TOCALO Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2020

November 6, 2019

Event Summary

[Company Name]	TOCALO Co., Ltd.
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[Venue]	Nikkei Kayabacho Bekkan Building B1F 1st Seminar Room 2-6-1 Kayabacho Nihonbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	238 m^2
[Participants]	50

[Number of Speakers]	4	
	Noriyuki Mifune	President
	Hiroshi Goto	Director
	Kenji Hosomi	Deputy Director, Corporate Planning Office
	Tetsuo Tarumi	Managing Director
[Analyst Names]*	Mitsuhiro Osawa	Ichiyoshi Research Institute, Inc.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Moderator: Now, it is time to start the financial results briefing for the second quarter of the fiscal year ending March 2020 for TOCALO Co., Ltd. We would like to introduce four people from the company: Mr. Noriyuki Mifune, the President; Mr. Tetsuo Tarumi, the Managing Director; Mr. Hiroshi Goto, the Director; and Mr. Kenji Hosomi, Deputy Director of the Corporate Planning Office. Today, Mr. Mifune will give a presentation, and we hold the Q&A session afterwards.

Mifune: Hello. I am Mifune, the President of TOCALO Co., Ltd. Today, I would like to thank you for attending our briefing session on the financial results for the second quarter of the fiscal year ending March 2020. I would also like to take this opportunity to express my gratitude for all your support we have received in our daily business operations. Thank you very much.

Now, I would like to start our company briefing for the second quarter of the fiscal year ending March 2020. Today's contents are as usual, but I will explain our company overview for some people who are participating in this briefing for the first time. And then, I will announce the outline of the results for the second quarter and the forecast for the fiscal year ending March 2020. Finally, I would like to briefly explain how we will grow in the future.

First, this is our company overview. We have a head office in Kobe City, Hyogo Prefecture, and about two years ago, we moved to Port Island. The company was established in 1951. Until two years ago, the headquarters was near the expressway which collapsed due to the Great Hanshin Earthquake. At Port Island, the K computer is no longer being used because it has been replaced by the Fugaku. Our head office is in a location on the opposite side of the supercomputer. Consolidated net sales for the previous fiscal year totaled 39.558 billion yen. The number of our employees is just over 1,000 people.

Regarding the factory, the head office is located in Kobe City. Its birthplace is also Kobe, and there are six factories throughout Japan. From the north, the Tokyo Plant is in Funabashi, and the Nagoya Plant, Kobe Plant, and Akashi Plant are located in Hyogo Prefecture. In addition, the Research Institute for thermal spraying technology was established in Akashi, followed by Mizushima and Kitakyushu.

Our thermal spraying business has prospered together with the steel industry in Japan, and Japan's steel industry has secured the world's highest quality. The thermal spraying business has contributed greatly to this achievement. In the past, local production for local consumption was said to be located in the area of the steel works in the Pacific belt, and in this way, the steel industry has grown up to the point where they are doing every day.

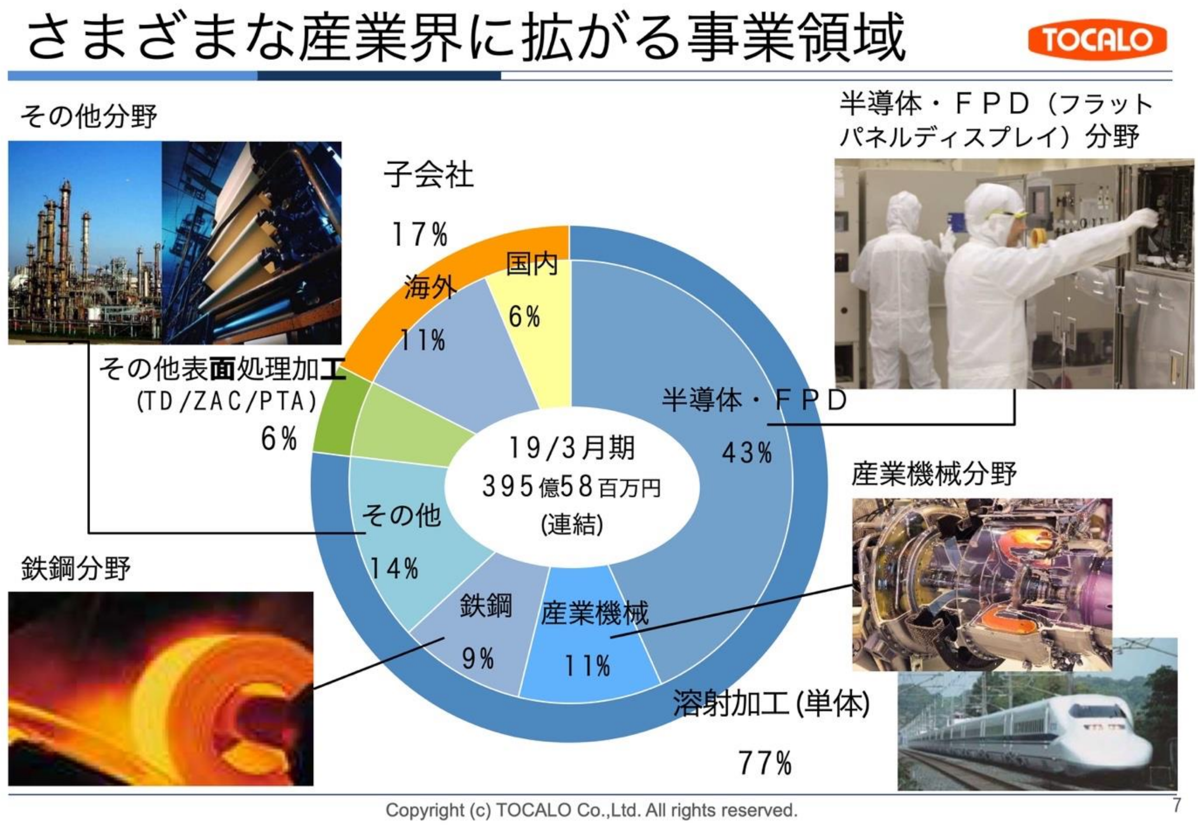
In addition, because of the increasing number of applications like semiconductors which have become more important as customers, we have established a service center in Miyagi, where Tokyo Electron is located.

Next, we are expanding our subsidiaries globally, and we have five consolidated subsidiaries. The first is the Japan Coating Center. We are primarily engaged in thermal spraying, but because surface modifying that cannot be handled by thermal spraying alone are inevitable, we mainly conduct PVD, a method of coating thin film using physical vapor deposition, at the coating center. Previously, it was a subsidiary of Sumitomo Metals Mining Co., Ltd., but we acquired it in 2004 and made it our 100% subsidiary.

In addition, the three Chinese and Taiwanese companies indicated above are all joint ventures. We have a joint venture with a Taiwanese company 漢泰, which is pronounced "Han Tai." Our joint companies are in Guangzhou, Kunshan, and Taiwan, and we are developing steel-related and semiconductor-related maintenance services with our own percentage of investment.

Our factory in the US was established in 2015 to provide maintenance services for semiconductors. We have finally cleared environmental regulations and other such issues and have been making progress in recent years.

Additionally, we have finally established a 100% unconsolidated company in Indonesia through non-consolidation and equity method. In Thailand, there is also a Japanese welding-related company called NEIS, and we are doing this business together. Because Japanese steelmakers are expanding their operations to Thailand, the maintenance is our major task.

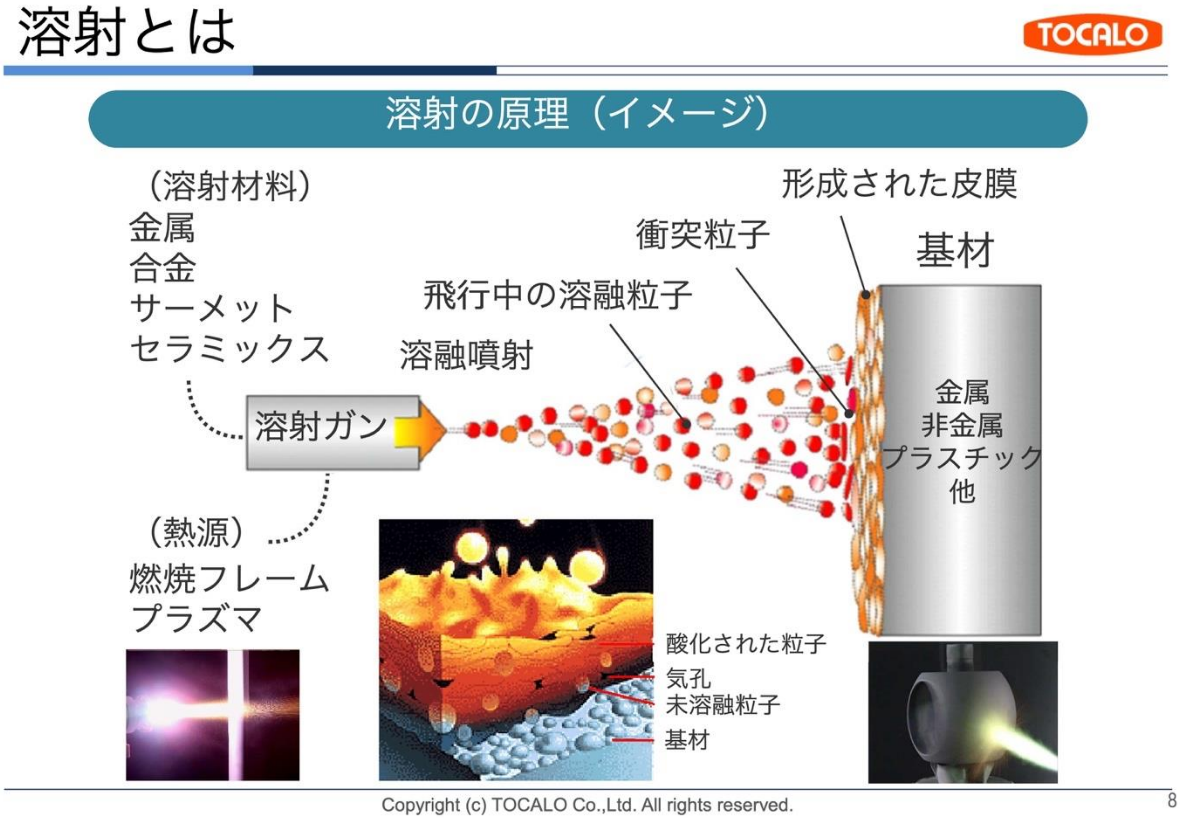


In addition, we are doing business in various fields. First of all, with regard to the subsidiaries that I have mentioned earlier, 17% of the sales are from the subsidiary in the orange area. The domestic sales are PVD or Nihon Coating Center, and there are few sales in America, so three companies' sales in China and Taiwan account for 11%of our total sales. All the rest is thermal spraying processing alone, followed by other surface treatment. These are the processes we are conducting alone: 6% and 77% are from TOCALO, so 83% are the sales of TOCALO itself. The remaining 17% is from subsidiaries.

Looking at the contents of thermal spray processing, the largest portion of sales came from last year's 39.5 billion yen. Last year, sales in the semiconductor and FPD accounted for 43% since we were very busy, especially in the first half of the year, when the peak was seen in semiconductors. The previous year was about 38 or 39%, so it grew 4% to 5%. This is from the thermal spraying technology to semiconductor and FPD manufacturing equipment components, which now accounts for more than 40% of the time.

