COMPANY RESEARCH AND ANALYSIS REPORT

Wacom Co., Ltd.

6727

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Index

Summary

Made a smooth start under the new President Ide

With the unchanged strengths of technological and product capabilities, there remains plenty of room for earnings growth should it make further improvements in line with the new medium-term business plan

Wacom Co., Ltd. <6727> (hereafter, also "the Company") is the world's leading manufacturer of pen tablets. It possesses a global share of 80-90% (Company estimate) of the market of creators and hobbyists. Its two main businesses are the Brand Business, selling its own-brand pen tablet products, and the Technology Solution Business, which consists of the supply of digital pen components to manufacturers of finished products, including tablets and notebook PCs.

1. The 1H FY3/19 results were greatly above forecast due to the early realization of demand in the Technology Solution Business

Sales and profits increased greatly in 1H FY3/19, with net sales of ¥46,263mn (up 13.7% year on year (YoY)) and operating profit of ¥2,734mn (up 82.1%), significantly exceeding the initial forecasts. The main factor was that in the Technology Solution Business, which supplies digital pens and pen sensor systems, there occurred the early occurrence of demand, namely, the acquisition of orders and sales was earlier than planned. Conversely, in the Brand Business, although the aim was to steadily achieve the initial forecasts through launching new products, the results were below the initial forecasts due to the occurrence of a problem with the supply of a new product and changes to competitive environment.

2. Making steady progress for Wacom Chapter 2, the new medium-term business plan, while progress has also been confirmed for each of the high-priority issues

In conjunction with the appointment of President Ide in April 2018, the Company formulated and announced Wacom Chapter 2 as its new medium-term business plan, and it is currently implementing this plan. The plan sets the four high-priority issues, which are 1) customer-oriented technological innovation, 2) organization/operational reforms, 3) solid financial structure securing profitability, and 4) enhancement of management quality through reforms of the Board of Directors. It has been confirmed that progress was made for each of these issues in 1H FY3/19, which was the first 6 months of the plan.

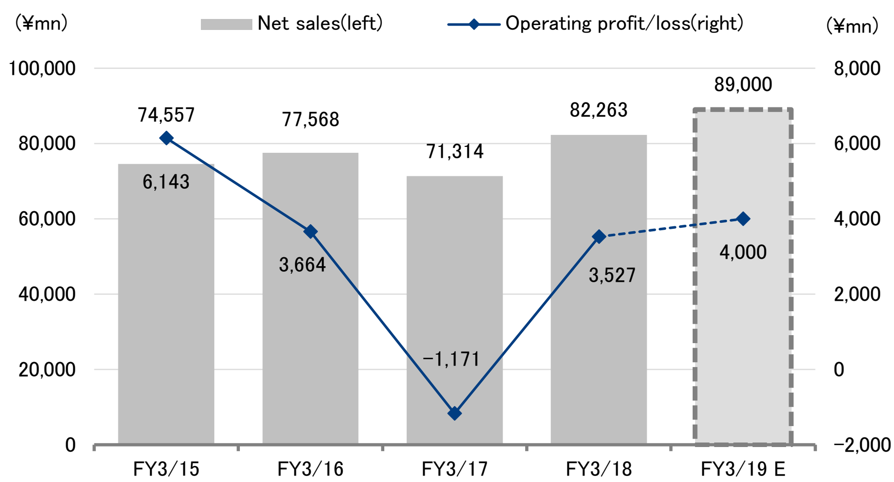
3. Results may exceed forecasts in the Technology Solution Business in 2H FY3/19 also

For FY3/19, the Company is forecasting net sales of ¥89,000mn (up 8.2% on the previous fiscal period) and operating profit of ¥4,000mn (up 13.4%). Based on the 1H results, the net sales forecast has been upwardly revised, but the initial profits forecasts have been left unchanged. In the Technology Solution Business, whose performance was the reason why results exceeded forecasts in 1H, it is assumed that in 2H, the early realization of demand will fall off, and so the forecasts for 2H are lower sales and profits compared to 1H. As a result, the outlook for profits for the full year is that the part that profits were upwardly revised for the Technology Solution Business will be cancelled out by the part that they were downwardly revised for the Brand Business, so they will be in line with the initial forecasts. At FISCO, we think that continuing on from 2H FY3/18, the early realization of demand may also occur in 2H FY3/19. So on this point, it is possible that results in the Technology Solution Business may once again exceed their forecasts in 2H FY3/19.

Key Points

- Earnings greatly exceed their forecasts due to the early realization of demand in the Technology Solution Business
- Progress and results were confirmed for each of the high-priority issues designated in the medium-term business plan in 1H FY3/19
- If improvements can be realized in the Brand Business, it has the potential to become the growth engine

Results trends



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

Results trends

Earnings greatly exceeded their forecasts due to the early realization of demand in the Technology Solution Business

1. 1H FY3/19 results

For 1H FY3/19, the Company posted a double-digit increase in sales and a significant increase in profits, comprising a 13.7% YoY rise in net sales to ¥46,263mn, a 82.1% rise in operating profit to ¥2,734mn, a 77.4% rise in ordinary profit to ¥2,912mn, and a 18.0% rise in profit attributable to owners of parent to ¥1,975mn.

Compared to the initial forecasts, net sales were 11.9% above forecast. Profits also greatly exceeded their respective forecasts, operating profit by around 3.3 times, ordinary profit by 4.3 times, and profit attributable to owners of parent by approximately 3.0 times.

Summary of 1H FY3/19 results

(¥mn)

	FY3/18 1H	FY3/19				
		1H forecast	1H results	YoY	vs. forecast	Progress rate
Net sales	40,689	41,330	46,263	13.7%	11.9%	54.4%
Gross profit	15,703	-	15,727	0.2%	-	-
SG&A expenses	14,202	-	12,993	-8.5%	-	-
Operating profit	1,501	830	2,733	82.1%	229.3%	68.3%
Operating margin	3.7%	2.0%	5.9%	-	-	-
Ordinary profit	1,641	670	2,911	77.4%	334.5%	74.3%
Profit attributable to owners of parent	1,673	660	1,975	18.0%	199.2%	66.3%

Note: Progress rate indicates the 1H fulfillment rate against the initial full-year forecast
Source: Prepared by FISCO from the Company's financial results, results briefing materials and press releases

The reason why net sales increased 13.7% YoY was the performance of the Technology Solution Business. Its sales increased significantly, up 43.0%, from the early realization of demand (orders earlier than expected) in both the product fields of for smartphones and for tablet and notebook PCs, and also because of the expansion in the scale of orders. In contrast to this, in the Brand Business, net sales declined 7.9% because sales did not grow as expected, mainly due to changes to the competitive environment and insufficient supply capacity.

Profits were also driven by the performance of the Technology Solution Business, the same as for net sales. Its profits grew alongside its significant increase in sales, and its segment operating profit rose 40.4% YoY. On the other hand, in the Brand Business, segment operating profit declined 26.3% due to the decline in the profit margin because of the deterioration of the product mix and a temporary increase in costs for the emergency response to the supply problem.

