Wacom Co., Ltd.

6727
Tokyo Stock Exchange First Section

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Summary

Steep rise in FY3/20 operating profit and progress revising the product portfolio, headed for higher sales and profits at the top end of the range in FY3/21

Wacom Co., Ltd. <6727> (hereafter, also “the Company”) is the global leading manufacturer aiming to create value for customers based on technologies in the field of digital pen and ink. It dominates in brand clout and market share supported by professional creators such as designers and animators who work in studios for movie production or industrial design studios. Its two business segments are the Branded Business, selling its own-brand Pen tablets and other products, and the Technology Solution Business, which supplies proprietary digital pen technology as a component to manufacturers of finished products, including smartphones and tablets.

1. FY3/20 results

In the Company’s FY3/20 consolidated results, sales slightly declined and operating profit rose sharply, with net sales of ¥88,580mn (-1.0% year-on-year (YoY)) and operating profit of ¥5,567mn (+34.1%). Despite weaker sales in the Branded Business mainly in pen tablet products, the Technology Solution Business had healthy growth, mainly for smartphones, and this kept overall sales at just a slight decline. Looking more closely at the Branded Business trends, the Displays, a focus area, achieved substantial growth primarily in entry models. We think this is a positive trend. In earnings, operating profit climbed sharply, even with pressure from US tariff hikes on imports from China, yen appreciation in the foreign exchange market, and other negatives, on successful optimization of SG&A expenses pursued by management.

2. Medium-term business plan Wacom Chapter 2 and progress

The Company is currently implementing Wacom Chapter 2, a medium-term business that covers from FY3/19 to FY3/22. It aims to achieve sustainable growth by returning to roots as a Technology Leadership Company and creating value needed by customers while constantly staying at the market forefront in pen and ink digital technology. To accomplish this, it is implementing three company-wide strategies; 1) Advancing technology leadership, 2) Close cooperation through island & ocean businesses, namely the branded businesses and the technology businesses, and, 3) Bold selection and concentration. Despite some delay in quantitative progress due to the COVID-19 outbreak and other impacts, the Company had qualitative successes in further evolution of the business model and profitability improvement through technology collaboration with partners and de facto standardization of proprietary digital pen technology, product portfolio revisions, and optimization of SG&A expenses.
3. FY3/21 results outlook

In the FY3/21 consolidated results outlook, the Company only disclosed full-year targets in a range format in light of strong uncertainty about the extent of recovery in economic activities due to COVID-19 impact. Specific ranges are ¥89,000mn (+0.5% YoY) to ¥91,500mn (+3.3%) in net sales and ¥5,600mn (+0.6%) to ¥6,500mn (+16.8%) in operating profit, projecting higher sales and profits at the upper end and results on par with FY3/20 as minimum levels at the lower end. The Company expects steady growth in both the Branded Business and the Technology Solution Business. In the Branded Business, it projects higher sales mainly from entry-models (especially a model for beginner end) in Displays. In the Technology Solution Business, the Company will work to acquire new business opportunities in education and other areas. For earnings, the Company anticipates an increase in operating profit, despite budgeting aggressive future-oriented R&D investments, driven by improved product mix and continuous optimization of SG&A expenses.

Key Points

- In FY3/20, reported slightly lower sales mainly due to COVID-19 impact, though sharply higher operating profit led by optimization of SG&A expenses
- Sales of Pen tablets continued declining but entry-model Displays, a focus area, achieved healthy growth; Sales were strong for smartphone in the Technology Solution Business
- Management disclosed FY3/21 guidance in a range format because of uncertainty about COVID-19 impact, projecting higher sales and profits at the upper end and results on par with FY3/20 as minimum levels at the lower end

Results trends

Source: Prepared by FISCO from the Company’s financial results
Global leader aiming to create value for customers based on technologies in the field of digital pen and ink

The Company is the world's leading company aiming to create value for customers based on technologies in the field of digital pen and ink. It sells products in more than 150 countries worldwide and dominates in brand clout and market share supported by professional creators such as designers and animators who work in studios for movie production or industrial design studios. Furthermore, as a Technology Leadership Company, it broadly supplies the latest digital pen technology to partner companies manufacturing smartphones, tablets, digital stationery, and other products and is fostering a business field that specializes in education with partners from the educational industry.

The Company is also striving to create new growth opportunities by rebuilding product line-ups and further evolving the business model amid major changes in the market environment, including tougher competition in low- and mid-priced product categories and evolution of user needs and workflow accompanying advances in digital technologies (IoT, VR/MR, AI, and others) and the communications environment (mobile, cloud, 5G, and others).

