COMPANY RESEARCH AND ANALYSIS REPORT

Wacom Co., Ltd.

6727

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Summary

Made a steady start in the new medium-term business plan's first fiscal year. There is also a successful case in the plan, of the progress made in various measures leading to a launch of a hit product.

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

1. Sales and profits increased due to the strong performance of the Technology Solution Business and costs controls

In the Company's FY3/19 results, sales and profits increased, with net sales of ¥89,499mn (up 8.8% year-on-year (YoY)) and operating profit of ¥4,152mn (up 17.7%). Sales and profits declined in the Branded Business due to the effects of changes to the competitive environment. But these declines were absorbed by the higher sales and profits in the Technology Solution Business and the thorough efforts to control costs, including optimizing SG&A expenses. Therefore on a Company-wide basis, results were above the previous forecasts.

2. Made a steady start in the first fiscal year of Wacom Chapter 2, the new medium-term business plan. Going forward, the focus will continue to be on the progress made.

The Company is working on Wacom Chapter 2, its four-year plan from FY3/19 to FY3/22. The main concept is to aim for growth by reflecting on its point of origin as a Technology Company, and to realize this, it has established three Company-wide strategies, of 1) Technology Leadership, 2) Island & Ocean, and 3) Extreme Focus. In the plan's first fiscal year of FY3/19, steady progress was confirmed for many individual areas and themes, which led to the above-described solid results. However, there still remain many half-finished themes and issues, so the situation is of waiting for further progress in the future.

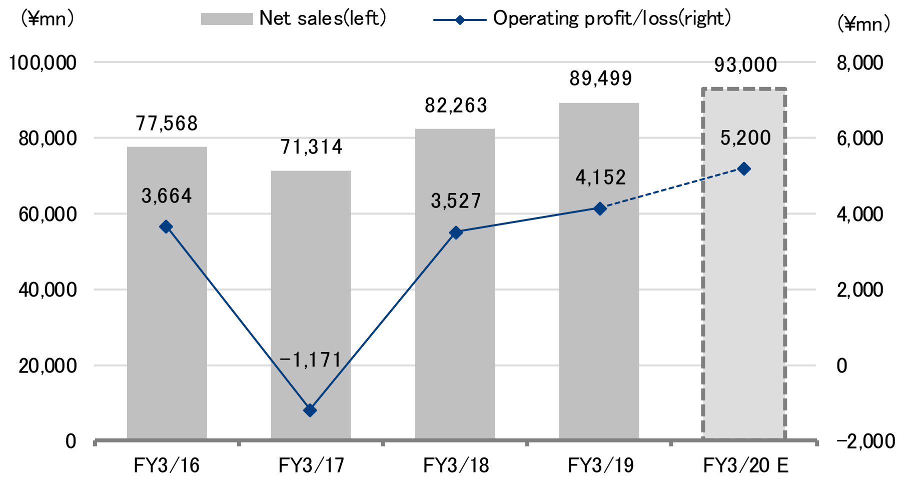
3. Forecasts for FY3/20 are for the higher sales and profits to continue. The key will be the re-strengthening of the Branded Business.

For FY3/20, the Company is forecasting that the higher sales and profits will continue, with net sales of ¥93,000mn (up 3.9% YoY) and operating profit of ¥5,200mn (up 25.2%). Thanking to the above-described progress for Wacom Chapter 2, it is forecasting that sales and profits will return to an increase trend in the Branded Business, which was challenged by several issues and resulted in declines in sales and profits in the previous fiscal year. In the strongly performing Displays, it expects the driving role to be played by entry models. In the Technology Solution Business, the Company formulates results forecasts based on the concept of baselines, so the forecasts are for a slight increase in sales and a decline in profits. But on this point, at FISCO we think there is room for the results to exceed the forecasts. On the other hand, the risk factors include the additional impact from the recent US-China trade friction, and we shall be paying attention to developments going forward. For the quarterly results during the fiscal year, it is necessary to be aware that an operating loss is anticipated particularly in Q1, in which sales tend to be low, because the profit-loss level fluctuates significantly due to the change in the level of sales by seasonal factors and the continued active investment in R&D.

Key Points

- Overall, steady progress is making for the new medium-term business plan's growth strategy and the high-priority issues
- In the Branded Business, in which not only competition has intensified for medium-and-low-priced pen tablet models but operational problems also surfaced, the key to returning to a growth track will be implementing various measures with a focus on Displays
- The Technology Solution Business' components supply continues to be at high levels in all areas, including for smartphones and tablets
- In the quarterly results, it is necessary to be aware of the major fluctuations in the profit-loss levels due to changes in sales because of seasonal factors and the continued active investment in R&D

Results trends



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

Results trends

The major increases in sales and profits in the Technology Solution Business and the optimization of SG&A expenses absorbed the fall in sales and profits in the Branded Business. Steadily achieved the Company forecasts.

1. FY3/19 results

In the Company's FY3/19 results, sales increased and profits increased greatly, with net sales of ¥89,499mn (up 8.8% YoY), operating profit of ¥4,152mn (up 17.7%), ordinary profit of ¥4,149mn (up 15.7%), and profit attributable to owners of parent of ¥3,851mn (up 63.1%). In October 2018, the Company upwardly revised the full fiscal year results forecasts. Compared to these revised forecasts, net sales, operating profit, and ordinary profit were above forecast by 0.6%, 3.8%, and 5.8% respectively.

The reason why profit attributable to owners of parent greatly exceeded both its initial forecast and the revised forecast was a decrease in tax expenses following a review of the recoverability of deferred tax assets.

FY3/19 results

(¥mn)

	FY3/18			FY3/19					
	1H results	2H results	Full year forcast	1H results	2H results	Full year results	Full year forcast	YoY	vs. forecast
Net sales	40,689	41,574	82,263	46,263	43,235	89,000	89,499	8.8%	0.6%
Gross profit	15,703	16,057	31,760	15,727	14,721	-	30,448	-4.1%	-
SG&A expenses	14,202	14,031	28,233	12,994	13,302	-	26,296	-6.9%	-
Operating profit	1,501	2,026	3,527	2,734	1,418	4,000	4,152	17.7%	3.8%
Operating margin	3.7%	4.9%	4.3%	5.9%	3.3%	4.5%	4.6%	-	-
Ordinary profit	1,642	1,943	3,585	2,912	1,238	3,920	4,149	15.7%	5.8%
Profit attributable to owners of parent	1,674	688	2,362	1,975	1,876	2,980	3,851	63.1%	29.2%

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

Net sales were ¥89,499mn, an increase of 8.8% YoY for a new record high. The initial net sales forecast was ¥85,000mn, but following the Q2 results, it was upwardly revised to ¥89,000mn, and ultimately the result even exceeded this revised amount. In the breakdown by segment, net sales in the Branded Business were below both prior year and the initial forecast, including because of the intensification of competition that occurred for medium-and-low-priced pen tablet models in the Creative business and insufficient supply capacity in the first half of the period. But in the Technology Solution Business, sales increased greatly and were more than 30% above prior year and also significantly exceeded the initial forecast, which pushed-up sales on a Company-wide basis.

