

# Business Report

April, 2017 to June, 2017

(Q1, FY ending March 31, 2018)

*for a creative world™*

Wacom Co., Ltd.  
(TSE 1st Sec. Code: 6727)



wacom®

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# Q1 FY 03/18 Results Overview

## Operating environment

- The penetration of mobile products, cloud computing, and social media is leading to the emergence of a new industrial platform in the IT industry. Growth of new markets such as VR/AR, IoT, and AI is accelerating.
- The yen depreciated against the U.S. dollar and euro reflecting differences in monetary policy among developed nations. The yen also weakened against emerging currencies except for the renminbi.

## Performance overview

- Consolidated net sales grew compared to Q1 of last fiscal year.
- Operating loss was reduced from the Q1 of last fiscal year owing to sales growth and SG&A control. Net profit returned to profitability owing to a temporary adjustment in income taxes in Q1.
- Sales in the Brand Business increased and the Creative Business segment also grew sales due to the contribution of new products launched in H2 of last fiscal year. The Consumer Business segment also showed a sales recovery driven by new products. However, the Business Solution segment continued to struggle due to changes in the market environment.
- Sales in the Technology Solution Business were up on Q1 of last fiscal year as sales for tablets doubled owing to demand expansion. On the other hand, demand for existing models dried up ahead of transition to Samsung's next-generation smartphone.

# Q1 FY 03/18 Results Overview

## Financial Summary

(JPY)

Business Performance	Q1 FY 03/18	YOY Change
<b>Net Sales</b>	<b>15.97 bn</b>	+20.4%
<b>Operating Profit</b>	<b>-0.14 bn</b>	-- (Prev. Q1: -1.45 bn)
<b>Ordinary Profit</b>	<b>-0.05 bn</b>	-- (Prev. Q1: -1.48 bn)
<b>Net Profit aft. Tax</b>	<b>0.17 bn</b>	-- (Prev. Q1: -1.15 bn)

(Note) Net Profit is equivalent to net profit attributable to shareholders of Wacom Co., Ltd.

Financial Indices	Q1 FY 03/18	Q1 FY 03/2017
<b>EPS</b>	<b>1.06</b>	-6.97
<b>BPS</b> (Book Value per Share)	<b>126.86</b>	153.30

(For reference)

Average Forex rate	Q1 FY 03/18	YOY Change
<b>1 USD</b>	<b>111.61</b>	+2.3% (weak JPY)
<b>1 EUR</b>	<b>123.14</b>	+0.5% (weak JPY)

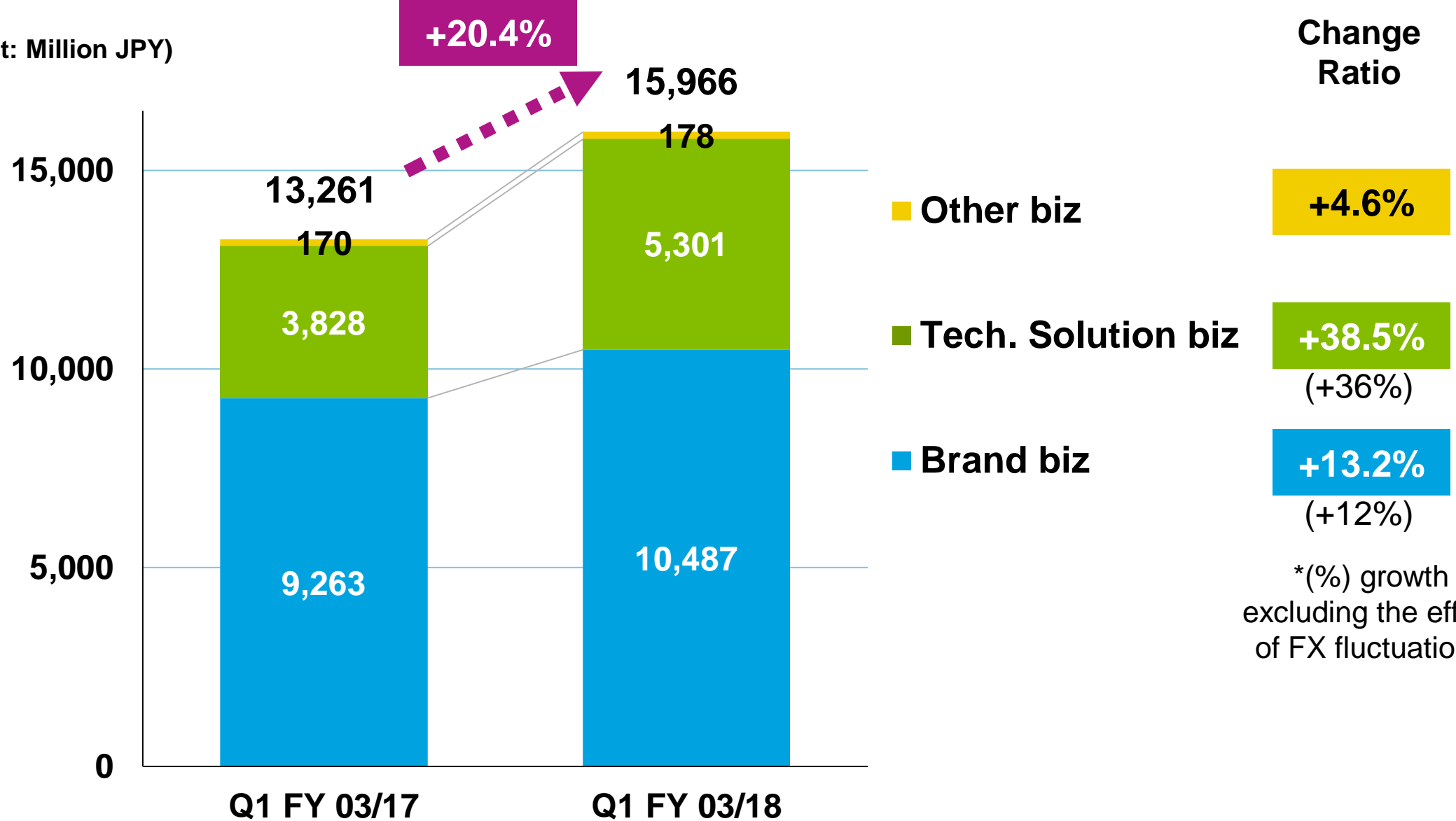
# Consolidated P/L

(Unit: Million JPY)

	Q1 FY 03/17	Q1 FY 03/18	YOY Change	
	04/16-06/16	04/17-06/17	Amount	Ratio
<b>Net Sales</b>	13,261	<b>15,966</b>	2,705	20.4%
<b>Gross Profit</b>	5,271	<b>6,693</b>	1,422	27.0%
profit margin %	39.8%	<b>41.9%</b>		
<b>SG&amp;A</b>	6,718	<b>6,831</b>	113	1.7%
<b>Operating Profit</b>	-1,447	<b>-138</b>	1,309	--
profit margin %	-10.9%	<b>-0.9%</b>		
<b>Ordinary Profit</b>	-1,481	<b>-46</b>	1,435	--
<b>Net Profit after Tax</b>	-1,147	<b>172</b>	1,319	--

