

**OLYMPUS**

Your Vision, Our Future

# Medical Business Strategy

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*16CSP*

# Today's Agenda

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- 1. Review of Medium-Term Vision (From FY2013) for Medical Business**
- 2. Recognition of Current Conditions**
- 3. Directives for Medical Business Strategy**
- 4. Priority Measures**
- 5. Numerical Indicators**

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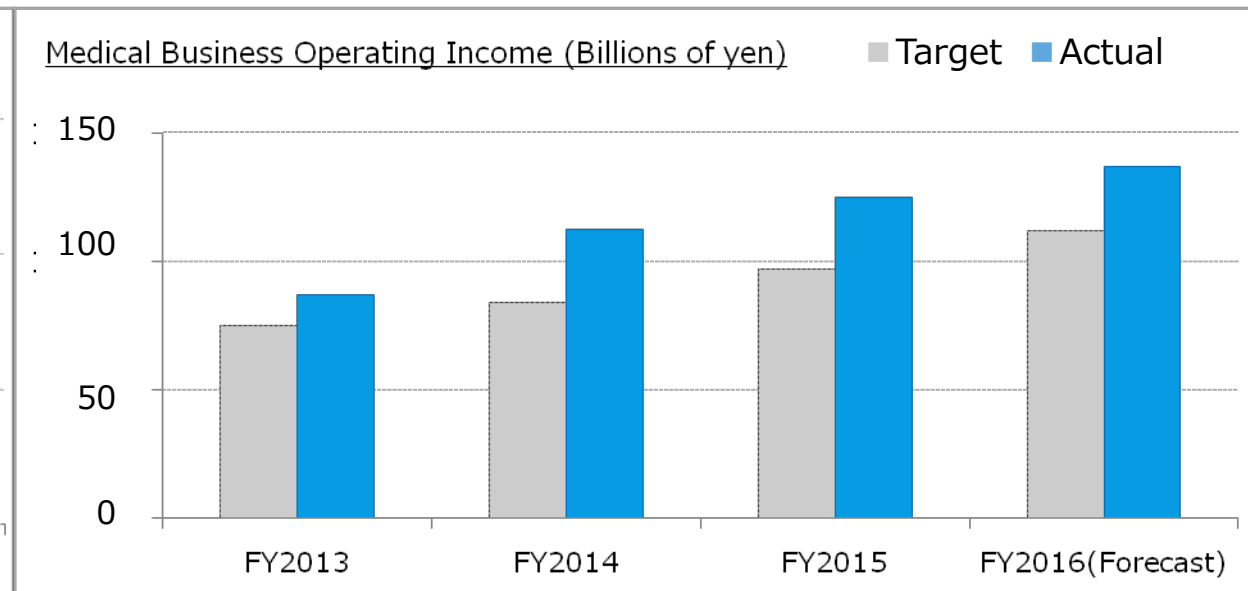
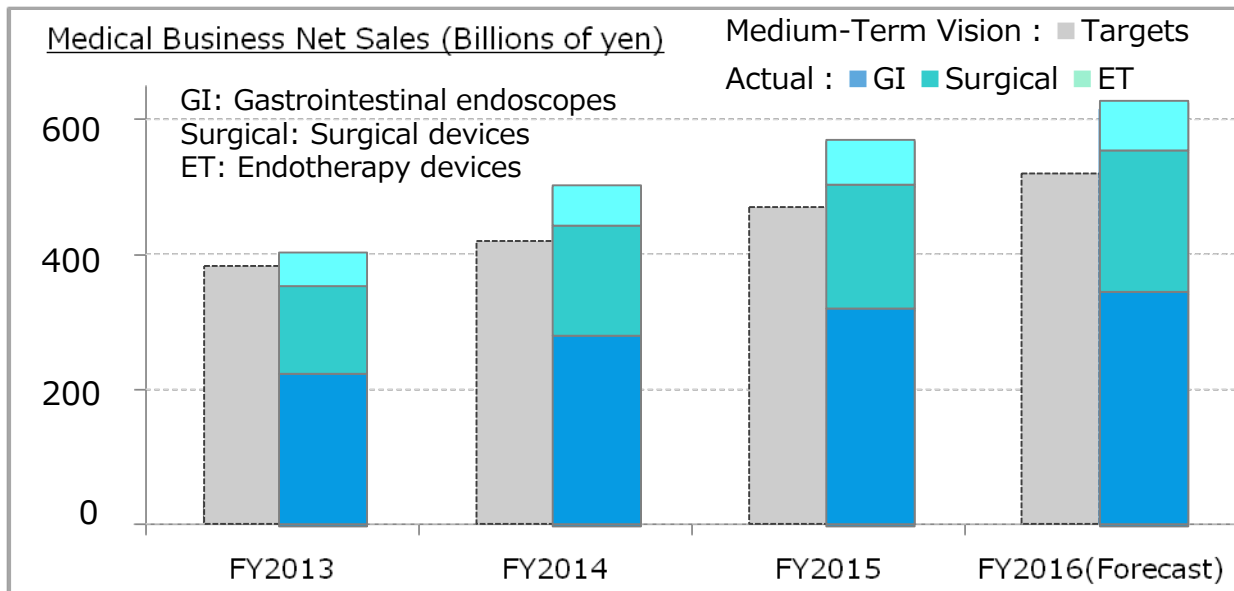
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# Review of Medium-Term Vision for Medical Business: Performance

