

# Business Report

April, 2015 to September, 2015

(2Q of FY ending March 31, 2016)

Wacom Co., Ltd.

(TSE Sec.1 6727)

*for a creative world™*



wacom®

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# 2Q FY 03/16 (Apr. to Sep. 2015) Results Overview

## Operating environment

- The global economy maintained a slow recovery in the U.S., Europe, and Japan. The economy in emerging countries decelerated, influenced by a slowdown in China. 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 changes. Market trends related to our business are changing rapidly.

## Performance overview

- Consolidated net sales reached a historic high owing to the steady expansion of Creative Business products in Brand Business, and earlier than expected start of shipments for smartphones in Technology Solution Business. These also contributed to an increase in operating income and net profit.
- Sales in Brand Business reached a record high, driven by strong sales of Display and Mobile products in Creative Business, particularly in China and other Asian markets.
- Sales in Technology Solution Business increased owing to earlier than expected shipments of the new Galaxy Note model, and mass production of educational tablets. Sales of products for notebook PCs decreased due to inventory adjustments.

# 2Q FY 03/16 (Apr. to Sep. 2015) Results Overview

## Financial Summary

(JPY)

Business Performance	2Q FY 03/16	YOY
Net Sales	38,956 mil	21.7%
Operating Income	2,053mil	12.4%
Ordinary Income	2,098mil	19.1%
Net Profit (loss) aft. Tax	1,261mil	9.9%

Financial Indices	2Q FY 03/16	2Q FY 03/15
EPS	7.62JPY	6.89 JPY
BPS (Book Value per Share)	187 JPY	186 JPY

(For reference)

Average Forex rate	2Q FY 03/16	YOY
1 USD	121.50 JPY	+17.4% (Weak JPY)
1 EUR	134.60 JPY	-3.2% (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)

	2Q FY 03/15	2Q FY 03/16	YOY Change	
	04/14-09/14	04/15-09/15	Amount	Ratio
<b>Net Sales</b>	32,011	<b>38,956</b>	6,945	21.7%
<b>Gross Profit</b>	13,081	<b>15,057</b>	1,976	15.1%
profit margin %	40.9%	<b>38.7%</b>		
<b>SG&amp;A</b>	11,254	<b>13,003</b>	1,749	15.5%
<b>Operating Income</b>	1,826	<b>2,053</b>	227	12.4%
profit margin %	5.7%	<b>5.3%</b>		
<b>Ordinary Income</b>	1,761	<b>2,098</b>	337	19.1%
<b>Net Profit (Loss) aft. Tax</b>	1,147	<b>1,261</b>	114	9.9%

- Effects of forex fluctuations on 2Q  
 The US dollar strengthened at JPY 17.99: Sales +3,980 mil JPY, OP +40 mil JPY  
 The euro weakened at JPY 4.47 JPY: Sales -220 mil JPY, OP -1.20 mil JPY

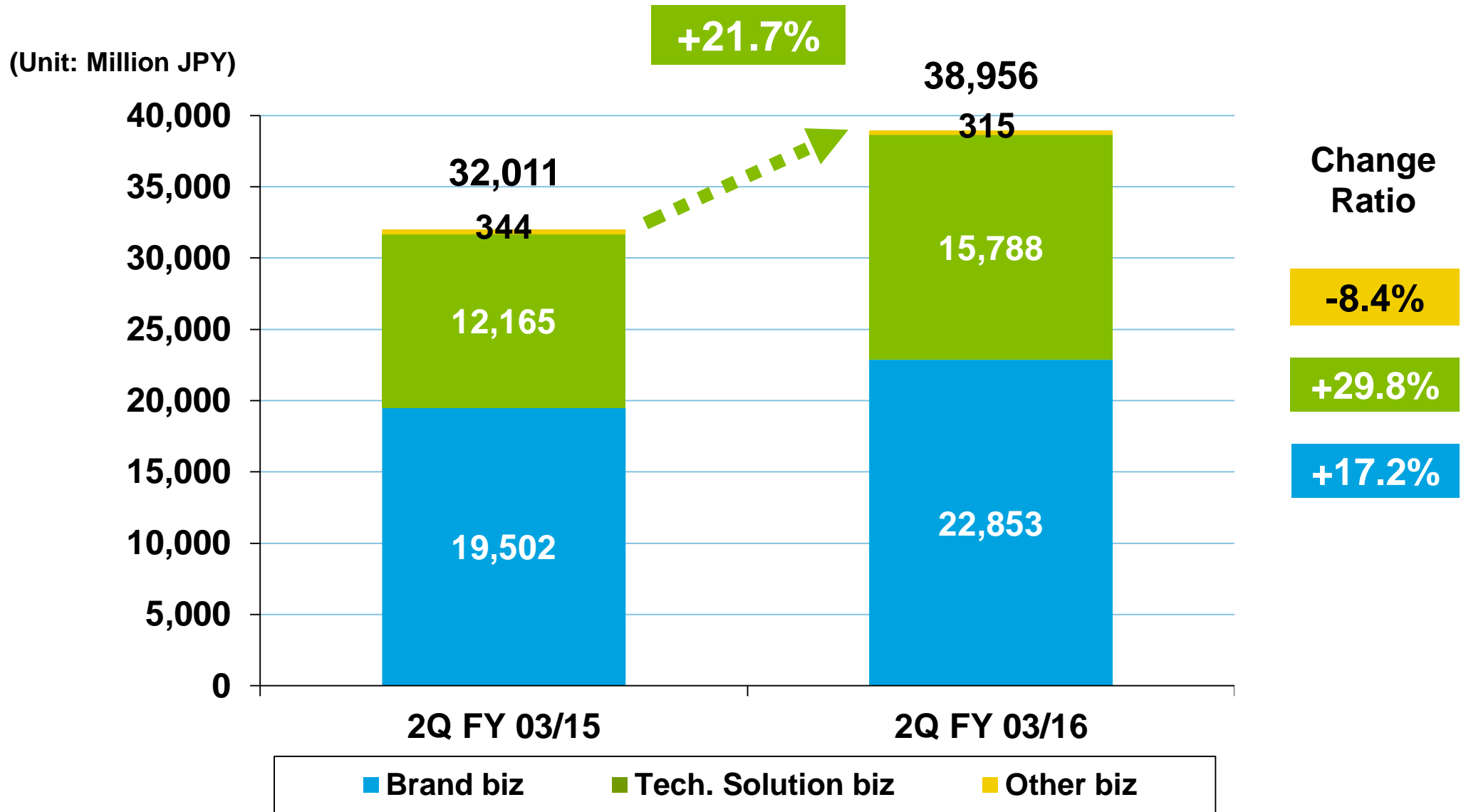
# Consolidated P/L by Business Line

(Unit: Million JPY)

	2Q FY 03/15	2Q FY 03/16	YOY Change	
	04/14-09/14	04/15-09/15	Amount	Ratio
<b>Net Sales</b>	32,011	<b>38,956</b>	6,946	21.7%
Brand biz	19,502	<b>22,853</b>	3,351	17.2%
Tech. Solution Biz	12,165	<b>15,788</b>	3,623	29.8%
Other biz	344	<b>315</b>	-29	-8.4%
<b>Operating Income</b>	1,826	<b>2,053</b>	227	12.4%
Brand biz	2,505	<b>3,642</b>	1,137	45.4%
Tech. Solution Biz	1,250	<b>2,114</b>	864	69.1%
Other biz	69	<b>34</b>	-35	-50.4%
Corp. and others	-1,998	<b>-3,737</b>	-1,739	87.1%
<b>profit margin %</b>	5.7%	<b>5.3%</b>		