# Consolidated Sales Comparison

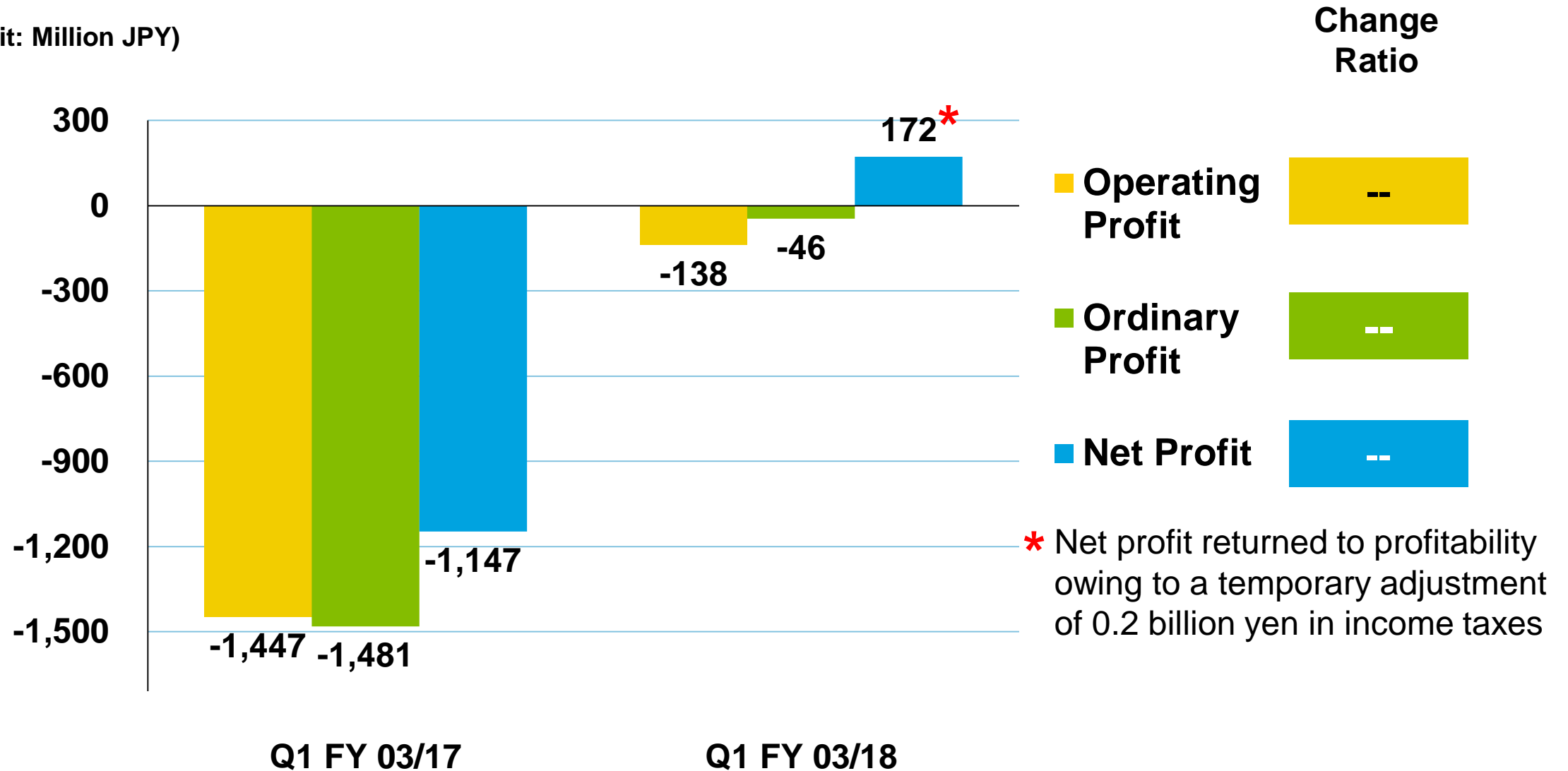
(Unit: Million JPY)



\*(%) growth excluding the effect of FX fluctuations

# Consolidated Profit Comparison

(Unit: Million JPY)



# SG&A Expenses Comparison

(Unit: Million JPY)

	Q1 FY 03/17	Q1 FY 03/18	YOY Change	
	04/16-06/16	04/17-06/17	Amount	Ratio
<b>Personnel</b>	2,412	<b>2,421</b>	9	0.4%
<b>R&amp;D</b>	1,062	<b>857</b>	-205	-19.3%
<b>Ad. &amp; Promo.</b>	592	<b>751</b>	159	26.8% (2)
<b>Subcontractor</b>	551	<b>595</b>	44	8.0% (3)
<b>Depreciation</b>	388	<b>343</b>	-45	-11.6%
<b>Others</b>	1,713	<b>1,864</b>	151	8.9% (2)
<b>Total</b>	6,718	<b>6,831</b>	113	1.7% (1)
<b>SG&amp;A ratio %</b>	50.7%	<b>42.8%</b>		

(1) Increased by 60 million yen due to translation effects of higher overseas currencies vs the yen

(2) Increase in promotion expenses and freight costs, etc. in Others due to sales expansion

(3) Increase in outsourced sales promotion expenses, and expenses for maintaining global IT infrastructure stayed at around the same level as Q1 last year



# Consolidated P/L (For Reference)

- **Sensitivity to currency fluctuations (year on year)** (JPY)

Currencies	Changes of forex	Sales	OP
1 USD	+2.54 JPY (weak yen)	+190 mil.	-40 mil.
1 EUR	+0.67 JPY (weak yen)	+10 mil.	+10 mil.
Asian currencies total (Renminbi)	(-0.34 JPY, strong yen)	+40 mil. (-30 mil.)	+30 mil. (-20 mil.)
<b>Grand Total</b>		<b>+240 mil.</b>	<b>+0 mil.</b>

- **Reason for operating profit increase (year on year)**
  - (1) Tech. Solution Business: sales increase and profitability increase\* for tablets (\* due to an increase in sales composition for customers' new models) +0.8 bn (ex. forex impact)
  - (2) Brand Business: sales increase and profitability increase +0.4 bn (ex. forex impact)
  - (3) Corporate and other functions: limited rise of SG&A expenses
- **Reason for return to profitability in Net Profit**  
Temporary adjustment in income taxes: +0.2 bn

# Business Segment & Business Unit

## 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: Digital Stationery, etc.

### Business Solution

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

### Technology Solution Business

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

**Other Business    Engineering Solution** ▪ ECAD series

### Platform & applications

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

# Consolidated P/L by Business Segment

(Unit: Million JPY)

	Q1 FY 03/17	Q1 FY 03/18	YOY Change	
	04/16-06/16	04/17-06/17	Amount	Ratio
<b>Net Sales</b>	13,261	<b>15,966</b>	2,705	20.4%
Brand Business	9,263	<b>10,487</b>	1,224	13.2%
Tech. Solution Biz.	3,828	<b>5,301</b>	1,473	38.5%
Other Business	170	<b>178</b>	8	4.6%
<b>Operating Profit</b>	-1,447	<b>-138</b>	1,309	--
Brand Business	987	<b>1,486</b>	499	50.6%
Tech. Solution Biz	-96	<b>690</b>	786	--
Other Business	7	<b>-1</b>	-8	--
Corp. and others	-2,345	<b>-2,313</b>	32	-1.4%
<b>profit margin %</b>	-10.9%	<b>-0.9%</b>		

# Business Highlights:

(Unit: JPY)

<b><u>Brand Business</u></b>	<b>10.49 bn</b>	<b>+13.2%</b>
<b>Creative Business</b>	<b>9.12 bn</b>	<b>+14.0%</b>
<b>Pen Tablet (subsection)</b>	<b>4.82 bn</b>	<b>+5.9%</b>

- Sales of *Intuos Pro* for professional users were sluggish due to weak demand for new models launched in January. We continue to improve market recognition by promoting next-generation pen technology.
- Sales of *Intuos* series increased owing to resolution of IC supply issue caused by Kumamoto earthquake in 2016. The model for 3D modeling launched in the previous fiscal year also contributed to the sales.
- Shipment of the emerging market model increased by 50% on a unit basis, reflecting an increase in new customers in China and India.



WACOM®  
Intuos Pro



INTUOS®



Intuos 3D

**Emerging market model  
(One by Wacom)**



# Business Highlights: (Unit: JPY)

## Brand Business

### Creative Business

**Mobile (subsection)                      1.00 bn                      +32.7%**

- Dramatic changes in the competitive environment driven by an increase in digital pen-adopted devices have given creative users more choices in the category.
- Demand continues to grow for Wacom's high-performance models for professional creators that support professional users' workflow.
- New model Wacom *MobileStudio Pro 13/16* launched in October, 2016 contributed to sales. Demand for high-end models remained firm. We continued to solidify our global market leadership.

wacom®  
MobileStudio Pro



# Business Highlights: (Unit: JPY)

## Brand Business

### Creative Business

**Display (subsection)      3.30 bn      +22.5%**

- New models *Wacom Cintiq Pro 13/16* equipped with next-generation digital pen technology, 4K high-resolution and wide gamut display contributed to the sales.
- Sales of the existing model *Cintiq 13* steadily continued, acquiring entry user base. On the other hand, sales of existing large size models decreased due to product life cycle transitions.



# Business Highlights:

(Unit: JPY)



## Brand Business

**Consumer Business**      **0.58 bn**      **+148.0%**

- We launched *Bamboo Ink*, a new stylus product developed with Microsoft and optimized for Windows OS tablets in June. Sales started in the U.S. and contributed to overall sales.
- We launched smart stylus product *Bamboo Sketch* for iPad in June, which contributed to overall sales.
- *Bamboo Slate* and *Bamboo Folio* launched in September, 2016 and exceeded the sales level of the previous models. We continued efforts to establish the digital stationery category.
- We provided Wacom Cloud to store and utilize digital ink through cloud services.