Details by business segment

(¥mn)

		FY3/18			FY3/19			
					1H		Progress rate	vs. initial full-year forecast
		1H	2H	Full year	Results	YoY		
Net sales	Brand Business	22,442	25,730	48,173	20,661	-7.9%	41.1%	50,300
	Technology Solution Business	17,902	15,745	33,648	25,602	43.0%	73.8%	34,700
	Other	345	97	442	-	-	-	-
	Subtotal	40,689	41,573	82,263	46,263	13.7%	54.4%	85,000
	Adjusted amount	-	-	-	-	-	-	-
	Net sales total	40,689	41,573	82,263	46,263	13.7%	54.4%	85,000
Operating profit	Brand Business	2,549	3,920	6,470	1,880	-26.3%	19.4%	9,700
	Technology Solution Business	3,531	2,146	5,678	4,958	40.4%	191.4%	2,590
	Other	-39	-26	-65	-	-	-	-
	Subtotal	6,041	6,040	12,083	6,838	13.2%	55.6%	12,290
	Adjusted amount	-4,540	-4,014	-8,556	-4,104	-	-	-8,290
	Operating profit total	1,501	2,025	3,527	2,734	82.1%	68.3%	4,000

Note: Progress rate indicates the 1H fulfillment rate against the initial full-year forecast
Source: Prepared by FISCO from the Company's financial results

The cost controls to keep down SG&A expenses also contributed significantly to the major increase in operating profit. As described below, this point is a high-priority issue in the new medium-term business plan. In 1H FY3/19, SG&A expenses decreased 8.5% YoY to ¥12,993mn. The ratio of SG&A expenses to net sales was 28.1%, a decline of 6.8 percentage points on the ratio of 34.9% in the same period in the previous fiscal year.

Looking at the breakdown, we see that all items decreased. However, caution is required, as some R&D expenses and sales promotion and advertising expenses were postponed to 2H. The decline in outsourcing expenses was due to the decrease in expenses related to the global ERP systems introduced in the previous medium-term business plan. In addition, the other decreases were due to the absence of provision for allowance for doubtful accounts (approximately ¥230mn) recorded in the same period in the previous fiscal year, and to the effects of the Company-wide cost-reduction measures.

Breakdown of SG&A expenses

(¥mn)

	1H FY3/18	1H FY3/19	YoY	
			Change	% change
Personnel expenses	4,833	4,801	-32	-0.7%
R&D expenses	2,061	1,826	-235	-11.4%
Sales promotion and advertising expenses	1,544	1,348	-196	-12.7%
Outsourcing expenses	1,227	990	-237	-19.3%
Depreciation	678	601	-77	-11.4%
Other	3,859	3,427	-432	-11.2%
SG&A expenses total	14,202	12,994	-1,208	-8.5%
SG&A expenses ratio	34.9%	28.1%	-	-6.8pts

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

Based on the above points, the factors causing operating profit to increase and decrease can be summarized as follows. By business segment, the effects of the increase in profits in the Technology Solution Business completely absorbed the impact of the decline in profits in the Brand Business. For the exchange rates, compared to the previous fiscal year, the yen was around ¥1.35 higher against the U.S dollar, but this did not affect operating profit (a net sales decrease factor). However, the yen trended around ¥3.25 lower against the euro, which boosted operating profit by ¥60mn, while fluctuations in Asian currencies also increased operating profit by ¥20mn. As a result, the impact from exchange rates as a whole was an increase of ¥80mn.

Analysis of factors causing operating profit to change (YoY)

Item	Effect amount
Increase in gross profit alongside the growth in sales in the Technology Solution Business, etc.	+¥1,500mn
Decrease in SG&A expenses	+¥400mn
Decrease in sales, deterioration of the product mix, and the increase in temporary costs in the Brand Business	-¥800mn
Exchange rate impact	+¥80mn
Total operating profit increase/decrease	+¥1,200mn

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

The market's response to the 1H FY3/19 results has been favorable, and this can be said to be a natural reaction in light of the numerical results. Even so, at FISCO we think we should be cautious about giving the 1H FY3/19 results a perfect score of 100 out of 100. The reason is that the content of the 1H FY3/19 results is different to that which the Company was initially aiming for.

The key point is that the Company achieved a V-shaped recovery in FY3/18, which was mainly because in 2H FY3/18, earnings increased greatly in the Technology Solution Business due to the early realization of demand. But the Brand Business did not achieve its forecasts. With regards to the FY3/18 results, the Company itself considers the fact that the performance of the Brand Business fell short of its forecasts to be a major problem, and for FY3/19, it positioned realizing the fully-fledged recovery of the Brand Business to be the top priority. However, the composition of results in 1H FY3/19 was exactly the same as their composition in 2H FY3/18. The Company itself is absolutely not satisfied with the 1H FY3/19 results, in that it was unable to improve and achieve the forecasts for the items it recognized to be a problem. At FISCO, we think that market participants, including investors, should not be satisfied with the results alone and should be following the above point more closely.

On the other hand, we think that the 1H FY3/19 results can absolutely be highly evaluated on the points that they confirm that the Company's products and technological capabilities are highly competitive and have strong brand power, and that from these strengths, it has high earnings power. Even with regards to the parts that the Brand Business results were below forecast, looking at this another way, it can be viewed as possibly leading to a leap forward for the Company in the future. It also made steady progress in the 6 months of the first year of Wacom Chapter 2, the new medium-term business plan that started from FY3/19 and that includes items that will lead to the fully-fledged recovery of the Brand Business. Going forward, alongside the further progress made in implementing the medium-term business plan, we can expect earnings to grow from the twin axes of the recovery of the Brand Business and the further development of the Technology Solution Business. In conclusion, at FISCO we think that for better or worse, the 1H FY3/19 results are merely one period of time within this process (and moreover, the initial period), and at the very least, it is necessary to wait until the FY3/19 full-year results to obtain a true evaluation of the Company.

In the Brand Business, some problems requiring improvements have come to light
But if these can be cleared, it will once again have the potential to become the growth engine

2. Trends in the Brand Business

In the Brand Business in 1H FY3/19, sales and profits decreased, with net sales of ¥20,661mn (down 7.9% YoY) and operating profit of ¥1,880mn (down 26.3%). The Company did not announce initial forecasts for 1H, but based on the initial full-year forecasts, it seems it expected sales and profits to increase. So on considering this, it would seem that it forecast that sales and profits would increase in 1H FY3/19, so the results were below forecast.

Breakdown of the Brand Business by product line

(¥mn)

	FY3/18			FY3/19				
	1H	2H	Full year	1H	YoY	Progress rate	Initial full-year forecast	YoY
Net sales	22,442	25,730	48,173	20,661	-7.9%	41.1%	50,300	4.4%
Creative Business	18,821	21,541	40,362	16,982	-9.8%	39.3%	43,240	7.1%
Pen tablets	10,394	12,996	23,390	9,288	-10.6%	37.1%	25,050	7.1%
Displays	6,412	6,633	13,045	6,318	-1.5%	44.0%	14,370	10.2%
Mobiles	2,015	1,912	3,927	1,376	-31.7%	36.0%	3,820	-2.7%
Consumer Business	1,606	1,704	3,310	1,180	-26.6%	44.7%	2,640	-20.2%
Business Solution	2,015	2,486	4,501	2,499	24.0%	56.5%	4,420	-1.8%
Operating profit	2,549	3,920	6,470	1,880	-26.3%	19.4%	9,700	49.9%
Operating margin	11.4%	15.2%	13.4%	9.1%	-	-	19.3%	-

Note: Progress rate indicates the 1H fulfillment rate against the initial full-year forecast
Source: Prepared by FISCO from the Company's financial results

In the creative business, which is the core of the Brand Business, net sales were ¥16,982mn (down 9.8% YoY). The details are as follows.

