

Business Report

Apr. to Jun. 2015

(1Q of FY ending March 31, 2016)

Wacom Co., Ltd.

(TSE Sec.1 6727)

for a creative world™



wacom®

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1Q FY 03/16 Results Overview

Operating environment

- The global economy continued to recover, led by the expansion of the U.S. economy. Japan's economy also experienced steady recovery, while the Eurozone remained sluggish due to the Russia-Ukraine conflict and the Greece debt crisis. In currency markets, the euro depreciated against the yen despite the strong US dollar.
- As cloud computing, mobile products, and SNS rapidly expand, the IT industry faces intensified competition and structural change. Market trends are changing rapidly.

Performance overview

- Consolidated net sales grew steadily owing to the expansion of the Brand Business and the weak yen. We recorded a surplus in OP despite higher SG&A expenses, but this was offset by an increase in income tax due to profit recorded by subsidiaries outside Japan, leading to a net loss.
- Sales in the Brand Business reached a historic high during 1Q. Sales grew in the Creative Business, including for mobile products with strong sales achieved particularly in the US, China, and other Asian markets.
- Sales in the Technology Solution (formerly Component) Business declined. Although sales for tablet devices increased owing to the full-scale commercial production of educational tablets, sales for smartphones significantly decreased due to sluggish sales and subsequent inventory tightening from the customer side.

1Q FY 03/16 Results Overview

Financial Summary

(JPY)

Business Performance	1Q FY 03/16	YOY
Net Sales	15,142 mil	10.8%
Operating Income	29 mil	-63.2%
Ordinary Income	26 mil	-81.4%
Net Profit (loss) aft. Tax	-235 mil	—

Financial Indices	1Q FY 03/16	1Q FY 03/15
EPS	-1.41 JPY	0.57 JPY
BPS (Book Value per Share)	181 JPY	177 JPY

(For reference)

Average Forex rate	1Q FY 03/16	YOY
1 USD	121.34 JPY	+18.8% (Weak JPY)
1 EUR	133.86 JPY	-4.4% (Strong JPY)

(Note) Net Profit (Loss) of FY 03/16 is equivalent to net profit attributable to shareholders of Wacom Co., Ltd.

Consolidated P/L

(Unit: Million JPY)

	1Q FY 03/15	1Q FY 03/16	YOY Change	
	04/14-06/14	04/15-06/15	Amount	Ratio
Net Sales	13,669	15,142	1,473	10.8%
Gross Profit	5,500	6,280	780	14.2%
profit margin %	40.2%	41.5%		
SG&A	5,420	6,251	831	15.3%
Operating Income	80	29	-51	-63.2%
profit margin %	0.6%	0.2%		
Ordinary Income	142	26	-116	-81.4%
Net Profit (Loss) aft. Tax	95	-235	-330	—

- Effects of forex fluctuations on 1Q
 The US dollar strengthened at JPY 19.20: Sales +1,600 mil JPY, OP -50 mil JPY
 The euro weakened at JPY 6.15 JPY: Sales +120 mil JPY, OP -70 mil JPY
- Net loss occurred due to increase in income tax as a result of profit increases at subsidiaries outside Japan.

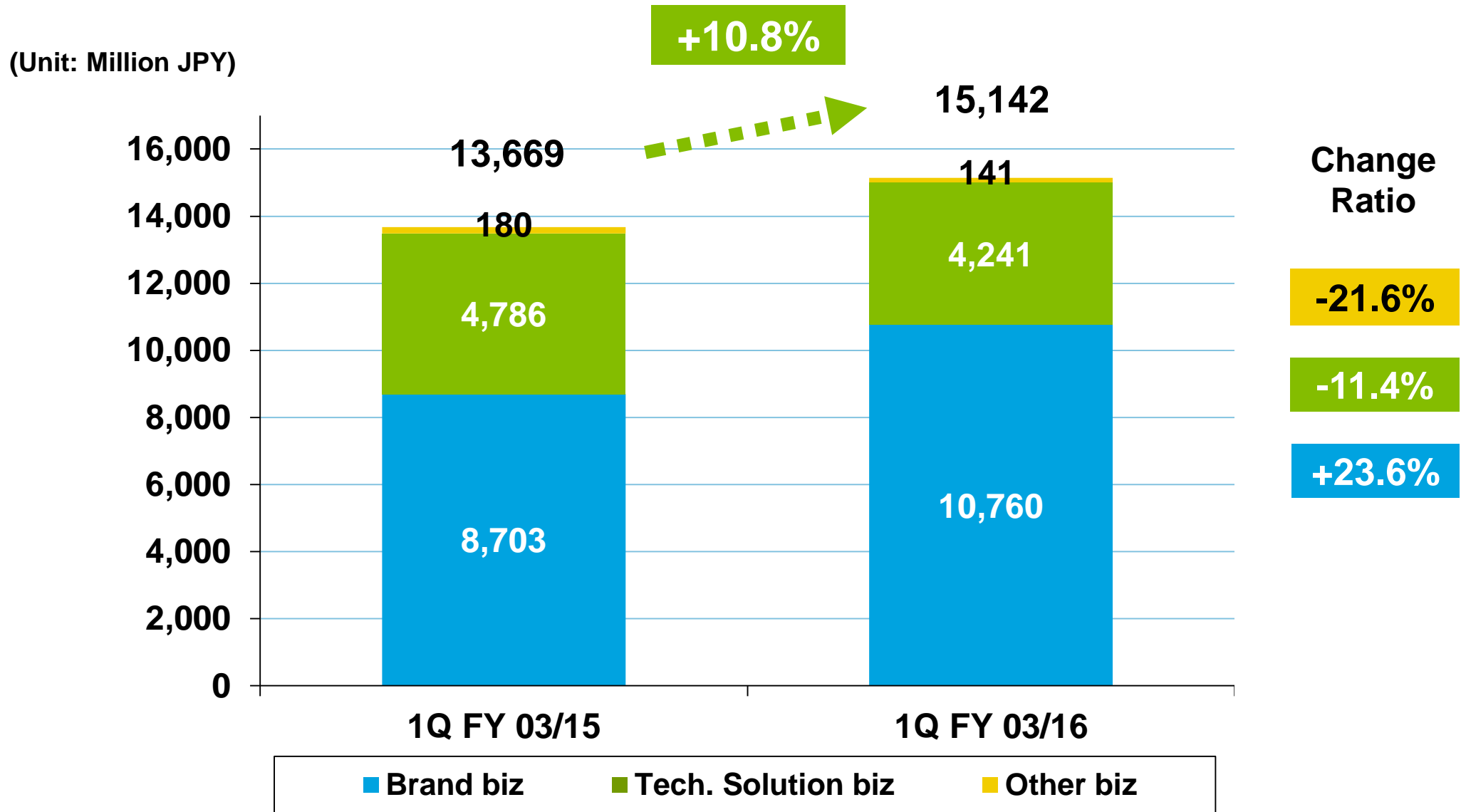
Consolidated P/L by Business Line

(Unit: Million JPY)

	1Q FY 03/15	1Q FY 03/16	YOY Change	
	04/14-06/14	04/15-06/15	Amount	Ratio
Net Sales	13,669	15,142	1,473	10.8%
Brand biz	8,703	10,760	2,057	23.6%
Tech. Solution Biz	4,786	4,241	-545	-11.4%
Other biz	180	141	-39	-21.6%
Operating Income	80	29	-51	-63.2%
Brand biz	869	1,651	782	90.1%
Tech. Solution Biz	156	216	60	39.2%
Other biz	27	3	-24	-87.3%
Corp. and others	-972	-1,842	-870	89.6%
profit margin %	0.6%	0.2%		

