November 8, 2024

**Olympus Corporation**

**2Q FY2025 Earnings Conference Q&A (Summary)**

(Disclaimer)
For your reference, please find an English translation of the question and answer session at the conference for financial results for the second quarter of the fiscal year ending March 31, 2025 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 resignation of the previous Representative Executive Officer and CEO, have any improper expenditures been confirmed?

A: Internal investigations are ongoing, but at this time it has not been confirmed that the previous CEO used company assets for personal purposes.

Q: What is the timeline for succession to the next CEO?

A: The Nominating Committee and the Board of Directors are currently considering the most suitable candidate.

Q: The current company strategy covers the three-year period from FY2024 to FY2026. Since the announcement of this strategy, progress has been made in addressing the issues raised in the FDA Warning Letters, the lineup of executive officers and directors has changed, and now the CEO stepped down. What are your thoughts on whether the company strategy needs to be updated?

A: We are continually evaluating whether to update our strategy as circumstances change, but we have no plans to change the direction of our strategy following the departure of the previous CEO.

Q: Olympus has been transforming itself into a medtech company over the past few years. With regard to the CEO succession, are there any concerns about a lack of internal candidates to replace the previous CEO?

A: As we enter a new phase, the CEO's mission is also changing and becoming more complicated. The Nominating Committee is working diligently to select the most suitable candidate.

Q: I understand that Mr. Takeuchi is performing the duties of CEO temporarily. What is the timeline for selecting a successor?

A: At this time, since the previous CEO abruptly resigned, I (Takeuchi, Representative Executive Officer) am taking his position. We are currently in the process of selecting a successor, but the timeline has not yet been determined.

Q: TSD is a North American-centered business, while ESD is a Japanese-centered business. So I think it would be difficult for outside personnel to understand both sides. Wouldn't it be appropriate to appoint a Japanese person from within the company as the successor of CEO?

A: We need to consider the necessary competencies required for areas that we will prioritize in our future strategy. This will

be appropriately discussed at the Nominating Committee.

Q: The previous CEO has not yet been arrested. Is it possible that the elements of a crime may not be met?

A: As a company, we are not in a position to answer that question.

Q: The previous CEO had been communicating directly with the heads of the relevant departments of the FDA in relation to the Warning Letters. Will the communication between Olympus and the FDA change in the future?

A: The previous CEO communicated with the heads of the relevant departments of the FDA every few months. Note that the CQO and his team members have been communicating frequently, as well. I (Takeuchi, Representative Executive Officer) will also interact directly with the FDA as long as I continue to serve as CEO.
We are working to build an open and frank relationship with the FDA, not just as an individual but as an organization. I believe that the most important point is whether we can take firm actions to fulfill our commitments. Through the Elevate program, we are focusing on improving the entire quality management system. I believe that through these efforts, we can demonstrate to regulatory authorities that we are serious about patient safety, quality, and compliance.

Q: How do you evaluate the performance of ESD by region?

A: While the situation in China was tougher than expected, North America continued to be very strong, with GI Endoscopy growing 24% YoY (local currency basis) in the second quarter (three months), offsetting the weakness in China. Compared to the previous year, Europe and Japan are aiming for low-single-digit growth, while Asia is aiming for high-single-digit growth. Asia is being affected by strikes in South Korea and quality issue in Australia. Signs of recovery were seen in China in October, and a gradual recovery is expected in the second half of this fiscal year.

Q: When do you expect the Chinese business to recover? Also, is the introduction of the Intelligent Endoscopy Ecosystem expected to stimulate demand for GI endoscopes?

A: In China, we expect a recovery from the anti-corruption campaign in the second half of the fiscal year. We also expect the effects of government-led demand stimulation measures might help. In recent months, the effects of government subsidies appear to have been seen in tenders in some provinces. Although the recovery has not been as strong as expected, a gradual recovery is expected. For the full year, we expect it to be on par with the previous year or down by low-single-digit. With the introduction of the Intelligent Endoscopy Ecosystem, we expect to see a boost in sales of systems and scopes, which we believe it will help protect our position in the GI endoscopy area. The Intelligent Endoscopy Ecosystem will provide not only clinical support but also reporting and workflow support.