BAMBOO™ Ink



BAMBOO™ Sketch



BAMBOO™ Slate



BAMBOO™ Folio

WILL  
Wacom Ink  
Layer Language



# Business Highlights: (Unit: JPY)

## Brand Business

### Business Solution

0.79 bn

-23.3%

- Large decline in sales in the Eurozone due to continued effects of changes in the market environment including competition with mobile devices.
- Sales of *STU* series significantly decreased due to sales decline in the Eurozone and reaction from large scale public institution sale in India last fiscal year.
- Sales of the *DT* series increased owing to the adoption by a financial institution in the U.S.
- We launched new product *Wacom Clipboard* in June and started sales promotion as a B2B solution that digitizes handwritten content on paper in real-time.



**STUシリーズ**  
**STU-540/430**



**Wacom®** **PHU-111**  
Clipboard



**DTU-1141**



**DTU-1031**



**DTK-1651**



# Business Highlights:

(Unit: JPY)

**Tech. Solution Business**    **5.3bn**    **+38.5%**

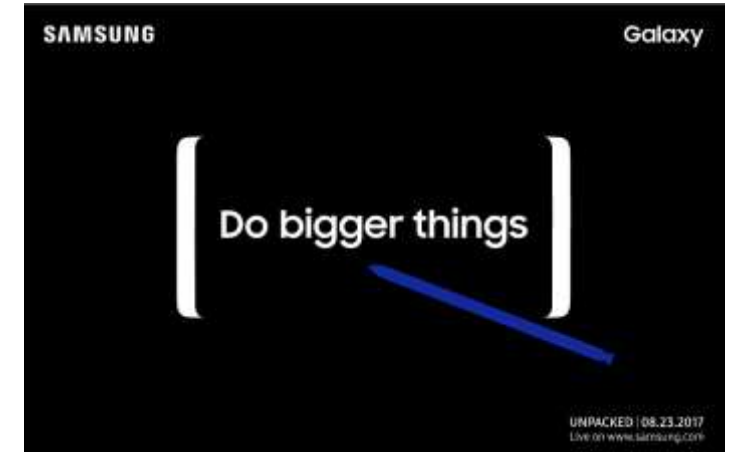
## Pen Sensor System for Smartphones

**0.21bn**    **-83.5%**

- Demand for Samsung's existing smartphone models dried up before transitioning to the next-gen model.
- Continued pen volume production for the next generation model.
- Focused on automation of a new cartridge-type digital pen.
- Continued efforts for new customer development.



**Smartphone models**



# Business Highlights:

(Unit: JPY)

## Tech. Solution Business

### Pen Sensor System for Tablets and Notebook PCs

5.09 bn

+97.9%

- Sales of Active-ES pen solution increased due to expanding adoption.
- Sales of EMR pen solution increased due to growing demand for educational PCs such as Google Chromebook.
- Developed a standardized digital pen for Windows10 OS tablets with Microsoft.
- Making efforts to expand digital stationery business.

**STAEDTLER**



**MONTBLANC**



 **chromebook**



 **Windows**

 **chrome**

 **ANDROID**

**Tablet · PC models**

**Lenovo**

**SAMSUNG**



 **HUAWEI**





**TOSHIBA**

**FUJITSU**

# Business Highlights:

(Unit: JPY)

## Other Business

0.18 bn

+4.6%

**CAD software and others** 0.18 bn

+4.6%

- Sales of major product *ECAD* series increased.

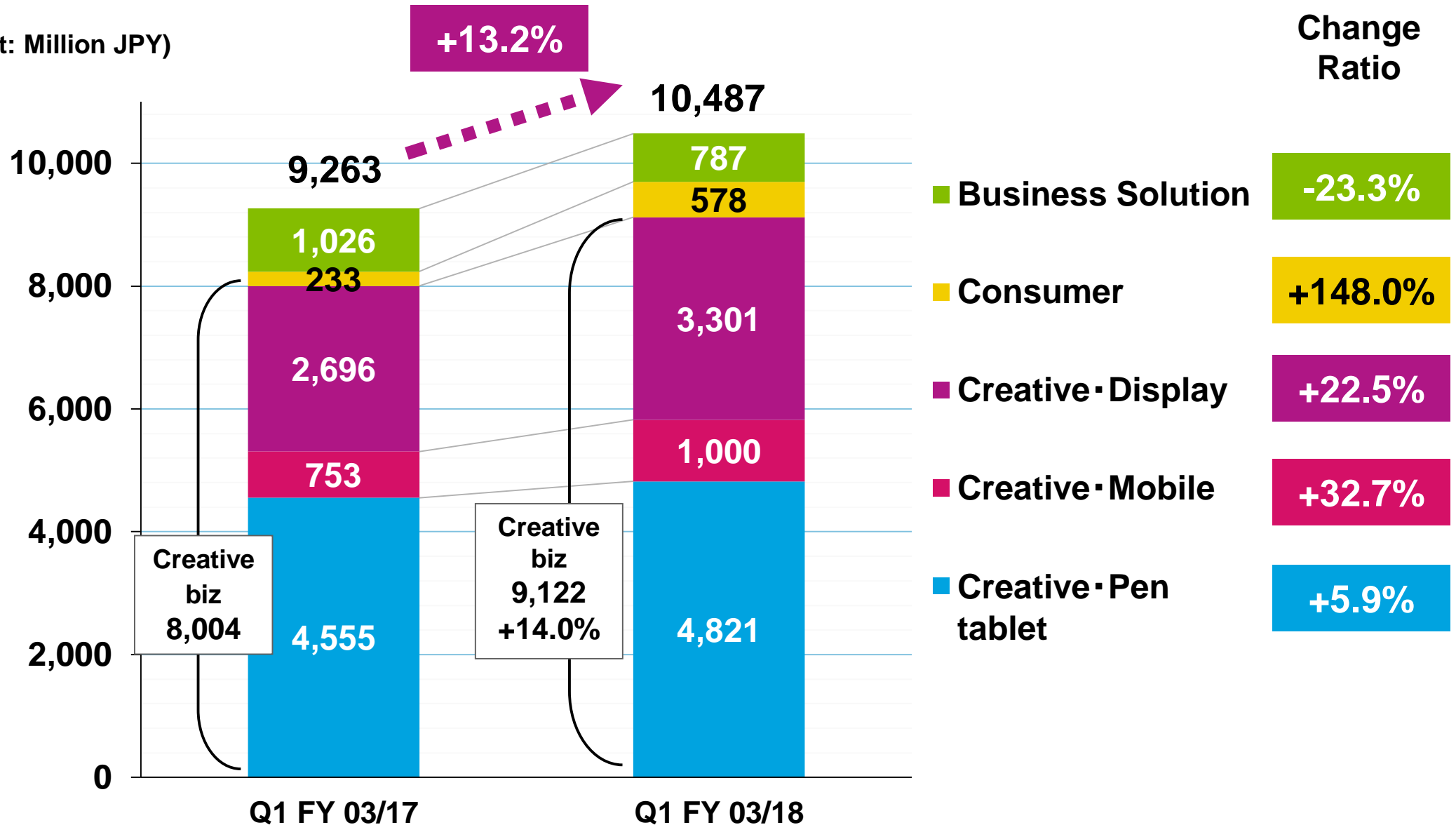


## F&A (Corporate)

- Launched “Wacom Innovation Hub” in May as a new support program for startup companies to encourage new and innovative applications based on the WILL platform as digital ink standard.
- Held “Connected Ink” digital ink promotion event in Shanghai in June.
- Continued development of growing markets such as 3D and VR/AR.
- Proceeded with planning of new strategic initiatives to optimize cost structure and address management issues. We established a Nominating Committee in April to improve business decision-making and started criteria formulation for selecting executives of Wacom group (Representative Director, Directors, and executive officers).

