

## Wacom Co., Ltd.

6727

Tokyo Stock Exchange Prime Market

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## Summary

### Higher sales and operating profit for 1H FY3/25. Progress on structural transformation of the Branded Business

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

#### 1. 1H FY3/25 results

In 1H FY3/25, sales and profits increased, with net sales increasing 3.1% year on year (YoY) to ¥57,315mn and operating profit increasing 122.9% to ¥5,475mn. This performance reflected a contribution from growth in sales of the Technology Solution Business supported by the effect of the yen’s depreciation and brisk OEM demand. However, the Branded Business continued to struggle due to rapid changes in the market environment even as the Company proceeded to update its product portfolio. On the earnings front, operating profit increased substantially due to factors such as growth in the Technology Solution Business, and improved profit and loss in the Branded Business, even while the Company continued to actively invest in R&D. In terms of activities, the Company released “Wacom Movink 13” in May 2024 with the intention of establish the new use case of “Portable Creative” which it has presented as one of the structural transformations in the Branded Business.

#### 2. FY3/25 results outlook

For the FY3/25 consolidated results outlook, the Company has left the forecast unchanged from the initial forecast, and expects net sales to increase 1.0% YoY to ¥120,000mn, and operating profit to increase 20.4% to ¥8,500mn. Looking ahead to the next medium-term business direction (Wacom Chapter 4), which will begin in FY3/26, the Company plans to establish an earnings base that will serve as a foundation for business growth, while also advancing the structural transformation of the Branded Business. In terms of net sales, the Company will increase the market penetration of its new product portfolio in the Branded Business. Concurrently, it maintains a cautious outlook for the Technology Solution Business, which is currently performing favorably, with net sales expected to remain largely unchanged. On the earnings front, the Company will secure higher earnings by promoting the structural transformation of the Branded Business, under a policy of continuing proactive investment in R&D.

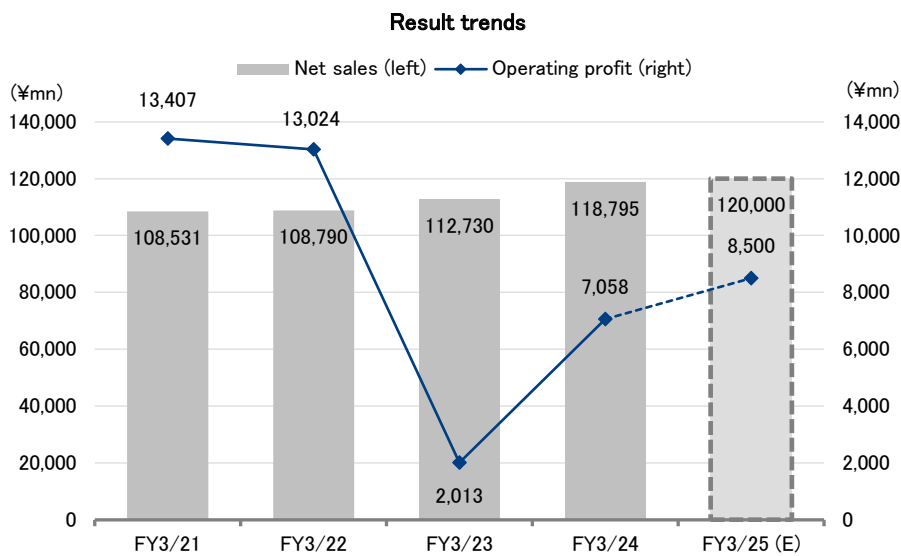
Summary

**3. Revision of update on the medium-term business direction**

The Company has been promoting initiatives under “Wacom Chapter 3” (FY3/22 to FY3/25), its four-year medium-term business direction. The new direction will promote specific value propositions and sustainable growth, inheriting the vision of “lifelong ink,” and redefining five key strategic initiatives as well as six main streams for technology innovation to implement the policy. In particular, the Company’s leading strategy is to select three fields that have a high affinity with its existing technologies—AI, XR, and Security—and realize new value propositions in these fields using new core technologies and business models; and this basic direction has not been revised. However, in addition to responding to external factors such as the recent rapid changes in the market environment, the Company has room for improvement in its own structure in areas such as renewing the product portfolio, improving gross profit, and strengthening sales channel management in the Branded Business. Accordingly, the Company has positioned the latter two years of the medium-term business direction (FY3/24 to FY3/25) as a period for business structure transformation to ensure business growth in the next phase, Wacom Chapter 4. The Company has announced a policy of focusing on gross profit improvement and growth foundation construction (update plan). While subsequently revising the policy based on conditions, it has been undertaking structural transformation in preparation for Wacom Chapter 4. In May 2024, the Company announced the preliminary guidance of Wacom Chapter 4. It provided a roadmap for centralizing management resources, and for commercialization and market implementation of technology that serves as next-generation growth engines. (The final draft is scheduled to be announced in May 2025.)

**Key Points**

- In 1H FY3/25, sales and profits increased due to growth of the Technology Solution Business with the impact of the yen’s depreciation and growth in OEM demand, while the Branded Business continued to struggle due to rapid changes in the market environment
- Consolidated results forecast for FY3/25 has been left unchanged, with expectation for higher sales and profits while promoting structural transformation of the Branded Business
- Under the next medium-term business direction, which will begin in FY3/26, the Company will work to centralize management resources, while aiming for commercialization and market implementation of technology that serves as next-generation growth engines



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

## ■ Business overview

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

The Company is a global leader aiming to create value for customers based on technologies in the field of digital pen and ink. It sells products in more than 150 countries and regions worldwide and has high brand clout and market share, supported by professional creators such as designers and animators who work in studios for movie production or industrial design studios. Furthermore, as a Technology Leadership Company, it broadly supplies the latest digital pen technology to partner companies manufacturing smartphones, tablet PCs, digital stationery, and other products, and is fostering a business field that specializes in education with partners from the educational industry.

The Company is also striving to create new growth opportunities by rebuilding product line-ups and further evolving the business model amid major changes in the market environment. These changes include negative factors such as competition with Chinese manufacturers in mid- to low-priced models and a shift in demand to other categories (iPad and other devices) in the entry-level zone, along with trends such as the evolution of user needs and workflow, as well as the spread of online education and teleworking accompanying advances in digital technologies (VR/MR, AI, and others) and the communications environment (mobile, cloud, 5G, and others).

Its two business segments are the Branded Business, which sells the Company's proprietary Displays, Pen Tablets and other products, and the Technology Solution Business, which supplies proprietary digital pen technology as a component to manufacturers of finished products, including smartphones and tablet PCs.

