TOCALO Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2021

May 13, 2021

Event Summary

[Company Name]	TOCALO Co., Ltd.
[Company ID]	3433-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2021
[Fiscal Period]	FY2020 Annual
[Date]	May 13, 2021
[Number of Pages]	41
[Time]	13:30 – 14:24 (Total: 54 minutes, Presentation: 37 minutes, Q&A: 17 minutes)
[Venue]	Nikkei Kayabacho Bekkan B1, 2-6-1 Kayabacho Nihonbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	238 m^2
[Participants]	28
[Number of Speakers]	4

Noriyuki Mifune	President
Hiroshi Goto	Director, Administrative Headquarters Assistant General Manager
Kenji Hosomi	Division Manager of Accounting Division
Hiroshi Shimizu	Division Manager of Corporate Planning Divison

Presentation

Moderator: The time has now come, so we will now begin the briefing on the financial results for the fiscal year ended March 31, 2021 of TOCALO Co., Ltd.

First of all, I would like to introduce the 4 members of the Company. Mr. Noriyuki Mifune, TOCALO's President.

Mifune: Nice to meet you.

Moderator: Mr. Hiroshi Goto, Director and Deputy General Manager of Administration.

Goto: This is Goto. Nice to meet you.

Moderator: Mr. Kenji Hosomi, General Manager, Accounting Department.

Hosomi: I'm Hosomi. Nice to meet you.

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

Shimizu: I'm Shimizu. Nice to meet you.

Moderator: Mr. Mifune, President, will give us an explanation today. After the explanation, we will open the floor to any questions.

Mr. Mifune, please.

Mifune: Hello. This is Mifune from TOCALO. Today we have acrylic panels, so I would like to take off my mask to present.

I would like to thank you all for coming here in the midst of your very busy schedules and the declaration of this state of emergency.

Actually, we were wondering if we should hold this briefing with the attendees. Last year, we streamed the video online. I have heard that they are taking measures to limit the number of people in this way to some extent, so this year we would like to have the briefing with you amid COVID-19.

Thank you for your continued support and encouragement in our business operations. I would like to take this opportunity to express our gratitude. Thank you.

Now I will begin our presentation.

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Today's presentation will include 4 items: as usual, a corporate profile, a summary of consolidated financial results for the fiscal year ended March 31, 2021, and a forecast of consolidated financial results for the fiscal year ending March 31, 2022. Then, I would like to talk about the realization of sustainable growth.

Company Profile

TOCALO Co., Ltd.

Business : Surface Modification (Main tech.

: Thermal Spray Coating)

Head Office : Kobe City, Hyogo

Established : July, 1951

Capital : JPY 2,658,823,000

Consolidated Revenue : JPY 39,073million (FY March 2021)

Group Manpower : 1,121 (AS of Mar.31,2021)

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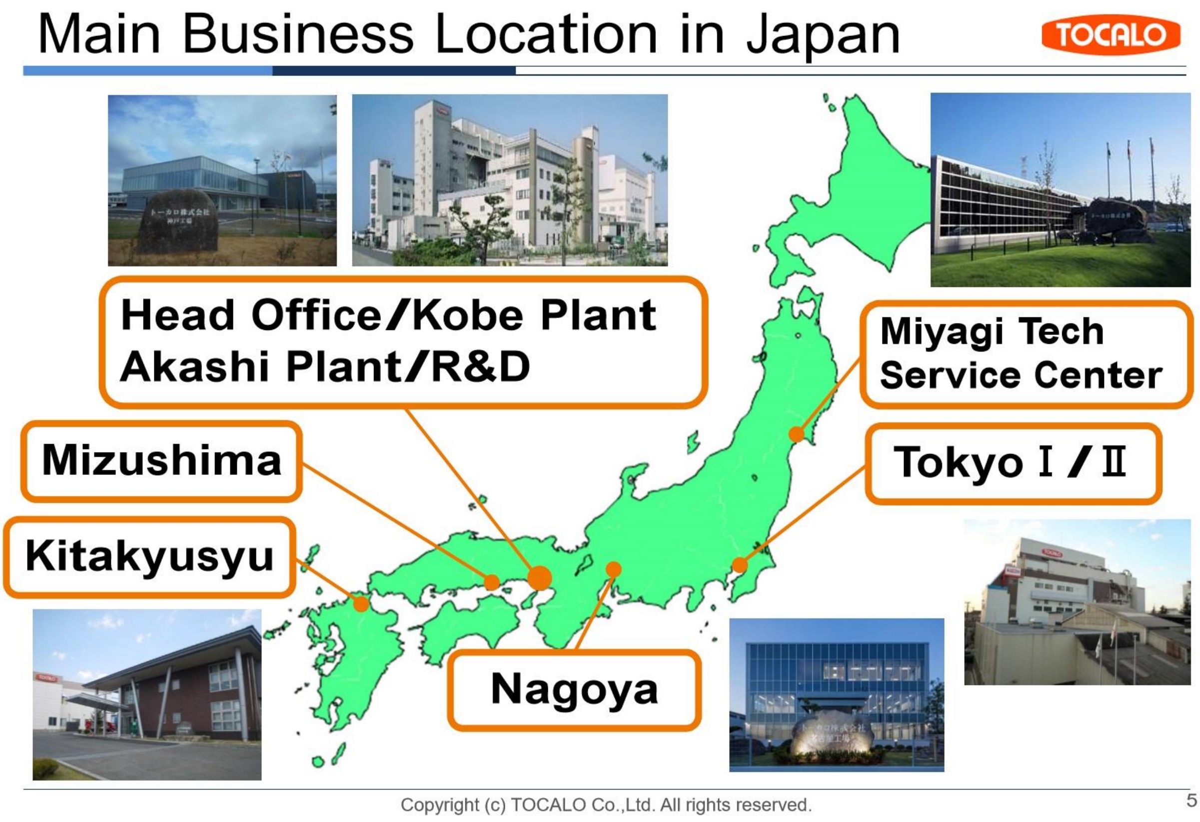
I would like to give you a brief explanation of our company, because we are probably familiar with most of you.

First of all, I would like to explain about our company, which was established in July 1951 and will be 70 years old in July this year. We are planning to commemorate the 70th anniversary event, but given the current situation, we are not sure how far we can go.

I was appointed as the president in 2013, and it has been 8 years since then. I am very happy to celebrate this 70th anniversary.

In terms of employees, as I will explain later, sales for the fiscal year ended March 31, 2009 were JPY39,073 million, and the number of employees increased by about 60 compared to last year, with 1,121 full-time employees in our group.



We have 6 factories in Japan, and our head office is located in Kobe, and although we are enhancing the contents, the locations remain the same.

Group Companies

TOCALO

Company Name	Est. (Inv.)	HO	Controlling Share	Business field
Consolidated Subsidiaries				
JAPAN COATING CENTER CO.,LTD	1985	Kanagawa JAPAN	100%	PVD Coating
TOCALO&HAN TAI CO.,LTD	2005	Guangzhou CHINA	70%	TSC(Iron & Steel etc.)
TOCALO&HAN TAI KS CO.,LTD	2011	Jiangsu CHINA	90%	TSC(SC & FPD)
TOCALO&HANTAI TW CO.,LTD	2011	Tainan TAIWAN	50%	TSC(SC & FPD)
TOCALO USA INC.	2015	CA.USA	100%	TSC(SC & FPD)
Affiliates				
NEIS&TOCALO(Thailand)CO.,LTD	2015	Chomburi TAILAND	49%	TSC(Iron & Steel etc.)
PT.TOCALO Surface Technology Indonesia	2016	Karawang INDONESIA	100%	TSC(Iron & Steel etc.)

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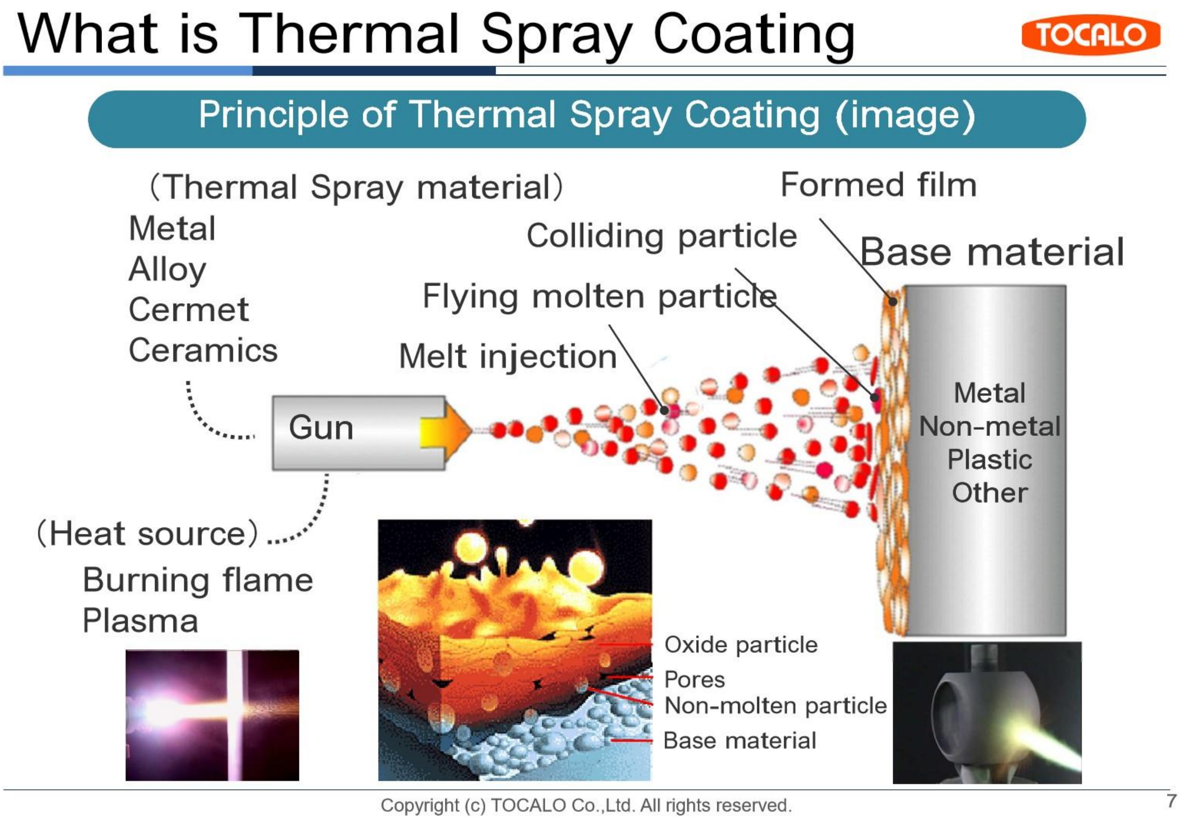
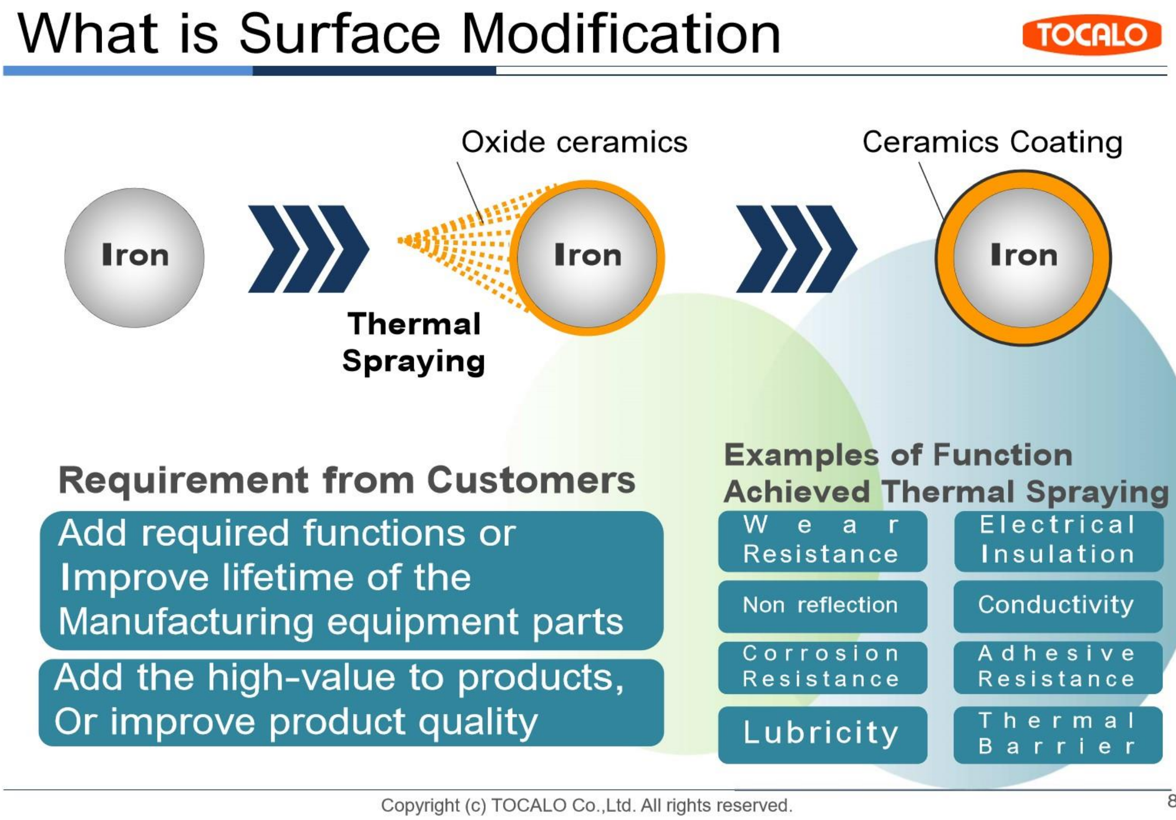
As for our overseas subsidiaries, we have a wholly owned company in Japan called Japan Coating Center, which is engaged in physical vapor deposition, a type of surface treatment that is not thermal spraying. We also have 2 subsidiaries in China, one in Taiwan, and one in the United States.

