healthcare professionals, and shareholders. As a global medtech company, we have learned a lot that will lead us confidently toward the goal of an operating margin of over 20% for fiscal year 2023, which was set as one milestone on the way to achieving sustainable growth.

Priority Measures: Resource Allocation Focused on Balance between Business Growth and Efficiency

I would like to outline specific results from, and the background to, fiscal year 2021. In addition to major measures, such as the introduction of the new GI endoscopy system, EVIS X1, several M&A deals in the Medical Business, the divestiture of the Imaging Business, and the implementation of “Career Support for External Opportunity”, a variety of measures were implemented with regard to *Transform Olympus*. To maximize corporate value, we identified the capabilities that could be differentiated, how and whether we should optimize the allocation of management resources, and, from those where this was not applicable, considered whether to relocate resources—in other words, to replace and redistribute resources—and implemented those initiatives.

The companywide transformation plan *Transform Olympus*, by which we aim to transform our corporate culture as well as improve business operations and performance, consists of bottom-up themes combined with top-down strategic priorities for which each executive officer is responsible. As I have responsibility for Finance Transformation, I have adopted three policies that will be able to assist the finance function in increasing the added value of the entire company. The first policy is the realization of potential value. Up to now, we have endeavored to create value for Olympus as a whole through numerous initiatives, but there are still opportunities to create more value by comparing with best practices, by adapting based on changes in the business environment, or by thinking from a zero basis, and I believe that opportunities for new value creation will be created. By way of example, I would like to present a case in point concerning procurement activities. Currently, I have the responsibility to promote the globalization of indirect material procurement. Although on the way to the realization of its potential value, under procurement best practices in global companies, direct materials and indirect materials are all unified, including the organization and processes, and are managed and controlled by procurement managers. In addition to improving efficiency, this also leads to the strengthening of responsible procurement activities. At Olympus, we aim first for the unification of, for example, processes, tools, and other elements, on a global basis.

Underpinning the first policy of realizing potential value, the second Finance Transformation policy involves the rebuilding of the operating model in the finance function to lead to optimal solutions. We

FY2023 Financial Guidance and Supporting Financial Indicators

		FY2023 Targets
Financial guidance	Operating margin*1	> 20%
Supporting financial indicators	Free cash flow growth*1	> 20%*2
	ROIC*1	> 20%
	EPS growth*1	> 25%*2

*1 Adjusted for extraordinary items
*2 CAGR from FY2020

decided to change the finance function, which had been operating mainly in each region, to a system that could be managed globally with a focus on function and could collaborate more closely with businesses as a business partner. This also included assigning human resources across regional boundaries.

My third Finance Transformation policy is the evolution of dialogue with stakeholders. I am very much aware of the need to improve the quality of our information disclosure and hope that our stakeholders will gain a proper understanding of our corporate value. There is room for improvement in background explanations of financial information, and I recognize that the levels of information on our products and product pipeline in particular, which are the main drivers of corporate value creation, have unfortunately not yet reached the levels expected of a global medtech company. Having begun to disclose information on our principal product pipeline in fiscal year 2021, we have taken a step in the right direction. While listening to feedback from our stakeholders, we will strengthen information disclosure with the aim of achieving a level more appropriate of a global medtech company.

Optimal Capital Structure that Maintains Financial Discipline

The maximization of corporate value is accomplished by maximizing cash flow. Cash flow growth also plays an important role in achieving operating margin of over 20%, the goal of our corporate strategy. Based on this recognition, we are developing evaluation methods while reviewing the relevance of assets and capital investment to business growth, as well as the return on investment. Recognizing that there is room for improvement in our cash conversion cycle (CCC), especially in terms of inventory when compared with our competitors, we had planned a review of inventory from fiscal year 2021 but took measures that emphasized the continuity of supply by responding to the COVID-19 pandemic. On the basis of our ongoing responsibility for supply as a medical device company, we will conduct a review with the goal of inventory level optimization.

Under the previous medium-term management plan 16CSP, we had set an equity ratio target figure of 50% to serve as an index by which to gauge financial soundness. However, since the risks we had at that time have been eliminated, I think we are in the phase of considering the optimization of the cost of capital. Taking the interest-bearing debt/EBITDA ratio, which is lower than our global competitors, as one criterion, on the basis of the cash flow that will be generated stably in the years to come, I recognize there is a possibility to leverage more. Although dependent upon the external environment and the growth stage of the Company, we will also pursue a balance between financial soundness and capital efficiency while remaining aware of financing costs (rating levels) and working to reduce the cost of capital.