Q: Benign prostatic hyperplasia (BPH) is a disease that is expected to see an increase in both the number of patients and the number of surgeries. Olympus' Urology business has traditionally had strengths in solutions involving inpatient treatment, such as resection electrodes and SOLTIVE SuperPulsed Laser System. Now it is good news that the reimbursement amount for iTind, a minimally invasive treatment solution for BPH that had been decided to receive CPT codes, was recently determined. In the meantime, some of your competitors are commenting that the growth of their BPH solutions is slowing down. What future sales targets do you have for iTind?

A: Wedo not share the sales target at this moment, but we intend to accelerate full-scale sales in the U. S. from January 2025 onwards. This is a treatment method that is expected to have advantages such as a relatively short procedure time, no need for anesthesia, and relatively easy post-operative follow-up. There are cases where minimally invasive treatments require follow-up, but we believe that iTind has fewer such negative aspects. We would also like to propose it to patients who have conventionally been treated with medication.

Q: Regarding Page 5 of the presentation, can you tell us about the outlook for Elevate's expenses in FY2025, FY2026, and FY2027 onward?

A: The FY2025 Elevate cost forecast is 32 billion yen. For the first half of the fiscal year, 5.2 billion yen for SG&A and 11.0 billion yen for other expenses, a total of 16.2 billion yen, were recorded. Progress has been in line with the initial outlook so far. The budget for FY2026 is currently under examined. Note that Elevate covers not only responses to the issues identified in the Warning Letters, but also initiatives related to regular QARA activities, making it difficult to separate the two. Our top priority is to fulfill our commitments through Elevate, and as a result, expenses in FY2026 might not decrease

as significantly as previously expected.

Q: Is it likely that the Elevate cost will exceed 70 billion yen projected for the three-year period? In other words, is it unlikely that costs will decrease significantly in FY2026?

A: There is a possibility that it will exceed 70 billion yen. We would like to prioritize achieving the goals we have set for Elevate, rather than prioritizing keeping costs within 70 billion yen.

Q: What factors contributed to the improvement in gross profit from 1Q to 2Q?

A: The impact of the elimination of unrealized gains on inventory. The yen was stronger in August and September compared to the same period of the previous year, which had a favorable impact from FX on COGS.

Q: How are COGS ratio and SGA ratio progressing against the internal plan?

A: Progress was basically in line with the internal plan.

Q: What are the risks to the company's plan for the second half? You mentioned that you are not optimistic about the annual plan, so I just wonder what KPIs you want to commit to in particular?

A: Progress in the first half was largely in line with expectations. We believe that SG&A expenses are being controlled better than in the previous year. For the second half, we expect demand to increase toward the end of the fiscal year due to the continued strong performance in the U.S., as well as measures to encourage purchases of medical equipment in China. We believe that the current plan is achievable but expenses need to beproperly controlled.

Q: I heard your recent comment that you are proactively pursuing M&A in the future. Will you pursue M&A even if the successor CEO has not yet been decided? Also, Olympus has been actively buying back its own shares in the recent past. However, I personally think that the lack of quantitative guidelines may affect predictability from the outside. What is your stance on this?

A: Our capital allocation policy remains unchanged. The resignation of the previous CEO will not put a brake on M&A. Regarding share buyback, we believe it is important to implement on a flexible basis depending on the situation. So we are not considering setting quantitative guidelines at this time, as we believe that flexibility is lost once we were to provide them.

Q: What are your thoughts on the balance sheet's leverage capacity?

A: Credit rating is one indicator. For example, for S&P, we want to maintain a BBB+ rating. Also, we would like to keep debt-to-EBITDA ratio at 1.5 times at most and have at least 1.5 months of cash on hand. Considering these factors, I think you can understand that we currently have sufficient investment capabilities.

Q: When will the next generation of GI endoscopy system be launched?

A: We are currently developing a next generation GI endoscopy system, and we hope to launch it in 3 to 4 years. It has already been four years since the launch of EVIS X1 in Europe and Japan, but we believe there is replacement demand for the EVIS X1 generation before the launch of the next-generation system.

Q: What kind of features can be considered for the next generation system to further improve safety?

A: We recognize that fatal cases related to GI endoscopes are extremely rare, but possible solutions include designing safer scopes and providing training and education to healthcare providers, etc.

(End)