

Wacom (6727)

Preparing to transition to a new stage of growth

6 August 2024

Initiating coverage

- Leader in digital ink and drawing to drive new technological value –** Wacom is a technology company specializing in the development of graphic tablets (pen tablet products), pen displays (display products), and related digital interface solutions. Leveraging its high reputation for its branded products, it is expanding in the OEM solutions market. Due to changes in market structure driven by demand shifting towards general-purpose tablets and lengthening replacement cycles, Wacom is focused on improving its sales mix and earnings quality by developing a service-centric growth engine. Utilizing its expertise in digital ink, Wacom is prioritizing the education market as an area of focus. Commercialization of its services has begun, and the company aims to expand growth initiatives, which are central to its mid-term management policy ‘Wacom Chapter 4’ for the period from FY3/25 to FY3/29.

An integrated approach to growth

- Sustainable growth, product portfolio revamp, structural reform, and expansion into new services –** Wacom’s growth initiatives focus on 1) achieving sustainable growth in the digital ink and drawing markets, 2) revamping the product portfolio and implementing structural reforms in its branded product business, which has suffered losses for two consecutive periods, to return to profitability, and 3) the implementation of new growth engines with activities in AI (for EdTEch), XR, security, and remote service, which will have high gross margins, recurring revenues and act to increase the installed base of Wacom’s technologies.
- ESG –** we score the company as ‘Amber’ under our Astris-Sustainability model scorecard.
- Valuations –** on our earnings estimates, the shares are trading on PER of FY3/25 13.6x, and a free cash flow yield of 8.0%. We estimate a total shareholder return of 6.8%, based on a ¥3bn buyback. With a capital allocation philosophy that focuses on growth investments to create future corporate value, in FY3/26 and FY3/27, we estimate that it will be possible for the company to maintain an annual buyback of ¥3.0bn given the well-capitalized balance sheet.

Year-end	3/23	3/24	3/25E	3/26E	3/27E
Sales (¥bn)	112.73	118.79	123.91	128.93	133.36
OP (¥bn)	2.01	7.06	9.17	12.85	14.45
NI (¥bn)	1.79	4.56	6.69	9.38	10.55
EPS (¥)	11.34	29.64	43.50	60.96	68.53
DPS (¥)	20.00	20.00	21.75	30.48	34.26
Sales growth YoY (%)	+3.6	+5.4	+4.3	+4.1	+3.4
OP growth YoY (%)	-84.5	+250.6	+29.9	+40.1	+12.4
NP growth YoY (%)	-83.6	+154.5	+46.7	+40.1	+12.4
EPS growth YoY (%)	-83.3	+161.5	+46.7	+40.1	+12.4
PER (x)	52.2	20.0	13.6	9.7	8.6
EV/EBITDA (x)	16.5	7.2	6.0	4.5	4.1
EV/Sales (x)	0.6	0.6	0.6	0.5	0.5
PBR (x)	2.1	2.4	2.2	1.8	1.5
ROE (%)	4.3	11.9	17.6	21.4	20.4
ROCE (%)	4.5	15.4	18.4	22.4	22.0
FCF yield (%)	(3.0)	17.5	8.0	12.9	12.4
Dividend yield (%)	3.4	3.4	3.4	3.4	3.4
Total shareholder returns (%)	5.7	12.1	6.8	6.8	6.8

Source: Company, Astris Advisory (estimates)

Share price: ¥592 Market cap: ¥86.4bn



Source: Bloomberg

Price Performance

	YTD	1M	3M	12M
Abs (%)	-9.9	-27.5	-1.3	-3.1
Rel (%)	-12.4	-14.1	+10.6	-9.5

Company sector

Electronic Components – Misc.
Technology Hardware, Storage & Peripherals

Stock data

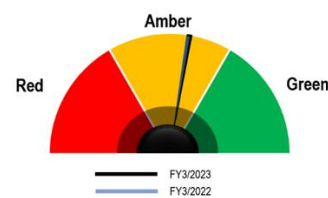
Price (¥)	592
Mkt cap (¥bn)	86.4
Mkt cap (\$m)	593.0
52-week range (¥)	507-848
Shares O/S (m)	146.0
Average daily value (\$m)	3.3
Free float (%)	85.9
Foreign shareholding (%)	43.6
Ticker	6727
Exchange	Tokyo Prime
Net Debt/Equity (x)	N/A
FFO leverage (x)	N/A
BBG BUY HOLD SELL	1 1 0

Source: Bloomberg

Business Overview

Wacom specializes in the development of graphics tablets, pen displays, and related digital interface solutions.

Astris-Sustainability ESG rating



Reference Ratings

MSCI	N/A
Sustainalytics	28.8
Refinitiv	N/A
S&P Global	32.0
Bloomberg	1.53
CDP	B

Next events

Q1 FY3/25 results August 2024

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This report has been commissioned and paid for by the company.

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Summary

CYBERDYNE is a robotics and cybernetics company focused on medical and healthcare

Wacom specializes in the development of pen tablets, display products, and related digital interface solutions. It broadly provides two products – market-leading in-house products under the Branded Business, and OEM solutions for major electronics brands such as Samsung, Lenovo, and HP under the Technology Solution Business.

The company is **preparing for a business transformation towards a new growth stage** which will commence in FY3/26 in conjunction with the ‘Wacom Chapter 4’ new medium-term plan. The key objectives are:

Key objectives are 1) expand the digital writing market, 2) turnaround of Branded Business segment and 3) implement new growth engines

- **Sustainable growth in the digital ink and drawing market** through technological advancements and increasing adoption.
- **Turnaround of the Branded Business** through product portfolio renewal and structural reforms. The in-house brand segment has a strong professional market following and stimulates engagement with the OEM market.
- **The implementation of new growth engines.** This will involve a combination of activities in AI (in EdTEch), XR, security, and remote service, aimed at delivering **recurring revenues and improvement in the quality of earnings.**

In May 2023, the company set the following as a guide to its financial targets for the next medium-term management policy period (scheduled to be updated in May 2025):

- Total sales volume of approximately ¥150bn (give or take 10%).
- OPM level at around 10% (vs a 5-year historic average of 7.2%).

Astris Advisory estimates Wacom will drive medium-term growth via the following factors:

- Steady sales growth in the Technology Solution Business as Wacom continues to expand OEM projects.
- The Branded Business is to become profitable due to product portfolio renewal and structural reform.
- Incremental improvements in OPM as a result of the sales mix being impacted by the emergence of recurring services revenue.

On our estimates, the shares are trading on PER FY3/25 13.6x, free cash flow yield of 8.0% and a total shareholder return of 6.8%.



Company description

Overview

Wacom is a leading name in the field of digital pen and tablet technology

Established in 1983, Wacom specializes in the development of pen tablets, display products, and related digital interface solutions. It produces its in-house brand of products spanning entry-level and professional models and provides OEM solutions to major electronics and PC brands such as Samsung, Lenovo, HP, and Fujitsu. The company has a strong brand, recognized for its high-quality products used and endorsed by artists, designers, and creative professionals worldwide.

Wacom's key technologies include digital pen technology that uses both EMR (electromagnetic induction) and active ES (active electrostatic coupling), as well as the 'Universal Ink Model' digital ink technology represented by WILL (Wacom Ink Layer Language), where digital stroke data is optimally formatted for conversion into services. This patented IP can be applied to handwriting analysis, examples including visualizing creative input and tracking progress being made in learning.

A key technology is the patented Universal Ink Model

The company is **expanding into the EdTech sector** in partnership with Z-Kai (Zoshinkai Holdings Co., Ltd.), a prominent Japanese educational services company operating tablet-based online courses. **Utilizing knowledge graph (AI) based learning experiences and analyzing pen stroke data offers students improved user interactions, personalized learning, and advanced analytics.** Access to raw handwriting data gives Wacom an upstream competitive advantage versus other peers active in EdTech offering learning management systems (LMS), such as Moodle and Google Classroom.

Expansion into EdTech

Key objectives targeted by the company are:

- To grow the digital ink and drawing market through technological advancements and increasing adoption.
- Turnaround of the Branded Business through product portfolio renewal and structural reform; the in-house brand segment has a strong professional market following and stimulates engagement with the OEM market.
- The implementation of new growth engines, as guided in the upcoming 'Wacom Chapter 4' medium-term plan covering FY3/26 – FY3/29. This will involve a combination of activities in AI (in EdTEch), XR, security, and remote services

Key objectives are 1) expand the digital ink market, 2) establish a profitable Branded Business segment and 3) implement new growth engines

We view Wacom as a company striving for positive change, and implementing new growth initiatives. However, earnings visibility for these needs to be developed, but the introduction of services and license income should improve the sales mix, with recurring revenues providing greater earnings stability.

The company currently has two core business segments:

- **Branded Business** – Wacom-branded products and solutions for creative users and enterprises.
- **Technology Solution Business** – Technology solution for OEM partners of smartphones, tablet PCs, eBooks, and other devices.



Long track record in the digital ink and drawing industry

Timeline summary

Key dates	Details
July 1983	Established Wacom in Ageo City, Japan.
April 1984	Released the WT series, the world's first pen tablet with cordless cursors.
September 1987	Released SD series, the world's first cordless pen tablet.
April 2002	Entry into the pen sensor component field (the Technology Solution Business).
April 2003	IPO on the JASDAQ Exchange.
December 2005	Listed in the First Section of the Tokyo Stock Exchange.
May 2021	Release of current 'Wacom Chapter 3' medium-term direction (FY3/22-FY3/25)
April 2022	Transferred to the Prime Market of the Tokyo Stock Exchange.

Source: Company, Refinitiv

Business segment data

Wacom has two core business segments.

Current segment details

Business segment	Description	Product line
Brand Business	Wacom-branded products and solutions for creative users and enterprises.	<ul style="list-style-type: none"> - Display - Pen tablet - LCD signature pen tablet
Technology Solution Business	Technology solution for OEM partners of smartphones, tablets, laptops, and other devices.	AES (active electrostatic)/EMR® (Electro Magnetic Resonance) digital pen technology solutions.

Source: Company

Interoperability and standardization

Wacom is rolling out its Universal Pen Framework technology that delivers a standardized digital pen experience across different devices and platforms. This works seamlessly with various devices, ensuring a consistent user experience without the need for multiple pens for different devices.

There is an industry-wide standard called USI (Universal Stylus Initiative) that ensures cross-compatibility among a wide range of devices from different manufacturers.

