COMPANY RESEARCH AND ANALYSIS REPORT

Wacom Co., Ltd.

6727

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Contents

Summary

Substantial increase in operating profit in FY3/25. Announcement of "Wacom Chapter 4," the new medium-term business plan aiming for further enhancement of corporate value

Wacom Co., Ltd. <6727> (hereafter, also "the Company") is a global leading manufacturer aiming to create value for customers based on technologies in the field of digital pen and ink. Its products for professionals have strong brand recognition and global market share, widely supported by creators such as designers and animators who work in studios for movie production or industrial design studios. Its two business segments are the Technology Solution Business, in which it supplies proprietary digital pen technology as a component to manufacturers of finished products, including smartphones and tablet / notebook PCs, and the Branded Business, in which it sells its proprietary Displays (LCD pen tablets) and Pen Tablets and other products.

1. Overview of FY3/25 results

In the FY3/25 consolidated results, net sales decreased 2.6% year on year (YoY) to ¥115,681mn and operating profit increased 44.7% to ¥10,210mn, resulting in a substantial increase in profit despite the slight decline in sales. Net sales decreased slightly due to a slump in the Branded Business as it continued to struggle with sales of mid- to low-priced models, although there was sales growth in the Technology Solution Business supported by the effects of yen depreciation and brisk OEM demand. On the earnings front, operating profit increased substantially, with the main factors including the effects of yen depreciation, an increase in the level of earnings growth in the Technology Solution Business, and the narrowing of losses in the Branded Business following its business structural transformation (including the completion of the liquidation of negative legacy assets from the COVID-19 pandemic in the previous fiscal year and the reduction of SG&A expenses). In terms of activities, the Company has completed the implementation of its business structural transformation plan in preparation for the new medium-term business plan "Wacom Chapter 4," and it has achieved a certain amount of success in capital alliances formed to expand business domains and acquire technologies.

2. FY3/26 results forecasts

In its FY3/26 results forecast, the Company is expecting a decrease in net sales by 4.9% YoY to ¥110,000mn and an increase in operating profit by 12.6% to ¥11,500mn. This is based on external factors such as the US tariff situation and yen appreciation, as well as internal factors such as the Branded Business returning to profitability following its business structural transformation.

3. Outline of "Wacom Chapter 4," the new medium-term business plan

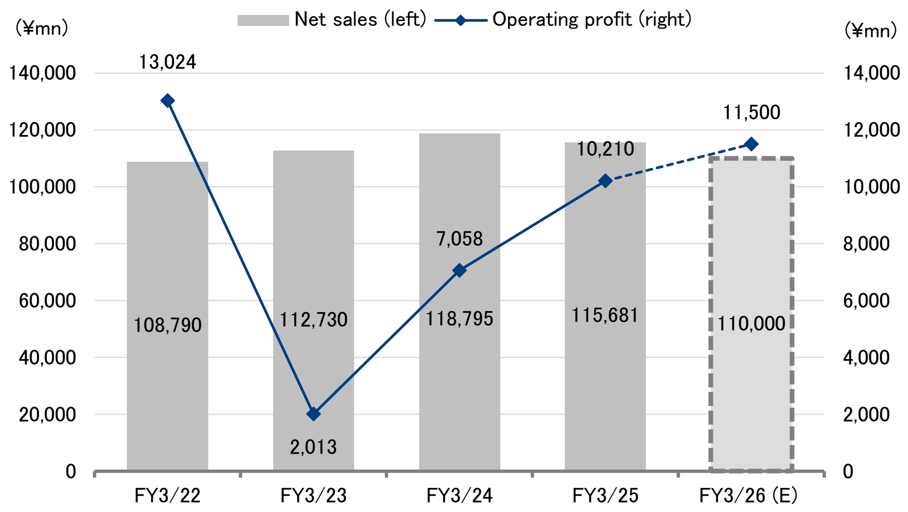
In May 2025, the Company released its new four-year medium-term business plan "Wacom Chapter 4." Its strategic direction is based on the recognition that the use cases of digital pens and ink must go beyond digital content creation into domains that offer the prospect of sustainable growth, such as education, day-to-day operational work flows, and digital transformation (DX) in the medical field. The Company has defined itself as "a true instrument craftsman for the ultimate inking experience," and it will aim to deliver new experiential value through technology innovation and co-creation with communities in each use case domain to realize the ultimate inking experience. It plans to build new organizational structures and solutions portfolios to facilitate a circular value flow.

As an outline of this business plan, the targets for the final year (FY3/29) are net sales of ¥150.0bn, operating profit of ¥15.0bn, ROE of 20% or higher, and ROIC of 18% or higher. It also includes capital policy that will further enhance corporate value by actively allocating funds to R&D and capital investment, as well as to technological capital alliances, while also aiming for shareholder return with a total return ratio of 50% or higher (through the introduction of a progressive dividend with a minimum annual dividend of ¥22.0 per share and the flexible acquisition of treasury stock).