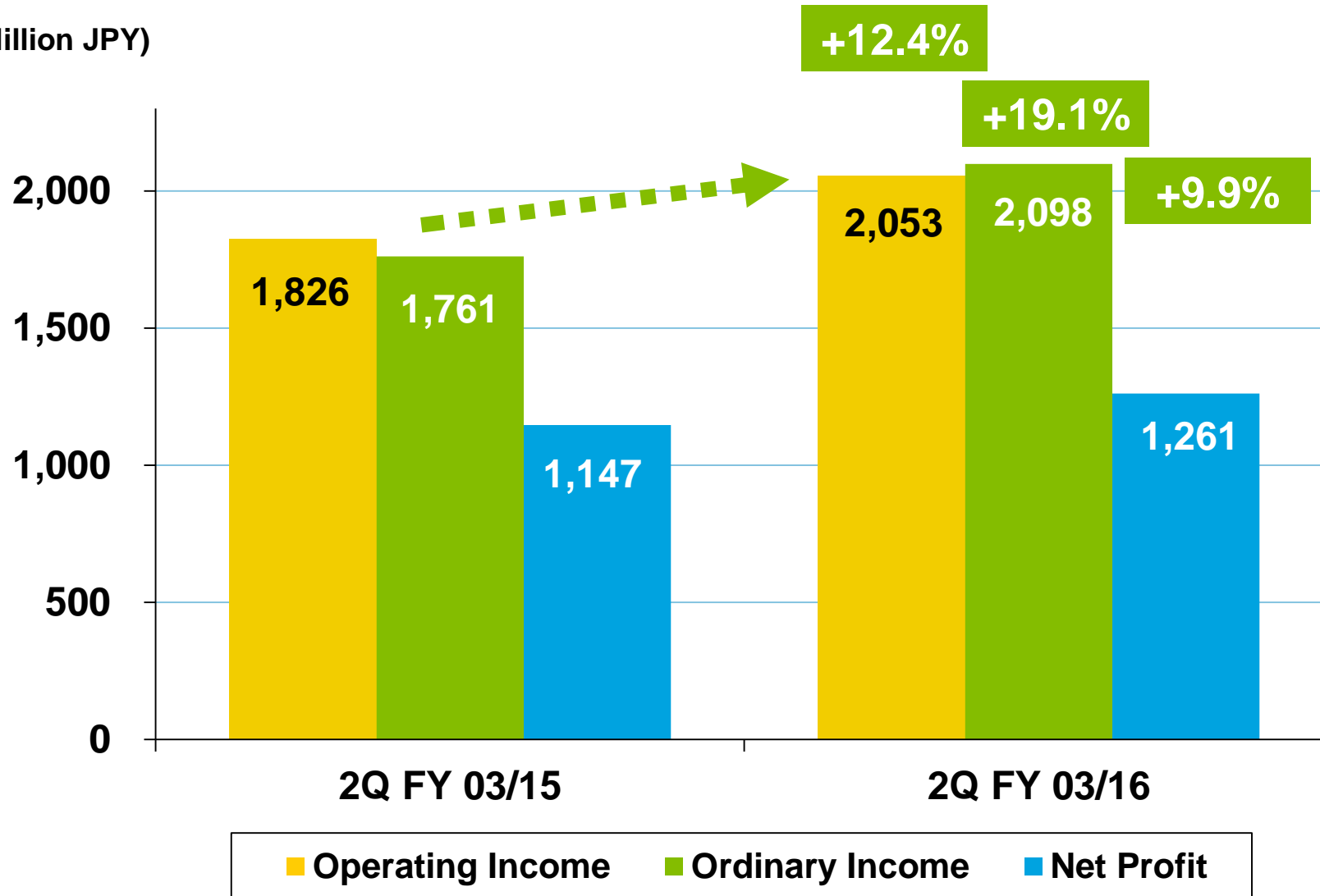
(Note) Corp. and others Operating Income decrease includes approx. -1,2b JPY due to the reassignment of SG&A items from Brand Business to Corporate functions reflecting the new global organization started from April, 2015.

# Consolidated Sales Comparison



# Consolidated Profit Comparison

(Unit: Million JPY)





# Operating Expenses Comparison

(Unit: Million JPY)

	2Q FY 03/15	2Q FY 03/16	YOY Change	
	04/14-09/14	04/15-09/15	Amount	Ratio
<b>Personnel</b>	4,110	<b>4,705</b>	595	14.5%
<b>R&amp;D</b>	1,494	<b>2,033</b>	539	36.1%
<b>Ad. &amp; Promo.</b>	1,464	<b>1,716</b>	252	17.2%
<b>Others</b>	4,186	<b>4,548</b>	362	8.7%
<b>Total</b>	11,254	<b>13,003</b>	1,749	15.5%
<b>SG&amp;A ratio %</b>	35.2%	<b>33.4%</b>		

## Key changes in SG&A

- SG&A increased by ¥610 million due to the weaker yen for SG&A incurred at subsidiaries.
- Headcount including temporary employees increased (1,188 in previous 2Q, 1,250 in current 2Q)  
(Note) Headcount excluding temporary employees: 1,038 (previous 2Q), 1,056 (current 2Q)
- R&D expenses increased due to development of new products to be released in the current FY.
- Other expenses increased due to subcontract expenses for global IT infrastructure development.

# 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, Mobile Accessories, 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)

<b><u>Brand Business</u></b>	<b>22.85 bn</b>	<b>+17.2%</b>
<b>Creative Business</b>	<b>19.86 bn</b>	<b>+23.7%</b>
<b>Pen Tablet (subsection)</b>	<b>11.17 bn</b>	<b>+17.9%</b>

- *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 as brand awareness improved. As a result of marketing campaigns, sales grew favorably in China and other emerging countries where digital content creation is expanding.
- New generation *Intuos* products such as *Intuos Art*, *Intuos Draw*, *Intuos Comic*, *Intuos Photo* launched in September gained high recognition for their focus on user needs.
- The emerging market model grew in sales and contributed to the expansion of new entry level users.



Emerging market model  
(One by Wacom)



# Business Highlights: (Unit: JPY)

## Brand Business

### Creative Business

**Mobile (subsection)                      2.57 bn                      +45.3%**

- Wacom's mobile tablet, *Cintiq Companion 2*, was highly appraised for its QHD display, light body, and wide range of model lines. Sales significantly exceeded that of the previous model.
- Sales channel expansion contributed to sales growth (previous sales channel was limited to online "Wacom Store"; now expanded to include certain wholesale retailers).
- *Inutos Creative Stylus 2* for iPads launched last September gained a positive reputation and maintained stable sales.

CINTIQ<sup>®</sup> companion 2



INTUOS<sup>®</sup>  
Creative Stylus 2



# Business Highlights: (Unit: JPY)

## Brand Business

### Creative Business

#### Display (subsection)

6.11 bn +27.0%

- *Cintiq 27 QHD*, launched in February, gained a reputation as the 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<sup>®</sup> 27 QHD

CINTIQ<sup>®</sup> 27 QHD touch



CINTIQ<sup>®</sup> 13HD touch



CINTIQ<sup>®</sup> 13HD



CINTIQ<sup>®</sup> 22HD touch





# Business Highlights: (Unit: JPY)



BAMBOO™ Spark



## Brand Business

**Consumer Business**                      **0.68 bn**                      **+2.2%**

- Launched *Bamboo Spark* in September as a new generation digital stationery solution that transforms handwriting notes on paper into digital ink for editing and sharing.
- Launched *Wacom Cloud* services to share inspirations and ideas captured in digital ink across Cloud.
- Next generation *Bamboo Fineline 2* and new *Bamboo Alpha* launched in September, contributed to sales owing to their premium design.

BAMBOO™  
Fineline 2



BAMBOO™ Alpha



 Wacom Cloud

WILL Wacom Ink Layer Language

 Inkspacel



Bamboo Spark  
Bamboo Paper

# Business Highlights: (Unit: JPY)

## Brand Business

### Business Solution

2.32 bn

-16.6%

- Sales dropped in the Eurozone due to the absence of large-scale orders that boosted results in the previous FY. Meanwhile, demand for digital signature and paperless workflow and improvement of data security has been expanding in China and other Asian markets.
- The *STU* series was well received in credit card transaction and over-the-counter services in the financial industry. The latest models, *STU-530* and *STU-430*, contributed to sales growth.
- *DTU-1031* was widely adopted for financial over-the-counter use. Launched *DTU-1141* with data encryption in May.



