COMPANY RESEARCH AND ANALYSIS REPORT

Wacom Co., Ltd.

6727

Tokyo Stock Exchange First Section

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Summary

Achieved a V-shaped recovery in 1H FY3/18
Focus will be on the new growth strategy from FY3/19

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 supply of digital pen components to manufacturers of finished products, including tablets.

1. Achieved a V-shaped recovery in the 1H FY3/18 results, with net sales increasing by double digits and achieving an operating profit

In the 1H FY3/18 results, net sales were ¥40,489mn (up 20.4% year on year (YoY)) and operating profit was ¥1,501mn (compared to a loss of ¥898mn in the same period in the previous fiscal year), for a major increase in sales and the achievement of profitability. In the Brand Business, the effects of new products contributed to the growth in sales and profits. In the Technology Solution Business, sales sharply increased for tablets (including notebook PCs). This change comes from the awareness that equipping products with digital pens is essential to ensure their marketability. Sales for smartphones also returned to a recovery path following the slump in 2H FY3/17. Sales and profits increased in both business segments and results achieved a V-shaped recovery.

2. The full fiscal year forecasts have been upwardly revised; the cautious stance for the 2H forecasts is appropriate at the present time

The Company has upwardly revised its initial forecasts for FY3/18 full-year results to reflect the steady progress made in 1H. The latest forecasts are for net sales of ¥80,900mn (up 13.4% YoY) and operating profit of ¥2,900mn (compared to a loss of ¥1,171mn in the previous fiscal year). By segment, in the Brand Business, the new sales and profits forecasts are slightly below the initial forecasts. But in contrast, in the Technology Solution Business, the initial forecasts have been upwardly revised. However, the extent of the upward revision seems cautious in light of the 1H results. At FISCO, we think these forecasts are appropriate at the present time, but that if there is a revision as a result of any surprises in the future, its direction is likely to be upwards.

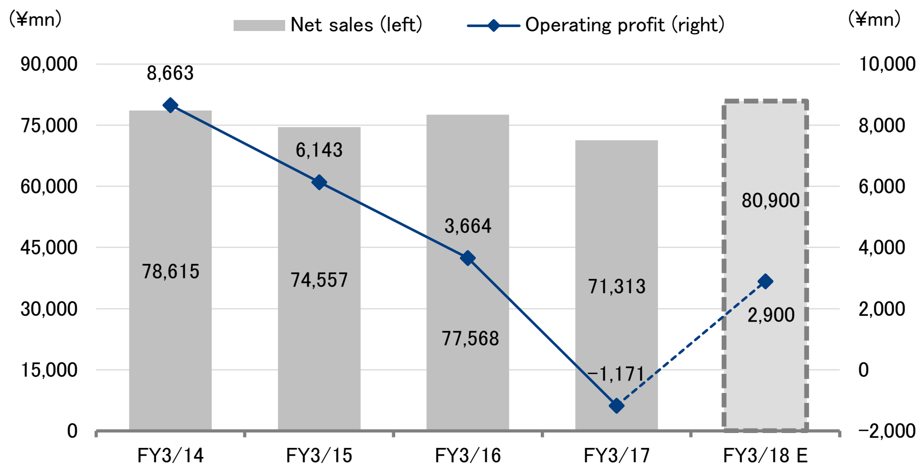
3. Announced the appointment of President Ide; plans to start the new medium-term business plan and growth strategy from FY3/19

The Company announced that it will appoint Mr. Nobutaka Ide as the new president effective April 1, 2018. After assuming the post of the president, Mr. Ide plans to announce the new growth strategy in the form of the new medium-term business plan, and he is working on formulating it in 2H FY3/18. In terms of the direction of its management policy and growth strategy, we will have to wait for the announcement of the new medium-term business plan for the details. But Mr. Ide announced that it will be centered on the two axes of "Leading the world through technology" and "Technologies that have value for customers." At FISCO, we think that the worsening of results in FY3/17 was mainly due to "own goal" factors, so we shall be focusing on the new medium-term business plan from the viewpoints of the growth strategy and, at the same time, of building a corporate structure to eliminate these own goals.

Key Points

- Mr. Nobutaka Ide, aged 47, has been nominated for the new president effective from April 2018
- While maintaining the previous management vision, formulate a growth strategy with the keywords of "technological leadership"
- The focus in 2H FY3/18 will be on the progress in building a corporate structure to eliminate own goals

Result trends



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 of about 90% of the global market for pen tablets for creators

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 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. 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.

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 creation of the world's first cordless pen tablets, the WT series
1987	Announced the development of the world's first cordless graphics tablets for professionals, the SD series
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
September 1998	Announced the Intuos Series of pen tablets for professionals
November 1999	Announced the creation of pen tablets for general consumers, the Graphire/FAVO
September 2001	Announced the development of the Cintiq series of pen tablets with liquid crystal displays
April 2002	Entered into the pen sensor components field (currently, the Technology Solution Business)
April 2003	Listed on the Japan Securities Dealers Association's JASDAQ market
December 2005	Listed on the TSE First Section
October 2008	Developed a high-performance multi-touch sensor system
May 2011	Announced the creation of the Bamboo stylus for use with the iPad
October 2011	Samsung Electronics began using Wacom's digital pen input system in its smartphones
September 2013	Announced the development of the Cintiq Companion mobile product incorporating an operating system
February 2014	Launched WILL™ digital ink technology
March 2014	Announced the development of an active electrostatic (ES) coupling technology applicable to digital pens
April 2014	Cumulative production of pen input components for mobile devices reached 100 million units
April 2015	Revamped global organization
September 2015	Announced the development of the Company's first digital stationery, Bamboo Spark
September 2016	Established the Digital Stationery Consortium
October 2016	Announced the development of the Wacom MobileStudio Pro mobile products
November 2016	Announced the creation of the Wacom Cintiq Pro display product
January 2017	Announced the development of the Wacom Intuos Pro pen tablet product
June 2017	Announced Bamboo Ink, a new stylus product jointly developed with Microsoft that is compliant with Windows Ink

Source: Prepared by FISCO

The two business pillars are sales of own-brand finished products and the supply of parts for equipment

2. 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 digital 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.

The biggest feature of the pen tablet is that it is accurate and highly precise. Depending on the product, some are able to detect the pen pressure and the inclination of the pen and thereby express the touch of the pen on the tablet screen more delicately. Utilizing such features, the pen tablet is used for creating designs, illustrations, graphics, and other such works on a computer.

The Company has three business units: Brand Business, Technology Solution Business, and Other Businesses. The Brand Business consists of WACOM brand products, such as pen tablet finished products and pens, for creative users, like creators and hobbyists, to general consumers, as well as enterprise users. The Technology Solution Business involves supply of the Company's pen tablet components (including digital 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 Solution Business. The Company has announced that this business was spun off through a company split on December 1, 2017, forming a new company, and all the shares of a new company were transferred to Nitto Kogyo Corporation on the same date.

