

Business Report

for Q1 FY ending March 31, 2020
(April-June 2019)

Wacom Chapter 2

for a creative world™

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




Contents Index

- 4 Q1 FY 03/20 Results Overview
- 5 Q1 FY 03/20 Consolidated P/L
- 6-7 (Ref.) Changes in Operating Profit, SG&A Expenses, etc.
- 8-12 Q1 FY 03/20 Consolidated P/L by Business Segment and Business Highlights
- 13-21 Forecast Overview & Shareholders Return Policy for FY 03/20

(Supplementary Material)

- 23-24 FY 03/20 Business Segment, Q1 FY 03/20 Financial Summary
- 25-29 (Ref.) Quarterly Sales Trend by Product Line, Sales by Regional Subsidiaries, Consolidated B/S, C/F
- 30-33 FY 03/20 Forecast and Forecast Overview by Segment
- 34-38 Medium-Term Business Plan announced on May 11, 2018
- 39 Disclaimer



Financial Results for Q1 FY ending March, 2020

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Q1 FY 03/20 Results Overview

- Consolidated net sales of **JPY 17.1 bn** (YOY -4%)
- Operating loss of **JPY 0.3 bn**, net loss of **JPY 0.1 bn**
(previous FY Q1: Operating loss of JPY 0.4 bn, net loss of JPY 0.1 bn)
- **Consolidated sales declined slightly**
 - Branded Biz.: Significant increase in sales of a new entry-level display product offset the decline of sales of other products.
 - Tech. Solution Biz.: Sales increase for tablets & note PCs offset to some extent the significant decrease in sales for smartphones due to delayed demand.
- **Operating loss shrank**
 - Optimization of SG&A offset negative impact of approx. JPY 0.2 billion caused by exchange rate fluctuations.

Consolidated P/L

- **Operating loss reduced by SG&A optimization** despite lower sales level due to seasonality and delayed demand vs. the previous year.

	Q1 FY 03/19	Q1 FY 03/20	YOY Change	
	04/18-06/18	04/19-06/19	Amount	Ratio
Net Sales	17,861	17,100	-761	-4.3%
Gross Profit	6,110	5,950	-160	-2.6%
profit margin %	34.2%	34.8%		
SG&A	6,498	6,209	-289	-4.5%
SG&A ratio %	36.4%	36.3%		
Operating Profit (Loss: negative)	-388	-259	129	--
profit margin %	-2.2%	-1.5%		
Ordinary Profit (Loss: negative)	-324	-517	-193	--
Net Profit after Tax (Loss: negative)	-115	-119	-4	--

(Unit: JPY million)

(Ref.) Changes in Operating Profit

- **Reasons for change exclusive of exchange rate impact (year on year)**

- (1) Corporate function (administrative divisions): Control of SG&A expenses **JPY +0.25 bn**
- (2) Tech. Solution Business: Profit increase due to improved gross profit ratio **JPY +0.04 bn**
- (3) Branded Business: SG&A control offsetting gross profit decline due to lower sales
JPY +0 bn

- **Exchange rate impact (year on year)**

Currencies	Changes of forex	Sales	OP
1 USD	JPY 1.29 (weak yen)	JPY +0.12 bn	JPY -0.02 bn
1 EUR	-6.10 (strong yen)	-0.10 bn	-0.04 bn
Asian currencies total	--	-0.15 bn	-0.10 bn
Including CNY (lower column)	-0.84 (strong yen)	-0.08 bn	-0.06 bn
Grand Total		-0.13 bn	-0.16 bn

SG&A Expenses

- **Reduced SG&A by JPY 0.2 bn** through optimization (**excluding negative exchange rate impact by approx. JPY 0.1 bn**) (Unit: JPY million)

	Q1 FY 03/19	Q1 FY 03/20	YOY Change	
	04/18-06/18	04/19-06/19	Amount	Ratio
Personnel	2,481	2,300	-181	-7.3% (1)
R&D	879	1,060	181	20.6% (2)
Ad. & Promo.	628	574	-55	-8.7% (3)
Subcontractor	495	428	-67	-13.6% (3)
Depreciation	305	247	-58	-18.9%
Others	1,710	1,600	-110	-6.5% (3)
Total	6,498	6,209	-289	-4.5%
SG&A ratio %	36.4%	36.3%		-0.1%

