

# **FY24-3Q (Apr.-Dec. 2006)**

## **Business Report**

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**Wacom Co., Ltd.**

(TSE Sec.1 6727)

Jan. 30, 2007



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**Mid-Term Business Plan and Growth Strategy**

# Consolidated 3Q Result Summary

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- **Sales:** **+17.5%**
  - ESD Business: **+18.0%**
  - ECS Business: **+3.9%**
  
- **Operating Profit:** **+48.4%**
  - ESD Business: **+44.5%**
  - ECS Business: **-0.3%**
  
- **Recurring Profit:** **+50.2%**
  
- **Net Profit (aft. Tax):** **+48.7%**
  
- **Recipient of TSE “Disclosure New Face Award”**

# Consolidated P/L



(m¥)

	FY23-3Q	FY24-3Q	YoY Growth	
	'05/4-12	'06/4-12	Amount	Ratio
<b>Sales</b>	17,956	21,099	3,142	17.5%
<b>Gross Profit</b>	8,751	11,038	2,287	26.1%
<b>GPM</b>	48.7%	52.3%		
<b>Operating Profit</b>	2,456	3,645	1,189	48.4%
<b>OPM</b>	13.7%	17.3%		
<b>Recurring Profit</b>	2,463	3,699	1,236	50.2%
<b>Net Profit aft. Tax</b>	1,558	2,317	758	48.7%

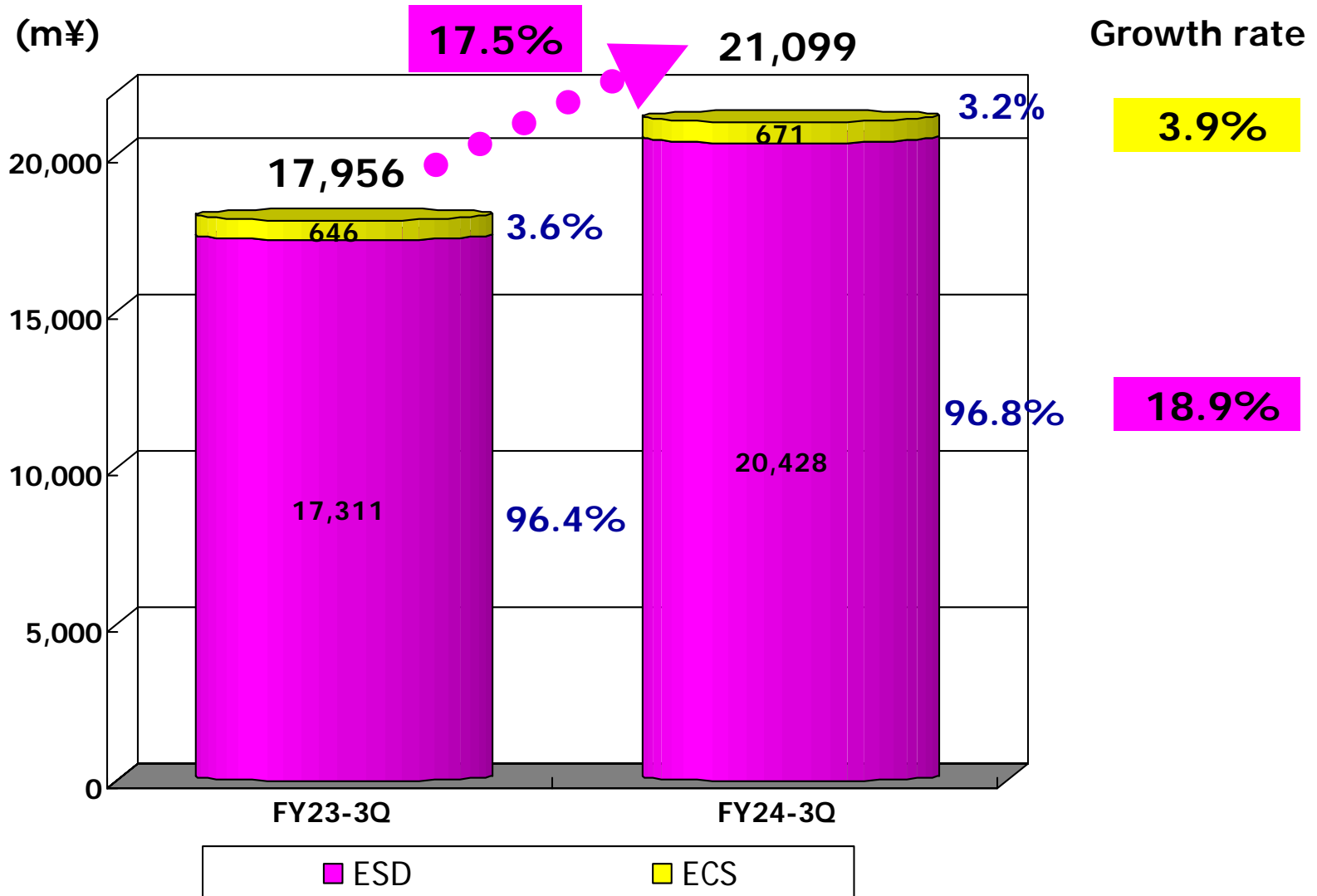
# Consolidated Result by Business Segment