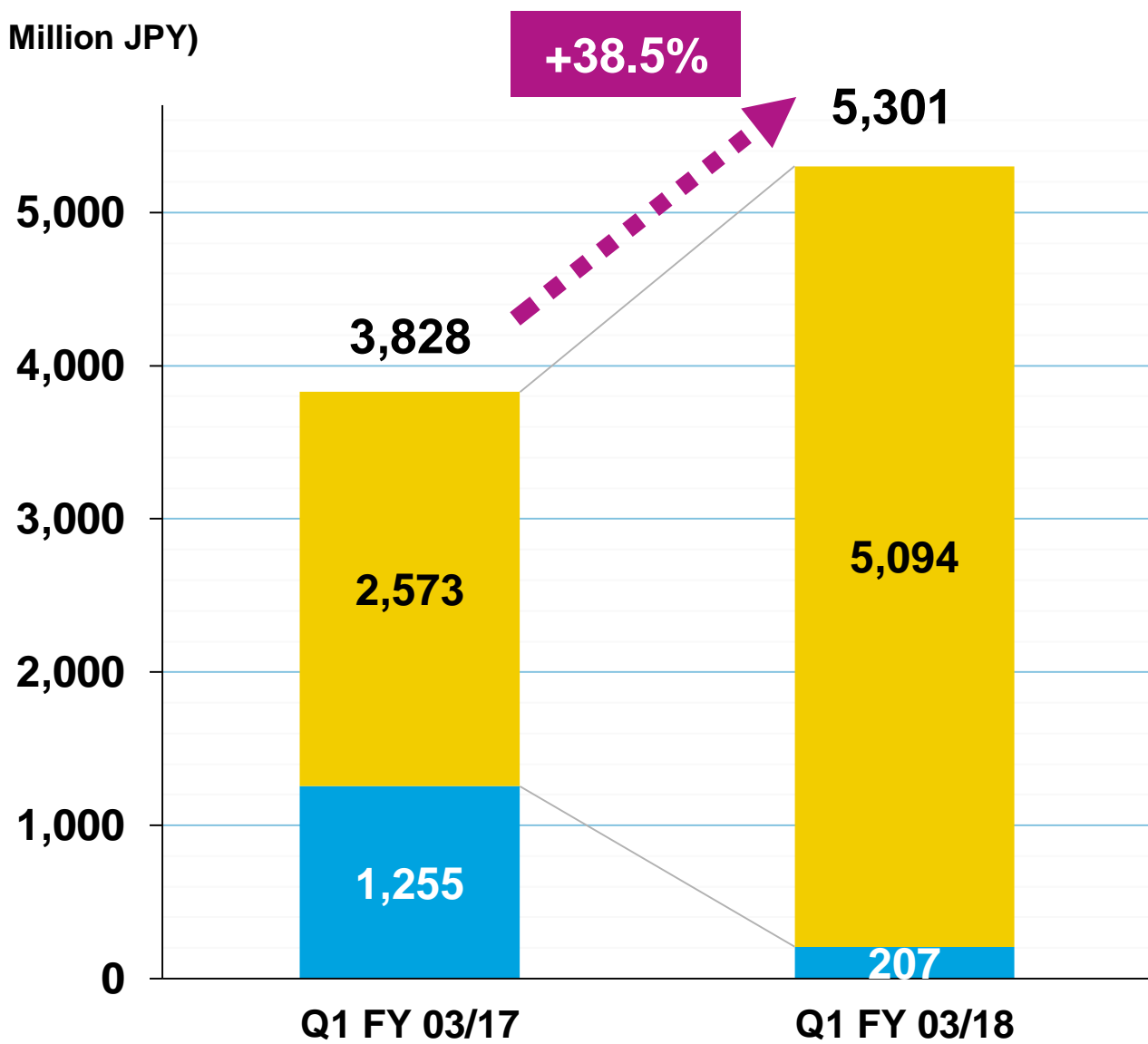
# Sales by Product Line in Brand Business

(Unit: Million JPY)



# Sales by Product Line in Tech. Solution Business

(Unit: Million JPY)

