

Business Report

FY ended March 31, 2020

Wacom Chapter 2

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



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FY 03/20 Results Overview

- Consolidated net sales: **JPY 88.6 bn** (YOY -1%)
- Operating profit: **JPY 5.6 bn** (YOY +34%)
- Net profit: **JPY 3.9 bn** (YOY +2%)

Key Points

- Slight decrease in net sales but significant increase in operating profit due to optimization of expenses (SG&A ratio of 27%).
- Revised upward the year-end dividend per share (record date: March 31, 2020) to JPY 7.00 from the initial forecast of JPY 6.50.

FY 03/20 Consolidated P/L

- Operating profit increased significantly due to optimization of SG&A, accommodating negative impact from supplemental US tariffs on imports from China (approx. JPY -1.0 bn) and yen appreciation (approx. JPY -0.9 bn).

	FY 03/19	FY 03/20	YOY Change		(unit: JPY million)
	04/18-03/19	04/19-03/20	Amount	Ratio	
Net Sales	89,499	88,580	-919	-1.0%	
Gross Profit	30,448	29,707	-741	-2.4%	
profit margin %	34.0%	33.5%			
SG&A	26,296	24,140	-2,156	-8.2%	
SG&A ratio %	29.4%	27.3%			
Operating Profit	4,152	5,567	1,415	+34.1%	
profit margin %	4.6%	6.3%			
Ordinary Profit	4,149	5,194	1,045	+25.2%	
Net Profit after Tax	3,851	3,917	66	+1.7%	

SG&A Expenses

- Reduced SG&A by JPY 1.6 bn (excluding negative exchange rate impact of approx. JPY -0.6 bn) through optimization, and SG&A ratio lowered to around 27% and above.

	FY 03/19	FY 03/20	YOY Change		(unit: JPY million)
	04/18-03/10	04/19-03/20	Amount	Ratio	
Personnel	9,275	8,734	-542	-5.8%	(1)
R&D	4,345	4,214	-131	-3.0%	
Ad. & Promo.	2,945	2,498	-448	-15.2%	(2)
Subcontractor	1,951	1,734	-217	-11.1%	(2)
Depreciation	1,180	940	-241	-20.4%	
Others	6,599	6,021	-577	-8.7%	(2)
Total	26,296	24,140	-2,156	-8.2%	
SG&A ratio %	29.4%	27.3%		-2.1%	

- (1) Decrease mainly due to attrition of executives and optimization of personnel composition
 (2) Decrease mainly due to cost optimization in each expense

Consolidated P/L by Business Segment

(unit: JPY million)

	FY 03/19*	FY 03/20	YOY Change	
	04/18-03/19	04/19-03/20	Amount	Ratio
Net Sales total	89,499	88,580	-919	-1.0%
Branded Business	45,443	42,587	-2,856	-6.3%
Tech. Solution Biz.	44,056	45,993	1,937	+4.4%
Operating Profit total	4,152	5,567	1,415	+34.1%
Branded Business	1,822	1,706	-116	-6.3%
Tech. Solution Biz	6,659	7,650	991	+14.9%
Adjustment (Corporate, etc.)	-4,329	-3,790	539	-12.4%
profit margin %	4.6%	6.3%		

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

FY 03/20 Results Overview by Segment - 1

Branded Business

- Sales: **JPY 42.6 bn** (YOY -6%)
 - Segment profit: **JPY 1.7 bn** (YOY -6%*)
- Slightly lower sales due to declines for pen tablet and other product lines despite contribution of display products centering on entry-level models
 - Slight decrease in segment profit from direct negative impact (approx. JPY -1.0 bn) of supplemental US tariffs on imports from China and negative impact (approx. JPY -0.8 bn) of forex fluctuations (yen appreciation) despite optimization of SG&A responding to sales decline

FY 03/20 Results Overview by Segment - 2

Technology Solution Business

- Sales: **JPY 46.0 bn** (YOY +4%)
- Segment profit: **JPY 7.7 bn** (YOY +15%*)
 - Sales increased for smartphone pen-sensor systems for sole customer Samsung, but sales slightly decreased for tablets and notebook PCs despite increased sales to key customers
 - Segment profit increased owing to improvement of gross profit ratio and optimization of SG&A

Consolidated B/S

(unit: JPY million)

	End of March 2019	End of March 2020	Change
Current Assets	42,158	42,173	+15
Non-current Assets	9,393	8,983	-410
Total Assets	51,551	51,156	-395
Current Liabilities	14,653	15,770	+1,117
Non-current Liabilities	11,470	7,651	-3,819
Total Liabilities	26,123	23,421	-2,702
Minority Interest in Subsidiaries	0	0	0
Net Assets	25,428	27,735	+2,307
Total Liabilities and Net Assets	51,551	51,156	-395
Equity Ratio	49.3%	54.2%	+4.9pts

Key Changes

Assets

(unit : JPY billion)

- Decrease in inventories **-4.6**
Mainly due to a decrease of inventories in Branded Business.
- Decrease in intangible fixed assets -1.0
- Increase in cash and deposits +4.8

Liabilities

- Decrease in short-term borrowings -2.5
- Decrease in long-term borrowings -2.0
- Increase in notes and accounts payable –trade +1.2

Net Assets

- Increase in shareholders' equity +2.9
Mainly due to an increase of retained earnings