**STU Series**



**DTU-1141**



**DTU-1031**



**DTH-2242**

# Business Highlights: (Unit: JPY)

**Tech. Solution Business**      15.79 bn      **+29.8%**

## Pen Sensor System for Smartphones

9.42 bn      **+49.2%**

- Sales significantly increased owing to earlier than expected start of shipments for Samsung's Galaxy Note 5.

## Pen Sensor System for Tablets

5.15 bn      **+31.2%**

- Large-scale order of educational tablets for a Turkish government project contributed to sales expansion.
- Promoted Active ES pen solution and started commercial production of new models on Windows 10 OS.



## Smartphone models



Galaxy Note5



**MONTBLANC**



## Tablet models

**Panasonic**

**FUJITSU**



**ASUS**

**Motion**

E人E本





# Business Highlights: (Unit: JPY)



## Notebook PC models

### Tech. Solution Business

#### Pen Sensor System for Notebook PCs

1.22 bn      -36.7%

- Continued shift in demand from notebook PCs to tablets with removable keyboards.
- Sales decreased due to prolonged model cycle and inventory adjustments before the change to Windows 10 OS.



#### 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.
- 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

0.32 bn

-8.4%



## **CAD software and others**

0.32 bn

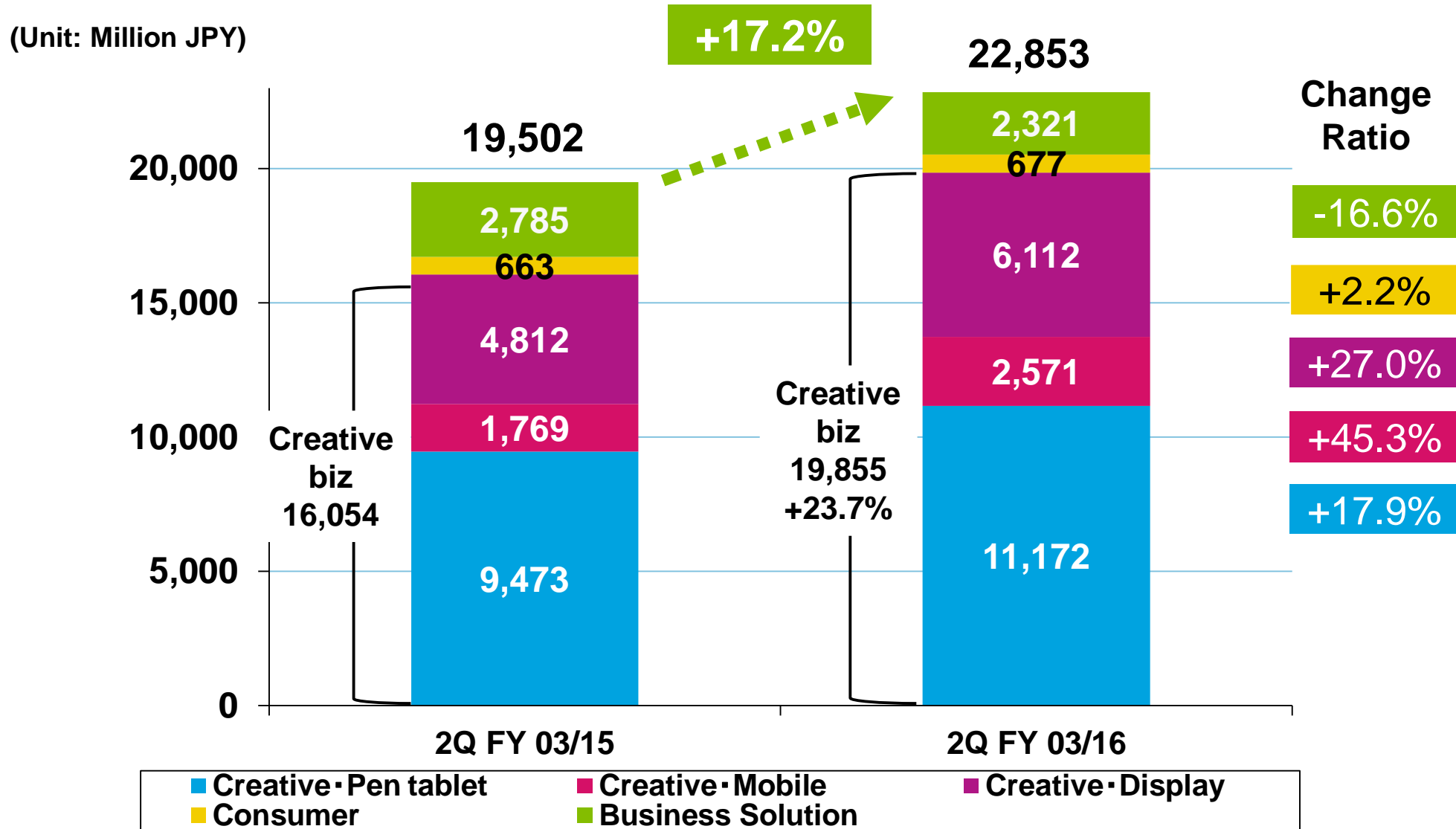
-8.4%

- Sales dropped due to a slowdown in PC replacement demand from the last FY.
- Started expanding market into robotics and machinery design with *ECAD dio DCX R2* launched in June, in addition to promoting sales of *ECAD dio 2015* launched last December.

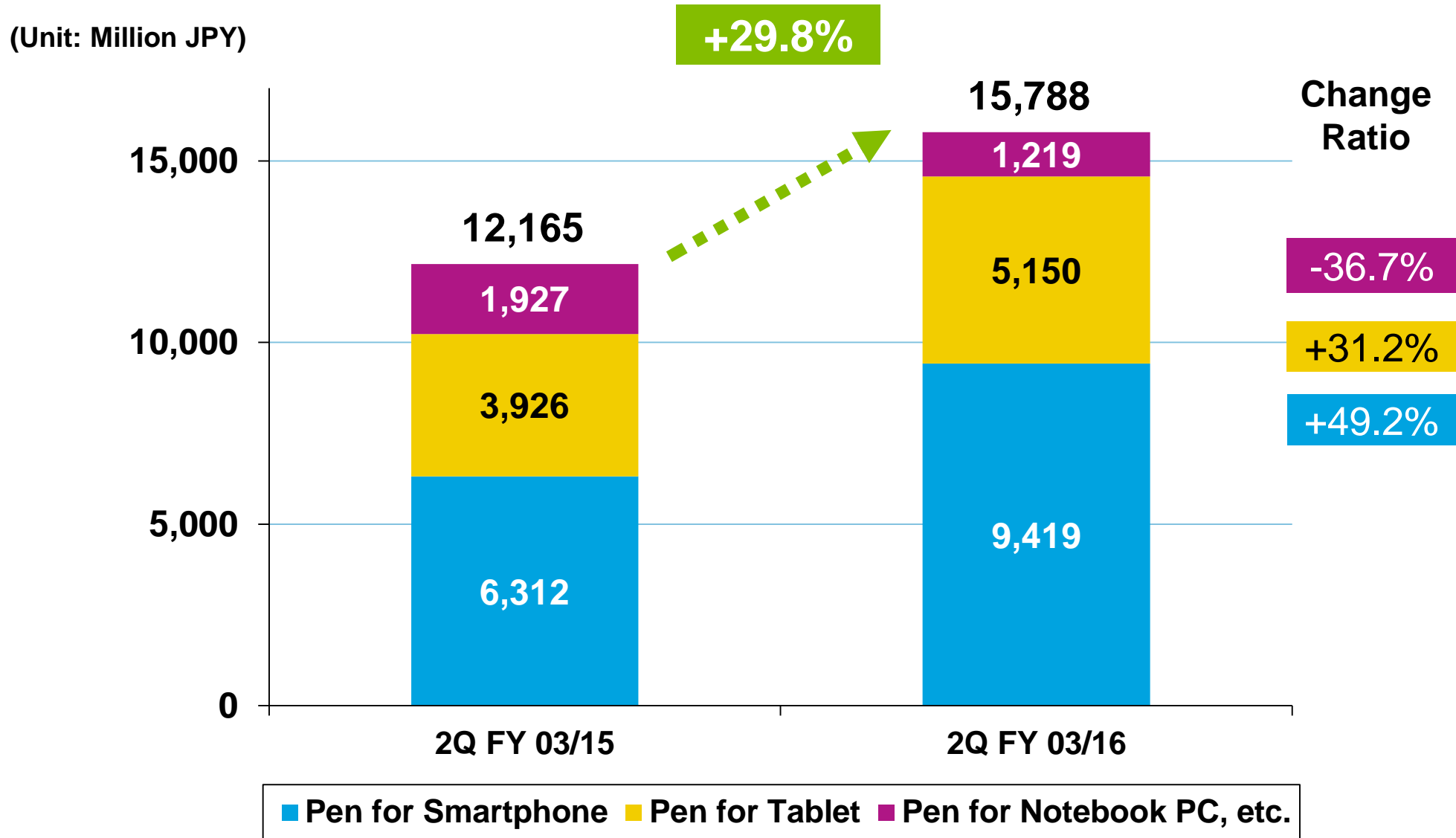
## F&A (Corporate)