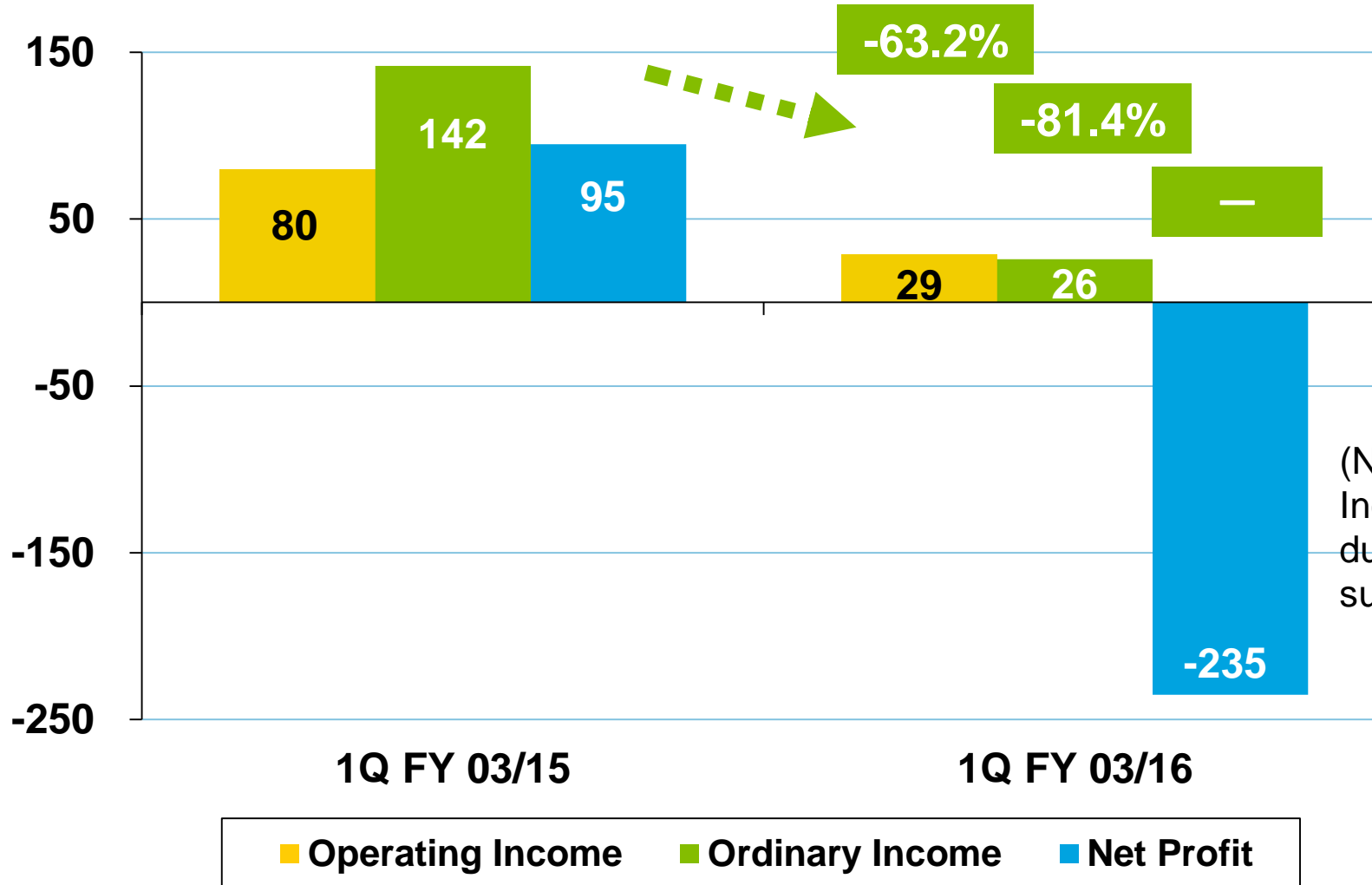
(Note) Corp. and others posted approximately 500 mil JPY profit due to the reassignment of SG&A items between the Brand Business and Corporate functions in accordance with the new global organization from April.

Consolidated Sales Comparison



Consolidated Profit Comparison

(Unit: Million JPY)



Operating Expenses Comparison

(Unit: Million JPY)

	1Q FY 03/15	1Q FY 03/16	YOY Change	
	04/14-06/14	04/15-06/15	Amount	Ratio
Personnel	2,041	2,363	322	15.8%
R&D	700	1,019	319	45.5%
Ad. & Promo.	672	714	42	6.3%
Others	2,007	2,154	147	7.4%
Total	5,420	6,251	831	15.3%
SG&A ratio %	39.6%	41.3%		

Key changes in SG&A

- SG&A increased by 340 mil JPY due to higher costs at subsidiaries by currency movements.
- Headcount including temporary employees increased (1,184 in previous 1Q, 1,257 in current 1Q)
(Note) Headcount excluding temporary employees: 1,029 (previous 1Q), 1,060 (current 1Q)
- R&D expense increased due to development of new products to be released this FY.
- Others expenses increased due to subcontract expenses for global IT infrastructure, etc.

Business Segment for FY 03/16

Brand Business

Creative Business

- Serves the passion of professional and consumer creativity
- Product Lines: Pen Tablet, Mobile, Display

Consumer Business

- Makes daily lives more creative and enjoyable
- Product Lines: Stylus, Pen Tablet, etc.

Business Solution

- Serves society by providing innovative solutions
- Product lines: Display, Signature Tablet, etc.

Technology Solution Business

- Pen sensor systems for Smartphones and Tablets
- EMR, AES pen components & modules (feel™)

Other Business Engineering Solution ▪ ECAD dio

Platform & applications

- Provides technology, apps and platforms
- Cloud Apps & Services
- WILL (digital Ink solution)

Business Highlights: (Unit: JPY)

<u>Brand Business</u>	10.76 bn	+23.6%
Creative Business	9.24 bn	+26.2%
Pen Tablet (subsection)	5.06 bn	+20.9%

- *Intuos Pro* was well received for its high value-added features for professional use and maintained stable sales globally.
- *Intuos* (rebranded *Bamboo* tablet line) recorded an increase in sales due to improved brand awareness. As a result of marketing campaigns, sales grew favorably in China where digital content creation is expanding.
- The emerging market model contributed to the acquisition of new users and sales expansion.
- The Russia-Ukraine conflict continued to have a negative impact on the sales in the Eurozone.

INTUOS[®]pro



INTUOS[®]comic



Emerging market model
(One by Wacom)



Business Highlights: (Unit: JPY)

Brand Business

Creative Business

Mobile (subsection)

1.38 bn +55.1%

- Wacom's mobile tablet, *Cintiq Companion 2*, was highly appraised for its QHD display, light body, and wide range of model lines. Sales grew at a pace exceeding previous models.
- Expansion of sales channel from Wacom online direct only to the selected retailers contributed to growth.
- *Inutos Creative Stylus 2* for iPads launched last September gained a positive reputation and maintained stable sales.

CINTIQ[®] companion 2



INTUOS[®]
Creative Stylus 2



Business Highlights: (Unit: JPY)

Brand Business

Creative Business

Display (subsection)

2.80 bn +24.9%

- *Cintiq 27 QHD*, launched in February, rapidly gained reputation as our flagship model for professional use with its high-definition display and precision color management
- *Cintiq 22HD* contributed steadily to sales expansion.
- *Cintiq 13HD touch*, launched in March, features multi-touch display and acquired new users in the portable 13 inch category.

CINTIQ[®] 27 QHD

CINTIQ[®] 27 QHD touch



CINTIQ[®] 13HD touch



CINTIQ[®] 13HD



CINTIQ[®]
22HD touch



Business Highlights: (Unit: JPY)

Brand Business

Consumer Business

0.28 bn

+39.0%

- *Bamboo Stylus fineline* for iPads with advanced 1.9mm thin tip, launched last September, contributed to sales growth.
- 3rd generation *Bamboo Stylus solo* & *Bamboo Stylus duo*, launched last September, contributed to sales owing to their unique carbon fiber nibs and premium design.
- Won the top share of premium stylus markets (more than 20 US dollars) in the US, Germany, and France.
(Note) The market share: own estimation based on third party surveys.
- Launched *Wacom Cloud* services.



Wacom Cloud



Dropzone

BAMBOO® STYLUS
fineline



BAMBOO® STYLUS
solo



Business Highlights: (Unit: JPY)

Brand Business

Business Solution

1.24 bn

+4.9%

- Showed slight drop in Sales in the Eurozone due to large-scale orders from the last FY. Meanwhile, the demand for digital signature in paperless workflow and improved data security grew in China and other Asian markets.
- Use of *STU* series expanded in credit card transaction and over the counter services in the financial sector. The latest models, *STU-530* and *STU-430* contributed sales growth.
- *DTU-1031* for over the counter services contributed to sales. Launched *DTU-1141* with data encryption in May.