Consolidated C/F

(unit: JPY million)

	FY 03/19	FY 03/20	YOY Change
	04/18-03/19	04/19-03/20	Amount
C/F from operating activities	1,054	13,058	+12,004
C/F from investing activities	-2,437	-1,960	+477
C/F from financing activities	-951	-5,825	-4,874
Effect of change in exchange rate	-61	-495	-434
Increase-decrease of cash & cash equivalent	-2,394	4,779	+7,173
Beginning balance of cash & cash equivalent	19,157	16,763	-2,394
Ending balance of cash and cash equivalent	16,763	21,541	+4,778

Major Activities in FY 03/20

C/F from operating activities (unit: JPY billion)

• Profit before income taxes	4.9
• Decrease in inventories	4.2
• Depreciation	2.6
• Increase in notes and accounts payable-trade	1.4

C/F from investing activities

• Purchase of non-current assets	-1.7
----------------------------------	------

C/F from financing activities

• Repayments of borrowings	-6.5
• Payment of cash dividends	-1.0
• Proceeds from borrowings	2.0

Difference from the Forecast as of January, 2020

	FY 03/20 (prev. fcst.)		FY 03/20 (act.)		fcst. vs act.
	04/19-03/20		04/19-03/20		Change
Net Sales	91,500		88,580		-2,920
Operating Profit	5,200	5.7%	5,567	6.3%	+367
Ordinary Profit	4,800	5.2%	5,194	5.9%	+394
Net Profit	3,200	3.5%	3,917	4.4%	+717

(unit: JPY million)

Difference Factors

Net Sales

Negative impact on net sales mainly due to COVID-19 pandemic

- Branded Business: Restrictions on new product launches, sales and promotion activities, especially display and mobile products. **JPY -1.9 bn**
- Technology Solution Business: Restrictions on operations (production, supply chain) and sales activities mainly for tablets and notebook PCs **JPY -1.0 bn**

Profit/Loss

Operating profit: **JPY 0.4 bn**

- Technology Solution Business: SG&A control and improvement of GP ratio accommodated sales decrease **JPY +0.7 bn**
- Corporate (administrative div.): SG&A control (decrease in Adjustment Amount) **JPY +0.3 bn**
- Branded Business: Decrease in gross profit due to sales decrease, etc. **JPY -0.6 bn**

Net profit **JPY +0.7 bn**

- Decrease in tax expenses, etc.

Financial Forecast for FY ending March 2021 (FY38)

Guidance for FY 03/21 Forecast

Note

Due to uncertain outlook for recovery in economic activity damaged by the COVID-19 pandemic,

- **Full-year forecasts are in the form of potential range**
- Business segment forecasts are also in the form of potential range
- Forecasts of dividend per share, forex rate assumption, R&D expense, capital expenditure, and depreciation remain as single value format.
- No breakdown into halves in the full year forecast. Although we expect larger impact of the COVID-19 pandemic in the first half, business may continue to be impacted in the second half in some degree but uncertain.
- **The lower limit of the range means baseline, the upper limit means opportunity added on the baseline. The opportunity reflects minimization of COVID-19 pandemic impact and execution of additional multiple business measures.**

Summary of Forecast for FY 03/21

- Consolidated net sales: **JPY 89.0bn~91.5bn**
(YOY +0%~+3%)
- Operating Profit: **JPY 5.6bn ~ 6.5bn**
(YOY +1%~+17%)
- Net Profit: **JPY 4.0bn ~ 4.6bn**
(YOY +2%~+17%)

- We drafted full-year consolidated financial forecasts based on trends in the forex market and currently available data concerning business conditions for each business segment.

*Assumptions for forex rate assumptions (USD1 = JPY108.0, EUR1 = JPY121.0) and sensitivity to currency fluctuations. Refer to #46.

*Forecast by Business Segment for FY 03/21. Refer to #48.

FY 03/21 Forecast Overview by Segment -1

Branded Business

- Net sales **JPY 42.5bn~43.5bn**
(YOY -0%~+2%)
- Segment profit **JPY 2.8bn~ 3.2bn**
(YOY +64%~+88%)
- Sales for the full year are expected to increase due to expansion of display product sales centering on entry-level models, with emphasis on promoting user experience for new beginner model announced on January, 2020.
- Segment profit for the full year is expected to increase due to improvement in product mix and optimization of SG&A.

FY 03/21 Forecast Overview by Segment -2

Technology Solution Business

- Net sales **JPY 46.5bn~48.0bn**
(YOY +1%~+4%)
- Segment profit **JPY 7.0bn~ 7.5bn**
(YOY -8%~-2%)
 - For the full-year, we keep and develop robust relationship with key customers, and strive to seize new business opportunities including the education market.
 - Segment profit for the full-year is expected to decrease due to proactive investment in R&D, etc.

Forecasts of R&D expense, Capex, and Depreciation for FY03/21

R&D expense

JPY 5.4bn (YOY +27%)

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

Capital expenditure

JPY 2.1bn (YOY +14%)

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

Depreciation

JPY 2.1 bn (YOY -8%)

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

Shareholders Return Policy for FY 03/21

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)

- **Year-end dividend: JPY 7.50 for FY 03/21** (JPY 7.00 for FY 03/20)
- **Payout ratio: 26.5~30.5% for FY 03/21** (29.0% for FY 03/20)

(Ref.) Capital ratio at the end of FY: FY 03/20 54%, FY 03/19 49%, FY 03/18 45%)

- Recap of the first half of Wacom Chapter 2
- Action Towards Wacom Chapter 3
- Social Initiatives of Wacom

Recap of the first half of Wacom Chapter 2

With our three key strategies, we have been on course in business development and laying the foundation for further growth

Evolving experiences and value continuously by technology innovation as a **“Technology Leadership Company”**.