In the Brand Business, the Company has a wide lineup of products by target customer and product type. Products are divided into the Creative Business for creative users, the Consumer Business for general consumers, and Business Solutions for corporations. In the Creative Business, which is the core business in terms of the sizes of sales and profits, there are three product types: pen tablets, mobile devices, and display devices. Understanding their differences is important to understanding aspects such as the competitive environment and the products' future potential.

Pen tablets, which are the most basic type of input device, are comprised of a pen and a tablet screen. The same as a mouse or a keyboard, they are used by connecting them to a PC. As they have a simple configuration, they come in a wide lineup, ranging from products for professionals to beginners.

Mobile devices are tablet PCs incorporating a pen tablet, and the user can write on the screen with the digital pen and save the data input to the device as is. The input method of using a digital pen is the same as for general tablet PCs. However, the performance of the Company's mobile devices is overwhelmingly superior as they use a specialized pen and ultimately they are not PCs, with which they fundamentally do not compete.

Display devices are similar to mobile devices in that the tablet screen is a liquid crystal display (LCD) panel, so users can draw directly on the screen using a digital pen. However, they are also similar to pen tablets as they are input devices without an OS or memory device.

Overview of the Business units and the main products

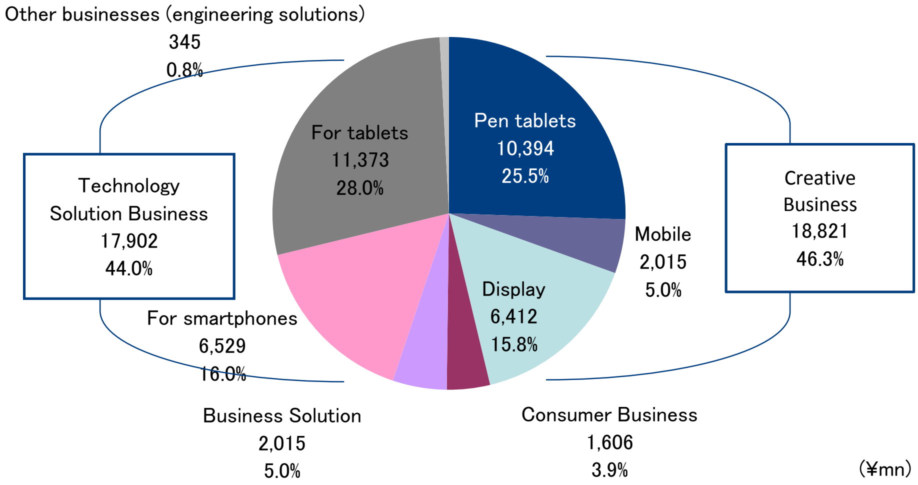
Business classification	Product classification	Main products	Product description	Intended use	Product series
Brand Business	Creative Business		"Supporting creative users expressing their passion"	-	-
		Pen tablets	Pen tablets for professionals that make possible extremely delicate drawing, such as from 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.	Wacom Intuos Pro series, Intuos series
		Mobile	LCD pen tablets for professionals that enable		Wacom MobileStudio Pro series
		Display	users to draw and write text directly on an LCD screen		Wacom Cintiq Pro series, Cintiq series
	Consumer Business	Styluses, digital stationery	Digital stationery makes everyone's life more creative		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 digital signature , education, and medical fields	STU Series DT Series
Technology Solution Business		Digital pens, sensors, touch panel components, and modules	-	For use in mobile devices, such as tablets, digital books, and cellular telecommunications equipment	-
	-	For smartphones	-	Pen sensor systems for smartphones	-
		For tablets	-	Pen sensor systems for tablet PCs and notebook PCs	-
Other	-	Digital design use CAD systems	-	Used in the manufacturing industry (for mechatronics)	-

Source: Prepared by FISCO from Company materials

In 1H FY3/18, the Brand Business supplied 55.2% of the Company's total net sales, the Technology Solution Business provided 44.0%, and Other Businesses accounted for 0.8%. Sales in the Brand Business are mainly from the Creative Business, with sales from pen tablets and display devices accounting for a large proportion and sales from mobile devices increasing.

The Technology Solution Business, which involves the supply of parts for equipment, contributed 44% of sales in the 1H FY3/18 results. A feature of this business is that customer companies' product strategies and sales trends cause results to vary greatly. There are two product categories according to usage: smartphones and tablet PCs (including notebook PCs).

Breakdown of net sales by business classification, product classification, and main product (1H FY3/18 results)



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

Key technologies

3. Key technologies

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

As a starter to understanding the Company's technologies, we will explain the technologies that are related to its digital pens and inks. A digital pen is an input device for computers, and its components include the digital pen itself and a sensor board, which corresponds to paper. There is also a type that uses touch-panel technology instead of a sensor board. As a pen tablet company, the Company focuses on technologies and businesses that utilize digital pens.

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 pressure-sensitive systems. The reasons why the Company decided to focus on EMR system is its response speed, high resolution and hovering function. As previously explained, the Company has a large share of the creative market for creators and hobbyists, at about 90%, a major factor behind this is its products' high performance, or in other words, their high resolution. EMR system is behind the growth of the Company and can be said to have an inseparable relationship.

EMR system requires a dedicated digital 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 pressure detection and an electronic eraser. Above all, detailed depictions are difficult when using a finger so a replacement was needed, and ultimately it became apparent that a pen was required. The Company has taken advantage of the characteristics of EMR system technology to make digital pens that don't use batteries.

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 system. At FISCO, we think that going forward, this technology will work positively to maintain and strengthen the Company's competitiveness.

Active ES (Active electrostatic, AES) system

Generally, smartphones and tablets adopt finger input, using touch panels employing the electrostatic capacitive method that enables multi-touch (hereafter, "electrostatic touch panels") 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 AES system technology with the objective of developing a digital pen that fits well with these electrostatic touch panels. When using a system pen tablet together with a touch panel, in some cases it is necessary to install a sensor board under the touch panel. But AES system 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 digital pen is intended for heavy users, the AES system digital pen has been positioned for middle users.

The characteristics of the Company's AES system pen include pressure detection, high resolution, and 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 system 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 system technology, a battery is installed within the pen.

The Company's AES system digital pen is sold in the Brand Business as a consumer category stylus product. 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 Lenovo, DELL, HP, and Toshiba, for their PCs and tablets. The Company provides it to them on an OEM basis, and it has become the mainstream digital pen technology for PCs equipped with pens. In this way, AES system has important implications in terms of driving the Company's growth in the future.

