

Q&A summary of the briefing on financial results for the fiscal year ended March 31, 2019 held by Wacom Co. Ltd. on May 10, 2019

Q: Concerning Branded Business, what's your view on creative market for professional users? When do you see the business will recover in the second half onward?

A: No significant changes have been seen in the professional market for hi-end products. Those products are typically used for design workflows of customers such as Disney, Pixar, and leading automobile manufacturers. It's not such a market as driven by price competition, but intensively focusing on the workflow and inhouse IT infrastructure optimized for total studio work. Changing a viewpoint rather extensively, you may also find changes in work style. One is related to changes in workflow of professional users who have been focusing more on working in 3D environment such as VR (Virtual Reality) and MR (Mixed Reality) on top of 2D. The other is related to diversification of work resource where you do not work only in a studio, but collaborate with freelance creators. It is a key to provide appropriate solutions for these various use cases.

As for recovery plans of Branded Business in the second half, we are in the midst of strategy executions including collaborations with application players, and enrichment of the product portfolio by more focusing on display products, being followed by more strategic actions in preparation. It takes time to modify an overall product portfolio, rather in longer scope than within the second half of this fiscal year.

Q: Concerning optimization of SG&A expenses, do you expect further room for it in the second half and next fiscal year onward?

A: We pursue it with stress accent. To achieve sustainable growth as technology company, R&D expenses should be encouraged to capitalize whereas the other expenses should be optimized as much as possible. We keep this principle in this second half onward. As for a room of the optimization, we will pursue its optimized point in consideration of sales dynamism in each business, and aim for establishing muscular management structure.

Q: Concerning an opportunity of Technology Solution Business, tell us your view on new businesses, such as foldable devices, in addition to the current businesses.

A: Current businesses such as for smartphones, tablets and notebook PCs have been steadily performing. As for tablets and notebook PCs, number of projects for our customers for digital pen equipment has been steadily increasing, and, out of them,

some specific projects have emerged to be strongly well received by their customers in the first half. Although recent total market size has not been growing with up and down within a few percentage margins, innovations have been going on. For example, a certain PC manufacturer demonstrates a foldable device equipped with digital pen on the internet. That pen works on our pen technologies and we endeavor to cultivate this new technology field going forward. In addition, relationship has been formed with Microsoft in terms of technological partnership under their eco system, and new collaboration relating to operating system level has been underway. These are mere examples so that you may see potential business opportunities furthermore, and we will try to secure them by our innovations.

Q: Concerning sales dependency on Samsung in Technology Solution Business, do you see an increase from the current ratio to the segment sales around 40% in future? Do you think recent tendencies of front-loaded demand into the second quarter ahead of year-end selling season since the previous fiscal year to continue further?

A: We foresee the ratio to hover around 40% as businesses for tablets and notebook PCs are steadily growing with contribution to overall segment sales growth. We should not see the ratio to increase to 60% or 70% as in the past.

As for the timing of sales for smartphones, it is difficult to provide you with our guidance because the business depends on marketing strategy of our customer and we cannot control the business itself. It is important for us to be flexible and ready for demand of our customer regardless of front-loaded or backphased.

Q: Concerning sales for tablets and notebook PCs in Technology Solution Business, did you have specific demand attributable to termination of support services for Windows 7? Concerning Branded Business in Japan, did you have one-time demand before consumption tax increase?

A: Both demands in one-time nature had a certain impact on sales, however, they were not main reasons of sales increase in each business.

Q: Concerning impact from tariffs imposed by the U.S. on import from China, how much was quantitative impact reflected in the financial forecast for this fiscal year? How much percentage will the manufacturing dependency ratio on China be reduced by?

A: Concerning assumptions reflected in the financial forecast for this fiscal year, it was 10% as additional tariff rate at the timing in May for initial earnings guidance, and

followed by further increase to 25% at the timing in August for update of earnings guidance and it remains unchanged until now.

By applying additional tariff rate of 25%, impact on profit from additional tariffs for this fiscal year would be approximately minus 1.5 billion yen. Comparing to the case of no increase and flat with 10% of additional tariff rate (assumed in the initial guidance), an increase to 25% of additional tariff rate (reflected into the updated guidance in August) would increase the minus impact on profit by less than 1 billion yen. In addition, by reflecting impact from countermeasures, net minus impact (on profit from the additional tariff rate increase from 10% to 25%) would be reduced to an increase of approximately minus 0.7 billion yen (reflected into the updated guidance in August).

As for the production place transfer, we are in the midst of the process and cannot touch in detail at this point of time. Considering various types of risk to hedge, it hardly imagines to transfer drastically out of China.

Q: Concerning the stagnant performance of Branded Business, what's your view, whether due to stagnant market or change in competitive environment, etc.?

A: Several causes. As for lower-price end of pen tablet products, severe attacks from competitors in terms of pricing, and we have had obvious impact from it. As for high-end products for professional users, we are stable as explained earlier. We have been engaging in development of product portfolio and its market, targeting user segment between professionals and beginners who includes freelance creators or students studying design. So far, we have not covered shortfalls coming from declining sales of pen tablet products yet. It is a key to execute strategies securing mid-layer user segments together with top market for professionals with comprehending user preferences such as both movements from pen tablets to display and from analog to digital.

Q: Concerning digital stationary collaborations, what is the intention of traditional stationary players such as Bic attending Inkathon (Contest for developers of digital ink applications) this time?

A: Two reasons. One is that Wacom can provide partner companies who have mastered analog stationary with technologies enabling them to manage digital stationary utilizing good nature of analog stationary. Bic can maintain current form of ballpoint pen for transformation to digital stationary by inserting electronic device (3mm in width) like spare lead. This is one example of value proposition to them.

Secondly, advanced effort emerged among partners by providing solution from Wacom.

In the case of Bic, they launched 2-in-1 type products where analog pen and digital pen specially merged as one pen with easy motion for switching between both. This is one example of collaborations with partners for successful Inkathon.

Q: (Remarks of appreciation for our effort on better ESG related disclosures with words of an impression on Wacom's website as "Stylish ESG site never seen before!"*)

This is our request (as a long-term investor based in the U.S.) Engagement guideline issued by the U.S. Sustainability Accounting Standard Board (SASB) deals with information security as one of materiality items. Although you mention your effort on information security in your newly established website and I imagine certain audit activities could have been done, no actual results of such activities are described there. It's better to disclose them as well.

A: (Appreciation for the opinion)

We will aim to enrich disclosure to include actual results. We have been acknowledging importance of information security you cited and in process of streamlining from the viewpoint of corporate governance where digital hand-writing information is closely related to a certain aspect of information security so that we try to achieve higher security requirements.

(*) The above web pages are available in Japanese only as of October, 2019, and followed by English later.