Growing by aligning business characteristics of **“Island = Branded Business”** & **“Ocean = Technology Business”**.

Improving profitability through **“Extreme Focus”**.

Towards Wacom Chapter 3: market perspectives

New experiences, New customers, and Greater potential in digital pen market

Digital transformation of education: “1 device per student” and “adaptive learning”

New

Changing work style: boost demand by remote online collaboration

Existing

Expanding digital content demand: expand application/device

Existing

Evolution of Creative workflow: 3D and cloud native creation

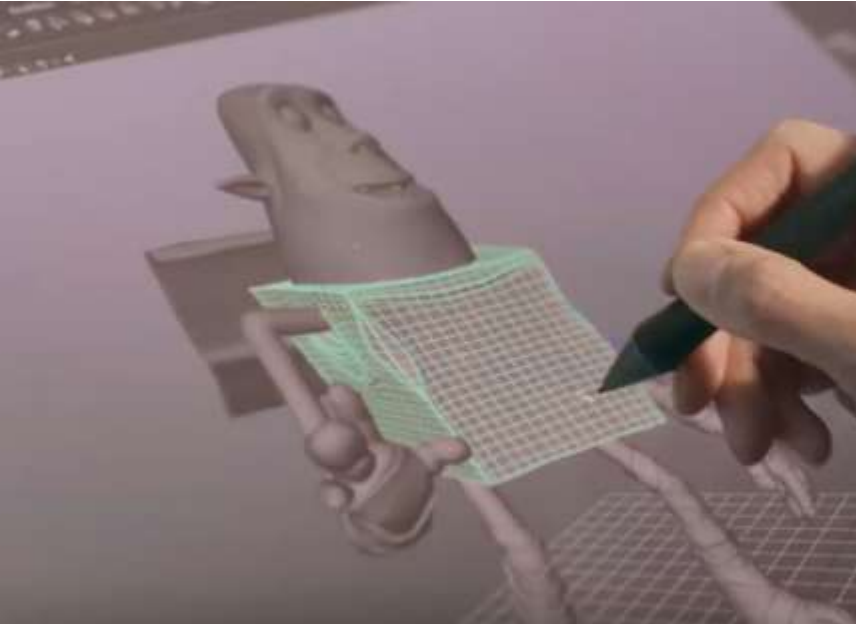
New

Brand new pen experience: foldable devices, larger screen, smart home, etc.

New

Towards Wacom Chapter 3: what we achieve

**From “the best tools” to “the best digital pen experience” :
hardware + service**



“Amplified creation”

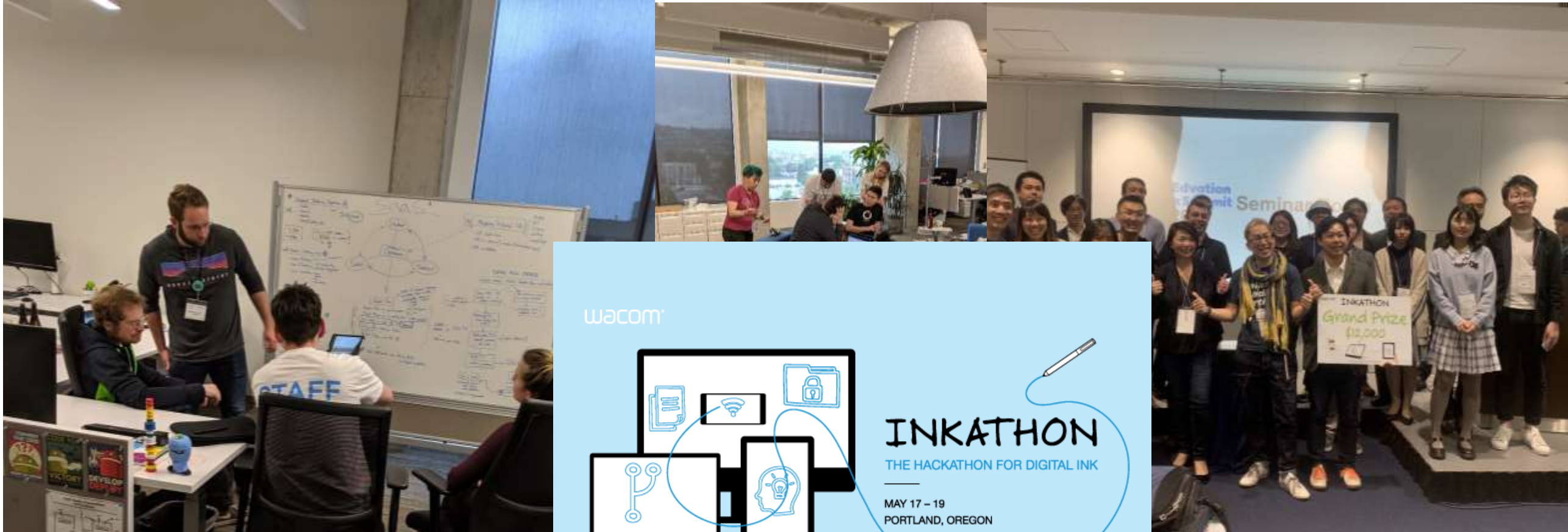
Wacom's core pen technology: never-ending evolution





