



Wacom (6727)

Laying the groundwork

10 February 2025

Q3 FY3/25 results update

- Positive indications heading into a pivotal stage** – With the company close to announcing its new medium-term plan ‘Wacom Chapter 4’ covering FY3/26 to FY3/29, Q1-3 FY3/25 results continue to indicate strength in the Technology Solution Business with OEM partnerships, with the decline in demand from the non-professional sector for the Branded Business. With the decrease in temporary costs related to inventory and structural business reform, segmental losses are being lowered in the Branded Business which is positive and points to breakeven being achieved in the medium term. Management has telegraphed additional business restructuring expenses in Q4 FY3/25, underlining the importance of optimizing operations before FY3/26.

Proactive capital allocation

- Guidance unchanged, announcing investment and buyback** – The company has maintained FY3/25 guidance, although an update may be issued regarding an additional extraordinary loss from business restructuring. The company remains focused on conducting investment activities such as capital tie-ups, and has invested ¥1bn in Japan’s leading AI company Preferred Networks, Inc. in December 2024 to deepen the existing collaboration between the two companies. The company has also announced a new ¥2.5bn share buyback program (up to 5 million shares), equivalent to 3.61% of shares outstanding, bringing the cumulative capital allocation to share buybacks to ¥20.0bn as per the target set for the current ‘Wacom Chapter 3’ medium-term direction.
- Valuations** – On our unchanged earnings estimates, the shares are trading on PER of 10.6x FY3/26, and a free cash flow yield of 11.8%. Our estimated total shareholder return is 6.3%, based on a ¥3bn buyback and DPS of ¥20. For FY3/25 we have reflected a ¥7.5bn buyback (previously ¥5bn) following the announcement of the new ¥2.5bn buyback program currently in place, resulting in a 11.0% total shareholder return.

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	20.00	20.00	20.00
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)	57.1	21.8	14.9	10.6	9.4
EV/EBITDA (x)	18.4	8.1	6.7	5.0	4.5
EV/Sales (x)	0.7	0.7	0.6	0.6	0.6
PBR (x)	2.3	2.6	2.7	2.2	1.9
ROE (%)	4.3	11.9	19.0	24.5	22.8
ROCE (%)	4.5	15.4	20.7	24.8	24.0
FCF yield (%)	(2.7)	16.0	7.3	11.8	11.4
Dividend yield (%)	3.1	3.1	3.1	3.1	3.1
Total shareholder returns (%)	5.2	11.0	11.0	6.3	6.3

Source: Company, Astris Advisory (estimates)

Share price: ¥647 Market cap: ¥94.5bn



Source: Bloomberg

Price Performance

	YTD	1M	3M	12M
Abs (%)	-10.8	-7.2	-12.2	-7.8
Rel (%)	-9.1	-7.8	-11.9	-13.7

Company sector

Electronic Components – Misc.
Technology Hardware, Storage & Peripherals

Stock data

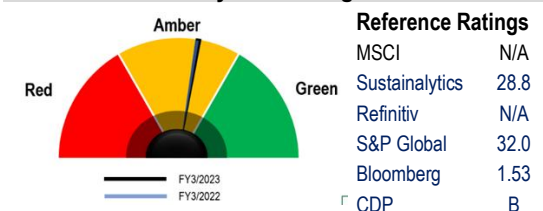
Price (¥)	647
Mkt cap (¥bn)	94.5
Mkt cap (\$m)	620.4
52-week range (¥)	542-848
Shares O/S (m)	146.0
Average daily value (\$m)	1.9
Free float (%)	82.0
Foreign shareholding (%)	43.6
Ticker	6727
Exchange	Tokyo Prime
Net Debt/Equity (x)	N/A
FFO leverage (x)	N/A
BBG BUY HOLD SELL	1 1 0

Source: Bloomberg

Business Overview

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

Astris-Sustainability ESG rating



Next events

Q4 FY3/25 results April 2025

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

Recent results

Q1-3 FY3/25 results

Profitability improvement driven by sales growth at Technology Solutions Business and decrease in SG&A

Key financials

(¥bn)	Q1-3 FY3/24	Q1-3 FY3/25	YoY (%)
Sales	89.15	87.52	-1.8
Gross profit/(loss)	27.84	29.83	+7.1
Gross margins (%)	31.2	34.1	
SG&A costs	22.57	22.22	-1.5
Operating profit/(loss)	5.27	7.60	+44.3
Operating margins (%)	5.9	8.7	
Recurring profit	6.66	8.40	+26.2
Net income attributable to the parent	4.89	5.38	+10.0
Average FX rate			
USD	142.76	152.87	+7.1
EUR	155.19	164.91	+6.3
CNY	19.96	21.21	+6.3