STU Series



DTU-1141



DTU-1031



DTH-2242

Business Highlights: (Unit: JPY)

Tech. Solution Business 4.24 bn **-11.4%**

Pen Sensor System for Smartphones

1.12 bn **-41.6%**

- Sales declined significantly due to weak sales of Samsung's Galaxy Note 4 and inventory adjustments.

Pen Sensor System for Tablets

2.54 bn **+23.4%**

- Started full-scale production of educational tablets for Turkey in the world's largest tablet project.
- Promoted Active ES pen solution and prepared commercial production of new models on Windows 10.



Smartphone models



Tablet models



Business Highlights: (Unit: JPY)



Notebook PC models

Tech. Solution Business

Pen Sensor System for Notebook PCs

0.58 bn -28.2%

- Along with the ongoing shift from notebook PCs to tablets with removable keyboards, demand for pens also shifted to tablets.



For reference: *Active ES (Electrostatics) Pen Technology*

- To meet diversifying customer needs for pen technology solutions, we developed *Active ES Pen Technology* based on Wacom's original technology, and began commercial production of customers' new models.
- By incorporating both multi-touch and pen input functions into the touch panel, we eliminated the need for a dedicated pen sensor board and achieved a low cost solution.
- Newly developed single chip controller enables high performance pen and touch functions.

Business Highlights: (Unit: JPY)

Other Business

0.14 bn

-21.6%



CAD software and others

0.14 bn

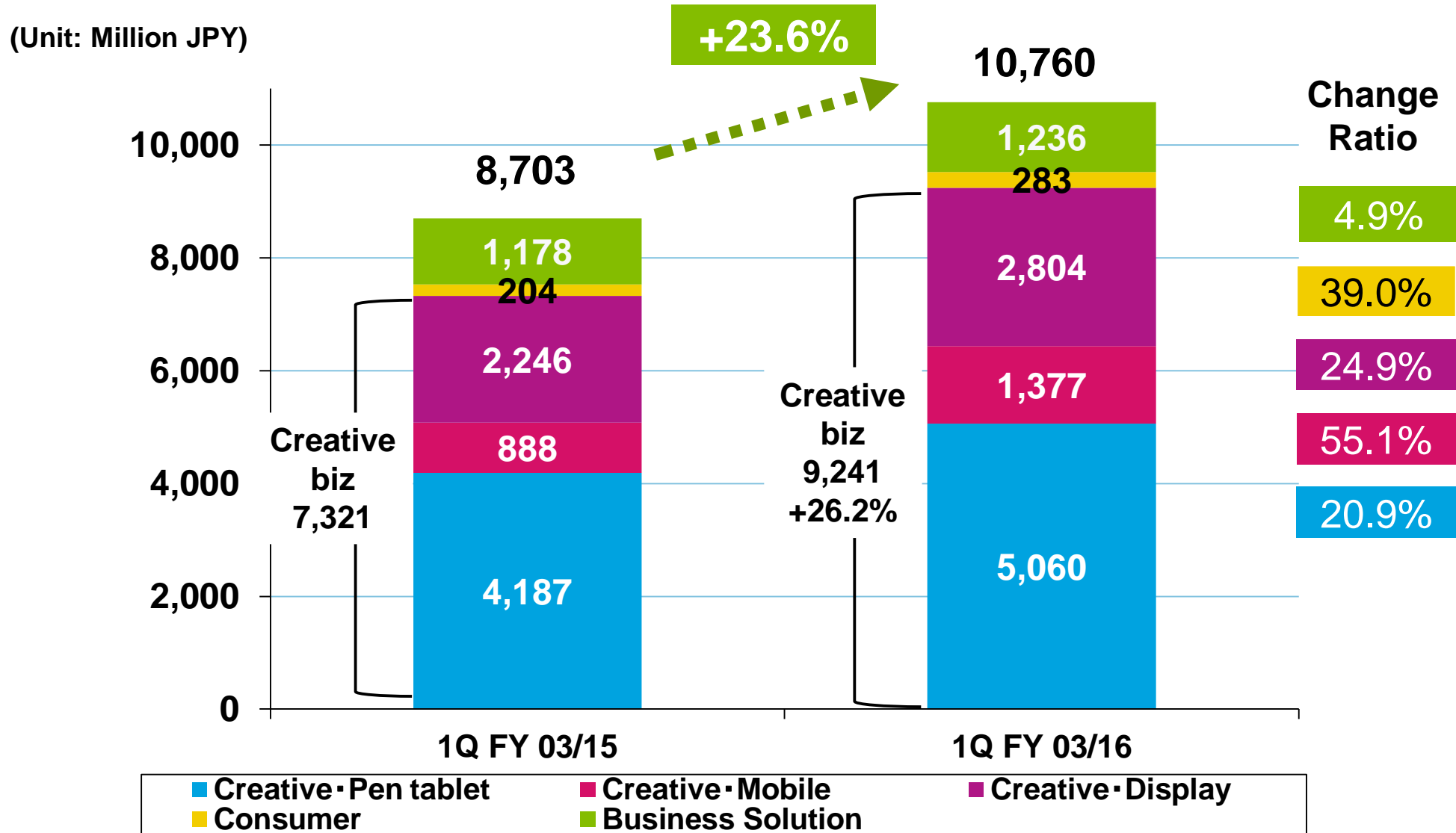
-21.6%

- Sales dropped due to a slowdown in PC replacement demand from the last FY.
- *ECAD dio 2015*, launched last December, features new key functions targeted toward machinery design and robotics industries.

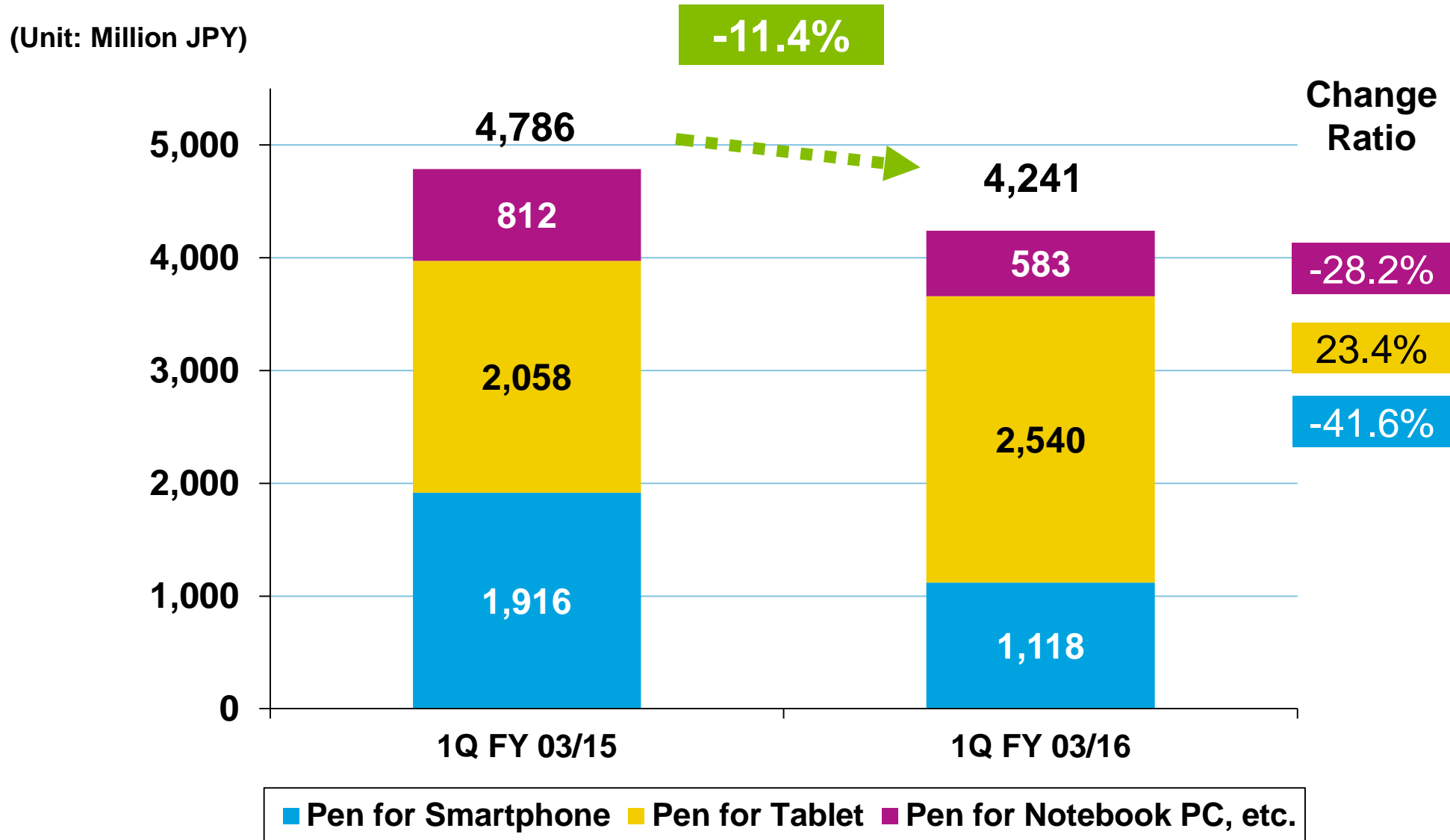
F&A (Corporate)

- Shifted the region-based organization to a customer-centric global organizations. New global HR system started in April.
- Continued to invest in business infrastructure for growth and operational efficiency. Major projects include new global SCM system, global IT infrastructure, e-commerce, etc.
- Promoted WILL (Wacom Ink Layer Language) as a new framework to standardize digital ink, and enhanced partnership development activities.