Key Points

- Substantial increase in operating profit in FY3/25. The level of earnings growth in the Technology Solution Business increased and the completed structural transformation of the Branded Business was successful
- Double-digit increase in profit forecast in FY3/26 as business structural transformation effects manifest, even taking into account the impact of negative external factors
- In the new medium-term business plan "Wacom Chapter 4," the Company will aim to further enhance corporate value through technology innovation and community co-creation as "a true instrument craftsman for the ultimate inking experience"

Result trends



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

Business overview

Global leader aiming to create value for customers in the field of digital pen and ink

The Company is a global leader 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 and regions worldwide and its products for professionals have strong brand recognition and global market share, widely supported by 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 through smartphones, tablet / notebook PCs, digital stationery, and other products, and at the same time, it is fostering a new business field through initiatives including co-creation with partners from the educational industry.

Recently, the Company has been facing issues in the Branded Business such as a shift in demand to other categories (such as iPads and other devices) in the entry-level zone and competition with Chinese manufacturers in mid- to low-priced models. At the same time, there have been significant changes in the market environment such as the evolution of user needs and workflow, as well as the spread of online education and teleworking accompanying advances in digital technologies (VR/XR, AI, and others) and in the communications environment (mobile, cloud, 5G, and others). Amid these changes, the Company is striving to create new growth opportunities by rebuilding product line-ups with a focus on portable products and further evolving the business model.

Until now, the Company has operated in two business segments. These are the Technology Solution Business, which supplies proprietary digital pen technology as a component to manufacturers of finished products, including smartphones and tablet / notebook PCs, and the Branded Business, which sells the Company's proprietary Displays, Pen Tablets and other products. However, under the new medium-term business plan "Wacom Chapter 4," it plans to establish the new "Partner & Co-creation Unit" as an additional segment and consolidate these segments under the "Inking Experience Support Group."

Close consideration should be given to the impact of foreign exchange market fluctuations on earnings (a stronger yen has a negative impact*1), as in the Technology Solution Business (sales area is categorized as Japan) transaction prices are mainly denominated in US dollars, while in the Branded Business, the overseas sales ratio (overseas local entity sales ratio) is approximately 82%*2.

*1 Segment profit (loss) in the Technology Solution Business is impacted by the US dollar-yen rate, whereas segment profit (loss) in the Branded Business is mainly impacted by fluctuations in the euro-yen rate.
*2 In FY3/25, the US accounted for 30.5% of the sales of the Branded Business, followed by Europe (Germany) at 27.0%, Asia/Oceania at 24.5%, and Japan at 18.0%.

While development sites are practically all concentrated in Japan, excluding developments of digital ink and security-related software (which are mainly in Europe), the Company consigns production to multiple overseas partners (which are mostly major electronics manufacturing service companies owned by either Japanese or Taiwanese with production sites in mainland China). However, from a perspective of mitigating regional concentration risk in the supply chain, the Company is proceeding to disperse its production sites into the surrounding Southeast Asia region, such as its site in Vietnam.

Business and major product features

Promoting restructuring of the product portfolio that addresses changes in the business environment and de facto standardization of proprietary technologies under the previous medium-term business direction “Wacom Chapter 3”

1. Technology Solution Business

This business is divided into two segments, AES technology solution and EMR technology solution based on digital pen technologies*. It supplies pen sensor systems to smartphone and tablet / notebook PC manufacturers. Business has been growing, centered on sales for the Samsung Electronics (Galaxy series), which has adopted EMR. Moreover, it has formed business relationships with major PC manufacturers, including Lenovo <HKG:0992> and Fujitsu Client Computing Limited, which have adopted AES, along with customers in China, such as Xiaomi Corp. <1810.HK>. The Company aims to expand business scale through promotion of its proprietary digital pen technology as a de facto standard, while expanding the scope of users. The Company has been quick to support foldable devices (folding-type smartphones and PCs, etc.) and compatibility with devices that use e-paper technology.

* The Company’s proprietary Active ES electrostatic capacitive pen coupling technology (batteries required) and EMR electromagnetic resonance technology (no batteries required).

2. Branded Business

The Company has a broad lineup for target customers and product types. It sorts products into two categories: (1) Creative Solution and (2) Business Solution.

(1) Creative Solution

This business has played a pivotal role since the dawn of the digital content market and possesses strong brand recognition and global market share among creators. Product types include Displays and Pen Tablets, and the Company is planning to launch “Portable Creative” as a new category. It will be an important factor in assessing future growth potential.

a) Displays

This category covers products that use an LCD panel as the tablet* and allow the user to directly write on an LCD screen with a digital pen. Meanwhile, they are also known as 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 around ¥300,000 to ¥500,000. 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 in digital handwriting (drawing) users and demand shift from Pen Tablets), it has released multiple new mid- to low-priced models in succession. The Company is gaining a stronger presence even in the entry-level model segment where it faces tough price competition from other companies (Chinese manufacturers, etc.). But in light of recent trends such as a decline in consumer sentiment and a shift in demand to other categories, the Company has continued to struggle in mid- to low-priced models. In response, the Company is updating its product portfolio by launching products in the new Portable Creative category and returning to basics centered on professional and creative specialized education.