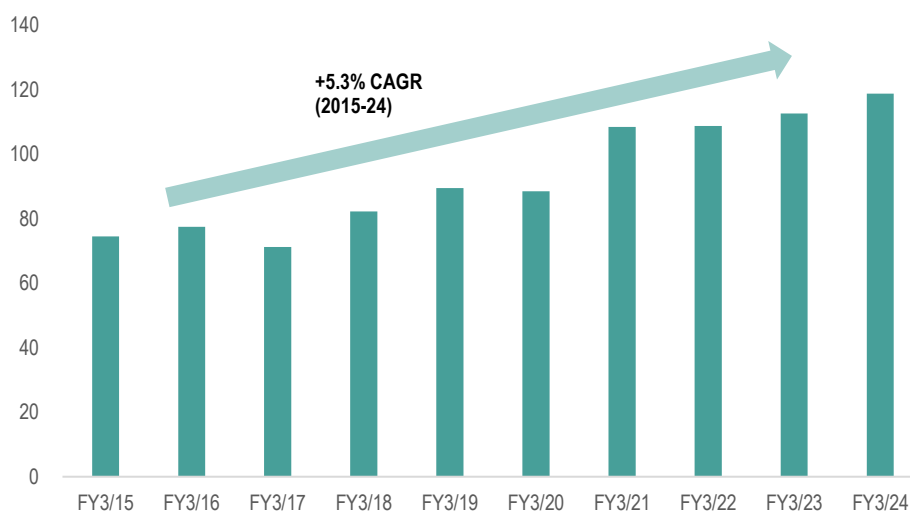
While Universal Pen Framework and USI both aim to simplify and standardize the digital pen experience, Wacom's Universal Pen Framework is a proprietary solution designed to work across Wacom devices and other partnered devices, whereas USI is an open industry standard promoting cross-compatibility among various manufacturers' devices.

Trends in sales

Whilst digital pens had been established by Wacom in the 1980s, the release of the Apple pen in 2015 played a significant role in popularizing its use to a mainstream audience. We note that Wacom’s sales growth of 10-year 5.3% CAGR appears relatively low compared to our estimate of market growth of approximately 10%-15% YoY for the global digital pen market.

Steady single-digit sales growth

Annual sales trend (¥bn)

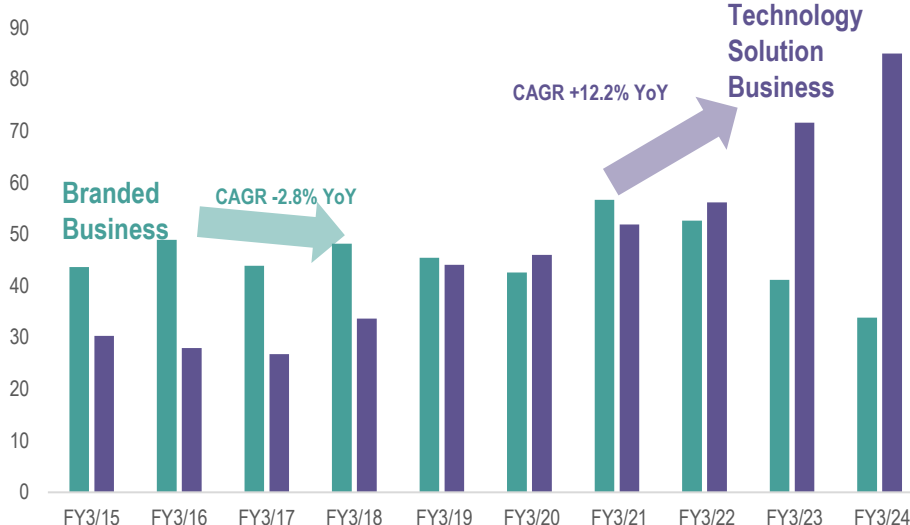


Source: Company

Per business segment, the Technology Solution business segment grew in line with the market while the Branded Business segment has been inconsistent.

Technology Solution Business growth appears in line with the market

Segment sales (¥bn)



Source: Company

Note: Segment sales classification adjustments have occurred in FY3/19 and FY3/24

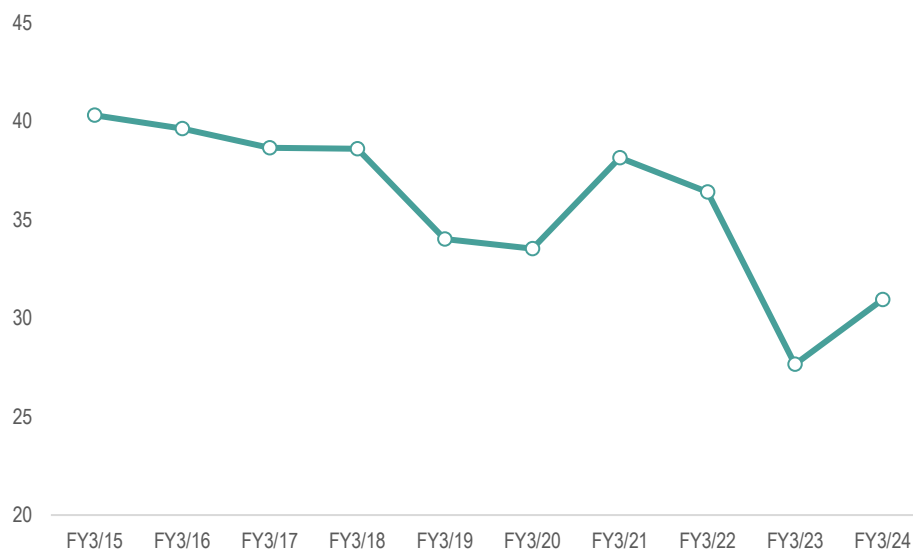
From this, we make the following conclusions:

- There has been a boost in the adoption of digital pens, and some of Apple’s competitors have responded by partnering with Wacom for OEM solutions. Wacom’s track record indicates that it has been **successful in innovating and improving its OEM offerings**.
- The inconsistent performance of the Branded Business segment stems from product and upgrade cycles but is also attributed to the shift in demand toward versatile Apple iPad products for non-creative uses. As digital pens have attained mainstream acceptance, there have been more new entrants, particularly in the basic to intermediate markets.

Trends in profitability

As the sales mix shifted to OEM solutions in the Technology Solution Business (with historically low GPM and low SG&A expense ratios) over the last 10 years, gross profit margins have consistently declined due to differences in earnings structure with the Branded Products Business (with historically high GPM and high SG&A expense ratios).

Gross margin (%)

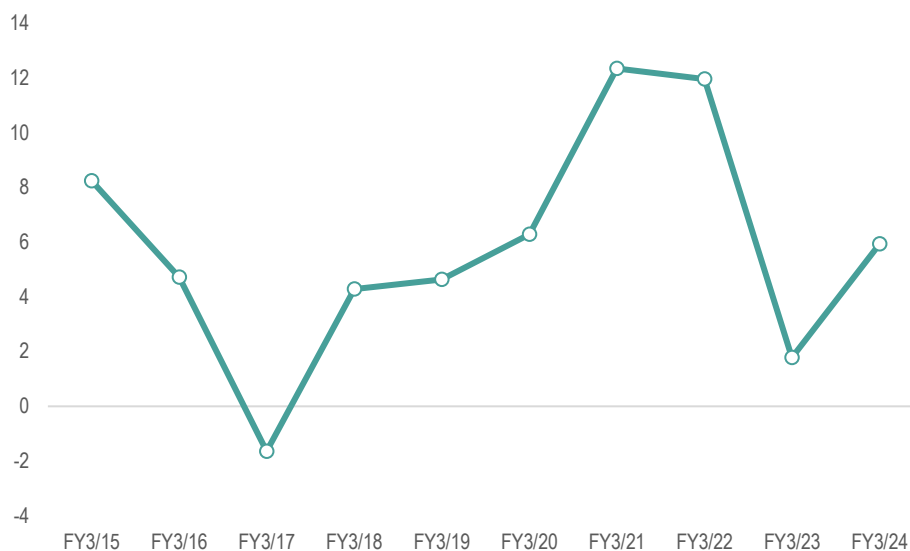


Source: Company



OEM solutions have lower brand premiums. Volatility has been driven by Branded Business; OEM solutions have low marketing costs

Annual OPM (%)

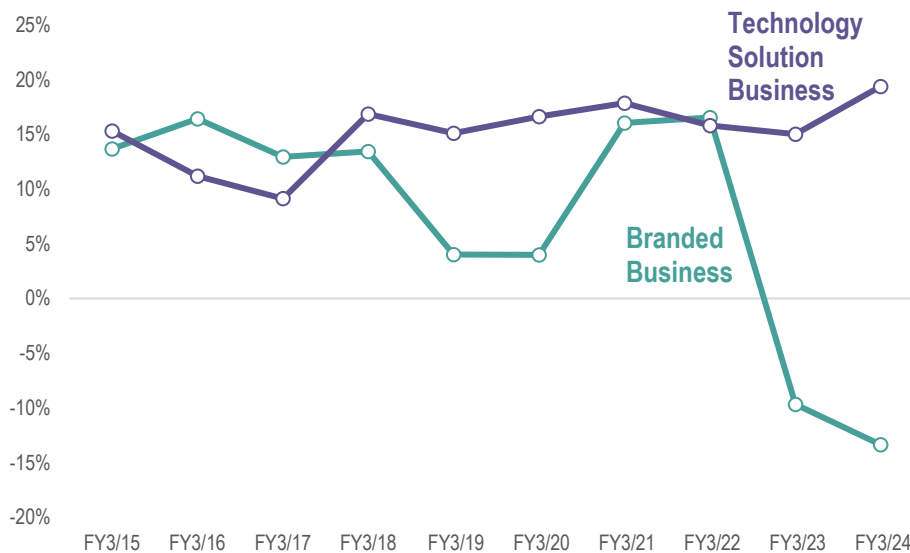


Source: Company

We observe that the Technology Solution Business is stable on a segment basis.

Stable performance at Technology Solution Business

Segment margins



Source: Company

Factors that have contributed to volatility in the Branded Business are:

- The COVID-19 pandemic led to a surge in demand due to people staying at home (hobbies at home) and working remotely (DX) (FY3/21 and FY3/22), and the resulting drop in sales and sudden changes in demand led to the recording of temporary inventory-related processing expenses (particularly in FY3/23 and FY3/24).



- Emergence of changes in market structure for the mid to low-end pen tablet market in FY3/19 and FY3/20.

Group companies

There are 10 group companies which are located overseas.

