TOCALO Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2026

November 13, 2025

Event Summary

[Company Name]	TOCALO Co., Ltd.	
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[Venue]	Webcast	
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[Participants]		
[Number of Speakers]	4	
	Kazuya Kobayashi	Representative Director, President and CEO
	Hiroshi Goto	Director, Senior Managing Executive Officer, Vice President of Administrative Headquarters
	Katsunori Nakai	Corporate Planning Division, General Manager, Executive Officer
	Aya Masago	Corporate Planning Division, Administrative Headquarters
[Analyst Names]*	Mitsuhiro Osawa	Ichiyoshi Research Institute

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Thank you for waiting. It is time to begin TOCALO Co., Ltd. financial results briefing for Q2 of the fiscal year ending March 31, 2026.

Today's conference will be held in a hybrid format, with a live-streaming online in addition to the on-site session. First of all, I would like to introduce to you the four people we are welcoming from the company.

First, Mr. Kazuya Kobayashi, Representative Director, President and CEO.

Kobayashi: Hello.

Moderator: Thank you very much.

Next is Mr. Hiroshi Goto, Director, Senior Managing Executive Officer, Vice President of Administrative Headquarters.

Goto: I am Goto. Hello.

Moderator: Mr. Katsunori Nakai, Corporate Planning Division, General Manager, Executive Officer

Nakai: I am Nakai. Hello.

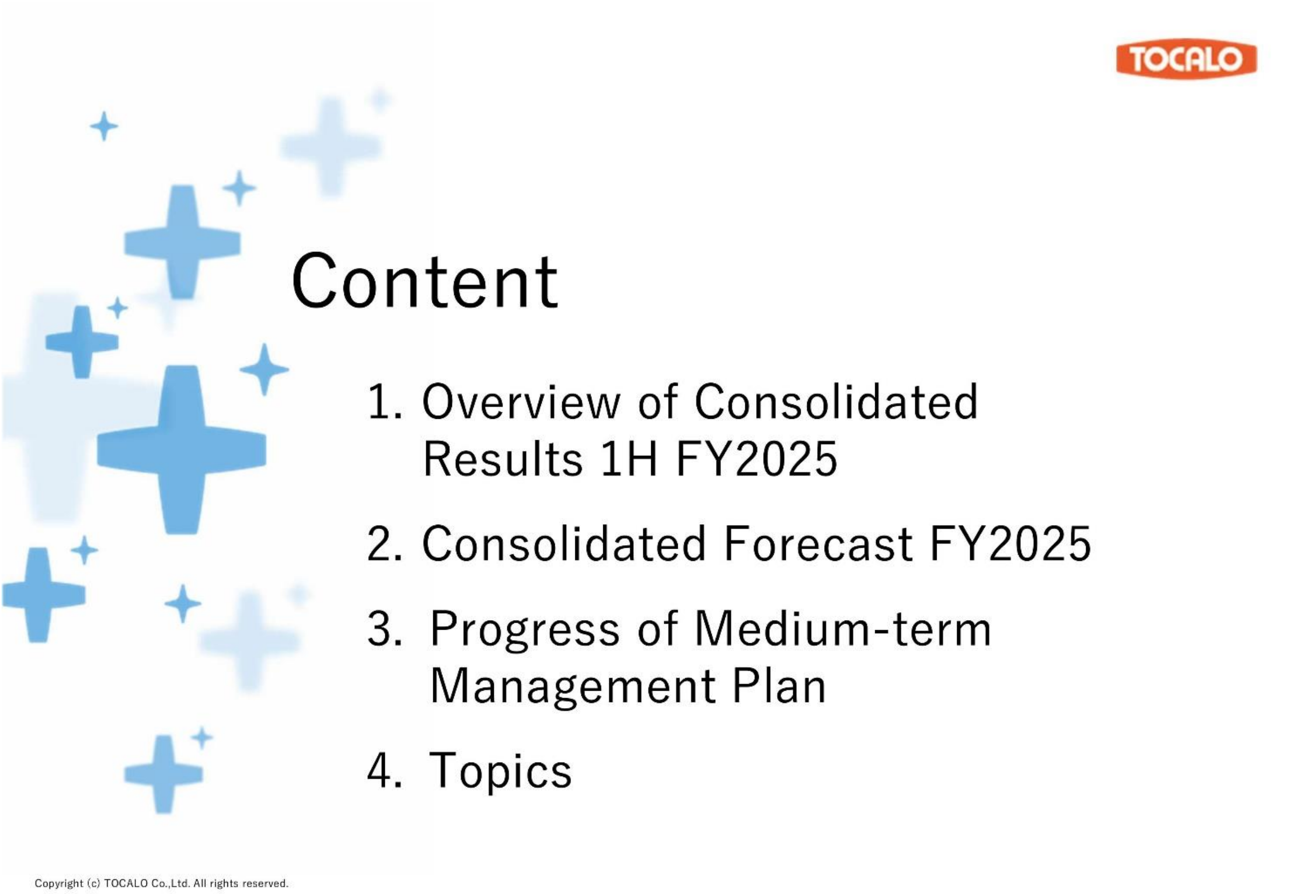
Moderator: Ms. Aya Masago, Manager, Specialty Section, Corporate Planning Division.

Masago: I am Masago. Hello.

Moderator: Thank you very much. Today's explanation will be given by President Kobayashi.

After the explanation, we will first have a question-and-answer session from the audience in this venue, followed by questions from those participating online. If you are participating online, please enter your company name and your name, and use the Q&A function to ask your question. Questions are welcome during the explanation.

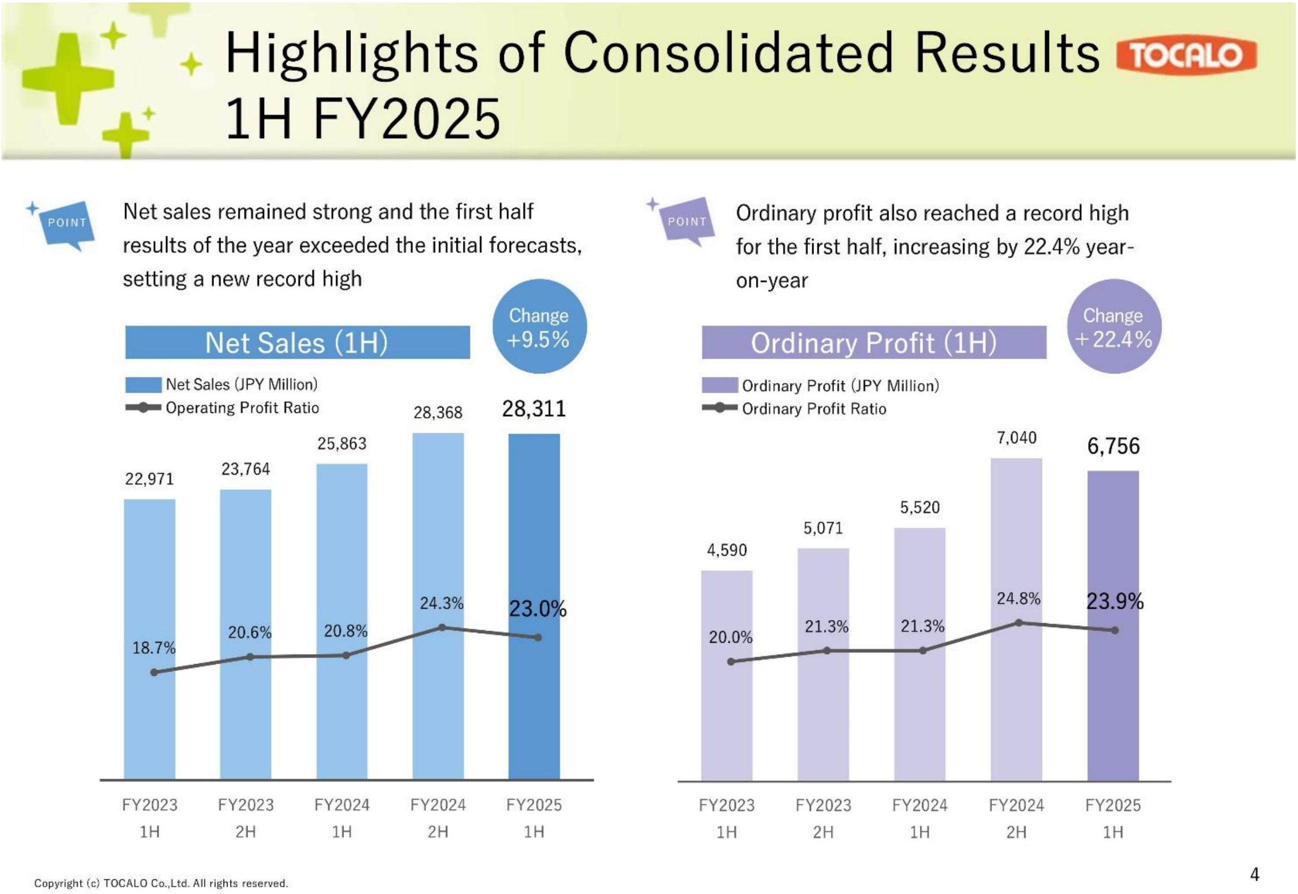
Then, Mr. Kobayashi, please go ahead.



Kobayashi: Hello, everyone. I am President Kobayashi. Thank you very much for taking time out of your busy schedule today to participate in our company's financial results briefing.

Today, we are expecting close to 80 people to attend here and live webcasts combined.

Let me begin. The contents I will explain today are these four items shown in the slide.



First, I will provide an overview of financial results for H1 of the fiscal year ending March 31, 2026.

The graphs compare semiannual results with the previous four quarters. On the left are net sales and operating profit, and on the right are ordinary profit and ordinary profit margin.

The H1 results for the current fiscal year were JPY28.3 billion in net sales, JPY6.7 billion in ordinary profit, and an ordinary profit margin of 23.9%.

Both net sales and ordinary profit exceeded the initial forecast, setting a new record for H1 performance.

Overview of Consolidated Results 1H FY2025

TOCALO

- Net sales trended strongly, increasing by 9.5% year-on-year
- Ordinary profit also trended strongly in line with the first-half plan, increasing by 22.4% year-on-year

(JPY Million)	1H FY2024		1H FY2025		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	25,863	100.0%	28,311	100.0%	2,448	9.5%
Operating Profit	5,383	20.8%	6,518	23.0%	1,135	21.1%
Ordinary Profit	5,520	21.3%	6,756	23.9%	1,235	22.4%
Net Income Attributable to Owners of Parent	3,556	13.8%	4,427	15.6%	871	24.5%
Earnings Per Share (EPS)	59.83JPY	—	74.46JPY	—	14.63JPY	—

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For profit on sales, we present for your reference this table showing YoY comparison for the H1 results.

1H FY2025 Net Sales (by Segment)

TOCALO

- Thermal Spray (TOCALO), the largest segment, saw strong performance in the semiconductor/FPD and industrial parts fields, increasing by 3.3% year-on-year
- Other surface modifications decreased by 11.1% year-on-year due to customer inventory adjustments for agricultural machinery parts
- Overseas subsidiaries performed well, primarily in semiconductor- and iron & steel-related areas, increasing 45.2% year-on-year

(JPY Million)	1H FY2024		1H FY2025		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	25,863	100.0%	28,311	100.0%	2,448	9.5%
Thermal Spray (TOCALO)	19,325	74.7%	19,961	70.5%	635	3.3%
Semicon & FPD	11,395	44.1%	11,989	42.4%	594	5.2%
Industrial Parts	2,370	9.2%	2,655	9.4%	285	12.0%
Iron & Steel	2,029	7.8%	1,974	7.0%	-54	-2.7%
Others	3,530	13.6%	3,341	11.7%	-188	-5.3%
Other Surface Modif.	1,381	5.4%	1,228	4.3%	-153	-11.1%
Domestic Sub.	1,191	4.6%	1,409	5.0%	217	18.3%
Overseas Sub.	3,890	15.0%	5,649	20.0%	1,758	45.2%
Royalty Income	73	0.3%	62	0.2%	-10	-14.8%