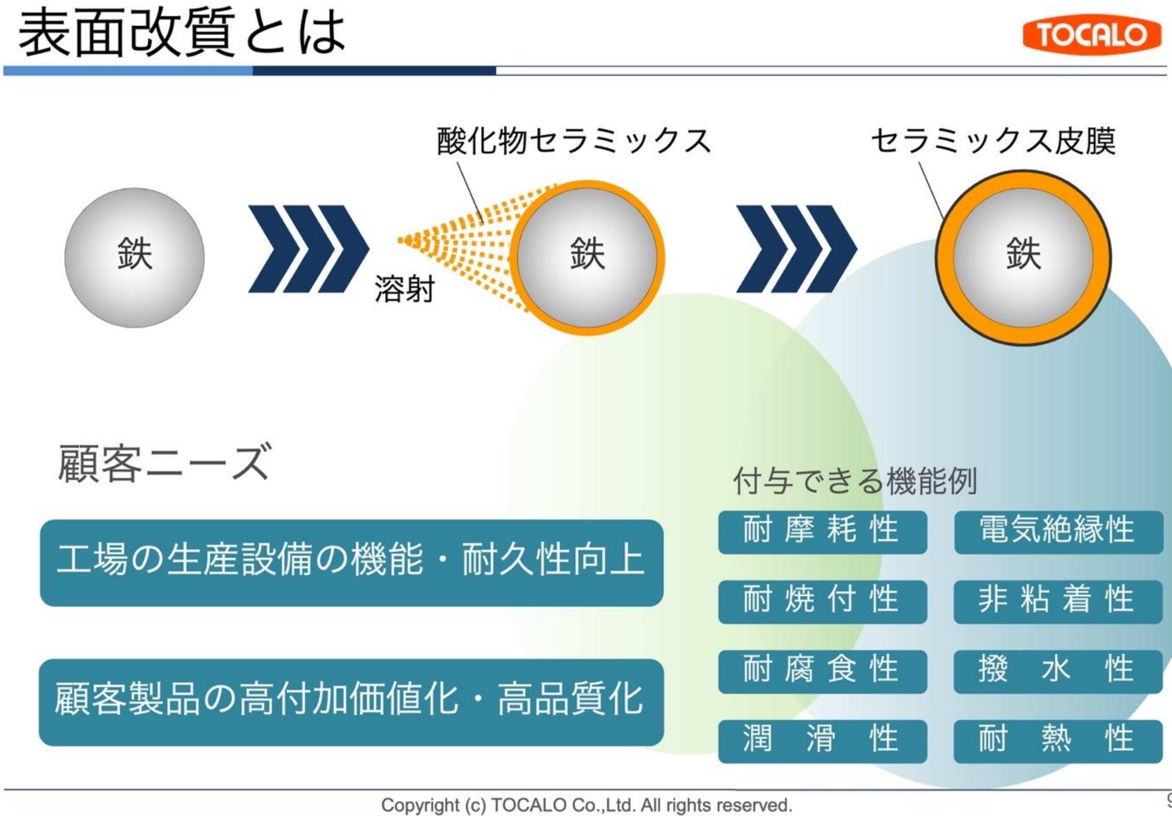
Last year, industrial machinery in the engineering division, such as energy-related businesses (gas turbines and boilers) and other infrastructure-related businesses, as well as Shinkansen bearings, accounted for 11%, and another 14% related to iron and steel, petrochemicals, papers, and other commodities.

In addition, this is the results of PVD at subsidiaries in Japan, not thermal spraying. Moreover, other surface processing methods are not thermal spraying but heat treatment, chemical refinement treatment, or welding. 12% of these processes are not thermal spraying. Overseas, 11% is mostly thermal spraying, and 88% is at the core of our business. This is the classification.



Thermal spraying has not been widely recognized in the world. Everyone assumes that surface modifying is performed by plating and welding, and even most engineers think that it is performed by heat treatment. The recognition of thermal spray is quite low, and it has been highly appreciated by people who know it. In this sense, it is important for us to raise awareness of thermal spray, so I would like to explain a little. It is very simple. As written in kanji, melting spray materials are known as thermal spray materials. Thermal sources are acetylene gas, propane gas, and plasma, which are formed by the flow of gas and electric power, and are ionized to form a plasma. With these heat sources, the material is melted and applied to the surface, which is a very simple mechanism for coating.

However, although it is very simple, the key to our business is how to match it with the customers' environment, how to perform it, and how to make porosity and surface roughness. Controlling these is in the form of expanding our business.



Surface reforming. As I mentioned earlier, we are trying to create new functions by plating, welding, PVD, CVD, or adding something that is different from materials to the surface. This is what we call "surface modifying." As I mentioned earlier, 88% of our business is the thermal spraying. For example, if there is an iron component, it can be made by adding oxide ceramics to its surface. Only mid-iron can be made from the exterior of the ceramic film, but the ceramic film has the performance of, for example, abrasion resistance, electrical insulation, corrosion resistance, and ability to lubricate, so we can add a function different from that of iron. That's why we make parts.

But there are two things that describe customer needs.

The first one is in the customers' factory. The main component is in the factory where the products are produced. In the case of iron and steel, for example, there is a line for zinc plating on steel sheets. Rolls flow in the form of 100 pieces and 200 pieces, but the most important thing is to soak in a zinc bath, so this is zinc-melted world because it is soaked in the bath. Zinc melts at about 480 degrees Celsius, but rolls are included in it, and we take it up. The rolls are made of iron, and if they are made of iron, the surface will be eroded by that zinc. As a result, the surface of the roll is transferred to the plates, whereas the holes are opened. Coating and spraying to prevent this will eliminate it. It has been attracting attention worldwide because it lasts about 30 days. I think that about 80% of CGLs, continuous galvanizing lines, in the world today have been sprayed.

The other is semiconductors. When we export semiconductor production equipment from Japan, for example, as we are especially doing in the world of etching, but when we draw a very thin line for etching semiconductors, we engrave the wire. We use plasma gas to engrave it. Fluorochemicals and chlor-based gases are used. Then, because the cabin is made of aluminum, it can be done by gas, so if it becomes a particulate, a semiconductor cannot be made. To protect it, it is necessary to coat the interior of the aluminum material and protect it from the gas of the plasma. It is a given. This is the first time that a semiconductor production equipment has been manufactured, and the person who has given it will be exported overseas or, for example, shipped to a major Japanese manufacturer. Whether these products are used to add value to customers' products or are used in manufacturing equipment is a key issue for us.

Simply, where are they being offered? For example, in the case of smartphones, smartphones are made up of a variety of components, but of course, they are components of semiconductors that I just mentioned. A semiconductor component was previously described as a "chamber." This red segment is a virtual part, and there are stages. The stage in which the wafer is placed is extremely precise, but static electricity is used to retain it. In some cases, coating is used to generate static electricity and is used in this world.

It is also used in the lithium battery manufacturing line, as will be discussed later. Then, it is a resin-based product. When it comes to LCDs, the surface of the glass is glass, but the glass of LCDs is about 0.6 mm thick. To make this glass, we put glass on top of dissolved tin and pull it to make it and make it burn. There are as many as 50 rolls and 60 rolls. Because these rolls are thin, they are coated with ceramics to prevent glass and reaction. It is used in that way.

Then, rolls for depositing copper foil, or LCDs, for example, are somewhat the same as semiconductors. This is known as an electrostatic deposit, or a coating that generates static electricity on the underlying materials. If it becomes large, it will be about 3 meters by 3 meters.

The second is a ceramic capacitor, which contains about 300 pieces, for example. However, a ceramic capacitor is smaller than that of rice grains. This is a ceramic capacitor that is baked with a material centered on barium titanium, but it reacts to the tray when baked. Therefore, the coating in the tray is used to prevent the reaction.

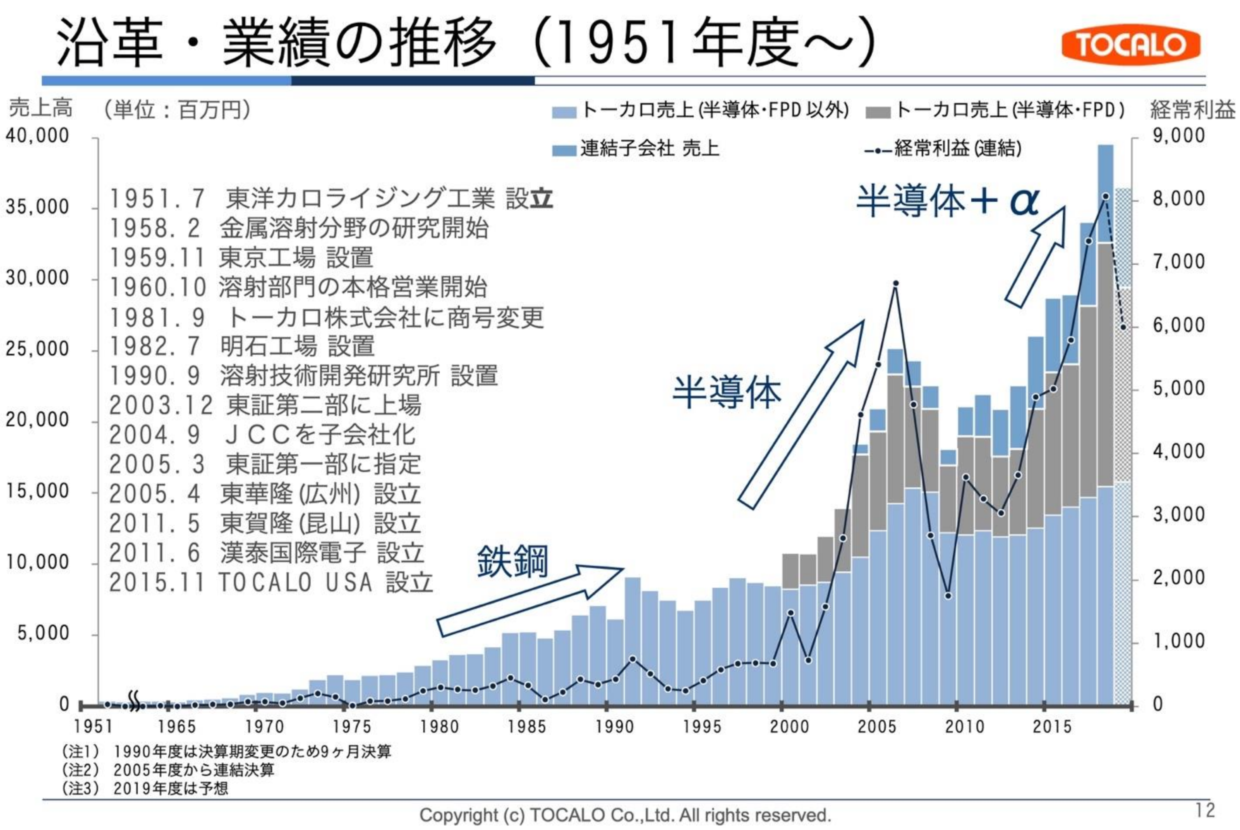
At this point, we explained that there are various components and key parts for assembling smartphones and that thermal sprays are used to make such key parts. I think this is probably not in the material on hand. We are very regrettable because we have omitted it from our website for explanation purposes.

I think you have the next issue, but I don't know where it is due to copyright, so it would be fine if you thought it as a material for explanation. Mr. Yoshino was awarded the Nobel Prize, which is the hottest topic at this moment. The lithium batteries have been developed by developers in Japan, and I think that lithium batteries have been developed in Japan as well. However, a variety of manufacturing equipment is being used to make such lithium batteries. A lithium battery is a simple mechanism in which there is a separator between the positive and negative poles between which lithium ion moves back and forth. However, the production method of cobalt is very controlled, and lithium cobaltite and lithium nickel are used as positive polar materials. There is a tray for adjusting this, and this is very impurity-averse. Therefore, it is necessary to coat the tray and put it on the firing furnace.

In addition, there is a roll for transportation for the kiln, and it is probably made by Mr. Yoshino, who has the most ties with the separator, either by coating to give strength to the roll or by making the separator.

The foil, such as aluminum or copper, requires foil to collect power, but it is used in rolls to make such foil. The point is that if it is damaged, it is of good quality, so in order to eliminate it, thermal spray rolls are used for this manufacturing equipment.

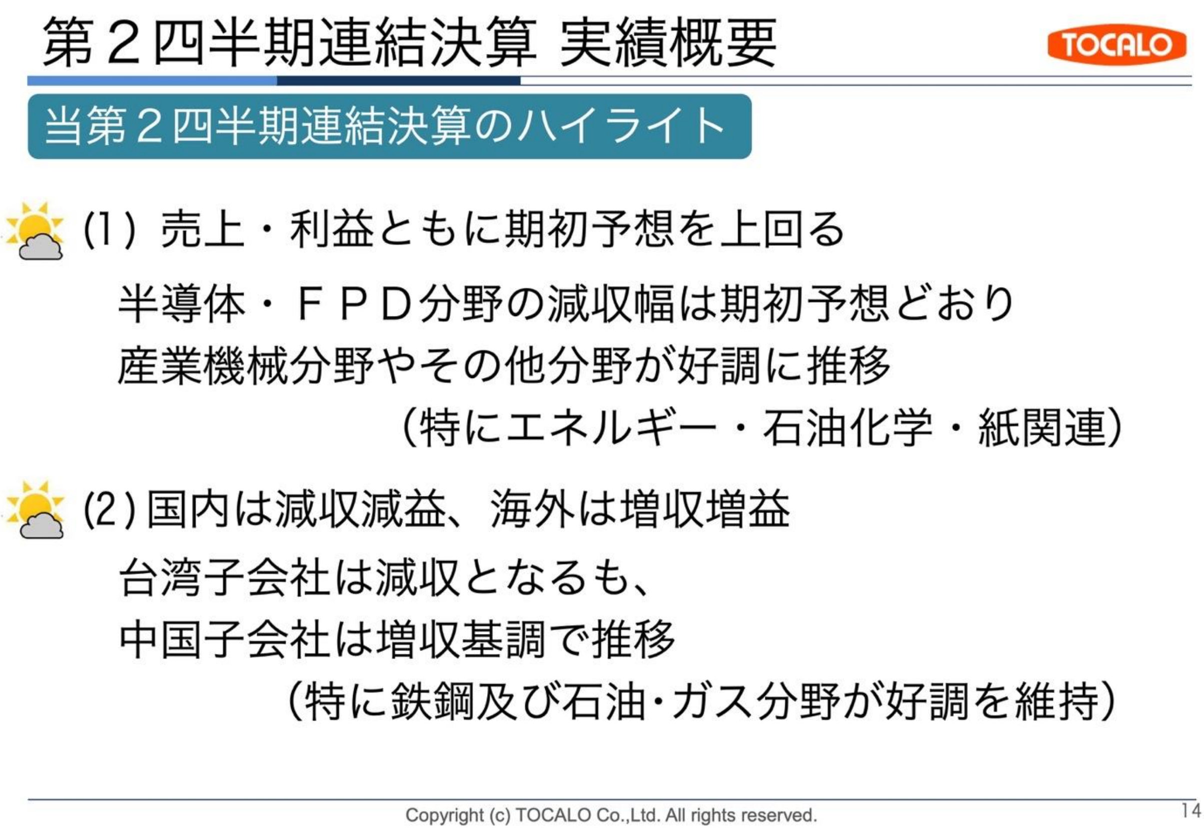
What is important is the production line? Coater boards and pre-rollers determine the ultimate depth control and electromagnetic quality. Thermo spray is applied to the press rolls and coater boards and are used in a manner that is long-lived and homogeneous. However, the demand for semiconductor manufacturing equipment is not as great as that for semiconductor manufacturing equipment. This is why it is growing increasingly.