In the Technology Solution Business (sales area is categorized as Japan) transaction prices are denominated in US dollars, while the overseas sales ratio (overseas local entity sales ratio) of the Branded Business is approximately 83%\*1. Therefore, close consideration should be given to the impact of foreign exchange market fluctuations on earnings (a weaker yen has a positive impact\*2).

\*1 In 1H FY3/25, the US accounted for 31.8% of the sales of the Branded Business, followed by Europe (Germany) at 26.1%, Asia/Oceania at 25.5%, and Japan at 16.6%.

\*2 Segment profit (loss) in the Technology Solution Business is impacted by the US dollar-yen rate, whereas segment profit (loss) in the Branded Business is mainly impacted by fluctuations in the euro-yen rate.

While development sites (as of the end of September 2024) are practically all concentrated in Japan, excluding developments of digital ink and security-related software (which are mainly in Europe) and driver software (which is mainly in the US), the Company consigns production to multiple overseas partners (which are mostly major electronics manufacturing service companies owned by either Japanese or Taiwanese with production sites in mainland China). However, from a perspective of mitigating regional concentration risk in the supply chain, the Company is proceeding to disperse its production sites into the surrounding Southeast Asia region, such as its site in Vietnam.

## Business and major product features

### Promoting changes in the product portfolio that address changes in the business environment and de facto standardization of proprietary technologies

#### 1. Branded Business

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

##### (1) Creative Solution

This business has played a pivotal role since the dawn of the digital content market and possesses strong brand clout and market share with professional creators. Product types include Displays and Pen Tablets, and understanding their difference is important in assessing the competition environment and growth potential.

##### a) Displays

This category covers products that use an LCD panel as the tablet\* and allow the user to directly write on an LCD screen with a digital pen. Meanwhile, they are also known as PC peripherals, similar to Pen Tablets as an input device that does not have an OS or storage feature. Prices for larger products range from around ¥300,000 to ¥500,000. Users are mainly professionals and advanced amateurs, and the Company holds an overwhelming share in this market. In response to market changes (such as expanded scope in digital handwriting (drawing) users and demand shift from Pen Tablets), it released multiple new models including an approximately 16-inch entry-level model with an actual sales price in the ¥60,000 to ¥70,000 range (sales price excluding tax at the time of launch; same below) in January 2019, a 22-inch model (actual sales price in the ¥100,000 to ¥110,000 range) in July 2019, and an approximately 13-inch model for beginners (actual sales price in the ¥30,000 to ¥40,000 range) in January 2020. The Company is gaining a stronger presence even in the entry-level model segment where it faces tough price competition from other companies (Chinese manufacturers, etc.). But in light of recent trends such as a decline in consumer sentiment and a shift in demand to other categories, the Company has continued to struggle in mid- to low-priced models. In response, the Company is updating its product portfolio by narrowing down its product line-up and making new value propositions (new use cases and others) through a return to basics centered on professional and creative specialized education.

\* Sometimes referred to as "LCD pen tablets" as well.

##### b) Pen Tablets

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

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

Business and major product features

## (2) Business Solution

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

## 2. Technology Solution Business

This business is divided into two segments, AES Technology Solution and EMR Technology Solution\*<sup>1</sup> based on digital pen technologies\*<sup>2</sup>. It supplies pen sensor systems to smartphone and tablet / notebook PC manufacturers. Business has been growing, centered on sales for the Samsung Electronics (Galaxy series), which has adopted EMR. Moreover, it has formed business relationships with major PC manufacturers, including Lenovo <HKG:0992> and Fujitsu Client Computing Limited, which have adopted AES, along with customers in China, such as Xiaomi Corp. <1810.HK>. The Company aims to expand business scale through promotion of its proprietary digital pen technology as a de facto standard, while expanding the scope of users. Manufacturers also appear to highly rate the Company's technology, as it has been early to implement foldable devices (folding-type smartphones and PCs, etc.) and compatibility with devices that use e-paper technology.

\*<sup>1</sup> To facilitate an explanation of performance more suited to the changed environment, the segment names were partially changed from FY3/24, and the others previously included in EMR Technology Solution, others sales have been omitted.

\*<sup>2</sup> The Company's technologies consist of Active ES (proprietary electrostatic coupling, battery required for pen) format technology and EMR (electro-magnetic resonance) rapid, high-precision positioning sensors (battery not required).

# Financial highlights

## In 1H FY3/25, the impact of the weaker yen and increasing OEM demand led to higher sales and operating profit

### 1. 1H FY3/25 results

In the 1H FY3/25 consolidated results, sales increased and operating profit increased dramatically, as net sales increased 3.1% YoY to ¥57,315mn, operating profit rose 122.9% to ¥5,475mn, ordinary profit fell 4.1% to ¥4,785mn, and profit attributable to owners of parent declined 8.8% to ¥3,470mn. The decrease in ordinary profit was mainly attributable to recording foreign exchange losses under non-operating profit and loss.

Net sales increased due to growth in the Technology Solution Business, supported by the effect of the yen's depreciation\* and brisk OEM demand. However, in the Branded Business, updates to the product portfolio saw a contribution to growth from new professional models, while non-professional mid- to low-priced models continued to struggle.

\* This factor increased the Company's overall sales by approximately ¥3.9bn.

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Financial highlights

On the earnings front, operating profit increased dramatically due to growth in the Technology Solution Business, including the impact of the yen's depreciation\*1 and an improvement in earnings of the Branded Business (narrowing of loss), even while the Company continued to actively invest in R&D\*2. For levels at ordinary profit and below, profits decreased due to the recording of foreign exchange loss of ¥0.7bn in non-operating loss (foreign exchange gain of ¥2.5bn in the same period of the previous fiscal year).

\*1 This factor boosted overall operating profit by approximately ¥800mn (due to the Technology Solution Business).

\*2 Based on the medium-term business direction, the Group is promoting the development of technologies that will serve as next-generation growth engines, aiming for market implementation of its digital pen technology value and elements as an "integrated pen and ink experience."

Looking at the Company's financial position, although there were no significant changes, total assets decreased by 2.7% from the previous fiscal year-end to ¥77,466mn, mainly reflecting a decrease in cash and deposits due to the acquisition of treasury stock,\* etc., despite a temporary increase in inventory in-transit (inventories), although inventory management (optimization) was mainly completed by the end of FY3/24. Shareholders' equity also declined 7.1% to ¥33,431mn due to dividends and acquisition of treasury stock. As a result, the equity ratio decreased slightly to 43.2% (45.2% at the previous fiscal year-end).