* Sometimes referred to as “LCD pen tablets” as well.

b) Pen Tablets

The most basic device* consists of a digital pen and tablet (blackboard 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 lineup that ranges from professional to beginner products thanks to a simple configuration. While it is sustaining competitiveness in the professional high-end market as joint use with Displays is viewed as a use case, demand has declined due to aging since the products were announced, and competition has emerged with other companies (Chinese manufacturers and others) in the mid- to low-price range, where differentiation is difficult. Furthermore, although the Company will continue to meet customer needs for Pen Tablets, it is strategically shifting its management resources toward Displays, where demand is shifting due to their more intuitive operability and lower prices.

* Sometimes referred to as "opaque pen tablets" as well.

(2) Business Solution

The Company sells business-use products that are capable of direct drawing and character entry (signature) on an LCD screen. Examples of use can be found in digital signature (hotel check-in, credit card payments, opening bank accounts, concluding insurance policies, etc.) and medical (medical document management and electronic medical records, informed consent, etc.) areas, as well as the public field (government administration services such as application forms at service desks for My Number Card, emergency assistance, electronic voting support, etc.).

Financial highlights

Substantial increase in operating profit in FY3/25. The level of earnings growth in the Technology Solution Business increased and the structural transformation of the Branded Business was successful

1. Overview of FY3/25 results

In the FY3/25 consolidated results, net sales decreased 2.6% YoY to ¥115,681mn, operating profit increased 44.7% to ¥10,210mn, ordinary profit rose 5.5% to ¥10,394mn, and profit attributable to owners of parent went up 14.5% to ¥5,225mn, resulting in a substantial increase in profit despite the slight decline in sales with both operating profit and ordinary profit exceeding the forecast.

Net sales grew in the Technology Solution Business supported by the effects of yen depreciation and brisk OEM demand. However, in the Branded Business, in which the Company is updating its product portfolio, net sales declined significantly as non-professional mid- to low-priced models continued to struggle.

On the other hand, the Company achieved a substantial increase in operating profit even while it continued to actively invest in R&D*1. This was mainly due to the effects of yen depreciation, an increase in the level of earnings growth in the Technology Solution Business, and the narrowing of losses in the Branded Business following its business structural transformation*2. It also achieved an increase in profit attributable to owners of parent for FY3/25, despite recording an extraordinary loss associated with the cost of business structural transformation (including special severance payments of approximately ¥3.1bn).

*1 It invested ¥8,686mn on technology that serves as next-generation growth engines and other investments (up ¥1,010mn YoY).
*2 This included completing the liquidation (recording temporarily as cost of sales) of negative legacy assets from the COVID-19 pandemic (such as inventories) in the previous fiscal year and reducing SG&A expenses.

Looking at the Company's financial position, total assets decreased by 11.1% from the previous fiscal year-end to ¥70,771mn, mainly reflecting a decrease in cash and deposits due to the acquisition of treasury stock (approx. ¥7.5bn) and the repayment of long-term borrowings (¥2.0bn). Shareholders' equity also declined 14.2% to ¥30,859mn due to the acquisition of treasury stock and other factors, and the equity ratio decreased slightly to 43.6% (45.2% at the previous fiscal year-end). However, looking at the net cash situation, the cash flow to interest-bearing debt ratio* was kept to just 1.5 times, so there are no concerns regarding the Company's financial stability.

* The cash flow to interest-bearing debt ratio is calculated by dividing interest-bearing debt by operating cash flow.

FY3/25 financial results

(¥mn)

	FY3/24		FY3/25		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Net sales	118,795	-	115,681	-	-3,114	-2.6%
Branded Business	33,814	28.5%	28,745	24.8%	-5,069	-15.0%
Technology Solution Business	84,981	71.5%	86,936	75.2%	1,955	2.3%
Cost of sales	82,028	69.1%	75,535	65.3%	-6,493	-7.9%
SG&A expenses	29,709	25.0%	29,936	25.9%	227	0.8%
Operating profit	7,058	5.9%	10,210	8.8%	3,152	44.7%
Branded Business	-4,520	-	-2,879	-	1,641	-
Technology Solution Business	16,481	19.4%	18,495	21.3%	2,014	12.2%
Adjusted amount	-4,902	-	-5,406	-	-504	-
Ordinary profit	9,853	8.3%	10,394	9.0%	541	5.5%
Profit attributable to owners of parent	4,562	3.8%	5,225	4.5%	663	14.5%

	End of FY3/24	End of FY3/25	Change	
			Amount	%
Total assets	79,620	70,771	-8,848	-11.1%
Shareholders' equity	35,968	30,859	-5,109	-14.2%
Equity ratio	45.2%	43.6%	-1.6pp	-

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

2. Results overview by business

(1) Technology Solution Business

This segment recorded increases in sales and profits, with net sales rising 2.3% YoY to ¥86,936mn and segment profit increasing 12.2% to ¥18,495mn. In AES technology solution, sales were fairly subdued due to the impact of changes in the market environment, but results were boosted by the effect of the yen depreciation and an increase in demand from OEM partners in EMR technology solution.