Now let's look back on our history. Founded in Kobe in 1951, the old name was Toyo Carolizing Industry. Calorization was a surface treatment process, but it was like diffusion heat treatment. As I mentioned at the outset, it grew initially, mainly in conjunction with the steel industry and has grown largely in tandem with the steel industry until the bubble economy.

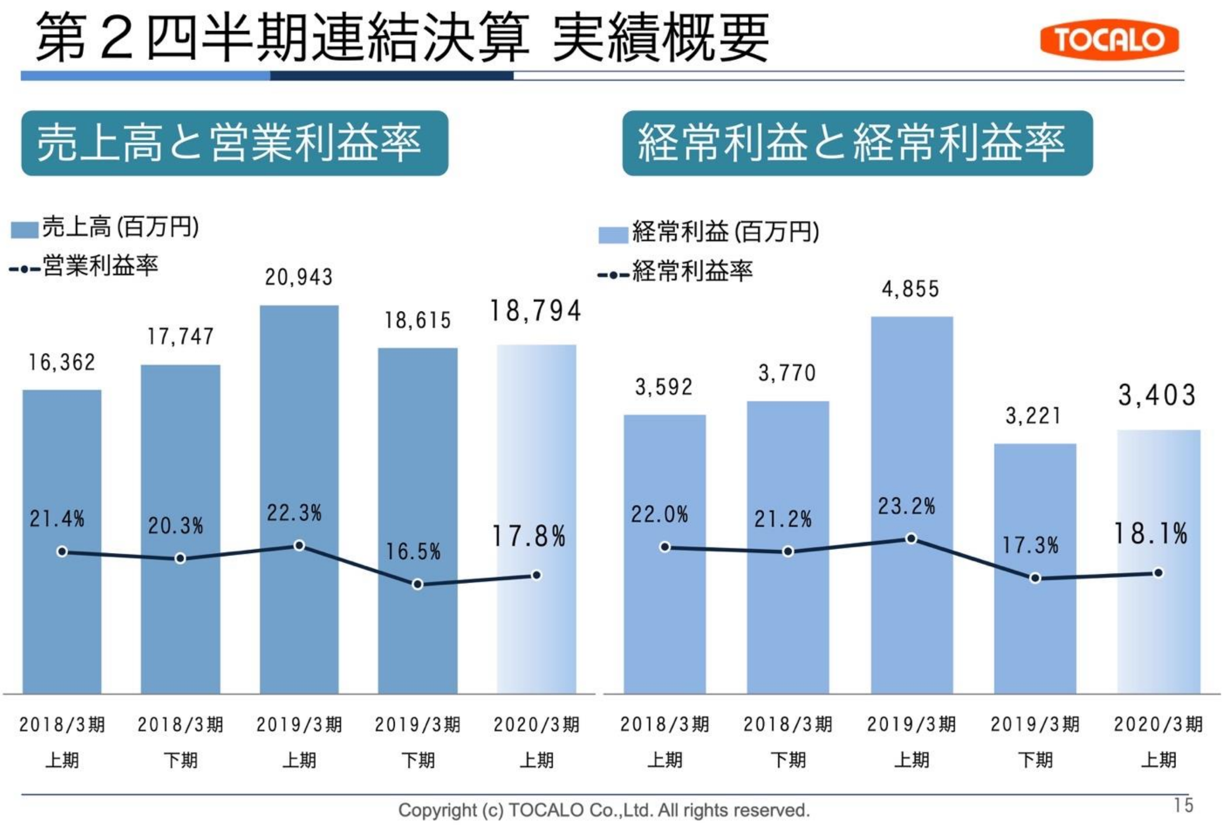
Semiconductors started in around 2000, and we faced an acquisition from a company. We started an MBO, and that is exactly around 2000. Since 1995, we have been engaged in research and development of semiconductors, and it was around 2000 that we were able to commercialize this product. Since then, demand for semiconductors rapidly increased, and at that time, the company succeeded in MBOs. It seemed to have been an extremely groundbreaking event in which companies listed on the Tokyo Stock Exchange once fell short of their initial public offerings. Many people said that demand for semiconductors was spurred by a spirit of god.

From that point to 2007, the demand for FPDs and LCD production equipment has increased greatly, and we will be in a busy time. However, we have reached a peak here for a while, and the Lehman crisis damaged seriously the demand in 2008. Nevertheless, while we are still profitable, we will also be in the general sector and the non-semiconductor sector. While the blue portion of the business is the blue portion, the gray portion is the semiconductor and FPD portion, albeit rising. Then, the top is a consolidated subsidiary. A number of subsidiaries have also started up, and the performance of subsidiaries has also improved. Since then, semiconductors have, of course, risen. The general market has also been growing slightly. As a result, we achieved the highest profit last year. However, this year, the semiconductor market is slightly bad as the business is dull.



Next, I would like to provide an overview of the consolidated financial results for the second quarter of the fiscal year. Looking at first half results, both sales and profits were slightly better than the initial forecasts. Initial forecasts were that the semiconductor and FPD sectors were relatively low due to lower sales, but industrial machinery and energy, especially in boilers and gas turbines, and petrochemicals and paper manufacturing, in particular, the household tissue was very favorable, leading to sales of 1.3 billion yen and profits of about 500 million yen.

Second, while domestic sales and profits declined, overseas sales and profits increased, while Taiwanese subsidiaries still have LCD manufacturing equipment-related developments rather than FPD semiconductors in particular. Semiconductors also grew, but this did not cover them, and sales decreased slightly. Our subsidiaries in China, especially in the fields of steel, oil, and gas, are performing very well, including for valves, which are not available in Japan. Overseas sales and profits increased.



In the figure, we start with a graph for each half-year. The results are shown on a half yearly basis from 2018, and the results for 2019 and the first half of the previous fiscal year are the best, and we have reached this point. Although sales were 18.7 billion yen compared to the initial plan, it was 17.5 billion yen, so it was higher than that. Then, as the profit was 2.7 billion yen, it reached 3.4 billion yen, or 18.1%. Originally, we kept ordinary income at around 15%, so in comparison with this, the decline in both sales and profits narrowed slightly.

第２四半期連結決算 実績概要

TOCALO

(百万円)	2019/3期 ２Q 実績	2019/3期 ２Q 構成比	2020/3期 ２Q 実績	2020/3期 ２Q 構成比	前年同期比増減 金額	前年同期比増減 率
売上高	20,943	100.0%	18,794	100.0%	△ 2,148	−10.3%
溶射加工 (単体)	16,471	78.7%	14,097	75.0%	△ 2,374	−14.4%
半導体・ＦＰＤ	9,390	44.8%	6,764	36.0%	△ 2,626	−28.0%
産業機械	2,066	9.9%	2,474	13.2%	407	19.7%
鉄鋼	1,787	8.5%	1,972	10.5%	184	10.3%
その他	3,226	15.5%	2,886	15.3%	△ 340	−10.5%
その他表面処理加工	1,006	4.7%	1,161	6.2%	155	15.4%
国内子会社	1,249	6.0%	1,197	6.4%	△ 52	−4.2%
海外子会社	2,215	10.6%	2,337	12.4%	121	5.5%
営業利益	4,673	22.3%	3,348	17.8%	△ 1,325	−28.4%
経常利益	4,855	23.2%	3,403	18.1%	△ 1,452	−29.9%
親会社株主に帰属する四半期純利益	3,216	15.4%	2,148	11.4%	△ 1,067	−33.2%

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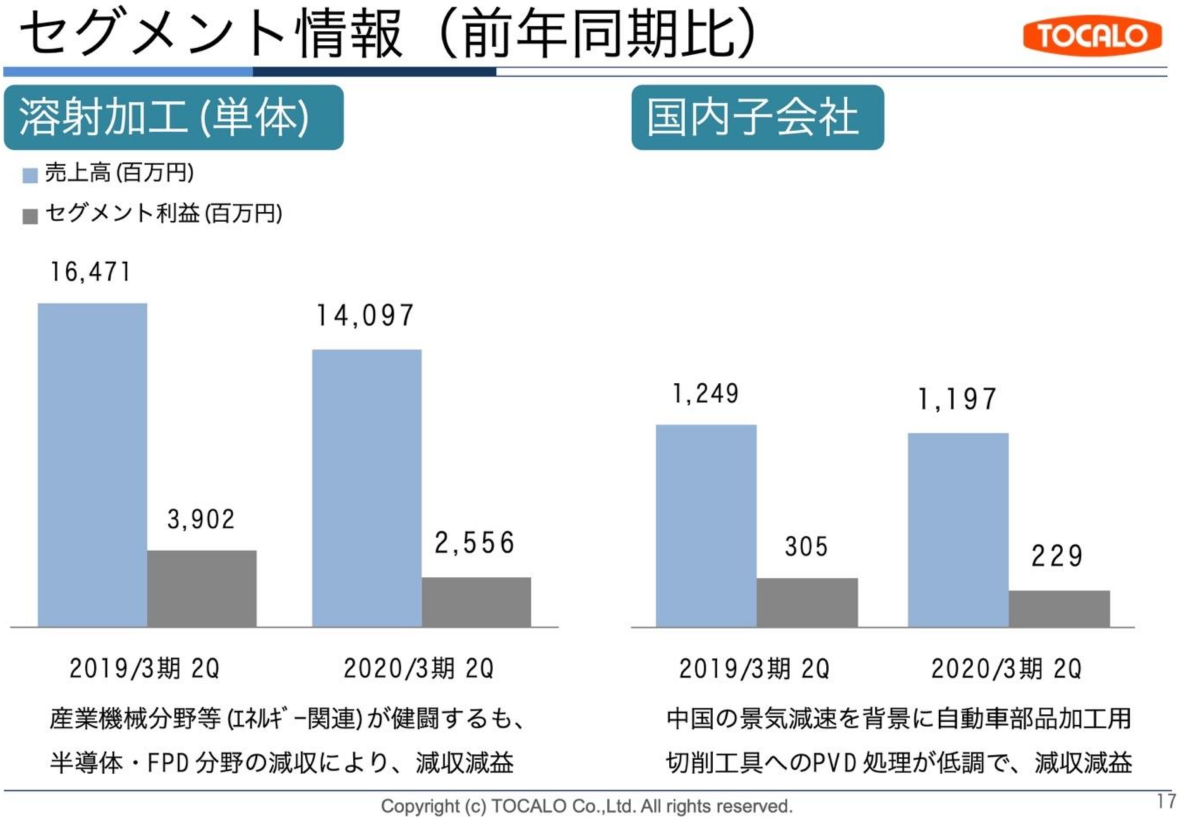
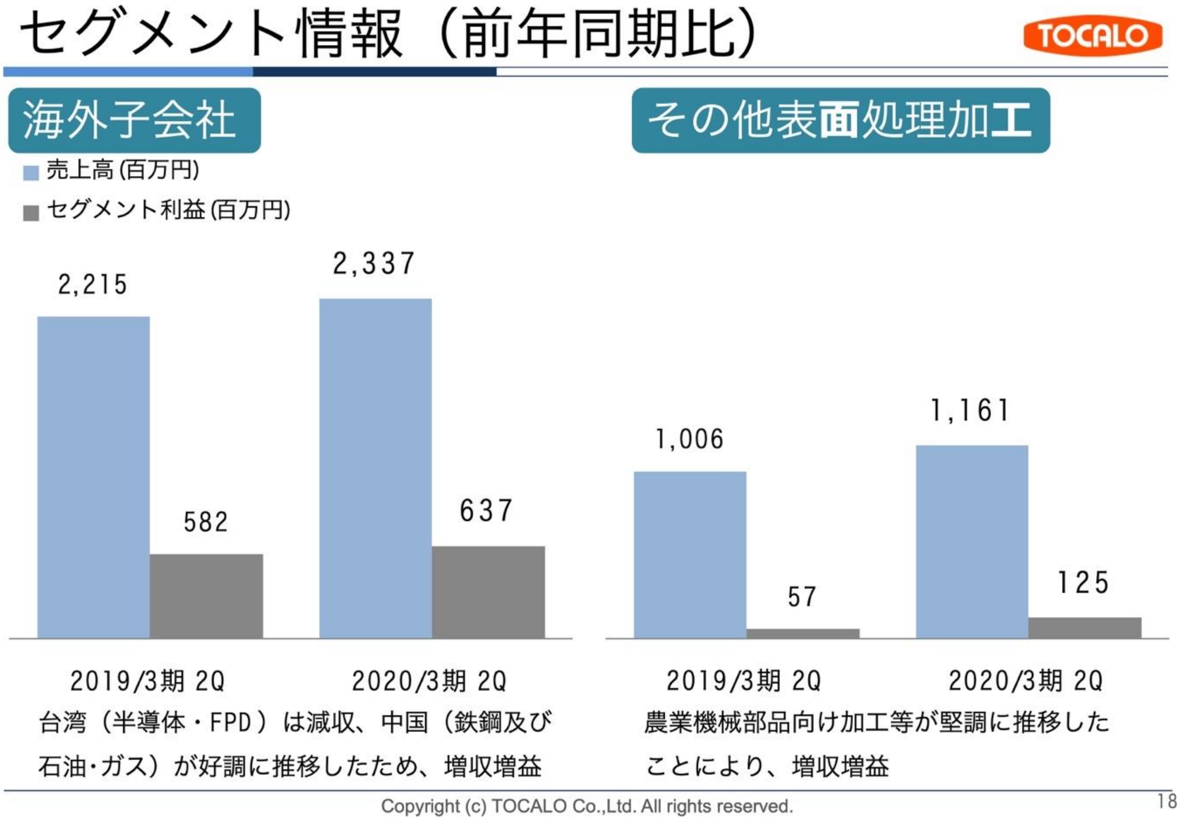
Then, as I mentioned earlier, the first half of the previous fiscal year achieved the highest profit in terms of performance, so compared to that, sales decreased by 2.1 billion yen. Regarding regular profits, it decreased by 1.4 billion yen, down 29.9%. However, although the loss in income is certainly greater than planned, there have been considerable improvements in other areas, including industrial machinery, iron, paper, and energy. In “Other,” there were about 800 million yen in plants last year. I think that if you exclude it, it will be positive. In that sense, this part of the plant helped to cover the semiconductor part slightly.

