OLYMPUS
Your Vision, Our Future

Financial Strategy

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16CSP

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

- ✓ 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

Capital Efficiency

ROE 15% (FY2016 estimate: 14%)

■ Secure appropriate level of financial soundness and then target balanced improvements in profitability and business growth to maintain ROE of 15% over long term

Profitability

Operating margin 15% (FY2016 estimate: 12%)

■ 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

■ Reduce manufacturing costs, increase development efficiency, and streamline back-office work and processes to reduce SG&A expenses and thereby improve profitability

Business Growth

EBITDA Double-digit growth* (FY2016 estimate: ¥150 billion) (FY2021 estimate: ¥240 billion)

■ Achieve sales growth that exceeds market growth rates in Medical Business while eliminating operational inefficiencies to realize high-quality growth

■ Enhance earnings capacity measured by excluding accounting factors (depreciation, amortization of goodwill, etc.)

Financial Soundness

Equity Ratio 50% (FY2016 estimate: 39%)

■ Increase equity capital from perspectives of securing financial soundness matched to risk levels and appropriately managing financial leverage

* 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

	FY2021 (Forecast)		FY2016 (Forecast)
Net sales	¥1,100 billion	CAGR 6%	¥816 billion
Operating income	¥170 billion	CAGR 11%	¥100 billion
Free cash flow	More than ¥250 billion	Total in 5 years	–
EPS	¥320	–	¥163

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

Net sales	FY2016(Forecast)	FY2021(Forecast)	CAGR
Medical Business	615	900	8%
Scientific Solutions Business	106	130	4%
Imaging Business	80	55	-7%
Others	15	15	0%
Elimination or corporate	–	–	–
Total	816	1,100	6%

Medical BUs(CAGR)	
GIRBU	7%
GSBU	11%
UGBU	8%
ENTBU	13%
MSBU	5%

Operating income	FY2016(Forecast)	FY2021(Forecast)	CAGR
Medical Business	137	225	10%
Scientific Solutions Business	8	13	10%
Imaging Business	0	2	–
Others	(12)	(70)	–
Elimination or corporate	(33)		–
Total	100	170	11%

Net income	FY2016(Forecast)	FY2021(Forecast)	CAGR
Total	56	110	15%

* Foreign exchange rate assumptions :
・US$ =¥115
・Euro =¥130

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Management Emphasizing ROE

ROE 15%

- 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

		FY2016(Forecast)	FY2021(Forecast)	
Profitability	Ratio of net income to net sales: Net income / Net sales	Approx. 7%	Approx. 10%	■ Increase operating margin ■ Improve balance of other income and expenses
× Asset efficiency	Total asset turnover: Net sales / Total assets	Approx. 0.8 times	Approx. 0.9 times	■ Increase net sales ■ Improve business asset efficiency ■ Improve corporate asset efficiency
× Financial leverage	Total assets / Equity capital	Approx. 2.6 times	Approx. 2.0 times	■ Manage financial leverage ■ Conduct BS-based management

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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

Profitability

Ratio of net income to net sales

$$\frac{\text{Net income}}{\text{Net sales}}$$

FY2016 (Forecast)	FY2021
Approx. 7%	10%

	FY2016 (Forecast)	FY2021
Increase operating margin	Approx.12%	15%
Improve balance of other income and expenses	¥(14.0 billion)	Lower interest payments by reducing interest-bearing debt, etc.

Increase operating margin:

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

Improve balance of other income and expenses:

- 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

Asset efficiency

Total asset turnover

$$\frac{\text{Net sales}}{\text{Total assets}}$$

FY2016 (Forecast)	FY2021
Approx. 0.8 times	Approx. 0.9 times

	FY2016 (Forecast)	FY2021
Increase net sales	¥816 billion	Up 35% (¥1,100 billion)

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

	FY2016 (Forecast)	FY2021
Improve total asset efficiency	Approx. ¥1,020 billion	Limit increase to approx.20%

- 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

Financial Leverage

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

Financial leverage

$$\frac{\text{Total assets}}{\text{Equity capital}}$$

FY2016 (Forecast)	FY2021
Approx. 2.6 times	Approx. 2.0 times

BS-based management		Pursue appropriate financial balance
Equity ratio	Mar. 31, 2016(Forecast) Approx. 39%	FY2021 Approx. 50%