Disclosed group companies in FY3/24

Subsidiary	Group company status	Stake (%)	Business description
Wacom Europe (Germany)	Consolidated	100.0	Sales and development of electronic equipment products in Europe, Africa, and the Middle East.
Wacom Technology (USA)	Consolidated	100.0	Sales and development of electronic equipment products in North, Central, and South America.
Wacom China (China)	Consolidated	100.0	Sales and development of electronic equipment products in China (excluding Hong Kong).
Wacom Korea (South Korea)	Consolidated	100.0	Sales and development of electronic equipment products in South Korea.
Wacom Australia (Australia)	Consolidated	100.0	Sales of electronic equipment products in Oceania.
Wacom Hong Kong (Hong Kong)	Consolidated	100.0	Sales of electronic equipment products in Hong Kong.
Wacom Singapore (Singapore)	Consolidated	100.0	Sales of electronic equipment products in SE Asia and South Asia.
Wacom Taiwan Information (Taiwan)	Consolidated	100.0	Sales and development of electronic equipment products in Taiwan.
Wacom India (India)	Consolidated	100.0	Sales of electronic equipment products in India.
Wacom Vietnam Science and Technology Limited Liability Company (Vietnam)	Consolidated	100.0	Production management and quality control for Wacom's electronic equipment products in Vietnam.

Source: Company

Corporate mission

Leadership in digital ink and drawing technology

Wacom views itself as a **'Technology Leadership Company'** that provides customers with a unique and innovative digital pen and ink experience for digital writing and drawing.

Its vision is that through its technology, it will continue to provide meaningful experiences for humans and society over the long term, guided by the vision of **'life-long ink'** to contribute to making this world more humane.

Materiality

The company views materiality as follows:

- Expanding technology, product, and service portfolios to create new value and new businesses as a technology company.
- Forming communities with partners to create value and implement corporate social responsibility.
- Contributing towards a sustainable society through technologies and products along with environmental initiatives such as support of the TCFD and JCI frameworks
- Providing an environment conducive to individual growth.
- Building a high-quality governance system based on diverse perspectives.



Business model

Key concepts and unique selling points

Typically, a technology hardware company drives revenue and earnings by the following means:

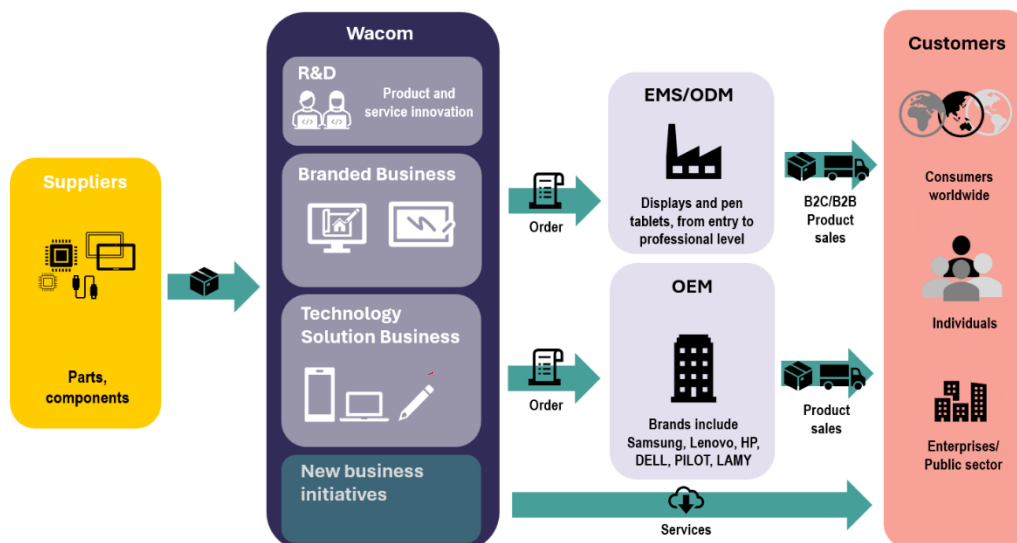
- Innovation, investing in R&D to develop competitive offerings, and staying ahead of its peers.
- Customer acquisition (both end users as well as OEM customers) by developing a strong brand and reputation.
- Developing strategic partnerships with major device manufacturers and software providers, ensuring compatibility and a seamless experience as a platform-agnostic player.

We believe Wacom’s model has the following focus:

- **Increasing the attach rate of a pen to electronic devices, and growing the installed base of its products via OEM solutions.**
- **Driving a turnaround in the Branded Business.**
- **Assuming that the Branded Business will achieve stable profitability through product portfolio renewal and restructuring, Wacom will maintain the brand's position and trust in the creative community and establish a funnel effect starting with professional users.**
- **Developing a new services business, leveraging the partnerships it has developed with diverse communities.**

Workflow

High-level workflow overview



Source: Company

Note: EMS (Electronics Manufacturing Services), ODM (Original Design Manufacturer), OEM (Original Equipment Manufacturer)



Competitive advantages

We believe Wacom has the following competitive advantages:

- **Digital ink and access to stroke data** – Wacom operates a patented Universal Ink Model which formats stroke data (such as pressure sensitivity and tilt angle) from a digital pen that can be used for handwriting analysis. This technology can be utilized to develop new services and technology modules that can be applied to EdTech such as supporting Learning Management Systems.
- **Brand and reputation** – the company has a high reputation with a strong track record of innovative products and endorsement from the creative industry.
- **Financial strength** – the company is well-capitalized, and in a position to continue investing in the business.

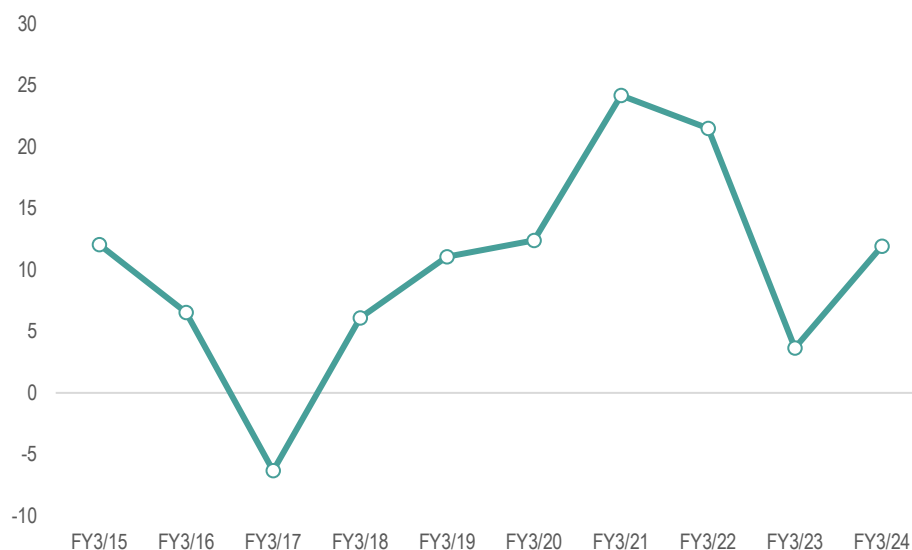
ROIC

We believe ROIC is a key indicator of a company's ability to generate value. Wacom's 10-year average ROIC is 10.3%, with the range showing material fluctuations with a high of 24.2% to a low of -6.1%. This highlights that overall, the company has been able to generate returns that are likely above its cost of capital, and this trend should continue into the long term.

The volatility in the trend indicates periods of underperformance, reflecting market conditions as well as technological challenges, changing competitive dynamics, and business risk. Visible dips in FY3/17 and FY3/23 partly stem from difficulties in the Branded Business. Business transformation efforts with the introduction of services should contribute to more consistent returns.

Overall at satisfactory levels but volatile

ROIC (%)



Source: Bloomberg



Peer group analysis

We have selected the following peers to assess Wacom’s returns and valuations; as there are no direct comparable listed peers, we have chosen companies involved in the PC peripherals space, as well as ePaper and digital content creation and management.

- **Domestic companies** – we have selected a combination of PC peripherals and accessories manufacturers, including a specialist monitor company (EIZO).
- **Overseas companies** – our selection includes manufacturers of PC accessories (Logitech, Turtle Beach), haptic specialist Immersion Corporation, digital content ecosystem Adobe, and ePaper company E Ink Holdings.

Domestic companies

Company	Description
Elecom Co., Ltd.	Fabless design and manufacture of PC peripherals and accessories.
Melco Holdings Inc.	Fabless manufacturer specializing in networking, storage, and computer peripheral products.
EIZO Corp.	Manufacturer of specialist PC monitors used in key markets such as creative, medical, industrial, and air traffic control.
MCJ Co., Ltd.	Manufacturer of PCs and PC hardware accessories.

Source: Companies, Bloomberg

Overseas companies

Company	Description
Logitech International S.A.	Design and manufacture of personal peripherals and devices for various digital platforms.
Turtle Beach Corporation	Specialist in gaming audio technology and PC peripherals.
Adobe Inc.	Software and services cater to creative professionals, businesses, and educators, enabling them to create, manage, and distribute digital content.
Immersion Corporation	Touch technology specialist applying haptics technology to smartphones, game controllers, touchpads, and other devices.
E Ink Holdings Inc	Taiwanese company known for pioneering and leading the development of electronic paper display (EPD) technology

Source: Companies, Bloomberg

Core findings

- **Profitability** – the stark contrast in returns between hardware and software-orientated models is clear, with high double-digit OPM (LTM) for the latter. For hardware names, the historic 10-year average OPM is higher than the current, indicating commoditization, intense competition, and impact from component cost fluctuations.
- **Valuations** – the key takeaways are:
 - A similar situation presents itself for valuations for hardware versus software peers, with the former exhibiting higher valuation multiples reflecting higher returns and expectations for growth.
 - Hardware names tend to exhibit lower PBRs and higher dividend yields, reflecting a more mature industry growth profile.
- **Sustainability of earnings (5-year track record):**
 - The domestic hardware peers illustrate stable low single-digit sales and growth, versus a more erratic but higher growth profile from software and

license-focused overseas peers (Immersion experienced a one-time boost to its sales 5 years ago).

- Domestic peers have experienced flat to falling ROE and ROA; versus double-digit change for overseas peers (excluding Turtle Beach Corporation). This suggests that these companies are facing struggles to generate sufficient returns and may be facing underlying strategic issues.
- For Wacom, we highlight the following:
 - Profitability has been in line with domestic peers, and a strategic focus on services provides an opportunity to improve the sales mix.
 - With improved working capital management, our estimated prospective FCF yield of 8.0% is higher than the domestic peer average of 3.9%.
 - PBR of 2.4x is significantly higher than its domestic peers, highlighting the recent positive stance on shareholder returns. The historic 10-year PBR multiple is 2.9x.
 - Execution of new growth initiatives could provide impetus to increase valuation multiples as the business model demonstrates positive transformation.