However, the domestic subsidiaries especially, although JCC handles automotive parts specifically for the Chinese market, their sales have declined due to the considerable economic downturn in Japan and a substantial drop in the proportion of their relationships with the Japanese market.



Looking at year-on-year comparisons by segment, although thermal spraying alone, which are mainly carried out in TOCALO, in the industrial machinery field, especially the energy-related field, it is performing well, and the steel and paper industries are also performing well. However, sales and profits declined in the semiconductor and FPD fields.

As for the domestic subsidiary and the Japan Coating Center, the economic slowdown in China led to a slump in PVD processing for cutting tools for automotive parts processing, which forced both sales and profits to decline.



There are two other foreign subsidiaries. Overseas subsidiaries are performing very well, as I mentioned earlier. Despite a slight decrease in sales in Taiwan, we achieved an increase in both sales and profits due to the extremely good performance in China, particularly with regard to steel and oil and gas. Then, other surface treatment. This will be a new application, such as the special filling treatment and fine-tuning of chemicals, which TOCALO is working on. However, the favorable performance of agricultural machinery parts has had a positive impact on sales and profits.

セグメント情報（前年同期比）

TOCALO

					前年同期比増減			
(百万円)	2019/3期　2Q		2020/3期　2Q		売上高		ｾｸﾞﾒﾝﾄ利益	
	売上高	ｾｸﾞﾒﾝﾄ利益	売上高	ｾｸﾞﾒﾝﾄ利益	金額	率	金額	率
溶射加工(単体)	16,471	3,902	14,097	2,556	△2,374	-14.4%	△1,345	-34.5%
国内子会社	1,249	305	1,197	229	△52	-4.2%	△76	-25.0%
海外子会社	2,215	582	2,337	637	121	5.5%	55	9.5%
その他表**面**処理加**工**	1,006	57	1,161	125	155	15.4%	67	117.2%
合計	20,943	4,848	18,794	3,548	△2,148	-10.3%	△1,299	-26.8%

(注) セグメント利益は、連結損益計算書の経常利益と調整を行っております。

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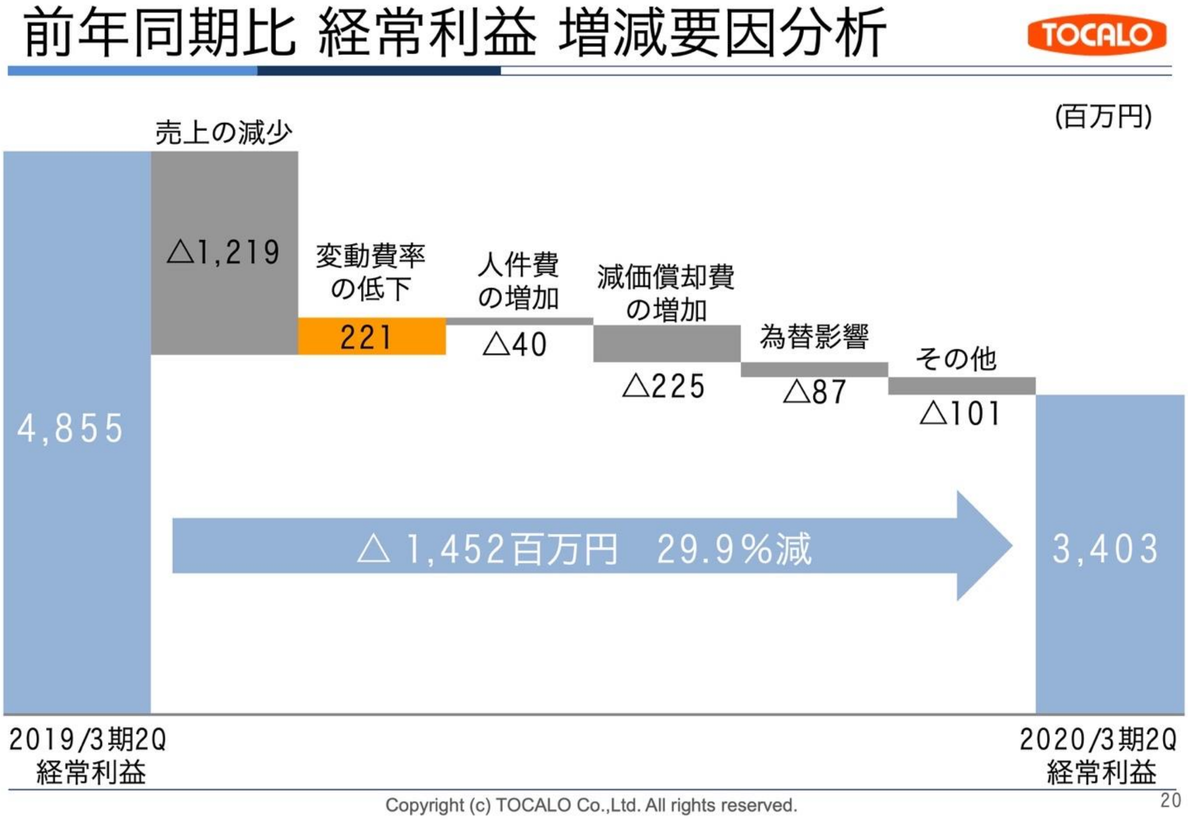
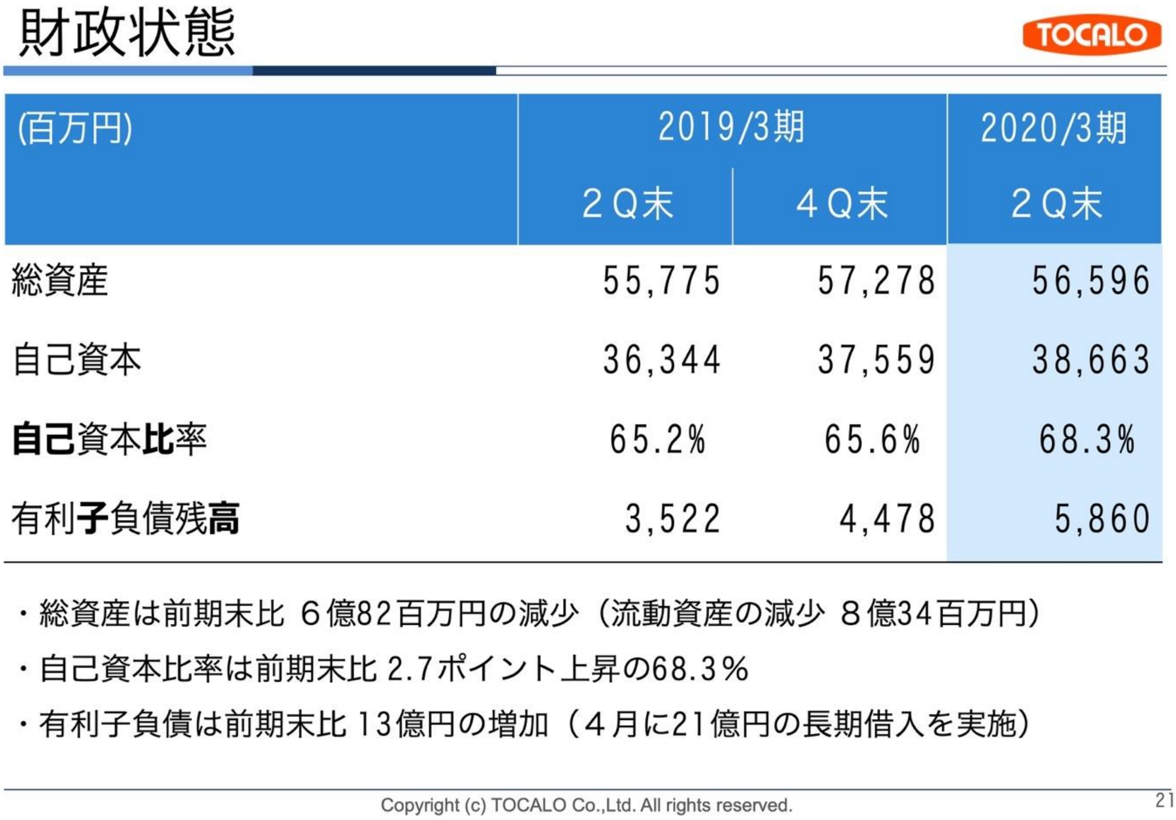
This is a list of the graph shown in the table above. It shows the efforts of overseas subsidiaries that have been effective. In Japan, I have made efforts other than semiconductors, but after that, I have learned that overseas subsidiaries have worked hard, and in other areas, they have worked hard.



Compared with the first half of the previous fiscal year, ordinary income declined 1.452 billion yen from 4.855 billion yen in the previous fiscal year to 3.4 billion yen in the year under review. Although revenues have fallen by less than 30%, the biggest factor is a decline in revenues. However, the cost of sales ratio has improved due to a significant reduction in the variable ratio, which has resulted in a positive figure.

Personnel expenses increased considerably in the first half of last year as a result of increased production. Personnel expenses also rose considerably last year. However, personnel expenses are expected to rise to a certain extent in the future, and we are working to secure as many people as possible. There are also restrictions on overtime work, including work style reforms. As a result, there are some restrictions on personnel expenses. In particular, we are saying that personnel costs have increased overseas. In addition, we have invested approximately 18 billion yen over the past three years, and the amount of depreciation and amortization that we have invested appears to have been effective, reaching 3.4 billion yen.