- (1) Decrease in number of executives and reduction due to optimization of personnel composition
 (2) Increase due to R&D investment to promote Technology Leadership
 (3) Decrease due to cost optimization in each expenses

(Ref.) P/L by Business segment

Note

- Allocation policy of “Adjustment Amount (expenses related to administrative divisions)” was changed from FY 03/20. Appropriate portion of the related expenses was allocated to profit and loss in each business segment.
- We changed the policy from the viewpoint of refinement and transparency of segment profit and loss management, and investors’ feedback.
- In this material, each segment profit for Q1 FY 03/19 to be compared with Q1 FY 03/20 is shown by **value after new allocation*** (see the following table) to which allocation policy change was applied.

Segment profit/loss classification	Q1 FY03/19 (value before new allocation)		Q1 FY03/19 (value after new allocation)*
Branded Business	JPY 0.7 bn	⇒	<u>- JPY 0 bn</u>
Tech. Solution Business	JPY 1.0 bn	⇒	<u>JPY 0.8 bn</u>
<u>Adjustment</u>	<u>- JPY 2.1 bn</u>	⇒	<u>- JPY 1.2 bn</u>
Operating Profit	- JPY 0.4 bn	(unchanged)	- JPY 0.4 bn

Consolidated P/L by Business Segment

(Unit: JPY Million)

	Q1 FY 03/19	Q1 FY 03/20	YOY Change	
	04/18-06/18	04/19-06/19	Amount	Ratio
Net Sales total	17,861	17,100	-761	-4.3%
Branded Business	9,476	9,161	-315	-3.3%
Tech. Solution Biz.	8,385	7,939	-446	-5.3%
Operating Profit total (Loss; negative)	-388	-259	129	--
Branded Business	-14*	-207	-193	--
Tech. Solution Biz	848*	913	65	7.6%
Adjustment (Corporate, etc.)	-1,223*	-965	258	-21.1%
profit margin %	-2.2%	-1.5%		

*Value after new allocation resulting from change in the expense allocation policy for administrative divisions (Adjustment Amount) were applied in Q1 FY03/19. Refer to #8.

Business Highlights (trending topics in sales)

(Unit: JPY)

Branded Business **9.2 bn** **YOY -3%**

• **Creative Business** **8.0 bn** **YOY +6%**

(subsection)	Pen Tablet	3.9 bn	YOY -15%
	Display	3.8 bn	YOY +65%
	Mobile	0.3 bn	YOY -59%

- **Pen Tablet:** Sales of professional models released over two years ago slowed down, and sales of low-to-mid price range models stagnated on a changing competitive environment.
- **Display: Sales increased significantly on favorable performance of our first 16-inch entry-level model launched in Jan. 2019.**
- **Mobile:** Sales declined significantly as existing models entered the latter stages of their product life cycles.



Business Highlights (trending topics in sales)

Branded Business

(Unit: JPY)

• **Consumer Business** **0.2 bn** **YOY -71%**

- Launched new stylus products developed in collaboration with Microsoft optimized for Windows Ink in June 2019, but these represented only a small proportion of sales and so overall sales declined significantly in Q1 FY03/20.



• **Business Solution** **0.9 bn** **YOY -23%**

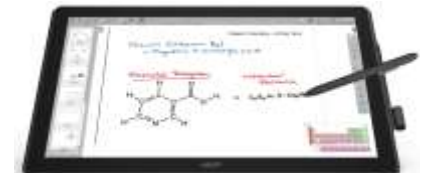
- Sales decreased due to sales decline of LCD signature tablet products for financial institutions in the U. S.



STU-540



DTU-1141



DTH-2452

Business Highlights (trending topics in sales)

(Unit: JPY)

Technology Solution Business 7.9 bn YOY -5%

- **Pen Sensor System for Smartphones**

1.1 bn YOY -46%

- Sales declined significantly on delayed timing of demand from sole customer Samsung for its new smartphone model.

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

6.8 bn YOY +9%

- Sales increased on strong demand for Active-ES (AES) pen sensor systems, which continue to build a good reputation among manufacturers .

