TOCALO Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2022

May 13, 2022

Event Summary

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[Venue Size]	238 m^2
[Participants]	50
[Number of Speakers]	4

Noriyuki Mifune	Representative Director, President and Executive Officer / Doctor of Engineering
Hiroshi Goto	Director, Managing Executive Officer and General Manager of Administration
Kenji Hosomi	Accounting Manager
Hiroshi Shimizu	Manager, Corporate Planning Office

Presentation

Moderator: The time has come and we will now begin the financial results presentation of TOCALO Co., Ltd. In addition to the on-site event, this briefing will be held in a hybrid format with a live-streaming online session. First of all, I would like to introduce the four people we are welcoming from the Company. Dr. Noriyuki Mifune, Representative Director, President and Chief Executive Officer.

Mifune: This is Mifune. Thank you very much for your support.

Moderator: Mr. Hiroshi Goto, Director, Managing Executive Officer, and General Manager of the Administration.

Goto: This is Goto. Thank you very much for your support.

Moderator: Mr. Kenji Hosomi, the Accounting Manager.

Hosomi: This is Hosomi. Thank you very much for your support.

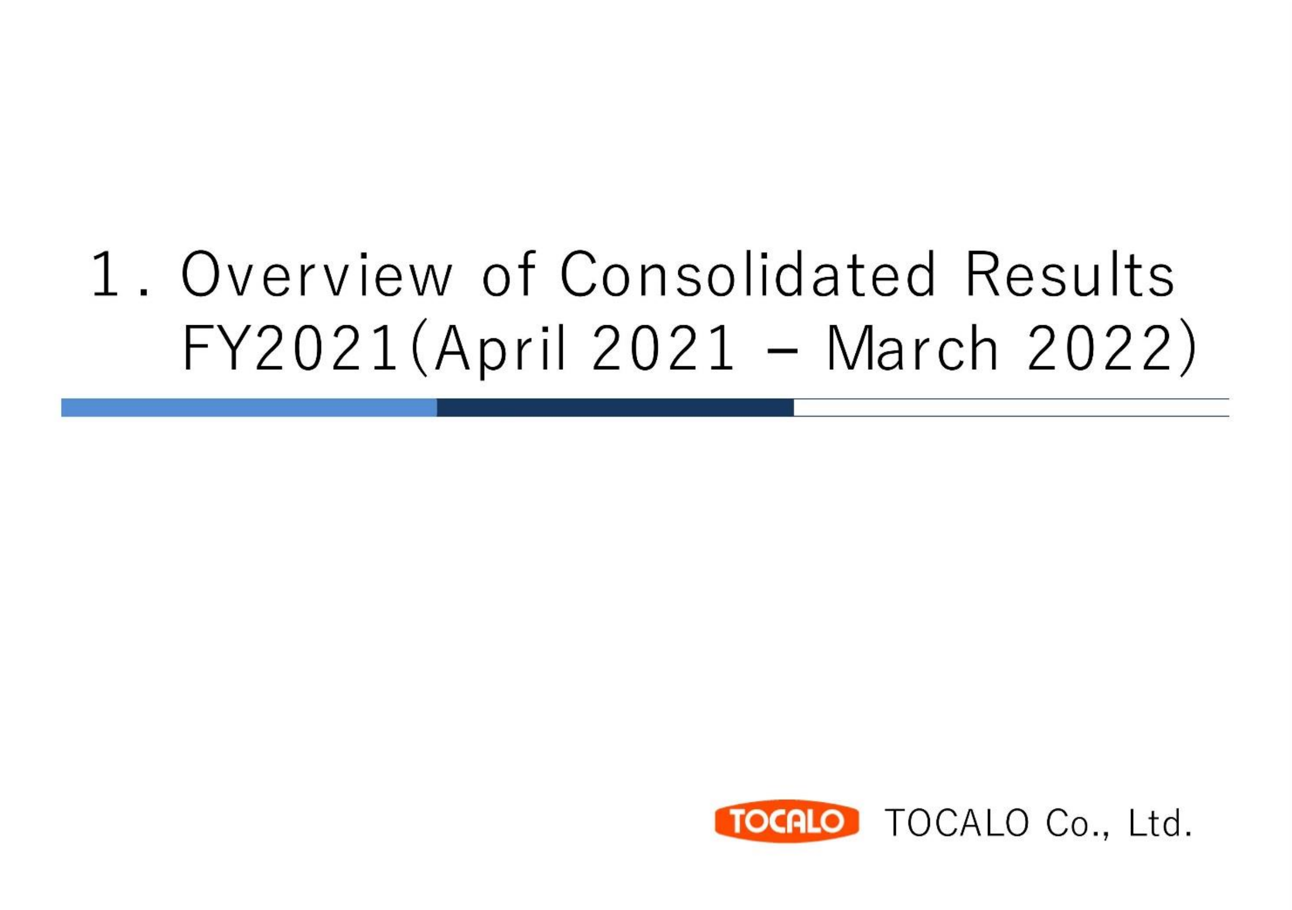
Moderator: Mr. Hiroshi Shimizu, Manager of the Corporate Planning Office.

Shimizu: This is Shimizu. Thank you very much for your support.

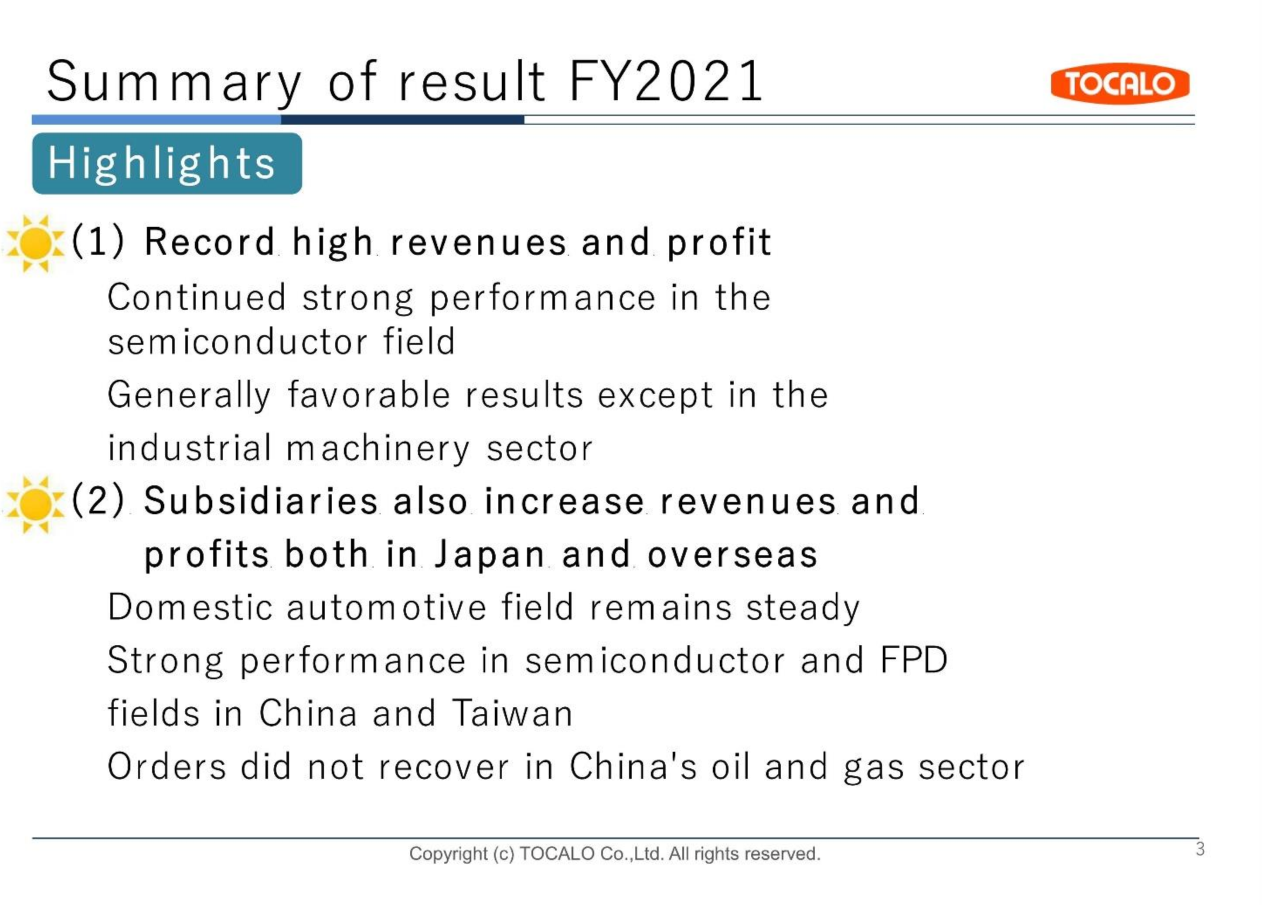
Moderator: Today, Dr. Mifune will give us his explanation. After the explanation, there will be time for questions from the audience. We will continue to take questions from those who are participating online this time. Well then, Dr. Mifune, I look forward to hearing from you.

Mifune: Hello, everyone. As already mentioned, my name is Mifune. Thank you for your cooperation today. Thank you very much for taking time out of your busy schedule today to attend the information session of TOCALO. Also, to those of you listening online, thank you for joining us. I would like to thank you again for your continued support of our business operations. Thank you very much.

As explained earlier, we are doing this online, and we have heard that 50 to 60 people are participating today. I would like to thank you for your cooperation. Now, without further ado, I would like to begin the financial results briefing.

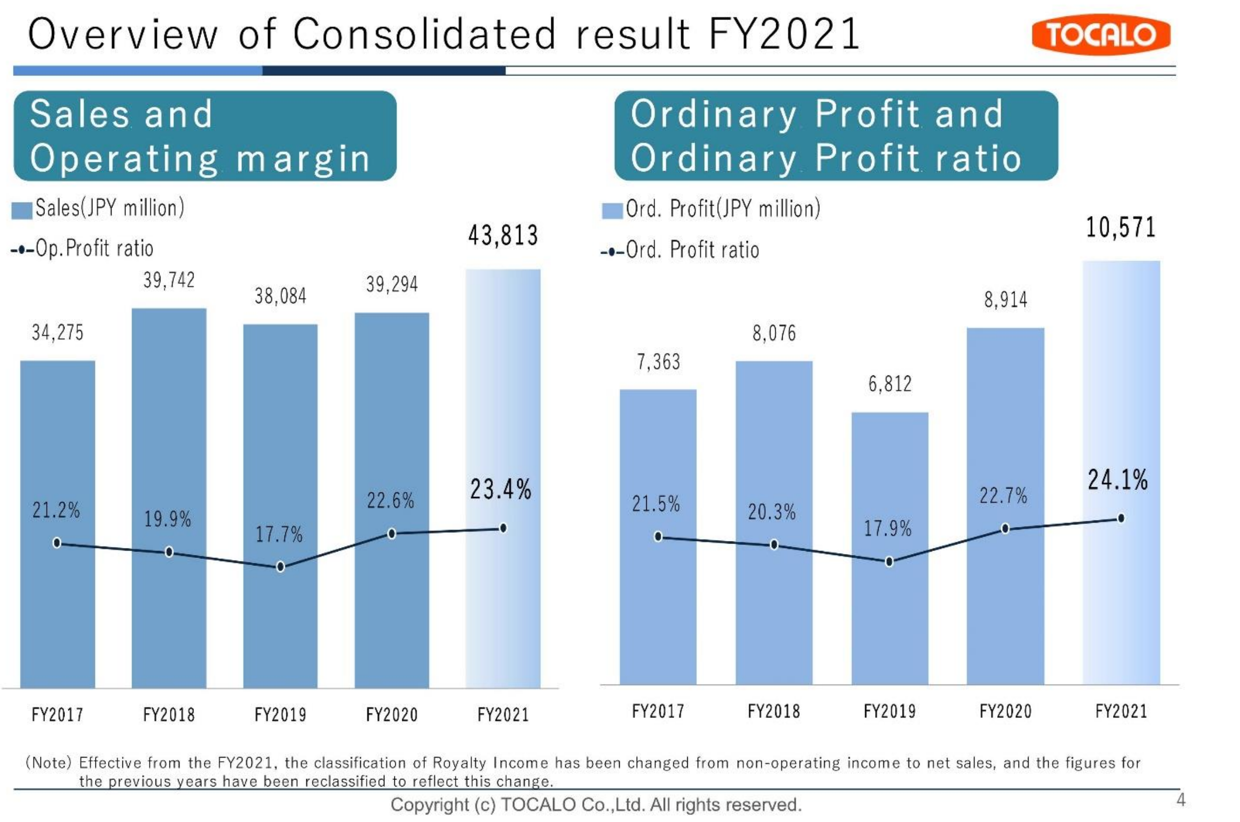


Today, I would like to talk about three things: The consolidated financial results for FY2022, the forecast for the current FY2023, and the progress made toward the Medium-term Management Plan that was announced last year. I usually give an overview of the Company at the beginning of my presentation, but I would like to omit it this time. Thank you very much for your support.