\* The Company acquired treasury stock with a total value of approximately ¥3.0 billion (4,032,500 shares) in accordance with a resolution of the Board of Directors on May 9, 2024.

**1H FY3/25 financial results**

(¥mn)

	1H FY3/24		1H FY3/25		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Net sales	55,591		57,315		1,724	3.1%
Branded Business	17,078	30.7%	14,824	25.9%	-2,254	-13.2%
Technology Solution Business	38,513	69.3%	42,491	74.1%	3,978	10.3%
Cost of sales	38,580	69.4%	37,214	64.9%	-1,366	-3.5%
SG&A expenses	14,554	26.2%	14,626	25.5%	72	0.5%
Operating profit	2,457	4.4%	5,475	9.6%	3,018	122.9%
Branded Business	-2,017	-11.8%	-1,106	-7.5%	910	-
Technology Solution Business	6,915	18.0%	9,325	21.9%	2,410	34.8%
Adjusted amount	-2,442	-	-2,743	-	-301	-
Ordinary profit	4,990	9.0%	4,785	8.3%	-205	-4.1%
Profit attributable to owners of parent	3,804	6.8%	3,470	6.1%	-334	-8.8%

	End of FY3/24	End of 1H FY3/25	Change	
			Amount	%
Total assets	79,620	77,466	-2,154	-2.7%
Shareholders' equity	35,968	33,431	-2,537	-7.1%
Equity ratio	45.2%	43.2%	-2.0pp	-

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



## Financial highlights

## Breakdown of SG&amp;A expenses

	1H FY3/24	1H FY3/25	Change	
			Amount	%
Personnel expenses	5,575	5,728	153	2.7%
R&D expenses	3,641	3,792	151	4.1%
Sales promotion and advertising expenses	876	599	-277	-31.7%
Freight and packing expenses	644	615	-29	-4.5%
Outsourcing expenses	718	680	-38	-5.3%
Depreciation and amortization	228	223	-5	-2.5%
Other	2,872	2,991	119	4.1%
<b>Total</b>	<b>14,554</b>	<b>14,626</b>	<b>72</b>	<b>0.5%</b>
<b>SG&amp;A expenses ratio</b>	<b>26.2%</b>	<b>25.5%</b>		<b>-0.7pp</b>

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

## 2. Results overview by business

## (1) Branded Business

Net sales decreased, while the segment loss narrowed, with net sales down 13.2% YoY to ¥14,824mn and segment loss of ¥1,106mn (loss of ¥2,017mn for the same period of the previous fiscal year). Although net sales benefitted from the impact of the yen's depreciation (approximately ¥800mn increase in sales), sales of display products and pen tablet products in the mainstay Creative Solution due to changes in the market following deterioration in consumer sentiment, and so forth. Business Solution also recorded a slight decrease in sales due to fluid market dynamics and the impact of progress on ongoing projects. On the earnings front, losses narrowed due to the initial effects of structural transformation (decrease in human resource expenses and depreciation and amortization expenses). On the activities front, in May 2024 the Company released "Wacom Movink 13"\* with the aim of establishing the new use case "Portable Creative" presented as one of the structural transformation themes.

\* Wacom's thinnest and lightest pen tablet, and the first to feature an OLED display categorized in display products for professionals.

## Earnings breakdown in the Branded Business

	1H FY3/24	1H FY3/25	Change	
			Amount	%
<b>Creative Solution</b>	<b>14,898</b>	<b>12,664</b>	<b>-2,234</b>	<b>-15.0%</b>
Displays	9,310	7,718	-1,592	-17.1%
Pen Tablets	5,588	4,946	-642	-11.5%
<b>Business Solution</b>	<b>2,180</b>	<b>2,160</b>	<b>-20</b>	<b>-0.9%</b>

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

## a) Creative Solution net sales

Net sales were lackluster, decreasing 15.0% YoY to ¥12,664mn. By product, in Displays, sales of professional models grew, mainly due to a contribution from new models\*, while sales of mid- to low-priced models decreased, mainly due to declining demand other than for professional models. In Pen Tablets, sales of professional models decreased slightly. For non-professional models, sales of low-priced models increased while mid-priced models decreased, mainly due to a decrease in demand.

\* The flagship models, "Wacom Cintiq Pro Series," released in October 2023 and the new use case, "Wacom Movink 13," released in May 2024.

Financial highlights

**b) Business Solution net sales**

Net sales decreased slightly by 0.9% YoY to ¥2,160mn. Sales growth flagged due to fluctuating market conditions and the impact of progress on ongoing projects.

**(2) Technology Solution Business**

This segment recorded increases in sales and profits, with net sales rising 10.3% YoY to ¥42,491mn and segment profit increasing 34.8% to ¥9,325mn. Net sales benefitted from the impact of the yen's depreciation (approximately ¥3.0bn increase in sales), while increase in demand for OEM partners in EMR Technology Solution contributed to the increase in sales. Demand for technologies implemented on smartphones and also for e-paper including specialized devices for remote education, which is growing in China, appears to be growing. In AES Technology Solution, the Company secured level sales YoY, despite the impacts of changes in the market environment. On the earnings front, profits increased substantially due to factors such as the increase in earnings due to higher sales and the effect of the weak yen (increase in profit of approximately ¥1.0bn).

**Earnings breakdown in the Technology Solution Business**

	(¥mn)			
	1H FY3/24	1H FY3/25	Change	
			Amount	%
AES Technology Solution	12,564	12,511	-53	-0.4%
EMR Technology Solution	25,949	29,980	4,031	15.5%

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

**3. Key takeaways of 1H FY3/25 results**

The underlying trend appears to be unchanged from FY3/24, with the positive factor of growth in the Technology Solution Business driven by the effect of the weak yen and buoyant OEM demand offset by the negative factor of delay in the recovery of the Branded Business. In particular, in the Branded Business, as the market undergoes structural changes, new products released in FY3/24 are still slow to penetrate the market with adverse conditions continuing. The business transformation in preparation for Wacom Chapter 4 is proceeding steadily, and in the Branded Business in particular, the Company has made some progress in cost optimization. It has also made its first step in efforts to establish the new use case, Portable Creative, with the release of new products.

