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TOCALO

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Research Policy

Shared Research reports are created and maintained according to the following principles.

Grounded in management interviews: We begin every report with extensive interviews of the company's senior management.

Updated at least 8 times a year: Reflects quarterly interviews, earnings flash updates, and timely disclosures.

Neutral and fact-based: We do not provide buy/sell recommendations or investment opinions. Our reports present only fact-based information.

Common structure across all coverage: All companies we cover follow the same table of contents, enabling consistent and comprehensive analysis.

This report is rewritten every quarter based on direct interviews with the company. The latest version is available on the report page on our website.

Table of Contents

Executive summary	6
Business overview	6
Trends and outlook	7
Strengths and weaknesses	7
Key financial data	9
Recent updates	10
Trends and outlook	12
Quarterly trends and results	12
Q1 FY03/27 results (August 5, 2026)	14
Q1 FY03/27 (April–June) results summary	14
Q1 (April–June) overview	14
Company forecast	16
FY03/27 company forecast (out August 5, 2026)	16
Upward revision to FY03/27 earnings forecast (August 5, 2026)	16
Overview of company forecast (initial forecast, announced on May 11, 2026)	17
Overview	17
Sales	17
Recurring profit and RPM	18
Company forecast for 1H and 2H	18
Annual dividend forecast	19
Sales forecasts by segment	19
Factors affecting change in recurring profit	20
Capital expenditures, depreciation, and R&D expenses	21
Breakdown of projected FY03/27 capital expenditures	21
Initial company forecast and results	22
Medium-term management strategy	22
New medium-term management plan TOCALOTOCALO2030 (May 11, 2026)	22
TOCALO2030 (five-year medium-term management plan for FY03/27–FY03/31)	22
Overview	22
Numerical targets (final year: FY03/31)	22
Breakdown of the consolidated sales target of JPY90.0bn	23
Three growth strategies for achieving sales of JPY90.0bn	24
High effective growth rate behind the JPY20.0bn recurring profit target	25
Cash allocation (five years)	25
Business	27
Business overview	27
Surface treatment centered on thermal spraying	27

Segments	27
Business model	28
Focus on functional thermal spraying	28
Key phrases that describe TOCALO	28
Characteristics of thermal spraying	28
Surface treatments customized to individual orders	34
Cost structure	35
Group structure	36
Overview	36
Thermal Spraying (TOCALO)	37
Primary business locations (TOCALO)	41
Domestic Subsidiaries	41
Other Surface Treatments	43
Overseas Subsidiaries	45
Segment summary	46
Capital expenditures, depreciation, and R&D expenses	48
R&D structure	48
Profitability analysis	50
Market and value chain	52
Scale of thermal spraying market	52
Competitive landscape	54
Domestic competitors	54
Strengths and weaknesses	55
Strengths	55
Weaknesses	55
Historical results and financial statements	57
Income statement	57
Non-operating income and expenditures	57
Extraordinary gains and losses	58
Balance sheet	58
Assets	59
Liabilities	59
Capital 	59
Cash flow statement	60
Cash flows from operating activities	60
Cash flows from investing activities	60
Cash flows from financing activities	60
Historical performance	60
Full-year FY03/26 results (May 11, 2026)	61
FY03/26 results summary	61

FY03/26 overview	61
Orders (FY03/26, 12 months)	62
Order backlog (end-December 2026)	63
Factors affecting changes (YoY) in recurring profit	63
Disclosure of recurring profit on an underlying basis (from FY03/26)	65
Results by segment (FY03/26)	66
Thermal Spraying (handled by TOCALO, the parent company; 69.6% of consolidated sales)	66
Domestic Subsidiaries (4.9% of consolidated sales)	70
Overseas Subsidiaries (21.0% of consolidated sales)	72
Other Surface Treatments (4.2% of consolidated sales)	73
Q4 (January–March) results	74
Overview	74
Results by segment (January–March)	75
Thermal Spraying (handled by TOCALO, the parent company; 68.2% of consolidated sales)	75
Domestic Subsidiaries (4.7% of consolidated sales)	76
Overseas Subsidiaries (22.8% of consolidated sales)	76
Other Surface Treatments (3.9% of consolidated sales)	77
Cumulative Q3 FY03/26 results (February 4, 2026)	77
Cumulative Q3 (April–December, nine months) results	77
Progress against full-year forecast	78
Orders (April–December)	78
Order backlog (end-December 2025)	79
Factors affecting changes (YoY) in recurring profit	79
Results by segment (April–December)	81
Thermal Spraying (handled by TOCALO, the parent company; 70.1% of consolidated sales)	81
Domestic Subsidiaries (5.0% of consolidated sales)	85
Overseas Subsidiaries (20.3% of consolidated sales)	87
Other Surface Treatments (4.3% of consolidated sales)	88
Q3 (October–December) results	89
Overview	90
Results by segment (October–December)	91
Thermal Spraying (handled by TOCALO, the parent company; 69.4% of consolidated sales)	91
Domestic Subsidiaries (5.1% of consolidated sales)	91
Overseas Subsidiaries (21.0% of consolidated sales)	92
Other Surface Treatments (4.4% of consolidated sales)	92
1H FY03/26 results (November 6, 2025)	92
1H (April–September) results	92
1H results progress	93
Orders	93
Order backlog	94
Factors affecting changes (YoY) in recurring profit	94

Results by segment (April–September)	96
Thermal Spraying (handled by TOCALO, the parent company; 70.5% of consolidated sales)	96
Domestic Subsidiaries (5.0% of consolidated sales)	99
Overseas Subsidiaries (20.0% of consolidated sales)	101
Other Surface Treatments (4.3% of consolidated sales)	102
Q2 (July–September) results	103
Overview	103
Results by segment (July–September)	104
Thermal Spraying (handled by TOCALO, the parent company; 69.7% of consolidated sales)	104
Domestic Subsidiaries (5.2% of consolidated sales)	105
Overseas Subsidiaries (20.1% of consolidated sales)	105
Other Surface Treatments (4.7 of consolidated sales)	106
Q1 FY03/26 results (August 5, 2025)	106
Q1 (April–June) results	106
Q1 results progress	107
Orders	107
Order backlog	107
Factors affecting changes (YoY) in recurring profit	108
Results by segment (April–June)	109
Thermal Spraying (handled by TOCALO, the parent company; 71.2% sales share)	110
Domestic Subsidiaries (4.8% sales share)	112
Overseas Subsidiaries (19.8% sales share)	113
Other Surface Treatments (4.0% sales share)	115
Other information	116
History	116
MBO history	116
Corporate governance and top management	117
Top management	117
Corporate governance	117
Dividend policy	117
Major shareholders	118
Employees	118
News and topics	119

Executive summary

Note: Key figures have been updated, but some figures will be updated at the time of Q1 results announcement, following the release of the company's annual securities report for FY03/26.

Business overview

TOCALO Co., Ltd. (TOCALO) provides surface treatments that improve the performance of materials used across a range of industries by adding properties such as abrasion and heat resistance, conductivity, insulation, and heat shielding and dissipation. Its core technology is thermal spraying, which involves coating target surfaces by spraying metals or ceramics that have been melted using high temperature heat sources (e.g., plasma and gas). The company particularly excels in functional thermal spraying that provides both growth potential and high added value, and leads the Japanese market for thermal spraying with a share of 40% (Shared Research estimate based on data from Yano Research Institute, Digital Research, and other sources). The company also offers other surface treatments as ancillary services. These include the Toyota diffusion (TD) process, zinc alloy coating (ZAC), plasma transferred arc (PTA) process, and physical vapor deposition (PVD) process. (See the box on the next page for details.)

TOCALO's surface treatments are made to order. Accordingly, selling volume is not a business priority. The company procures coating materials and generates sales by applying surface treatments to goods and parts provided by customers. In FY03/26, it reported a GPM of 38.6%, an SG&A ratio of 14.5%, and an RPM of 25.2% on a consolidated basis. Labor costs (28.9% of the total) and outsourcing costs (24.8%) accounted for just over half of the parent company's total manufacturing costs in FY03/25. Other manufacturing costs included materials (13.1%), consumables (12.0%), utilities (4.3%), depreciation (7.2%), and other costs (9.4%). TOCALO's business is labor-intensive, with personnel expenses accounting for about 50% of SG&A expenses.

The thermal spraying industry divides into companies that conduct thermal spraying internally and companies that perform thermal spraying as a contracted service. In 2018, the market for contracted treatment in Japan was worth approximately JPY60.0bn, while the global market was about JPY700.0bn (source: Yano Research Institute). Some overseas competitors sell thermal spraying materials and equipment in addition to providing contracted treatment services, but TOCALO specializes in services. Overseas sales accounted for 28.2% of sales in FY03/24 and mainly came from Japanese companies that have expanded abroad. The company also receives royalty income from licensing agreements with overseas companies, including competitors.

By area of application, 20% of thermal spraying in Japan is associated with industrial equipment, 20% semiconductors and flat panel displays (FPDs), 13% steelmaking, 10% bridges and structures, 10% paper manufacturing, and 27% other uses (2018 actual; Yano Research). At TOCALO, semiconductor/FPD-related sales at the parent made up about 42.4% of consolidated sales in FY03/26. By customer, the Tokyo Electron Limited group (TSE Prime: 8035) accounted for 27.2% of sales, and the Applied Materials group (US; AMAT) accounted for 10.1% in FY03/25. Semiconductor-related business is TOCALO's growth driver, and the company and Tokyo Electron have built a close relationship that allows them to conduct joint development.

In September 2004, TOCALO acquired all shares of Japan Coating Center Co., Ltd. (JCC), expanding into the thin coating technology known as the physical vapor disposition (PVD) process. PVD is a surface treatment method in which metals (e.g., titanium and chromium) are ionized with reactive gases in a vacuum to form highly adhesive ceramic coatings that are hard and dense but thin. Applied to surfaces of cutting tools, metallic molds, and other items, these coatings add functionality such as abrasion and corrosion resistance. Shared Research notes that synergies between TOCALO and JCC have been generated.

By segment, Thermal Spraying (parent) accounted for 69.6% of sales in FY03/26, Domestic Subsidiaries (such as JCC) for 4.9%, Overseas Subsidiaries for 21.0%, Other Surface Treatments for 4.2%, and Royalty Income for 0.3%. The segment profit margins (recurring profit basis) were 21.6% in Thermal Spraying (parent), 11.5% in Domestic Subsidiaries, 40.2% in Overseas Subsidiaries, and 11.4% in Other Surface Treatments (in FY03/26, before allocation of segment profit adjustments).

TOCALO has expanded its overseas business by rolling out its thermal spraying technology, originally developed in Japan, to international markets. Its overseas sales ratio rose from 19.4% in FY03/20 to 30.1% in FY03/25, an increase of 10.7pp over five years. With rising semiconductor demand in overseas markets and growing needs for its thermal spraying technology, the company positions its overseas business as a new growth driver and a key contributor to

medium-term consolidated earnings expansion. In addition to boosting production capacity in East Asia (China and Taiwan), the company has also begun restructuring its US operations and is planning further business expansion from FY03/27 onward.

The company is also taking steps in businesses other than domestic thermal spraying, mainly within its Domestic Subsidiaries segment. In addition to revising the business structure of JCC, it made Terada Kosakusho (a privately held manufacturer of precision components) a wholly owned subsidiary in August 2024 and is making capital investment aimed at expanding operations outside the automotive sector.

Trends and outlook

- ▶ In FY03/26, sales were JPY58.5bn (+7.9% YoY), operating profit was JPY14.1bn (+14.9% YoY), recurring profit was JPY14.7bn (+17.4% YoY), and net income attributable to owners of the parent was JPY10.1bn (+25.0% YoY). The company's mainstay semiconductor/FPD-related sales rose only modestly for the full year as the impact of the decline in orders in 1H lingered. However, driven by earnings expansion at overseas subsidiaries (mainly semiconductor-related), sales and all profit items hit record highs for the second consecutive year. Reflecting the earnings expansion, the company raised its annual dividend to JPY85.0 per share from the previous forecast of JPY68.0 per share (versus JPY68.0 per share in the previous year), and the payout ratio was 50.2% (versus 50.2%).
- ▶ For FY03/27, the company forecasts sales of JPY68.5bn (+17.1% YoY), operating profit of JPY16.7bn (+18.4% YoY), recurring profit of JPY16.7bn (+13.3% YoY), net income attributable to owners of the parent of JPY10.9bn (+8.0% YoY), and EPS of JPY182.6. Driven by sales growth in its mainstay semiconductor/FPD-related applications on the back of higher orders, along with expansion in overseas operations, the company expects sales and all profit items to reach record highs for the third consecutive year. It forecasts an annual dividend of JPY92.0 per share (JPY85.0 per share in FY03/26) and a payout ratio of 50.4% (50.2%). On August 5, 2026, the company revised upward the earnings and dividend forecasts announced on May 11, 2026, citing a larger-than-expected increase in semiconductor-related orders. The FY03/27 forecasts above are the revised figures.
- ▶ The company announced on May 11, 2026 that it formulated a new five-year medium-term management plan, TOCALO2030, covering FY03/27 through FY03/31. Having achieved the earnings targets of its previous medium-term management plan, TOCALO2025 (covering the five years from FY03/22 through FY03/26), one year ahead of schedule, the company positions TOCALO2030 not as an extension of TOCALO2025 but as a growth strategy aimed at achieving renewed growth. The company's numerical targets for the final year (FY03/31) are as follows.
 - Sales: JPY90.0bn (versus JPY58.5bn in FY03/26)
 - Semiconductor/FPD: JPY45.0bn (versus approximately JPY24.8bn)
 - Recurring profit: JPY20.0bn (versus JPY14.7bn)
 - RPM: 22.2% (versus 25.2%)
 - ROE: 15% or higher (versus 15.8%)
 - ROIC: 13% or higher (versus 13.1%)
 - Payout ratio: around 50% (versus 50.2%)
 - DOE: 5% or higher (versus 7.9%)
- ▶ The company identified the following three pillars as growth strategies for achieving the JPY90.0bn sales target set under TOCALO2030: 1) deepening core businesses, 2) expanding strategic business domains, and 3) strengthening the management foundation supporting sustainable growth. In the semiconductor/FPD field, which will be the largest driver of business expansion, the company will execute aggressive capex (including capacity expansion and the introduction of advanced technologies) to capture growth in the semiconductor market and achieve significant business expansion. The company also aims to maintain its high-profit structure even during the period of upfront spending by improving productivity.

Strengths and weaknesses

Shared Research believes that TOCALO's three main strengths are its portfolio of diverse surface treatments that makes the company the leader in a niche market; its ability to acquire top-class customers in major industries through joint development focused on meeting future needs; and stable earnings due to high domestic repeat demand for technologies with added value.

Shared Research has identified three notable weaknesses: a lack of peripheral technologies and mass production bases necessary to process large orders; lackluster cultivation of overseas markets; and low profitability of the Other Surface Treatments business. (See the “Strengths and weaknesses” section for details.)

Surface treatment technologies offered by TOCALO

Thermal spraying

A surface treatment technology that involves forming coatings on the workpieces by spraying them with molten metals, ceramics, cermet*, and other materials.

*Cermet: a composite material that is created by combining powder from hard compounds (metal carbide, nitride, etc.) with metal bonding materials, then sintering the mixture

Chemically defined zinc alloy coating (CDC-ZAC)

A chemical densification treatment for forming composite ceramic coatings through chemical reactions. It is characterized by excellent corrosion resistance and high degrees of hardness, which are unique properties of ceramics.

Toyota diffusion (TD) process

A surface treatment method that enables the formation of super-hard coatings. It is essential to the metallic mold industry as a surface treatment technology.

Plasma transferred arc (PTA) process

An overlay-welding method that utilizes plasma and produces excellent impact resistance.

Physical vapor deposition (PVD) process

This process minimizes heat deformation of the workpiece because it allows for a wide selection of temperature ranges, enabling treatments that best suit the substrate (the material to which spraying deposit is applied).

Source: Shared Research based on company data

Key financial data

Income statement	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25	FY03/26	FY03/27
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Orders	29,506	36,851	38,915	38,011	39,021	45,394	48,419	47,505	56,159	61,823	
YoY	4.1%	24.9%	5.6%	-2.3%	2.7%	16.3%	6.7%	-1.9%	18.2%	10.1%	
Order backlog	3,983	6,725	6,081	6,195	6,143	7,896	8,349	9,260	11,349	14,843	
YoY	15.8%	68.8%	-9.6%	1.9%	-0.8%	28.5%	5.7%	10.9%	22.6%	30.8%	
Sales	28,964	34,109	39,558	37,896	39,294	43,813	48,144	46,735	54,231	58,490	68,500
YoY	0.8%	17.8%	16.0%	-4.2%	3.7%	11.5%	9.9%	-2.9%	16.0%	7.9%	17.1%
Gross profit	10,536	12,646	13,761	12,780	14,814	16,585	17,365	16,243	20,246	22,577	
YoY	8.3%	20.0%	8.8%	-7.1%	15.9%	12.0%	4.7%	-6.5%	24.6%	11.5%	
Gross profit margin	36.4%	37.1%	34.8%	33.7%	37.7%	37.9%	36.1%	34.8%	37.3%	38.6%	
Operating profit	5,646	7,110	7,741	6,550	8,890	10,255	10,558	9,197	12,268	14,102	16,700
YoY	17.5%	25.9%	8.9%	-15.4%	35.7%	15.4%	3.0%	-12.9%	33.4%	14.9%	18.4%
Operating profit margin	19.5%	20.8%	19.6%	17.3%	22.6%	23.4%	21.9%	19.7%	22.6%	24.1%	24.4%
Recurring profit	5,801	7,363	8,076	6,812	8,914	10,571	11,003	9,662	12,558	14,745	16,700
YoY	15.4%	26.9%	9.7%	-15.7%	30.9%	18.6%	4.1%	-12.2%	30.0%	17.4%	13.3%
Recurring profit margin	20.0%	21.6%	20.4%	18.0%	22.7%	24.1%	22.9%	20.7%	23.2%	25.2%	24.4%
Net income	4,070	4,836	5,441	4,404	5,463	6,909	7,350	6,326	8,051	10,060	10,860
YoY	34.9%	18.8%	12.5%	-19.1%	24.0%	26.5%	6.4%	-13.9%	27.3%	25.0%	8.0%
Net margin	14.1%	14.2%	13.8%	11.6%	13.9%	15.8%	15.3%	13.5%	14.8%	17.2%	15.9%
Per-share data											
Issued shares FY-end(000 shares)	63,200	63,200	63,200	63,200	63,200	63,200	63,200	61,200	61,200	61,200	
EPS	67.0	79.6	89.5	72.5	89.9	113.6	120.8	105.5	135.4	169.2	182.6
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-	-
Dividend per share	21.3	26.3	30.0	25.0	35.0	45.0	50.0	53.0	68.0	85.0	92.0
Payout ratio	31.7%	33.0%	33.5%	34.5%	38.9%	39.6%	41.4%	50.2%	50.2%	50.2%	50.4%
DOE	4.4%	4.9%	5.1%	3.9%	5.0%	5.9%	5.9%	5.8%	6.9%	7.9%	
Book value per share	504.1	562.1	617.8	662.3	727.1	807.3	884.8	933.1	1,020.0	1,122.6	
Balance sheet (JPYmn)											
Cash and cash equivalents	8,387	9,234	12,660	16,889	16,227	17,110	16,912	16,905	14,483	14,735	
Total current assets	23,000	25,941	27,749	31,837	33,140	36,365	38,827	40,342	39,960	40,875	
Tangible fixed assets	20,305	24,589	27,395	26,786	28,594	30,740	33,037	35,125	37,449	43,686	
Investments and other assets	911	1,871	1,838	2,160	2,183	2,180	2,163	2,215	3,686	4,112	
Intangible assets	115	260	295	338	264	231	235	257	587	616	
Total assets	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,683	89,291	
Accounts payable	1,229	1,434	1,271	1,157	1,194	1,397	1,425	1,477	1,475	1,634	
Short-term debt	905	879	1,218	2,153	1,802	1,460	1,490	1,989	1,987	2,172	
Total current liabilities	8,884	14,054	13,362	11,323	12,193	13,334	14,272	14,308	13,506	10,260	
Long-term debt	2,419	1,701	3,337	6,045	4,267	2,825	1,449	3,114	1,888	5,396	
Total fixed liabilities	3,195	2,470	4,250	7,163	5,097	3,723	2,347	3,706	2,446	6,373	
Total liabilities	12,079	16,524	17,613	18,487	17,291	17,058	16,620	18,015	15,953	16,634	
Total liabilities and net assets	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,683	89,291	
Total interest-bearing debt	3,324	2,580	4,555	8,198	6,069	4,285	2,939	5,103	3,875	7,568	
Cash flow statement(JPYmn)											
Cash flows from operating activities	5,238	7,611	8,044	6,621	10,588	9,873	9,894	7,877	9,077	7,749	
Cash flows from investing activities	-6,537	-4,681	-4,617	-4,217	-4,615	-5,044	-5,094	-4,634	-6,194	-9,963	
Cash flows from financing activities	1,581	-2,217	40	1,871	-3,798	-4,547	-4,561	-3,241	-5,124	-1,155	
Financial ratios											
ROA (RP-based)	14.1%	15.2%	14.7%	11.5%	14.2%	15.8%	15.3%	12.7%	15.7%	17.2%	
ROE	13.9%	14.9%	15.2%	11.3%	12.9%	14.8%	14.3%	11.6%	13.9%	15.8%	
Equity ratio	69.1%	64.9%	65.6%	65.9%	68.9%	70.6%	72.5%	71.2%	74.3%	74.3%	
Capex, other (JPYmn)											
Capital expenditures	5,936	6,361	5,965	2,313	4,822	4,385	4,855	4,875	5,032	9,042	10,000
Depreciation	1,703	1,948	2,658	2,991	2,771	2,783	2,987	3,056	3,283	3,791	4,000
R&D expenses	834	905	1,003	1,159	1,296	1,296	1,400	1,534	1,569	1,751	2,055
R&D ratio	2.9%	2.7%	2.5%	3.1%	3.3%	3.0%	2.9%	3.3%	2.9%	3.0%	3.0%

Source: Shared Research based on company data

Notes: Per- share data is adjusted for stock splits. Figures may differ from company materials due to differences in rounding methods.

Citing the application of the accounting standard for revenue recognition from FY03/22, the company has not released YoY growth rates, but Shared Research has provided estimates as the size of the impact appears to be limited.

Recent updates

TOCALO revises earnings and dividend forecasts

2026-08-05

TOCALO Co., Ltd. announced revisions to its full-year earnings and dividend forecasts for FY03/27.

On August 5, 2026, the company announced an upward revision to its consolidated earnings forecast for FY03/27, along with an increase in its annual dividend forecast. The revised full-year FY03/27 company forecasts are as follows.

- Sales: JPY68.5bn (+17.1% YoY; previous forecast: JPY65.0bn)
- Operating profit: JPY16.7bn (+18.4% YoY; JPY15.0bn)
- Recurring profit: JPY16.7bn (+13.3% YoY; JPY15.0bn)
 - RPM: 24.4% (-0.8pp YoY; 23.1%)
- Net income attributable to owners of the parent: JPY10.9bn (+8.0% YoY; JPY10.2bn)
- EPS: JPY182.6 (previous forecast: JPY172.0)
- Annual dividend: JPY92.0 per share (JPY86.0 per share)

Reasons for the revisions

The company cited Q1 (April–June) results and recent order trends as the main reasons for the upward revision. It expects solid sales to continue from Q2 (July–September) onward, mainly in semiconductor-related applications. Versus the previous forecast, the company raised its sales forecast by JPY3.5bn, its operating profit and recurring profit forecasts by JPY1.7bn each, and its forecast for net income attributable to owners of the parent by JPY630mn. The company also lifted its RPM forecast by 1.3pp, from 23.1% to 24.4%, but expects it to remain below the 25.2% posted in FY03/26.

The company raised its annual dividend forecast by JPY6.0 per share from the previous forecast of JPY86.0 per share, increasing the interim dividend by JPY2.0 and the year-end dividend by JPY4.0, attributing the increase to the upward revision to its FY03/27 earnings forecast. Its dividend policy targets a consolidated dividend payout ratio of about 50% and a DOE of 5% or higher. Based on the revised forecast, the company expects a payout ratio of 50.4% (50.2% in FY03/26; 50.0% under the previous forecast).

TOCALO announces capital increase in subsidiary and change in specified subsidiary

2026-06-19

(Click [here](#) for the company's release.)

- ▶ On June 19, 2026, TOCALO announced a capital increase for its wholly owned subsidiary TOCALO USA, Inc. (TCA) to fund capital expenditures and other investments toward the launch of operations at TOCALO USA Arizona LLC (TCA-AZ), which the company established in the US in September 2025. Technically, as TCA-AZ is a wholly owned subsidiary of TCA, the company will increase capital in TCA-AZ through TCA. According to the company, the capital increase will have only a minor impact on its FY03/27 earnings.
- ▶ TCA-AZ's main business is surface modification processing for semiconductor manufacturing equipment parts and other components. Its capital at establishment (September 2025) was USD1mn. The capital increase decided by the company this time is USD5mn, bringing post-increase capital to USD6mn. As TCA-AZ's post-increase capital is equivalent to 10% or more of the company's capital, TCA-AZ will qualify as a specified subsidiary of the company. The exchange rate on June 19, 2026 was around JPY161/USD.

TOCALO announces dividend from surplus (dividend increase) and medium-term management plan

2026-05-11

(Click [here](#) for the company's release.)

TOCALO Co., Ltd. announced on May 11, 2026 that it raised its full-year dividend forecast for FY03/26 to JPY85.0 per share, up JPY15.0 per share from the previous company forecast of JPY70.0 per share (versus JPY68.0 per share in the previous year). As the company had already paid an interim dividend of JPY37.0 per share in November 2025, the increase reflects a revision of the year-end dividend from the previous forecast of JPY33.0 per share to JPY48.0 per share. As a result, the full-year payout ratio is expected to be 50.2% (versus the previous forecast of 50.2%). The company said the dividend increase reflects its basic dividend policy and stronger-than-expected FY03/26 earnings.

(Click [here](#) for the company's release.)

The company announced on the same day that it formulated a new five-year medium-term management plan, TOCALO2030, covering FY03/27 through FY03/31. Having achieved the earnings targets of its previous medium-term management plan, TOCALO2025 (covering the five years from FY03/22 through FY03/26), one year ahead of schedule, the company positions TOCALO2030 not as an extension of TOCALO2025 but as a growth strategy aimed at achieving renewed growth.

Numerical targets (final year: FY03/31)

The company's numerical targets for the final year (FY03/31) are as follows.

- Sales: JPY90.0bn (versus JPY58.5bn in FY03/26)
 - Semiconductor/FPD: JPY45.0bn (versus approximately JPY24.8bn)
 - General industry: JPY26.0bn (versus approximately JPY18.5bn)
 - Domestic and overseas subsidiaries: JPY19.0bn (versus approximately JPY15.1bn)
- Recurring profit: JPY20.0bn (versus JPY14.7bn)
 - RPM: 22.2% (versus 25.2%)
- ROE: 15% or higher (versus 15.8%)
- ROIC: 13% or higher (versus 13.1%)
- Payout ratio: around 50% (versus 50.2%)
- DOE: 5% or higher (versus 7.9%)
- ROIC: return on invested capital; DOE: dividend on equity ratio

Three growth strategies for achieving sales of JPY90.0bn

The company identified the following three pillars as growth strategies for achieving the JPY90.0bn sales target set under TOCALO2030.

1) Deepening core businesses

- ▶ In the semiconductor/FPD field, the company aims to capture market growth and achieve significant business expansion. In the general industry field, the company plans to strengthen its foundations in industrial machinery, steel making, and environment/energy, and to develop new earnings pillars. While expanding these core businesses, the company will execute aggressive capex (including capacity expansion and the introduction of advanced technologies), particularly in the semiconductor/FPD area, to enhance competitiveness. The company also aims to maintain its high-profit structure even during the period of upfront spending by improving productivity.

2) Expanding strategic business domains

- ▶ The company aims to accelerate group-wide growth, centered on domestic and overseas subsidiaries, by expanding its strategic business domains through new technology development (such as thin-film technologies including PVD and CVD, and ultra-high-precision processing using laser processing machines) and market development. To this end, the company plans to accelerate business expansion in global markets, designating the US and Southeast Asia as priority regions, while strengthening its operations in China and Taiwan, where it has already been expanding. The company will also explore the potential of the Indian market as foundation for future growth.

3) Strengthening the management foundation supporting sustainable growth

- ▶ Based on the view that a robust management foundation is the basis for growth, the company has set three pillars: 1) enhancing manufacturing and quality control (ensuring world-class quality from both hardware and software perspectives), 2) sustainability (including continued promotion of ESG management and building a sustainable supply chain), and 3) expanding human capital management (including medium-term human resource development, enhancing employee satisfaction, and improving the workplace environment).

