

## Message from the CFO



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**“We aim to generate sustainable value for all stakeholders and maximize our corporate value.”**

### Achieved Milestone Target of Corporate Strategy by Enhancing Corporate Resilience

As the final year of the corporate strategy that we announced in November 2019, fiscal year 2023 was a milestone for Olympus. Reviewing the past three years, we have encountered many challenges, starting with COVID-19 in the corporate strategy's first year, followed by supply shortages of semiconductors and parts. There were also increasing geopolitical risks, such as the war in Ukraine, and rising raw material prices. Despite numerous macro headwinds, we have achieved top-line growth with an annual revenue growth rate of 4.6%\* by continuing to fulfill our mission to deliver products and services to patients and healthcare professionals. Our performance also benefited from efforts to optimize costs and resource allocations by implementing efficiency and effectiveness improvement measures under our corporate transformation plan, *Transform Olympus*. As a result, we were able to achieve an adjusted operating margin of over 20%, which was a milestone in our corporate strategy. We also made significant progress on focusing our corporate portfolio, which was a key component of our corporate strategy. We transferred the Imaging Business and Scientific Solutions Business, and we have transitioned into a long-term sustainable growth phase as a company focused on healthcare. I believe that the mindset of Olympus employees has been transformed, and that we are now

more resilient as an organization.

\* 3-year CAGR on a continuing business base from fiscal year 2020 after FX adjustment

### Advancing to a New Phase of Growth with a New Company Strategy

We announced a new company strategy in May 2023. The three Guiding Principles under this patient-centric strategy are “Patient safety and sustainability,” “Innovation for growth,” and “Productivity.” We also narrowed our financial targets down to three KPIs that emphasize growth and profitability. We aim to achieve revenue CAGR of around 5%, EPS CAGR of around 8%, and maintain the operating margin at the previous year's level of 20%. While maximizing free cash flow is the starting point for achieving these KPIs, they also correlate closely with our corporate value and stock price. We chose these indicators because they are easy to calculate and understand, and I believe this simplicity enabled us to achieve our previous milestone. I am confident that over the next three years, our 30,000 employees will continue to work toward the common goal and we will be able to achieve our desired results.

Patient safety is our top priority. While our quality assurance and regulatory affairs (QARA) transformation efforts will impact both costs and revenue growth, we anticipate steady growth thanks to market growth as well as growth drivers that include new product categories. In particular, we plan to launch the EVIS X1 advanced endoscopy system in the United States, our largest market, in the middle of fiscal year 2024, and in China in the near future. To achieve sustainable growth in fiscal year 2024 and beyond, we will continue to invest in innovation while also focusing on cost optimization. Some of our initiatives to improve productivity under *Transform Olympus*, launched in 2019, have yet to yield results or are still in progress. Going forward, we anticipate that the effects of these measures will continue to yield benefits by improving our cost of sales ratio and optimization of SG&A expenses. Since we have continued to operate on a regional basis, we recognize that there is still room for further procurement cost optimization. We have identified specific initiatives and priority themes, and we are gradually achieving results in these areas. We expect to improve both the effectiveness and efficiency of our efforts through further evolution of our global operating model. In addition, we are continuing to utilize platforms based on our Global Business Services (GBS). Over the past three years, we have strengthened our resilience and we will strive to achieve the goals in our new company strategy by further enhancing resilience while adapting quickly and flexibly to a changing environment.