Reflecting these sales trends, in profits also, the same as for sales, profits in the Branded Business were below both prior year and the initial forecast, but this was absorbed by profits in the Technology Solution Business increasing YoY to exceed the forecasts.

Details by business segment

(¥mn)

		FY3/18			FY3/19						
		1H Results	2H Results	Full year results	1H Results	2H Results	vs. initial full-year forecast	vs. revised forecast	Full year results	YoY	vs. revised forecast
Net sales	Branded Business	22,442	25,731	48,173	20,661	24,782	50,300	46,000	45,443	-5.7%	-1.2%
	Technology Solution Business	17,902	15,746	33,648	25,602	18,453	34,700	43,000	44,056	30.9%	2.5%
	Other	345	97	442	0	0	0	0	0	-	-
	Subtotal	40,689	41,574	82,263	46,263	43,235	85,000	89,000	89,499	8.8%	0.6%
	Adjusted amount	-	-	-	-	-	-	-	-	-	-
	Net sales total	40,689	41,574	82,263	46,263	43,235	85,000	89,000	89,499	8.8%	0.6%
Operating profit	Branded Business	2,549	3,920	6,470	1,880	2,565	9,700	5,500	4,445	-31.3%	-19.2%
	Technology Solution Business	3,531	2,147	5,678	4,958	2,437	2,590	6,900	7,395	30.3%	7.2%
	Other	-39	-27	-65	0	0	0	0	0	-	-
	Subtotal	6,042	6,040	12,082	6,838	5,002	12,290	12,400	11,841	-2.0%	-4.5%
	Adjusted amount	-4,541	-4,015	-8,555	-4,105	-3,584	-8,290	-8,400	-7,689	-	-
	Operating profit total	1,501	2,026	3,527	2,734	1,418	4,000	4,000	4,152	17.7%	3.8%

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

As symbolized by the fact that optimizing SG&A expenses has been set as one of the high-priority issues in the new medium-term business plan, the Company is working assiduously to control costs and to improve the cost structure. In FY3/19, the effects of these efforts began to appear, and total SG&A expenses declined ¥1,937mn YoY. The ratio of SG&A expenses to net sales was 29.4%, which was a significant reduction from 34.3% in FY3/18 and the first time it has been below 30% in 5 fiscal years.

On looking at the details of the reduction in SG&A expenses, personnel expenses decreased mainly due to the decline in the number of executives and the assignment of the CAD software business. Sales promotions and advertising were implemented in consideration of their effects and necessity when releasing new products, which led to a decline in expenses. In outsourcing expenses, the reduction in expenses related to the global ERP systems contributed. Other reductions included that the allowance for doubtful accounts recorded in the previous fiscal year was not recorded. Even within this mode of reducing expenses, the Company maintained R&D expenses at the same level as in the previous fiscal year.

Breakdown of SG&A expenses

(¥mn)

	FY3/18	FY3/19	YoY	
			Change	% change
Personnel expenses	9,795	9,275	-519	-5.3%
R&D expenses	4,385	4,345	-39	-0.9%
Sales promotion and advertising expenses	3,261	2,945	-316	-9.7%
Outsourcing expenses	2,353	1,951	-402	-17.1%
Depreciation	1,321	1,180	-141	-10.7%
Other	7,119	6,599	-520	-7.3%
SG&A expenses total	28,233	26,296	-1,937	-6.9%
SG&A expenses ratio	34.3%	29.4%	-	-

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

As previously stated, operating profit increased 17.7% YoY (¥625mn), and the analysis of the change factors (on a full fiscal year basis, YoY comparison) is as follows. Breaking down the various factors to the 1H and the 2H, profits further grew in the Technology Solution Business in the 2H, but this was exceeded by the extent of the decrease in profits in the Branded Business. Steady progress was made in reducing SG&A expenses in the 2H also, and a reduction amount greater than that in the 1H was accumulated in the 2H. The effects of exchange rates were a positive amount in the Q2 results, but it was a slightly negative amount on a full fiscal year basis due to the appreciation of the yen in the 2H.

Analysis of operating profit change factors (YoY comparison based on the FY3/19 full year results)

Item	Effect amount
Increase in gross profit due to the sales growth in the Technology Solution Business, etc.	+¥1,700mn
SG&A expenses decreased in the corporate division	+¥900mn
Decrease In gross profit due to the sales decrease and the deterioration of product mix in the Branded Business, etc.	-¥1,800mn
Exchange rate impact	-¥180mn
Total operating profit increase/decrease	+¥620mn

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

Although an entry model Display made steady starts, medium-and-low-priced pen tablet models struggled due to changes to the competitive environment, so sales and profits decreased

2. Trends in the Branded Business

In FY3/19 in the Branded Business, sales and profits decreased, with net sales of ¥45,443mn (down 5.7% YoY) and segment profit of ¥4,445mn (down 31.3%). The results were also below the revised forecasts, net sales by 1.2% and segment profit by 19.2%.

Details of Branded Business Results

(¥mn)

	FY3/18			FY3/19						
	1H Results	2H Results	Full year results	1H Results	2H Results	vs. initial full-year forecast	vs. revised forecast	Full year results	YoY	vs. revised forecast
Net sales	22,442	25,730	48,173	20,661	24,782	50,300	46,000	45,443	-5.7%	-1.2%
Creative Business	18,821	21,541	40,362	16,982	20,913	43,240	38,640	37,895	-6.1%	-1.9%
Pen tablets	10,394	12,996	23,390	9,288	11,595	25,050	21,380	20,883	-10.7%	-2.3%
Displays	6,412	6,633	13,045	6,318	8,092	14,370	14,510	14,410	10.5%	-0.7%
Mobiles	2,015	1,912	3,927	1,376	1,226	3,820	2,750	2,602	-33.7%	-5.4%
Consumer Business	1,606	1,704	3,310	1,180	1,174	2,640	2,180	2,354	-28.9%	8.0%
Business Solution	2,015	2,486	4,501	2,499	2,695	4,420	5,180	5,194	15.4%	0.3%
Segment profit	2,549	3,920	6,470	1,880	2,565	9,700	5,500	4,445	-31.3%	-19.2%
Ratio of segment profit to net sales	11.4%	15.2%	13.4%	9.1%	10.4%	19.3%	12.0%	9.8%	-	-

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

In the Branded Business, the initial forecasts were for net sales of ¥50,300mn and segment profit of ¥9,700mn. But the full fiscal year forecasts were downwardly revised, mainly due to the impacts of an opportunity loss in the 1H from an operational problem with the supply of Displays and the intensification of competition for medium-to low-priced pen tablet models. Subsequently on entering the 2H, in Displays, although momentum was generated from a launch of an entry model, the downward trend in sales continued alongside the intensification of competition for Pen tablets and from Mobiles entering the late stages of their life cycles. Therefore, as was previously stated, in the end net sales were ¥45,443mn.