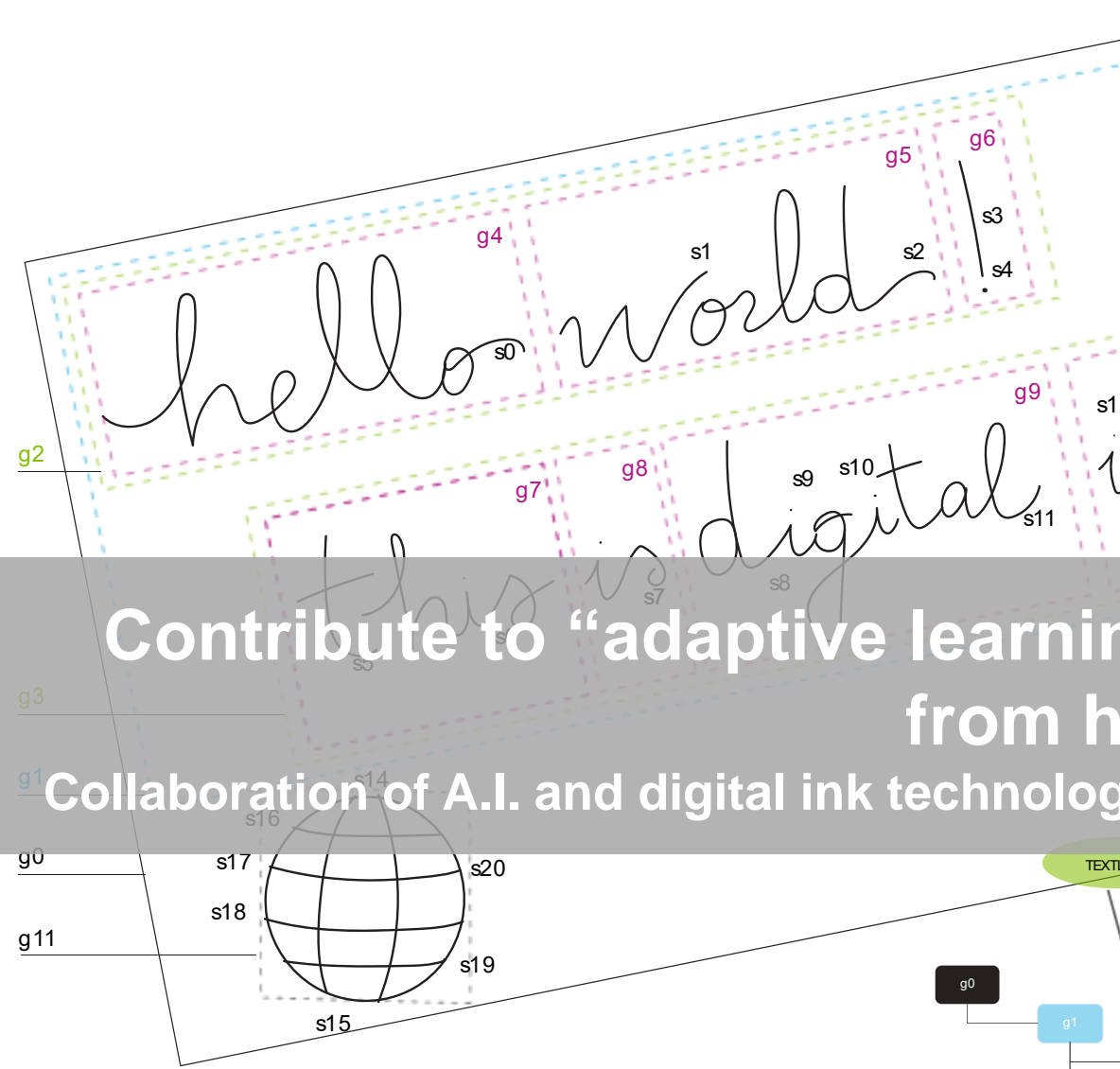
Connected Ink event, creating experiences among communities
Cross-industry/cross-cultural/cross-category partner connected by Wacom's vision and technology





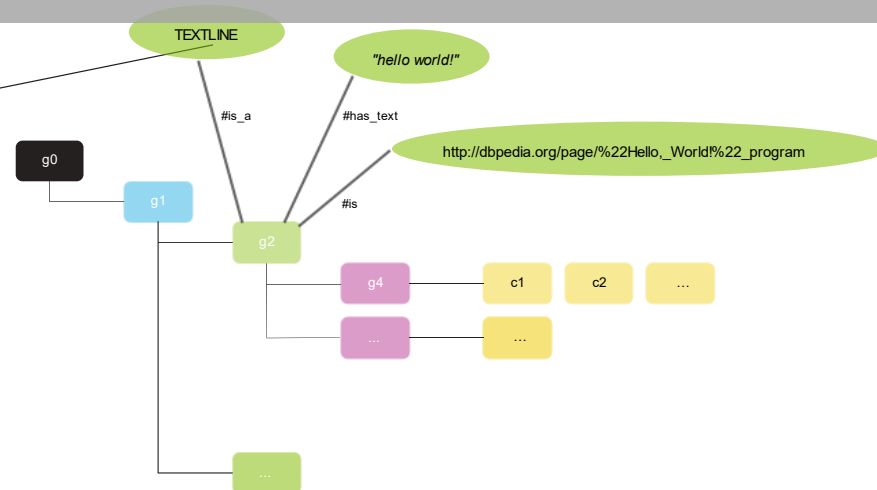
Inkathon (event for application developers), **creating experience among communities**
Application development with hackathon utilizing Wacom's handwriting software