WILL (Wacom Ink Layer Language)
WILL is the "digital ink" software framework developed by the Company. Digital ink is the software necessary when inputting information by digital 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 digital ink software to be freely developed will accelerate sales of the Company's digital pen, which is essentially highly compatible with this digital ink. On considering the high global share of the Company's pen tablets, one possibility for it would seem to be raising sales and profits through WILL. But for the time being, its strategy is to first aim to spread and utilize WILL together with its global partners through the establishment in the United States in September 2016 of the Digital Stationery Consortium (DSC), a non-profit organization, and then working to grow earnings with sales of brand products and components.

The Company sells worldwide through global subsidiaries; overseas sales comprise about 90% of its total consolidated net sales

4. 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.

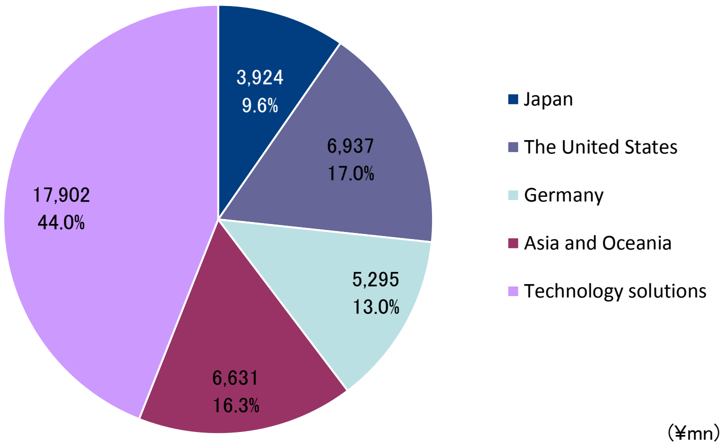
History of Establishment of Subsidiaries

April 1988	Established Wacom Computer Systems (now, Wacom Europe), in Neuss, Germany
July 1991	Established Wacom Technology in Vancouver, US
March 2000	Established Wacom China in Beijing, China
April 2004	Established Wacom Digital Solutions (currently, Wacom Korea) in Seoul, South Korea
April 2005	Established Wacom Australia Pty. Ltd. in North Ryde, 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 Vancouver, the United States
October 2010	Established Wacom India Pvt. Ltd. in New Delhi, India

Source: Prepared by FISCO from Company materials

For its internal management purpose, the Company tabulates and publishes net sales for the Technology Solution Business under Japan in its official disclosure of "Sales by Regional Subsidiary". Therefore, only the Brand Business publishes results by country and region. Most of the sales by the Technology Solution Business are made overseas. Thus, about 90% of the Company's total consolidated net sales are made overseas, and these overseas sales are affected by fluctuations in exchange rates.

Net sales conditions by region (1H FY3/18 results)



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

With regard to the effects of exchange rates, it is necessary to pay attention to the different effects currency (US dollar and euro) can have on net sales and operating profit. A weak yen is beneficial for net sales against both the US dollar and the euro. But for operating profit, a strong yen against the US dollar is beneficial, as the overseas production rate is high, at 98%, and these production costs are US dollar denominated. However, the Company also conducts production and sales activities in the Asia region, so a relationship exists in which the benefits of a weak yen against Asian currencies basically offsets the benefits of a strong yen against the US dollar. Therefore, fundamentally, on considering the application of changes against the US dollar to those currencies in the Asia region that are linked to the US dollar, at the operating profit stage, it can be said that fluctuations in the rate against the US dollar have practically no effect. Conversely, a weak yen against the euro is beneficial for operating profit, the same as for net sales.

Outlook for the effects of exchange rates on FY3/18 business forecasts in the form of the exchange rate sensitivities (full fiscal year / 12-month period)

(¥mn)

	Per 1 JPY in case of a weaker JPY. Each figure of the sensitivities below shows an opposite sign in case of a stronger JPY.					
	FY3/18 forecast (revised)		FY3/18 forecast (initial)		(Ref.) FY3/17 (actual)	
	USD	EUR	USD	EUR	USD	EUR
Net sales	530 (430)	110	520 (410)	140	500 (380)	110
Operating profit	0 (-70)	70	-30 (-100)	100	30 (-50)	70

The US dollar sensitivity reflects exposure of Asian currencies supposing they synchronize with the US dollar. Figures in parentheses are the sensitivity for the US dollar alone.
Source: Prepared by FISCO from the Company's results briefing materials

98% of the Company's products are manufactured outside Japan. However, the Company supplies the equipment for production, thereby preventing the leakage of its technology and know-how

5. 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 production to OEM and ODM in Japan and overseas. 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.

Results trends

Achieved a V-shaped recovery in 1H FY3/18; sales grew steadily in both business segments

1. 1H FY3/18 results

For 1H FY3/18, the Company posted a 20.4% YoY rise in net sales to ¥40,689mn, an operating profit of ¥1,501mn, reversing the operating loss of ¥898mn, an ordinary profit of ¥1,642mn, reversing the ordinary loss of ¥1,021mn, and a net profit attributable to owners of the parent of ¥1,674mn, reversing the net loss of ¥1,226mn.

On November 1, 2017, the Company announced that it had revised its forecasts for 1H and the full fiscal year, and the results were ultimately in line with these revised forecasts.

Summary of 1H FY3/18 results

(¥mn)

	FY3/17	FY3/18				
	1H results	1H forcast	YoY growth rate	1H results	YoY growth rate	initial forcast growth rate
Net sales	33,797	35,180	4.1%	40,689	20.4%	15.7%
Gross profit	13,240	-	-	15,703	18.6%	-
SG&A expenses	14,138	-	-	14,202	0.4%	-
Operating profit	-898	-470	-	1,501	-	-
Operating profit margin	-2.7%	-1.3%	-	3.7%	-	-
Recurring profit	-1,021	-500	-	1,642	-	-
Profit attributable to owners of parent YoY	-1,226	-100	-	1,674	-	-

Source: Prepared by FISCO from the financial results summary

The results achieved a V-shaped recovery in 1H FY3/18, and to simplify, this was mainly due to steady growth in the results of both segments, the Brand Business and Technology Solution Business.

In the Brand Business, a major factor behind the recovery in sales and profits was the launch of new products at the beginning FY3/18. In the pen tablet and digital pen markets, the Company is firmly maintaining its competitive advantages for brand power, products, and technologies. In this situation, the delays in the releases of new products in FY3/17 meant consumers refrained from purchases, leading to the worsening of results. But in FY3/18, practically all of the new products have been launched, so sales have grown as the Company has been able to fully leverage its strengths in each of its product and market segments.