Our overseas strategy is based on semiconductor-related films and tech-related films, which are the pillars of our overseas strategy, and we are developing in these areas. There has been no change in the numbers in the past year.



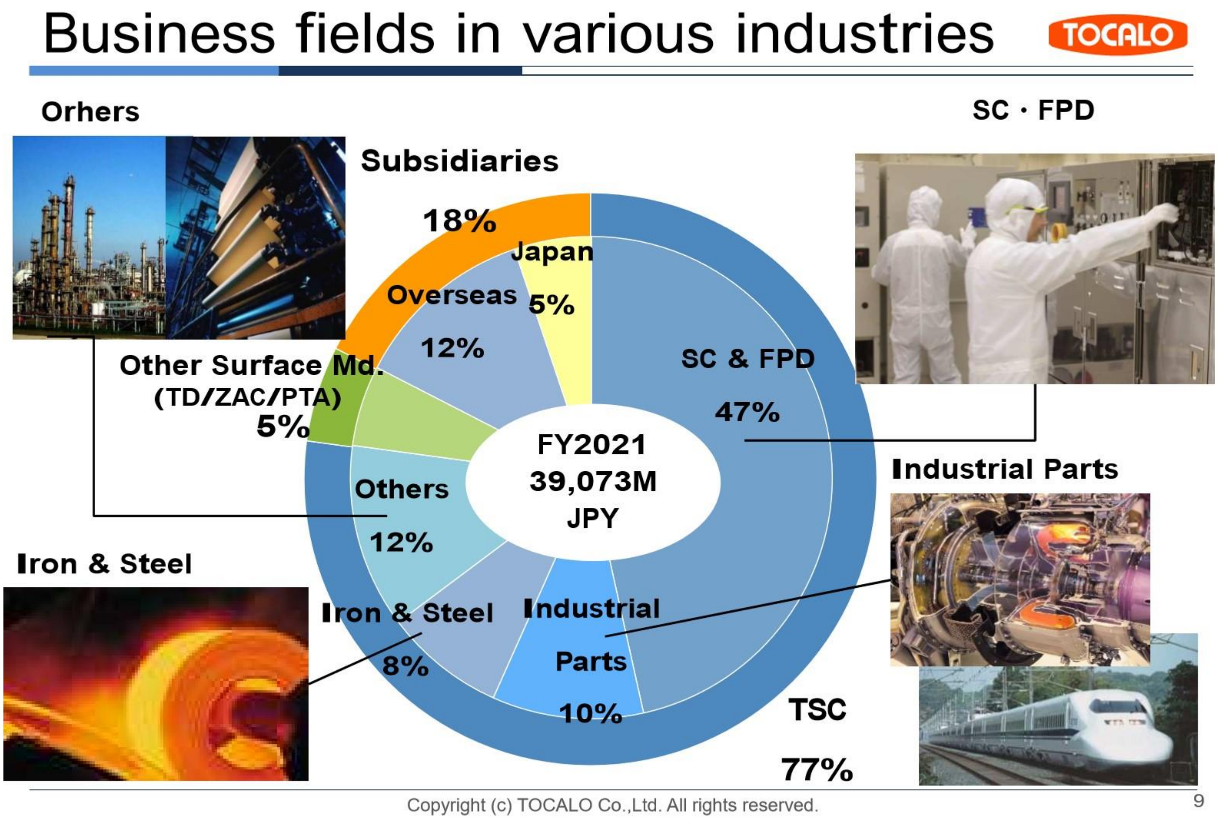
As for thermal spraying, it is very simple: melting and spraying. The process is very simple: a material is melted and sprayed to coat the object or part to be coated.

In short, it's a simple process of melting and sticking. The key point is how to control the coating to suit the customer's environment and apply the coating to meet the customer's requirements. This is where the value of our technology lies and where our business comes from.



There are various types of surface treatment, and we are currently aiming to become a comprehensive manufacturer of surface treatment. We coat a certain material with various functions to create high value-added parts with those functions. The products are used in the production lines of factories, such as iron and steel manufacturing, paper manufacturing, et cetera, to improve the functions and durability of the factory equipment.

For example, in the case of semiconductors, manufacturing equipment manufacturers make chambers for semiconductor manufacturing equipment. Coating is applied inside the chamber to increase the value of the manufacturing equipment itself. These are the 2 main customer needs.



As for our business area, we have a wide range of all-weather-type products, and we have worked with various manufacturers. Recently, however, semiconductors and flat panel displays (FPD) have been growing in this field.

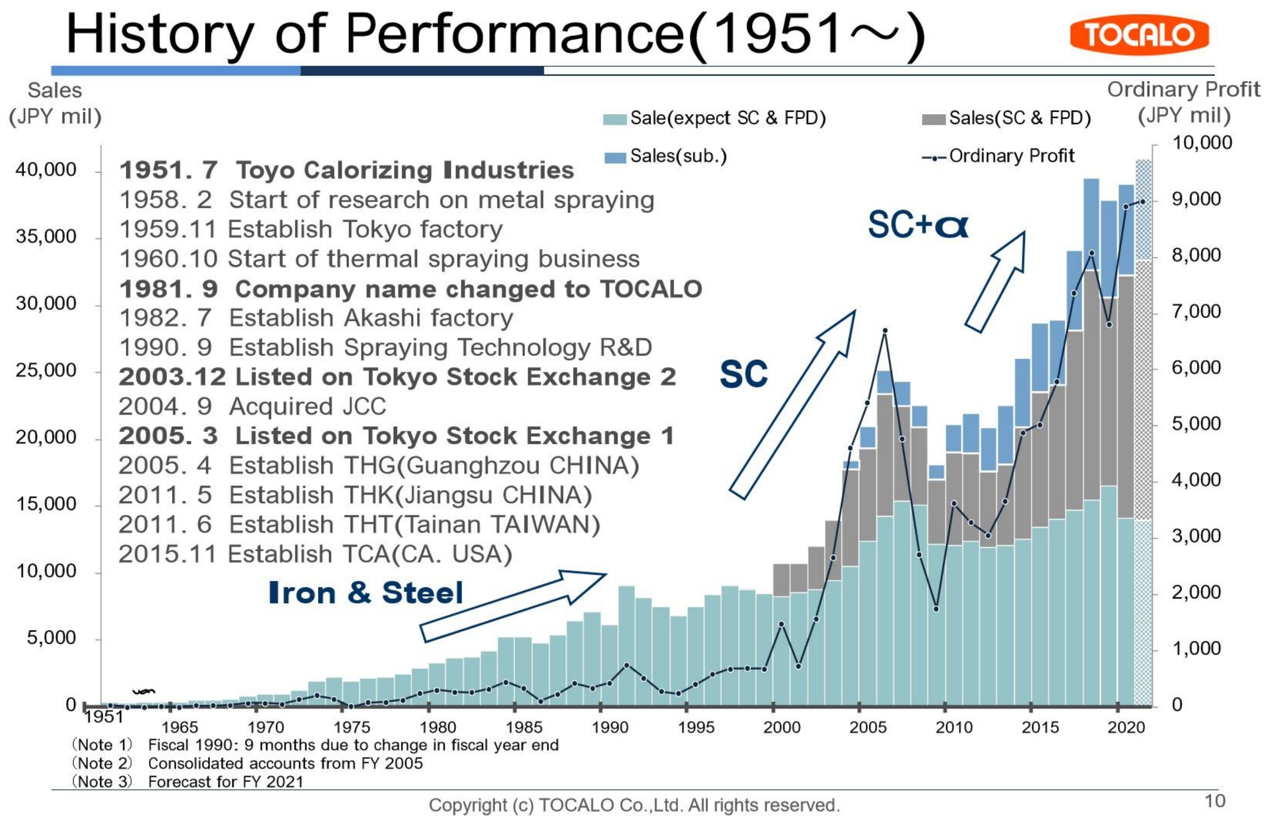
Also, industrial machinery, steel, paper manufacturing, chemical products, and so on. This blue area shows 77%. This is a single thermal spray process.

We also do surface treatments other than thermal spraying, such as heat treatment, chemical densification, and special overlay welding, which account for about 5% of our business.

In terms of subsidiaries, we have about 5% in Japan in the world of PVD, as I explained earlier, and 12% overseas, so our subsidiaries 18%.

Thermal spraying accounts for 12% of our overseas sales and 77% of our total sales, making us a company that generates 89% to 90% of its sales from thermal spraying.

In particular, semiconductors and FPDs led the sales, accounting for 47% of our sales in the fiscal year ended March 2021. In the previous fiscal year, the percentage was 37%, so it has increased by about 10%. This is the part that led to an increase in revenue without a negative impact. I would like to explain this more later.



We are now in our 70th year since it was founded in July 1951 as Toyo Calorizing Industry Co., Ltd. Calorizing is a method of aluminum diffusion coating. We started our business with that but changed the name to TOCALO in the middle of the project, and now we have been focusing on thermal spraying.

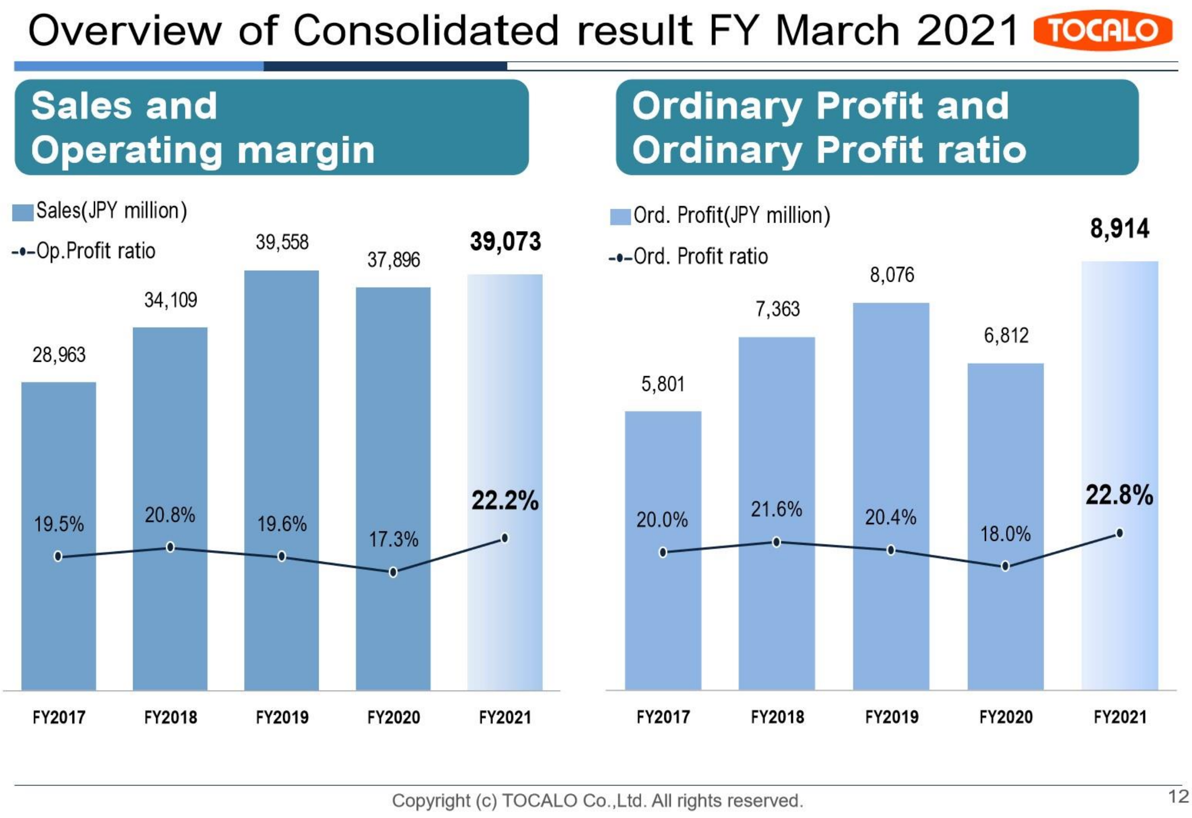
At first, the demand was mainly from steel manufacturers, but around 2000, the demand for semiconductors started to increase. The light blue area shows TOCALO’s sales other than semiconductors and FPDs, and the gray area shows sales of semiconductors and FPDs. The bluish figure on the top is the sales of consolidated subsidiaries.