- Shifted the region-based organization to a customer-centric global organization. New global HR system started in April.
- Continued to invest in business infrastructure for growth and operational efficiency. Major projects include new SCM system, IT infrastructure, e-commerce, etc. in global operations.
- Promoted WILL (Wacom Ink Layer Language) as a new framework to standardize digital ink, and engaged in partnership development activities.
- Submitted a Corporate Governance Report to the TSE on September 29 in compliance with the Corporate Governance Code in Japan.

# Sales by Product Line in Brand Business

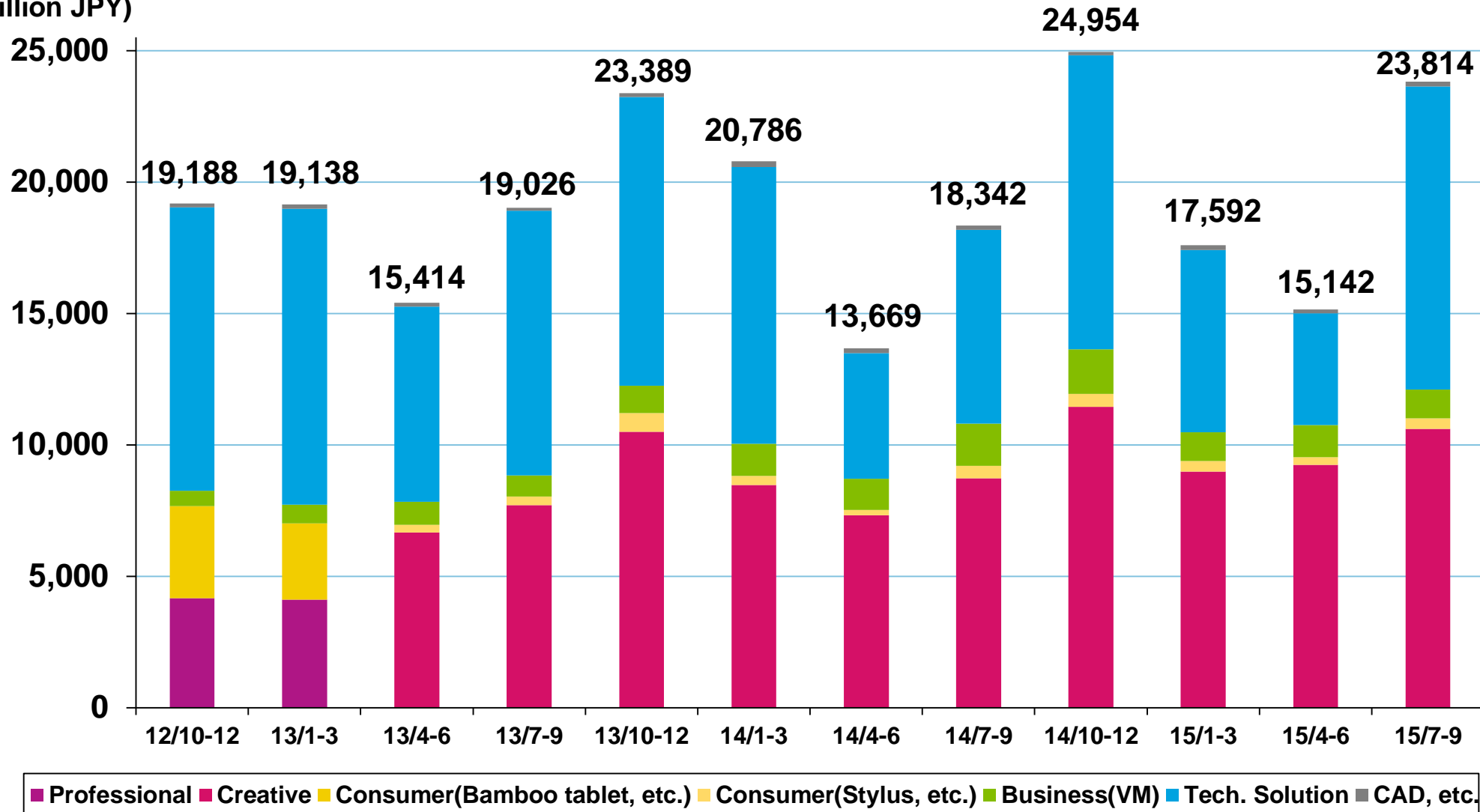


# Sales by Product Line in Tech. Solution Business

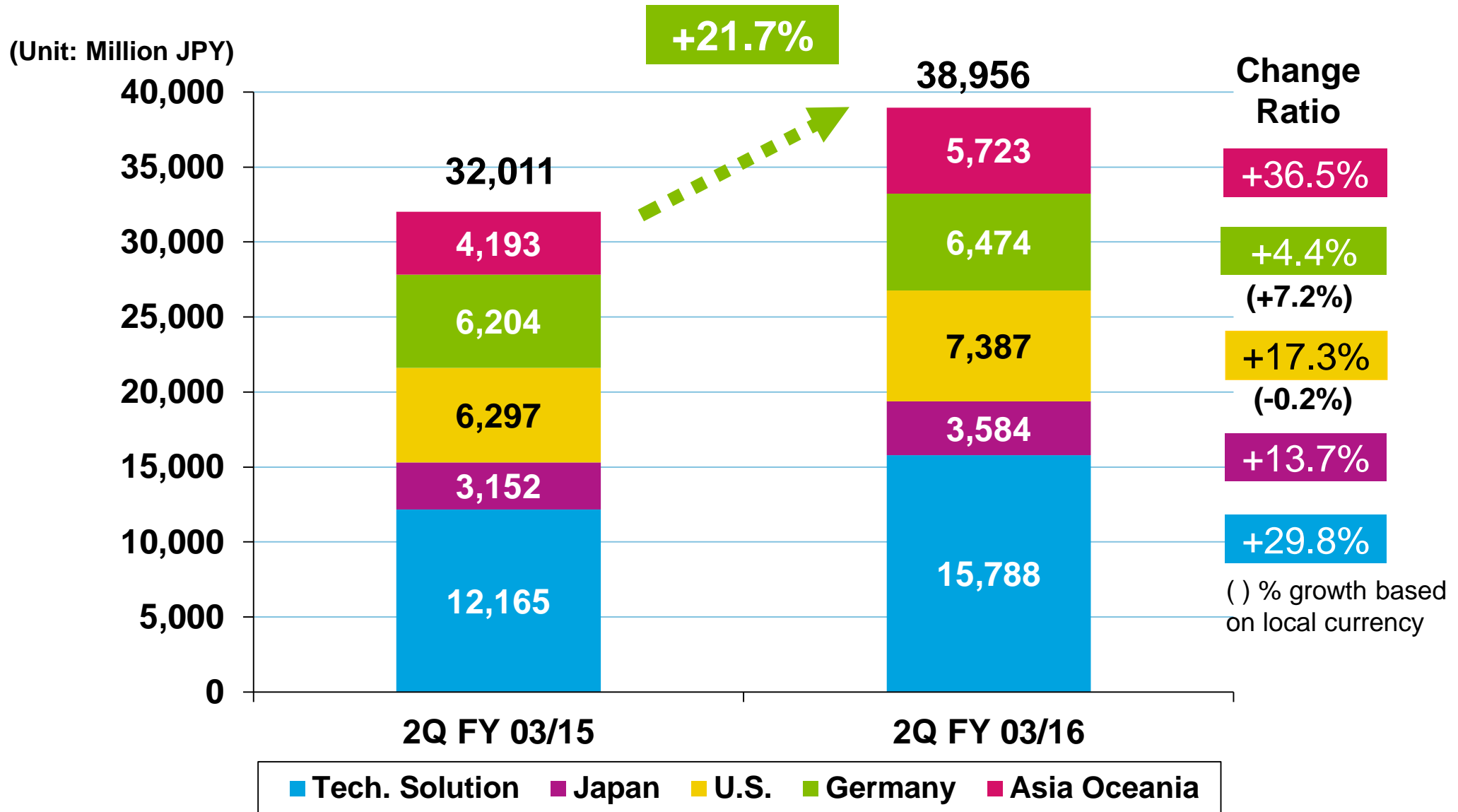


# Quarterly Trend by Product Line

(Unit: Million JPY)