## ■ Outlook

### FY3/25 results forecast remains unchanged, with expectation of securing higher sales and profits

**1. FY3/25 results outlook**

For the FY3/25 consolidated results forecast, the Company has left the forecast unchanged from the initial forecast, and expects an increase in sales and profit (except ordinary profit) with net sales to increase 1.0% YoY to ¥120,000mn, operating profit to increase 20.4% to ¥8,500mn, ordinary profit to decrease 13.7% to ¥8,500mn, and profit attributable to owners of parent to increase by 35.9% to ¥6,200mn.

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Outlook

Looking at net sales, in the initial assumptions, the Branded Business, having made progress to a certain extent on the liquidation of negative legacy assets caused by surplus parts and materials procurement and production, is expected to see increased sales while implementing additional structural transformation in anticipation of a return to profitability in FY3/26, so that it can address structural changes in the market environment. The Technology Solution Business is expected to generate mostly flat sales YoY.

Looking back at the 1H results, there have been changes from the assumptions at the start of the period, as the Branded Business continued to struggle, while the Technology Solution Business grew significantly, including the effect of the weak yen. The Company's decision to leave the initial forecast unchanged under these conditions was based upon its aim to strive for a recovery (market penetration) in 2H in the Branded Business and having made a cautious assessment of market conditions for OEM partner manufacturers in the Technology Solution Business. In addition, the steady progress of overall net sales against the full-year forecast generally also lent weight to the decision to leave the initial forecast unchanged.

On the earnings front, the Company expects the amount of losses in the Branded Business to decrease and contribute to higher operating profit due to the alleviation of one-time expenses\*1 that had weighed on profits until FY3/24, as well as structural transformation (improved gross profit, cost optimization and other measures), under a policy of continuing proactive R&D investment. There is no change on these points from the assumptions at the start of the period. The decrease in ordinary profit is attributable to the absence of foreign exchange gains (¥2.9bn), as was the case with 1H results; however, with the absence of extraordinary losses recorded in FY3/24\*2, profit attributable to owners of parent is expected to increase substantially. On the other hand, it should be noted that the Branded Business may be obliged to record extraordinary losses in FY3/25 as it reduces staff numbers, mainly at overseas locations, and optimizes its internal IT systems in relation to a structural transformation it is promoting with a view to improve the level of profit by ¥2.0bn or higher in FY3/26 comparing to the prior fiscal year.

\*1 In FY3/24, the Company recorded one-time expenses (a negative factor for gross profit) totaling (net) ¥2.2bn related to the recording of valuation reserve for inventory purchase commitments and loss on valuation of inventory caused by rapid changes in the market environment.

\*2 Extraordinary losses recorded in connection with settlement payments of ¥2.5bn made to certain suppliers for surplus parts and materials related to long-term purchase commitments in the Branded Business, as well as the recording of impairment losses on non-current assets of ¥0.9bn and business restructuring expenses of ¥0.6bn related to the Branded Business.

Forecasts for FY3/25

	(¥mn)					
	FY3/24		FY3/25		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	%
<b>Net sales</b>	118,795		120,000		1,205	1.0%
<b>Branded Business</b>	33,814	28.5%	35,000	29.2%	1,186	3.5%
<b>Technology Solution Business</b>	84,981	71.5%	85,000	70.8%	19	0.0%
<b>Operating profit</b>	7,058	5.9%	8,500	7.1%	1,442	20.4%
<b>Branded Business</b>	-4,520	-13.4%	-2,000	-5.7%	2,520	-
<b>Technology Solution Business</b>	16,481	19.4%	16,000	18.8%	-481	-2.9%
<b>Adjustment</b>	-4,902	-	-5,500	-	-598	-
<b>Ordinary profit</b>	9,853	8.3%	8,500	7.1%	-1,353	-13.7%
<b>Profit attributable to owners of parent</b>	4,562	3.8%	6,200	5.2%	1,638	35.9%

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

## Outlook

**(1) Branded Business**

Net sales are expected to increase 3.5% YoY to ¥35,000mn, and segment loss is expected to be ¥2,000mn (segment loss of ¥4,520mn in the previous fiscal year). Although efforts will be made to expand market penetration of the updated product portfolio, the Company expects only a small increase in net sales based on an assessment of factors such as changes in the market environment. On the earnings front, the Company expects to post smaller losses, assuming the alleviation of one-time expenses recorded until FY3/24, and the currently identifiable effects of structural transformation. In the Branded Business, the Company will advance structural transformation in order to return to profitability in the first fiscal year (FY3/26) of the next medium-term business direction (Wacom Chapter 4).

**(2) Technology Solution Business**

Net sales are expected to remain flat YoY at ¥85,000mn, while segment profit is expected to decrease by 2.9% to ¥16,000mn. At this time, the Company expects to maintain the same level of net sales as in FY3/24, given the need to cautiously assess trends around OEM partners. On the earnings front, while one-time expenses recorded until FY3/24 will be alleviated, the Company expects segment profit to decrease modestly due to continuing proactive R&D investment for the future.

**2. Key considerations for FISCO**

To achieve the full-year forecast, the Company needs to achieve net sales of ¥62,685mn and operating profit of ¥3,025mn in 2H. While there is a continued need to pay attention to the impacts of foreign exchange market trends and the economic situation with an unclear outlook, considering the approach of the year-end sales season, the conservative view of growth for the Technology Solution Business, and other factors in 2H, we at FISCO consider that these levels are well within the Company's reach. We have some concern over the delayed sales recovery in the Branded Business; however, it is also worth paying attention to the market penetration of new products released in FY3/24, as well as the launch of the new use-case "Wacom Movink 13" and the market reaction to it.

The most important issue is how the structural transformation plan for the Branded Business is to be carried out in preparation for the next medium-term business direction, Wacom Chapter 4. The Company has positioned FY3/24 and FY3/25 as a period for business structure transformation. It aimed to liquidate inventory caused by surplus parts and materials procurement and production by FY3/24 and then focus on promoting radical reforms centered on operations, such as personnel positions and internal IT systems, in FY3/25. In addition, the Company plans to conduct additional measures in FY3/25 for realizing cost reduction effects of ¥2.0bn or more in FY3/26, and this activity also needs to be monitored. The Company may be obliged to record one-time expenses in relation to the execution of these additional measures. However, we at FISCO believe that as the Company moves to its next stage, it must not only transition to a lean, profitable structure, but also optimize its organizational scale and operations, and refine its sales channel management and R&D structure to keep pace with changes in the business environment, as these processes are necessary for realizing new value creation and business model evolution. Therefore, we believe we should follow the progress of the structural transformation plan from the perspective of not only operating results, but also to see how the Company builds a structure for the provision of an "integrated pen and ink experience" and the launch of platforms. Looking ahead, the volume zone is expected to see continued adverse conditions, but the Company has determined three market domains (digital content creation, educational DX, and workflow DX), in which potential is expanding in every direction. We are excited to see what kind of future vision will be presented in the final version of Wacom Chapter 4 upon its scheduled announcement in May 2025.