財政状態

(百万円)	2019/3期		2020/3期
	2Q末	4Q末	2Q末
総資産	55,775	57,278	56,596
自己資本	36,344	37,559	38,663
自己資本**比**率	65.2%	65.6%	68.3%
有利**子**負債残**高**	3,522	4,478	5,860

・総資産は前期末比 ６億82百万円の減少（流動資産の減少 ８億34百万円）

・自己資本比率は前期末比 2.7ポイント上昇の68.3％

・有利子負債は前期末比 13億円の増加（４月に21億円の長期借入を実施）

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Regarding the financial condition, total assets decreased by 682 million yen from the previous year. In particular, due to a decline in current assets, the company's shareholders' equity ratio rose slightly, partly due to the fact that March 31 of the previous fiscal year was in a position to carry over cash and deposits perhaps on holidays. With regard to interest-bearing debt, we increased cash by borrowing 2.1 billion yen for seven years in April and allocated it to the portion of payments. As I will explain later, this amount of cash will be 11.7 billion yen. Interest-bearing debt is 5.8 billion yen, so cash on hand is about 6.0 billion yen

キャッシュ・フローの状況

(百万円)	2019/3期 ２Ｑ	2020/3期 ２Ｑ
営業キャッシュ・フロー	4,390	2,025
投資キャッシュ・フロー	△ 3,415	△ 2,771
財務キャッシュ・フロー	6	361
現**金**及び現**金**同等物の期末残**高**	9,738	11,781

・当２Ｑのフリーキャッシュ・フロー（営業ＣＦ＋投資ＣＦ）はマイナスとなるも特に問題となる状況ではないと判断

・投資ＣＦ／有形固定資産の取得　前期：△33億円　当期：△24億円

・財務ＣＦ／長期借入による収入　前期：＋15億円　当期：＋21億円

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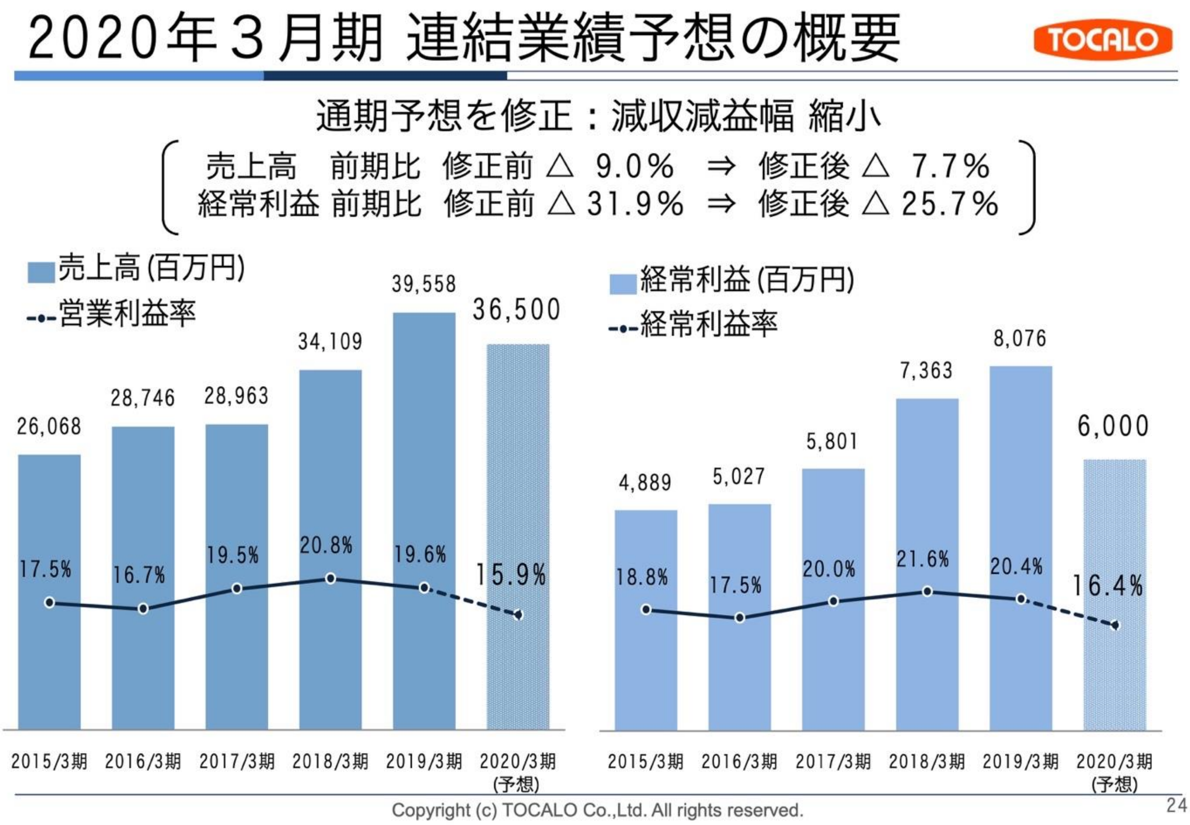
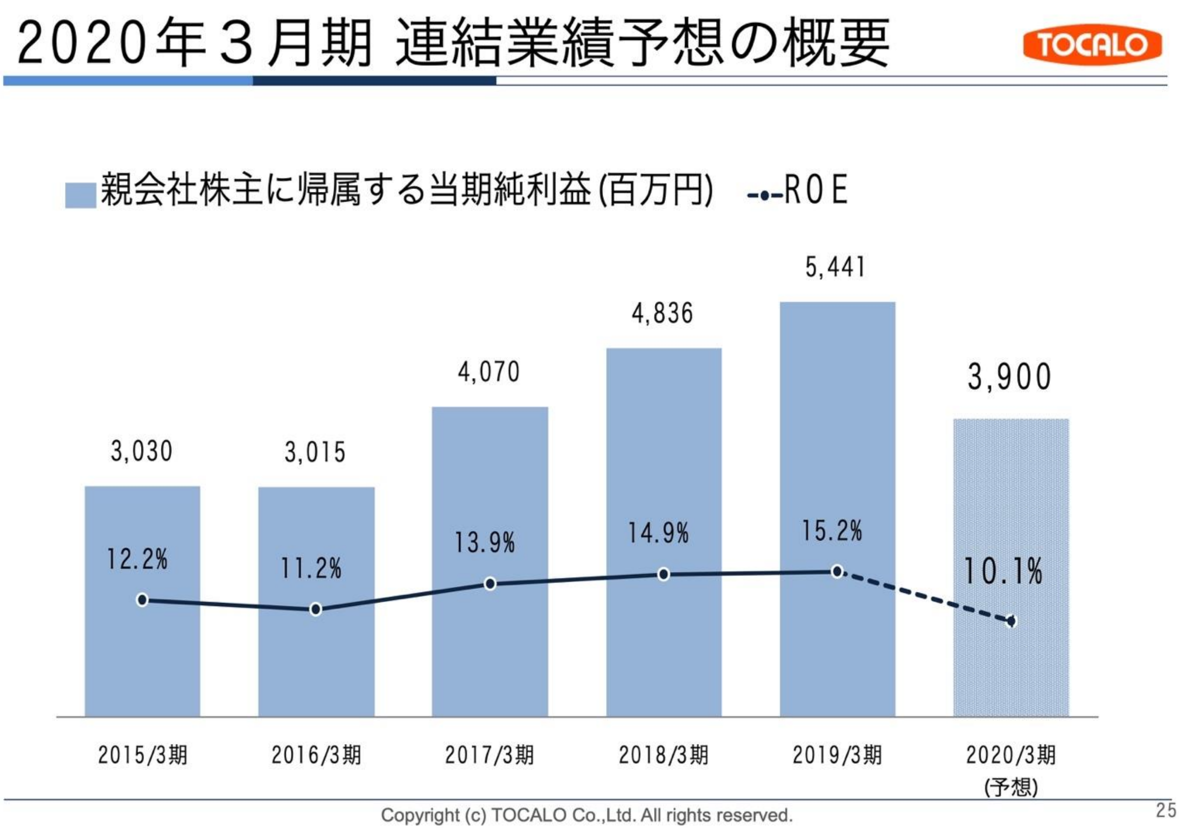
Regarding cash flow, the second quarter's free cash flow is a negative from operating activities and investing activities. However, this is not a problem because we had planned to do so. Cash flows from investing activities increased as a result of investments. In terms of finances, we have borrowed money, and the amount has reached 2.1 billion yen.



Now, I would like to elaborate on the consolidated earnings forecast for the fiscal year ending March 2020. It is quite difficult to predict this period. However, on October 31, we raised our full-year forecast only slightly for the good last year. Regarding the budget for the second half of the fiscal year, although it has not changed much from the original plan set in March, we have raised the budget for the second half by the amount that the previous fiscal year showed a slight increase. So, as this originally was 36 billion yen from the outset, we set 36.5 billion yen as the new sales forecast, bringing 5.5 billion yen to 6.0 billion yen in profits. The ordinary income margin is 16.4%. The target is scheduled to be around 1.5 billion yen to 2 billion yen at a rate of 15% from the beginning, but we will work hard to achieve 6 billion yen by raising the target as little as possible.



Earnings forecasts represent net income. Ultimately, it will be an ordinary income of 6 billion yen, so net income is expected to be around 3.9 billion yen. In the example of ROE, the ROE was 9.1% at the beginning of the fiscal year. However, I feel that if this upward revision were to increase it to double digits for the time being, Mr. Ito of Hitotsubashi University would also allow us to do so.

2020年３月期 連結業績予想

TOCALO

(百万円)	2020/3期				5月発表予想比増減	
	5月発表予想	構成比	今回修正予想	構成比	金額	率
売上高	36,000	100.0%	36,500	100.0%	500	1.4%
溶射加工 (単体)	26,658	74.1%	27,158	74.4%	500	1.9%
半導体・ＦＰＤ	13,500	37.5%	13,700	37.5%	200	1.5%
産業機械	3,650	10.1%	3,950	10.8%	300	8.2%
鉄鋼	4,047	11.2%	4,047	11.1%	—	—
その他	5,459	15.3%	5,459	15.0%	—	—
その他表面処理加工	2,322	6.4%	2,322	6.4%	—	—
国内子会社	2,553	7.1%	2,553	7.0%	—	—
海外子会社	4,465	12.4%	4,465	12.2%	—	—
営業利益	5,200	14.4%	5,800	15.9%	600	11.5%
経常利益	5,500	15.3%	6,000	16.4%	500	9.1%
親会社株主に帰属する当期純利益	3,520	9.8%	3,900	10.7%	380	10.8%

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Next is a table of the consolidated forecast. As I mentioned earlier, thermal spray processing has generated about 500 million-plus yen in sales. This breaks down to approximately 200 million yen in semiconductors and FPDs sector and approximately 300 million yen in industrial machinery sector, which were higher than initially planned by approximately 1.3 billion yen. However, there were some cases in which we worked quite hard in the second half, and while adjusting for this, we ultimately set 500 million yen as the target. Nevertheless, since the movement of semiconductors in the near future will certainly change, there are also cases where we need to make some renewals while watching carefully.

2020年３月期 連結業績予想

(百万円)	2019/3期		2020/3期		前期実績比増減	
	実績	構成比	今回修正予想	構成比	金額	率
売上高	39,558	100.0%	36,500	100.0%	△ 3,058	−7.7%
溶射加工 (単体)	30,400	76.8%	27,158	74.4%	△ 3,242	−10.7%
半導体・ＦＰＤ	17,134	43.3%	13,700	37.5%	△ 3,434	−20.0%
産業機械	4,154	10.5%	3,950	10.8%	△ 203	−4.9%
鉄鋼	3,662	9.3%	4,047	11.1%	385	10.5%
その他	5,449	13.7%	5,459	15.0%	9	0.2%
その他表面処理加工	2,204	5.6%	2,322	6.4%	117	5.3%
国内子会社	2,493	6.3%	2,553	7.0%	60	2.4%
海外子会社	4,460	11.3%	4,465	12.2%	5	0.1%
営業利益	7,741	19.6%	5,800	15.9%	△ 1,941	−25.1%
経常利益	8,076	20.4%	6,000	16.4%	△ 2,076	−25.7%
親会社株主に帰属する当期純利益	5,441	13.8%	3,900	10.7%	△ 1,541	−28.3%

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We've made some adjustments. Yes, since the previous fiscal year was a very good figure, we raised the number of semiconductors in particular to over 17 billion yen. As I mentioned earlier, 43% of our performance was due to semiconductors and FPDs, which were extremely high, but this time, it fell to 13.7 billion yen. So, it was 37.5%, but it was negative 20%. The fact is that recurring profit has shrunk from more than 30% to 25% on the whole, but we need to increase the extent of the contraction to a greater extent than last year. However, we expect that the number of spot orders for semiconductors has begun to increase slightly.