Earnings breakdown in the Technology Solution Business

(¥mn)

	FY3/24	FY3/25	Change	
			Amount	%
AES technology solution	26,263	24,771	-1,492	-5.7%
EMR technology solution	58,718	62,165	3,447	5.9%

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

(2) Branded Business

Net sales decreased, while the segment loss narrowed, with net sales down 15.0% YoY to ¥28,745mn and segment loss of ¥2,879mn (loss of ¥4,520mn for the same period of the previous fiscal year). Net sales of Displays and Pen Tablets in the mainstay Creative Solution were sluggish due to the impact of changes in consumer behavior and other factors. Business Solution also recorded a slight decrease in sales. On the earnings front, losses narrowed due to the effects of business structural transformation, including the shrinking of temporary expenses recorded in the previous fiscal year and elimination of fixed costs (including personnel expenses and depreciation and amortization expenses). On the activities front, the Company released Wacom Movink 13 in May 2024 in order to establish the new use case "Portable Creative" in accordance with its business structural transformation plan, and released the flagship pen tablet Wacom Intuos Pro in February 2025.

Earnings breakdown in the Branded Business

(¥mn)

	FY3/24	FY3/25	Change	
			Amount	%
Creative Solution	29,170	24,195	-4,975	-17.1%
Displays	17,496	14,648	-2,848	-16.3%
Pen Tablets	11,674	9,547	-2,127	-18.2%
Business Solution	4,644	4,550	-94	-2.0%

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

3. Key takeaways of FY3/25 results

Looking back over FY3/25, the Company focused its energy on transforming its business structure and the top line growth resulting from this is expected to manifest from FY3/26 onward. On the other hand, the fact it was able to complete the implementation of its business structural transformation plan and record an increase in profit that exceeds forecasts is impressive. One particular point that should fuel positive sentiment is that it identified structural factors (both external and internal) that were facilitating the slump in its Branded Business and then worked on solving these one by one to return to a growth trajectory. Furthermore, while implementing business structural transformation initiatives, it has also been pursuing measures aimed at the next stage of growth, such as capital alliances, etc. formed to expand business domains and acquire technologies, and this dual focus has achieved a certain amount of success.

Topics

Forming capital alliances to expand business domains and acquire technologies

1. Investment in Preferred Networks

In November 2024, the Company invested ¥1.0bn in Preferred Networks, Inc. (hereafter, "PFN"), a developer of AI semiconductors and products and solutions that use AI technologies, through a third-party allotment of shares. PFN was founded as a startup company in 2014 to develop and supply the components required to apply AI technologies, from hardware to software, through vertical integration. Together with CELSYS, Inc. <3663>, the Company and PFN have been advancing the KISEKI ART project, which explores the possibilities for new forms of artistic expression by using digital technology to capture the "trail" created by pen movements during creative processes by creators. The Company aims to deepen its collaborative partnership with PFN through this investment. Under the new medium-term business plan "Wacom Chapter 4," it is considering development that can be applied in the Technology Solution Business. It plans to evolve new growth engines by linking together technological development and innovation in various fields, including education and healthcare, to provide society with human-focused "pen and digital ink experience" that benefit human activities that are more in touch with human nature.

2. Acquisition of shares in JENESIS

In March 2025, the Company invested ¥20mn to acquire shares of IoT solutions provider JENESIS CO., LTD. Since its founding in 2012, JENESIS has been providing client companies with IoT solutions comprising services related to IoT devices, including development, manufacturing, app development, operation, and maintenance. The Company aims to build new business platforms to provide society with "integrated pen and ink technology experiences" in the Technology Solution Business for education and other business fields, in line with "Wacom Chapter 4."

3. Acquisition of shares in Holoeyes

In May 2025, the Company invested ¥97.6mn to acquire shares of Holoeyes Inc., which is engaged in medical image processing software and other businesses. Founded in 2016, Holoeyes operates under the mission of "optimizing healthcare by spatially reproducing and sharing medical images and expertise." It develops and provides VR-based applications and services for clinical use, medical training, and education within the healthcare domain. It also offers medical data provision services. Its core product, "Medical imaging software Holoeyes MD" enables the visualization of medical images in three dimensions. Since receiving certification as a controlled medical device in 2020, Holoeyes MD has been adopted in approximately 200 clinical departments. The Company aims to develop businesses in the healthcare field by combining its digital pen and ink technologies, including VR pens, with Holoeyes' VR software technologies and its networks in the clinical healthcare and healthcare education fields. This is one of the focus areas of "Wacom Chapter 4." It plans to deepen the development of its business models in the digital healthcare field by co-creating clinical workflows with ink experiences in medical settings.

Review of "Wacom Chapter 3," the previous medium-term business direction

Implementation of the business structural transformation plan completed, considerably reducing costs and returning the Company to a growth trajectory

1. History to date

"Wacom Chapter 3," the Company's medium-term business direction which had FY3/25 as its final year, continued the Company's vision of "Life-long Ink*1," and established five key strategic initiatives and six main streams for technology innovation with the aim of promoting specific value propositions and sustainable growth*2. In particular, the Company selected three fields that have a high affinity with its existing technologies—AI, XR, and security—and worked to realize new value propositions in these fields using new core technologies and new business models. However, over the last few years, the Branded Business has experienced a greater downturn than expected (particularly for mid- to low-priced models), mainly due to a sharp decrease in consumer sentiment following the current deterioration of the economic environment and a shift to products in other categories (such as iPads and other devices). Moreover, the need for the Company to improve its own structure, including its product portfolio and sales channel management, has emerged as a pressing issue. For these reasons, the latter two years of the medium-term business direction were positioned as a period for business structural transformation to ensure business growth in the new medium-term business plan "Wacom Chapter 4," and the Company established a policy (the update plan) of focusing on gross profit improvement and growth foundation construction. It also judged that further structural transformation was needed in the Branded Business and has been implementing a business structural transformation plan in preparation for "Wacom Chapter 4."

