

Olympus Corporation
1Q FY2021 Earnings Conference Call Q&A (Summary)

(Disclaimer)

For your reference, please find an English translation of the question and answer session at the conference call for financial results for the first quarter of the fiscal year ending March 31, 2021 below. This transcript has been edited/modified from the original Q&A conversations for the sake of clarity.

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[Q&A (Summary)]

Q: Regarding the business performance from January to June on page 12 of the presentation, why did TSD recover at a faster pace until June? I thought it would take time due to the restrictions on sales activities. And July is better than June. Do you think there is a chance to reach the break-even or turn to positive in the first half or full year?

A: It is still difficult to make forecasts. Although there is a trend for the re-expansion of COVID-19 infections not only in Europe but also worldwide, both ESD and TSD recovered greatly in June and continued to recover in July. If the number of cases doesn't grow faster than expected, the Medical business will continue to recover next few months.

TSD can be expected to recover in line with the number of procedures, and ESD can be expected to recover, supported by the launch of "EVIS X1". If these conditions continue, the break-even or the positive result will be reachable.

Q: (To COO Abia) Can you tell us about corporate issues and initiatives that you would like to address after assuming the position of COO? In addition, can you update us on TSD's achievements since its headquarters were transferred to North America?

A: I have been working for Olympus more than 20 years, and I know the strengths and weaknesses of our company. There has been no significant change in view before and after my appointment as COO. ESD has strengthened its relationships with doctors for many years, and our endoscopy system is a fruit of such a strong relationship of trust. We are excited about "EVIS X1". On the other hand, we believe that there will be significant opportunities for TSD in the future. We have accumulated strong know-how in the past, and great opportunity will come. Having management function in the US like our competitors will provide us with a large foothold in the future.

TSD has been focusing particularly on two points since its inception in 2019. First, it is focusing on the US market. North America accounts for approx. 50% of TSD's revenue, and it is important

to conduct R&D close to customers and develop products that meet their needs. Second, we are also focusing on M&A and other business development. Our business development team has been actively working to explore market opportunities. I myself am putting a lot of efforts into business development and planting seeds, which are expected to contribute to future growth.

Q: I understand that ESD is on a recovery trend, but the rate of decline appears to be large in Japan and the US like competitors. Does the difference in trend between China and Japan/US come from the financial conditions of hospitals? Let us know about the background of regional differences and future prospects.

A: ESD struggled in Japan until June. That was why the product life cycle was in late stage and the budget at hospitals has been tight. In July, however, preliminary figures show that the decline in revenue narrowed, and that is true in the US, too. In the meantime, in Europe and China, the decline in revenue widened slightly in July compared to the previous month. In Europe, where the spread of COVID-19 varies country by country, the impact on our business also varies country by country. As a result, the decline in Europe as a whole was smaller than in other regions. In the US, since the pandemic broke out, their focus has been placed on the treatment of patients. But the procedures that had been postponed have been coming back in the past few weeks, and as a result the US is also catching up with other countries in terms of recovery.

Q: There are concerns about slowing budget execution in hospitals in Japan and the US, where the ESD market has matured.

A: Hospital capital expenditures will face significant headwinds in the coming months. However, we have received many orders for "EVIS X1" even from Japanese hospitals, which are under tough financial conditions, and we think this is an indication that customers have been waiting for this new product. We expect that the strong performance of "EVIS X1" could offset the difficult market conditions.

Q: SG&A expenses declined by ¥16.4 billion YoY. Did the decrease in travel expenses make a great contribution? What is your outlook for 2Q and beyond? Are Transform Olympus related costs included in SG&A expenses?

A: Transform Olympus related costs are not included in SG&A expenses. Travel expenses contributed to SG&A expense reduction. This has decreased by approx. 80%, and sales promotion expenses as well. Both expenses are expected to come back if normal business operations resume in the future, but under "New Normal" travel expenses will not return to the pre-pandemic level. We think this is a good opportunity for us to review expenses.

Q: Among that 16.4 billion yen, how much was the contribution from sustainable cost containment initiatives?

A: I think we can cut by approx. 10-20%.

Q: Can you update us on "structural reform of fixed costs" on page 14 of the presentation? Looking at the number of employees shown on page 2 of Financial Data, while the number of employees at IMD decreased by about 500 and at others/corporate by about 170, the number of employees at TSD increased by about 400. Do these figures reflect your strategic initiatives or just natural reduction?

A: We adjusted the number of employees of IMD at the Vietnamese plant as part of production adjustment following the pandemic. The number of TSD increased due to the hiring of new graduates, the revision of the calculation method for the number of employees and new hires to strengthen the sales team in emerging countries. Others/corporate was affected by the revision of the calculation method for the number of employees.

Q: In other words, you haven't achieved the structural reform of fixed costs yet, have you?

A: Your understanding is correct. We have recognized that 80% of SG&A is fixed costs, and are reviewing it on a zero basis. We are working on it. We will disclose if there is something we need to share with you in the future.

Q: Looking at the earnings of competitors in the US and Europe, it appears that the number of GI endoscopies has not recovered yet. Why has your business recovered?

A: As the COVID-19 infection spread, endoscopy was classified as an elective procedure. We are currently obtaining information in cooperation with academic societies around the world and

believe that it should be reviewed from a variety of perspectives. As we are seeing the number of COVID-19 patients increasing again, the outlook remains uncertain.

Q: I think you need to focus on the ERCP area if you wish to grow TSD. What do you think?

A: As you pointed out, ERCP is essential from a business development perspective. We have our strengths in the field of GI endotherapy including ERCP and it is an indispensable field for us. In the process of formulating the management strategy that was announced last year, we thought our strengths lie not only in the GI area, but also in the urology and respiratory areas. So we recognize that we need to strengthen those through business development, too.

(End)