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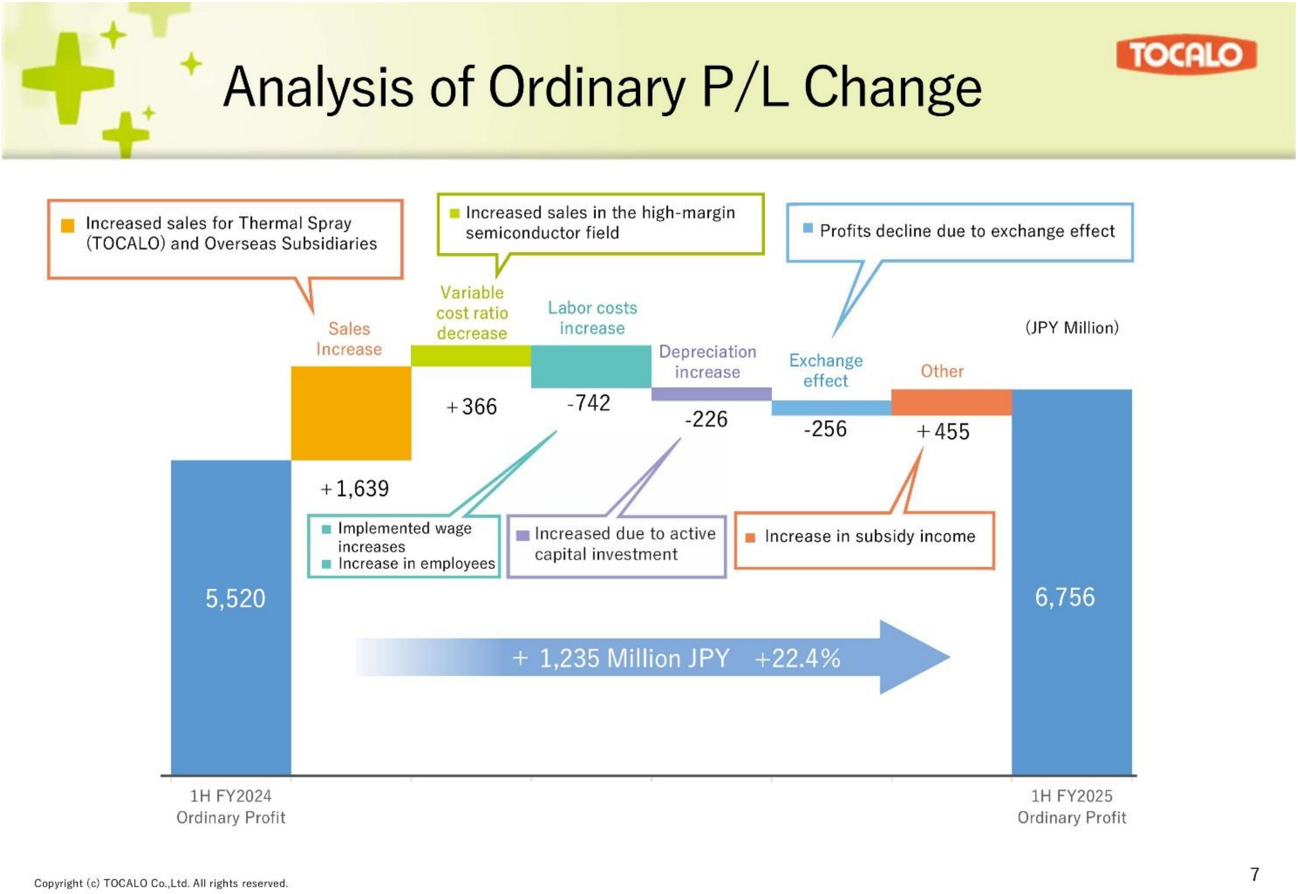
Next, this is a comparative table showing net sales by segment.

Thermal spray (TOCALO), the largest segment, saw strong performance in the semiconductor/FPD and industrial parts fields, increasing by 3.3% YoY.

In other businesses, sales of surface modifications declined due to prolonged inventory adjustments by customers for agricultural machinery parts.

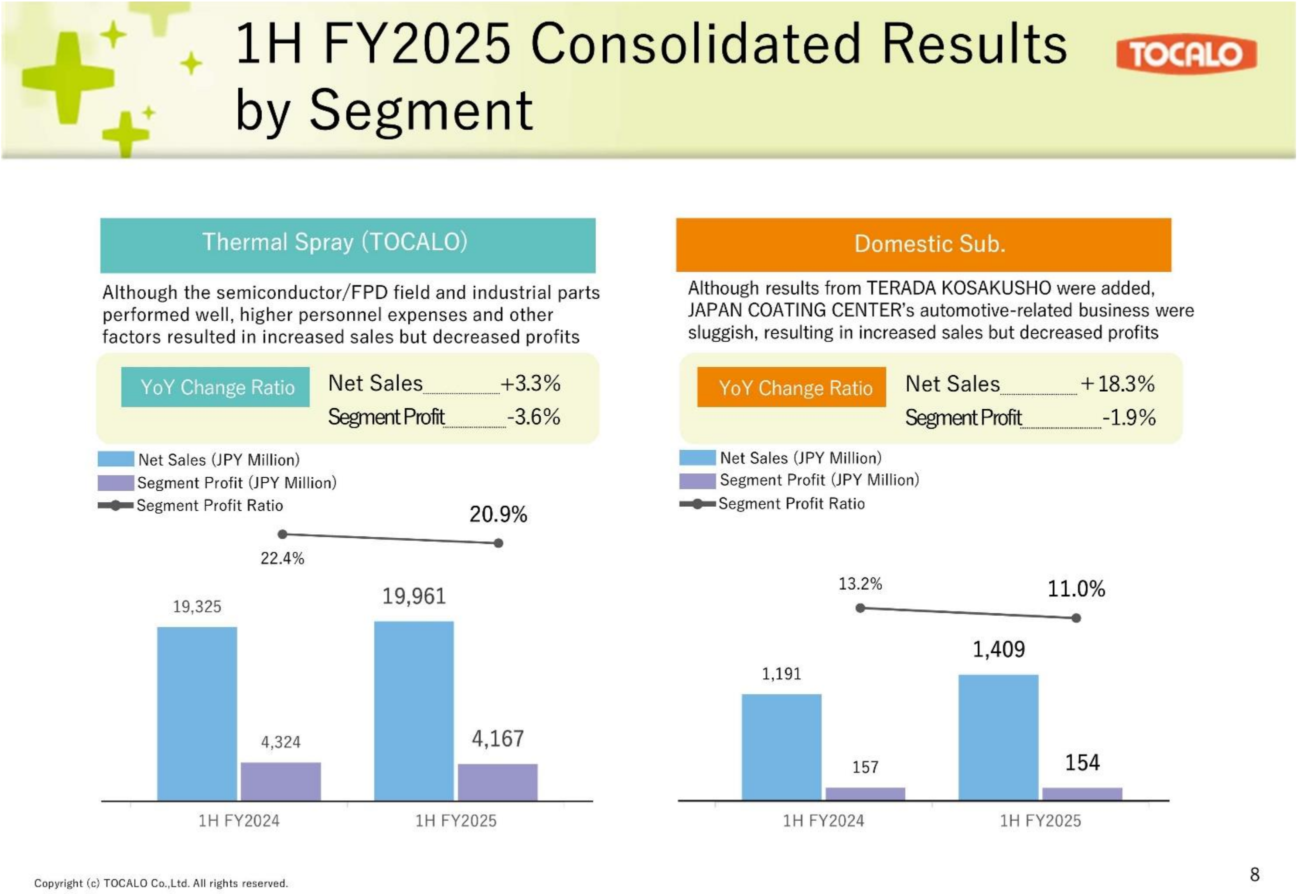
Meanwhile, overseas subsidiaries posted a 45.2% YoY increase due to strong sales mainly in the semiconductor and iron/steel-related areas.



This is an analysis of YoY changes in ordinary profit.

Ordinary profit for H1 of the current fiscal year was JPY6.756 billion, an increase of JPY1.235 billion YoY, mainly due to higher sales and a lower variable cost ratio. Decreasing factors included an increase in labor costs and the impact of foreign exchange rates.

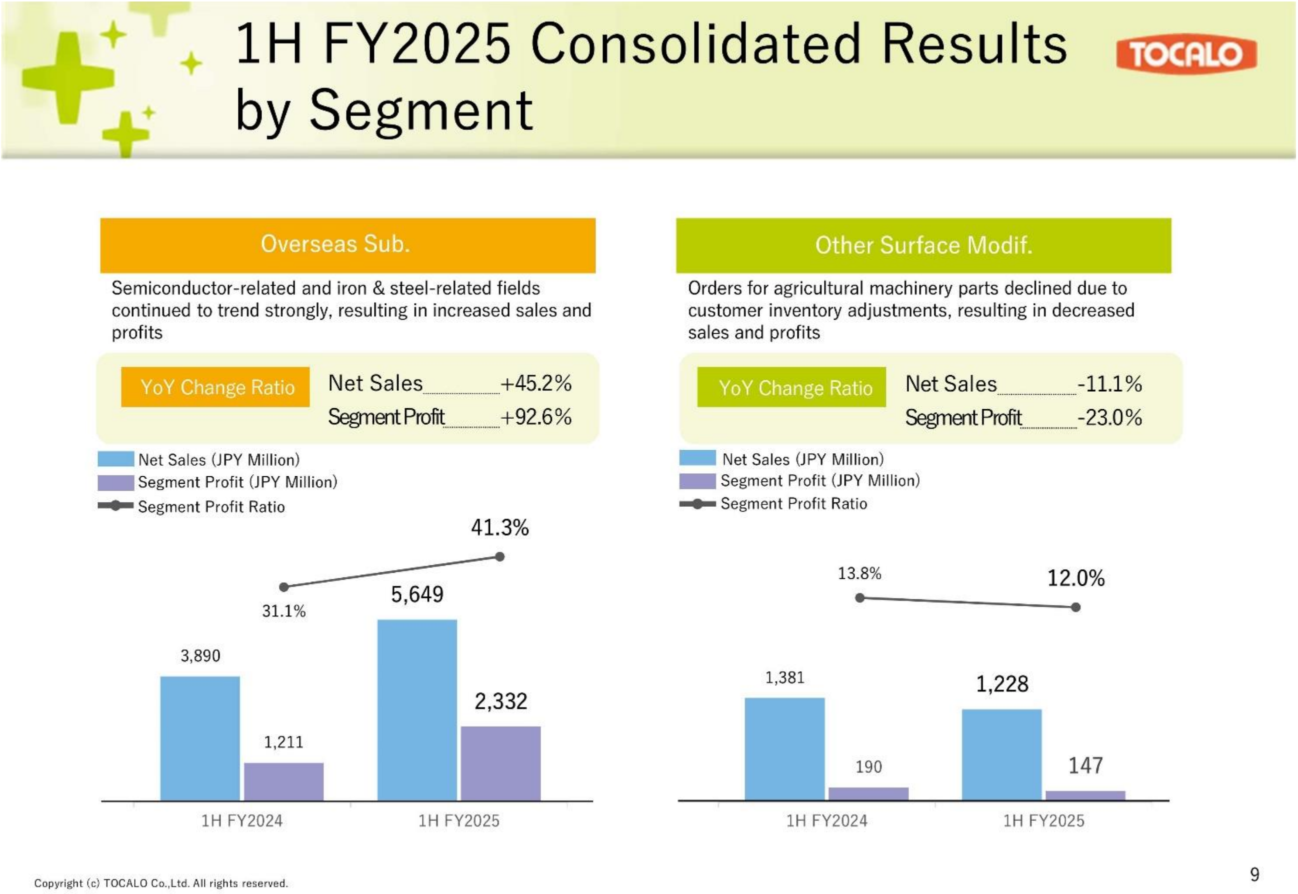
Other items included JPY283 million in wage subsidies supported by the Ministry of Economy, Trade and Industry.



Regarding sales profit by segment, here is a comparison with the same period of the previous year.

The thermal spray (TOCALO) reported an increase in sales due to strong sales in the semiconductor/FPD and industrial machinery fields, but a decrease in profit due to higher labor and amortization costs.

Domestic subsidiaries posted overall higher sales but lower profits in total. This stemmed from Japan Coating Center suffering lower sales and profits due to sluggish growth in the automotive sector, despite the addition of TERADA KOSAKUSHO, which became a consolidated subsidiary in August last year.



Overseas subsidiaries posted increases in both sales and profit coming from steady sales of semiconductor, iron and steel-related products.

In other surface modifications, profit decreased due to a decline in orders for agricultural machinery parts as a result of customers' inventory adjustments.

Segment Information

(JPY Million)	1H FY2024		1H FY2025		Change			
					Net Sales		Segment P/L	
	Net Sales	P/L	Net Sales	P/L	Amount	%	Amount	%
Thermal Spray (TOCALO)	19,325	4,324	19,961	4,167	635	3.3%	-156	-3.6%
Domestic Sub.	1,191	157	1,409	154	217	18.3%	-3	-1.9%
Overseas Sub.	3,890	1,211	5,649	2,332	1,758	45.2%	1,121	92.6%
Other Surface Modif.	1,381	190	1,228	147	-153	-11.1%	-43	-23.0%
Total	25,789	5,884	28,248	6,802	2,459	9.5%	917	15.6%

(Note) Royalty Income is not included in the Segment Net Sales

The table here shows the sales profit of each segment in comparison with H1 YoY for your reference.