*1 "Continuing to provide 'meaningful human experiences' to customers and society over a long time period based on Wacom's technology."
*2 We have omitted a description of the overall image of "Wacom Chapter 3" from this explanation, including the five key strategic initiatives (technology leadership, community engagement, new core technology/new value proposition, technology innovation for sustainable society, meaningful growth for people and society) and the six main streams for technology innovation (pen technology, pen and paper technology, digital ink technology, AI × Digital ink technology, XR drawing technology, and security authentication technology).

2. Initiatives and outcomes of the business structural transformation plan

(1) Preparing the new portfolio

The Company has worked to address lineup issues (such as the proliferation of iPads and a price gap in the entry domain) which have become structural issues impeding performance in the Branded Business by 1) expanding in the Portable Creative category and 2) bolstering its efforts in the volume zone (entry domain).

(2) Changing business model for regions

The Company worked to resolve complex sales channels and eliminate inefficiency by centralizing buy and sell functions for products operated in regional organizations into Japan (excluding certain functions), and establishing a system of direct sales from Japan. Going forward, it will update its pursuit of value by coordinating marketing planning functions with technological development. Regional organizations will focus on community engagement and market development as service companies.

(3) Developing Wacom Platform

The Company has consolidated the majority of its development resources at its hardware hub (Japan) as it is developing a common company-wide platform that integrates hardware, software, services, and user interface (UI) for both the Branded Business and the Technology Solution Business.

(4) Streamlining company-wide operations

The Company engaged in overhauling related IT systems and streamlining assets as part of the business structural transformation of Branded Business.

(5) Closing personnel positions

Through the initiatives listed above, the Company has completed its plan to reduce costs by ¥2.0bn or more by closing personnel positions corresponding to about 15–20% of the entire Company and reviewing operating costs of internal IT systems.

Outlook

Double-digit increase in profit forecast in FY3/26 as business structural transformation effects manifest, even taking into account the impact of negative external factors

1. FY3/26 results forecasts

For the FY3/26 consolidated results forecast, the Company continues to expect a decrease in sales and an increase in profit with net sales to decrease 4.9% YoY to ¥110,000mn, operating profit to increase 12.6% to ¥11,500mn, ordinary profit to increase 10.6% to ¥11,500mn, and profit attributable to owners of parent to increase by 62.7% to ¥8,500mn.

Even though actual business income, once the foreign exchange effects caused by yen appreciation* have been excluded, is forecast to grow, the impact of other external factors will be a considerable negative factor, resulting in a decrease in sales overall.

* The assumed average exchange rate for the fiscal year is ¥140 to the US dollar (average of ¥152.48 in FY3/24).

Although external factors such as yen appreciation and the US tariff situation will also have a negative effect on profit (approx. ¥3.0bn), the Company is forecasting a double-digit increase due to the Branded Business returning to profitability following its business structural transformation and business income growth.

Forecasts for FY3/26

(¥mn)

	FY3/25		FY3/26		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	%
Net sales	115,681	-	110,000	-	-5,681	-4.9%
Branded Business	28,745	24.8%	30,000	27.3%	1,255	4.4%
Technology Solution Business	86,936	75.2%	80,000	72.7%	-6,936	-8.0%
Operating profit	10,210	8.8%	11,500	10.5%	1,290	12.6%
Branded Business	-2,879	-	300	1.0%	3,179	-
Technology Solution Business	18,495	21.3%	17,000	21.3%	-1,495	-8.1%
Adjusted amount	-5,406	-	-5,800	-	-394	-
Ordinary profit	10,394	9.0%	11,500	10.5%	1,106	10.6%
Profit attributable to owners of parent	5,225	4.5%	8,500	7.7%	3,275	62.7%

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

2. FISCO's view

Careful attention needs to be paid to the economic situation, where the outlook is unclear due to factors such as the US tariff situation and yen appreciation. However, the Company's forecasts take a certain amount of negative impact into account and as its business structural transformation efforts are expected to reduce fixed costs, we judge that the forecasts are reasonably achievable. Accordingly, we think it is possible for the Company to produce steady results, especially during the peak sales period in the latter half of the fiscal year, provided that the impact of external factors remains within expectations and the outcomes of the business structural transformation (such as expansion in new categories) continue on a smooth trajectory. One area to watch is the Company's efforts to expand its business in FY3/26, the first year of the new medium-term business plan "Wacom Chapter 4," and beyond. We will be paying particular attention to the progress made on co-creation with partners (capital alliance partners) and the development of new products in each use-case domain, as well as how the market reacts to products in the new Portable Creative category.