Sales by Product Line in Brand Business

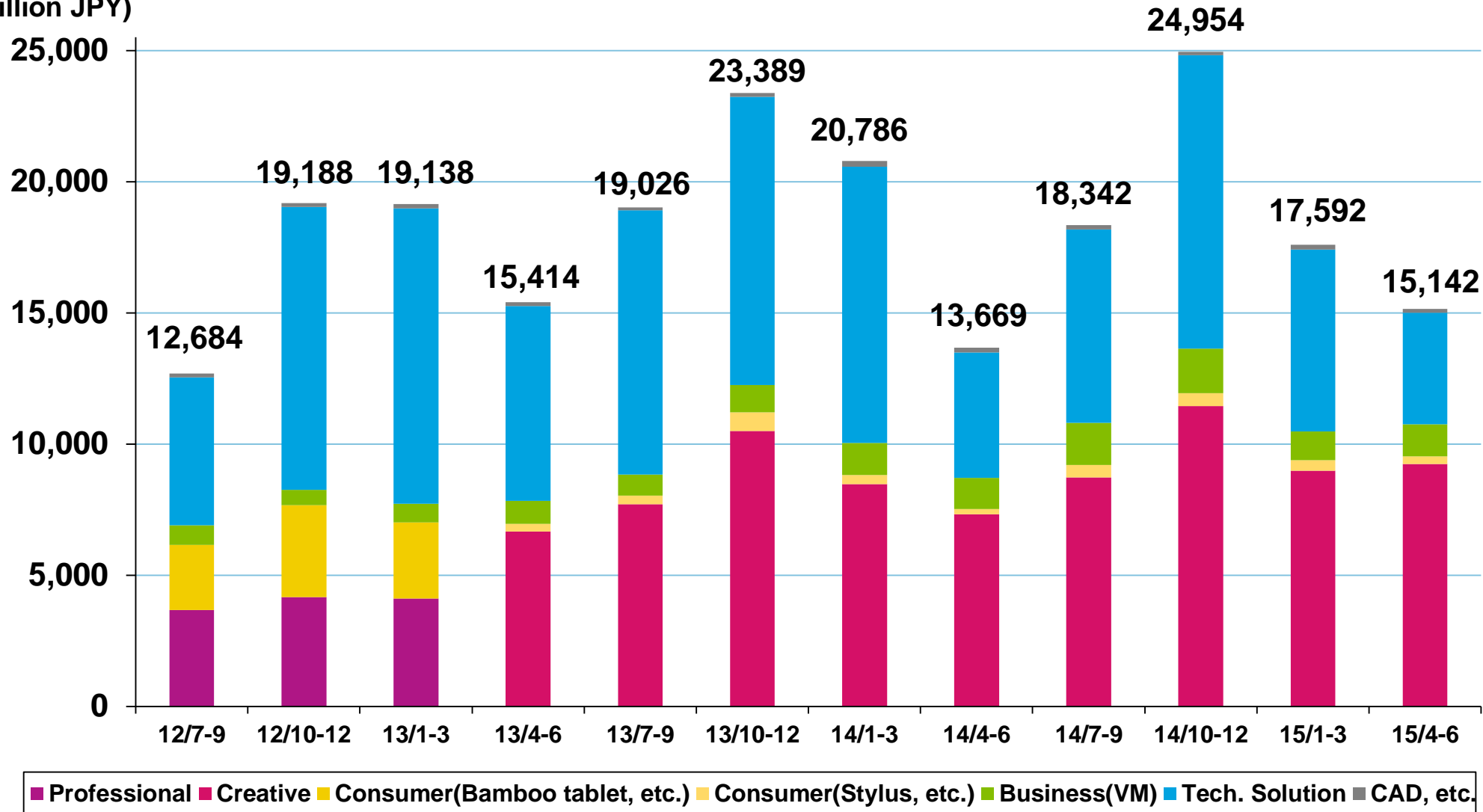


Sales by Product Line in Tech. Solution Business

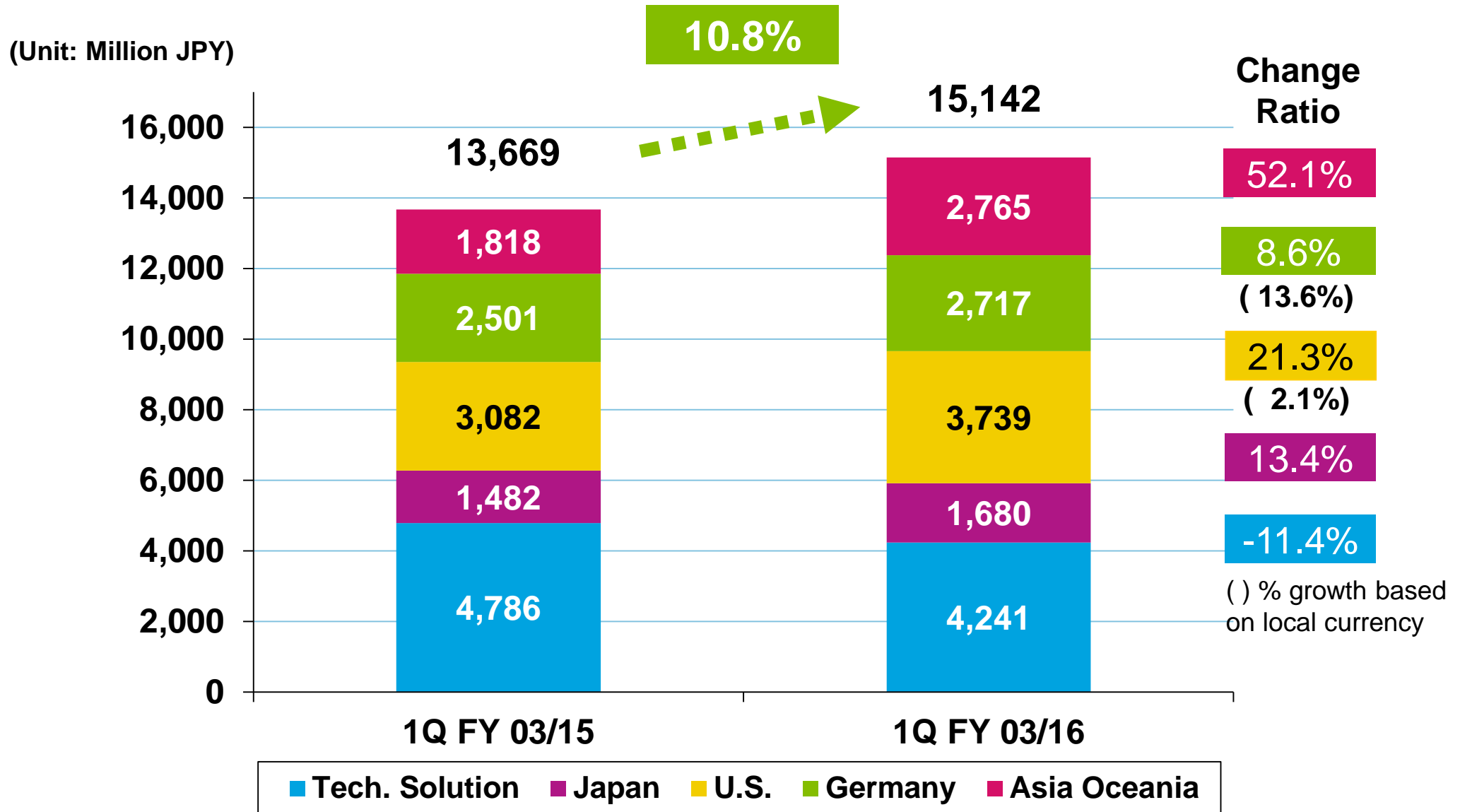


Quarterly Trend by Product Line

(Unit: Million JPY)



