Wacom Co., Ltd.

6727 Tokyo Stock Exchange First Section

30-Jun.-16

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Aiming for Sustainable Growth on the Twin Pillars of Supplying OEM Components and Own-Brand Products

Wacom Co., Ltd. <6727> (hereafter, also "the Company") is the world's leading manufacturer of pen tablets. It possesses a global share of approximately 90% 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 OEM supply of electronic pen components to manufacturers of finished products, including tablets (PC type).

The Company is working on SBP-2019, which is its medium-term business plan for the period FY3/16(April 2015 to March 2016) to FY3/19. The growth strategy for the Brand Business is that in the Creative Business, aiming to expand the user base through cutting edge elements such as 3D design; in the Consumer Business, creating a new digital stationery market; and in the Business Solution, increasing sales by utilizing digital signs and other products. The targets for the FY3/19 segment results are for net sales of ¥75,300mn and operating income of ¥16,640mn. The 4 year compound annual growth rate (CAGR) is 14.6% for net sales and 29.2% for operating income.

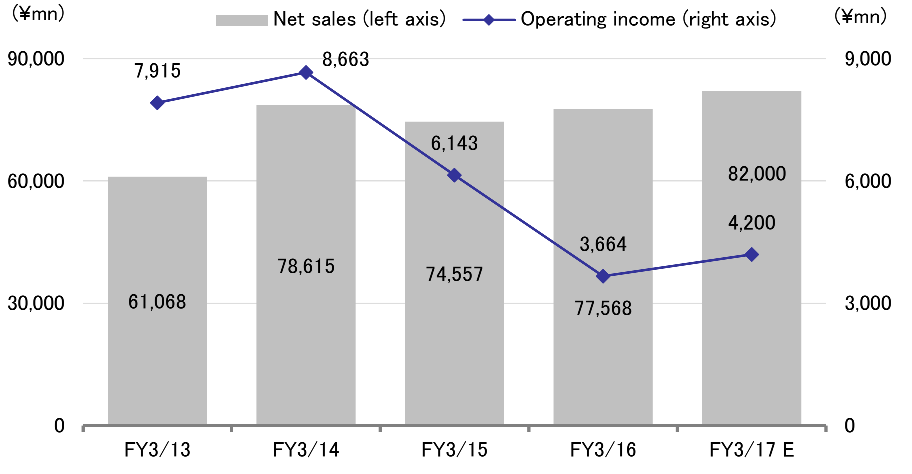
The keyword for the Technology Solution Business growth strategy is "partners." In addition to increasing its partner companies in the markets for smartphones and tablets by utilizing EMR technology and AES technology, this includes that it is aiming to establish a digital stationery consortium that will make use of WILL, which is the digital ink technology that the Company is promoting, and to create a new market. The forecasts for the FY3/19 segment results are net sales of ¥43,700mn and operating income of ¥5,790mn, while the 4 year CAGR are 9.6% for net sales and 5.9% for operating income.

One more item worth mentioning in the medium-term business plan, SBP-2019, is the change to the organizational structure, which has changed greatly from a region-oriented responsibilities structure to a business unit-oriented responsibilities structure. The global IT investment, in which the Company is investing a total of ¥7bn over three years, is expected to be completed in FY3/17. The organizational changes from the completion of the global value chain and business IT infrastructure are expected to directly and indirectly support the growth of each business unit by making operations more efficient, and by both increasing sales and keeping down costs.

Check Point

- Almost a 90% global share in the creative pen tablets market
- In FY3/19, targeting net sales of ¥120bn, operating income of ¥14.4bn, and ROE in excess of 20%
- Aiming to spread the use of digital ink globally by establishing a consortium

Results Trends



Company Profile

The Company's Name is Derived from "World" and "Computer"

(1) History

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 1991, it entered into the pen sensor components field (currently, the Technology Solution Business). This business involves the OEM supply of the Company's electronic pens, components such as control IC and sensor boards, and modules to the manufacturers of finished products. As it is described in more detail below, 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 (TSE) 1st Section in December 2005, where it remains today.

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History

July 1983	Founded in Ageo City, Saitama Prefecture. Launched an electronic devices business (currently, the Brand Business) and an ECS business (currently, the engineering solutions business).
1984	Announced the world's first cordless pen tablet
1987	Launched the SD Series of electromagnetic resonance system graphic pen tablets for professionals
July 1990	Completed the Toyonodai plant in Kazo City, Saitama Prefecture
1990	U.S. Walt Disney Company produced "Beauty and the Beast" using Wacom pen tablets
July 1991	Established Wacom Technology in Vancouver, USA
1991	Entered into the pen sensor components field (currently, the Technology Solution Business)
September 1998	Announced the Intuos Series of pen tablets for professionals
November 1999	Launched Graphire/Favo pen tablets for consumers
April 2002	Entered into the pen sensor components field (currently, the Technology Solution Business)
November 2003	U.S. Hewlett-Packard Company adopted Wacom's pen sensor components for its tablet PCs
April 2003	Listed on the Japan Securities Dealers Association's JASDAQ market
February 2005	Launched the Cintiq 21UX display for professionals
December 2005	Listed on the TSE 1st Section
October 2008	Launched multi-touch type sensor components
May 2011	Released the Bamboo Stylus pen designed exclusively for iPad
October 2011	Launched the Cintiq 24HD display for professionals
October 2011	Samsung Electronics of South Korea adopted its pen sensor components for the Galaxy Note
October 2012	Samsung Electronics adopted Wacom's IT technology for the Galaxy Note II
September 2013	Samsung Electronics adopted Wacom's "feel" IT technology for the Galaxy Note III and the Galaxy Note 10.1
September 2013	Released Intuos Pro, Cintiq Companion, etc.
February 2014	Launched WILL digital ink technology
April 2014	The cumulative production total of pens and components reached 100 million units

Source: prepared by FISCO from Company materials

(2) Business overview

a) The business units and the main products

The Company's products are devices for computer interface called "pen tablets." While it is possible to utilize the commonly used mouse to draw pictures and write text, as the accuracy of the pointing when using it is low, it is difficult to draw a line exactly as intended. This is Wacom's products come in. When using an electronic pen tablet (the name is derived from stone tablets) known together as a pen tablet, it becomes possible to input pictures and text simply and accurately.

Example of a Pen Tablet (Wacom's Intuos Series)

Source: Company materials

The main uses of pen tablets are for design on computers and when producing illustrations, graphics, and other content. This is because they can be operated more accurately than mice, and depending on the product, they can express the user's strokes sensitively by detecting pen pressure and angle.

Some products integrate a pen tablet with a liquid crystal display (LCD), enabling users to draw directly on the LCD screen using an electronic pen. As is explained below, in the Company's products classifications, these products correspond to LCD pen tablets referred to as "displays" (some products are also included in the "mobile" classification). They are expensive compared to conventional pen tablets, but are in widespread use among creators as they make more intuitive input possible.

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Example of a LCD Pen Tablet (Wacom's Cintiq Series)

Source: Company materials

The Company has three business units; the Brand Business, the Technology Solution Business, and Other Businesses. The Brand Business consists of WACOM brand products, such as pen tablet finished products and input pens, to from creative users, like creators and hobbyists, through to general consumers, and also to business users. The Technology Solution Business involves the OEM supply of the Company's pen tablet components (including electronic pens, sensors, and control IC) to the manufacturers of tablets and smartphones. The main portion of Other Businesses comes from CAD systems for electronic design, which is referred to as the engineering solutions business. Each business unit is described in detail below.

Overview of the Business Units and the Main Products

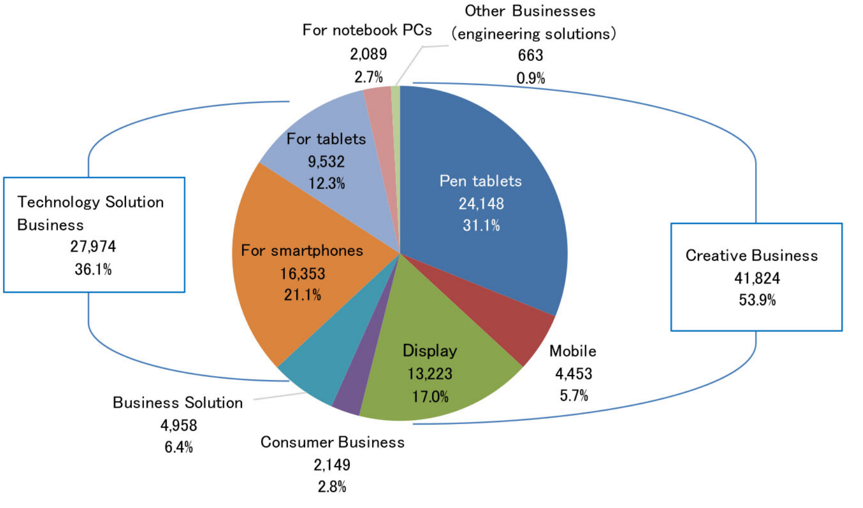
Business classification	Product classification	Main products	Product description	Intended use	Product series
Brand Business	Creative Business		"Supporting creative users expressing their passion"	-	
		Pen tablets	Pen tablets for professionals that make possible extremely delicate drawing, such as from a pressure-sensitive pen, and pen tablets for general users that can be used via simple operations	Graphic design using computer graphics, film and animation production, photo editing, industrial design, illustrations, creation of homepages, etc.	Intuos Series
		Mobile	OS-installed LCD pen tablets for professionals and pressure-sensitive stylus pens for creators exclusively for iPad.		Cintiq Companion Intuos Creative Stylus
		Display	LCD pen tablets for professionals that enable users to draw and write text directly on an LCD screen		Cintiq Series
	Consumer Business	Digital stationery	Digital stationery that enables ideas written by hand to be edited, saved, and searched from the cloud.	Used as stationery to digitize handwritten notes	Bamboo Series
	Business Solution	Pen tablets for businesses	Business-use products that enable users to draw and write text directly on an LCD screen	Used in the electronic signs, education, and medical fields	STU Series DT Series
Technology Solution Business		Electronic pens, sensors, touch panel components, and modules	-	Incorporated into and used with mobile devices, including smartphones, tablets, and electronic books	-
	-	For smartphones	-	Pen sensor systems for smartphones	-
		For tablets	-	Pen sensor systems for tablets	-
		For notebook PCs	-	Pen sensor systems for notebook PCs	-
Other / Engineering Solutions	-	Electronic design-use CAD systems	-	Used in the manufacturing industry (for mechatronics)	-