In profits, the same as for sales described above, the decline in sales due to the intensification of competition for Pen tablets led to a fall in profits. In addition, the profitability of Displays, for which the launch of an entry model had contributed to the increase in sales, seems to have declined. Therefore, the product mix deteriorated due to the fall in the percentage of total sales provided by Pen tablets that have a relatively high profit margin, which led to a decline in profits. As a result of the above, the ratio of segment profit to net sales fell significantly, from 13.4% in FY3/18 to 9.8% in FY3/19, and profits also fell greatly, down by more than 30% YoY.

The trends in the sub-segments by product are as follows.

Net sales of Pen tablets decreased 10.7% YoY to ¥20,883mn. Due to the impact of the intensification of competition, little progress was made in spreading the use of the new, medium-to low-priced products launched in the January-to-March 2018 period. Sales of products for professionals also declined slightly, as two years have passed since they were released. Therefore, sales of Pen tablets as a whole declined by double digits YoY.

Net sales of Displays increased 10.5% YoY to ¥14,410mn. In the 1H, an opportunity loss occurred due to the supply problem, but this problem was resolved in the 2H. Also, the Company's first entry model with a price of less than ¥70,000, which it released in January 2019, was favorably received by the market and steadily sold, so overall sales increased by double digits YoY.

Net sales of Mobiles decreased 33.7% YoY to ¥2,602mn. The direct reason for the major decline in sales was that existing mainstay products have entered the latter stages of their product lifecycles. Mobile products consist of a liquid crystal display (LCD) tablet with an installed OS and memory device, so they have competitive relations with the pen-input tablets and notebook PCs of other companies. Therefore, for Mobiles, the Company is taking into consideration the medium-term changes to user workflows in the mobile environment relating to 5G communication technologies, and it seems to be progressing a review, starting from a sweeping review of product planning. Under this situation, it has delayed model changes based on the current environment, and this led to the significant decline in sales YoY in the results.

As a result of the above, in the Creative business as a whole, net sales decreased 6.1% YoY to ¥37,895mn.

Consumer business net sales decreased 28.9% YoY to ¥2,354mn. The main reasons for this decrease were that sales declined of Bamboo Ink, a stylus product compatible with Windows Ink, as more than a year has passed since it was launched, and that sales of digital stationary, including Bamboo Folio, did not grow.

Business solution net sales increased 15.4% to ¥5,194mn. In the United States, sales grew of LCD signature tablets for financial institutions and LCD tablets for educational facilities, which contributed to the rise in sales.

Sales were strong for products for smartphones, and for tablets and notebook PCs, and both sales and profits increased greatly and were significantly above the Company forecasts

3. Trends in the Technology Solution Business

In FY3/19 in the Technology Solution Business, sales and profits increased significantly, with net sales of ¥44,056mn (up 30.9% YoY) and segment profit of ¥7,395mn (up 30.3%). The Company reviewed and upwardly revised the forecasts for this business during the period, but the results were even above these revised forecasts, net sales by 2.5% and segment profit by 7.2%.

Details of Technology Solution Business Results

(¥mn)

	FY3/18			FY3/19						
	1H Results	2H Results	Full year results	1H Results	2H Results	vs. initial full-year forecast	vs. revised forecast	Full year results	YoY	vs. revised forecast
Net sales	17,902	15,746	33,648	25,602	18,454	34,700	43,000	44,056	30.9%	2.5%
For smartphones	6,529	5,179	11,708	11,758	6,507	14,650	18,050	18,265	56.0%	1.2%
For tablets and notebook PCs	11,373	10,567	21,940	13,844	11,947	20,050	24,950	25,791	17.6%	3.4%
Segment profit	3,531	2,147	5,678	4,958	2,437	2,590	6,900	7,395	30.2%	7.2%
Ratio of segment profit to net sales	19.7%	13.6%	16.9%	19.4%		7.5%	16.0%	16.8%	-	-

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

In the Technology Solution Business, net sales for smartphones increased 56.0% YoY to 18,265mn. This sub-segment sells the pen sensor system for the Galaxy Note series to Samsung Electronics of South Korea. In FY3/18, the impact of the recall problem for the Galaxy Note 7 still remained, so sales did not grow as expected. But in FY3/19, sales grew greatly because in addition to the sales for the continuation model, the Galaxy Note 8, the Company supplied the digital pen with strengthened functions for the latest model, Galaxy Note 9.

Net sales for tablets and notebook PCs increased 17.6% YoY to ¥25,791mn. In this business, the Company conducts an OEM supply of digital pens adopting either technology, Electromagnetic Resonance (EMR) or Active ES (AES), to tablet and notebook PC manufacturers. In the tablet and notebook PC fields, the pace of equipping devices with digital pens is accelerating and the number of pen-equipped models is steadily increasing. Within this situation, the Company's AES input pen has acquired an excellent reputation for its performance, while EMR input pen has for education field, and both the number of models it is delivered for in the various manufacturers and the quantity supplied are rising, which led to the increase in sales in FY3/19.

Progress on the medium- to long-term strategy

Is reflecting on its point of origin as a "Technology Company" and aiming for growth through three Company-wide strategies

1. Wacom Chapter 2 Four-Year Medium-Term Business Plan

In conjunction with the appointment of President & CEO Nobutaka Ide in May 2018, the Company announced Wacom Chapter 2 as its new medium-term business plan (FY3/19 to FY3/22). The background to the formulation of this new plan and its content are described in detail in the report dated June 12, 2018, while a summary of it is provided below.

To simply state the theme of the new medium-term business plan, it is that the Company is aiming for growth by reflecting on its point of origin as a Technology Company. It is a pioneer company for pen input devices that has achieved growth by deeply focusing on and opening-up this market. The pen input devices market has entered a fully-fledged expansion phase and the competition is also intensifying year by year. In this situation, the Company is aiming to grow earnings by utilizing to the greatest possible extent the pen and ink digital technologies it has accumulated over many years and providing customers with a digital ink experience that they are familiar with. Toward realizing this goal, it has established three Company-wide strategies, of 1) Technology Leadership, 2) Island & Ocean, and 3) Extreme Focus.

The Company has positioned these three strategies as the core for the implementation of the medium-term business plan, while it also sets high-priority issues according to the conditions at the time and aims to grow earnings by steadily implementing measures for them. The progress made for these three Company-wide strategies and the main high-priority issues is described in detail below.