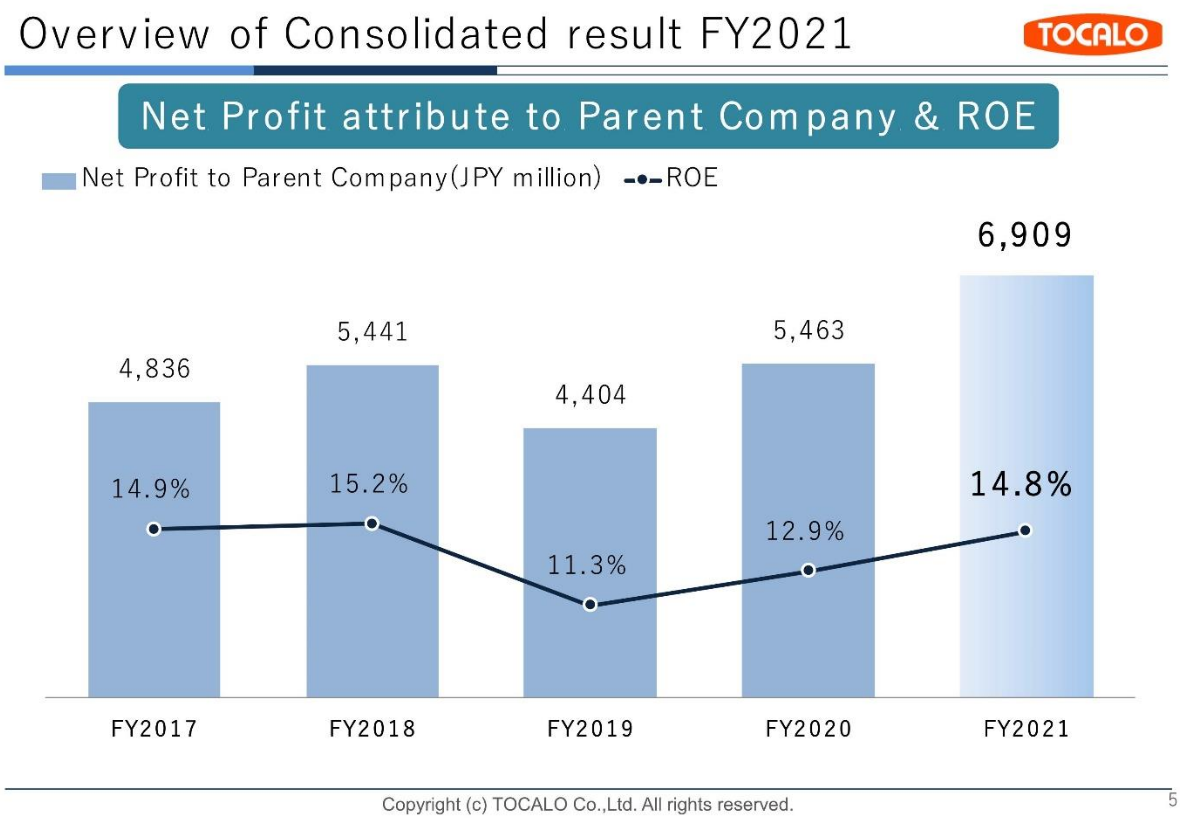


I will now give an overview of the financial results for FY2022. First, as a highlight, a brief summary of the results shows that sales and profits both reached record highs. In particular, the strong performance of semiconductors has contributed to the increase in both sales and income. There was a decline in the fossil fuel-related energy sector, especially in the industrial machinery sector, but other sectors generally performed well.

In addition, subsidiaries achieved increases in both sales and income both in Japan and overseas. In particular, our subsidiary, Japan Coating Center, performed well, thanks in part to the revival of the automotive field. In China and Taiwan, the semiconductor and FPD fields have been growing steadily. However, the factory in Guangzhou, China has not been able to recover due to the sluggish oil and gas industry in China. I think this will continue to be a bit of a difficult trend in the future.



The above is a brief overview of the project. To give you a numerical perspective, two graphs are shown: On the left are net sales and operating income, and on the right are ordinary income and ordinary income margin. The sales amount is JPY43.813 billion, and the operating income ratio is 23.4%. Ordinary income was JPY10.571 billion, with an ordinary income margin of 24.1%. We are celebrating our 71st fiscal year, and this is a memorable year for us as we surpassed the JPY10 billion mark for the first time.



I will continue by explaining net income and ROE. The same five-year trend is shown below, but for FY2022, net income was JPY6.909 billion, the highest ever. Our target for ROE was 15%, and at 14.8%, we are very close to our goal.

Overview of Consolidated result FY2021

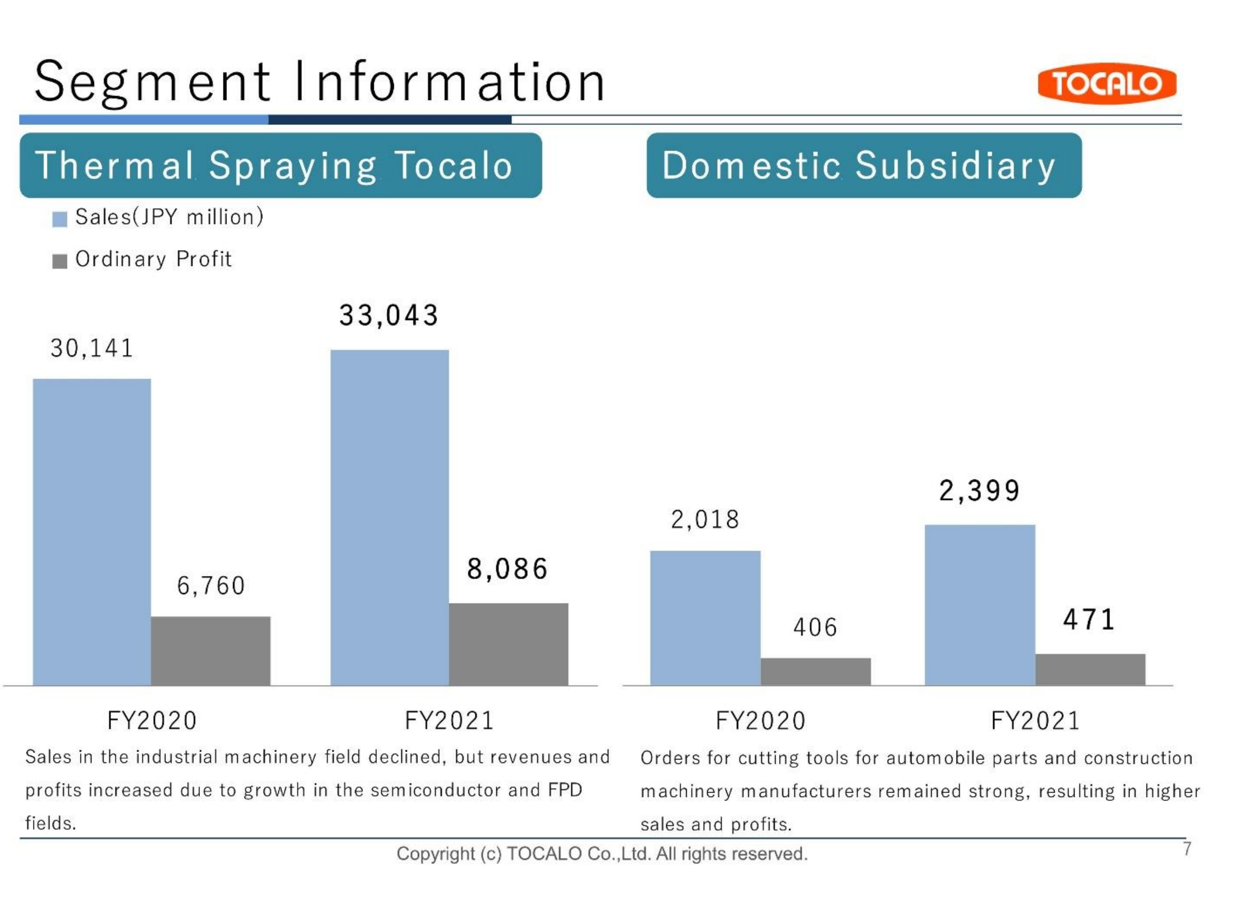
TOCALO

(JPY million)	FY2020		FY2021		Change	
	Result	Ratio	Result	Ratio	Result	Ratio
Net Sales	**39,294**	**100.0%**	**43,813**	**100.0%**	**4,518**	**11.5%**
Thermal Spray	30,141	76.7%	33,043	75.4%	2,902	9.6%
Semicon & FPD	18,176	46.3%	20,643	47.1%	2,467	13.6%
Industrial Parts	3,965	10.1%	3,707	8.5%	△ 258	-6.5%
Iron & Steel	3,166	8.1%	3,450	7.9%	284	9.0%
Others	4,832	12.2%	5,242	11.9%	409	8.5%
Other Surface Modif.	2,112	5.4%	2,502	5.7%	389	18.5%
Domestic Sub.	2,018	5.1%	2,399	5.5%	381	18.9%
Overseas Sub.	4,800	12.2%	5,695	13.0%	895	18.6%
Royalty Income	221	0.6%	171	0.4%	△ 50	-22.7%
Operating Profit	**8,890**	**22.6%**	**10,255**	**23.4%**	**1,365**	**15.4%**
Ordinary Profit	**8,914**	**22.7%**	**10,571**	**24.1%**	**1,656**	**18.6%**
Net Income attribute to owners	**5,463**	**13.9%**	**6,909**	**15.8%**	**1,446**	**26.5%**

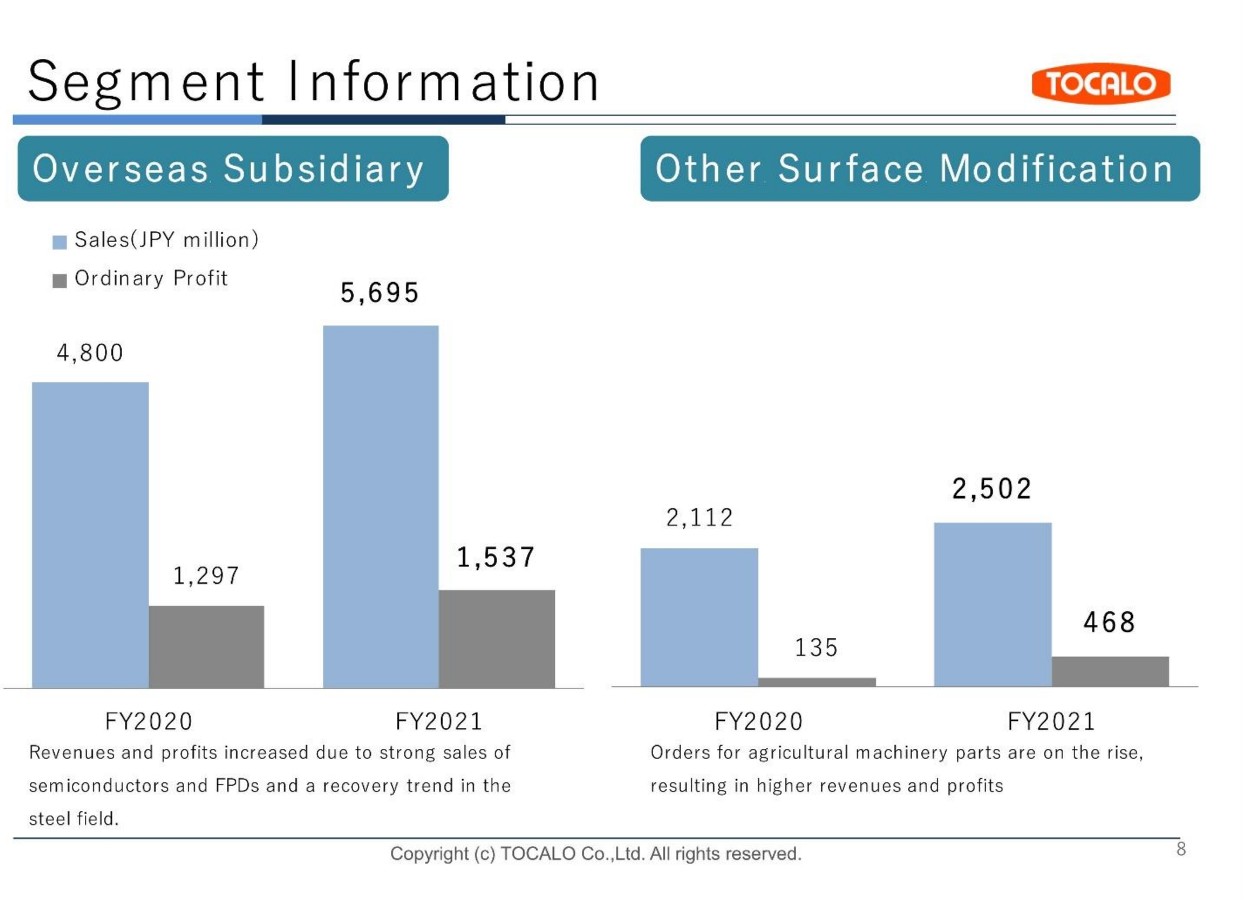
(Note) Effective from the FY2021, the classification of Royalty Income has been changed from non-operating income to net sales, and the figures for the previous years have been reclassified to reflect this change.

6

The table above outlines the results. As explained earlier, sales were JPY43.813 billion, an increase of about JPY4.5 billion or 11.5%. In particular, semiconductors and FPDs accounted for JPY2.4 billion, 47.1%, of the total JPY4.5 billion, which is a 13.6% increase. We fell a little in FPD, but semiconductors have grown and are now in that position. As I explained a little earlier, the industrial machinery portion dropped slightly to a negative figure, but other items remained positive, and final ordinary income increased 18.6% to JPY10.571 billion.