Source: prepared by FISCO from Company materials

Looking at the breakdown of net sales according to business classification, products classification, and main products, in the FY3/16 results, the Brand Business provided 63% of total net sales, the Technology Solution Business 36%, and Other Businesses 1%. The product classifications in the Brand Business are separated into the Creative Business (B-to-C for creative users), the Consumer Business (B-to-C for general consumers), and Business Solution (B-to-B), with the Creative Business being particularly large at 54% of the total. Within this percentage, pen tablets account for 31% of the total, the largest position.

The Technology Solution Business, which involves the external sales of components, provides 36% of the total. Breaking this down according to customers, there are three types of makers such as smartphones, for tablets, and for notebook PCs, with sales for smartphones being particularly large. With regards to for tablets and for notebook PCs, in recent years the borders between notebook PCs and tablets have become blur, and the market is shifting from notebook PCs equipped with electronic pens to tablets.

Breakdown of Net Sales by Business Classification, Products Classification, and Main Products (FY3/16 results, ¥mn)



Source: prepared by FISCO from Company materials

Brand Products Sold Globally Through Subsidiaries

b) Sales situations

The Company has established subsidiaries in regions throughout the world, starting with Wacom Computer Systems in 1988 (currently, Wacom Europe), up to Wacom India in 2010. It sells its brand products through these subsidiaries.

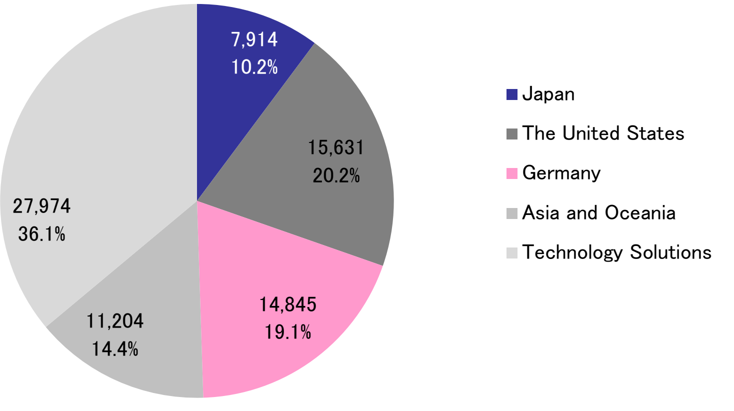
History of Establishment of Subsidiaries

April 1988	Established Wacom Computer Systems (currently, Wacom Europe) in Germany
July 1991	Established Wacom Technology in the United States
March 2000	Established Wacom China in China
April 2004	Established Wacom Digital Solutions (currently, Wacom Korea) in South Korea
April 2005	Established Wacom Australia in Australia
April 2006	Established Wacom Hong Kong in Hong Kong
May 2006	Established Wacom Singapore in Singapore
September 2008	Established Wacom Taiwan Information in Taiwan
August 2010	Established Wacom Technology Services in the United States
October 2010	Established Wacom India in India

Source: prepared by FISCO from Company materials

In terms of its internal management, the Company totals in Japan the net sales of the Technology Solution Business and publishes net sales of the Company according to region. This is partly because the Company cannot ascertain the final shipping point of its customers in the Technology Solution Business, the information that cannot be ascertained in the Company also has an effect. Based on the actual situation, it seems that practically most of the Technology Solution Business sales may be viewed as sales outside Japan. Also, all sales of the engineering solutions business, which is included in Other Businesses, are in Japan. Based on the above, the breakdown of sales in FY3/16 was 10.2% from sales in Japan and 89.8% from sales outside Japan, so the situation is that sales outside Japan are overwhelmingly higher.

Net Sales Conditions by Region (FY3/16 results, ¥mn)



Source: prepared by FISCO from Company materials

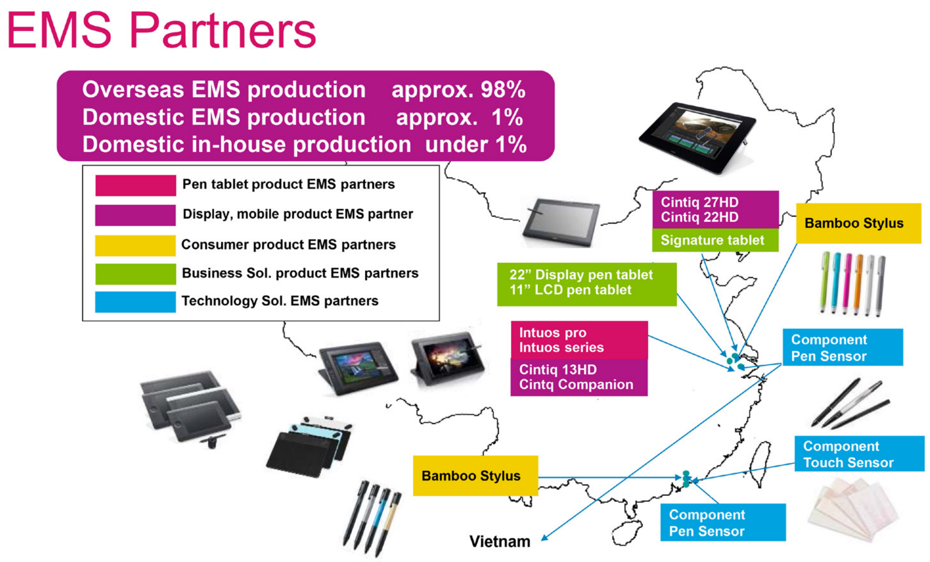
Note: the United States shows net sales for North, Central, and South America from the United States local subsidiary; Germany shows net sales for Eastern Europe, the Middle East, and Africa from the German local subsidiary; and Asia and Oceania shows net sales from the local subsidiary in each respective region, including China and excluding Japan.

c) The manufacturing formation

Although the Company has a plant at its headquarters in Kazo City, Saitama Prefecture, it is basically a fabless company. It plans, develops, and designs products and components and outsources their production to the plants of domestic and overseas foundry companies. Many of these plants are located in mainland China, but from the perspective of mitigating country risk, it also utilizes EMS (electronic manufacturing services) centered on Taiwanese and Japanese capital. In terms of production ratio whether inside or outside Japan, the percentage from outside Japan is overwhelmingly larger, at approximately 98%, with the remainder being produced at the headquarters plant and by outsourcers in Japan.

The Company is a fabless company, but the structure is that it develops and designs in-house the manufacturing equipment used on the production lines, then machinery manufacturers in Japan produce the manufacturing equipment, and then this equipment is installed in the plants of its outsourcers, which carry out the production. Through this method, the Company aims to both utilize inexpensive labor costs from production outside Japan and to black box its technologies and expertise to prevent them flowing out of the Group.

EMS Partners



Source: Company presentation materials

Details of the Mainstay Businesses

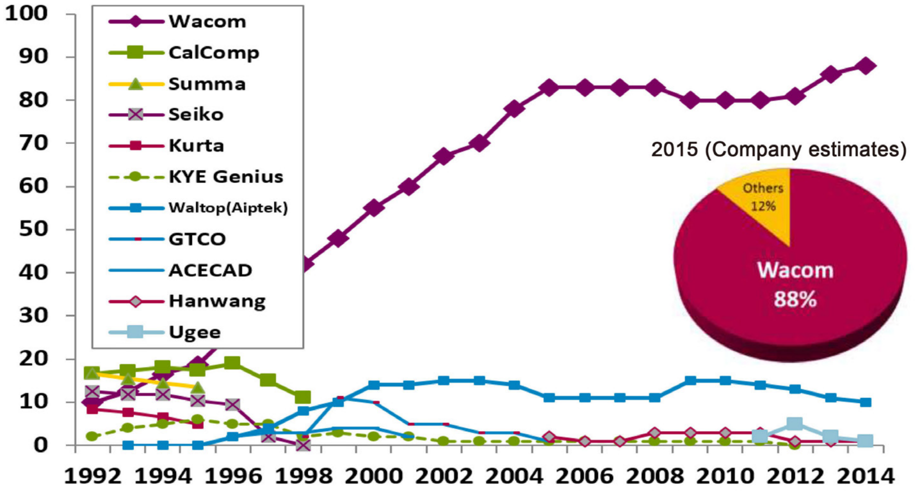
Almost a 90% Global Share of the Creative Pen Tablets Market

(1) Brand Business

The content of the Brand Business is the development, manufacture, and sale of the Company's own-brand pen tablet products. Since it first launched products in 1984, it has slowly but surely been developing the market and expanding the scope of this business. During this period, the Company's main target customers have become industrial designers and illustrators called creators. Creators tend to prioritize high performance over cost. The Company has been using the high performance of its in-house products as a weapon and rapidly increasing its share in the creative market, which is centered on creators and hobbyists, and expanding the scope of this business. Currently, it has close to a 90% global share in the creative pen tablets markets.