We conclude that Wacom’s valuations reflect relatively moderate market expectations for growth. With solid execution of new growth initiatives that are set to be implemented from FY3/26, this could act as a positive catalyst for change.



A clear difference between hardware and software-centric businesses

Peer analysis of key profitability and valuation metrics

Ticker	Company	Mkt Cap US\$ (m)	Profitability				Valuation					
			OPM LTM (%)	OPM 10-yr average (%)	ROE LTM (%)	ROIC 10-yr average (%)	EV/EBITDA 12M Fwd (x)	EV/Sales 12M Fwd (x)	Div yield 12M Fwd (%)	FCF yield 12M Fwd (%)	PER 12M Fwd (x)	PBR (x)
6727 JP	Wacom	593	5.9	5.9	11.9	10.2	6.0	0.6	3.4	8.0-	13.6	2.4
<i>Domestic companies</i>												
6750 JP	Elecom Co., Ltd.	824	11.2	12.1	11.9	15.0	3.8	0.5	3.3	5.5	11.1	1.4
6676 JP	Melco Holdings Inc.	295	1.8	5.4	4.8	7.4	5.4	0.2	3.7	2.2	16.8	0.7
6737 JP	EIZO Corp.	578	4.9	8.2	4.4	4.9	7.6	0.8	5.4	-	15.0	0.6
6670 JP	MCJ Co., Ltd.	436	9.2	7.2	16.7	12.5	3.5	0.4	4.2	-	8.0	1.4
Average			6.8	8.3	9.4	10.0	5.1	0.5	4.2	3.9	12.7	1.0
<i>Overseas companies</i>												
LOGI US	Logitech International S.A.	12,983	13.9	11.2	27.3	23.1	15.0	2.6	1.5	5.1	19.3	5.8
HEAR US	Turtle Beach Corporation	274	-3.9	-0.6	-10.3	-4.0	5.1	0.8	-	10.9	10.1	2.2
ADBE US	Adobe Inc.	225,832	34.9	28.1	31.7	20.1	19.6	9.7	0.0	4.0	25.7	15.4
IMMR US	Immersion Corporation	345	44.3	2.7	24.2	-1.2	4.0	3.2	1.5	6.0	10.2	2.6
8069 TT	E Ink Holdings Inc	8,458	24.7	7.4	16.8	4.0	19.3	20.5	7.3	2.3	3.7	25.2
Average			22.8	9.8	17.9	8.4	12.6	7.4	2.6	5.7	13.8	10.2

Source: FactSet, Bloomberg, Astris Advisory

Note: LTM is the last 12 months



Steady low single-digit growth at domestic hardware names
Peer analysis of track record – growth (5-year CAGR) and change (2019-2024)

Stock	Name	Growth 5-year CAGR (%)						Change over the last 5 years			
		Sales	EBIT	Net Income	EPS	BPS	Total assets growth	Chg. in GPM	Chg. in FCF margin	Chg. in ROE	Chg. in ROA
6727 JP	Wacom	5.8	8.1	3.4	4.6	9.6	8.9	-3.1	13.2	-4.1	-1.6
<i>Domestic</i>											
6750 JP	Elecom Co., Ltd.	2.1	3.0	5.2	5.0	13.1	9.5	1.0	-0.7	-6.7	-1.9
6676 JP	Melco Holdings Inc.	6.0	-4.4	-4.6	-0.9	6.6	1.6	-1.6	2.0	-2.8	-1.7
6737 JP	EIZO Corp.	2.0	6.9	4.8	5.6	7.2	6.3	-1.7	3.9	-0.3	-0.2
6670 JP	MCJ Co., Ltd.	6.4	12.5	12.9	12.8	15.5	10.5	1.9	0.7	-1.7	1.3
Average		4.1	4.5	4.6	5.6	10.6	7.0	-0.1	1.5	-2.9	-0.6
<i>Overseas</i>											
LOGI US	Logitech International S.A.	9.0	18.0	18.9	20.0	15.4	12.2	3.0	15.7	4.1	3.4
HEAR US	Turtle Beach Corporation	-2.1	-	-	-	13.1	4.2	-7.5	-4.8	-308.9	-65.4
ADBE US	Adobe Inc.	16.6	19.1	15.9	17.9	13.6	9.1	3.2	-5.8	3.2	1.7
IMMR US	Immersion Corporation	-21.1	-4.7	-9.0	-9.6	12.4	8.1	3.0	144.4	51.2	37.6
8069 TT	E Ink Holdings Inc	13.8	25.5	24.5	24.2	11.6	15.1	13.0	-0.1	6.1	1.9
Average		3.2	14.5	12.6	13.1	13.2	9.7	2.9	29.9	*16.2	*11.2

Source: FactSet, Bloomberg

Note: figures are non-adjusted; *ignore outlier Turtle Beach Corporation



Balance sheet

Wacom's domestic and overseas peers overall share similar characteristics in terms of high liquidity, net cash positions, and equity ratio.

Regarding Wacom, we make the following observations:

- Liquidity – the current and quick ratio is at the lower end of its peer group range, with efforts made to improve working capital management.
- Leverage – net cash position pointing to the company's ability to quickly allocate capital when required.
- Efficiency – asset turnover of 1.5x is at the higher end of the peer group range, indicating that the company is effective at converting its assets into sales. However, the company has been writing down inventory to achieve this.

We conclude that the company has a well-capitalized balance sheet. This is a positive position to be in as Wacom heads towards business transformation which may require further capital allocation.

The peer group is well-capitalized

Liquidity, leverage, and capital efficiency

Company	Liquidity		Leverage				Equity ratio (%)	Efficiency			
	Current ratio (x)	Quick ratio (x)	Net debt to equity (x)	Net debt to EBITDA (x)	Interest cover (x)	Total debt to capital (%)		Asset turnover (x)	Inventory turnover (x)	Inventory days	Cash cycle (days)
Wacom	1.9	1.5	-0.5	-1.8	103.6	28.0	45.2	1.5	4.7	77.5	60.7
<i>Domestic</i>											
Elecom Co., Ltd.	3.5	3.0	-0.6	-3.3	15656.0	0.6	73.6	1.0	4.9	73.9	58.0
Melco Holdings Inc.	2.6	1.9	-0.5	-5.3	-	0.0	66.6	1.5	5.0	73.4	75.9
EIZO Corp.	4.3	2.0	-0.1	-1.6	73.1	4.3	78.5	0.5	1.2	303.5	360.1
MCJ Co., Ltd.	3.2	2.3	-0.4	-1.8	65.9	15.9	65.6	1.7	5.0	73.5	88.7
Average	3.4	2.3	-0.4	-3.0	5265.0	5.2	71.1	1.2	4.0	131.1	145.7
<i>Overseas companies</i>											
Logitech International	2.4	2.0	-0.6	-2.1	-	3.3	62.0	1.2	4.7	77.9	64.9
Turtle Beach Corp.	1.8	0.9	0.3	-7.5	-10.1	30.9	48.5	1.6	3.2	114.6	129.1
Adobe Inc.	1.0	1.0	-0.2	-0.3	73.1	20.9	53.8	0.7	-	-	-13.4
Immersion Corp.	6.4	6.4	-0.9	-5.7	-	0.0	82.3	0.2	-	-	240.0
E Ink Holdings Inc	1.3	1.2	-0.1	-0.8	26.6	28.1	59.0	0.4	3.7	98.9	84.1
Average	2.6	2.3	-0.3	-3.3	29.9	16.7	61.1	0.8	3.9	97.1	100.9

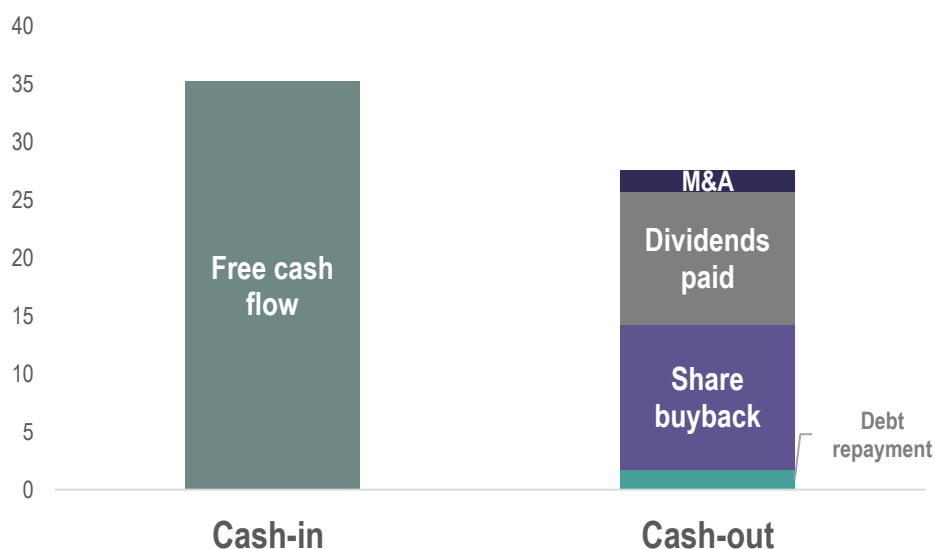
Source: Refinitiv, FactSet

Capital allocation

Over the 5 years between FY3/20 to FY3/24, the company's cumulative cash flow shows a positive net free cash flow versus cash-outs which have focused on shareholder returns. However, Wacom generated negative cash flow in FY3/22 and FY3/23 (related to increasing inventories impacting working capital), highlighting its historical trend of intermittent positive free cash flow stemming from product launch cycles and inventory management.

A focus on shareholder returns

5-year cumulative capital generation and allocation (¥bn, FY3/20 – FY3/24)



Source: Company

Outlook for capital allocation

Wacom is well-capitalized with a ¥17.7bn net cash balance in FY3/24, together with long-term investments of ¥1.61bn (total making up 54% of shareholders equity). The company aims to prioritize growth and strategic investments to generate future corporate value. Additionally, it aims to enhance shareholder returns by leveraging capital efficiency through leverage (debt) while ensuring financial soundness.



The company has the following policy for capital allocation for the period FY3/24 – FY3/25.