Lenovo
FUJITSU



Google
Pixelbook



STAEDTLER®



MONTBLANC

Financial Forecast for FY ending March 2020

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Guidance for FY 03/20 Forecast

- **Revised upward the full year consolidated forecast of net sales in consideration of recent business segment performance trends.**
- **Reflected potential direct negative impact of supplementary tariffs imposed on China by the U.S. in the full year forecast for the Branded Business segment.**
- Revised downward the full year forecast for Branded Business segment profit.
- Revised upward the full year forecast for Technology Solution Business sales and segment profit.

(Ref.) Guidance for P/L by Business Segment

Note

- Allocation policy of “Adjustment Amount (expenses related to administrative divisions)” was changed from FY 03/20. Appropriate portion of the related expenses was allocated to profit and loss in each business segment.
- In this material, each segment profit for FY 03/19 to be compared with FY 03/20 is shown by **value after new allocation*** (see the following table) to which allocation policy change was applied.

Segment profit/loss classification	FY03/19 (value before new allocation)		FY03/19 (value after new allocation)*
Branded Business	JPY 4.4 bn	⇒	<u>JPY 1.8 bn</u>
Tech. Solution Business	JPY 7.4 bn	⇒	<u>JPY 6.7 bn</u>
<u>Adjustment</u>	<u>- JPY 7.6 bn</u>	⇒	<u>- JPY 4.3 bn</u>
Operating Profit	-JPY 4.2 bn	(No change)	- JPY 4.2 bn

Guidance for FY 03/20 Forecast

- Consolidated net sales: **JPY 95.5 bn** (YOY +7%)
 - Operating Profit: **JPY 5.2 bn** (YOY +25%)
 - Net Profit: **JPY 3.4 bn** (YOY -11%)
- **Revised upward the full year forecast for net sales announced on May 10, 2019, by JPY 2.5 bn.**

Guidance for FY 03/20 Forecast by Segment -1

Branded Business

- Sales: **JPY 48.7 bn** (YOY +7%)
- Segment profit: **JPY 3.3 bn** (YOY +81%*)
- No change to the previous sales forecast.
- **Revised downward the previous forecast for segment profit, after taking into consideration potential direct negative impact of supplementary tariffs imposed on China by the U.S., by JPY 0.7 bn.**
- Sales increase is expected after year-end sales season, mainly for Creative Business display products.

Guidance for FY 03/20 Forecast by Segment -2

Technology Solution Business

- Sales: **JPY 46.9 bn** (YOY +6%)
- Segment profit: **JPY 6.2 bn** (YOY -7%*)
- Set the above baseline in due consideration of potential business uncertainty.
- **Revised upward the previous forecast for net sales and segment profit due to several positive factors, including growing demand for replacement PCs as end of Microsoft support for Windows 7 approaches.**
(sales: +JPY 2.5 bn; segment profit: +JPY 0.7 bn)
- We expect a decline in segment profit due to proactive investment in R&D expenses and expected impact of changes in competitive environment.

FY 03/20 Forecast by Business Segment

(comparison to the previous forecast)

(unit: million yen)

	FY 03/20 (previous fcst.)	FY 03/20 (revised fcst.)	Variance	
	04/19-03/20	04/19-03/20	Amount	Ratio
Net Sales Total	93,000	95,500	2,500	2.7%
Branded Biz	48,650	48,650	0	0%
Tech. Solution Biz	44,350	46,850	2,500	5.6%
Operating Profit Total	5,200	5,200	0	0%
Branded Biz	4,010	3,300	-710	-17.7%
Tech. Solution Biz	5,520	6,200	680	12.3%
Adjustment	-4,330	-4,300	30	1%
Profit Margin %	5.6%	5.4%		

Forecasts of R&D expense, Capex, and Depreciation for FY03/20

R&D expense

JPY 5.2 billion (YOY +19%) **No revision**

- Key items: New products development and next-generation technology research, etc. in order to promote Technology Leadership

Capital expenditure

JPY 2.5 billion (YOY +6%) **No revision**

- Key items: Metallic mold for products in Branded Business and Tech. Solution Business

Depreciation

JPY 2.6 billion (YOY +10%) **No revision**

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

Shareholders Return Policy for FY 03/20


Basic policy of profit distribution

- Aims to provide stable and sustainable dividends and to flexibly exercise treasury stock acquisition, while maintaining sufficient retained earnings to enhance future business development and financial quality.
- We will strive to distribute profits by increasing dividend per share over the medium- to long-term, while maintaining adequate financial soundness by targeting a consolidated dividend payout ratio of 30%.