# Sales by Region



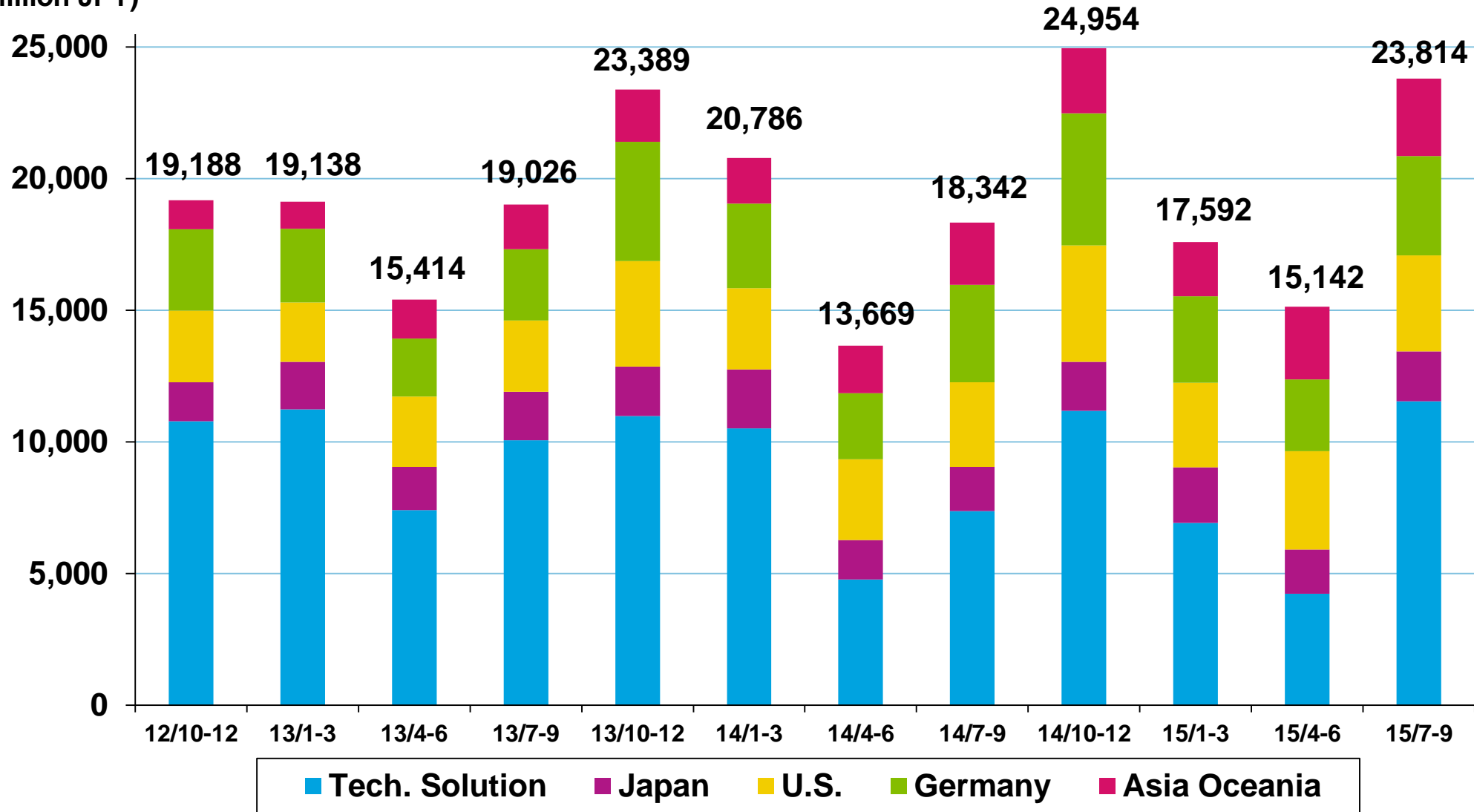
# (For reference) Sales Changes in Local Currency Base

Region	Currency	YOY Change Ratio
<b>Japan</b> (excluding Component biz)	<b>JPY</b>	13.7%
<b>U.S.</b>	<b>USD</b>	-0.2%
<b>Europe</b>	<b>EUR</b>	7.2%
<b>China</b>	<b>CNY</b>	37.1%
<b>Korea</b>	<b>KRW</b>	12.9%
<b>Australia</b>	<b>AUD</b>	33.9%
<b>Singapore</b>	<b>USD</b>	4.5%
<b>Hong Kong</b>	<b>USD</b>	30.6%
<b>Taiwan</b>	<b>NTD</b>	-6.6%

(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 Sep. 2015	Change
<b>Current Assets</b>	40,188	<b>45,413</b>	5,225
<b>Noncurrent Assets</b>	11,269	<b>12,275</b>	1,006
<b>Total Assets</b>	51,457	<b>57,688</b>	6,231
<b>Current Liabilities</b>	15,880	<b>24,892</b>	9,012
<b>Noncurrent Liabilities</b>	1,718	<b>1,855</b>	137
<b>Total Liabilities</b>	17,598	<b>26,747</b>	9,149
<b>Minority Interest in Subsidiaries</b>	0	<b>0</b>	0
<b>Net Assets</b>	33,859	<b>30,941</b>	-2,918
<b>Total Liabilities and Net Assets</b>	51,457	<b>57,688</b>	6,231
<b>Equity Ratio</b>	65.4%	<b>53.4%</b>	-12.0%

## Key Changes

### Assets

- Increase in notes and accounts receivable 3,895  
(sales increase in Tech. Solution biz)
- Increase in other current assets 2,308  
(production increase in Tech. Solution biz)
- Increase in intangible fixed assets 1,342  
(increase in software suspense account for global IT infrastructure, etc.)
- Increase in inventories 1,314  
(production increase in Tech. Solution biz)
- Decrease in cash and cash equivalents -2,252

### Liabilities

- Increase in short-term loans 5,400
- Increase in notes and accounts payable-trade 3,607

### Net Assets

- Decrease in shareholders' equity -2,901  
(decrease in retained earnings, buy back, etc.)