Continued focus on improving operating cash flow and shareholder returns

Company policy for capital allocation

Item	Planned spend for FY3/24-FY3/25 (approximate)	Actual FY3/24	Implied for FY3/25	Guidance FY3/25
Capex	¥5.0bn	¥2.32bn	¥2.68bn	¥2.0bn
Growth investment (R&D)	¥16.0bn	¥7.68bn	¥8.32bn	¥8.0bn
Shareholder returns				
Dividend payout ratio	Maintain stable DPS or 30% payout ratio	¥20 DPS, 67.5% payout ratio	-	¥20 DPS, 46.9% payout ratio
Treasury stock	Up to ¥15bn	¥7.51bn	¥7.49bn	Up to ¥3.0bn by September 2024
Operating cash flow				
Operating profit (excluding R&D)	¥31.0bn	¥14.74bn	¥16.26bn	¥16.50bn
Inventory reduction	¥7.0bn	¥7.85bn (goods only)	-	-
Financial leverage	DE ratio 0.3x to 0.5x	0.4x	-	-

Source: Company

There is a flexible stance on share buybacks, which can act as a lever for enabling capital efficiency and balancing needs for investment opportunities and overall financial position.

M&A

Historically, M&A activity has been a relatively low-priority strategy. However, as the company remains well-capitalized, opportunities would be considered in hardware as well as data-related aspects of digital ink.

Capital ties with external parties would focus on collaboration with technology and open innovation (as opposed to developing closed platforms).

Longer-term outlook

With the upcoming new medium-term plan (Wacom Chapter 4) commencing in FY3/26, we do not expect a major change in capital allocation at Wacom. However, considering 1) an emerging proportion of recurring revenue from subscriptions, 2) improved inventory management, and 3) limited capital intensity, we believe **the business is transforming to generate more sustained free cash flow**. The size of strategic technology investments and M&A priorities will determine the scope for shareholder returns.

For H1 FY3/25, the company has set aside ¥3bn for share buybacks, culminating in a ¥12.5bn allocation from FY3/22. During the ‘Wacom Chapter 3’ current medium-term direction (covering FY3/22-FY3/25), up to ¥20bn was indicated for buybacks – this implies if the resolutions executed in the H1 FY3/24 are carried out to the limit, there is ¥4.5bn left to allocate in H2 FY3/25.

Recent results

Q1-4 FY3/24 results

Gross margin improvement acted as the core earnings driver YoY

Key financials

(¥bn)	Q1-4 FY3/23	Q1-4 FY3/24	YoY (%)
Sales	112.73	118.80	+5.4
Gross profit/(loss)	31.17	36.77	+17.9
Gross margins (%)	27.7	30.9	
SG&A costs	29.16	29.71	+1.9
Operating profit/(loss)	2.01	7.06	+250.6
Operating margins (%)	1.8	5.9	
Profit before tax	2.87	9.85	+243.6
Net income attributable to the parent	1.79	4.56	+154.5
Average FX rate			
USD	134.95	144.40	+7.0
EUR	141.24	156.80	+11.0
CNY	19.69	20.14	+2.3

Source: Company

Technology Solution Business driving sales and OP growth

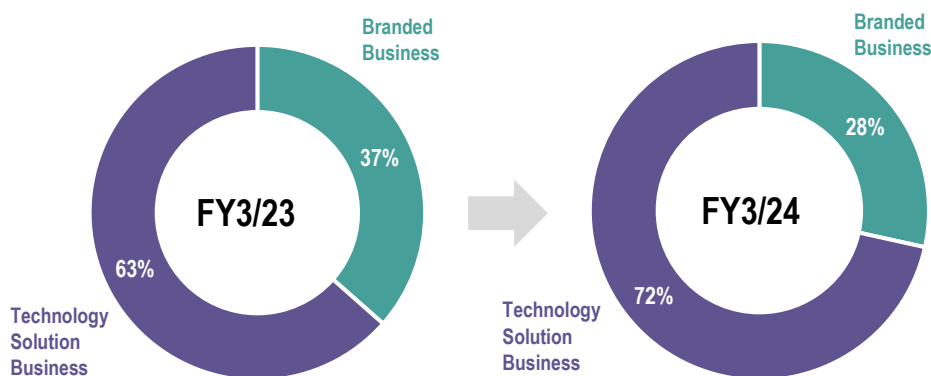
Per business segment (pre-elimination)

(¥bn)	Q1-4 FY3/23	Q1-4 FY3/24	YoY (%)
Sales			
Branded Business	41.16	33.81	-17.8
Technology Solution Business	71.57	84.98	+18.7
Segmental profit/(loss)			
Branded Business	(3.98)	(4.52)	-
Technology Solution Business	10.76	16.48	+53.2
Adjustments	(4.76)	(4.90)	-
Segmental profit margins (%)			
Branded Business	-9.7	-13.4	
Technology Solution Business	15.0	19.4	

Source: Company

The Technology Solution segment continues to dominate the mix

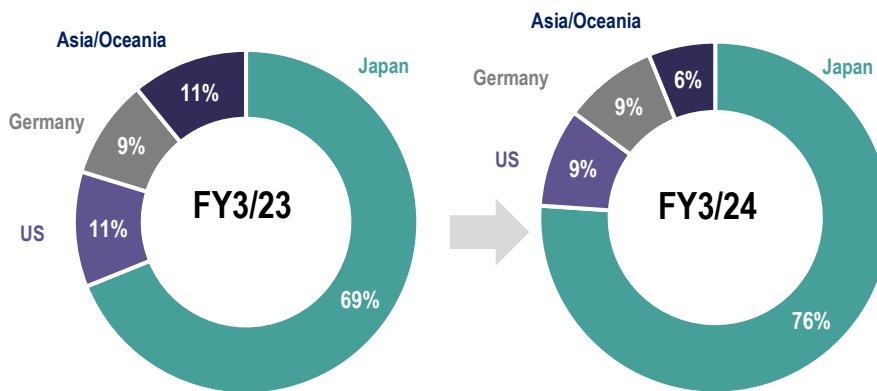
Business segment sales mix



Source: Company



Technology Solution (sales all recognized in Japan) driving growth Geographic sales mix



Source: Company

The Technology Solution business has OEM customers with sales networks catering to customers all over the world; sales are all recorded in Japan (sales prices are mainly denominated in US dollars).

Key highlights

The key takeaways for FY3/24 results were as follows:

Challenges remain in the Branded Business

For the second consecutive year, the Branded Business had a negative segment profit margin; there were also one-time extraordinary loss items:

- **Difficulty over gauging demand** – actual sales were ¥33.81bn (-17.8% YoY) versus initial guidance of ¥41.50bn (+0.8% YoY). There was reduced demand for display products and pen tablet products in the mid-price range and professional models.
- **Demand decline resulting in excess materials and inventory** – the company booked a purchase order valuation allowance of ¥2bn and a ¥1bn inventory writedown.
- **One-time events** – there were 1) ¥2.5bn settlement payments to some suppliers to address surplus materials that had been purchased, and 2) an extraordinary loss of ¥0.9 bn in fixed assets in the Branded Business.

Robust performance in Technology Solution Business

Sales of ¥85.0bn were ahead of the initial guidance of ¥64.5bn, driven by strong demand from OEM partners as well as a tailwind from a weak Japanese Yen YoY contributing ¥5.4bn.

Segment profit margins increased to 19.4% from 15.0%, driven by increasing sales volume, a decrease YoY in purchase contract valuation allowance, and the FX tailwind contributing ¥1.3bn in segment profit.

Improvements in working capital management

Total inventory levels fell to ¥13.1bn in FY3/24 from a high of ¥33.7bn in Q2 FY3/23, a decline of 39%. Although this involved a total inventory write-down of an estimated ¥9.7bn (¥8.4bn in FY3/23, and ¥1.3bn in FY3/24) as well as a small loss on disposal and settlement costs, the company has lowered its working capital requirements by a significant margin concerning its Branded Business.

Preparations for change in the business model

With FY3/24 being the penultimate year of the current medium-term ‘Wacom Chapter 3’ plan, there are indications that the company is making progress in transforming its business model with new service development around EdTech, as well as new growth engines based on a services model. These include ongoing progress in the following:

- Real-world use case in **EdTech** in digital ink services with Z-Kai, a prominent Japanese educational services company operating tablet-based online courses. **AI is used to provide knowledge graph-based learning experiences analyzing pen stroke data**, allowing educational platforms to provide personalized instruction and experience.
- **‘Wacom Bridge’** is a cloud-based solution that provides optimal pen input to professional designers in remote environments, and uses display products without the need to switch settings in both local and remote environments.
- **‘Wacom Yuify’**, a **digital watermark solution** to certify creator artwork.



Medium-term plan

Current medium-term strategy ‘Wacom Chapter 3’ (FY3/22-FY3/25)

The current medium-term plan (‘Wacom Chapter 3’) covering FY3/24 – FY3/25 is described as ‘the period of transformation for the business structure’, with the view to connect with further growth in ‘Wacom Chapter 4’ covering FY3/26 – FY/29. The focus is on eight objectives, as opposed to headline financial targets with a focus on gross margin uplift.

We believe market conditions have been far more challenging than expected for Wacom, particularly in the Brand Business. The core objectives are as follows.

Significant areas left to execute in FY3/25

Wacom Chapter 3 core objectives and status in FY3/24

Objective	Status vs plan at FY3/24	Detail
Branded Business		
1. Renew product portfolio and raise GPM	Undershooting	<ul style="list-style-type: none"> - New product releases (two in Q3 FY3/24, and one in April 2024). - Raised price points for certain products, but inventory clearance promotions led to falling GPM overall.
2. Market development in targeted areas	In progress	<ul style="list-style-type: none"> - Progress in the creative education sector. - Launch of the commercial version of ‘Wacom Bridge’. - Assessing the regional approach to solution-based delivery.
3. Enhance sales channel management for GPM improvement	Undershooting	<ul style="list-style-type: none"> - Develop direct channels in the B2B business - B2B ratio achieved approx. 30% as targeted. (vs 25% in FY3/23). - A registered user program called ‘Wacom Adventure’ aimed at attracting users to the online store increased the sales ratio to 13%+ (from 10% in FY3/23).
Technology Solution Business		
4. Expand customers and pen & ink use case	In progress	<ul style="list-style-type: none"> - Progress is being made in implementing market standardization for pens e.g. supporting the new Samsung Galaxy S Pen, and introducing a Universal Pen for use with all standards. - Increasing customer acquisitions and project numbers. - In the process of planning and developing proprietary hardware.
5. Market development in general education	In progress	<ul style="list-style-type: none"> - Next-gen solution for general education in development. - The commercialized service has been updated.
Corporate		
6. Improve inventory management	Achieved	- Inventory reduction has been executed.
7. Capital management, Return to shareholders	In progress	<ul style="list-style-type: none"> - Sustained R&D activity - ¥12.5bn share buyback planned up to September 2024 (total budget ¥20bn).
8. New service business development	In progress	<p>Preparations are underway to launch the following services in FY3/25:</p> <ul style="list-style-type: none"> - AI: commercialization in the education sector, providing knowledge graph-based learning experiences. - XR (cross reality): commercialization with a new input VR pen. - Security: announced market introduction of the Wacom Yuify beta version. - Remote: conducted release of the commercial version of the remote solution ‘Wacom Bridge’.

