

Olympus Corporation
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 of the fiscal year ended March 31, 2025 below.

This transcript has been edited/modified from the original Q&A conversations for the sake of clarity.

This material contains forward-looking statements that reflect management's current views, plans, and expectations based on information available at the time of preparation. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, future business decisions, and other internal and external factors that may cause the actual results, performance, achievements, or financial position to be materially different from any future results expressed or implied by these forward-looking statements.

Additionally, this information is subject to change without notice. Accordingly, other information should be used in addition to this material when making investment decisions.

Olympus Corporation assumes no responsibility for any damage resulting from the use of this material.

Q&A (Summary)

Q: I would like to hear quantitative guidance on the impact of the U.S. tariff policy.

A: First, although we have some factories in the U.S., the majority of products sold in the U.S. is manufactured in Japan. We currently estimate that the impact on cost of goods will be approximately ¥20 billion for this fiscal year. We have set up a cross-functional task force to consider mitigations. We expect to be able to mitigate much of the ¥20 billion, but given the current fluidity of the situation, we are not in a position to give a specific amount.

Q: What are your assumptions about the impact of the tariffs? Many companies have explained that the impact will be seen from July-September. When do you think the impact will come out?

A: Our assumption is that the 10% baseline tariff will continue throughout this fiscal year. As we usually hold about 2 months' worth of inventory, the impact will emerge from June onwards. Regarding mitigations, considering the impact on the medical industry, it will be difficult to pass on all of the tariffs to prices, so we plan to take various measures, such as streamlining our supply chain.

Q: I think that the R&D expenditures ratio to revenue in FY2026 will be about 12%. You mentioned that this is for long-term strategic investments. If so, should we think of this ratio as a new baseline going forward? Or should we view this as a one-off increase only for this fiscal year?

A: As a basic approach, we recognize that a certain level of R&D expenses is necessary for medium- to long-term growth. Yes, we will increase R&D expenses in FY2026, but this will not be a one-time increase. Although it is difficult to say a specific level, we believe that basically the same level will be maintained in the next fiscal year onwards, or that there is a possibility of an increase in some cases.

*Consolidated R&D expenditures are expected to be ¥120 billion. Of this, R&D expenses as SG&A recorded in the Income Statement, excluding capitalized R&D, are expected to be ¥95 billion (ratio to revenue: 9.5%), an increase of ¥5.4 billion from the previous fiscal year.

Q: Can you tell us about Project Elevate's expenses for FY2025? Please also tell us the outlook for FY2026 and FY2027.

A: For FY2025, we have recorded SG&A expenses of ¥11.1 billion and other expenses of ¥19.4 billion, totaling ¥30.5 billion, roughly on a par with the forecast announced in February. For FY2026, we expect to see some decrease, with SG&A

expenses of ¥9.8 billion and other expenses of ¥10.1 billion, totaling ¥19.9 billion. For FY2027, it is difficult to provide clear indications at this stage, but given that within Project Elevate, activities associated with the commitments to corrective measures regarding the warning letters from the FDA are expected to end this FY2026, other expenses are not expected to be posted. SG&A expenses of around ¥10 billion will be combined with normal QA&RA expenses. While we don't anticipate a significant decrease, we plan to improve efficiency.

Q: Regarding the U.S. tariffs policy, you mentioned that a cross-functional team is working on mitigations. Can you give us some specific examples?

A: It is difficult to disclose everything, but to give some examples, the first is optimizing our supply chain. Some products are currently being shipped to other regions via the U.S., and we will change this to direct shipping. The second is strategic pricing. Although we said it is difficult to simply pass on the increase to prices, we will pursue various methods. The third is building up inventory. If tariffs increase after July, we will consider accelerating the shipping to the U.S. to build up U.S. inventory.

Q: What do you think about a potential risk that demand for endoscopes might be affected by the new U.S. administration and tariff policy?

A: Our current forecasts do not factor in the impact of tariffs. However, if the whole economy deteriorates due to inflation, stagflation, etc. as a result of tariffs, that could have an impact on demand for medical equipment, so we need to keep a close eye on it.

The medical device industry has been operated under an agreement to offset tariffs between Japan and the U.S. since the 1990s. We understand that this is based on the consideration of ensuring that services to public health are not interrupted. We have requested the governments to reduce tariffs to zero. We would like to ensure that healthcare services are not disrupted, rather than care about P/L.

Q: Can you give us updates on your China business?

A: At the time of the third quarter results announcement, we explained that we saw a slight improvement in the beginning of CY2025. The main reason for this was that pent-up demand flowed in all at once around December, which is the fiscal year end in China. And this ultimately led to a recovery in the fourth quarter. However, we do not believe that we are seeing a full-scale recovery at this point, and it is too early to make such a judgment. The situation remains difficult to foresee.

At the beginning of FY2025, we assumed that the Chinese market would recover in the second half, but the recovery was slower than we had expected. Although the fourth quarter results were positive, the situation is not what we can call a significant recovery, compared to two years ago. For FY2026, we expect local production to start, so we expect a gradual recovery toward the second half.