The three Company-wide strategies in Wacom Chapter 2, the new medium-term business plan

The three Company-wide strategies	Technology Leadership (progress technological leadership)
	Island & Ocean (close collaborations through Island & Ocean)
	Extreme Focus (bold selection and concentration)

Source: prepared by FISCO from the Company's press releases, results briefing materials, etc.

The three results targets for FY3/22, which is the final fiscal year of the four-year plan, are a consolidated operating profit margin of 10%, consolidated net sales of ¥100bn (therefore, operating profit of ¥10bn), and consolidated ROE of 15% to 20%. In terms of the progress to be made up to the final fiscal year, the Company is aiming to steadily achieve the respective results forecasts in each year and to raise-up the level of earnings.

As previously stated, in the plan's first fiscal year of FY3/19, the Company achieved the results forecasts for net sales and for every profit line item from operating profit down. But also as previously stated, there was a clear distinction between the two businesses. The situation for the sub-segments by product was also mixed, as while steady progress was made for some areas, there remain many issues to be addressed. In theory, the Company-wide measures and the high-priority issues in the medium-term plan are transformed into the sales trends of the various products that eventually fell into financial results. As of the end of FY3/19, at FISCO we think that a reasonable evaluation is that while overall a pass grade was achieved, there remain many issues that need to be overcome.

The results targets and the progress made in Wacom Chapter 2, the medium-term business plan

(¥mn)

	FY3/18 Result	The Wacom Chapter management targets				
		FY3/19			FY3/22	
		Initial forecast	Revised forecast	Result	Forecast	CAGR
Net sales	82,263	85,000	89,000	89,499	100,000	5%
Branded Business	48,173	50,300	46,000	45,443	60,400	6%
Technology Solution Business	33,648	34,700	43,000	44,056	39,600	4%
Operating profit	3,527	4,000	4,000	4,152	10,000	-
Operating margin	4.3%	4.7%	4.5%	4.6%	10.0%	-
Profit attributable to owners of parent	2,362	2,980	2,980	3,851	6,948	-
ROE (%)	10.8%	13.0%	13.0%	16.0%	15-20%	-
Equity ratio (%)	44.5%	-	-	49.3%	60%	-

Source: prepared by FISCO from the Company's press release and results summary report

Is steadily forming alliances with partner companies and actively investing in technological development

2. Measures and progress made for Technology Leadership

The promotion of Technology Leadership can be said to be a theme that expresses the Company's strong intention to continue to take the initiative in the field of pen and ink digital technologies. Toward realizing this, it has newly established a CTO office, clarified the medium- to long-term technology road map, and is aiming to accelerate innovation.

In FY3/19, the Company worked to build and strengthen alliance relationships with partner companies while focusing on the advanced technological fields of next-generation technologies, such as VR (Virtual Reality) and MR (Mixed Reality), and also on digital stationery, displays, and 5G. Specific examples of this were described in detail in the report dated November 30, 2018, but they include an alliance with Gravity Sketch of the UK in the VR field, and with Magic Leap of the United States in the MR field.

It also goes without saying that in order to realize Technology Leadership, it is essential to actively invest in technological innovation. In FY3/19, the Company invested ¥4.3bn in R&D expenses, which is about the same as in the previous fiscal year. The fact that even while progressing a Company-wide review of the cost structure for all cost items, it is still maintaining the same level of investment in R&D as in the previous fiscal year, can be said to be indicative of its approach of prioritizing technological development. The Company is also steadily investing in human resources with an eye to the medium- to long-term, including recruiting more than 20 people with the aim of strengthening in the engineering field.

Is making steady progress with measures for both “Island” and “Ocean” respectively. The most Important issues going forward will be reinforcing collaborations and realizing the results from them.

3. Measures and progress made for Island & Ocean

Briefly, the meaning of Island & Ocean (close collaborations through Island & Ocean) is that for the Branded Business and the Technology Solution Business, the Company is accelerating collaborations between all the functions of these two businesses to develop innovation and new business areas, which will lead to sustainable growth and other benefits. As the first step, the Branded Business is regarded as an Island and the Company is deeply cultivating technologies to provide to customers the best possible experience for demonstrating creativity. On the other hand, the Technology Business is regarded as an Ocean, and through establishing its own technologies as the de-facto standard, it is widely spreading the use of pen and ink digital technologies.

In the Branded Business, the high-priority issues are 1) shifting and optimizing the product portfolio to reflect environmental changes (such as consumer behaviors and preferences, or any business changes that affect demand) and 2) reforming the business model and the delivery of value to customers. An example of the specific progress made in FY3/19 is that for Displays in the Creative business, the Company launched as planned an entry model priced ¥60,000 level, which was unprecedented for it. In the field of Pen tablets, which has been the main reason for the slump in the Branded Business segment, there is the aspect of competition with other companies in the medium-to low-priced category. But there has also been a strong shift in user preferences, from Pen tablets, which are like blackboards, to Displays, in which users input onto LCD screens, and competitors have started to launch various Displays in the low-price range. Before launching this entry model Display, the Company had not had products that absorb such changes in user preferences, but it can be said to have taken a step forward toward resolving this issue by this launch.

At FISCO, we feel that this launch of an entry model Display (and its success) have various implications. Among them, one is that in the product development up until recently, the Company had the aspect of pushing its values onto the market and users, but the fact that it is responding flexibility to the changes in the market with its entry model Display indicates that it has changed its approach also. From the current fiscal period, it is embarking on a fully fledged recomposition of its product portfolio, and if our understanding of this is correct, it would seem highly likely that it will be able to develop the next hit products.

In the Technology Solution Business, the themes that the Company is dealing with are making its technologies the de-facto standard and converting the business model to a solutions model (converting from conducting sales to proposing solutions). As expressed by the results trends, for smartphones, the Company's pen sensor system is installed in Samsung Electronics' Galaxy Note series, which are renowned for a digital pen as standard installation, and it has a delivery share of 100%. In addition, for digital pens installed as standard for tablets and notebook PCs, the Company's AES digital pen is being widely adopted, while it is also making steady progress in preparations to respond technologically to the trend toward foldable displays. So, it can be said that the Company is making steady progress with measures toward making its technologies the de-facto standard.

The progress made for both Island and for Ocean was as described above, but the essence of the Island & Ocean strategy is utilizing to the greatest possible extent the results from the collaboration between both. On this point, they have only just started working together. The collaborations between the two businesses cover a wide range of fields, including development engineering and operations (such as procurement and production management). There is no doubt that these efforts are currently being made, but as yet they have not produced results. There are various methods to measure the extent of the progress made; for example, if the best practices (successful cases) in the Technology Solution Business can be utilized in the Branded Business and as a consequence, financial results in this segment exceed the Company forecasts, then at FISCO, we think that it can be evaluated that the Island & Ocean strategy is functioning as intended.