(1) Pen tablets

Net sales decreased 10.6% YoY to ¥9,288mn. In terms of content, there was a clear distinction between sales of products for professionals and medium- to low-priced products for consumers. Sales of products for professionals launched in FY3/18 increased YoY, but sales of medium- to low-priced products declined and were also below forecast, due to various effects, including changes to competitive environment. Up until recently, the Company's products in the medium- to low-price market had been as strong as its products for professionals. But the price differences have come to stand out due to the improvements in the performance of competing products. As a result, for the first time the Company is falling behind in terms of capturing users for pen tablets, and in addition, a situation in which consumers are switching from the Company's products to competing products has become noticeable.

(2) Displays

Net sales decreased 1.5% YoY to ¥6,318mn. The same as pen tablets, displays are an input device with which, instead of a "blackboard," users can write directly onto the liquid crystal display (LCD), so demand for them has been growing even though they are high-priced products. During FY3/18, the Company launched a new product, the Wacom Cintiq Pro 13/16 (the figures indicates sizes in inches), which performed well, so in March 2018 at the end of the year, it launched a 24-inch product as well. Although the plan was for sales to increase YoY in 1H FY3/19 with this new 24-inch product playing the driving role, the Company was unable to respond to demand due to problems in the supply system, and in the end, sales declined YoY. It incurred temporary costs (including air cargo fees) in order to respond to this supply problem, which became a major factor behind the decline in profits.

(3) Mobiles

Net sales declined 31.7% YoY to ¥1,376mn, mainly because existing mobile products are in the latter stages of their life cycles, which means their sales are falling YoY. The decline in sales itself was as expected, but it seems that the extent of the decline was more than anticipated. Mobile devices are products in which the input device of the pen tablet and the memory device of the tablet PC are integrated, so in terms of usability, they are the same as general tablet PCs that use a digital pen. While the tablet PC is a PC, the Company's mobile products are input-only devices, which is the difference between them. Its products have an excellent reputation among professional creators who tend to focus on input performance, and the Company is a specialist in the market for high-end devices for these users that it targets. However, for users below them, its products directly compete with ordinary tablet PCs, which seems to have led to the major decline in sales in 1H FY3/19.

(4) Consumer Business

Net sales were ¥1,180mn (down 26.6% YoY). The results in the Consumer Business were above forecast in FY3/18, so the forecast was that, from the decline as a reaction to this, sales would fall 20.2% compared to the previous fiscal period (on a full-year basis) in FY3/19. However, due to the fact that by June 2018, when 1 year had passed since the announcement of the Windows Ink-compliant stylus product, sales slowed down greatly in 2Q (July to September), and as a result, the 1H FY3/19 results were below forecast.

(5) Business Solution

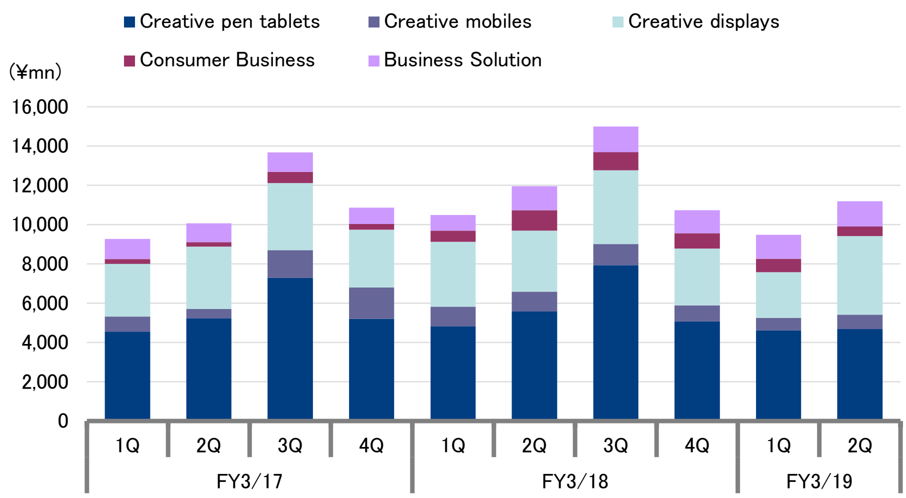
Net sales were ¥2,499mn (up 24.0% YoY). Higher sales were secured in North America from the increases in sales of LCD signature tablets for financial institutions and LCD pen tablets for educational facilities. It seems that results trended basically in line with the forecasts.

As stated above, in 1H FY3/19, the Brand Business did not achieve the results initially expected, but it is considered that there are several points in this period that will lead to its improved performance in the future. For medium- to low-priced products, in the medium term the forecast is that demand will shift from pen tablets to displays, and it is considered that the Company has not been completely defeated by the competition in these products fields, and indeed the Company's results may recover in them by its aiming to capture replacement demand. It seems that customers buying pen tablets for the first time choose a product with a lower price but a good reputation in order to reduce, even if just by a little, the risk of not being satisfied. If we accept this way of thinking to be correct, then the scope of users for both product fields, of pen tablets and displays, will have been expanded as the result of rival companies introducing products that are low priced but still have a certain level of performance. So at FISCO, we think that this point can actually be considered to be a positive for the Company. Whatever the case, it can be said that the Company's true evaluation will be determined by its capturing of the replacement demand that will appear (at the earliest, in the next six months) and in the progress it makes in its recovery in the future.

The display supply problem will be discussed in the section on the progress made for the medium-term business plan, but the Company has already responded to it and made improvements in anticipation of the year-end shopping season. As planned, it released a higher-priced, 32-inch model in early November, and going forward, it has a system in place in which both the 24- and 32-inch models will drive the growth in sales.

For mobile devices, if looking only at the 1H FY3/19 results, it would seem that the Company has not been actively conducting measures. But at FISCO, we think that it may be conducting a review of mobile devices for such fundamental aspects as product characteristics and positioning in the market. Through the Technology Solution Business, the Company is an OEM supplier of digital pens for tablets and notebook PCs. In other words, although the difference between the Company's two business segments is that the former involves products for professionals and the latter products for general users, the situation is that there is competition for some creative users. So for the mobile devices-related problem, rather than measures to treat the symptoms of the problem, it is necessary to review the fundamental positioning of products in the product strategy to make it clear. The Company's new medium-term business plan aims to produce results by taking firm business decisions based precisely on a recognition of this situation, so we shall be paying attention to developments in the future.

Quarterly trends in net sales of the Brand Business



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

In 1H FY3/19, earnings grew rapidly from the early realization of demand in both products fields, of for smartphones and for tablets and notebook PCs

3. Trends in the Technology Solution Business

Sales and profits increased significantly in the Technology Solution Business in 1H FY3/19, with net sales of ¥25,602mn (up 43.0% YoY) and operating profit of ¥4,958mn (up 40.4%). The rates of progress toward achieving the initial forecasts were 73.8% of the net sales forecast and 191.4% of the operating profit forecast, so the results considerably exceeded expectations. Based on these results, the Company has upwardly revised the full-year forecasts (the details are given below).