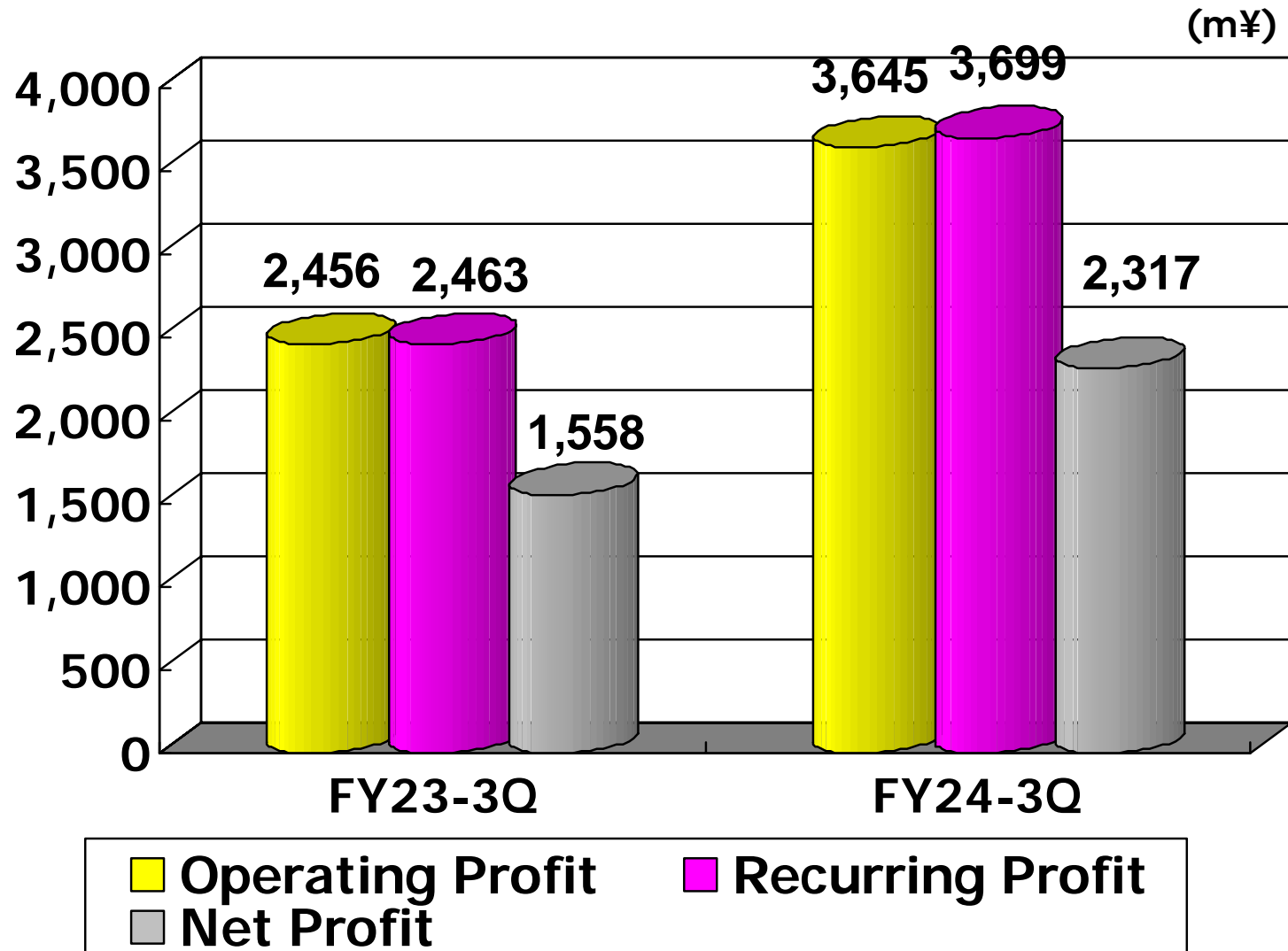
(m¥)

	FY23-3Q	FY24-3Q	YoY Growth	
	'05/4-12	'06/4-12	Amount	Ratio
<b>Sales</b>	17,956	21,099	3,142	17.5%
<b>ESD</b>	17,311	20,428	3,117	18.0%
<b>ECS</b>	646	671	25	3.9%
<b>OP</b>	2,456	3,645	1,189	48.4%
<b>ESD</b>	3,346	4,835	1,489	44.5%
<b>ECS</b>	86	86	-0	-0.3%
<b>Corp. and Other</b>	-976	-1,276	-299	30.6%
<b>OPM</b>	13.7%	17.3%		

# Consolidated Sales Comparison



# Consolidated Profit Comparison



# Operating Expenses Comparison

(m¥)

	FY23-3Q	FY24-3Q	YoY Growth	
	'05/4-12	'06/4-12	Amount	Ratio
Personnel	2,552	2,998	446	17.5%
R&D	552	608	608	10.2%
Ad. & Promo.	1,379	1,461	82	5.9%
Other	1,812	2,316	514	28.4%
<b>Total</b>	<b>6,295</b>	<b>7,393</b>	<b>1,098</b>	<b>17.4%</b>

## Main Increases

- Increase in employees and allowance for bonus payable
- Project expenses : Global branding, APA preparation, and J-SOX
- Infrastructure investment: WSP establishment, HR/hiring expenses



## ESD

### ■ Tablet business

- Although domestic PC shipments decreased, tablet business was strong with steady Christmas sales in U.S. and EU.
- Professional graphics tablet **+25.0%**
  - Favorable growth in U.S. and EU area
  - Growth continued to be strong in China, Asia and Oceania
  - High-amateur users segment expanded in China
- Consumer graphics tablet **+16.2%**
  - Favorable Christmas sales
  - Flat growth in Japan due to general weakness of PC market
  - EU, Asia and Oceania maintained high growth
- LCD Integrated tablet **+47.4%**
  - US: Graphics segment doubled, education segment expanded
  - Asia and Oceania showed substantial growth
  - EU: Cintiq21 received reddot design award (June)



reddot design award  
winner 2006

## ■ Components

-10.7%



- Slowdown due to inventory adjustment for Tablet PCs and delay in “Windows Vista” launch
- Developed system solutions integrating EMR pen technology with touch panels
  - Lenovo adopted “**Penabled DualTouch**” technology for Tablet PCs, releasing “ThinkPad X60 Tablet” (December)
  - “**Penabled DualPad**” technology for notebook PCs, adopted by Fujitsu FMV-BIBLO NB series (April)
- Developed EMR pen tablet sensor system for large size displays