## Progress on update of “Wacom Chapter 3” (revised), the medium-term business direction

### The Company will promote business structure transformation to accelerate growth in the next Wacom Chapter 4

#### 1. Basic direction and history to date

The Company has been promoting initiatives in line with the four-year medium-term business direction Wacom Chapter 3 (FY3/22 to FY3/25). The new direction will continue the vision of “lifelong ink,”<sup>\*1</sup> and redefine five key strategic initiatives. In addition, the new direction has defined six main streams for technology innovation to implement the direction, and will promote specific value propositions and sustainable growth<sup>\*2</sup>. In particular, the Company’s leading strategy is to select three fields that have a high affinity with its existing technologies—AI, XR, and Security—and realize new value propositions in these fields using new core technologies and new business models. Moreover, the direction also calls for initiatives to increase the quality of management through corporate governance and other reforms and for engagement with society and communities through the Company’s unique approaches. There has been no change in these basic directions (storyline).

<sup>\*1</sup> “Continuing to provide ‘meaningful human experiences’ to customers and society over a long time period based on Wacom’s technology.”

<sup>\*2</sup> We have omitted a description of the overall image of Wacom Chapter 3 (update plan) from this explanation, including the five key strategic initiatives (technology leadership, community, engagement, new core technology/new value proposition, technology innovation for sustainable society, meaningful growth for people and society) and the six main streams for technology innovation (pen technology, pen and paper technology, digital ink technologies, AI × Digital ink, XR drawing technology, and Security authentication technology).

However, the Branded Business has experienced a greater downturn than expected, mainly due to a sharp decrease in consumer sentiment following the current deterioration of the economic environment. Moreover, the Company’s own structure appears to have room for improvements, including strengthening the product portfolio and sales channel management. For this reason, the latter two years of the medium-term business direction (FY3/24 to FY3/25) have been positioned as a period for business structure transformation to ensure business growth in the next phase, Wacom Chapter 4, and the Company has announced a policy (the update plan) of focusing on gross profit improvement and growth foundation construction (announced in May 2023). In addition, in May 2024, the Company has judged that further structural transformation is needed in the Branded Business. It therefore announced a revision of the update plan\*.

\* Among the factors that led to the revision of the update plan were the following: 1) recovery from the “future demand consumption” that occurred during the spread of the COVID-19 pandemic was delayed further than expected, 2) a persistent trend of “purchasing restraint” among consumers as part of general market conditions in specific regions (China and others), and 3) in the entry-level zone for pen tablet products, alternative options other than pen tablet products have diversified, causing a slight shift in demand towards other categories.

Progress on update of “Wacom Chapter 3” (revised), the medium-term business direction

## 2. Overview of structural transformation plan for the Branded Business (As of announcement in May 2024)

In May 2024, the Company announced its ideas for restoring segment profitability in its Branded Business in the first fiscal year of Wacom Chapter 4 (FY3/26) by optimizing operational expenses (reducing expenses by approximately ¥2.0bn) through the following measures as a structural transformation. Furthermore, from the second year (FY3/27) onward, the Company aims to increase sales to contribute to earnings, while maintaining and improving its brand position and credibility in the creative community.

### 1) Product portfolio

By establishing a new use case, Portable Creative, and shifting to a solution-based value proposition (subscription-based business model through provision of services), the Company aims to expand sales and improve gross profit.

### 2) Focused business areas

By focusing on professional and creative specialist education, while covering the K12 (elementary, middle, and high school) creative education market by the Technology Solution Business, the Company will aim to optimize its organizational scale.

### 3) Sales channel and regional operation

By focusing on e-store, B2B, and communication engagement and striving to achieve an asset light and minimized operation through drastic aggregation and integration of operations, the Company aims to optimize organizational scale and related expenses.

### 4) Organizational structure

By pursuing structural transformation under new leadership, working to promote integrated development of an “integrated pen and ink experience”\* along with optimization and aggregation of development and operations under the policy of asset light and minimized operation, the Company aims to optimize its organizational scale.

\* A new value proposition in Wacom Chapter 4, providing an integrated experience related to pen and ink for the use cases of production work flow and learning by creating value that integrates hardware, software, services, community engagement, technology modules, and new core technologies.

## 3. Progress and initiatives of the structural transformation plan (As of announcement in October 2024)

In October 2024, the Company announced specific initiatives for structural transformation of its companywide organization and the Branded Business in preparation for Wacom Chapter 4. Through the following measures, the Company will close personnel positions corresponding to about 15–20% of the entire Company and review operating costs of internal IT systems, implementing a cost reduction plan of ¥2.0bn or more during FY3/25.

### 1) Preparing the new portfolio

In May 2024, the Company released “Wacom Movink 13” to establish the new use case, Portable Creative, and will now proceed to expand this category. In addition, for the volume zone (mid- to low-price models), which has been struggling due to changes in market conditions, the Company will differentiate itself through the user experience, including applications, services, and after-sales service.

Progress on update of “Wacom Chapter 3” (revised), the medium-term business direction

**2) Changing business model for regions**

The Company will centralize buy and sell functions for products operated in regional organizations to Japan (excluding certain functions), and establish a system of direct sales from Japan. This will enable the Company to streamline its logistics, operation, and inventory management functions. On the other hand, these regional organizations will focus on community engagement and market development as service companies.

**3) Developing Wacom Platform**

The Company will consolidate the majority of its development resources at its hardware hub (Japan) through the development of a common companywide platform that integrates hardware, software, services, and user interface (UI) for both the Branded Business and the Technology Solution Business.

**4) Streamlining company-wide operations**

The Company will engage in overhauling related IT systems and streamlining assets as part of the transformation of Branded Business.