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

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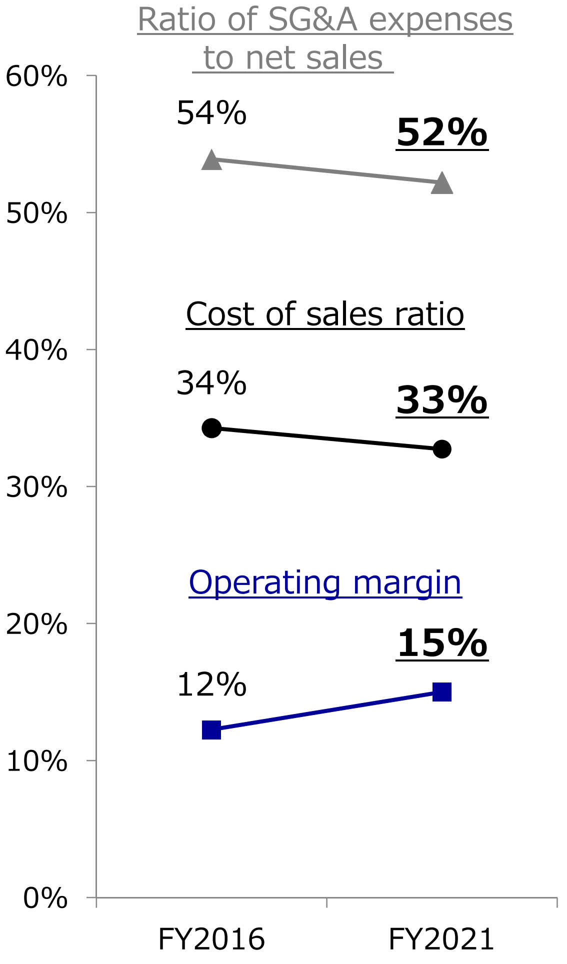
Operating Margin Improvement

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

Improvements on consolidated level



Ratio of SG&A expenses to net sales (2 pt improvement)

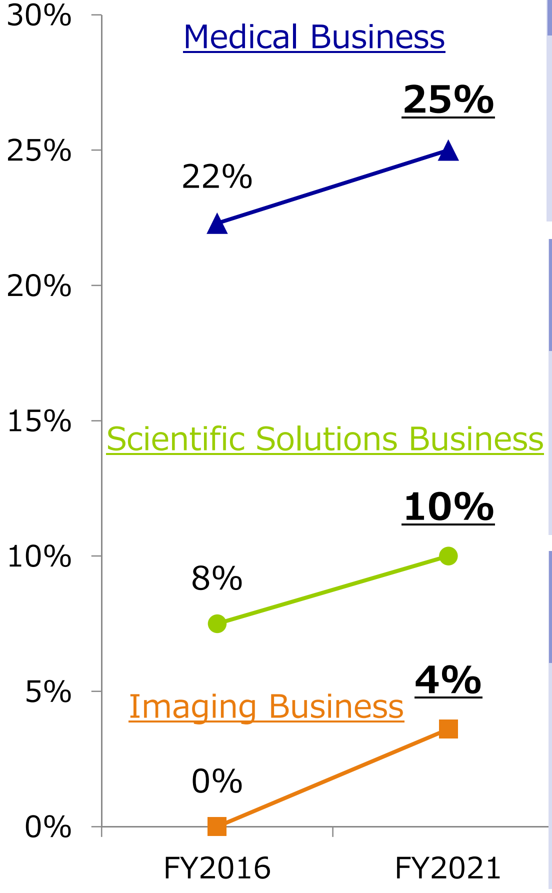
■ Reduce SG&A expenses by absorbing expense increases associated with growth investments and response to more-stringent regulations through improvements in operational efficiency

Cost of sales ratio (1 pt improvement)