The reasons why the Company has succeeded in increasing its share in the creative market and making its products the de-facto standard has been its product development and marketing, in addition to the technologies it possesses. In the early days of pen tablets, they were positioned as input devices for CAD (computer-aided design) and called digitizers, which were mainly used for industrial and production applications. On the other hand, the Company focused on its unique technologies like pressure sensitivity levels and utilize them for drawing, Wacom named this device 'pen tablets' (derived from electronic pens and stone tablets) and developed and marketed them as drawing tools intended for professionals such as designers and illustrators. They proved to be a success and are now established as the de facto standard among creators and hobbyists.

Global Shares of the Creative Pen Tablet Markets

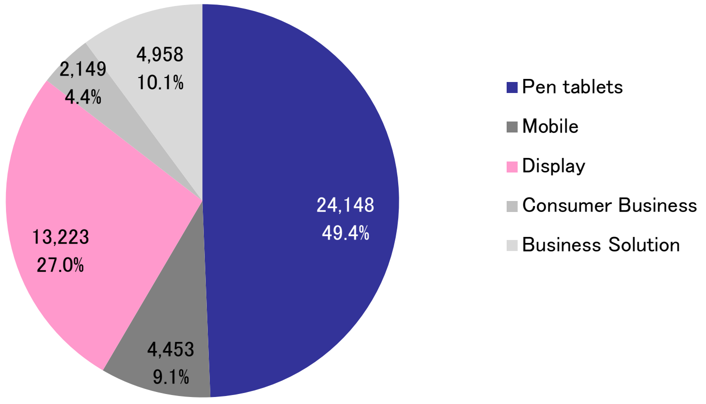


Source: Company materials

Products include the Bamboo Series of electronic pens for consumers and the Bamboo Spark, which integrates an electronic pen with a notebook. Currently, its products can be used as electronic pens for writing and drawing on a variety of smartphones and tablets, including the iPhone and iPad. The Company sells electronic pens that can be used with the mobile devices of finished product manufacturers as third parties (third parties have no contractual or business-cooperation relationship with Wacom). In terms of the consumer market also, a digital stationery market is expected to be established in the future, and the Company has great expectations for this market and is aggressively conducting activities for it (the details are provided below).

Business Solution is the market for pen tablets for business applications. Typically, they are used as credit card signature (electronic signature) terminals, or opening accounts in financial institutions, or guest books at accommodation facilities, or in the education and medical fields. In the Business Solution, the actual sales activities differ according to the circumstances in each country, but basically sales are made to SI (system integrator) companies. The sequence of events is that SI companies receive orders for part of the IT investment of commercial facilities and national projects, and as part of these orders, they decide to adopt sign systems using electronic pens and education-use pen tablets. There are major expectations for the potential of the Business Solution market, and the Company itself is forecasting a high annual growth rate in its medium-term business plan.

Breakdown of the Brand Product Business (FY3/16 results, ¥mn)



Source: prepared by FISCO from Company materials

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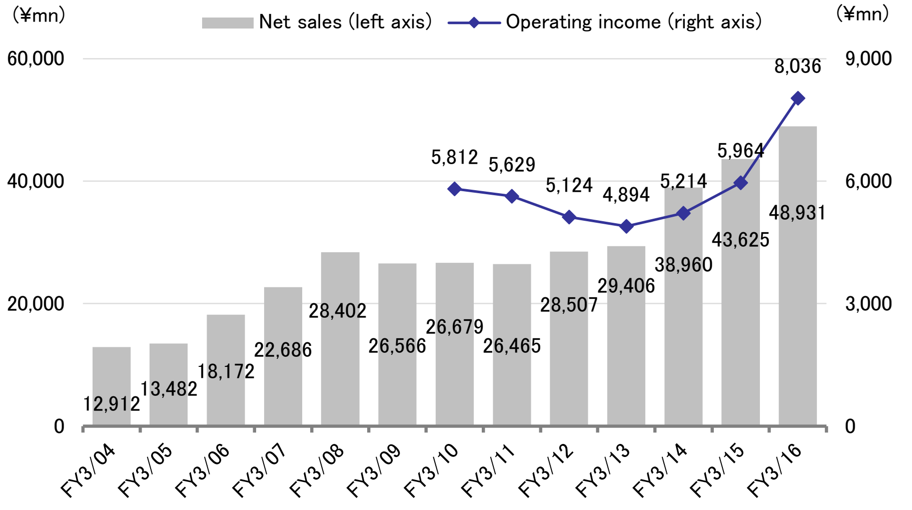
Looking at the sales trends for pen tablet products, we see that they have continued to expand steadily, excluding a temporary period after the Lehman shock. As is apparent from the fact the Company has nearly a 90% share of the mainstay creative market, its pen tablets have become the de facto standard among creators and hobbyists. So at FISCO, we consider that it will both expand its user base and capture replacement demand and thereby steadily increase sales.

In terms of profits, the operating income margin slumped to the region of 13% in FY3/14 and FY3/15. It is thought that this was due to factors such as the increase in upfront expenses and the impact of exchange rates. The profit margin is expected to subsequently reverse direction and to recover to around the 20% level by FY3/17. Its pen tablet products have a high gross margin as they are sold as own-brand products, so at FISCO we think that even after taking into account the burden of SG&A expenses, fundamentally the Company has the capacity to achieve an operating income margin of 20%.

Trends in the Brand Product Business Net Sales and Operating Income



Source: prepared by FISCO from Company materials

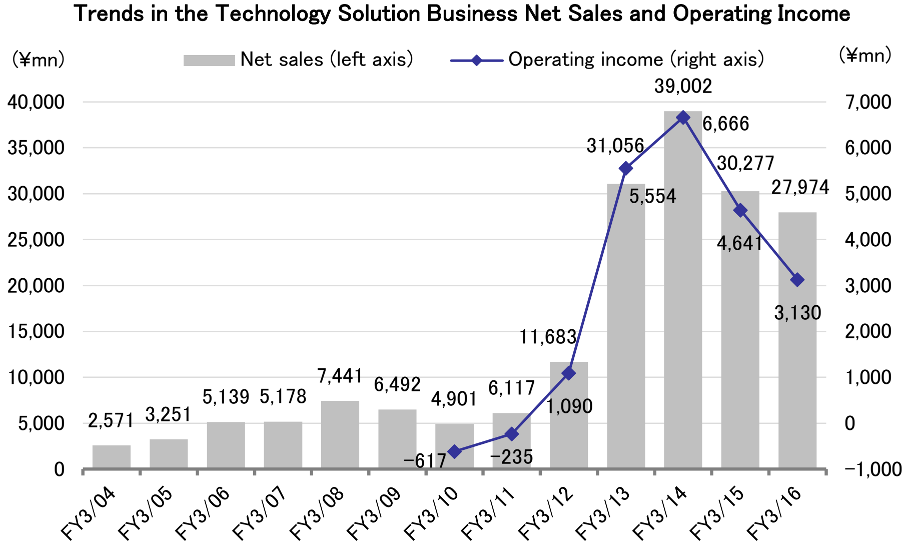
Note: the current business segments have been used since FY3/11. For before that, the continuity of the data is maintained through calculating the totals by subtracting component net sales and software-related net sales, such as for CAD software, from total net sales.

Controller IC Technology is Contributing to the Rapid Growth in Component Sales

(2) Technology Solution Business

The Company entered the pen sensor components field in 1991. Subsequently, the adoption of pen sensor components for tablet PCs on the Windows OS has been progressing since 2002. Component net sales were initially included in the Electronic Systems and Devices Business segment, and from FY3/04, these values were disclosed separately in the segment. From the disclosure of these values in FY3/11, this business became an independent segment called Components Business segment, and then in FY3/16, it was re-named Technology Solution Business.

Looking at the trend in component net sales, we see that they have stayed at around ¥5.0bn until FY3/11, but then trended positively in FY3/12, and after that sales increased rapidly in FY3/13,. In terms of segment profit also, this business recorded an operating loss until Y3/11, but then returned to profitability in FY3/12, and achieved an operating income of ¥ 6,666mn in FY3/14. The operating income margin peaked in FY3/13 at 17.9%, and surpassed that of the Brand Business.



Source: prepared by FISCO from Company materials

Note: the current business segments have been used since FY3/11. For before that, component net sales from the financial results briefing materials are presented in a form that maintains the continuity of the data.