Sales by Region



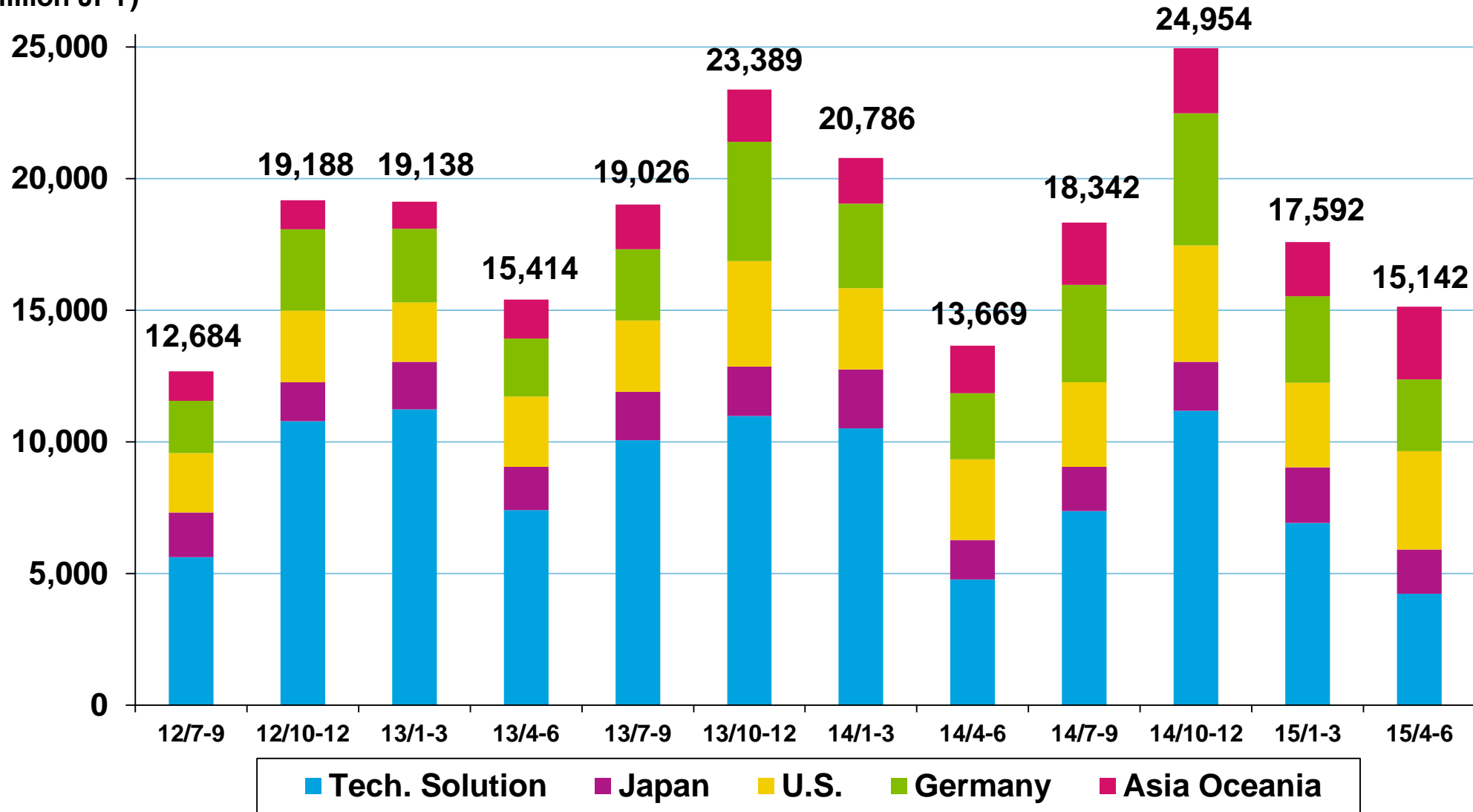
(For reference) Sales Changes in Local Currency Base

Region	Currency	YOY Change Ratio
Japan (excluding Component biz)	JPY	13.4%
U.S.	USD	2.1%
Europe	EUR	13.6%
China	CNY	50.2%
Korea	KRW	16.3%
Australia	AUD	55.5%
Singapore	USD	-6.8%
Hong Kong	USD	43.0%

(Note) The figure of Singapore is including the sales of India.

Quarterly Trend by Region

(Unit: Million JPY)



(Note) There are no regional segments in the Tech. Solution Biz.

Consolidated B/S

(Unit: Million JPY)

	End of Mar. 2015	End of Jun. 2015	Change
Current Assets	40,188	38,614	-1,574
Noncurrent Assets	11,269	11,676	407
Total Assets	51,457	50,290	-1,167
Current Liabilities	15,880	18,635	2,755
Noncurrent Liabilities	1,718	1,787	69
Total Liabilities	17,598	20,422	2,824
Minority Interest in Subsidiaries	0	0	0
Net Assets	33,859	29,868	-3,991
Total Liabilities and Net Assets	51,457	50,290	-1,167
Equity Ratio	65.4%	59.0%	-6.4%

Key Changes

Assets

- Decrease in cash and deposits -1,570
(increase in software suspense account for global IT infrastructure, etc.)
- Decrease in notes and accounts receivable-trade -625
(sales decrease in Tech. Solution biz)
- Decrease in other current assets -584
- Increase in inventories 1,026
(new products launched in the last 4Q in Brand biz)
- Increase in intangible fixed assets 686
(increase in software suspense account for global IT infrastructure, etc.)

Liabilities

- Increase in short-term loans 5,400
- Decrease in notes and accounts payable-trade -2,552

Net Assets

- Decrease in shareholders' equity -4,427
(decrease in retained earnings, buy back, etc.)

Consolidated C/F

(Unit: Million JPY)

	1Q FY 03/15	1Q FY 03/16	YoY Change
	04/14 -06/14	04/15 -06/15	Amount
C/F from operating activities	-8	-2,130	-2,122
C/F from investing activities	-725	-1,130	-405
C/F from financing activities	-2,592	1,508	4,100
Effect of change in exchange rate	-90	181	271
Increase-decrease of cash & cash equivalent	-3,415	-1,570	1,844
Beginning balance of cash & cash equivalent	15,394	16,687	1,293
Ending balance of cash and cash equivalent	11,979	15,116	3,137

Major Activities in 1Q FY 03/16

C/F from operating activities

- Decrease in notes and accounts payable-trade -2,642
- Increase in inventories -800
- Income tax paid -602
- Decrease in notes and accounts receivable-trade 887
- Depreciation 436
- Increase in income taxes payable 408

C/F from investing activities

- Purchase of fixed assets -1,516
(global IT infrastructure, etc.)

C/F from financing activities

- Increase in short-term loans payable 5,400
- Cash dividends paid -2,669
- Increase in depreciation -1,243

FY 03/2016

Basic Strategies and Business Focus

for a creative world™



wacom®

Business Environment for FY 03/16

- Despite some uncertainties, the global economy is expected to maintain a recovery trend, led by US economic expansion, financial policies in major countries and low oil price. While Asian countries are expected to maintain their growth rate, the LATAM region is expected to show no growth.
- The creative market is expected to continue to expand with acceleration in the mobile product category, 3D design and 3D printing evolution in advanced countries and digital design expansion in emerging markets.
- In the UI field, Pen & Ink is expected to gain momentum as the need for personal digital contents increases among mobile consumers.
- Integration of Consumer stylus, application and starts to offer new user values.
- Mobile workflow and security will become critical in enterprise markets, and digital signature is expected to expand to the mobile space.
- Wearables will start creating a new ecosystem for our products.