Trends and outlook

Quarterly trends and results

Cumulative	FY03/26				FY03/27				FY03/27		FY03/27	
Cumulative (JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	1H Est.	% of Est.	FY Est.
Sales	15,151	28,311	42,621	58,490	16,658				49.7%	33,500	24.3%	68,500
YoY	17.8%	9.5%	6.8%	7.9%	9.9%					18.3%		17.1%
Gross profit	6,057	10,732	15,998	22,577	6,205							
YoY	29.5%	14.6%	9.4%	11.5%	2.4%							
Gross profit margin	40.0%	37.9%	37.5%	38.6%	37.2%							
SG&A expenses	2,220	4,213	6,469	8,474	2,389							
YoY	11.6%	5.8%	5.6%	6.2%	7.6%							
SG&A ratio	14.7%	14.9%	15.2%	14.5%	14.3%							
Operating profit	3,836	6,518	9,528	14,102	3,815				47.7%	8,000	22.8%	16,700
YoY	42.8%	21.1%	12.2%	14.9%	-0.5%					22.7%		18.4%
Operating profit margin	25.3%	23.0%	22.4%	24.1%	22.9%					23.9%		24.4%
Recurring profit	4,053	6,756	9,890	14,745	4,024				50.3%	8,000	24.1%	16,700
YoY	38.6%	22.4%	12.8%	17.4%	-0.7%					18.4%		13.3%
Recurring profit margin	26.8%	23.9%	23.2%	25.2%	24.2%					23.9%		24.4%
Net income	2,580	4,427	6,443	10,060	2,617				50.3%	5,200	24.1%	10,860
YoY	36.8%	24.5%	11.5%	25.0%	1.4%					17.5%		8.0%
Net margin	17.0%	15.6%	15.1%	17.2%	15.7%					15.5%		15.9%
Cumulative	FY03/26				FY03/27							
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Sales	15,151	13,160	14,310	15,869	16,658							
YoY	17.8%	1.2%	1.9%	10.8%	9.9%							
Gross profit	6,057	4,675	5,266	6,579	6,205							
YoY	29.5%	-0.3%	0.2%	16.9%	2.4%							
Gross profit margin	40.0%	35.5%	36.8%	41.5%	37.2%							
SG&A expenses	2,220	1,993	2,256	2,005	2,389							
YoY	11.6%	0.1%	5.1%	8.4%	7.6%							
SG&A ratio	14.7%	15.1%	15.8%	12.6%	14.3%							
Operating profit	3,836	2,682	3,010	4,574	3,815							
YoY	42.8%	-0.5%	-3.1%	21.0%	-0.5%							
Operating profit margin	25.3%	20.4%	21.0%	28.8%	22.9%							
Recurring profit	4,053	2,703	3,134	4,855	4,024							
YoY	38.6%	4.1%	-3.6%	28.2%	-0.7%							
Recurring profit margin	26.8%	20.5%	21.9%	30.6%	24.2%							
Net income	2,580	1,847	2,016	3,617	2,617							
YoY	36.8%	10.6%	-9.4%	59.3%	1.4%							
Net margin	17.0%	14.0%	14.1%	22.8%	15.7%							

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

By segment	FY03/26				FY03/27				FY03/27	
Cumulative (JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	FY Est.
Sales	15,151	28,311	42,621	58,490	16,658				24.3%	68,500
YoY	17.8%	9.5%	6.8%	7.9%	9.9%					17.1%
Thermal Spraying (Parent)	10,795	19,961	29,891	40,709	12,292				24.5%	50,197
YoY	11.8%	3.3%	1.2%	3.8%	13.9%					23.3%
% of total	71.2%	70.5%	70.1%	69.6%	73.8%					73.3%
Domestic Subsidiaries	730	1,409	2,142	2,883	788				24.9%	3,169
YoY	19.9%	18.3%	11.6%	8.5%	7.9%					9.9%
% of total	4.8%	5.0%	5.0%	4.9%	4.7%					4.6%
Overseas Subsidiaries	3,004	5,649	8,654	12,269	2,908				23.4%	12,451
YoY	61.4%	45.2%	38.9%	31.7%	-3.2%					1.5%
% of total	19.8%	20.0%	20.3%	21.0%	17.5%					18.2%
Other Surface Treatments	610	1,228	1,852	2,467	656				25.9%	2,531
YoY	-14.9%	-11.1%	-12.8%	-14.3%	7.5%					2.6%
% of total	4.0%	4.3%	4.3%	4.2%	3.9%					3.7%
Royalty income	11	62	81	160	12				8.0%	150
YoY	-35.3%	-15.1%	-12.0%	-0.6%	9.1%					-6.3%
Segment profit (recurring profit)	4,053	6,756	9,890	14,745	4,024				24.1%	16,700
YoY	38.6%	22.4%	12.8%	17.4%	-0.7%					13.3%
Recurring profit margin	26.8%	23.9%	23.2%	25.2%	24.2%					24.4%
Thermal Spraying (Parent)	2,620	4,167	6,242	8,802	3,434					
YoY	18.2%	-3.6%	-8.6%	-0.7%	31.1%					
Recurring profit	24.3%	20.9%	20.9%	21.6%	27.9%					

	YoY	18.4%	-1.9%	6.6%	-4.3%	-3.4%			
	Recurring profit margin	15.9%	10.9%	11.3%	11.5%	14.2%			
	Overseas Subsidiaries	1,339	2,332	3,532	4,937	941			
	YoY	144.8%	92.6%	77.4%	48.3%	-29.7%			
	Recurring profit margin	44.6%	41.3%	40.8%	40.2%	32.4%			
	Other Surface Treatments	87	147	206	281	114			
	YoY	-26.3%	-22.6%	-36.6%	-33.4%	31.0%			
	Recurring profit margin	14.3%	12.0%	11.1%	11.4%	17.4%			
	Adjustments	-110	-46	-332	391	-578			
By segment		FY03/26				FY03/27			
Quarterly (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales		15,151	13,160	14,310	15,869	16,658			
	YoY	17.8%	1.2%	1.9%	10.8%	9.9%			
	Thermal Spraying (Parent)	10,795	9,166	9,930	10,818	12,292			
	YoY	11.8%	-5.2%	-2.8%	11.8%	13.9%			
	% of total	71.2%	69.7%	69.4%	68.2%	73.8%			
	Domestic Subsidiaries	730	679	733	741	788			
	YoY	19.9%	16.7%	0.7%	0.5%	7.9%			
	% of total	4.8%	5.2%	5.1%	4.7%	4.7%			
	Overseas Subsidiaries	3,004	2,645	3,005	3,615	2,908			
	YoY	61.4%	30.4%	28.4%	17.0%	-3.2%			
	% of total	19.8%	20.1%	21.0%	22.8%	17.5%			
	Other Surface Treatments	610	618	624	615	656			
	YoY	-14.9%	-6.9%	-15.9%	-18.8%	7.5%			
	% of total	4.0%	4.7%	4.4%	3.9%	3.9%			
	Royalty income	11	51	19	79	12			
	YoY	-35.3%	-8.9%	0.0%	14.5%	9.1%			
Segment profit (recurring profit)		4,053	2,703	3,134	4,855	4,024			
	YoY	38.6%	4.1%	-3.6%	28.2%	-0.7%			
	Recurring profit margin	26.8%	20.5%	21.9%	30.6%	24.2%			
	Thermal Spraying (Parent)	2,620	1,547	2,075	2,560	3,434			
	YoY	18.2%	-26.6%	-17.2%	25.7%	31.1%			
	Recurring profit margin	24.3%	16.9%	20.9%	23.7%	27.9%			
	Domestic Subsidiaries	116	38	88	89	112			
	YoY	18.4%	-35.6%	25.7%	-25.2%	-3.4%			
	Recurring profit margin	15.9%	5.6%	12.0%	12.0%	14.2%			
	Overseas Subsidiaries	1,339	993	1,200	1,405	941			
	YoY	144.8%	49.5%	53.8%	4.9%	-29.7%			
	Recurring profit margin	44.6%	37.5%	39.9%	38.9%	32.4%			
	Other Surface Treatments	87	60	59	75	114			
	YoY	-26.3%	-16.7%	-56.3%	-22.7%	31.0%			
	Recurring profit margin	14.3%	9.7%	9.5%	12.2%	17.4%			
	Adjustments	-110	64	-286	723	-578			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Order backlog (JPYmn)	FY03/26				FY03/27			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Order backlog	10,585	11,207	13,398	14,843	17,349			
YoY	-6.7%	3.1%	17.2%	30.8%	16.9%			
Thermal Spraying (Parent)	7,373	7,600	9,626	11,081	13,642			
YoY	-4.1%	-5.1%	16.9%	38.3%	85.0%			
Domestic Subsidiaries	98	119	127	112	157			
YoY	139.0%	24.0%	-11.2%	-37.8%	60.2%			
Overseas Subsidiaries	2,768	3,151	3,333	3,262	3,121			
YoY	46.0%	32.8%	28.0%	16.3%	12.8%			
Other Surface Treatments	345	336	311	387	426			
YoY	-8.2%	-13.6%	-30.3%	11.2%	23.5%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Factors affecting RP change (JPYmn)	FY03/26				FY03/27			
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Recurring profit	4,053	6,756	9,890	14,745	4,024			
YoY change	1,129	1,236	1,120	2,187	-29			
Sales	1,483	1,639	2,150	3,174	800			
Variable cost ratio	244	366	388	109	-13			
Personnel expenses	-449	-742	-898	-792	-562			
Depreciation	-97	-226	-356	-502	-128			
Forex impact	-291	-256	-247	-33	275			
Other	240	455	83	230	-398			
Factors affecting RP change (JPYmn)	FY03/26				FY03/27			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Recurring profit	4,053	2,703	3,134	4,855	4,024			
YoY change	1,129	107	-116	1,067	-29			
Sales	1,483	156	511	1,024	800			
Variable cost ratio	244	122	22	-279	-13			
Personnel expenses	-449	-293	-156	106	-562			
Depreciation	-97	-129	-130	-146	-128			
Forex impact	-291	35	9	214	275			
Other	240	215	-372	147	-398			

Source: Shared Research based on company data

Q1 FY03/27 results (August 5, 2026)

Q1 FY03/27 (April–June) results summary

Results for Q1 FY03/27 (April–June 2026) were as follows.

- Sales: JPY16.7bn (+9.9% YoY)
- Operating profit: JPY3.8bn (-0.5% YoY)
- Recurring profit: JPY4.0bn (-0.7% YoY)
 - RPM: 24.2% (-2.6pp YoY)
- Net income attributable to owners of the parent: JPY2.6bn (+1.4% YoY)
- Orders: JPY19.2bn (+33.2% YoY)
- Order backlog: JPY17.3bn (+16.9% YoY)

Q1 (April–June) overview

In Q1, sales approached double-digit growth and hit a record high for Q1, but consolidated recurring profit was JPY4.0bn (-0.7% YoY), roughly flat YoY. Profit rose in the mainstay Thermal Spraying business, but lower profit at Domestic Subsidiaries and Overseas Subsidiaries weighed on results. Meanwhile, as the company expects semiconductor-related sales from Q2 (July–September) onward to exceed its initial projections, it revised upward the full-year FY03/27 earnings forecast announced on May 11, 2026.

Sales

- Q1 consolidated sales were JPY16.7bn (+9.9% YoY), a record high for Q1. Sales by business segment were as follows.

Sales by segment

- Consolidated sales: JPY16.7bn (+9.9% YoY)
 - Thermal Spraying (TOCALO): JPY12.3bn (+13.9% YoY)
 - Domestic Subsidiaries: JPY788mn (+7.9% YoY)
 - Overseas Subsidiaries: JPY2.9bn (-3.2% YoY)
 - Other Surface Treatments: JPY656mn (+7.5% YoY)
 - Royalty Income: JPY12mn (+9.1% YoY)
- ▶ By segment, sales from Thermal Spraying (TOCALO), which accounted for about 74% of consolidated sales, rose 13.9% YoY and drove the record Q1 consolidated sales. Sales for semiconductor/FPD applications grew 29.9% YoY and sales for industrial machinery applications rose 7.7% YoY, absorbing declines in sales for steel making and other applications. The increase in sales for semiconductor/FPD applications reflected order growth from Q3 FY03/26 (October–December 2025) onward. In Q1 (April–June 2026), orders for semiconductor/FPD applications jumped 69.5% YoY, one factor behind the company's upward revision to its FY03/27 earnings forecast.
- ▶ Among the other segments, sales from Domestic Subsidiaries increased 7.9% YoY, while sales from Overseas Subsidiaries (mainly China and Taiwan), which had been growing, fell 3.2% YoY—the first decline in 22 quarters. Sales from Other Surface Treatments rose 7.5% YoY.

Recurring profit and RPM

- ▶ Consolidated recurring profit was JPY4.0bn (-0.7% YoY), roughly flat YoY. With sales up and profit flat, RPM fell 2.6pp YoY to 24.2%.

Recurring profit by segment

- Consolidated recurring profit: JPY4.0bn (-0.7% YoY)
 - Thermal Spraying (TOCALO): JPY3.4bn (+31.1% YoY)
 - Domestic Subsidiaries: JPY112mn (-3.4% YoY)
 - Overseas Subsidiaries: JPY941mn (-29.7% YoY)
 - Other Surface Treatments: JPY114mn (+31.0% YoY)
 - Consolidated adjustments: -JPY578mn
- ▶ By segment, profit from Thermal Spraying (TOCALO) was JPY3.4bn (+31.1% YoY), profit from Overseas Subsidiaries was JPY941mn (-29.7% YoY), profit from Domestic Subsidiaries was JPY112mn (-3.4% YoY), and profit from Other Surface Treatments was JPY114mn (+31.0% YoY). Higher profit in Thermal Spraying was offset by lower profit at Overseas Subsidiaries and a larger consolidated adjustment. Segment profit links to recurring profit on the income statement. Operating profit was JPY3.8bn (-0.5% YoY) and net income attributable to owners of the parent was JPY2.6bn (+1.4% YoY).

- ▶ **Shared Research will update the details after the scheduled interview with the company.**

Company forecast

FY03/27 company forecast (out August 5, 2026)

	FY03/25			FY03/26			FY03/27		
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	25,863	28,368	54,231	28,311	30,179	58,490	33,500	35,000	68,500
YoY	12.6%	19.4%	16.0%	9.5%	6.4%	7.9%	18.3%	16.0%	17.1%
Thermal Spraying (Parent)	19,325	19,888	39,213	19,961	20,748	40,709			50,197
Semiconductor and FPD equipment parts	11,395	12,719	24,114	11,989	12,824	24,813			34,110
Semiconductor equipment	10,698	11,671	22,369	11,016	-11,016	-			31,784
FPD equipment	697	1,048	1,745	973	-973	-			2,326
Industrial machinery	2,370	2,502	4,872	2,655	2,997	5,652			6,015
Steelmaking machinery	2,029	1,898	3,927	1,974	1,989	3,963			3,951
Other applications	3,530	2,768	6,298	3,341	2,939	6,280			6,121
Other Surface Treatments	1,381	1,499	2,880	1,228	1,239	2,467			2,531
Domestic Subsidiaries	1,191	1,465	2,656	1,409	1,474	2,883			3,169
Overseas Subsidiaries	3,890	5,429	9,319	5,649	6,620	12,269			12,451
Royalty income	73	88	161	62	98	160			150
Cost of sales	16,498	17,486	33,984	17,578	18,335	35,913			
Gross profit	9,365	10,881	20,246	10,732	11,845	22,577			
YoY	17.9%	31.0%	24.6%	14.6%	8.9%	11.5%			
Gross profit margin	36.2%	38.4%	37.3%	37.9%	39.2%	38.6%			
SG&A expenses	3,981	3,994	7,975	4,213	4,261	8,474			
YoY	9.2%	17.4%	13.2%	5.8%	6.7%	6.3%			
SG&A ratio	15.4%	14.1%	14.7%	14.9%	14.1%	14.5%			
Operating profit	5,383	6,888	12,271	6,518	7,584	14,102	8,000	8,700	16,700
YoY	25.3%	40.5%	33.4%	21.1%	10.1%	14.9%	22.7%	14.7%	18.4%
Operating profit margin	20.8%	24.3%	22.6%	23.0%	25.1%	24.1%	23.9%	24.9%	24.4%
Recurring profit	5,520	7,041	12,561	6,756	7,989	14,745	8,000	8,700	16,700
YoY	20.3%	38.8%	30.0%	22.4%	13.5%	17.4%	18.4%	8.9%	13.3%
Recurring profit margin	21.3%	24.8%	23.2%	23.9%	26.5%	25.2%	23.9%	24.9%	24.4%
Net income	3,556	4,496	8,052	4,427	5,633	10,060	5,200	5,660	10,860
YoY	19.1%	34.6%	27.3%	24.5%	25.3%	24.9%	17.5%	0.5%	8.0%
Net margin	13.7%	15.8%	14.8%	15.6%	18.7%	17.2%	15.5%	16.2%	15.9%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Citing the application of the accounting standard for revenue recognition from FY03/22, the company has not released YoY growth rates, but Shared Research has provided estimates as the size of the impact appears to be limited.

Upward revision to FY03/27 earnings forecast (August 5, 2026)

On August 5, 2026, the company announced an upward revision to its consolidated earnings forecast for FY03/27, along with an increase in its annual dividend forecast. The revised full-year FY03/27 company forecasts are as follows.

- Sales: JPY68.5bn (+17.1% YoY; previous forecast: JPY65.0bn)
- Operating profit: JPY16.7bn (+18.4% YoY; JPY15.0bn)
- Recurring profit: JPY16.7bn (+13.3% YoY; JPY15.0bn)
 - RPM: 24.4% (-0.8pp YoY; 23.1%)
- Net income attributable to owners of the parent: JPY10.9bn (+8.0% YoY; JPY10.2bn)
- EPS: JPY182.6 (previous forecast: JPY172.0)
- Annual dividend: JPY92.0 per share (JPY86.0 per share)

Reasons for the revisions

- The company cited Q1 (April–June) results and recent order trends as the main reasons for the upward revision. It expects solid sales to continue from Q2 (July–September) onward, mainly in semiconductor-related applications. Versus the previous forecast, the company raised its sales forecast by JPY3.5bn, its operating profit and recurring profit forecasts by JPY1.7bn each, and its forecast for net income attributable to owners of the parent by JPY630mn. The company also lifted its RPM forecast by 1.3pp, from 23.1% to 24.4%, but expects it to remain below the 25.2% posted in FY03/26.

Upward revision to dividend forecast

- ▶ The company raised its annual dividend forecast by JPY6.0 per share from the previous forecast of JPY86.0 per share, increasing the interim dividend by JPY2.0 and the year-end dividend by JPY4.0, attributing the increase to the upward revision to its FY03/27 earnings forecast. Its dividend policy targets a consolidated dividend payout ratio of about 50% and a DOE of 5% or higher. Based on the revised forecast, the company expects a payout ratio of 50.4% (50.2% in FY03/26; 50.0% under the previous forecast).
- ▶ **Shared Research will update the details after the scheduled interview with the company.**

At the Q1 (April–June) results announcement on August 5, 2026, the company revised upward its FY03/27 earnings forecast. The following commentary was written by Shared Research in June 2026, based on the FY03/27 forecast the company announced with its FY03/26 results. As that forecast has since been revised upward, Shared Research will update the commentary after the scheduled interview with the company; in the meantime, it remains below.

Overview of company forecast (initial forecast, announced on May 11, 2026)

The company's forecast for FY03/27 is as follows.

- Sales: JPY65.0bn (+11.1% YoY)
 - Operating profit: JPY15.0bn (+6.4% YoY)
 - Recurring profit: JPY15.0bn (+1.7% YoY)
 - RPM: 23.1% (–2.1pp YoY)
 - Net income attributable to owners of the parent: JPY10.2bn (+1.7% YoY)
- ▶ TOCALO forecasts EPS of JPY172.0. The company plans an annual dividend of JPY86.0 per share (versus the estimated JPY85.0 per share in the previous year). Based on the company forecast, the payout ratio will be 50.0% (versus 50.2%).

Overview

- ▶ The company forecasts record-high sales and profits at all levels for the third consecutive year in FY03/27. It expects sales to return to double-digit growth, surpassing JPY60.0bn for the first time to reach JPY65.0bn, driven by capturing growth in semiconductor/FPD applications, expansion in general industry applications (including industrial machinery and steel making), and growth in overseas operations.
- ▶ Meanwhile, although the company forecasts record recurring profit of JPY15.0bn, it expects profit growth of just 1.7% YoY and projects RPM will deteriorate 2.1pp YoY to 23.1%. However, considering that FY03/26 recurring profit was boosted by JPY1.1bn from the impact of retirement benefit accounting and the recording of subsidy income, the company projects recurring profit on an underlying basis—the newly disclosed measure—will grow 9.8% YoY, a double-digit increase (over 10%).
- ▶ Regarding FY03/27 earnings, the company recognizes that multiple destabilizing factors could affect its business more than in previous years, including soaring material and energy prices and the materialization of procurement risks for rare metals and petroleum products. Even so, the company expects sustained growth to continue, centered on the semiconductor/FPD field.

Sales

- ▶ The company forecasts FY03/27 consolidated sales of JPY65.0bn (+11.1% YoY), a record high for the third consecutive year.
- ▶ By business segment, the company projects sales of JPY46.3bn (+13.7% YoY) in the mainstay Thermal Spraying segment, JPY12.6bn (+3.0% YoY) in Overseas Subsidiaries, JPY3.1bn (+6.6% YoY) in Domestic Subsidiaries, and JPY2.8bn (+14.1% YoY) in Other Surface Treatments, and expects these to drive growth in consolidated sales. Within the Thermal Spraying segment, the company forecasts semiconductor/FPD-related sales will grow 24.9% YoY to JPY31.0bn. For details, see the sections "Sales forecast by segment" and "Breakdown of sales forecast for Thermal Spraying (parent)" below.

Recurring profit and RPM

- ▶ The company forecasts FY03/27 consolidated recurring profit of JPY15.0bn (+1.7% YoY), driven mainly by higher semiconductor/FPD-related sales and the benefit of sales growth in the Overseas Subsidiaries segment. Like sales, the company projects recurring profit will hit a record high for the third consecutive year, but it expects RPM to deteriorate 2.1pp to 23.1% due to increases in personnel expenses and depreciation, as well as the impact of a stronger yen based on its exchange rate assumptions.
- ▶ However, the FY03/27 forecast of JPY15.0bn does not incorporate any of the positive profit factors that arose in FY03/26 (the lump-sum amortization of unrecognized actuarial differences under retirement benefit accounting and subsidy income). On the basis of recurring profit on an underlying basis, which the company began disclosing in FY03/26 to exclude such variable factors, the company estimates the FY03/27 forecast of JPY15.0bn represents growth of 9.8% YoY. The company therefore noted that the projected increase in semiconductor/FPD-related sales is reflected, to a certain degree, in recurring profit as well.

Company forecast for 1H and 2H

- ▶ The company forecasts higher sales and profit YoY in FY03/27 (profit on a recurring profit basis). On a half-year basis, however, the company projects higher sales and profit in 1H (April–September; versus April–September 2025), but higher sales and lower profit in 2H (October–March; versus October 2025–March 2026), indicating a cautious view of 2H.
- ▶ The company's 2H forecast appears conservative for three reasons: 1) the impact of retirement benefit accounting that arose in FY03/26 will disappear (the lump-sum amortization of unrecognized actuarial differences generated a JPY662mn boost to profit in FY03/26); 2) the forecast does not assume subsidy income, which was recorded under non-operating income in FY03/26; and 3) Tokyo Electron (TSE Prime: 8035), a major customer, has disclosed earnings forecasts only for 1H. In particular, because the entire impact of the lump-sum amortization in 1) was booked in Q4 FY03/26 (January–March 2026), the 2H-on-2H comparison shows a large YoY difference. Factor 1) also affects the YoY rate of change in the full-year FY03/27 forecast.

The company suggested a cautious outlook for 2H

- ▶ Because Tokyo Electron is not the company's only customer (sales to Tokyo Electron accounted for 27.2% of the total in FY03/25), the company says the impact of Tokyo Electron disclosing only a 1H forecast is limited. Meanwhile, the company has expressed a certain level of confidence in its 1H forecast, which calls for both sales and profit growth, as the forecast is based on the order backlog at end-FY03/26 (the semiconductor/FPD-related backlog was JPY8.6bn, +59.6% YoY, a record high) and major customers' production plans.
- ▶ TOCALO includes its 1H projections in its financial statements and other documents, but it does not publish projections for 2H alone. Accordingly, Shared Research has calculated the company's 2H projections (included below) by subtracting its 1H projections from its full-year projections.
 - FY03/27 sales: JPY65.0bn (+11.1% YoY)
 - 1H (April–September): JPY31.5bn (+11.3% YoY)
 - 2H (October–March): JPY33.5bn (+11.0% YoY)
 - FY03/27 recurring profit: JPY15.0bn (+1.7% YoY)
 - 1H (April–September): JPY7.3bn (+12.0% YoY)
 - 2H (October–March): JPY7.7bn (-3.6% YoY)

The company forecast for 1H FY03/27 is as follows.

- Sales: JPY31.5bn (+8.3% YoY)
- Operating profit: JPY7.3bn (+12.0% YoY)
- Recurring profit: JPY7.3bn (+8.1% YoY)
 - RPM: 23.2% (-0.7pp YoY)
- Net income attributable to owners of parent: JPY5.0bn (+12.5% YoY)

Annual dividend forecast

- ▶ The company plans an annual dividend of JPY86.0 per share in FY03/27 (versus JPY85.0 per share in FY03/26), and expects a payout ratio of 50.0% based on the company forecast. The forecast aligns with the company's dividend policy, which targets a payout ratio of around 50% and a dividend on equity (DOE) of 5% or higher.
- ▶ Effective from FY03/24, the company revised its policy to enhance shareholder returns, shifting from its previous focus on returning one third or more of profits with stable dividends to the current targets. Since the change, the payout ratio has been 50.2% in FY03/24 (actual), 50.2% in FY03/25 (actual), and 50.2% in FY03/26 (expected).

Sales forecasts by segment

- ▶ TOCALO releases sales projections for its individual reporting segments. Effective from FY03/22, the company has established a Royalty Income segment in addition to its previously existing four segments: Thermal Spraying (parent), Domestic Subsidiary, Overseas Subsidiaries, and Other Surface Treatments. However, the company reported that its Royalty Income segment accounted for only 0.3% of sales in FY03/25.
- ▶ The breakdown of the JPY65.0bn sales forecast by segment (company forecast) is as follows.
 - Thermal Spraying (parent): JPY46.3bn (+13.7% YoY)
 - Semiconductor/FPD-related: JPY31.0bn (+24.9% YoY)
 - Industrial machinery-related: JPY5.7bn (+0.0% YoY)
 - Steel making-related: JPY4.0bn (+0.0% YoY)
 - Other: JPY5.7bn (-9.7% YoY)
 - Domestic Subsidiaries: JPY3.1bn (+6.6% YoY)
 - Overseas Subsidiaries: JPY12.6bn (+3.0% YoY)
 - Other Surface Treatments: JPY2.8bn (+14.1% YoY)
 - Royalty Income: JPY184mn (+15.0% YoY)
- ▶ The company forecasts sales in the mainstay Thermal Spraying segment (parent) of JPY46.3bn (+13.7% YoY), an increase of about JPY5.6bn from the record high in FY03/26. Within Thermal Spraying, the company projects that mainstay semiconductor/FPD-related sales will expand 24.9% YoY to JPY31.0bn, about JPY6.2bn above the record FY03/26 figure of JPY24.8bn. Through FY03/26, the company had used JPY6.0–6.5bn as the base level for quarterly semiconductor/FPD-related sales. However, following the surge in orders in Q3 (October–December 2025) and Q4 (January–March 2026) of FY03/26, the company suggested it has moved this base level to about JPY8.0bn per quarter.
- ▶ Indeed, the company's FY03/27 forecast of JPY31.0bn works out to just under JPY8.0bn per quarter. The company suggested it applied a certain discount, but also indicated that supply-demand information obtained from multiple major customers (such as customer production plans) has strengthened further since it announced the forecast in early May 2026.
- ▶ Outside the semiconductor/FPD field, the company forecasts industrial machinery-related sales roughly level with FY03/26 at JPY5.7bn (+0.1% YoY), but because the FY03/26 figure was a record high, it projects continuation at a high level. It also forecasts steel making-related sales roughly level with FY03/26 at JPY4.0bn, and expects other sales of JPY5.7bn (-9.7% YoY). On this basis, the company forecasts FY03/27 sales in Thermal Spraying (the sum of semiconductor/FPD-related, industrial machinery-related, steel making-related, and other) of JPY46.3bn (+13.7% YoY).

Overseas Subsidiaries segment

- ▶ For the Overseas Subsidiaries segment, where semiconductor/FPD-related business is the mainstay as in Thermal Spraying, the company forecasts sales of JPY12.6bn (+3.0% YoY). While the forecast represents a record high, the company expects the growth rate of 3.0% to fall well below the five-year CAGR of 20.6% from FY03/21 to FY03/26. The company assumes a recovery in the semiconductor markets of China and Taiwan, where its overseas subsidiaries are located, and increased order wins from a strengthened sales structure, but suggested the forecast conservatively reflects concern about a possible pullback following the sharp growth in FY03/26. On forex, the company suggested that, based on an assumption of some yen appreciation, it expects exchange rates will at the very least not be a factor boosting sales.

- ▶ Meanwhile, the company sees the effects of new plant start-ups as potential upside to the Overseas Subsidiaries forecast. Since FY03/24, the company has been making capital investments to launch new plants in both regions (China and Taiwan), and plans to continue doing so in FY03/27. However, launching a new semiconductor-related plant takes considerable time, including trial production and obtaining customer certifications. The company therefore assumes the capacity expansion benefits of these new plants will materialize from late FY03/27 onward, and reflected them only to a limited extent in the FY03/27 forecast.

Domestic Subsidiaries segment and others

- ▶ For the Domestic Subsidiaries segment, the company forecasts FY03/27 sales of JPY3.1bn (+6.6% YoY), premised on a continued recovery in domestic automobile production and an order recovery at Terada Kosakusho, consolidated since FY03/25. However, the company suggested it made a conservative estimate for the recovery in domestic automobile production, given the considerable potential impact of the situation in the Middle East. For the Other Surface Treatments segment, the company forecasts FY03/27 sales of JPY2.8bn (+14.1% YoY), as it expects production adjustments at customers in the agricultural machinery field, which has been weak for about two years, to end soon.

Breakdown of sales forecasts for the Thermal Spraying (parent) segment

- ▶ The company's sales forecast for its mainstay Thermal Spraying (parent) segment breaks down as follows.
 - Thermal Spraying (parent): JPY46.3bn (+13.7% YoY)
 - Semiconductor/FPD-related: JPY31.0bn (+24.9% YoY)
 - Semiconductor field: JPY28.7bn (+25.4% YoY)
 - FPD field: JPY2.3bn (+19.5% YoY)
 - Industrial machinery-related: JPY5.7bn (+0.0% YoY)
 - Steel making-related: JPY4.0bn (+0.0% YoY)
 - Other: JPY5.7bn (-9.7% YoY)

Factors affecting change in recurring profit

- ▶ The company does not disclose a segment breakdown of its FY03/27 recurring profit forecast (JPY15.0bn). The company projects recurring profit will increase JPY255mn from JPY14.7bn in FY03/26 to JPY15.0bn, with the breakdown by factor as follows.
 - Higher sales: JPY3.0bn positive impact on profit
 - Changes in variable cost ratio: JPY334mn negative impact on profit
 - Higher personnel expenses: JPY1.6bn negative impact on profit
 - Higher depreciation: JPY384mn negative impact on profit
 - Forex impact: JPY308mn negative impact on profit
 - Other: JPY67mn negative impact on profit

Positive factors

- ▶ The company forecasts FY03/27 consolidated recurring profit of JPY15.0bn (+1.7% YoY), an increase of JPY255mn from FY03/26, and expects the biggest driver to be the JPY3.0bn (YoY; same below) benefit of higher sales. The company expects the largest sales driver to be the expansion of semiconductor/FPD-related sales in the Thermal Spraying segment, and projects that sales growth in other segments, such as Overseas Subsidiaries, will also contribute.