Breakdown of the Technology Solution Business by product line

(¥mn)

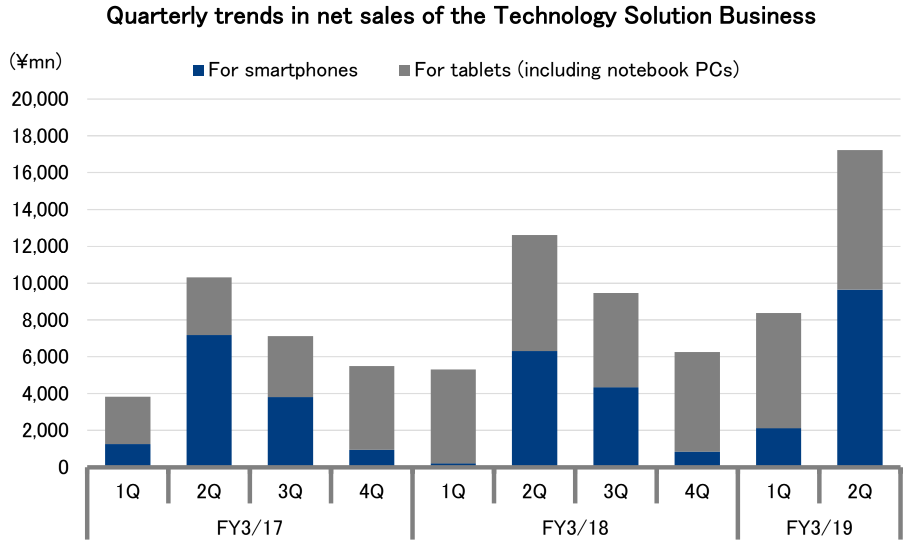
	FY3/18			FY3/19				
	1H	2H	Full year	1H	YoY	Progress rate	Initial forecast	YoY
Net sales	17,902	15,745	33,648	25,602	43.0%	73.8%	34,700	3.1%
For smartphones	6,529	5,179	11,708	11,758	80.1%	80.3%	14,650	25.1%
For tablets and notebook PCs	11,373	10,567	21,940	13,844	21.7%	69.0%	20,050	-8.6%
Operating profit	3,531	2,146	5,678	4,958	40.4%	191.4%	2,590	-54.4%
Operating margin	19.7%	13.6%	16.9%	19.4%	-	-	7.5%	-

Note: Progress rate indicates the 1H fulfillment rate against the initial full-year forecast
Source: Prepared by FISCO from the Company's financial results

In the Technology Solution Business, sales of products for smartphones increased 80.1% YoY to ¥11,758mn. In this business, the Company supplies the pen sensor system for the Galaxy Note series to Samsung Electronics of South Korea. In the same period in the previous fiscal year, the Galaxy Note 7 was recalled and the Company supplied products only for the Galaxy Note 8. In contrast, in 1H FY3/19, in addition to continuing to supply products for the Galaxy Note 8, it started to supply them for the new product of the Galaxy Note 9, and therefore sales greatly increased YoY. The Company expected that it would start the supply of products for the Galaxy Note 9 from 3Q, which is the reason why the result exceeded the forecast.

Net sales of products for tablets and notebook PCs increased 21.7% YoY to ¥13,844mn. In this business, the Company is the OEM supplier of Active ES (AES) input digital pens. In the tablet and notebook PC field, in the last few years the equipping of devices with digital pens has been accelerating and it can be said that it is becoming the standard device. Within this sequence of events, the early realization of demand in 2H FY3/18 was the main reason why earnings were above forecast. In 1H FY3/19, the early realization of demand unexpectedly occurred again, which led to increases in sales significantly higher than both the same period in the previous fiscal year and the forecast.

We can highly evaluate the simple fact that results were above forecast in 1H FY3/19 in the Technology Solution Business, but opinions may be divided in terms of the outlook for the future. This is because of the occurrence of the early realization of demand both for products for smartphones and for tablets and notebook PCs. Within these products, as there is only one customer for smartphones, of Samsung Electronics, the impact of the customer's product cycle cannot be avoided, so the expected outlook should be viewed with caution. On the other hand, it has a diverse range of customers for products for tablets and notebook PCs, and there are still manufacturers that have only just joined the broad development of equipping their devices with digital pens. So it would seem that there remains plenty of room for growth for digital pens. Therefore, at FISCO, we think that going forward also, it is fully possible that the early realization of demand will continue.



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

Progress of Wacom Chapter 2, the new medium-term business plan

Targeting an operating margin of 10%, net sales of ¥100bn, and ROE of 15% to 20% in terms of four high-priority issues based on three basic strategies

1. Outline of Wacom Chapter 2, the new medium-term business plan

In conjunction with the appointment of President & CEO Nobutaka Ide in April 2018, the Company announced Wacom Chapter 2 (for 3 fiscal years, from FY3/19 to FY3/22) as its new medium-term business plan, and it is currently implementing this plan. Since the past, the Company has formulated medium-term business plans to guide its medium- to long-term strategy, and the new plan is expected to play the same role.

The goals in the new medium-term business plan are to clarify the Company's position as the "Technology Leadership Company," to effectively use its limited management resources, and to convert to a management structure that prioritizes profits. As the vision that will serve as the foundation for the measures toward realizing these goals, it is continuing from before with its vision of "for a creative world," but it has also newly added "Life-long Ink." Here, "Ink" means digital ink. At FISCO, we think that in addition to appealing to the importance of ink for expression and its enormous potential, this suggests the direction that the Company will head in the future.

In terms of the specific policies and measures, the Company has set three basic strategies as its code of conduct or standards; 1) the promotion of Technology Leadership, 2) close cooperation through an Island & Ocean strategy, and 3) actions that are thoroughly based on its Extreme Focus approach. The meanings and aims of each of these 3 strategies were described in detail in the previous report of June 19, 2018.

In terms of the specific measures based on this overall strategy, the Company has set four high-priority issues, including customer-oriented technological innovation. What is important is that ultimately these four high-priority issues are important to the Company at the present time, and they will not necessarily be important to it in the future. It would seem that the high-priority issues will gradually change in response to the changing circumstances, such as the progress made in resolving the various issues and the emergence of new issues.

It seems that the Company made progress for these issues in 1H FY3/19, which was the first 6 months following the start of the new medium-term business plan. The details are provided below.

High-priority issues

4 high-priority issues
Customer-oriented technological innovation
Organization/operational reforms
Solid financial structure securing profitability
Enhancement of management quality through BOD* reform

*BOD: Board of Directors
Source: Prepared by FISCO from Company materials

The Company has set the following financial targets in the plan's final fiscal year of FY3/22; an operating margin of 10%, net sales of ¥100bn, and consolidated ROE of 15% to 20%.

Breaking down net sales by business segment, the targets are ¥60,400mn for the Brand Business and ¥39,600mn for the Technology Solution Business. These are 4-year average annual growth rates of 6% and 4%, respectively. The reason why the annual average growth rate of the Technology Solution Business is lower would seem to be that it is highly uncertain and lacking in transparency due to the strong degree of importance of the partner strategy (The forecast is based on a highly feasible "base scenario."). In terms of the Company's true intentions, at FISCO we think that it actually assumes a high rate of growth for it that may surpass that of the Brand Business.