The recovery of sales and profits in the Technology Solution Business was primarily due to sales for tablets (including notebook PCs) practically doubling YoY, up 99.3%. In the background to this was the fact that there was a change in awareness among product suppliers (the Company's customer) and users about their needs relating to digital pens and digital inks. The positioning of digital pen changed from "It is good to have one" to "A product's marketability is inferior without one," and the major increase in the percentage of tablet PCs equipped with a digital pen led to the growth in the Company's sales and profits. In products for smartphones, which is another business pillar, full-fledged shipments for Samsung's Galaxy Note 8 started in Q2 (July-September). As shipments for the Galaxy Note 7 ended, it was not possible to exceed figures for the same period in the previous fiscal year, in which there were sales for the Galaxy Note 5 (the previous-generation model at that time).

Details by business segment

(¥mn)

		FY3/17		FY3/18			
		2Q				2Q	
		Results	YoY growth rate	1Q	1H	Results	YoY growth rate
Net sales	Brand Business	19,326	-15.4%	10,487	11,954	22,442	16.1%
	Technology Solution Business	14,141	-10.4%	5,301	12,601	17,902	26.6%
	Other	327	4.1%	177	167	344	5.2%
	Net sales total	33,796	-13.2%	15,966	24,722	40,689	20.4%
Operating profit	Brand Business	2,051	-43.7%	1,486	1,063	2,549	24.3%
	Technology Solution Business	1,788	-15.4%	689	2,841	3,531	97.5%
	Other	-13	-	-0	-37	-38	-
	Subtotal	3,826	-33.9%	2,174	3,866	6,041	57.9%
	Adjusted amount	-4,724	-	-2,312	-2,227	-4,540	-
	Operating profit total	-897	-	-137	1,639	1,501	-

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

In exchange rates, which were a major factor behind the recording of a loss in FY3/17, the yen trended weakly against both the US dollar and the euro in 1H. As a result, changes to net sales and profits in 1H from the effects of exchange rates were ¥1.69bn and ¥240mn, respectively (both in a positive direction).

Looking at the breakdown by currency, a point to notice is the negative effect on operating profit of the US dollar exchange rate. This is because, as previously mentioned, 98% of production is carried out overseas and the product costs are US dollar denominated, so a weak yen is disadvantageous for profits. In Asia, net sales are substantially US dollar denominated, as Asian currencies are linked to the US dollar, and for this part, the weak yen is advantageous. As a result of these factors, as described above, the effect on operating profit of the exchange rates was a positive ¥240mn.

Effects of exchange rates on 1H FY3/18 results

Currency	Changes in exchange rates	Net sales	Operating profit
1 US dollar	¥4.99 weak yen	+¥1,130mn	-¥90mn
1 euro	¥7.51 weak yen	+¥310mn	+¥160mn
Asian currencies, total (Numbers in parentheses: Chinese yuan)	(¥0.36 weak yen)	+¥250mn (+¥70mn)	+¥170mn (+¥50mn)
Total		+¥1,690mn	+¥240mn

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

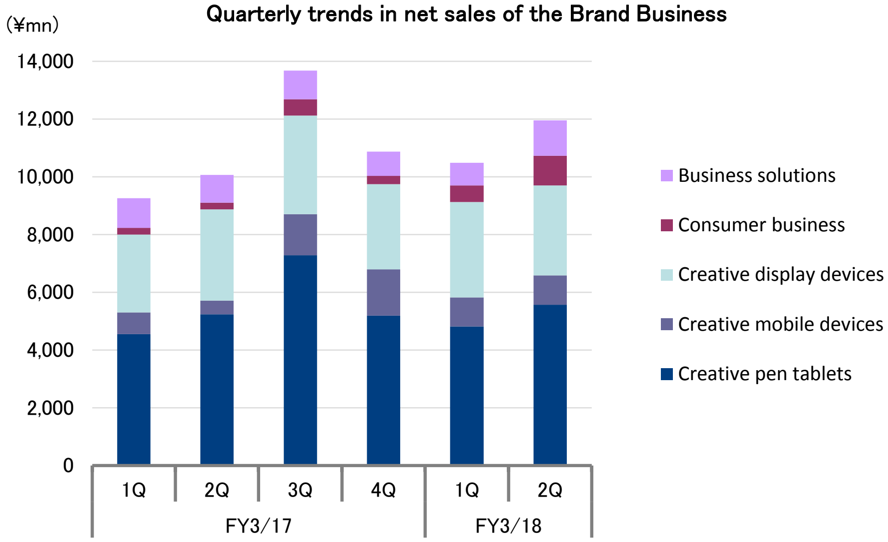
Achieved a double-digit increase in sales from the effects of new products, while a few products were below expectations

2. Trends in the Brand Business

Sales and profits increased in 1H FY3/18 in the Brand Business, with net sales of ¥22,442mn (up 16.1% YoY) and operating profit of ¥2,549mn (up 24.3%).

Sales also rose in the Creative Business, which targets creators and hobbyists, with net sales increasing 11.5% YoY to ¥18,821mn. The conditions by product type are described below.

Quarterly trends in net sales of the Brand Business



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

Net sales of pen tablets increased 6.1% YoY to ¥10,394mn. Although steady progress was made in sales of Intuos for consumers and models for newly emerging countries (inexpensive models), sales of Wacom Intuos Pro for professionals did not grow as expected, which kept the sales growth rate down in the single digits. At FISCO, we consider that the reason for the slump in sales of products for professionals is not due to competition, but the shift within the Company to mobile devices and display devices.

Net sales of mobile devices increased 64.6% YoY to ¥2,015mn. The new product Wacom MobileStudio Pro (13/16 inch) was launched in October 2016, and its sales grew steadily, mainly of high-end models. We can see from the sales trends of these mobile devices and display devices, which are discussed below, that the Company is maintaining its competitive advantages in the highly functional mobile devices market for professional creators. Demand in this area also seems set to continue to expand in the future. Conversely, the Company seems to be struggling in sales of middle and lower-end models due to competition in the market for tablet PCs.

Net sales of display devices increased 9.5% YoY to ¥6,412mn. Sales of the Wacom Cintiq Pro (13/16 inch), which features next-generation pen technologies and can realize high definition and a wide range of colors for compliance with 4K, grew and it contributed to the higher sales and profits. Sales of existing models were also maintained, and the Company secured results on the same level as the previous year from capturing demand from entry-level users. But on the other hand, sales were adversely affected because the large-size model of the Wacom Cintiq Pro has entered its lifecycle's transition period, which kept the sales growth rate of display devices down in the single digits.

In the Consumer Business, net sales increased 245.4% YoY to ¥1,606mn. In June 2017, the Company released the Bamboo Ink stylus, which it jointly developed with Microsoft and is compatible with Windows Ink, and the highly functional Bamboo Sketch stylus for the iPad, and sales of both products grew steadily. Also, sales of Bamboo Slate and Bamboo Folio, which are digital stationary products launched in September 2016, exceeded the sales of previous models and contributed to the higher sales and profits.