# Consolidated C/F

(Unit: Million JPY)

	2Q FY 03/15	2Q FY 03/16	YoY Change
	04/14 -0914	04/15 -09/15	Amount
<b>C/F from operating activities</b>	-791	<b>-1,014</b>	-223
<b>C/F from investing activities</b>	-1,433	<b>-2,360</b>	-927
<b>C/F from financing activities</b>	-900	<b>1,210</b>	2,110
<b>Effect of change in exchange rate</b>	198	<b>-88</b>	-286
<b>Increase-decrease of cash &amp; cash equivalent</b>	-2,926	<b>-2,252</b>	674
<b>Beginning balance of cash &amp; cash equivalent</b>	15,394	<b>16,687</b>	1,293
<b>Ending balance of cash and cash equivalent</b>	12,468	<b>14,435</b>	1,967

## Major Activities in 2Q FY 03/16

### C/F from operating activities

- Increase in notes and accounts receivable-trade -6,012
- Increase in inventories -1,329
- Income tax paid -865
- Increase in notes and accounts payable-trade 3,668
- Depreciation 968

### C/F from investing activities

- Purchase of fixed assets (global IT infrastructure, etc.) -2,747

### C/F from financing activities

- Increase in short-term loans payable 5,400
- Cash dividends paid -2,987
- Purchase of treasury stock -1,245

FY 03/2016

# Basic Strategies and Business Focus

*for a creative world™*



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# 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 Financial Forecast

- Market demand for Brand Business based on further review of trend in October 2015.
- Reflected the customers demand forecast and market trends in Technology Solution Business. We recognize that risks and uncertainties in the business are still considerable and actual results may materially differ from our latest financial forecast in the short term.
- Forex rate assumptions for FY 03/16 (revised USD/JPY only)
  - 1USD = 120 JPY (previous assumption 110JPY)
  - 1EUR = 130 JPY

- Forex exchange sensitivity: 12-month forecast (Unit: Million JPY)

Currency	USD	EUR
Unit of sensitivity	JPY 1	JPY 1
Net Sales	470 (550)	120 (previous assumption)
Operating Income	0	80 (90)

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

# Summary for FY 03/16 Forecast

(Unit: Million JPY)

Y on Y	FY 3/15 (actual)		FY 3/16 (revised)		Change
	04/14-03/15		04/15-03/16		
<b>Net Sales</b>	74,557		<b>81,000</b>		8.6%
<b>Operating Income</b>	6,143	8.2%	<b>4,800</b>	<b>5.9%</b>	-21.9%
<b>Ordinary Income</b>	6,065	8.1%	<b>4,780</b>	<b>5.9%</b>	-21.2%
<b>Net Profit</b>	3,473	4.7%	<b>3,050</b>	<b>3.8%</b>	-12.2%
<b>ROE</b>	<b>10.5%</b>		<b>9.2%</b>		-1.3%
vs. initial	FY 3/16 (initial)		FY 3/16 (revised)		Change
	04/14-03/15		04/15-03/16		
<b>Net Sales</b>	84,000		<b>81,000</b>		-3.6%
<b>Operating Income</b>	5,500	6.5%	<b>4,800</b>	<b>5.9%</b>	-12.7%
<b>Ordinary Income</b>	5,350	6.4%	<b>4,780</b>	<b>5.9%</b>	-10.7%
<b>Net Profit</b>	3,540	4.2%	<b>3,050</b>	<b>3.8%</b>	-13.6%

# Forecast of Results by Business Segment

(Note) Due to risks and uncertainties involved in the forecast of market and customer trends in Technology Solution Business, actual results may materially differ from forward-looking statements 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
<b>Net Sales</b>	74,557	<b>81,000</b>	6,443	8.6%
Brand biz	43,625	<b>51,800</b>	8,175	18.7%
Tech. Solution biz	30,277	<b>28,500</b>	-1,777	-5.9%
Other biz	655	<b>700</b>	45	6.9%
<b>Operating Income</b>	6,143	<b>4,800</b>	-1,343	-21.9%
Brand biz	5,965	<b>9,040</b>	3,075	51.6%
Tech. Solution biz	4,642	<b>3,260</b>	-1,382	-29.8%
Other biz	55	<b>60</b>	5	8.8%
Corp. and others	-4,519	<b>-7,560</b>	-3,041	67.3%
<b>profit margin %</b>	8.2%	<b>5.9%</b>		