Financial Position

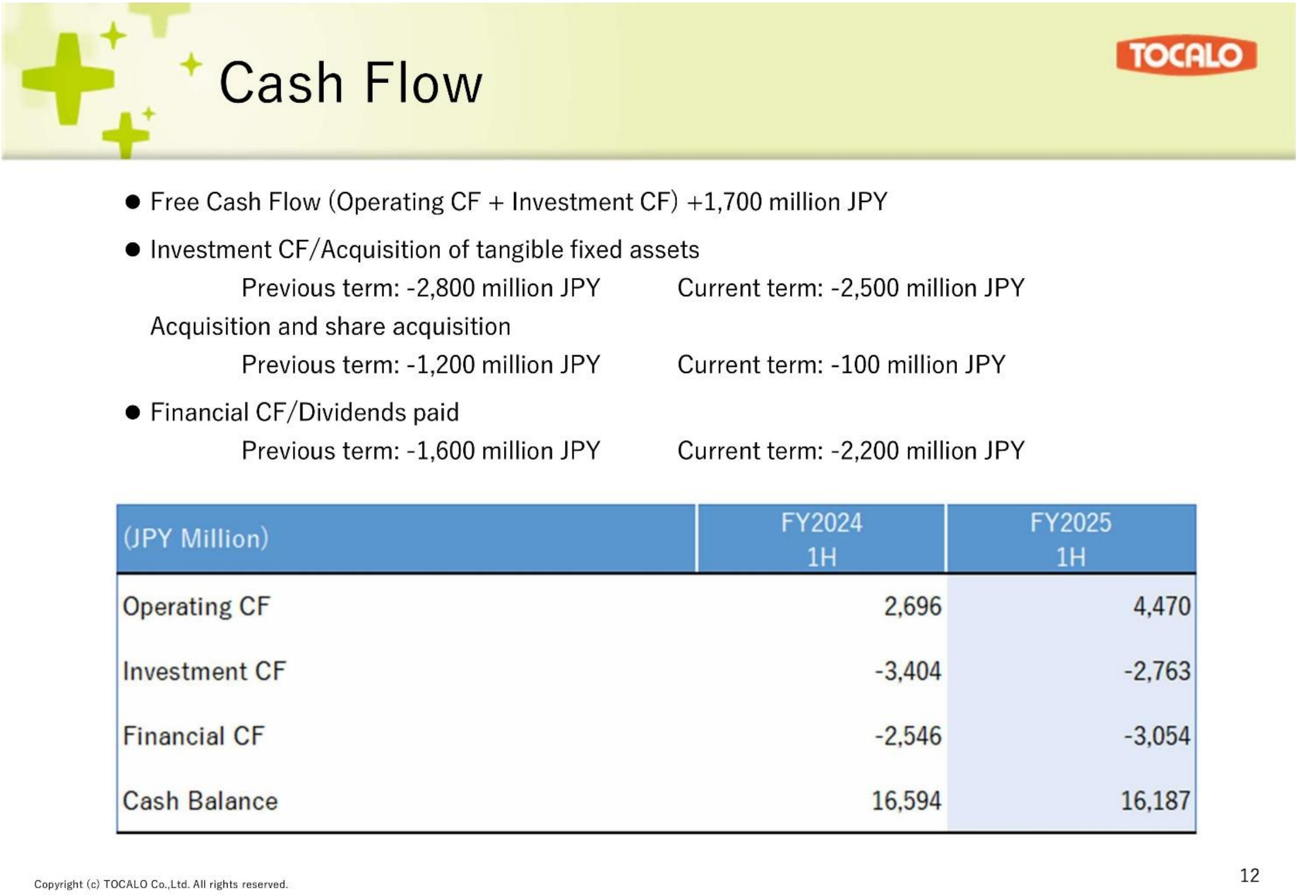
- Total assets increased 2,600 million JPY from the end of the previous period (tangible fixed assets: + 3,400 million JPY)
- Equity ratio increased 0.1 percentage points from the end of the previous fiscal year to 74.3%
- Interest-bearing debt decreased by 600 million JPY from the end of the previous period

(JPY Million)	FY2024		FY2025
	1H	2H	1H
Total Assets	77,701	81,683	84,343
Equity	58,072	60,645	62,645
Equity Ratio	74.7%	74.2%	74.3%
Interest-bearing Debt	4,582	3,796	3,191

This is the financial position at the end of Q2 of the current fiscal year.

Total assets amounted to JPY84.3 billion. Equity was JPY62.6 billion, with equity ratio at 74.3%, up 0.1 point from the end of the previous period, thanks to the accumulation of retained earnings.

Meanwhile, interest-bearing debt decreased by JPY600 million from the end of the previous period to JPY3.1 billion with no new loans.



Cash Flow

TOCALO

- Free Cash Flow (Operating CF + Investment CF) +1,700 million JPY
- Investment CF/Acquisition of tangible fixed assets
  Previous term: -2,800 million JPY   Current term: -2,500 million JPY
  Acquisition and share acquisition
  Previous term: -1,200 million JPY   Current term: -100 million JPY
- Financial CF/Dividends paid
  Previous term: -1,600 million JPY   Current term: -2,200 million JPY

(JPY Million)	FY2024 1H	FY2025 1H
Operating CF	2,696	4,470
Investment CF	-3,404	-2,763
Financial CF	-2,546	-3,054
Cash Balance	16,594	16,187

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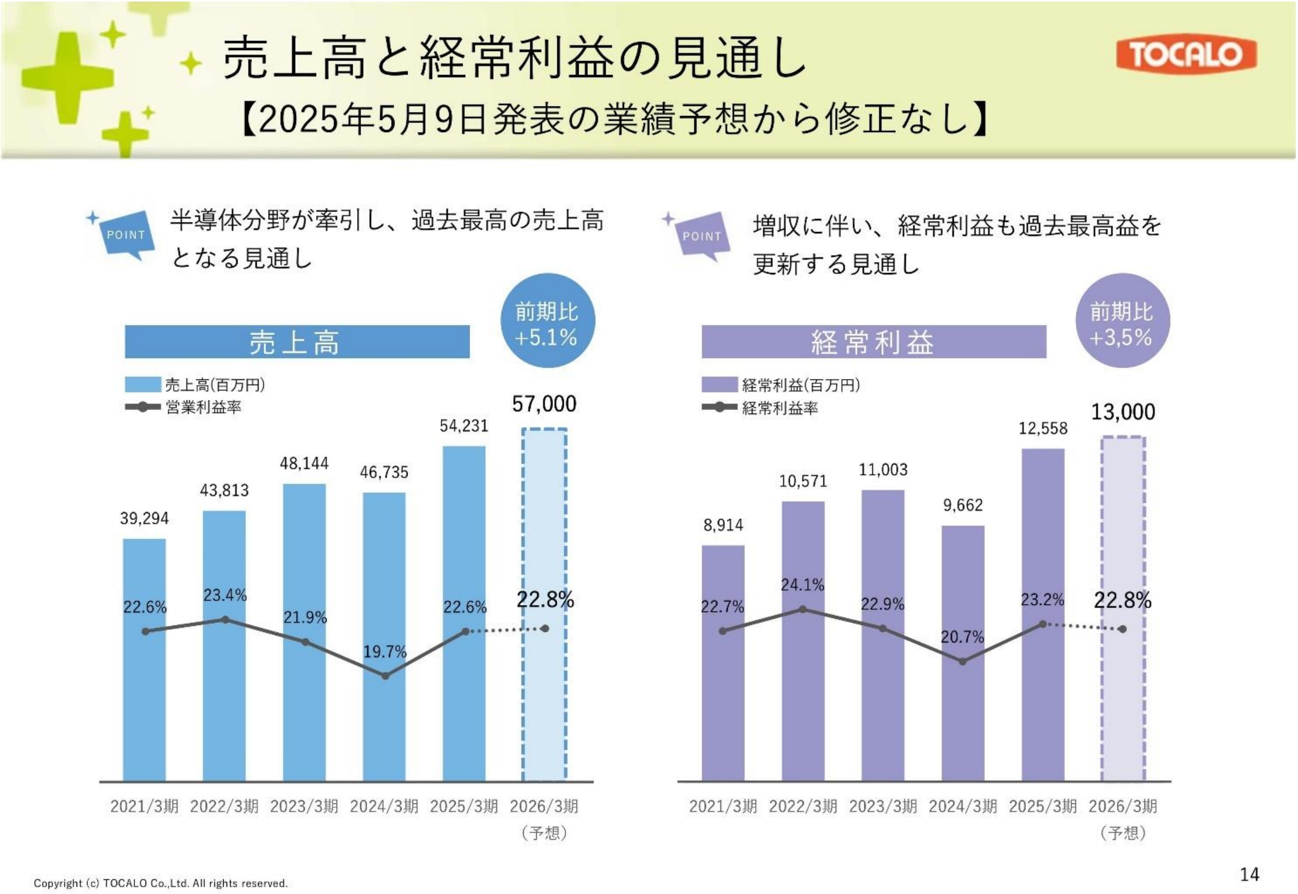
Next, cash flows in H1 of the current fiscal year.

Operating cash flow was positive JPY4.4 billion, investing cash flow was negative JPY2.7 billion, and free cash flow was positive JPY1.7 billion, a healthy situation.

Financing cash flow was negative JPY3 billion due to dividends and repayment of borrowings.

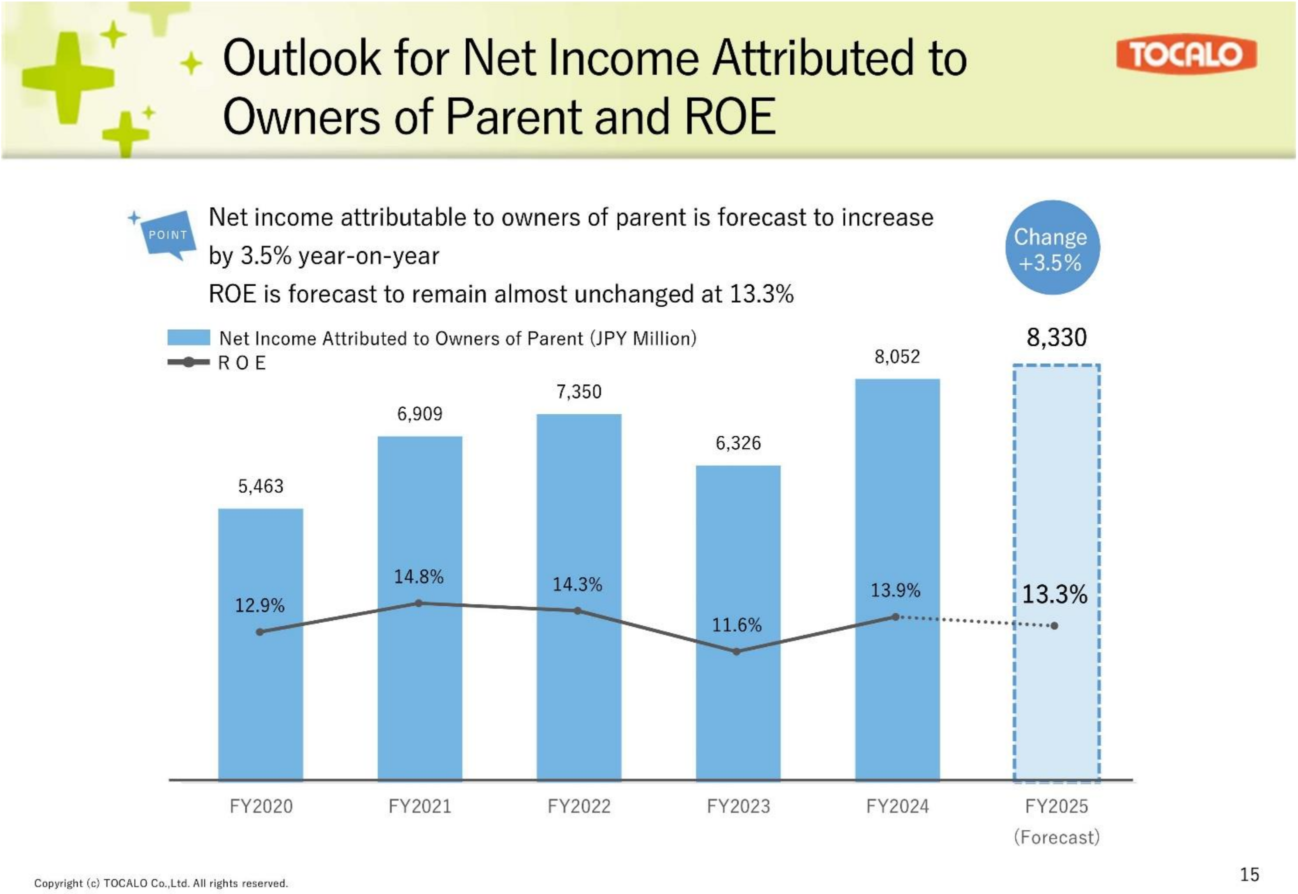
As a result, the cash balance for the period was JPY16.1 billion.



Next, I will explain our consolidated earnings forecast for the fiscal year ending March 31, 2026.

The forecast for the fiscal year ending March 31, 2026 and for the full year remains unchanged from the forecast announced on May 9, 2025. Net Sales were JPY57 billion, ordinary profit was JPY13 billion, and ordinary profit margin was 22.8%.