In the thermal spray processing segment, sales were JPY33.043 billion and profit was JPY8.086 billion, thanks especially to the semiconductor field. However, sales declined in the industrial machinery field. This segment accounts for the majority of the total. Domestic subsidiaries accounted for JPY2.399 billion and profit of JPY471 million.



Two more. Overseas Subsidiaries also posted sales of JPY5.695 billion, due to growth in semiconductors, FPDs, and steel, despite some decline in oil and gas related businesses. Profits have also risen to a reasonable level. The same is true for Other Surface Modifications.

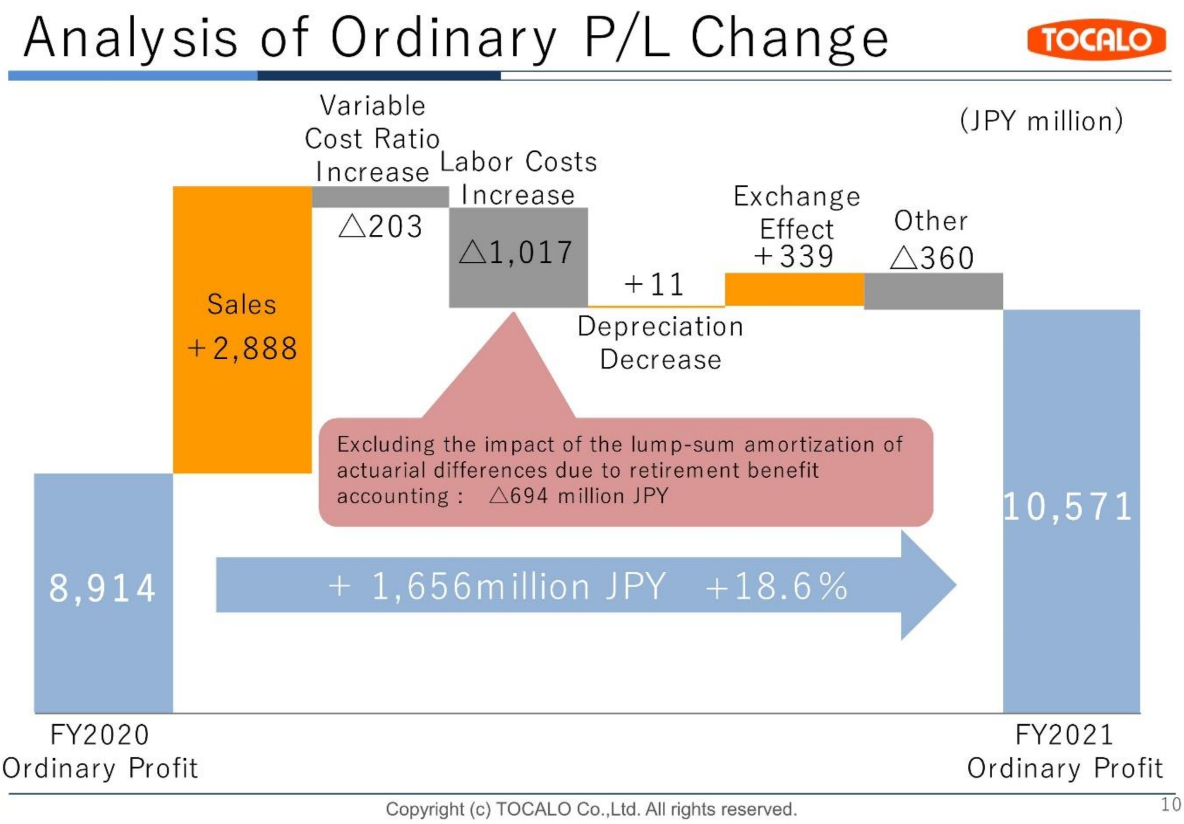
Segment Information

TOCALO

(JPY million)	FY2020		FY2021		Change			
					Net Sales		Segment P/L	
	Net Sales	P/L	Net Sales	P/L	Amount	Ratio	Amount	Ratio
Thermal Spray TOCALO	30,141	6,760	33,043	8,086	2,902	9.6%	1,325	19.6%
Domestic Sub.	2,018	406	2,399	471	381	18.9%	65	16.0%
Overseas Sub.	4,800	1,297	5,695	1,537	895	18.6%	240	18.5%
Other Surface Modifi.	2,112	135	2,502	468	389	18.5%	332	244.8%
Total	39,073	8,600	43,642	10,564	4,569	11.7%	1,963	22.8%

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

The segment information is shown in the table, so I would like you to look at it again. As I explained earlier, thermal spray processing was JPY8.086 billion on a stand-alone basis, and this is where we pulled in the most.



Analysis of the factors behind the increase and decrease in ordinary income shows that the previous year's figure was JPY8.914 billion, and the current year's figure was JPY10.571 billion, which is an increase of JPY1.656 billion or 18.6%. The largest contribution came from the increase in sales, which amounted to JPY2.888 billion. In addition, since the yen depreciated considerably in relation to the exchange rate during the current fiscal year, we have been conducting some direct transactions with overseas companies, and there was a marginal gain of about JPY340 million due to the effect of the yen's depreciation on the profits of our overseas subsidiaries.

Financial Position

TOCALO

(JPY million)	FY2020 4Q	FY2021 4Q
Total Assets	64,183	69,517
Equity	44,201	49,099
Equity ratio	68.9%	70.6%
Interest-bearing debt	6,031	4,249

- Total assets increased 5,334 million yen from the end of the previous period (Increase in tangible fixed assets 2,145 million yen)
- Equity ratio increased 1.7 points from the previous fiscal year to 70.6%
- Interest-bearing debt decreased by 1,781 million yen from the end of the previous fiscal year (no new borrowing)

 11

Continuing with the financial position, total assets are at JPY69.5 billion, and shareholders' equity has reached JPY49 billion. As for the capital adequacy ratio, it is 70.6%, and we feel that we are maintaining a sound condition. Interest-bearing debt then came down to JPY4.249 billion. We have just repaid about JPY1.781 billion in debt.

Cash Flow

(JPY million)	FY2020	FY2021
Operating CF	10,588	9,873
Investment CF	△4,615	△5,044
Financial CF	△3,798	△4,547
Cash Balance	18,672	19,141

・Free Cash Flow FY2021（Operating ＣＦ＋Investment ＣＦ） +4,800million JPY

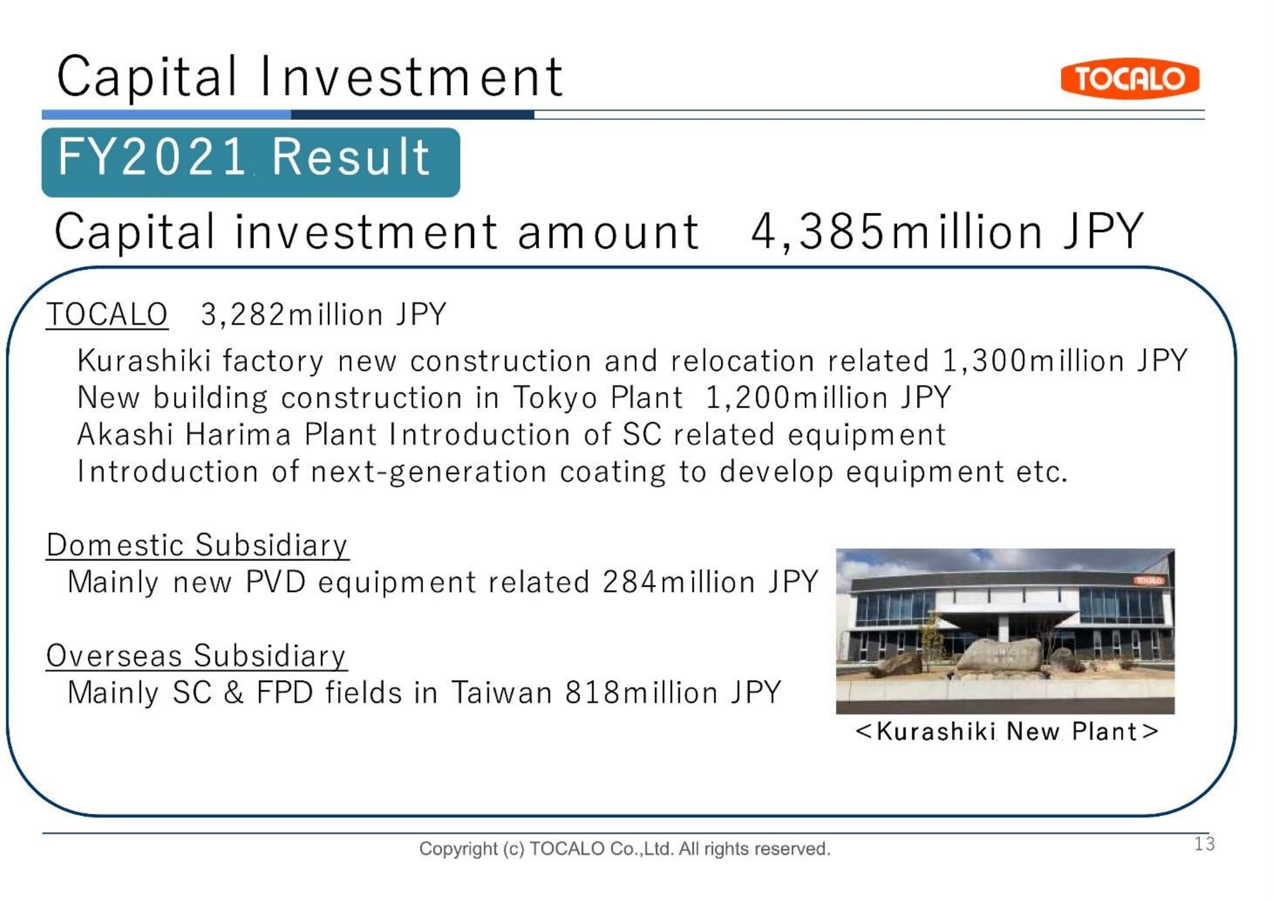
・Investment ＣＦ／Acquisition of tangible assets

Previous term：△4,300million JPY　This term：△4,500million JPY

・Financial ＣＦ／Dividends paid

Previous term：△1,500million JPY　This term：△2,500million JPY

As for cash flow, operating cash flow amounted to JPY9.8 billion in the period under review. This is slightly less than in the previous period, but this is due to an increase in income tax payments. Also, investment cash flow was negative JPY5 billion, and free cash flow was JPY4.8 billion. The financial cash flow was minus JPY4.5 billion due to the payment of dividends and repayment of loans. The final cash balance was approximately JPY19.1 billion.

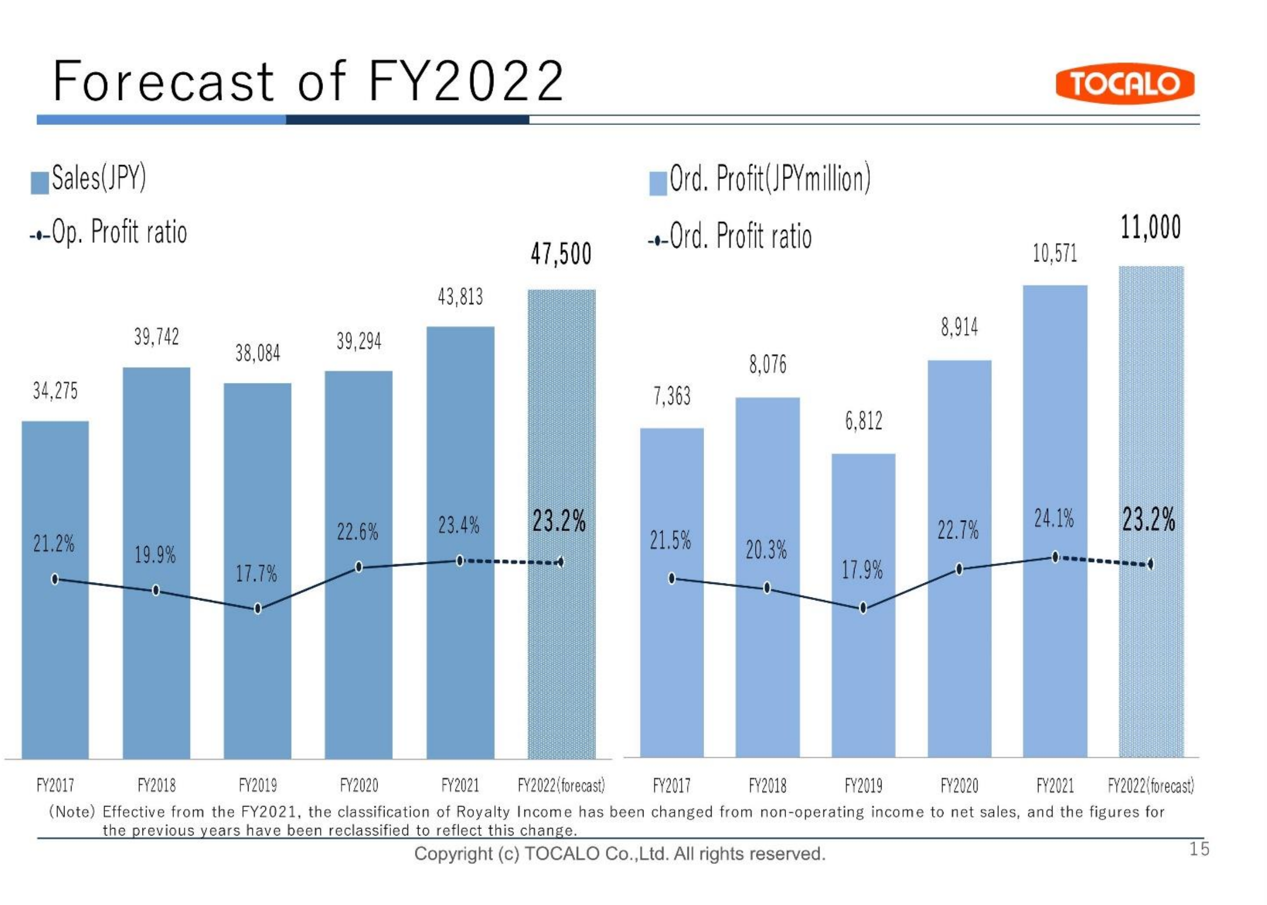


We invested quite a bit in equipment, but a little less than planned. We tried to proceed with various projects, but we were either unable to obtain parts and materials, they did not arrive when requested, or there were delays in delivery dates. This resulted in a final capital investment of JPY4.385 billion.