Basic Strategies and Initiatives

- Drive growth through the new user-centric global business unit.
- Integrate branding, marketing and sales for higher customer value.
- Extend mobile product offers and reach new users in 3D and emerging markets
- Create a new digital stationery category by integrating hardware, software and Cloud.
- Establish fully-integrated global business infrastructure.
- Establish AES and WILL as the global digital pen and ink standard.
- Build a new framework for future innovations in technology and products.
- Enhance corporate governance and processes for improving corporate value.

Assumptions for FY 03/16 Forecast

- Market demand based on review (mid-July 2015) in the Brand Business
- Due to risks and uncertainties involved in the forecast of market and customer trends of the Technology Solution business, actual results may materially differ from forward-looking statements in the short-term.
- Forex rate assumptions for FY 03/16 (No revision from April 30)
 - 1USD = 110 JPY (YOY +0.03 JPY, weak JPY)
 - 1EUR = 130 JPY (YOY -8.68 JPY, strong JPY)
- Forex exchange sensitivity: 12-month forecast (Unit: Million JPY)

Currency	USD	EUR
Unit of sensitivity	JPY 1	JPY 1
Net Sales	550	120
Operating Income	0	90

(Note) A stronger yen has a negative effect while a weaker yen has a positive effect.

Assumptions for FY 03/16 Forecast

Capital expenditure

5.20 bn JPY (YOY +27.4%) (No revision from April 30)

- Key items: IT systems to form global organizations and molds, etc

Depreciation

2.50 bn JPY (YOY 26.9%) (No revision from April 30)

R&D expense

4.00 bn JPY (YOY 25.8%) (No revision from April 30)

- Key items: Development of new products in the Brand business, development of next generation ICs, and basic technology research, etc.

Summary for FY 03/16 Forecast

(No revision from April 30)

(Unit: Million JPY)

	1H FY 03/15		1H FY 03/16		YOY
	04/14-09/14		04/15-09/15		Growth rate
Net Sales	32,011		34,800		8.7%
Operating Income	1,826	5.7%	0	0.0%	-100%
Ordinary Income	1,761	5.5%	-50	-0.1%	-102.8%
Net Profit	1,147	3.6%	-50	-0.1%	-104.4%
	FY 3/15		FY 3/16		YOY
	04/14-03/15		04/15-03/16		Growth rate
Net Sales	74,557		84,000		12.7%
Operating Income	6,143	8.2%	5,500	6.5%	-10.5%
Ordinary Income	6,065	8.1%	5,350	6.4%	-11.8%
Net Profit	3,473	4.7%	3,530	4.2%	1.6%
ROE	10.5%		10.4%		-0.1%

Forecast of Results by Business Segment (No revision from April 30)

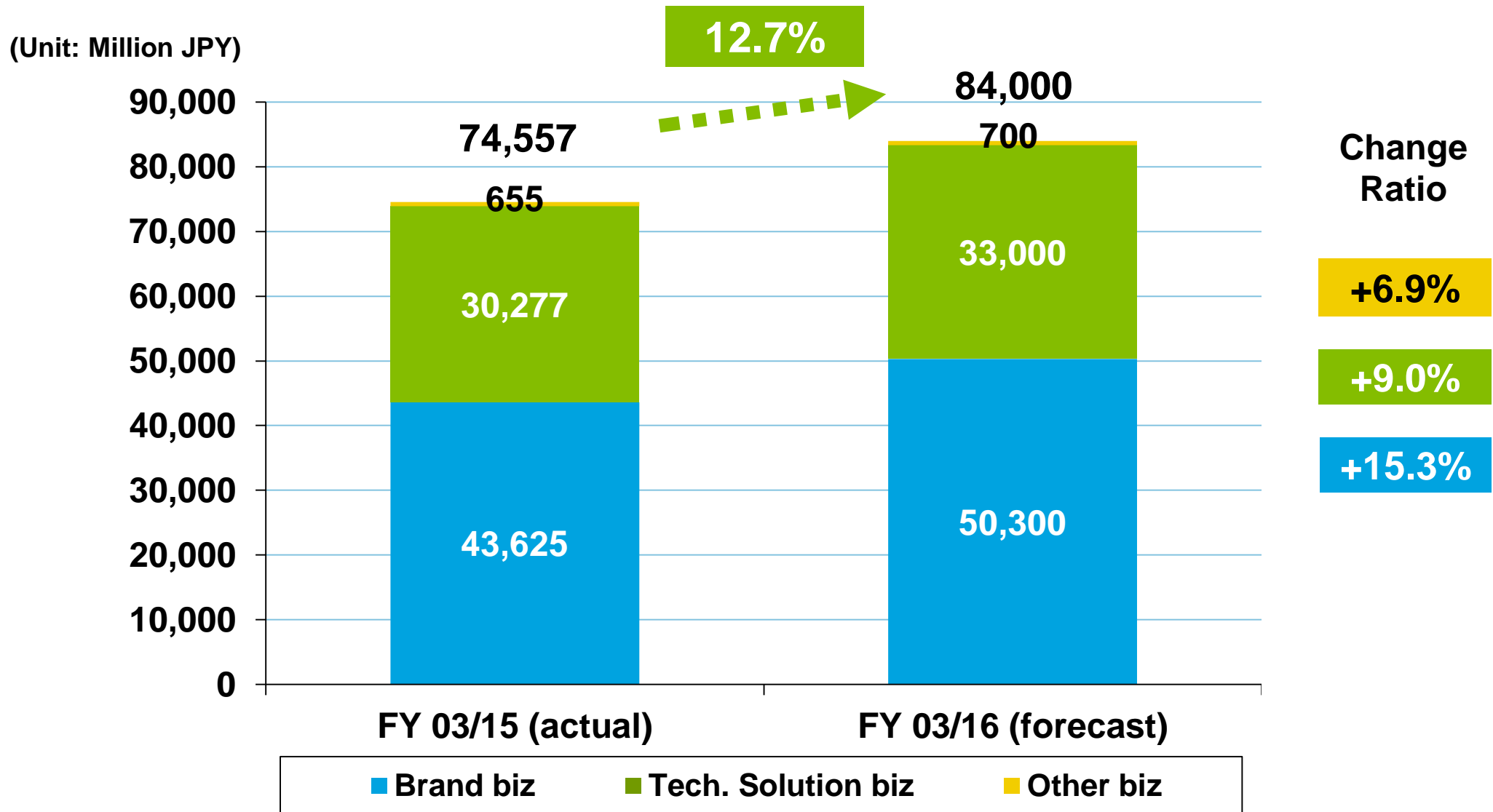
(Note) Due to risks and uncertainties involved in the forecast of market and customer trends of the Technology Solution business, forward-looking statements may materially differ from actual results in the short-term. (Unit: Mil JPY)

	FY 3/15(act.)	FY 3/16(fcst)	YOY Change	
	04/14-03/15	04/15-03/16	Amount	Ratio
Net Sales	74,557	84,000	9,443	12.7%
Brand biz	43,625	50,300	6,675	15.3%
Tech. Solution biz	30,277	33,000	2,723	9.0%
Other biz	655	700	45	6.9%
Operating Income	6,143	5,500	-643	-10.5%
Brand biz	5,965	9,280	3,315	55.6%
Tech. Solution biz	4,642	4,570	-72	-1.5%
Other biz	55	60	5	8.8%
Corp. and others	-4,519	-8,410	-3,891	86.1%
profit margin %	8.2%	6.5%		