- Net sales and operating income targets achieved 1 year in advance
- 3-year net sales growth of ¥220 billion (1.6 times higher than FY2013) and operating income of ¥50 billion (1.6 times higher than FY2013)

(Billions of yen)	FY2013		FY2015		FY2016	
	Target	Actual	Target	Actual	Target	Forecast
Net sales	383.0	<b>394.7</b>	470.0	<b>558.3</b>	520.0	<b>615.0</b>
Operating income	75.0	<b>87.1</b>	97.0	<b>124.9</b>	112.0	<b>137.0</b>
Operating margin	19%	<b>22%</b>	20%	<b>22%</b>	21%	<b>22%</b>

\* Targets are figures set when the medium-term vision was announced in June 2012.



# Review of Medium-Term Vision for Medical Business: Overview

- Earnings growth exceeds targets in GI and ET fields, further sales growth and profitability improvement needed in Surgical field
- Additional upfront investments conducted in manufacturing and repair service functions as well as in sales functions centered on Surgical and ET fields in North America

Strategies	Measures and Evaluation
Reinforcement of GI business foundation and securing of stable earnings (CAGR of 9%)	<ul style="list-style-type: none"> <li>✓ Achieved earnings growth substantially higher than expected (CAGR of 15%)</li> <li>◎ ✓ Contributed to increased sales and income for entire Medical Business</li> <li>✓ Launched new mainstay products and realized early-stage replacement after launch</li> </ul>
Significant growth of surgical device field business (CAGR of 14%)	<ul style="list-style-type: none"> <li>✓ Conducted additional upfront investments primarily for bolstering sales staff in North America and expanded business</li> <li>○ ✓ Launched new products and expanded sales (mainstay surgical endoscope products, differentiated 3D/4K imaging products and THUNDERBEAT strategic energy device)</li> <li>✓ Improved profitability</li> </ul>
Sales increase in emerging markets (CAGR of 23%)	<ul style="list-style-type: none"> <li>✓ Achieved CAGR of 25% in Asia</li> <li>◎ ✓ Established Olympus' largest training center in China (Guangzhou)</li> <li>✓ Strengthened sales systems through strategic investments</li> </ul>

(Note) GI: Gastrointestinal endoscopes; ET: EndoTherapy devices; Surgical: Surgical devices

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# Operating Environment (1)

## Megatrends

- **Declining birthrates and aging populations**
- **“Great Rebalancing” (growing presence of emerging countries in global market)**
- **Economic slowdown and potential of China and other emerging countries**
- **Technological advances (ICT, IoT, Industry 4.0, etc.)**
- **Growing pressure to limit medical costs**
- **Institution of more stringent regulations**