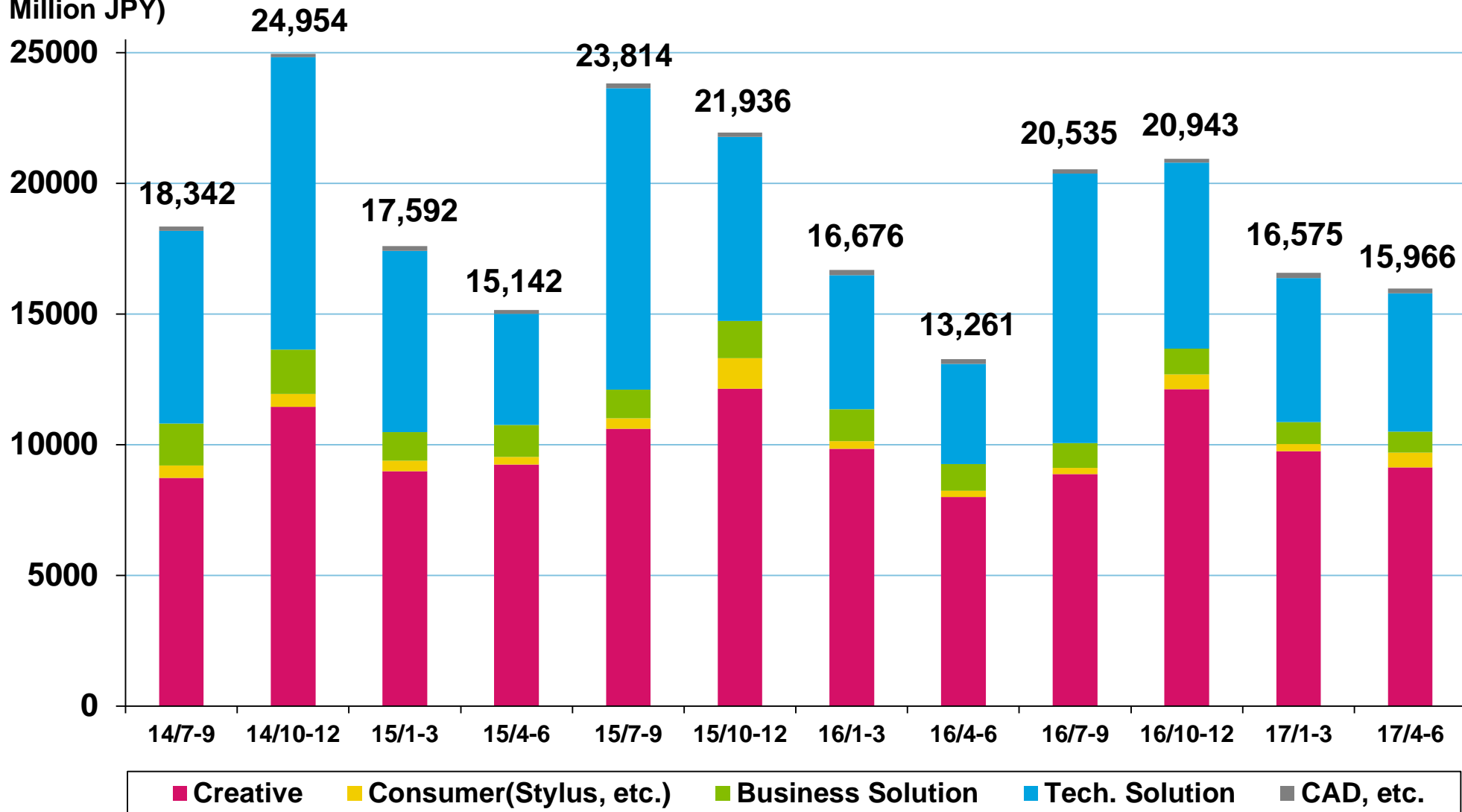


Change Ratio

- Pen for Tablet, others **+97.9%**
- Pen for Smartphone **-83.5%**

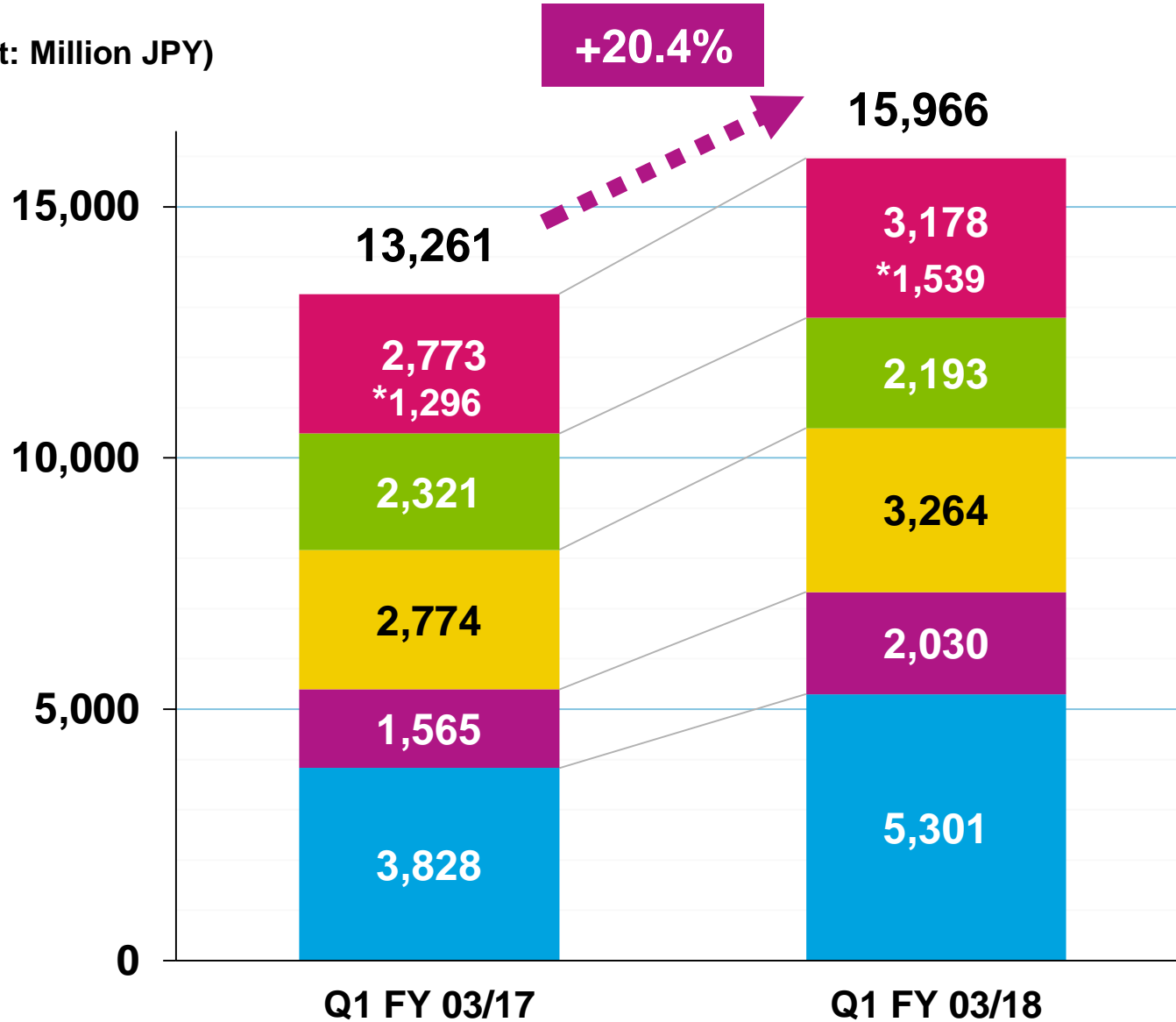
# Quarterly Trend by Product Line

(Unit: Million JPY)



# Sales by Regional Subsidiaries

(Unit: Million JPY)



\*Sales in China of Asia Oceania (\*% growth based on CNY)

■ Asia Oceania

■ Germany

■ U.S.

■ Japan

■ Tech. Solution

**Change Ratio**

**+14.6%**  
(\*+21.1%)

**-5.5%**  
(-6.0%)

**+17.7%**  
(+15.0%)

**+29.8%**

**+38.5%**

(%) growth based on local currency

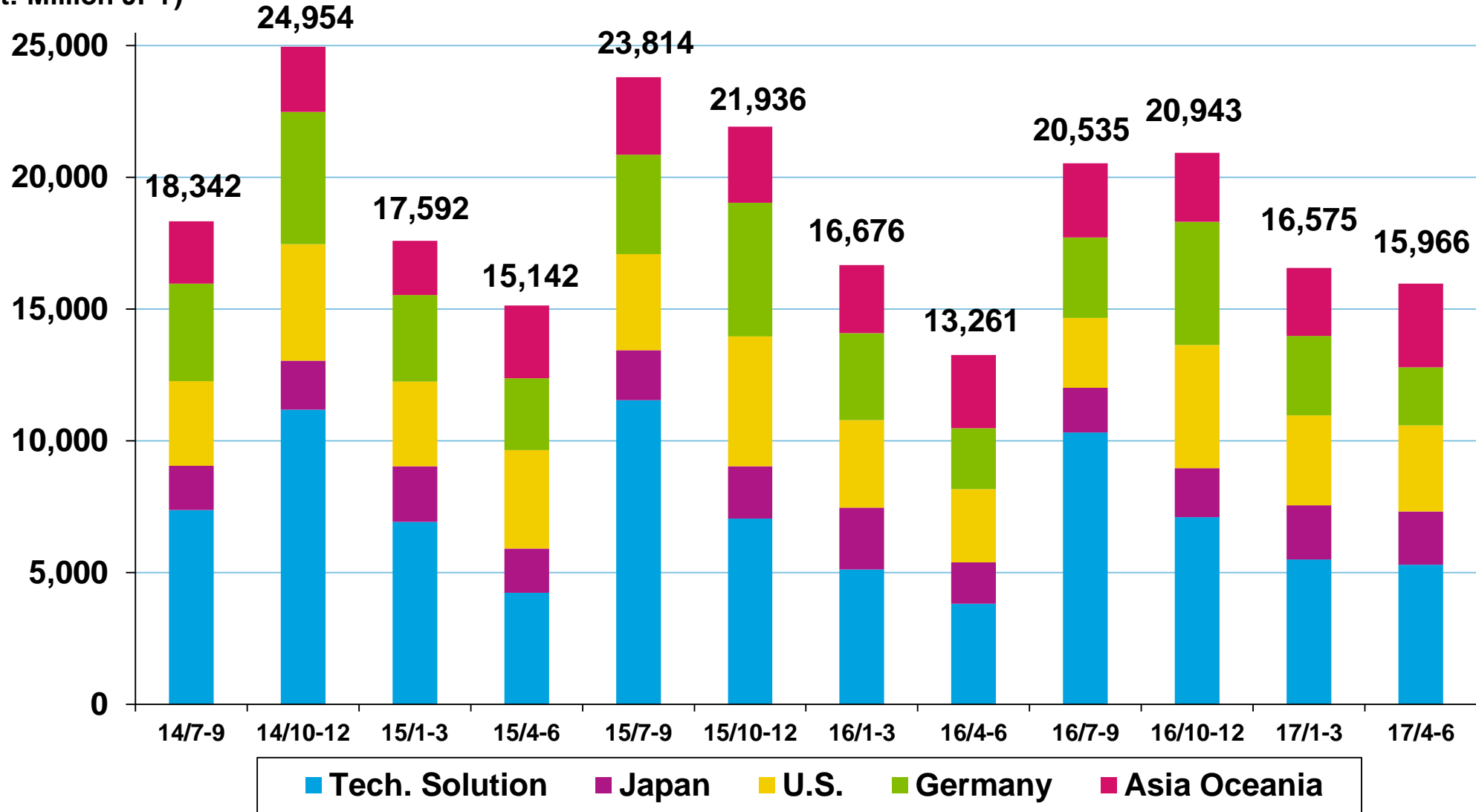
# (Ref.) Sales Changes in Local Currency Base

Region	Currency	YOY Change Ratio
Japan (excluding Technology Solution)	JPY	+29.8%
U.S.	USD	+15.0%
Europe	EUR	-6.0%
China	CNY	+21.2%
Korea	KRW	+23.1%
Australia	AUD	+7.0%
Singapore	USD	-6.6%
Hong Kong	USD	+15.3%
Taiwan	NTD	+8.1%
India	INR	-33.1%



# Quarterly Trend by Regional Subsidiaries

(Unit: Million JPY)



# Consolidated B/S

(Unit: Million JPY)

	End of March 2017	End of June 2017	Change
Current Assets	39,500	<b>39,156</b>	-344
Non-current Assets	10,750	<b>10,552</b>	-198
<b>Total Assets</b>	50,250	<b>49,708</b>	-542
Current Liabilities	17,384	<b>17,391</b>	7
Non-current Liabilities	11,509	<b>11,596</b>	87
<b>Total Liabilities</b>	28,893	<b>28,987</b>	94
Minority Interest in Subsidiaries	0	<b>0</b>	0
<b>Net Assets</b>	21,357	<b>20,721</b>	-636
<b>Total Liabilities and Net Assets</b>	50,250	<b>49,708</b>	-542
<b>Equity Ratio</b>	42.2%	<b>41.4%</b>	-0.8%

## Key Changes

### Assets

- Decrease in cash and deposits -1,036
- Decrease in notes and accounts receivable -358
- Increase in inventories 1,050  
(Launched new products, etc.)