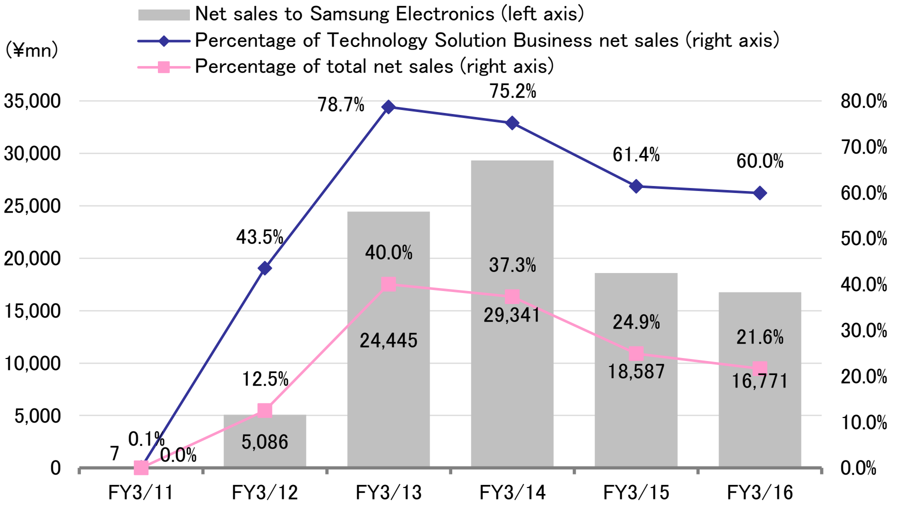
The main reason for the rapid growth in component net sales has been the Company's controller IC technology. For its pen tablets, the Company employs the electromagnetic resonance (EMR) system that enables high precision input, and it has accumulated this control technology. On the other hand, the multi-touch system is the mainstream for the touch panels operated by finger touch that are used for smartphones and tablets. Even in this situation, Samsung Electronics decided to adopt pen input using the EMR system for its Galaxy Note series, which is its flagship model, and it chose Wacom for this.

The reason why Samsung selected the Company is that it possesses multi-touch, electrostatic capacitive touch panels and controllable IC technologies for pen input by the EMR system. In addition, it satisfied Samsung's requirements, such as owning its own patents and therefore having little risk of getting involved in a patent dispute, and having the production capacity to meet Samsung's requests. The Company delivered to Samsung its electronic pens and controller IC, which resulted in a rapid increase in their sales.

Within the net sales in the Technology Solution Business, the situation is that all of the sales for smartphones are for Samsung (in addition, sales for Samsung are only small for products in segments other than for smartphones in the Technology Solution Business). Net sales for Samsung Electronics peaked in FY3/14 at ¥29,341mn, but since then have been trending downward, declining 36.6% y-o-y in FY3/15 to ¥18,587mn, and 9.8% in FY3/16 to ¥16,771mn. The Company is forecasting a further decrease of close to 20% for these sales in FY3/17.

The reason for decrease is the declining sales of the Samsung models (the Galaxy Note Series) into which the Company's pen sensor components are installed, not due to changes to the Company's competitive environment. Going forward also, at FISCO we think that as long as Samsung continues with its Galaxy Note Series, it is highly likely that the Company's OEM supply of pen sensor components will continue as well.

Trends in Net Sales to the Samsung Electronics Group

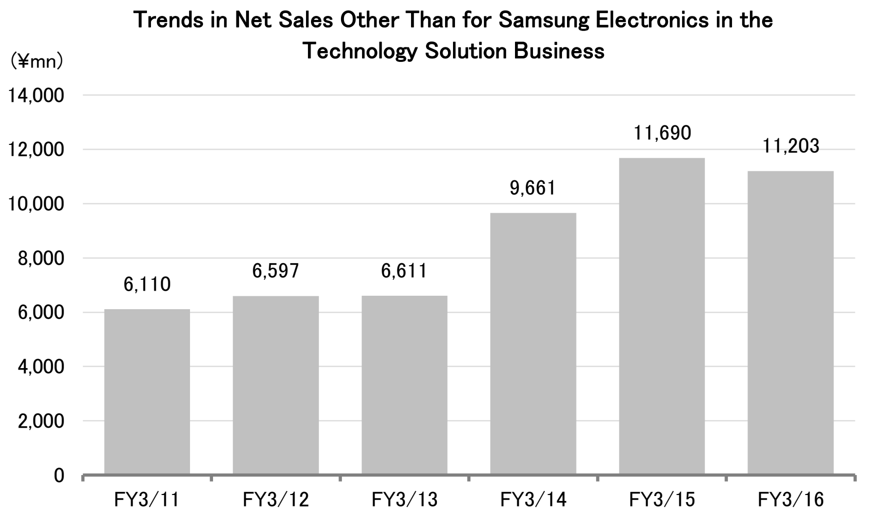


Source: prepared by FISCO from Company materials

Upon subtracting the net sales for the Samsung Electronics Group from the Technology Solution Business net sales in order to obtain the “Non-Samsung Net Sales,” we find that this value has been steadily trending upwards. In FY3/15 and FY3/16, “Non-Samsung Net Sales” were practically the same as the total net sales “for tablets” and “for notebook PCs” within the Technology Solution Business.

The specific product that the Company supplies to both of these markets is the electronic pen. Various PC and tablet manufacturers are increasing their products that allow input by pen as well as multi-touch input by finger. The Company carries out the OEM supply of electronic pens to companies such as Hewlett-Packard, Lenovo, DELL, and Toshiba. It has continuously developed pen tablet products, focusing particularly on the pen, and currently has a lineup of high-spec products that meet the market’s needs, but also boasts a diverse range of technologies and products including for middle spec and low spec. This point is highly evaluated by manufacturers of finished products, and at FISCO we think that the number of companies adopting the Company’s electronic pens is increasing.

As previously described, the current situation in terms of the recent market trend is that the barriers between notebook PCs and tablets are becoming lower. The trend has been that in contrast to notebook PCs that heavily reply on keyboard for input, tablets that are smaller in size and that can be separated from the keyboard are equipped with both finger input and pen input. Therefore, rather than separating tablets and notebook PCs, totaling both better expresses the actual situation. In the FY3/16 results, net sales for tablets increased 11.6% y-o-y, but for notebook PCs they declined 38.6%, which on a combined total basis was a decrease of 2.6%.



Source: prepared by FISCO from Company materials

Sales for tablets are expected to increase steadily in the future. The major factor behind this is the change to the market structure, of which demand shifting from notebook PCs to 2-in-1 type tablets. Among tablets without a keyboard, compared to notebook PCs, the need for not only finger input but also for pen input has risen to a higher level, which presently is leading to an increase in the Company's OEM supply of electronic pens. As part of this development, the Company succeeded in acquiring as a new customer Huawei Technologies Co., Ltd., of China, and started OEM shipments to Huawei from FY3/16. It is also collaborating with U.S. Microsoft Corp. for Active ES technology, and has received a license for a pen protocol for Windows Pen, which is expected to lead to an increase in sales opportunities from the second half of FY3/17 and onwards.

Wacom's Key Technologies

As a "Pen Tablets" Comapny, Wacom Focuses on its Technologies and Businesses that Utilize the Electronic Pen

The reason why the Company's pen tablets have close to a 90% global share of the creative market, and also for the rapid increase in (component) sales to the Samsung Electronics Group in the Technology Solution Business, is the high level of the Company's technologies. Indeed, the Company's strength lines in its technologies. Below, its key technologies will be introduced.

To understand the Company's technologies better, we would like to explain about pen tablets, the Company's mainstay products, and touch panels, which are illustrative to the Company referred as related stocks.

A pen tablet is an input device for computers that originally does not have a display device. The component part is the sensor board, which corresponds to "paper." On the other hand, a touch panel is generally an input device integrated with display. In addition to this difference between the two of the presence or absence of a display device, a major difference between them is whether the input tool is an electronic pen or a finger. As a "pen tablets" company, Wacom is focusing on its technologies and businesses that utilize the electronic pen. On the other hand, the finger is used as the input for the touch panel, so the Company recognizes that this places it outside of its business domain. At FISCO, we think that the Company's pen tablets and touch panels should be understood not as having a competitive relationship, but as having a coexisting relationship. A good example of this is the previously described rapid sales expansion of components to Samsung.

(1) Electromagnetic resonance (EMR) system

The Company has adopted the electromagnetic resonance (EMR) system as the technology for its pen tablets. There are other systems, such as the simple and inexpensive resistance membrane system and the surface acoustic wave system (collectively, both are referred to as "pressure-sensitive systems"). The reasons why the Company decided to focus on EMR is its response speed and high resolution. As previously explained, the Company has a large share of the creative market for creators and hobbyists, at nearly 90%, a major factor behind this is its products' high performance; or in other words, their high resolution. EMR is behind the growth of the Company can be said to have an inseparable relationship.

EMR requires a dedicated electronic pen. The fact that there is no reaction on the screen other than when using this pen is meant to prevent inadvertent screen operations, and also using the pen enables more intuitive operations by allowing functions to be added, such as writing-pressure detection and an electronic eraser. Above, all, detailed depictions are difficult when using a finger and so something was needed to replace the finger, and ultimately it became apparent that a pen was required. The Company has taken advantage of the characteristics of EMR technology to make its electronic pens battery-less.

The main point for the Company's technological differentiation is its IC technology. The controller IC is indispensable in the process of actually displaying the information that was input using the pen. The Company has been accumulating controller IC technologies over the course of many years in the process of refining its EMR products. At FISCO, we think that going forward, this technology will work positively to maintain and strengthen the Company's competitiveness.

(2) Active ES (AES) system

Generally, smartphones and tablets adopt finger input, using touch panels with electrostatic capacitive method that enable multi-touch (hereafter, "electrostatic touch panels") being adopted as the input device. The most symbolic examples of this are the iPhone and the iPad from Apple. But in this market, a development is spreading of raising user value through enabling finer input by using "something thinner than a finger;" or in other words, by using a pen.