The Wacom Chapter management targets

(¥mn)

	FY3/18	FY3/19		FY3/22	
		Initial forecast	Revised forecast	Target	CAGR
Net sales	82,263	85,000	89,000	100,000	5%
Brand Business	48,173	50,300	49,000	60,400	6%
Technology Solution Business	33,648	34,700	40,000	39,600	4%
Operating profit	3,527	4,000	4,000	10,000	-
Operating margin	4.3%	4.7%	4.5%	10.0%	-
Profit attributable to owners of parent	2,362	2,980	2,980	6,948	-
ROE (%)	10.8%	13%	13%	15-20%	-
Equity ratio (%)	44.5%	-	-	Approx. 60%	-

Source: Prepared by FISCO from the Company's financial results, results briefing materials and medium-term business plan briefing materials

The Company has upwardly revised the FY3/19 full-year forecasts. For the Technology Solution Business, it is forecasting net sales in FY3/19 of ¥40,000mn, which is higher than the value it is targeting for the final year of the medium-term business plan. Therefore, it might be also expected to upwardly revise the above-described financial targets in the medium-term business plan. But at FISCO, we are cautious on this point for two reasons; 1) the possibility that a revision will be made, and 2) the evaluation in the event of a revision. The key point for 1) is whether or not it is appropriate to decide to revise the targets based on the figures for FY3/19 in light of the previously mentioned lack of transparency and uncertainty in the Technology Solution Business. With regards to 2), even supposing that the targets are upwardly revised, it is important that this is in conjunction with an upward revision for the Brand Business. If not, the degree of the target evaluation will be reduced by half. Whatever the case, even if the Company revises the targets in the medium-term business plan, at the earliest it will announce this together with the results announcement in May 2019. So for the time being, we will be focusing on the progress made for the high-priority issues described below.

Confirmed the progress and effects in 1H FY3/19 for each of the 4 high-priority issues

2. Progress made in 1H FY3/19 for the high-priority issues

(1) Customer-oriented technological innovation

In the new medium-term business plan, in accordance with the framework of the above-mentioned Technology Leadership, the Company will incorporate (commercialize) technological innovation into specific brand products and pursue growth. It has not yet clarified the details, but digital ink will occupy a major position in the Company's technological appeal in the future. In terms of the direction of the evolution of digital ink, one suggestion is products that utilize the integration of VR (virtual reality) and MR (mixed reality). Also, as previously stated, the partner strategy serves as the framework for the Technology Solution Business; namely, expanding the Company's pen tablet technologies through partnering with companies, such as major PC and tablet manufacturers. The Company has positioned the central axis of its growth strategy for the future as the opening up of new markets, and in terms of the specific markets, the assumptions include expanding the use of digital pens in the education field, the opening up of the digital stationary market, and cooperating with AI.

In terms of the specific developments, it held an event for a POC (proof of concept) demonstration prototype that enables product design and content creation in VR and MR environments close to SIGGRAPH (the international exhibition for Special Interest Group on Computer Graphics, including animation, and digital art), held in Vancouver, Canada, in August 2018. The Company is collaborating with Gravity Sketch, which is using VR to develop 3D design software in this area.

The Company also announced a collaboration with Magic Leap of the U.S. in October 2018. This collaboration involves the development of systems solutions that will make it possible for multiple people to collaborate on product design and content creation in an MR environment utilizing spatial computing. It also unveiled a prototype at the same time. The prototype consists of the Company's Wacom Intuos Pro, an application developed by Magic Leap, and a head set, and the announcement included a design case study in which four members of the design team shared the same MR screen.

Some time will be required before these prototypes are released onto the market as actual products, and for the time being, they will have no impact on earnings. However, this in area that the Company cannot avoid if it is to establish the position of being the "Technology Leadership Company" that it is aiming for, so we can expect it to continue with steady developments in the future.

(2) Organization/operational reforms

The Company is also working on organizational restructuring as part of its measures to resolve issues. It has set two key objectives, focusing on customers and simplifying the organizational structure, and it is working to realize them. It has integrated the digital ink-related departments and established the Ink Division, and in addition its measures include establishing the CTO office, reviewing the product development process and restructuring toward customer support that is attributable to each business. Through this organizational restructuring, the Company will accelerate the resolution of unresolved issues, including those relating to technological innovation, development methods, CRM (customer management) and quality improvements.

A good opportunity to test the Company's measures appeared in 1H FY3/19, with the problem in supplying the a new display (LCD tablet) product, Wacom Cintiq Pro 24. As previously stated, this problem was a factor causing sales and profits to decline in 1H FY3/19, and moreover an important theme in the new medium-term business plan is how to solve this type of problem. Wacom Cintiq Pro 24 was released onto the market as a new product in March 2018, but the supply problem occurred immediately after that, in FY3/19 1Q (April to June). The Company progressed measures to deal with this problem in 2Q (July to September), and it has established a supply system able to fully meet demand in the year-end shopping season in 3Q (October to December). Also, the high-end model, Wacom Cintiq Pro 32, was released in early November, and the main engine for the recovery of the Brand Business in 2H FY3/19 will be the growth in sales of these 2 models, with displays of 24 inches and 32 inches. If the Company can achieve results as expected, at FISCO we think that this will be evidence that the reforms to its organizational operations are starting to function as intended.

However, it is important to note that this problem may occur again in the future. As stated in previous reports, the Company has a history of expanding its business beyond its own capacity and as a result of this, results slumping due to the occurrence of various distortions. The origins of the current supply problem can also be found here. It seems that the Company is advancing measures not only to treat the effects of such problems, but also measures to prevent them occurring. But even so, it should still be recognized as a potential risk.

(3) Solid financial structure securing profitability

From the viewpoint of profitability, what the Company will tackle first is optimizing SG&A expenses. It has set the specific target of keeping down the ratio of SG&A expenses to net sales to the lowest level of the last 10 years. The minimum value in the last 10 years was 26.7% in FY3/13, so it seems that this will be the target going forward.

What is important is not the absolute amount of SG&A expenses, but ultimately its ratio to net sales. In order for the Company to realize its goal of Technology Leadership, it has declared that it will maintain its active investment in research and development. On the other hand, its policy for the other departments is to thoroughly achieve productivity improvement and cost reductions and aim to expand net sales as the ratio denominator, and thereby reduce the ratio of SG&A expenses to net sales.

As previously stated, clear progress was seen in 1H FY3/19 for SG&A expenses. The total amount of SG&A expenses decreased 8.5% YoY, and the ratio of SG&A expenses to net sales fell to 28.1%. Within the main decrease items, outsourcing expenses fell nearly 20%, which was mainly due to the decrease in expenses relating to the global ERP system that the Company worked to introduce in the previous medium-term business plan. It would seem we can read the effects of the new medium-term business plan from this. On the other hand, the Company set a budget for R&D expenses for FY3/19 of ¥5,000mn, a 14% increase on the previous fiscal period. R&D expenses in 1H FY3/19 were ¥1,826mn, down 11.4% YoY. In other words, the substantial increase in R&D expenses is expected to affect SG&A expenses in 2H. So rather than feeling satisfied or concerned about the 1H FY3/19 results, we should wait to see the full-year results.