## ■ Others

- WAU (Australia subsidiary) began operation (April)
- WSP (Singapore subsidiary) established (May)
- Exhibit in MS WinHEC2006 (Seattle US in May, Tokyo in June)
- Started global marketing targeting Windows Vista

# Business Highlight -3

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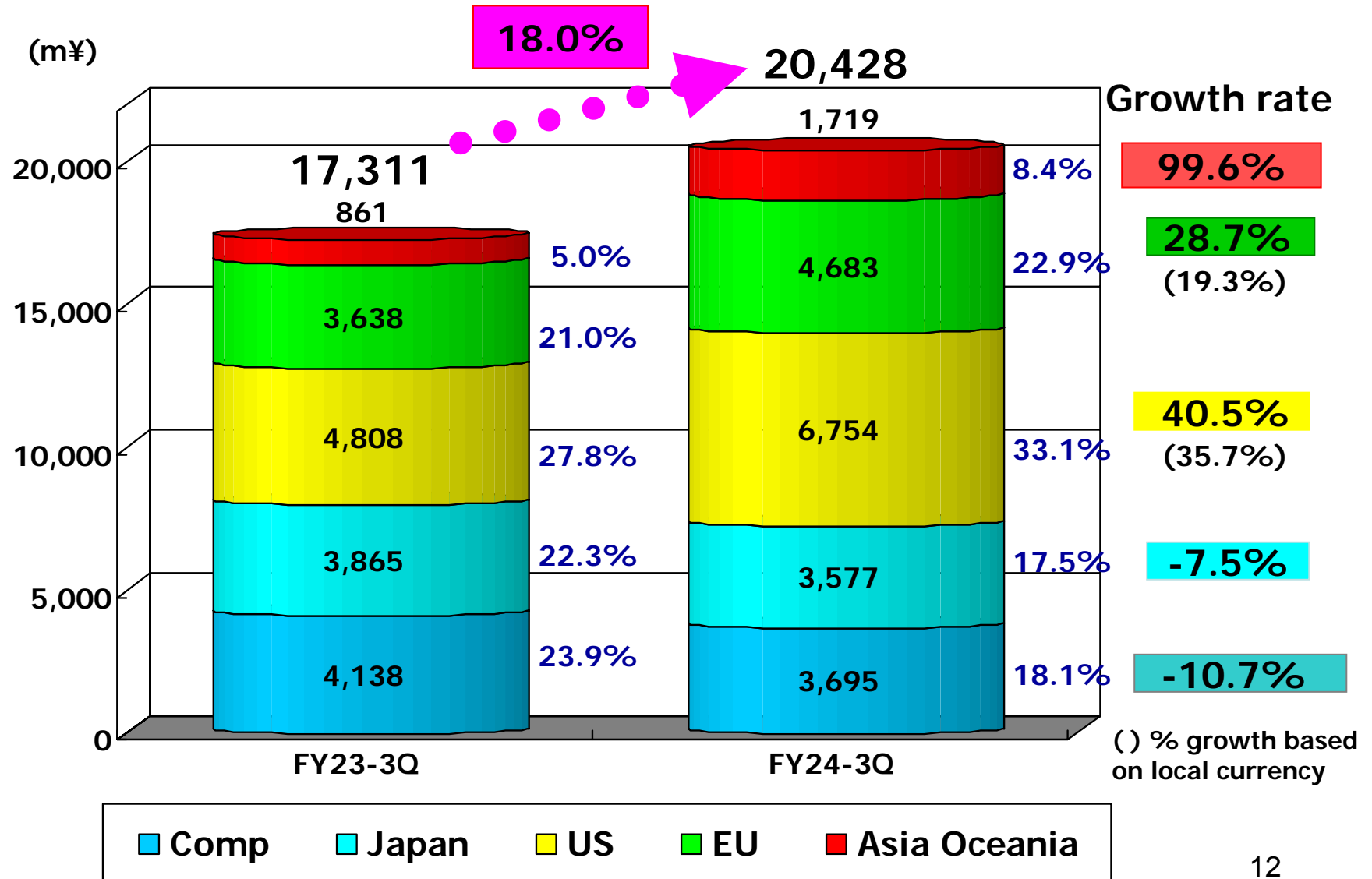
## ECS

- ECAD/dio V7.0 steadily received as capital expenditure increases in Japan
- PDM business developed providing engineering services, technical support, and maintenance