The general sector, mainly steel, also grew gradually, but in the middle of the year, from 2000, the application of semiconductors increased, and this is where the growth occurred.

Our profit dropped sharply once due to the bankruptcy of Lehman Brothers, but many semiconductors have been sold overseas because they are subsidiaries. We have been growing thanks to the rapid progress of our subsidiaries.

Just around 2000, we did an MBO from 2001, and we were acquired by a foreign company. We did a management buyout, and it was right around 2000. It started in 2001. The Company was listed on the second section of the Tokyo Stock Exchange in 2004 and was relisted on the first section of the Tokyo Stock Exchange in 2005.

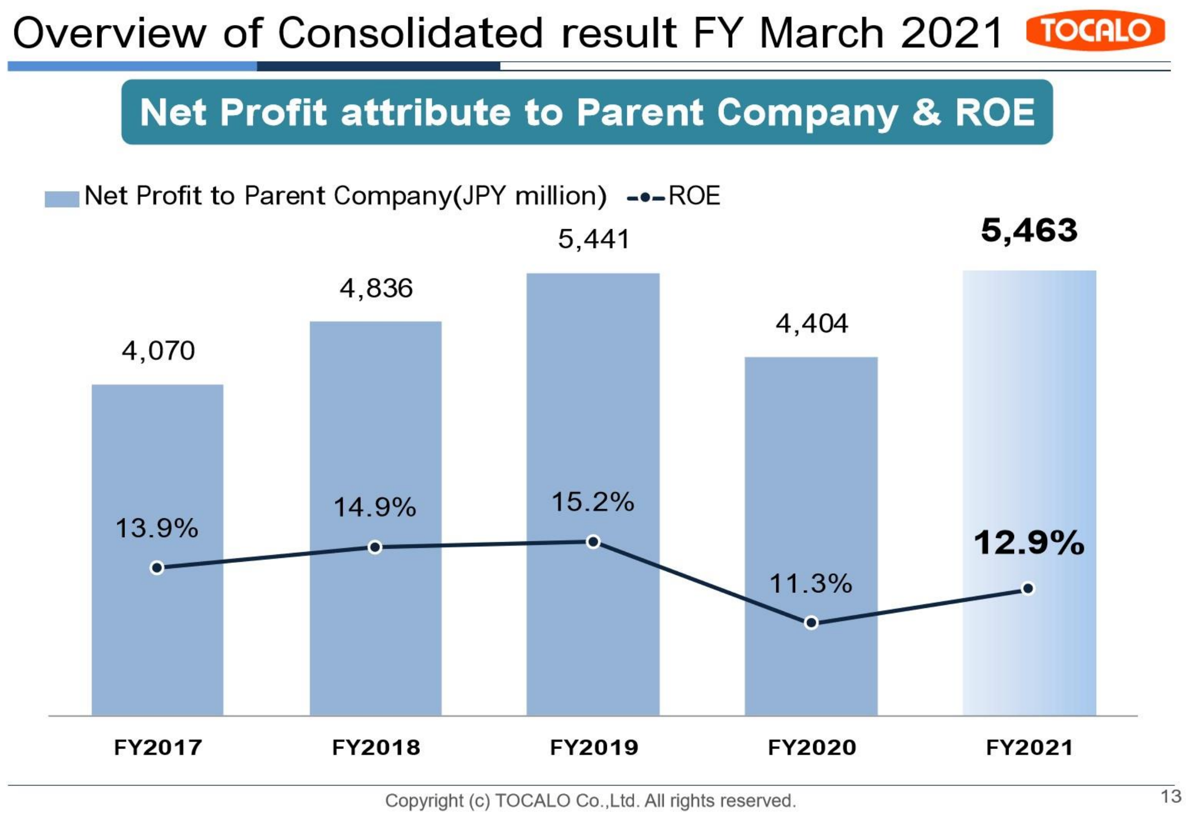
At that time, the semiconductor division played a very active role in the Company's success, and the Company has a history of success.



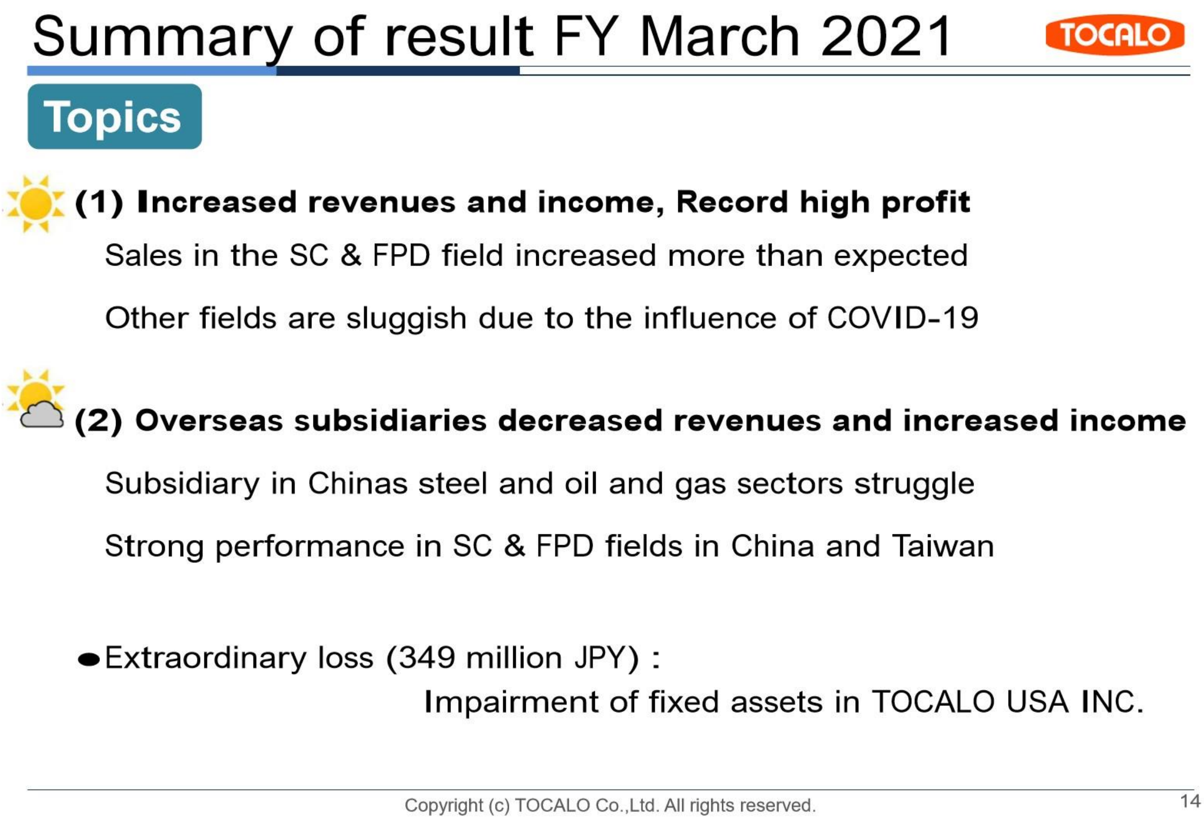
I would now like to provide an overview of our consolidated financial results for the fiscal year ended March 31, 2021.

The first is sales and operating margin ratio. This slide shows ones over the last 5 years. For the fiscal year ended March 31, 2021, we achieved JPY39.073 billion and an operating income ratio of 22.2%. In terms of ordinary income and ordinary income ratio, we have settled on an ordinary income of JPY8.914 billion and an ordinary income ratio of 22.8%.

We made several revisions due the spread of COVID-19. There being a lot of movement, we made revisions and finally landed on this spot.



Net income was JPY5.463 billion, or 12.9% in terms of ROE, which is a slight recovery from last year. This JPY5.463 billion is the highest profit to date.



Summarizing the results with some highlights, overall sales and profits increased. While we achieved the record-high profits, sales in the semiconductor and flat panel display fields increased more than expected, and this was the driving force behind the increase.

In other areas, our subsidiaries, JCC, which are mostly involved in the automotive industry, saw a slight decline in sales, including steel and industrial machinery, partly due to the impact of COVID-19.

As for overseas subsidiaries, the steel and oil and gas businesses in China struggled very much. In the latter half of the year, the semiconductor and FPD divisions in China and Taiwan began to recover, and with the help of these divisions, we were able to increase profits despite a decline in sales.

In addition, some of our subsidiaries in the US have recorded impairment losses on their fixed assets. In November 2015, we entered the US market, and we were trying to strengthen our recoat jobs by using 2 main businesses: our technology licensee and our own subsidiary.

We chose California for our factory, but California has very strict environmental regulations, and there are also many wildfires, so the fire laws are very strict. There was a slight delay in obtaining the factory's approval, which caused us to lose the recoat job opportunity we had originally planned.

Because of the combination of these factors, we decided to reset the recoat market once and for all. In 2024, companies such as TSMC, Intel, and Samsung will build cutting-edge factories the US market, as newspapers reported. We will start operations in 2024, and in preparation for that, we are rethinking how we can provide recoating and other services, so we have taken an impairment loss of about JPY350 million.

Overview of Consolidated result FY March 2021

(JPY million)	FY2020		FY2021		Change	
	Result	Ratio	Result	Ratio	Amount	Ratio
Turnover	**37,896**	**100.0%**	**39,073**	**100.0%**	**1,176**	**3.1%**
Thermal Spray	28,221	74.5%	30,141	77.1%	1,919	6.8%
Semi-con,FPD	14,102	37.2%	18,176	46.5%	4,074	28.9%
Industrial Parts	4,782	12.6%	3,965	10.1%	△ 817	-17.1%
Iron & Steel	3,899	10.3%	3,166	8.1%	△ 733	-18.8%
Others	5,437	14.4%	4,832	12.4%	△ 604	-11.1%
Other Surface Md.	2,384	6.3%	2,112	5.4%	△ 271	-11.4%
Domestic Sub.	2,364	6.2%	2,018	5.2%	△ 345	-14.6%
Overseas Sub.	4,925	13.0%	4,800	12.3%	△ 125	-2.5%
Operational Profit	**6,550**	**17.3%**	**8,669**	**22.2%**	**2,118**	**32.3%**
Ordinary Profit	**6,812**	**18.0%**	**8,914**	**22.8%**	**2,102**	**30.9%**
Net Profit attribute to Parent Company	**4,404**	**11.6%**	**5,463**	**14.0%**	**1,058**	**24.0%**

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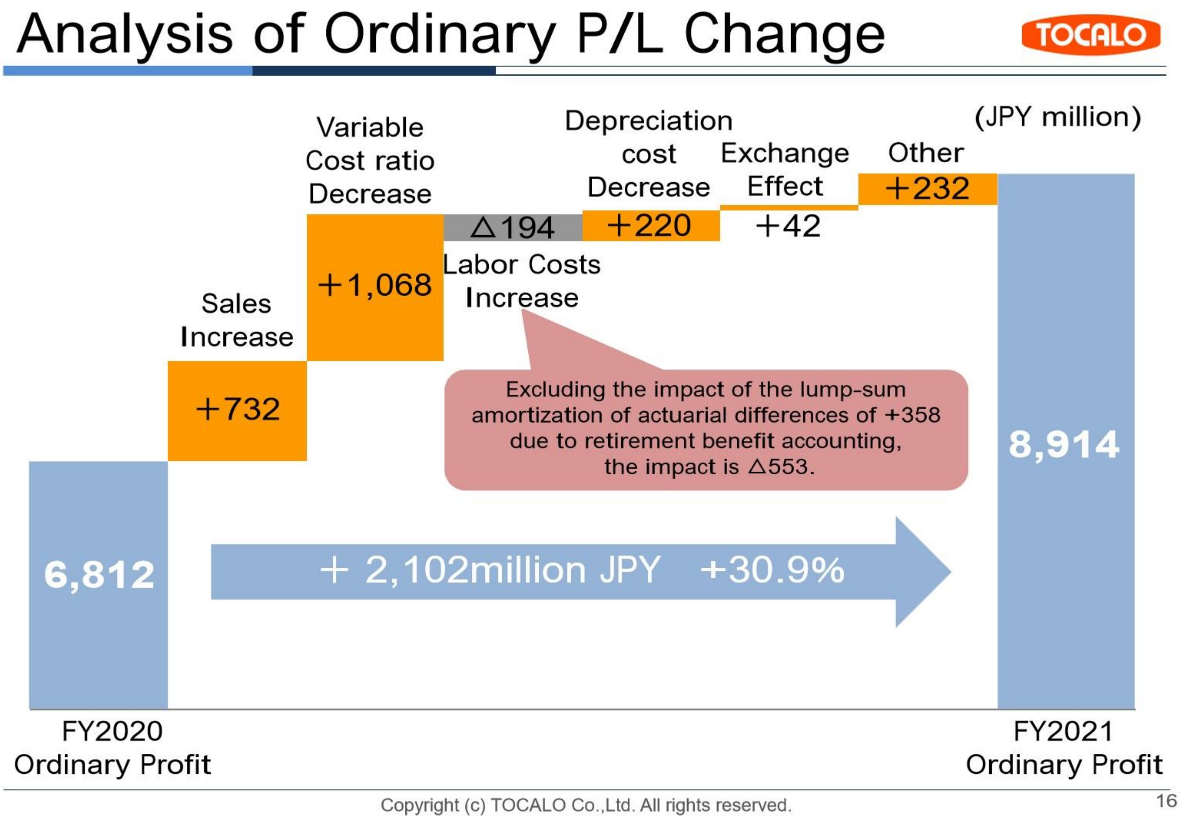
This is the consolidated results. As I explained earlier, net sales were JPY39.073 billion, which is a 3.1% increase. As you can see, the semiconductor/FPD sector led this growth by about 28.9%.