Source: Company



We believe that it will be important for Wacom to demonstrate that it has developed service businesses that will achieve the following:

- **Introduce new growth engines and transform the business, based on a services model with higher returns.**
- **Targeting large addressable markets, such as EdTech and DX.**
- **Resulting in more sustainable free cash flow generation.**

Outlook for ‘Wacom Chapter 4’ (FY3/26-FY3/29)

This is viewed as the implementation phase of the preparations conducted during ‘Wacom Chapter 3’ as new business drivers are commercialized and scaled.

In May 2023, the company set the following as a guide to its financial targets for the next medium-term management policy period (scheduled to be updated in May 2025).

- **Total sales volume of approximately ¥150bn** (give or take 10%).
- **OPM level at around 10%** (vs a 5-year historic average of 7.2%).

These targets roughly indicate that the company is aiming for sales growth of +6% CAGR (FY3/25CE ¥120bn to ¥150bn) which is in line with its 10-year CAGR, and an improvement in OPM.

The **new growth engines have been identified as follows:**

- Digital ink services – the combination of:
 - **AI** – application of knowledge graph-based learning management systems.
 - **XR** – new input VR pens.
 - **Security** – digital watermark service.
 - **Remote services** – ‘Wacom Bridge’ to provide a remote desktop solution, connecting creatives to a host computer.
- Deliver integrated pen experience for specific OEM applications, encompassing hardware, software, services, and UI (user interface).
- Portable creative products – products for new use cases, such as the Wacom Movink OLED professional display product.

During ‘Wacom Chapter 4’, the company disclosed a target of approximately ¥5bn in sales from digital ink services with high gross margins. From FY3/26 onwards, the company plans to record material annual recurring revenues.

Current disclosure aims to provide some direction to the company’s strategic initiatives. An update is planned for November 2024, followed by an official unveiling in May 2025.

Our views on a growth scenario

Wacom has embarked on a multi-year initiative to demonstrate future growth potential in digital content creation, workflow/DX, and education, taking a unique and competitive approach with its technology. With some new service development in advanced stages, we believe progress is being made.

To aim for steady profitability, we believe that the company needs to achieve its goal of returning to profitability through product portfolio renewal and structural reform. This business is seen as a key touch point for creators to engage with the company, and acting as a capability statement to current and prospective OEM partners.

Wacom is readying the implementation of new growth engines, and we view expansion in the EdTech market by applying analytical AI to learning management systems to have high earnings potential. Services revenue should enhance the sales mix, although this could become less visible if an integrated approach is taken with hardware (pen) sales to cater to a growing installed base. **We view the partnership with Japanese educational services company Z-Kai as a high-impact test case to attract domestic customers from both private and public education sectors.** However, the learning management system market is already in place with major overseas players such as Moodle, Blackboard, Canvas, Google Classroom, Cornerstone, SAP Litmos, and TalentLMS.



Astris earnings estimates and key assumptions

We believe that the core earnings driver for FY3/25 to FY3/27 will be a combination of 1) steady high single-digit sales growth in the Technology Solution Business with stable to rising segmental margins, and 2) turnaround at the Branded Business as segment losses begin to reach breakeven. In essence, we believe that the business can generate an OPM at the 10% level without the impact of new growth engines.

We have estimated a small earnings contribution from new growth drivers from FY3/26 as part of the ‘Wacom Chapter 4’ medium-term plan. We have factored in some incremental improvements in OPM as a result of the sales mix being impacted by the emergence of recurring services revenue. However, we believe that some upfront investment costs (such as marketing) will be required to scale, and earnings visibility currently remains limited.

Our estimates reflect a stable Technology Solution Business and a turnaround in the Branded Business

Astris Advisory earnings estimates

Year-end	FY3/25 guidance	FY3/25E	FY3/26E	FY3/27E
Sales	120.00	123.91	128.93	133.36
Growth YoY (%)	+1.0	+4.3	+4.1	+3.4
OP (¥bn)	8.50	9.17	12.85	14.45
OPM (%)	7.0	7.4	10.0	10.8
EBITDA (¥bn)	-	11.65	15.43	17.11
EBITDA margins (%)	-	9.4	12.0	12.8
FCF (¥bn)	-	6.51	11.39	10.65
FCF margin (%)	-	5.3	8.8	8.0
FCF conversion (%)	-	71.0	88.7	73.8
FCF yield (%)	-	6.2	10.9	10.2
DPS (¥)	20.0	20.0	20.0	20.0
Dividend payout ratio (%)	46.9	46.0	32.8	29.2
Dividend yield (%)	3.4	3.4	3.4	3.4
Total shareholder returns (%)	6.8	6.8	6.8	6.8

Source: Astris Advisory

Note: FCF conversion is FCF/Pre-tax Profit

The core assumptions of our estimates are as follows:

- **Sales growth** – the core driver is sustained growth in the Technology Solution Business as Wacom continues to win OEM projects.
- **Profitability** – steady OPM improvement driven as the Branded Business reduces its segmental losses.
- **Positive free cash flow generation** – we estimate that the company will demonstrate a more sustained profile for free cash flow generation after improvements in working capital management, and the sales mix favoring the stable Technology Solution business.

Our estimates on shareholder returns

- Dividends – we estimate a DPS of ¥20 for FY3/25 – FY3/27, as we believe the company will opt for steady dividends.
- Buybacks – Wacom has conducted buybacks on an annual basis from FY3/22. While there has been no guide from the company regarding sustained activity, we believe buybacks are likely to continue into FY3/26 and FY3/27 for the following reasons:
 - Wacom is well-capitalized with a ¥17.66bn net cash balance in FY3/24, together with long-term investments of ¥1.61bn (total making up 54% of shareholders equity). There is excess capital ready for deployment.
 - With improved working capital management and the stable Technology Solution Business driving earnings, free cash flow generation should become more sustained resulting in more capital.

We have estimated ¥3bn annual buybacks for FY3/25 to FY3/27.



Company information

Management (9 members, 11% female ratio, 67% outside members)

President, Chief Executive Officer	Nobutaka Ide
Number of shares held	90,731 Shares (as of March 31, 2024)
Career history	
April 1995	Joined Sharp Corporation
August 2013	Joined Wacom Co., Ltd., General Manager, Technology Marketing Department, Component Business Unit
April 2015	Vice President, Technology Solution Business Unit
July 2015	Senior Vice President, Technology Solution Business Unit
April 2017	Executive Vice President, Technology Solution Business Unit and Platforms & Applications Business Unit
June 2017	Director
April 2018	President & Chief Executive Officer (current position)
February 2021	Representative Director, Connected Ink Village, General Incorporated Association (current position)
Director, Chief Technology Officer	Sadao Yamamoto
Number of shares held	780,358 (FY3/24)
Career history	
March 1987	Joined Wacom Co., Ltd
April 1998	General Manager of Basic Development of ESD
June 1999	Director
June 2004	Director and Operating Officer in charge of R&D
April 2010	Director, Operating Officer, and General Manager of the R&D Office
April 2014	Director, Operating Officer, and Division General Manager of Technology Development Division
April 2015	Director and Chief Technology Officer (current position)
Director	Sayatake Komine
Number of shares held	-
Career history	
October 1996	Joined Chuo Audit Corporation
April 2001	Registered as a certified public accountant, qualified in Japan
July 2005	Joined PricewaterhouseCoopers Dallas
November 2011	Joined Wacom Co., Ltd., Manager of Finance Department
September 2017	Vice President, Technology Solution Business Unit
October 2020	Executive Vice President, Technology Solution Business Unit (current position)
January 2022	Outside Director, sdtech Inc. (current position)
June 2024	Director of the Company (current position)
Outside Director	Ken Inazumi
Number of shares held	-
Career history	
January 2010	Director, AlixPartners Asia LLC
January 2012	Operating Officer and Management Planning Manager, NHN Japan Corp. (current LINE Corporation)
April 2013	Director and COO, NHN PlayArt Corporation (current NHN Japan Corp.)
February 2014	President and CEO
October 2015	President and CEO, NHN Techorus Corporation
March 2017	Corporate Executive Officer, transcosmos inc
December 2017	Senior Corporate Executive Managing Officer
June 2018	Outside Director, Wacom Co., Ltd. (current position)
June 2019	Director and Senior Corporate Executive Officer, transcosmos Inc.
June 2021	President and CEO, XPRICE Inc.
March 2023	Managing Executive Officer, MASH Holdings Co., Ltd. (current position)
March 2024	Director, PILLBOX JAPAN INC. (current position)

Outside Director	Mikako Inamasu
Number of shares held	12,000 (FY3/24)
Career history	
April 1983	Joined FUJITSU LIMITED
November 1993	Director, HR Institute Co., Ltd
April 2005	Professor, Business Management, Business Breakthrough Graduate School (current position)
October 2005	Executive Vice President, HR Institute Co., Ltd
October 2013	President and Representative Director
December 2017	President and CEO, HR Institute USA, Inc. (current position)
June 2019	Councilor, Thunderbird School of Global Management, General Incorporated Foundation (current position)
January 2020	Chairman and Representative Director, HR Institute Co., Ltd.
June 2021	Outside Director, Wacom Co., Ltd. (current position)
June 2022	Representative Director, One Drop Ocean Foundation, General Incorporated Foundation (current position)
Outside Director	Takafumi Nakajima
Number of shares held	-
Career history	
April 2014	Representative Director, RE-X Expansion Inc. (current position)
February 2018	Representative Director, Kumamura Shin Power Inc. (current position)
May 2023	Representative Director, Gokigen Power Inc. (current position)
July 2023	Representative Director, TIDA POWER LTD.. (current position)
June 2024	Outside Director, Wacom Co., Ltd. (current position)
Outside Director	Shigeki Higashiyama
Audit Committee	
Number of shares held	10,000 (FY3/24)
Career history	
April 1982	Joined Nomura Research Institute, Ltd.
October 2000	President, Nomura Research Institute Hong Kong President, Nomura Research Institute Singapore
April 2005	Head of Corporate Planning Division, Nomura Research Institute, Ltd.
April 2006	Senior Managing Director and Head of Personnel Division
April 2008	Senior Managing Director and Division Manager of Asia Region Director, iVision Shanghai Co., Ltd.
April 2012	Senior Managing Director and Division Manager of China & Asia Region
April 2015	Senior Corporate Managing Director, President, Nomura Research Institute Asia Pacific Private Limited
April 2016	Counselor
June 2018	Outside Director (Audit Committee Member), Wacom Co., Ltd. (current position)
June 2022	Outside Director, MIMOSA CO. LTD. (current position)
Outside Director	Osamu Hosokubo
Audit Committee	
Number of shares held	1,000 (FY3/24)
Career history	
April 1983	Joined Nippon Trust Bank Co., Ltd. (currently Mitsubishi UFJ Trust and Banking Corporation)
July 1989	Joined JAPAN-ASEAN Investment Co., Ltd. (currently Japan Asia Investment Co., Limited)
April 2005	Executive Officer
June 2007	Director
June 2012	President & CEO
July 2017	CEO, Great Asia Capital & Consulting LLC (current position)
November 2017	Outside Director, Saisan Co., Ltd. (current position)
December 2018	Outside Auditor, Malignant Tumor Treatment Technologies, Inc.
June 2019	Outside Director (Audit Committee Member), Wacom Co., Ltd. (current position)
March 2020	Outside Director, Roland DG Corporation (current position)
November 2020	Outside Director, ANSeeN Inc. (current position)
July 2023	Outside Director (Audit Committee Member), Malignant Tumor Treatment Technologies, Inc. (current position)