(4) Enhancement of management quality through BOD* reform *BOD: Board of Directors

To improve the quality of management, President Ide believes it is indispensable to have a structure in place to make management decisions through full discussions by the Board of Directors, rather than relying on individuals. A Board of Directors that can have high-quality strategic discussions as a technology company is precisely the type of Board of Directors that President Ide considers to be ideal.

The Company has cited three viewpoints for the reorganization; selecting people who can conduct strategic discussions, ensuring that the size of the Board of Directors is appropriate, and appointing outside directors to secure fairness and transparency. The Board of Directors is expected to be reorganized in accordance with this framework.

The Company elected a total of 8 directors including President Ide at the Ordinary Shareholders' Meeting held in June 2018, of who, 4 are outside directors. Also, excluding one outside director who is a lawyer, the other three outside directors have accumulated careers that are in the Company's business area and in fields that are highly related to its history; specifically, the development of corporate systems, the outsourcing business, the development of games and other software, and support for corporate revitalization. At FISCO, our evaluation is that the reorganization of the Board of Directors is being progressed in line with the direction that the Company is aiming for.

Outlook

Upwardly revised the net sales forecast
Profit forecasts have been left unchanged, but there remains room for results to exceed the forecasts in the Technology Solution Business

1. FY3/19 forecast

For FY3/19, the Company forecasts a 8.2% YoY rise in net sales to ¥89,000mn, operating profit of ¥4,000mn, a 13.4% rise YoY, ordinary profit of ¥3,920mn, a 9.4% rise and profit attributable to owners of parent of ¥2,980mn, a 26.2% rise YoY.

Based on the 1H FY3/19 results, the Company upwardly revised the net sales forecast, from the former forecast of ¥85,000mn to ¥89,000mn. Conversely, it has left its profit forecasts unchanged. This is because while profits in the Technology Solution Business, whose performance was the reason why the net sales forecast was upwardly revised, are expected to exceed the initial forecast, the profit forecasts for the Brand Business have been downwardly revised.

FY3/19 forecast

(¥mn)

	FY3/18			FY3/19				
	1H	2H	Full year	1H	2H forecast	YoY	Full-year forecast	YoY
Net sales	40,689	41,573	82,263	46,263	42,737	2.8%	89,000	8.2%
Gross profit	15,703	16,056	31,759	15,727	-	-	-	-
SG&A expenses	14,202	14,031	28,233	12,994	-	-	-	-
Operating profit	1,501	2,025	3,527	2,734	1,266	-37.5%	4,000	13.4%
Operating margin	3.7%	4.9%	4.3%	5.9%	3.0%	-	4.5%	-
Ordinary profit	1,641	1,942	3,585	2,912	1,008	-48.1%	3,920	9.4%
Profit attributable to owners of parent	1,673	688	2,362	1,975	1,005	46.1%	2,980	26.2%

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

By business segment, the forecasts for the Brand Business are net sales of ¥49,000mn (up 1.7% on the previous fiscal period) and operating profit of ¥6,500mn (up 0.5%). These are downward revisions from the initial forecasts, by ¥1,300mn for net sales and by ¥3,200mn for operating profit. In 2H, while a recovery for some products is expected, such as an increase in sales of high-priced displays, the forecasts incorporate the fact that the profit margin will be lower than previously expected due to the deterioration of the product mix and the impact of the imposition of tariffs on China by the U.S. As a result, the extent of the downward revision of the operating profit forecast was increased.

The forecasts for the Technology Solution Business are net sales of ¥40,000mn (up 18.9% on the previous fiscal period) and operating profit of ¥5,900mn (up 3.9%). Based on the fact that results were greatly above forecast in 2Q, the full-year forecasts for both net sales and operating profit have been significantly upwardly revised. However, on comparing 1H and 2H, sales and profits will decline in 2H compared to 1H. This will be mainly due to the structure in which the earnings of the Technology Solution Business are directly affected by customers' product strategies (an approach of disclosing a highly feasible "base scenario" as the Company's forecasts). In addition, the forecasts incorporate the fact that profits will be kept down in 2H due to the postponement of some R&D expenses to 2H.

Furthermore, the net sales forecast has been upwardly revised because the dollar strengthened and the yen weakened more than expected. But the initial profit forecasts have been left unchanged, as the downward revision for the Brand Business will cancel out the upward revision for the Technology Solution Business.

Forecast by business segment

(¥mn)

		FY3/18			FY3/19					
							Full year			
		1H	2H	Full year	1H	2H forecast	Initial forecast	Revised forecast	YoY	vs. initial forecast
Net sales	Brand Business	22,442	25,730	48,173	20,661	28,339	50,300	49,000	1.7%	-2.6%
	Technology Solution Business	17,902	15,745	33,648	25,602	14,397	34,700	40,000	18.9%	15.3%
	Other	345	97	442	-	-	-	-	-	-
	Subtotal	40,689	41,573	82,263	46,263	42,736	85,000	89,000	8.2%	4.7%
	Adjusted amount	-	-	-	-	-	-	-	-	-
	Net sales total	40,689	41,573	82,263	46,263	42,736	85,000	89,000	8.2%	4.7%
Operating profit	Brand Business	2,549	3,920	6,470	1,880	4,619	9,700	6,500	0.5%	-33.0%
	Technology Solution Business	3,531	2,146	5,678	4,958	941	2,590	5,900	3.9%	127.8%
	Other	-39	-26	-65	-	-	-	-	-	-
	Subtotal	6,042	6,040	12,082	6,838	5,561	12,290	12,400	2.6%	0.9%
	Adjusted amount	-4,540	-4,014	-8,555	-4,104	-4,295	-8,290	-8,400	-	-
	Operating profit total	1,501	2,025	3,527	2,734	1,266	4,000	4,000	13.4%	0.0%

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

At FISCO, we think that the Company's forecasts are convincing and appropriate, but that there remains room for earnings in the Technology Solution Business to exceed the forecasts in 2H. On other hand, it would seem that the problem that occurred in the Brand Business in 2Q has been alleviated, so it is certainly possible that it will achieve its revised forecasts. As a result, we think that it is fully possible that the Company-wide results will exceed their forecasts in 2H also, due to the results of the Technology Solution Business being above forecast.

The forecast for 2H, which includes the year-end shopping season, are for higher sales compared to 1H
Key products are displays (LCD tablets), not only in terms of their contribution to results, but also in terms of their importance in confirming the Company's competitiveness

2. Forecast in the Brand Business

Looking at the breakdown by product field in the Brand Business, the forecast is for a major increase in sales in the mainstay creative business in 2H, up 44.3% compared to 1H, to ¥24,508mn. One reason for this is a seasonal factor, that sales grow in 2H as it includes the year-end shopping season. In addition, the Company plans to implement additional measures targeting the year-end shopping season to recover sales, leading to this forecast. Further, in September 2018, the creative business reorganized its global sales marketing organization to a structure that is based on customers by region, and this is also expected to contribute to the growth in sales.