The largest item is the JPY3.282 billion investment is for TOCALO itself, where we have the new Kurashiki Plant which has just been completed. The construction and relocation process for that amounts to about JPY1.3 billion. As you can see in the photos here, we are making a modern factory. However, this is more of a steel and industrial machinery plant than a semiconductor plant, and we are considering including some semiconductors in the future from a BCP perspective.

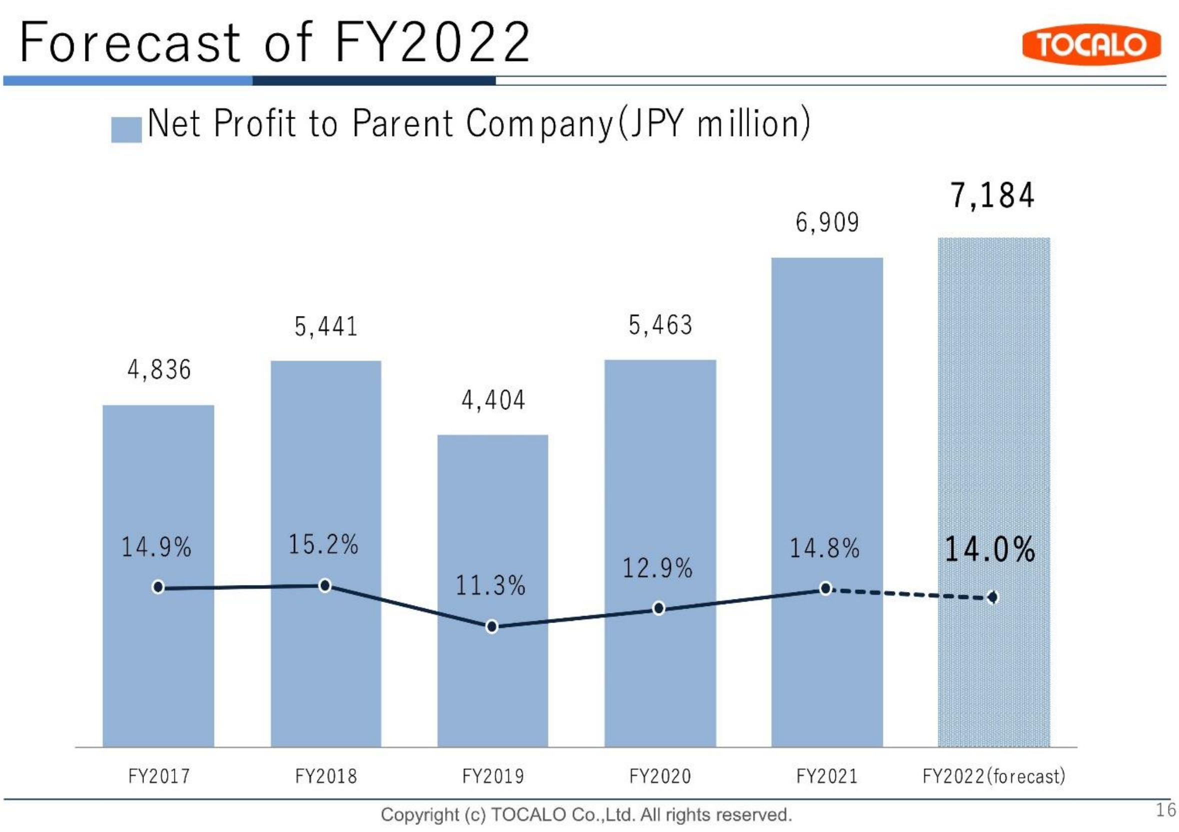
Also, there is JPY1.2 billion related to the new building at the Tokyo Plant. This was completed last year in response to the demand for increased production of semiconductors. In addition to the construction of the building, we also introduced various production facilities, including various new coating equipment. In addition, our domestic subsidiary has introduced the latest PVD equipment.

Also, since semiconductors are booming in Taiwan, we are moving ahead to build the third factory of our subsidiary in Taiwan. However, the construction cost of Taiwan is very high now, and the delivery time is also long. Furthermore, the entry restrictions due to COVID-19 have caused us a lot of difficulties. Despite the delays, the semiconductor industry is booming, and we are considering the necessity of taking a firm response to this situation.



This concludes the presentation of our business results for FY2022. Next I would like to explain our consolidated business forecast for FY2023. The previous graph shows the five-year graph, and I have added to it the forecast for FY2023, in the form of net sales, operating income margin, ordinary income, and ordinary income margin.

The graph on the left shows sales of JPY47.5 billion and an operating margin of 23.2% for FY2023. As for profits, ordinary income was JPY11 billion, and the ordinary income margin was 23.2%.



We also forecast a net income of JPY7.184 billion and ROE of 14%, which is a slight decrease from the previous year. It is difficult to forecast the future, especially with supply chain problems and rising prices in various areas, which are very worrisome. The reality is that we made our estimates while taking into account factors such as the rise in oil prices, the rise in materials for purchased products, the pandemic, and the subsequent lockdowns due to China's zero-COVID-19 policy in particular.

Forecast of FY2022

TOCALO

(JPY million)	FY2021		FY2022		Change	
	Result	Ratio	Forecast	Ratio	Amount	Ratio
Net Sales	**43,813**	**100.0%**	**47,500**	**100.0%**	**3,686**	**8.4%**
Thermal Spray	33,043	75.4%	36,496	76.8%	3,452	10.4%
Semi-con,FPD	20,643	47.1%	23,768	50.0%	3,124	15.1%
Industrial Parts	3,707	8.5%	3,742	7.9%	34	0.9%
Iron & Steel	3,450	7.9%	3,639	7.7%	188	5.5%
Others	5,242	11.9%	5,347	11.2%	104	2.0%
Other Surface Md.	2,502	5.7%	2,595	5.5%	92	3.7%
Domestic Sub.	2,399	5.5%	2,528	5.3%	128	5.3%
Overseas Sub.	5,695	13.0%	5,701	12.0%	5	0.1%
Royalty Income etc.	171	0.4%	180	0.4%	8	5.2%
Operational Profit	**10,255**	**23.4%**	**11,000**	**23.2%**	**744**	**7.3%**
Ordinary Profit	**10,571**	**24.1%**	**11,000**	**23.2%**	**428**	**4.1%**
Net Profit attribute to Parent Company	**6,909**	**15.8%**	**7,184**	**15.1%**	**274**	**4.0%**

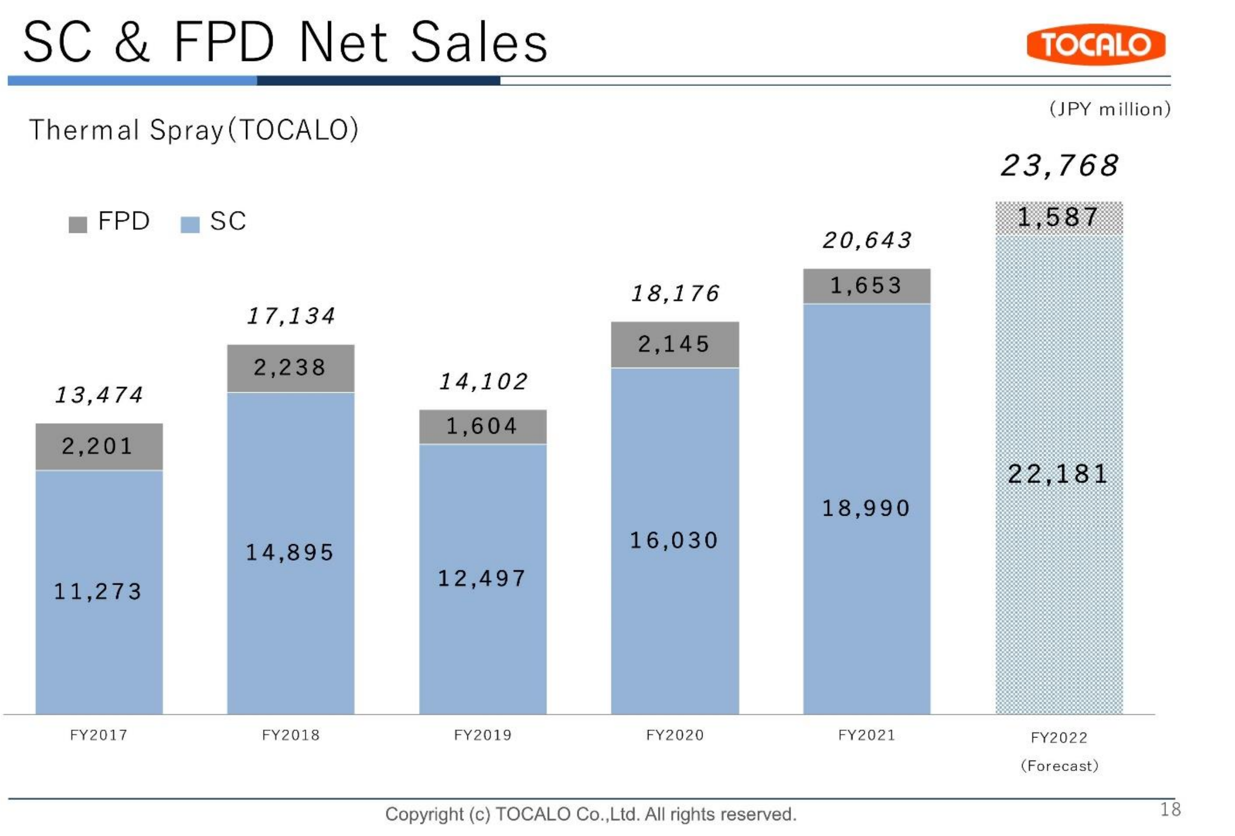
(Note) Effective from the FY2021, the classification of Royalty Income has been changed from non-operating income to net sales.

 17

As for the overview of the consolidated forecast is listed, we have JPY47.5 billion in sales, a YoY increase of JPY3.6 billion or 8.4%. Of the JPY3.6 billion increase in sales, JPY3.4 billion is expected to come from Thermal Spray Processing business alone. Of this amount, JPY3.1 billion is semiconductors and FPDs. There is not much FPD growth, so most of the growth will be in semiconductors. This is a 15% increase, but industrial machinery, especially steel, which has performed very well this year and has also received considerable CO2 reduction-related investment, is also experiencing increases.

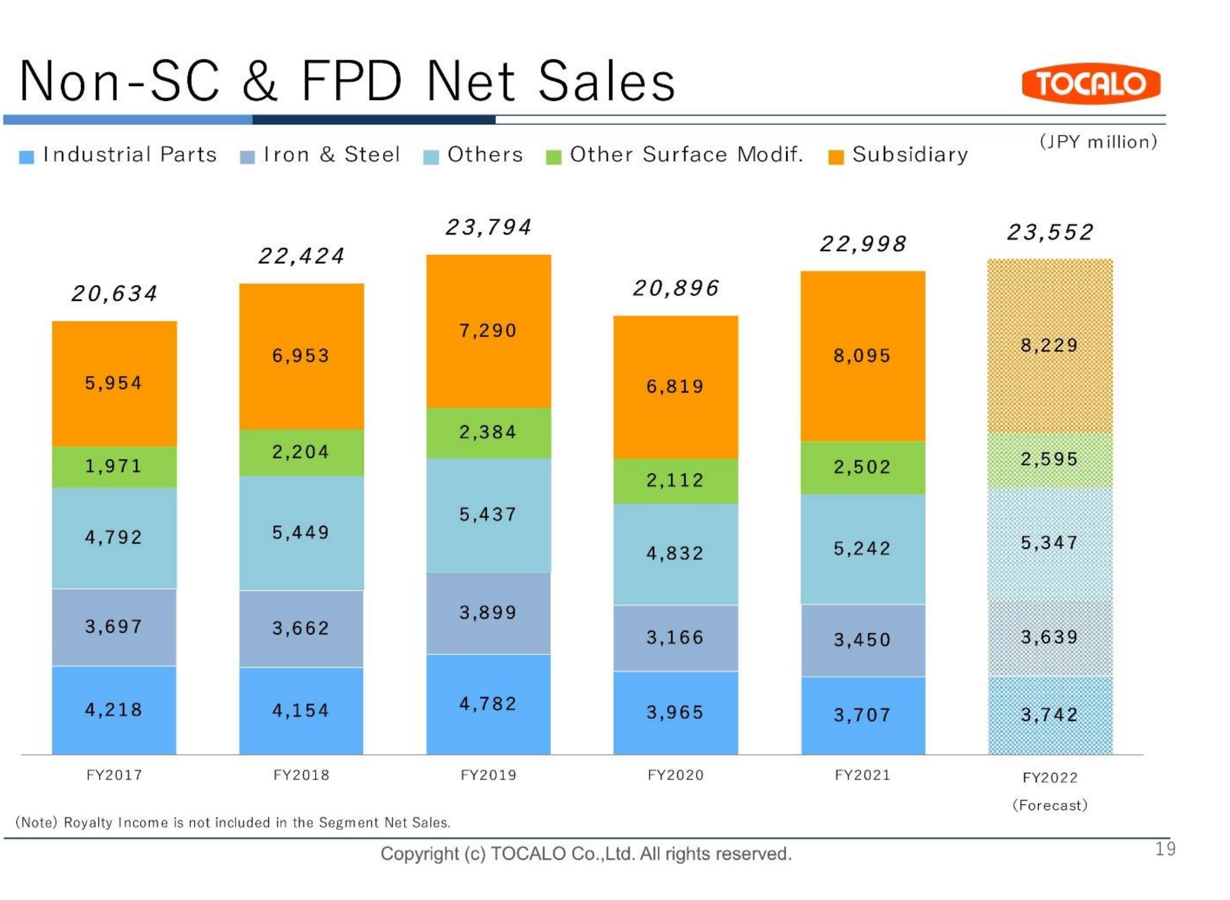
As for the domestic and overseas subsidiaries, it is quite difficult to forecast them due to the lockdown in China.