Contribute to “adaptive learning” by capturing individual context from handwriting

Collaboration of A.I. and digital ink technology that captures by whom, where, when, and feeling



wacom®

Creative 2D and 3D interaction

Optimized experience for drawing, not just controlling XR space





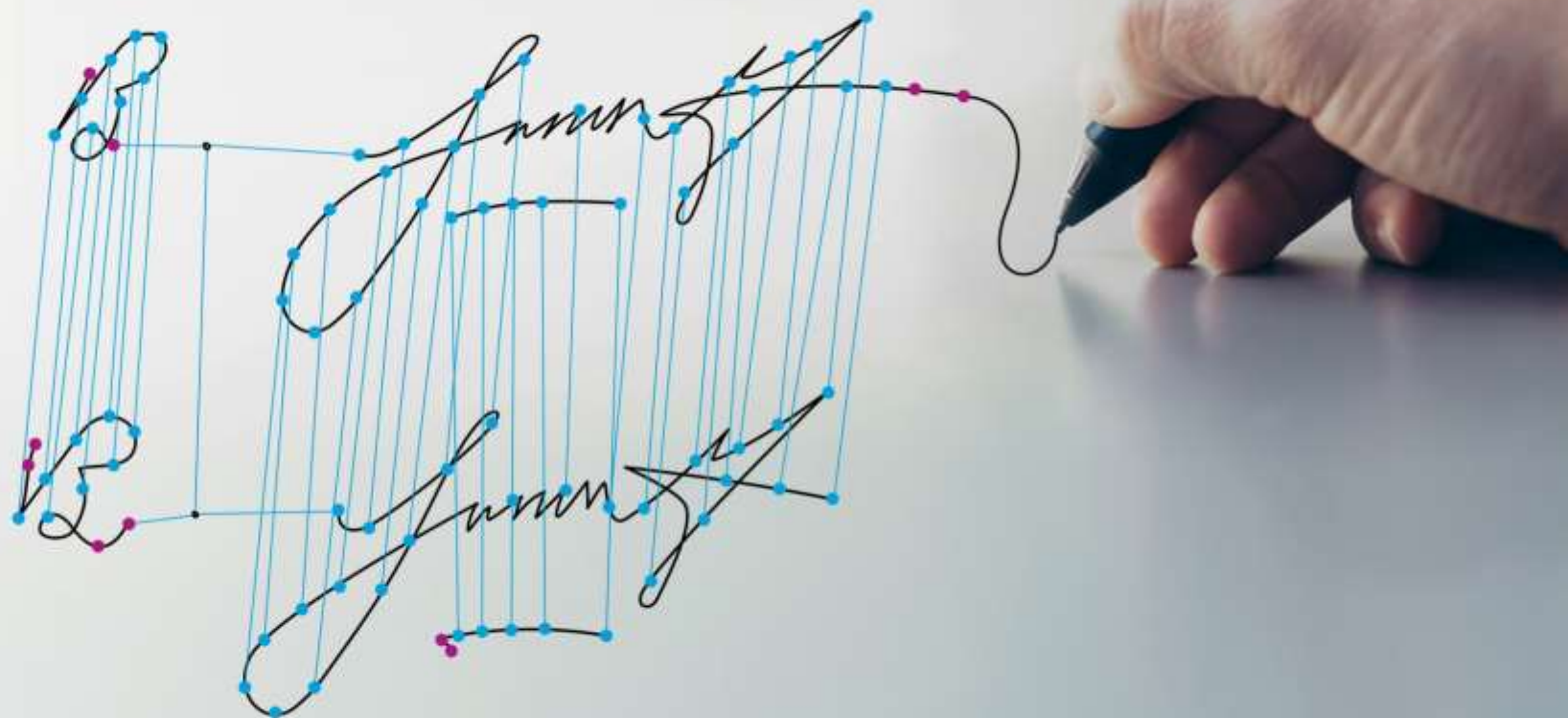
Infinite types of “Pen and Paper” combination

Expanding types of “paper” for Wacom Pen technology by pen cartridge and pen signal licenses



Can you see the
difference?
Technology can.

New whitepaper about the
security of eSignatures.



Individual authentication by signature

Developing GSV (General Signature Verification) as Wacom's original signature verification technology

Signature

Towards Chapter 3 : Strategic focus in Branded Business

Transformation and steady business execution

Product roadmap transformation: **Display product centric roadmap covering wider range of user segments, from beginners to Professionals.**

Develop new experience by **XR drawing**

Developing and enhancing communities (work on new buz model such as subscription)

Market development of signature verification : **(starting with SDK for market verification)**

Establish the foundation for growth for Chapter 3 to enhance business execution capability.

