

Business Report

for Q1 FY ending March 31, 2019
(April-June 2018)

Wacom Chapter 2

for a creative world™

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



Q1 FY 03/19 Results Overview

- Consolidated net sales of **JPY 17.9 bn** (YOY +12%)
- Operating loss of **JPY 0.4 bn**, net loss of **JPY 0.1 bn**
(previous FY Q1: Operating loss of JPY 0.1 bn, net profit of JPY 0.2 bn)
- **Reduced SG&A ratio by 6.4 pts** compared to Q1 of previous FY, owing to SG&A optimization amidst lower profit level due to seasonality of business. **Posted extraordinary loss of JPY 0.14 bn** due to retirement of software assets to raise operating efficiency and profitability.

Q1 FY 03/19 Results Overview by Segment -1

- Brand Business:

Sales of **JPY 9.5 bn** (YOY -10%)

Segment profit of **JPY 0.7 bn** (YOY -54%)

- **Significantly lower profit** due to an unfavorable product mix resulting from **a decrease in sales of new display product models** which did not sufficiently meet market demand, etc.

Q1 FY 03/19 Results Overview by Segment - 2

- Technology Solution Business:
Sales of **JPY 8.4 bn** (YOY +58%)
Segment profit of **JPY 1.0 bn** (YOY +52%)
 - **Significant increase in sales and profit**, owing to **expanded demand** for tablets, note PCs, and **front-loaded demand** for a smartphone.

Summary of Consolidated forecast for FY 03/19

- Sales: **JPY 85 bn** (YOY +3%)
 - Operating Profit: **JPY 4 bn** (YOY +13%)
 - Net Profit: **JPY 3 bn** (YOY +26%)
- **No changes have been made to the forecasts announced on May 11, 2018.**
- Brand Business: Aim to expand profits on market launch and penetration of new products targeting sales period from Q2.
- Technology Solution Business: Set initial forecast as baseline and aim to generate increased customer demand while acknowledging business uncertainties.



Q1 FY 03/2019 Results
Supplementary material



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Q1 FY 03/19 Financial Summary

Business Performance	Q1 FY 03/19	YOY Change	
Net Sales	JPY 17,861 mil.	+11.9%	
Operating Profit (Loss: negative)	-388 mil.	-- (Prev. Q1 -138 mil.)	
Ordinary Profit (Loss: negative)	-324 mil.	-- (Prev. Q1 -46 mil.)	
Net Profit after Tax (Loss: negative)	-115 mil.	-- (Prev. Q1 172 mil.)	
Financial Indices	Q1 FY 03/19	YOY Change	
EPS (Loss: negative)	JPY -0.71	-1.77	
BPS	133.14	+6.28	
(Ref.)	Average Forex rate	Q1 FY 03/19	YOY Change
	1 USD	JPY 108.71	-2.6% (strong yen)
	1 EUR	129.39	+5.1% (weak yen)
	1 CNY	16.97	+4.1% (weak yen)

Consolidated P/L

- **Posted extraordinary loss of JPY 0.14 bn** in intangible assets related to the global IT system to raise profitability (reduction of SG&A expenses in the future), etc.

	Q1 FY 03/18	Q1 FY 03/19	YOY Change	
	04/17-06/17	04/18-06/18	Amount	Ratio
Net Sales	15,966	17,861	1,895	11.9%
Gross Profit	6,693	6,110	-584	-8.7%
profit margin %	41.9%	34.2%		
SG&A	6,831	6,498	-333	-4.9%
SG&A ratio %	42.8%	36.4%		
Operating Profit (Loss: negative)	-138	-388	-250	--
profit margin %	-0.9%	-2.2%		
Ordinary Profit (Loss: negative)	-46	-324	-278	--
Net Profit after Tax (Loss: negative)	172	-115	-288	--

(Unit: JPY million)

SG&A Expenses

- Reduced SG&A ratio by 6.4pts resulting from a decrease of SG&A expenses by approx. JPY 0.4 bn excluding effects of currency translations.

	Q1 FY 03/18	Q1 FY 03/19	YOY Change		(Unit: JPY million)
	04/17-06/17	04/18-06/18	Amount	Ratio	
Personnel	2,421	2,481	60	2.5%	
R&D	857	879	22	2.6%	
Ad. & Promo.	751	628	-123	-16.4%	
Subcontractor	595	495	-100	-16.7%	(1)
Depreciation	343	305	-38	-11.2%	
Others	1,864	1,710	-154	-8.2%	(1)
Total	6,831	6,498	-333	-4.9%	
SG&A ratio %	42.8%	36.4%		-6.4pts	

(1) Reduction of SG&A expenses related to the global IT system, such as subcontractor and commission.

