



Director, Representative Executive Officer,
President and Chief Executive Officer

Stefan Kaufmann



Ensuring patient safety is our top priority and becoming a global MedTech company recognized for its innovative products and solutions, as well as its people.”

I am delighted to take up this incredible opportunity and I sincerely express my gratitude and delight at being named the new Olympus CEO and I am excited to continue our transformation initiated by my predecessor Yasuo Takeuchi. The first stage of Olympus' transformation was a huge success in terms of becoming a pure MedTech player, increasing performance, and striving for a more globalized organization with a global leadership. We are now at the start of the second stage, where we will shift to grow. From here, my aspiration is for us to become a leading global MedTech company that is recognized by all our stakeholders for its innovative products and solutions, as well as its people.

Initiatives in Pursuit of Patient Safety and Sustainability

We are making progress toward becoming a global MedTech company. We have successfully divested our Imaging Business and Scientific Solutions Business, and have established a united and globalized senior management team transforming us into a pure MedTech player. However, the situation that we are in today in connection with three Food and Drug Administration (FDA) warning letters we received in fiscal year 2023 is an opportunity for us all to recognize that we must fundamentally improve our corporate culture, processes, and systems to meet the expectations of regulators and stakeholders. We put patient safety first and must continue to make meaningful improvements in quality assurance and regulatory affairs (QARA) over the next two to three years.

One of the critical success factors of *Transform Olympus* over the last four years has been giving equal weight to improving both financial performance and organizational health. We must now do the same with QARA remediation, where we are not only focusing heavily on addressing issues arising from the FDA observations at our sites globally, but are also executing remediation on a broader scale that covers our entire manufacturing landscape and R&D processes. This is because we want to be able to improve across the whole organization, not just those sites that have received warning letters. We have already established a holistic transformation program to investigate the detail and root cause behind the warning letters and to address areas that need to be enhanced. We are doing this by examining

our global operating model, global process harmonization, and IT enterprise architecture, which still bears the legacy of a Japanese manufacturing company with highly decentralized components. We are also developing a dedicated program to help change embedded mindsets and bring in the necessary capabilities to fulfill our commitments when it comes to patient safety. Cultural transformation starts from the top, and every decision must put patient safety first. As a result, leadership must set the right tone by actively discussing patient safety with employees and help them understand the importance of a quality mindset. We understand that this requires investing heavily in training and education, as well as rewarding employees who act with patient safety in mind.

In the past, I believe we saw patient safety and quality as a functional responsibility, which is one of the reasons we did not achieve the results we expected in our efforts to improve our quality management systems. Patient safety and quality are relevant to all Olympus employees and led by the CEO. With this in mind, since becoming CEO in April 2023, I have prioritized two key areas and communicated this clearly to our employees. I have also been strengthening communication with all stakeholders, including patients, healthcare providers, and regulators. By bringing in a team of MedTech QARA experts to assist us in developing one global quality management system and transforming the corporate culture, we have significantly enhanced our QARA capabilities and resources. From a governance perspective, we have

Our Six ESG Focus Areas

We have revisited our ESG strategy to fully integrate it into the new company strategy. This solved our problem of having a siloed ESG strategy by making it an integral part of the company, business and overall functional strategy. My personal aim is for Olympus to become an ESG leader among global MedTech companies through six focus areas: Healthcare Access and Outcome; Compliance, Product Quality and Safety; Responsible Supply Chain; Healthy Organization; Carbon Neutral Society and Circular Economy; and Corporate Governance. These ESG focus areas are crucial to Olympus' sustainability and contribution to society. For example, one of our top priorities in Healthcare Access and Outcomes is to enhance colorectal cancer related training by 20% in target emerging countries and regions. Healthcare in many of these markets is still underdeveloped, and Olympus has a strong track record of being the first to deliver training and education to healthcare professionals. Another focus area is to have a Healthy Organization, which is critical to my goal of having Olympus recognized by its stakeholders for its innovative products and people, as well as being an ESG leader. I

discussed with the Board of Directors the establishment of a QA&RA Committee that is composed of three outside directors with experience in leading global MedTech companies and QARA knowledge. They meet monthly with the executive team, monitor initiatives, and provide strategic advice. I am particularly pleased that, over the last few years, we have increased the capabilities at the Board level by bringing in new members with MedTech experience and promoting the Board of Directors and the executive team to cooperate closely on patient safety and QARA.