Other than this sector, all sectors are negative. All of these minuses were made up for by these semiconductors/FPDs. I mean that this sector generated our revenue.

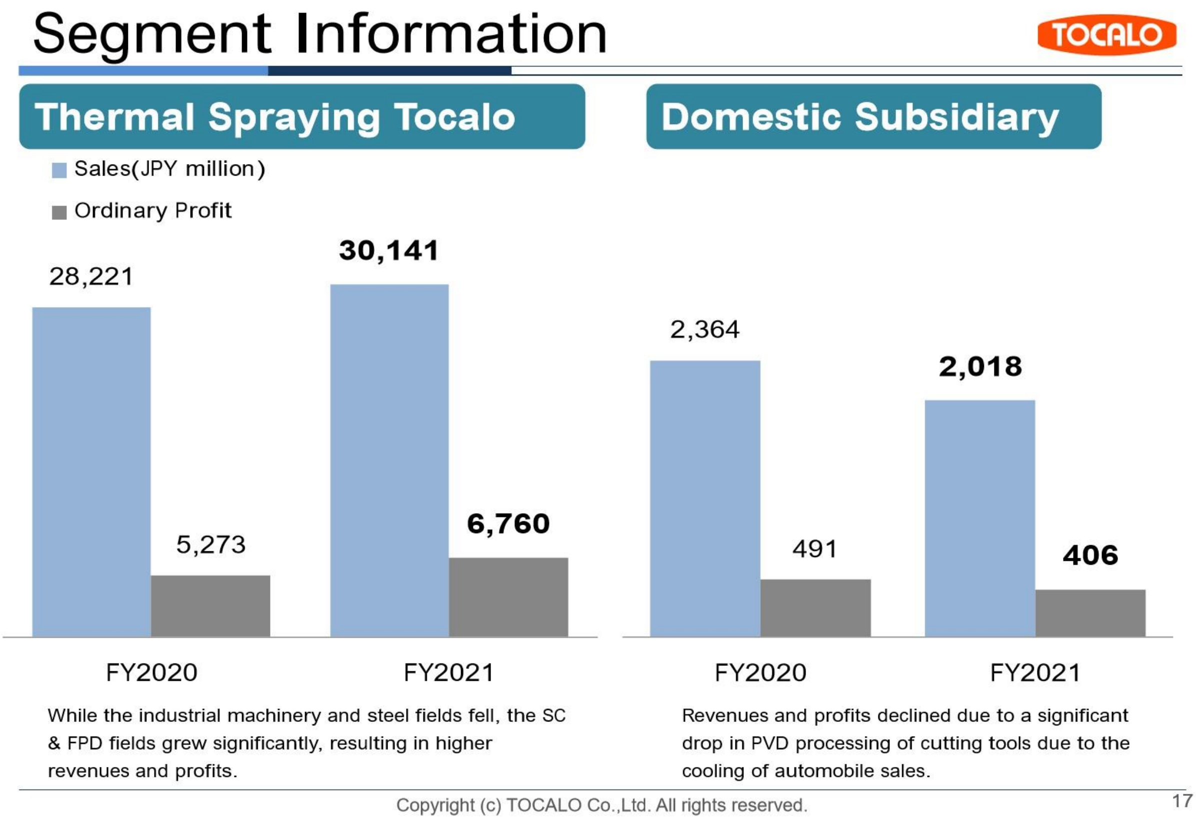
As for profits, we have reached JPY8.914 billion, and the final net profit is JPY5.463 billion.



Looking at the profit structure, the factors behind the increase and decrease are as follows: in the previous fiscal year, the profit was JPY6.812 billion, but this time it is JPY8.914 billion, an increase of JPY2.1 billion. In addition to the increase in sales, variable costs also decreased. Sales in the semiconductor division increased, and we made a lot of capital investment in semiconductors to improve production efficiency. In that sense, we were able to reduce outsourcing costs, increasing profits.

One more thing, in the area of personnel expenses, we have been amortizing the actuarial processing of retirement benefit accounting in a lump sum every year, and the market value of pension assets has risen a little due to this. That was about JPY358 million. The actual increase in personnel expenses is JPY553 million, which is the large increase. This is the part that contributed to the positive side, so this part of the labor cost was reduced.

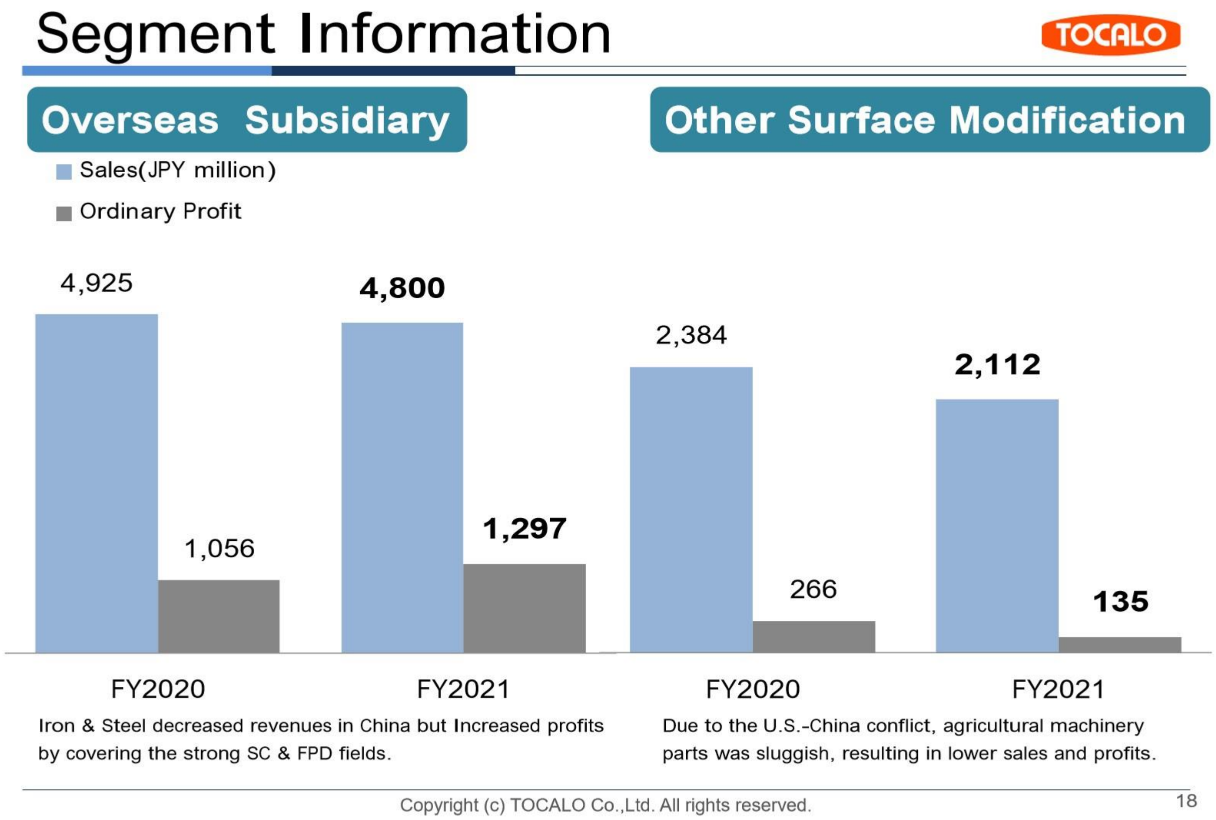
Out of the JPY8.914 billion, this JPY358 million is not the value of our ability, so I think it is a low figure. In terms of actual ordinary income, we believe that the true value of our business is just under JPY8.6 billion.



And regarding these segments. There are 4 segments: thermal spray processing for TOCALO alone, domestic subsidiary JCC, overseas subsidiaries, and other processing. I would like to take a look at the sales and profits.

As I mentioned earlier, in the thermal spraying process, there was a slight drop in the industrial machinery and steel fields, but semiconductors and FPDs contributed to our results. This means that both sales and profits have increased.

Also, our domestic subsidiary, JCC, has a large percentage of its business related to automobiles, so sales of automobiles dropped considerably in the first half of the year, up to the third quarter. In particular, since the business is related to cutting tools, this had a negative impact, resulting in a decline in both sales and profits.



As for overseas subsidiaries, the steel business did not perform well. But we overcame the COVID-19 problem, and the semiconductor and FPD divisions recovered in the second half of the year. Although there was a decrease in revenue, there was a slight increase in profit. In terms of the profit margin, it is about 27%, because this sector has been very supportive.

As for other surface treatment, sales and profits decreased due to the decline in sales of agricultural machinery and other products.

Segment Information

TOCALO

(JPY million)	FY2020		FY2021		Change			
					Turnover		Segment P/L	
	Turnover	P/L	Turnover	P/L	Amount	Ratio	Amount	Ratio
Ther Spray TOCALO	28,221	5,273	30,141	6,760	1,919	6.8%	1,487	28.2%
Domestic Sub.	2,364	491	2,018	406	Δ 345	-14.6%	Δ 84	-17.2%
Overseas Sub.	4,925	1,056	4,800	1,297	Δ 125	-2.5%	240	22.8%
Other Surface Modifi.	2,384	266	2,112	135	Δ 271	-11.4%	Δ 130	-49.1%
Total	37,896	7,087	39,073	8,600	1,176	3.1%	1,512	21.3%

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In the fiscal year ended March 2020, the profit was JPY7.087 billion, but this fiscal year it was JPY8.6 billion. As I mentioned earlier, we believe the actual value is about JPY8.6 billion. The thermal spraying process and our overseas subsidiaries were the main drivers, and I think they were especially important.

Financial Condition

TOCALO

(JPY million)	2020/3 4 Q	2021/3 4 Q
Total Asset	**61,122**	**64,183**
Shareholders' Equity	**40,263**	**44,201**
Equity ratio	**65.9%**	**68.9%**
Int-bearing Debt Outstanding	**8,145**	**6,031**

・Total assets increased by 3,061 million yen from the end of the previous fiscal year (Fixed asset +1,758million JPY)

・Equity ratio increased 3 points from the end of the previous fiscal year to 68.9%

・Interest-bearing debt decreased by 2,114 million yen from the end of the previous fiscal year (no borrowings for the current fiscal year)

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This is about the financial situation. Total assets increased by JPY3.061 billion in the previous fiscal year, due to an increase of JPY1.758 billion in fixed assets. As for shareholders' equity, since retained earnings were positive in the previous fiscal year, the shareholders' equity ratio has increased by 3% to 68.9%.

As for interest-bearing debt, there will be no borrowings this fiscal year. We repayed about JPY2.114 billion, and we now have a debt of about JPY6 billion.

Cash Flow

TOCALO

(JPY million)	FY2020	FY2021
Operating CF	**6,621**	**10,588**
Investment CF	**△ 4,217**	**△ 4,615**
Financial CF	**1,871**	**△ 3,798**
Cash Balance	**16,496**	**18,672**

・Free Cash Flow FY 2021 (Operating CF＋Investment CF)：+5,900million JPY

・Investment CF / Acquisition of tangible fixed assets

Previous term：△3,600million JPY This term：△4,300million JPY

・Financial CF / Income by the long-term debt

Previous term：+5,100million JPY This term：None

(As a COVID-19 measure, the company secured liquidity on hand by taking out a long-term debt of 3 billion yen at the end of the previous fiscal year.)

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In terms of cash flow, operating cash flow was JPY10.588 billion, and free cash flow was JPY5.9 billion, which is a very healthy level.