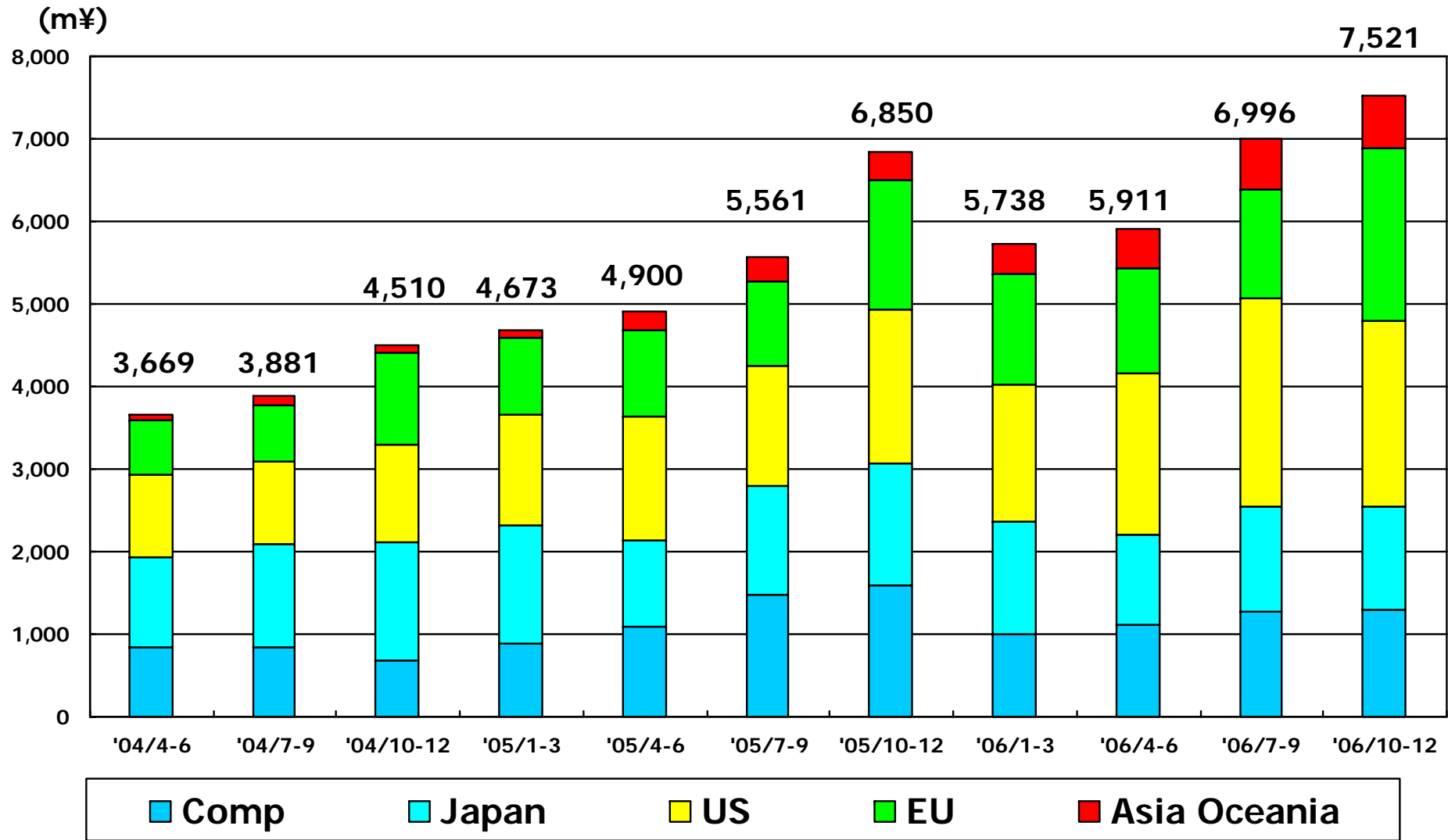
## Administration

- Applied for Japan-U.S. APA (Advance Pricing Agreement) in June, changed transfer pricing to overseas subsidiaries and revised parent financial forecast
- Established Internal Control Office and started J-SOX project
- Appointed "PricewaterhouseCoopers Aarata" as a temporary independent auditor (July)
- Initiated Global Branding Project
- Integrated Environmental control and Quality control into New QMS (Quality Management System)