"Wacom Chapter 4," the new medium-term business plan

Aiming to further enhance corporate value through technology innovation and community co-creation as "a true instrument craftsman for the ultimate inking experience"

1. Outline of "Wacom Chapter 4," the new medium-term business plan

On May 9, 2025, the Company released its new four-year medium-term business plan "Wacom Chapter 4." The Company will continue to pursue its vision of "Life-long Ink," and has defined itself as "a true instrument craftsman for the ultimate inking experience." Under the plan, it will aim to further enhance corporate value through its mission to explore the ultimate in writing and drawing — and beyond (pioneering a broad concept of the inking experience). To achieve this, it will work to establish a circular value flow comprising four processes: (1) Developing use-case domains with communities → (2) Integrating the elemental technologies it possesses, including introducing new pen input technology, and co-creating technological experiences with communities, including capital alliances → (3) Evolving the solution portfolio (finished products, technology modules, platforms, and ink services) → (4) Providing experience value through a new value delivery framework (Inking Experience Support Group) predicated on the consolidation of business segments. For (1) in particular, the Company will actively invest in use-case domains* that have significant potential, namely Creation, Learning & Teaching, Work/Play & Beyond, and Well-being. For (2), the Company will continue to integrate new core technologies (AI, security, XR) into pen experiences while also realizing products (applications) from technological development by co-creating with various partners.

* Envisioned domains include education, day-to-day operational work flows, and DX in the medical field.

2. Numerical targets

The numerical targets for the final year of the plan (FY3/29) are net sales of ¥150.0bn (up ¥34.32bn compared to FY3/25) and operating profit of ¥15.0bn (up ¥4.79bn). The plan also focuses on capital efficiency, aiming for ROE of 20% or higher and ROIC of 18% or higher, both of which significantly exceed the Company's estimates*. The increase in net sales (¥34.32bn) is based on a scenario in which the negative impact of external factors such as a yen appreciation and US tariffs (decrease of ¥11.5bn) is absorbed by business growth (increase of ¥45.8bn). Specifically, top line growth will be driven by a stronger product portfolio in the Branded Business following its business structural transformation (increase of ¥11.3bn), as well as the stable growth of existing businesses in the Technology Solution Business (increase of ¥19.5bn), and income contributions from new business areas such as education, healthcare, and DX support (increase of ¥15.0bn). The increase in operating profit (¥4.79mn) is based on a scenario in which the negative impact of the above-mentioned external factors (decrease of ¥3.0bn) is absorbed by the effects of business structural transformation (increase of ¥2.9bn) and business growth (increase of ¥5.3bn). This business growth includes a stronger product portfolio in the Branded Business (increase of ¥1.2bn), the growth of existing businesses in the Technology Solution Business (increase of ¥2.7bn), and contributions from new businesses (increase of ¥1.4bn).

* The Company estimates cost of equity to be around 8–10% and cost of capital (WACC) to be around 7–9% based on CAPM estimates and market expectations (level of return on equity).

3. Capital policy and growth investment details

The anticipated cumulative operating cash flow (before R&D deduction) for the four-year period is ¥94.0bn and the Company plans to allocate these funds in a balanced manner between R&D and capital investment (total of ¥62.0bn), technological capital alliances including M&A (¥12.0bn or more), and shareholder return (total return ratio of 50% or higher). It will also consider additional shareholder returns based on the progress made on technological capital alliances and stock price levels.

4. Shareholder return policy

The Company has announced a new shareholder return policy. It will aim for a total return ratio of 50% or higher based on a progressive dividend* with a minimum annual dividend of ¥22.0 per share combined with flexible share buybacks. Previously, it paid dividends once a year at the year-end, but going forward, it will divide its annual dividend into two payments (interim and year-end). The most notable change is the switch to a progressive dividend format. This can be seen as an appealing dividend policy for shareholders as it commits to stable and continuous dividend increases and also shows that the Company is confident it can achieve profit growth. The Company's policy for share buybacks is to implement them flexibly based on comprehensive consideration of factors including investment opportunities, capital efficiency, and stock price levels.

* A dividend format in which the dividend is raised, or at the very least remains level, each year.