Net sales are expected to reach a record high, driven by the semiconductor field. Ordinary profit is also expected to reach a record high due to the increase in revenue.



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Net income attributable to the owners of parent is expected to increase by 3.5% YoY to JPY8.3 billion.

At the same time, ROE is expected to remain almost unchanged at 13.3%.

Consolidated Forecast FY2025

(JPY Million)	FY2024		FY2025		Change	
	Resullt	Ratio	Forecast	Ratio	Amount	%
Net Sales	54,231	100.0%	57,000	100.0%	2,768	5.1%
■ Thermal Spray (TOCALO)	39,213	72.3%	39,265	68.9%	51	0.1%
Semicon & FPD	24,114	44.5%	25,187	44.2%	1,072	4.4%
Industrial Parts	4,872	9.0%	4,338	7.6%	-534	-11.0%
Iron & Steel	3,927	7.2%	4,110	7.2%	182	4.6%
Others	6,298	11.6%	5,630	9.9%	-668	-10.6%
■ Other Surface Modif.	2,880	5.3%	2,474	4.3%	-406	-14.1%
■ Domestic Sub.	2,656	4.9%	3,088	5.4%	431	16.3%
■ Overseas Sub.	9,319	17.2%	12,013	21.1%	2,693	28.9%
Royalty Income	161	0.3%	160	0.3%	△1	-0.8%
Operating Profit	12,268	22.6%	13,000	22.8%	731	6.0%
Ordinary Profit	12,558	23.2%	13,000	22.8%	441	3.5%
Net Income Attributed to Owners of Parent	8,051	14.8%	8,330	14.6%	278	3.5%
Earnings Per Share (EPS)	135.44JPY	—	140.08JPY	—	4.64JPY	—
Return on Equity (ROE)	13.9%	—	13.3%	—	-0.6pt	—

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See slide 16.

Consolidated forecast by segment for the fiscal year ending March 31, 2026 is as shown in this table.

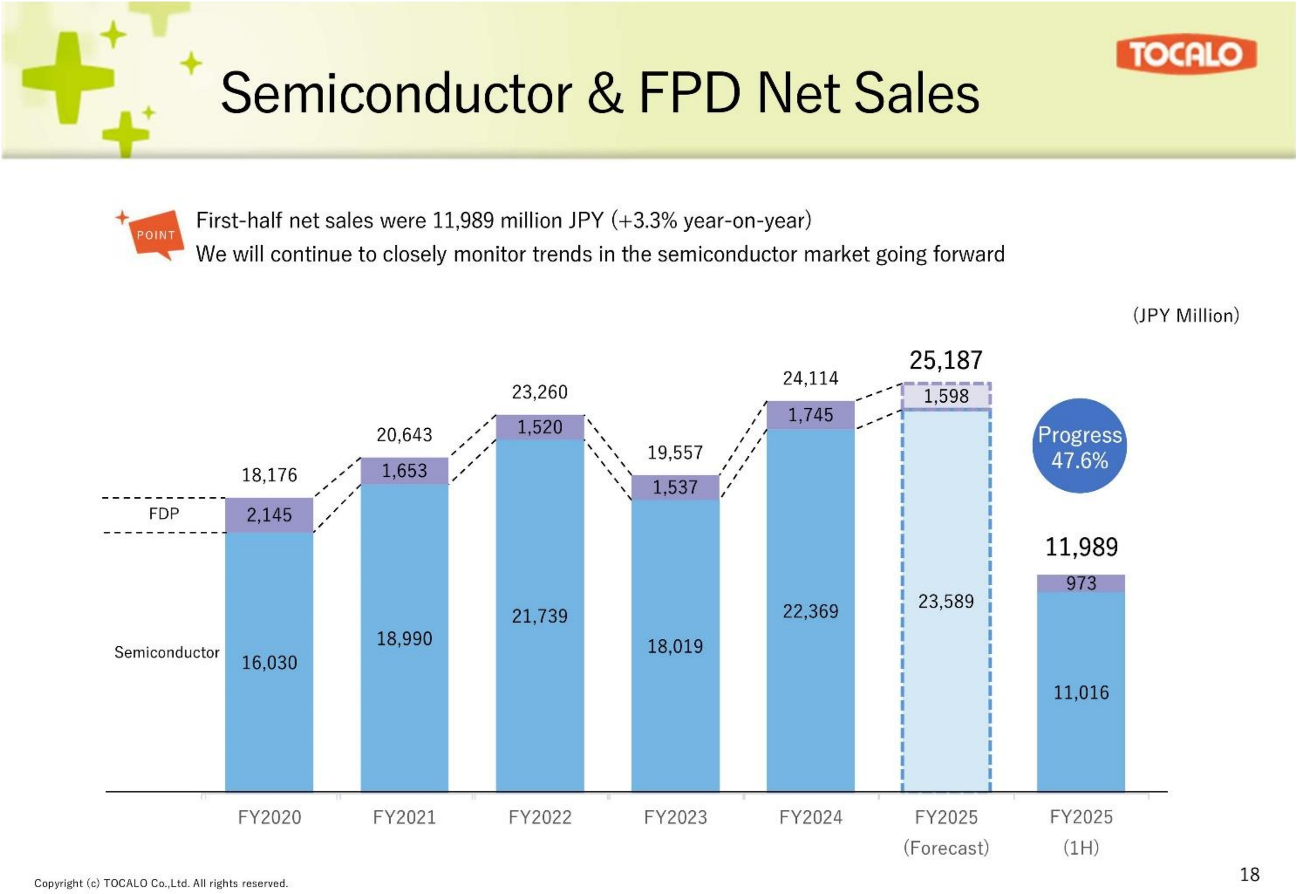
1H FY2025 Progress Rate

TOCALO

(JPY Million)	1H FY2025		FY2025		Progress Rate
	Result	Ratio	Forecast	Ratio	
Net Sales	28,311	100.0%	57,000	100.0%	49.7%
■ Thermal Spray (TOCALO)	19,961	70.5%	39,265	68.9%	50.8%
Semicon & FPD	11,989	42.4%	25,187	44.2%	47.6%
Industrial Parts	2,655	9.4%	4,338	7.6%	61.2%
Iron & Steel	1,974	7.0%	4,110	7.2%	48.1%
Others	3,341	11.7%	5,630	9.9%	59.4%
■ Other Surface Modif.	1,228	4.3%	2,474	4.3%	49.6%
■ Domestic Sub.	1,409	5.0%	3,088	5.4%	45.6%
■ Overseas Sub.	5,649	20.0%	12,013	21.1%	47.0%
Royalty Income	62	0.2%	160	0.3%	39.2%
Operating Profit	6,518	23.0%	13,000	22.8%	50.1%
Ordinary Profit	6,756	23.9%	13,000	22.8%	52.0%
Net Income Attributed to Owners of Parent	4,427	15.6%	8,330	14.6%	53.2%
Earnings Per Share (EPS)	74.46JPY	—	140.08JPY	—	53.2%

This is the progress rate of the H1 results against the full-year forecast.

The progress rate for net sales was 49.7%, and for ordinary profit, 52%.

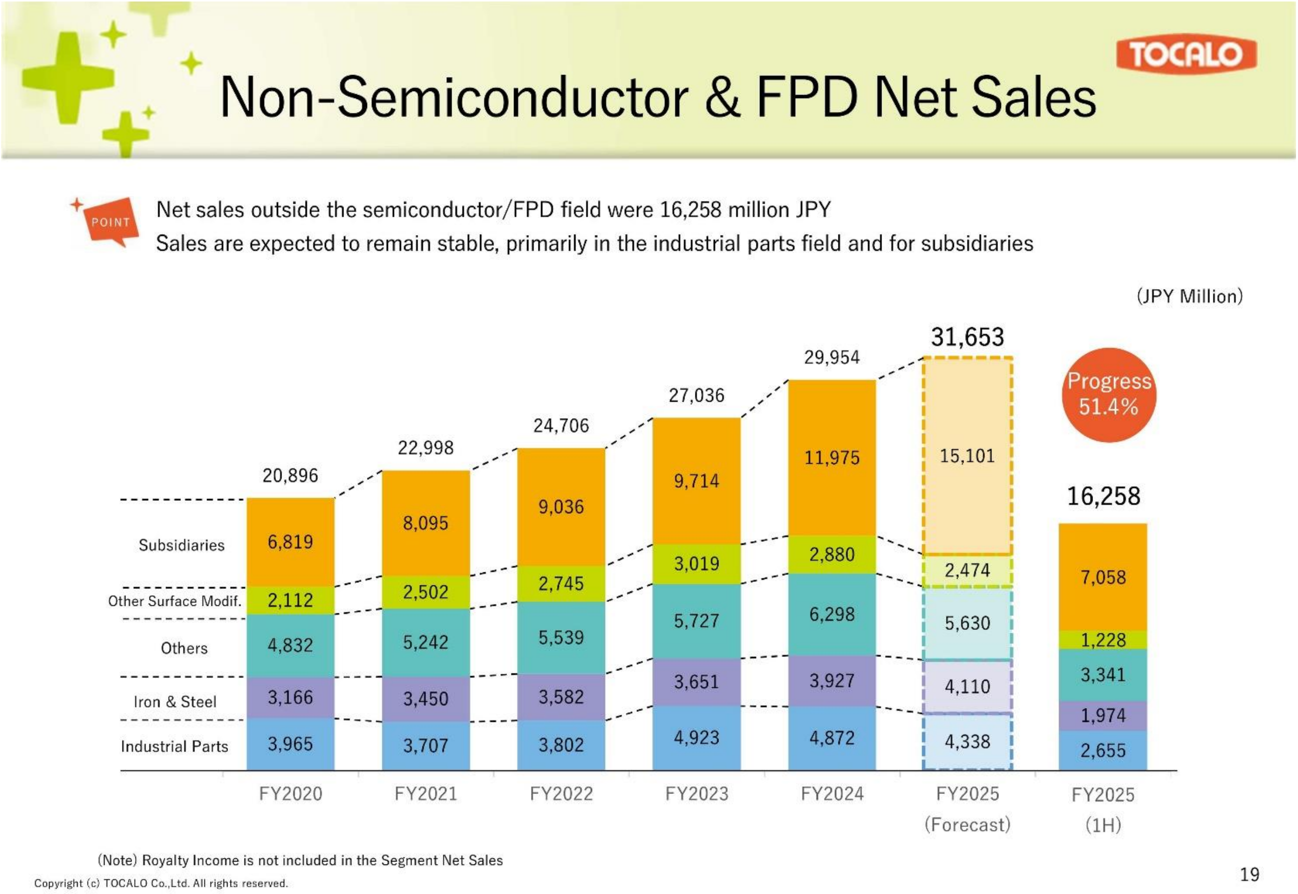


Next, sales trends in the semiconductor and FPD fields.

The forecast for the current period is JPY25.1 billion, of which JPY23.5 billion is for semiconductors and JPY1.5 billion is for FPDs.

Against this full-year forecast, actual sales for H1 were JPY11.9 billion, a progress rate of 47.6%.

We will continue to closely monitor future trends in the semiconductor market.