## Operating Environment (2)

### Operating Environment for Medical Business

- **No rise in number of hospitals (operating rooms and endoscopic treatment facilities) due to growing pressure to limit medical costs, but increase in case numbers due to aging population**
- **Accelerated market structure changes exemplified by growing presence of GPOs/IDNs in North America**
- **Increases in necessary measures, workloads and costs due to technological advances and institution of more stringent regulations**
- **High potential of Chinese market and other emerging markets, which will be strategically important drivers of Medical Business growth, but differences in medical infrastructure development speed and patterns between countries**



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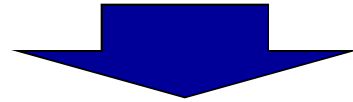
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# Directives for Medical Business Strategy(1)

## Olympus' Management Vision

Olympus contributes to society  
by making people's lives healthier, safer, and more fulfilling  
around the world



**Value to Be Provided by Medical Business**

**Endoscopes**

**Early diagnosis**

**Minimally invasive treatments**



# Directives for Medical Business Strategy(2)

Concentrate investments on 5 BUs and increase sales and income

## GIRBU



## GSBU



## UGBU



## ENTBU



## MSBU



(Note) GIRBU: Gastrointestinal and Respiratory Business Unit ; GSBU: General Surgery Business Unit; UGBU: Urology / Gynecology Business Unit; ENTBU: Ear, Nose, and Throat Business Unit; MSBU: Medical Service Business Unit

# Directives for Medical Business Strategy (3): Investment Policies

## 【Sales Function Investments】

- Respond to North American GPOs/IDNs and strengthen training
- Bolster sales systems and step up promotion activities in emerging countries



## 【R&D Investments】

- Advance R&D ventures for developing next-generation products and new businesses
- Strengthen disposable device technologies



Growth  
potential

Balance

Efficiency

## 【QA/RA Investments】

- Strengthen quality management systems
- Reinforce medical affairs functions



## 【Manufacturing Function Investments】

- Create globally optimized production systems (including repairs) with eye to 10 years from now



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# Priority Measures (1)

1

Expand dominant GI market share and improve profitability while realizing substantial growth in ET and Surgical business operations

Shift from installation-based medical business model to procedure-based medical business model

→ Expand disposable device operations

**-- To be the greatest "Business to Specialist" Company --**

**【Sales and Marketing Functions】**

- Expand procedure shares and strengthen account management
- Provide 3 types of value (medical value, economic value and patient value)

**【R&D Function】**

- Accelerate development and strengthen product life cycle management
- Develop products that improve efficiency of medical institutions (reduce downtime)

**【Manufacturing Function】**

- Boost cost competitiveness
- Improve responsiveness to production fluctuations
- Strengthen SCM

2

# Priority Measures (2)

3

## Expand operations in emerging countries

- Countries with sufficient medical infrastructure: Position as growth driver and continue appropriate investment
- Countries without sufficient medical infrastructure: Contribute to medical infrastructure development

4

## Strengthen ability to respond to GPOs/IDNs

- Respond to market structure changes exemplified by growing presence of GPOs/IDNs in North America
- Propose value as One Olympus with unified R&D, manufacturing and service functions
- Establish processes for acquiring GPO/IDN contracts and strengthen project management

5

## Strengthen QA/RA functions

- Reinforce global quality management systems with eye toward external requirements expected 10 years from now
- Strengthen global QA and RA systems in consideration of future business development
- Reinforce medical affairs functions