Its two business segments are the Branded Business, which sells the Company's own-brand pen tablet products and other products, and the Technology Solution Business, which supplies proprietary digital pen technology as a component to manufacturers of finished products, including smartphones and tablets. While the Branded Business, the Company's core business since its founding, has slowed, the Technology Solution Business is growing at a healthy pace as the market expands and has surpassed the Branded Business in sales mix*.

* Breaking down sales by segment for FY3/20, the Branded Business accounted for 48.1% and the Technology Solution Business accounted for 51.9%.

With the overseas sales ratio (overseas local entity sales ratio excluding the Technology Solution Business) at about 84%, careful attention should be given to the impact of foreign exchange market fluctuations on earnings.

* Asia-Oceania (including China) sales at about 28.7%, US sales at about 28.9%, and European sales at about 26.4%.

Additionally, while development sites are concentrated in Japan, the Company consigns production to multiple overseas partners (almost entirely in China). It plans to increasingly diversify production sites to Southeast Asia and other nearby areas from the standpoint of alleviating supply-chain concentration risk.
Business and major product features

Promoting updates in the product portfolio that address changes in the business environment and de facto standardization of proprietary technologies

1. Branded Business

The Company has a broad line-up for target customers and product types. Product categories are (1) creative business, (2) consumer business (for general consumers), and (3) corporate business solutions.

(1) Creative Business

This is the core business since the Company’s founding and possesses strong brand clout and market share with professional creators. Product types are Pen tablets, Displays, and Mobiles, and understanding their differences is important in assessing the competition environment and growth potential.

a) Pen tablets

The most basic device* consists of a digital pen and tablet (black board type) and has contributed to the Company's results as a mainstay product. It is a PC peripheral used over a connection to a PC, similar to a mouse or keyboard. The Company offers a broad line-up that ranges from professional products to beginning products thanks to the simple configuration. While it is sustaining competitiveness in the professional high-end market, competition has intensified in the low- to mid-priced category where it is difficult to achieve differentiation. Furthermore, since the Company has strategically shifted management resources in response to a demand shift toward Displays with better operability and lower pricing, sales have been steadily trending downward in the past few years.

* Sometimes referred to as “opaque tablets for drawing” too.

b) Displays

This category covers products that use an LCD panel as the tablet* and are similar to Mobiles, which are explained next, in terms of direct writing on an LCD screen with a digital pen. Meanwhile, they are also PC peripherals, similar to Pen tablets as an input device that does not have an OS or storage feature. Prices for larger products range from ¥200,000 to about ¥400,000. Users are mainly professionals and advanced amateurs, and the Company holds an overwhelming share in this market. In response to market changes (such as expanded scope and demand shift from Pen tablets), it released multiple new models with a 16-inch entry model that sells at a real price in the ¥60,000 range (tax exclusive; same below) in January 2019, a 22-inch model (real price in the ¥100,000 range) in July 2019, and a 13-inch model for beginners (real price in the ¥30,000 range) in January 2020. The Company is steadily expanding results even in the entry model segment where it faces tough price competition from other companies (Chinese manufacturers, etc.).

* Sometimes referred to as “LCD tablets” too.
Business and major product features

c) Mobiles
This category covers Displays for use as an input device that contain an OS and storage feature. From the standpoint of usability, they are the same as standard tablets with general pen entry support (many of these products utilize the Company’s pen sensor system) and might even appear to have a competitive relationship (fostering competition with the Technology Solution Business in the Company’s case). However, the difference is obvious to users who place emphasis on input performance, and it makes more sense for general users who do not have this focus to select standard tablets rather than the Company’s Mobiles that function only as input devices. These products hence have clear segmentation in performance and functionality.

(2) Consumer Business
The Company sells stylus pens, smart pads*, digital stationery, and other products used for illustration, memo creation, and other activities on digital devices for Windows-based tablets targeting general consumers.

* This is a notebook-type device capable of converting handwritten memos written on paper with the provided pen.

(3) Business Solution
The Company sells business-use products that are capable of direct drawing and character entry on an LCD screen. Usage is increasing in digital signature (hotel check-in, credit card relief, etc.) and medical (electronic medical records, etc.) areas.

2. Technology Solution Business
This business supplies pen sensor systems to smartphone and tablet and notebook PC manufacturers. In particular, the Company is expanding sales to Samsung Electronics <KRX: 005930> (Galaxy Note series) in smartphone-related use, a growing market. Tablet and notebook PC manufacturers highly rate the Company’s technology, and deals with major manufacturers and the number of projects is steadily growing. The Company aims to expand business scale through promotion of its proprietary digital pen technology* as a de facto standard.