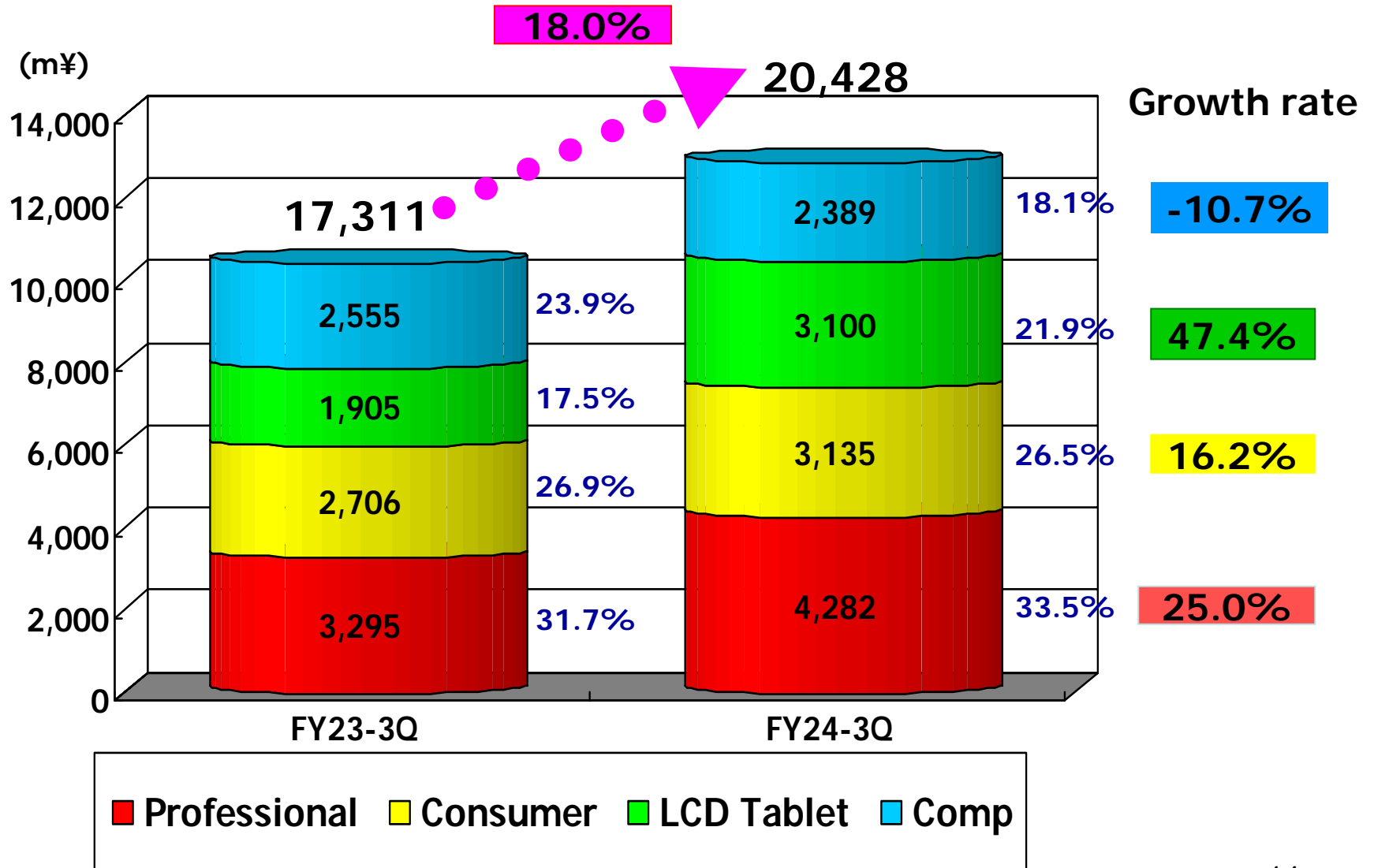
# ESD Sales by Region



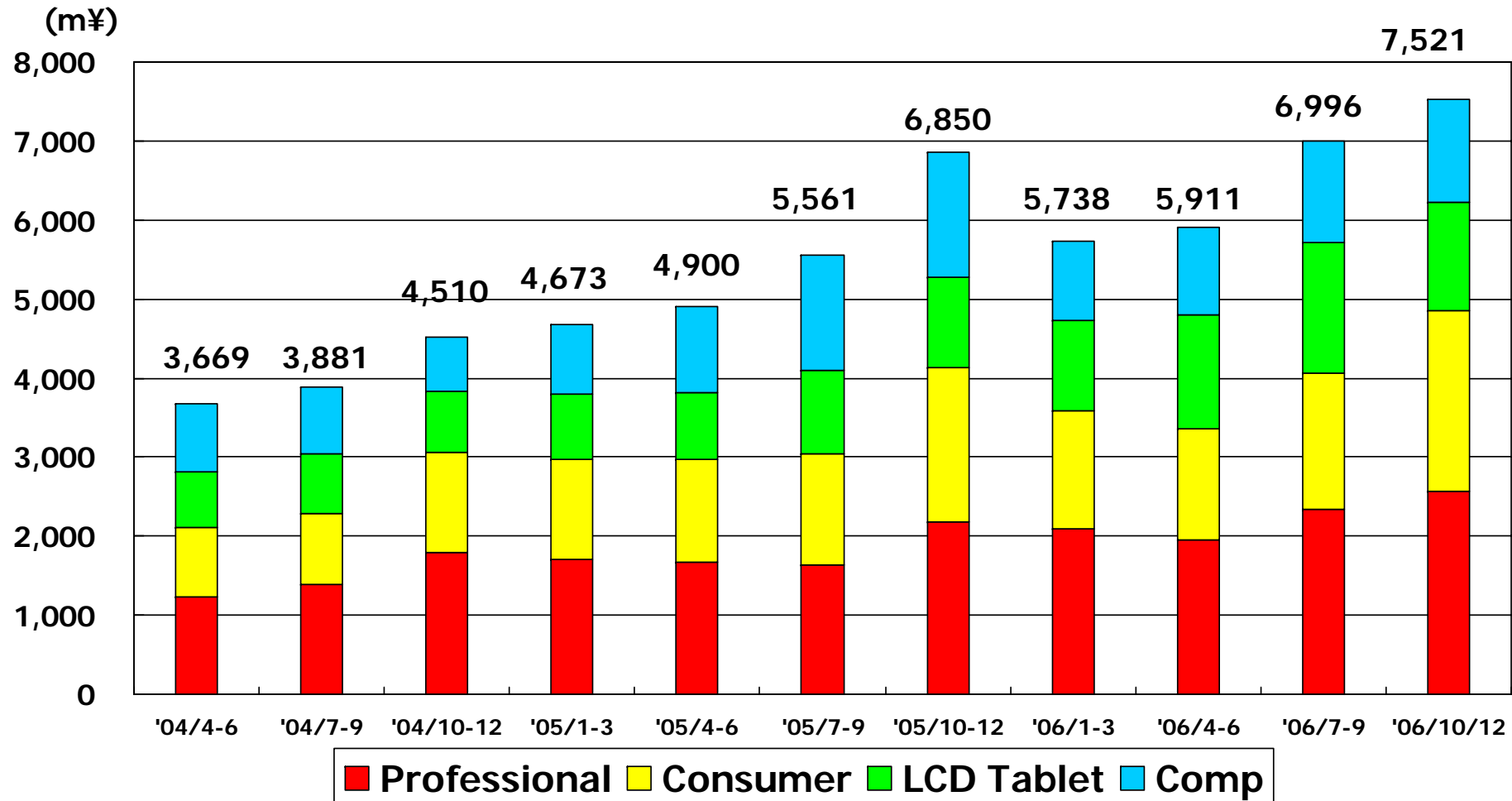
# ESD Quarterly Trend by Region



# ESD Sales by Product Line



# ESD Quarterly Trend by Product Line



# Consolidated B/S



(m¥)

	Mar. 31, 2006	Dec. 31, 2006	YoY Growth
Current assets	16,923	20,025	3,102
Fixed assets	4,110	4,021	△89
Total assets	21,033	24,046	3,013
Current liabilities	6,949	7,770	821
Fixed liabilities	796	663	△133
Total liabilities	7,745	8,433	688
Minority interest in consolidated subsidiaries	0	0	0
Total shareholders' equity (Net assets)	13,288	15,613	2,325
Total liabilities and shareholders' equity (Net assets)	21,033	24,046	3,013
Equity ratio	63.2%	64.9%	1.7%
Book value per share (¥)	32,137.43	37,584.60	5,447.17



# Consolidated B/S Highlight



- Increase of paid-in capital : **¥188m**
- Equity ratio: **+1.7%**  
63.2%(End of Mar. 2006) → 64.9%(End of Dec. 2006)
- Book value per share  
(net assets): **+¥5,447 (+17.0%)**  
¥32,137 (End of Mar. 2006)  
→ ¥37,584 (End of Dec. 2006)