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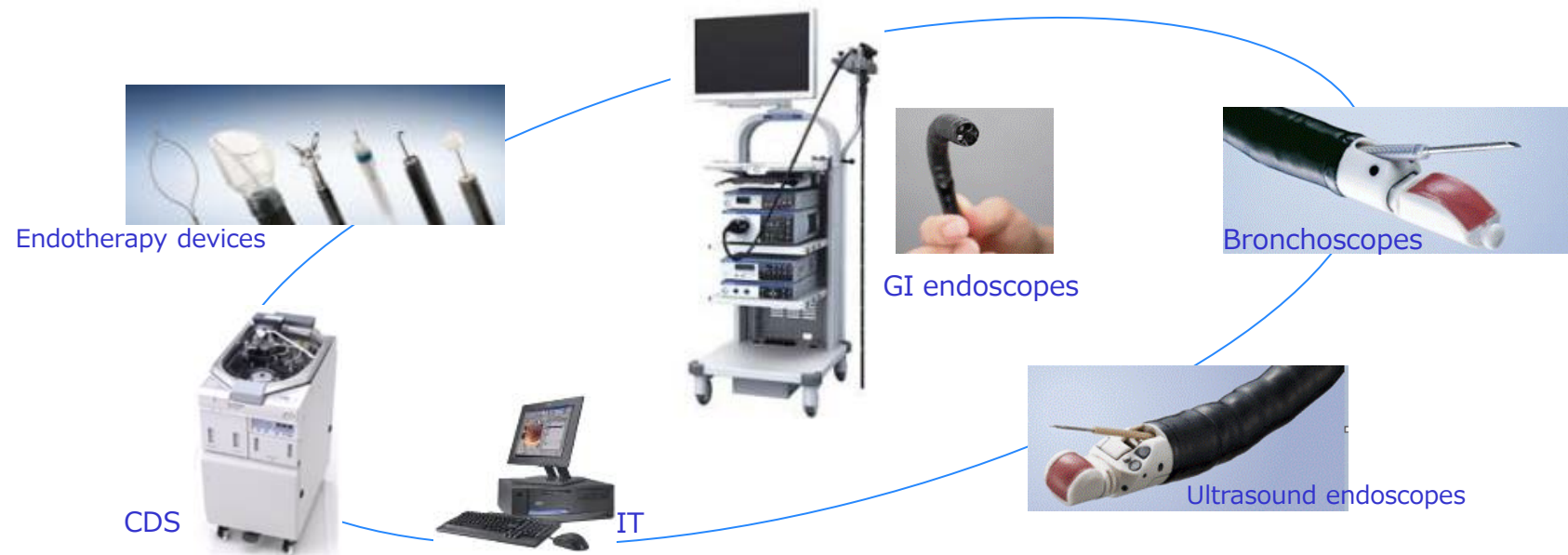
## Improve productivity

- Improve productivity of all functions (R&D, manufacturing, sales & marketing and service)

# Strategic Initiatives for Each Business Unit: GIRBU

- Secure strong market leader position in GI business and improve profitability through selection and concentration
- Expand business in following fields: respiratory, CDS (Cleaning, Disinfection and Sterilization), ultrasound endoscopy, capsule endoscope and IT
- Realize business growth in emerging markets
- Grow endotherapy devices operations

\*CDS: Cleaning, Disinfection and Sterilization





# Strategic Initiatives for Each Business Unit: GSBU

- Establish new de facto standard in surgical imaging market
- Secure No. 3 position in energy device market and encroach upon No. 2 and No. 1 positions
- Establish disposable device business model
- Fully leverage Olympus' strength in GI field



# Strategic Initiatives for Each Business Unit: UGBU

- Secure dominant shares in markets for flexible endoscopes and TURis products that leverage Olympus' technological prowess
- Strengthen urinary tract stone treatment business operations to expand market share
- Efficiently increase market share by leveraging existing products and technologies



# Strategic Initiatives for Each Business Unit: ENTBU

- **Expand ENT flexible endoscope operations centered on “videonization”**
- **Acquire endoscopic sinus surgery (ESS) operations**
  - ◆ Expand sinus surgery imaging operations centered on 4K systems
  - ◆ Expand sinus surgery product portfolio centered on DIEGO ELITE
  - ◆ Implement measures in preparation for introduction of minimally invasive treatments into alternate sites of care
- **Establish global sales systems**



# Strategic Initiatives for Each Business Unit: MSBU

- Introduce service contracts that realize high levels of customer satisfaction, increase number of such contracts and improve profitability
- Expand service operations on surgical products
- Provide services that improve medical institution efficiency



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# Numerical Indicators: Entire Medical Business