Q: What are your assumptions for the China business in FY2026? At the third quarter results announcement, I remember that the lower-than-expected business performance in China led to a downward revision of guidance. Are you taking a cautious view for this fiscal year?

A: We are not optimistic and expect low-single-digit growth for the full year.

Q: I think the actual gross margin in FY2025 exceeded expectations compared to the February forecast. Was that driven by the recovery of the China business?

A: Since gross margin in China is high, the business recovery there contributed to gross margin to a certain extent, but this was not a major driver to explain the improvement in the consolidated gross margin.

Q: R&D expenses for FY2026 are expected to increase compared to the previous fiscal year. Can you give us the breakdown of the increase? Also, I would appreciate it if you could tell us the background of the decision.

A: We are not going to disclose the specific breakdown. The main items are development costs for the next-generation endoscopy system, new technologies such as digitization, and single-use endoscopes, to strengthen our competitive edges.

Q: Will expenses that you use outside, such as outsourcing research expenses, increase?

A: Outsourcing research expenses are expected to increase.

Q: Does that mean you changed your R&D policy? Has there been a shift towards using external resources and spending money to supplement in-house resources, to enhance competitive edges?

A: We don't think our own R&D capabilities have declined. This is to consider various options rather than relying solely on in-house resources.

Q: Gross margin for the fourth quarter was 70.8%. What was the reason for the result being better than expected in February? Regarding the accuracy of your forecasts, please indicate that the outlook for this fiscal year is more reliable.

A: There were two special factors in the fourth quarter. The reversal of recall provisions amounted to ¥3.6 billion, and compensations from a supplier amounted to ¥2.2 billion, totaling ¥5.8 billion. We anticipated these factors at the third quarter results announcement, but did not include them in the forecasts because the probability of them being realized by the end of March was not 100%. However, even putting this point aside, we are aware that there is room to improve the accuracy of cost of goods estimates.

Q: Do you think the gross margin improvement was due to an increase in the proportion of endoscope sales?

A: No, that is not the case.

Q: Regarding the increase in R&D expenses for FY2026, is it because you include M&As?

A: M&As are not recorded as R&D expenses. We will pursue new technologies with various options and considerations, including M&As and outsourcing.

Q: With regard to AI technology, you acquired Odin Medical and also have partnerships with multiple companies, so I cannot understand why you need to increase R&D expenses for AI technology. Will there be more new themes such as robotics?

A: It is not that we are adding new themes. Rather this is an investment in the next-generation endoscopy system as it's been several years since "EVIS X1" was launched.

In terms of how we spend money, for example, endoluminal is also an important subject, and we will increase our investments through both our own R&D activities and partnerships with other companies. Although it is difficult to disclose specific details, while we will continue to invest in our competencies, we will also strategically invest in creating new competencies.

Q: I would like to ask you again about trends in your China business. You mentioned that the competition is intensifying. With what companies and in which product categories are you competing? I would also like to know about the impact of the anti-corruption campaign and VBP (Volume Based Procurement).

A: Let me explain the impact by product category - capital products and disposable products. In the GI endoscope business, we compete with Japanese companies, and in the low-price market, we are also seeing growth in flexible endoscopes by local manufacturers. Although we are aware of challenges in the mid-price market, we are growing in the high-end market due to the introduction of "EVIS X1". As disposable products are mainly affected by VBP, the GI endotherapy business struggled in FY2025, and this trend is expected to continue, but we will work on innovation and launching new products. SIS includes consumables such as surgical devices and energy devices, which are under pressure of VBP. In capital products, especially in the respiratory area, we compete with the same companies as in GIS's capital products.

Q: Does the anti-corruption campaign still have an impact on business in China?

A: The anti-corruption campaign has become a new normal, and our forecasts are based on this assumption.

Q: Mr. Bob White is scheduled to start as new CEO on June 1. I just wonder if there is any plan to change management policy, etc. under the new management. Also, please let us know when the next corporate strategy will be announced.

A: The new CEO has not yet joined us, so we are not yet at the stage where we can indicate the direction of the management policy after the new CEO arrives. At this point, we are considering the process of aligning the direction of the strategies we have considered so far. We hope we can disclose it as soon as possible, but I am sure the new CEO will have a lot of input from new perspectives. We have not decided on the timing of announcement.

Q: You used to mention that "Adjusted operating margin of 20% is the bare minimum level, with a medium-term target of 25%." Is it correct to understand that under the new management you would like to prioritize long-term top-line growth through increasing R&D expenditures, and lower the priority with respect to achieving an adjusted operating margin of

20%?

- A: The policy under the new management regarding adjusted operating margin target and investments has not yet been decided. Therefore, we are not in a position to give details yet, but at this time I still believe that an adjusted operating margin of 20% is necessary for us to become a leading global medtech company.
- Q: It seems to me that the average CEO term in your company is about three years. Is there a possibility that the CEO will serve for a longer period of time in the future?
- A: In the past, and even now, we have not been set that the CEO term should be around three years. In the search process for a new CEO, we were working with a longer term in mind. We hope the new CEO will be able to contribute to our company over a long period of time.

(End)