# Consolidated C/F

(m¥)

	FY23-3Q	FY24-3Q	YoY Growth
	FY05	FY06	Amount
C/F from operating activities	1,409	2,177	768
C/F from investing activities	△46	△229	△183
C/F from financing activities	3,139	△1,197	△4,336
Effect of change in exchange rate	129	163	33
Increase of cash & cash equivalent	4,631	914	△3,717
Beginning balance of Cash & cash equivalent	4,233	10,343	6,109
Ending balance of cash and cash equivalent	8,864	11,256	2,392

## C/F from operating activities (m¥)

•Net profit before taxes	3,836
•Increase in notes and accounts receivable	-1,972

## C/F from investing activities

•Acquisition of fixed asset	-220
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## C/F from financing activities

•Redemption of bonds payment	-500
•Dividends payment	-409

## ESD

- Continuous growth in tablet business
  - Enhancing Global marketing targeting Windows Vista release
  - Professional graphics
    - Worldwide sales and new market development for **Intuos3**
    - New channel expansion in China, Australia, Korea, and AP
  - Consumer graphics
    - Expanding market from Graphic use to Personal use
    - Branding investments and new channel development
    - Further expansion of wireless product
  - LCD integrated tablet
    - Expansion of **Cintiq21UX** sales in high-end graphics market
    - Penetration of medical (electronic medical chart) market
    - Widening to educational market and new markets
    - Spread to general distribution

## ESD

- Continued investment in component business
  - Expansion in supply of “**Penabled DualTouch**” technology
  - New user exploration of desktop TabletPC
  - Development of new customers in Smart Phone, e-Paper, and PDA
  - Penabled application partnership expansion
  - Cultivate new customers in game and info-appliances
- SCM and QA enhancement
  - Global SCM process enhancement
  - QCD (quality, cost and delivery) improvements
  - Enhancement of overseas SCM offices
- R&D investments
  - “Windows Vista” related new products development
  - Next generation basic technology development and current technology/product improvement
- New Business Development



## ECS

- Expansion of “ECAD/dioV7.0” customer base
- Establishment of PDM services business

## Corporate and Other

- Global branding investment
- J-SOX compliance and enhancement in global corporate governance
- Global IT infrastructure investment
- ISO9001 & ISO14001 integration

# FY06 Forecast



(m¥)

Consolidated Forecast	Actual	Initial Forecast	Revised Forecast (10/31)	Revised-Initial Forecast	Growth Rate (YoY)
	FY23 '05/4-'06/3	FY24 '06/4-'07/3	FY24 '06/4-'07/3		
Sales	23,992	28,000	28,300	300	18.0%
RP	3,387	3,900	4,350	450	28.4%
NP	2,146	2,450	2,600	150	21.2%

(m¥)

Parent Forecast	Actual	Initial Forecast	Revised Forecast (7/11)	Revised-Initial Forecast	Growth Rate (YoY)
	FY23 '05/4-'06/3	FY24 '06/4-'07/3	FY24 '06/4-'07/3		
Sales	18,303	21,400	23,000	1,600	25.7%
RP	1,044	1,100	2,800	1,700	168.3%
NP	685	700	1,760	1,060	156.8%