Source: Company

Branded Business continuing to reduce segment losses YoY

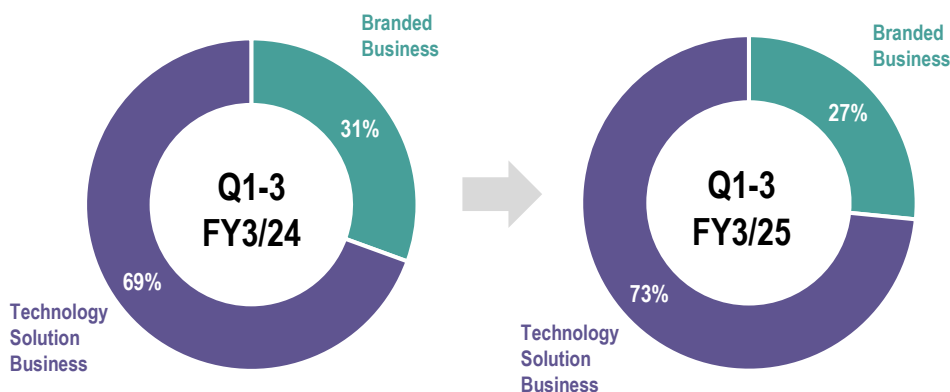
Per business segment (pre-elimination)

(¥bn)	Q1-3 FY3/24	Q1-3 FY3/25	YoY (%)
Sales			
Branded Business	27.24	23.25	-14.6
Technology Solution Business	61.92	64.27	+3.8
Segmental profit/(loss)			
Branded Business	(3.07)	(1.65)	N/A
Technology Solution Business	12.05	13.28	+10.2
Adjustments			
Segmental profit margins (%)			
Branded Business	-11.3	-7.1	
Technology Solution Business	19.5	20.7	

Source: Company

Technology Solution Business making up 73% of total Q1-3 sales

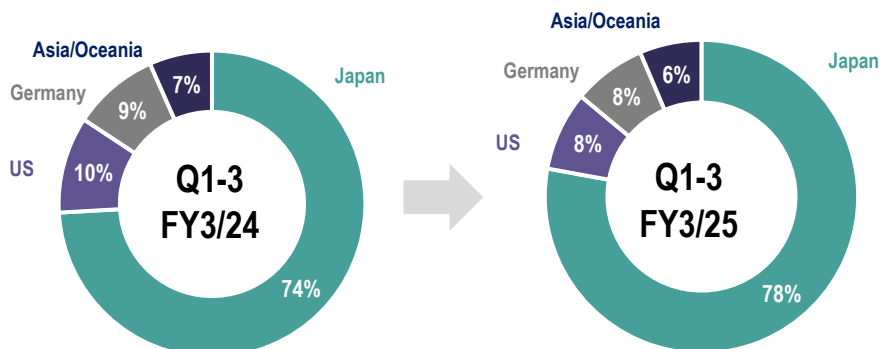
Business segment sales mix



Source: Company

Technology Solution Business (sales all recognized in Japan) continues to drive growth

Geographic sales mix



Source: Company

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

Key highlights

In the run-up to the announcement of the new 'Wacom Chapter 4' medium-term plan covering FY3/26 – FY3/29, Q1-3 FY3/25 results highlighted both the strengths and challenges of Wacom's business:

- Sustained growth in Technology Solution, driven by sales in EMR (Electromagnetic Resonance) technology solution products from OEM partners (up 10% YoY), offsetting a decline in AES (Active-ES (electrostatic)) technology (down 9% YoY).
- Despite success in the professional space which underwent an overall product portfolio update and new product launch for display (Wacom Movink 13), there was continued weakness in the non-professional market with weakness in display products and model discontinuation for pen tablet products.



The declining segmental loss YoY in the Branded Business is a positive indication that there is potential for this business to become breakeven in FY3/26 with decreasing temporary costs related to inventory and ongoing structural reform. However, at this juncture we do not view this business becoming a major earnings pillar. With continuing R&D activity, we believe new earnings drivers will materialize from new initiatives such as AI (in EdTech), XR, security, and remote services in the medium to long term.

We believe that the company remains focused on conducting investment activities such as capital tie-ups and acquisition of IP to develop and provide integrated pen and digital ink experiences. One example is the ¥1bn investment through a third-party allocation in **Japan's leading AI company Preferred Networks, Inc.** conducted in December 2024, which develops solutions which aims to deepen the existing collaboration between the two companies in education, medical care, and other business fields.

Q1-3 FY3/25 results also benefitted from a weak Japanese yen primarily versus the US dollar, with sales rising ¥5.35bn and OP by ¥1.0bn YoY versus constant currency YoY.