Dividend per share (forecast) **No revision**

- **Year-end dividend: JPY 6.50 for FY 03/20** (JPY 6.00 for FY 03/19)
- **Payout ratio: 30.7% for FY 03/20** (25.3% for FY 03/19)

(capital ratio at the end of FY: FY 03/19 49%, FY 03/18 45%, FY 03/17 42%)



Financial Results for Q1 FY ending March 2020
Supplementary material



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Business Segment for FY 03/20

Branded Business

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

Technology Solution Business

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

Ink Division

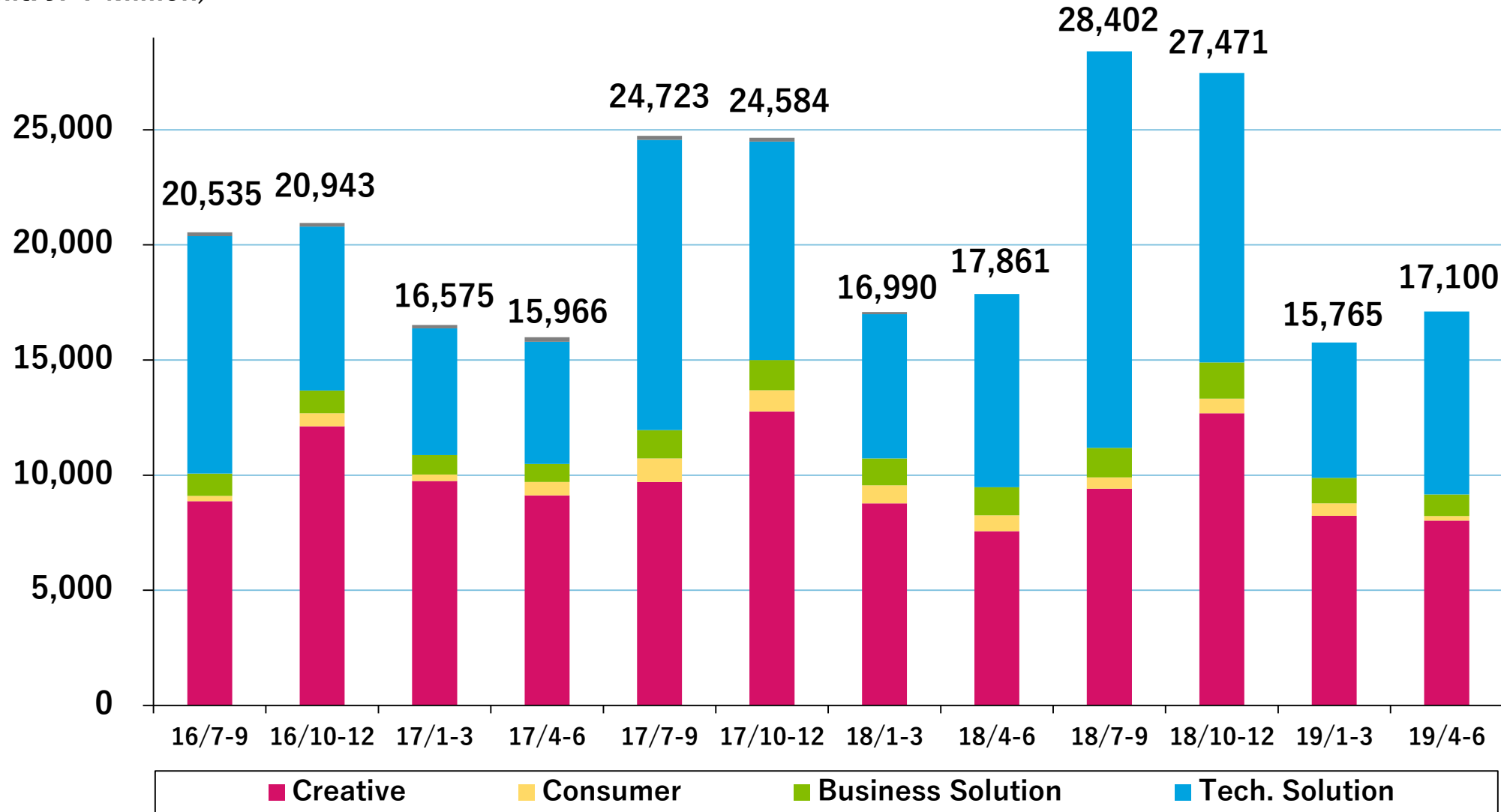
- **Development of digital ink technology and related product, software solution services, etc.**