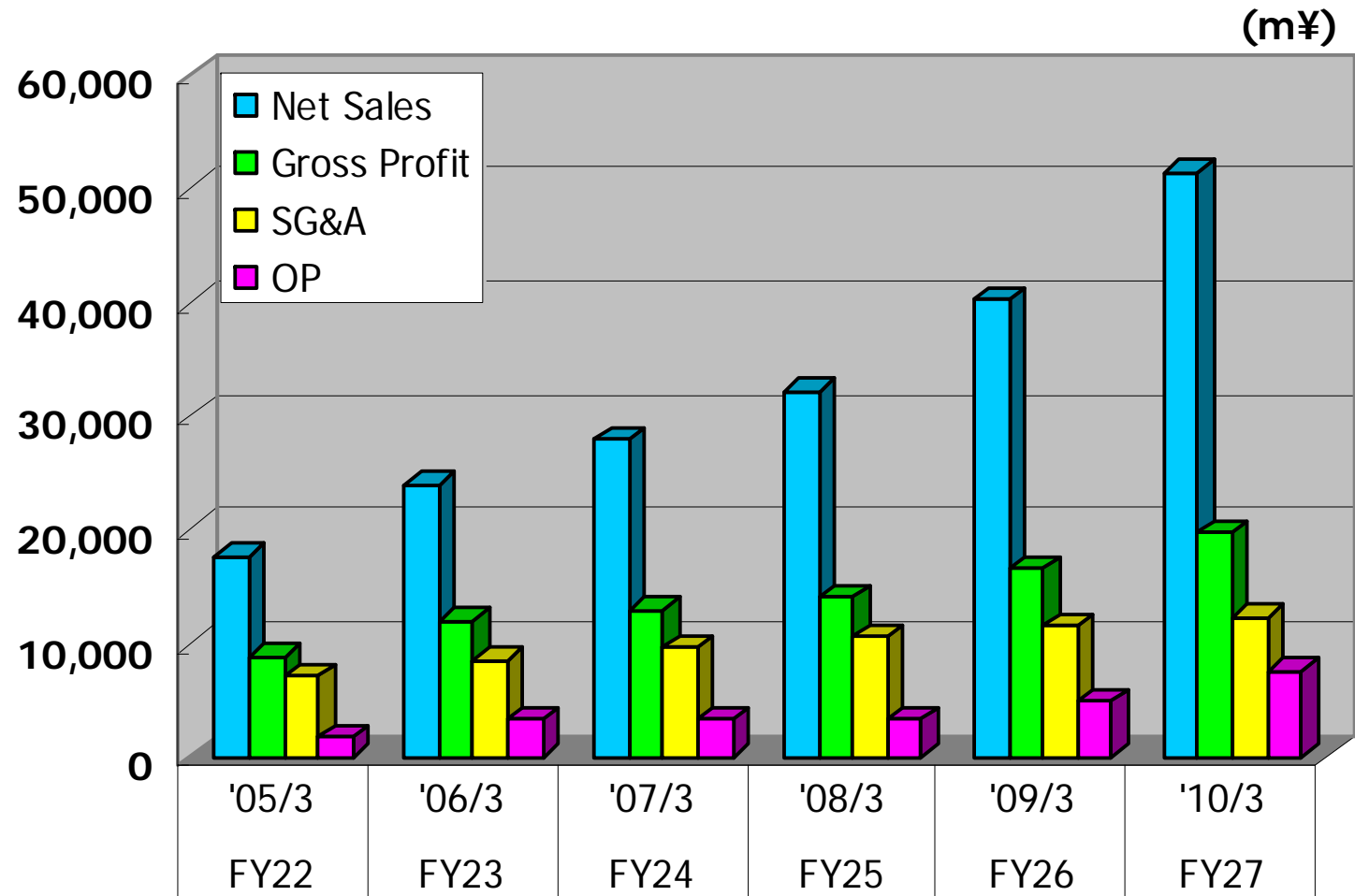
## ■ Basic Strategy

Focus on “Human Interface Solutions” and  
Establish “De-facto Standard”  
in Digital Paper Era

## ■ WP515: Financial Goals

- By FY27 (ends March 2010)
  - Consolidated revenue: 50 billion Japanese yen
  - Consolidated operating income margin: 15%

# Consolidated P/L Forecast





# Growth Strategy -1



- Strengthen leadership in tablet industry for the growth
  - Strengthen leadership in product by global branding
  - Expand new segments and regional coverage to AP and BRICs
  - Guide professional users to LCD pen tablets
- Expand component business
  - Expand Tablet PC from mobile to desktop platform
  - Expand platforms from PC to mobile phone, game, and info-appliances
- Global branding and enhancing its value
  - Invest in global brand enhancements
  - Continue to improve customer values
- New technology and new business development
  - Develop new generation pen sensor technology
  - Develop and/or acquire new UI technology
  - Merge display technology with pen sensor technology
  - Develop new business segments and M&A

# Growth Strategy -2



- Strengthen/integrate global SCM function
  - Optimal SCM solution in QCD (quality, cost, and delivery)
  - Utilize EMS and integrate QCD process
  - Black box production of key components
- Strengthen/integrate global QA function
  - Build global QA process including EMS
  - Enhance organization and human resources
- Global process integration and global IT support
  - Global business process reengineering
  - Pursue high productivity and efficiency by global IT support
  - SOX compliance
- Enhancing global partnerships
  - OS, application, display, and solutions
  - Promote PPP (Penabled Partnership Program)