(Ref.) Impact of Currency Fluctuations on Operating Profit

- Impact of currency fluctuations (year on year)

Currencies	Changes of forex	Sales	OP
1 USD	JPY -2.90 (strong yen)	JPY -0.31 bn	JPY +0.04 bn
1 EUR	+6.25 (weak yen)	+0.11 bn	+0.05 bn
Asian currencies total		+0.06 bn	+0.04 bn
Including Renminbi	+0.67 (weak yen)	+0.06 bn	+0.04 bn
Grand Total		-0.14 bn	+0.13 bn

- Reason for changes in operating profit excluding the above currency impacts (year on year)

(1) Tech. Solution Business: Gross profit up due to increased sales: **+0.4 bn yen**

(2) Corporate function: Control of SG&A expenses: **+0.2 bn yen**

(3) Brand Business: Negative impacts from an unavailable product mix resulting from a decrease in sales of Display products: **-1.0 bn yen**

Business Segment for FY Q1 (April-June, 2018)

Brand Product Business

- **Creative Business for creative users**
Product line: Pen tablet, Display, Mobile
- **Business Solution for enterprise**
Product line: Digital signature pen tablet, Display pen tablet, etc.

Technology Solution Business

- **Technology solution for partners of smartphone, tablet, digital stationery, etc.**
Product line: Digital pen sensor system, etc.

Ink Division

- **Digital ink, software solution, etc.**
Product line:
Digital stationery for consumers, etc.

(Note) **Other Business:** Engineering Solution Business (CAD software) was assigned to a new company by company split on December 1, 2017. On the same day, all shares in the new company were transferred to Nitto Kogyo Corporation.

Consolidated P/L by Business Segment

(Unit: JPY Million)

	Q1 FY 03/18	Q1 FY 03/19	YOY Change	
	04/17-06/17	04/18-06/18	Amount	Ratio
Net Sales total	15,966	17,861	1,895	11.9%
Brand Business	10,487	9,476	-1,011	-9.6%
Tech. Solution Biz.	5,301	8,385	3,084	58.2%
Other Business	178	--	-178	-100.0%
Segment Profit total (Loss: negative)	-138	-388	-250	--
Brand Business	1,486	687	-799	-53.8%
Tech. Solution Biz	690	1,049	359	52.1%
Other Business	-1	--	1	-100.0%
Adjustment (Corp. and others)	-2,313	-2,124	189	-8.1%
profit margin %	-0.9%	-2.2%		

Business Highlights (trending topics in sales)

(Unit: JPY)

Brand Business **9.5 bn** **YOY -10%**

• **Creative Business** **7.6 bn** **YOY -17%**

(subsection)	Pen Tablet	4.6 bn	YOY -4%
	Display	2.3 bn	YOY -30%
	Mobile	0.6 bn	YOY -36%

- Sales of pen tablet products decreased due to slower market penetration of new products targeting general consumers launched in March 2018.
- Sales of display products declined significantly as supply of new models did not sufficiently meet market demand.
- Sales of mobile products declined significantly as existing models entered the later stage of their product life cycles.



Business Highlights (trending topics in sales)

Brand Business

(Unit: JPY)

• **Consumer Business** **0.7 bn** **YOY +18%**

- Sales increased owing to favorable sales of a new stylus product optimized for Windows Ink launched in June 2017.



• **Business Solution** **1.2 bn** **YOY +55%**

- Sales increased significantly owing to favorable sales of LCD signature tablet products to financial institutions in North America.



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Business Highlights (trending topics in sales)

(Unit: JPY)

Tech. Solution Business 8.4 bn YOY +58%

- **Pen Sensor System for Smartphones**

2.1 bn YOY +916%

- Sales increased significantly owing to front-loaded demand.