Successful case emerged from the technologies and product development road map, leading to a hit product. Is making steady progress with "optimizing SG&A expenses."

4. Measures and progress made for Extreme Focus

It sees unnecessary to explain the meaning of Extreme Focus (bold selection and concentration). However, the key point is as follows; the Company judges whether or not to invest management resources and progress bold selection and concentration based on two criteria, of whether it would be in line with progressing technological leadership, and whether it will lead to the deepening of relationships with customers.

In FY3/19, the Company continued to update the technologies and product development roadmap. As previously stated, in the Branded Business, sales were less than forecast, mainly because of the delay in the medium-and-low-priced pen tablet models penetrating the market. The Company conducted a detailed analysis of the background and the factors behind this failure, and it is dynamically advancing the work of reviewing the road map according to actual market conditions (dynamically responding when conditions change). The previously mentioned the launch of an entry model Display is one of the outcomes of this work.

Optimizing SG&A expenses is one of the high-priority issues, and clear progress has been made as well. As previously stated, the Company is maintaining R&D expenses, which are essential in order to progress technological leadership, at the same level as in the previous fiscal year. But on the other hand, it reduced total SG&A expenses by 7% YoY, and the ratio of SG&A expenses to net sales fell below the 30% level for the first time in 5 fiscal years. For the time being, it has set a target for the ratio of SG&A expenses to net sales at around 27%. So, while the FY3/19 result of 29.4% did not quite achieve this target, the Company can be evaluated as having made steady progress toward achieving it.

Governance structure is functioning as intended, in management decision-making after sufficient discussions in the Board of Directors. Is making continuous improvements toward further strengthening.

5. Measures and progress made for enhancing the quality of management

One of the Company's high-priority issues in Wacom Chapter 2 is enhancing the quality of management through reforming the Board of Directors. After the appointment of President Ide in April 2018, it started reforming the Board of Directors and following the Ordinary Shareholders' Meeting in June 2018, it established a Board of Directors with 8 directors (of who, 4 are outside directors) downsized from 10 directors (which included one vacancy, and of who, 4 were outside directors).

President Ide has expressed the idea that for the method of managing the Company, it is essential that management decisions be taken after sufficient discussions in the Board of Directors, rather than relying on individuals. In order for the Company, which is a Technology Company, to conduct high-quality discussions on strategy, it is important that all directors are very knowledgeable about a wide-range of areas, including technological aspects. Among the current members of the Board of Directors, one of the four outside directors is a lawyer, but the other three have management experience in fields such as systems development and software development. So, it would seem that the Board of Directors is achieving the high-quality discussions that President Ide is aiming for.

The Company appointed Mr. Osamu Hosokubo as a candidate for new outside director who is an Audit Committee member, which is subject to the approval of the Ordinary Shareholders' Meeting in June 2019. Mr. Hosokubo started his career in a Japanese trust bank, and then moved to the investment and asset management industry, and he has long experience of management in companies engaged in investment and consultancy for venture businesses. Currently, he manages his own company of the same kind, and he also works as an outside director for several companies. It is expected that the appointment of Mr. Hosokubo, who is very knowledgeable about various industries, including the finance and investment industries, will lead to the further activation of the Board of Directors.

Business outlook

The Company forecasts are for higher sales and profits, the same as in the previous fiscal year. Results may exceed the forecasts in the Technology Solution Business, but there is the risk in the Branded Business working on the challenging issues and facing the US-China trade friction, and we cannot be optimistic.

1. FY3/20 forecast—Be aware of a possible operating loss to be recorded in Q1 due to seasonal factors

For FY3/20, the Company forecasts increase in both sales and profits, a 3.9% YoY rise in net sales to ¥93,000mn, operating profit of ¥5,200mn, a 25.2% rise YoY, ordinary profit of ¥5,170mn, a 24.6% rise and profit attributable to owners of parent of ¥3,440mn, a 10.7% rise YoY.

The reason why profit attributable to owners of parent will decrease is a reaction to the fact that in FY3/19, tax expenses decreased following a review of the recoverability of deferred tax assets. It can be said that the actual state of profit fluctuations is more accurately expressed by the trends in operating profit and ordinary profit.

FY3/20 forecast

(¥mn)

	FY3/19			FY3/20					
	1H Results	2H Results	Full year results	1H	YoY	2H forecast	YoY	Full fiscal year forecasts	YoY
Net sales	46,263	43,235	89,499	44,950	-2.8%	48,050	11.1%	93,000	3.9%
Operating profit	2,734	1,418	4,152	1,610	-41.1%	3,590	153.1%	5,200	25.2%
Operating margin	5.9%	3.3%	4.6%	3.6%	-	7.5%	-	5.6%	-
Ordinary profit	2,912	1,237	4,149	1,596	-45.2%	3,574	188.9%	5,170	24.6%
Profit attributable to owners of parent	1,975	1,876	3,851	1,094	-44.6%	2,346	25.0%	3,440	-10.7%

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

The Company's results achieved a V-shaped recovery in FY3/18 following an operating loss in the previous fiscal year, and since then, sales and profits have trended upward. However, if looking by business segment within these results, we see that in both of the past two fiscal years up to FY3/19, a structure continued in which the part that results were below forecast in the Branded Business was covered by the strong results in the Technology Solution Business. In FY3/20, the Company is aiming to escape from this structure by firmly realizing earnings growth in the Branded Business also. This can be said to be a natural aim for it as a globally leading company in the digital pen and ink fields.

On the other hand, the Technology Solution Business is a business in which there are fundamentally major fluctuations in sales volume and large portion of the business is outside of the Company's efforts and control in nature. Therefore, it manages this business, always assuming baseline (meaning the lowest line that can be secured even in emergence of a worst-case scenario), and it incorporates this stance into the financial results forecasts also. In other words, in the Technology Solutions Business, the likelihood that actual results will exceed the forecasts is greater than the risk that they will be lower than the forecasts.

On dividing the full fiscal year results forecasts into the 1H and the 2H, it is necessary to be aware that, due to greater fluctuation of results attributable to seasonal factors compared with the previous fiscal period, the contribution in the 2H is expected to expand greatly. The Company has stated that it will work to actively invest in R&D in the 1H (a factor causing SG&A expenses to increase), and in particular, it assumes an operating loss might be recorded in Q1, in which the sales level is seasonally low. In the Branded Business, in which sales and profits fell in the previous fiscal period, in order to strengthen the foundation for growth in the future, it is addressing itself to the strategic recomposition of the products portfolio, which is expected to partially help acquiring sales from the 2H of the current fiscal year, which includes the peak-sales period.

From FY3/20, in order to understand the substance of segment operating profit more accurately, the Company changed its policy for allocating expenses mainly for the administrative departments (disclosed as an adjusted amount in the breakdown by business segment), and it now allocates a part of expenses to each business segment. For better understand the trends in segment operating profit in FY3/20 comparing to FY3/19, the values for FY3/19 revised on this allocation policy are presented as reference values. So, it is necessary to be aware that these values are different from the values in the official financial statements for FY3/19.