Pronounced growth in semiconductor/FPD-related sales to contribute

- ▶ Changes in the variable cost ratio (rises and falls) reflect not only changes in the ratios of processing materials and outsourcing costs, but also changes (improvement) in the sales mix driven by fluctuations in highly profitable semiconductor/FPD-related sales. In addition, the company expects sales expansion in the Overseas Subsidiaries segment to contribute in FY03/27. The Overseas Subsidiaries segment is highly profitable, with a segment profit margin of 35.7% in FY03/25, 13.1pp above the 22.6% of the Thermal Spraying segment. The company thinks a rising share of sales from the highly profitable Overseas Subsidiaries segment will be an even greater profit driver than before.
- ▶ According to the company, the profit margin for semiconductor/FPD-related operations within the Thermal Spraying segment is significantly higher than the segment average of 22.6% and is broadly in line with that of the Overseas

Negative factors

- ▶ The company expects all factors other than the benefit of higher sales to weigh on profit. Notably, for FY03/27, it projects that the change (rise) in the variable cost ratio will turn into a JPY334mn negative factor. Regarding the variable cost ratio, growth in highly profitable semiconductor/FPD-related sales drove the ratio down in FY03/25–FY03/26, making it a positive profit factor. For FY03/27, the company expects a substantial increase in semiconductor/FPD-related sales to be a considerable positive factor, but it is concerned that the impact of surging raw material prices could be severe, and suggested it reflected this conservatively in the forecast.
- ▶ Among the negative factors, the company expects the JPY1.6bn increase in personnel expenses to have the largest impact. However, excluding the impact of retirement benefit accounting recorded in FY03/26 (the JPY662mn impact of the lump-sum amortization of unrecognized actuarial differences), the company expects the effective negative impact of higher personnel expenses to be JPY941mn. According to the company, the impact is nonetheless large, reflecting continued wage hikes and growth in employee numbers. The company also suggested the figure reflects, to a certain degree, higher overtime costs associated with rising utilization for semiconductor-related work.
- ▶ Beyond personnel expenses, the company expects three other negative factors: higher depreciation, forex impact, and other. Of these, for the forex impact (JPY308mn negative), the company assumes a decline in forex gains under non-operating income and a decrease (erosion) in translation differences at overseas subsidiaries due to its conservative exchange rate assumptions, but does not believe these factors will have any particularly significant impact on underlying earnings.

Capital expenditures, depreciation, and R&D expenses

Plans for FY03/27 are as follows.

- Capital expenditure: JPY10.0bn (versus JPY9.0bn in FY03/26)
- Depreciation: JPY4.0bn (versus JPY3.8bn in FY03/26)
- R&D expenses: JPY2.0bn (versus JPY1.8bn in FY03/26)

Breakdown of projected FY03/27 capital expenditures

- ▶ Capital expenditure in FY03/26 rose to a record JPY9.0bn (versus the previous record of JPY6.4bn in FY03/18), and the company projects a broadly similar level of JPY10.0bn in FY03/27. The breakdown of the JPY10.0bn capital expenditure plan is as follows.
 - Parent TOCALO: JPY8.0bn
 - Domestic subsidiaries: JPY700mn
 - Overseas subsidiaries: JPY1.3bn
- ▶ At parent TOCALO, the largest component, the company plans construction of new buildings and installation of production equipment at the Tokyo No. 2 Plant and Kitakyushu Plant, company-wide measures to boost output and production efficiency, and expansion of research facilities. In FY03/27, the company intends to continue increasing parent-level capital expenditure with an eye on a future acceleration in the pace of semiconductor demand recovery.
- ▶ TOCALO plans to invest in expanding production capacity at domestic subsidiaries and launching new plants at overseas subsidiaries. Since FY03/23, the company has been working to expand production capacity at its overseas subsidiaries—primarily through the construction of a new plant in Taiwan—and indicates that total investment in this initiative has reached approximately JPY4.0bn. For FY03/27, the company plans to continue making proactive capital investments, including additional capacity expansion.

Depreciation outlook

- ▶ The company forecasts depreciation of JPY4.0bn in FY03/27, exceeding the JPY3.8bn recorded in FY03/26 and marking a record high. The JPY209mn increase from FY03/26 will weigh on profit, but the company has already incorporated it in its forecast. With capital expenditure on an uptrend (see above), the company suggested

depreciation will remain at a high level from FY03/27 onward. Meanwhile, the company forecasts R&D expenses of JPY2.0bn, equivalent to 3.0% of sales—flat versus 3.0% in FY03/26 and in line with its basic policy of about 3% of sales.

Initial company forecast and results

Results vs. Initial Est. (JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25	FY03/26	FY03/27
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	28,000	30,000	39,000	36,000	36,500	41,000	47,500	47,000	51,000	57,000	65,000
Sales (Results)	28,964	34,109	39,558	37,896	39,294	43,813	48,144	46,735	54,231	58,490	
Results vs. Initial Est.	3.4%	13.7%	1.4%	5.3%	7.7%	6.9%	1.4%	-0.6%	6.3%	2.6%	
Operating profit (Initial Est.)	4,440	5,900	7,900	5,200	5,800	9,000	11,000	8,700	10,500	13,000	15,000
Operating profit (Results)	5,646	7,110	7,741	6,550	8,890	10,255	10,558	9,197	12,268	14,102	
Results vs. Initial Est.	27.2%	20.5%	-2.0%	26.0%	53.3%	13.9%	-4.0%	5.7%	16.8%	8.5%	
Recurring profit (Initial Est.)	4,600	6,000	8,200	5,500	6,000	9,000	11,000	8,700	10,500	13,000	15,000
Recurring profit (Results)	5,801	7,363	8,076	6,812	8,914	10,571	11,003	9,662	12,558	14,745	
Results vs. Initial Est.	26.1%	22.7%	-1.5%	23.9%	48.6%	17.5%	0.0%	11.1%	19.6%	13.4%	
Net income (Initial Est.)	2,978	4,000	5,400	3,520	3,880	5,800	7,184	5,800	6,880	8,330	10,230
Net income (Results)	4,070	4,836	5,441	4,404	5,463	6,909	7,350	6,326	8,051	10,060	
Results vs. Initial Est.	36.7%	20.9%	0.8%	25.1%	40.8%	19.1%	2.3%	9.1%	17.0%	20.8%	

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods

Medium-term management strategy

New medium-term management plan TOCALOTOCALO2030 (May 11, 2026)

TOCALO2030 (five-year medium-term management plan for FY03/27–FY03/31)

Overview

- ▶ On May 11, 2026, the company announced that it formulated TOCALO2030, a new medium-term management plan covering the five years from FY03/27 to FY03/31, with FY03/26 as the base year. Noting that it achieved the earnings targets of the previous medium-term plan, TOCALO2025 (the five years from FY03/22 to FY03/26), one year ahead of schedule, the company positioned TOCALO2030 not as an extension of TOCALO2025 but as a growth strategy that takes on the challenge of a major new leap forward. The company aims to further enhance corporate value by steadily executing the growth strategies set out in TOCALO2030.
- ▶ The company cited the following four priorities of TOCALO2030:
 - Expand growth businesses such as the semiconductor/FPD field through bold deployment of management resources
 - Strengthen the technology development structure that underpins the company's competitiveness, and upgrade manufacturing and quality control systems
 - Accelerate expansion into global markets, including the development of new markets
 - Strengthen the management foundation—human resource development, sustainability, the supply chain, the financial base, and governance—to support sustained growth

Numerical targets (final year: FY03/31)

The company's numerical targets for the final year (FY03/31) are as follows.

- Sales: JPY90.0bn (versus JPY58.5bn in FY03/26)
 - Semiconductor/FPD: JPY45.0bn (versus approximately JPY24.8bn)
 - General industry: JPY26.0bn (versus approximately JPY18.5bn)
 - Domestic and overseas subsidiaries: JPY19.0bn (versus approximately JPY15.1bn)
- Recurring profit: JPY20.0bn (versus JPY14.7bn)

- RPM: 22.2% (versus 25.2%)
- ROE: 15% or higher (versus 15.8%)
- ROIC: 13% or higher (versus 13.1%)
- Payout ratio: around 50% (versus 50.2%)
- DOE: 5% or higher (versus 7.9%)
- ROIC: return on invested capital; DOE: dividend on equity ratio

Breakdown of the consolidated sales target of JPY90.0bn

- ▶ Among its performance targets, the company positions the achievement of consolidated sales of JPY90.0bn in the final year, FY03/31, as its top priority. The FY03/31 sales target of JPY90.0bn represents an increase of about JPY31.5bn from the FY03/26 result of JPY58.5bn. The company projects the breakdown of the JPY31.5bn increase as follows.
 - Semiconductor/FPD field: increase of about JPY20.2bn
 - General industrial field: increase of about JPY7.5bn
 - Domestic and overseas subsidiaries: increase of about JPY3.9bn

Semiconductor/FPD field

- ▶ The company assumes the global semiconductor market will expand to about 2.3× its 2022 size by 2030. By making large-scale investments centered on capacity expansion for the semiconductor/FPD field (some already underway) and capturing this expanding demand effectively and reliably, the company targets a sales increase of about JPY20.2bn over the five years. In the process, the company intends to strengthen and evolve its competitive advantages and fully utilize them. The company identifies three competitive advantages: 1) surface treatment technologies essential to semiconductor production equipment; 2) proprietary core technologies and rigorous quality control; and 3) a corporate foundation that supports sustained growth.

The company's competitive advantages

- ▶ In recent years, semiconductor miniaturization and performance gains have advanced rapidly, making sophisticated surface modification technologies essential for semiconductor production equipment components. The company believes thermal spraying, its core technology, is an effective solution to the challenges facing semiconductor production equipment (responding to miniaturization and higher performance). The quality control expertise the company has accumulated is also essential. The company acknowledges it holds a strong competitive advantage in thermal spraying technology, built on more than 70 years of technological accumulation.
- ▶ According to the company, its track record over roughly 30 years since entering the semiconductor/FPD field in 1998 has earned high marks from customers, including semiconductor production equipment manufacturers, leading to expanded business with existing customers in Japan and overseas and the acquisition of new customers.
- ▶ The company is convinced that the biggest reason it has been able to continuously evolve its thermal spraying technology is its foundation for sustained growth—above all, its stable financial position. Building on more than 70 years of experience and achievements and on this stable financial position, the company has been able to invest continuously in equipment and in R&D. In particular, in the semiconductor market, where technology innovation cycles are fast, the company's stable corporate foundation mitigates swings in its earnings and enhances the trust of customers such as semiconductor production equipment manufacturers.

Sales CAGR of 12.6% under TOCALO2030 is roughly double that of TOCALO2025

- ▶ By further evolving and strengthening these competitive advantages and deepening customer trust, the company aims to capture demand expanding through FY03/31 and achieve semiconductor/FPD-related sales of JPY45.0bn in FY03/31. The target CAGR for semiconductor/FPD-related sales over the five years of TOCALO2030 is 12.6%, roughly double the 6.4% achieved under the previous plan, TOCALO2025.

General industrial field

- ▶ The company also targets sales growth in the general industrial field, in addition to the semiconductor/FPD field. However, the domestic steel making field, which drove the company's growth in the 1980s, has clearly plateaued due to declining automobile production and intensifying competition with overseas manufacturers, and the room for

growth in the general industrial machinery field is by no means large. Against this backdrop, over the five years (FY03/27–FY03/31), the company will push to capture mass-production projects from growth fields. The company has stated that it will specifically target the environment/energy and aircraft industries as growth fields.

Environment/energy and aircraft industries positioned as growth fields

- ▶ Environment/energy is a very broad field, and within it the company is focusing on the gas turbine-related market. The company thinks that as global demand for gas-fired power generation expands, higher combustion temperatures to improve generation efficiency will be unavoidable, leading to increased demand for thermal spraying. With global power generation demand rising, orders in the gas turbine-related market are expected to expand toward 2030, and the company believes that expectations for future growth are high.
- ▶ In addition, according to various research organizations, aircraft demand is expected to expand over the medium term, with most of the growth coming from the introduction of new aircraft with superior fuel efficiency and CO2 reduction. The company expects increased focus on the importance of thermal spraying technologies that enhance the wear and heat resistance of aircraft engine components in these new aircraft.

Sales CAGR of 7.0% under TOCALO2030 exceeds the 5.3% of TOCALO2025

- ▶ By strengthening existing fields (such as steel making and industrial machinery) while capturing mass-production work from these new growth fields (such as environment/energy and the aircraft industry), the company aims to achieve general industrial sales of JPY26.0bn in FY03/31. The CAGR for general industrial sales the company targets over the five years of TOCALO2030 is 7.0%, above the 5.3% achieved under TOCALO2025.

Domestic and overseas subsidiaries

- ▶ The company targets a sales increase of about JPY3.9bn at subsidiaries over the five years from FY03/27 to FY03/31 (from about JPY15.1bn in FY03/26 to the FY03/31 target of JPY19.0bn), a cautious outlook compared with the other two fields (semiconductor/FPD and general industrial). The CAGR for domestic and overseas subsidiary sales the company targets over the five years of TOCALO2030 is 4.6%, far below the 17.3% achieved under TOCALO2025.

Domestic Subsidiaries

- ▶ The domestic subsidiaries are Japan Coating Center Co., Ltd. (a wholly owned subsidiary; "JCC"), which has long focused on automotive-related business, and Terada Kosakusho (a manufacturer of machine tool and precision machinery parts), which the company made a subsidiary in August 2024. From a medium-term perspective, the company expects the plan period to be a transitional phase in which it explores a new direction for the Domestic Subsidiaries segment. Specifically, while continuing to emphasize automotive-related business, it aims to expand non-automotive business, moving away from a structure consisting solely of JCC, which is heavily dependent on automobile production. However, because such structural reform takes time to bear fruit, the company suggested that while it expects sales growth, it formulated a conservative plan.

Overseas Subsidiaries

- ▶ Meanwhile, for the Overseas Subsidiaries segment, which achieved substantial growth under TOCALO2025, the company is concerned about a certain degree of pullback during the five years of TOCALO2030. Under TOCALO2025, Overseas Subsidiaries sales grew at a five-year CAGR of 20.6% from FY03/21 to FY03/26, the largest contributor to the 8.3% CAGR of consolidated sales over the same period. While the company rates this performance as exceeding its expectations, it also believes some orders (sales) exceeded real demand, and judged that expecting similar sales growth under TOCALO2030 would be risky. The company suggested it therefore adopted a conservative outlook for the segment, as with Domestic Subsidiaries.
- ▶ At the same time, the company noted it will continue to focus on growing the segment under TOCALO2030, pointing to solid demand in the Chinese and Taiwanese markets and to the rebuilding of its US business (establishing a new company in Arizona to capture local demand).

Three growth strategies for achieving sales of JPY90.0bn

The company identified the following three pillars as growth strategies for achieving the JPY90.0bn sales target set under TOCALO2030.

1) Deepening core businesses

- ▶ In the semiconductor/FPD field, the company aims to capture market growth and achieve significant business expansion. In the general industry field, the company plans to strengthen its foundations in industrial machinery, steel making, and environment/energy, and to develop new earnings pillars. While expanding these core businesses, the company will execute aggressive capex (including capacity expansion and the introduction of advanced technologies), particularly in the semiconductor/FPD area, to enhance competitiveness. The company also aims to maintain its high-profit structure even during the period of upfront spending by improving productivity.

2) Expanding strategic business domains

- ▶ The company aims to accelerate group-wide growth, centered on domestic and overseas subsidiaries, by expanding its strategic business domains through new technology development (such as thin-film technologies including PVD and CVD, and ultra-high-precision processing using laser processing machines) and market development. To this end, the company plans to accelerate business expansion in global markets, designating the US and Southeast Asia as priority regions, while strengthening its operations in China and Taiwan, where it has already been expanding. The company will also explore the potential of the Indian market as foundation for future growth.

3) Strengthening the management foundation supporting sustainable growth

- ▶ Based on the view that a robust management foundation underpins growth, the company sets three pillars: 1) upgrading manufacturing in both hardware and software terms and strengthening the quality control structure; 2) sustainability (including continued promotion of ESG management and building a sustainable supply chain), and 3) expanding human capital management (including medium-term human resource development, enhancing employee satisfaction, and improving the workplace environment).

High effective growth rate behind the JPY20.0bn recurring profit target

- ▶ The company targets consolidated recurring profit of JPY20.0bn in the final year, FY03/31, representing a CAGR of 6.3% over the five years (FY03/27–FY03/31), below the 10.6% achieved under TOCALO2025. Moreover, since the company targets a consolidated sales CAGR of 9.0% over the period, the growth rate for recurring profit appears low.
- ▶ Under TOCALO2030, the company plans growth investment of JPY40.0–60.0bn, centered on the semiconductor/FPD field, and projects that the depreciation burden will increase in step with the capacity expansion investment at its core, such as new plant construction. The company expects this depreciation burden to weigh on recurring profit growth to a certain extent; on the other hand, it forecasts pronounced sales growth in the highly profitable semiconductor/FPD field, which will certainly make a considerable contribution to recurring profit. According to the company, the main reason the recurring profit CAGR over the five years appears low is that the FY03/26 result—the plan's base year—was inflated by one-off factors.

Growth rate of recurring profit on an underlying basis is not low

- ▶ Recurring profit on an underlying basis, which the company began voluntarily disclosing with its FY03/26 results, excludes one-off factors (the impact of retirement benefit accounting and subsidy income), and was JPY13.7bn in FY03/26. The FY03/31 recurring profit target of JPY20.0bn does not incorporate these one-off factors at all. On this basis, the CAGR for recurring profit on an underlying basis over the five years from FY03/27 to FY03/31 works out to 7.9%, higher than the 6.3% CAGR for conventional recurring profit. Even so, the adjusted CAGR of 7.9% still looks low against the sales CAGR of 9.0%, but the company stated it will steadily translate sales growth—particularly in the semiconductor/FPD field—into profit and channel it into enhanced shareholder returns.

Cash allocation (five years)

- ▶ The company's planned cash allocation for the five years is as follows. To achieve consolidated sales of JPY90.0bn and consolidated recurring profit of JPY20.0bn, the company plans to execute active growth investment in the semiconductor/FPD, general industrial, and overseas fields. At the same time, for shareholder returns, it will combine a stable dividend policy with flexible share buybacks. The company's assumed cash in and cash out are as follows.

Cash in: about JPY105.0–120.0bn

- Operating cash flow over the five years: JPY80.0–90.0bn
- Borrowings and other financing during the period: JPY10.0–15.0bn

- Surplus cash on hand at end-FY03/26: JPY14.7bn
- ▶ The company assumes cash in of about JPY105.0–120.0bn over the five years (FY03/27–FY03/31), comprising operating cash flow generation of JPY80.0–90.0bn (the sum of average annual operating cash flow of JPY16.0–18.0bn), surplus cash on hand of about JPY14.7bn at end-FY03/26, and new borrowings of JPY10.0–15.0bn.

Operating cash flow of up to JPY90.0bn

- ▶ The largest source of the roughly JPY105.0–120.0bn in cash in is newly generated operating cash flow. This averages JPY17.0bn per year over the five years, but the company suggested operating cash flow will increase gradually each year from FY03/27, the first year of the medium-term plan, as the depreciation burden associated with new plant start-ups rises in stages. In addition, given the order backlog at end-FY03/26 (end-March 2026), the company expects to record a considerable level of recurring profit from FY03/27 onward, and said it has no particular concerns about the five-year operating cash flow plan target (JPY80.0–90.0bn).
- ▶ The company suggested that the JPY10.0–15.0bn in borrowings and other financing is a precautionary provision. With a high equity ratio (74.8%) and a net cash position, the company will basically draw first on its JPY14.7bn in cash on hand; the borrowing provision is intended to cover items not incorporated in the cash out plan, such as potential M&A deals.

Cash out: JPY75.0–115.0bn

- Growth investment: JPY40.0–60.0bn
- Shareholder returns (dividends and share buybacks): JPY25.0–30.0bn
- Other: JPY10.0–20.0bn

Growth investment of up to JPY60.0bn

- ▶ The company plans the above capital allocation against assumed cash in of about JPY105.0–120.0bn over the five years. The largest component, growth investment of JPY40.0–60.0bn, centers on three areas: 1) semiconductor/FPD field: capacity expansion and responding to advanced technologies; 2) general industrial field: construction of new plants (new buildings) and responding to growth fields such as environment/energy; and 3) overseas business: rebuilding the US business and expanding the scale of operations in the ASEAN region. The company has not disclosed a breakdown of the growth investment (JPY40.0–60.0bn), but has stated that capital investment in the semiconductor/FPD field in 1) will be the largest. The company intends to invest actively in projects that will contribute to further future earnings, albeit conditional on demand trends.
- ▶ The growth investment (JPY40.0–60.0bn) does not include M&A. However, the company says it will consider M&A deals in a timely manner if they are necessary for medium- to long-term growth.

Shareholder returns of up to JPY35.0bn planned

- ▶ Beyond growth investment, the company plans to allocate JPY25.0–35.0bn to shareholder returns. As its shareholder return policy, the company aims to maintain a consolidated payout ratio of about 50% and a DOE of 5% or higher. It also intends to conduct share buybacks flexibly, taking into account the business environment and its financial position. The remaining JPY10.0–20.0bn in "other" covers cash out for various expenses, and the company suggested it includes human capital investment (workforce expansion and continued wage increases).
- ▶ Both the cash in (about JPY105.0–120.0bn) and cash out (JPY75.0–115.0bn) figures in the company's cash allocation are presented as ranges. According to the company, this is because, particularly in the latter half of the five years from FY03/27 to FY03/31, it anticipates effects that depend on semiconductor market conditions (fluctuations in operating cash flow, whether additional capital investment is needed). Another reason is that the amount invested in strengthening the overseas business, a focus of the plan, may vary with economic conditions.

Business

Business overview

Note: Key figures have been updated, but some figures will be updated when the 1H results are announced following the release of the company's annual securities report for FY03/25.

Surface treatment centered on thermal spraying

The TOCALO group comprises a parent company, six consolidated subsidiaries, and two non-consolidated subsidiaries. It primarily conducts thermal spraying but also provides peripheral services, including the Toyota diffusion (TD) process, zinc-allow coating (ZAC), plasma transferred arc (PTA) process, and physical vapor deposition (PVD) process. These are all surface treatments that improve the performance of the workpiece through the application of coatings that have different properties from the substrate (the material to which spraying deposit is applied).

The company's strength is in R&D aimed at finding possibilities for new coatings. TOCALO is also proficient in solution-based marketing that resolves customers' worksite issues. Rather than just providing simple proposals, the company actively works with customers to develop new applications, as seen in its partnership with Tokyo Electron, and this approach has propelled it to gain top market share in the industry. The company emphasizes three-pronged management involving "manufacturing, marketing, and technological development."

Segments

By segment, Thermal Spraying (TOCALO) accounted for 75.2% of sales in FY03/23, while Domestic Subsidiaries accounted for 5.0%, Overseas Subsidiaries 13.8%, Other Surface Treatments 5.7%, and Royalty Income 0.4%. Segment profit margins (recurring profit basis) were 23.1% for Thermal Spraying, 14.6% for Domestic Subsidiary, 25.0% for Overseas Subsidiaries, and 17.0% for Other Surface Treatments. Overseas sales, which comprised 23.3% of total sales in FY03/23, primarily came from Japanese companies that have expanded abroad. While some overseas competitors sell thermal spraying materials and equipment in addition to providing contracted treatment services, TOCALO specializes in services. The company has licensing agreements with a number of overseas companies including competitors and receives royalty income (JPY177mn in FY03/23).

Breakdown of sales by segment

By segment	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,746	28,964	34,109	39,558	37,896	39,073	43,813	48,144	46,735	54,231
YoY	10.3%	0.8%	17.8%	16.0%	-4.2%	3.1%	12.1%	9.9%	-2.9%	16.0%
Thermal Spraying (Parent)	21,933	22,309	26,183	30,400	28,221	30,141	33,043	36,184	33,859	39,213
YoY	14.4%	1.7%	17.4%	16.1%	-7.2%	6.8%	9.6%	9.5%	-6.4%	15.8%
% of total	76.3%	77.0%	76.8%	76.8%	74.5%	77.1%	75.4%	75.2%	72.4%	72.3%
Domestic Subsidiary	1,978	2,111	2,312	2,493	2,364	2,018	2,399	2,414	2,457	2,656
YoY	1.5%	6.8%	9.5%	7.8%	-5.2%	-14.6%	18.9%	0.6%	1.8%	8.1%
% of total	6.9%	7.3%	6.8%	6.3%	6.2%	5.2%	5.5%	5.0%	5.3%	4.9%
Overseas Subsidiaries	3,262	2,806	3,642	4,460	4,925	4,800	5,695	6,622	7,257	9,319
YoY	2.4%	-14.0%	29.8%	22.5%	10.4%	-2.5%	18.6%	16.3%	9.6%	28.4%
% of total	11.3%	9.7%	10.7%	11.3%	13.0%	12.3%	13.0%	13.8%	15.5%	17.2%
Other Surface Treatments	1,572	1,736	1,971	2,204	2,384	2,112	2,502	2,745	3,019	2,880
YoY	-10.6%	10.4%	13.5%	11.8%	8.2%	-11.4%	18.5%	9.7%	10.0%	-4.6%
% of total	5.5%	6.0%	5.8%	5.6%	6.3%	5.4%	5.7%	5.7%	6.5%	5.3%
Royalty income	-	-	-	-	-	-	171	177	141	161
YoY	-	-	-	-	-	-	-	3.5%	-20.3%	14.2%
% of total	-	-	-	-	-	-	0.4%	0.4%	0.3%	0.3%

Source: Shared Research based on company data

Breakdown of sales by region

By region (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,746	28,964	34,109	39,558	37,896	39,073	43,813	48,144	46,735	54,231
YoY	10.3%	0.8%	17.8%	16.0%	-4.2%	3.1%	12.1%	9.9%	-2.9%	16.0%
Domestic	23,678	24,407	28,206	32,155	30,543	30,350	34,568	36,942	33,573	37,914
YoY	9.6%	3.1%	15.6%	14.0%	-5.0%	-0.6%	13.9%	6.9%	-9.1%	12.9%
% of total	82.4%	84.3%	82.7%	81.3%	80.6%	77.7%	78.9%	76.7%	71.8%	69.9%
Overseas	5,068	4,557	5,903	7,403	7,352	8,722	9,245	11,202	13,162	16,317
YoY	13.7%	-10.1%	29.5%	25.4%	-0.7%	18.6%	6.0%	21.2%	17.5%	24.0%
% of total	17.6%	15.7%	17.3%	18.7%	19.4%	22.3%	21.1%	23.3%	28.2%	30.1%

Source: Shared Research based on company data

Business model

Note: Key figures have been updated, but some figures will be updated when the Q1 results are announced following the release of the company's annual securities report for FY03/25.

Focus on functional thermal spraying

One of TOCALO's strengths is its ability to handle a wide variety of surface treatments, ranging from thick coating (e.g., thermal spraying, TD process, ZAC, and PTA process) to thin coating (e.g., PVD process). Of the different categories in thermal spraying (metalized contact thermal spraying, maintenance thermal spraying, and functional thermal spraying), the company excels in functional thermal spraying, which is high value-added and has strong growth potential. It has captured more than 40% of the thermal spraying market in Japan (scale of about JPY60.0bn in 2018; source: Yano Research Institute) and holds the top share.

Key phrases that describe TOCALO

- ▶ **A coating shop:** The company's sales come from coating treatment fees. Although it is a manufacturer, it does not make original products. Workpieces inside of the company's factories belong to its customers.
- ▶ **Niche business in a niche market:** TOCALO's coating treatments are mainly applied to goods and manufacturing equipment components. The customers are manufacturers spanning a wide range of sectors from industrial to lifestyle-related, resulting in a customer mix that helps TOCALO navigate through changing economic climates.
- ▶ **Made-to-order production:** The company's coating technology is both important and essential to customer production lines and products. Accordingly, the company develops coatings that are specially adjusted for each customer.
- ▶ **R&D driven:** By responding to advanced technological demand, the company targets further growth that will enable it to meet diverse customer needs.

Characteristics of thermal spraying

Thermal spraying is a surface coating treatment that uses thermal energy to create molten or semi-molten materials, which—through the addition of kinetic energy—are simultaneously atomized into fine droplets that are emitted at high speeds (spraying). These droplets then make contact with and accumulate on the workpieces, creating a coating. Since thermal spraying can accommodate broad ranges of temperatures and speeds generated from thermal and kinetic energy, it allows for the application of various spraying materials as long as they can be turned to a molten or semi-molten state. Furthermore, there are relatively few limitations on substrates (the material to which spraying deposit is applied), allowing for a high degree of freedom when choosing which spraying and substrate materials to use together. Compared to surface treatments such as plating or physical vapor deposition, coating layers created through thermal spraying do not excel in terms of structural control and density. However, the technology allows for broad selection of materials and is characterized by its high speed and capacity to be applied to large surfaces.

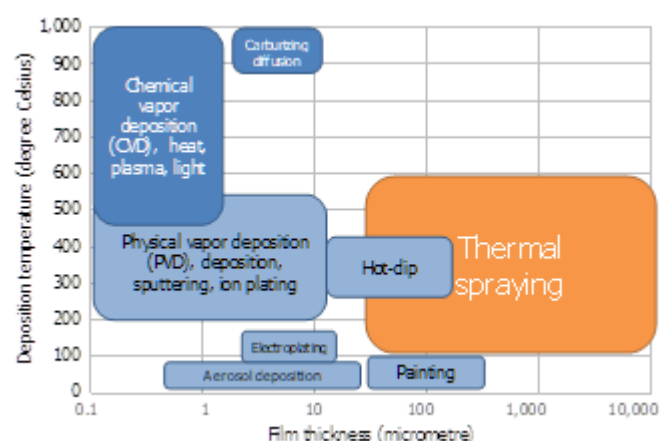
Coating technologies

Method	Coating material	Substrate material	Adhesion	Deposition rate (mm/h)	Principle	Film thickness
Thermal spraying	Metal, alloy, ceramics, plastics, glass	Metal, ceramics, plastics, wood, paper product	Excellent	Flame: 15kg/h Arc: 25kg/h	Thermal spraying; spraying; stacking	Thick
Plating	Metal, alloy	Materials resistant to corrosion by plating liquid	Relatively good	0.01–0.25	Wet plating; reduction of ion; precipitation	Thin, thick
Chemical vapor deposition (CVD)	Heat-resistant metal, sulfide, ceramics, selenium compound	Materials resistant to heat (500–2000 degree Celsius) and chemical corrosion by evaporation materials	Relatively good	0.01–2.00	Chemical reaction of gases; precipitation	Thin
Vacuum deposition	Pure metal, alloy, compound	Surface without gas emission	Good with substrate heating; Excellent when substrate is cleaned with sputtering	0.015–4.500	Vaporization; precipitation	Thin
Ion plating	Pure metal, alloy, carbide, nitride, oxide	Surface without gas emission	Excellent	0.005–1.500	Dry plating; reduction of ion; precipitation	Thin

Source: Shared Research based on data from the Japan Thermal Spray Society

Coating technologies can be divided into thick coating, which includes thermal spraying and plating, and thin coating, which includes chemical vapor deposition (CVD), vacuum deposition, and ion plating. Plating has long been used as a coating technique because it is inexpensive and produces relatively high adhesive properties. However, when compared with thermal spraying, plating takes more time, only allows for metals and alloys to be used as coating materials, and has an extremely large impact on the environment. Thermal spraying, on the other hand, is widely used as a coating technology in industrial circles despite its higher costs compared to plating, because the method coats quickly and is applicable to a wide range of coating materials, including metals, ceramics, plastics, and glass.