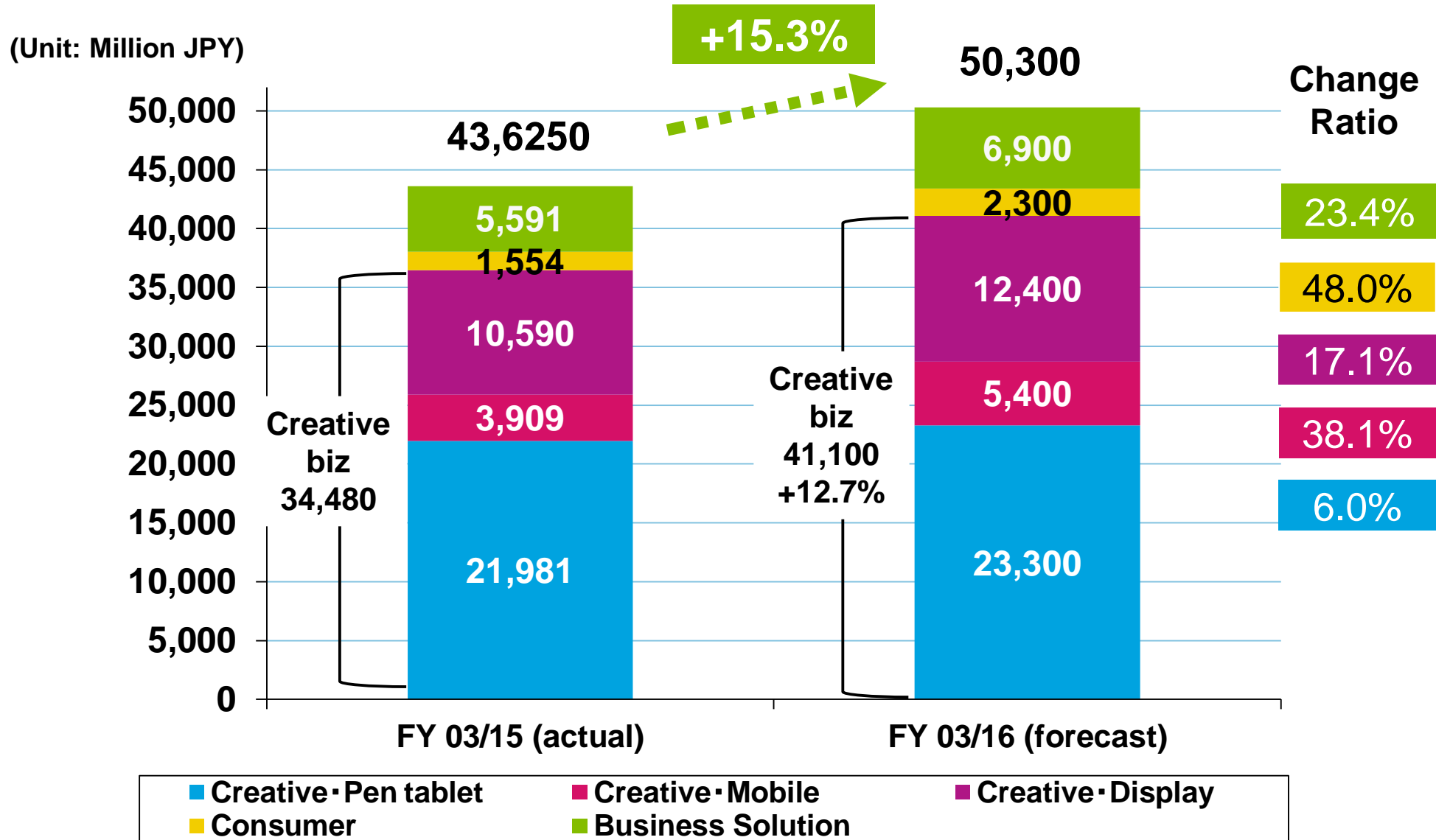
Forecast of Results by Business Segment

- The Brand Product business expects the growth in both Sales and Profit with planned new product launches as well as contribution of the products launched during FY32. And, it also reflects the reassignment of OP items between Business Unit and Corporate Functions due to the global organizational changes.
- The Technology Solutions business forecasts sales recovery as smartphone segment demand at the same level as FY32 and Tablet market expands with Active ES pen technology shipment. Profitability stays at the level of the previous fiscal year with higher price pressure across the categories.
- Corporate functions expects 2.5B JPY OP increase including 700MJPY increase due to the start of depreciation of new global IT infrastructure and related expenses, reassignment of OP items between the Branded Product business and Corporate functions.