By product type, within the creative business, sales of each of pen tablets, displays, and mobiles are expected to greatly increase in 2H FY3/19 compared to 1H. The full-year net sales forecast for displays has been upwardly revised by 11.0% to ¥15,950mn (up 22.3% on the previous fiscal period). This is due to the elimination of the supply problem that occurred in 1H and the launch of the new 32-inch product. In light of the past results and the strong demand for 24-inch products seen in 1H FY3/19, at FISCO we think it is fully possible that it will achieve this target. With regards to displays also, we consider that securing sales as forecast will be evidence of various positive aspects, including that the Company is able to solve problems (like the supply problem), and the competitive strength and brand strength of its products in the high-end market. Therefore, we shall be paying attention to results from this perspective.

In the comparison between 1H and 2H for pen tablets, sales will greatly increase in 2H due to the seasonal factor. What is considered more important is that on a full-year basis, the forecast is for a decline of 4.3% compared to the previous fiscal period, which is a downward revision of 10.6% from the initial forecast. One of the opportunities to regain the entry group, who are an important player in the medium- to low-price band and who were lost in 1H FY3/19, is replacement demand. But it is thought that some time will be required until this demand appears. For mobiles, it seems that sales will be higher in 2H compared to 1H simply due to the seasonal factor. Rather, we will be focusing on how the Company will change the positioning and the characteristics of the products.

Detailed forecasts for Brand Business

(¥mn)

	FY3/18			FY3/19					
	1H	2H	Full year	1H	2H forecast	Initial full-year forecast	Revised full-year forecast	YoY	vs. initial forecast
Net sales	22,442	25,730	48,173	20,661	28,339	50,300	49,000	1.7%	-2.6%
Creative Business	18,821	21,541	40,362	16,982	24,508	43,240	41,490	2.8%	-4.0%
Pen tablets	10,394	12,996	23,390	9,288	13,102	25,050	22,390	-4.3%	-10.6%
Displays	6,412	6,633	13,045	6,318	9,632	14,370	15,950	22.3%	11.0%
Mobiles	2,015	1,912	3,927	1,376	1,774	3,820	3,150	-19.8%	-17.5%
Consumer Business	1,606	1,704	3,310	1,180	1,280	2,640	2,460	-25.7%	-6.8%
Business Solution	2,015	2,486	4,501	2,499	2,551	4,420	5,050	12.2%	14.3%
Operating profit	2,549	3,920	6,470	1,880	4,619	9,700	6,500	0.5%	-33.0%
Operating margin	11.4%	15.2%	13.4%	9.1%	16.3%	19.3%	13.3%	-	-

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

In the Consumer Business, the increase in sales in 2H compared to 1H will be within the range explainable by the seasonal factor, and on a full-year basis, it is considered that the forecast of a decline in sales compared to the previous fiscal period and the downward revision of the initial forecast better reflects the true situation. The struggles in FY3/19 were as expected, and it is thought that the impact of this on profits will not be all that large.

In Business Solution, there are no seasonal factors and results are forecast to trend steadily in 2H. On a full-year basis, the growth rate compared to the previous fiscal period and the change rate compared to the initial forecast are both positive. Sales of LCD signature tablets for financial institutions and LCD pen tablets for educational facilities involve the potential risk of them being replaced by general tablet PCs, but at FISCO, we think orders will continue for the time being.

The forecasts for products for smartphones and for tablets and notebook PCs have both been upwardly revised from the initial forecasts
There remains room for results to exceed the forecasts for products for tablets and notebook PCs

3. Forecast in the Technology Solution Business

Within the Technology Solution Business, the full-year net sales forecast for products for smartphones has been upwardly revised by 12.5% from the initial forecast, and full fiscal year net sales of ¥16,480mn (up 40.8% on the previous fiscal period) are expected. However, in the comparison of 1H and 2H, in 2H FY3/19 net sales are forecast to decline by approximately 60% compared to 1H. In the background to this is the assumption of the reduction in the supply for Galaxy Note 9, which is the new model for this period. This assumption is reasonable in light of the lead time for Samsung Electronics' introduction of new products. It is thought that the next model will continue to be at the development stage during 2H FY3/19, so it seems that the early realization of demand that occurred in 1H will not occur in 2H FY3/19.

The full-year net sales forecast for products for tablets and notebook PCs has been upwardly revised by 17.3% from the initial forecast to ¥23,520mn (up 7.2% on the previous fiscal period). The reason that the growth rate compared to the previous fiscal period will only be a single digit is that the early realization of demand occurred in 2H FY3/18 and net sales grew, and therefore the basis of comparison for the growth rate became higher. At the initial stage, a fall as a reaction to this was expected, so the forecast was for a decline compared to the previous fiscal period. But as previously stated, the early realization of demand occurred in 1H FY3/19 also, so the forecast is now for higher sales compared to both the previous fiscal period and 2H in the previous fiscal year. Responding to this development and based on its "base scenario" approach, the Company assumed the risk in 2H FY3/19 that the early realization of demand would continue for three consecutive half years. Therefore, it is forecasting that sales will decline by 30% in 2H FY3/19 compared to 1H.

At FISCO, we feel that this part of the Company's 2H forecasts is conservative. Our reasoning for this is that, if the following two conditions are in place – that there are no changes in the new product launch cycles of tablet and notebook PC manufacturers (for example, launching a new model every six months), and that the packaged digital pen inclusion rate remains at the same level or trends upwards – that the early realization of demand that occurred in 2H FY3/18 may actually signify that the overall sequence of events has been pushed forward by half a year, rather than it being a transient factor. We are aware that this reasoning is not necessarily consistent with the points of developments by individual manufacturers and developments in the industry as a whole. But inherently, it seems that the task of dividing them and establishing demand forecasts would seem to be a difficult one for the former of the Company itself (if not, "the early realization of demand" is not occurring). Considering that the Company's business partners are mainly global major companies, it would seem that the reasoning described above is sufficiently established in the case of ascertaining developments in the industry as a whole.

Detailed forecasts for Technology Solution Business

(¥mn)

	FY3/18			FY3/19					
	1H	2H	Full year	1H	2H forecast	Initial full-year forecast	Revised full-year forecast	YoY	vs. initial forecast
Net sales	17,902	15,746	33,648	25,602	14,397	34,700	40,000	18.9%	15.3%
For smartphones	6,529	5,179	11,708	11,758	4,722	14,650	16,480	40.8%	12.5%
For tables and notebook PCs	11,373	10,567	21,940	13,844	9,676	20,050	23,520	7.2%	17.3%
Operating profit	3,531	2,147	5,678	4,958	941	2,590	5,900	3.9%	127.8%
Operating margin	19.7%	13.6%	16.9%	19.4%	6.5%	7.5%	14.8%	-	-