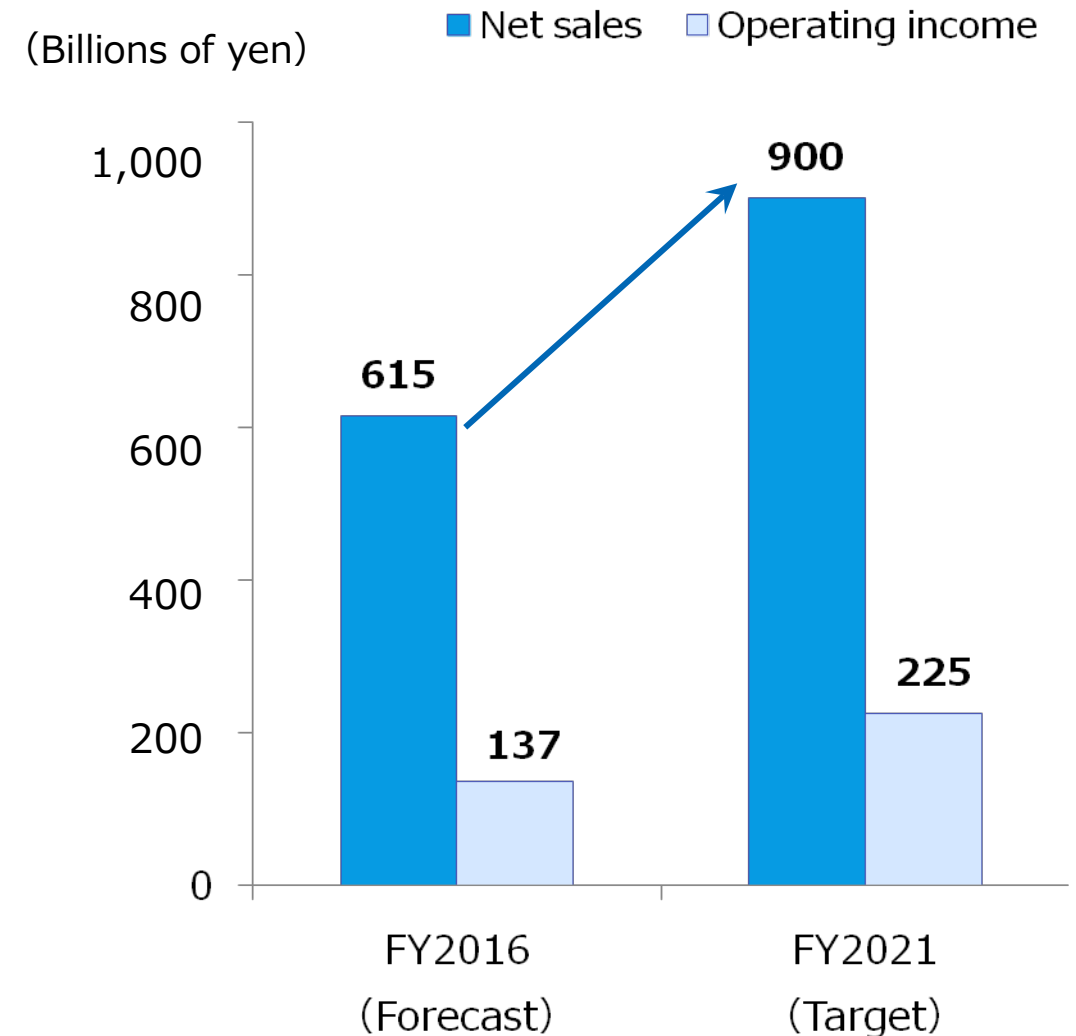
## 【Net sales: CAGR of 8%】

■ Continually achieve growth of approx. 8% for entire Medical Business through stable growth that exceeds market growth rates in GI field, and continually achieve growth substantially higher than market growth rates in surgical field

## 【Operating income: CAGR of 10%; operating margin: 3 pt. increase】

- Reduce ratio of SG&A expenses to net sales by improving efficiency of business operation expenses related to R&D, manufacturing, supply chain management and other areas
- Raise operating margin by 3 pts. to approx. 25%