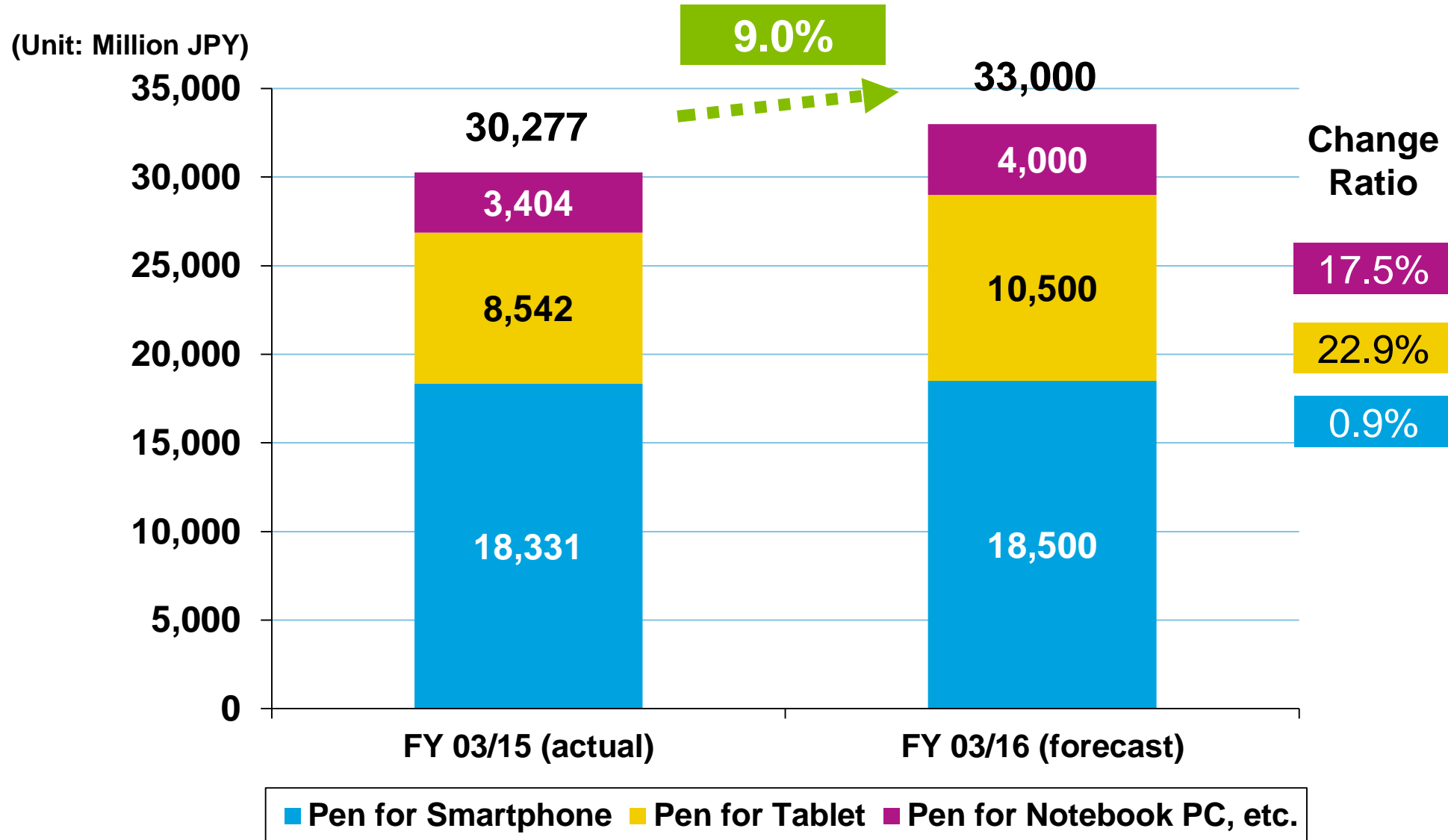
Sales Forecast by Business Segment



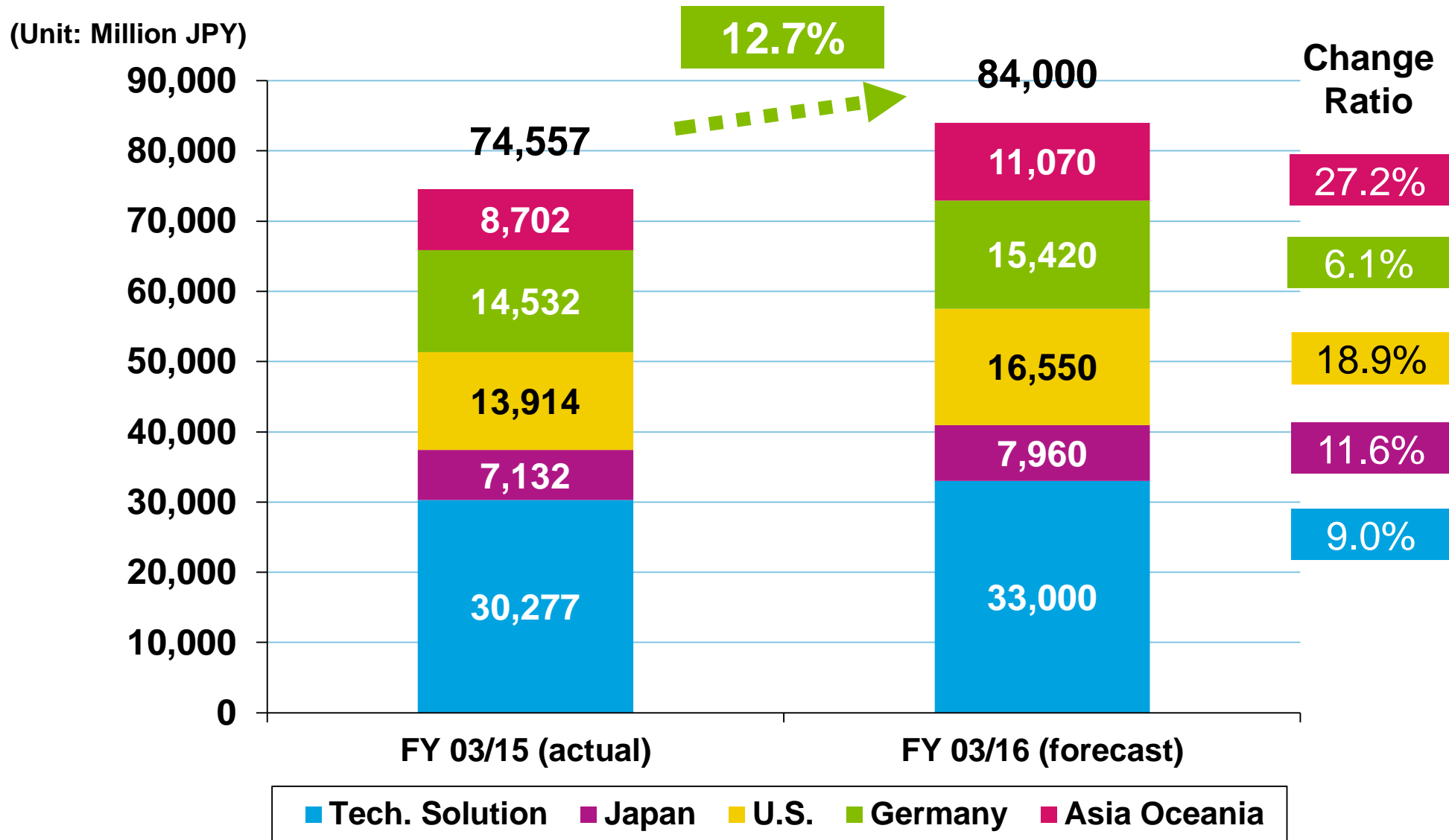
Sales Forecast by Product line in Brand Product



Sales Forecast by Product line in Tech. Solution



Sales Forecast by Region



Dividend Forecast for FY 03/16

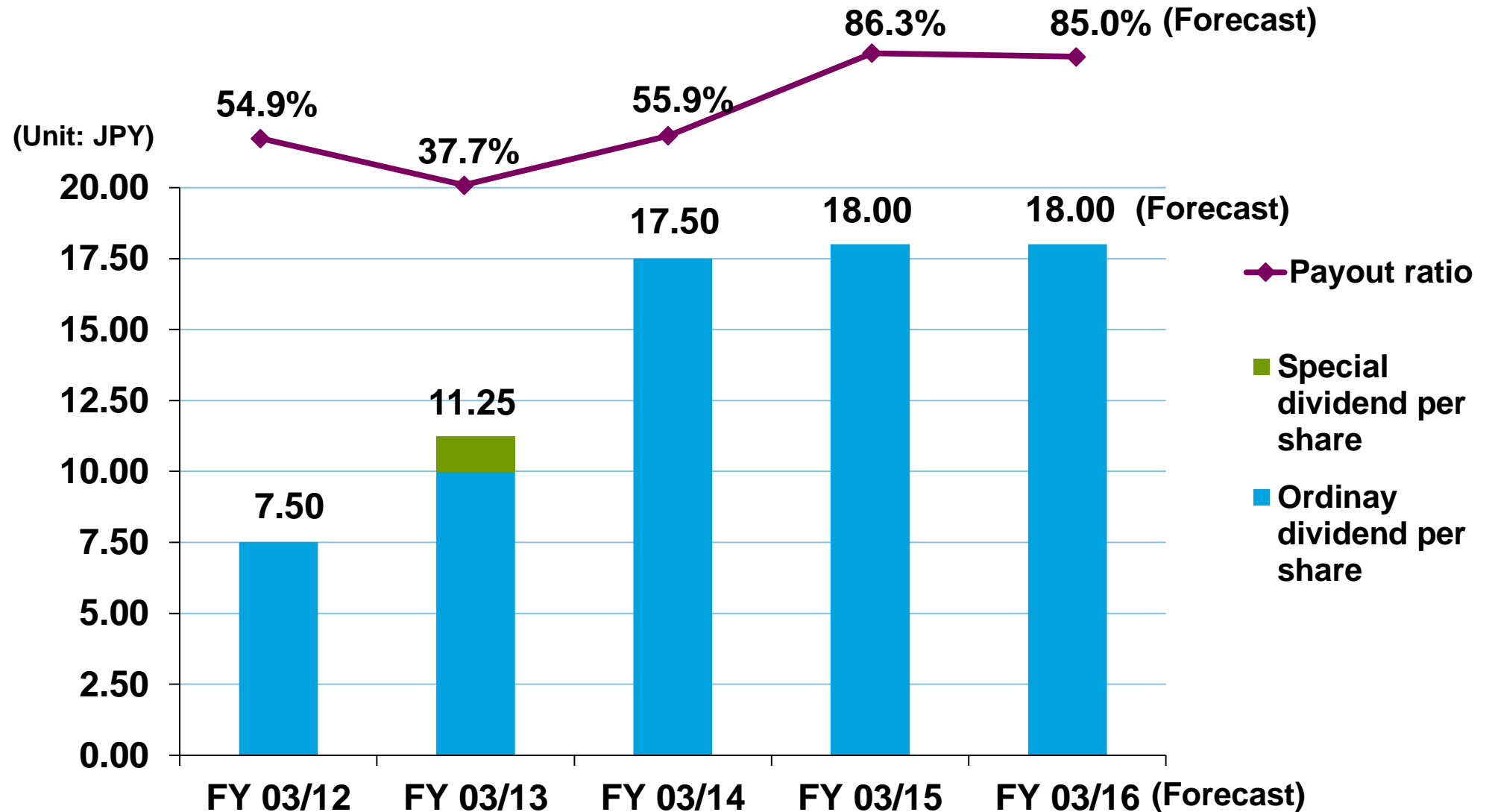
Dividend policy

- Continue steady dividend payout to shareholders while maintaining a stable financial base necessary for future business development.
- Target payout ratio maintains approximately 40% or more to attract global investment.

Dividend per share **(No revision from April 30)**

- JPY 18.00 per share for FY 03/16 (JPY 18.00 for FY 03/15)
- Payout ratio 85.0% (86.3% for FY 03/15)

Dividends per Share



our vision



A WORLD ALIVE
WITH CREATIVITY.



WE INSPIRE AND EQUIP PEOPLE
TO MAKE THE WORLD
A MORE CREATIVE PLACE.

our mission

wacom®

our brand

OPEN UP.
SENSE MORE.



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Forward-looking statements regarding future events and performance contained in this presentation are based on currently available information and involve risks and uncertainties, including macroeconomic conditions, trends of the industry in which the company is engaged and progress in new technologies. Please note that actual results could materially differ from those expressed or implied by the forward-looking statements in this presentation due to these risks and uncertainties.

Wacom Co., Ltd.

<http://www.wacom.com>

for a creative world™

Investor Relations Inquiries

TEL: +81-3-5337-6502 FAX: +81-3-5337-6519

Wacom Co., Ltd.

Sumitomo Fudosan Shinjuku Grand Tower 31F,
8-17-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo
160-6131, Japan



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