The Company developed Active ES (ElectroStatic) technology with the objective of developing an electronic pen that fits well with these electrostatic touch panels. When using an EMR system pen tablet together with a touch panel, in some cases it is necessary to install an EMR sensor board under the touch panel (as in the case of Samsung described above). But AES is a technology with a simple structure that enables input utilizing the electrostatic touch panel as the sensor board within the pen tablet. If the EMR system electronic pen is intended for heavy users, the AES system electronic pen has been positioned as for middle users.

The characteristics of the Company's AES pen include that it has pen pressure detection responsiveness and a hovering function, that it secures high resolution, and that it has scalability that offers better convenience for users through the use of both digital ink and applications. Another important point is that it is equipped with a controller IC to smoothly process pen input and touch operations accumulated in EMR technology, thereby achieving high levels of usability. Like EMR, this is a technology that differentiates the Company from its competitors. However, as it is different from EMR technology, a battery is installed within the pen.

The Company's AES electronic pen is sold in the Brand Business as a consumer category product (the Bamboo Smart Series). This is sold separately for users of third-party mobile devices. Also, in the Technology Solution Business, it has been adopted by companies such as DELL, HP, Toshiba, and Lenovo for their PCs and tablets. The Company provides it to them on an OEM basis, and it has become the mainstream electronic pen technology for PCs equipped with pens. In this way, AES has important implications in terms of driving the Company's growth in the future.

(3) WILL

WILL stands for Wacom Ink Layer Language, and it is the "digital ink" software framework developed by the Company. Digital ink is the software necessary when inputting information by electronic pen that will be shown on an LCD or other display, and it plays the role of the ink when writing with a pen on paper. Currently there are a number of digital inks, but when they are used across different OS (like Windows, Android, and iOS), there occur problems such as the text becoming garbled and the colors changing. WILL is software that solves these problems.

The Company has been providing a WILL SDK (software development kit) free of charge. It hopes that allowing the WILL framework digital ink software to be freely developed will accelerate the sales of the Company's electronic pen, which is essentially highly compatible with this digital ink. When considering the high global market share of the Company's pen tablets, it would seem feasible that it had the choice of increasing revenues through WILL. But the Company's strategy is to first promote the spread of WILL, while leaving the possibility for it to be monetized in some way in the future, to aim at the present time to expand sales of pen tablet products and components.

Strategic Business Plan, SBP-2019

Targeting FY3/19 Net Sales of ¥120bn, Operating Income of ¥14.4bn, and ROE in Excess of 20%

(1) Overview of the plan

In April 2015, the Company formulated and announced the Wacom Strategic Business Plan: SBP-2019, which covers the 4 years of FY3/16 to FY3/19. Prior to it, the Company had formulated and was implementing the measures in WAP1215 as its medium-term business plan, with FY3/17 as the goal. But due to the increasing divergence between the actual situation and this plan, including the external environment, it decided to change to the new medium-term business plan one year ahead of schedule

The SBP-2019 basic strategies are described below. For the outline part, there are no major changes compared to the previous medium-term business plan. But in terms of the environmental changes, it had become clearer than ever that smartphones, tablets, and the cloud were becoming the main IT platforms. In addition, amendments were added in order to reflect the evolution and globalization of digital design, the rising creative needs of mobile consumers, and the shift to mobile in the business and educational fields.

Basic Strategies of SBP-2019
Evolve business toward mobile products and cloud systems
Accelerate growth and enhance global integration through the new global business organization
Accelerate Creative Business with mobile product line reinforcement, 3D market expansion, and emerging market investment
Acquire new consumer users with new digital stationery and cloud integration
Expand Technology Solution Business through Active ES and WILL
Enhance business workflow and security solutions by leveraging WILL and digital signature solutions
Improve efficiency, speed, and profitability by utilizing global business system

Source: prepared by FISCO from Company materials

The Company is aiming to implement these basic strategies and also its growth strategies in each of its businesses to achieve its FY3/19 targets of net sales of ¥120.0bn, operating income of ¥14.4bn (operating income margin of 12.0%), and ROE in excess of 20%. Net sales of ¥120.0bn is the same goal as in the previous medium-term business plan, but the form it takes in the current plan is to refocus on this challenge.

Results Targets in SBP-2019, the New Medium-Term Business Plan

(¥mn)

	FY3/15	FY3/16		FY3/17		FY3/18	FY3/19
	Results	Target	Results	Target	Results forecast	Target	Target
Net sales	74,557	84,000	77,568	93,000	82,000	104,000	120,000
Operating income	6,143	5,500	3,664	7,440	4,200	10,400	14,400
Operating income margin	8.2%	6.5%	4.7%	8.0%	5.1%	10.0%	12.0%
Net income	3,473	3,530	2,310	5,068	3,000	7,070	9,800
Net income margin	4.7%	4.2%	3.0%	5.4%	3.7%	6.8%	8.2%

Source: prepared by FISCO from Company materials

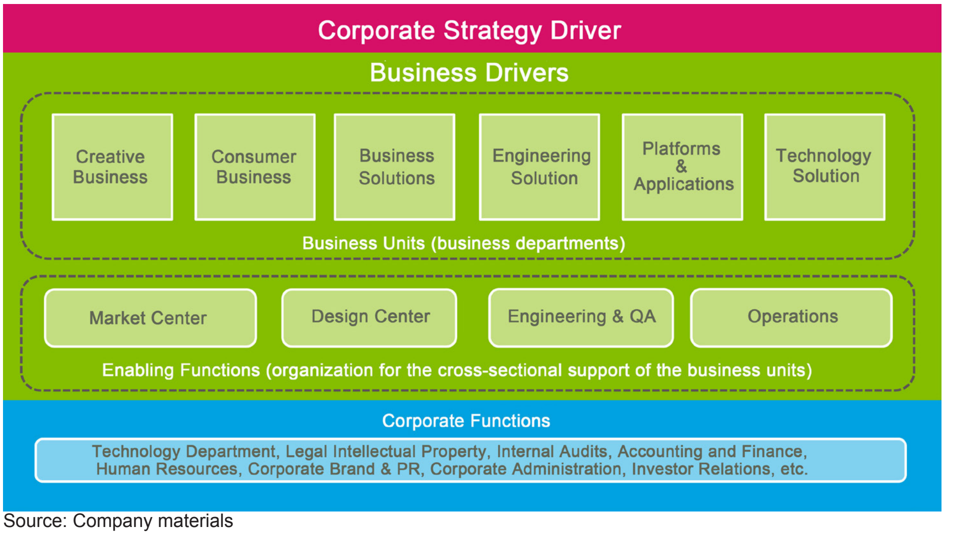
(2) Points to pay attention to in the new medium-term business plan

At FISCO, we think that one point that should be paid attention to in the new medium-term business plan is the reform of the organizational structure. As is clear from the fact that around 90% of net sales are from the overseas market outside Japan, the Company's market is a global one. Although the percentage of sales in the U.S. and Europe is currently the highest, a uniform increase in revenue is expected world-wide as the growth potential is higher in emerging Asia and Oceania.

Up until recently, the Company had adopted a region-specific responsibilities system; namely, a system of establishing a head office in each region to carry out that region's management. But the Company decided to adopt a sales and management system that reflects the actual conditions in terms of the global activities of its customers, and therefore has shifted to a system in which head offices are established for each business unit, which manage their respective businesses for the global market. It expects that through this, it will be able to achieve benefits such as providing services of equal quality throughout the world, accelerating decision making, and eliminating waste.

There is essentially no change to the methodologies of the business unit themselves compared to the previous medium-term business plan. In terms of their names, the Vertical Market Business has been changed to the Business Solution, and the Components Business has been changed to the Technology Solution Business.

Basic Framework of the New Global Organization



Source: Company materials

Creating a New Digital Stationery Market with Digital Pens and Ink

(3) Brand Business growth strategy

In its mainstay Creative Business, the Company's growth strategy includes to strengthen products in both the display and mobile fields, to accelerate the shift to cloud, and in addition, to create a new business by providing new value to existing users through aiming to increase user numbers by enhancing compatibility with 3D design & modelling.

In the Consumer Business, its strategies includes utilizing digital pen and ink to create a new digital stationery market, and building a new consumer community and sales channels. Also, its strategies in the Business Solution including proving digital ink workflow and security solutions, and providing mobile solutions for high-value-added operations.

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In terms of the outcomes of these growth strategies, in the Brand Business the Company is targeting segment net sales of ¥75,300mn in FY3/19. With the FY3/15 results as the starting point, this is a 4 year compound annual growth rate (CAGR) of 14.6%. On breaking this down, a point worthy of attention is that tablets for the creative market, which at the current point in time have the highest composition ratio, are only expected to grow by the low CAGR of 1.9%, but in contrast, the CAGR being targeted for mobile and displays (LCD integrated type) in the creative market are 30.7% and 17.2% respectively. For the Consumer Business and the Business Solution also, even when discounting for the fact that their starting points are low, the Company is targeting high growth rates of 32.0% and 28.8% respectively.