In addition, there was about JPY4.3 billion in the acquisition of fixed assets this fiscal year, and there was no borrowing, so the final figure is JPY18.672 billion in cash and the equivalents at the end of the fiscal year. In the fiscal year ended March 31, 2020, we took out a long-term loan of just about JPY3 billion, and that was for COVID-19 measures, and we were in a situation where we didn't know where things would go, so we borrowed about JPY3 billion.

Capital investment

TOCALO

FY 2021 Result

Capital investment amount 4,822 million JPY (Initial plan amount 4,700 million JPY)

TOCALO 2,456 million JPY

- New building construction in Tokyo Plant 900 million JPY
- Mizushima Plant relocation 300 million JPY
- Akashi Harima Plant Introduction of SC related equipment
  Introduction of next -generation coating to develop equipment etc.

Domestic Subsidiary

- Mainly new plant construction in Nagoya etc.
  1,127 million JPY

(JCC / Nagoya New Plant)

Overseas Subsidiary

- Mainly SC & FPD fields (new plant construction
  in Taiwan) 1,238 million JPY

In addition, as I mentioned earlier, the initial plan for capital investment was JPY4.7 billion, but actually was JPY4.822 billion. The breakdown is JPY2.456 billion for TOCALO and JPY900 million for the construction of a new building at the Tokyo Plant to supply thermal spraying and coating for advanced semiconductor components.

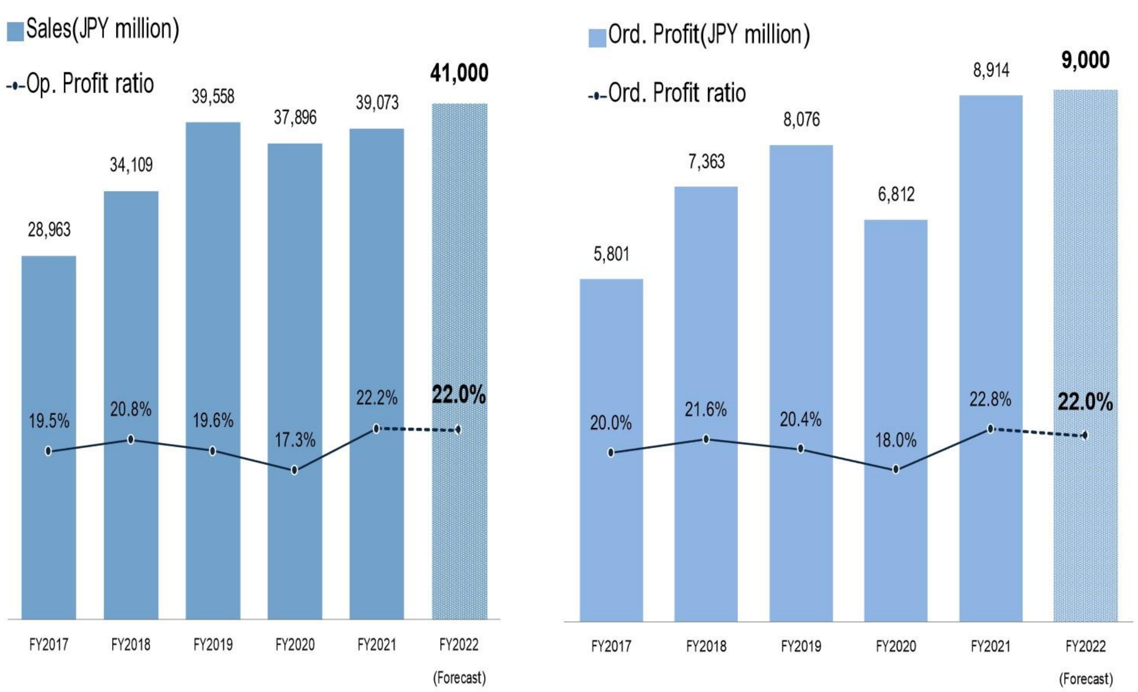
Also, although it has nothing to do with semiconductors, we relocated the Mizushima Plant, or rather, started construction of a new plant, which costed about JPY300 million.

The Akashi Harima Plant and its facilities for semiconductors, as well as the development of next-generation coatings, which costed about JPY300 million.

We have set up a domestic subsidiary, as a JCC subsidiary in Nagoya, to support the automobile industry in the Nagoya area, and we have invested about JPY1.127 billion in land, buildings, and equipment for tooling.

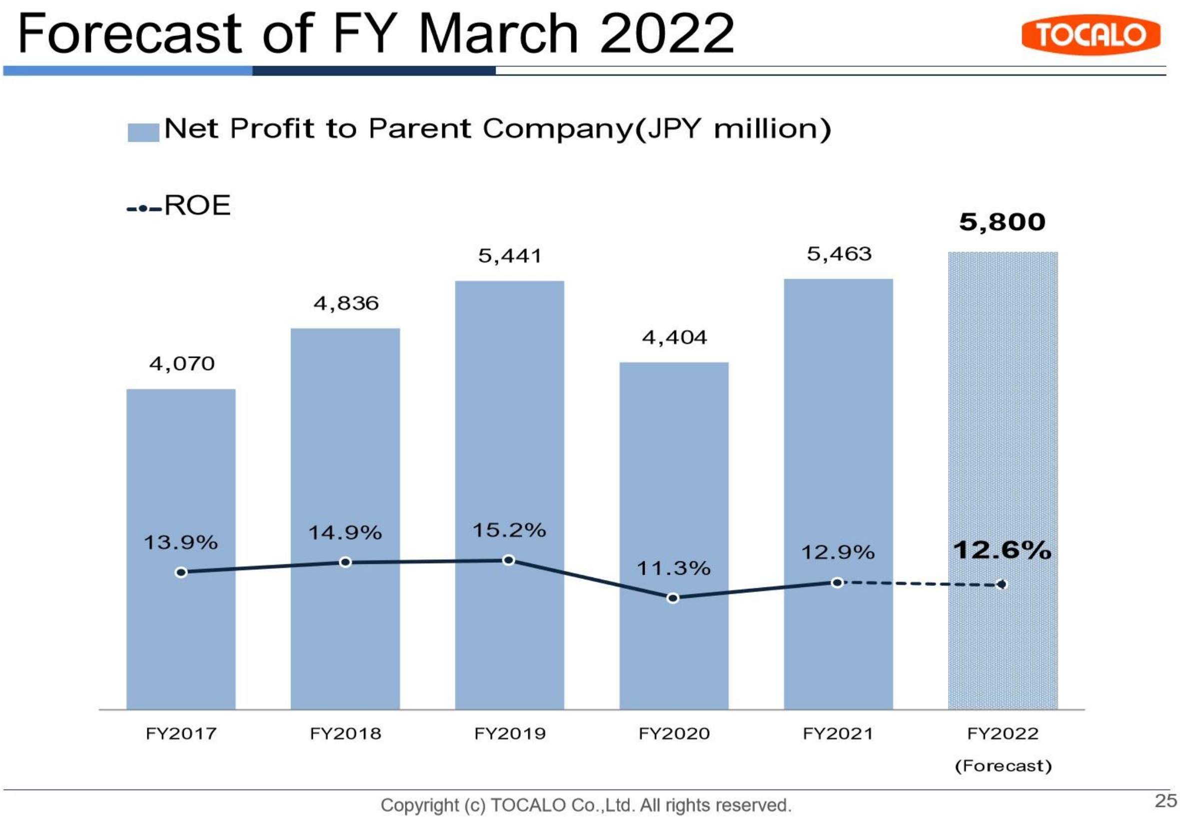
As for our overseas subsidiaries, we are in the process of building a new factory in Taiwan, which costed JPY1.238 billion. In particular, we have invested in land, but we have also introduced new land and equipment, and the total cost was JPY1.238 billion.

Forecast of FY March 2022



Now, I would like to announce the consolidated earnings forecast for the fiscal year ending March 31, 2022, which has already started.

As you may know from our earnings summary on Monday this week, we are looking at sales of JPY41 billion, an operating profit margin of 22%, and ordinary income of JPY9 billion, or 22%. We will do our best. Both of these figures are record highs, and we have started this fiscal year with the goal of achieving them.



Net income will be JPY5.8 billion, and ROE will be 12.6%, which is not quite enough to reach our target of 15%. I wonder if we can make a little more profit.

Forecast of FY March 2022

TOCALO

(JPY million)	FY2021		FY2022		Change	
	Result	Ratio	Forecast	Ratio	Amount	Ratio
Turnover	**39,073**	**100.0%**	**41,000**	**100.0%**	**1,926**	**4.9%**
Thermal Spray	30,141	77.1%	31,045	75.7%	903	3.0%
Semi-con,FPD	18,176	46.5%	19,462	47.5%	1,285	7.1%
Industrial Parts	3,965	10.1%	3,895	9.5%	△ 70	-1.8%
Iron & Steel	3,166	8.1%	3,105	7.6%	△ 61	-1.9%
Others	4,832	12.4%	4,583	11.1%	△ 249	-5.2%
Other Surface Md.	2,112	5.4%	2,247	5.6%	134	6.4%
Domestic Sub.	2,018	5.2%	2,396	5.8%	377	18.7%
Overseas Sub.	4,800	12.3%	5,182	12.6%	381	7.9%
Royalty income etc.	—	-	130	0.3%	—	-
Operational Profit	**8,669**	**22.2%**	**9,000**	**22.0%**	**330**	**3.8%**
Ordinary Profit	**8,914**	**22.8%**	**9,000**	**22.0%**	**85**	**1.0%**
Net Profit attribute to Parent Company	**5,463**	**14.0%**	**5,800**	**14.1%**	**336**	**6.2%**

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Of the JPY41 billion, JPY31.045 billion is for the thermal spray processing business alone, and the semiconductor and FPD businesses in particular are expected to grow. We expect an increase of 7.1% from the previous fiscal year.

If you look at the trends of semiconductor equipment manufacturers, you will see that they are growing at a much higher rate, but if you take into account our information capabilities, we feel that the rate is probably about the same. There is a possibility that there will be more, but this is what we are looking at the moment.

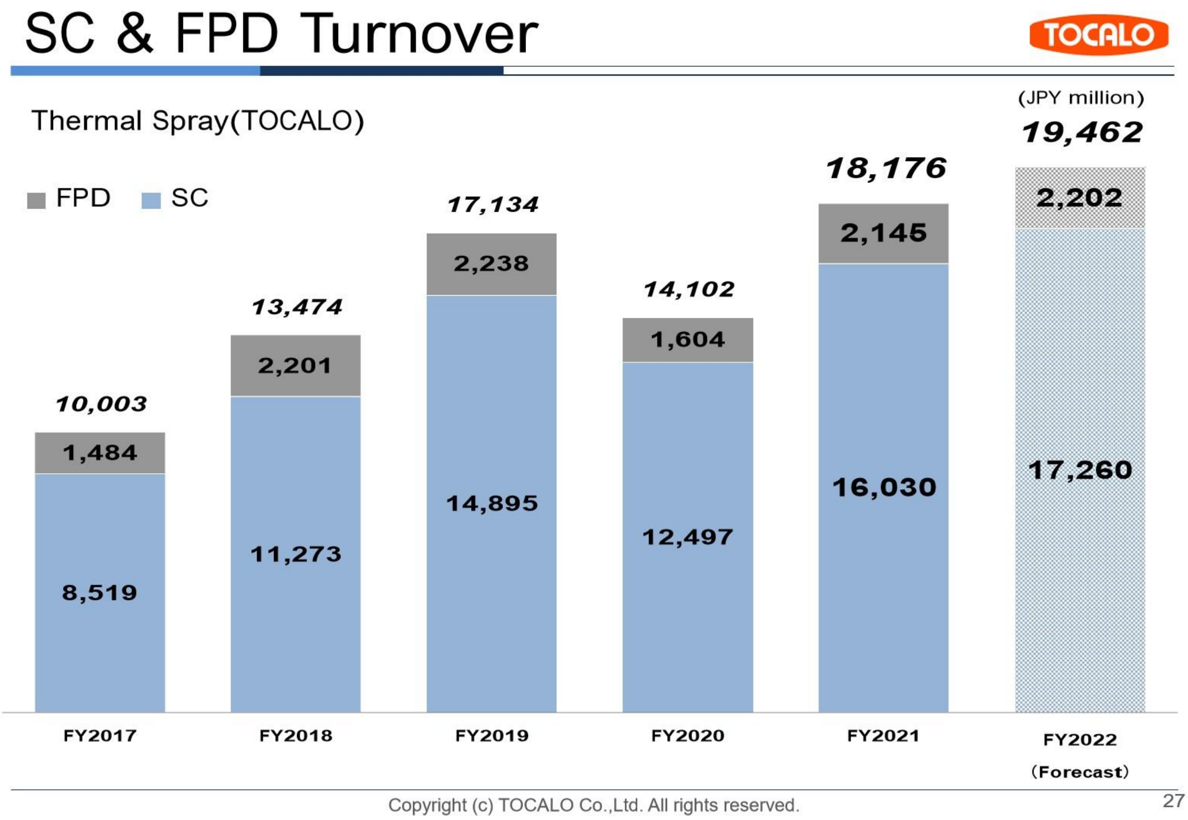
In addition, industrial machinery, steel, and other industries are in the negative, but I wonder what will happen in these areas due to the impact of COVID-19. It is true that there are signs of movement in the steel industry, but it is difficult to see what will be going on. We are a little conservative, but based on our business information, we think it is about the same.