Coating thickness and film formation temperatures by type of surface treatment



Source: Shared Research based on company data

Comparison between electroplating and thermal spraying

Category	Method	
	Electroplating (hard chrome plating)	Thermal spraying (WC/12Co cermet)
Process	Wet	Dry
Coating characteristics	Difficult with complex shape	Difficult with complex shape
Deposition rate	Low	High
Coating material selection	Extremely limited	Very wide
Film adhesion	High	High
Film hardness	Hv800–900	Hv1100 or higher
Hydrogen embrittlement	Highly susceptible	None
Environmental impact	Very large	Small

Source: Shared Research based on data from the Japan Thermal Spray Society

Thermal spraying applications

Purpose	Sprayed material	Application
Corrosion resistance	Zinc, aluminum, aluminum-zinc alloy, plastics, stainless steel	Chemical plants, steel structures, marine structures
Abrasion resistance	Cemented carbide (WC/Co), self-fluxing alloy, Co-Cr-Al alloy, Al ₂ O ₃ -TiO ₂ , stainless steel)	Hot-rolling hearth roll, press mold, hot-extrusion dies, pump shaft sleeves and seals, water wheel paddles, printer dampening rollers, various mechanical parts
Gap adjustment	Si-Al-polyester, Ni-C	Jet engine compressor sliding units, housing for turbo charger compressor
Heat resistance	Zirconia (ZrO ₂ -Y ₂ O ₃ , ZrO ₂ -CaO, ZrO ₂ -MgO), M-Cr-Al-Y alloy, Ni-Cr alloy	Gas turbine blades, jet engine combustion chamber wall, rocket engine nozzles
Insulation property	Al ₂ O ₃	Electric parts
Conductive property	Cu, Al, Ni-Cr alloy	Electric heaters
Decoration	Brass, various types of ceramics	Furniture, manhole covers
Biocompatibility	Pure titan, hydroxyapatite	Artificial bones, artificial hip prostheses, artificial tooth roots
Other	Zirconia	Oxygen sensors, electrolytes for solid oxide fuel cell

Source: Shared Research based on data from the Japan Thermal Spray Society

Thermal spraying equipment is categorized by the heat source it uses, which includes combustion gas, electricity, and laser. Based on the types of spraying material and gas pressure levels applied, equipment using combustion gas can be further broken down into wire, rod, or powder flame spraying equipment, high velocity flame spraying equipment (for high velocity oxy fuel [HVOF] and high velocity air fuel [HVOF] processes), and detonation spraying equipment (for D-gun treatment). Equipment using electricity as the heat source includes arc spraying equipment (for wire spraying that utilizes arc discharge) and plasma spraying equipment (for atmospheric plasma spraying, low-pressure plasma spraying, high-pressure plasma spraying, and underwater plasma spraying among others). Compared to atmospheric plasma spraying, low-pressure plasma spraying allows for faster spraying of molten particles, and can form a coating with higher density and bonding strength. It is widely used as an indispensable thermal spraying method in advanced fields such as high-performance coating for components of semiconductor and FPD manufacturing equipment.

Heat source	Spraying method		Material
Combustion gas	Flame spraying	Wire flame	Metal wire, ceramic-filled plastic tube
		Rod flame	Ceramic rod
		Powder flame	Metal, ceramics, plastic
	High velocity flame spraying	High velocity oxy fuel (HVOF)	Metal, cermet
		High velocity air fuel (HVOF)	Metal, cermet
Electric	Detonation spraying	Detonation gun process	Metal, ceramics
	Plasma spraying (direct current [D.C.])	Arc spraying	Metal wire, ceramic-filled metal tube
		Atmospheric	Oxide ceramics
		Low-pressure	Metal, cermet
		High-pressure	Ceramics, intermetallic compound
		Underwater	
		Water-stabilized	Oxide ceramics
	Radio frequency induction plasma spraying		Ceramics, metal
	Electromagnetic acceleration plasma spraying		Ceramic rod, metal rod
	Wire explosion spraying		Metal wire
Laser beam	Electrothermally exploded power spray		Conductive ceramic powder, metal powder
	Laser spraying		Metal wire, ceramics
Other	Laser plasma hybrid spraying		Ceramics, metal
	Cold spray		Metal, cermet, some ceramics

Source: Shared Research based on material from Japan Thermal Spray Society

Wire flame spraying method: Main characteristics are as follows (the same characteristics also apply to arc spraying):

- 1) The workpiece can be held at a low temperature during spraying, preventing undesirable thermal impact such as dimensional changes, deformation, cracking, or deterioration of strength.
- 2) Allows for a wide selection of coating thickness (normally 0.1–5.0 mm)
- 3) Produces a coating with excellent abrasion resistance because the particles that form the coating via this method achieve hardness beyond that of their raw material state. Hard materials, such as metallic oxide, nitride, and carbide are also interpositioned and dispersed within the coating for added strength.

Arc spraying method: Advantages over flame spraying that uses combustion gas are as below:

- 1) Thermal spraying capacity is more than twice as high and is more efficient when applied to articles with large surface areas
- 2) Has a higher degree of sectional adhesion, leading to stronger overall adhesiveness
- 3) Offers higher compressive strength, enabling use under heavy loads

Plasma spraying method: "Plasma" refers to ionized gases that form when gases are heated and their molecules separate into atoms and further break down into electrons and positive ions (electrolytic dissociation). Plasma spraying is a thermal spraying treatment that utilizes a high-temperature and high-speed gas jet, or "plasma jet," that gathers these gases and uses them to melt and spray out metals, alloys, and refractory materials including various types of ceramics, or cermet, which is a combination between ceramics and metals or alloys. Plasma spraying methods include atmospheric plasma spraying (APS), which is conducted in normal atmospheric air, and vacuum plasma spraying (VPS), which is conducted within a chamber with atmosphere and pressure controls.

Wire flame spraying: A thermal spraying treatment in which metal or alloy wire is melted by an oxy acetylene (propane) flame, atomized to form a fine spray, and propelled to the substrate to form a coating. Both wire flame spraying and arc spraying are categorized as wire treatments. A wide range of wires can be used, including materials with low melting points such as aluminum, zinc, and babbitt metals, as well as metals and alloys such as copper, bronze, monel, carbon steel, stainless steel, and molybdenum.

Rod flame spraying: A thermal spraying treatment in which ceramic rods molten by a combustion gas flame (primarily oxy acetylene) is atomized into particles and sprayed onto the substrate. Only particles that have been completely melted are propelled to the substrate using compressed air, forming a ceramic coating that is high density and highly adhesive.

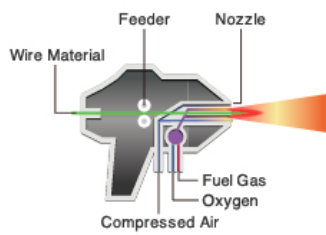
Powder flame spraying: A thermal spraying treatment in which self-fluxing alloys* in powder form are molten by an oxy acetylene (propane) flame. Particles of the molten material are then sprayed onto the substrate. The method also involves a fusing treatment performed after spraying (heating the applied coating to its melting point), which strengthens the bond between the coating and the substrate, forming a nearly nonporous coating that offers high degrees of adhesion and excellent corrosion resistance. In the fusing and solidifying process, the coating deposits a solid layer of boride and carbide, also adding high abrasion resistance to the coating. The treatment is also characterized by excellent resistance to corrosion from most chemical solutions, erosion resistance, cavitation erosion resistance, and hot hardness.

*Self-fluxing alloy: any alloy used in thermal spraying which does not require the addition of a flux in order to wet the substrate and coalesce when heated.

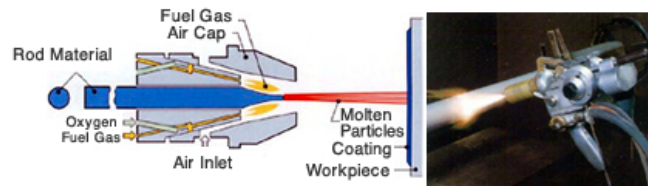
High velocity flame spraying: In high velocity oxy fuel (HVOF) spraying, a type of high velocity thermal spraying, the pressure inside the spray gun combustion chamber is raised to generate a high velocity flame that is comparable to a flame produced through explosive, detonative combustion. Spraying material in powder form, fed into the center of the jet stream generated by this flame, achieves a molten or semi-molten state; the resulting particles are then continuously sprayed onto the substrate at a high velocity. This method allows for the creation of an extremely dense and adhesive coating because it forces the sprayed particles to collide with the substrate at supersonic speeds. The true value of HVOF spraying lies in its capacity to form a carbide cermet coating that is particularly resistant to abrasion. This method produces coatings of more uniform quality than detonation spraying because it forms coatings continuously.

Source: Shared Research based on company data

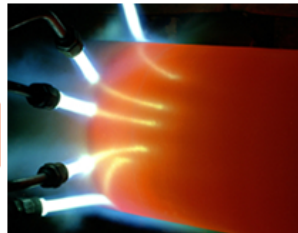
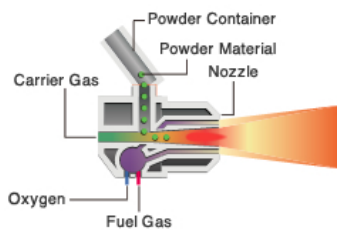
Wire flame spraying (combustion gas)



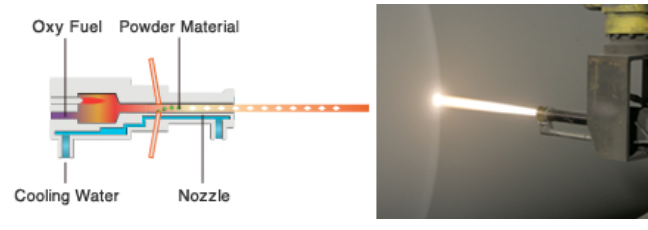
Rod flame spraying (combustion gas)



Powder flame spraying (combustion gas)



High velocity flame spraying (combustion gas)



Source: Company data

Arc spraying: This is a method that involves feeding two conductive wires (one positive and one negative) through to the gun head of a thermal spraying gun. The two wires meet at the tip of the gun (the nozzle), arc against each other, and create a molten material, which is then atomized into fine spray and propelled to the substrate using compressed air. Along with the wire flame spraying method, it is generally known as a wire treatment. All metals and alloys that can be processed into wires are compatible with electric arc spraying.

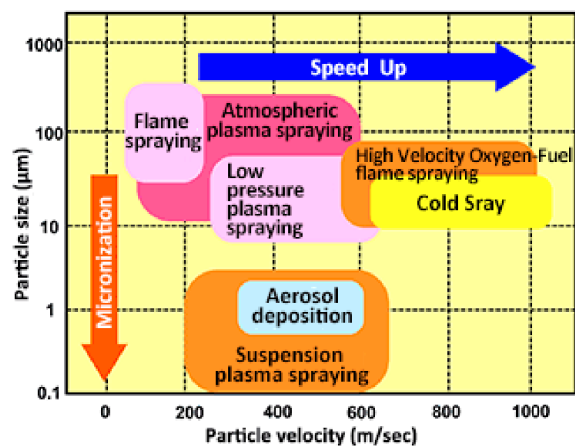
Plasma spraying: "Plasma" refers to ionized gases that form when gases are heated, and their molecules separate into atoms and then break down further into electrons and positive ions (electrolytic dissociation). A "plasma jet" is a high-speed gas jet formed by a convergence of plasma-state gases. "Plasma spraying" is a thermal spraying method that involves using a plasma jet with extremely high energy density and a temperature of over 10,000° Celsius to melt pulverized metals and alloys, ceramics that are refractory materials, or cermets (a combination between ceramics and metals or alloys). After being melted, these materials are sprayed onto the substrate. This method allows a high degree of freedom when selecting spraying materials and is characterized by the sprayed coating that is highly adhesive to the substrate.

Atmospheric plasma spraying (APS): a type of plasma spraying conducted under normal atmospheric pressure. APS coatings are a product of optimal material selection (i.e., studying the usage environment of the substrate and choosing the right material from a range of ceramics with varying characteristics), appropriate coating design, and stringent execution management, and are actively used in a variety of capacities. APS can also be simply referred to as "plasma spraying."

Low-pressure plasma spraying: A plasma spraying treatment that is conducted in an atmosphere- and pressure-controlled chamber. Prior to the spraying, the chamber is first evacuated, then filled with inert gas at a low pressure. The procedure is also referred to as vacuum plasma spraying (VPS). This thermal spraying method has three main characteristics: it does not damage material properties, and thus produces a coating with functionalities that are exactly as designed; active metals such as titanium can be used as coating material; and the molten particles that fly at a higher velocity than APS allow for a very dense coating with high bonding strength. This method is regarded as essential for the formation of high-performance coatings applied in advanced fields.

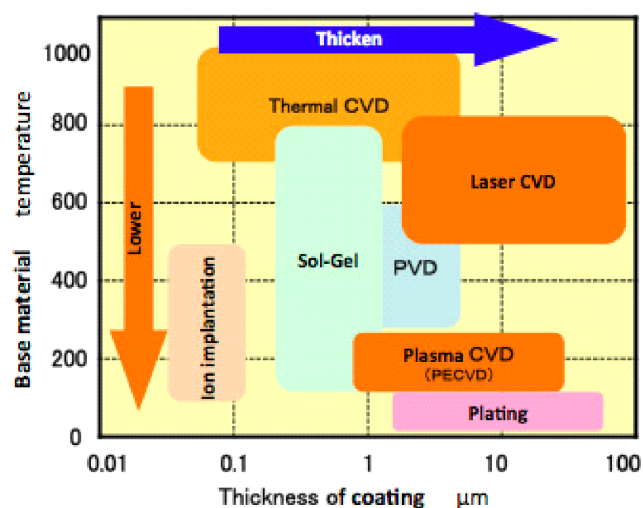
Source: Shared Research based on company data

Types of thermal spraying technology

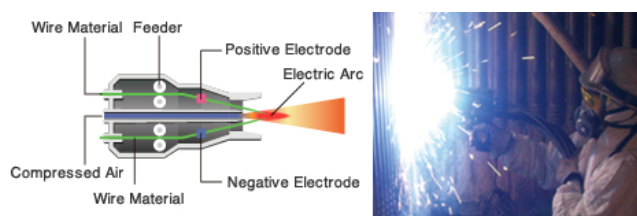


Source: Company data

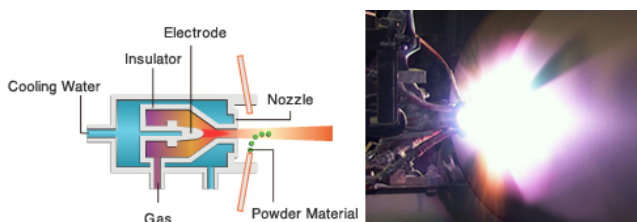
Types of coating technology



Arc spraying (electricity)

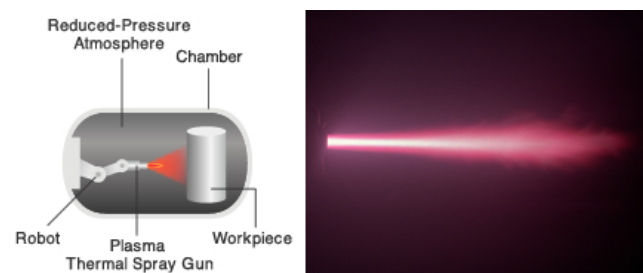


Atmospheric plasma spraying (electricity)

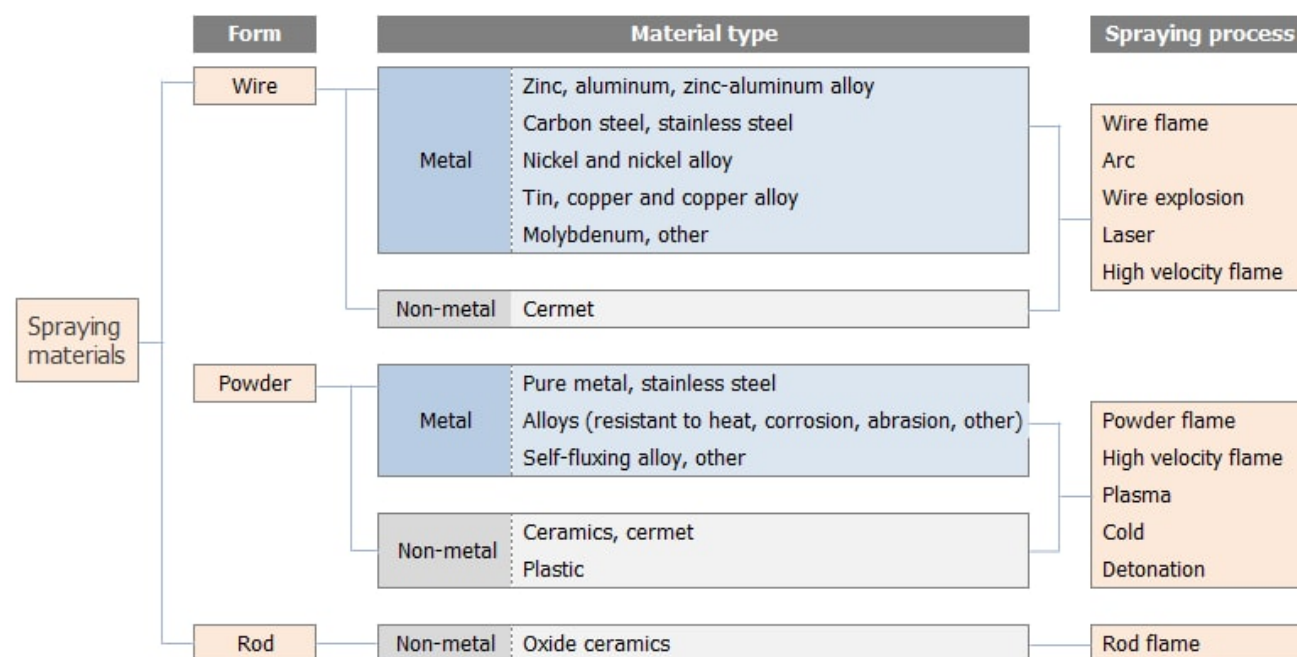


Source: Company data

Low-pressure plasma spraying (electricity)



Spraying materials—types and corresponding treatment methods



Source: Shared Research based on data from the Japan Thermal Spray Society

Surface treatments customized to individual orders

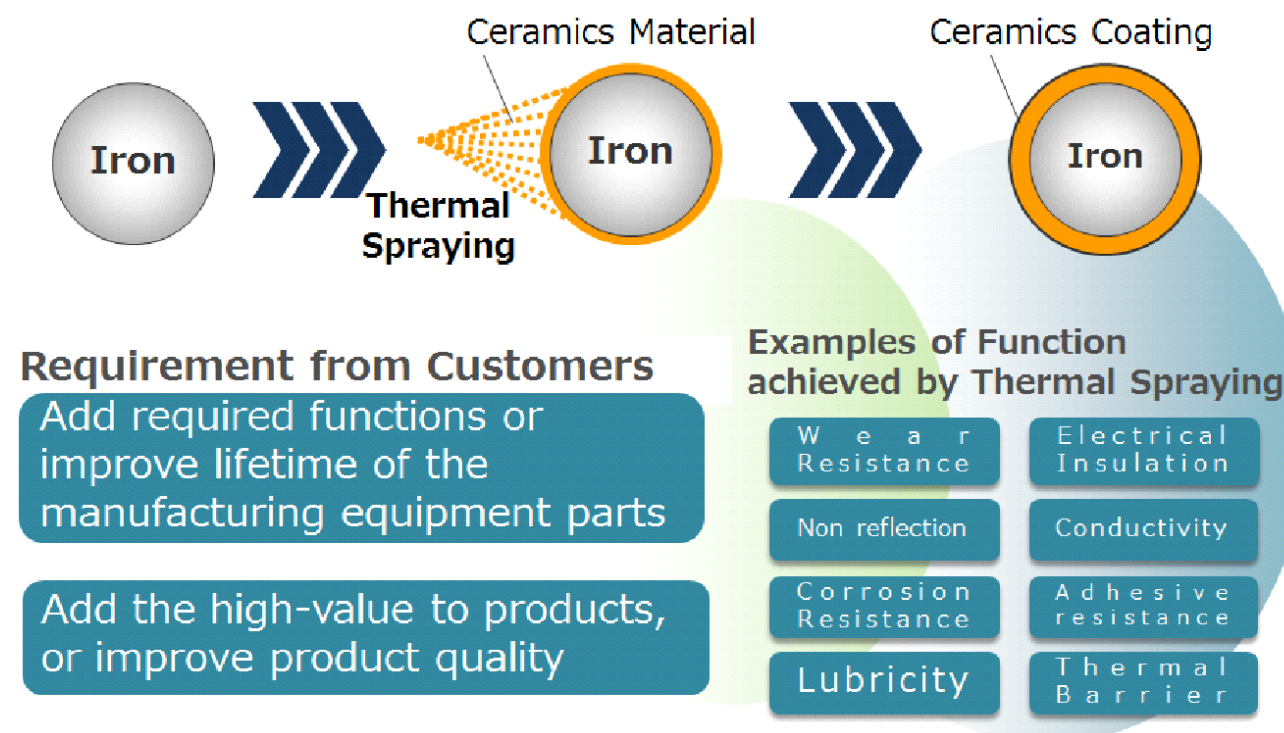
TOCALO conducts all of its surface treatments through a made-to-order production system. Accordingly, quantity is not a business priority. Once it receives an order from a customer, TOCALO has the workpieces (e.g., customers' goods and components of their manufacturing equipment) delivered to its factory, where they are kept while surface treatment is applied. The company procures the coating materials and generates sales by providing coating services. When the workpieces are too large to be removed from customer factories, as is the case with a yankee cylinder used in tissue paper production, TOCALO employees visit these factories to perform coating operations. As of end-FY03/23, the company had 1,300 full-time and directly hired temporary employees on a consolidated basis. When including temporary employees received on dispatch, staff totals are between 1,500 and 1,600 employees.

The company's operations include a mixture of semiautomated treatments, such as plasma spraying, and treatments that require human labor, such as flame spraying. Even the semiautomated treatments are considerably labor-intensive because the orders entail a wide variety of workpieces, each in small volume and requiring pretreatment, setting modification, and inspection processes done manually.

TOCALO specializes in surface treatments for industrial manufacturing equipment. Its surface treatment lines, mainly for thermal spraying, are designed to suit workpieces that have relatively large surface areas. Even in the case of handling small workpieces, the company responds to customer specifications that are becoming more diverse such as treatment on just specific parts of a component.

Among specific customer needs is the improvement of functionality and durability of the manufacturing equipment in their factories. For example, applying coatings to production line rolls in steel mills helps extend the lives of these rolls and raises the quality of the steel plates they produce. Customers also express the need to add value and enhance the qualities of their products through the application of functional coatings. Treatments of this nature include the coating for parts used in semiconductor equipment and gas turbine components. Cermet (ceramic metal) is a representative coating material. "Cermet" is a coined word that expresses both the hardness of ceramics and toughness of metal. The material's main components are titanium and tungsten, which give it excellent resistance to corrosion, make adhesion less likely, and allow for a clean finish of the surfaces. Thermal spraying treatment adds functional properties, such as abrasion resistance, seize resistance, corrosion resistance, lubricity, electric insulation, non-adhesiveness, water resistance, and heat resistance, in a relatively efficient manner.

Principle and effects of surface treatments



Source: Company data

Cost structure

In FY03/23, TOCALO reported a GPM of 36%, an SG&A ratio of 14%, and an OPM of 22%, on a consolidated basis. Labor cost and outsourcing cost accounted for 29% and 24% of total manufacturing costs at the parent respectively, while materials accounted for 14%, consumables 11%, utilities 5%, depreciation 7%, and other costs 10%. TOCALO's business is labor-intensive, with personnel expenses also accounting for 50% of SG&A expenses. We understand that full operational automation in the surface treatment business is difficult to attain because specifications are different for each customer and workpiece.

Cost of sales

Cost of sales	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(parent, JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
Materials costs	2,404	2,178	2,542	3,110	2,794	2,844	3,249	3,781	3,453	3,861
% of total	15.0%	13.8%	13.3%	13.9%	13.0%	13.3%	13.7%	14.2%	13.1%	13.1%
Labor costs	4,310	4,212	5,015	6,158	6,066	6,227	6,806	7,629	7,264	8,514
% of total	26.9%	26.6%	26.2%	27.6%	28.2%	29.1%	28.8%	28.6%	27.6%	28.9%
Outsourcing costs	4,658	4,622	5,407	5,916	5,653	5,353	5,833	6,488	7,134	7,321
% of total	29.1%	29.2%	28.3%	26.5%	26.3%	25.0%	24.7%	24.3%	27.1%	24.8%
Other costs	4,657	4,802	6,153	7,139	6,971	7,000	7,742	8,797	8,504	9,791
% of total	29.1%	30.4%	32.2%	32.0%	32.4%	32.7%	32.8%	33.0%	32.3%	33.2%
Utility	780	734	890	1,006	995	899	1,051	1,388	1,163	1,273
% of total	4.9%	4.6%	4.7%	4.5%	4.6%	4.2%	4.4%	5.2%	4.4%	4.3%
Consumables	1,404	1,518	1,931	2,149	1,936	2,130	2,539	3,013	2,832	3,548
% of total	8.8%	9.6%	10.1%	9.6%	9.0%	9.9%	10.7%	11.3%	10.7%	12.0%
Depreciation	967	1,094	1,225	1,804	2,020	1,864	1,851	1,952	2,030	2,133
% of total	6.0%	6.9%	6.4%	8.1%	9.4%	8.7%	7.8%	7.3%	7.7%	7.2%
Other	1,506	1,456	2,107	2,180	2,020	2,107	2,301	2,444	2,479	2,837
% of total	9.4%	9.2%	11.0%	9.8%	9.4%	9.8%	9.7%	9.2%	9.4%	9.6%
Total cost of manufacturing	16,029	15,814	19,118	22,325	21,486	21,425	23,632	26,697	26,356	29,489

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Changes in SG&A (consolidated)

SG&A expenses (cons., JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Directors' compensations	306	328	362	421	378	338	295	315	386	413
% of total	6.2%	6.7%	6.5%	7.0%	6.1%	5.7%	4.7%	4.6%	5.5%	5.2%
Personnel expenses	2,311	2,290	2,504	2,660	2,791	2,788	3,036	3,257	3,170	3,575
% of total	47.0%	46.8%	45.2%	44.2%	44.8%	47.1%	48.0%	47.8%	45.0%	44.8%
Personnel expenses	1,857	1,974	2,135	2,257	2,360	2,448	2,541	2,769	2,883	3,136
% of total	37.7%	40.4%	38.6%	37.5%	37.9%	41.3%	40.1%	40.7%	40.9%	39.3%
Provision for bonuses	279	298	323	326	318	402	444	437	357	416
% of total	5.7%	6.1%	5.8%	5.4%	5.1%	6.8%	7.0%	6.4%	5.1%	5.2%
Retirement benefit expenses	175	18	46	77	113	-62	51	51	-70	23
% of total	3.6%	0.4%	0.8%	1.3%	1.8%	-1.0%	0.8%	0.7%	-1.0%	0.3%
Transportation and communication expenses	352	352	355	365	342	206	217	270	345	386
% of total	7.2%	7.2%	6.4%	6.1%	5.5%	3.5%	3.4%	4.0%	4.9%	4.8%
Depreciation	52	60	138	224	273	273	209	247	237	263
% of total	1.1%	1.2%	2.5%	3.7%	4.4%	4.6%	3.3%	3.6%	3.4%	3.3%
R&D expenses	740	719	771	844	974	1,068	1,080	1,143	1,267	1,243
% of total	15.0%	14.7%	13.9%	14.0%	15.6%	18.0%	17.1%	16.8%	18.0%	15.6%
Other	1,160	1,141	1,406	1,505	1,471	1,251	1,492	1,575	1,641	2,095
% of total	23.6%	23.3%	25.4%	25.0%	23.6%	21.1%	23.6%	23.1%	23.3%	26.3%
Total	4,921	4,890	5,536	6,019	6,229	5,924	6,329	6,807	7,046	7,975

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Group structure

Note: The following description has not yet been updated. After the release of the company's FY03/25 securities report, we plan to revise the content based on market data at the time of the 1H results announcement.

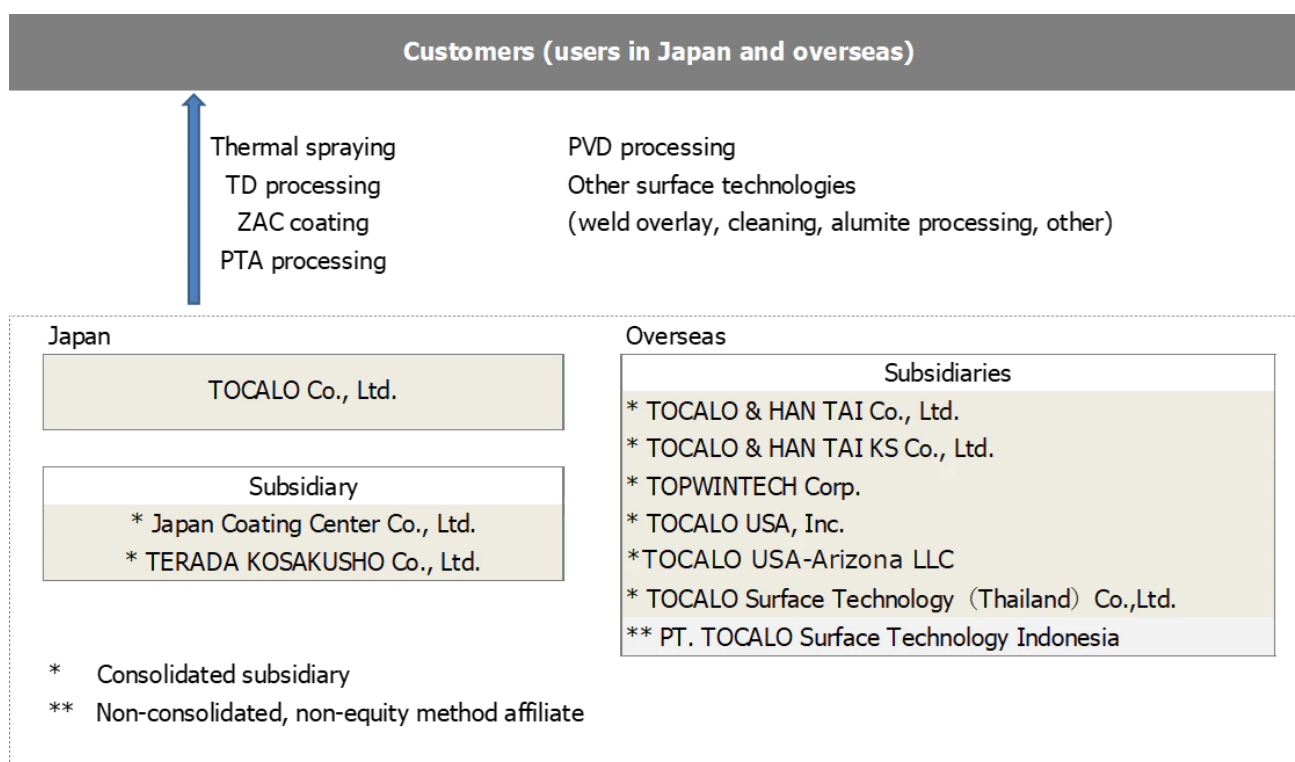
Overview

The TOCALO group comprises a parent company, six consolidated subsidiaries, and two non-consolidated subsidiaries. It primarily conducts thermal spraying treatments but also performs services in peripheral fields, including the Toyota diffusion (TD) process, zinc alloy coating (ZAC), plasma transferred arc (PTA) process, and physical vapor deposition (PVD) process. All of these processes are types of surface treatments, which involve providing new functionality to workpieces by forming coatings on their surfaces that have different properties from their substrates (the material to which spraying deposit is applied).