Towards Chapter 3 : Strategic focus in Tech. Business

Developing new market and enhance “de-facto standard” position for further growth

Development of new **EDU market** : pen enabled devices in both public / private sector

New business model for **component + services** : EDU market and smart home market

Developing **value-added projects** : foldable devices, interactive White board, digital notes, etc.

Enhancing the de facto standard position : establish **“Wacom standard pen community”**

Wacom Social Initiatives

Align and support “sustainable society” with lifelong ink

- Wacom’s social responsibility : **Individual employee engagement with society**, not only as a company
- Environmentally friendly operations and product development
- Not as a company, but as a community: collaboration with **ARS Electronica***

* Ars Electronica, based in Linz, Austria, is a global creative organization that proposes new creativity and future vision for society through advanced technologies for over 40 years. It promotes a crosscutting future by creating a meeting place that connects art, technology, and society. The annual Ars Electronica Festival, a global event on media art, is known as a celebration of art, advanced technology, and culture.



Wacom respects individual employees engagement with regional society

Fulfilling Wacom-style social responsibility through accumulating small activities





Collaboration ARS Electronica X Wacom

Co-create future society vision with technology & art



 **ARS ELECTRONICA**
FUTURELAB

Financial Results for FY ended March 2020 Supplementary material

FY 03/20 Financial Summary

Business Performance	FY 03/20	YOY Change
Net Sales	JPY 88,580mil.	-1.0%
Operating Profit	5,567mil.	+34.1%
Ordinary Profit	5,194mil.	+25.2%
Net Profit after Tax	3,917mil.	+1.7%

Financial Indices	FY 03/20	YOY Change
EPS	JPY 24.12	JPY +0.41
BPS	170.75	+14.21

(Ref.)

Average Forex rate	FY 03/20	YOY Change
1 USD	JPY 109.10	-1.4% (strong yen)
1 EUR	121.14	-5.7% (strong yen)
1 CNY	15.66	-5.3% (strong yen)

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

Note

- Allocation policy of “Adjustment before operating profit (expense allocations 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 is hypothetical value supposing the change of the expense allocation policy for administrative divisions (“Adjustment” before operating profit), effective from FY 03/20, were applied to FY 03/19 (see **value after new allocation*** in the following table).

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

Business Highlights (trending topics in sales)

(Unit: JPY)

Branded Business **42.6 bn** **YOY -6%**

• **Creative Business** **37.1 bn** **YOY -2%**

(subsection)	Pen Tablet	18.4 bn	YOY -12%
	Display	17.6 bn	YOY +22%
	Mobile	1.1 bn	YOY -56%

- **Pen Tablet:** Sales of professional models, launched more than three years ago, have slowed while sales of low-to-mid price range models declined due to a changes in the competitive environment
- **Display:** Sales increased on favorable contributions of 22-inch model (launched Jul. 2019) and 13-inch model (launched Jan. 2020), centering on entry models
- **Mobile:** Sales declined significantly due to stagnation among existing models despite product line update during the latest quarter ended Dec. 2019

wacom®
Intuos



wacom®
Cintiq



wacom® One
Creative Pen Display



wacom®
MobileStudio Pro



Business Highlights (trending topics in sales)

Branded Business

(Unit: JPY)

• **Consumer Business** **1.3 bn** **YOY -44%**

- Launched new stylus products developed in collaboration with Microsoft optimized for Windows Ink in June 2019. But overall sales significantly decreased



• **Business Solution** **4.1 bn** **YOY -21%**

- Reflecting a change in market trends and competitive environment, sales decreased mainly on 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 46.0 bn YOY +4%

- **Pen Sensor System
for Smartphones**

20.4 bn YOY +11%

- Sales increased on increased sales for sole customer Samsung

- **Pen Sensor System
for Tablets, Note PCs**

25.6 bn YOY -1%

- Overall sales decreased slightly while sales for key customers increased as the Active-ES (AES) pen sensor system built its reputation with manufacturers