As for other surface treatment processing, this is moving at a positive rate.

In addition, domestic subsidiary and automobiles are definitely starting to move forward, although there are various problems with semiconductors, so we think we can expect a significant increase.

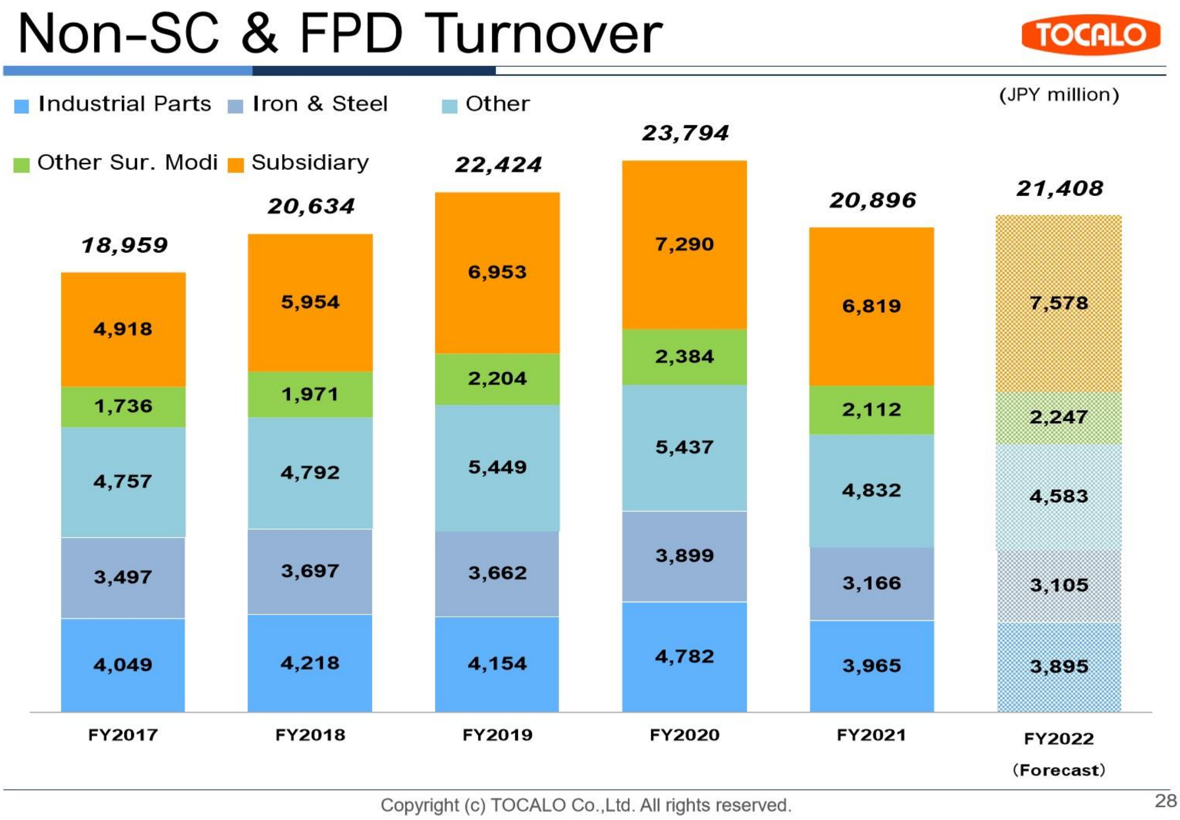
As for our overseas subsidiaries, we are also making positive results, because the relationship between semiconductors and steel is good.

Ordinary income is JPY9 billion, which is only a 1% increase in real terms, but the actual figure is about JPY8.6 billion, so in that sense we are looking at a 4% to 5% increase.

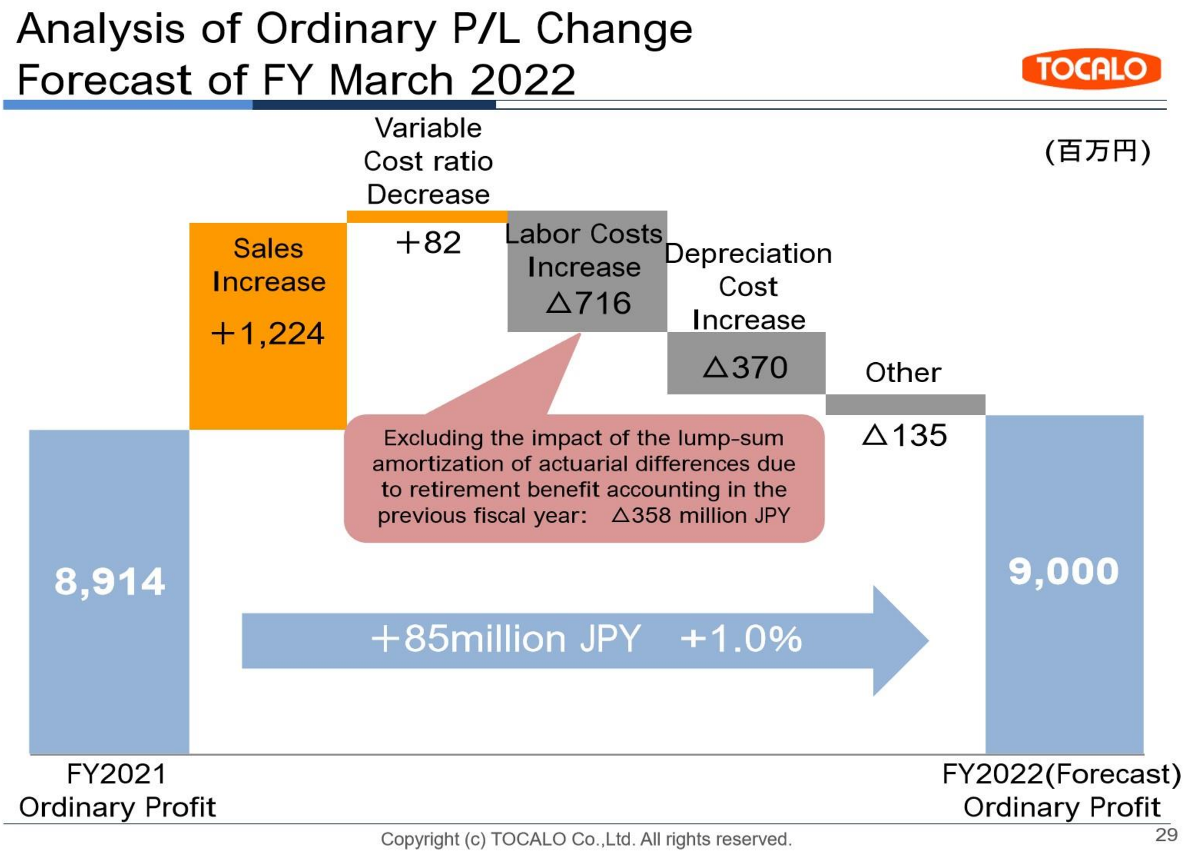


Also, looking at sales of semiconductors and FPDs alone, over the past 5 years, there have been quite a few things that have calmed down a bit. Although sales declined in fiscal year ended March 31, 2020, they have continued to grow, and this fiscal year we will reach JPY19.462 billion. In particular, we think that the semiconductor sector will grow.

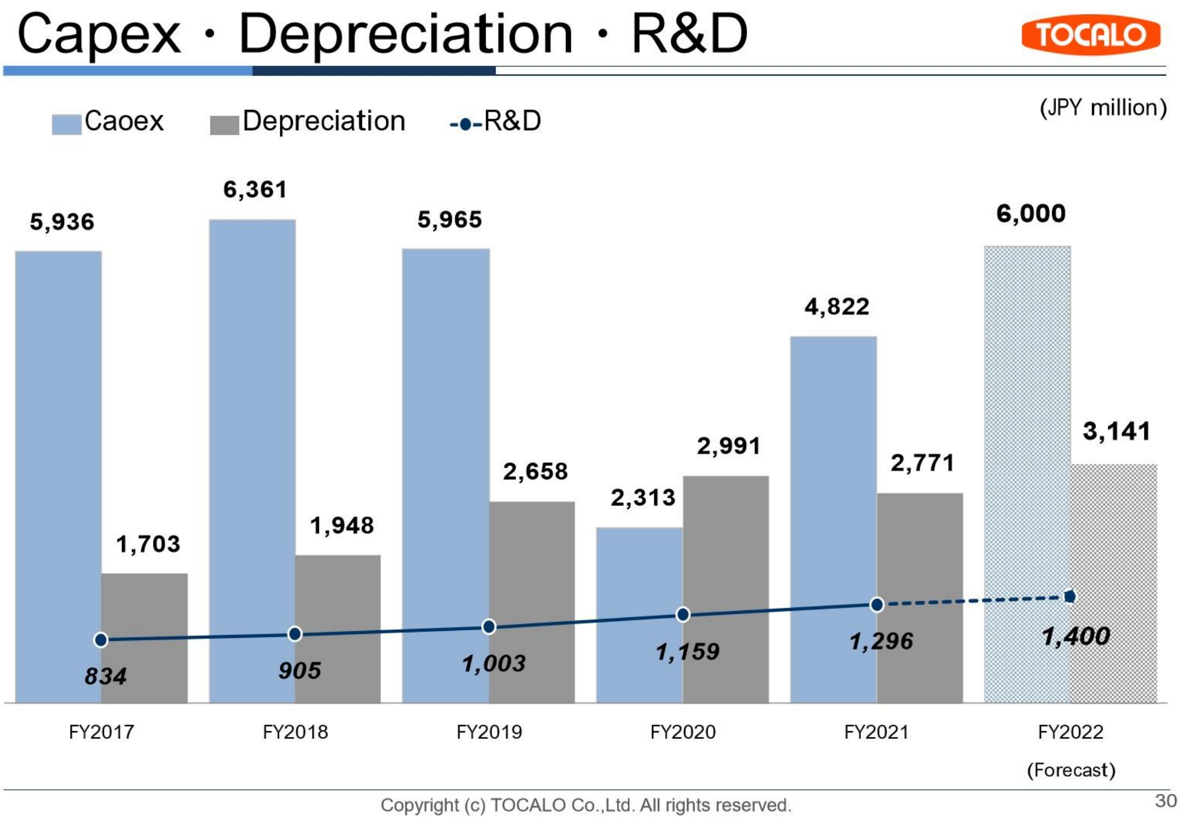
As I explained earlier, the growth of semiconductors here accounts for about 47% of the total, but I think it will increase a little more, maybe by about 1%.



In addition, as I explained earlier, we expect the relationship with subsidiaries to have a positive impact on the results for the areas other than semiconductors and FPDs, but the rest of the business is expected to be even or slightly negative. The key is how we should develop this area.



In terms of profit, we are looking at JPY8.914 billion to JPY9 billion, which is the difference of only about JPY85 million. We were expecting that it will increase a bit from the true value of JPY8.6 billion. I think it has to do with the processing of this lump-sum retirement benefit of JPY358 million. The other thing we need to do is to further reduce the variable ratio in order to increase profits.



Capital investment was JPY4.822 billion in the previous fiscal year, and depreciation was JPY2.771 billion, so we will increase it a little more this fiscal year to JPY6 billion. In addition, depreciation and amortization will be JPY3.141 billion, from which JPY1.4 billion will be invested in the Technology Development Laboratory as the research and development expenses. We are looking at about 3.4.

Capital investment plan

TOCALO

FY 2022 Estimated amount 6,000 million JPY

TOCALO 5,000million JPY

- Mizushima New Plant construction 1,500million JPY
- New building construction in Tokyo Plant 1,000million JPY
- Akashi Harima Plant Introduction of SC related equipment
  Introduction of next-generation coating to develop equipment etc.