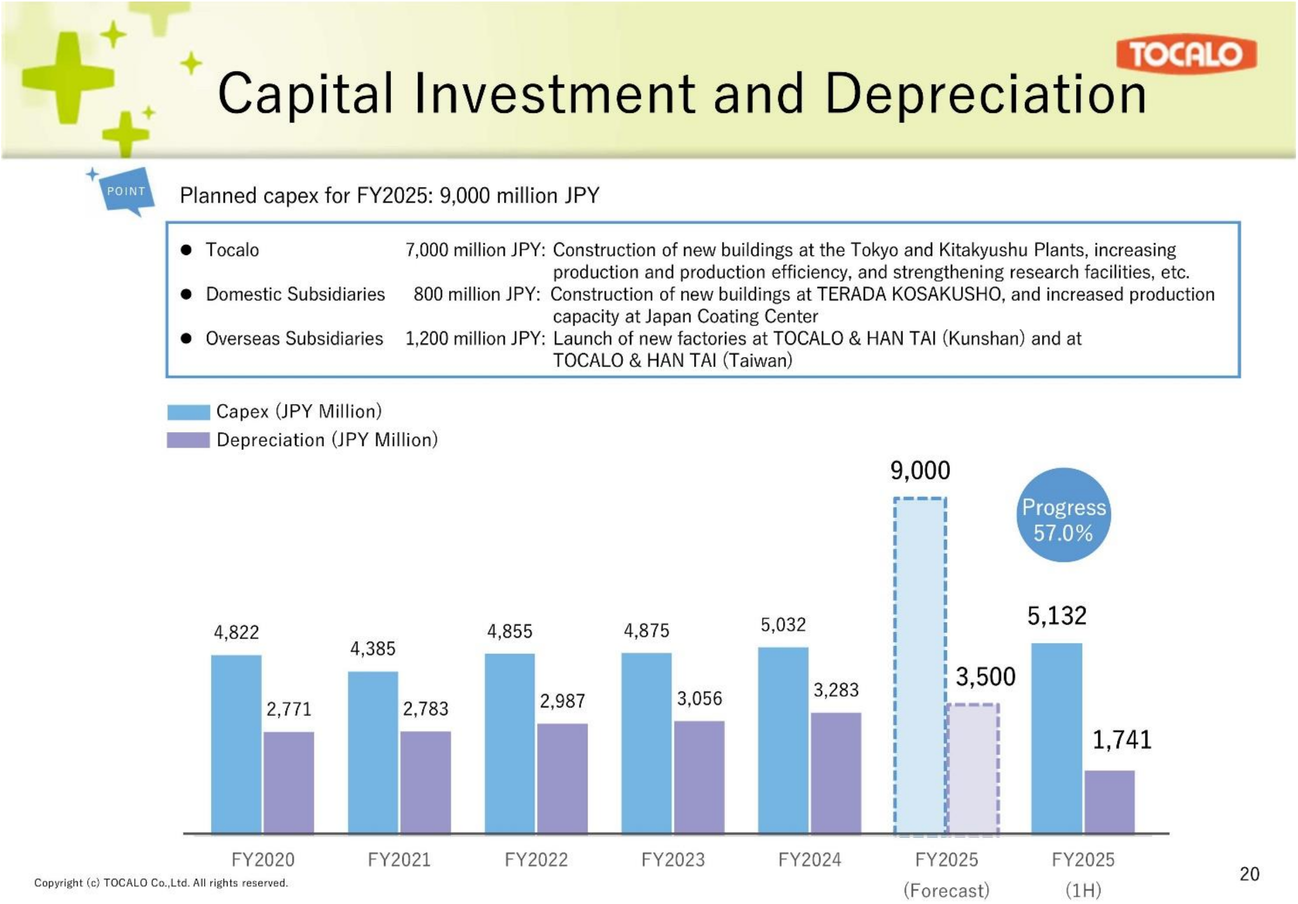


Now, here are sales trends outside the semiconductor and FPD fields.

The forecast for the current period is JPY31.6 billion, an increase of 5.7% from JPY29.9 billion in the previous period.

Against this full-year forecast, the H1 results amounted to JPY16.2 billion, a progress rate of 51.4%.

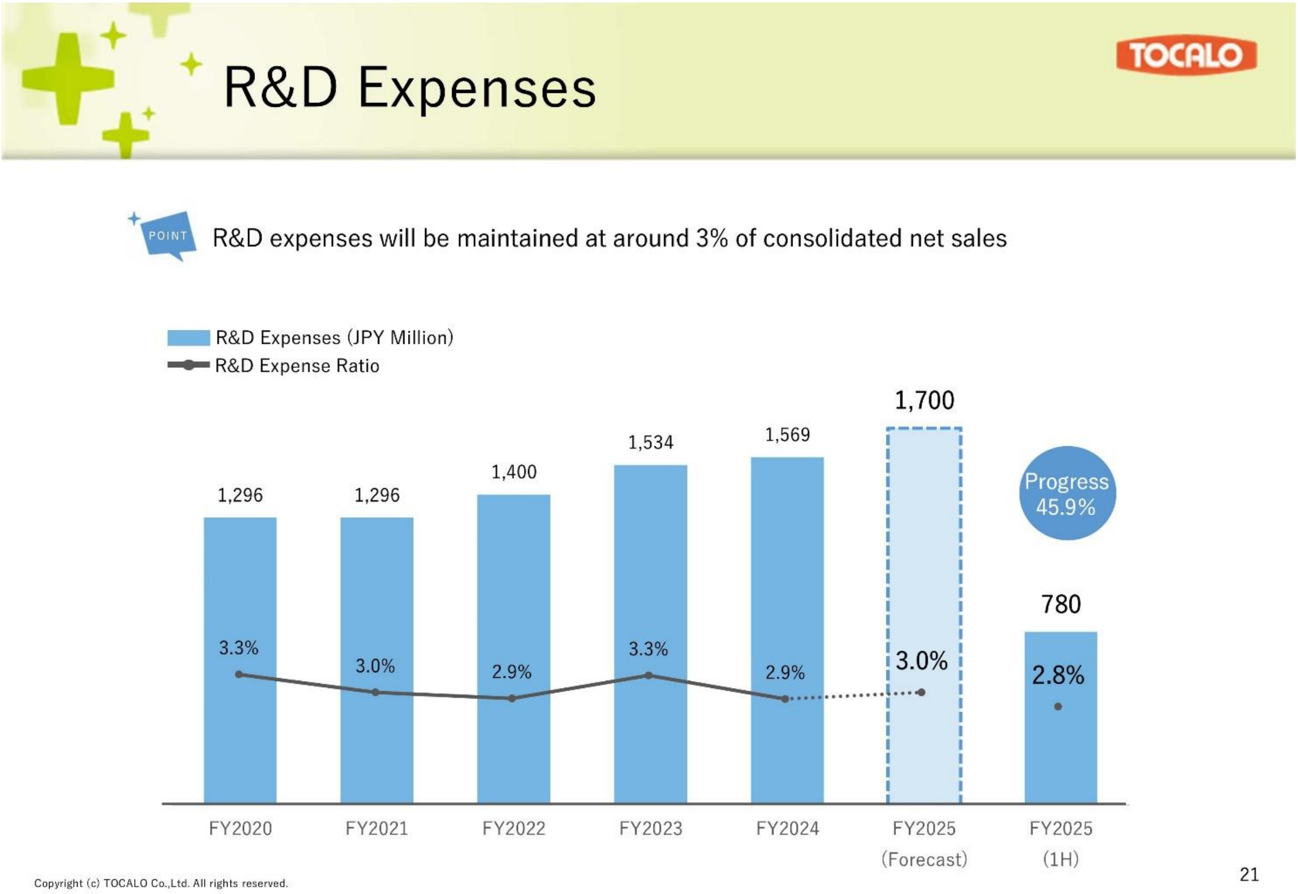
The subsidiary is growing steadily.



About capital investment and depreciation.

Of the JPY9 billion planned for capital investment in the current fiscal year, JPY5.1 billion was invested in H1, a progress rate of 57%.

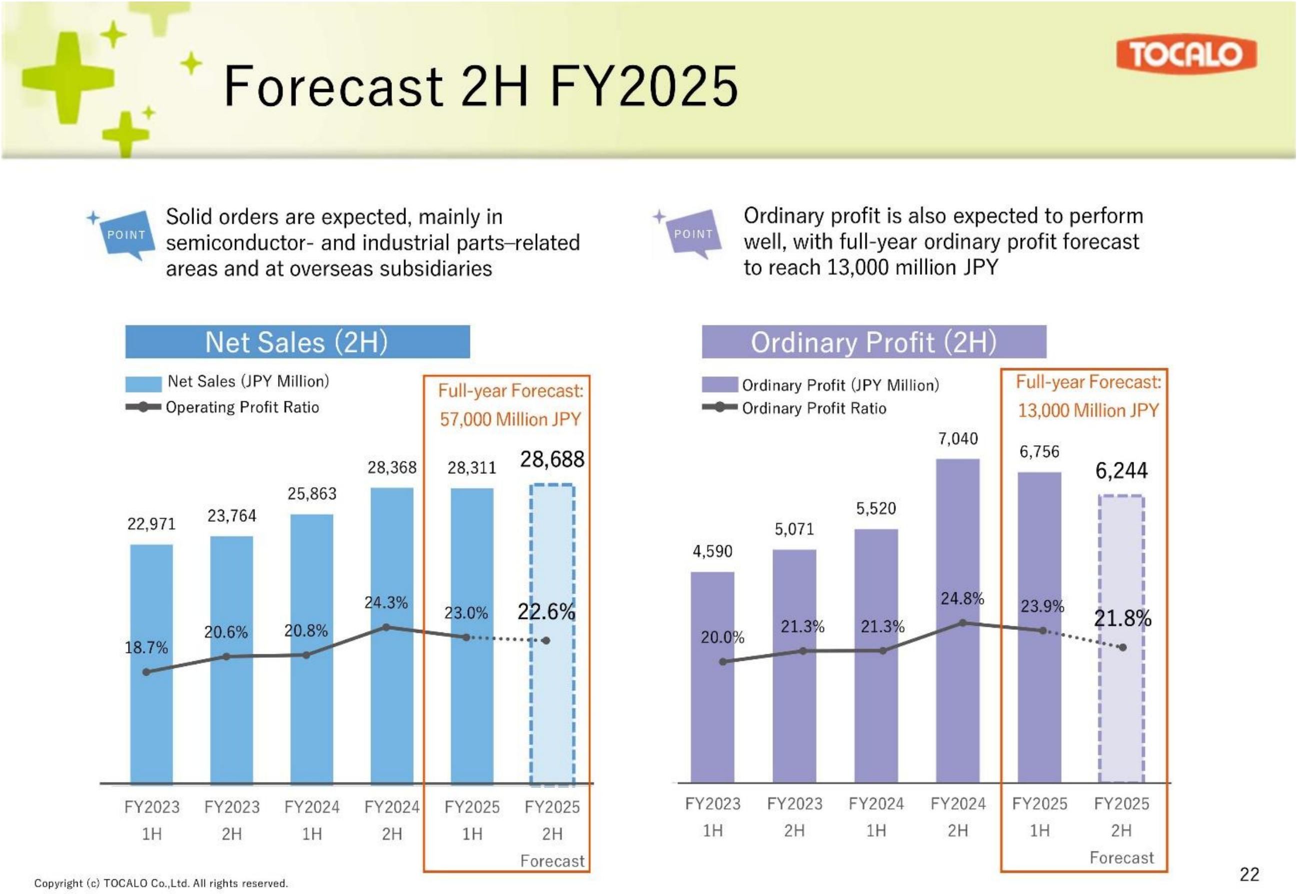
Major investments included JPY3.8 billion for the construction of plant buildings at the Tokyo, Kobe, and Kitakyushu plants, and JPY700 million at overseas subsidiaries.



Next, research and development expenses.

R&D expenses for the current fiscal year are expected to be JPY1.7 billion, or 3% of net sales.

Actual results for H1 were JPY780 million, 45.9% ahead of the full-year forecast.

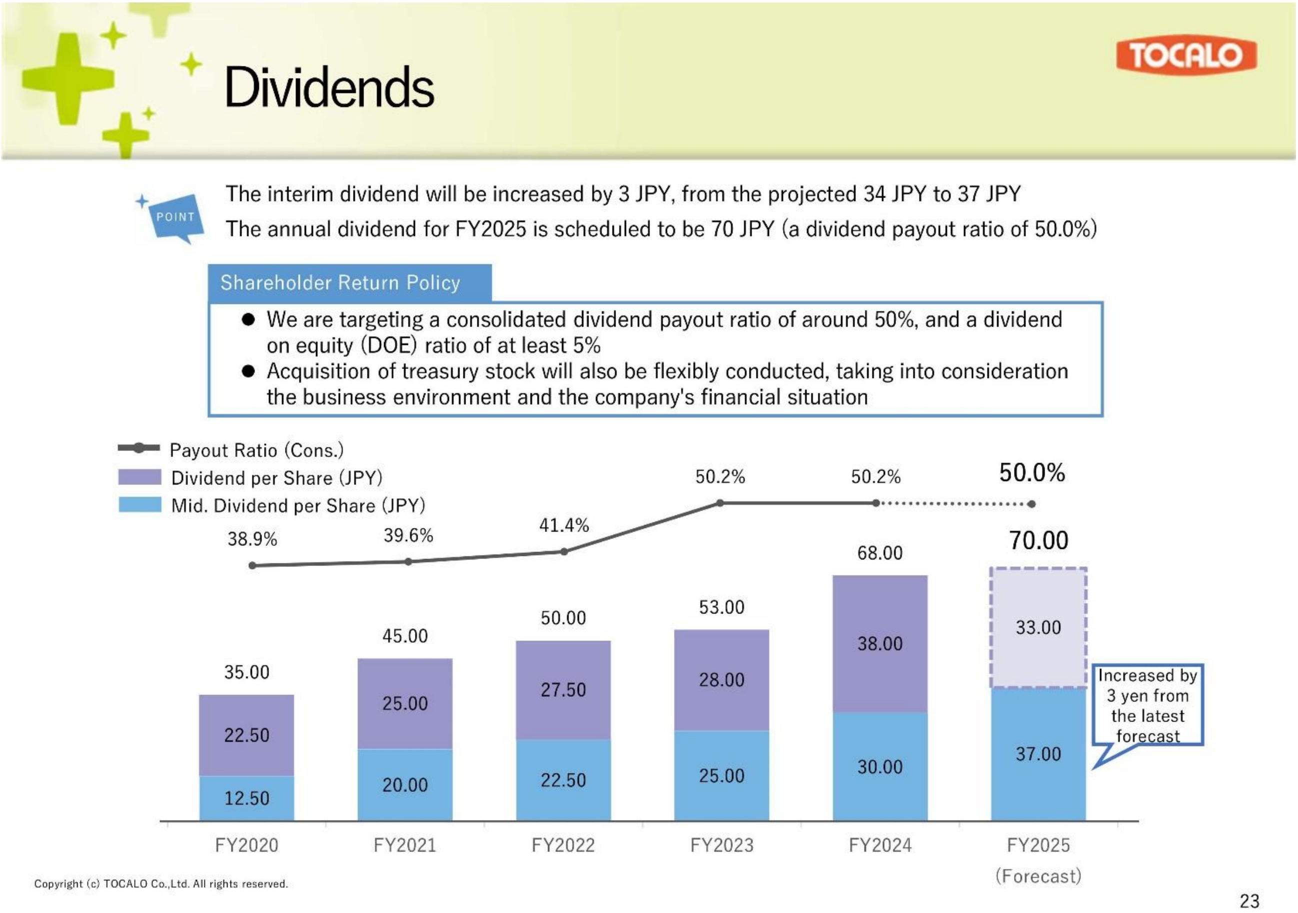


I will now explain our forecast for H2 of the fiscal year ending March 31, 2026.