## 【Medical Business Net Sales: CAGR of 8%】



# Numerical Indicators: 5 Business Units

		FY2016 Net sales (forecast)	FY2021 CAGR (Olympus)	Global share*	Key points
GIRBU	GI	¥337.4 bil	6%	More than 70%	<ul style="list-style-type: none"> <li>• Achieve stable growth exceeding market growth rates</li> <li>• Expand businesses peripheral to endoscopes and operations in emerging markets</li> <li>• Grow ET operations</li> </ul>
	ET	¥72.0 bil	9%	Approx. 20%	
GSBU	Surgical	¥205.6 bil	Imaging: 10% Energy : 14%	Imaging: 20-25% Energy : 18-20%	<ul style="list-style-type: none"> <li>• Achieve growth substantially higher than market growth rates</li> <li>• Establish new de facto standard in surgical imaging</li> <li>• Establish disposable device business model</li> </ul>
UGBU			8%	Urology: 30% Gynecology: 10%	<ul style="list-style-type: none"> <li>• Secure shares in flexible endoscope and TURis markets</li> <li>• Expand urinary tract stone treatment market share</li> </ul>
ENTBU			13%	Laryngology: 50-60% Rhinology: 10-15% Otology: 40-50%	<ul style="list-style-type: none"> <li>• Acquire ESS operations</li> <li>• Establish global sales systems</li> </ul>
MSBU * *		—	5%	—	<ul style="list-style-type: none"> <li>• Promote spread of service contracts</li> <li>• Expand service operations on surgical products</li> </ul>
Medical Total		¥615 bil	¥900 bil CAGR8%	—	Drive growth of entire Medical business with surgical and ET field growth

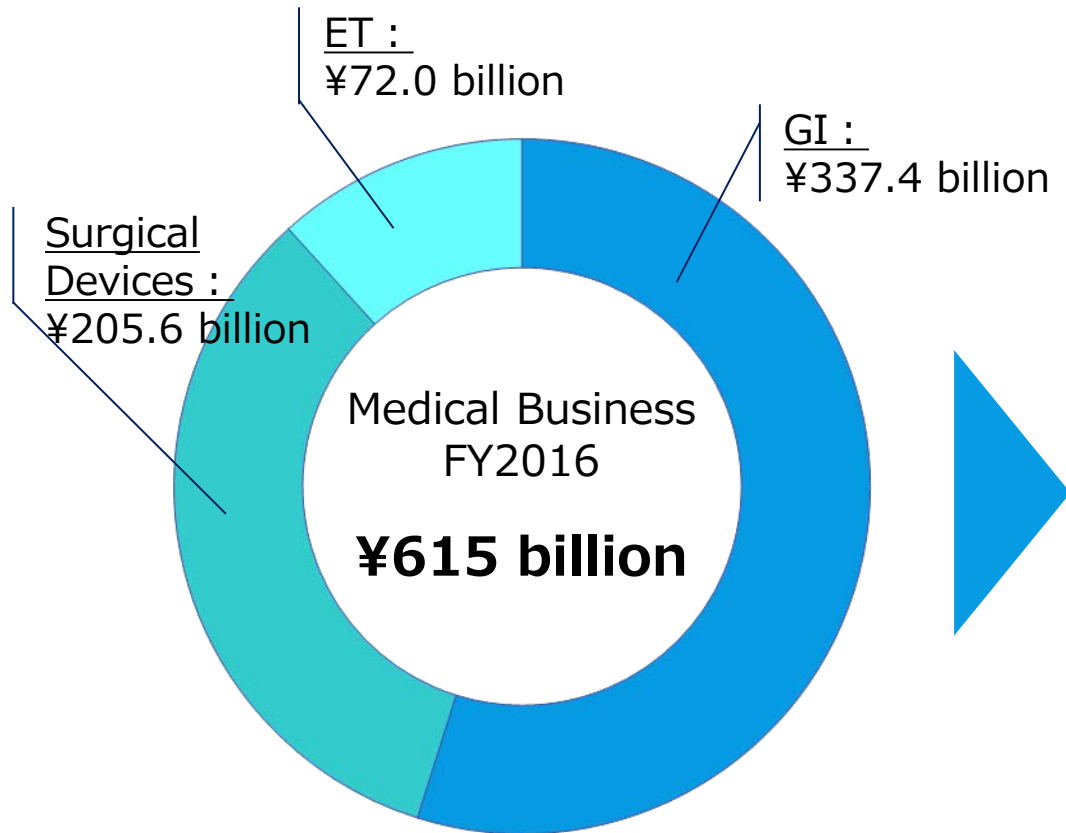
\* Source of global share: Olympus

\*\* MSBU (Medical Service Business Unit) net sales from FY2016 are included in the figures of ¥337.4 billion for GI and ¥205.6 billion for Surgical