Announcement of ¥2.5bn share buyback

The company has announced a new ¥2.5bn share buyback program (up to 5 million shares), equivalent to 3.61% of shares outstanding. The acquisition period will be from February 1, 2025, to March 31, 2025.

This new program will bring the cumulative capital allocation to share buybacks to ¥20.0bn, meeting the ¥20.0bn target that was set for the current 'Wacom Chapter 3' medium-term direction ending in FY3/25.



Astris earnings estimates and key assumptions

We have maintained our earnings estimates for FY3/25 and beyond.

The company has maintained FY3/25 guidance, but has telegraphed additional extraordinary losses to be incurred in Q4 FY3/25 in relation to business restructuring, with the aim to lift the profit level of the Branded Business by more than ¥2bn in FY3/26.

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

Astris Advisory earnings estimates

Year-end	FY3/25 guidance (unchanged)	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 (%)	-	6.7	10.9	10.5
DPS (¥)	20.0	20.0	20.0	20.0
Dividend payout ratio (%)	46.9	46.0	32.8	29.2
Dividend yield (%)	3.1	3.1	3.1	3.1
Total shareholder returns (%)	11.0	11.0	6.3	6.3

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 segment 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 forecast 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 FY3/26 to FY3/27.



Summary

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:

- **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.**

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

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 FY3/26 10.6x, free cash flow yield of 11.8% and a total shareholder return of 6.3%.



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 (electrostatic), 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 Inc.), 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, laptop 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

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	28.31	35.53	41.95
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	62.75	71.37	79.02
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	78.43	87.82	96.27
Short term borrowing	7.63	7.80	7.80	7.80	7.80
Trade creditors	10.64	11.48	12.27	12.76	13.01
Other	11.77	14.62	14.14	15.49	15.39
Current liabilities	30.04	33.90	34.20	36.05	36.20
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	34.47	42.02	50.32
Share acquisitions rights	-	-	-	-	-
Non-controlling interests	-	-	-	-	-
Total net assets	40.49	35.97	34.47	42.02	50.32
Total liabilities & net assets	75.28	79.62	78.43	87.82	96.27

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	(0.55)	1.00	(0.59)
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	8.62	12.96	12.62
Capex	(1.54)	(2.32)	(1.73)	(1.81)	(1.87)
Acquisitions/increase stakes	-	-	(1.00)	-	-
Other investing cash flow	(1.60)	0.04	(0.78)	(0.37)	(0.58)
Cash from Investing Activities	(3.14)	(2.28)	(3.52)	(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)	(7.50)	(3.00)	(3.00)
Other	-	-	-	-	-
Cash from Financing Activities	1.07	(6.43)	(10.58)	(6.08)	(6.08)
FX impact	1.32	2.92	2.12	2.52	2.32
Net cash flow	(1.81)	11.68	(3.36)	7.23	6.42
Free cash flow	(2.60)	15.16	6.89	11.16	10.75
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	5.6	8.7	8.1
Free cash flow conversion (%)	N/A	256.4	75.1	86.8	74.5
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	7.0	10.1	9.5
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	8.5	11.3	11.5
ROE (%)	4.3	11.9	19.0	24.5	22.8
ROCE (%)	4.5	15.4	20.7	24.8	24.0
ROIC (%)	3.6	12.1	13.4	17.7	17.3
Liquidity					
Current ratio (x)	2.0	1.9	1.8	2.0	2.2
Quick ratio (x)	1.3	1.5	1.4	1.6	1.8
Leverage					
Debt/Equity ratio (x)	0.2	0.4	0.4	0.4	0.3
Net Debt/Equity ratio (x)	net	net	net	net	net
	cash	cash	cash	cash	cash
Equity ratio (x)	0.5	0.5	0.4	0.5	0.5
Interest cover (x)	43.9	76.0	88.5	124.1	139.5
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)	57.1	21.8	14.9	10.6	9.4
Diluted PER (x)	57.1	21.8	14.9	10.6	9.4
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 (%)	3.1	3.1	3.1	3.1	3.1
Total shareholder return (%)	5.2	11.0	11.0	6.3	6.3
Free cash flow yield (%)	(2.7)	16.0	7.3	11.8	11.4
Diluted free cash flow yield (%)	(2.7)	16.0	7.3	11.8	11.4
PBR (x)	2.3	2.6	2.7	2.2	1.9
EV/sales (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	18.4	8.1	6.7	5.0	4.5
EV/EBIT (x)	38.5	11.0	8.5	6.0	5.4
EV/FCF (x)	N/A	5.1	11.3	7.0	7.2



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