This graph shows the semiannual changes in net sales and ordinary profit for three periods. At present, we expect an increase in sales and a decrease in income for H2 compared to H1 of the current fiscal year.

Orders for semiconductor-related products, which had been adjusted in Q2, are on a recovery track, and we expect orders for industrial parts and overseas subsidiaries to remain strong as well.

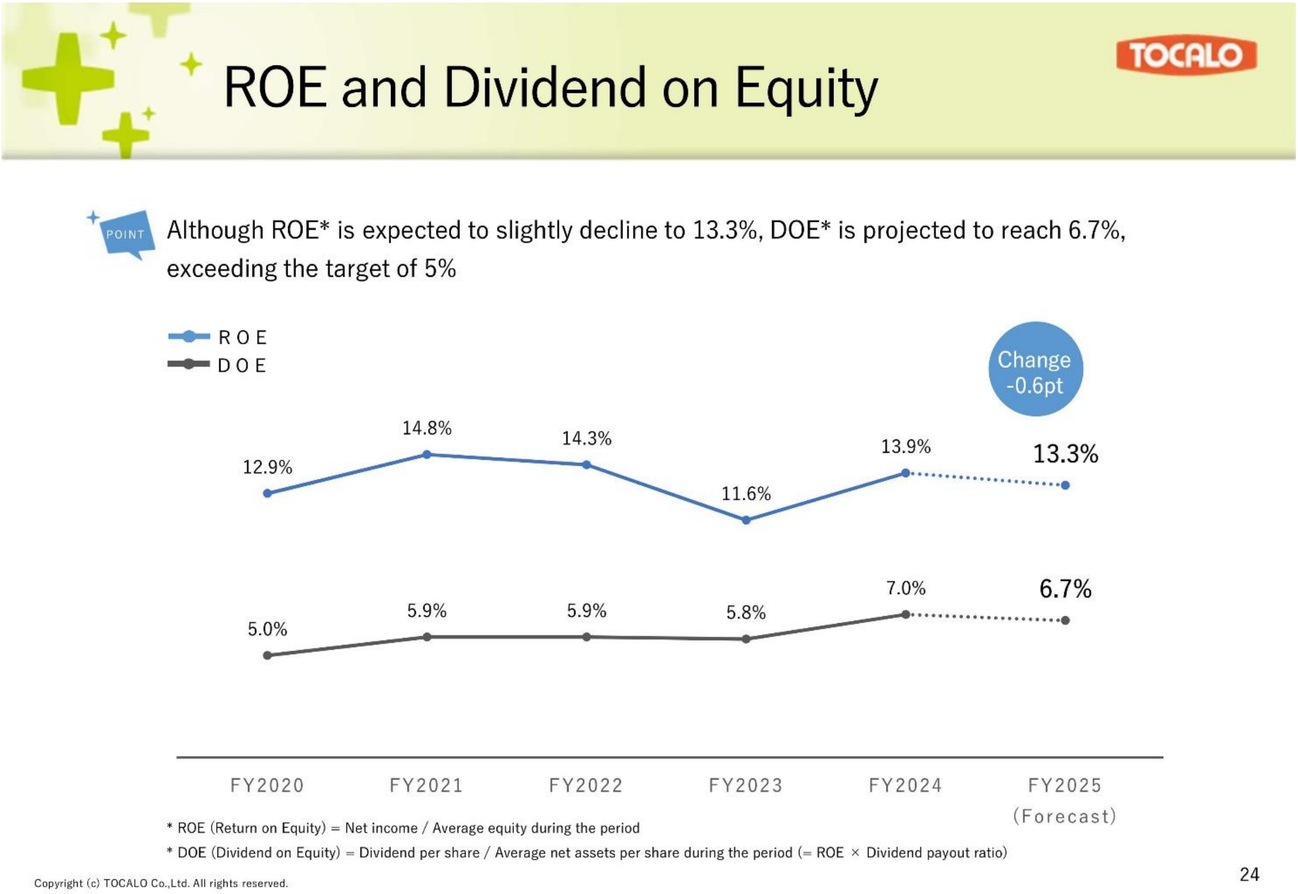
However, since our semiconductor-related sales usually recover later than orders, we are conservative about the profit from semiconductor sales in H2 of the year. Therefore, I believe that we can fully expect to add to our business performance. If, as a result of future information gathering we determine that a review is necessary, we will promptly disclose such information.



Dividend amount and dividend payout ratio.

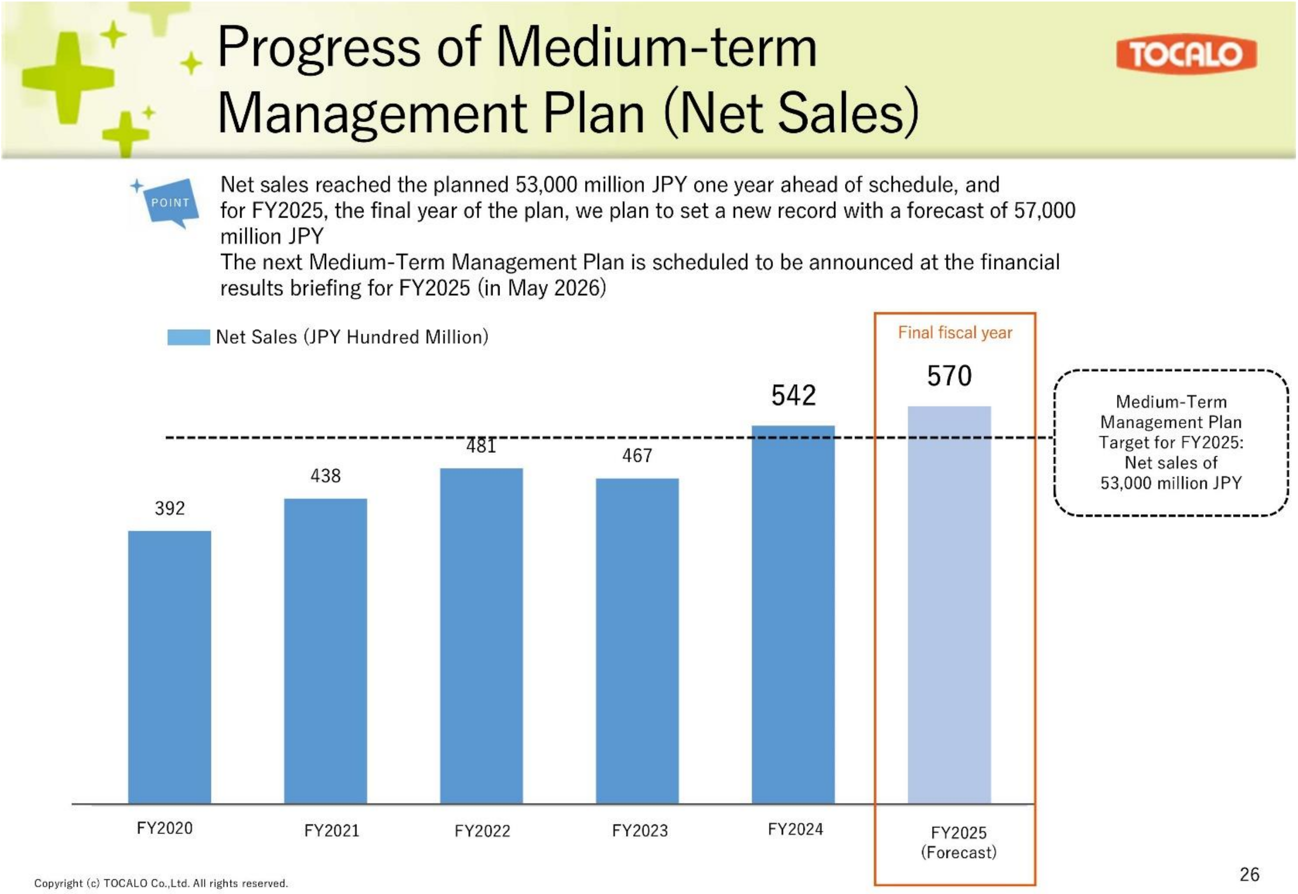
The interim dividend for the current fiscal year has been raised by JPY3 from the previous year's forecast to JPY37.

Meanwhile, the annual dividend for the fiscal year ending March 31, 2026 is expected to be JPY70 per share, based on the current earnings forecast, which assumes a payout ratio of 50%.



This is about ROE and DOE.

For the fiscal year ending March 31, 2026, we expect ROE of 13.3% and DOE of around 6.7%.

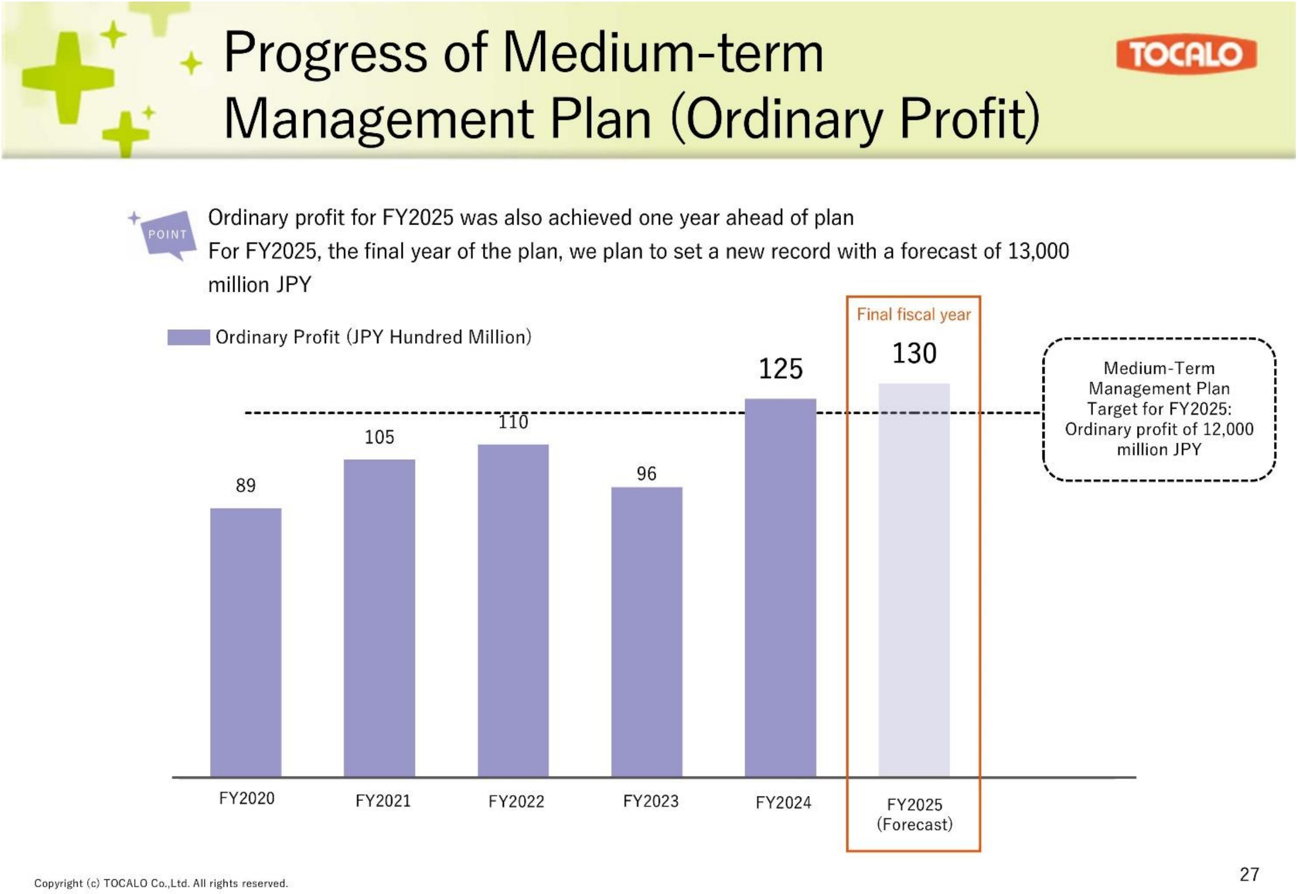


I will then explain the progress of the medium-term management plan.