Operating income is also an item worthy of attention, with the Company targeting ¥16,640mn in FY3/19, and an operating income margin of 22.1% (based on before the transfer as stated later). This 22.1% operating income margin is about the same level as the FY3/10 result. But with regards to this, since the shift to a global organizational structure in FY3/16, in order to ensure fairness for the cost-benefit effects between segments, SG&A expenses equivalent to ¥2.5bn have been transferred from the Brand Business to shared corporate expenses, so when analyzing profitability it is necessary to be aware that the continuity of the data has been interrupted. From FY3/10, which is when the Company started disclosing operating income by segment, to FY3/11, it secured an operating income margin in the range of 20%. But after that, upfront expenses, such as expenses relating to the investment in the global IT infrastructure and for developments for the transition to mobile and for compliance with cloud, became heavier. In this situation, the operating income margin shrunk and by FY3/16, it had fallen to 16.4% (based on after the transfer as aforementioned. If based on before the transfer after adjusting the 5.1% ratio of the transfer-costs portion to net sales, it would be slightly over 10%). But in FY3/17, it is forecast to grow to 20.3% (based on after the transfer) from the realization of the effects of new products and the investment in the IT infrastructure. At FISCO, we think that it is highly possible that, in the medium term, the Company will maintain an operating income margin in the range of 20% from realizing the effects of this investment.

Brand Business Medium-Term Results Targets

(¥mn)

	FY3/15	FY3/16		FY3/17		FY3/18	FY3/19	FY3/15-3/19
	Results	Target	Results	Target	Results forecast	Target	Target	CAGR
Brand Business, total	43,625	50,300	48,931	56,200	56,200	63,600	75,300	14.6%
Creative Business	36,480	41,100	41,824	44,800	46,300	48,900	55,100	10.9%
Pen tablets	21,981	23,300	24,148	23,500	25,700	23,600	23,700	1.9%
Mobile	3,909	5,400	4,453	6,600	5,900	8,400	11,400	30.7%
Display	10,590	12,400	13,223	14,700	14,700	16,900	20,000	17.2%
Consumer Business	1,554	2,300	2,149	2,700	3,300	3,500	4,800	32.6%
Business Solution	5,591	6,900	4,958	8,700	6,600	11,200	15,400	28.8%
Operating income	5,965	9,280	8,036	10,890	11,400	13,070	16,640	29.2%
Operating income margin	13.7%	18.4%	16.4%	19.4%	20.3%	20.6%	22.1%	-

Source: prepared by FISCO from Company materials

Focus on Educational Tablet Field as a Growth Strategy

(4) Technology Solution Business growth strategies

Some alterations to the Technology Solution Business growth strategies can be seen compared to those in the previous medium-term business plan, as the Company has responded to the changes to its customers' business environments. First, it is aiming to establish itself as the leader in all the mobile categories, and as the specific method of achieving this, it plans to take full advantage of its highly competitive technologies of EMR, AES, and WILL in each of the market segments.

In addition, the educational-use tablets field is mentioned as a new market it will focus on, while the Company has also newly added creating a digital stationery market for consumers and acquiring new customers to its growth strategies. In terms of what these mean, at FISCO we understand them to mean that it will work to widely and actively find partners, and also to expand its lineup of inexpensive products. The evidence for this can be said to be that it is aiming to keep down costs by introducing automated production technologies.

The Company has set targets for the Technology Solution Business in the current medium-term business plan of net sales of ¥43,700mn and operating income of ¥5,790mn in FY3/19. The 4 year compound annual growth rates (CAGR) are 9.6% and 5.7% respectively. At FISCO, we estimate that the reason why the CAGR are lower here than in the Brand Business is that in terms of the essential nature of the Technology Solution Business, it is considered that there are large elements that the Company itself cannot influence by its own efforts, so it has set more realistic targets. The forecast that the operating income margin will fall from 15.3% in FY3/15 to 13.2% in FY3/19 is very interesting. This is thought to be because compared to FY3/15, the composition ratio of sales of electronic pens for tablets will rise. This point can also be read as the Company setting a more realistic target.

The Technology Solution Business Medium-Term Results Targets

(¥mn)

	FY3/15	FY3/16		FY3/17		FY3/18	FY3/19	FY3/15-3/19
	Results	Target	Results	Target	Initial forecast	Target	Target	CAGR
Technology Solution Business, total	30,277	33,000	27,974	36,000	25,100	39,500	43,700	9.6%
For smartphones	18,331	18,500	16,353	18,200	13,200	18,000	18,000	-0.5%
For tablets	8,524	10,500	9,532	13,400	9,800	16,900	20,700	24.8%
For notebook PCs	3,404	4,000	2,089	4,400	2,100	4,600	5,000	9.9%
For operating income	4,642	4,570	3,130	4,730	1,600	5,190	5,790	5.7%
Operating income margin	15.3%	13.8%	11.2%	13.1%	6.4%	13.1%	13.2%	-

Source: prepared by FISCO from Company materials

Aiming to Spread the Use of Digital Ink Globally by Establishing a Consortium

(5) Corporate and Group-wide unit initiatives

a) Digital stationery consortium

A point to focus on in SBP-2019 other than the results is the degree of penetration of the WILL digital ink framework that is being advanced based on the "open partnership policy" advocated by the Company. As previously mentioned, the Company has started to distribute WILL SDK (software develop kits), while in addition, it is advancing preparations to establish a digital stationery consortium. It is thought to want to recruit around 100 participating companies and to establish it by the end of the fiscal year.

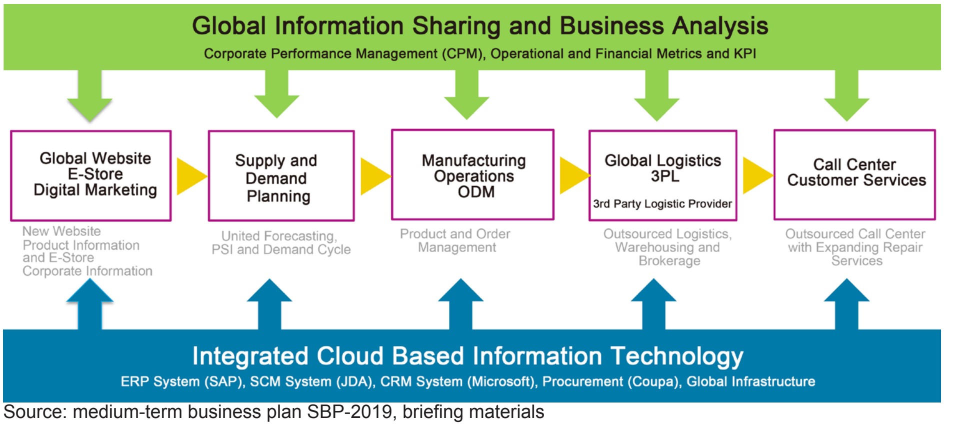
The establishment of the consortium will not mean a direct contribution to revenue. However, by establishing the consortium, the Company is aiming to increase throughout the world those businesses that understand the potential of digital ink to create value, and to realize an environment that will facilitate sales of its products and will ultimately result in the higher sales of digital stationery and other products. We will be watching with interest to see the progress made toward these aims in the current medium-term business plan.

b) Effects of the global IT investment

The Company is investing a total of ¥7.0bn over the 3 year period of FY3/15 to FY3/17, and is working to build an in-company global IT infrastructure. This work is scheduled to be completed in FY3/17, and after it is completed, the Company's business mechanisms are expected to change greatly.

This investment will not stop at the introduction of the ERP system, and all of the Company's operations, including its supply chain management (SCM) system, customer relationship management (CRM) system, purchasing system, and e-commerce will be unified globally, and it will become possible to carry out operations immediately in the same business environment at any location in the world. As previously described, the Company has significantly changed its organizational structure, from according to region to according to global business unit, and we cannot expect the effects solely from this organizational change, but also in combination with the establishment of a global IT infrastructure, the effects start to appear. While the effects may not be clearly visible in nature, at FISCO we will be paying close attention to them.

Global Value Chain and Business IT Infrastructure



Source: medium-term business plan SBP-2019, briefing materials

Investing Perspective for Wacom

Investing Perspective to be Aware of for both the Brand Business and the Technology Solution Business

(1) The Brand Business or the Technology Solution Business?

The two businesses, the Brand Business and the Technology Solution Business, are the wheels that move the Company forward. The role of the former is that of a cash cow business that forms the revenue base, and that of the latter is of a business to take on the challenge of acquiring plus alpha while also taking on risk. But recently, attention has mainly focused on movements in the Technology Solution Business, and the impression is that the stock price is also affected by it.

This reflects the fact that compared to the dynamic movement of the Technology Solution Business, results in the Brand Business have trended stably at a low level. However, at FISCO we think that dynamic movements are also appearing in the Brand Business.

As previously explained, the Brand Business operating income margin declined for a temporarily period, but is expected to rise to the 20% range in FY3/17. At FISCO, we think that if the operating income margin in the Brand Business reaches the 20% level while maintaining the double-digit pace of sales growth, the perspective investors have for this business may change. As the touchstone for this, we will be focusing on whether the Brand Business operating income margin recovers to the 20% level in FY3/17.

(2) Pen tablets or touch panel?

The Company has been positioned as a “touch panels-related stock” and it is frequently evaluated and selected on this evaluation axis. But at FISCO, we think that the Company is clearly different to touch panel stocks.

Both are input devices, but they are very different on the point that while a touch panel is a “component” that would never been seen unless it is installed in the final product, the pen tablet can exist as an independent product. This is the reason why the Company has a Brand Business. Conversely, as a component, pen tablets possess hidden development potential as they have the potential to be installed not only into smartphones and tablets, but also into digital stationery and other new applications under development.