## Preliminary guidance of the next medium-term business direction (Wacom Chapter 4)

### Evolving to a phase of commercializing next-generation growth-engine technology developments and implementing them in the market

**1. Preliminary guidance (summary)**

In May 2024, the Company presented the preliminary guidance of its next medium-term business direction (Wacom Chapter 4), which will begin in FY3/26. (The final draft is scheduled to be announced in May 2025.) The Company recognizes that business opportunities for digital pens are associated not only with digital content creation, but also with market domains\*1 where sustainable growth can be achieved, such as Education DX Edtech and Workflow DX. Based on this recognition, in order to capitalize on this growth, the Company seeks to evolve from the preparation period of Wacom Chapter 3 to an implementation period (commercialization of technology development that serves as next-generation growth engines and market implementation). The Company has defined the sources of its value propositions as an “Evolving technology roadmap” and “Community (user, customer, technology) engagement.” Concurrently, the Company will implement an “integrated pen and ink experience” composed of various new technology elements\*2 it has so far developed. Furthermore, in addition to existing target use cases, the Company will explore new use cases such as Portable Creative, K12 (elementary, middle, and high school) creative education, and mission-specific use cases. It intends to deliver the integrated pen and ink experience to the target use cases via the shortest path possible\*3.

\*1 The average growth rates (2024 to 2030) are forecast to be 16.3% for the Digital Content Creation market, 13.4% for the Education DX Edtech market, and 24.1% for the Workflow DX market. (The forecasts are from the Company’s FY3/24 results briefing materials).

\*2 Includes pen input technology and sensor modules, as well as digital ink technology (a combination of AI, security, XR space and cloud).

\*3 The Company will work to achieve an asset light operation for Wacom branded product solutions focusing on e-store and B2B. Additionally, for OEM partners, the Company will provide platforms (technology platforms delivering an integrated experience related to pen and ink with hardware, software, service, user interface) in addition to device parts modules.

Preliminary guidance of the next medium-term business direction (Wacom Chapter 4)

**2. Revenue scale and profitability**

For now, the Company has maintained its currently projected scenario, which was announced in May 2023. It expects to manage business operations with net sales of around ¥150.0bn (within a range of around plus or minus 10%), and an operating profit margin of around 10% in the final fiscal year (FY3/29). (All of these KPIs are scheduled to be updated in May 2025.)

**3. Milestones to the official announcement of Wacom Chapter 4**

In October 2024, the Company issued a breakdown of the elements of the high-level direction of Wacom Chapter 4 and updated its study and progress of each one. In particular, the Company will consider active investment (acquisition of core technologies, strengthening development resources, strengthening the value change, market development, etc.) for its new value proposition under Wacom Chapter 4: the “integrated pen and ink experience.”

**Milestones to the official announcement of Wacom Chapter 4**

Breakdown of elements	Ongoing content (study and progress)	Milestones to the official announcement of Wacom Chapter 4
Grand design	Provision of integrated pen and ink experience	-
Tech. innovation roadmap	Hardware, software, service, UI innovation	Development of innovative technologies for integrated pen and ink experience
Portfolio	Product/Technical components, platform	Leverage of volume zone/launch of platform
Investment plan	Investment selection for building integrated experiences	Active investments to enhance and complement integrated pen and ink experience
Structural organization	Organizational lightweighting	Deliver new values in streamlined organization after structural reforms
Financial strategy	KPI update and disclosure enhancement	Update capital policy including disclosure of capital cost/use of financial leverage
Business plan	Sustainable growth	Ensure sustainability along with business growth

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

## Results trends in past years

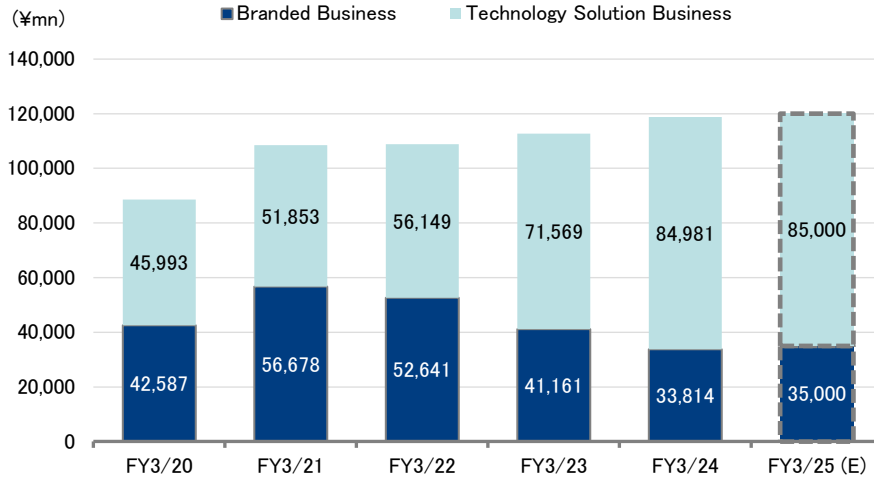
### Technology Solution Business driving growth over the past several years