2020年３月期 第２四半期 進捗率

TOCALO

(百万円)	2020/3期 2Q 実績	構成比	2020/3期 通期 今回修正予想	構成比	2Q実績 進捗率
売上高	18,794	100.0%	36,500	100.0%	51.5%
溶射加工 (単体)	14,097	75.0%	27,158	74.4%	51.9%
半導体・ＦＰＤ	6,764	36.0%	13,700	37.5%	49.4%
産業機械	2,474	13.2%	3,950	10.8%	62.6%
鉄鋼	1,972	10.5%	4,047	11.1%	48.7%
その他	2,886	15.3%	5,459	15.0%	52.9%
その他表面処理加工	1,161	6.2%	2,322	6.4%	50.0%
国内子会社	1,197	6.4%	2,553	7.0%	46.9%
海外子会社	2,337	12.4%	4,465	12.2%	52.3%
営業利益	3,348	17.8%	5,800	15.9%	57.7%
経常利益	3,403	18.1%	6,000	16.4%	56.7%
親会社株主に帰属する当期 (四半期) 純利益	2,148	11.4%	3,900	10.7%	55.1%

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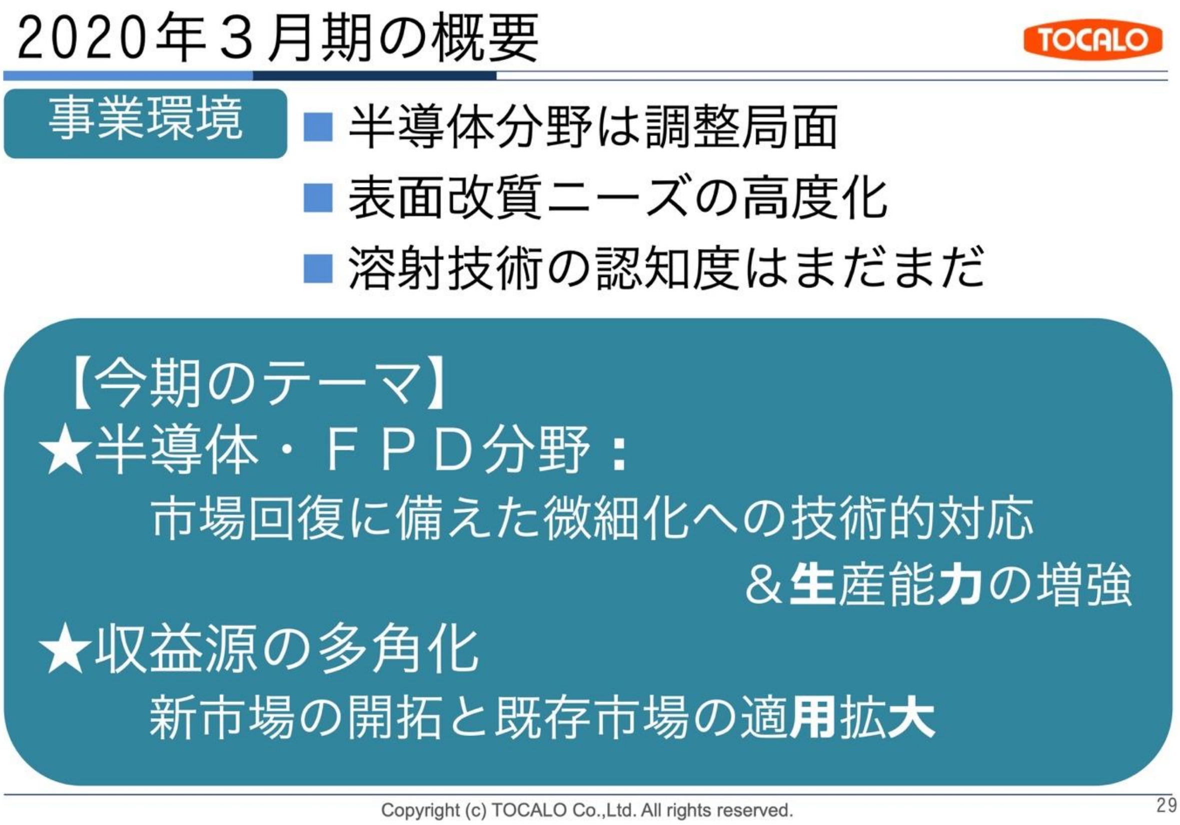
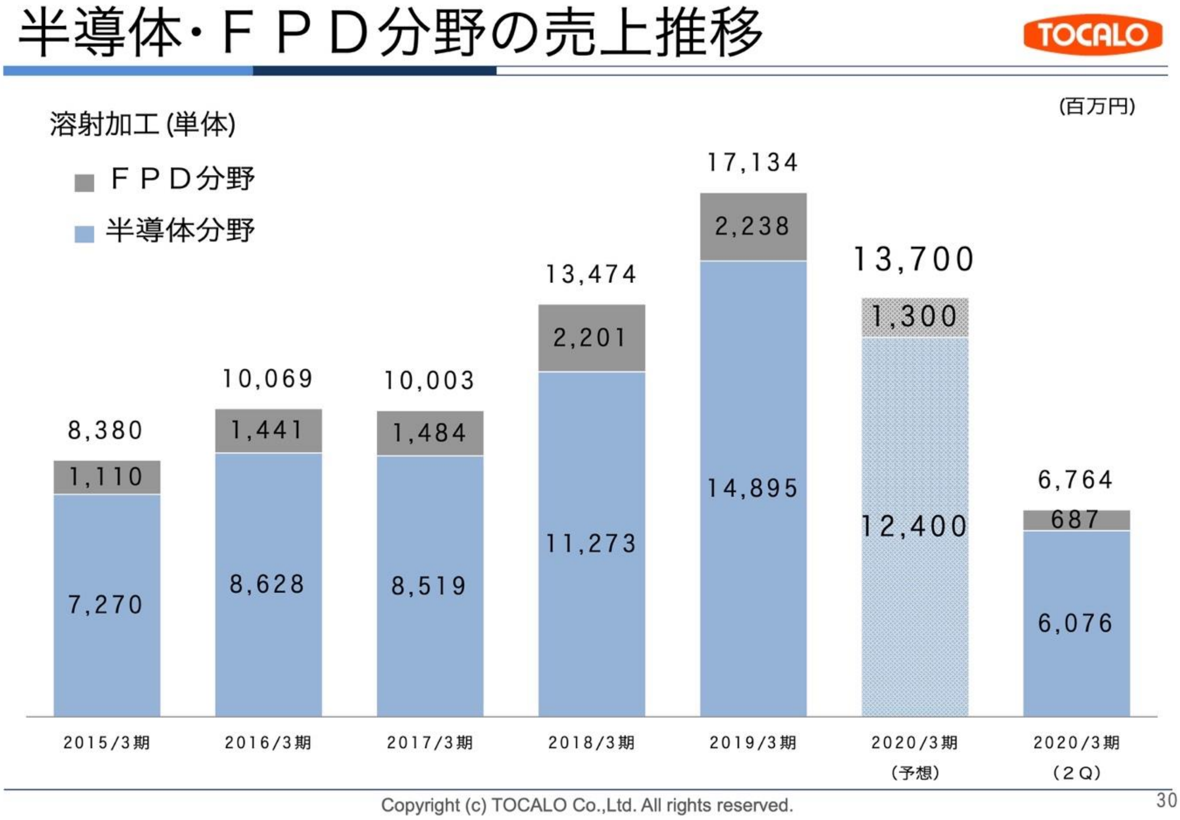
The progress rate in the first half was 51.1% of the total. This is the progress rate of net sales, and we think that it goes well. Profits are 56.7%, and if this remains unchanged in the second half of the fiscal year, this portion of the profit will naturally be positive. However, the progress rate has generally been in line with our plan.



Considering the current situation, the semiconductor field is still in a correction phase in the business environment. Semiconductors are starting to move around the world, and it is said that we do not feel that much. Certainly, semiconductors can be divided into logic and memory, especially in the world of Etchers. However, in the area of logic, we have started to move at a small spot. Nevertheless, there are still some aspects to be done with regard to memory, and in terms of an adjustment phase, the second half of the fiscal year is in the same form as the budget at the beginning of the fiscal year.

Nevertheless, the need for surface modifying has become extremely sophisticated, including for various semiconductors. For example, in the case of semiconductors, the line width has become extremely narrow, and 10 nanos, 7 nanos, and 5 nanos have become increasingly severe. The size of the particles is also limited. This is a world that is becoming increasingly sophisticated due to the need to make coating films that can cope with it. For example, steel manufacturers manage more severely to make electromagnetic steel sheets. Roles are becoming increasingly sophisticated in terms of the surface they need to be managed.

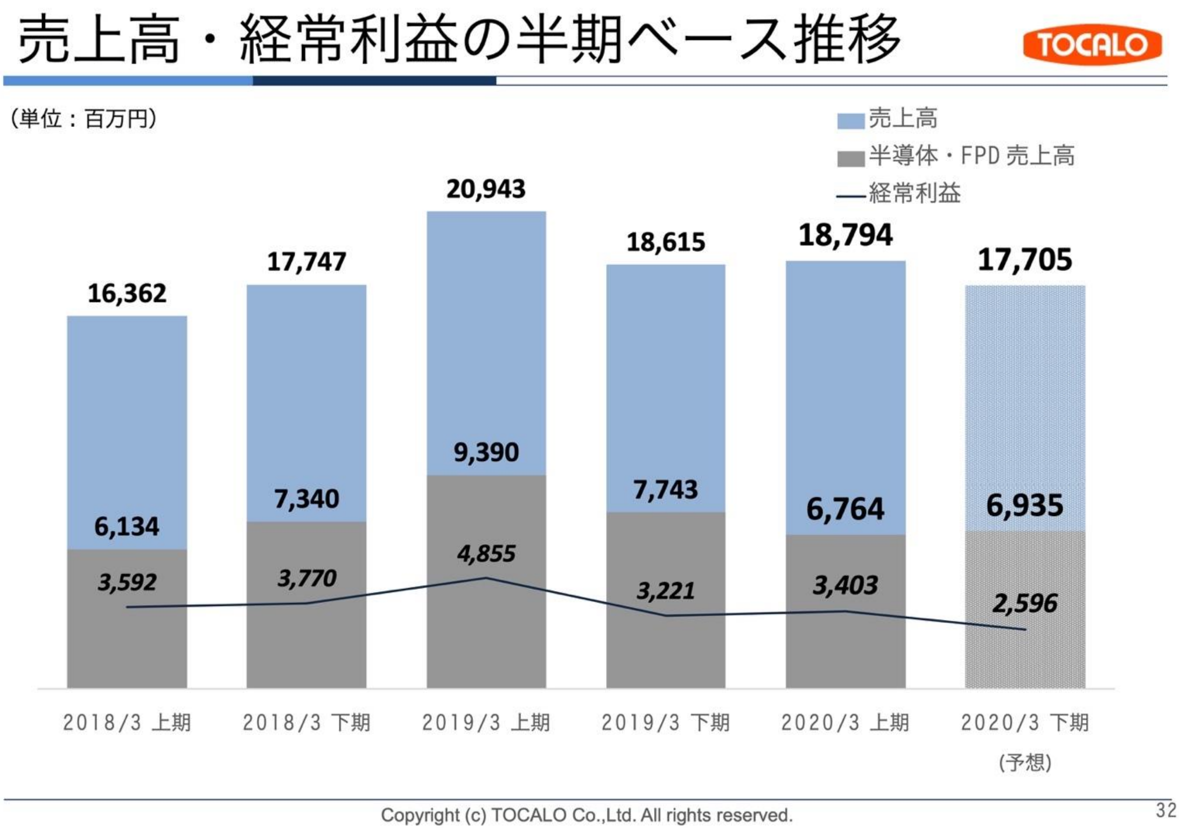
The other issue is whether or not the term "thermal spraying" will be used to refer to the reforming of the surface in the drawings, which is not as common as plating, welding, and heat treatment. In this sense, the recognition of thermal spraying is still low, and we must raise the recognition of thermal spraying as a leading manufacturer of thermal spraying. This is the business environment.