At FISCO, we estimate that the previously described rapid expansion of the OEM supply to Samsung Electronics was the start of the Company being considered a touch panel related-stock. But we also believe that the development potential of pen tablets is much wider than that of touch panels, and that as pen tablets are a unique product, attention should be focused on developments for this product and in this business. In this sense, while waiting for the fully fledged contribution to profits of the digital stationary business, we will be paying attention to the growth of the Bamboo Electronic Pen Series and Bamboo Spark, which are at the vanguard of this business.

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Results Trends

FY3/16 Saw an Increase in Sales but a Decline in Profits, Mainly from Increases in R&D Expenses and Personnel Expenses

(1) FY3/16 results

The Company's FY3/16 results were net sales of ¥77,568mn (up 4.0% y-o-y), operating income of ¥3,664mn (down 40.3%), recurring income of ¥3,777mn (down 37.7%), and net income of ¥2,310mn (down 33.5%), for an increase in sales but a decline in profits. Compared to the previous forecast, net sales were ¥3,432mn below target (4.2%) and operating income was ¥1,136mn (23.7%) below target.

Summary of the FY3/16 Results

(¥mn)

	FY3/15	FY3/16						
	Full fiscal year results	Initial forecast	Revised forecast	Full fiscal year results	y-o-y Growth rate	y-o-y Change	vs. revised forecast Growth rate	vs. revised forecast Change
Net sales	74,557	84,000	81,000	77,568	4.0%	3,011	-4.2%	-3,432
Gross profit	30,050	-	-	30,735	2.3%	686	-	-
SG&A expenses	23,907	-	-	27,072	13.2%	3,164	-	-
Operating income	6,143	5,500	4,800	3,664	-40.3%	-2,478	-23.7%	-1,136
Operating income margin	8.2%	6.5%	5.9%	4.7%	-	-	-	-
Recurring income	6,065	5,350	4,780	3,777	-37.7%	-2,288	-21.0%	-1,003
Net income	3,473	3,530	3,050	2,310	-33.5%	-1,164	-24.3%	-740

Source: prepared by FISCO

Looking according to segment, in the Brand Business, net sales were ¥48,931mn, which was an increase of 12.2% y-o-y, but 5.5% down on the revised forecast. This segment's operating income was ¥8,036mn, up 34.7% y-o-y for a major increase in profits, but was down 11.1% compared to the revised forecast.

In the Technology Solution Business, net sales were ¥27,974mn, down 7.6% y-o-y, but were only 1.8% down on the revised forecast, so they were basically as expected. Operating income was ¥3,130mn, down 32.6%, and profits declined. However, it was only 4.0% down on the revised forecast, so it was also basically as expected.

To summarize the above, we can see that the primary factors that caused the differences with the latest revised forecasts occurred in the Brand Business, but in contrast, the main reasons for the decline in profits y-o-y occurred in the Technology Solution Business. Also, we find that the major factor behind the declines y-o-y was that SG&A expenses were pushed-up by the higher R&D expenses and personnel expenses.

Details by Business Segment

(¥mn)

		FY3/15	FY3/16						
		Full fiscal year results	Initial forecast	Revised forecast	Full fiscal year results	y-o-y Growth rate	y-o-y Change	vs. revised forecast Growth rate	vs. revised forecast Change
Net sales	Brand Business	43,625	50,300	51,800	48,931	12.2%	5,306	-5.5%	-2,869
	Technology Solution Business	30,277	33,000	28,500	27,974	-7.6%	-2,303	-1.8%	-526
	Other	655	700	700	663	1.2%	8	-5.4%	-37
	Subtotal	74,557	84,000	81,000	77,568	4.0%	3,011	-4.2%	-3,432
	Net sales total	74,557	84,000	81,000	77,568	4.0%	3,011	-4.2%	-3,432
Operating income	Brand Business	5,964	9,280	9,040	8,036	34.7%	2,071	-11.1%	-1,004
	Technology Solution Business	4,642	4,570	3,260	3,130	-32.6%	-1,512	-4.0%	-130
	Other	55	60	60	36	-35.1%	-19	-40.4%	-24
	Subtotal	10,661	13,910	12,360	11,202	5.1%	541	-9.4%	-1,158
	Adjusted amount	-4,519	-8,410	-7,560	-7,538	-	-3,019	-	22
	Operating income total	6,143	5,500	4,800	3,664	-40.3%	-2,479	-23.7%	-1,136

Source: prepared by FISCO from Company materials

Looking at the details of the Brand Business, we see that, while display and Consumer Business trended steadily, pen tablets and mobile within the Creative Business, and also the Business Solution were below their targets.

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The favorable competitive environment for pen tablets is being maintained, but is seems that the competitiveness of mobile has declined due to the launch of rival products from 2H. The Business Solution experienced negative growth y-o-y as a reaction to the large-scale orders placed in the previous fiscal year. Compared to the targets, the results were affected by capital investment projects being postponed due to the global economic uncertainty.

Details of Brand Business Results

(¥mn)

	FY3/15	FY3/16						
	Full fiscal year results	Initial forecast	Revised forecast	Full fiscal year results	y-o-y		vs. revised forecast	
					Growth rate	Change	Growth rate	Change
Brand Product Business, total	43,625	50,300	51,800	48,931	12.2%	5,306	-5.5%	-2,869
Creative Business	36,480	41,000	43,100	41,824	14.6%	5,344	-3.0%	-1,276
Pen tablets	21,981	23,300	24,500	24,148	9.9%	2,167	-1.4%	-352
Mobile	3,909	5,400	5,400	4,453	13.9%	544	-17.5%	-947
Display	10,590	12,400	13,200	13,223	24.9%	2,633	0.2%	23
Consumer Business	1,554	2,300	2,300	2,149	38.3%	595	-6.6%	-151
Business Solution	5,591	6,900	6,400	4,958	-11.3%	-633	-22.5%	-1,442

Source: prepared by FISCO from Company materials

Looking at the details of the Technology Solution Business, sales for smartphones declined as a result of shipments for Samsung Electronics' Galaxy Note 5 trending below the shipments for the previous model. Sales for tablets increased y-o-y due to the expansion in shipments to the Turkish government for a project of education-use tablets, and to Active ES pen customers. Sales for notebook PCs declined from the effects of demand shifting from notebook PCs to 2-in-1 type tablets.

Details of the Technology Solution Business Results

(¥mn)

	FY3/15	FY3/16						
	Full fiscal year results	Initial forecast	Revised forecast	Full fiscal year results	y-o-y		vs. revised forecast	
					Growth rate	Change	Growth rate	Change
Technology Solution Business, total	30,277	33,000	28,500	27,974	-7.6%	-2,303	-1.8%	-526
For smartphones	18,331	18,500	17,200	16,353	-10.8%	-1,978	-4.9%	-847
For tablets	8,524	10,500	9,300	9,532	11.6%	1,008	2.5%	232
For notebook PCs	3,404	4,000	2,000	2,089	-38.6%	-1,315	4.5%	89
Touch applications, etc.	18	-	-	-	-	-	-	-

Source: prepared by FISCO from Company materials

In terms of the effects of exchange rates, the strengthening of the dollar and the weakening of the yen by ¥10.13 compared to the previous fiscal year acted to push-up net sales by approximately ¥4.0bn, but to reduce profits by ¥330mn. This was because the dollar-denominated portion of the Company's cost of sales and SG&A expenses exceeded the dollar-denominated product sales. With regards to the yen-euro rate, the euro weakened and the yen strengthened by 6.32 euro compared to the previous fiscal year, which acted to reduced net sales by ¥710mn and operating income by ¥450mn.

The FY3/17 Outlook is for Net Sales of ¥82.0bn and Operating Income of ¥4.2bn, for Increases in Sales and Profits

(2) FY3/17 results outlook

For FY3/17, the Company is forecasting net sales of ¥82,000mn (up 5.7% y-o-y), operating income of ¥4,200mn (up 14.6%), recurring income of ¥4,140mn (up 9.6%), and net income of ¥3,000mn (up 29.9%) for increases in both sales and profits.

These forecasts assume exchange rates of ¥110 to the dollar and ¥125 to the euro. In terms of the sensitivity of the forecasts to the exchange rates, an appreciation of ¥1 with regards to the dollar will cause net sales to decrease ¥500mn and operating income to increase ¥40mn conversely, while an appreciation of ¥1 with regards to the euro will cause net sales to fall ¥140mn and operating income to decline ¥100mn. Compared to the actual results of the previous fiscal year, in the dollar-yen rate the yen is assumed to appreciate ¥10.16, and in the euro-yen rate, the yen is assumed to appreciate ¥7.36, with aforementioned sensitivity impacts being incorporated into the result outlook this fiscal year.

Sensitivity of Forecasts to Exchange Rates

Forex exchange sensitivity: 12-month forecast (assumption: Asian currencies are pegged to USD.)

Unit of sensitivity	Per 1 JPY in case of the stronger JPY			
	FY 03/17 (forecast)		(for ref.) FY 03/16 (actual)	
Currency	USD	EUR	USD	EUR
Sales	-500	-140	-400	-112
Operating Income	+40	-100	+33	-71

(Unit: Million JPY)

(Note) Each figure of the above sensitivities shows a opposite sign in case of the weaker JPY.

Source: FY3/16 results briefing materials

In the Brand Business, the targets are net sales of ¥56,200mn (up 14.9% y-o-y) and operating income of ¥11,400mn (up 41.9%). Breaking down these figures, the forecast is for net sales in all products classifications to increase in the region of ¥1,500mn. The main reason for the forecast of higher sales is the launch of new products in the Creative Business. The forecast for profits includes the effects of higher profits from a stronger yen, as well as the effects of the increase in sales.