* The Company’s technology consists of an EMR (electro-magnetic resonance) rapid, high-precision positioning sensor (battery not required) and active ES (proprietary electrostatic coupling; battery required).

Financial highlights

Operating profit increased sharply in FY3/20, healthy growth in the entry-model Displays

1. FY3/20 results
In the Company’s FY3/20 consolidated results, sales slightly declined and operating profit rose sharply, with net sales of ¥88,580mn (-1.0% YoY), operating profit of ¥5,567mn (+34.1%), ordinary profit of ¥5,194mn (+25.2%), and profit attributable to owners of parent of ¥3,917mn (+1.7%). COVID-19 impact from February 2020 weakened sales.
Despite weaker sales in the Branded Business mainly in pen tablet products, the Technology Solution Business had healthy growth, mainly for smartphones, and this kept overall sales at just a slight decline. The structure of positive growth in the Technology Solution Business offsetting a decline in the Branded Business hence continued in a second straight fiscal year. Looking more closely at the content of Brand Business, however, we think strong growth in Displays, a strategic focus, led by entry models is a favorable trend.

In earnings, operating profit climbed sharply, even with pressure from the US tariff hike on imports from China, yen appreciation in the foreign exchange market, and other external negatives, with success in optimizing SG&A expenses which was promoted as an activity policy. The SG&A expenses ratio improved to 27.3% (vs. 29.4% in the previous fiscal year) on increased efficiency mainly in personnel costs, sales promotion and advertising expenses, and outsourcing costs. R&D expenses for next-generation technology and other areas, meanwhile, remain at a high level. We think this is a capital allocation with priorities. Net profit only rose slightly due to booking foreign exchange losses (non-operating expense) and impact by income taxes and other adjustments (albeit these amounts were roughly at anticipated levels).

In financial conditions, total assets was largely unchanged at ¥51,156mn (-0.7% YoY), despite a rise in cash and deposits, because of decrease in inventories. The capital ratio, meanwhile, climbed to 54.2% (from 49.3% at the end of FY3/19) on a large increase in net assets to ¥27,735mn (+9.1% YoY) on build-up of retained profit following progress in curtailing liabilities with loan repayment. Furthermore, ROE, which reflects capital efficiency, reached a high level at 14.7%. The Company is sustaining an effective balance between stability and efficiency in financial standing.

<table>
<thead>
<tr>
<th>FY3/20 financial results</th>
<th>(¥mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY3/19</td>
<td>FY3/20</td>
</tr>
<tr>
<td>Net sales</td>
<td>89,499</td>
</tr>
<tr>
<td>Branded Business</td>
<td>45,443</td>
</tr>
<tr>
<td>Technology Solution Business</td>
<td>44,056</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>59,051</td>
</tr>
<tr>
<td>SG&amp;A expenses</td>
<td>26,296</td>
</tr>
<tr>
<td>Operating profit</td>
<td>4,152</td>
</tr>
<tr>
<td>Branded Business</td>
<td>1,822</td>
</tr>
<tr>
<td>Technology Solution Business</td>
<td>6,659</td>
</tr>
<tr>
<td>Adjustment</td>
<td>-4,329</td>
</tr>
<tr>
<td>Ordinary profit</td>
<td>4,149</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>3,851</td>
</tr>
</tbody>
</table>

Breakdown of SG&A expenses

| (¥mn) |
|--------------------------|-------|
| FY3/19 | FY3/20 | Change | Revised forecast as of January 31 | Achievement rate % of total |
| Personnel expenses | 9,275 | 8,734 | -542 | -5.8% | -4,345 | -3.0% |
| R&D expenses | 4,345 | 4,214 | -131 | -3.0% | - | -|
| Sales promotion and advertising expenses | 2,945 | 2,498 | -448 | -15.2% | - | -|
| Outsourcing expenses | 1,951 | 1,734 | -217 | -11.1% | - | -|
| Depreciation | 1,180 | 940 | -241 | -20.4% | - | -|
| Other | 6,599 | 6,021 | -577 | -8.7% | - | -|
| Total | 26,296 | 24,140 | -2,156 | -8.2% | - | -|

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Financial highlights

2. Results overview by segments

(1) Branded Business
The segment reported sales and profit declines with net sales of ¥42,587mn (-6.3% YoY) and segment profit of ¥1,706mn (-6.3%). The following section reviews sales trends by product categories.