Forecast by business segment

(¥mn)

		FY3/19 Full year	FY3/20 Full year Initial forcast	FY3/20 YoY
Net sales	Branded Business	45,443	48,650	7.1%
	Technology Solution Business	44,056	44,350	0.7%
	Other	0	0	-
	Subtotal	89,499	93,000	3.9%
	Adjusted amount	0	0	-
	Net sales total	89,499	93,000	3.9%
Operating profit	Branded Business	1,822	4,010	120.1%
	Technology Solution Business	6,659	5,520	-17.1%
	Other	0	0	-
	Subtotal	8,481	9,530	12.4%
	Adjusted amount	-4,329	-4,330	-
	Operating profit total	4,152	5,200	25.2%

Note: the FY3/19 segment profits are reference values revised so they are on the same basis as in FY3/20 in relation to the policy for the allocation of expenses (adjusted amount), in the administrative departments, etc.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

At the present time, the trade friction between the United States and China is intensifying once again, and the Company's initial forecasts for FY3/20 did not incorporate the impact of the imposition by the United States of additional tariffs against China (announced on May 10, 2019, the tariffs on US$200bn worth of goods was raised from 10% to 25%, to be maintained thereafter). At the results briefing, the Company answered a question about this, stating that, at the current point in time, its impact would be to keep down profits (to push-up costs) for the full fiscal year (before tax) by around ¥1bn, which may fluctuate due to countermeasures such as changes in the supply chain. Currently, the opinion that the US-China trade friction will be resolved in the short term has receded, so it is necessary to be aware that this has emerged as extremely important point.

While it is necessary to ascertain risks relating to challenging issues, the forecasts are for sales and profits to turn around upwardly, driven by Displays that include the strongly performing entry models

2. Forecast in the Branded Business

In the Branded Business, the FY3/20 forecasts are for sales and profits to increase significantly, with net sales of ¥48,650mn (up 7.1%) and segment profit of ¥4,010mn (up 120.1%).

Depending on the products both upside and downside trends are shown, but ultimately the increase in sales of Displays will play the driving role in increasing sales in the Branded Business segment as a whole. Displays are among the Company's most competitive products, the same as Pen tablets for professionals, and in the previous fiscal year it launched an entry model in this field. They are being favorably received by the market, and in this situation, it seems that the Company is opening-up a new market. With this playing the driving role, it is considered fully possible that the forecast of higher sales can be achieved. If sales do not reach their forecast in the Branded Business segment, there may be cases in which the Company's abilities to grip on customer needs for products other than entry model Displays do not recover in line with the Company's expectations and those sales sank below forecast, as it would seem that the inventory level of those products was rather high as of the end of the previous fiscal period (it is thought this was reflected in the slump in the Q4 results in the previous fiscal year, and the level of inventory to consider should be total of both the Company's book inventory and the inventory held in sales channels after the recording of sales by the Company).

The forecast is that profits will increase 2.2 times YoY. If looking only at this growth rate, it would appear to be a high hurdle to clear, but the assumption for the FY3/20 ratio of segment profit to net sales is 8.2%. As the effect of the policy change to the allocation of expenses mainly in the administrative departments is thought to be around 5%, exclusion of this effect is estimated to correspond to a ratio of segment profit to net sales of 13%. This is the same level as the ratio in the Branded Business segment in FY3/18 (13.4%), so is considered to be fully achievable. As the high-priority issues in its medium-term business plan, the Company is currently working to optimize SG&A expenses and to reform its organization and operations, and the aim is to improve the cost structure so that these efforts are not wasted and to prevent mistakes. When considered together with the progress made for these efforts, in the short term it is extremely important to achieve sales as expected in order to achieve the segment profit forecast. The issues recognized up to the previous period must be practically all resolved by the end-of-year peak-sales period, and on this point, at FISCO, we think that there should be a certain level of risk.

Detailed forecasts for Branded Business

(¥mn)

	FY3/19 Full year	FY3/20	
		Full-year forecast	YoY
Net sales	45,443	48,650	7.1%
Creative Business	37,895	41,640	9.9%
Pen tablets	20,883	21,430	2.6%
Mobiles	14,410	18,540	28.7%
Displays	2,602	1,670	-35.8%
Consumer Business	2,354	1,710	-27.4%
Business Solution	5,194	5,300	2.0%
Operating profit	1,822	4,010	120.1%
Operating margin	4.0%	8.2%	-

Note: the FY3/19 segment profits are reference values revised so they are on the same basis as in FY3/20 in relation to the policy for the allocation of expenses (adjusted amount), in the administrative departments, etc.
Source: Prepared by FISCO from the Company's results briefing materials

The sub-segment trends by product are described below.

Pen tablets net sales are forecast to increase 2.6% YoY to ¥21,430mn. In FY3/20, the use of medium-to low-priced models is expected to spread among customers gradually, and it would seem that the Company expects average sales for the product lineup as a whole to grow, including sales of high-priced models for professionals. While a growth rate of 2.6% is not all that high, at FISCO, we think that for the medium-to low-priced models, whose sales slumped in FY3/19 even directly after the launches of new products, there is the risk of whether or not they can secure a YoY increase in sales, even for a low single digit, after a year has passed from their sales launches. Conversely, the competitiveness and the Branded power of the high-priced models for professionals remains unshaken, and moreover users' brand loyalty would seem to be high, so their sales are expected to steadily grow. They have high unit prices, so even should sales of medium-to low-priced models slump, we think it is fully possible for this to be covered by the growth in sales of high-priced models.

Displays net sales are forecast to increase 28.7% YoY to ¥18,540mn. Among the three pen input device products, Displays can be said to be the product field for which needs are the highest. This is because in contrast to Pen tablets, in which users input onto a 'blackboard' with a pen (in other words, what is drawn is displayed on the PC display, which the eyes follow), for Displays, the pen tablet product's blackboard corresponds to the LCD panel, so it is possible to input drawings directly as if drawing on a canvas (Displays are ultimately only an input device, not a memory device, so they need to be connected to and used with a PC, so on this point they are the same as Pen tablets).

Previously, the Company's Displays were focused on its lineup of high-priced products (¥200,000 to ¥300,000) and users were mainly professional creators. But in response to a change in market needs, in FY3/19 it launched an entry model priced ¥60,000 level, which were extremely well received and are expected to sell well in FY3/20 also. Currently, sales are trending in line with the Company's expectations, and at the current point in time there is nothing to suggest that it will not achieve the forecast. The major key will be sales in the October-to-December period, which is the peak demand period. But in the field of Displays, the Company is considered to be overwhelmingly strong and we think that causes for concern are relatively small.