Ordinary income is projected to increase JPY428 million, or 4.1%, from the previous year to JPY11 billion.



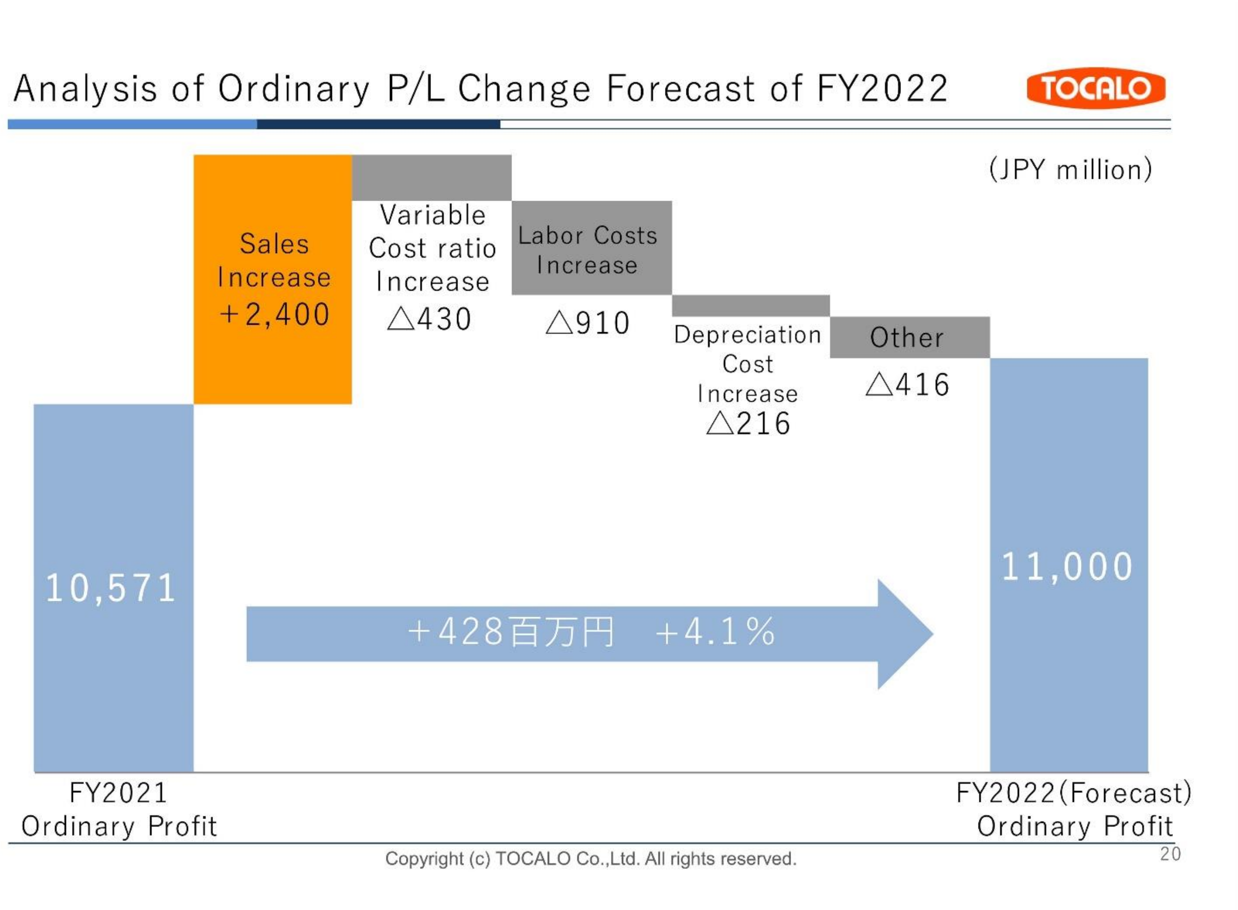
This table looks at sales trends in the semiconductor and FPD sectors over the past five years and the forecast for this year. The blue area is for semiconductors, but the FPD portion was down in the previous year, and our reading is that it will be a little lower this year as well. I think that some are satisfied with their current FPDs and that the portion of new FPD production equipment will be a little less.

Regarding semiconductors, there are various supply chain problems, but there are some good points. Yesterday, as we announced our financial results to our customers, we saw a 20% increase in semiconductors, especially in the front-end process. We are also looking at a sales increase of about 16%.

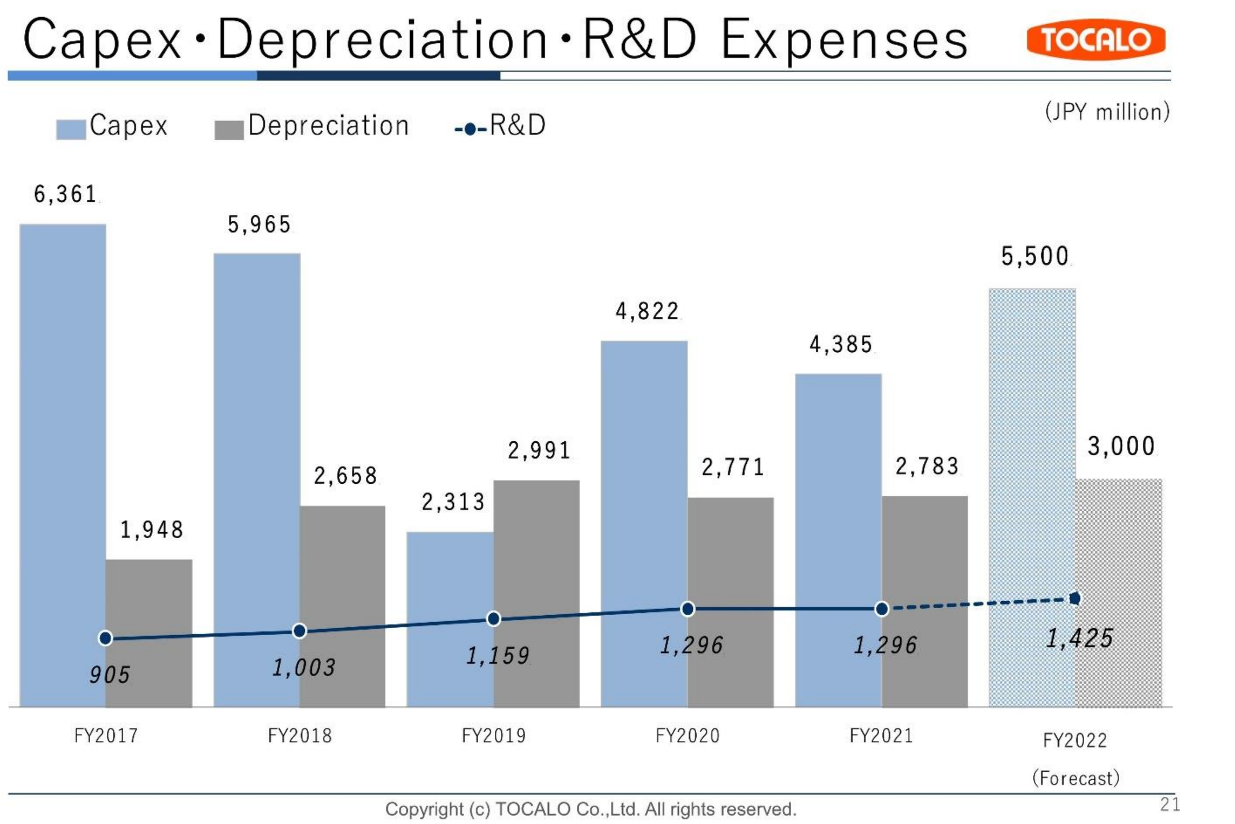


The other point is about how the non-semiconductor/FPD part is growing. Here, the subsidiary portion in the top section of the graph is growing a bit. We believe that the Chinese subsidiary will grow overall, although there are some things we cannot foresee.

We would like to increase the sales of industrial machinery and steel in particular, but we expect only a slight increase. Our forecast is JPY23.5 billion. The highest amount to date is JPY23.79 billion, and we would like to bring it to that level. However, due to the situation, it is difficult to say.



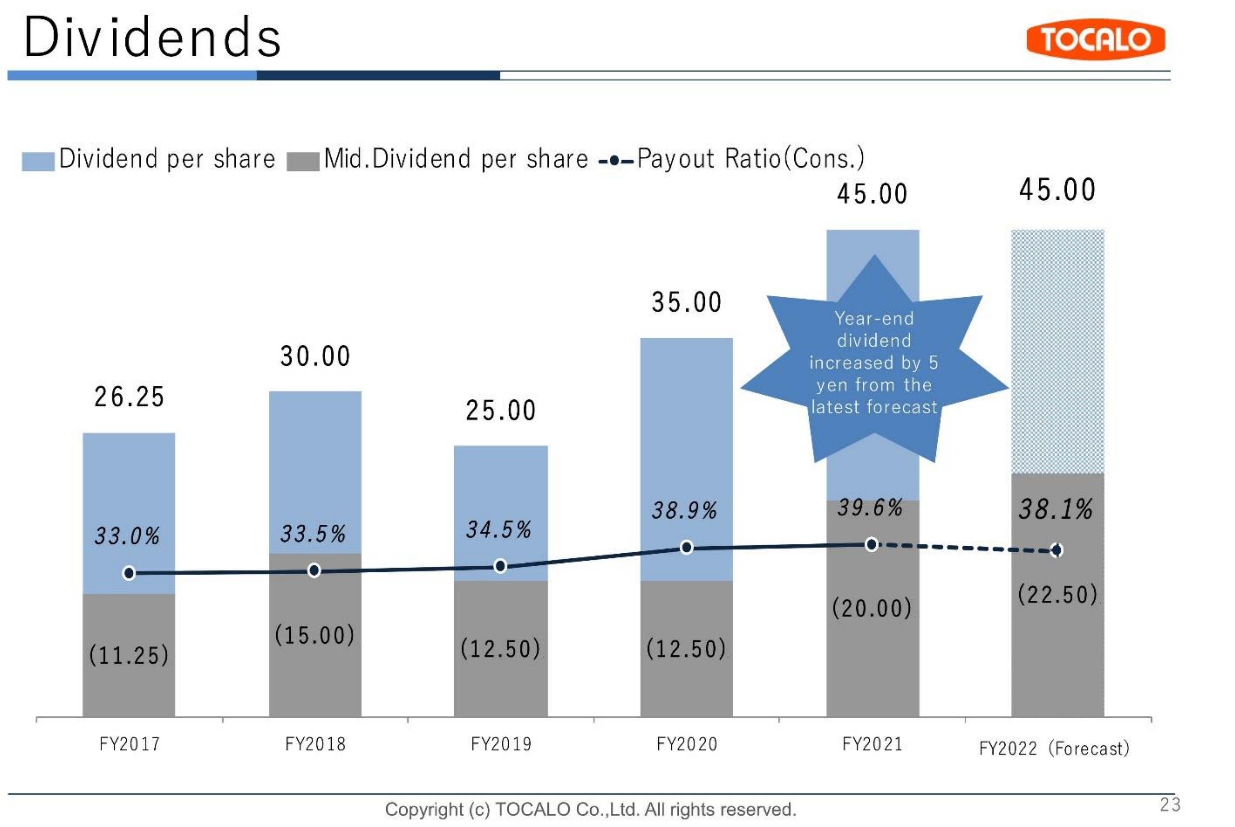
The analysis of the factors for the increase and decrease in profit shows an increase of JPY428 million from JPY10.570 billion to JPY11 billion. Here, we believe that the increase is most largely attributable to the increase in sales. Since raising this profit is the best way for us to raise ROE, I believe that it will be a game of how to raise production efficiency.



Capital investment, depreciation, and R&D have not changed much, but capital investment for the previous fiscal year was JPY4.385 billion due to delivery delays, and we expect JPY5.5 billion for this fiscal year. At this point, it is difficult to get a firm figure because the delivery date is not clear, but for the time being, we are looking at a capital investment of JPY5.5 billion, with depreciation of JPY3 billion. For R&D, we expect to see 3% of sales, which is JPY1.4 billion.