■ Pursue ongoing cost of sales reductions

■ Strengthen procurement functions

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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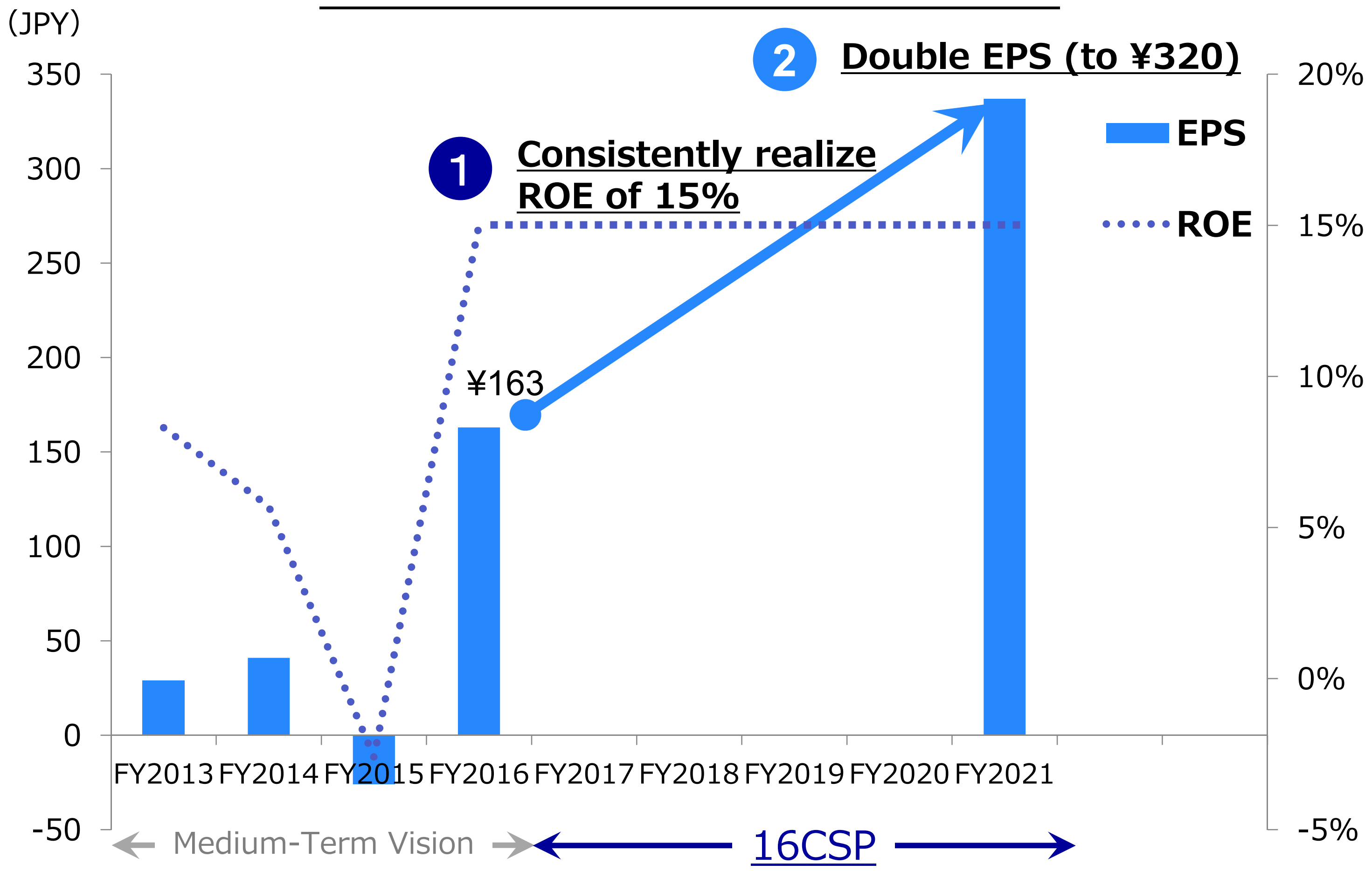
EPS

■ 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 (vs FY2016)

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Policies for Allocating Management Resources (Capital, Funds, Etc.)

Management resources (capital, funds, etc.)

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

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

1 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

2 Shareholder returns

- Increase total return ratio (to 30%)

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