In Business Solutions, net sales increased 1.4% YoY to ¥2,015mn. In addition to the growth in sales of LCD pen tablets to financial institutions in North America, Wacom Clipboard, which is a new product released in June 2017, is capturing new BtoB demand due to its function of instantly digitizing contents written onto various types of forms. In addition to the ongoing competitive business environment surrounding mobile devices, some product series suffered declines as a rebound to the major project for Indian public institutions in the previous fiscal period, and so the growth rate went down to 1.4%. But on a quarterly basis, positive signs of an overall recovery trend could be seen at the start of Q2, compared to the slump in and before Q1.

Sales in the Brand Business by product line

(¥mn)

	FY3/17	FY3/18	
	1H results	1H results	YoY growth rate
Total sales	19,327	22,442	16.1%
Creative business	16,876	18,821	11.5%
Pen tablets	9,794	10,394	6.1%
Mobile	1,224	2,015	64.6%
Display	5,858	6,412	9.5%
Consumer business	465	1,606	245.4%
Business solution	1,986	2,015	1.4%
Operating profit	2,051	2,549	24.3%
Operating profit margin	10.6%	11.4%	-

Source: Prepared by FISCO from the financial results summary

To summarize the Brand Business in 1H FY3/18, while it showed a steady recovery YoY, it seems that it did not reach the level that the Company initially expected. Rather than due to some major failure, this seems to be a result of the accumulation of a number of slight declines in various product categories, including pen tablets for professionals and popularized models within mobile devices. At FISCO, we think that the cause of these declines is that, in the series of processes for the development, production, and sales of new products, there is a gap between the plan and the ability to realize the plan. It can be said that eliminating this gap is a problem that the Company must urgently overcome (further details are given in the section on the medium- to long-term growth strategy).

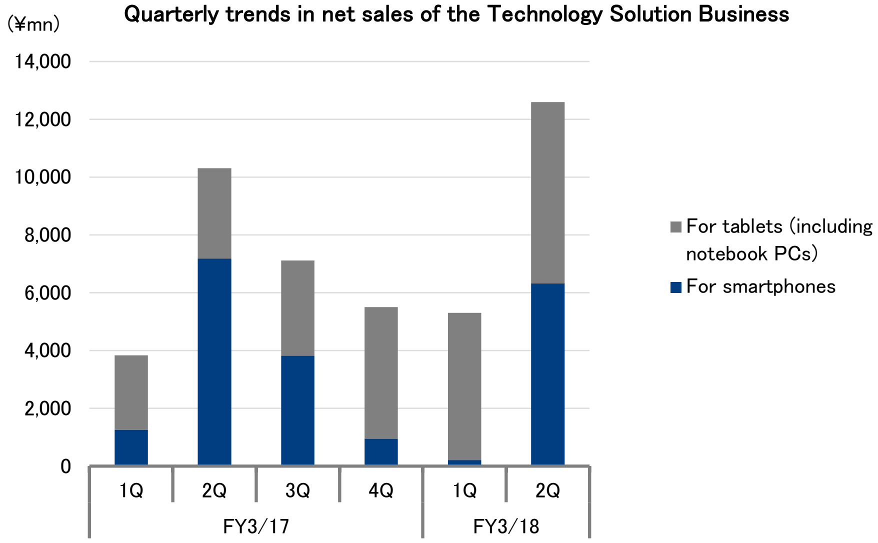
With the change in the demand trend for digital pens, sales rapidly increased for tablets and recovered for smartphones

3. Trends in the Technology Solution Business

In 1H FY3/18 in the Technology Solution Business, both sales and profits greatly increased, with net sales of ¥17,902mn (up 26.6% YoY) and operating profit of ¥3,531mn (up 97.5%).

Looking at the breakdown for products, net sales for smartphones declined 22.6% YoY to ¥6,529mn. This business supplies the digital pen and the sensor system for Samsung's Galaxy Note. In the same period in the previous fiscal year, in addition to the continuing production of the Galaxy Note 5, the Company started full-fledged supply of products for the Galaxy Note 7 from the July-September period, and net sales grew to ¥8,435mn. In contrast to this, in FY3/18, there were hardly any sales in Q1 due to the recall of the Galaxy Note 7 which was resulted in business slowdown in 2H FY3/17. Although supply of the Galaxy Note 8 started from the July-September period and sales recovered, this was not enough to cover the slump in Q1, so sales declined YoY.

Quarterly trends in net sales of the Technology Solution Business



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

Net sales for tablets (including notebook PCs) practically doubled YoY, increasing 99.3% to ¥11,373mn. As previously explained, the significance of digital pens in terms of the awareness of tablet manufacturers has changed to "a device that is essential to improve marketability." Against the backdrop of this change, the Company's net sales grew significantly.

In terms of technology type, EMR (electromagnetic resonance) and Active ES (Active, electrostatic) each accounted for around half for tablets (including notebook PCs). In 1H FY3/18, sales of models equipped with an AES system pen increased, but EMR system sales also steadily grew for the education market, including for Google's Chromebook.

Sales in the Technology Solution Business by product line

(¥mn)

	FY3/17	FY3/18	
	1H results	1H results	YoY growth rate
Total sales	14,142	17,902	26.6%
For smartphones	8,435	6,529	-22.6%
For tablets (including notebook PCs)	5,707	11,373	99.3%
Operating profit	1,788	3,531	97.5%
Operating profit margin	12.6%	19.7%	-

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

At FISCO, we believe that the Company greatly exceeded its initial forecasts for 1H FY3/18 in the Technology Solution Business. While it has aimed to pursue measures to promote the equipping of tablets with digital pens, we think that it did not expect the pace of this equipping with digital pens to change to the extent that it will go up to another level. The ground for this is the poor balance in the forecasts for 2H net sales. Based on the 1H results, the Company upwardly revised the forecast for the full fiscal year net sales, but on comparing 1H and 2H, it is anticipating a decline in sales in 2H compared to 1H. At FISCO, we read this as indicating that 1H was better than expected, but that it is also adopting a cautious stance with regards to the sustainability of this performance.

Medium- to long-term growth strategy

Mr. Nobutaka Ide, aged 47, has been nominated for the new president effective from April 2018

1. The events up to the present time and the current situation

The Company has set a medium-term business plan that incorporate growth strategies, and it has strived to achieve longer-term growth through initiatives under the plan. In April 2015, the Company announced its Wacom Strategic Management Plan SBP-2019, but by FY3/17, the results fell far short of the targets contained in the plan. Therefore, on March 14, 2017, it announced it would abandon its SBP-2019 plan and instead adopt new Group initiatives aiming to increase the Company's enterprise value over the medium term by switching to a management stance that prioritizes profitability.