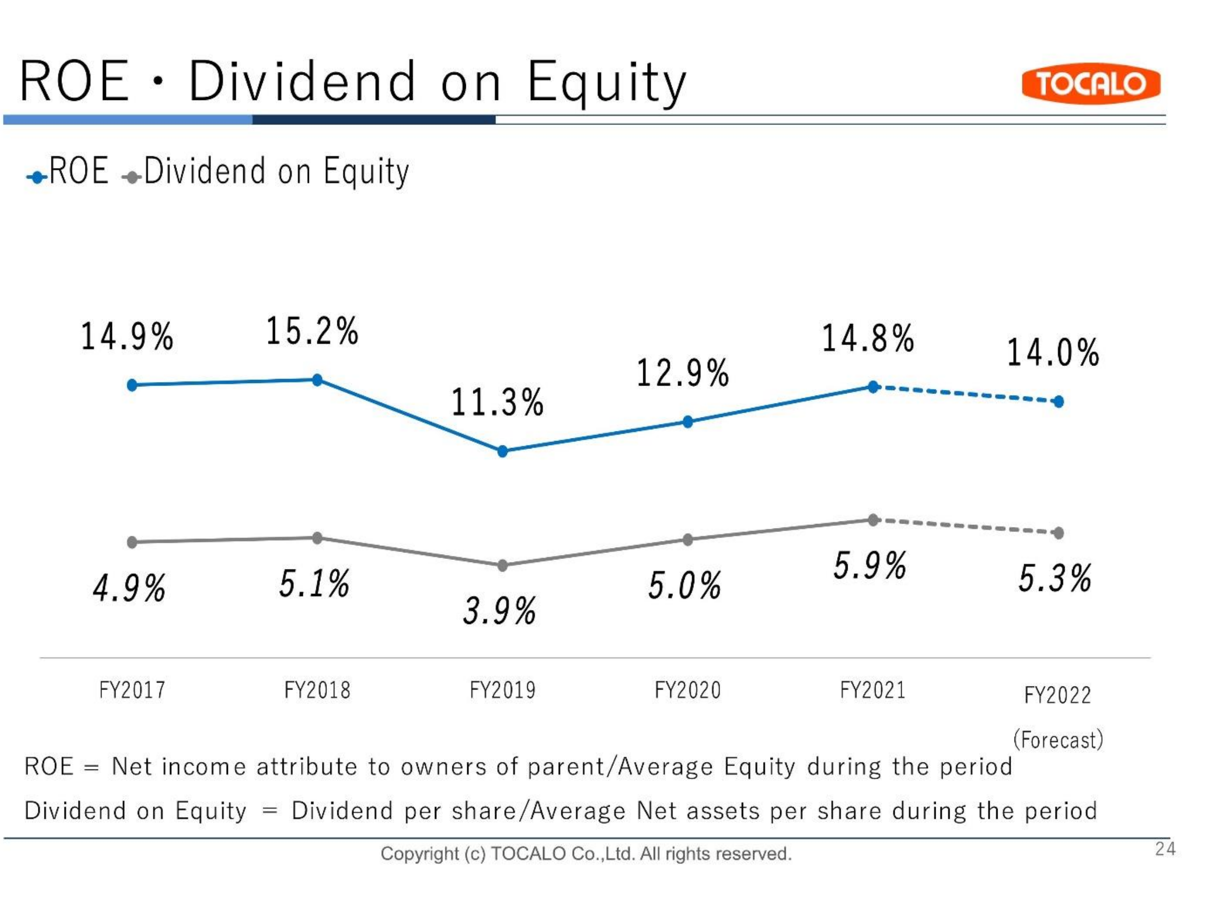
As for what kind of capital investment we will make, we will build a new factory in Taiwan. However, it cannot be done in a year. So far, we have finished the foundation in the first semester, so construction will resume from there, and it will probably be ready in the fall of next year. However, as I mentioned earlier, it is difficult to gather manpower from general contractors, but we are working to move forward with the project by the fall of next year.

As for the business of TOCALO itself, the building is almost complete, so we are now moving on to the contents of the building. In particular, we are planning to invest in production facilities, including robotization with factory automation and new production equipment to improve efficiency. Similarly for our domestic subsidiaries, we are thinking about what to do with our next production facilities.

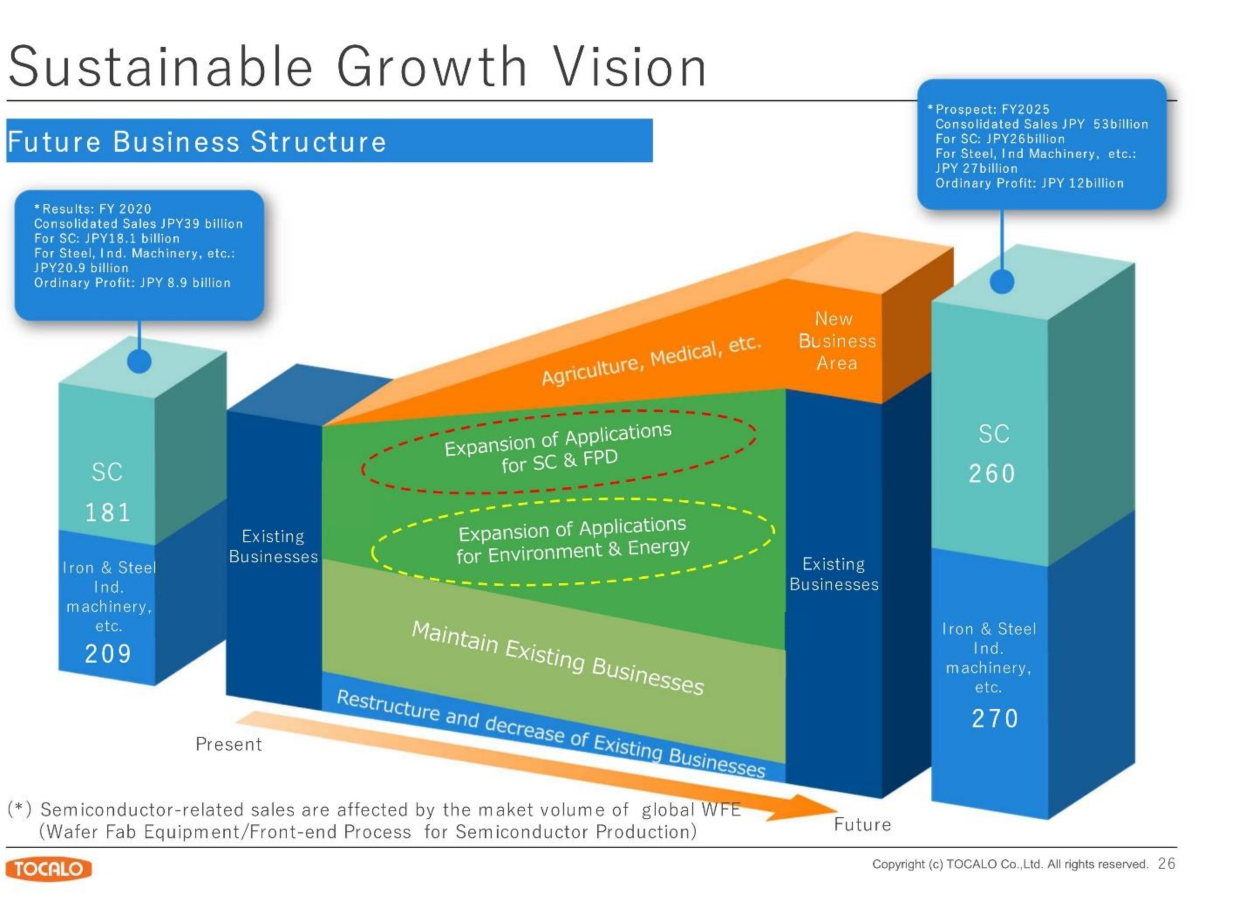


This table explains the dividend amount per share and the dividend payout ratio and shows the changes to date. The dividend per share for FY2022 was JPY35 when we announced it this time last year. However, we increased it to JPY40 when the interim results improved and added another JPY5 this time to make it JPY45. At JPY45, the dividend payout ratio would be 39.6%. Combining the interim dividend of JPY20 and the dividend of JPY25 to be paid after the general shareholders' meeting in June, the total annual dividend will be JPY45.

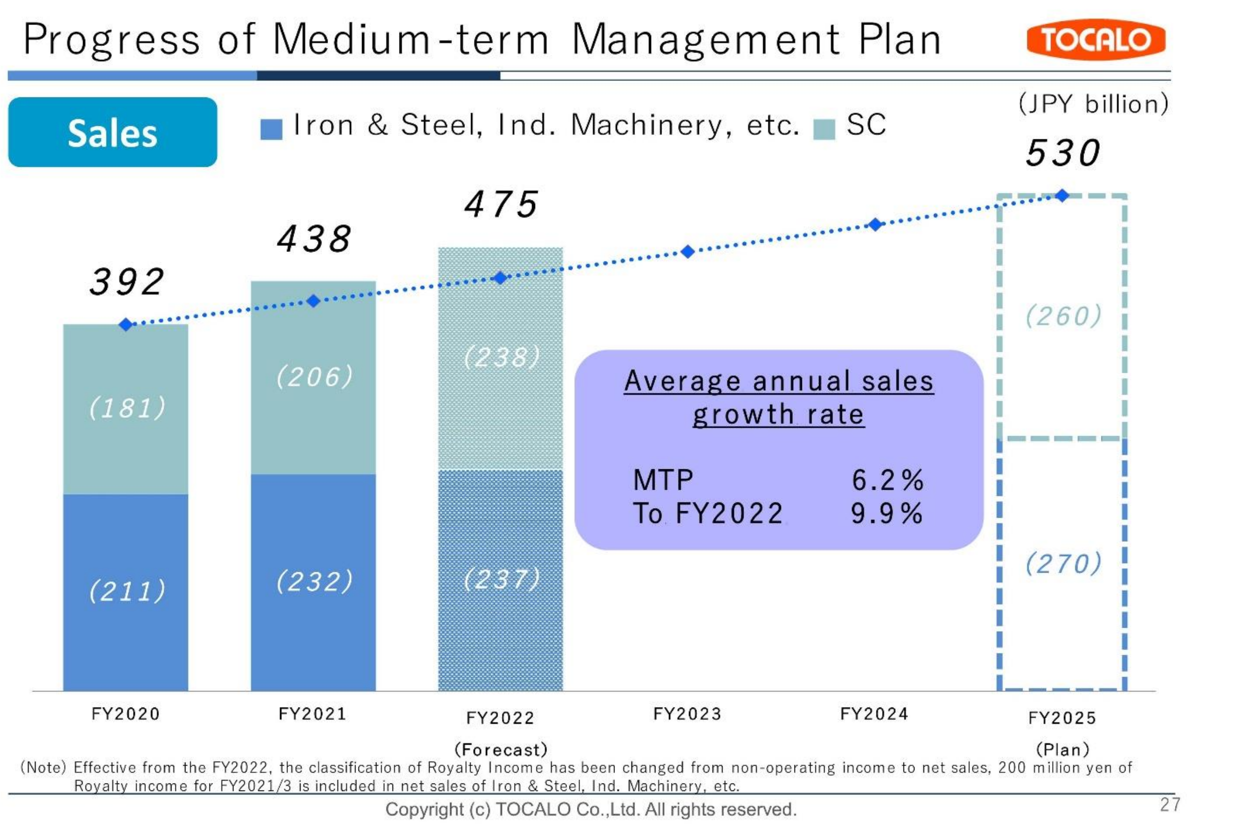
The dividend payout ratio has reached 39.6%. For FY2023, we expect the amount to be JPY45 as well. Since ordinary income is JPY11 billion, we set it to JPY45. The dividend payout ratio is 38.1%. Our policy has always been to return as much profit as possible to our shareholders as a matter of utmost importance. Although our return to shareholders was around 33% to 35% about five years ago, we have been gradually raising the rate. We have not yet reached 40%, but we hope to bring it to the latter half of 30% and gradually raise it. We hope that this will be conveyed to shareholders as the intention of management.



Next, the ROE and ratio of dividends to net assets. In FY2023, ROE returned to 14.8% and DOE to 5.9%. We are targeting ROE of 14% and DOE of 5.3% for the current fiscal year.