Ratings (As of the end of July 2021)

	Types of bonds	Rating
Rating and Investment Information, Inc. (R&I)	Long-term bond	A
	Short-term bond	a-1
S&P Global Ratings Japan Inc. (S&P)	Long-term bond	BBB+
	Short-term bond	—

Capital Allocation that Balances Growth Investment and Shareholder Returns

Business investment is the top priority in capital allocation. As long as we keep funds from our shareholders, I believe Olympus should make business investments that can create unique added value and also increase shareholder value. In line with our corporate strategy, we will continue to promote business investment and M&A centered on the Medical Business, especially the TSD's three focus areas (GI-Endotherapy, Urology, and Respiratory).

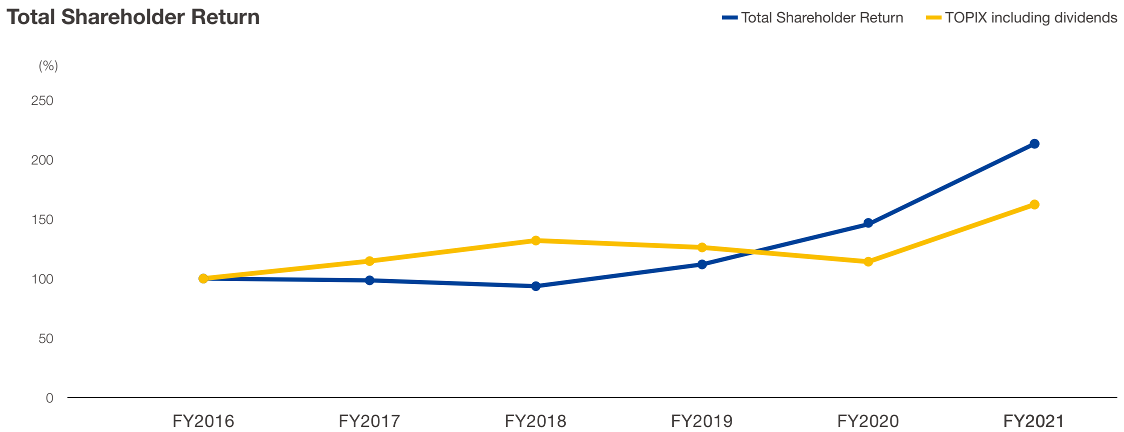
We also aim to improve dividends in a stable and continuous manner. Taking advantage of our robust platform centered on GI-Endoscopes in the Medical Business, I believe we can continue to generate a certain level of free cash flow. Therefore, after securing a certain amount of liquidity on hand for working capital and investment, we will consider acquiring treasury stock if there are surplus funds. The acquired treasury stock will be promptly canceled unless the intended use is clear. Based on this thinking, we canceled approximately 72 million shares of treasury stock in June 2021.

Against the backdrop of our ability to engage in a range of corporate activities on the basis of smooth financing, we recognize there is a certain level of evaluation from the market for the corporate value we have created. It is important for management to remain aware of total shareholder return (TSR) as one of the indicators of corporate value. With regard to the executive compensation system for fiscal year 2022, the indices for long-term incentive compensation for executive officers have been rearranged. The performance share unit valuation indicators have been changed to three—operating profit, TSR, and ESG—and the ratio of TSR has been increased from 20% to 40%. I believe the system has now become one that allows shareholders and management to share mutual interests.

Maximizing Value Provided to All Stakeholders

To grow corporate value sustainably, it is essential to have continuous support from all stakeholders. In Olympus' case, sales, for example, are the result of customer satisfaction by providing products and services that meet the needs of patients and healthcare professionals. Various types of procurement, human resources, outsourcing, and other activities—which are recognized as expenses by Olympus—are generated in relation to a variety of stakeholders, and I believe there is a need to pursue an appropriate balance with our stakeholders, rather than prioritizing only our interests. Maintaining a balance between them can maximize the value provided to stakeholders and ensure sustainability. To that end, we must continue to be a company chosen by all stakeholders. Starting with the provision of products and services, we are aiming to be a company that continues to be selected by meeting the expectations of our various stakeholders, such as through our relationships with various partners.

Total Shareholder Return



Shareholder Return

	FY2017	FY2018	FY2019	FY2020	FY2021
Cash dividends per share	¥7	¥7	¥7.5	¥10	¥12
Payout ratio (consolidated)	22.4%	16.8%	125.7%	25.4%	119.4%
Total return ratio (consolidated)	22.4%	23.2%	125.7%	205.6%	118.8%

Note: The Company conducted a stock split at the ratio of four shares for one ordinary share on April 1, 2019. Figures prior to the FY2019 have been converted to align with the post-stock split standard.