Domestic Subsidiary

- Increased production capacity 100million JPY

Overseas Subsidiary

- New Plant construction in Taiwan etc.
  900million JPY

<Rendering of Mizushima new plant>

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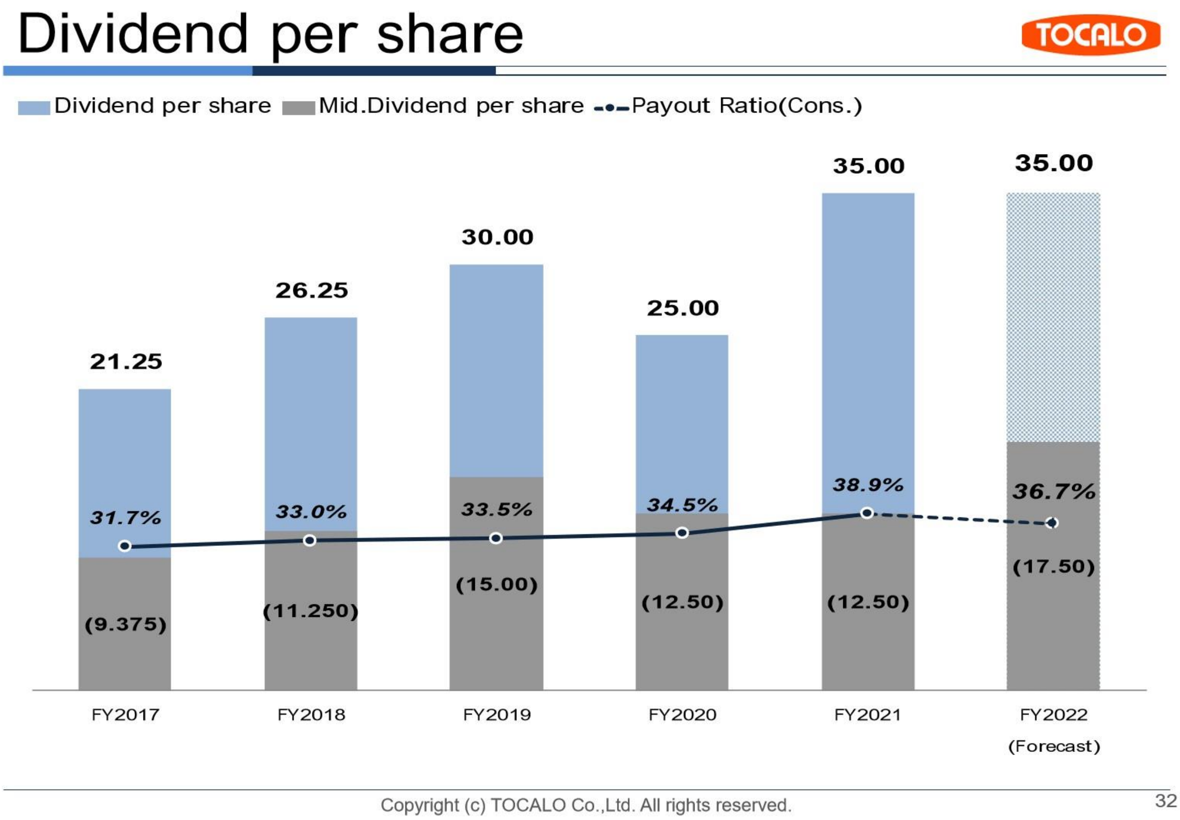
Of the JPY6 billion in capital investment, JPY5 billion is for TOCARO. We will spend JPY1.5 billion for the construction in Mizushima. Last year, we also spent on land and other expenses. We have 6 factories, and over the past 10 years, we have been building new factories. We were trying to create something new while dispelling the image of thermal spraying as a "dirty, dangerous, and demeaning" activity.

I mean this is about the Mizushima plant. This place does jobs in gas turbines, steel, and so on, and although it has nothing to do with semiconductors, it will be very useful in the energy field in the future. In this sense, this is where we will focus our efforts this term.

In addition, as I mentioned earlier, we have to deal with cutting-edge semiconductor materials and equipment in Tokyo. There are many more things to be done, but the total will be JPY5 billion.

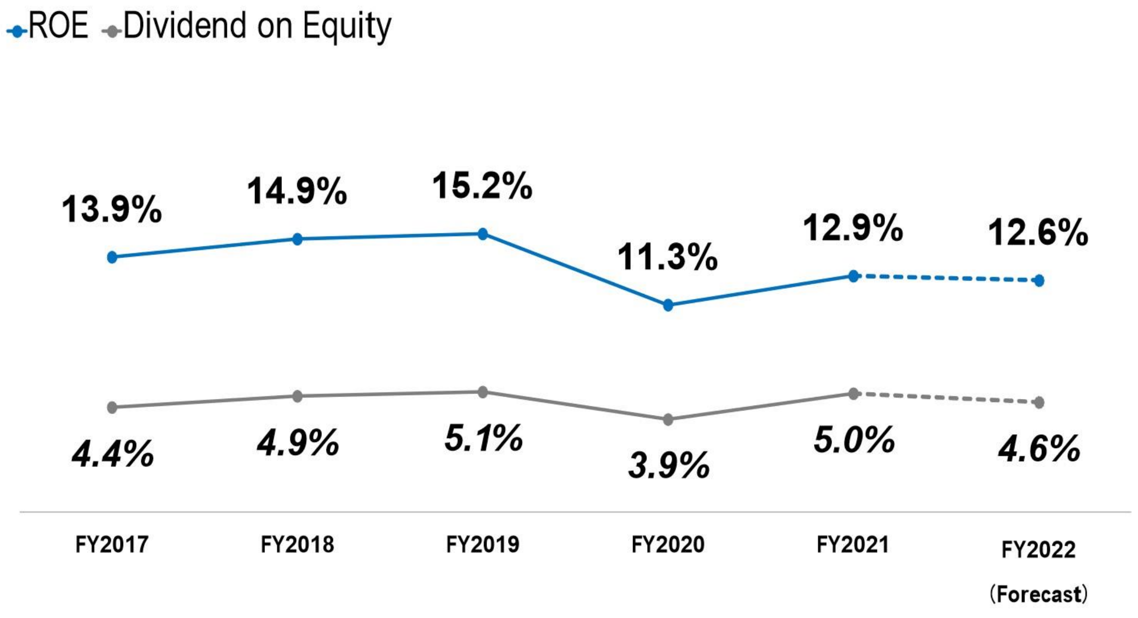
As for JCC, we invested in it last year, so we are not sure if we will do the same.

We are also moving forward with the construction of a new plant in Taiwan.



This is the amount of dividends per share. We have increased the dividend for this fiscal year to JPY35, with a payout ratio of 38.9%, and for the next fiscal year, we are planning to pay the dividend of JPY35, with a payout ratio of 36.7%, since our ordinary income will remain almost the same.

ROE・Dividend on Equity



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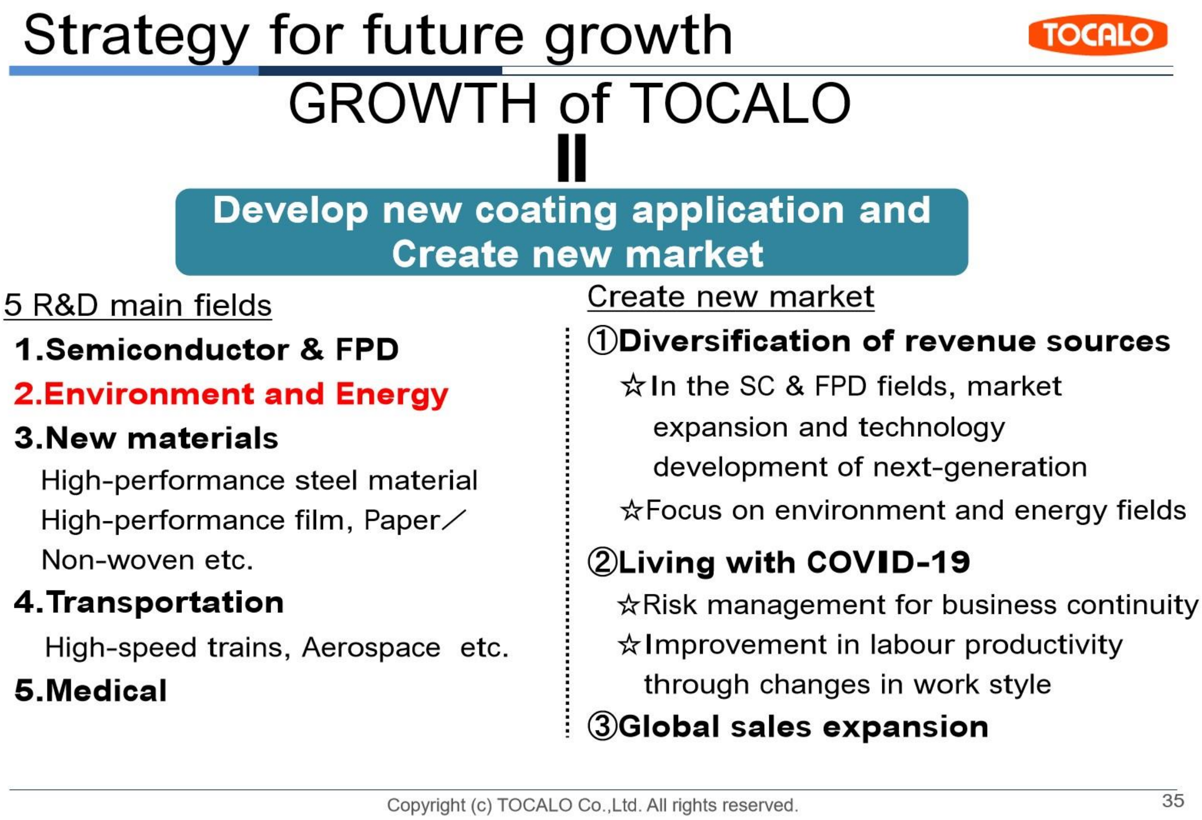
In terms of ROE, I think it will drop slightly by 12% this fiscal year. We have not been able to reach our target of 15%, but I think the only way to achieve this is to increase profits, so we would like to consider how we can increase profits.

Then there is the dividend on equity ratio, or DOE. This part of the index is based on the multiplication of ROE and dividend payout ratio. We received the question last year. In the fiscal year ended March 2021, we raised our ROE to about 5%, but this fiscal year it is about 4.6%, so I think it is a matter of raising ROE or raising dividends.



This is the last section. We've talked about achieving sustainable growth every time.

Our growth strategy is based on the development of new products and the creation of new markets. As for the target market, the slide mentions various things, but I think there is a possibility of medical care plus agriculture or something like that.

However, the 2 largest industries are semiconductors and FPDs. In this section, we are talking about the technological development of the next generation membrane, in particular, the technological response to the N5, N4, and N3 numbers that are being talked about in terms of nodes and ultra-fine wires, as well as how to deal with the market that is gradually expanding.

Also, last autumn, Prime Minister Suga declared zero emissions or carbon neutrality in 2050, and now the world, including US president Biden, is moving in the same way toward that goal. The environment and energy are becoming key words in this field, and thermal spraying has a lot to offer in this field, so we are thinking about how to improve this area.

At the moment, we are mainly focusing on coal-fired thermal power, but in that sense, there are various topics such as co-firing with ammonia, co-firing with hydrogen, coal gasification, and biomass.

When you put a lot of money into a new product, there are bound to be problems with corrosion and other issues. There are many needs for thermal spraying in this area, and we would like to respond to them as needed.

Then, of course, with the advent of the hydrogen society, there will be many things, such as electrodes, where hydrogen will be created, and we think thermal spraying will come in handy there.

Internally, we have to respond to environmental issues with the keyword "decarbonization." Additionally, we have considered how much we can contribute and adapt to the world by utilizing our thermal spraying technology.

In the next 10 years or so, the environment and energy issues are going to be the pillars of Japan, along with semiconductors.