To "improve the quality of management decisions," which is one of the two pillars of these new initiatives, the Company announced its plan to replace the CEO at the end of FY3/18. The Company has been progressing various tasks based on this, and on Oct. 2, 2017, the Board of Directors passed a resolution to change the CEO and it announced that the current president and CEO, Mr. Masahiko Yamada, will resign on March 31, 2018 (he planned to retire as a director at the end of June of the same year), and that on April 1, 2018, Mr. Nobutaka Ide will become the new president and CEO.

After Mr. Ide is appointed as the new president, he is set to announce the new medium-term business plan in May 2018. It would seem that in 2H FY3/18, the two measures Mr. Ide will tackle will be 1) formulating a growth strategy, or in other words, the new medium-term business plan, and 2) creating a path toward improving the management structure to one that prioritizes profitability.

The career of Mr. Nobutaka Ide

Name	Nobutaka Ide	
Date of birth	May 19, 1970	
Place of birth	Tokyo	
Career history	April 1995	Joined Sharp Corporation
	August 2013	Joined the Company General Manager of the Technology Marketing Department, the Components Business Unit
	April 2015	Vice President of the Company's Technology Solution Business Unit
	July 2015	Senior Vice President of the Company's Technology Solution Business Unit
	April 2017	The Company's Executive Vice President (current position) Supervises the Platform & Application Business Unit, the Technology Solution Business Unit (current position)
	June 2017	Company director (current position)

Source: Compiled by FISCO from a Company press release

While firmly maintaining the existing management vision, planning a growth strategy with the keywords of "technological leadership"

2. The direction of the new medium-term business plan

We must wait for the announcement in May 2018 for the Company's new medium-term business plan and the details of the new growth strategy described within it. However, at the 1H FY3/18 results briefing session, Mr. Ide clarified one part of the new direction for management that he is considering at the present time.

First, he clarified that the Company would continue with its existing management vision of "for a creative world" (a world alive with creativity). Based on this, he announced that the new medium-term business plan would be "Chapter 2," with the meaning that, as the new president, he would newly develop it as a continuation of the efforts of the current President Yamada.

Mr. Ide stated that "technological leadership" would be the keywords for the new medium-term business plan. It goes without saying that these are the technologies related to the digital pen and digital ink fields, which are the core of the value that the Company provides. These keywords include the two meanings of 1) continuing to lead the inking world by technologies, and 2) pursuing technologies that have value for customers, and it would seem that the growth strategy will be built based on these two axes.

In 2H FY3/18, the focus will be on the progress made in building a corporate structure to eliminate own goals

3. Points to pay attention to in 2H FY3/18

At FISCO, we think that the point for investors to focus on in 2H FY3/18 up to the announcement of the new medium-term business plan is the progress in "building foundations" that was mentioned above.

In this case, we think that the intention of "building foundations" is to "advance improvements in order for the Company to overcome the problems that were clarified in the process of the worsening of results in FY3/17."

At FISCO, we think that one of the problems facing the Company are the mismatches between the human and physical capacities and the new products' development and production plans, which can be seen in various places across the Company's series of business processes. Our understanding of the structure of the FY3/17 results was that due to the unrealistic plans to launch new products, these plans were delayed due to the lack of capacity and as a consequence, the results failed to reach their forecasts that were preconditioned on these launches. Besides the development and production of new products, improvements are required in various areas, including marketing, global organizational structure and cost management. These are not problems that can be solved overnight, but we think it will be necessary for the new president candidate to show his aim for improvements in these areas, even if only slight ones, from 2H onwards.

In terms of measuring and evaluating the extent of the progress made in "building foundations," at FISCO we consider that the most useful information for judging this will be the progress made in achieving the 2H forecasts. An addition, we think that the specific matters that will provide supporting evidence will include the timings of the releases of large-sized new display devices within creative products, and the extent to which sales recover in Europe.

We judge that there has been no change to the fact that the Company has the overwhelmingly global leading position for its pen tablets' technological capabilities, product competitiveness, and brand power. We believe that the worsening of results in FY3/17 was like an own goal in soccer. It goes without saying that a growth strategy to improve the ability to score goals is important, but we think that building a corporate structure that does not score own goals is just as important. Therefore, we shall be focusing on the new medium-term business plan from the viewpoint of "eliminating own goals."

Business outlook

The full fiscal year forecasts have been upwardly revised The cautious stance for the 2H forecasts is appropriate at the present time

1. Company forecasts for FY3/18

For FY3/18, the Company forecasts a 13.4% YoY rise in net sales to ¥80,900mn, an operating profit of ¥2,900mn, reversing the operating loss of ¥1,171mn, an ordinary profit of ¥3,100mn, reversing the ordinary loss of ¥870mn, and a net profit attributable to owners of the parent of ¥1,930mn, reversing the net loss of ¥5,534mn.

Company forecasts for FY3/18

(¥mn)

	FY3/17	FY3/18		
	Full-year results	Full-year forecast	Revised full-year forecast	YoY growth rate
Net sales	71,314	76,800	80,900	13.4%
Operating profit	-1,171	1,800	2,900	-
Operating profit margin	-1.6%	2.3%	3.6%	-
Recurring profit	-870	1,740	3,100	-
Profit attributable to owners of parent	-5,534	1,130	1,930	-

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

As previously mentioned, the Company upwardly revised its full fiscal year forecasts when announcing its 1H FY3/18 results. On looking at the details of the revisions for the 2H and the balance between 1H and 2H, there does seem to be a sense of uncomfort. In the revised 2H forecasts, both sales and profits have been downwardly revised compared to the initial forecasts. Also, on comparing 1H and 2H, the forecasts are for declines in sales and profits in 2H compared to in 1H.

Company forecasts for 2H FY3/18

(¥mn)

	FY3/17	FY3/18								
					YoY		vs initial forecast		vs 1H	
	2H results	1H results	2H forecast	Revised 2H forecast	Growth rate	Change	Growth rate	Change	Growth rate	Change
Net sales	37,517	40,689	41,620	40,211	7.2%	2,693	-3.4%	-1,409	-1.2%	-478
Operating profit	-273	1,501	2,270	1,399	-	1,672	-38.4%	-871	-6.8%	-102
Operating profit margin	-0.7%	3.7%	5.5%	3.5%	-	-	-	-	-	-
Recurring profit	150	1,642	2,240	1,458	-	1,307	-34.9%	-782	-11.2%	-183
Profit attributable to owners of parent	-4,308	1,674	1,230	256	-	4,564	-79.2%	-974	-84.7%	-1,417

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

In the 2H forecasts, looking at the breakdown by business segment and by each segment's products, in the Brand Business, on a full fiscal year basis the net sales forecast has been slightly downwardly revised, from ¥49,200mn to ¥49,000mn. Looking by product within this segment, we see that the direct factor behind this is that the full fiscal year sales forecasts for mobile devices and display devices in the Creative Business have been downwardly revised. On this point, the Company says it has incorporated into its forecasts the major disparity between mobile devices that are selling well (high-end models) and those that are not, and also in display devices, the risk that the launch of the large-sized Wacom Cintiq Pro new product will be later than planned.