Earnings breakdown in the Branded Business

<table>
<thead>
<tr>
<th></th>
<th>FY3/19 Results</th>
<th>FY3/20 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Creative Business</td>
<td>37,895</td>
<td>37,147</td>
<td>-748</td>
</tr>
<tr>
<td>Displays</td>
<td>14,410</td>
<td>17,581</td>
<td>3,171</td>
</tr>
<tr>
<td>Pen tablets</td>
<td>20,883</td>
<td>18,411</td>
<td>-2,472</td>
</tr>
<tr>
<td>Mobiles</td>
<td>2,602</td>
<td>1,155</td>
<td>-1,447</td>
</tr>
<tr>
<td>Consumer Business</td>
<td>2,354</td>
<td>1,326</td>
<td>-1,028</td>
</tr>
<tr>
<td>Business Solution</td>
<td>5,194</td>
<td>4,114</td>
<td>-1,080</td>
</tr>
<tr>
<td>Total</td>
<td>45,443</td>
<td>42,587</td>
<td>-2,856</td>
</tr>
</tbody>
</table>

Source: Prepared by FISCO from the Company’s financial results

a) Mainstay Creative Business sales
Sales fell slightly with a 2.0% YoY decline to ¥37,147mn. While Displays, a focus area, achieved healthy growth even with COVID-19 impact (restrictions on sales activities, etc.), Pen tablets and Mobiles were sluggish. Displays benefited from a full-year contribution by the 16-inch entry model released in January 2019 and ramp-ups of the 22-inch series released in July 2019 and the 13-inch beginner model released in January 2020. Pen tablets, meanwhile, faced a slowdown in the professional model partly because it has been three years since the latest release and challenges for low- to mid-priced models from 1) tougher price offensives by other companies and 2) demand shift to Displays. Nevertheless, we think it is reasonable to view growth in Displays, an area into which the Company is strategically shifting management resources, as offsetting the 2) trend. In Mobiles, even with updates to the product line-up, sales fell sharply on stagnation of existing products that have entered the latter stage of product lifecycles. However, changes in professional use accompanying 5G rollout and other trends offer new business opportunities, and we believe the current situation is largely a transition period.

b) Consumer Business sales
In the Consumer Business, net sales decreased 43.7% YoY to ¥1,326mn. While the Company released new stylus pens that support Windows Ink* through a joint development with Microsoft <MSFT> in June 2019, sales have been sluggish.

* It released Bamboo Ink and Bamboo Ink Plus as second-generation stylus pens designed for using digital ink on Windows tablets.

c) Business Solution sales
Sales dropped 20.8% YoY to ¥4,114mn. Despite efforts to expand sales of LCD signature tablets and LCD Pen tablets to financial institutions and other corporate customers, business was sluggish because of market trends and tougher competition. In particular, it faced backlash in the US where it had large deals in the previous fiscal year and weaker sales in Europe, Asia, and other regions.
In segment profit, profit margin held at the year-ago level at 4.0%, even with pressure from external factors such as direct impact from US tariff hikes on imports from China (¥1bn setback) and foreign exchange market impact (¥860mn setback)*, thanks to progress in optimizing SG&A expenses.

* While foreign exchange effect from the US dollar was roughly neutral, the segment experienced impact by yen appreciation against the euro and Asian currencies.

(2) Technology Solution Business
The segment realized higher sales and profits, despite some COVID-19 downside (mainly constraints on production and supply chain as well as sales activities for pen sensor systems used in tablets and notebook PCs), with ¥45,993mn in net sales (+4.4% YoY) and ¥7,650mn in segment profit (+14.9%). The following sections review sales trends by product category.

Earnings breakdown in the Technology Solution Business

<table>
<thead>
<tr>
<th></th>
<th>FY3/19 Results</th>
<th>FY3/20 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>For smartphones</td>
<td>18,265</td>
<td>20,349</td>
<td>2,084</td>
</tr>
<tr>
<td>For tablets and others</td>
<td>25,791</td>
<td>25,644</td>
<td>-147</td>
</tr>
<tr>
<td>Total</td>
<td>44,056</td>
<td>45,993</td>
<td>1,937</td>
</tr>
</tbody>
</table>

Source: Prepared by FISCO from the Company's financial results

a) For smartphones
Smartphone pen sensor system sales rose at a healthy 11.4% YoY pace to ¥20,349mn with upbeat shipments for the latest models at main customer Samsung Electronics (Galaxy Note10/10+, Note10 Lite).

b) For tablets and others
Tablet and notebook PC pen sensor system sales fell slightly by 0.6% YoY to ¥25,644mn. However, manufacturers highly assess active ES-type digital pens, and sales are rising to leading companies.