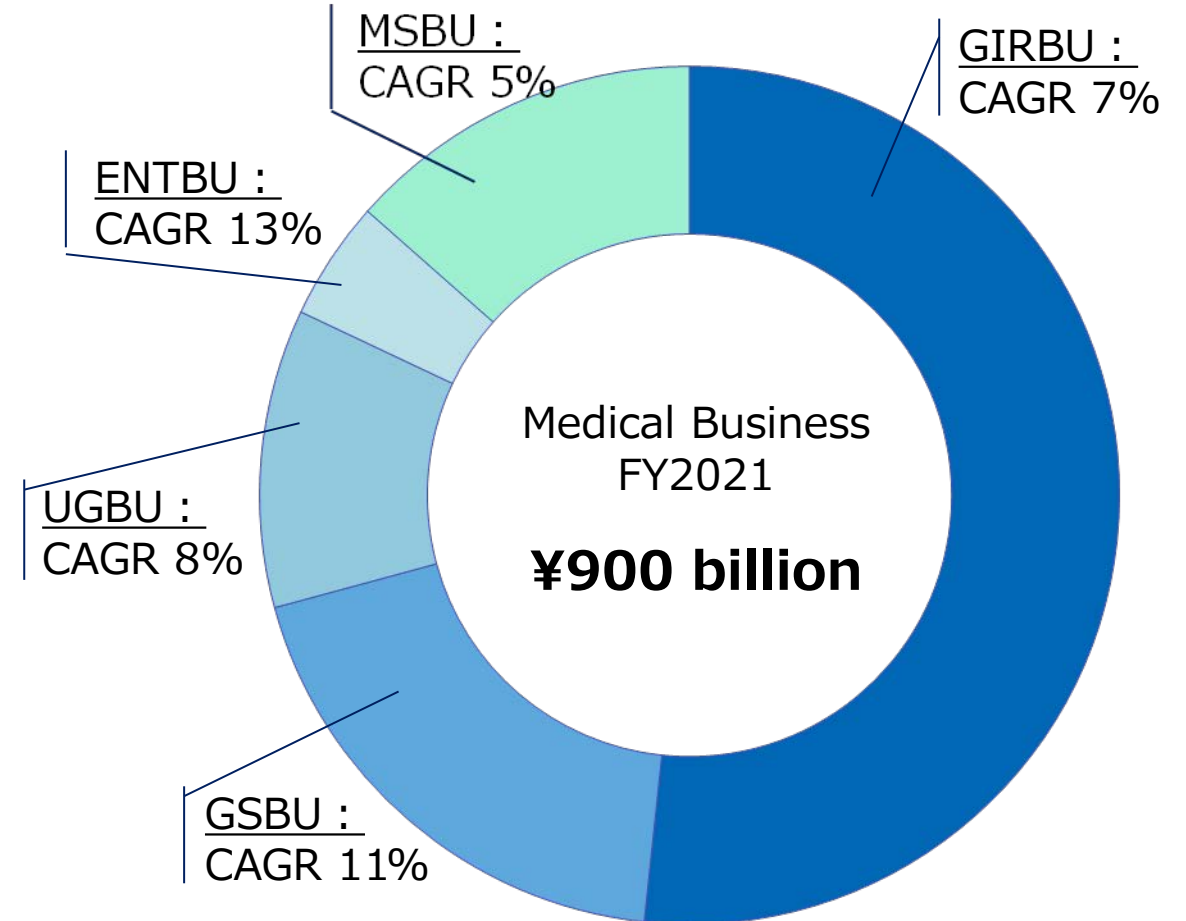
# Medical Business Portfolio and Growth 5 Years from Now

## FY2016 Net Sales (Forecast)\*

GI: Gastrointestinal endoscopes  
ET: Endotherapy devices



## FY2021 Net Sales (Forecast)



\* Medical service net sales from FY2016 are included in the figures for GI and Surgical devices



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