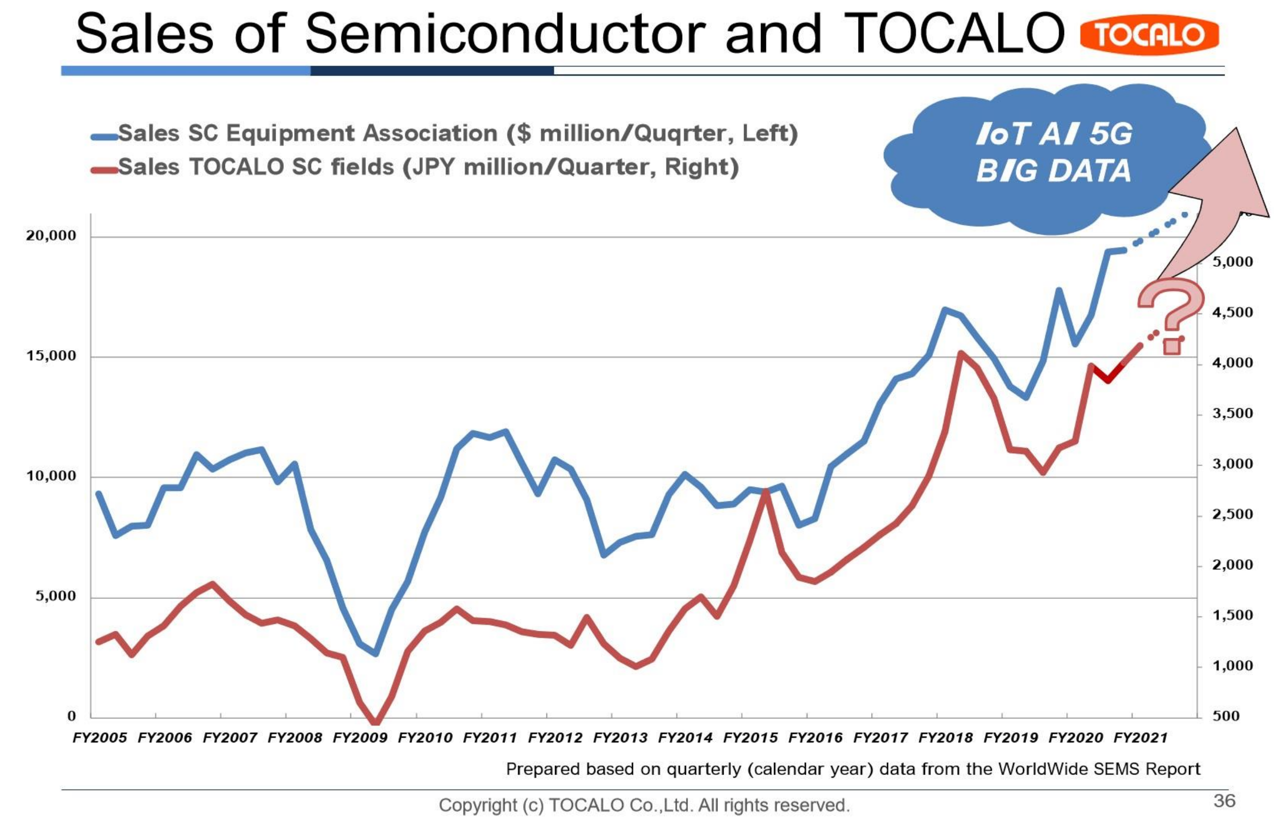
We can't do anything about the rest. The vaccine has not yet been released, so we are working under the slogan, "Don't stop the plant despite the impact of COVID-19." Also, semiconductors have become globalized, and we need to set up a supply chain while keeping an eye on the world. The same thing is happening with steel, but we need to expand our business in response to this.

In the area of decarbonization and a green society, we are shifting from fossil fuels to green energy, but we are currently focusing on coal-fired power generation, especially boilers, and LNG power generation also uses fossil fuels. Thermal spraying is also used in a number of areas such as LNG vaporization equipment and gas turbines, but we believe that this will gradually change.

Of course, they will become more sophisticated, and I predict that by 2030, many boilers will have stopped, but there are still quite a few that will survive. In that sense, I think the maintenance of high-efficiency plants will become more sophisticated. In this sense, the need for thermal spraying will come up, and we will respond to this need.

We are also thinking of applying thermal spraying to biomass power generation and, as I mentioned earlier, mixed firing. Also, of course, we have received many inquiries and joint development projects for environment-friendly hydroelectric power generation and geothermal power generation.

There is also wind power generation, which is related to batteries. Although thermal spraying is not used in solar power generation, it is used in wind power generation as well, and in that sense, there will be areas where batteries will be used to store and supply electricity to the entire system. There is also a lot of demand for NAS batteries and lithium battery production equipment lines, so I think we need to cultivate these areas to expand our business.



This is the last slide. Every time we publish this report, the horizontal axis shows the year and month, and the vertical axis shows sales. This is about the quarterly sales amount of global semiconductor production equipment.

This is a graph based on the Worldwide SEMS Report, which is published by the Semiconductor Equipment Association of Japan.

The red area shows our sales in the semiconductor field. There was a special demand here, but other than that, the demand for semiconductor manufacturing equipment is almost parallel to this, and it is said that the demand for semiconductor manufacturing equipment will pick up in the future.

Of course, there are those who call it "big data" or "big year," but in that sense, this part of the world is expected to rise. We need to keep up with this trend, but in order to do so, technological development, as I mentioned earlier, is one of the key points.

Also, mass production for local consumption, or doing it near a large factory, is also important, so we will be committed to doing them.

The last thing I want to say is that we should try to follow this line as much as possible and follow the world.

That is all. Thank you very much.

Moderator: Thank you very much.

Question & Answer

Moderator: We will now begin the question-and-answer session. If you have any questions, please raise your hand.

We plan to publish a full transcript of the IR meeting, including the Q&A session. Therefore, if you give your name and company name when you ask a question, it will be made public. If you wish to remain anonymous, you may omit your name.

So, let's begin. Anyone has questions?

Participant: Thank you very much for your today's presentation. There are several questions.

Given the situation in the semiconductor industry, many people may be thinking that your assumptions for this fiscal year may be a little more realistic. It may be difficult in terms of the current status of orders received, for example, in April, but I feel that you can do a little better given the current situation of activity. What are the concerns in that area? Is it correct to understand that you issue conservative plan every time? Can you give me a hint on how I should interpret that?

Mifune: Every time, we've revised this area upward twice last year. Based on our information and ne2rk, we think it is about this level. There are some manufacturers that offer 20% or 30% of [Inaudible], but I wondered if they would go that far.

However, manufacturers make a wide variety of products, and on the other hand, we tend to specialize in certain areas. There is a part of the etching equipment, and in that sense, there is one thing that makes me wonder if we can grow that much, so we suppressed this figure.

I have high hopes, but I think it will be more than that, but at the moment, the announced figures are around this level.

Participant: In the case of your company, I think there is a lot of commercial flow in the form of exports from a large equipment manufacturer to the global market, but in that case, is it correct to say that the percentage of NAND and other etch memory is quite large?

Mifune: We receive a large number of parts for NAND and logic systems, but from the thermal spray coating side, there are not so many types. It's hard to tell which is which.

So, I was wondering whether it was memory-based or logic-based. Of course, there are some things that I can figure out, but I don't think it's possible to classify them.

Participant: Okay. I think we should follow up on this until the end as a future issue.

Mifune: But I know the challenges. I know what I need to do, and I know how to make this kind of film.

However, it is easier to ask them how much business they have in terms of products. I'm sorry.

Participant: In that case, TSMC is going to spend a lot of money on EUV support for the next 3 years, such as the 3-nm. In that case, is it correct to say that 3-nm support is also an issue for your company at the moment?

Mifune: 5, 4, 3. That's about it.

Participant: Okay. I heard you are making a fresh start in the US, and you also have a large-scale plant construction project for 2024. I would like to know the trigger and challenge. I think there are a lot of difficulties, rivals, and competition, but at this point in time, are you saying that you are going to do something for 2024, or are you just taking a wait-and-see approach? What do you think about that? About the United States.

Mifune: It depends a lot on the trend of customers, but TSMC is the most successful company in this field. We have worked with a Taiwanese subsidiary, so I think we will be able to take advantage of that. I think it would be a good business if it could be successfully transferred to the US.

Participant: Okay. Last but not least, you have been investing in Taiwan over the past 2 years, including this year, for a new plant.

I know it is difficult to answer, but I dare to ask. I think there is a very high possibility that sales to fabs, or commercial distribution, will lead to the same thing in the US. Is the capital investment being made in Taiwan as a result of the commercial flow of equipment manufacturers or the flow of that with equipment manufacturers? In this area, TSMC, for example, does direct maintenance.

Mifune: Not so much directly.

Participant: Isn't it?

Mifune: Yes. We are still in contact with semiconductor manufacturing equipment manufacturers.

Participant: Okay. I think you have relationships with other etch systems manufacturers. Is it correct to say that these relationships are going well?

Mifune: Yes.

Participant: Okay. Thank you.

Moderator: Thank you very much. Next, please.

Participant: Hello. Thank you very much for today.

There are 3 brief questions that I would like to ask.

First of all, in the area of semiconductors and FPDs, I also have the feeling that your prediction is quite weak compared to other companies. The situation is not so bad when I look at the orders received and the order backlog, which are disclosed in the summary report. In fact, I feel that the number could be increased even more, but I wonder if you could give us a rough idea of how far your company has come in terms of the situation and how you have been able to come up with these figures.

Mifune: The appropriate figures we can really see is 3 months.

Participant: So, you've been able to see for about 3 months. I mean you've been able to read for about a quarter, is that right?

Mifune: Yes. That's it. But this is only where I can see it properly, you know. The rest is mostly guessing or forecasting.

Participant: Understood, thank you.

Next question is about the steel, industrial machinery, and other sectors. As expected, I think that a negative figure from the fiscal 2020 is really quite weak.

In terms of steel in particular, I think that crude steel production in Japan has probably increased by more than 10% this time, and I think that your company probably has a lot of thermal spraying of rolls for galvanized steel sheets, so I think that the increase in automobile production will result in a considerable increase. I am sorry to repeat, but what is your concern here?

Mifune: It is true that there are many maintenance systems, mainly for galvanized steel sheets, as you mentioned, but that part has become quite common and normal. I don't see much of something extra.

What's more, steel manufacturers, where will you invest? There are many processes, such as electromagnetic steel sheets, and there are also many upper processes. The point is that there is a lot of decarbonization, so it's hard to see that part of it.

The maintenance of the rest of the system is still quite limited. It's certainly better than last year, though. We have a good relationship with each of the steel mills, and we receive information from them, but when we totaled it up, the figures were like that.

So, I think we can see a little more now, but it is still difficult to see.

Participant: How about industrial machinery? I'm sure that the manufacturers of bearings and other parts have improved considerably.

Mifune: I think the bearings will come back. The airplane hasn't come back yet. The bearing will come back, though. However, since the power plant is also involved in this project, there are a lot of restrictions on that part of the project, and there are some things that have to be postponed due to COVID-19.

Participant: Okay, thank you very much.

One more question if you don't mind. In the area of capital investment, I think that the amount of capital investment in FY2021 was considerably higher than in 2020. Naturally, the investment will be made with an eye to growth in the next fiscal year and beyond, and I think the purpose is to have some upward flexibility.

This is also just a quick question, but could you give us an idea of what kind of sales scale you are aiming for, or what kind of investment you are planning to make?

I think it will be next year, or even beyond.

Mifune: That's a difficult question. I'd like to know the answer as well. It's not easy to answer because we are an order-driven industry. There's no doubt that to some extent, I'm investing in the risk involved. Therefore, the number of people who say that they are investing in this project because it will succeed or work out well is not zero, but it is quite small.

As I mentioned earlier, the profit margin has increased considerably this time. This was because we had to make allowances for the semiconductor market, which would require us to increase production efficiency and introduce some in-house production, so the profit margin was covered by that. That's what it means to us. That's a big part of the story, rather than just saying, "How much are you going to make from this?"

Also, Mizushima, after all, wanted to change the image of thermal spraying to some extent. In the future, we want to show that thermal spraying can be done in such more sophisticated way. This is why the investment will be made. Hopefully, you realize that it's not an investment to create much revenue.

Participant: Compared to the last time you made a big investment, is it more like improving productivity or attracting people or something like that?

Mifune: Yes, that's right. I think this will be a part of a long-term strategy.

Participant: Okay. Thank you very much.

Moderator: Thank you very much. Any other questions, please ask.

Participant: Thank you very much for your explanation today. I also have a question about capital investment.

I understand that it is difficult for you to disclose the details of future capital investment, but is it correct that future capital investment will basically be kept within the operating cash flow? This is the first question.

Mifune: Yes, that's right. I'll try to keep it within that range, unless something goes wrong.

Participant: Okay. Assuming that capital investment will continue within the operating cash flow, the surplus and cash on hand have become quite plentiful, so there are quite a few investors who wonder if there are any other ways to use it.

As you mentioned in your presentation today, with ROE stagnating, do you have any measures in mind to increase shareholder returns in a broad sense, including the dividend payout ratio?

For example, do you have any plans to improve ROE, including share buybacks?

Mifune: We are trying our best to achieve a target ROE of about 15% according to our public announcement. As you said, it was difficult to achieve the figures, so we did a trial calculation on how many shares we should buy to raise ROE to 15%, and we found out that we would have to buy JPY10 billion. I guess more than JPY10 billion. JPY6 billion. Also, if we were to pay out around JPY200 in dividends, that would be about right.

I thought the best thing to do is that we should make more profits. In order to increase profits, we will continue to make capital investments. Also, we are thinking of doing M&A or something like that in the future. With regard to dividends, as long as we make a profit, for example, if the dividend payout ratio is 30%, we will pay out one-third dividend, or even more.

In that sense, I believe that by increasing profits, we will be able to increase that figure, at present. There is no talk of bringing it up to the 50% figure at the moment.

Participant: As you mentioned in your explanation, M&A will become one of the options for the future.

Mifune: I think it will be. Yes.

Participant: So, I can think about it?

Mifune: Yes.

Participant: Thank you very much.

Moderator: Thank you very much.

Mifune: It doesn’t mean that we don't buy our own shares. That is, of course, one of the options we are working on.

Moderator: Any other questions, please. There seems to be nothing in particular.

If the Company has anything to add, feel free to speak.

Mifune: Thank you very much for your time today, amid a state of emergency. I'll think about it again next time.

Moderator: Thank you very much. This concludes today's briefing.

Thank you very much.

Mifune: Thank you very much.

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *This document has been translated by SCRIPTS Asia.*

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