Outside Director Audit Committee	Yuji Ono
Number of shares held	-
Career history	
April 1991	Joined Toyo Trust and Banking Company, Limited (currently Mitsubishi UFJ Trust and Banking Corporation)
January 2009	Registered as an attorney- at law admitted in Japan
April 2014	Lecturer, Keio University Law School (current position)
April 2017	Deputy General Manager, Compliance Management Department, Mitsubishi UFJ Trust and Banking Corporation
April 2019	General Manager, Legal Department
April 2022	General Manager, Corporate Risk Management Division The Master Trust Bank of Japan Ltd.
April 2023	Joined Link Partners Law Office Lawyer (current position)
July 2023	Outside Audit & Supervisory Board Member, BankGuard Inc. (current position)
February 2024	Representative Director, Syndic Trust Corporation (current position)
June 2024	Outside Director (Audit Committee Member), Wacom Co., Ltd. (current position)

Source: Company

Contact details (Tokyo Branch)

Address

Tokyo Branch
Sumitomo Fudosan Shinjuku Grand Tower 31F, 35F,
8-17-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo

IR Dept.:

Tel: +81-3 5337-6502

Source: Company

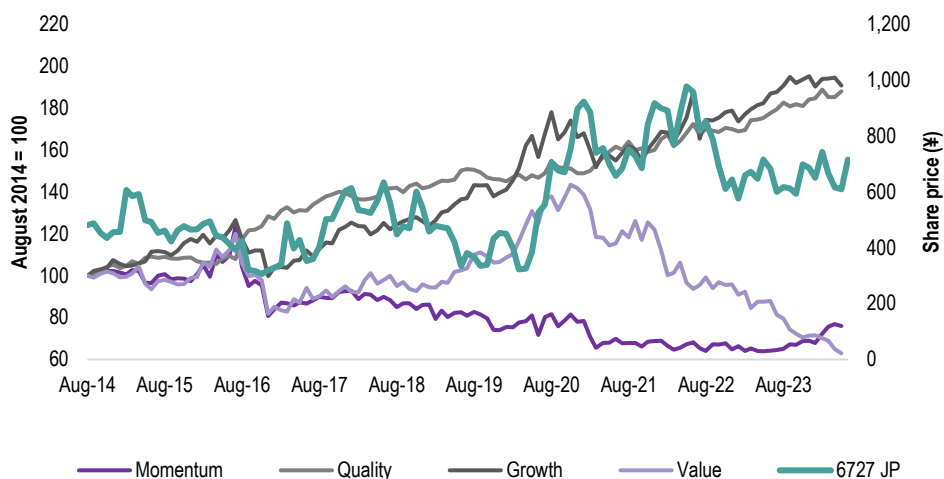
Shareholder details (as of March 31, 2024)

Major shareholders	Stake (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	17.72
Custody Bank of Japan, Ltd. (Trust Account)	6.67
Samsung Electronics Singapore Pte. Ltd.	5.78
The Bank Of New York Mellon 140051	4.94
State Street Bank And Trust Client Omnibus Account OM02 505002	3.75
State Street Bank And Trust Company 505103	3.02
AVI Global Trust PLC	2.96
Masahiko Yamada	2.59
Wilnau Co.	2.09
Juniper	1.94

Source: Company

Astris Quant Sheet

Share price chart and factor analysis (from August 2014)



Source: FactSet

Factors	2 Year Corr	5 Year Corr	10 Year Corr
Momentum: 12 Month - 1 Month Performance	0.13	-0.05	-0.02
Quality: Free Cash Flow Yield	0.45	0.11	0.13
Growth: Operating Profit Growth	0.41	0.16	0.11
Value: Book to Market	0.14	0.12	0.01

Source: FactSet

Wacom exhibits a strong short-term correlation with both the Growth and Quality factors. However, the correlation with these factors is short-term in nature, with both factors having a long-term correlation in the low teens.

Calculation method and definition of factors in the time series

Universe

TOPIX500

Factor return calculation

Quartile Range Analysis: Calculate the element return by subtracting the average performance of the lower quartile from the average performance of the upper quartile for each element forecasted for one month. This analysis is repeated monthly without considering transaction costs.

Factor

Momentum

1-month return

12-month return

Subtracting the most recent 1 month

Quality

FCF yield (estimate)

Growth

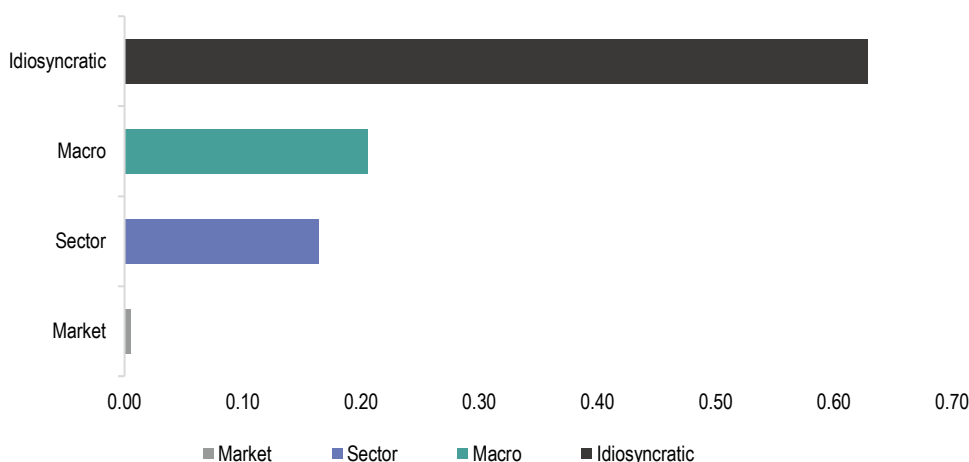
Operating profit growth (estimate)

Value

Book-to-market ratio (actual)

Source: FactSet

Drivers of stock price performance and multiple regression analysis (since August 2014)



Source: FactSet

The sector and macro factors account for almost 40% of Wacom share price movements. Surprisingly, the broader market impact is negligible.

Calculation method for multiple regression analysis

Multiple regression analysis

Perform regression analysis including all drivers, and conduct individual regression analysis by excluding one driver at a time. To quantify the specific impact of each driver, calculate the partial coefficient of determination (partial R-squared value) using the formula: (Residual Sum of Squares from regression analysis including all drivers - Residual Sum of Squares from regression analysis excluding one driver) / Residual Sum of Squares from regression analysis excluding one driver.

Source: FactSet

Multiple regression analysis results

Factors	2Y Corr	5Y Corr	10Y Corr
Market			
Topix 1st Section	0.37	0.53	0.38
Topix Small Cap Index	0.34	0.47	0.37
MSCI Japan	0.37	0.54	0.38
Sector			
Topix Electrical Appliances	0.55	0.63	0.43
MSCI Japan Information Technology	0.54	0.61	0.42
MSCI Japan Tech Hardware & Equipment	0.53	0.59	0.40
Macro			
10Y JGB	-0.29	-0.20	-0.12
JPYUSD	0.28	0.13	0.07
CPI Nationwide	-0.39	0.03	0.04
Industrial Production	-0.25	0.03	-0.04
Eco Watchers Outlook	0.00	0.26	0.22
Japan Machine Tool Orders	0.00	-0.19	-0.09

Source: FactSet

Wacom exhibits consistent correlation across a broad range of equity indices. Correlations are highest among sector-specific indices, such as the Topix Electrical Appliances index, which has a 5-year correlation of 0.63. Among the macro factors, the Eco Watchers index has the highest correlation of 0.22 over the last 10 years.

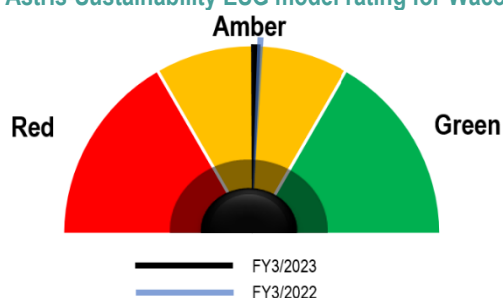
Astris-Sustainability ESG assessment

Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates the company with a combined score of 49.9%, placing it in the ‘Amber’ rating of our assessment in FY3/23.

Our in-house methodology* takes what we have selected as core measurable ESG factors, ranking its performance versus its domestic GICS Technology Hardware and Equipment with a market capitalization between ¥50bn to ¥250bn (a total of 46 companies).

Astris-Sustainability ESG model rating for Wacom



Source: Astris Advisory (*Note – for details of our in-house rating system please contact Astris Corporate Advisory)

ESG scorecards

	FY3/23	FY3/24
Environmental (6 factors from a selected peer group)	26.6	26.6
Astris Environmental score		
Social (7 factors from a selected peer group)	38.1	46.6
Astris Social score		
Governance (35 factors from a selected peer group)	65.5	61.1
Astris Governance score		
TOTAL SCORE (Out of a total of 48 factors)	52.7	51.5

Source: Company, FactSet, Astris Corporate Advisory

Our methodology has highlighted the following key topics:

Environmental

The company has established the ‘Wacom Environmental Quality Guideline’ which specifies environmental requirements regarding hazardous substances that are contained in materials, parts, and products.