Q1 FY 03/20 Financial Summary

Business Performance	Q1 FY 03/20	YOY Change	
Net Sales	JPY 17,100 mil.	-4.3%	
Operating Profit (Loss: negative)	-259 mil.	-- (Prev. Q1 -388 mil.)	
Ordinary Profit (Loss: negative)	-517 mil.	-- (Prev. Q1 -324 mil.)	
Net Profit after Tax (Loss: negative)	-119 mil.	-- (Prev. Q1 -115 mil.)	
Financial Indices	Q1 FY 03/20	YOY Change	
EPS (Loss: negative)	JPY -0.74	JPY -0.03	
BPS	147.23	+14.09	
(Ref.)	Average Forex rate	Q1 FY 03/20	YOY Change
	1 USD	JPY 110.00	+1.2% (weak yen)
	1 EUR	123.29	-4.7% (strong yen)
	1 CNY	16.13	-4.9% (strong yen)

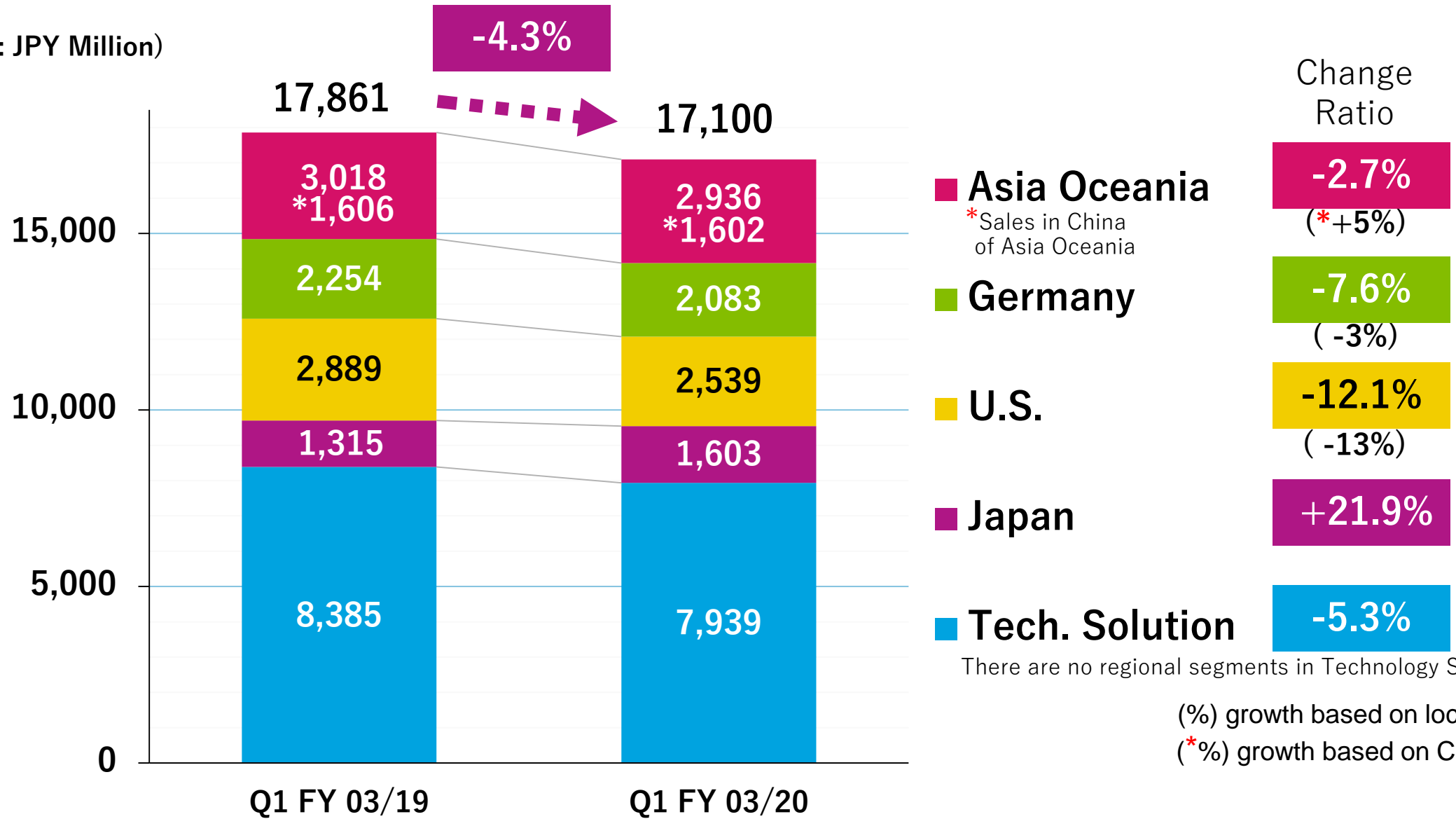
(Ref.) Quarterly Sales Trend by Product Line