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

Statements of income and key indicators

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	
					1H	Full year (E)
Net sales	74,557	77,568	71,314	82,263	46,263	89,000
YoY	-5.2%	4.0%	-8.1%	15.4%	13.7%	8.2%
Gross profit	30,050	30,735	27,565	31,759	15,727	-
Gross margin	40.3%	39.6%	38.7%	38.6%	34.0%	-
SG&A expenses	23,908	27,071	28,736	28,233	12,994	-
Ratio of SG&A expenses to net sales	32.1%	34.9%	40.3%	34.3%	28.1%	-
Operating profit	6,143	3,664	-1,171	3,527	2,734	4,000
YoY	-29.1%	-40.3%	-	-	82.1%	13.4%
Operating profit margin	8.2%	4.7%	-1.6%	4.3%	5.9%	4.5%
Recurring profit	6,064	3,777	-870	3,585	2,912	3,920
YoY	-26.8%	-37.7%	-	-	77.4%	9.4%
Profit attributable to owners of parent	3,473	2,310	-5,534	2,362	1,975	2,980
YoY	-33.8%	-33.5%	-	-	18.0%	26.2%
EPS after adjustment for share-split (¥)	20.86	14.00	-33.93	14.55	12.16	18.35
Dividends after adjustment for share-split (¥)	18.00	18.00	6.00	6.00	0.00	6.00
BPS after adjustment for share-split (¥)	202.14	188.22	130.75	139.45	-	-
Capital investment amount	4,082	4,862	3,580	1,513	1,827	3,300
Depreciation and amortization	1,970	2,004	2,573	2,421	1,178	2,600
R&D expenses	3,180	4,342	4,397	4,385	1,826	5,000

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

Balance sheet

(¥mn)

	As of March 31, 2015	As of March 31, 2016	As of March 31, 2017	As of March 31, 2018	As of September 30, 2018
Current assets	40,187	37,873	39,499	42,589	51,802
Cash and deposits	16,686	14,365	14,204	19,157	18,691
Notes and accounts receivable	9,875	10,161	10,768	10,738	14,254
Inventories	10,216	10,097	11,664	9,719	12,763
Fixed assets	11,269	13,692	10,749	8,321	10,060
Tangible fixed assets	4,608	4,538	4,303	4,301	4,314
Intangible fixed assets	5,441	8,131	4,312	2,951	3,467
Investments and other assets	1,219	1,023	2,133	1,068	2,278
Total assets	51,456	51,566	50,249	50,909	61,862
Current liabilities	15,880	16,478	17,383	16,752	26,571
Accounts payable	9,203	6,102	7,481	7,100	16,445
Short-term debt	600	4,000	3,000	3,000	3,000
Fixed liabilities	1,717	3,991	11,508	11,488	11,357
Shareholders' equity	32,617	30,770	21,536	22,924	23,951
Capital	4,203	4,203	4,203	4,203	4,203
Capital surplus	7,550	7,513	6,098	6,098	6,100
Retained earnings	22,318	21,629	13,134	14,522	15,522
Treasury stock	-1,455	-2,576	-1,900	-1,900	-1,875
Total accumulated other comprehensive income	1,060	188	-306	-280	-34
Share acquisition rights	180	138	126	25	16
Total net assets	33,858	31,096	21,356	22,668	23,932
Total liabilities and net assets	51,456	51,566	50,249	50,909	61,862

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

Cash flow statement

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	1H FY3/19
Cash flow from operating activities	6,782	2,009	121	6,781	2,274
Cash flow from investing activities	-3,277	-4,878	-3,479	-767	-2,056
Cash flow from financing activities	-2,849	1,209	3,298	-974	-950
Gain or loss on translation of foreign currency cash and deposits	637	-661	-100	-87	266
Change in cash and deposits balance	1,292	-2,321	-160	4,952	-465
Cash and deposits balance at start of fiscal year	15,393	16,686	14,365	14,204	19,157
Cash and deposits balance at end of fiscal year	16,686	14,365	14,204	19,157	18,691

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

Returns to shareholders

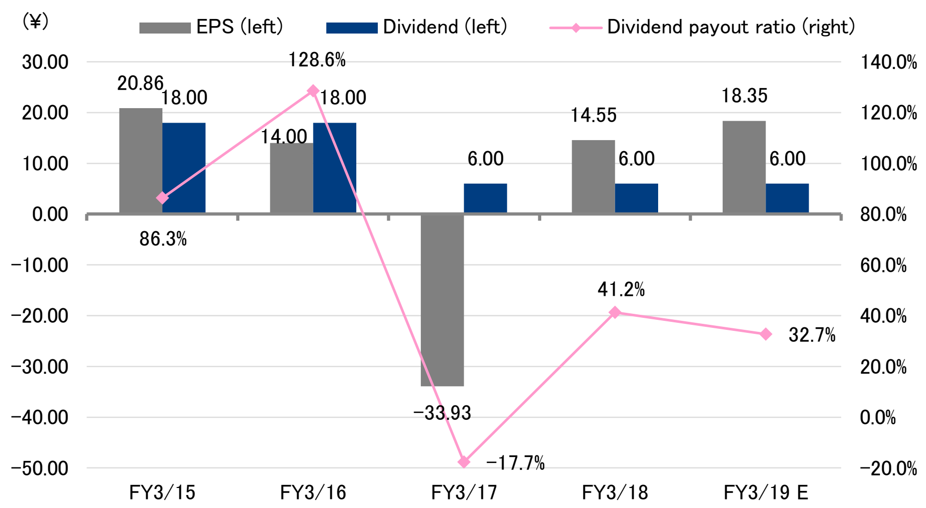
Plans a dividend of ¥6 in FY3/19

The Company's basic policy towards shareholder returns is to pay steady dividends and flexibly acquire treasury stock, both actions being based on its profits after considering the amount of funds to be retained for future business development and sound financial base. The Company had previously set a dividend payout ratio of around 40% as the standard for the dividend level, but from FY3/18, it lowered it to around 30%. This is because it considered that in order to actively respond to the rapidly changing business environment surrounding the IT industry, it was necessary to recover its financial soundness, mainly by accumulating retained earnings. It is aiming to raise the equity ratio, which recently has fallen to below 40%, to around 60%. Also, the number of times it pays dividends is once a year, at the end of the fiscal year, to reduce operating costs.

For FY3/19, it has announced a dividend forecast of ¥6, which is unchanged from the previous fiscal year. Based on the forecast earnings per share of ¥18.35, the dividend payout ratio will be 32.7%.

At FISCO, we think that the fact the forecast dividend is for the same amount as in the previous fiscal year, despite the forecasts of higher sales and profits, is an appropriate judgment. It is considered that the R&D expenses to establish its position as the Technology Leadership Company will continue to increase in the future. In addition, it can be expected to require funds for the process of realizing the conversion to a management structure that prioritizes profits. So for the time being, it is considered that raising the level of internal reserves will ultimately increase returns for shareholders in the medium to long term.

Trends in EPS, dividend, and dividend payout ratio



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

Company profile

Established in 1983, the Company has grown steadily with technology and now holds a share over 80% of the global market for pen tablets for creators

The Company was established in 1983 in Ageo City, Saitama Prefecture. Its name derived from "world" and "computer," while "WA" includes the meaning of "harmony between people and computers" ("WA" being the Japanese word for harmony). In 1984, it announced the world's first cordless pen tablet. In 1987, it launched the SD Series of graphic pen tablets for professionals, which were used by the Walt Disney Company in the United States for film production. Subsequently, it constantly enhanced its products, and in the creative pen tablets markets for creators and hobbyists, since the 2000s it has consistently kept a global share of 80% and above.

In 2002, it entered into the pen sensor components field (currently, the Technology Solution Business). This business involves supply of components and modules, such as the Company's digital pens, control IC and sensor boards, to the manufacturers of finished products. The business is growing rapidly on the back of the expansions of the markets for tablets and smartphones.

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

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