- **Pen Sensor System for Tablets, others**

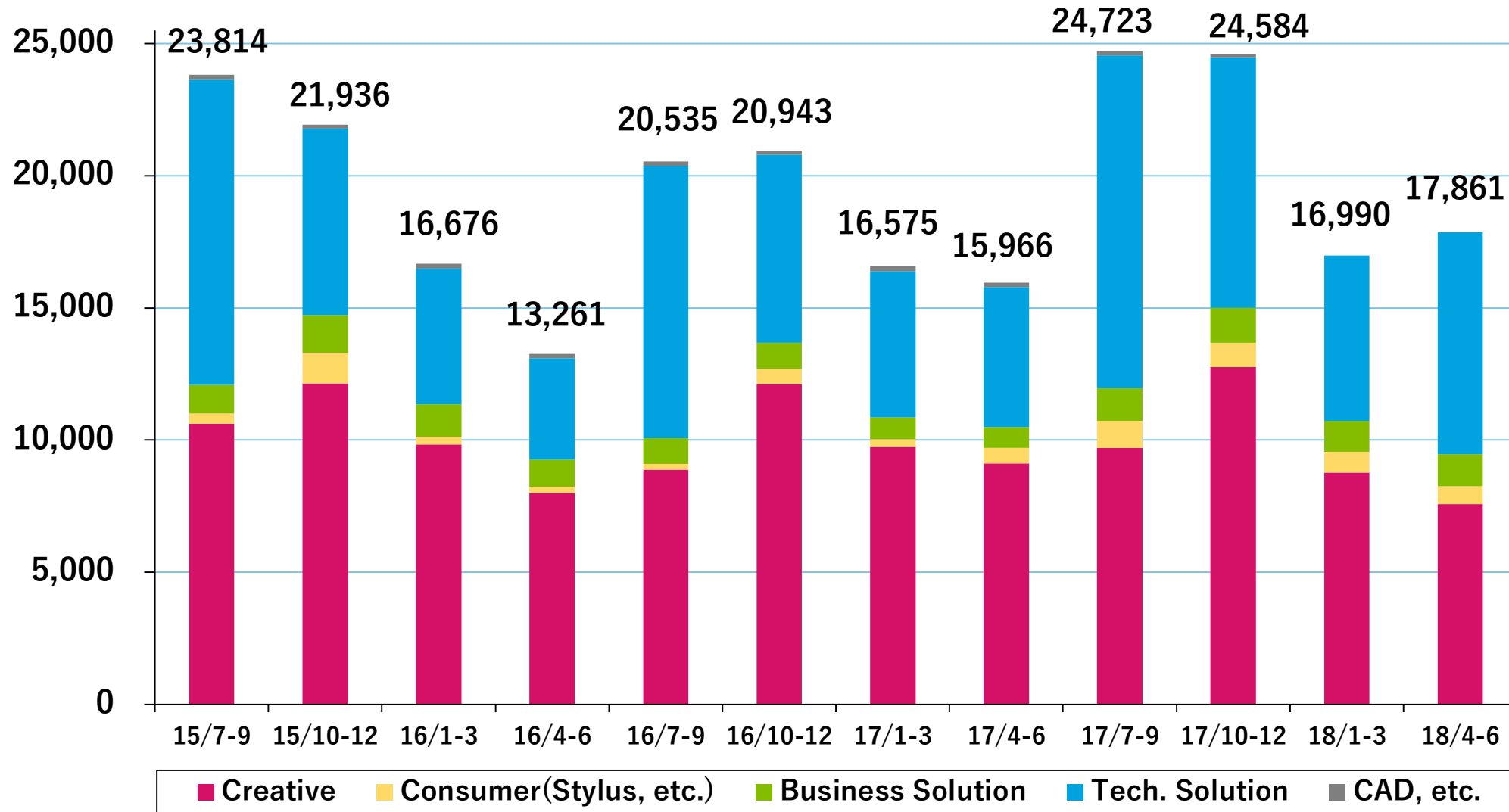
6.3 bn YOY +23%

- Sales expanded owing to increasing adoption of new models including Active-ES (AES) pen sensor systems.