There is demand for Pen tablets, but the possibility cannot be denied that there would be a shift in demand, centered on entry model Displays, that is greater than the Company anticipated. But what is important here is the difference in the size of profit per device. Although it depends on the item, the unit price of Pen tablets is about one tenth that of Displays, and it is considered that the amount of profit per device is correspondingly different. Even if a shift in demand occurs, it is considered that the number of users will not change. Therefore, it is difficult to imagine a situation in the Branded Business of a decline in the amount of profit obtained by multiplying by the same number of devices.

Mobiles net sales are forecast to decrease 35.8% YoY to ¥1,670mn. Mobile products are a combination of the above-described Displays and memory devices. In terms of actual operations, the characteristics of these mobile products overlap with general tablets and notebook PCs with pen input function, so both have competitive relations. The Company's mobile products have superior pen input performance, but they are not general PCs, so in many cases users select tablets or notebook PCs. Based on this situation, the Company seems to have fundamentally reviewed its mobile products, such as their product characteristics, which is considered to be linked to a significant decline in sales budget for FY3/20. But the future of Mobiles certainly does not look dark, and one possible opportunity for its resurgence is 5G. A major feature of 5G is high-speed, high-capacity communications, and such an environment will be a major positive for VR and MR that the Company is focusing on. As the input devices under cloud computing environment based on these technologies, the mobility and high functionality of the Company's mobile products are likely to demonstrate their value.

Consumer Business net sales are forecast to decrease 27.4% to ¥1,710mn. In FY3/20, the Company plans to launch the second-generation, Windows Ink-compatible stylus pen, which is expected to lead to an increase in sales of digital pens. On the other hand, it plans to review the product characteristics of the digital stationary products, of Bamboo Slate and Bamboo Folio, and for this reason, sales are forecast to decline YoY.

Business solution net sales are forecast to increase 2.0% YoY to ¥5,300mn. In each field, the use of LCD tablets in financial institutions and educational facilities is continuing to steadily spread and permeate, so steady sales are expected to be maintained in FY3/20 also.

Expects steady and continuous shipments for smartphones, and for tablets and notebook PCs. The forecasts incorporate a certain degree of risk and there is room for results to exceed them.

3. Forecast in the Technology Solution Business

The forecasts for the Technology Solution Business in FY3/20 are for a slight increase in sales and a decrease in profits, with net sales of ¥44,350mn (up 0.7% YoY) and segment profit of ¥5,520mn (down 17.1%).

The Company has introduced the concept of baselines into its results forecasts for the Technology Solution Business due to a characteristic of this business, which is that its earnings may fluctuate due to factors that are beyond the Company' own efforts and control. A baseline means the lowest line that can be steadily secured even assuming the worst-case scenario, and it is expressed in the form of forecasting only slight increases or decreases for the above results forecast. Therefore, as long as there are no sharp declines in the sales of the models of customer companies in which the Company's components are installed, at FISCO we think it is fully possible that results would exceed the initial segment results forecasts.

Detailed forecasts for Technology Solution Business

(¥mn)

	FY3/19 Full year	FY3/20	
		Full-year forecast	YoY
Net sales	44,056	44,350	0.7%
For smartphones	18,265	17,900	-2.0%
For tables and notebook PCs	25,791	26,450	2.6%
Operating profit	6,659	5,520	-17.1%
Operating margin	15.1%	12.4%	-

Note: the FY3/19 segment profits are reference values revised so they are on the same basis as in FY3/20 in relation to the policy for the allocation of expenses (adjusted amount), in the administrative departments, etc.
Source: Prepared by FISCO from the Company's results briefing materials

Net sales for smartphones are forecast to decrease 2.0% YoY to ¥17,900mn. This business provides the pen sensor system for Samsung Electronics' Galaxy Note series. The FY3/19 Galaxy Note series was comprised of the continuation model, Galaxy Note 8, and the latest model, Galaxy Note 9, and from its supply for these two models, the Company secured net sales of ¥18,265mn. On applying the same pattern as in the past to FY3/20, it is expected to supply the system for the Galaxy Note 9 and the next-period new model, and it is thought to be forecasting net sales from this of ¥17,900mn. The point here is the time period in which the next-period new model will be launched, but at the current time this is still unknown. If the timing of this is delayed, then the timing on which the Company records sales during the period will also change, but it is not assumed that this will affect sales for the full fiscal year.

For FY3/20, it appears that the Company is not expecting orders and shipments to be pushed forward, as was seen in the previous fiscal year. But at FISCO, we think there is a reasonably high possibility that they will be pushed forward in this fiscal year also. This is because of the postponement of the sales launch of Galaxy Fold, which is Samsung Electronics' foldable smartphone. The scenario is that following the loss of this 1H focus product, expectations for the new model in the Galaxy Note series have risen, and the sales launch period will be advanced. The relationship between the Galaxy Fold and the Company is not clear, but based only on looking at the reporting on the Galaxy Fold up to the present time, it cannot be confirmed if it will be a pen input device.

Net sales for tablets and notebook PCs are forecast to increase 2.6% to ¥26,450mn. As explained in previous reports, in the tablets and notebook PC fields, the movement toward installing digital pens as standard is accelerating, and among the main tablet and PC manufacturers, the number of models that have a digital pen installed is increasing. The Company's AES digital pens have excellent reputations among tablet and PC manufacturers, and the situation is that it is successfully capturing the demand from them.

There have appeared a few rival companies that intend to newly enter-into this growth market, so there may be some concerns on this point, but at FISCO, we do not think it is necessary to be concerned about it. The reason is that in their evaluations, tablet and PC manufacturers place more importance on performance than on price, and at the present time, the AES input method seems to be a step ahead of the other methods in their evaluation of performance. The situation in tablet and PC manufacturers is that they cannot install components with inferior performance in order to compete with the products of rival companies, and this is considered to be advantageous for the Company. Its Electromagnetic Resonance (EMR) digital pen also has high affinity with the models used in the education field, and it is expected that its adoption by manufacturers that are strong in this field will continue to grow.