(Unit: JPY Million)



(Ref.) Sales by Regional Subsidiary (Year on Year)

(Unit: JPY Million)



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

Region	Currency	YOY Change
Japan	JPY	+22%
U.S.	USD	-13%
Europe	EUR	-3%
China	CNY	+5%
Korea	KRW	-8%
Australia	AUD	+29%
Singapore	USD	-15%
Hong Kong	USD	-9%
Taiwan	NTD	-25%
India	INR	+48%

(Ref.) Consolidated B/S

(Unit: JPY Million)

	End of March 2019	End of June 2019	Change
Current Assets	42,158	41,096	-1,062
Non-current Assets	9,393	10,466	1,073
Total Assets	51,551	51,563	12
Current Liabilities	14,653	15,828	1,176
Non-current Liabilities	11,470	11,818	348
Total Liabilities	26,123	27,647	1,524
Non Controlling Interests	0	0	0
Net Assets	25,428	23,916	-1,512
Total Liabilities and Net Assets	51,551	51,563	12
Equity Ratio	49.3%	46.4%	-2.9pts

Key Changes

Assets

(Unit : JPY bn)

- Decrease in inventories -1.3
The above changes mainly resulted from inventories in Branded Business.
- Decrease in cash and deposits -1.3
- Increase in notes and accounts receivable-trade 1.4
- Increase in lease assets 0.7
- Increase in deferred tax assets 0.4

Liabilities

- Increase in notes and accounts payable-trade 2.1
- Increase in provision of bonuses -0.7

Net Assets

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

(Ref.) Consolidated C/F

(Unit: JPY Million)

	Q1 FY03/19	Q1 FY03/20	YOY Change
	04/18-06/18	04/19-06/19	Amount
C/F from operating activities	-956	679	1,634
C/F from investing activities	-531	-563	-33
C/F from financing activities	-870	-1,030	-161
Effect of change in exchange rate	29	-369	-397
Increase-decrease of cash & cash equivalent	-2,327	-1,284	1,043
Beginning balance of cash & cash equivalent	19,157	16,763	-2,394
Ending balance of cash and cash equivalent	16,830	15,479	-1,351

Major Activities in Q1 FY 03/20 (Unit: JPY bn)

C/F from operating activities

- Increase in notes and accounts payable-trade 2.1
- Decrease in inventories 1.1
- Increase in notes and accounts receivable-trade -2.1

C/F from investing activities

- Purchase of tangible assets -0.6

C/F from financing activities

- Cash dividends paid -0.9



Financial Forecast for FY ending March 2020

Supplementary material

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Assumptions of FY 03/20 Forecast

Forex rate assumptions **No revision**

USD 1 = JPY 108.0 YOY strong JPY 2.7 (2.4%)