On the other hand, in the Technology Solution Business, the full fiscal year net sales forecasts were upwardly revised, from the previous ¥26,900mn to ¥31,450mn. Breaking this down by intended product, the forecasts were upwardly revised both for smartphones and for tablets. However, in terms of the change between 1H and 2H, the forecast is for sales in 2H to decline compared to in 1H. We think that this may be because, as previously mentioned, sales and profits in 1H greatly exceeded the Company's expectations.

The fact that the Company is maintaining a cautious stance with regards to 2H, despite the fact that sales were at a high level in 1H, is because a feature of sales and profits in the Technology Solution Business is that they can change dramatically and practically in short time if customer companies review their product plans and production plans according to the demand trends among the final consumers, and the Company incorporates this risk into its forecasts.

Breakdown of the forecasts by business segment

(¥mn)

		FY3/17			FY3/18						
						2H			Full year		
		1H results	2H results	Full-year results	1H results	Forecast	YoY growth rate	Growth rate vs 1H	Initial forcast	Revised forcast	YoY growth rate
Net sales	Brand Business	19,326	24,547	43,874	22,442	26,558	8.2%	18.3%	49,200	49,000	11.7%
	Technology Solution Business	14,141	12,615	26,758	17,902	13,548	7.4%	-24.3%	26,900	31,450	17.5%
	Other	327	354	682	344	105	-70.3%	-69.5%	700	450	-34.1%
	Net sales total	33,796	37,517	71,314	40,689	40,211	7.2%	-1.2%	76,800	80,900	13.4%
Operating profit	Brand Business	2,051	3,633	5,685	2,549	5,111	40.7%	100.5%	8,100	7,660	34.8%
	Technology Solution Business	1,788	655	2,443	3,531	369	-43.7%	-89.6%	2,260	3,900	59.6%
	Other	-13	-19	-32	-38	-12	-	-	40	-50	-
	Subtotal	3,826	4,269	8,095	6,041	5,468	28.1%	-9.5%	10,400	11,510	42.2%
	Adjusted amount	-4,724	-4,543	-9,266	-4,540	-4,069	-	-	-8,600	-8,610	-
	Operating profit total	-898	-273	-1,171	1,501	1,399	-	-6.8%	1,800	2,900	-

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

Sales in the Brand Business by product line

(¥mn)

	1H FY3/18		2H 3/18			FY3/18			
	Results	YoY growth rate	Forecast	YoY growth rate	Growth rate vs 1H	Initial forcast	Revised forcast	YoY growth rate	vs initial forcast growth rate
Total sales	22,442	16.1%	26,558	8.2%	18.3%	49,200	49,000	11.7%	-0.4%
Creative business	18,821	11.5%	22,329	2.1%	18.6%	43,370	41,150	6.2%	-5.1%
Pen tablets	10,394	6.1%	13,456	7.9%	29.5%	23,430	23,850	7.1%	1.8%
Mobile	2,015	64.6%	2,545	-15.8%	26.3%	5,800	4,560	7.4%	-21.4%
Display	6,412	9.5%	6,328	-0.6%	-1.3%	14,140	12,740	4.2%	-9.9%
Consumer business	1,606	245.4%	1,864	117.8%	16.1%	1,730	3,470	162.7%	100.6%
Business solution	2,015	1.4%	2,365	29.2%	17.4%	4,100	4,380	14.8%	6.8%
Operating profit	2,549	24.3%	5,111	40.7%	100.5%	8,100	7,660	34.8%	-5.4%
Operating profit margin	11.4%	-	19.2%	-	-	16.5%	15.6%	-	-

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

Sales in the Technology Solution Business by product line

(¥mn)

	1H FY3/18		2H 3/18			FY3/18			
	Results	YoY growth rate	Forecast	YoY growth rate	Growth rate vs 1H	Initial forcast	Revised forcast	YoY growth rate	VS initial forcast growth rate
Net sales total	17,902	26.6%	13,548	7.4%	-24.3%	26,900	31,450	17.5%	16.9%
For smartphones	6,529	-22.6%	6,101	27.8%	-6.6%	11,000	12,630	-4.4%	14.8%
For tablets (including notebook PCs)	11,373	99.3%	7,447	-5.0%	-34.5%	15,900	18,820	38.9%	18.4%
Operating profit	3,531	97.5%	369	-43.7%	-89.6%	2,260	3,900	59.6%	72.6%
Operating profit margin	19.7%	-	2.7%	-	-	8.4%	12.4%	-	-

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

At FISCO, we think that the Company's cautious stance with regards to risk and its 2H forecasts are sufficiently persuasive, and that at the present time, it is too early to expect that the full fiscal year will exceed their forecasts. However, we also think that it is fully possible that the Company's concerns about business risk in the Technology Solution Business will prove unfounded, and that if it conducts a revision as a result of any surprises in the future, it is highly likely it will be in an upward direction.

As previously mentioned, the Company will officially appoint a new management team in April 2018, and will work to return to a growth path based on the new medium-term business plan. For 2H in the current fiscal year, rather than the results, we think the important viewpoint will be whether or not the new management team substantially formed can properly establish the foundations for this in advance.

FY3/19 is the period to recoup the investment in launching new Creative products
The supply of pen components is also expected to continue to grow
The overall forecasts are for higher sales and profits

2. Prospects for FY3/19

FY3/19 will be the first year of the new medium-term business plan. We must wait until the results announcement in May 2018 for the forecasts, but in terms of their direction, at FISCO we think that the earnings forecasts will be for higher sales and profits.

For brand products, the Company has announced new products on a cycle of two to three years. It launched many new products from FY3/17 to FY3/18, and FY3/19 is the period in which it will recoup these investments. If it can overcome the problems it faces, such as with its marketing strategy in Europe, and there are no fundamental changes to the Company's brand power and the competitiveness of its products, we think it can steadily achieve higher sales and profits.

As previously explained, in the Technology Solution Business, there is an inherent risk in that it tends to be easily influenced by the situations at customer companies. On the one hand this point cannot be denied, but on the other hand the expectations for the roles of digital pens and digital ink, and also the expected value of the functions that they have, are steadily rising. The change in the awareness about digital pens, which can be seen from the 1H FY3/18 results, seems likely to continue in FY3/19 onwards, and that this can be expected to lead to the growth of the Company's Technology Solution Business.