In September 2004, the company entered the field of PVD process, a technique to form thin coatings, by acquiring all shares of Japan Coating Center Co., Ltd. (JCC).

Overseas sales accounted for 23.3% of the company's overall sales in FY03/23 and primarily came from Japanese companies that have expanded abroad. The company has concluded many licensing agreements with overseas companies but does not work to acquire customers locally overseas. Some competitors overseas sell thermal spraying materials and equipment in addition to providing contracted treatment services, but TOCALO only provides services.

Group companies



Note: In August 2019, PT. TOCALO Surface Technology Indonesia merged with PT. Tanaka Machinery in Indonesia, a non-equity method affiliated, in an absorption-type merger

Source: Shared Research based on company data

International network (licensees)

	Company	Fields of technology licenses
People's Republic of China	TOCALO & HAN TAI Co., Ltd.	Thermal spraying (steel, other)
	TOCALO & HAN TAI KS Co., Ltd.	Thermal spraying(semiconductor and FPDs)
	BAOSTEEL Engineering & Technology Group Co., Ltd.	Thermal spraying (steel, other)
	High Shine Limited	TD process(steel, other)
	SMS Siemag Technology (Tianjin) Co., Ltd.	Thermal spraying (steel, other)
Taiwan	TOPWINTeCH Co., Ltd.	Thermal spraying(semiconductor and FPDs)
	HAN TAI TECHNOLOGY Co., Ltd.	Thermal spraying (steel, other)
South Korea	DAE SHIN METALLIZING Co., Ltd.	Thermal spraying (steel, other)
	TOPWINTeCH Corp.	Thermal spraying(semiconductor and FPDs)
ASEAN	TOCALO Surface Technology (Thailand) Co., Ltd.	Thermal spraying (steel, other)
	PT. TOCALO Surface Technology Indonesia	Thermal spraying (steel, other)
	HAN TAI VIETNAM CO., LTD	Thermal spraying (steel, other)
India	ATS Techno Pvt. Ltd	Thermal spraying (steel, other)
EU	Oerlikon Surface Solutions AG	Thermal spraying (steel, other)
	Duma-BandZink GmbH	Thermal spraying (steel, other)
United States	TOCALO USA, Inc.	Thermal spraying (semiconductor, other)
	SMS group Inc.	Thermal spraying (steel, other)
	NxEdge	Thermal spraying(semiconductor)
Brazil	SMS group Metalurgia do Brasil Ltda.	Thermal spraying (steel, other)

Source: Shared Research based on company data

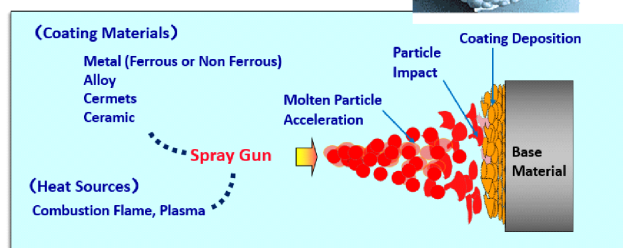
Thermal Spraying (TOCALO)

Thermal spraying treatment is a surface treatment method used to form coatings on industrial product parts such as components of semiconductor and FPD manufacturing equipment; power generating gas turbines; batteries used for power storage; a variety of bearings; factory machine pieces including rolls used in steel and paper mills; and parts used in chemical plants. It involves melting coating materials (e.g., metals, ceramics, and cermet) using high temperature heat sources (plasma or gas-based flames) and then spraying the molten material onto the target surface. Thermal spraying

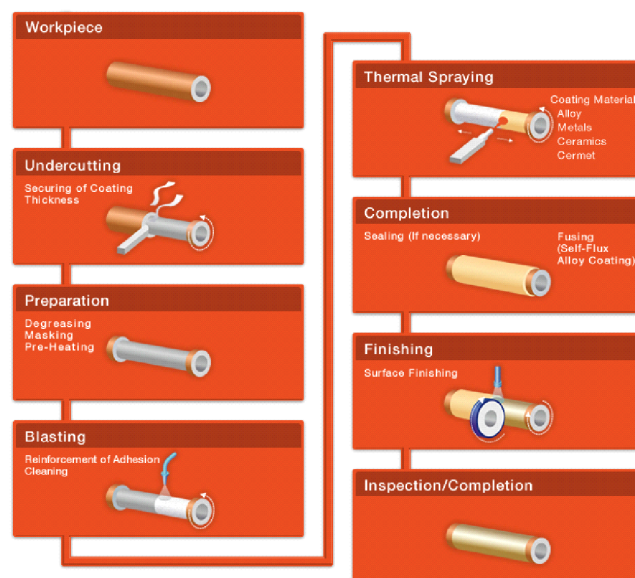
adds a variety of functions to the workpiece, including improved durability through higher abrasion and heat resistance; electrical characteristics such as conductivity and electric insulation; and thermal properties, including heat insulation and heat dissipation. A wide variety of thermal spraying treatment methods exist, but TOCALO primarily utilizes atmospheric plasma spraying and low-pressure plasma spraying, which both use plasma as a heat source; and high velocity flame spraying, wire flame spraying, and powder flame spraying which use combustion flame as a heat source. The company chooses which method is appropriate for any given workpiece.

Principle of thermal spraying technology

■ Thermal Spraying is a technology to form coating by depositing molten materials on metal surfaces at high speed.



Thermal spraying process



Source: Company data

Surface treatment centered around thermal spraying has become a standard technology in a wide variety of fields, ranging from manufacturing to medical care, and its demand has been on the rise year by year. TOCALO has built a diverse customer base across many sectors, creating a customer mix that helps it navigate through changing economic climates. In particular, it has managed to acquire customers that are top-class companies in major growth industries. Breaking down the company's sales in FY03/23, 48% came from treatments on semiconductor and FPD manufacturing equipment parts; 8% industrial machinery parts; 7% furnishings and equipment used in the steel industry; 12% from other thermal spraying treatments; 6% from other types of surface treatments; 5% domestic subsidiary; and 14% overseas subsidiaries. In the past, most demand came from the steel and paper and pulp industries, but sales to customers in the semiconductor and FPD manufacturing equipment industries currently account for nearly 50% of sales. The company's most prominent customer is Tokyo Electron Limited, which accounted for 33.1% of consolidated sales in FY03/23.

Even in past cases in which profit fell short of initial forecasts or dropped YoY, TOCALO has maintained a stable, profitable structure with relatively few fluctuations in earnings, despite its high degree of reliance on semiconductor- and FPD-related sales. Shared Research believes that this stable, profitable structure is underpinned by TOCALO's robust customer base in the semiconductor and FPD fields as well as other industries, and repeat orders for functional surface treatments that offer high added value.

Sales to the Tokyo Electron group

Sales to large lot customers (JPYmn)	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.	FY03/22 Act.	FY03/23 Act.	FY03/24 Act.	FY03/25 Act.
Tokyo Electron group	5,004	7,867	10,719	13,291	11,615	13,543	15,631	15,946	12,633	14,727
Sales dependence	17.4%	27.2%	31.4%	33.6%	30.6%	34.7%	35.7%	33.1%	27.0%	27.2%
Semiconductor equipment (parent)	8,628	8,519	11,273	14,895	12,497	16,030	18,990	21,739	19,557	24,114
Tokyo Electron group as % of semis	58.0%	92.3%	95.1%	89.2%	92.9%	84.5%	82.3%	73.4%	64.6%	61.1%

Source: Shared Research based on company data

Note: Figures for the Tokyo Electron Group include both parent company and overseas subsidiary sales.

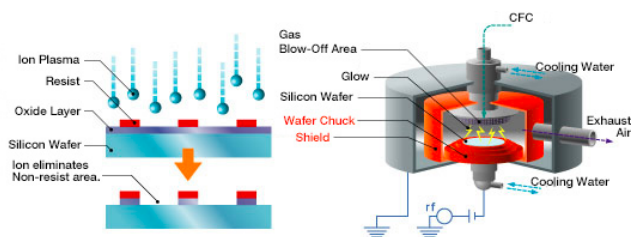
Surface treatment for semiconductor equipment parts

Thermal spraying is applied to parts of equipment used in silicon wafer processing (orange-colored components in the following diagrams). The procedure is utilized to achieve a range of objectives such as improving the components' resistance to plasma corrosion or giving electrical properties to the electrostatic chuck that holds the wafer during processing.

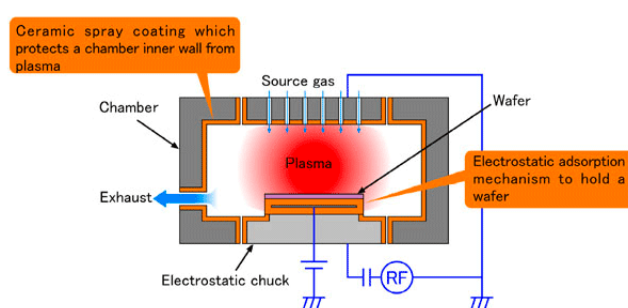
In the past, semiconductor equipment makers faced an urgent need to eliminate deposits inside their etching equipment chambers (making sure that particles scraped away during the etching process did not adhere to the chamber wall). In particular, chamber walls treated by aluminum alloy, alumite, or alumina were subject to corrosion in the plasma etching process, producing chemical compound particles, which became a significant cause of chip defects. TOCALO proposed a ceramic-based thermal spray coating for chamber walls that proved to be highly plasma resistant. The coating was quickly adopted as a standard for mass production in the semiconductor equipment industry accompanying its shift to 300mm wafers (the company also licenses technology to competitors).

The feature size of the most advanced semiconductors (very large-scale integrated circuits [VLSI circuits]) is becoming miniaturized, and the structure of these semiconductors multi-layered. Along with this trend, dry etching processes (use of plasmas or etchant gases to remove portions of substrate layers based on specific patterns defined by photoresist masks) are becoming increasingly more common. We understand more than half of the company's surface treatment on semiconductor equipment components is for dry etching equipment. TOCALO provides services to major semiconductor equipment makers in Japan and abroad, including Tokyo Electron, with which it has built a particularly close relationship and conducts joint development.

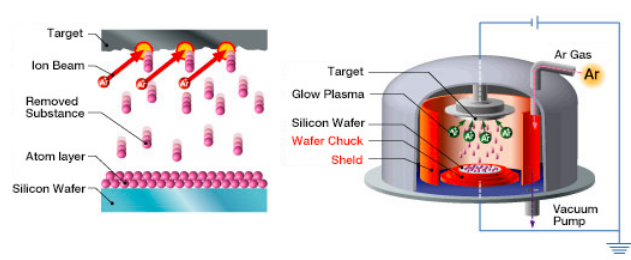
Dry etching equipment components



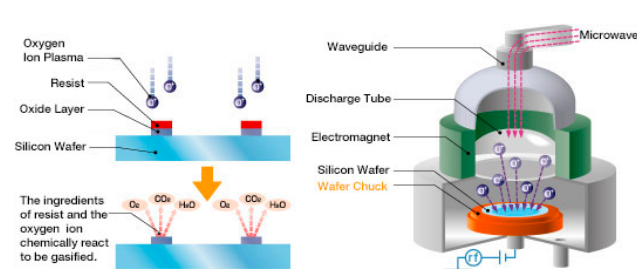
Dry etching equipment schematics



Sputtering equipment components



Ashing equipment components



Source: Company data

Surface treatment outside of the semiconductor and FPD fields (industrial equipment, steel, paper and pulp, energy, transportation, petrochemical, resins/films sectors)

The thermal spraying business for the steel and paper industries supported TOCALO's rapid progress during the 1980s and 1990s. The steelmaking industry was a standout driver of growth. Increased orders for thermal spraying on in-sink and processing rolls (tension bridges, deflector rolls, etc.) of continuous galvanizing lines (CGL) and hearth rolls of continuous annealing lines (CAL), continuous annealing and processing lines (CAPL), and CGL helped expand the company's earnings.

In the paper industry, TOCALO reached a technical cooperation agreement in 1989 with Vendor Machine Co., Ltd., which had a strong track record in Europe and the US, and began offering thermal spraying and polishing treatments for yankee dryer rolls. The yankee dryer roll is a core machine for paper manufacturers and determines the quality of paper products such as tissue paper and newspaper. The company's coating technology has been widely adopted as a standard thermal spraying treatment for rolls used by many paper manufacturers because of its excellent reputation for quality.

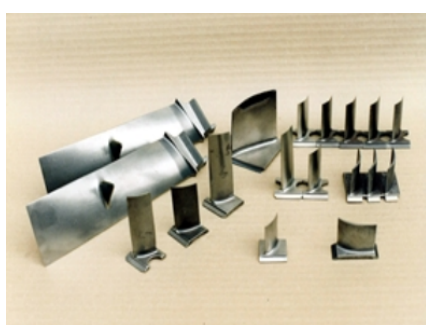
In industrial equipment, particularly noteworthy is the use of TOCALO's thermal spraying technology to insulate the bearings utilized in drive motors for bullet train cars (delivered by the company in 2001). Sometimes, minute electrical currents can leak from motors and generators attached to the surface of bearings, causing electrical discharge. This can cause (electrolytic) corrosion, which leads to early bearing deterioration. TOCALO was able to add insulation properties to the surface of these bearings and prevent the corrosion caused by electrical discharge. Leveraging the safety knowhow nurtured through the bullet train project, TOCALO developed low-cost, thermal-sprayed insulated bearings that are currently being widely utilized as industry standards in both Chinese railways and in the New York subway system. These bearings are also receiving attention for their application in wind power generators and are being progressively adopted in this capacity.

Thermal spraying is also essential for gas turbines that are powered by fossil fuels such as coal and oil. It is applied to vital components used in these gas turbines, including their blades, which must provide stable performance in harsh environments near combustor outlets that can reach temperatures of 1,500° C.

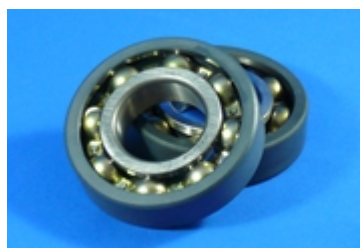
Surface treatment technology is also important in the automotive and aviation equipment industries. However, TOCALO's opportunities to provide contracted thermal spraying services in these industries are limited by major hurdles, such as restrictions aimed at meeting safety standards and capacity for mass production work. The company conducts the Toyota diffusion (TD) process, a surface treatment method developed by Toyota Central R&D Labs, Inc., on press molds used for automobiles.

In the aircraft industry, TOCALO had performed thermal spraying (recoating) on engine parts for ANA (TSE Prime: 9202) but was forced to pull out after about one year as ANA began performing this treatment internally. The company also works on components of the Mitsubishi SpaceJet passenger planes being developed by Mitsubishi Heavy Industries, Ltd. (TSE Prime: 7011) and wing flap components made by Embraer S.A. in Brazil, but these endeavors have apparently not achieved notable progress when compared to initial plan.

Gas turbines (industrial equipment, transportation equipment)



Bearings (industrial equipment)



Boilers (energy, petrochemical)



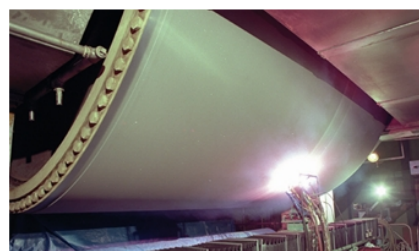
Hearth rolls (steel industry, in-furnace rolls)



Sink rolls (steel industry, in-sink rolls)



Yankee dryer rolls (paper manufacturing)



Source: Company data

Primary business locations (TOCALO)

TOCALO's main factories for the semiconductor and FPD fields are the Akashi Harima, Kitakyushu, and Tokyo factories. The company has also located its Miyagi Technical Service Center nearby the Miyagi factory of Tokyo Electron, a major customer. Its Nagoya and Mizushima factories focus primarily on the steel industry while its Kobe factory performs miscellaneous surface treatments, such as the TD process and ZAC coating.

Main business bases (non-consolidated)

List of offices and plants	Plant
Headquarters (Kobe, Hyogo prefecture)	Tokyo Plant Gyoda Workshop
Thermal Spraying Technology R&D Laboratories (Akashi, Hyogo prefecture)	Tokyo Plant Suzumi Workshop
	Miyagi Technical Service Center
Office	Nagoya Plant
Kitakanto Office	Kobe Plant
Kanagawa Office	Akashi Plant
Yamanashi Office	Akashi No.2 Plant
Shizuoka Office	Akashi No.4 Plant
	Akashiharima Plant
	Kurashiki Plant
	Kitakyushu Plant

Source: Shared Research based on company data

Domestic Subsidiaries

The company has two consolidated subsidiaries in Japan: Japan Coating Center Co., Ltd. (JCC) and Terada Kosakusho Co., Ltd., both of which are wholly owned subsidiaries.

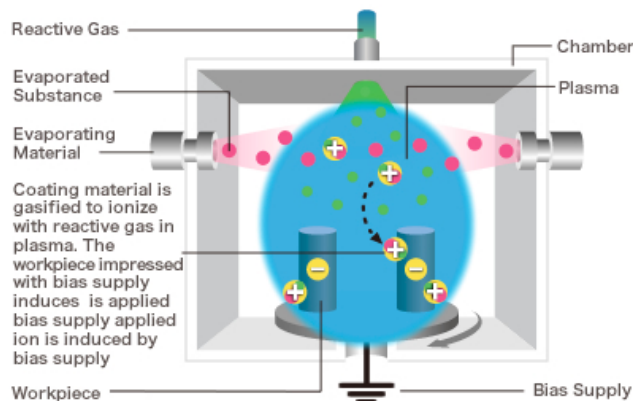
Japan Coating Center Co., Ltd. (JCC)

JCC was established in 1985 and became a wholly owned subsidiary of the company in 2004. It primarily performs physical vapor deposition (PVD) on cutting tools, edged tools, metallic molds, and other similar materials. The PVD process adds functionality, such as abrasion and corrosion resistance, to the workpieces by forming hard, dense, thin, and highly adhesive ceramic coatings on their surfaces. These coatings are generated by ionizing metals, including titanium and chromium, in a vacuum with reactive gases.

Among the various types of **PVD processes**, JCC utilizes the ion plating method, which stands out in deposition and adhesive properties. This process minimizes heat deformation of the workpiece because it allows for a wide selection of temperature ranges, enabling optimal treatment based on the type of substrate. It is also suitable for mass produced goods. The Mercury Coat offered by JCC is a new coating with high hardness, oxidation resistance, and abrasion resistance. An example of its application is the high-performance coating for hob cutters (components of hobbing machines to cut gears) that suit the changing specifications in gear cutting technology, which is shifting toward dry machining and high-speed/high-feed equipment.

Source: Shared Research based on company data

PVD process diagram

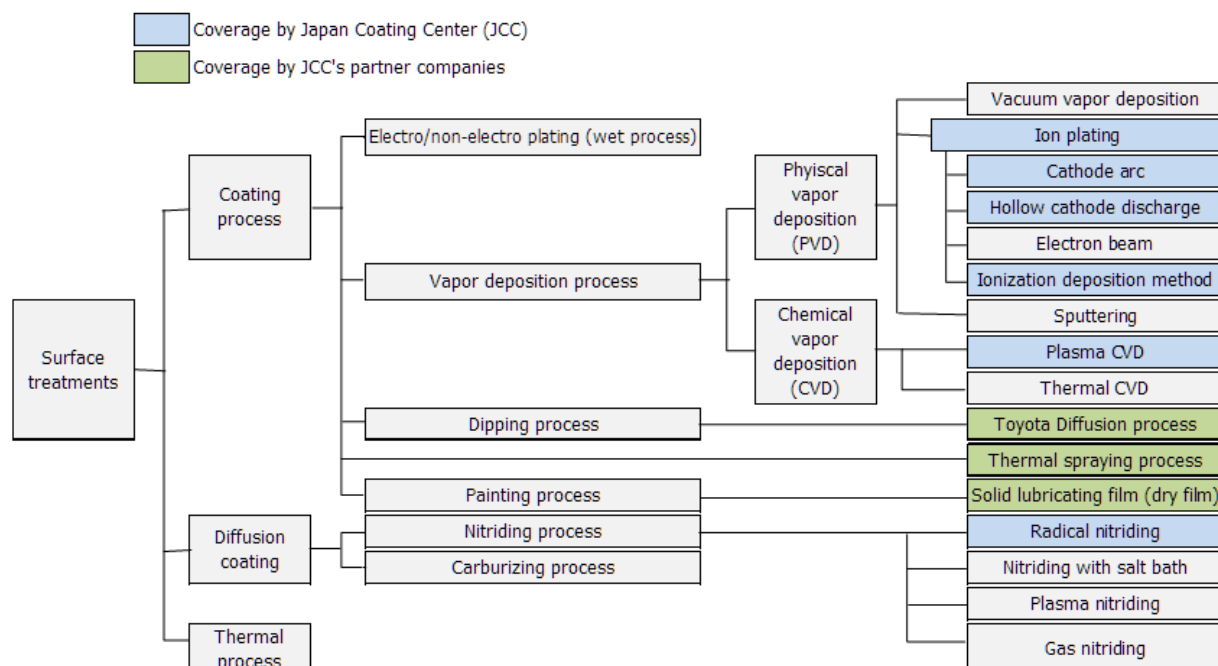


Source: Company data

Application example: Cutting tools (hob cutters)



Surface treatment technologies offered at Japan Coating Center Co., Ltd. (JCC)



Source: Shared Research based on company data

Terada Kosakusho

The other consolidated subsidiary in Japan, Terada Kosakusho Co., Ltd., is engaged in the production of machine tools and precision machinery components. TOCALO acquired 100% of its shares on August 26, 2024. Terada Kosakusho operates three in-house plants, each specializing in general parts machining, ultra-precision machining, and polishing, respectively. Utilizing a wide range of materials and an integrated production system, the subsidiary has delivered high-precision machining of mechanical components. TOCALO aims to create new value by combining Terada Kosakusho's machining technologies with its own surface modification technologies. To this end, the company plans to make capital investments in FY03/26, including the construction of a new plant building (Plant No. 4) at Terada Kosakusho. As of the August 2024 acquisition, the three existing plants at Terada Kosakusho were as follows:

- **General machining plant:** This facility manufactures standard parts with high precision and consistent quality by handling a wide variety of shapes and materials. It is equipped with NC lathes, vertical machining centers (MCs), and horizontal MCs.
- **Precision machining plant:** This plant produces precision and complex-shaped parts with high accuracy and stable quality, using horizontal MCs and 5-axis MCs to handle high-difficulty machining tasks.
- **Polishing plant:** Specializing in the finishing of part surfaces, inner diameters, outer diameters, and flat surfaces, this facility uses polishing machines to achieve smooth finishes and micron-level precision.

Other Surface Treatments

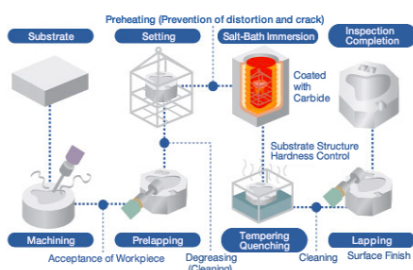
Toyota diffusion (TD) process (external sales of JPY803mn [2.8% of total sales] in FY03/16)

The TD process is a surface treatment method that forms extremely hard and thin carbide layer by immersing workpieces, such as molds for automobiles, components used in steelworking, and extruder parts, into molten salt baths, causing the diffusion and osmosis of substances such as vanadium and niobium. This carbide layer adds abrasion resistance and seize resistance to target surfaces.

TD- vanadium carbide (VC) coating is an extremely hard coating that can be produced using TD treatment, a type of high-temperature salt bath treatment. It has a cross-sectional hardness of between 3,200 and 3,800 Hv, which protects workpiece surfaces from abrasion and seizing. TD-VC coating also significantly improves the durability of components and is now highly regarded as an indispensable surface treatment technology in the die making industry. Furthermore, the salt bath treatment can be performed regardless of the shape of the subject, enabling uniform coating formation, even on unseen interior surfaces. The TD process has been used to add abrasion resistance and seize resistance properties to press molds used for automobiles, raising productivity and extending the lives of these metallic molds.

Source: Shared Research based on company data

TD process



TD-VC coating



Application example: molds used for automobiles



Source: Company data

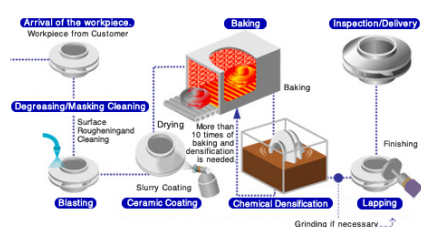
Zinc alloy coating (ZAC) (external sales of JPY406mn [1.4% of total sales] in FY03/16)

ZAC treatment is a surface treatment method that forms extremely dense composite ceramic coatings whose main component is chromium oxide. The treatment is often applied to parts of equipment such as pumps, textile machinery, and wiredrawing machines, giving them corrosion and abrasion resistance properties.

ZAC coating uses chemical reaction to form composite ceramic coatings primarily composed of chromium oxide (Cr_2O_3). The coating is characterized by properties such as high density, hardness, and adhesiveness, as well as a low frictional coefficient. It is extraordinarily powerful when used to enhance machine parts that require abrasion and corrosion resistance. ZAC coating treatment has been applied to a variety of pump components, forming ceramic coatings with superior corrosion resistance that extend their useful lives and eliminate the need for maintenance.

Source: Shared Research based on company data

CDC-ZAC coating process



Furnace combustion treatment



Application example: pump components



Source: Company data

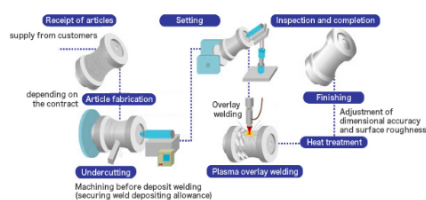
Plasma transferred arc (PTA) process (external sales of JPY364mn [1.3% of total sales] in FY03/16)

The PTA process, a type of overlay welding, is a surface treatment method that uses a high-energy plasma arc to melt a wide variety of pulverized materials and welds them onto the surfaces of equipment that requires high degrees of reliability, including pump and valve components and devices such as steelworking rolls. It provides the equipment with abrasion and corrosion resistance properties.

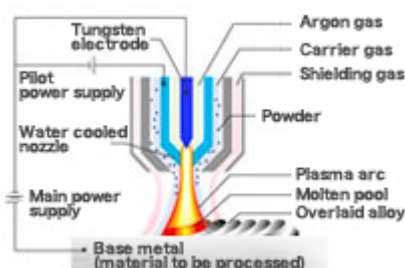
PTA process: A surface treatment technology that uses a high-energy transferred plasma arc to perform overlay welding. Since the overlay material can be applied in powder form, materials that cannot be processed into wires or rods, such as hard materials and ceramics, can be used in this treatment. Coatings that best suit the intended use of the workpiece are achieved by mixing a wide variety of powdered metal alloys and ceramics at controlled ratios. It is also possible to convert the coating created through this process into cermet after it has been overlaid onto the target surface. The bond between the coating and the substrate is metallurgic, causing superior peeling resistance. Since the PTA treatment uses overlay welding, it is quite capable of forming thicker coatings than other methods. In addition to these characteristics, the PTA coating maintains a high degree of hardness even when exposed to high temperatures, and sports superior abrasion, seize, and corrosion resistance. Its application is poised to expand to an increasingly large variety of equipment requiring first-class quality control, including petroleum-related equipment, ships, aircraft, transportation equipment, and nuclear power generation equipment.

Principle of PTA technology: The next figure (center) illustrates how overlay welding via the PTA process works. First, a pilot power supply is used to start an arc in an argon gas-filled space between a tungsten electrode and a water-cooled nozzle. Argon gas passing through this electric arc is ionized to form a hot plasma gas, which is then constricted through a thermal pinch effect produced by the water-cooled constrictor nozzle and discharged against the workpiece as a plasma arc with high energy density. Once this arc reaches the workpiece, the main power supply is activated to maintain contact between the arc and the substrate. The arc current flows through the substrate, forming a molten pool on its surface. Meanwhile, the powdered overlay material is pumped into a carrier gas, such as helium or argon gas, and fed into the plasma arc. It is thrown into the molten pool on the surface of the substrate in a melted state, forming an overlay. The figure (RHS) below compares the convergence properties of plasma arcs and gas tungsten arcs based on the differences between their temperature distributions. The plasma arc is narrowly constricted by the water-cooled nozzle, giving it high energy density. This is why the PTA process even allows for powders with high melting points to be used as overlay materials. Source: Shared Research based on company data

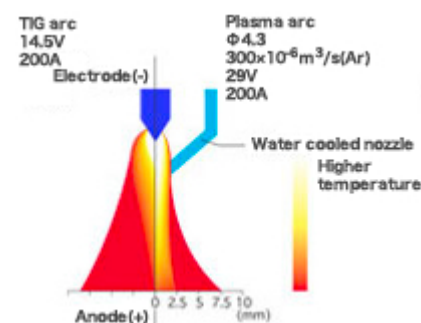
PTA overlay welding process



Principle of PTA technology



Temperature distribution of gas tungsten (TIG) arc and plasma arc



Source: Company data

Overseas Subsidiaries

Consolidated subsidiary TOCALO & HAN TAI Co., Ltd. (Guangzhou, Guangdong, China; established in April 2005) primarily performs thermal spraying and overlay welding within China.

TOCALO & HAN TAI KS Co., Ltd. (Kunshan, Jiangsu, China; established in May 2011) and TOCALO & HAN TAI TW Co., Ltd. (Tainan, Taiwan; established in June 2011), both consolidated subsidiaries, serve as bases for expanding the maintenance business for semiconductor and FPD manufacturing equipment in Chinese and Taiwanese markets. They perform surface treatments, including thermal spraying, cleaning, and anodizing treatment, on equipment components.

Consolidated subsidiary TOCALO USA, Inc. (California, USA; established in November 2015) was established to set up a service base for the maintenance of semiconductor equipment components in the US, which houses a number of

prominent end users. However, operating rates remained low as the launch of operations was delayed because permits and approvals from state authorities took longer than expected to obtain. In FY03/21, the company booked an impairment loss on fixed assets of JPY349mn as an extraordinary loss as part of a sweeping overhaul, including dealing with prior-year losses all at once. The company decided to revamp its structure in anticipation of semiconductor growth from 2024 onward as major US semiconductor companies start operations at new factories.

The two overseas non-consolidated subsidiaries—PT. TOCALO Surface Technology Indonesia (established in June 2017) and TOCALO Surface Technology (Thailand) Co., Ltd. (established in October 2012)—primarily provide surface modification processing such as thermal spraying and welding for Japanese steel manufacturers operating locally.