As announced in the company strategy, we will invest approximately ¥60 billion over the next three years on strengthening QARA. This is a necessary investment rather than a cost because we are not only addressing issues arising from the FDA observations, but also taking a more holistic approach to create a steadfast foundation designed to meet patients', customers', and regulators' expectations and ensure patient safety is our top priority. Operational performance will also improve given our digitizing and optimizing manufacturing efforts that will help reduce costs by creating a more streamlined and harmonized operating model. We expect SG&A ratio to be reduced due to greater clarity on decision-making authority and improved R&D and regulatory processes that will ultimately accelerate our ability to deliver products to customers while keeping product safety a top priority. QARA transformation will unleash Olympus' full potential and make us more sustainable and stronger. We do not want to miss out on this opportunity.

want our employees to come to work smiling, knowing that they are part of a unified and collaborative working environment where they can contribute to Our Purpose of "making people's lives healthier, safer and more fulfilling," with a leadership that cares about their well-being and career advancement. A key priority within Healthy Organization is for 30% of management positions globally to be held by women by fiscal year 2028. Setting a target is vital for initiating change while demonstrating an unwavering commitment from Olympus' leaders to both our stakeholders and employees. Having a target will also help us enhance our diversity, equity and inclusion strategy, which is important for ensuring a safe and sustainable workplace. To reach our target, we have set a minimum of 25% of all new employees as women graduates in Japan, and we have launched a number of programs to create networks and dedicated teams (for example, in R&D) to develop future women leaders. In terms of governance, we now have two women on the Board of Directors out of the 13 members, and I am confident that this number will steadily rise in the coming years.

New Company Strategy and the Three Guiding Principles

The corporate strategy overseen by Yasuo Takeuchi has been a huge success, doubling our adjusted operating margin from below 10% to 20%. However, beyond financial targets, we have made significant cultural progress by successfully divesting our Imaging Business and Scientific Solutions Business, so our transformation from an optical equipment manufacturer to a pure MedTech player is an achievement that we should all be proud of. We have also globalized and diversified the Board of Directors, which was formerly made up mostly of Japanese members before 2019, so that we are now a leader in Japan and on par with other MedTech companies and global players in terms of governance. Furthermore, half of the senior management team, our 60 leaders, are non-Japanese, reflecting our global models' high level of unity and willingness to collaborate in order to fulfill Our Purpose. Another achievement has been increased efficiency, with the SG&A ratio falling below 50% from 55% in fiscal year 2019, despite working in a variety of challenging macroeconomic and macropolitical environments over the past three to four years. Overcoming these challenges, meeting financial targets, and transforming the company to a new level demonstrates that the corporate strategy was perhaps the greatest success story in our long and fruitful 100-year history.

I would like to now discuss our new company strategy, which introduces the Three Guiding Principles. First, "Patient Safety and Sustainability" entails developing a patient safety mindset and adjusting our operating model, processes, and systems in order to become a leading global MedTech company. Second, "Innovation for Growth" refers to not only the need to innovate and develop products but to be more innovative and creative, and to take bolder calculated risks as a company, while working more closely with our customers to create commercial models and offerings. Third, "Productivity" is the fuel for innovation and we are building a high performing organization focused on patient safety and product quality while ensuring simplicity and operational efficiency. We have also established four strategic value pools that will drive our long-term sustainable growth and create value for our customers and society: Business and Global Expansion, Strategic M&A, Care Pathway Enhancement, and Intelligent Endoscopy Ecosystem. The Three Guiding Principles and the four value pools are deeply connected and help facilitate and accelerate each other, which is the beauty of the new company strategy. Strategic M&A, for example, is part of Innovation for Growth because we cannot develop everything in-house and must occasionally look outside for products and solutions to expand our portfolio and fill unmet customer needs. Finally, our resource allocation and investment priorities remain unchanged from the corporate strategy, with GI, Urology, and Respiratory as focus areas.

Our new company strategy sets a target of revenue growth CAGR of around 5% over the next three years. Given our QARA transformation efforts and renewed patient safety initiatives, investing approximately ¥60 billion in QARA over that timeframe means that resources allocated to some of our innovation and R&D projects will be impacted, and considering the current level of global macroeconomic and macropolitical instability, I believe this target is reasonable and will require significant commitment to achieve. However, I am confident that after we have successfully transformed Olympus to reach the next level of maturity as a leading global MedTech company, our growth potential will be significantly higher, and we will be able to grow our revenue at a rate greater than 5% CAGR while improving our operating margin.

I also believe that our capital allocation policy is more than appropriate for Olympus to become a leading global MedTech company. Our first priority is to invest in innovation, the business, and M&A. The second priority is to continue increasing the dividend gradually, as we have done hitherto.

After securing sufficient liquidity on hand for working capital and investment, we will consider additional repurchasing of our shares if there are surplus funds. Although we expect this policy to remain unchanged for the next few years, we need to improve how we communicate the criteria for whether or not to repurchase our shares, while also keeping in mind that M&A opportunities can be difficult to plan for, and that the more demanding and challenging macroeconomic environment will likely cause Olympus and other companies to hold more cash surplus than in previous years. While I recognize and appreciate that capital markets have high expectations of Olympus' growth potential in the next two to three years, we must be realistic and focus on QARA transformation and invest for future growth. Our capital allocation policy is intended to make Olympus more sustainable while also providing shareholders with the best possible return, and I continue to believe that if we accomplish our growth targets outlined in our new company strategy, the returns to shareholders will be larger than if we channel future investments into paying higher dividends.

Olympus has proven in the last three years that it can deliver on its commitments while also creating value for stakeholders. As the new CEO, I will make certain that this trend continues. Despite facing challenges, we are fully committed to becoming a leading global MedTech company that is recognized by all our stakeholders for its innovative products and people. I am confident that Olympus has a bright and promising future ahead, and we are working extremely hard to justify the trust that has been placed in us over the years.