Income statement

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18		
				1H	2H (E)	Full year (E)
Net sales	74,557	77,568	71,313	40,689	40,211	80,900
YoY	-5.2%	4.0%	-8.1%	20.4%	7.2%	13.4%
Gross profit	30,050	30,735	27,565	15,703	-	-
Gross margin	40.3%	39.6%	38.7%	38.6%	-	-
SG&A expenses	23,907	27,071	28,736	14,202	-	-
Ratio of SG&A expenses to net sales	32.1%	34.9%	40.3%	34.9%	-	-
Operating profit	6,142	3,664	-1,171	1,501	1,399	2,900
YoY	-29.1%	-40.3%	-	-	-	-
Operating profit margin	8.2%	4.7%	-1.6%	3.7%	3.5%	3.6%
Recurring profit	6,064	3,776	-870	1,642	1,458	3,100
YoY	-26.8%	-37.7%	-	-	866.9%	-
Profit attributable to owners of parent	3,473	2,309	-5,534	1,674	256	1,930
YoY	-33.8%	-33.5%	-	-	-	-
EPS after adjustment for share-split (¥)	20.86	14.00	-33.93	10.31	1.58	11.89
Dividends after adjustment for share-split (¥)	18.00	18.00	6.00	-	-	6.00
BPS after adjustment for share-split (¥)	202.14	188.22	130.75	-	-	-
Capital investment amount	4,082	4,862	3,580	575	1,525	2,100
Depreciation and amortization	1,970	2,004	2,573	1,277	1,323	2,600
R&D expenses	3,180	4,342	4,397	2,061	2,839	4,900

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

Balance Sheet

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18Q2
Current assets	40,073	40,187	37,873	39,499	48,058
Cash and deposits	15,393	16,686	14,365	14,204	16,088
Notes and accounts receivable	11,388	9,875	10,161	10,768	15,149
Inventories	9,329	10,216	10,097	11,664	11,623
Fixed assets	10,785	11,269	13,692	10,664	10,275
Tangible fixed assets	5,332	4,608	4,538	4,303	4,170
Intangible fixed assets	3,221	5,441	8,131	4,312	3,719
Investments and other assets	10,785	11,269	1,023	2,133	2,385
Total assets	50,859	51,456	51,566	50,249	58,334
Current liabilities	16,239	15,880	16,478	17,383	24,340
Accounts payable	9,429	9,203	6,102	7,481	11,491
Short-term debt	600	600	4,000	3,000	6,000
Fixed liabilities	1,820	1,717	3,991	11,508	11,619
Shareholders' equity	31,939	32,617	30,770	21,536	22,235
Capital	4,203	4,203	4,203	4,203	4,203
Capital surplus	7,563	7,550	7,513	6,098	6,098
Retained earnings	21,710	22,318	21,629	13,134	13,833
Treasury stock	-1,538	-1,455	-2,576	-1,900	-1,900
Total accumulated other comprehensive profit	713	1,061	188	-306	107
Net assets, total	32,799	33,858	31,096	21,356	22,374
Total liabilities and net assets	50,859	51,456	51,566	50,249	58,334

Source: Prepared by FISCO from the financial results summary

Cash Flow Statement

(¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/17 H1
Cash flow from operating activities	733	6,782	2,009	121	-244
Cash flow from investing activities	-4,415	-3,277	-4,878	-3,479	-603
Cash flow from financing activities	-3,255	-2,849	1,209	3,298	2,029
Gain or loss on translation of foreign currency cash and deposits	735	637	-661	-100	701
Change in cash and deposits balance	-6,202	1,292	-2,321	-160	1,883
Cash and deposits balance at start of fiscal year	21,596	15,393	16,686	14,365	14,204
Cash and deposits balance at end of fiscal year	15,393	16,686	14,365	14,204	16,088

Source: Prepared by FISCO from the financial results summary

Returns to shareholders

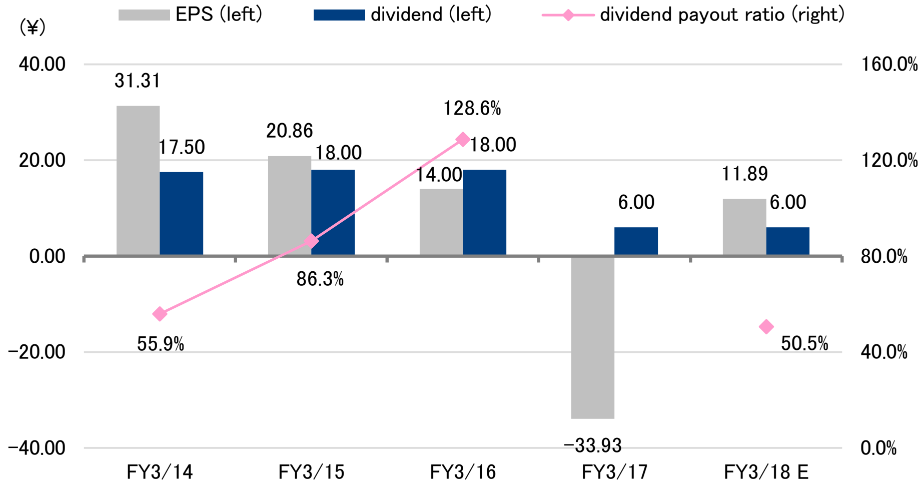
Plans a dividend of ¥6 in FY3/18, and the basic policy is to maintain a dividend payout ratio of at least 40%

The Company's basic policy towards shareholder returns is to pay steady dividends based on its profits after considering the amount of funds to be retained for future business development and sound financial base. Management has made guidance of maintaining a dividend payout ratio of at least 40% in medium-term, and to reduce the clerical cost of paying dividends, the Company pays them only once at the end of each fiscal year.

The Company has announced that its dividend forecast for FY3/18 is ¥6, which is unchanged from the previous fiscal year. While it has upwardly revised the FY3/18 full fiscal year forecasts, it has left unchanged the initial dividend forecast of ¥6.

At FISCO, we think that a dividend of ¥6 for FY3/18 is at an appropriate level. The dividend payout ratio based on the earnings per share after the upward revision is 50.5%, exceeding the Company's standard of 40%. Meanwhile, the Company needs funds to invest in growth, such as to develop new products and popularize the use of digital ink. Its technologies and the products created from them have high growth potential, so while maintaining a balance with returning profits to shareholders, at FISCO we think that appropriately investing in business growth will ultimately increase returns to shareholders the most.

Trends in EPS, dividend, and dividend payout ratio



Source: Prepared by FISCO from the financial results summary

Information security

In light of its business model, the risk of information leakages and related risks are low

The Company is highly aware of the need for information security, and it is responding to generally anticipated cyber-attacks and other such threats. Its technologies are highly applicable for uses in the future, such as for capturing big data. However, the Company itself will not be the actor that collects the big data and ultimately its stance is that it only provides the tools for this. In this sense, it can be said that the risks relating to the management and leakage of information are extremely low. Also, it is developing cloud-type services, but this development is being conducted overseas (outside of Japan) with global standard basis and it seems that it is also taking measures for information security with a higher awareness than general attitudes in Japan.

Disclaimer