SAMSUNG



Lenovo
FUJITSU



STAEDTLER



**MONT
BLANC**

(Ref.) Changes in Operating Profit

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

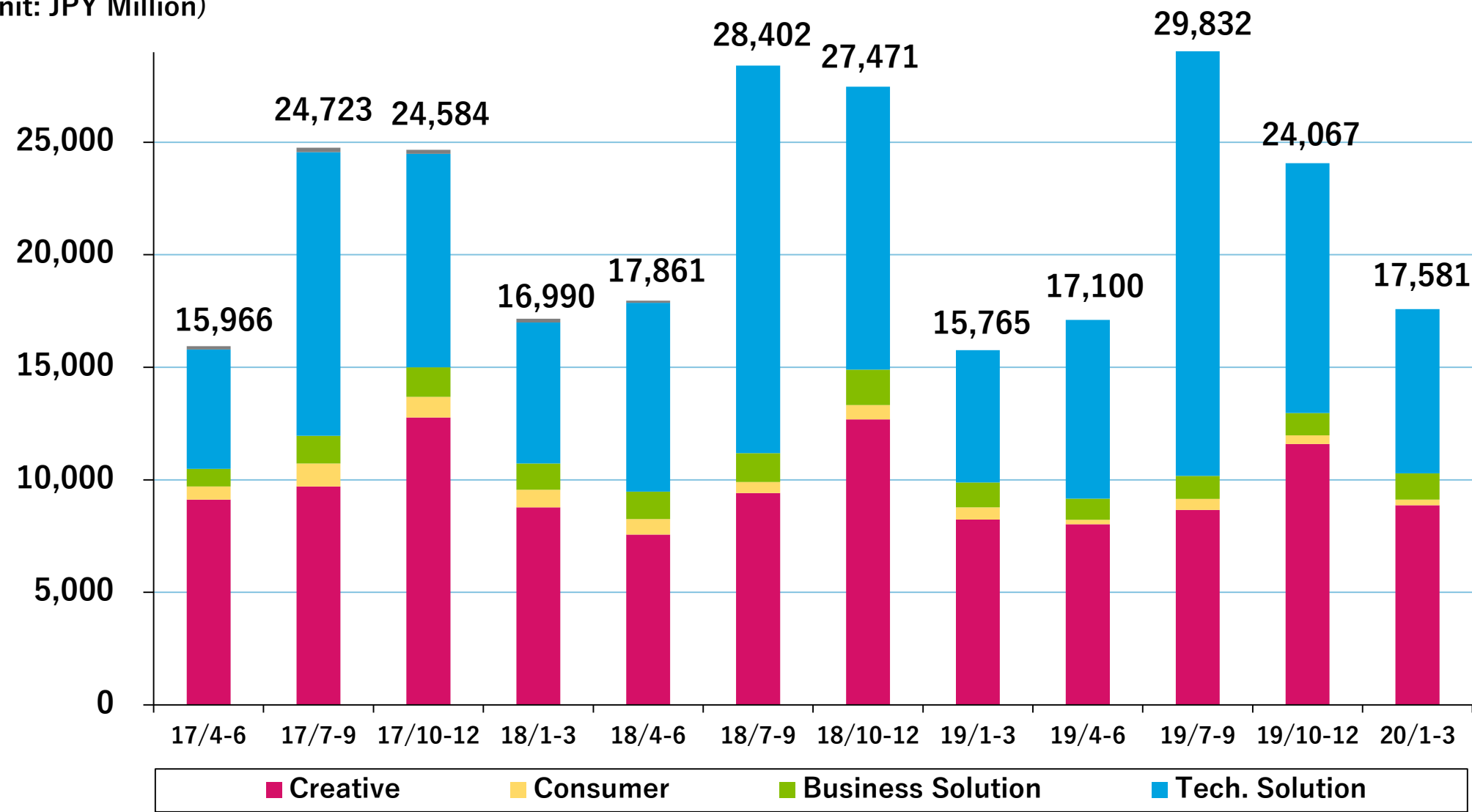
- (1) Tech. Solution Business: Profit increase on gross profit improvement and SG&A control **JPY +1.15 bn**
- (2) Branded Business: Profit increase by SG&A control, absorbing impact of lower sales and tariffs (approx. JPY -1.0 bn) **JPY +0.67 bn**
- (3) Corporate function (administrative divisions): Control of SG&A expenses **JPY +0.45 bn**

• Exchange rate impact (year on year, against JPY)

Currencies	Changes of forex	Sales	OP
1 USD	JPY -1.59 (strong yen)	JPY -0.86 bn	JPY +0.02 bn
1 EUR	-7.29 (strong yen)	-0.68 bn	-0.40 bn
Asian currencies total	--	-0.69 bn	-0.48 bn
CNY (Included, lower column)	-0.87 (strong yen)	-0.38 bn	-0.27 bn
Grand Total		-2.23 bn	-0.86 bn