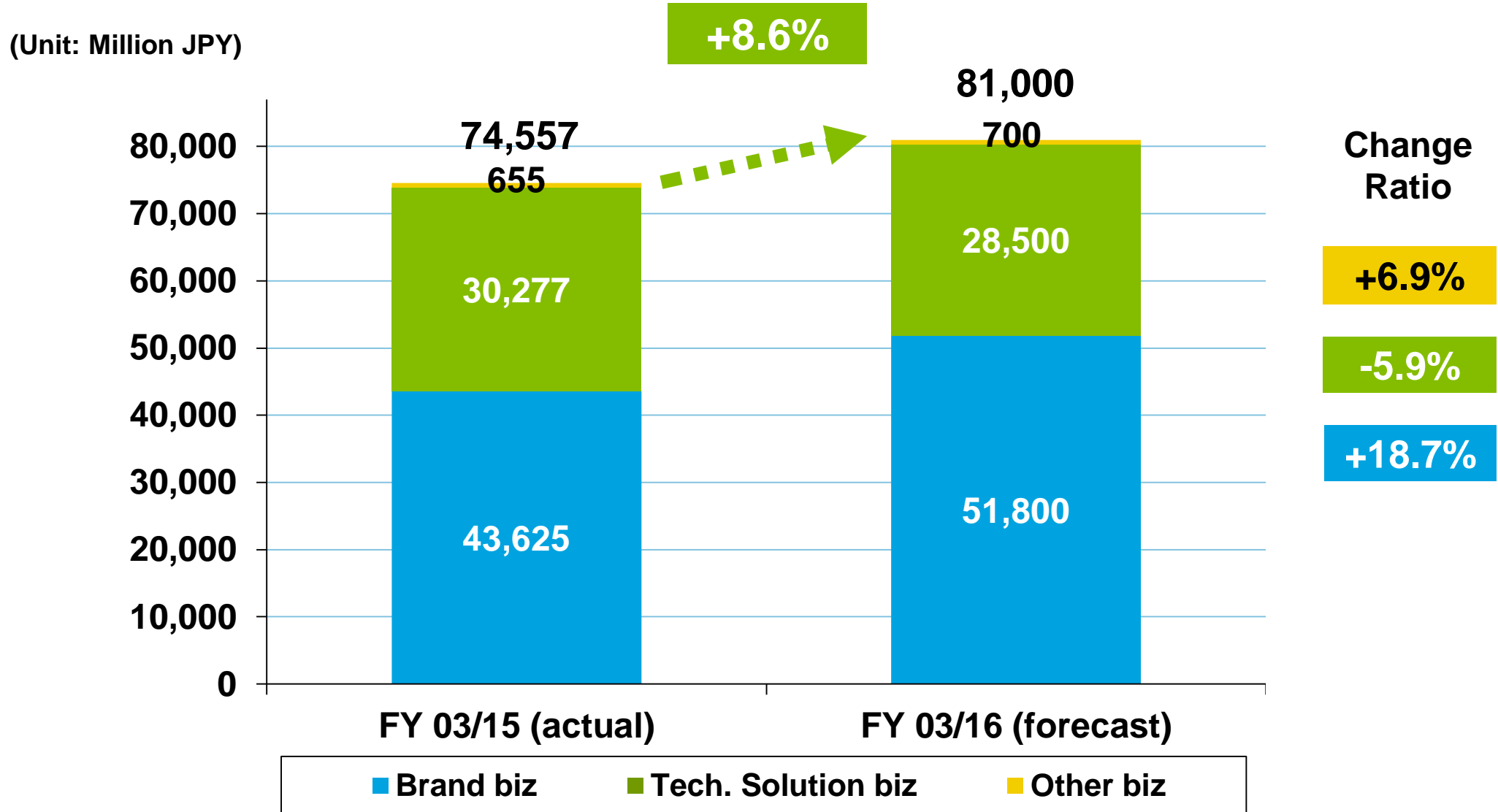


# Forecast of Results by Business Segment

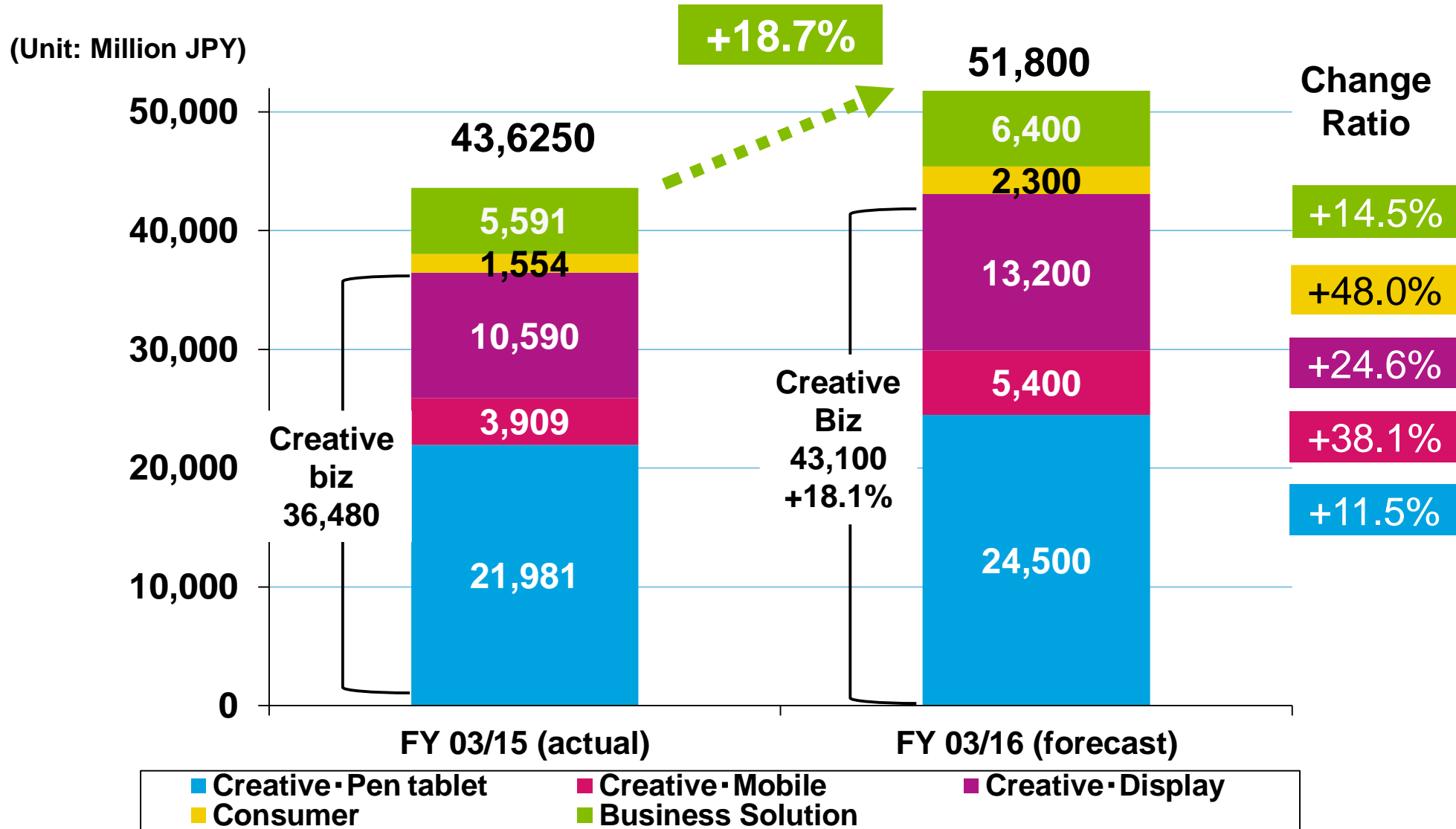
(All comparisons are with the same period of the previous fiscal year unless otherwise stated )

- Brand Business is expected to grow favorably to a record high for the fiscal year. OP is expected to increase owing to sales growth and the reclassification of expenses from Brand Product Business to Corporate, which came into effect from this fiscal year.
- In Technology Solutions Business, sales for smartphones are expected to decrease in 2H due to earlier than expected shipments in 1H. While the adoption of Active ES pen technology is expected to expand, sales in the tablet and PC markets as a whole are expected to slow down. Both sales and profits in Technology Solution Business are expected to decline on the full year basis.
- In Corporate and Other Business, we will proactively manage SG&A expenses to absorb the negative impact of the stronger US dollar. Impact from the reclassification of expenses above the OP line from Branded Product Business to Corporate is expected to be ¥2.3 billion.