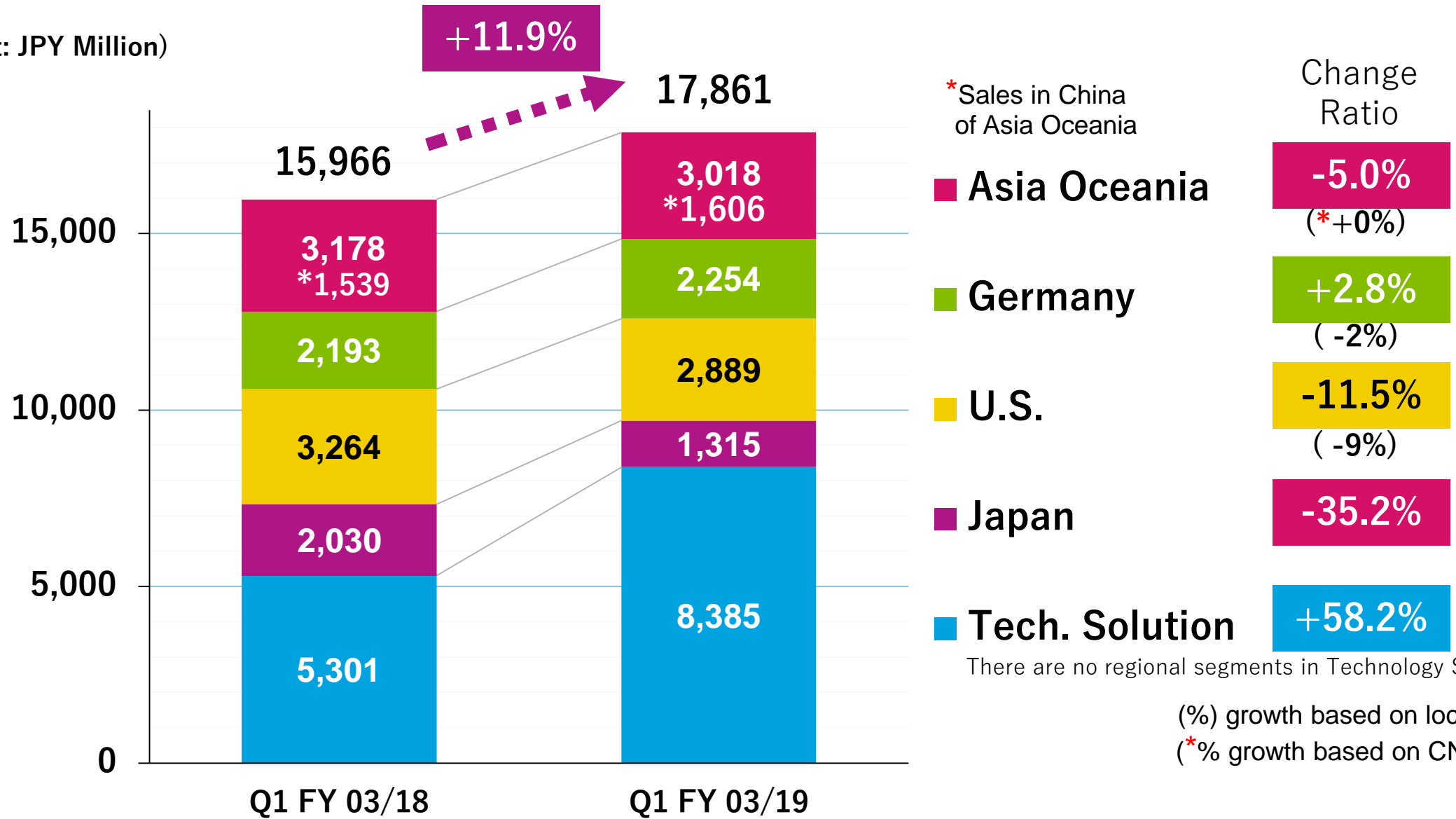
(Ref.) Quarterly Sales Trend by Product Line

(Unit: JPY Million)



(Ref.) Sales by Regional Subsidiary

(Unit: JPY Million)



(Ref.) Sales Changes on Local Currency Base in Brand Business

Region	Currency	YOY Change Ratio
Japan	JPY	-29%
U.S.	USD	-9%
Europe	EUR	-2%
China	CNY	+0%
Korea	KRW	-15%
Australia	AUD	-34%
Singapore	USD	+17%
Hong Kong	USD	-10%
Taiwan	NTD	+2%
India	INR	-21%

(Ref.) Consolidated B/S

(Unit: JPY Million)

	End of March 2018	End of June 2018	Change
Current Assets	42,195	42,561	366
Non-current Assets	8,714	8,960	245
Total Assets	50,910	51,521	611
Current Liabilities	16,752	18,541	1,789
Non-current Liabilities	11,489	11,335	-154
Total Liabilities	28,241	29,877	1,636
Minority Interest in Subsidiaries	0	0	0
Net Assets	22,668	21,644	-1,024
Total Liabilities and Net Assets	50,910	51,521	611
Equity Ratio	44.5%	42.0%	-2.5%

Key Changes

Assets

(Unit : JPY bn)

- Increase in inventories 1.2
- Increase in other current assets 1.0
- Increase in notes and accounts receivable-trade 0.5
The above changes mainly resulted from sales expansion in Technology Solution Business.
- Decrease in cash and deposits -2.3

Liabilities

- Increase notes and accounts payable-trade 2.4
- Increase in other current assets -0.6

Net Assets

- Decrease in shareholders' equity -1.1
Dividends paid, etc.

(Ref.) Consolidated C/F

(Unit: JPY Million)

	Q1 FY 03/18	Q1 FY 03/19	YoY Change
	04/17-06/17	04/18-06/18	Amount
C/F from operating activities	-1,204	-956	249
C/F from investing activities	-279	-531	-251
C/F from financing activities	124	-870	-993
Effect of change in exchange rate	324	29	-295
Increase-decrease of cash & cash equivalent	-1,036	-2,327	-1,291
Beginning balance of cash & cash equivalent	14,205	19,157	4,952
Ending balance of cash and cash equivalent	13,169	16,830	3,661

Major Activities in Q1 FY 03/19 (Unit : JPY bn)

C/F from operating activities

- Increase in notes and accounts receivable-trade -1.6
- Increase in inventories -1.2
- Decrease in provision for bonuses -0.6
- Increase in notes and accounts payable-trade 2.4

C/F from investing activities

- Purchase of non-current assets -0.5

C/F from financing activities

- Cash dividends paid -0.9

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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