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



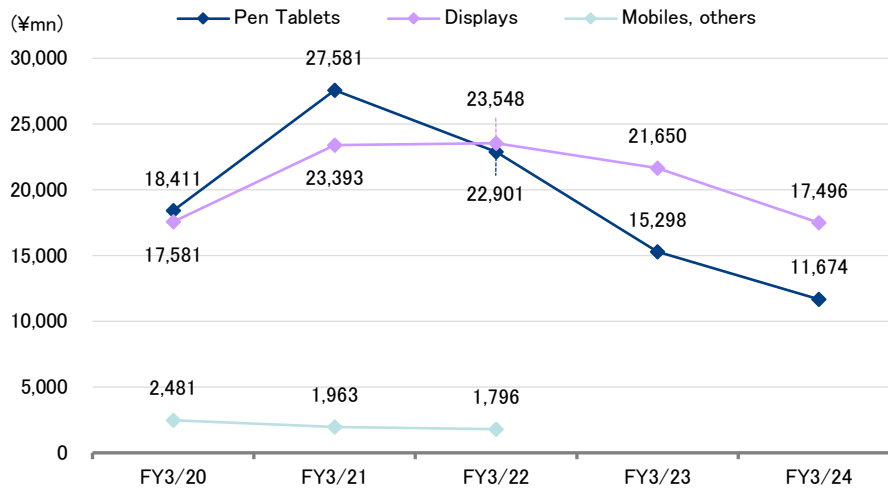
Results trends in past years

Trends in net sales by business



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

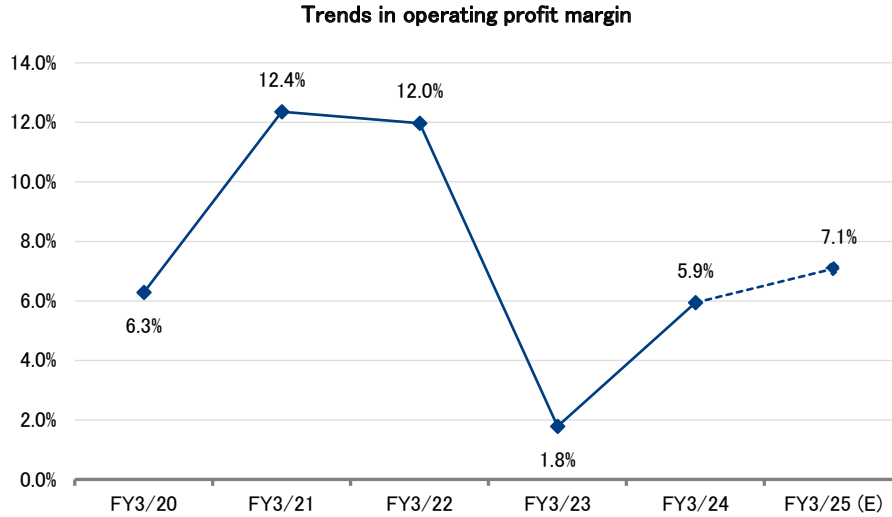
Sales trends in major products



Note: The category scope has changed from FY3/24. Results for Mobiles, others were reclassified into Displays and Pen Tablets. Figures for FY3/23 were retrospectively restated.  
 Source: Prepared by FISCO from the Company's financial results

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

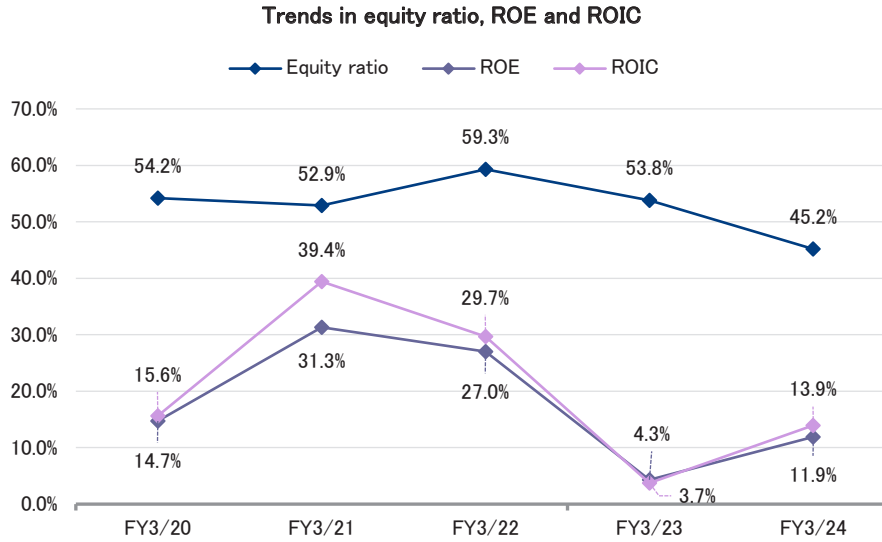
Results trends in past years



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

In financial standing, while the equity ratio temporarily slipped in FY3/17 on a hefty net loss due to recording impairment losses on IT assets, it has steadily improved since then with buildup of retained earnings and has moved close to 60%. However, the equity ratio has been on a downtrend since FY3/23 due to the acquisition of treasury stock and other factors. ROE, which reflects capital efficiency, and ROIC, which reflects efficiency of business activities, have been at high levels. However, ROE and ROIC temporarily experienced significant declines in FY3/23 along with the drop in profits. However, in FY3/24, they both started improving and cash flows have also improved due to progress on reducing surplus inventories. Against the backdrop of an increasingly robust growth foundation in the Technology Solution Business, the Company can now focus on the optimal rebalancing of equity and liabilities on the balance sheet. In May 2023, the Company indicated that it intends to promote business management with awareness of capital efficiency through the use of financial leverage up to a D/E ratio of around 0.3x to 0.5x while ensuring financial soundness. As of the end of FY3/24, the D/E ratio stood at just under 0.4x, which indicates that the Company has retained a good balance. Going forward, allocation of cash flow generated through proper management of operating capital, particularly inventories, and business profits to investments and shareholder returns, will also be important financial indicators for determining if the Company is maintaining its sound financial state, and should be monitored in conjunction with the D/E ratio.

Results trends in past years



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

## Initiatives for society

### Supporting a sustainable society through provision of “lifelong ink”

The Company places emphasis on initiatives that contribute to ESG improvements and a sustainable society. It discloses its fundamental views and specific activities on “Social Initiatives” on the Company website. We think the Company’s use of a concept of “lifelong ink” to describe its technology stands out. This reflects awareness of the origins of its significance and value creation in support for a sustainable society by facilitating writing and drawing experiences that accumulate throughout a person’s life and communicating them to future generations. Together with various community partners, the Company is pursuing the potential of “lifelong ink\*,” not only in people’s everyday lives, but also in fields ranging from the creative to business and education. In this way, the Company’s direction should lead to sustainable growth for users and for the Company itself.

\* For example, in the education field, together with partners it is developing “AI Ink for Education,” which provides a learning environment tailored to individuals by analyzing the learning characteristics of individual students from pen movements made during learning.

Initiatives for society

Moreover, the Company values relationships made between the local communities and individual staff members working in its bases around the world, while working to develop operations and products that are sensitive to the environment. The Company intends to continue making proposals for the future image of society together with the community, such as Ars Electronica\*<sup>1</sup> rather than just as a single company. Moreover, the Company also intends to conduct social implementation of technology services such as STEAM education\*<sup>2</sup> and exploratory learning\*<sup>3</sup>.

\*1 Ars Electronica, a global creative entity, has been continuously proposing “new creativity and future societal concepts facilitated by cutting-edge technologies” over 40 years from its location in Austria.

\*2 Science, technology, engineering, art, and mathematics (STEAM) education is a gradually increasing trend in society. In the art domain, which is a component of STEAM, using AI to enable visualization of the creative activity by creators can help to promote learning by others in creative activities.

\*3 For example, in collaboration with Z-kai Group, the Company is providing a service that combines online education and digital pen and using AI to analyze the tracks of an individual student’s ink data enables the development of logical thinking skills.