The current fiscal year is the fifth and the final year of our five-year plan. Regarding the progress toward the sales target of the medium-term management plan, we achieved the target of JPY53 billion one year ahead of schedule.

For the fiscal year ending March 31, 2026 which is the final year of the forecast, we plan to reach a record high of JPY57 billion.

The next medium-term plan is scheduled to be announced at the May 2026 financial results briefing.



Next, I will explain the progress of ordinary profit.

The target of JPY12 billion was achieved one year ahead of schedule.

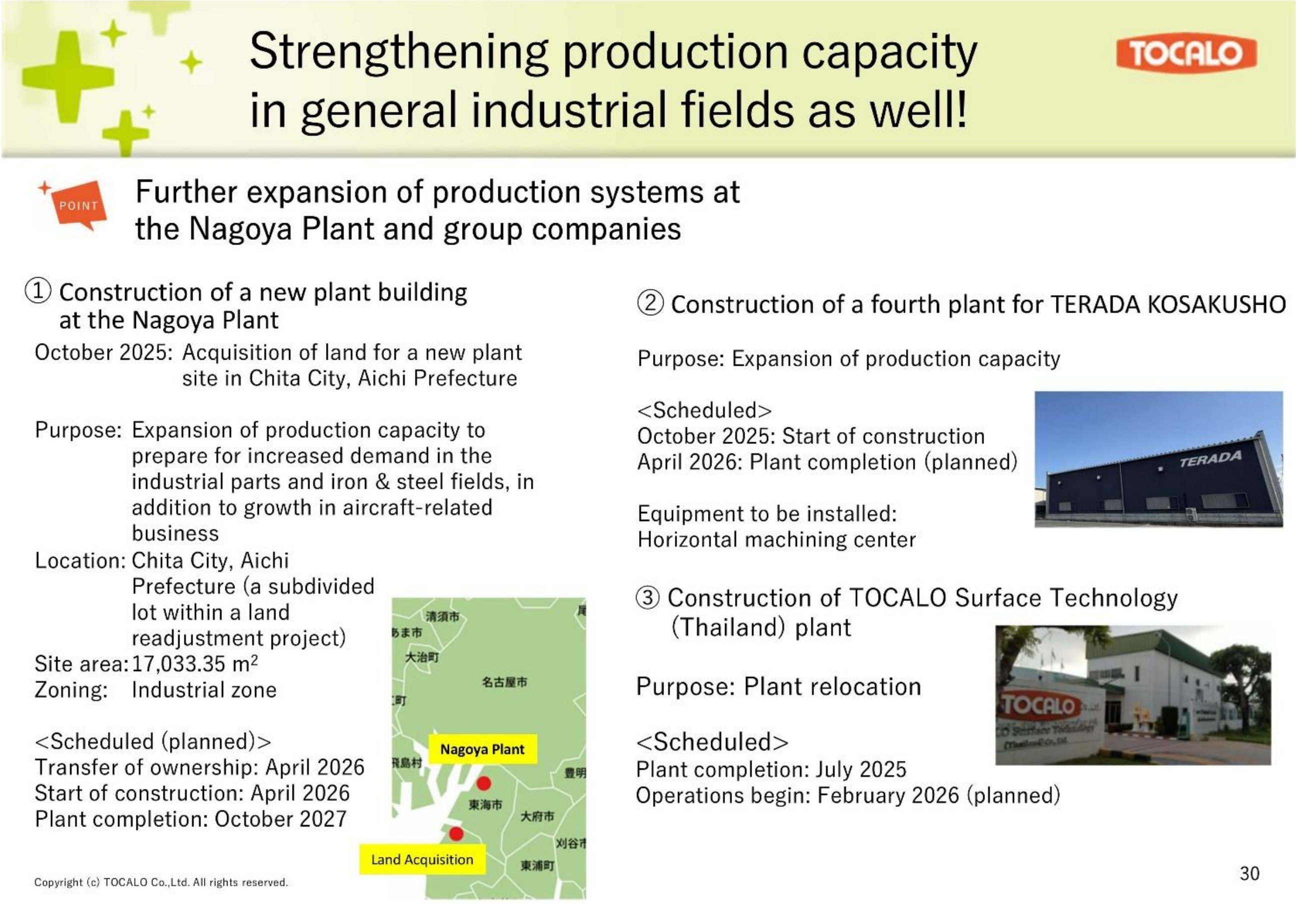
For the fiscal year ending March 31, 2026, the final year of the plan, we plan to achieve a record-high ordinary profit forecast of JPY13 billion.

Finally, there are six topics. The first topic is ramping up production.

We are constructing plants at two in Japan and two overseas locations to strengthen our production capacity in the semiconductor and FPD fields.

In Japan, we are constructing new plant buildings at the Tokyo Plant and the Kitakyushu Plant, which are scheduled to start operation in 2027.

Overseas, a new plant was completed at our Taiwanese subsidiary, TOCALO & HAN TAI TW CO., Ltd. In the US, TOCALO USA-Arizona LLC, a subsidiary of TOCALO USA, Inc, was established in Arizona. Construction of this plant is underway and is scheduled to begin operations in 2027.



Next, in the general industrial fields, I would like to introduce the construction of a new plant at the Nagoya Plant.

First, as we announced yesterday, we have concluded a sales and purchase agreement a factory site in Chita City, Aichi Prefecture. The purpose of the plant construction is to expand production capacity in preparation for increased orders in the aircraft-related business, industrial machinery, and iron/steel fields. The new plant is scheduled to be completed and begin operation in October 2027.

TERADA KOSAKUSHO, which joined the group last year, is also constructing a new plant on its premises to expand its production capacity. Construction is scheduled to be completed in April 2026.

In addition, a plant is under construction at TOCALO Surface Technology Thailand, which became a wholly owned subsidiary in June 2024. This facility is scheduled to begin operations in February 2026.

More sophisticated manufacturing processes

TOCALO

Becoming more sophisticated through high-precision equipment and robots

POINT

① Introduction of high-precision optical processing machines

<Evolution toward microfabrication technology for functional coatings>

- Supports further miniaturization of semiconductor chips
- Expands applications across a wide range of fields, such as molds for precision electronic components

High-precision optical processing machine

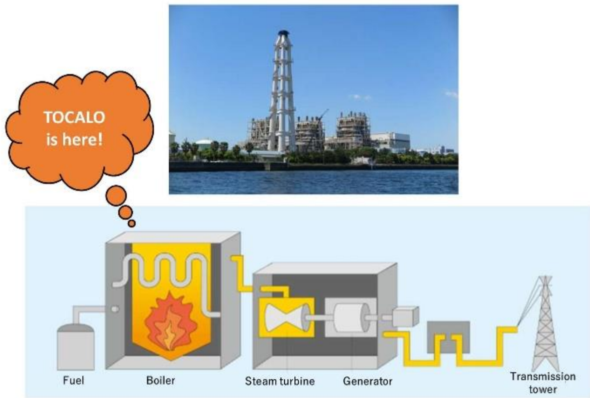
Enables ultra-precise sub-micron processing through non-contact 3D measurement

* 1 micron = 1/1000 of 1 mm (0.001 mm)

TOCALO high-function coatings × Microfabrication technology

By leveraging our accumulated data and know-how, we can achieve surface topography microfabrication in addition to high-function coatings

② Successful robotization of on-site work inside power plant boilers



- Improved worker safety
- Enables the formation of uniform and stable coatings
- Cost reductions

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Next, I would like to introduce our efforts to sophisticate manufacturing processes.

First, we introduced a high-precision optical processing machines to further advance our functional coatings. This machine enables microfabrication with an accuracy of less than 1 micron. By combining our proprietary coating technology and microfabrication technology, we will expand new applications, such as for high-precision parts in the semiconductor field and processing of molds for precision electronic parts.

Next, we succeeded in robotizing the thermal spray (TOCALO) in on-site construction. Conventionally, workers have performed this work by hand inside power plant boilers, but we believe that robotization of this process will reduce the burden on workers and create a safer work environment. Then, uniform and stable film formation becomes possible.

We will continue to pursue further technological innovation and productivity improvement.

Sustainability (1)

TOCALO

POINT

TOCALO initiatives to reduce environmental impact

<We have begun studying a path to carbon neutrality by 2040>

◇All group companies
(incl. non-consolidated companies):
Calculate greenhouse gas emissions
(Scope 1, 2, 3)

◇Obtain third-party verification
(Thermal Spray TOCALO)
<Ensures data transparency and reliability>
・Greenhouse gas emissions (Scope 1, 2, 3)
・Water usage
・Industrial waste emissions

◇ Initiatives to reduce environmental impact
(on-site examples)

① Plastic waste recycling (Tokyo Plant)
Issue: Disposal of plastic waste with a high CO_2 emission factor
Initiative: Reuse 88% of waste through material recycling*
Effect: Reduced CO_2 emissions

② Reducing waste oil from semiconductor grinding processes (Akashi Plant)
Issue: Generated large volumes of waste oil
Initiative: Reduce emissions by 95%, from 360 t/year to 18 t/year
Effect: Lowered environmental impact through waste oil reduction

③ Water reuse (Kobe Plant)
Issue: Large volumes of water consumed for cooling and cleaning
Initiative: Store in underground tanks and reuse in cleaning baths
Effect: Reduced water usage

*Material recycling: A method of reusing waste as the original material.

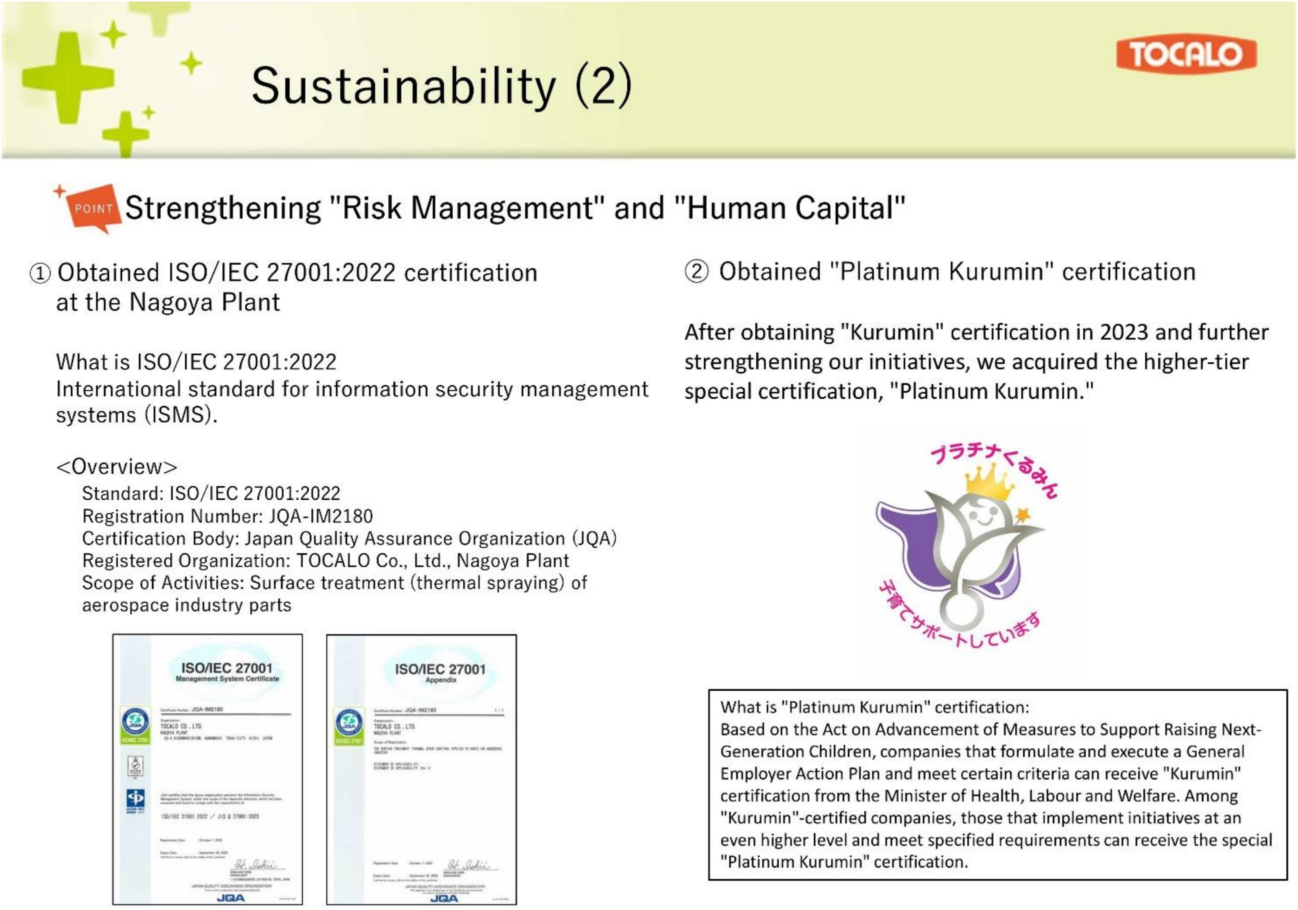
Let me introduce our efforts to reduce our environmental impact.