In segment earnings, margin improved to 16.6% (vs. 15.1% in FY3/19) on a steep rise in profits from increased sales. This was due to a rise in the average price with functionality enhancement made for smartphones use, and optimization of SG&A expenses.

3. Assessment of FY3/20 results
Our assessment of FY3/20 results in light of the points covered above is a favorable outcome with sharply higher operating profit, despite sluggish sales growth due to COVID-19 impact and other factors, thanks to optimization of SG&A expenses. We think this was an even stronger year than suggested by values reported in results considering the presence of multiple negative external factors (including the US tariff hike on imports from China, foreign exchange trends, and COVID-19 impact). A major success for the Company’s future was steady ramp up of entry model Displays originally released in January 2019 through rollout of new products. In the Technology Solution Business, which aims to establish de facto standards in the digital pen and ink market as an Innovation Leader, the Company is increasing the number of next-generation projects through closer collaboration with major manufacturers and partners (software companies), and some products are generating robust demand. While the Company is still in the process of bolstering internal operations (collaboration between businesses, etc.) and market creation capabilities that have been identified as issues, concrete results have started emerging, and we intend to closely monitor trends as further room for growth.
Results trends in past years

Technology Solution Business driving growth over the past few years

Looking at past sales trends, the large slump in FY3/17 occurred because of combined impacts of yen appreciation, product cycle movement, product recalls by Samsung Electronics, and other factors. Since then, however, sales recovered with growth in the Technology Solution Business and reached an all-time high in FY3/19. Nevertheless, the Branded Business sales have been trending lower and the structure of positive growth in the Technology Solution Business offsetting its decline continues.

The main reason for downturn in the Branded Business sales has been the need for time in making the response to changes in the market environment in mainstay Pen tablets as strategic demand shift to Displays, amid growing competition in low- to mid-priced Pen tablets, has not generated sufficient offsetting sales yet. Nevertheless, Displays is steadily developing a new market and ramping up sales with entry models, and it is important to recognize change in the sales mix (ratios).

Growth in the Technology Solution Business over the past few years, meanwhile, reflects expansion of the market for tablet and notebook PC pen sensor systems and strong performance in the pen sensor systems for smartphones (particularly with Samsung Electronics’ Galaxy Note series) aided by enhanced functionality.

In earnings, operating profit margin stayed in the 4% range (other than in FY3/17 when the Company incurred an operating loss) due to aggressive R&D activities and new product development. However, the Company successfully raised profit margin in FY3/20, while sustaining the R&D investment level, mainly on optimization of SG&A expenses and other measures.

In financial standing, while the capital ratio temporarily slipped in FY3/17 on a hefty net loss due to recording impairment losses, it steadily improved since then with build-up of retained profits and has moved close to 60%, the near-term goal. ROE, which reflects capital efficiency, has also been at about 15% in the past two fiscal years, and we think the Company has well-balanced financial position.
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Results trends in past years

Trends in operating profit margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY3/15</td>
<td>-1.6%</td>
</tr>
<tr>
<td>FY3/16</td>
<td>4.7%</td>
</tr>
<tr>
<td>FY3/17</td>
<td>8.2%</td>
</tr>
<tr>
<td>FY3/18</td>
<td>4.3%</td>
</tr>
<tr>
<td>FY3/19</td>
<td>4.6%</td>
</tr>
<tr>
<td>FY3/20</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Source: Prepared by FISCO from the Company's financial results

Trends in capital ratio and ROE

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Ratio</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY3/15</td>
<td>65.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>FY3/16</td>
<td>60.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>FY3/17</td>
<td>42.2%</td>
<td>-21.2%</td>
</tr>
<tr>
<td>FY3/18</td>
<td>44.5%</td>
<td>10.8%</td>
</tr>
<tr>
<td>FY3/19</td>
<td>49.3%</td>
<td>16.0%</td>
</tr>
<tr>
<td>FY3/20</td>
<td>54.2%</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

Source: Prepared by FISCO from the Company's financial results

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Growth strategy and progress

Completed the second year of a four-year medium-term business plan, trails numerical goals though achieved some progress in strategies