The Company also considers responding to climate change to be an important issue in environmental management. It has joined the Japan Climate Initiative (JCI) and announced CO<sub>2</sub> emissions targets to be reached by fiscal 2030 by reducing its CO<sub>2</sub> emissions by an annual rate of 4% (reference year: FY2014). This initiative will include efforts to publish environmental performance information, such as the reduction of greenhouse gases (GHGs) and CO<sub>2</sub> emissions (Scope 1, Scope 2, and Scope 3). At the same time, the Company will conduct business activities based on analysis of the risks and opportunities to the business environment created by climate change. In addition, as an action that will lead to a reduction in CO<sub>2</sub> emissions in the value chain as a whole, it requires that its suppliers support and implement the “Wacom Suppliers Code of Conduct.” The Company is also progressing the formulation of a BCP to respond to the risk of a restriction to corporate activities due to floods and other natural disasters, which are increasing year by year. Based on these activities, the Company announced its support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations on April 13, 2023. In August 2024, the Company obtained a third-party certification report of a third-party examination of its compliance with international standards in order to increase the reliability of its greenhouse gas emission data (Scopes 1, 2, and 3) for FY3/24. In addition, at the end of October 2024, the Company received an evaluation that its global greenhouse gas reduction targets for 2030 are consistent with scientific evidence regarding the greenhouse gas emission reduction targets called for under the Paris Agreement (to limit the rise in temperature from before the industrial revolution to 1.5°C). One of the international climate change initiatives, the Science Based Targets initiative (SBTi), has announced the approval of the Company’s short-term science based targets.

The Company launched the Wacom Story Book\* in May 2023, a booklet that covers some elements from the integrated report, primarily ESG, and tells a series of stories about the Company’s philosophy, the thoughts of its employees, and the feedback of its users.

\* Beginning with an introduction to the Company’s most important values, it also features team member discussions on the Company’s product planning and technology development trajectory, as well as feedback, artworks, and examples of various community partners and artists.

## ■ Shareholder returns

### **The forecast dividend for FY3/25 is ¥20 per share. The Company will also engage in acquisition of treasury stock**

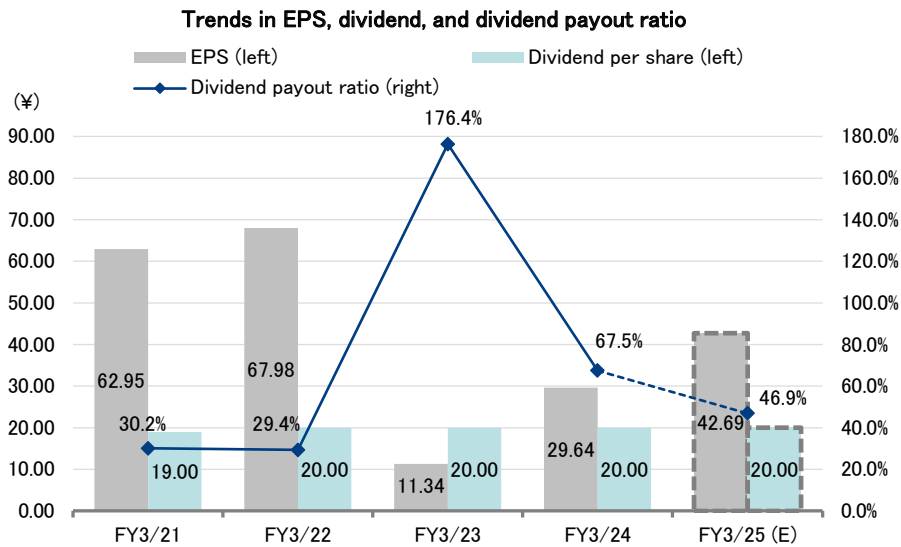
The Company's basic policy towards shareholder returns is to continue paying steady dividends and flexibly acquire treasury stock while considering the amount of funds to be retained for future business development and a sound financial base. With regard to dividends, the Company has set a guide for a consolidated dividend payout ratio of around 30%, keeping in mind the need to ensure financial soundness. Even if dividends exceed that level, the Company intends to maintain steady dividends per share in principle and aims to return profits through increasing dividends per share over the medium to long term. Also, the Company only pays dividends once at the end of the fiscal year in consideration of keeping down administrative costs.

With regard to acquisition of treasury stock, the Company intends to execute a flexible capital policy in response to changes in the management environment, giving consideration to investment opportunities and its financial status, among other factors. For the period covered by Wacom Chapter 3 (FY3/22 to FY3/25), the Company's treasury stock acquisition policy has an upper limit of ¥20.0bn in total (by September 30, 2024, the Company had completed the acquisition of cumulative amount of ¥15.5bn in treasury stock (21.37 million shares)). On October 30, 2024, the Board of Directors resolved to acquire treasury stock up to a total amount of either 4 million shares or ¥2.0bn, (acquisition period from October 31, 2024 to January 20, 2025).

The Company forecasts a dividend of ¥20.0 per share for FY3/25, the same as the previous fiscal year. In treasury stock acquisitions, the Company acquired a total of ¥3.0bn by September 30, 2024, and on October 30, 2024 it resolved to acquire up to ¥2.0bn (acquisition period October 31, 2024 to January 20, 2025). Furthermore, on May 16, 2024, the Company cancelled 6 million shares of treasury stock (3.95% of the total number of issued shares prior to the cancellation).

In achieving a balance between R&D related investments, including collaboration with partners, and shareholder returns through dividend payout and treasury acquisitions, the Company still intends to continue making effective use of cash flows while keeping an eye on capital-use efficiency (ROE) and business operation efficiency (ROIC).

Shareholder returns



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

## Company profile

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

The Company was established in 1983 in Ageo City, Saitama Prefecture. Its name derived from “world” and “computer,” while “wa” includes the meaning of “harmony between people and computers,” and “COM” includes “communication” and recently “community.” In 1984, it announced the world’s first cordless pen tablet. In 1987, it launched the SD Series of graphic pen tablets for professionals, which were used by the Walt Disney Company <DIS> in the US for film production. Subsequently, it constantly enhanced its products, and in the pen tablet market for creators, it has reinforced its leading position on a global basis since the 2000s.

In 1991, it entered into the pen sensor components field (currently, the Technology Solution Business). The Company conducts OEM supply of digital pens, control ICs, touch panels, and other parts and modules to finished product manufacturers. It has achieved rapid growth amid expansion of tablet, notebook PC, and smartphone markets.

In the securities market, after listing on the Japan Securities Dealers Association’s JASDAQ market in April 2003, the Company became listed on the Tokyo Stock Exchange’s First Section in December 2005, where it remains today. (From April 2022, the Company transitioned to the Tokyo Stock Exchange’s Prime Market.)



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