Statements of income and key indicators

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	
					1H (E)	Full year (E)
Net sales	77,568	71,314	82,263	89,499	44,950	93,000
YoY	4.0%	-8.1%	15.4%	8.8%	-2.8%	3.9%
Gross profit	30,736	27,566	31,760	30,478	-	-
Gross margin	39.6%	38.7%	38.6%	34.1%	-	-
SG&A expenses	27,071	28,737	28,233	26,296	-	-
Ratio of SG&A expenses to net sales	34.9%	40.3%	34.3%	29.4%	-	-
Operating profit	3,664	-1,171	3,527	4,152	1,610	5,200
YoY	-40.3%	-	-	17.7%	-41.1%	25.2%
Operating profit margin	4.7%	-1.6%	4.3%	4.6%	3.6%	5.6%
Recurring profit	3,777	-870	3,585	4,149	1,596	5,170
YoY	-37.7%	-	-	15.7%	-45.2%	24.6%
Profit attributable to owners of parent	2,310	-5,534	2,362	3,851	1,094	3,440
YoY	-33.5%	-	-	63.1%	-44.6%	-10.7%
EPS after adjustment for share-split (¥)	14.00	-33.93	14.55	23.71	6.74	21.18
Dividends after adjustment for share-split (¥)	18.00	6.00	6.00	6.00	0.00	6.50
BPS after adjustment for share-split (¥)	188.22	130.75	139.45	156.54	-	-
Capital investment amount	4,862	3,580	1,513	2,380	-	2,520
Depreciation and amortization	2,004	2,573	2,421	2,324	-	2,560
R&D expenses	4,342	4,397	4,385	4,345	-	5,170

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

Balance sheet

(¥mn)

	As of March 31, 2015	As of March 31, 2016	As of March 31, 2017	As of March 31, 2018	As of March 31, 2019
Current assets	40,187	37,873	39,499	42,195	42,158
Cash and deposits	16,687	14,365	14,205	19,157	16,762
Notes and accounts receivable	9,876	10,162	10,768	10,738	9,561
Inventories	10,217	10,098	11,665	9,720	13,395
Other	3,407	3,248	2,861	2,580	2,440
Fixed assets	11,269	13,693	10,750	8,714	9,393
Tangible fixed assets	4,608	4,538	4,303	4,301	4,176
Intangible fixed assets	5,442	8,131	4,313	2,951	2,976
Investments and other assets	1,219	1,023	2,134	1,462	2,241
Total assets	51,457	51,567	50,250	50,910	51,551
Current liabilities	15,880	16,479	17,384	16,752	14,653
Accounts payable	9,203	6,103	7,482	7,101	5,376
Short-term debt	600	4,000	3,000	3,000	3,000
Other	6,077	6,376	6,902	6,651	6,277
Fixed liabilities	1,718	3,992	11,508	11,489	11,470
Shareholders' equity	32,618	30,770	21,536	22,924	25,828
Capital	4,203	4,203	4,203	4,203	4,203
Capital surplus	7,551	7,513	6,099	6,099	6,101
Retained earnings	22,319	21,629	13,134	14,522	17,399
Treasury stock	-1,455	-2,576	-1,900	-1,900	-1,875
Total accumulated other comprehensive income	1,060	188	-306	-281	-402
Share acquisition rights	181	138	127	25	2
Total net assets	33,859	31,096	21,357	22,668	25,428
Total liabilities and net assets	51,457	51,567	50,250	50,910	51,551

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

Cash flow statement

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Cash flow from operating activities	6,782	2,009	122	6,781	1,054
Cash flow from investing activities	-3,277	-4,878	-3,480	-767	-2,437
Cash flow from financing activities	-2,849	1,209	3,299	-974	-951
Gain or loss on translation of foreign currency cash and deposits	637	-661	-101	-88	-61
Change in cash and deposits balance	1,293	-2,321	-160	4,952	-2,394
Cash and deposits balance at start of fiscal year	15,393	16,686	14,365	14,205	19,157
Cash and deposits balance at end of fiscal year	16,686	14,365	14,205	19,157	16,763

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

Returns to shareholders

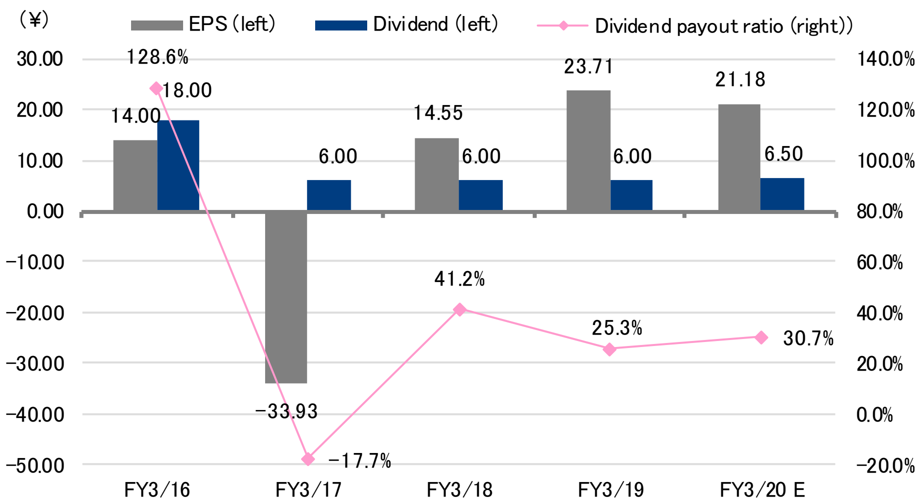
Announced a dividend forecast for FY3/20 of ¥6.5, up ¥0.5 (+8.3%) YoY

The Company's basic policy towards shareholder returns is to pay steady dividends and flexibly acquire treasury stock, both actions being based on its profits after considering the amount of funds to be retained for future business development and sound financial base. The Company had previously set a dividend payout ratio of around 40% as the standard for the dividend level, but from FY3/18, it lowered it to around 30%. Also, the number of times it pays dividends is once a year, at the end of the fiscal year, to reduce operating costs.

As was initially forecast, in FY3/19 the Company decided to pay a dividend of ¥6, the same as in the previous fiscal year. Profit attributable to owners of parent, which is the denominator, temporarily increased, mainly due to a factor not accompanying cash-in because of tax-effect accounting. As a result, the dividend payout ratio declined to 25.3%. For FY3/20, it has announced a dividend forecast of ¥6.5, which is an increase of ¥0.5 YoY. The dividend payout ratio based on the forecast earnings per share (EPS) of ¥21.18 is expected to be 30.7%, reflecting an increase of dividend and no anticipation of temporary factors for profit as in the previous fiscal year.

In the process of executing Wacom Chapter 2, its medium-term business plan, the Company has significant demand for funds for research and new products development. But on the other hand, it is very confident of its ability to steadily realize profit growth through reforming its cost structure, and at FISCO, we think that this led to its decision to increase the dividend.

Trends in EPS, dividend, and dividend payout ratio



Source: Prepared by FISCO from Company materials

Company profile

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

The Company was established in 1983 in Ageo City, Saitama Prefecture. Its name derived from "world" and "computer," while "WA" includes the meaning of "harmony between people and computers" ("WA" being the Japanese word for harmony, a part of new era REIWA). 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 has a large share in the creative pen tablets markets mainly for creators.

In 1991, it entered into the pen sensor components field (currently, the Technology Solution Business). This business involves supply of components and modules, such as the Company's digital pens, control IC and sensor boards, to the manufacturers of finished products. The business is growing rapidly on the back of the expansions of the markets for tablets and smartphones.

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

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