1. The medium-term business plan

The Company announced Wacom Chapter 2, a new medium-term business plan (covering FY3/19-22), in May 2018 after Nobutaka Ide became President & CEO in April 2018 and has completed the second year of this plan. Besides full-fledged expansion of the pen input device market and accompanying tougher competition, there has been significant evolution of user needs and workflow related to advances in digital technology (IoT, VR/MR, AI, etc.) and the communications environment (mobile, cloud, 5G, etc.) including the professional use segment where the Company holds advantages. In response to these changes in the business environment, the Company aims to achieve sustainable growth by returning to roots as a Technology Leadership Company and creating value needed by customers while constantly staying at the market forefront in pen and ink digital technology. To accomplish this, it is implementing three company-wide strategies set out in the plan, of 1) Advancing technology leadership, 2) Close cooperation through island & ocean and, 3) Bold selection and concentration. Plan goals are ¥100,000mn in net sales, ¥10,000mn in operating profit (10% margin), ¥6,948mn in profit attributable to owners of parent, 15-20% ROE, and a roughly 60% capital ratio in FY3/22. While the Company is likely to have difficulty attaining numerical goals for the final fiscal year of the medium-term business plan due to the US tariff hike on imports from China and COVID-19 impact, it is making steady progress in strategy and does not need major revisions to the direction. We think it is important for management to present a path from a long-term perspective, including detailed results, on how it intends to boost potential in the latter two years of the plan period ahead of the next plan (Chapter 3).

2. Growth strategies and progress

(1) Advancing technology leadership

The Company plans to lead the market by continually improving the experience through aggressive investments in alliances with partner companies and technology innovation. Technology innovation from a user-first perspective is a particularly important strategic theme. For example, collaboration with software is vital in addressing new user needs and workflow evolution, such as joint work with multiple and remote creators and new creation experiences freely utilizing 2D and 3D. The Company has arranged alliances with partner companies for virtual reality (VR), mixed reality (MR), and other next-generation technologies and digital stationery, Displays, 5G, and other cutting-edge technologies. Results in the previous fiscal period included the alliance with Celsys, Inc., a key supplier of production software for manga, illustrations, and other content, formed in October 2019 and the alliance with US-based Adobe <ADBE>, a leader in creative software, arranged in November 2019. Additionally, the Company continues to actively invest in R&D expenses, including provision of proposals for virtual space designs using 5G as a member of NTT Docomo Inc.’s <9437> “Docomo 5G Open Partner Program.”
Growth strategy and progress

(2) Close cooperation through island & ocean
The Company is moving in a direction of accelerating growth by combining different characteristics through collaboration of Island and Ocean businesses, namely the branded businesses and the technology businesses. While the Branded Business pursues technology innovation through provision of new user-first experiences as explained above, the Technology Solution Business seeks expanded scale through promotion of proprietary technologies as a de facto standard. Manufacturers have reacted favorably to the Company’s pursuit of a de facto standard for digital pen technology (EMR format, active ES format) that transcends OS boundaries, and the number of projects for next-generation products is steadily increasing.

(3) Bold selection and concentration
Key measures of the Company’s strategy are steady updates to the product portfolio in response to market changes and profitability enhancement by optimizing SG&A expenses. The Company has successfully ramped up an entry model Display originally released in January 2019 and recruited a user segment between professionals and general users (freelancers, students studying design, and others). In optimization of SG&A expenses, the Company is conducting prioritized capital allocation sustaining R&D expenses at a high level aimed at achieving sustainable growth, while trying to improve the efficiency of other expenses as much as possible. The Company has already moved close to its goal of a 27% SG&A expenses ratio.

3. Future direction (headed toward Chapter 3)
Evolution of digital technology and the communications environment is accelerating, and these trends are creating major possibilities in digital pen and ink potential. The Company intends to proceed with activities that envision digital innovation in education (such as individual optimized education using AI), new work styles (remote and online collaboration), expanded content demand (increase in apps and devices), creative workflow evolution (3D creation, cloud-based creation), and new pen experiences (foldables*, large screen, smart homes, etc.). It also wants to redefine value provision from “tool” provision to “drawing and writing experience” provision and engage in business that combines hardware and services. The Company has advocated the following two strategy approaches for the future.

* Refers to smartphones that can be folded.

(1) Branded Business strategy
Mainly in Displays, the Company will revamp its product portfolio to extend from users who are beginners with strong creative interest to professionals. Additionally, it will promote development of XR drawing* as a new creation experience and offer a new subscription (service fee) business model via community development and enhanced support. It also intends to develop the corporate market for signature authentication solutions too.

* The X in XR (X Reality) indicates a variable. This is a general term covering VR (virtual reality), MR (mixed reality), and other technologies.