# Global Operation



**Wacom Component Europe**



**Wacom Digital Solutions**

**Wacom Tech. Corp.**

**Wacom China Corp.**

**Wacom Europe GmbH**

**Wacom Co., Ltd.**

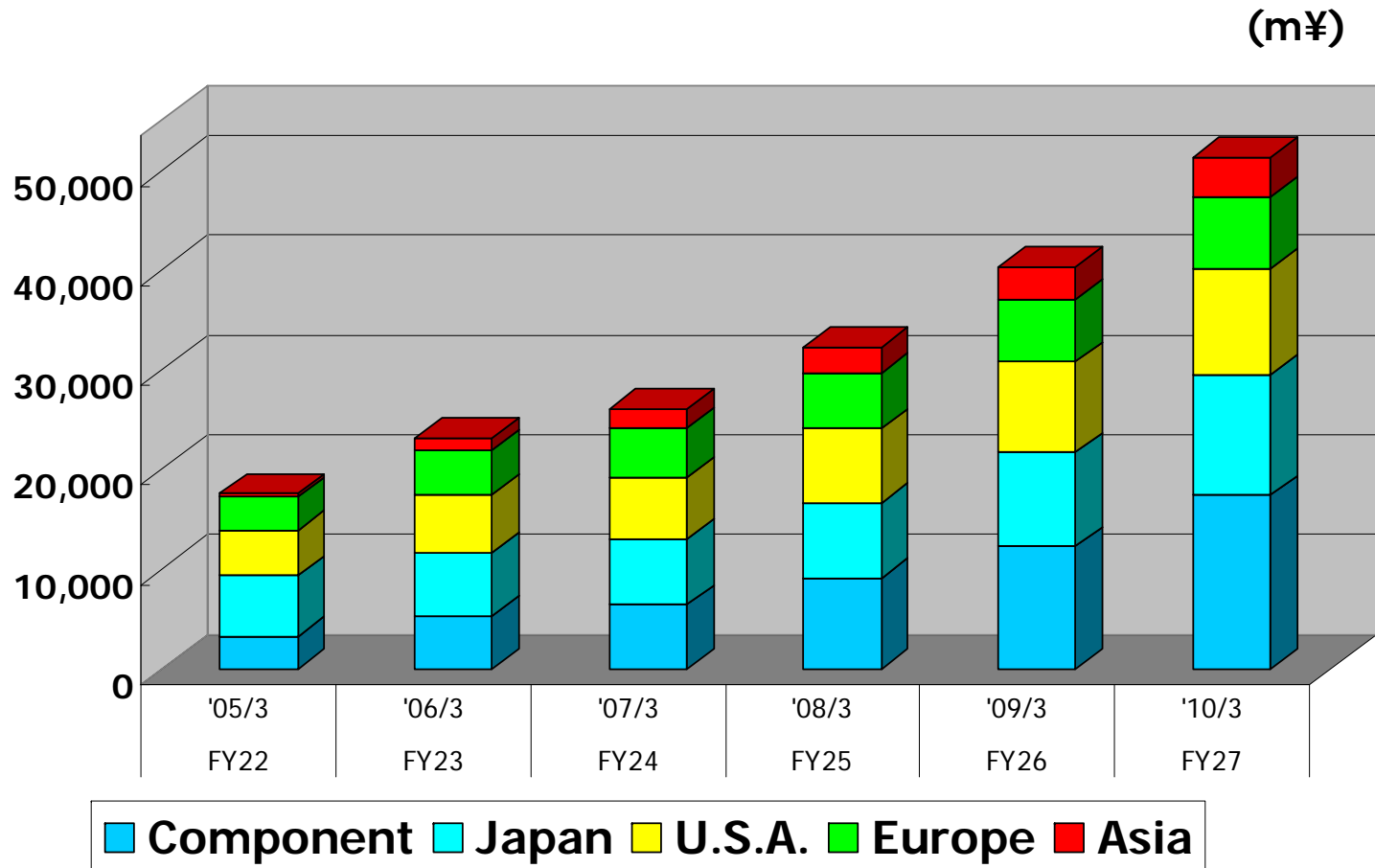
**Taipei  
Moscow  
Shanghai**

**Wacom Singapore  
Pte Ltd.**

**Wacom Australia Pty. Ltd.**



# Sales Forecast by Region



# Product Portfolio of ESD



COMPONENT

## Mobile



## Business

## Consumer

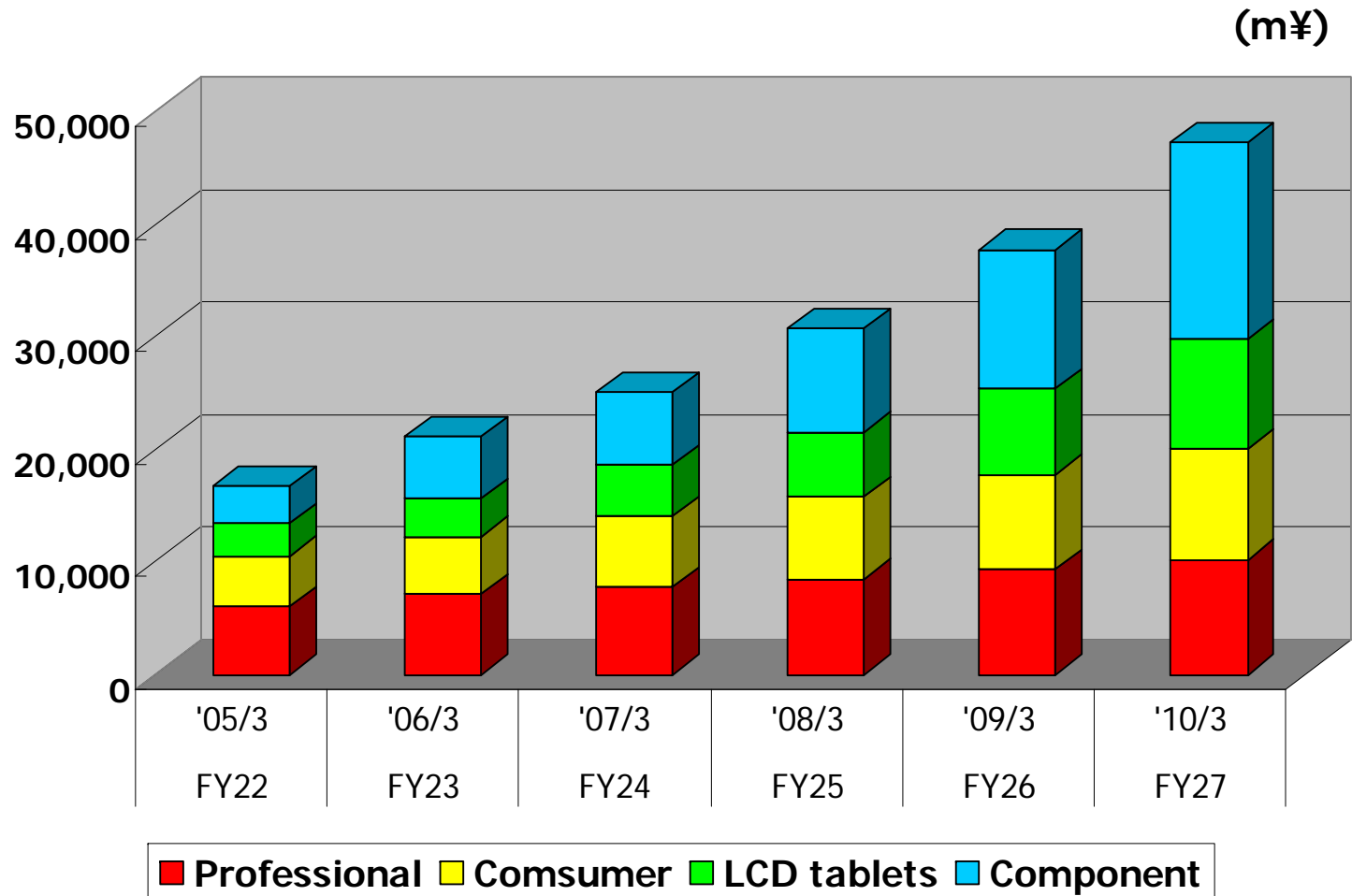
WACOM TABLET



## Desktop



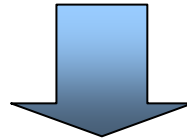
# Sales Forecast by Product Line



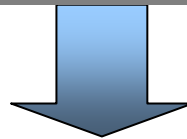
# Product Line Strategy

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- Advanced design tools for professionals
- Natural and intuitive input device for consumers
- Intuitive UI solutions for vertical applications
- Low-cost, high-performance pen technology for mobile info-appliances



**Technology Standard**



**De-facto Standard  
in Digital Paper Era**





<http://www.wacom.co.jp/english/index.html>

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