### Further Improvements to the Finance Function

Our finance function activities are targeted toward the

realization of the Guiding Principles and the achievement of KPIs. We have transitioned our finance function, which has primarily operated on a regional basis in the past, to a framework centered on business partners in business and functional categories. This has brought the finance function closer to business activities so that it can respond quickly and appropriately to everyday business needs, such as resource allocation. Because we communicate more closely with the business units, we are better able to monitor and manage top-line growth and costs. As a result, we now anticipate that we will be able to secure the funding needed for investment in growth over the next three years such as R&D and further enhancing our business foundation. The finance function is also contributing to value creation through activities that are not directly reflected in our KPIs, such as efforts to optimize our balance sheet. We have reduced cross-shareholdings by approximately 90% over the past three years, and by the end of June 2023, Olympus held shares in only one listed company. We are also taking steps to dispose of assets that do not contribute to business growth. A gain on the sale of land in fiscal year 2023 contributed significantly to our cash flows. We recognize that there is room for improvement in our cash conversion cycle (CCC), especially in terms of inventory, and this topic has become a major consideration for management. Although we had to lower the priority over the past two years to ensure reliable product supply to customers in the face of various challenges, including parts supply shortages, we are now promoting End-to-End supply chain transformation from development to delivery for our patients and customers. We are also strengthening our tax management and conducting a comprehensive review to discover opportunities to improve cash flow, while ensuring regulatory compliance. We continue to support each business and function based on detailed monitoring on a 360-degree perspective.

### Capital Allocation to Generate Sustainable Value

We aim to enhance our cash generation ability through continual investment in business growth and productivity enhancements. To achieve sustainable growth while also increasing shareholder value, we will prioritize our capital allocations toward businesses investment in areas in which Olympus has unique capabilities and will add value. Over the past four years, we have allocated approximately ¥140 billion to M&A and other investments. In accordance with our company strategy, we continue to strengthen our product portfolio capabilities through tuck-in M&A opportunities in our priority businesses of GI, Urology and Respiratory in existing disease states and attractive high-growth adjacencies.

Our shareholder returns policy calls for steady, gradual dividend growth, and in fiscal year 2023 we increased our dividend by ¥2 from the previous fiscal year, to ¥16, our fifth consecutive year of dividend growth. We expect increasing

dividends for the next three years. In addition, we are currently repurchasing our shares with an approximately ¥100 billion ceiling. This is our third share repurchasing since 2022, and will run from May 15, 2023 to January 31, 2024. We allocated approximately ¥80 billion to the two previous repurchases. We will continue to increase dividends while also considering additional share repurchasing based on the outlook for the supply and demand of funds, as well as a strong focus on capital cost optimization, financial discipline, and the EPS growth rate.

### Becoming a Company Chosen by All Stakeholders

To increase corporate value sustainably, I believe the most important thing is to earn the continuing support of all of our stakeholders, including patients and their families, healthcare professionals, investors, employees, business partners, regulators, and society. The results of our business activities, as shown in our financial statements, begin with revenue and end with earnings per share after tax. Those figures reflect the value that we provide in response to our various stakeholders' needs. For example, our revenue comes from our products and services, but we also need to consider whether we are providing sufficient value to patients in terms of healthcare safety and effectiveness, as well as what investments we need to make in order to achieve those goals. There are other important things we need to consider such as if we are paying our employees competitive compensation and enabling them to experience pride and fulfillment through the creation and provision of our products and services, whether we are investing enough in initiatives to improve productivity and employee engagement, and whether our trading condition is conducive to maintaining win-win relationships with our partners and suppliers. We need to deliver bottom-line growth to our shareholders while meeting all of these requirements. To improve financial performance sustainably, we must continuously verify that we are fully meeting stakeholder expectations.

We are actively introducing systems that will allow us to share achievements with our stakeholders. In March 2023, we expanded the scope of our stock-based compensation system for directors and executive officers, which we introduced with the aim of incentivizing contribution to the Olympus Group's medium- to long-term growth. The system has been expanded to include employees in senior management positions. Our management team is committed to improving corporate value and shareholder value from the same perspective as shareholders.

Despite a challenging business environment, we achieved the milestone set down in our corporate strategy. We are taking a step forward to overcome the next management challenges. We will continue to strengthen our resilience as we strive to deliver value and become a company chosen by stakeholders, while also working to sustainably maximize our corporate value.