In terms of the specific product strategies, the Company is aiming to realize 3D compliance and strengthened color management in mobile and display products, to enhance the lineup of digital stationery in the Consumer Business, and to promote the spread of electronic signatures in the Business Solution.

Details of the Brand Business Targets

(¥mn)

	FY3/16			FY3/17		
	Full fiscal year results	y-o-y Growth rate	y-o-y Change	Full fiscal year forecast	y-o-y Growth rate	y-o-y Change
Brand Business, total	48,931	12.2%	5,306	56,200	14.9%	7,269
Creative Business	41,824	14.6%	5,344	46,300	10.7%	4,476
Pen tablets	24,148	9.9%	2,167	25,700	6.4%	1,552
Mobile	4,453	13.9%	544	5,900	32.5%	1,447
Display	13,223	24.9%	2,633	14,700	11.2%	1,477
Consumer Business	2,149	38.3%	595	3,300	53.5%	1,151
Business Solution	4,958	-11.3%	-633	6,600	33.1%	1,642
Operating income	8,036	34.7%	2,072	11,400	41.9%	3,364
Operating income margin	16.4%	-	-	20.3%	-	-

Source: prepared by FISCO from Company materials

In the Technology Solution Business, the Company is targeting net sales of ¥25,100mn (down 10.3% y-o-y) and operating income of ¥1,600mn (down 48.9%). The same as in the previous fiscal year, a major decrease in sales for smartphones (OEM supply business for Samsung Electronics) is expected. Breaking down this forecast decline in sales, half of it will be from the appreciation of the yen, while the remainder is from the Company's conservative stance that the number of units sold and the unit price for Samsung Electronics' smartphones will be lower than for the last model. Profits are expected to decline from the rise in the profit-loss breakeven point due to the lower sales.

Details of the Technology Solution Business Targets

(¥mn)

	FY3/16			FY3/17		
	Full fiscal year results	y-o-y Growth rate	y-o-y Change	Full fiscal year forecast	y-o-y Growth rate	y-o-y Change
Technology Solution Business, total	27,974	-7.6%	-2,303	25,100	-10.3%	-2,874
For smartphones	16,353	-10.8%	-1,978	13,200	-19.3%	-3,153
For tablets	9,532	11.6%	1,008	9,800	2.8%	268
For notebook PCs	2,089	-38.6%	-1,315	2,100	0.5%	11
Operating income	3,130	-32.6%	-1,512	1,600	-48.9%	-1,530
Operating income margin	11.2%	-	-	6.4%	-	-

Source: prepared by FISCO from Company materials

The Income Statement and the Main Indicators

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17 2H (F)	FY3/17 Full fiscal year (F)
Net sales	61,068	78,615	74,557	77,568	37,230	82,000
y-o-y	50.0%	28.7%	-5.2%	4.0%	-4.4%	5.7%
Gross profit	24,235	29,931	30,050	30,735	-	-
Gross margin	39.7%	38.1%	40.3%	39.6%	-	-
SG&A expenses	16,320	21,268	23,907	27,071	-	-
Ratio of SG&A expenses to net sales	26.7%	27.1%	32.1%	34.9%	-	-
Operating income	7,915	8,663	6,142	3,664	100	4,200
y-o-y	94.6%	9.5%	-29.1%	-40.3%	-95.1%	14.6%
Operating income margin	13.0%	11.0%	8.2%	4.7%	0.3%	5.1%
Recurring income	7,558	8,282	6,064	3,776	70	4,140
y-o-y	94.2%	9.6%	-26.8%	-37.7%	-96.7%	9.6%
Net income	4,770	5,248	3,473	2,309	50	3,000
y-o-y	118.7%	10.0%	-33.8%	-33.5%	-96.0%	29.9%
EPS after adjustment for share-split (¥)	29.81	31.31	20.86	14.00	0.30	18.24
Dividend after adjustment for share-split (¥)	11.25	17.50	18.00	18.00	-	18.00
BPS after adjustment for share-split BPS (¥)	173.15	196.14	202.14	188.22	-	-
Capital investment amount	1,845	3,464	4,082	4,862	-	4,000
Depreciation and amortization	1,160	1,812	1,970	2,004	-	3,200
R&D expenses	2,382	2,863	3,180	4,342	-	4,700

Balance Sheet

(¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Current assets	27,490	42,751	40,073	40,187	37,873
Cash and deposits	11,969	21,596	15,393	16,686	14,365
Accounts receivable	7,174	10,601	11,388	9,875	10,161
Inventories	5,077	5,483	9,329	10,216	10,097
Other	3,267	5,070	3,961	3,408	3,240
Fixed assets	6,639	7,372	10,785	11,269	13,692
Tangible fixed assets	3,617	4,409	5,332	4,608	4,538
Intangible fixed assets	2,477	2,407	3,221	5,441	8,131
Investments, etc.	545	554	2,231	1,219	1,023
Total assets	34,129	50,124	50,859	51,456	51,566
Current liabilities	14,195	19,596	16,239	15,880	16,478
Accounts payable	8,307	11,818	9,429	9,203	6,102
Short-term debt	600	600	600	600	4,000
Other	5,288	7,177	6,209	6,076	6,375
Fixed liabilities	1,015	1,316	1,820	1,717	3,991
Shareholders' equity	20,737	29,926	31,939	32,617	30,770
Capital	4,203	4,203	4,203	4,203	4,203
Capital surplus	4,044	7,573	7,563	7,550	7,513
Retained earnings	14,776	18,353	21,710	22,318	21,629
Treasury stock	-2,287	-204	-1,538	-1,455	-2,576
Total accumulated other comprehensive income	-1,909	-810	712	1,061	188
Net assets, total	18,917	29,211	32,799	33,858	31,096
Total liabilities and net assets	34,129	50,124	50,859	51,456	51,566

Cash Flow Statement

(¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Cash flow from operating activities	4,880	5,894	733	6,782	2,009
Cash flow from investing activities	-1,697	-1,611	-4,415	-3,277	-4,878
Cash flow from financing activities	-1,626	4,336	-3,255	-2,849	1,209
Gain or loss on translation of foreign currency cash and deposits	-41	1,006	735	637	-661
Change in cash and deposits balance	1,515	9,626	-6,202	1,292	-2,321
Cash and deposits balance at start of fiscal year	10,454	11,969	21,596	15,393	16,686
Cash and deposits balance at end of fiscal year	11,969	21,596	15,393	16,686	14,365

Returns to Shareholders

The Basic Policy is a Dividend Payout Ratio of above 40%

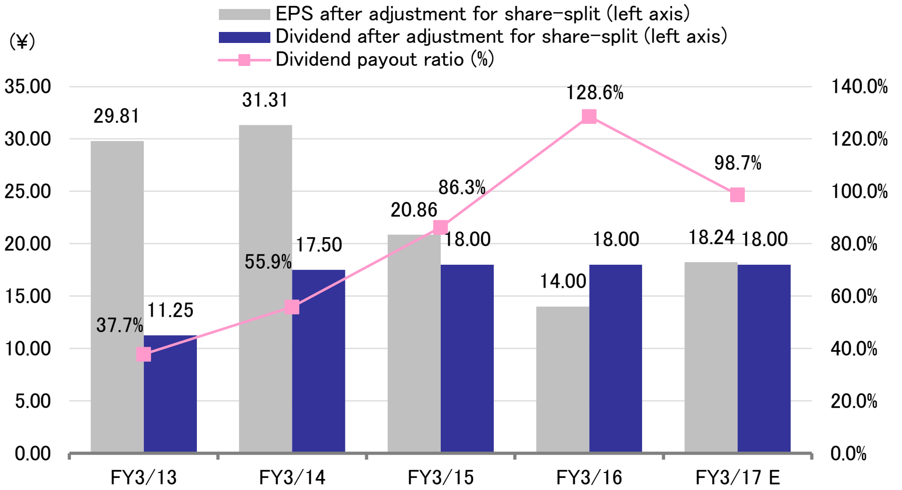
The Company's basic policy for returns to shareholders is to continuously pay a stable dividend and flexibly acquire treasury stock while securing the internal reserves it needs to develop its businesses in the future and to strengthen its management structure. In terms of the dividend level, it has indicated that it will maintain a dividend payout ratio of above 40% and that it will pay a dividend once per year, at the end of the fiscal year, in consideration of clerical cost burden.

The Company paid a dividend of ¥18.00 in FY3/16. In the results for that fiscal year, net income per share was ¥14.00 and the dividend payout ratio was 128.6%. For FY3/17, it has announced a forecast dividend of ¥18.00, which is unchanged y-o-y. As the forecast net income per share is ¥18.24, the dividend payout ratio will be 98.7%.

The Company is also actively acquiring treasury stock. While it does not do this on a periodic basis as with dividend payments, in light of the prolonged low interest rate environment, by improving ROE it is aiming to also improve capital efficiency (the optimization of the capital and debt structure with an awareness of the reduction in the cost of capital). In recent years, it acquired treasury stock in August to September 2011 (2 million shares), October to December 2013 (2 million shares), and May to June 2015 (2.3 million shares). Going forward also, it plans to flexibly acquire treasury stock.

From the perspective of fairness, the Company does not provide hospitality programs for shareholders, and instead, it continues policy to return profits to shareholders through dividends and the acquisition of treasury stock.

Trends in Net Income Per Share, Dividend, and Dividend Payout Ratio



Source: prepared by FISCO from Company materials

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