### Liabilities

- Increase in short-term loans 1,000
- Decrease in notes and accounts payable -508
- Decrease in provision for bonuses -482

### Net Assets

- Decrease in shareholders' equity -802  
(Dividends paid, etc.)

# Consolidated C/F

(Unit: Million JPY)

	Q1 FY 03/17	Q1 FY 03/18	YoY Change
	04/16-06/16	04/17-06/17	Amount
C/F from operating activities	-237	<b>-1,204</b>	-967
C/F from investing activities	-368	<b>-279</b>	89
C/F from financing activities	43	<b>124</b>	81
Effect of change in exchange rate	-866	<b>324</b>	1,190
Increase-decrease of cash & cash equivalent	-1,428	<b>-1,036</b>	392
Beginning balance of cash & cash equivalent	14,365	<b>14,205</b>	-160
Ending balance of cash and cash equivalent	12,937	<b>13,169</b>	232

## Major Activities in Q1 FY 03/18

### C/F from operating activities

▪ Increase in inventories	-819
▪ Decrease in notes and accounts payable-trade	-597
▪ Decrease in provision for bonuses	-481
▪ Depreciation	633

### C/F from investing activities

▪ Purchase of fixed assets (Mold, etc.)	-288
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### C/F from financing activities

▪ Increase in short-term loans payable	1,000
▪ Cash dividends paid	-876

FY 03/2018

# Basic Strategies and Business Focus

*for a creative world™*



wacom®

# Assumptions for FY 03/18 Business Environment

## The Global Economy

- The global economy is expected to expand driven by favorable growth in U.S. and sustaining growth in China.
- High uncertainty will be observed reflecting political developments such as a protectionist U.S. trade policy and instability in the EU.
- Geopolitical risk is expected to increase due to changing Middle East affairs and prolonged military tension in Far East.
- Instability in currency exchange rates is expected to persist.

## The IT Industry and our Business Environment

- The IT industry is set to shift to a new industrial platform based on cloud services, big data, mobile communication services, and SNS. 5G and virtualization technology will accelerate innovation.
- IoT, VR/AR, 3D printing, and security-related business will continue to be key to our business. Creative markets will continue to expand and competition increases among major global IT players.
- Mobility, education, enterprise, and emerging countries are new business growth segments.
- Digital stationery linked with cloud services is expected to gain broader category awareness.
- Digital ink adoption is expanding to Windows, Chrome, and the other OS platforms.

# Basic Strategies and Initiatives -1-

## Basic Strategy

- Recover profitability through optimization of our global organization and cost structure.
- Achieve sustainable growth by enhancing Wacom's leadership in the digital pen and ink market.
- Plan new medium-term strategies to evolve our business model under a new management team.
- Improve user experience, enhance the relationship with customers

## Key Initiatives

- Brand Product Business
  - Extend 3D design functions and develop enterprise markets (3D, VR/AR, CAD, Multimedia, etc.).
  - Build strong relationship with customers and communities by enhancing regional marketing functions.
  - Promote creative workflow solutions from ideas on paper to digital design and contents.
  - Develop and expand emerging market business (China, Asia/Pacific, LATAM).
  - Expand the digital stationery market, and build brand awareness through collaboration with partners.
  - Expand business solutions for enhancing efficiency in workflow and data security by digital signature technology

# Basic Strategies and Initiatives -2-

- Technology Solution Business
  - Establish the de-facto-standard of digital pen technologies with EMR and AES for tablets.
  - Support the transition to Samsung's next-generation smartphone models.
  - Develop and expand business opportunities through pen adoption for the education market with partner companies.
  - Expand the digital stationery market in collaboration with various partner companies.
- Corporate
  - Enhance global organization and optimize cost structure and organization.
  - Promote WILL through DSC and establish effective business structure utilizing digital ink with partner companies.

## Risks and Opportunities

- Risk
  - Brand Business: Slow sales, delay of development and launch, and quality issues of new products.
  - Technology Solution Business: Slow sales for Samsung's next model smartphone.
- Opportunities
  - Demand increase for new products and new technology (AES).
  - Further progress in cost reduction.

# Assumptions for FY 03/18 Financial Forecast

- Reflected business update reviewing market trend as of mid July, 2017.

The financial forecasts as of May 10, 2017 were unchanged.

- In Technology Solution Business, actual results may materially differ from forecast in short term due to its business nature.
- Forex rate assumptions USD 1 = JPY 110 (YOY +0.9% weaker JPY)  
EUR 1 = JPY 118 (YOY -1.1% stronger JPY)
- Sensitivity to currency fluctuations: 12-month forecast

Unit of sensitivity	In case of stronger JPY 1.00			
	FY 03/18 (forecast)		(for ref.) FY 03/17 (result)	
Currency	USD	EUR	USD	EUR
Sales	-520 (-410)	-140	-500 (-380)	-110
Operating Profit	+30 (+100)	-100	-30 (+50)	-70

(Unit: Million JPY)

Note: In case of the weaker JPY, read the above signs of plus and minus the other way round.

USD sensitivity reflects exposure of Asian currencies supposing they synchronize with USD.

Each figure in brackets above in USD shows sensitivity excluding exposure of Asian currencies, namely USD only.



# Summary for FY 03/18 Forecast

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

## **Consolidated performance**

- Sales growth of 8% owing to sales expansion in the Creative Business with the new products launched in the fiscal year ended March 2017.
- GP ratio will maintain at approx. 40% of the previous fiscal year. SG&A ratio will remain at approx. 37% by strategic increase of R&D expense in spite of reduction of expenses for global IT infrastructure etc. As a result, OP ratio will improve to the level of approx. 2%.

## **Brand Product Business**

- Growth recovery in Creative Business with new models for display and mobile products.
- ASP decline due to increase of sales of lower-end models in pen tablet products for emerging market.
- Recovery in Consumer Business driven by new products and new customers.
- Conservative forecast in Business Solution based on the competitive environment.
- Overall sales to grow by 12%.

## **Technology Solution Business**

- Robust shipment of pen system owing to increasing demand for pen-enabled tablet models in PC market with diversification of customers.
- Shipment of next-generation Galaxy Note, while negative impact from Note 7 remains.
- Sales to remain at the same level as the previous fiscal year.

# Summary for FY 03/18 Forecast

(Unit: Million JPY)

	1H FY 03/17 (rslt)		1H FY 03/18 (frct)		YOY
	04/16-09/16		04/17-09/17		Growth rate
<b>Sales</b>	33,797		<b>35,180</b>		1,383
Operating Profit	-898	-2.7%	<b>-470</b>	<b>-1.3%</b>	428
Ordinary Profit	-1,021	-3.0%	<b>-500</b>	<b>-1.4%</b>	521
Net Profit aft. tax	-1,226	-3.6%	<b>-100</b>	<b>-0.3%</b>	1,126

- We forecast a decrease in operating loss in 1H owing to the sales contribution of new products in Brand Product Business introduced in 2H for FY 03/17.

	FY 03/17 (result)		FY 03/18 (forecast)		YOY
	04/16-03/17		04/17-03/18		Growth rate
<b>Sales</b>	71,314		<b>76,800</b>		5,486
Operating Profit	-1,171	-1.6%	<b>1,800</b>	<b>2.3%</b>	2,971
Ordinary Profit	-870	-1.2%	<b>1,740</b>	<b>2.3%</b>	2,610
Net Profit aft. tax	-5,534	-7.8%	<b>1,130</b>	<b>1.5%</b>	6,664
<b>ROE</b>	--		<b>5.3%</b>		--

- We forecast an YOY growth in operating profit in 2H owing to higher sales in both Brand Product and Technology Solution Businesses driven by new products and business seasonality.
- We forecast the growth both in sales and profits.