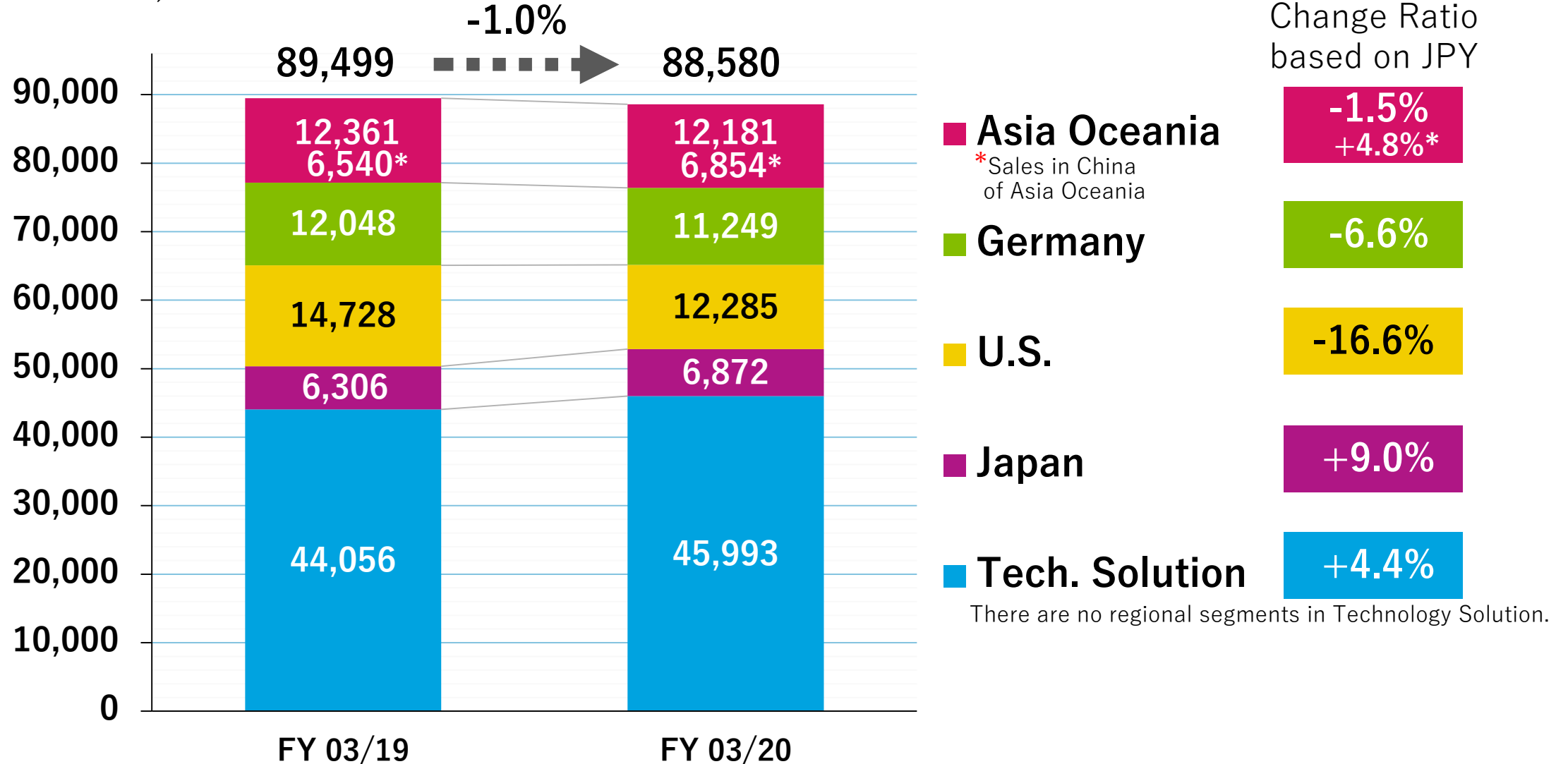
(Ref.) Quarterly Sales Trend by Product Line

(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	+9%
U.S.	USD	-15%
Europe	EUR	-1%
China	CNY	+11%
Korea	KRW	-5%
Australia	AUD	+4%
Singapore	USD	-4%
Hong Kong	USD	-24%
Taiwan	NTD	-5%
India	INR	+8%

Financial Forecasts for FY ending March 2021

Supplementary material

Assumptions of FY 03/21 Forecast

Forex rate assumptions

USD 1 = JPY 108.0 YOY strong JPY 1.1 (1.0%)

EUR 1 = JPY 121.0 YOY strong JPY 0.1 (0.1%)

CNY 1 = JPY 15.5 YOY strong JPY 0.2 (1.0%)

(Approx.) Sensitivity to currency fluctuations for 12-month forecast

(unit: million yen)

Unit of sensitivity	In case of stronger JPY 1.0 (JPY 0.1 for CNY*)						In case of the weaker JPY, read the following signs of plus and minus the other way round.
	FY 03/21 (forecasts)			(ref.) FY 03/20 (results)			
Currency	USD	EUR	CNY*	USD	EUR	CNY*	
Net Sales	-570	-100	-60*	-540	-90	-40*	
Operating Profit	0	-60	-40*	10	-50	-30*	

Consolidated Forecast for FY 03/21 (range format)

(unit: million yen)

	FY 03/20 (results)		FY 03/21 (forecasts)		YOY
	04/19-03/20		04/20-03/21		Change
Net Sales	88,580		(89,000		0.5%
			91,500		3.3%
Operating Profit	5,567	6.3%	(5,600	6.3%	0.6%
			6,500	7.1%	16.8%
Ordinary Profit	5,194	5.9%	(5,600	6.3%	7.8%
			6,500	7.1%	25.1%
Net Profit	3,917	4.4%	(4,000	4.5%	2.1%
			4,600	5.0%	17.4%
ROE	14.7%		(13.7%		-1.0%
			15.6%		0.9%

(Note) 'Net Profit' is equivalent to 'Profit attributable to owners of parent'.

FY 03/21 Forecast by Business Segment (range format)

	FY 03/20 (results)	FY 03/21 (forecasts)	YOY		(unit: million yen)
	04/19-03/20	04/20-03/21	amount	ratio	
Sales by business segment					
Branded Biz.	42,587	(42,500 43,500	-87	-0.2%	
			913	2.1%	
Tech. Solution Biz.	45,993	(46,500 48,000	507	1.1%	
			2,007	4.4%	
Segment Profit					
Branded Biz.	1,706	(2,800 3,200	1,094	64.1%	
			1,494	87.5%	
Tech. Solution Biz.	7,650	(7,000 7,500	-650	-8.5%	
			-150	-2.0%	
Adjustment	-3,790	-4,200	-410	10.8%	

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.

Investor Relations Inquiries

TEL: +81-3-5337-6502

Wacom Co., Ltd.

Sumitomo Fudosan Shinjuku Grand Tower 31F,

8-17-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo

160-6131, Japan

<https://investors.wacom.com/en-jp/>