EUR 1 = JPY 125.0 YOY strong JPY 3.4 (2.7%)

CNY 1 = JPY 15.5 YOY strong JPY 1.0 (6.2%)

Sensitivity to currency fluctuations: 12-month forecast (unit: million yen)

Unit of sensitivity	In case of stronger JPY 1.0 (*JPY 0.1 for CNY)					
	FY 03/20 (forecast)			(for ref.) FY 03/19 (results)		
Currency	USD	EUR	*CNY	USD	EUR	*CNY
Sales	-570	-110	*-60	-540	-90	*-40
Operating Profit	10	-80	*-40	10	-50	*-30

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

Consolidated Forecast for FY 03/20

(unit: million yen)

	H1 FY 03/19 (act.)		H1 FY 03/20 (fcst.)		YOY
	04/18-09/18		04/19-09/19		Change
Net Sales	46,263		44,950		-2.8%
Operating Profit	2,734	5.9%	1,610	3.6%	-41.1%
Ordinary Profit	2,912	6.3%	1,596	3.6%	-45.2%
Net Profit	1,975	4.3%	1,094	2.4%	-44.6%

	FY 03/19 (act.)		FY 03/20 (fcst.)		YOY
	04/18-03/19		04/19-03/20		Change
Net Sales	89,499		95,500		6.7%
Operating Profit	4,152	4.6%	5,200	5.4%	25.2%
Ordinary Profit	4,149	4.6%	5,170	5.4%	24.6%
Net Profit	3,851	4.3%	3,440	3.6%	-10.7%
ROE	16.0%		12.9%		-3.1pts

(1) Impact of assumed exchange rate as appreciation of the yen

(2) R&D investment for business growth is scheduled from H1

(3) Prospect of sales increase in Branded Business after year-end sales season

(4) Prospect of decrease in net profit for FY 03/20 due to profit increase resulting from decrease in tax expenses in FY 03/19

FY 03/20 Forecast by Business Segment

(unit: million yen)

	FY 03/19 (actual)	FY 03/20 (forecast)	YOY	
	04/18-03/19	04/19-03/20	Amount	Ratio
Net Sales Total	89,499	95,500	6,001	6.7%
Branded Biz	45,443	48,650	3,207	7.1%
Tech. Solution Biz	44,056	46,850	2,794	6.3%
Operating Profit Total	4,152	5,200	1,048	25.2%
Branded Biz	1,822*	3,300	1,478	81.2%
Tech. Solution Biz	6,659*	6,200	-459	-6.9%
Adjustment	-4,329*	-4,300	29	-0.7%
Profit Margin %	4.6%	5.4%		

*Comparison with value after allocation resulting from change in the expense allocation policy for administrative divisions (Adjustment Amount) were applied in FY03/19. Refer to #15.

Impact to FY03/19 segment profit: Branded business JPY -2,624 mil
Tech. Solution business JPY -736 mil

Wacom Chapter 2

Medium-Term Business Plan

FY ending March 2019 - FY ending March 2022

(An excerpt of presentation materials announced on May 11, 2018)

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Wacom opens “*Chapter 2*”

Taking a new step as

“**Technology Company**”

Corporate Level Strategy and Direction

1. Technology Leadership
2. Island & Ocean
3. Extreme Focus

High-priority Issues

- “Technology Innovation” through **dialogues with customers**
- Organization/Operation **update**
- Solid financial structure securing **profitability**
- **Enhancement of management quality** through BOD*
update

* BOD: Board of Directors

MTP: Consolidated P/L & Financial Indicator

(unit: JPY million)

	FY 03/18 (FY35)	FY 03/22 (FY39)	CAGR
Net Sales	82,263	100,000	5%
Brand Business	48,173	60,400	6%
Technology Solution Biz	33,648	39,600	4%
Operating Profit	3,527	10,000	
Operating Margin	4.3%	10.0%	
Net Profit	2,362	6,948	
ROE	11%	15-20%	
Capital Ratio	44%	Approx. 60%	

In light of the business nature of Technology Solution Business, the profit and loss forecast may fluctuate in the short term. Therefore, high uncertain revenue opportunities are not included in the forecasts, and the risk factors assumed as of today are preferentially reflected in the forecast.

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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