Group companies (as of FY3/25)

Company	Established	Headquarters	Stake	Business
Consolidated subsidiaries				
Japan Coating Center Co., Ltd.	Apr. 1985	Kanagawa	100%	Physical vapor deposition (PVD) process
Terada Kosakusho Co., Ltd.	May 1980	Fukuoka Pref.	100%	Machining of machine tool and precision machinery components
TOCALO & HAN TAI Co., Ltd.	Apr. 2005	Guangzhou, China	70%	Thermal spraying (steel, other)
TOCALO & HAN TAI (KUNSHAN) Co., Ltd.	Nov. 2011	Jiangsu, China	90%	Thermal spraying (steel, semiconductor, FPD, other)
TOPWINTech Co., Ltd.	Jun. 2011	Tainan, Taiwan	50%	Thermal spraying (steel, semiconductor, FPD, other)
TOCALO USA, Inc.	Nov. 2015	California, US	100%	Thermal spraying (semiconductor, other)
TOCALO USA-Arizona LLC	Sep. 2025	Arizona, US	100%	Thermal spraying (semiconductor, other)
Other (non-cons., non-equity method)	One in Indonesia, another in Thailand			Thermal spraying (steel, other)

Source: Shared Research based on company materials

Segment summary

Note: While the key figures in the description have been updated, we plan to revise certain figures at a later date based on market data.

By segment, Thermal Spraying (TOCALO) accounted for 72.4% of sales in FY03/24, while Domestic Subsidiary (JCC) made up 5.3%, Overseas Subsidiaries 15.5%, Other Surface Treatments 6.5%, and Royalty Income 0.4%. The segment profit margins (recurring profit basis) were 18.6% in Thermal Spraying, 20.0% in Domestic Subsidiary, 26.1% in Overseas Subsidiaries, and 17.7% in Other Surface Treatments. The company's segment profit margins are showing relatively stable improvement, despite being prone to the silicon cycle. Profitability in the Domestic Subsidiary segment (comprising Japan Coating Center Co., Ltd. [JCC]) is lower than in the Thermal Spraying segment but has been improving notably. JCC managed itself independently for about ten years after becoming a TOCALO subsidiary in September 2004, but Shared Research observes JCC has produced synergy with the parent company over the past several years. However, JCC has been susceptible to the impact of trade friction and other macroeconomic factors because many of its transactions are in the automotive parts industry.

By region	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,746	28,964	34,109	39,558	37,896	39,073	43,813	48,144	46,735	54,231
YoY	10.3%	0.8%	17.8%	16.0%	-4.2%	3.1%	12.1%	9.9%	-2.9%	16.0%
Domestic	23,678	24,407	28,206	32,155	30,543	30,350	34,568	36,942	33,573	37,914
YoY	9.6%	3.1%	15.6%	14.0%	-5.0%	-0.6%	13.9%	6.9%	-9.1%	12.9%
% of total	82.4%	84.3%	82.7%	81.3%	80.6%	77.7%	78.9%	76.7%	71.8%	69.9%
Overseas	5,068	4,557	5,903	7,403	7,352	8,722	9,245	11,202	13,162	16,317
YoY	13.7%	-10.1%	29.5%	25.4%	-0.7%	18.6%	6.0%	21.2%	17.5%	24.0%
% of total	17.6%	15.7%	17.3%	18.7%	19.4%	22.3%	21.1%	23.3%	28.2%	30.1%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

By segment (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,746	28,964	34,109	39,558	37,896	39,073	43,813	48,144	46,735	54,231
YoY	10.3%	0.8%	17.8%	16.0%	-4.2%	3.1%	12.1%	9.9%	-2.9%	16.0%
Thermal Spraying (Parent)	21,933	22,309	26,183	30,400	28,221	30,141	33,043	36,184	33,859	39,213
YoY	14.4%	1.7%	17.4%	16.1%	-7.2%	6.8%	9.6%	9.5%	-6.4%	15.8%
% of total	76.3%	77.0%	76.8%	76.8%	74.5%	77.1%	75.4%	75.2%	72.4%	72.3%
Domestic Subsidiary	1,978	2,111	2,312	2,493	2,364	2,018	2,399	2,414	2,457	2,656
YoY	1.5%	6.8%	9.5%	7.8%	-5.2%	-14.6%	18.9%	0.6%	1.8%	8.1%
% of total	6.9%	7.3%	6.8%	6.3%	6.2%	5.2%	5.5%	5.0%	5.3%	4.9%
Overseas Subsidiaries	3,262	2,806	3,642	4,460	4,925	4,800	5,695	6,622	7,257	9,319
YoY	2.4%	-14.0%	29.8%	22.5%	10.4%	-2.5%	18.6%	16.3%	9.6%	28.4%
% of total	11.3%	9.7%	10.7%	11.3%	13.0%	12.3%	13.0%	13.8%	15.5%	17.2%
Other Surface Treatments	1,572	1,736	1,971	2,204	2,384	2,112	2,502	2,745	3,019	2,880
YoY	-10.6%	10.4%	13.5%	11.8%	8.2%	-11.4%	18.5%	9.7%	10.0%	-4.6%
% of total	5.5%	6.0%	5.8%	5.6%	6.3%	5.4%	5.7%	5.7%	6.5%	5.3%
Royalty income	-	-	-	-	-	-	171	177	141	161
YoY	-	-	-	-	-	-	-	3.5%	-20.3%	14.2%
% of total	-	-	-	-	-	-	0.4%	0.4%	0.3%	0.3%
Segment profit (recurring profit)	5,028	5,801	7,363	8,076	6,812	8,914	10,571	11,003	9,662	12,561
YoY	2.8%	15.4%	26.9%	9.7%	-15.7%	30.9%	18.6%	4.1%	-12.2%	30.0%
Recurring profit margin	17.5%	20.0%	21.6%	20.4%	18.0%	22.8%	24.1%	22.9%	20.7%	23.2%
Thermal Spraying (Parent)	4,520	4,889	6,009	6,515	5,273	6,760	8,086	8,341	6,284	8,868
YoY	18.3%	8.2%	22.9%	8.4%	-19.1%	28.2%	19.6%	3.2%	-24.7%	41.1%
Recurring profit margin	20.6%	21.9%	23.0%	21.4%	18.7%	22.4%	24.5%	23.1%	18.6%	22.6%
% of total	84.1%	82.8%	78.9%	78.7%	74.4%	78.6%	76.5%	77.1%	68.3%	68.4%
Domestic Subsidiary	272	402	502	545	491	406	471	352	492	349
YoY	-16.0%	47.8%	24.9%	8.6%	-9.9%	-17.3%	16.0%	-25.3%	39.8%	-29.1%
Recurring profit margin	13.8%	19.0%	21.7%	21.9%	20.8%	20.1%	19.6%	14.6%	20.0%	13.1%
% of total	5.1%	6.8%	6.6%	6.6%	6.9%	4.7%	4.5%	3.3%	5.3%	2.7%
Overseas Subsidiaries	589	491	974	1,064	1,056	1,297	1,537	1,653	1,892	3,330
YoY	8.7%	-16.6%	98.4%	9.2%	-0.8%	22.8%	18.5%	7.5%	14.5%	76.0%
Recurring profit margin	18.1%	17.5%	26.7%	23.9%	21.4%	27.0%	27.0%	25.0%	26.1%	35.7%
% of total	11.0%	8.3%	12.8%	12.9%	14.9%	15.1%	14.5%	15.3%	20.6%	25.7%
Other Surface Treatments	-4	122	126	152	266	135	468	468	534	422
YoY	-	-	3.3%	20.6%	75.0%	-49.2%	246.7%	0.0%	14.1%	-21.0%
Recurring profit margin	-0.3%	7.0%	6.4%	6.9%	11.2%	6.4%	18.7%	17.0%	17.7%	14.7%
% of total	-	2.1%	1.7%	1.8%	3.8%	1.6%	4.4%	4.3%	5.8%	3.3%
Adjustments	-349	-103	-249	-201	-275	314	7	188	457	-409

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Subsegment sales (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,746	28,964	34,109	39,558	37,896	39,294	43,813	48,144	46,735	54,231
YoY	10.3%	0.8%	17.8%	16.0%	-4.2%	3.7%	11.5%	9.9%	-2.9%	16.0%
Thermal Spraying (Parent)	21,933	22,309	26,183	30,400	28,221	30,141	33,043	36,184	33,859	39,213
YoY	14.4%	1.7%	17.4%	16.1%	-7.2%	6.8%	9.6%	9.5%	-6.4%	15.8%
% of total	76.3%	77.0%	76.8%	76.8%	74.5%	76.7%	75.4%	75.2%	72.4%	72.3%
Semiconductor and FPD equipment parts	10,069	10,003	13,474	17,134	14,102	18,176	20,643	23,260	19,557	24,114
YoY	20.2%	-0.7%	34.7%	27.2%	-17.7%	28.9%	13.6%	12.7%	-15.9%	23.3%
% of total	35.0%	34.5%	39.5%	43.3%	37.2%	46.3%	47.1%	48.3%	41.8%	44.5%
Semiconductor equipment	8,628	8,519	11,273	14,895	12,497	16,030	18,990	21,739	18,019	22,369
YoY	18.7%	-1.3%	32.3%	32.1%	-16.1%	28.3%	18.5%	14.5%	-17.1%	24.1%
% of total	30.0%	29.4%	33.0%	37.7%	33.0%	40.8%	43.3%	45.2%	38.6%	41.2%
FPD equipment	1,441	1,484	2,201	2,238	1,604	2,145	1,653	1,520	1,537	1,745
YoY	29.8%	3.0%	48.3%	1.7%	-28.3%	33.7%	-22.9%	-8.0%	1.1%	13.5%
% of total	5.0%	5.1%	6.5%	5.7%	4.2%	5.5%	3.8%	3.2%	3.3%	3.2%
Industrial machinery	4,072	4,050	4,218	4,154	4,782	3,965	3,707	3,802	4,923	4,872
YoY	8.5%	-0.5%	4.1%	-1.5%	15.1%	-17.1%	-6.5%	2.6%	29.5%	-1.0%
% of total	14.2%	14.0%	12.4%	10.5%	12.6%	10.1%	8.5%	7.9%	10.5%	9.0%
Steelmaking machinery	3,438	3,497	3,697	3,662	3,899	3,166	3,450	3,582	3,651	3,927
YoY	13.1%	1.7%	5.7%	-0.9%	6.5%	-18.8%	9.0%	3.8%	1.9%	7.6%
% of total	12.0%	12.1%	10.8%	9.3%	10.3%	8.1%	7.9%	7.4%	7.8%	7.2%
Other applications	4,353	4,758	4,793	5,449	5,437	4,832	5,242	5,539	5,727	6,298
YoY	8.8%	9.3%	0.7%	13.7%	-0.2%	-11.1%	8.5%	5.7%	3.4%	10.0%
% of total	15.1%	16.4%	14.1%	13.8%	14.3%	12.3%	12.0%	11.5%	12.3%	11.6%
Other Surface Treatments	1,572	1,736	1,971	2,204	2,384	2,112	2,502	2,745	3,019	2,880
YoY	-10.6%	10.4%	13.5%	11.8%	8.2%	-11.4%	18.5%	9.7%	10.0%	-4.6%
% of total	5.5%	6.0%	5.8%	5.6%	6.3%	5.4%	5.7%	5.7%	6.5%	5.3%
Domestic Subsidiary	1,978	2,111	2,312	2,493	2,364	2,018	2,399	2,414	2,457	2,656
YoY	1.5%	6.8%	9.5%	7.8%	-5.2%	-14.6%	18.9%	0.6%	1.8%	8.1%
% of total	6.9%	7.3%	6.8%	6.3%	6.2%	5.1%	5.5%	5.0%	5.3%	4.9%
Overseas Subsidiaries	3,262	2,806	3,642	4,460	4,925	4,800	5,695	6,622	7,257	9,319

	YoY	2.4%	-14.0%	29.8%	22.5%	10.4%	-2.5%	18.6%	16.3%	9.6%	28.4%
	% of total	11.3%	9.7%	10.7%	11.3%	13.0%	12.2%	13.0%	13.8%	15.5%	17.2%
	Royalty income	-	-	-	-	-	-	171	177	141	161
	YoY	-	-	-	-	-	-	-	3.5%	-20.3%	14.2%
	% of total	-	-	-	-	-	-	0.4%	0.4%	0.3%	0.3%
	Physical vapor deposition (PVD) process	1,978	2,111	2,312	2,493	2,364	2,018	2,399	2,414	2,457	2,656
	YoY	1.5%	6.7%	9.5%	7.8%	-5.2%	-14.6%	18.9%	0.6%	1.8%	8.1%
	% of total	6.9%	7.3%	6.8%	6.3%	6.2%	5.1%	5.5%	5.0%	5.3%	4.9%
	Toyota Diffusion (TD) process	803									
	YoY	-8.9%									
	% of total	2.8%									
	Zinc-alloy coating (ZAC) process	406									
	YoY	-9.6%									
	% of total	1.4%									
	Plasma transferred arc (PTA) process	364									
	YoY	-15.0%									
	% of total	1.3%									
	Other	3,263									
	YoY	2.4%									
	% of total	11.4%									

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

PVD treatment is performed by domestic subsidiary JCC

Stability of earnings supported by repeat demand from domestic customers

In the past, even when profit has fallen below forecast or decreased YoY, the company has maintained stable profitability with relatively little deviation in terms of earnings, despite its high degree of reliance on semiconductor and FPD sales. Shared Research believes that these stable earnings are underpinned by a thick customer base in industries other than semiconductors and FPDs and repeat demand for functional surface treatments that provide high added value. Shared Research also holds the view that TOCALO has successfully gained customer loyalty by successively launching high-end products in response to customer needs.

Capital expenditures, depreciation, and R&D expenses

TOCALO made significant capital expenditures of around JPY6.0bn in each year over the FY03/17–FY03/19 accounting periods. The purpose of these investments was to respond to heightened production in the semiconductor and FPD fields as well as to increase the production capacity of its domestic subsidiary. In FY03/23, capital expenditures were JPY4.9bn (+10.7% YoY). Its FY03/24 plan calls for capital expenditures of JPY5.0bn. This includes JPY2.6bn to strengthen the production system and improve efficiency at the Tokyo, Akashi, and Kitakyushu plants and put in place equipment to deal with anticipated robust semiconductor demand in Japan. Overseas, it earmarked JPY2.1bn for the construction of a new plant in Taiwan. The company generally targets an R&D expenses-to-sales ratio of about 3%, but is looking for 3.1% in FY03/24.

	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Capital expenditures	3,730	5,936	6,361	5,965	2,313	4,822	4,385	4,855	4,875	5,032
Depreciation	1,560	1,703	1,948	2,658	2,991	2,771	2,783	2,987	3,056	3,283
R&D expenses	862	834	905	1,003	1,159	1,296	1,296	1,400	1,534	1,569
R&D ratio	3.0%	2.9%	2.7%	2.5%	3.1%	3.3%	3.0%	2.9%	3.3%	2.9%

Source: Shared Research based on company data

R&D structure

TOCALO's R&D is supported by two pillars: preemptive research and product development in response to customer need. The company has also identified three priority areas for R&D: thermal spraying technology development (development of components for general industrial machinery and equipment, thermal spraying treatment development); semiconductor component technology (development of components used in semiconductor and FPD manufacturing equipment through thermal spraying and other technologies); and coating method development (laser application, PVD, CVD, DLC, TD, ZAC) and organic coating.

collaboration, TOCALO aims to improve its R&D by raising its academic sensitivity by selecting and applying elemental technologies and gathering technical information. Meanwhile, the sales, manufacturing, and production technology departments at each of its factories and the R&D lab are collaborating to swiftly develop products that provide an immediate response to diversifying customer need and to resolve issues concerning production technology.

Furthermore, consolidated subsidiary Japan Coating Center Co., Ltd. is also lending its cooperation to R&D concerning physical vapor deposition (PVD), diamond-like carbon (DLC), and other thin coating treatments. In FY03/23, total R&D expenses for the entire group were JPY1.4bn. Details for each segment are indicated below (a segment-by-segment breakdown of the group's R&D expenses has not been included due to difficulty determining amounts that should be allocated to each segment).

(1) Thermal Spraying (TOCALO)

In pursuit of sustainable growth, the company is promoting the development of applications for surface treatment technology on high-performance components, focusing on fields such as semiconductors and FPD; new materials; environment and energy; transport aircraft; and medical care. In the semiconductor field, TOCALO is conducting ongoing development of electrostatic chucks and plasma-resistant coating technology for manufacturing equipment components. In particular, the company focuses on new coating materials and methods for the treatment of plasma etching equipment parts, as well as related evaluation technologies. Against a backdrop of active application of IoT and big data, this focus addresses the need for high-performance coating that can respond to production of integrated circuits with nano-level linewidth.

In the area of new materials, TOCALO helps blast furnace manufacturers by developing antifriction sprayed coatings for components that undergo severe stress from impact or other causes. The company is also developing a non-adhesive coating for conveyor rolls used by film manufacturers and the paper and pulp industry. In the environment and energy field, the company developed a high-performance, heat-shielding ceramic coating that protects high-temperature components in gas turbine generators and other equipment. This thermal spraying method is receiving worldwide attention, and the company is pursuing further development.

TOCALO is also actively working on developing a coating treatment that combines thermal spraying and laser technology. Thanks to these efforts, the company was able to trial manufacture a coating that offered dramatically improved adhesiveness and abrasion/corrosion resistance compared with the conventional thermal spray coating. The company began offering this coating to specific customers, and plans to conduct relevant product development while simultaneously evaluating its performance.

(2) Domestic Subsidiaries

Japan Coating Center Co., Ltd. develops PVD and DLC coatings. In FY03/20, it focused on developing a coating for semiconductor manufacturing equipment parts, which it has begun delivering to some customers. In addition, in the area of DLC coatings, it refined its existing Neo Slick series. In terms of production techniques, it installed automatic testing equipment, worked to automate in-process work, and began initiatives to improve quality and efficiency.

In addition, at Terada Kosakusho—which the company made a wholly owned subsidiary in August 2024—TOCALO aims to create new value by combining Terada Kosakusho's machining technologies with its own surface modification technologies. In addition to constructing a new plant building, the company also plans to strengthen its R&D capabilities.

(3) Other businesses

Aside from thermal spraying, TOCALO conducts ongoing product development related to functional coatings produced through the TD process, ZAC, PTA process, and other methods. In terms of developing organic and inorganic coatings, the company is testing the application of functional thin coatings in the areas of medical care and food. Projects include the development of coatings that prevent adhesion with living organisms and blood; the application of coatings to both water-resistant and hydrophilic medical devices; and the development and evaluation of corrosion-resistant coatings. Additionally, in the area of laser cladding technology (a new coating method), aiming to establish it as repair technology for general industrial machinery, the company evaluated the electrochemical characteristics and residual stress of the coatings. It plans to continue the active development of coatings utilizing laser technology.

(4) Patents

The group actively submits patent applications to secure the rights to its technology and coating products. In FY03/23, it held 140 patents in Japan and 122 patents overseas. The company submitted 33 patent applications in FY03/23 and had

22 patents registered.

Profitability analysis

Profit margins (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross profit	9,727	10,536	12,646	13,761	12,780	14,814	16,585	17,365	16,243	20,246
Gross profit margin	33.8%	36.4%	37.1%	34.8%	33.7%	37.7%	37.9%	36.1%	34.8%	37.3%
Operating profit	4,806	5,646	7,110	7,741	6,550	8,890	10,255	10,558	9,197	12,271
Operating profit margin	16.7%	19.5%	20.8%	19.6%	17.3%	22.6%	23.4%	21.9%	19.7%	22.6%
EBITDA	6,423	7,361	9,058	10,399	9,541	11,661	13,038	13,545	12,253	15,570
EBITDA margin	22.3%	25.4%	26.6%	26.3%	25.2%	29.7%	29.8%	28.1%	26.2%	28.7%
Net margin	10.5%	14.1%	14.2%	13.8%	11.6%	13.9%	15.8%	15.3%	13.5%	14.8%
Financial ratios										
ROA (RP-based)	13.5%	14.1%	15.2%	14.7%	11.5%	14.2%	15.8%	15.3%	12.7%	15.7%
ROE	11.2%	13.9%	14.9%	15.2%	11.3%	12.9%	14.8%	14.3%	11.6%	13.9%
Total asset turnover	0.77	0.70	0.70	0.72	0.64	0.63	0.66	0.67	0.61	0.68
Inventory turnover	10.1	9.7	8.9	8.5	8.7	9.0	8.5	7.4	6.2	6.1
Days in inventory	36.2	37.5	41.1	43.1	42.0	40.4	42.7	49.1	58.9	60.3
Working capital	7,953	10,694	13,113	13,647	13,136	12,218	14,310	15,808	17,192	19,453
Current ratio	264.4%	258.9%	184.6%	207.7%	281.2%	271.8%	272.7%	272.1%	282.0%	295.9%
Quick ratio	235.6%	232.0%	164.4%	184.1%	258.6%	248.6%	246.3%	238.9%	246.6%	250.5%
OCF / Current liabilities	0.56	0.63	0.66	0.59	0.54	0.90	0.77	0.72	0.55	0.65
Net debt / Equity	-26.0%	-15.7%	-18.4%	-20.4%	-20.4%	-21.7%	-24.4%	-24.2%	-19.7%	-16.1%
OCF / Total liabilities	0.5	0.4	0.5	0.5	0.4	0.6	0.6	0.6	0.4	0.6
Cash conversion cycle (days)	89.1	n.a.	56.4	54.0	74.2	70.4	62.7	69.0	79.6	95.5
Change in working capital	624	2,741	2,419	534	-511	-918	2,092	1,498	1,384	2,261

Cash conversion cycle	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Accounts receivable turnover	3.2	3.0	3.2	3.4	3.2	3.5	3.9	3.9	3.6	3.8
Days in accounts receivable	112.6	120.5	115.8	107.8	112.8	103.5	94.8	93.4	101.8	95.4
Inventory turnover	10.1	9.7	8.9	8.5	8.7	9.0	8.5	7.4	6.2	6.1
Days in inventory	36.2	37.5	41.1	43.1	42.0	40.4	42.7	49.1	58.9	60.3
Accounts payable turnover	6.1	n.a.	3.6	3.8	4.5	5.0	4.9	5.0	4.5	6.1
Days in accounts payable	59.7	n.a.	100.4	96.9	80.6	73.5	74.8	73.6	81.0	60.3
Cash conversion cycle (days)	89.1	n.a.	56.4	54.0	74.2	70.4	62.7	69.0	79.6	95.5

Note: Accounts payable turnover is calculated using the previous method (not including electronically recorded monetary obligations) through FY03/16 and the current method (including electronically recorded monetary obligations) from FY03/18.

Assets	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total current assets	20,830	23,000	25,941	27,749	31,837	33,140	36,365	38,827	40,342	39,960
(% of total assets)	54.8%	51.9%	49.3%	48.4%	52.1%	51.6%	52.3%	52.3%	51.8%	48.9%
Accounts receivable	9,138	9,986	11,654	11,716	11,712	10,571	12,176	12,476	13,587	14,776
(% of total assets)	24.1%	22.5%	22.1%	20.5%	19.2%	16.5%	17.5%	16.8%	17.4%	18.1%
Total fixed assets	17,163	21,332	26,722	29,529	29,285	31,043	33,152	35,436	37,597	41,716
(% of total assets)	45.2%	48.1%	50.7%	51.6%	47.9%	48.4%	47.7%	47.7%	48.2%	51.1%
Investment securities	682	684	1,015	886	1,317	1,322	1,324	1,325	1,331	2,344
(% of total assets)	1.8%	1.5%	1.9%	1.5%	2.2%	2.1%	1.9%	1.8%	1.7%	2.9%
Total assets	37,992	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,676
Total asset turnover (times/year)	0.77	0.70	0.70	0.72	0.64	0.63	0.66	0.67	0.61	0.68
Liabilities	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total current liabilities	7,877	8,884	14,054	13,362	11,323	12,193	13,334	14,272	14,308	13,506
Accounts payable	3,036	1,229	1,434	1,271	1,157	1,194	1,397	1,425	1,477	1,475
Short-term debt	511	905	879	1,218	2,153	1,802	1,460	1,490	1,989	1,987
Accounts payable turnover (times/year)	6.1	n.a.	3.6	3.8	4.5	5.0	4.9	5.0	4.5	6.1
Current ratio	264.4%	258.9%	184.6%	207.7%	281.2%	271.8%	272.7%	272.1%	282.0%	295.9%
Total liabilities	8,922	12,079	16,524	17,613	18,487	17,291	17,058	16,620	18,015	15,944
Total interest-bearing debt	628	3,324	2,580	4,555	8,198	6,069	4,285	2,939	5,103	3,875
Dependence on interest-bearing debt	1.7%	7.5%	4.9%	8.0%	13.4%	9.5%	6.2%	4.0%	6.5%	4.7%
Net debt	-7,569	-5,063	-6,654	-8,105	-8,691	-10,158	-12,825	-13,973	-11,802	-10,608
Dependence on net interest-bearing debt	-19.9%	-11.4%	-12.6%	-14.2%	-14.2%	-15.8%	-18.4%	-18.8%	-15.1%	-13.0%
Total liabilities and net assets	37,992	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,676

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Market and value chain

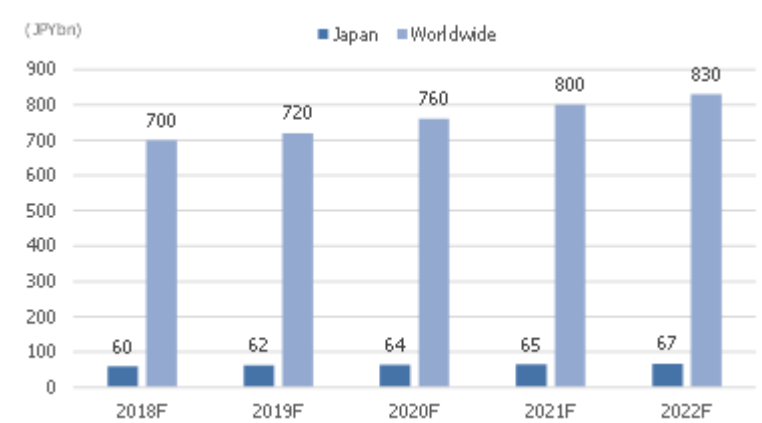
Note: The key figures in the tables and the description have not yet been updated. We will update them at a later date based on market data.

Scale of thermal spraying market

The thermal spraying industry broadly divides into companies that conduct thermal spraying internally and companies that perform thermal spraying as a contracted service. The market for contracted treatment in Japan was worth an estimated JPY60.0bn in 2018, while the global market was valued at about JPY700.0bn (Source: Yano Research Institute). We understand the company holds the top market share in Japan, at more than 40%.

Some competitors overseas sell thermal spraying materials and equipment in addition to providing contracted treatment services, but TOCALO specializes in services. Overseas sales accounted for 23.3% of the company's overall sales in FY03/23, primarily coming from Japanese companies that have expanded abroad. The company has concluded a number of licensing agreements with companies overseas.

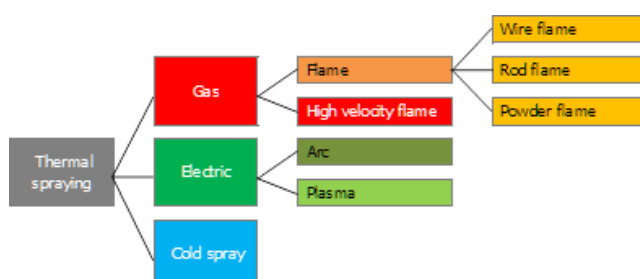
Thermal spraying market forecasts (Japan, worldwide)



Source: Shared Research based on data from the 2019 edition of *Thermal Spraying Market* from Yano Research Institute Ltd.

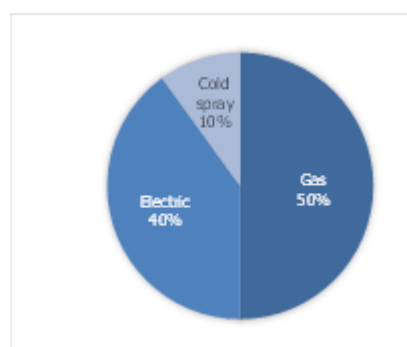
In 2018, gas-based thermal spraying methods accounted for 50% of the Japanese thermal spraying market, while electricity-based methods accounted for 40%, and cold-spray methods accounted for 10% (Source: Yano Research Institute).

Classification of thermal spraying methods



Source: Shared Research based on data obtained from the Japan Thermal Sprayers Association

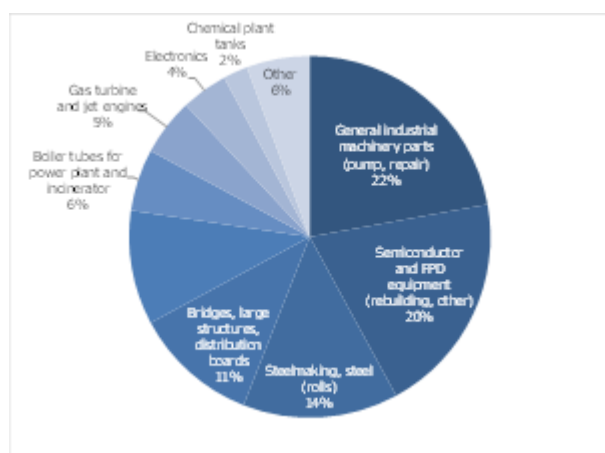
Breakdown of thermal spraying market (JPY60.0bn in FY2018) by method



Source: Shared Research based on data from the 2019 edition of *Thermal Sprayers Association Thermal Spraying Market* from Yano Research Institute

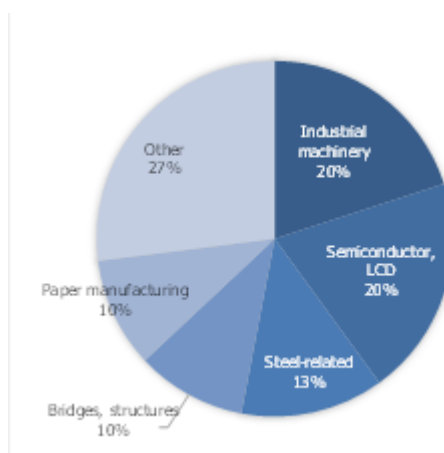
By areas of application, 20% of thermal spraying in Japan is associated with industrial equipment, 20% semiconductors and flat panel displays (FPDs), 13% steelmaking, 10% bridges and structures, 10% paper manufacturing, and 27% other uses (2018 actual; Yano Research).

Breakdown of FY2012 thermal spraying market (JPY43.5bn) by field of demand



Source: Shared Research based on data obtained from the 2013 edition of Status and Outlook of the *Thermal Spraying Market* from Digital Research, Inc.

Breakdown of FY2018 thermal spraying market (JPY60.0bn) by field of demand



Source: Shared Research based on data from the 2019 edition of *Thermal Spraying Market* from Yano Research Institute Ltd.