# Forecast by Business Segment

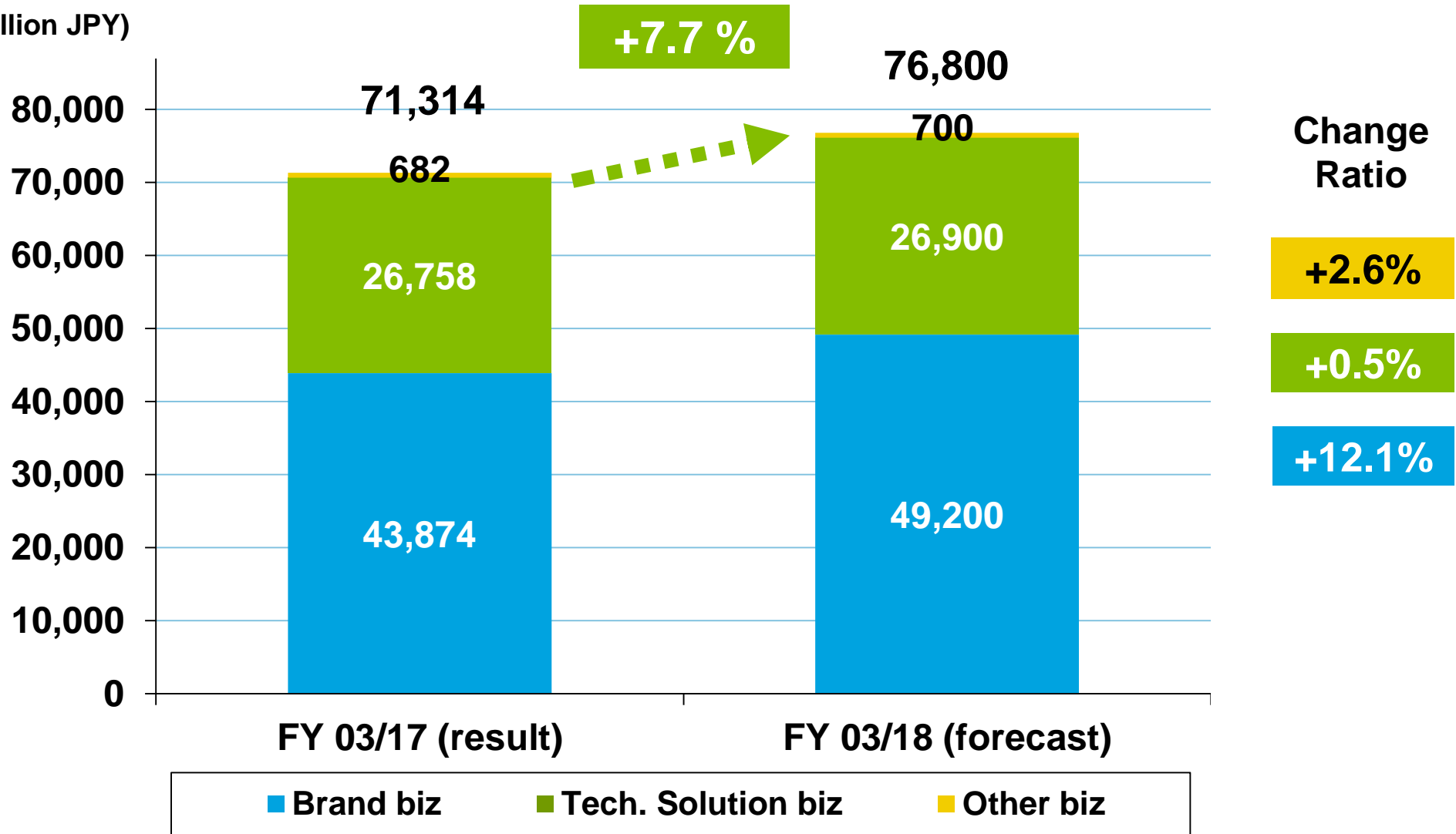
(Note) Due to risks and uncertainties involved in the forecast of market and customer trends in Technology Solution Business, actual results may materially differ from forward-looking statements in the short term.

(Unit: Mil JPY)

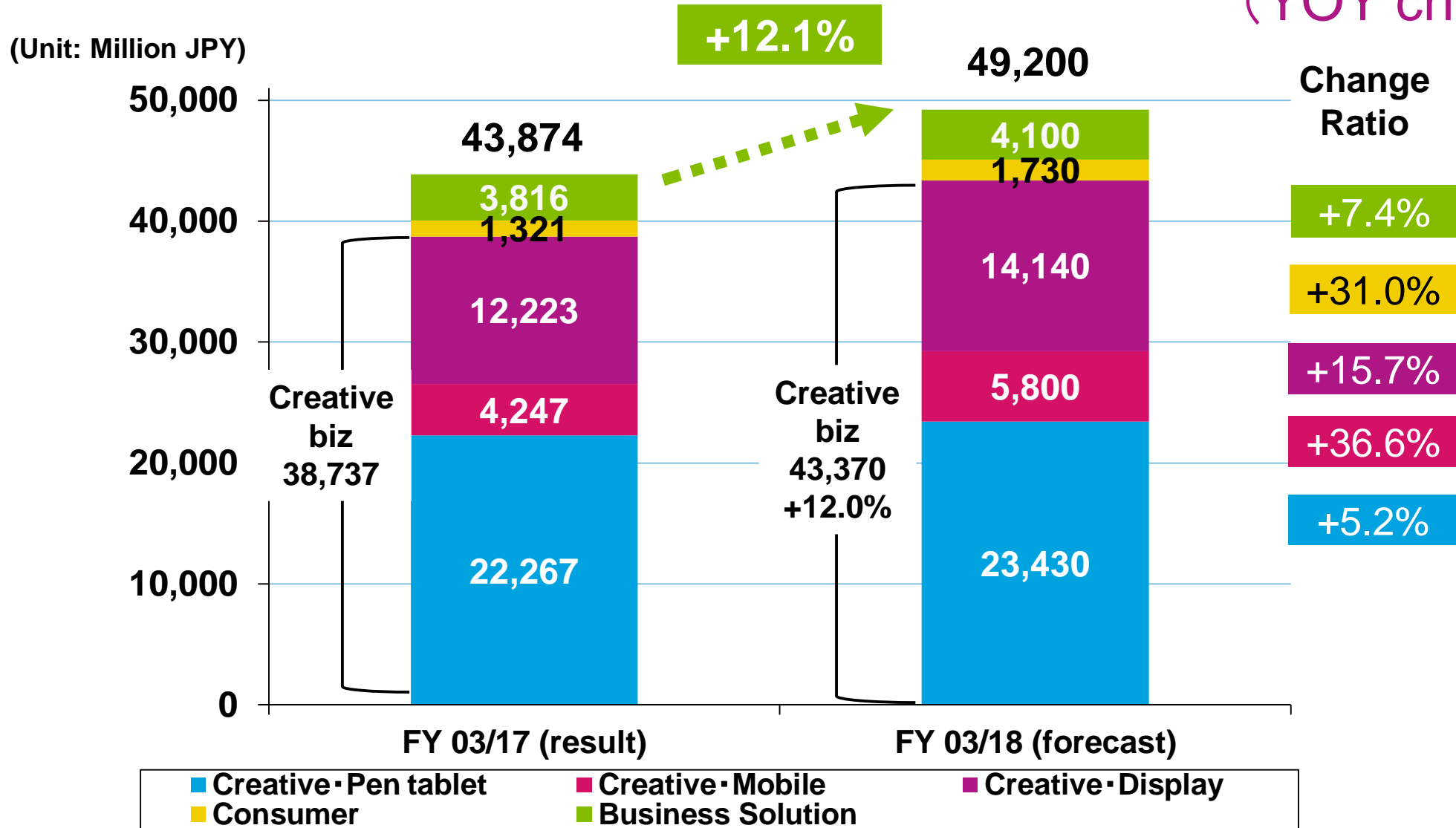
	FY 03/17 (rslt)	FY 03/18 (fcst)	YOY Change	
	04/16-03/17	04/17-03/18	Amount	Ratio
<b>Net Sales</b>	71,314	<b>76,800</b>	5,486	7.7%
Brand biz	43,874	<b>49,200</b>	5,326	12.1%
Tech. Solution biz	26,758	<b>26,900</b>	142	0.5%
Other biz	682	<b>700</b>	18	2.6%
<b>Operating Profit</b>	-1,171	<b>1,800</b>	2,971	--
Brand biz	5,685	<b>8,100</b>	2,415	42.5%
Tech. Solution biz	2,443	<b>2,260</b>	-183	-7.5%
Other biz	-32	<b>40</b>	72	--
Corp. and others	-9,267	<b>-8,600</b>	667	-7.2%
<b>profit margin %</b>	-1.6%	<b>2.3%</b>		

# Sales Forecast by Business Segment (YOY change)

(Unit: Million JPY)