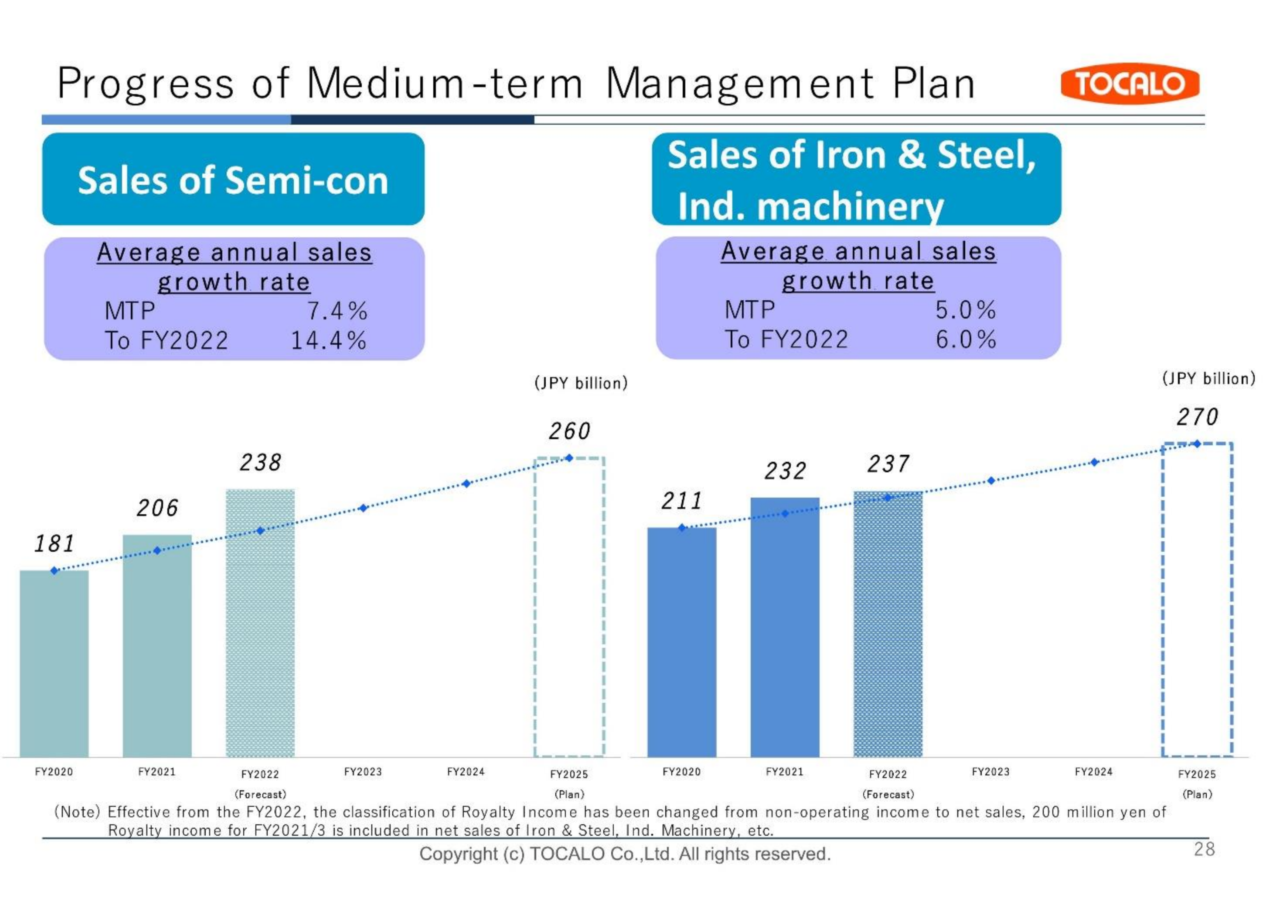


This concludes our forecast for this fiscal year, and I would like to explain the progress of our Medium-term Management Plan. The starting point for this plan was FY2021 when sales were JPY39 billion, of which JPY18.1 billion was from semiconductors and JPY20.9 billion was from others. The plan is to increase sales to JPY53 billion and ordinary income to JPY12 billion by FY2026.

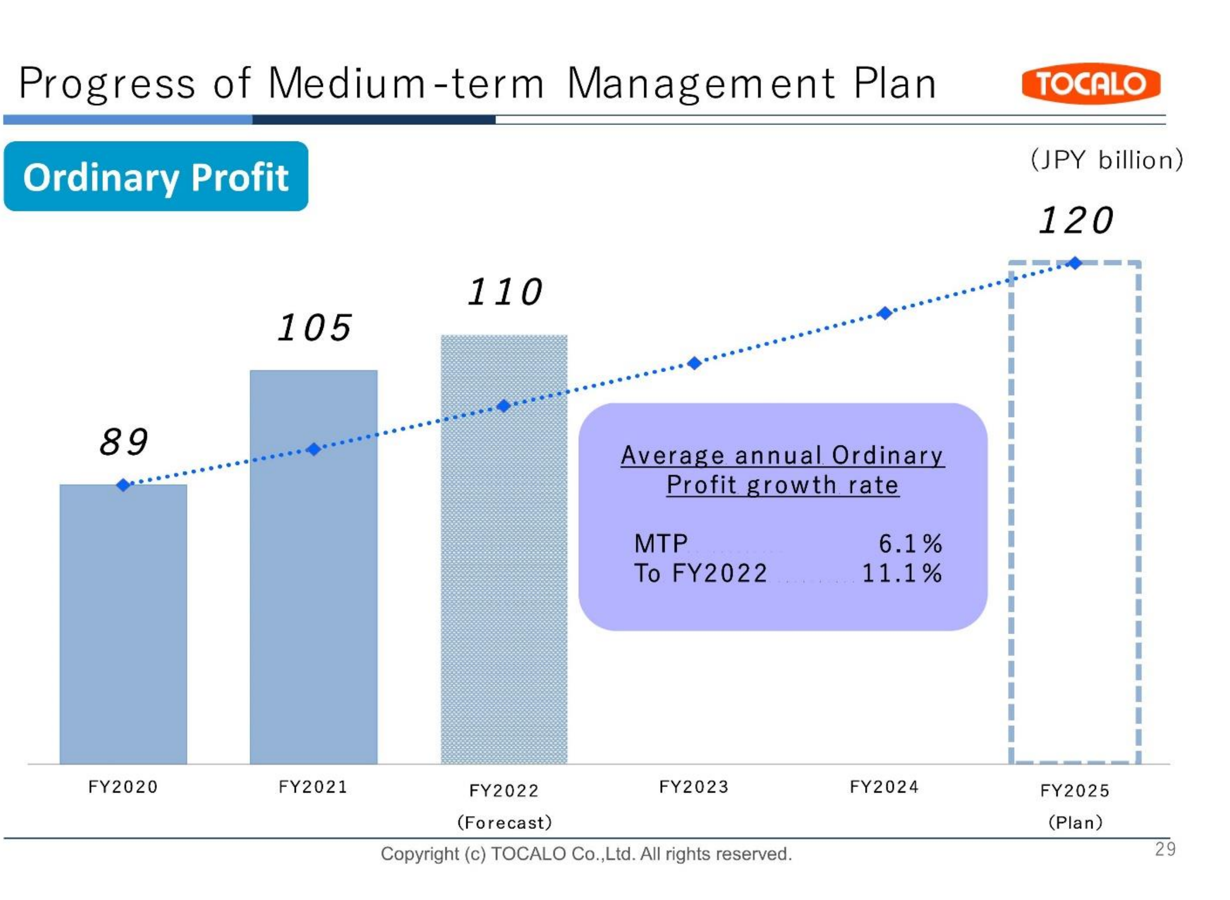


As to the progress against the Medium-term Management Plan, JPY200 million in royalties was included in sales for FY2021, resulting in JPY39.2 billion. The average annual growth rate was 6.2% in the Medium-term Management Plan, which calls for JPY53 billion in FY2026. On the other hand, if we look at the forecast through FY2023, we see that the Company has been growing at an annual rate of 9.9%.

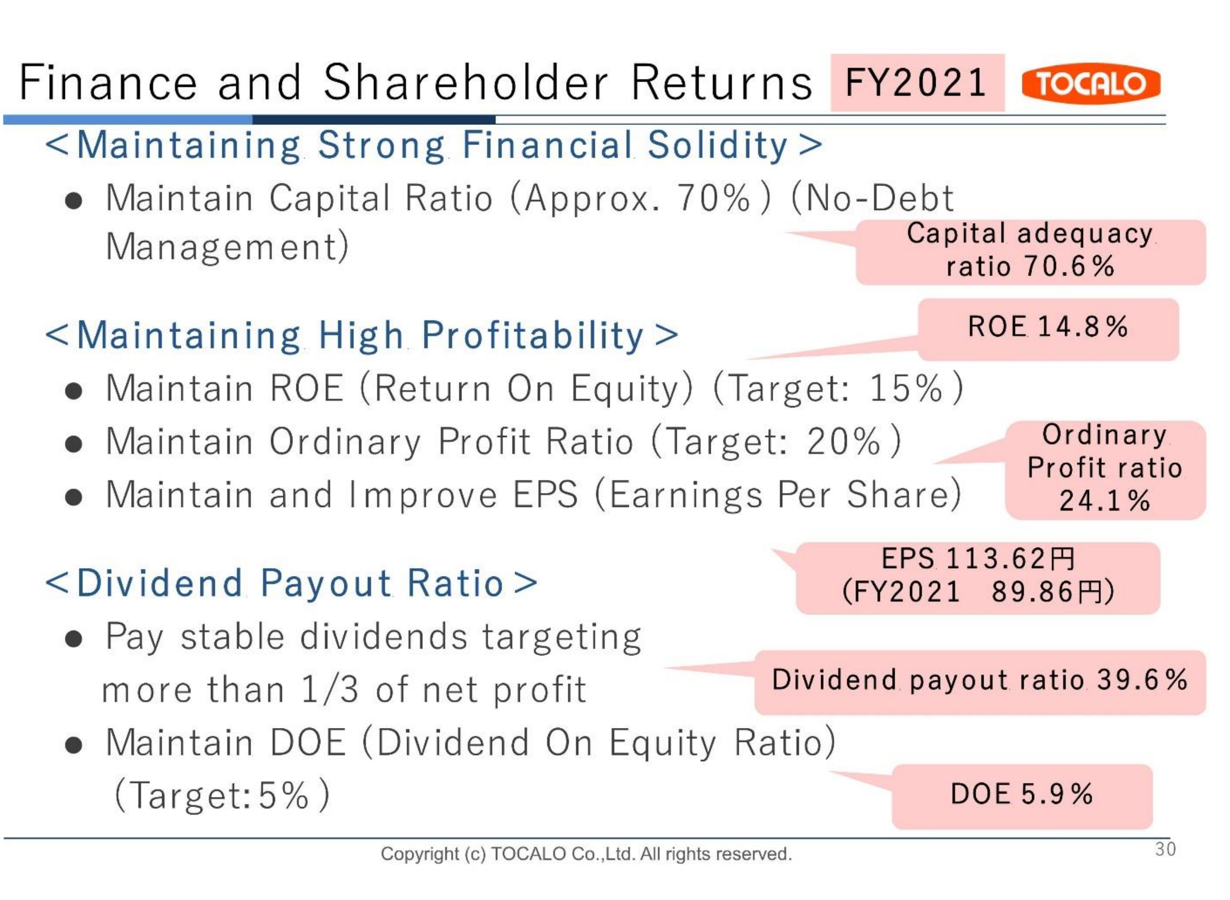
I have a feeling that we may be able to achieve this JPY53 billion figure in about FY2025, but we will have to wait and see.



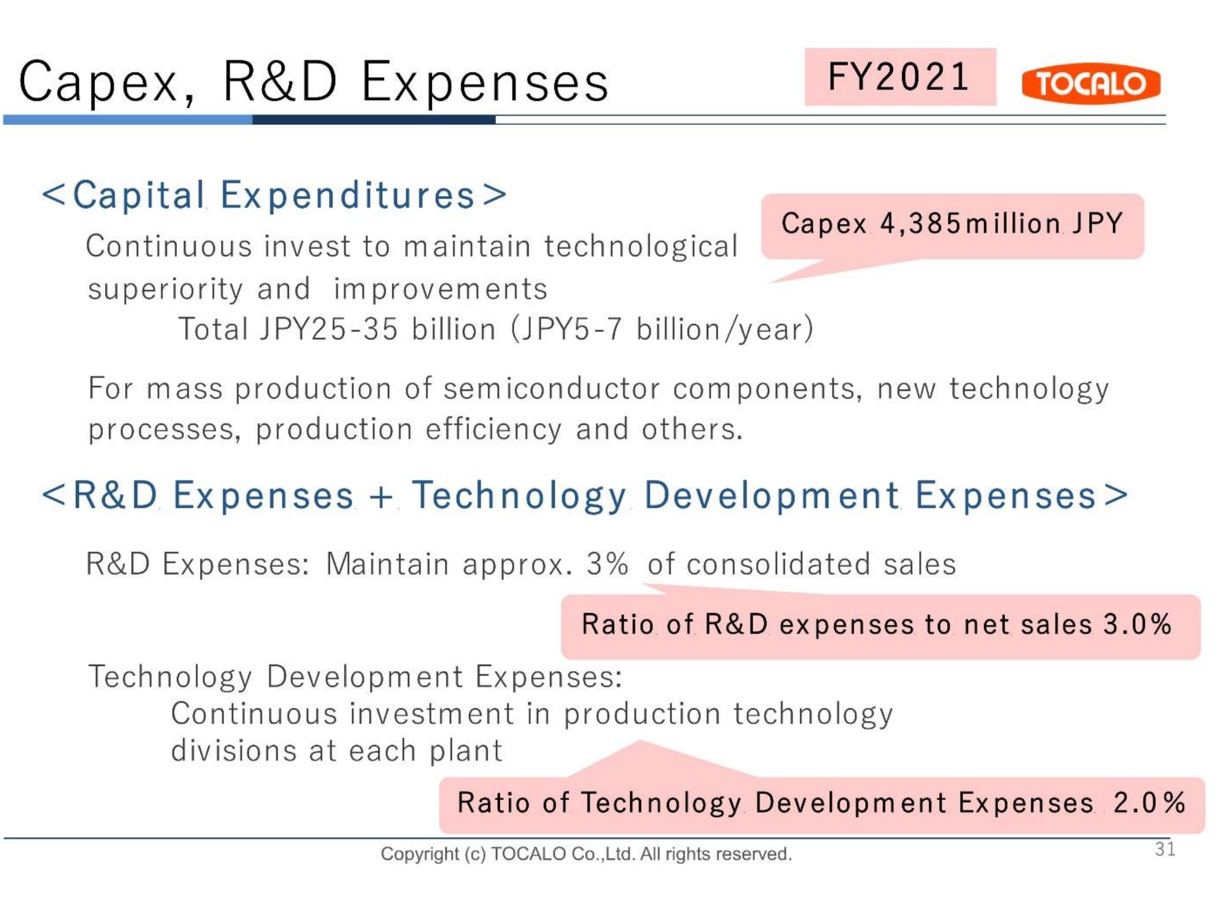
The average annual growth rate for semiconductors was estimated at 7.4% in the Medium-term Management Plan, but the demand and conditions have risen considerably, and the growth rate is now 14.4%, almost twice as fast as the previous plan. Steel and Industrial Machinery business, which also includes subsidiaries, is also progressing at an annual average growth rate, which is higher than the 5% growth rate in the Medium-term Management Plan.