Sales of semiconductor equipment by Japan-based manufacturers (Source: Semiconductor Equipment Association of Japan [SEAJ]) are highly linked with TOCALO's sales in the semiconductor field. According to the SEAJ forecast announced in January 2022, sales of Japanese semiconductor equipment in FY2020 totaled JPY2.3tn (+7.9% YoY) and sales of Japanese FPD manufacturing equipment totaled JPY420.0bn (-11.7% YoY), for a total of JPY2.8tn (+7.9% YoY). At TOCALO, sales in the semiconductor and FPD fields were JPY18.2bn (+28.9% YoY).

Japan-based manufacturing equipment sales (JPYmn)										Forecast			
	(JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Semiconductor		1,127,800	1,292,100	1,308,900	1,564,200	2,043,600	2,247,900	2,073,000	2,383,500	3,443,000	3,684,000	3,499,800	4,199,700
YoY		9.7%	14.6%	1.3%	19.5%	30.6%	10.0%	-7.8%	15.0%	44.5%	7.0%	-5.0%	20.0%
FPD		348,500	271,700	299,300	485,700	491,600	536,400	475,800	463,800	480,900	452,000	361,600	542,500
YoY		66.8%	-22.0%	10.2%	62.3%	1.2%	9.1%	-11.3%	-2.5%	3.7%	-6.0%	-20.0%	50.0%
Total		1,476,300	1,563,800	1,608,200	2,049,900	2,535,200	2,784,300	2,548,800	2,847,300	3,923,900	4,136,000	3,861,400	4,742,200
YoY		19.3%	5.9%	2.8%	27.5%	23.7%	9.8%	-8.5%	11.7%	37.8%	5.4%	-6.6%	22.8%
TOCALO sales (JPYmn)		FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	
(JPYmn)		Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Est.	
Semiconductor		5,030	7,270	8,628	8,519	11,273	14,895	12,497	16,030	18,990	21,739	19,400	
YoY		-0.3%	44.5%	18.7%	-1.3%	32.3%	32.1%	-16.1%	28.3%	18.5%	14.5%	-10.8%	
FPD		1,023	1,110	1,441	1,484	2,201	2,238	1,604	2,145	1,653	1,520	1,300	
YoY		69.1%	8.5%	29.8%	3.0%	48.3%	1.7%	-28.3%	33.7%	-22.9%	-8.0%	-14.5%	
Total		6,054	8,380	10,069	10,003	13,474	17,134	14,102	18,176	20,643	23,260	20,700	
YoY		7.1%	38.4%	20.2%	-0.7%	34.7%	27.2%	-17.7%	28.9%	13.6%	12.7%	-11.0%	

Source: Shared Research based on data obtained from the company and the Semiconductor Equipment Association of Japan

Competitive landscape

Note: Key figures in this section and the tables included therein remain unchanged and will be updated when the company announces its 1H results after annual securities reports (both its own and those of its competitors) have been issued for FY03/25.

Domestic competitors

TOCALO is the sole listed company in the Japanese thermal spraying market, and boasts a share over 40%. The rest of the market is crowded with small- and medium-sized companies that each hold shares of just a few percent. The market includes some affiliates of major listed companies such as Nippon Steel Hardfacing Corporation, but it also houses a large number of independent companies like TOCALO that provide contracted treatment services.

Praxair Surface Technologies K.K.

Praxair Surface Technologies K.K. was established in Japan in 1960. It is a Japanese subsidiary of Praxair Surface Technologies, Inc. in the United States, which is expanding on a global scale. Praxair's thermal spraying and surface treatment technologies cover a variety of fields, including aerospace, nuclear power, steelworking, petrochemical, plastics, electronics, and industries related to printing.

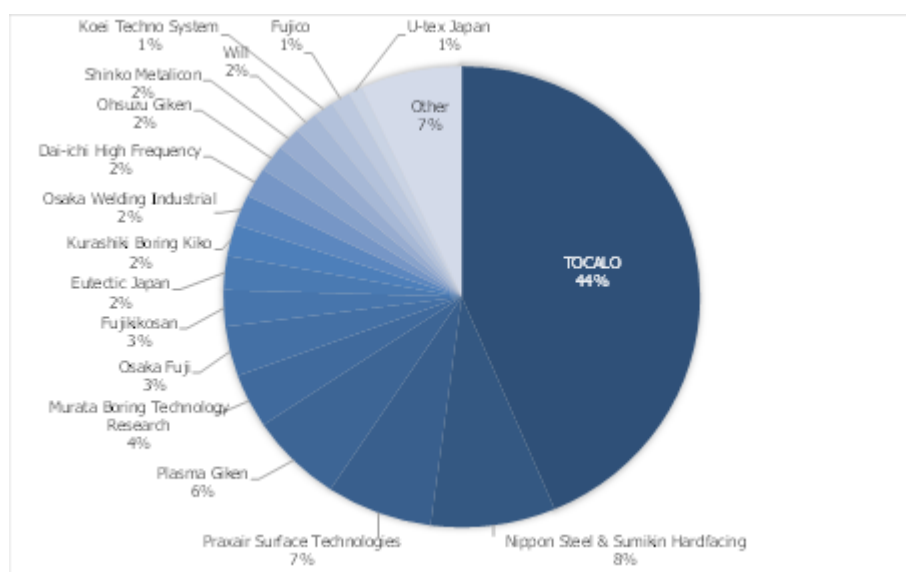
Nippon Steel Hardfacing Corporation (former name: Nippon Steel and Sumikin Hardfacing Co., Ltd.)

Nippon Steel Hardfacing Corporation came into existence in 1960 as the Nippon Hardfacing Co., Ltd., which was originally a part of the Yawata Iron & Steel Co., Ltd. (currently, the Nippon Steel Corporation [TSE Prime: 5401]) and specialized in surface hardening technology. Later, as the sole surface treatment provider in the Nippon Steel group, it worked to minimize lifecycle costs for rolls (excluding rolling mill rolls) and peripheral devices mainly used in the steel industry, with a core focus on the development of materials for welding and thermal spraying and relevant application techniques. In addition to its business activities in Japan, Nippon Steel Hardfacing began expanding globally in the 1990s, starting with North and South America. It is working to establish global supply systems primarily targeting the worldwide steel industry through a variety of efforts, including its 2012 establishment of a subsidiary in Thailand as a supply base for East Asia.

Plasma Giken Co., Ltd.

Established in 1980, Plasma Giken Co., Ltd. specializes in thermal spraying treatment. It principally provides contracted treatment services ranging from thermal spraying (plasma spraying, arc spraying, high velocity flame spraying, and detonation spraying) to cold spraying, from development to trial manufacturing, and from small- and medium-sized lots to mass production.

Shares of FY2012 cermet spraying market (JPY9.5bn)



Source: Shared Research based on data obtained from the 2013 edition of *Status and Outlook of the Thermal Spraying Market* from Digital Research, Inc.

Strengths and weaknesses

Strengths

A portfolio of diverse surface treatments that makes the company the leader in a niche market

One of TOCALO's strengths is its ability to handle a wide variety of surface treatments, ranging from thick coating (e.g., thermal spraying, TD process, ZAC coating, and PTA process) to thin coating (e.g., PVD process). Of the different categories in thermal spraying (metalized contact thermal spraying, maintenance thermal spraying, and functional thermal spraying), the company excels in functional thermal spraying, which is high value-added and has strong growth potential. It has captured more than 40% of the thermal spraying market in Japan (scale of about JPY60.0bn in 2018; source: Yano Research Institute) and holds the top share, whereas its competitors are all small- and medium-sized companies with market shares of 10% or less. These companies specialize in specific fields, and thus, are unable to handle a wide range of surface treatments that span from thick to thin coatings, as TOCALO can.

Ability to acquire top-class customers in major industries through joint development focused on meeting future needs

Surface treatment centered around thermal spraying has become a standard technology in a wide variety of fields, ranging from steel to semiconductors, and its demand has been on the rise year by year. One of TOCALO's strengths is that it has acquired top-class customers in major industries through joint development focused on needs of the future. In the past, most demand came from the steel and paper and pulp industries, but sales from the semiconductor and FPD equipment industries currently account for nearly 48% of the company's sales in FY03/23. One of the largest drivers of its semiconductor-related business is Tokyo Electron, which accounted for 35.7% of consolidated sales in FY03/22. TOCALO and Tokyo Electron have established a close relationship through which they conduct joint development to further improve surface treatments in the semiconductor and FPD fields, both areas of intense technological innovation. The company's engineers make frequent visits to customer sites to uncover hidden needs, and work with the customers to jointly discover solutions.

Stable earnings due to high domestic repeat demand for technologies with added value

In the past, even when profit has fallen below forecast or decreased YoY, the company has maintained stable profitability with relatively little deviation in terms of earnings, despite its high degree of reliance on semiconductor and FPD-related sales. Shared Research believes that these stable earnings are underpinned by a thick customer base in industries other than semiconductors and FPDs and repeat demand for functional surface treatments that provide high added value. Recoating demand is generated when components and parts that have undergone thermal spraying or other types of surface treatments become worn or deteriorate over time. The company does not merely provide maintenance through its recoating services; it also captures repeat demand for higher added value by proposing and providing products and services with heightened functionality.

Weaknesses

A lack of peripheral technologies and mass production bases necessary to process large orders

TOCALO has adopted a labor-intensive, made-to-order production system through which it customizes all surface treatments to fit the specifications of individual customers. Some of the company's competitors overseas develop, manufacture, and sell thermal spraying materials and equipment in addition to providing contracted treatment services, but TOCALO specializes in services. TOCALO's surface treatment lines, mainly thermal spraying, are designed to suit workpieces that have relatively large surface areas, and are not geared toward mass processing of small components. Accordingly, the company is currently unable to handle high volume components such as automobile parts, which are generally processed in quantities as large as one million units per year. We think the company lacks the peripheral technologies (including internal production of thermal spraying materials and equipment) and mass production bases necessary to handle high volume orders.

Lackluster cultivation of overseas markets

The global thermal spraying market was valued at about JPY700.0bn in 2018 (Source: Yano Research Institute). Although TOCALO has the top market share in Japan, it has not yet cultivated much of the overseas market, which is at least ten

times the size of Japan's market. In FY03/22, overseas sales only accounted for 21.1% of the company's sales, and mainly came from Japanese companies that had expanded overseas. The company has concluded many licensing agreements with overseas companies but rarely cultivates local customers on its own. Shared Research believes the company's market development abroad is somewhat lackluster compared with that of the many Japanese industrial machinery makers that have ventured overseas. Anticipating growth in its recoating business abroad, the company has expanded its overseas bases, primarily in Asia. However, it often misses out on repeat demand as recoating is often handled by local companies, particularly for low-end technologies where there is a large number of new market entrants (high-end technologies also apply in the case of South Korea). Shared Research surmises that TOCALO's strategy of obtaining royalty revenue through technological licensing is one factor lowering the barrier of entry for local companies.

Low profitability of the Other Surface Treatments business

The recurring profit margin (before segment adjustments) in Other Surface Treatments, which was 17.0% in FY03/23, paled in comparison to the 23.1% profit margin in Thermal Spraying, 14.6% in Domestic Subsidiary (Japan Coating Center), and 25.0% in Overseas Subsidiaries. Although Other Surface Treatments offers a variety of treatments (TD process, ZAC, and PTA process), their sales are only a few hundred million yen each. Despite this segment's involvement with the industrial equipment industry, it has not received enough orders to be able to demonstrate any volume efficiency. Shared Research believes that all of these treatment technologies are gradually becoming legacy technologies, which causes them to remain niche markets, inhibiting market expansion.

Historical results and financial statements

The figures in the financial statements have been updated, but the accompanying descriptions have not. Shared Research plans to update them at the time of Q1 results announcement, following the release of the company's annual securities report for FY03/26.

Income statement

Income statement (JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25	FY03/26
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	28,964	34,109	39,558	37,896	39,294	43,813	48,144	46,735	54,231	58,490
YoY	0.8%	17.8%	16.0%	-4.2%	3.7%	11.5%	9.9%	-2.9%	16.0%	7.9%
Cost of sales	18,428	21,462	25,797	25,116	24,479	27,227	30,778	30,491	33,984	35,913
Gross profit	10,536	12,646	13,761	12,780	14,814	16,585	17,365	16,243	20,246	22,577
YoY	8.3%	20.0%	8.8%	-7.1%	15.9%	12.0%	4.7%	-6.5%	24.6%	11.5%
Gross profit margin	36.4%	37.1%	34.8%	33.7%	37.7%	37.9%	36.1%	34.8%	37.3%	38.6%
SG&A expenses	4,890	5,536	6,019	6,229	5,924	6,329	6,807	7,046	7,977	8,474
YoY	-0.6%	13.2%	8.7%	3.5%	-4.9%	6.8%	7.6%	3.5%	13.2%	6.2%
SG&A ratio	16.9%	16.2%	15.2%	16.4%	15.1%	14.4%	14.1%	15.1%	14.7%	14.5%
Operating profit	5,646	7,110	7,741	6,550	8,890	10,255	10,558	9,197	12,268	14,102
YoY	17.5%	25.9%	8.9%	-15.4%	35.7%	15.4%	3.0%	-12.9%	33.4%	14.9%
Operating profit margin	19.5%	20.8%	19.6%	17.3%	22.6%	23.4%	21.9%	19.7%	22.6%	24.1%
Non-operating income	211	283	386	367	72	337	475	529	330	731
Non-operating expenses	55	30	52	105	48	21	29	63	41	88
Recurring profit	5,801	7,363	8,076	6,812	8,914	10,571	11,003	9,662	12,558	14,745
YoY	15.4%	26.9%	9.7%	-15.7%	30.9%	18.6%	4.1%	-12.2%	30.0%	17.4%
Recurring profit margin	20.0%	21.6%	20.4%	18.0%	22.7%	24.1%	22.9%	20.7%	23.2%	25.2%
Extraordinary gains	5	2	85	0	13	1	4	7	33	30
Extraordinary losses	3	198	83	17	361	124	18	13	396	32
Income taxes	1,540	2,008	2,273	2,038	2,675	3,091	3,150	2,731	3,557	3,889
Implied tax rate	26.5%	28.0%	28.1%	30.0%	31.2%	29.6%	28.7%	28.3%	29.2%	26.4%
Net income attributable to non-controlling interests	193	322	363	351	428	447	487	596	586	792
Net income attributable to owners of the parent	4,070	4,836	5,441	4,404	5,463	6,909	7,350	6,326	8,051	10,060
YoY	34.9%	18.8%	12.5%	-19.1%	24.0%	26.5%	6.4%	-13.9%	27.3%	25.0%
Net margin	14.1%	14.2%	13.8%	11.6%	13.9%	15.8%	15.3%	13.5%	14.8%	17.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Non-operating income and expenditures

- For FY03/25, non-operating income came to JPY289mn, down JPY177mn from JPY466mn in FY03/24. The main factors behind the decline were: a drop in foreign exchange gains recorded under non-operating income (from JPY378mn in FY03/24 to JPY135mn, down JPY243mn YoY); a deterioration in financial income (from JPY28mn to JPY22mn, down JPY6mn YoY); and decreases in commission expenses (from JPY25mn to JPY6mn, down JPY19mn YoY) and compensation expenses (from JPY33mn to JPY13mn, down JPY20mn YoY), both recorded under non-operating expenses. The company's average non-operating income for the 10-year period from FY03/15 to FY03/24 (excluding FY03/25) was JPY280mn. While FY03/25 exceeded this average by JPY9mn, the figure was broadly in line with the historical average.
- Foreign exchange gains (or losses)—mainly arising from end-of-period revaluations of foreign currency-denominated receivables and payables—are the most significant variable impacting the company's non-operating income (or expenses). Since FY03/21, foreign exchange gains booked as non-operating income have been on an upward trend, driven by the weakening yen. As a result, the JPY466mn in non-operating income recorded in FY03/24 marked the highest level in the past 10 years. However, the yen began to strengthen in 2H FY03/25, and the company has indicated that it expects the positive impact of forex gains to diminish from FY03/26 onward. Previously, the company had recorded royalty income under non-operating income but changed its accounting treatment in FY03/22 to record such income as sales. It retroactively adjusted its FY03/21 figures to reflect this change but did not apply retroactive

adjustments for FY03/20 or earlier periods. As a result, the 10-year historical trend in non-operating income (or expenses) lacks full continuity and should be regarded as a reference only.

Extraordinary gains and losses

- For FY03/25, TOCALO reported a net extraordinary loss of JPY363mn, a deterioration of JPY357mn from the JPY6mn loss recorded in FY03/24. The main factors were an impairment loss of JPY157mn and environmental remediation expenses of JPY194mn, both recorded as extraordinary losses (neither of which was recorded in the previous fiscal year). The company's average extraordinary loss over the 10-year period from FY03/15 to FY03/24 was JPY109mn, ranging from a gain of JPY2mn to a loss of JPY348mn. The FY03/25 result represents a deterioration of JPY254mn relative to this average and marks the largest extraordinary loss since FY03/15. Nonetheless, the impact of extraordinary items on the company's bottom line remained limited, even in FY03/25.

Balance sheet

Balance sheet (JPYmn)	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Cons.	FY03/22 Cons.	FY03/23 Cons.	FY03/24 Cons.	FY03/25 Cons.	FY03/26 Cons.
Assets										
Cash and deposits	8,387	9,234	12,660	16,889	16,227	17,110	16,912	16,905	14,483	14,735
Notes and accounts receivable	9,986	11,654	11,716	11,712	10,571	12,176	12,476	13,587	14,776	16,858
Operational investment securities	2,000	2,000	0	0	3,000	3,000	4,000	4,000	3,500	-
Inventories	1,937	2,893	3,202	2,581	2,841	3,531	4,757	5,082	6,152	7,311
Deferred tax assets	499	0	0	0	0	0	0	0	0	0
Allowance for doubtful accounts	-50	-54	-48	-20	-10	-4	-19	-22	-19	-44
Other	241	214	219	675	511	552	701	790	1,068	2,015
Total current assets	23,000	25,941	27,749	31,837	33,140	36,365	38,827	40,342	39,960	40,875
Buildings and structures	6,247	9,871	12,974	12,416	12,273	14,866	14,210	13,816	14,309	17,703
Machinery, equipment and vehicles	2,484	3,941	4,476	4,207	3,644	3,815	3,559	3,979	4,369	5,487
Land	7,305	8,246	8,652	8,648	9,050	10,189	11,918	11,975	12,145	12,226
Lease assets	110	88	72	50	36	33	24	17	29	29
Construction in progress	3,828	2,014	670	742	2,849	866	2,223	4,170	5,357	6,445
Other fixed assets	332	426	548	720	739	969	1,100	1,165	1,238	1,794
Total tangible fixed assets	20,305	24,589	27,395	26,786	28,594	30,740	33,037	35,125	37,449	43,686
Total intangible assets	115	260	295	338	264	231	235	257	587	616
Investment securities	684	1,015	886	1,317	1,322	1,324	1,325	1,331	2,344	2,483
Deferred tax assets	112	712	819	668	606	592	557	288	398	338
Allowance for doubtful accounts	0	-28	-14	0	-5	0	0	-2	-2	0
Other	115	172	147	175	260	264	280	596	945	1,289
Investments and other assets	911	1,871	1,838	2,160	2,183	2,180	2,163	2,215	3,686	4,112
Total fixed assets	21,332	26,722	29,529	29,285	31,043	33,152	35,436	37,597	41,723	48,415
Total assets	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,683	89,291
Liabilities										
Notes and accounts payable	1,229	1,434	1,271	1,157	1,194	1,397	1,425	1,477	1,475	1,634
Electronically recorded monetary obligations	3,157	5,991	5,004	3,660	3,849	4,721	4,869	5,770	2,510	0
Short-term debt	905	879	1,218	2,153	1,802	1,460	1,490	1,989	1,987	2,172
Short-term borrowings	151	155	112	47	15	0	0	646	674	505
Current portion of bonds	730	702	1,082	2,083	1,765	1,447	1,447	1,297	1,258	1,608
Lease obligations	24	22	24	23	22	13	43	46	55	59
Income taxes payable	965	1,353	1,361	737	1,722	1,816	1,726	921	2,387	1,376
Accounts payable-other, and accrued expenses	2,745	2,555	2,755	1,854	1,970	2,170	2,497	2,437	3,161	2,900
Provision for bonuses	891	993	1,084	1,018	1,277	1,366	1,488	1,323	1,532	1,549
Other	-1,007	849	669	744	379	404	777	391	454	629
Total current liabilities	8,884	14,054	13,362	11,323	12,193	13,334	14,272	14,308	13,506	10,260
Long-term debt	2,419	1,701	3,337	6,045	4,267	2,825	1,449	3,114	1,888	5,396
Long-term borrowings	2,324	1,628	3,282	6,015	4,249	2,802	1,355	3,058	1,863	5,245
Lease obligations	95	73	55	30	18	23	94	56	25	151
Deferred tax assets	29	0	0	0	0	0	0	61	8	385
Provision for directors' retirement benefits	0	0	0	0	0	0	0	0	0	0
Reserve for retirement benefits	724	745	876	1,085	789	853	839	468	472	499
Other	23	24	37	33	41	45	59	63	78	93
Total fixed liabilities	3,195	2,470	4,250	7,163	5,097	3,723	2,347	3,706	2,446	6,373
Total liabilities	12,079	16,524	17,613	18,487	17,291	17,058	16,620	18,015	15,953	16,634
Net assets										
Capital stock	2,659	2,659	2,659	2,658	2,658	2,658	2,658	2,658	2,658	2,658
Capital surplus	2,294	2,294	2,294	2,293	2,293	2,317	2,345	2,292	2,308	2,319
Retained earnings	26,117	29,547	33,165	35,898	39,841	44,166	48,628	51,061	55,665	61,266
Treasury stock	-774	-774	-774	-773	-773	-766	-757	-1,946	-1,926	-1,911

Shareholders' equity	30,296	33,726	37,343	40,076	44,020	48,377	52,874	54,066	58,705	64,333
Other	351	448	217	187	181	722	965	1,394	1,941	2,425
Non-controlling interests	1,606	1,965	2,105	2,371	2,690	3,360	3,804	4,464	5,084	5,899
Total net assets	32,253	36,139	39,665	42,634	46,891	52,459	57,643	59,924	65,730	72,657
Total liabilities and net assets	44,331	52,664	57,278	61,122	64,183	69,517	74,263	77,940	81,683	89,291
Working capital	10,694	13,113	13,647	13,136	12,218	14,310	15,808	17,192	19,453	22,535
Total interest-bearing debt	3,324	2,580	4,555	8,198	6,069	4,285	2,939	5,103	3,875	7,568
Net debt	-5,063	-6,654	-8,105	-8,691	-10,158	-12,825	-13,973	-11,802	-10,608	-7,167

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Assets

- As of March 31, 2025, total assets stood at JPY81.7bn, up JPY3.7bn from JPY77.9bn at the end of the previous fiscal year. Current assets declined JPY382mn, while non-current assets increased JPY4.1bn. The decrease in current assets was primarily due to a decline in cash and deposits (-JPY2.4bn YoY), partially offset by increases in trade receivables (+JPY1.2bn) and inventories (+JPY1.1bn). The increase in fixed assets reflected growth in tangible fixed assets (+JPY2.3bn), intangible assets (+JPY300mn), and investments and other assets (+JPY1.5bn). The increase in tangible fixed assets was due to higher capital investment both in Japan and overseas, while the rise in intangible assets was mainly attributable to goodwill recognized in connection with the acquisition of Terada Kosakusho.
- As of March 31, 2025, cash and deposits stood at JPY14.5bn, down JPY2.4bn from JPY16.9bn at the end of the previous fiscal year. Cash and deposits accounted for 17.7% of total assets, a decline of 4.0pp from 21.7% in FY03/24. The 10-year average from FY03/15 to FY03/24 was 22.5%, making the FY03/25 figure 4.8pp below the historical average. The ratio of cash and deposits to total assets has been on a downtrend since peaking at 27.6% in FY03/20. The FY03/25 figure of 17.7% was the second-lowest level over the past decade, following 17.5% in FY03/18. Including marketable securities that can be liquidated at any time, the company's cash and cash equivalents ratio stood at 22.0% in FY03/25, 4.1pp below the 10-year average of 26.1%, showing a trend broadly in line with that of cash and deposits alone.

Liabilities

- As of March 31, 2025, liabilities stood at JPY15.9bn, down JPY2.1bn from JPY18.0bn at the end of the previous fiscal year. Current liabilities decreased JPY802mn, while fixed liabilities declined JPY1.3bn. The primary factors behind the decrease in total liabilities were a reduction in trade payables including electronically recorded monetary obligations (-JPY3.3bn YoY) and a decline in interest-bearing debt (-JPY1.2bn), partially offset by an increase in accrued expenses (+JPY851mn) and income taxes payable (+JPY1.5bn).
- As of March 31, 2025, interest-bearing debt (including lease liabilities) totaled JPY3.9bn, down JPY1.2bn from JPY5.1bn at the end of the previous fiscal year. The decline was mainly due to a decrease in long-term borrowings. With on-hand liquidity (cash and deposits plus marketable securities booked as current assets) of JPY18.0bn, the company continues to operate with no net interest-bearing debt and is effectively debt-free. TOCALO has maintained this virtually debt-free financial position for at least 17 consecutive years since FY03/08.

Capital

- As of March 31, 2025, the company's equity ratio stood at 74.3%, up 3.1pp from 71.2% at the end of the previous fiscal year. Equity increased JPY5.2bn YoY to JPY60.6bn, while total assets rose JPY3.7bn, resulting in the improvement in the equity ratio. The company's average equity ratio over the 10-year period from FY03/15 to FY03/24 was 69.4%, making the FY03/25 figure 4.9pp above the historical average. TOCALO's equity ratio has generally increased since bottoming at 64.9% in FY03/18, and the FY03/25 result of 74.3% marks the highest level since FY03/15.

Cash flow statement

Cash flow statement (JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25	FY03/26
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities(1)	5,238	7,611	8,044	6,621	10,588	9,873	9,894	7,877	9,077	7,749
Pre-tax profit	5,803	7,167	8,078	6,794	8,566	10,448	10,989	9,655	12,194	14,743
Depreciation	1,703	1,948	2,658	2,991	2,771	2,783	2,987	3,056	3,289	3,791
Amortization of goodwill	12	0	0	0	0	0	0	0	13	26
Change in accounts receivable	-888	-1,607	-131	0	1,149	-1,418	-270	-1,002	-922	-1,931
Change in inventories	-107	-925	-357	604	-252	-607	-1,191	-274	-989	-1,092
Change in accounts payable	173	1,228	-24	-961	-70	812	202	696	-2,018	-1,549
Cash flows from investing activities(2)	-6,537	-4,681	-4,617	-4,217	-4,615	-5,044	-5,094	-4,634	-6,194	-9,963
Purchase of tangible fixed assets	-5,512	-4,312	-6,943	-3,641	-4,348	-4,562	-4,610	-4,785	-5,524	-9,757
Purchase of intangible assets	-55	-137	-135	-152	-25	-66	-93	-104	-54	-162
Purchase, sale, and redemption of investment securities	30	-333	114	-435	0	0	-500	0	536	0
Increase in investments affecting scope of consolidation	0	0	0	0	0	0	0	0	-598	0
Free cash flow (1+2)	-1,299	2,930	3,427	2,404	5,973	4,829	4,800	3,243	2,883	-2,214
Cash flows from financing activities	1,581	-2,217	40	1,871	-3,798	-4,547	-4,561	-3,241	-5,124	-1,155
Change in short-term borrowings	0	0	-33	-63	-30	-17	0	631	-90	-185
Change in long-term borrowings	2,620	-730	2,042	3,734	-2,083	-1,766	-1,447	1,553	-1,326	3,733
Acquisition of treasury stock	0	0	0	0	0	0	0	-1,999	0	0
Dividends paid	-1,142	-1,405	-1,822	-1,670	-1,520	-2,583	-2,888	-3,168	-3,446	-4,456
Depreciation and amortization (A)	1,715	1,948	2,658	2,991	2,771	2,783	2,987	3,056	3,302	3,817
Capital expenditures (B)	-5,512	-4,312	-6,943	-3,641	-4,348	-4,562	-4,610	-4,785	-5,524	-9,757
Change in working capital (C)	2,741	2,419	534	-511	-918	2,092	1,498	1,384	2,261	3,082
Simple FCF (NI + A + B - C)	-2,468	53	622	4,265	4,804	3,038	4,229	3,213	3,568	1,038

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

- Net cash provided by operating activities in FY03/25 was JPY9.1bn, an increase of JPY1.2bn from JPY7.9bn in FY03/24. In addition to a rise in net income before income taxes (which contributed a JPY2.5bn increase in cash flow), other key factors included a smaller outflow from trade receivables (an improvement of JPY807mn YoY), a larger outflow due to a decline in trade payables (a JPY2.7bn reduction in cash inflow), a greater outflow related to inventories (an increase of JPY715mn YoY), a smaller outflow from changes in retirement benefit-related assets and liabilities (an improvement of JPY253mn YoY), and a smaller outflow from an increase in provision for bonuses (an improvement of JPY377mn YoY).

Cash flows from investing activities

- Net cash used in investing activities in FY03/25 totaled JPY6.2bn, an increase of JPY1.6bn in outflows compared to JPY4.6bn in FY03/24. Key factors included a decrease in outflows for the purchase of securities (improvement of JPY1.0bn YoY), offset by increases in outflows for the purchase of tangible fixed assets driven by higher capital investment (an increase of JPY739mn YoY), the acquisition of investment securities (JPY1.0bn YoY), and the purchase of shares in a newly consolidated subsidiary (JPY598mn YoY). The acquisition of shares in the newly consolidated subsidiary relates to the purchase of Terada Kosakusho.

Cash flows from financing activities

- Net cash used in financing activities in FY03/25 totaled JPY5.1bn, an increase of JPY1.9bn in outflows compared to JPY3.2bn in FY03/24. The main factors behind this increase included a decrease in proceeds from long-term borrowings (a JPY3.0bn reduction in inflows YoY), an increase in dividend payments due to a higher dividend payout (an additional outflow of JPY278mn YoY), and a decrease in outflows related to the purchase of treasury shares (an improvement of JPY2.0bn YoY). Notably, the company did not repurchase any treasury shares during FY03/25.

Historical performance

Full-year FY03/26 results (May 11, 2026)

FY03/26 results summary

Results for FY03/26 (April 2025–March 2026) were as follows.

- Sales: JPY58.5bn (+7.9% YoY, versus the previous company forecast of JPY57.0bn)
- Operating profit: JPY14.1bn (+14.9% YoY, versus JPY13.0bn)
- Recurring profit: JPY14.7bn (+17.4% YoY, versus JPY13.0bn)
 - RPM: 25.2% (+2.0pp YoY, versus 22.8%)
- Net income attributable to owners of the parent: JPY10.1bn (+25.0% YoY, versus JPY8.3bn)
- Orders: JPY61.8bn (+10.1% YoY)
- Order backlog: JPY14.8bn (+30.8% YoY)

FY03/26 overview

In FY03/26, sales as well as all profit items, including recurring profit, hit record highs for the second consecutive year. All items also came in above the company forecast. In response to the better-than-expected results, the company raised its annual dividend to JPY85.0 per share, an increase of JPY15.0 per share from the previous company forecast of JPY70.0 per share (versus JPY68.0 per share in FY03/25). As the company has already paid an interim dividend of JPY37.0 per share, this means it raised the year-end dividend from the previous company forecast of JPY33.0 per share to JPY48.0 per share. The FY03/26 payout ratio is expected to be 50.2% (versus 50.2% in FY03/25).