We have completed the calculation of Scope 1, 2, and 3 greenhouse gas emissions for group companies, including non-consolidated companies. As a result, the Group's emissions for FY2024 have been disclosed.

In addition, TOCALO alone has obtained third-party verification of its greenhouse gas emissions, water usage, and industrial waste emissions data to ensure transparency and reliability.

In addition, each site continues to promote initiatives to reduce environmental impact, such as recycling waste plastics, reducing waste oil in the semiconductor grinding process, and reusing water.

Please visit our corporate website for more details.



Next, we would like to introduce the certification process.

Nagoya Plant acquired ISO27001 certification for its information security management system. This certification is for the surface treatment of aerospace industry parts at the Nagoya Plant. With this certification, we will further focus on expanding orders in the aircraft field.

In October, we received Platinum Kurumin certification, a higher level of Kurumin certification, from the Minister of Health, Labor and Welfare as a company that helps employees balance work and child rearing.

We will continue to pursue sustainable growth and continue to work on ESG, including environmental governance, human capital management, and social contribution.

Finally, I would like to introduce our integrated report 2025, which was issued at the end of August.

In this issue, each Board member delivers a message, starting with what TOCALO's corporate motto “Good Service” means, I, along with each Board member, convey our messages. In addition, roundtable discussions with the general managers of each division and comments from our employees introduce the ideas we hold as our cornerstone from a variety of perspectives. Please have a look.

That concludes my explanation. Thank you for your attention.

Question & Answer

Moderator [M]: Thank you very much. We will now move on to the question-and-answer time.

We will start with questions from the audience in this venue. Online participants are encouraged to submit questions via the Q&A function on the screen during the Q&A session at the venue.

The full text of this IR meeting, including the Q&A session, is available for transcription. If you give your company name and your name when asking a question, it will be published as is. If you wish to remain anonymous, please do not identify yourself.

So, please, go ahead.

Osawa [Q]: Thank you very much. My name is Osawa from Ichiyoshi Securities Co., Ltd. I have two major points related to the topic.

The first point is the establishment of a new company in Arizona, starting in 2027. Given the location, I believe the recoat business initiative holds particular promise. Additionally, there is also the strength of having ties with the equipment manufacturer's home country. Compared to, say, the operations in Kitakyushu, what specific advantages might emerge such as faster speed, stronger collaboration, or anything else? Can you tell us what your specific expectations are?

Kobayashi [A]: Of course, one of the reasons for building the Arizona plant is to expand into the US, but there is also very strong demand from our customers. I believe this is inevitable in order to enhance coordination at that point.

However, the semiconductor market, or rather this semiconductor manufacturing equipment business, may have been delayed by about two years from 2030 to 2032, but we are planning to double production capacity by 2032. Production at the Kitakyushu Plant alone is insufficient. Of course, we will also do the production position at the Kitakyushu plant, but I know that we can improve cooperation with manufacturers by increasing production in the US, which is still the local market.

Osawa [Q]: Understood. Am I correct in understanding that the current customer requirement is for equipment manufacturers?

Kobayashi [A]: You are correct.

Osawa [Q]: Understood.

Also, to accompany the first point, the decoupling of the US and China in the semiconductor industry probably began to emerge around the year 2000, and about five years have passed since then.

Like through the human resources development program that established a framework capable of establishing or strengthening a subsidiary in the US, what kind of personnel were developed as a result in TOCALO Co., Ltd.? Or what was the process, including any plans you have had or will have for mid-career hiring?

Kobayashi [A]: To be honest, we are not completely aligned yet. However, for the past three years, we've implemented a global challenge program within the company to cultivate overseas personnel.

In particular, we've been working on how to effectively pass on the experience gained at our current US subsidiary, [inaudible], while at the same time, we've already selected personnel to send and begun dispatching them to the local site.

We have not yet hired any local employees, but we are in the process of progressively developing human resources to move forward within our company.

Osawa [Q]: Understood.

I'm sorry to continue with the incidentals, but I think there is an example royalty issue when expanding in the US. Will this time be in conflict with the idea that overseas projects are handled through royalties? Or, since it is semiconductors and pinpointed, wouldn't there be little conflict with existing royalty recipients? Or, if they arise, how will they be dealt with? Do you have a policy in this area?

Kobayashi [A]: There is currently no overlap with existing companies so far. We are classified by IP so there is no overlap there.

Osawa [Q]: Understood.

Point two, there has been an announcement of the construction of a new building in Nagoya. For aircraft and steel, I think it was Akashi Harima in the past, to be able to handle large projects. Also, Nagoya was expanded five or seven or eight years ago I believe, but I have not heard much about it.

This time, there was talk of certification for aircraft as well, but should aircraft be the target? If so, is it linked to the current expansion of the defense budget, for example? Or perhaps that aspect is irrelevant, targeting so-called commercial applications? What is the purpose of the construction of the new building in Nagoya?

Kobayashi [A]: Since about seven years ago, we have made a lot of progress with our existing relationships with companies. This time, we have launched a plan to expand operations with private airline company S plus another company. We will respond to the rise of such commercial aircraft, plus, and this is a bit hard to say, we will expand our business in the future.

Osawa [M]: Understood. Thank you very much.

Moderator [M]: Thank you very much. Do you have any other questions?

Participant [Q]: Thank you for your explanation.

The stock price is plummeting, isn't it? So, I had a look at the financial results, and I saw that the Company has achieved record sales and profits, and the progress on the mid-term plan is also excellent. I was watching to see what happened. I wondered if the semiconductor manufacturing related stocks were overvalued or undervalued, but your company is by no means overvalued. For example, when I look at the EBITDA of ELECTRON, Lasertec, or ADVANTEST, it is more than 3x that of your company, which is not high at all. If I look at the shareholder structure, I am wondering if there is a solution here.

What I am trying to say is that I believe the market liquidity of stocks is low. According to Toyo Keizai, the floating share ratio is listed as only 7.3%, and although Toyo Keizai has calculated the ratio based on their own ideas, I am wondering if there may be a solution in this area.

Although the Company has an ideal ratio of foreign institutional investors, market liquidity is low, and I believe the decline was probably due to the fact that the financial results this time were slightly cautious in H2 of the year and did not reach the market consensus. If there was a lot of liquidity in the market, the price would not have dropped so low.

My question is, in short, what is the ideal shareholder structure or capital policy to improve market liquidity? The medium-term management plan is being revised again, and I would like to know about the ideal capital structure and shareholder composition, the ratio of individual investors, and any other future plans you have in relation to marketability.

Goto [A]: This is Goto, thank you for your question. Since we are talking about shareholder composition, as the general manager of the administration division, I will answer your question.

You mentioned that market liquidity may have been low. It is true that our daily trading volume has been small in the past, but I believe that the volume has increased considerably over the past year or so.

The recent sharp stock price fluctuations, as you mentioned, resulted from the market's reaction to our decision not to revise our full-year forecast despite the strong H1 performance. This was seen as a pessimistic reaction to the H2 outlook, especially given the very high consensus expectations that had been set.

In terms of shareholder composition, individual investors account for about 30%. About 30% are foreign investors. The rest are Japan's institutional investors, and I believe we have achieved a certain balance. We will, of course, continue our activities to gain the support of more individual investors, but the number of shareholders has been steadily expanding, so we will continue our past activities. Also, if the stock price continues to rise, we would like to consider another stock split, as we have done in the past. That is all.

Participant [M]: Thank you.

In terms of shareholder composition, I understand that 30% are individuals, but the other question is about the utilization ratio of those shares, in other words, do they hold them without moving them? If you can sell or buy firmly and frequently, and do both, the stock price formation will change, so I agreed to continue that policy. Thank you very much.

Moderator [M]: Thank you very much.

Next questioner, please go ahead.

Participant [Q]: Thank you very much for your kind explanation. I have two questions.

The first question is about production capacity, and the second one is about the mid-term management plan to be announced next year.

First, regarding the question about production capacity: It has been exactly two years today since President Kobayashi began appearing at these financial results briefings. When he first took the stage, the semiconductor market was still in a slight adjustment phase. However, just six months later, the market recovered, and I remember President Kobayashi mentioning that he was considering how to increase production capacity and that TOCALO needed to advance automation further.

On pages 29 and 30 of today's materials, I can see the data on production capacity announced over the past year. Can we assume that the immediate expansion of production capacity has largely concluded? Or do you still think that you need a little more, I don't know if it's one or two more steps.

At the same time, the evaluation of production capacity announced this time is about boxes, so so-called hardware production and capacity expansion. As you mentioned briefly earlier, regarding the software side, if there's anything you can share about human resources and the equipment to be delivered going forward, I'd appreciate hearing about it.

If you could share an example using the automation rate that President Kobayashi mentioned earlier—for instance, how much higher the automation rate will be for the equipment installed in the new factory compared to the previous one, and how much fewer personnel will be required—it would help us visualize the significant productivity gains the new factory will achieve once it starts operating. Would you be able to share as much as you can? I believe this is President Kobayashi's area of expertise.

Can I continue with the second point? I am afraid this is a slightly similar question, but I am very excited to hear that a new mid-term plan will come out next spring. I look forward to seeing the detailed figures next spring, but if you could share any key points of emphasis in the direction of this new mid-term plan, it would make our next six months even more exciting. It would be helpful if you could provide us some examples like a shift from quantity to quality, or the pursuit of further quantity, or the pursuit of profitability.

Sorry, these are the two points. Please.

Kobayashi [A]: Sure. First, for productivity. We have already been renovating, reconstructing, and expanding our factories since last year and the year before, and at this point we have already prepared a factory that can handle a 30% increase in production from the current level, which is planned for 2027.

However, what is currently causing a fuss is that the manufacturers of manufacturing equipment are aiming to increase production by 200% of the current level by 2032, although I have always said 2030 and I feel that this has been postponed by two years. Manufacturers in Japan are building large-scale factories, and we are now preparing to increase production by 200%. Whether it gets postponed for two years or whatever, we must be able to produce at 200% capacity. Currently. This plan is essentially to establish a factory with manufacturing capacity equivalent to the current one at the Tokyo Plant.

It is difficult to say what they are, but we are receiving more and more certifications for production facilities that have improved productivity.

The semiconductor industry today is based on CE, CC, and copy-exact change control. There is a tremendous difficulty in changing the way current equipment is produced, and you really have to go slow and deliberate to change it. Sometimes just saying that productivity will improve is not enough to change anything at all.

However, we're already producing actual products, and the systems that have improved productivity and received certification have been progressing well. The productivity and the systems that have been certified are much more advanced, and the introduction of these systems will increase production efficiency by roughly 30% at this point.

However, our coating department will increase by 30%, but packing and handling will take a little more time, so overall production efficiency may only increase by 10%. However, the equipment is changing so that it can produce the same capacity as the current capacity, even if the volume is a little smaller, because the production efficiency will increase by 30%.

It is the same at the Kitakyushu Plant, where we have introduced new systems that have increased productivity by 50% or 60%, and we are also introducing systems that have increased productivity by 30%, and we will continue to introduce more and more systems as we increase our production capacity.

As for the equipment that will be installed inside the plants, as mentioned during the briefing, we will invest according to the forecast of the customer's production capacity for the next fiscal year. We look at the situation presented to see what will happen three years from now and add the equipment inside. To a certain extent, we will be looking at 30% or 40% of the required capacity, while making investments in advance, and will do so as needed.

First, we plan to build buildings and vessels, and invest enough to increase production by about 30% of the current level, from which we will adjust as needed.

Regarding the medium-term plan, basically, numerically speaking, we have actually applied for a wage increase subsidy, which is provided by the Ministry of Economy, Trade and Industry. We are now working on a medium-term plan that calls for JPY60 billion on a non-consolidated basis and JPY80 billion in total. We are working hard to incorporate a figure in addition to what we are currently putting out, while working out whether JPY80 billion or JPY90 billion in five years' time is sufficient to reach the current JPY57 billion.

What we have promised is that we will aim for a 4% wage increase and 7% growth, but we are currently working on a mid-term management plan to go beyond that, and we will announce more details next year.

We are not trying to increase sales by increasing the quantity, but rather to maintain the high profit margin that we are currently earning from our customers. We are all working hard to build up these figures while taking into consideration how we can maintain the high profit margin that we are currently earning. That is all.

Participant [M]: Thank you very much.

Moderator [M]: Thank you very much. Any other questions? May I? No questions have been received online so far.

How about on the floor. If you have any new questions, please contact the person in charge of IR by email or phone. They will be happy to answer your questions.

That concludes today's briefing. Thank you all. Thank you to everyone at the Company.

[END]

Document Notes

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