Q&A summary of analyst meeting on earnings announcement for the fiscal year ended March 31, 2017 held by Wacom Co. Ltd.

Q: As for the Brand Business, how were responses from customers concerning new products such as Mobiles and Displays intensively launched in the 2nd half of the current fiscal year ended March 31, 2017?

A: We intended to increase competitiveness mainly for professional use. Newly adopted pen technology includes fourfold improved pen pressure level that is a basic feature of pen, and strengthened dynamic characteristics which are highly required for expression by professional users. To avoid buying restraint and confusion in customers' recognitions in case of prolonged launch of new products, we tried to intensively manage in a short period. However, we could not manage it well enough in terms of systematic approach such as delay in new product launch, and quality problem soon after launch. We take a hard look at ourselves for those problems.

As for reputation of each product, in Mobiles, Wacom MobileStudio Pro recognized as a workstation model for professional use is good. High-end models such as 16-inch model in particular (approximately JPY 300 thousand ASP) are selling better than lower priced models, reflecting good reputations from enterprise users and professional customers of investment capacity.

In Displays, we launched successor model, Wacom Cintiq Pro, compatible to 4K video signals and 13 inch model contributed to sales in the second half, but launch of 16 inch model delayed into April this year. We should carefully monitor the situation for Q1 to get a hint of its shipment volume going forward.

In Pen Tablets, we adopted new pen technology for Wacom Intuos Pro to improve its performance as well as adding new function that customers can transform handwritten information into digital data. However, certain customers insist that they do not feel necessary to use such function on creative work flow. Thus, we must take a hard look at our communication with customers, and pursue rather appealing performance.

Over all, reputations are not so bad, however we must improve our quality of management by taking a hard look at ourselves for a series of problems found at intensive launch of new products.

Q: As for cost cuts, what does an outlook of SGA ratio to sales of approximately 37% in this fiscal year mean? Does it mean that you feel difficult to foresee further ahead as you have just started to address this cost cut issue, or is it difficult to cut once inflated costs irreversibly due to certain reasons in reality?

A: Both answers. In the current fiscal year ended March 31, 2017, we looked into expenses incurred for investment in IT infrastructure and reformation to global organization, and recorded extraordinary loss due to impairment loss and headcount reduction. In the budget for this fiscal year ending March 31, 2018, we estimated further cost cuts which are highly committable. However, depreciation costs for a certain IT infrastructure that already started to work in the current fiscal year after development lifted a level of SGA and offset the above cost cut effect.

In addition, R&D expenses including 3D related activities, and depreciation costs for molding dies to respond to shortening of product life cycle are also reflected in the budget. Even though there could be a certain space for expense reduction which cannot be found to reflect in the budget, certain cost cuts cannot be effective in such a short period.

We recognize importance of cost cuts in mid-term, we formed a special committee under the Board of Directors, and already started to source opportunities to further cut costs in global perspectives.

Q: What is targeted level of SGA in terms of management will?

A: From the view point of sound balance in size between sales and SGA, it is difficult to sustain investment by the same pace as in the past mid-term topline growth. In the mid-term, we must lower SGA ratio to sales from 37% for this fiscal year, and we will try to find out an answer to your question throughout the process of mid-term business planning in this fiscal year in which top management transition is expected.

Q: Due to new product launch in the second half of the current fiscal year ended March 31, 2017, sales increase is highly expected in this fiscal year ending March 31, 2018. However, how do you foresee likeliness of recoil sales reduction in the next fiscal year ending March 31, 2019?

A: To be honest, I would like to think about it further. Against the recoil sales reduction, we may foresee further expansion in customer demand growing in developing regions. I could say that sales mix may change, reflecting such trend. As for the recoil sales reduction, I think it is not highly likely to see in a way of radical change, considering a nature of creative users in their purchase behaviors.