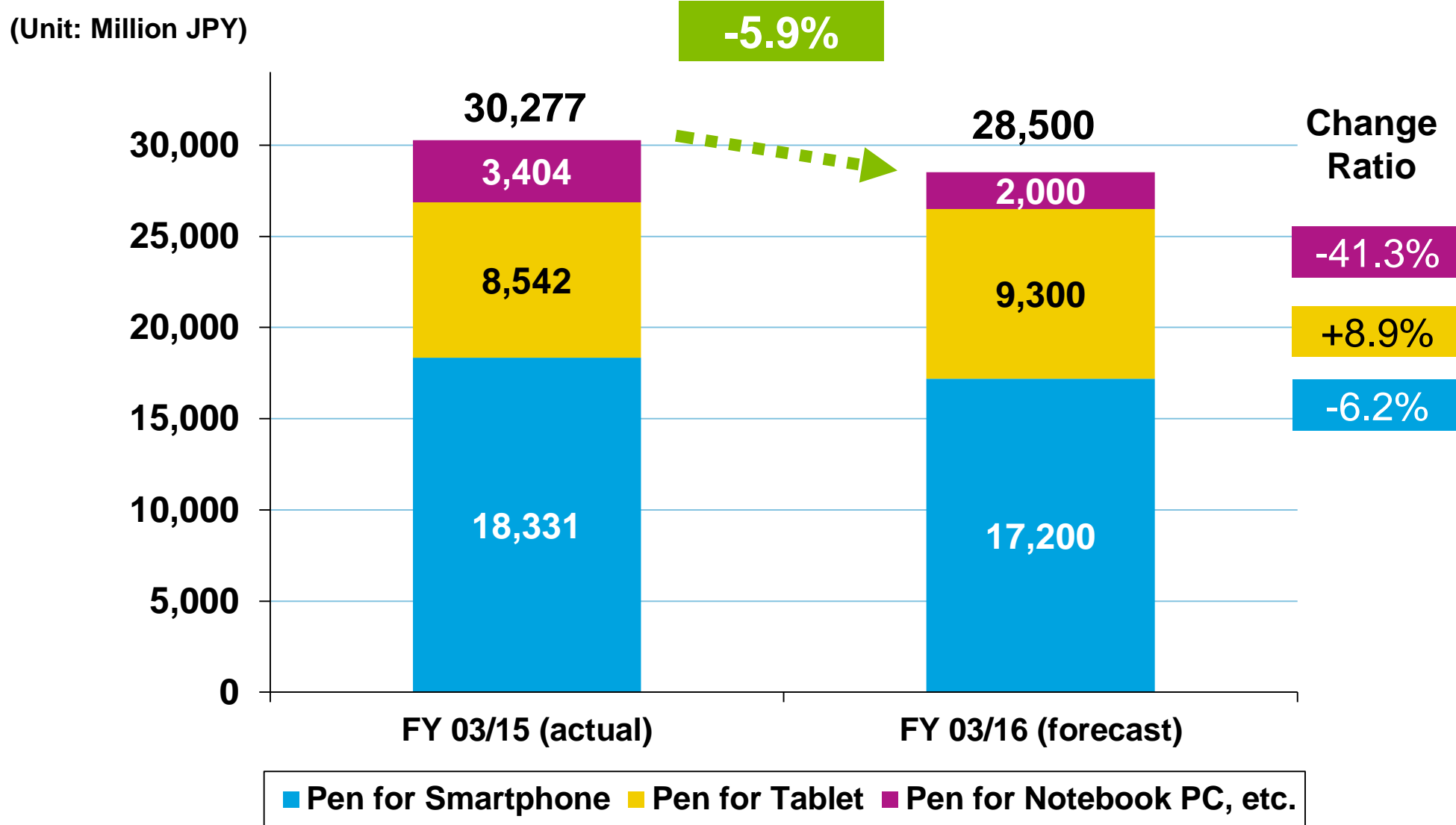
# Sales Forecast by Business Segment



# Sales Forecast by Product line in Brand Product

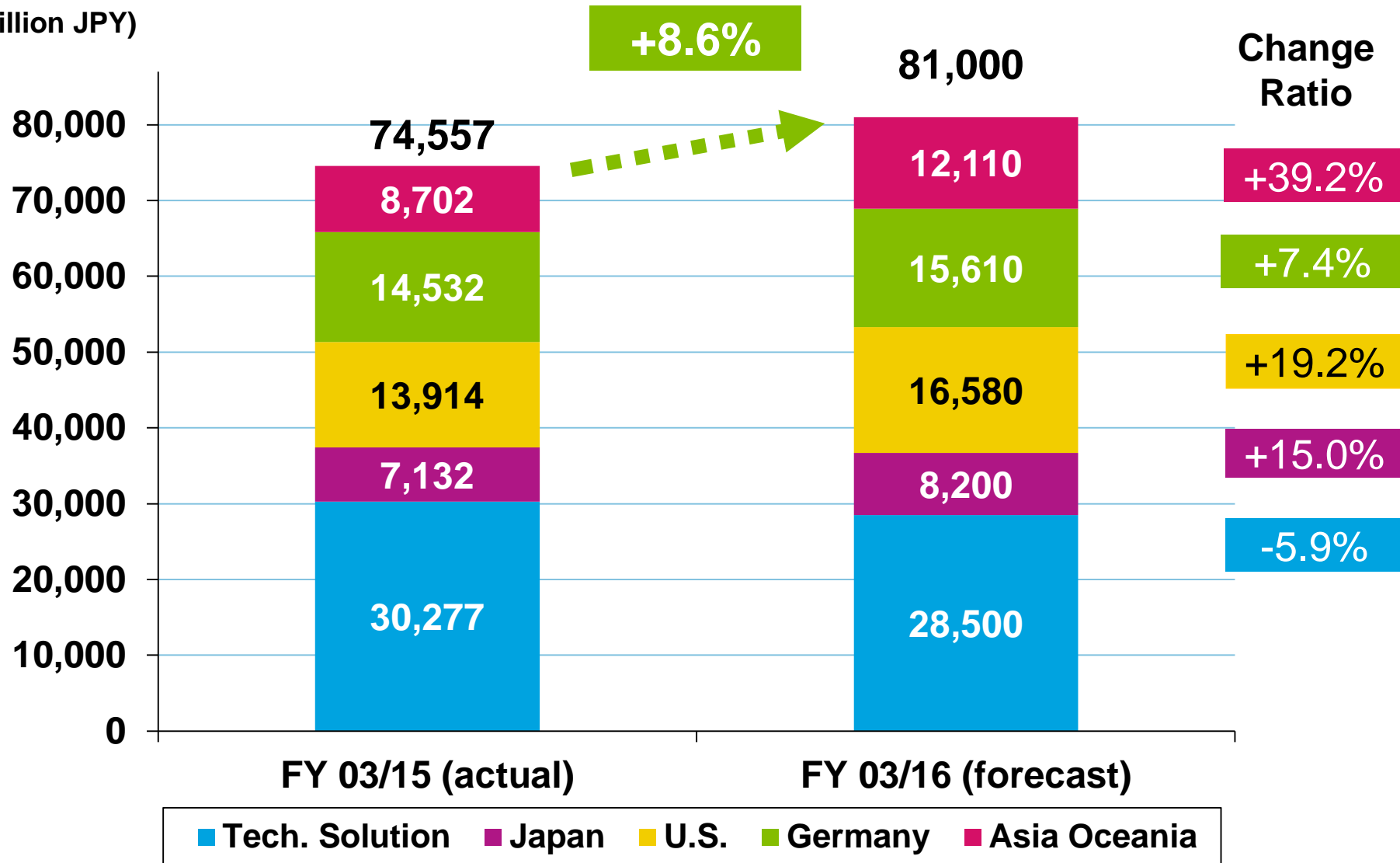


# Sales Forecast by Product line in Tech. Solution



# Sales Forecast by Region

(Unit: Million JPY)



# Assumptions for FY 03/16 Forecast

## Capital expenditure

5.00 bn JPY (YOY +22.5%) (Revised from the previous 5.20 bn)

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

## Depreciation

2.20 bn JPY (YOY +11.7%) (Revised from the previous 2.50 bn)

## R&D expense

4.20 bn JPY (YOY +32.1%) (Revised from the previous 4.00 bn)

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

# Dividend Forecast for FY 03/16

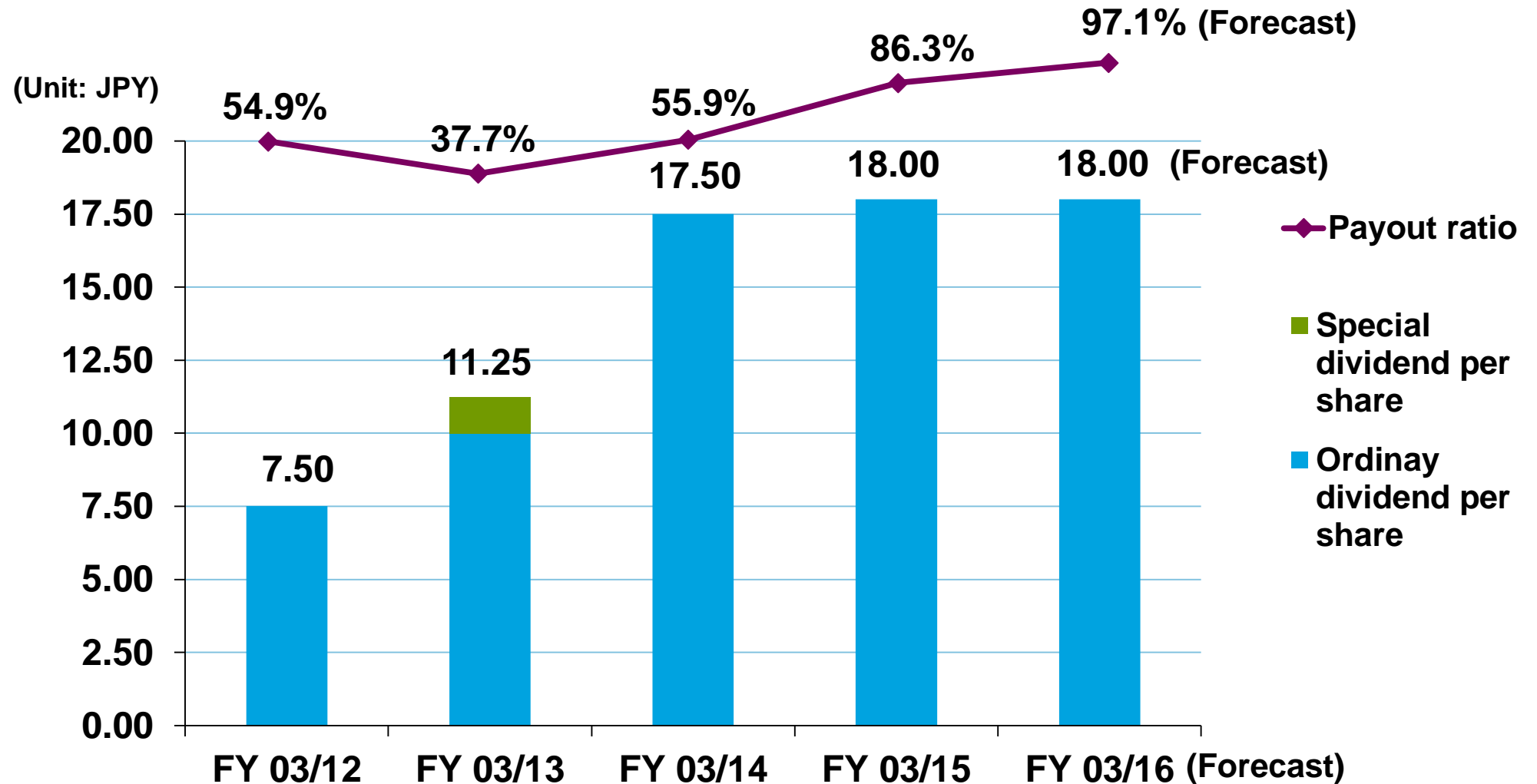
## Dividend policy

- 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 the initial forecast)**

- JPY 18.00 per share for FY 03/16 (JPY 18.00 for FY 03/15)
- Payout ratio 97.1% (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.



# Disclaimer

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.

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*for a creative world™*

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