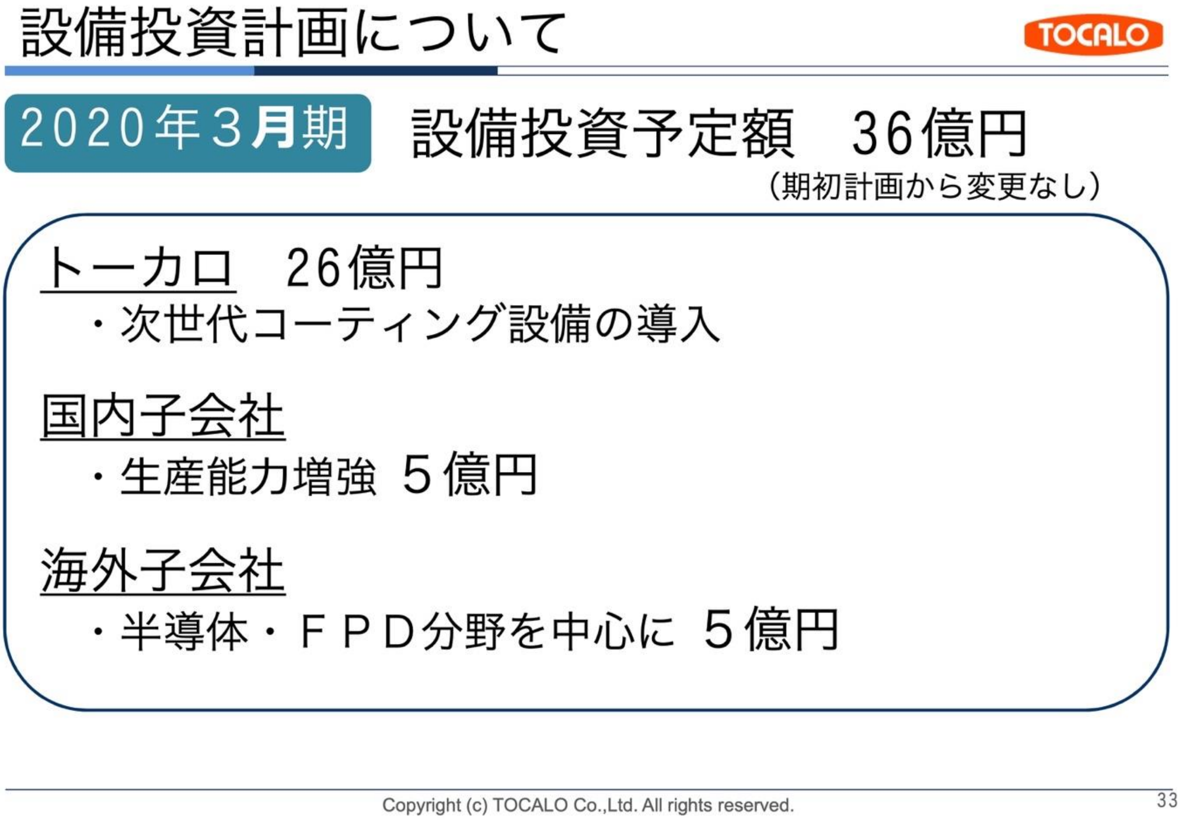
Therefore, the theme for this fiscal year was listed at the beginning of the fiscal year. It's crucial to know how we will deal with the miniaturization technology in particular for semiconductors. Additionally, as we still rely on nearly 40% of sales, such as those specific to semiconductor and liquid crystal, it is very important to know how to expand and maintain that sector. The next step is to increase production capacity at all times, since it comes at once when it is launched. In addition, it is important to diversify our earnings, not just for semiconductors and LCDs.

As I have explained many times, the semiconductor and FPD fields account for nearly 40% of the total. In particular, in the fiscal year ended March 31, 2016, these figures exceeded 17 billion yen. The blue area on the top of the FPD is the semiconductor, but this fiscal year, it has grown to around 13.7 billion yen, and it is difficult to settle down to around the level of the previous fiscal year. However, this is a quick move, so we are now asking ourselves how to make this part positive later.

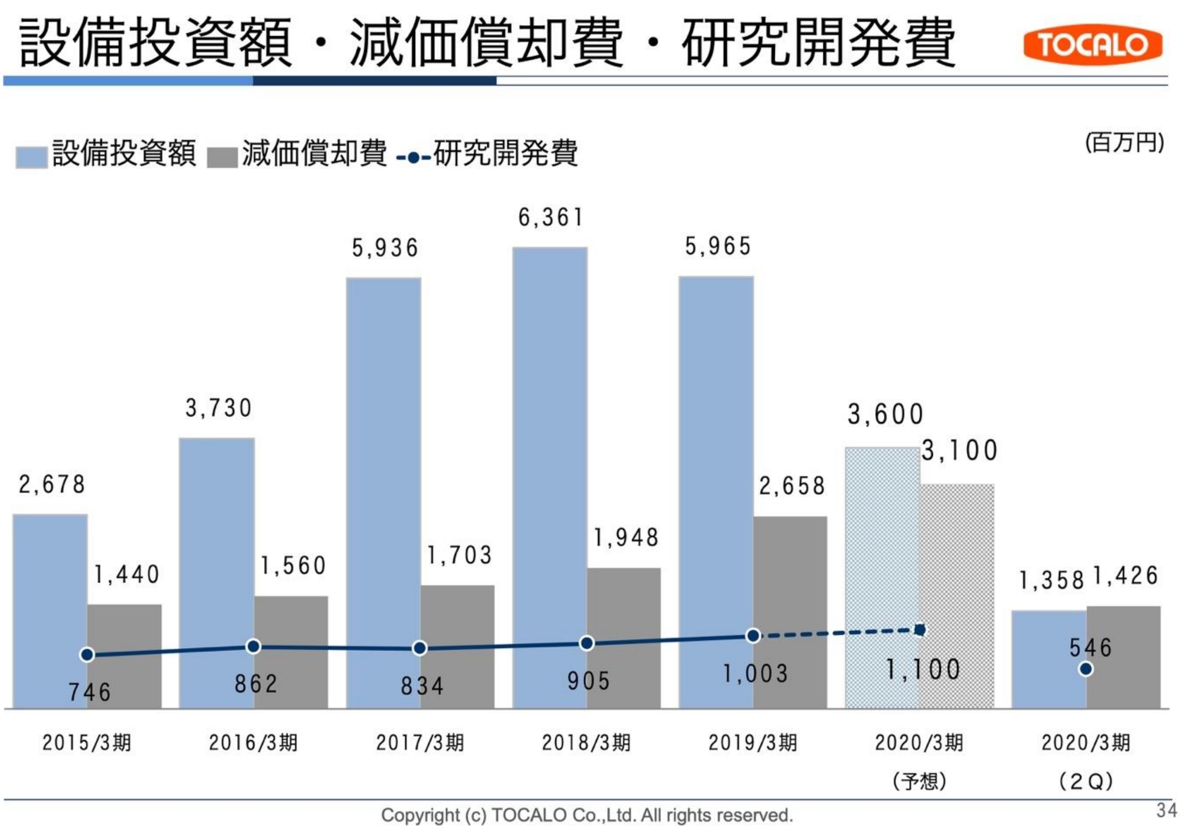
While anticipating the start-up of semiconductors, we need to decide how to develop products in other fields and how to raise sales. As I have mentioned many times, although the top line is the growth rate of 2% to 3% and 4%, respectively, including that of subsidiaries, in that sense, the growth rate is steadily increasing. However, if we use this as a base for responding to the launch of semiconductors, I believe that our business performance will improve rapidly.



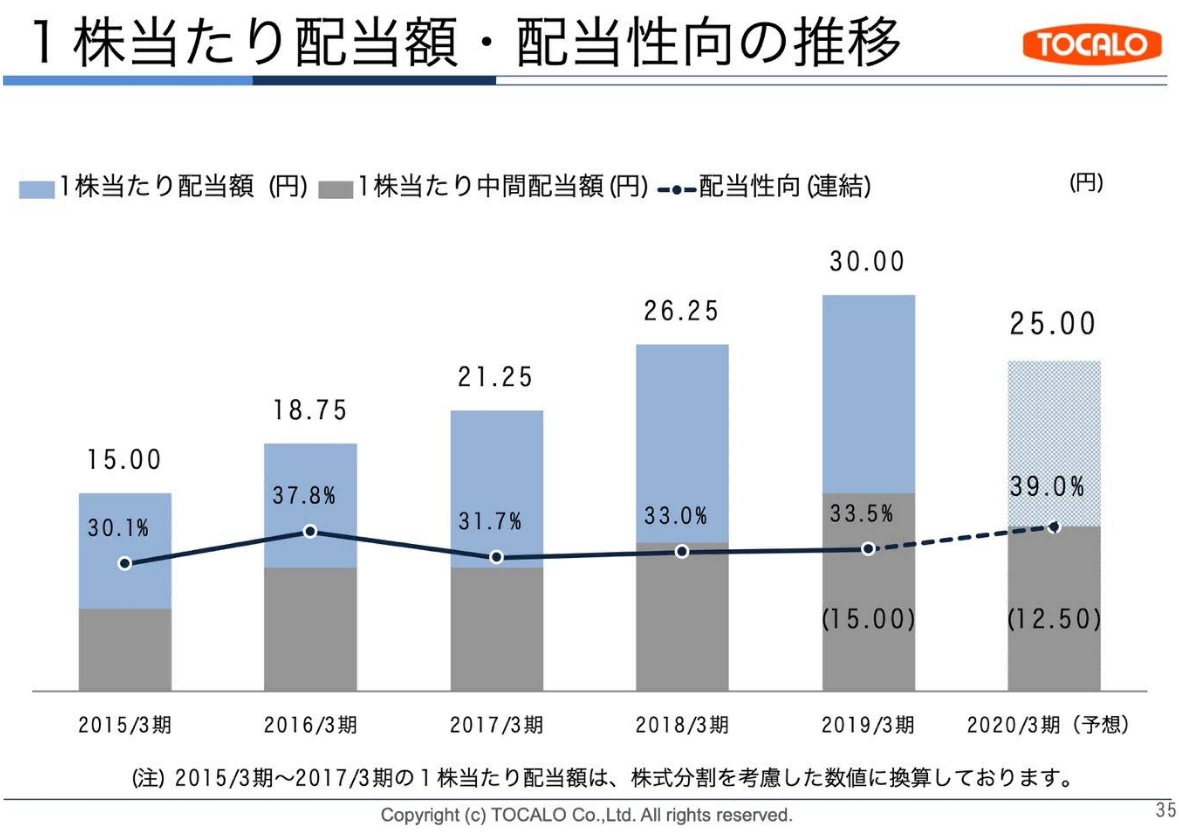
The graph for each six-month period also shows that the first half of last year reached its peak, and the semiconductors and gray areas reached 9.3 billion yen in the first half of this year. In the second half of the fiscal year, it fell considerably to around 7.7 billion yen. The first half of the current fiscal year has fallen slightly, and this part of the decline is predicted. Overall, however, we expect it to be around 6.9 billion yen or less than 7 billion yen. It is difficult to read this point.



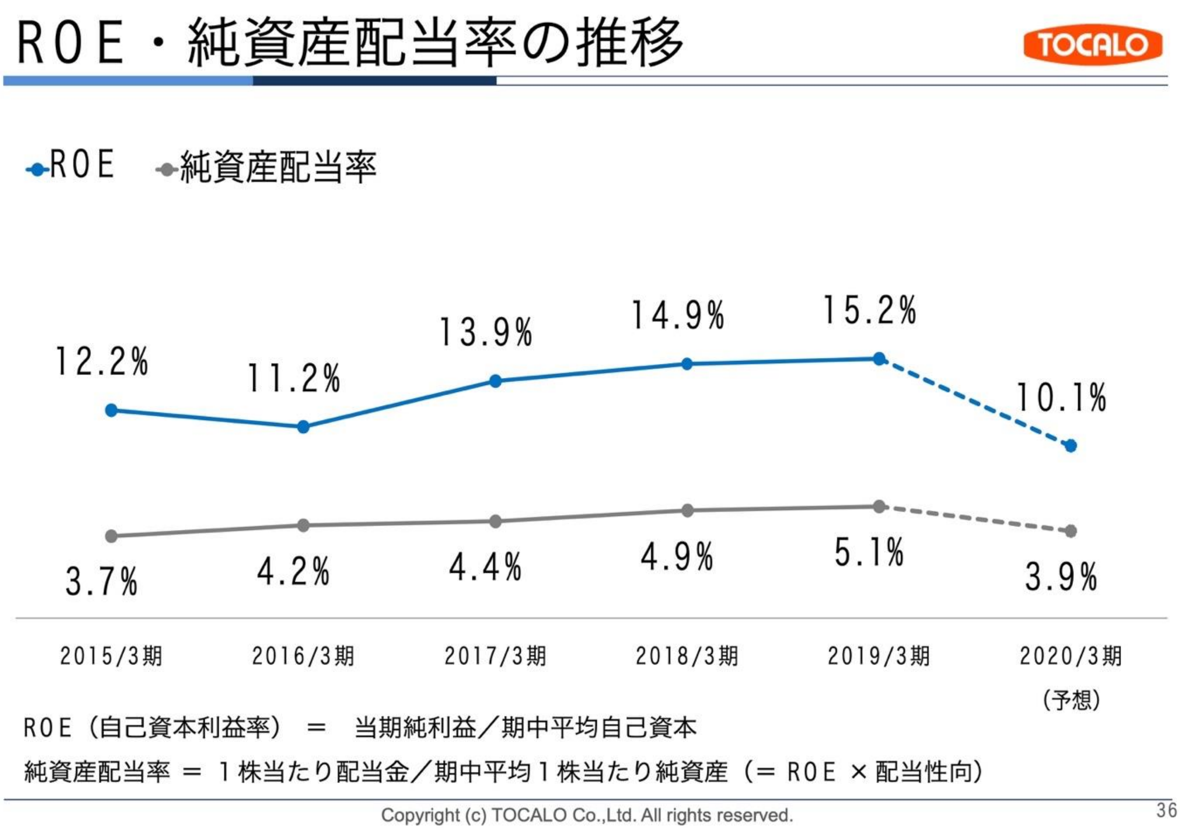
Over the past three years, we have invested around 5.9 billion yen, 6.0 billion yen, and 5.9 billion yen in capital expenditures. We have, therefore, narrowed down capital expenditures considerably by reducing the number of semiconductors in this fiscal year by about 3.6 billion yen. Depending on the situation, we will narrow down a little more, but we are looking at a buffer that we will increase slightly when the semiconductor rises. Especially for TOCALO bodies, we spend money to augment coating facilities other than semiconductors. Overseas, we are in the maintenance area, so semiconductor and FPD are our core business.