(2) Technology Solution Business strategy
The Company will strengthen new solution development in the increasingly digitized education market by working with partners. In particular, it wants to develop business models that combine parts and services and recruit value-added deals in foldables, large digital white boards, digital notes, and other areas. The Company will seek to strengthen its technology position as a de facto standard by building the Wacom Standard Pen Community and promoting other efforts.
Outlook

Management disclosed FY3/21 guidance in a range format because of uncertainty about COVID-19 impact, projecting higher sales and profits at the upper end

In the FY3/21 consolidated results outlook, the Company only disclosed full-year targets in a range format*1 in light of very strong uncertainty about the extent of recovery in economic activities due to COVID-19 impact. Specific ranges are ¥89,000mn (+0.5% YoY) to ¥91,500mn (+3.3%) in net sales, ¥5,600mn (+0.6%) to ¥6,500mn (+16.8%) in operating profit, ¥5,600mn (+7.8%) to ¥6,500mn (+25.1%) in ordinary profit, and ¥4,000mn (+2.1%) to ¥4,600mn (+17.4%) in profit attributable to owners of parent, projecting higher sales and profits at the upper end and lower end*2.

*1 Lower-end values are the baseline that factors in negative impact from COVID-19, while upper-end values assume likely decline in COVID-19 impact that is visible at this point and creation of earnings opportunities through multiple measures.

*2 Estimated full-year average foreign exchange rates are ¥108.0/$, ¥121.0/EUR, and ¥15.5/CNY.

The Company expects steady sales growth in both the Branded Business and the Technology Solution Business. In the Branded Business, it projects higher sales mainly from entry-models (including a model for beginner end) in Displays and bolster a community approach as well as expand the customer base in anticipation of future replacement demand (upselling). In the Technology Solution Business, the Company will work to strengthen ties with major customers and acquire new business opportunities.

For earnings, the Company anticipates an increase in operating profit, despite budgeting aggressive future-oriented R&D investments, driven by improved product mix (raising profitability of Displays) and continuous optimization of SG&A expenses.

Forecast for FY3/21

<table>
<thead>
<tr>
<th></th>
<th>FY3/20 Results</th>
<th>Forecast for FY3/21</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of total</td>
<td>% of total</td>
<td>% of total</td>
</tr>
<tr>
<td>Net sales</td>
<td>88,600 100.0%</td>
<td>88,000 100.0%</td>
<td>91,500 100.0%</td>
</tr>
<tr>
<td>Branded Business</td>
<td>42,587 48.1%</td>
<td>42,500 47.8%</td>
<td>43,500 47.5%</td>
</tr>
<tr>
<td>Technology Solution Business</td>
<td>45,993 51.9%</td>
<td>46,500 52.2%</td>
<td>48,000 52.5%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>5,567 6.3%</td>
<td>5,600 6.3%</td>
<td>6,500 7.1%</td>
</tr>
<tr>
<td>Branded Business</td>
<td>1,706 4.0%</td>
<td>2,800 6.6%</td>
<td>3,200 7.4%</td>
</tr>
<tr>
<td>Technology Solution Business</td>
<td>7,650 16.6%</td>
<td>7,000 15.1%</td>
<td>7,500 15.6%</td>
</tr>
<tr>
<td>Adjustment</td>
<td>-3,790</td>
<td>-4,200</td>
<td>-4,200</td>
</tr>
<tr>
<td>Ordinary profit</td>
<td>5,194 5.9%</td>
<td>5,600 6.3%</td>
<td>6,500 7.1%</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>3,917 4.4%</td>
<td>4,000 4.5%</td>
<td>4,600 5.0%</td>
</tr>
</tbody>
</table>

Source: Prepared by FISCO from the Company's financial results and results briefing material

We encourage readers to review our complete legal statement on “Disclaimer” page.
Below we review results outlooks by business area.

(1) Branded Business
The Company targets ¥42,500mn (-0.2% YoY) to ¥43,500mn (+2.1%) in net sales and ¥2,800mn (+64.1% YoY) to ¥3,200mn (+87.5%) in segment profits. In sales, despite the prospect of COVID-19 impact, it expects to secure sales roughly on par with the previous fiscal year at the bottom (minimum). The plan is to substantially expand entry models Displays, just as in the previous year, in creative business and factors in full-year contribution from the 13-inch model for beginners released in January 2020 as a sales growth driver. Furthermore, it forecasts support for a hefty profit increase on change in product mix by lowering unit costs for this product. In R&D activity, it intends to develop 3D design functionality that works with VR/MR designs and promote better efficiency in digital ink and workflow and development of technologies that enhance safeness in digital signature usage.