5. Strategy evaluation by FISCO

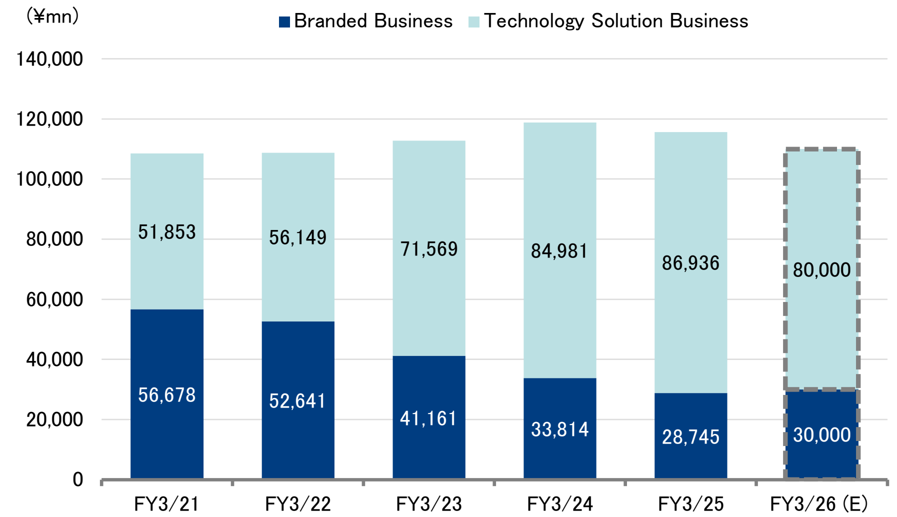
As the Company continues to struggle in the entry domain, we at FISCO see its efforts to expand the possibilities of digital pens and ink in various fields as a turning point toward considerable growth. We evaluate its strategy—using the integration of various technological elements and co-creation partner to open up business domains that offer great potential—as being rational and appropriate in scale. As these efforts involve the creation of innovative value, the timeframe until full commercial viability is a significant unknown at present, so we will be paying attention to the extent it can shape specific solutions during the new medium-term business plan period. Obviously, if it can establish these solutions quicker than expected, then realizing the plan's upside should be fully possible. We expect to gradually gain a clearer picture of how the Company's technologies are evaluated and whether there is room for their usage in each business domain, and whether the Company can identify business opportunities in these domains. Also, what kind of partners it allies with will probably be an important factor in assessing the Company in terms of technology and judging its business feasibility.

Results trends in past years

Technology Solution Business driving growth over the past several years

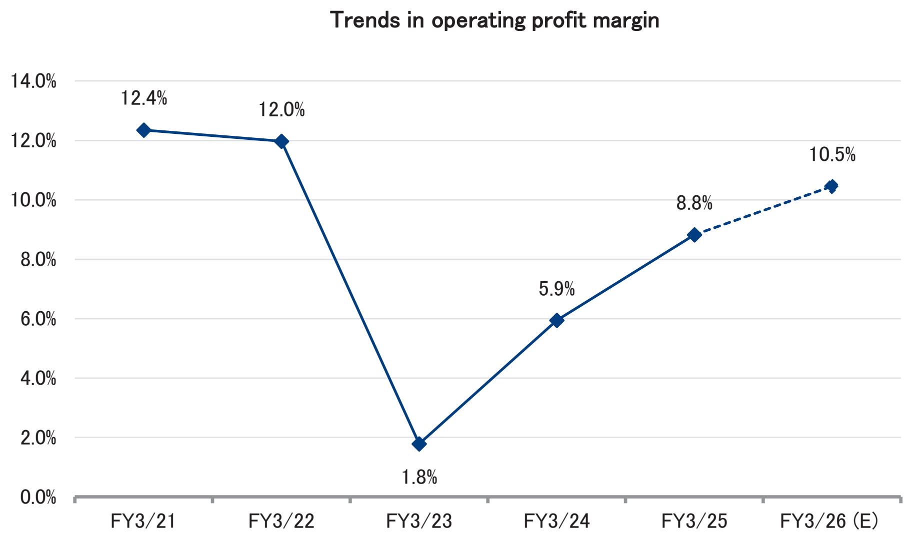
Looking at how sales trended up to FY3/20, prior to the COVID-19 pandemic, the sudden, large slump in FY3/17 occurred because of the combined impacts of yen appreciation, excessive internal IT infrastructure investment, product cycle movement, and other factors. Since then, however, sales recovered with growth in the Technology Solution Business. Nevertheless, the Branded Business sales have been trending lower with the structure of positive growth in the Technology Solution Business continuing to offset its decline. The Branded Business (especially low- to mid-priced models) experienced rapid growth in sales in FY3/21, mainly due to stay-at-home demand including online education amid the COVID-19 pandemic, and in FY3/22 despite the end of a surge in stay-at-home demand, growth in display products for professionals in the Branded Business and the Technology Solution Business resulted in new record high net sales for a second consecutive fiscal year. However, since entering FY3/23, the Branded Business (especially low- to mid-priced models) experienced a significant downturn due to a sharp drop in consumer sentiment caused by inflation and other global economic slump and decline of special demand related to the COVID-19 pandemic, but the growth of the Technology Solution Business secured an increase in sales.