It has participated in the Japan Climate Initiative (JCI), endorsed the Task Force on Climate-related Financial Disclosures (TCFD), and has disclosed its target set for CO2 emissions in the year 2030 (an intermediate target to achieve carbon neutrality by 2050) **to reduce CO2 emissions by 48% by 2030 compared to 2014 as the base year**, aiming to emit less than 715 t-CO2.

Social

A Code of Ethics and Business Conduct ensures that all directors and employees abide by these standards and guidelines to ethically and legally judge and conduct business.



There is a Wacom Suppliers Code of Conduct that conforms to the RBA (Responsible Business Alliance) Code of Conduct.

From the perspective of diversity and inclusion, the company aims to ensure true diversity and to foster a culture where team members can fully utilize their strengths while finding their work rewarding. Although there are no specific numerical targets for promoting individuals with certain attributes such as gender or nationality to managerial positions, Wacom is actively discussing the ideal vision of diversity and inclusion that it should strive for.

Currently, the workforce of approximately 1,200 people operates globally, with 60% of staff being locally employed by overseas group companies. These employees work under local leadership, leveraging the unique cultures and business characteristics of each country. Furthermore, for major management positions, the company prioritizes enthusiasm and ability to fulfill the mission over attributes such as gender, nationality, or age. As of FY3/24, women constitute 23% of our company's managerial positions.

Governance

The corporate governance system at Wacom. is organized in the following manner:

- **Board of directors** – currently comprised of nine board members led by President and CEO Nobutaka Ide, three internal directors, three outside directors, and three outside directors (audit and supervisory committee members).
- **Audit Committee** – chaired by a full-time audit and supervisory committee member, the committee consists of three outside directors. Specifics considered by the Audit and Supervisory Committee include the audit plan and audit policies, the establishment and operation of systems to ensure the appropriateness of business operations, the evaluation of the appropriateness of the duties performed by the external auditor, and consent regarding reappointment, suitability, and remuneration.
- **Compensation Committee (optional)** – chaired by an outside director, the committee consists of a total of five members; two outside directors, and three outside directors (audit and supervisory committee members). The Committee meets to discuss the amounts of compensation to be paid to directors, excluding directors who are members of the Audit Committee, and the amounts of monetary claims for the allocation of company shares as restricted stock compensation. Based on the results of these discussions, the Committee made recommendations to the Board of Directors. It is worth noting that all members attended both meetings.
- **Nomination Committee (optional)** – chaired by an outside director, the committee consists of a total of seven members; one internal director, three outside directors, and three outside directors (audit and supervisory committee members). The committee advises or makes recommendations to the board of directors on the appointment of directors and key executive officers.



Controversies

We note we have been unable to find major recent controversies that may have significant financial or reputational repercussions for the company and its shareholders.



Areas of discussion

Highlighting key topics for investors

We believe the following will be key areas for discussion with investors:

1. Next Medium-term plan ‘Wacom Chapter 4’
 - a. 10% OPM guideline – despite recent trends that have pushed down OPM, with the introduction of new services, should you not be aiming for higher returns?
 - b. Further investment costs – what if any additional investment will be needed when you fully commercialize new services?
 - c. Services revenue – what proportion of sales will services comprise in the medium to long term?
 - d. What is required to maintain positive returns in the Branded Business?
2. Capital allocation
 - a. Buybacks – ‘Wacom Chapter 3’ outlined an allocation of ¥20bn for buybacks; what is the direction for ‘Wacom Chapter 4’?
 - b. Dividends – do you foresee a need to change your current policy (30% payout ratio and/or steady DPS)?
 - c. M&A – expanding into services has taken time; were there no options to conduct M&A to accelerate this process? Is M&A a realistic option going forward?



JGAAP Financial Summary

Income statement (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Sales	112.73	118.79	123.91	128.93	133.36
COGS	81.56	82.03	85.50	88.96	90.68
Gross profit	31.17	36.77	38.41	39.97	42.67
Gross profit margin (%)	27.7	30.9	31.0	31.0	32.0
Operating profit	2.01	7.06	9.17	12.85	14.45
OP margin (%)	1.8	5.9	7.4	10.0	10.8
Non-operating income	0.92	2.99	0.10	0.10	0.10
Non-operating expenses	(0.07)	(0.19)	(0.10)	(0.10)	(0.10)
Recurring profit	2.87	9.85	9.17	12.85	14.45
Extraordinary gains	0.00	0.15	-	-	-
Extraordinary losses	(0.68)	(4.09)	-	-	-
Pre-tax profit	2.19	5.91	9.17	12.85	14.45
Tax	(0.40)	(1.35)	(2.48)	(3.47)	(3.90)
Effective tax rate (%)	14.0	13.7	27.0	27.0	27.0
Net income	1.79	4.56	6.69	9.38	10.55
Non-controlling NI	-	-	-	-	-
Parent attributable NI	1.79	4.56	6.69	9.38	10.55
Sales growth YoY (%)	+3.6	+5.4	+4.3	+4.1	+3.4
OP growth YoY (%)	-84.5	+250.6	+29.9	+40.1	+12.4
Pre-tax profit YoY (%)	-84.9	+169.6	+55.1	+40.1	+12.4
NI growth YoY (%)	-83.6	+154.5	+46.7	+40.1	+12.4

Balance sheet (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Cash & equivalents	20.02	31.66	33.43	40.90	47.22
Inventory	21.73	13.09	13.65	14.21	14.69
Accounts receivables	12.05	12.86	13.41	13.95	14.43
Other	6.38	7.07	7.38	7.68	7.94
Current assets	60.17	64.68	67.88	76.74	84.28
Tangible assets	6.21	5.72	6.09	6.47	6.87
Goodwill	-	-	-	-	-
Intangible assets	1.50	1.53	1.90	2.29	2.69
Investment	1.26	1.61	1.61	1.61	1.61
Other	6.14	6.08	6.08	6.08	6.08
Fixed assets	15.11	14.94	15.68	16.46	17.26
Total assets	75.28	79.62	83.56	93.19	101.54
Short term borrowing	7.63	7.00	7.00	7.00	7.00
Trade creditors	10.64	11.48	12.27	12.76	13.01
Other	11.77	15.42	14.57	16.15	15.96
Current liabilities	30.04	33.90	33.83	35.92	35.97
Long term borrowing	2.00	7.00	7.00	7.00	7.00
Other LT liabilities	2.75	2.75	2.75	2.75	2.75
Long term liabilities	4.75	9.75	9.75	9.75	9.75
Shareholder's equity	40.49	35.97	39.97	47.52	55.82
Share acquisitions rights	-	-	-	-	-
Non-controlling interests	-	-	-	-	-
Total net assets	40.49	35.97	39.97	47.52	55.82
Total liabilities & net assets	75.28	79.62	83.56	93.19	101.54

Source: Company, Astris Advisory (estimates)

Cash flow statement (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Profit before tax	2.19	5.91	9.17	12.85	14.45
Depreciation/amortization	2.20	2.57	2.48	2.58	2.67
Changes in working capital	(1.43)	9.32	(0.92)	1.24	(0.69)
Other non-cash items	(0.29)	1.68	-	-	-
Tax paid	(3.72)	(2.00)	(2.48)	(3.47)	(3.90)
Cash from Operating Activities	(1.06)	17.48	8.25	13.20	12.52
Capex	(1.54)	(2.32)	(1.73)	(1.81)	(1.87)
Acquisitions/increase stakes	-	-	-	-	-
Other investing cash flow	(1.60)	0.04	(0.78)	(0.37)	(0.58)
Cash from Investing Activities	(3.14)	(2.28)	(2.52)	(2.18)	(2.44)
Total cash dividends paid	(3.18)	(3.12)	(3.08)	(3.08)	(3.08)
Debt issuance/(retirement)	6.25	4.21	-	-	-
Equity financing/(buybacks)	(2.00)	(7.51)	(3.00)	(3.00)	(3.00)
Other	-	-	-	-	-
Cash from Financing Activities	1.07	(6.43)	(6.08)	(6.08)	(6.08)
FX impact	1.32	2.92	2.12	2.52	2.32
Net cash flow	(1.81)	11.68	1.77	7.46	6.32
Free cash flow	(2.60)	15.16	6.51	11.39	10.65
EBITDA	4.21	9.63	11.65	15.43	17.11
EBITDA margins (%)	3.7	8.1	9.4	12.0	12.8
Free cash flow margin (%)	-2.3	12.8	5.3	8.8	8.0
Free cash flow conversion (%)	N/A	256.4	71.0	88.7	73.8
Capex/sales (%)	1.4	2.0	1.4	1.4	1.4
Capex/depreciation (%)	70.1	90.4	70.0	70.0	70.0
CFO margin (%)	-0.9	14.7	6.7	10.2	9.4
Key metrics	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Profitability					
Gross margin (%)	27.7	30.9	31.0	31.0	32.0
Operating margin (%)	1.8	5.9	7.4	10.0	10.8
Net margin (%)	1.6	3.8	5.4	7.3	7.9
ROA (%)	2.4	5.9	8.2	10.6	10.8
ROE (%)	4.3	11.9	17.6	21.4	20.4
ROCE (%)	4.5	15.4	18.4	22.4	22.0
ROIC (%)	3.6	12.2	12.9	16.2	16.1
Liquidity					
Current ratio (x)	2.0	1.9	2.0	2.1	2.3
Quick ratio (x)	1.3	1.5	1.6	1.7	1.9
Leverage					
Debt/Equity ratio (x)	0.2	0.4	0.4	0.3	0.3
Net Debt/Equity ratio (x)	net	net	net	net	net
	cash	cash	cash	cash	cash
Equity ratio (x)	0.5	0.5	0.5	0.5	0.5
Interest cover (x)	43.9	76.0	93.6	131.1	147.4
Net Debt/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
Valuation					
EPS reported (¥)	11.3	29.6	43.5	61.0	68.5
PER (x)	52.2	20.0	13.6	9.7	8.6
Diluted PER (x)	52.2	20.0	13.6	9.7	8.6
DPS (¥)	20.0	20.0	20.0	20.0	20.0
Dividend payout ratio (%)	176.4	67.5	46.0	32.8	29.2
Dividend yield (%)	3.4	3.4	3.4	3.4	3.4
Total shareholder return (%)	5.7	12.1	6.8	6.8	6.8
Free cash flow yield (%)	(3.0)	17.5	8.0	12.9	12.4
Diluted free cash flow yield (%)	(3.0)	17.5	8.0	12.9	12.4
PBR (x)	2.1	2.4	2.2	1.8	1.5
EV/sales (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	16.5	7.2	6.0	4.5	4.1
EV/EBIT (x)	34.6	9.9	7.6	5.4	4.8
EV/FCF (x)	N/A	4.6	10.1	6.2	6.5



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