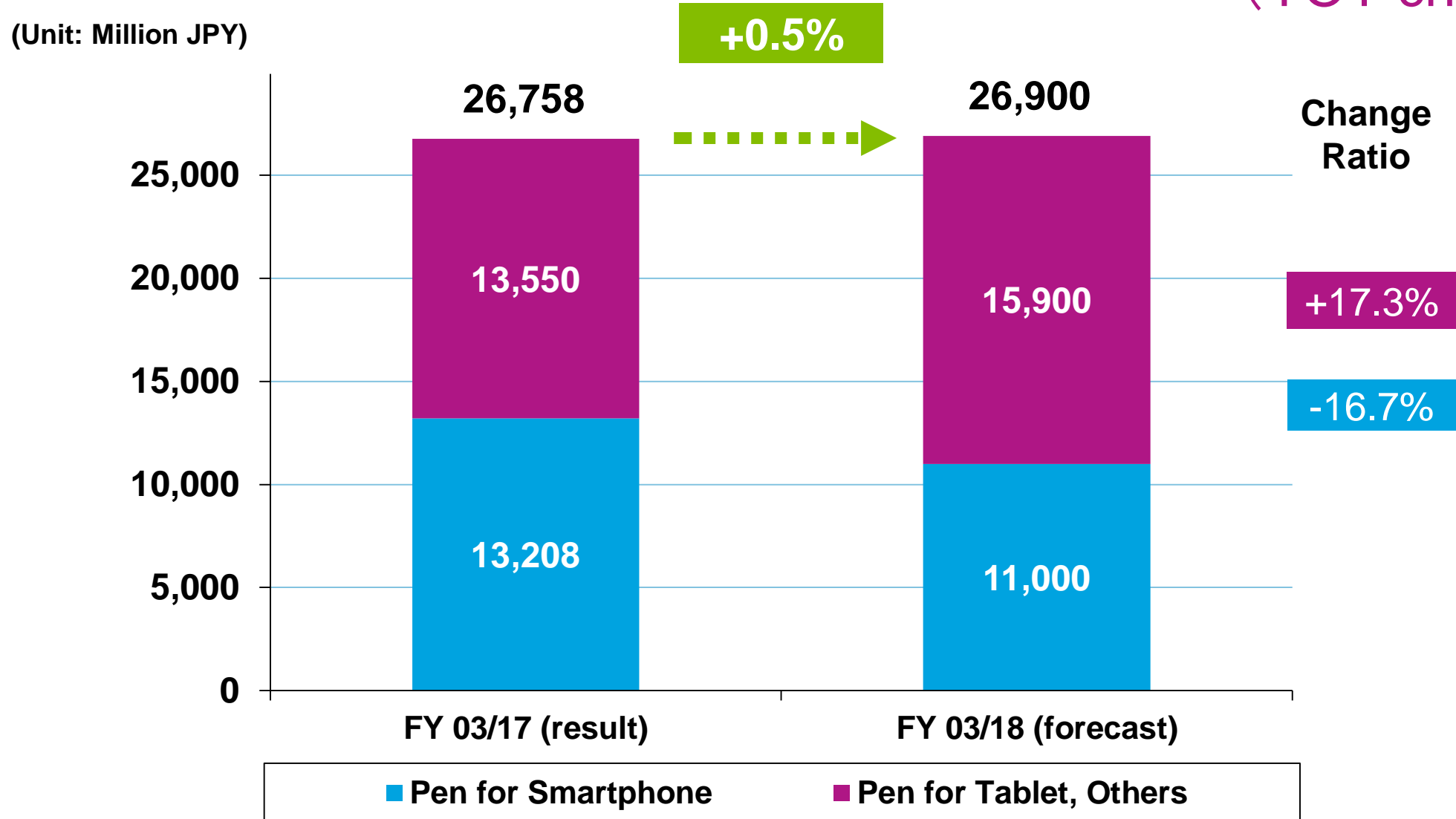


# Sales Forecast by Product line in Brand Product (YOY change)



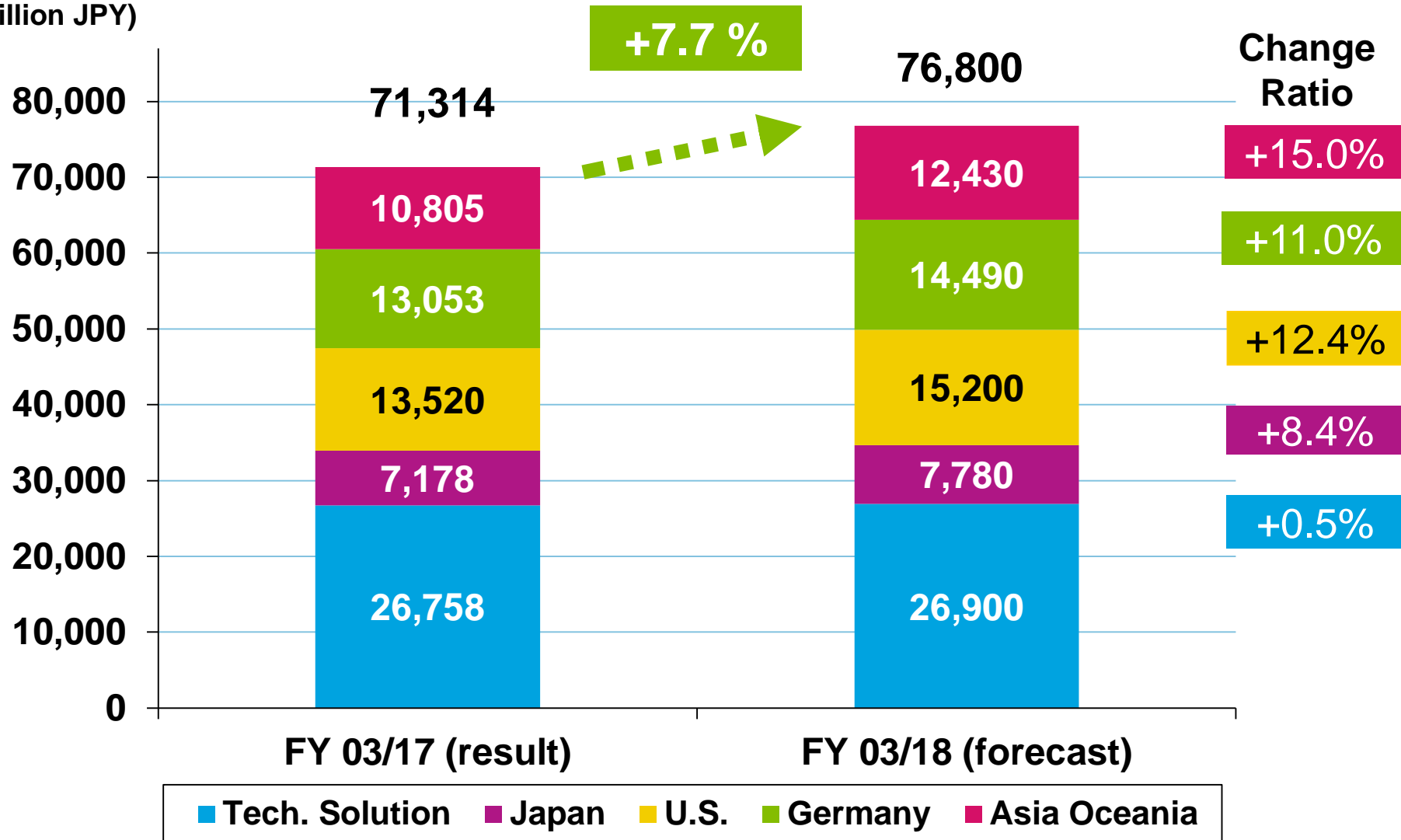
# Sales Forecast by Product line in Tech. Solution

(YOY change)



# Sales Forecast by Region (YOY change)

(Unit: Million JPY)



# Investment, depreciation and R&D

## Capital expenditure

2.40 bn JPY (YOY -33.0%)

- Key items: Metallic mold for products in Brand Product Business and Technology Solution Business, etc.

## Depreciation

2.80 bn JPY (YOY +8.8% )

- Key items: Depreciation of global IT infrastructure and metallic mold for products

## R&D expense

4.90 bn JPY (YOY +11.4%)

- Key items: New products development and next-generation technology research, etc.



# Shareholders Return Policy for FY 03/18

## 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

- JPY 6.00 JPY per share for FY 03/18 (JPY 6.00 for FY 03/17)
- Payout ratio 86.2% (--% for FY 03/17)



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