Trends in net sales by business



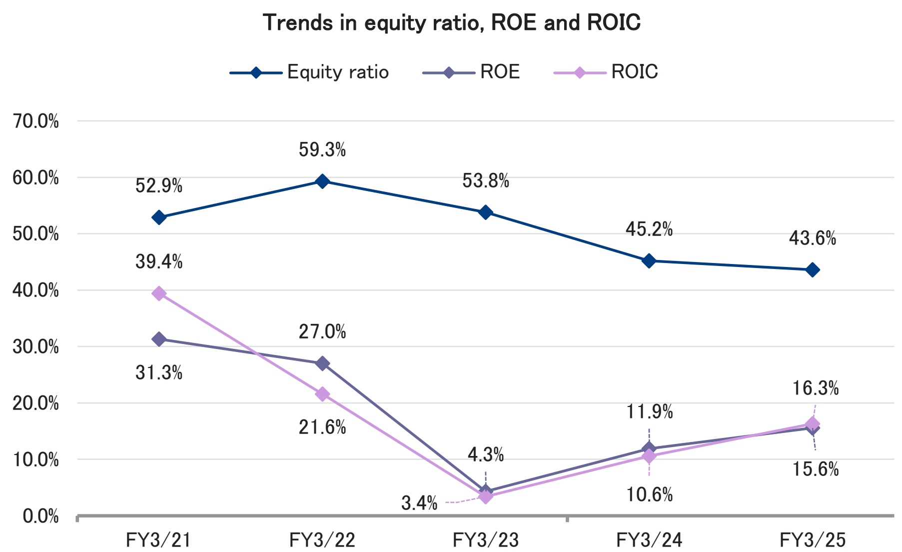
Source: Prepared by FISCO from the Company's financial results and results briefing materials

In earnings, since incurring an operating loss in FY3/17, the operating profit margin has improved gradually from the 4% level to the 6% level while the Company conducted aggressive R&D and new product development. In FY3/21 and FY3/22, the Company retained a high profit margin for two consecutive fiscal years due to factors such as higher profits atop an increase in sales, improvements in the product mix, and optimization of SG&A expenses. Since FY3/23, the Branded Business has recorded a segment loss for three consecutive years, and the overall profit margin has decreased significantly.



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

In financial standing, while the equity ratio temporarily slipped in FY3/17 on a hefty net loss due to recording impairment losses on IT assets, it has steadily improved since then with buildup of retained earnings and has moved close to 60%. On the other hand, the equity ratio has been on a downtrend since FY3/23 due to the acquisition of treasury stock and other factors, and at the end of FY3/25, it was 43.6%. Additionally, ROE, which reflects capital efficiency, and ROIC, which reflects efficiency of business activities, have been at high levels. However, ROE and ROIC temporarily experienced significant declines in FY3/23 along with the drop in profits, but in FY3/24, they both started improving and in FY3/25, ROE was at 15.6% compared to the Company's estimated cost of equity (8–10%) and ROIC was at 16.3% compared to the Company's estimated cost of capital (7–9%), both surpassing these estimates by a considerable amount.



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

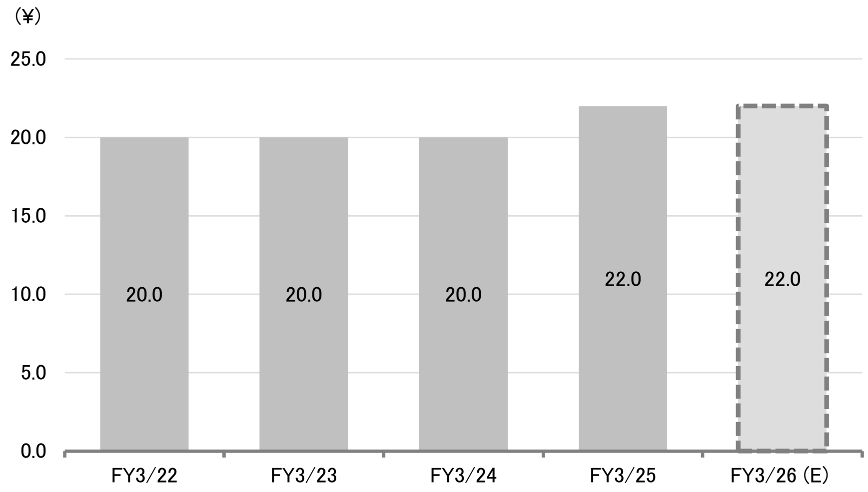
Shareholder returns

Aiming for a total return ratio of 50% or higher based on a progressive dividend combined with share buybacks

The Company's basic policy is to continue paying steady dividends and flexibly acquire treasury stock while ensuring the retention of funds required for future business development and the strengthening of its financial base. Under "Wacom Chapter 4," its new medium-term business plan, it has announced a shareholder return policy in which it will aim for a total return ratio of 50% or higher based on a progressive dividend combined with share buybacks.

In FY3/25, the Company paid a dividend of ¥22.0 per share (year-end), an increase of ¥2.0 YoY, and in accordance with the treasury stock acquisition policy in "Wacom Chapter 3," its previous medium-term business direction, it acquired ¥7.5bn in treasury stock. In FY3/26, the first fiscal year under the new shareholder return policy, the Company is currently forecasting a dividend of ¥22.0 per share (¥11.0 interim and ¥11.0 year-end), the same as the previous fiscal year.

Dividend per share



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

Company profile

Having established the pen tablet market for creators, the Company's Technology Solution Business is leading its growth

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," and "COM" includes "communication" and recently "community." 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 <DIS> in the US for film production. Subsequently, it constantly enhanced its products, and in the pen tablet market for creators, it has reinforced its leading position on a global basis since the 2000s.

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 panels, and other parts and modules to finished product manufacturers. It has achieved 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 became listed on the Tokyo Stock Exchange's First Section in December 2005, where it remains today. (From April 2022, the Company transitioned to the Tokyo Stock Exchange's Prime Market.)

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