Regarding ordinary income, we are at 11.1% compared to the 6.1% growth rate of the Medium-term Management Plan and will achieve JPY11 billion in the forecast for FY2023. We are already on track to achieve this in FY2024, and we would very much like to bring it to a point where we can revise it upward by this time next year.



Regarding the progress of various other measures, our target for the equity ratio is 70%. For FY2022, it was 70.6%, with an ROE of 14.8%, which is close to our target. The ordinary profit margin is secured at 24.1%. As for the dividend payout ratio, we had set it at one-third, but as I mentioned earlier, we want to return as much profit as possible to our shareholders, so it has come to 39.6%. DOE is also up to 5.9%.

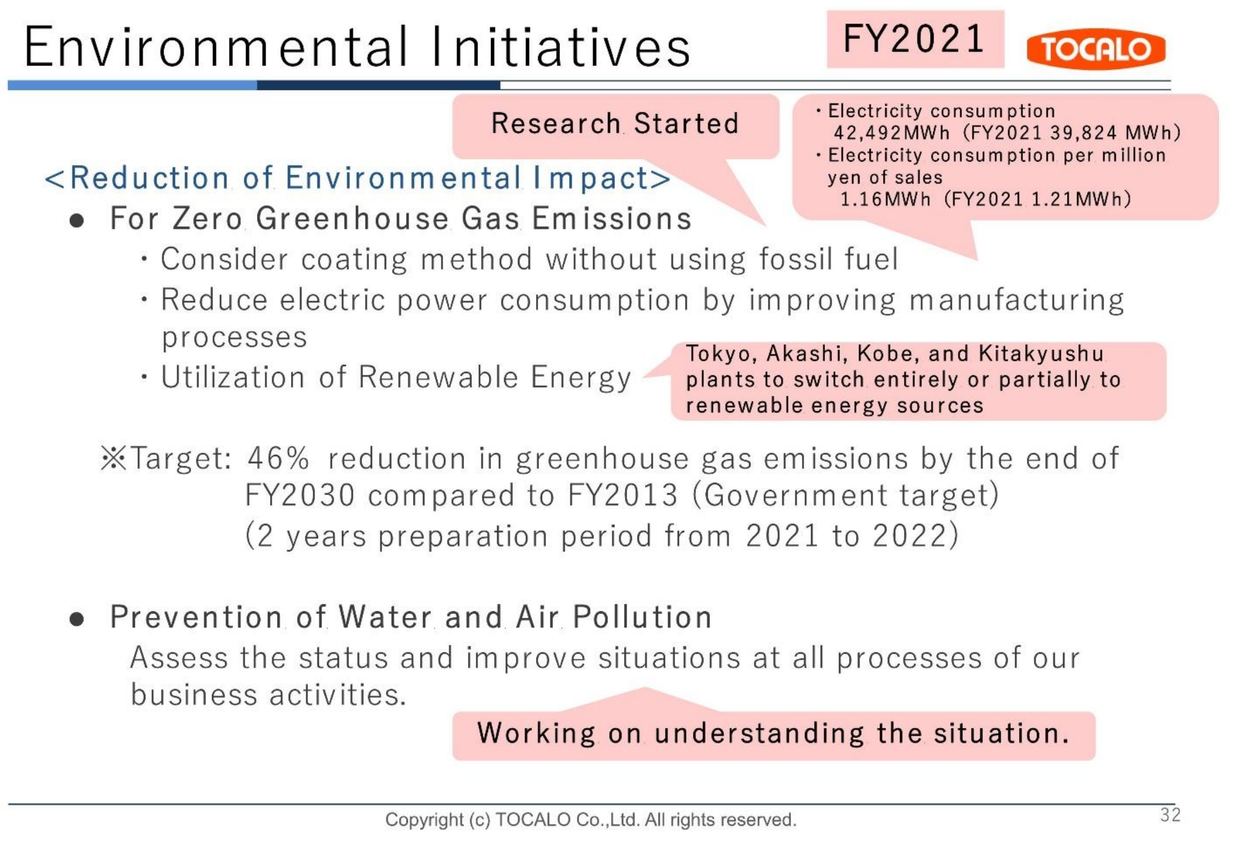


Regarding the amount of capital investment, we had originally estimated JPY25 billion to JPY35 billion over five years, or JPY5 billion to JPY7 billion annually. In the last fiscal year, the amount was JPY4.385 billion. We had budgeted JPY5 billion for the project, but as I mentioned earlier, there were postponements, and the budget is now in the JPY4.3 billion range. For the current fiscal year, we intend to make a capital investment of JPY5.5 billion plus additional. We are working on this, especially with regard to production facilities.

R&D and Technology Development Expenses were originally conducted by the Technology Development Laboratory and are expected to account for roughly 3% of sales. Besides that, we are also quite active in technical and application development at our factories.

In this sense, we spend a lot of money on coating design and coating evaluation.

This is similar to R&D Expenses, but we record these expenses as cost of production. However, when we add them up in the form of Technology Development Expenses, they account for about 2% of sales, or about JPY800 million. Thus, if this is included, our R&D investment is about 5% of sales.



Furthermore, we need to move toward zero emissions of greenhouse gases and carbon neutrality. As we use and burn fossil fuels, we are trying to change the thermal spraying method. It is a very small amount in terms of quantity, but there is also about the image, so we have started R&D in this area as well.

However, in reality, the amount of electricity used is still quite high, with an annual usage of about 42 million kW. Although the usage per JPY1 million of sales is decreasing, the absolute volume is increasing with the increase in sales. We have to do something about it.

The reduction target for 2030 is to keep greenhouse gas emissions below 54% of 2013 levels, so we need to do as much as we possibly can now to meet that target. We have to make allowances for the use of renewable energy. We are starting to purchase some of it this fiscal year and will continue to do so through 2030. While making purchases, we will also think about how we can take initiative on our side. We will work on this for a year this year and see how we can improve next year. It will be a bigger challenge each year, but we intend to respond to it.

As for water and air pollution, we are legally compliant with ISO14000, of course, but naturally we will continue to work on the incremental decrease of water and air pollution. I have now presented the overall report for FY2022, the forecast for FY2023, as well as an explanation of progress toward the mid-term plan. That is all. Thank you very much.

Question & Answer

Moderator [M]: Thank you for your explanation. As indicated, I would like to begin with the question-and-answer session for those of you in the audience. Any questions? Please go ahead.

Kanai [M]: My name is Kanai from Mitsubishi UFJ Morgan Stanley Securities. First of all, congratulations on reaching JPY10 billion in ordinary income.

Mifune [M]: Thank you very much.

Kanai [Q]: You have a market capitalization of JPY100 billion. Also, as you mentioned earlier, the ordinary income target for the mid-term plan is JPY12 billion. Since the forecast for this fiscal year is JPY11 billion, it seems achievable from an external perspective.

On the other hand, there are also various risks such as the expenses on environmental measures, as you mentioned earlier, the supply chain, the silicon cycle, and so on. Considering the environment, the silicon cycle, and the rising ratio of semiconductors, will there be a high probability of an upward revision, or will you level off at JPY12 billion by FY2026?

Mifune [A]: Thank you very much. The JPY12 billion figure for FY2026 was planned to be a straight upward line rather than a plateau, but I am sure that there will be fluctuations along the way. Especially since we also handle semiconductors and are still dealing with the pandemic, we are aware that it could temporarily level off.

However, this time last year, the original forecast for the previous year was JPY9 billion, but we made JPY10.2 billion in the interim and eventually reached JPY10.5 billion. In that sense, I feel that even under these economic conditions and even with the war, the movement of the Japanese industry is quite strong. We are now targeting JPY11 billion, but we do not know whether we will see a plateau next year.

It is hard to predict when semiconductors will fall or where the development of semiconductor manufacturing equipment will stop. However, the semiconductor boom should continue to some extent until the middle of next year. At the moment, we cannot say anything for sure. This is the best we can hope for at this time. I don't know if this is an answer.

Moderator [M]: Any other questions? Please go ahead.

Participant [M]: Thank you very much.

Mifune [M]: Thank you for your help.

Participant [Q]: I have two points. The first question is about the contents of capital investment. There are many semiconductor-related facilities in Tokyo, Funabashi, and Kitakyushu, and in Funabashi in particular, there was a temporary decline after the previous investment. Is the content of the capital investment more about improving efficiency rather than production capacity?

The second thing is the miniaturization part. In the past, I think there was talk about the emergence of technologies other than thermal spraying or the thermal spraying method reaching its limits. You mentioned earlier about investment in development, but could you tell us about the state of the art in thermal spraying technology and the issues involved?

Mifune [A]: Okay. Thank you very much. First of all, regarding the capital investment in Tokyo, we built a factory last year and have been able to secure a certain amount of capacity. However, we will increase the amount in the next two years according to customer forecasts, and we will make capital investment accordingly. One of the ways we are going to invest in facilities is to install coating equipment, partly to solve the capacity problem.

As for miniaturization, we are shifting from 5 nano to 3 nano now. However, there are other problems where we cannot respond only with thermal spraying. We are developing a prototype of a different coating method, and while we are not talking about mass production here, we are currently investing in it. I hope I gave you an answer to your second question. I am not saying that it is impossible with thermal spraying, but I think further material development is necessary to respond to fineness and miniaturization.

Moderator [Q]: Any other questions? If there are none, we would like to move on to questions from those attending online.

I will now read your question on your behalf: Regarding semiconductors, I would like to know if the current situation in Ukraine will have any impact on our business development in the near term. Also, what is the impact of China's zero-COVID-19 policy and the associated lockdowns? We would appreciate it if you could separate your comments into the impact on FY2023 results and the impact on the mid-term plan.

Mifune [A]: Regarding the Ukraine issue, there is no direct impact. We thought that it would be difficult to obtain various materials and gases, but it turned out that the situation has not directly affected us. However, deliveries in general are slowing down. We cannot coat the products unless we receive the materials to be processed, so there is no doubt that the turnaround in this area is getting worse. In particular, we have relationships with American manufacturers, and there is some indirect influence on transportation issues.

Regarding zero-COVID-19 in China, we have a factory in Kunshan, which is located next to Shanghai and thus was also under lockdown. Thus, we could not operate at all in April.

The plant has been operating since around the end of the Golden Week holidays, and we have been dealing with the issues related to gas supply with great difficulty. Though our utilization rate has returned to around 70% or 80%, if one of our employees develops COVID-19, we have to stop everything again.

If even one person gets infected inside the city, the entire city will be locked down, and we are being monitored on a daily basis. This makes the future very uncertain. Guangzhou has so far been mostly trouble-free, but it remains to be seen how things will turn out.

In addition, we are now seeing an increase in the number of COVID-19 infections in Taiwan as well. Although Taiwan is not in lockdown, we are still seeing a significant number of employees taking leave and are struggling to keep the staffing levels up. Regarding the impact on business performance, the original plan was made in March. However, due to the lockdown in China in April, the current plan takes into account the impact of the lockdown until April, May, or June. So, if there is a sudden recovery of that, it may have a positive effect, but all we can do is pray. That is all.

Moderator [Q]: Thank you very much.

We have one more question in the chat and will read it on your behalf: In relation to the mid-term plan, you mentioned that sales of steel, industrial machinery, and other areas are also performing better than planned. If possible, it would be helpful to know more about the progress in expanding applications to environment and energy as mentioned in the Medium-term plan.

Mifune [A]: Steel-related businesses in particular grew in the previous fiscal year, but our strength was more in the lower processes, such as galvanized steel sheet and high-tensile strength steel sheet manufacturing facilities. We were not so good at the upper processes, from blast furnace to hot rolling. However, we faced considerable energy-saving challenges in that area, and through discussions with the customer's engineers, we found that coating would produce energy-saving effects.

Rolling mills and rollers use a great deal of heat, so keeping the equipment has a significant energy-saving effect. Thus, the reality is that the steel industry in particular has grown, especially in the upper processes.

Last year, the portion of coal-fired power generation dropped. This year, however, we are facing the current oil problem, and while of course there are environmental issues, coal-fired power generation is still an unavoidable necessity in Japan. We still need to burn coal while applying other measures to protect the environment, including catching and storing CO2. We had some talks about it with heavy industrial manufacturers and plant manufacturers, and we expect this business to grow.

In terms of environment and energy from the perspective of the Medium-term Management Plan, we thought that there would be demand in the area of batteries. We are developing components for lithium batteries and manufacturing equipment while making various prototypes. We have also heard that NAS batteries are making a comeback to some extent and that business opportunities are increasing, so I believe that these areas will be the next to increase in significance. I hope that was enough of an answer.

Moderator [M]: Thank you very much. These were the online questions. Now we would like to conclude the financial results briefing. Thank you for your explanation, Dr. Mifune.

[END]

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