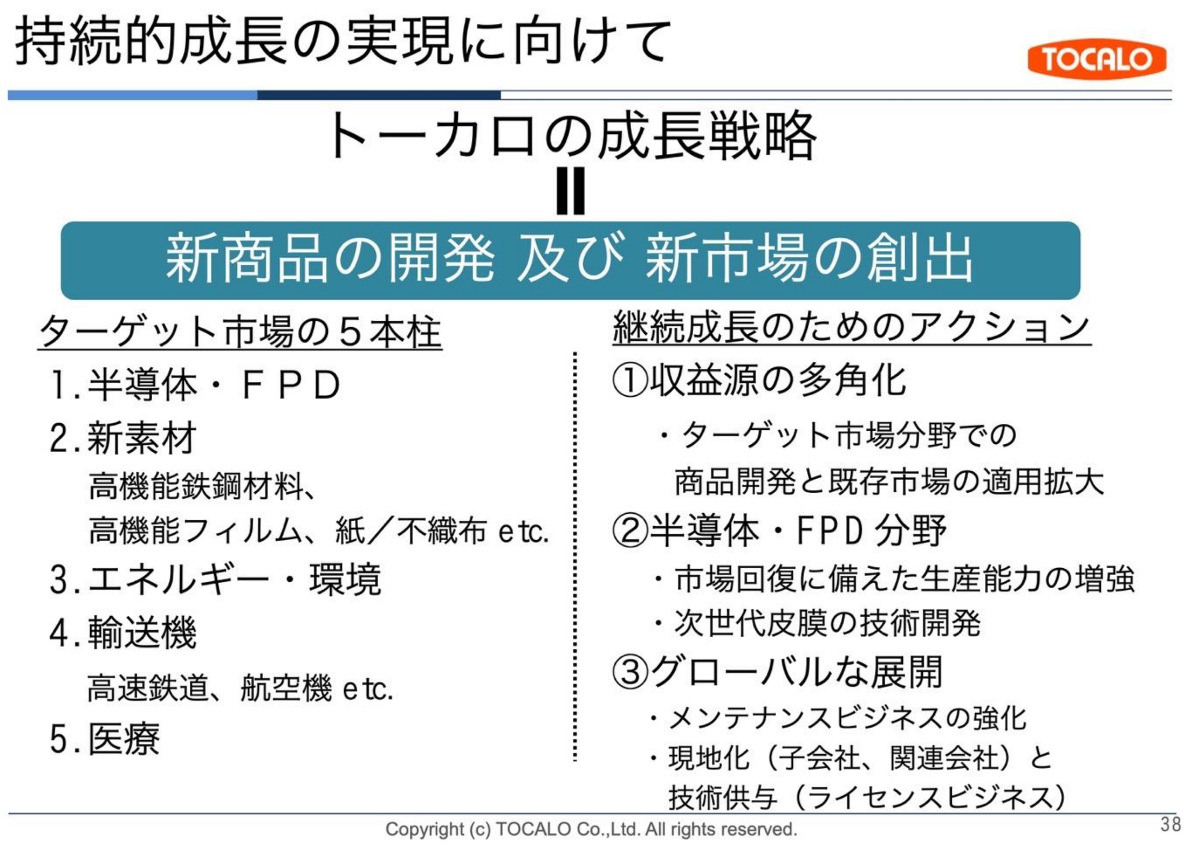
Then, as I mentioned earlier, we spent 18 billion yen of our capital expenditures, and this fiscal year, we set it at 3.6 billion yen. However, since depreciation will be incurred in this area, it will be up to 31 billion yen. So far, we're currently using it, and about 3% of R&D expenditure is being done.



Regarding the dividend, we have announced that it is 25 yen. We have paid 12.50 yen per share for the first half of the fiscal year, resulting in a slight increase in earnings, so we expect a dividend payout ratio of about 39% to be 25 yen per annum.



As I explained earlier, ROE exceeded the target of 15% last year. This fiscal year, we are in danger of reaching a single digit, but we are still in the midst of achieving a double-digit ROE.



Finally, I would like to conclude by saying that we are aiming for sustainable growth. The growth strategy we have set out in this diagram several times, but our growth strategy is to be one of the leading manufacturers, and it will depend on how we develop new products and how we create new markets. Especially with regard to new product development, the company focused on technological research, and as I mentioned earlier, it was expected that while raising awareness of thermal spray, it would be highly evaluated by customers for its new use. You know that the superiority of thermal spray is recognized and used, but there are some areas where it is not widespread, so we would like to do that.

As a target market, of course, the company's main markets are semiconductors and FPDs, which are optical film-based functional films, such as separators, protective films, and polarizing films, as well as high-performance steel materials, such as high-tech zinc plating steel sheets and new materials where Japan has the greatest strengths. There is also a relationship between paper, such as household tissue, tissue

e paper, and nonwoven fabrics. Then, the relationship between energy and the environment. Although energy, especially water, biomass, and such a system of recycled energy are doing quite a bit, still nearly 3% of Japan's coal-fired generation and their maintenance might have to be absolute, and there is considerable demand. Then, how to remove CO_2, the SO_2, or the NO_X, SO_X relationship is the facility for environmental problems. We are also involved in the Shinkansen's bearings and aircraft business.

We are also looking to enter into healthcare in the future. The head office is in a special district for the medical industry, and it is a medical-related district including various robots, biotechnology, and so on, and the research will be advanced. Perhaps it will take 10 or 20 years, but we are also moving forward with such initiatives. The next step is to diversify our revenue sources, and we have been greedy about expanding our sales of semiconductors and expanding into other areas. That's what I think Since then, of course, semiconductors and FPDs have penetrated the market, so I would like to pursue the extent to which we can move to the point where we can fine-tune our wiring. This is the world in this area.

Since then, it has become clear from the present that there is undoubtedly enormous demand for semiconductors, such as 5G, IoT, self-driving, and sensors, and I would like to make an extreme effort to thermal spray on manufacturing equipment and components to meet this demand.

And then, about global expansion. We will attempt to create new products through the support of Japanese manufacturers, which will be rolled out around the world. We are not thinking about how we go overseas and sell positively by ourselves.

I would like to conclude the announcement of financial results for the first half of the fiscal year. Thank you very much.

Question & Answer

Moderator: Thank you for your explanation. It's time for the question-and-answer session. If you have any questions, I would like you to raise your hand. When asking questions, I would like to ask for your comments on the microphone, as I will carry the microphone. This financial results briefing is scheduled to be published in full including the question-and-answer section. Therefore, if you say your company and your name when asking questions, it will be disclosed as is. If you wish to be anonymous, I would like to ask you not to say your name.

Participant: Thanks for visiting us today. I would like to know about what you are doing in the field of recoating. For example, the current job is to contract a thermal spraying business with a manufacturer of manufacturing equipment. Looking ahead, for example, there are some large factories in the semiconductor factories and factories of Toshiba. Is there a direction to directly strengthen the business of recoating in the vicinity of these factories? In South Korea and elsewhere, I think that recoating business has been taken by the local people. I wanted you to tell us about these things. This is the first question.

The second one is whether or not there is a barrier to the entry of thermal spraying, whether or not it can be black-boxed, or whether or not a barrier to the entry of thermal spraying is possible in a patent or something like that in the future, when more sophisticated thermal spraying of 7 nanometers or the like is to be achieved. For example, I think that 7 nanos in etcher will become a new and even more advanced technology. What are the barriers to entry in that case? In that case, what about the possibility that it can no longer be imitated and can be eliminated in the field of recoating?

Mifune: Thank you for your questions. In answer to your first question regarding recoating, we first thought that some 7,000 hours or 10,000 hours would be used for new products, but it would be difficult to get back to us. In Korea in particular, although we have patents for the time being, we did not take them in Korea. Sometimes, this is the case, and there are national policies that say the same things, and I think it is very difficult to say the same things. It is partly done in Taiwan.

However, this is very difficult because it is being developed jointly with manufacturers of manufacturing equipment, so it is not easy for us to do the recoating business only. There is also a strategy for manufacturers to agree, and it is not easy to ignore this strategy and simply do recoating on our own.

Furthermore, we will develop 7 nano, 5 nano, and of course, technology. I think it will probably be used for manufacturing equipment, but it will probably be a matter of several months when recoating is able to differentiate itself from its competitors. I think this is an industry.

Participant: Understood. As a final question, you are seeing some spot orders for logic in semiconductors. Generally speaking, if that happens, I think that memory will almost certainly follow. How much is the time lag?

Mifune: We have nothing to say about this. I'd like you to tell me the opposite. We intend to introduce new equipment or upgrade them, so if we know what we want to do, we will be waiting for it.

Participant: Thanks.

Moderator: Thank you very much.

Participant: Wanted to ask you two questions about thermal spray processing on a non-consolidated basis. The first one is about the semiconductors. If we go ahead with your revised business plan this time, semiconductors do not return much from the first half of the fiscal year. However, considering from your main customers, the new semiconductor equipment will return to the second half of the fiscal year. In essence, the first half of the fiscal year under review peaked in the same way as you did, the second half will fall, the first half of the fiscal year will fall, and the second half will return to the full-year average of the previous fiscal year in the second half. Customers, however, are not doing so. As far as you can see specifically, please tell us whether there are any factors that will lead to a return to your company, that the degree of recovery will not be as good as before, that the scope of thermal spray is narrowing, and that the amount of work will decrease when something is visible.

Mifune: Let me see, but there is a time lag. This is undoubtedly the case. There is no doubt that there will be a few months. That's what customers say, but we're not doing everything. This is a part of etchers in particular, so I think it's what it's about. In that sense, I thought that because the main system is probably a memory system, the portion of that system could not be raised so much. I'm sorry, but I can’t say further details.

Participant: Okay. If that is the case, what factors will your company not be able to do when memory recovers, such as the absence of thermal spray processing work where it has been in the past? Do you have any particular explanation?

Mifune: We always feel the fear. That's why the fear is not just about thermal spraying but about a variety of other sectors, including materials.

Participant: That's what you've been talking about since before.

Mifune: That's all the time. At this stage, however, we have not yet seen any change, but only the fear of such change has always been reflected in the sense of urgency.

Participant: Yes, yes. The second is the industrial machinery business. Looking at quarterly sales, I think the first quarter had a very high level of sales in the first quarter, and probably the first quarter had an unprecedented number. Please tell us whether there are some new applications, spots, or continuity in the future.

Mifune: While there is some continuity, it is extremely difficult to say whether it is spot-oriented, but the first is coal-fired thermal power generation. Coal-fired thermal power is a problem in coal-fired thermal power, but coal-fired thermal power is in such a situation in the present world, so it will soon be stopped. Therefore, the company is putting effort into proper maintenance, partly because it is absolutely impossible to cause problems alone. When you are trying to maintain a part of it, thermal spraying is a necessity. I wonder if the amount has come in right now.

Participant: In particular, you focused on the first quarter?

Mifune: There are many cases where the annual budget starts in the construction work. It's roughly until early spring.

Participant: For example, once in four years?

Mifune: The parts here and there are once every four years and so on. However, there are many such things, so I think there is some equalization. It is often the case that regular training is given approximately once every four years.

Participant: I think there were a lot of such things this year.

Mifune: It may have been a little more.

Participant: Okay. Thank you very much.

Mifune: Sometimes it was a little bigger.

Moderator: Thanks. Does anyone have any question? This is the last question.

Participant: Sorry, only one question. Although you touched only on the last section, semiconductors often go up, down, or attract a lot of attention. However, it was a large-scale project, such as the aerospace market in Nagoya, which had been launched as a new field in the past, or the Akashi or Harima or somewhere. Could you please tell me whether the bridge or wind power generation is proceeding behind the scenes, whether people put energy to the semiconductors for a while?

Mifune: First of all, regarding aircraft in the Nagoya area, our business performance has been relatively good, but the Boeing accident in the example has not come to a halt. But it has risen to a certain extent, but it has not risen to a little higher than planned. However, the relationship with aircraft is not only about that, so there are a variety of things. Akashi is moving forward while keeping a gap as much as possible. However, since it is difficult to move easily, the relationship with the Japan Aviation Bureau will be decided once and will continue to flow as it is.

Furthermore, regarding the large-scale properties of the Harima Plant, there was one thing that was a little bigger or a spot in the first half of the question mentioned earlier, and we carried out large-scale projects in relation to energy. Although it is not behind the scenes, it is showing considerable progress.

Moderator: Is that okay? Now, today's financial results briefing is complete. Thank you so much.

Mifune: Thanks.

Moderator: Please be careful not to forget when you leave. Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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