(2) Technology Solution Business
The Company projects ¥46,500mn (+1.1% YoY) to ¥48,000mn (+4.4%) in net sales and ¥7,000mn (-8.5%) to ¥7,500mn (-2.0%) in segment profit. This outlook indicates profit decline on higher sales in both the upper-end and lower-end values. While management expects impact from COVID-19 in this segment too, it wants to expand business opportunities in the education market and contribute to growth in the digital stationery market through collaboration with many partner companies. In earnings, meanwhile, it anticipates profit decline because of aggressive R&D investments aimed at the future.

We think the Company should be capable of at least attaining lower-end values in guidance, even with lingering uncertainty about the impact of COVID-19, thanks to growth in Displays driven by development of a new market and emergence of concrete initiatives in collaboration with other companies. The main point hence is the extent to which the Company is capable of approaching upper-end values through progress in education and other business areas where demand has surfaced. In earnings, we will be closely monitoring efforts to improve profitability in the Branded Business and content of R&D investments (such as technology collaboration with other companies and direction of new value creation) and results. Connected Ink, an open event held in Tokyo annually in the fall, offers an opportunity to understand where things stand in the Company’s initiatives mainly in partner strategy through the latest demonstrations with partners and speeches.
Initiatives for society

Supporting a sustainable society through provision of “lifelong ink”

The Company places emphasis on initiatives that contributes to ESG improvements and a sustainable society. It uploads “initiatives for society” on the Company web page and discloses its fundamental views and specific activities. We think the Company’s use of a concept of “lifelong ink” (technology that richly communicates the gradations of life covering from happiness to sadness for children to adults) to describe its technology stands out. This reflects awareness of the origins of its significance and value creation in support for a sustainable society by facilitating “writing and drawing” experiences that accumulate throughout a person’s life and communicating them to future generations. This strategy harnesses pursuit of wide-ranging “lifelong ink” possibilities from creative to business and education in people’s lives to the Company’s own sustainable growth as well. The Company also strongly values interactions with individual employees and society and promotes operations and product development that takes into account the environment. It intends to continue making proposals for the future image of society together with the community such as Ars Electronica(*) rather than just as a single company.

* Ars Electronica, a global creative entity, has been continuously proposing “new creativity and future societal concepts facilitated by cutting-edge technologies” over 40 years from its location in Austria.

Returns to shareholders

Paid a ¥7.0/share dividend in FY3/20 (+¥1.0 YoY), targeting a ¥0.5 hike to ¥7.5/share in FY3/21

The Company’s basic policy towards shareholder returns is to pay steady dividends on its profits after considering the amount of funds to be retained for future business development and sound financial base. The Company had previously set a dividend payout ratio of around 40% as the standard for the dividend level, but from FY3/18, it lowered it to around 30%. This was in order to solidify the foundations for growth in the future and was necessary to increase its financial soundness, while in the background is the fact that it has set a target to aim for at the present time of around 60% for the equity ratio (it was 54.2 % at the end of FY3/20). Also, the Company only pays dividends once at the end of the fiscal period in consideration of keeping down administrative costs.

The Company paid a ¥7.0/share dividend in FY3/20 (+¥1.0 YoY), putting the dividend payout ratio at 29.0%. It is targeting a ¥0.5 hike to a ¥7.5/share dividend in FY3/21. Based on the current ranges in FY3/21 profits, the dividend payout ratio works out to 26.5% to 30.5%.
Company profile

Established in 1983, the Company has grown steadily with technology and now leads the global market of pen tablets for creators

The Company was established in 1983 in Ageo City, Saitama Prefecture. Its name derived from “world” and “computer,” while “WA” includes the meaning of “harmony between people and computers” (“WA” being the Japanese word for harmony, a part of new era REIWA). In 1984, it announced the world’s first cordless pen tablet. In 1987, it launched the SD Series of graphic Pen tablets for professionals, which were used by the Walt Disney Company in the United States for film production. Subsequently, it constantly enhanced its products, and in the creative pen tablet market for creators, it has consistently kept leading position on global basis.

In 1991, it entered into the pen sensor components field (currently, the Technology Solution Business). The Company conducts OEM supply of digital pens, control ICs, touch pads, and other parts and modules to finished product manufacturers. It has been achieving rapid growth amid expansion of tablet, notebook PC, and smartphone markets.

In the securities market, after listing on the Japan Securities Dealers Association’s JASDAQ market in April 2003, the Company listed on the Tokyo Stock Exchange First Section in December 2005, where it remains today.
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