Sales

- ▶ FY03/26 consolidated sales were JPY58.5bn (+7.9% YoY), exceeding the company forecast of JPY57.0bn by approximately 3% and hitting a record high for the second consecutive year. Sales by business segment were as follows.

Sales by segment

- Consolidated sales: JPY58.5bn (+7.9% YoY)
 - Thermal Spraying (TOCALO): JPY40.7bn (+3.8% YoY)
 - Domestic Subsidiaries: JPY2.9bn (+8.5% YoY)
 - Overseas Subsidiaries: JPY12.3bn (+31.7% YoY)
 - Other Surface Treatments: JPY2.5bn (-14.3% YoY)
 - Royalty Income: JPY160mn (-0.6% YoY)
- ▶ By segment, sales from Thermal Spraying (TOCALO), which accounted for approximately 70% of consolidated sales, grew only 3.8% YoY, remaining below 10%. Growth was held back by lingering effects of a 6.3% YoY decline in 1H (April–September) orders for semiconductor/FPD applications, the company's mainstay. As a result, FY03/26 sales for semiconductor/FPD applications increased only 2.9% YoY, the main factor behind the sluggish growth in Thermal Spraying (TOCALO). Within Thermal Spraying excluding semiconductor/FPD applications, sales for industrial machinery applications grew at a double-digit pace (+16.0% YoY), while sales for steel making applications increased 0.9% YoY and sales for other thermal spraying applications declined 0.3% YoY, both broadly in line with the previous year.
- ▶ Among segments other than Thermal Spraying (TOCALO), sales from Overseas Subsidiaries (mainly China and Taiwan) rose markedly at +31.7% YoY, and sales from Domestic Subsidiaries increased 8.5% YoY, while sales from Other Surface Treatments declined 14.3% YoY.
- ▶ Orders for semiconductor/FPD applications, which had been somewhat weak in 1H, turned to growth in Q3 (October–December) at +18.4% YoY and expanded further to +49.7% YoY in Q4 (January–March). In addition, the order backlog at end-FY03/26 rose 59.6% YoY, indicating conditions are falling into place for sales growth in FY03/27.

Recurring profit and RPM

- ▶ FY03/26 consolidated recurring profit was JPY14.7bn (+17.4% YoY), exceeding the company forecast of JPY13.0bn by approximately 13% and, like sales, hitting a record high for the second consecutive year. RPM improved by 2.0pp YoY to 25.2%, returning to a level approaching the 26.6% recorded in FY03/07—the highest in 19 years.

Recurring profit by segment

- Consolidated recurring profit: JPY14.7bn (+17.4% YoY)
 - Thermal Spraying (TOCALO): JPY8.8bn (-0.7% YoY)
 - Domestic Subsidiaries: JPY331mn (-4.3% YoY)
 - Overseas Subsidiaries: JPY4.9bn (+48.3% YoY)
 - Other Surface Treatments: JPY281mn (-33.4% YoY)
 - Consolidated adjustments: +JPY391mn
- ▶ By segment, profit from Thermal Spraying (TOCALO) was JPY8.8bn (-0.7% YoY), profit from Overseas Subsidiaries was JPY4.9bn (+48.3% YoY), profit from Domestic Subsidiaries was JPY331mn (-4.3% YoY), and profit from Other Surface Treatments was JPY281mn (-33.4% YoY). Profit from Thermal Spraying remained flat YoY, albeit at a high level, while profit from Domestic Subsidiaries and Other Surface Treatments was also weak. However, these were absorbed by significant earnings expansion at Overseas Subsidiaries, leading to a record-high consolidated recurring profit. Segment profit links to recurring profit on the income statement.
- ▶ Starting with its FY03/26 results, the company began voluntarily disclosing "recurring profit on an underlying basis." This indicator is recurring profit as reported on the income statement, excluding amortization of actuarial differences and subsidy income. In FY03/26, recurring profit on an underlying basis was JPY13.7bn (+11.6% YoY). See the section on the disclosure of "recurring profit on an underlying basis" below.
- ▶ Operating profit was JPY14.1bn (+14.9% YoY) and net income attributable to owners of the parent was JPY10.1bn (+25.0% YoY), both hitting record highs for the second consecutive year.

Orders (FY03/26, 12 months)

- ▶ Consolidated orders in FY03/26 were JPY61.8bn (+10.1% YoY), a record high for the second consecutive year. The breakdown of the JPY61.8bn (+10.1% YoY) in consolidated orders is as follows. For details on orders in each segment, see the sections on each business under "Results by segment (FY03/26, 12 months)" below.
- Consolidated orders: JPY61.8bn (+10.1% YoY)
 - Thermal Spraying segment (parent): JPY43.8bn (+8.9% YoY)
 - Semiconductor/FPD-related: JPY28.0bn (+12.7% YoY)
 - Industrial machinery-related: JPY5.6bn (+5.6% YoY)
 - Steel making-related: JPY3.9bn (+2.0% YoY)
 - Other: JPY6.2bn (+0.5% YoY)
 - Domestic Subsidiaries segment: JPY2.8bn (+1.0% YoY)
 - Overseas Subsidiaries segment: JPY12.7bn (+23.9% YoY)
 - Other Surface Treatments segment: JPY2.5bn (-13.3% YoY)
- ▶ In FY03/26, orders in the mainstay Thermal Spraying segment grew 8.9% YoY, orders in the Overseas Subsidiaries segment expanded 23.9% YoY, and orders in the Domestic Subsidiaries segment rose 1.0% YoY. Orders in the Other Surface Treatments segment were sluggish at -13.3% YoY, but the impact on consolidated results was limited.

Semiconductor/FPD-related orders surged from Q3 onward

- ▶ Orders in the Thermal Spraying segment were down 3.8% YoY in 1H (April–September), but a sharp recovery from Q3 (October–December) onward lifted full-year orders to a YoY increase of 8.9%, boosting consolidated orders. In fact, orders in the Thermal Spraying segment in Q3 and Q4 (January–March) substantially exceeded the previous record highs.
- ▶ According to the company, the sharp recovery in Thermal Spraying segment orders in 2H (Q3–Q4) was mainly attributable to a series of large semiconductor/FPD-related orders from major customers. At the time of the sharp recovery in Q3, the company thought the surge in semiconductor/FPD-related orders might be temporary, including

one-time orders. However, with Q4 orders exceeding the Q3 level, and taking into account factors such as increased production plans indicated by customers, the company concluded that the increase was not driven by one-off factors.

- ▶ The company has not announced order projections for FY03/27, but suggested that, based on the high level of semiconductor/FPD-related orders, it expects Thermal Spraying segment orders to remain at Q3–Q4 FY03/26 levels, or JPY7.5–8.0bn per quarter, for the time being. The company also projects that order growth in the Thermal Spraying segment will continue to drive growth in consolidated orders, including in other segments (such as Overseas Subsidiaries). For semiconductor/FPD-related order trends, see the Thermal Spraying segment section under "Results by segment (FY03/26, 12 months)" below.

Order backlog (end-December 2026)

- ▶ The consolidated order backlog at end-FY03/26 (end-March 2026) was JPY14.8bn (+30.8% YoY), marking the third consecutive quarter of YoY growth.
 - Consolidated order backlog: JPY14.8bn (+30.8% YoY)
 - Thermal Spraying segment (parent): JPY11.1bn (+38.3% YoY)
 - Semiconductor/FPD-related: JPY8.6bn (+59.6% YoY)
 - Industrial machinery-related: JPY756mn (-6.4% YoY)
 - Steel making-related: JPY855mn (-4.5% YoY)
 - Other: JPY894mn (-4.7% YoY)
 - Domestic Subsidiaries segment: JPY112mn (-37.8% YoY)
 - Overseas Subsidiaries segment: JPY3.3bn (+16.3% YoY)
 - Other Surface Treatments segment: JPY387mn (+11.2% YoY)
- ▶ In FY03/26, the order backlog at end-Q1 (end-June 2025) declined YoY for the first time in 17 quarters, but returned to growth at end-Q2 (end-September 2025), a trend that continued at end-Q3 (end-December 2025) and end-Q4 (end-March 2026). The end-Q4 (end-FY03/26) backlog of JPY14.8bn exceeded JPY10.0bn for the eighth consecutive quarter and built up to a level approaching JPY15.0bn. At end-Q3, when the backlog surged, the company initially attributed the increase mainly to large orders booked in Q3 with a strongly one-off character. However, as the surge in orders continued in Q4, the company concluded that the record-high backlog is not temporary, and thinks that efficiently converting the backlog into production will be a key challenge for FY03/27. See "Orders (FY03/26, 12 months)" above.
- ▶ By segment, the backlog in the Thermal Spraying segment, which benefited from large semiconductor/FPD-related orders, grew 38.3% YoY, and growth in the Overseas Subsidiaries segment (+16.3% YoY) also contributed to the further accumulation of the consolidated backlog. Meanwhile, the backlog in the Domestic Subsidiaries segment fell 37.8% YoY and that in the Other Surface Treatments segment rose 11.2% YoY, but in value terms the impact of both on the overall consolidated backlog was limited.
- ▶ For details of order backlog by segment at end-Q4, see the section "Results by segment (FY03/26, 12 months)" below.

Factors affecting changes (YoY) in recurring profit

- ▶ Consolidated recurring profit, which links to the segment profit of each business, increased JPY2.2bn from JPY12.6bn in FY03/25 to JPY14.7bn. The breakdown by factor is as follows.
 - Higher sales: JPY3.2bn positive impact on profit
 - Lower variable cost ratio: JPY109mn positive impact on profit
 - Higher personnel expenses: JPY792mn negative impact on profit
 - Higher depreciation: JPY502mn negative impact on profit
 - Forex impact: JPY33mn negative impact on profit
 - Other: JPY230mn positive impact on profit

Higher sales, coupled with a decline in the variable cost ratio, contributed to recurring profit growth

- ▶ In FY03/26, growth in gross profit driven by higher sales boosted profit by JPY3.2bn, the largest contribution. Sales in the mainstay Thermal Spraying segment grew 3.8% YoY, and pronounced sales growth in the Overseas Subsidiaries segment (+31.7% YoY) also contributed. Sales growth in the Thermal Spraying segment was held to just under 4% YoY

because semiconductor/FPD-related sales rose only 2.9% YoY. As semiconductor/FPD-related orders surged only from Q3 (October–December) onward, sales recognition did not progress sufficiently in FY03/26; in addition, FY03/25 sales had already reached a record high, another reason growth was modest.

- ▶ Regarding the lower variable cost ratio (JPY109mn positive impact), an improved sales mix (product mix) and the penetration of price revisions, centered on the highly profitable semiconductor/FPD field, absorbed the impact of higher manufacturing costs (such as processing materials and outsourcing costs). However, because lead times (from order receipt to sales recognition) held semiconductor/FPD-related sales growth to a modest 2.9% YoY, and manufacturing costs rose more than the company expected, the profit boost from the lower variable cost ratio was only JPY109mn (versus a JPY1.8bn positive impact in FY03/25).

From lower sales to higher sales, and from a higher variable cost ratio to a lower variable cost ratio

- ▶ In FY03/24, recurring profit fell 12.2% YoY to JPY9.7bn, the company's first profit decline in four years, mainly due to two negative factors: lower sales and a higher variable cost ratio. These stemmed from a decline in semiconductor/FPD-related sales and a deterioration in the product mix as the share of semiconductor/FPD-related sales fell. However, in FY03/25, with the recovery in highly profitable semiconductor/FPD-related sales, both factors turned from negative to positive—lower sales turned to higher sales, and the higher variable cost ratio turned to a lower variable cost ratio—driving the company to record results.
- ▶ From the initial FY03/26 forecast announced in May 2025, the company projected that although increases in personnel expenses, depreciation, R&D expenses, and other costs would continue, the combined effect of the two positive factors (higher sales and a lower variable cost ratio) would absorb these increases, resulting in record highs for the second consecutive year. The company recognizes that the trend that emerged in FY03/25—the two former negative factors (lower sales and a higher variable cost ratio) both turning positive—essentially continued in FY03/26.

Lower variable cost ratio may again become a pronounced profit driver

- ▶ In FY03/26, the profit boost from the lower variable cost ratio was limited to JPY109mn, which the company attributes to the surge in semiconductor/FPD-related orders from Q3 onward and therefore not translating sufficiently into sales. However, given that the order backlog has accumulated to a level far above the previous record and orders are expected to remain high, the company expects that in FY03/27 the lower variable cost ratio may again become a pronounced profit driver. That said, the company suggested that at the initial forecast stage it took a conservative view that assumes no decline in the variable cost ratio, in light of concerns such as sharp increases in raw material prices. For details, see the "Company forecast" section.

Other factors (subsidy income under non-operating income)

- ▶ The JPY230mn positive impact from "other" includes various factors, the main one being an increase in subsidy income recorded under non-operating income (up JPY402mn YoY from JPY17mn in FY03/25 to JPY419mn). Other items include changes in inventory valuation losses, R&D expenses, and electricity costs. According to the company, aside from the increase in subsidy income, these factors consisted of various minor fluctuations and were not significant drivers of profit variation.
- ▶ Among these, the company cited the increase in R&D expenses as the item with a relatively large impact. R&D expenses in FY03/26 were JPY1.8bn, up JPY182mn from JPY1.6bn in FY03/25, reducing profit by the same amount. However, the company views a certain level of R&D spending (about 3% of sales) as essential to enhancing competitiveness, and does not regard the increase in R&D expenses as a cause for concern.

Foreign exchange effects

- ▶ In FY03/26, forex had a negative impact of JPY33mn YoY on profit. Of this amount, a deterioration in forex gains (losses) under non-operating income (expenses) accounted for JPY10mn. The remaining JPY23mn stemmed from translation rate differences at overseas subsidiaries (arising entirely in the Overseas Subsidiaries segment) and forex gains (losses) on some exports (arising mostly in the Thermal Spraying segment). Forex gains (losses) on exports arise from exports by the parent company to overseas customers. However, according to the company, the scale of these exports is still small, and price negotiations with customers in foreign currencies are also reflected, so the impact on earnings is limited and smaller than the impact of translation rate differences at overseas subsidiaries.

Over the medium term, the company expects foreign exchange fluctuations to have greater impact on its earnings

- ▶ Separately from FY03/26 results, the company expects the impact of foreign exchange fluctuations on its consolidated earnings (exposure) to gradually increase from FY03/27 onward. Historically, currency fluctuations have rarely had a significant impact on earnings trends, and the contribution to profit remained limited even during periods of yen depreciation. This was primarily because the scale of Overseas Subsidiaries' earnings was relatively small, and profit growth was somewhat constrained by upfront investment costs. However, the performance of Overseas Subsidiaries—which continue to capture robust semiconductor demand—is expanding significantly. Consequently, the impact of exchange rates used for translating local currencies into yen on consolidated earnings is also on a gradual upward trend. Another factor is the growing volume of exports to overseas customers within the Thermal Spraying (TOCALO) segment, driven by the business expansion of these clients.
- ▶ Against a backdrop of growing demand for its thermal spraying technology, the company aims to expand the performance of its overseas subsidiaries over the medium to long term. It has already made capex for new plants in China and Taiwan (with some investments still ongoing). Consequently, the company believes that in the near future, the impact of foreign exchange fluctuations on consolidated earnings—particularly the impact of translating Overseas Subsidiary results into yen—will no longer be limited.

Rise in personnel expenses and depreciation

- ▶ In FY03/26, personnel expenses rose, resulting in a JPY792mn negative impact on profit. The increase reflected wage hikes, a rise in full-time employees, and higher operating activity in semiconductor/FPD-related production, including greater overtime costs. The company noted that while all of these factors contributed to higher personnel expenses, the entire impact was absorbed by the positive effect of higher sales, including an improved product mix driven by growth in semiconductor-related sales.
- ▶ The JPY792mn profit reduction from higher personnel expenses includes actuarial differences under retirement benefit accounting (a JPY662mn positive impact on profit). Excluding this impact, the effective profit reduction from higher personnel expenses was JPY1.5bn. The company has adopted an accounting policy of amortizing in a lump sum each fiscal year the unrecognized actuarial differences arising from its annual retirement benefit calculations. In FY03/26, a decline in retirement benefit obligations due to higher interest rates and increased investment gains on pension assets resulted in a JPY662mn reduction in retirement benefit expenses (a positive impact on profit) when the unrecognized actuarial differences were amortized in a lump sum. This reduced the effective JPY1.5bn profit reduction from higher personnel expenses to JPY792mn.
- ▶ Apart from the impact of retirement benefit accounting, the company sees increases in personnel expenses, including labor costs, becoming a constant drag on profit from FY03/27 onward—not just in FY03/26—given current economic conditions (such as calls for sustained wage hikes). While the company aims to curb these costs through tighter controls, it also positions higher personnel spending as a broad investment in human capital to boost employee motivation and talent development.
- ▶ Depreciation rose JPY502mn YoY (a negative impact on profit), reflecting active capital expenditure in Japan and overseas, and the increase was in line with the initial forecast.

Disclosure of recurring profit on an underlying basis (from FY03/26)

- ▶ Starting with its FY03/26 results, the company began voluntarily disclosing "recurring profit on an underlying basis." This figure is recurring profit as reported on the income statement, excluding amortization of actuarial differences and subsidy income. According to the company, because it has adopted a lump-sum amortization accounting policy, fluctuations in the amortization of actuarial differences are no longer immaterial, and subsidy income also tends to be substantial. The company therefore concluded that disclosing recurring profit excluding these impacts better represents its actual performance and will lead to fair valuation in financial markets. The company is particularly concerned that the amortization of actuarial differences tends to be substantial.
- ▶ Amortization of actuarial differences is included in labor costs and SG&A expenses, while subsidy income is included in non-operating income. Amortization of actuarial differences therefore also affects operating profit. Furthermore, because these factors are not incorporated at the initial forecast stage (recurring profit and recurring profit on an underlying basis are the same), the YoY rate of change in recurring profit may in some cases diverge from actual performance.

- ▶ The company disclosed recurring profit on an underlying basis for the five years from FY03/22 to FY03/26, as shown below. "Recurring profit" refers to conventional recurring profit as disclosed on the company's income statement.
 - FY03/22: Recurring profit of JPY10.6bn; recurring profit on an underlying basis of JPY10.5bn
 - Impact of actuarial differences: JPY35mn (deducted from recurring profit); impact of subsidy income: JPY33mn (deducted from recurring profit)
 - FY03/23: Recurring profit of JPY11.0bn; recurring profit on an underlying basis of JPY10.9bn
 - Impact of actuarial differences: JPY64mn (deducted); impact of subsidy income: JPY10mn (deducted)
 - FY03/24: Recurring profit of JPY9.7bn; recurring profit on an underlying basis of JPY9.1bn
 - Impact of actuarial differences: JPY556mn (deducted); impact of subsidy income: JPY19mn (deducted)
 - FY03/25: Recurring profit of JPY12.6bn; recurring profit on an underlying basis of JPY12.2bn
 - Impact of actuarial differences: JPY301mn (deducted); impact of subsidy income: JPY17mn (deducted)
 - FY03/26: Recurring profit of JPY14.7bn; recurring profit on an underlying basis of JPY13.7bn
 - Impact of actuarial differences: JPY662mn (deducted); impact of subsidy income: JPY419mn (deducted)
- FY03/27 (company forecast): The recurring profit forecast of JPY15.0bn does not incorporate one-off factors, so recurring profit on an underlying basis is the same at JPY15.0bn.
- ▶ For example, in FY03/26, recurring profit of JPY14.7bn was boosted by JPY1.1bn, the sum of the amortization of actuarial differences (JPY662mn) and subsidy income (JPY419mn), so recurring profit on an underlying basis was JPY13.7bn. Note that although the amortization of actuarial differences was a positive factor for profit in each of the five years from FY03/22 to FY03/26, it could become a negative factor depending on conditions such as investment performance of pension assets.

Results by segment (FY03/26)

- ▶ Below is a breakdown of individual segment performances. The sales shares provided for each segment represent percentages of the company's consolidated cumulative FY03/26 sales of JPY58.5bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 69.6% of consolidated sales)

The Thermal Spraying segment represents TOCALO's non-consolidated results and is the company's core business, accounting for approximately 70% of consolidated sales in FY03/26. The segment centers on thermal spraying, a surface treatment process that forms a coating on a target surface by spraying molten metals or ceramics using high-temperature heat sources such as plasma or gas. In addition to thermal spraying, TOCALO also provides a range of ancillary surface modification services, including the Toyota Diffusion (TD) process, zinc alloy coating (ZAC), plasma transferred arc (PTA) processing, and physical vapor deposition (PVD). These treatments enhance the surface properties of materials by adding functions such as abrasion and heat resistance, conductivity or insulation, and thermal shielding or dissipation.

By application, semiconductors and flat panel displays (FPDs) account for approximately 62% of the segment's sales. TOCALO provides thermal spraying for components used in semiconductor and FPD manufacturing equipment—particularly for dry etching equipment used in semiconductor fabrication, where thermal spraying is required to prevent particle generation and enable electrostatic adsorption. Outside of semiconductors and FPDs, thermal spraying for industrial machinery components accounts for about 12%, steelmaking equipment for about 10%, and other applications for around 16%.

The company also exports to overseas customers. Of its JPY39.2bn sales in FY03/25, exports accounted for approximately 18% and domestic sales for the remaining 82%. On a consolidated basis, overseas sales (representing an overseas sales ratio of 30.1% in FY03/25) is the sum of sales from the Overseas Subsidiaries segment and exports from the Thermal Spraying segment.

- Sales: JPY40.7bn (+3.8% YoY)
- Segment profit: JPY8.8bn (-0.7% YoY)
 - Segment profit margin: 21.6% (-1.0pp YoY)
- Orders: JPY43.8bn (+8.9% YoY)
- Order backlog: JPY11.1bn (+38.3% YoY)

Orders

- ▶ Orders in the Thermal Spraying segment in FY03/26 were JPY43.8bn (+8.9% YoY), a record high. Orders in 1H (April–September) were down 3.8% YoY, but a surge in semiconductor/FPD-related orders to unprecedented levels from Q3 (October–December) onward ultimately turned full-year orders to growth. In addition, although smaller in scale than semiconductor/FPD-related orders, solid industrial machinery-related and steel making-related orders also contributed to the record high in FY03/26.
- ▶ The breakdown of the JPY43.8bn (+8.9% YoY) in Thermal Spraying orders is as follows.
 - Thermal Spraying segment (parent): JPY43.8bn (+8.9% YoY)
 - Semiconductor/FPD-related: JPY28.0bn (+12.7% YoY)
 - Industrial machinery-related: JPY5.6bn (+5.6% YoY)
 - Steel making-related: JPY3.9bn (+2.0% YoY)
 - Other: JPY6.2bn (+0.5% YoY)

Semiconductor/FPD-related orders recovered sharply from Q3 onward

- ▶ Orders in the Thermal Spraying segment grew 8.9% YoY in FY03/26 because semiconductor/FPD-related orders, the segment's largest pillar (about 60–65% of total Thermal Spraying orders on a full-year basis), rose 12.7% YoY to JPY28.0bn. Semiconductor/FPD-related orders were sluggish in 1H (-6.3% YoY), but recovered sharply in Q3 (+18.4% YoY) and surged again in Q4 (January–March; +49.7% YoY), turning full-year orders to growth. The return to growth in semiconductor/FPD-related orders, which account for over 60% of the Thermal Spraying segment, drove the increase in segment orders. Quarterly semiconductor/FPD-related orders in FY03/26 were as follows.
 - FY03/26: JPY28.0bn (+12.7% YoY)
 - Q1 (April–June): JPY5.9bn (-6.3% YoY)
 - Q2 (July–September): JPY6.0bn (-6.3% YoY)
 - Q3 (October–December): JPY7.9bn (+18.4% YoY)
 - Q4 (January–March): JPY8.2bn (+49.7% YoY)

Quarterly orders reached the JPY8.0bn level

- ▶ As shown above, the sharp recovery from Q3 onward fully absorbed the weakness in Q1 and Q2. At the time of the sharp recovery in Q3, the company thought the surge in semiconductor/FPD-related orders might stem from one-off factors (a temporary surge including spot orders). However, with Q4 orders exceeding the Q3 level, and taking into account factors such as increased production plans indicated by customers, the company concluded that the increase was not driven by one-off factors.
- ▶ The company suggested that the normal level of orders has moved up a notch, with the Q3 figure of JPY7.9bn and Q4 figure of JPY8.2bn exceeding the previous record high of JPY6.7bn (October–December 2024) by roughly JPY1.2–1.5bn. The company therefore expects the expansion seen in Q3–Q4 to remain largely intact in FY03/27, and said quarterly orders of around JPY8.0bn may continue for the time being.
- ▶ As for Q1 and Q2, when orders fell 6.3% YoY, the company thinks orders of roughly JPY6.0bn in each quarter were relatively high. It previously expected Q1 and Q2 orders to decline YoY but not fall below JPY5.0bn on a quarterly basis. From this perspective, the company views the results positively, as orders remained steady at around JPY6.0bn and did not decline as much as feared.

Non-semiconductor/FPD-related orders

- ▶ Outside the semiconductor/FPD field, industrial machinery-related orders rose 5.6% YoY, steel making-related orders 2.0% YoY, and other orders 0.5% YoY. In industrial machinery, bearing-related orders, which had been on an uptrend since FY03/25, expanded. Growth in industrial machinery-related orders was in the single digits at 5.6% YoY, but given that FY03/25 orders were at a record level, the company judges that expansion continued at a high

level in FY03/26. The company thinks that while the surge in semiconductor/FPD-related orders from Q3 onward had a large impact, the continued record-setting expansion in industrial machinery-related orders is providing a degree of underlying support.

- ▶ Steel making-related orders rose only 2.0% YoY, but the company judges they were solid. In the other category, orders were roughly level with the previous year, supported by solid demand from power plants and other energy-related customers.

Sales

- ▶ The Thermal Spraying segment (parent TOCALO) is the company's largest segment, accounting for 69.6% of consolidated sales in FY03/26. Segment sales in FY03/26 were JPY40.7bn (+3.8% YoY), a record high. The breakdown of the JPY40.7bn (+3.8% YoY) in Thermal Spraying sales is as follows.
 - Thermal Spraying segment: JPY40.7bn (+3.8% YoY)
 - Semiconductor/FPD-related: JPY24.8bn (+2.9% YoY)
 - Semiconductor-related: JPY22.9bn (+2.4% YoY)
 - FPD-related: JPY1.9bn (+9.1% YoY)
 - Industrial machinery-related: JPY5.7bn (+16.0% YoY)
 - Steel making-related: JPY4.0bn (+0.9% YoY)
 - Other: JPY6.3bn (-0.3% YoY)

Semiconductor/FPD-related sales reached a record high

- ▶ Although Thermal Spraying segment sales reached a record high in FY03/26, growth was limited to the single digits at 3.8% YoY. The main reason was sluggish semiconductor/FPD-related sales from Q2 through Q3. Quarterly semiconductor/FPD-related sales were as follows.

Sales trends for the semiconductor/FPD-related sector

- FY03/26: JPY24.8bn (+2.9% YoY)
 - Q1 (April–June): JPY6.3bn (+10.0% YoY)
 - Q2 (July–September): JPY5.7bn (+0.4% YoY)
 - Q3 (October–December): JPY6.0bn (-8.3% YoY)
 - Q4 (January–March): JPY6.8bn (+10.5% YoY)
- ▶ Lead times for semiconductor/FPD-related work (from order receipt to sales recognition) vary by project and product, but are generally around three months, and can lengthen somewhat when the company's operations are busy. The sluggish semiconductor/FPD-related sales in Q2–Q3—particularly the weak Q3 result of -8.3% YoY—were entirely attributable to the decline in orders in 1H (April–September; -6.3% YoY).
- ▶ Looking back, although Q1 orders fell 6.3% YoY, Q1 sales grew 10.0% YoY. This was mainly because the company worked through the order backlog that had accumulated at end-FY03/25 (end-March 2025) amid the order recovery in FY03/25. Similarly, Q2 orders fell 6.3% YoY, but sales were roughly level with the previous year as the company worked through the backlog as of end-June 2025. Conversely, the 8.3% YoY decline in Q3 sales reflected the YoY order declines in Q1 and Q2, which showed up as lower sales after the roughly three-month lead time.
- ▶ By the same token, the company views the surge in Q3 orders as the main driver of the sales increase in Q4. Given the continued surge in Q4 orders and the accumulation of the order backlog, the company expects semiconductor/FPD-related sales growth to continue for the time being.

Production capacity expansion contributed to reducing the order backlog

- ▶ According to the company, its phased expansion of production capacity, undertaken since before FY03/25, contributed to the conversion of the order backlog into higher semiconductor/FPD-related sales. The company views production capacity expansion as essential to business growth in an expanding semiconductor market, and its policy of pursuing capacity expansion is unchanged.
- ▶ This capacity includes not only production equipment but also workers on the manufacturing lines, including temporary staff. Although automation has advanced in semiconductor/FPD-related thermal spraying through new

and upgraded equipment, a significant portion of the process remains labor-intensive and dependent on manual work.

Increasing personnel is a key priority in the company's production capacity expansion

- ▶ While the company is expanding production equipment for semiconductor/FPD-related thermal spraying, it is also increasing headcount on its production lines. However, due to the recent labor shortage, personnel expansion has not kept pace. Additionally, the time required for production line workers to reach the necessary technical skill level has been another factor slowing workforce expansion. Because of this situation (where workforce-related capacity expansion takes time), sales failed to reach record highs despite record-high orders and order backlogs until the middle of the previous fiscal year (FY03/25).
- ▶ However, the company believes the effects of its phased production capacity expansion efforts—encompassing both equipment installation and personnel increases—are starting to materialize. Indeed, sales reached a record high (semiconductor/FPD-related sales hit an all-time high). Nonetheless, the company recognizes that current capacity remains insufficient for medium-to-long-term business growth despite these phased increases. The company has already announced multiple capacity expansion initiatives, including construction of new plants, and in the new medium-term management plan TOCALO2030 announced in May 2026, it suggested it would consider a further round of capacity expansion in the future.

Sales trends in non-semiconductor and FPD-related categories

- ▶ Outside the semiconductor/FPD field, industrial machinery-related sales were JPY5.7bn (+16.0% YoY), steel making-related sales were JPY4.0bn (+0.9% YoY), and other sales were JPY6.3bn (-0.3% YoY). Industrial machinery-related sales hit a record high, as increased orders from bearing-related customers, the company's main customers in this field, absorbed sales declines to some customers. Steel making-related sales also grew, exceeding the high level of the previous year. Other sales were roughly level YoY (-0.3%), but according to the company there were no unusual factors, and sales to power plant and energy-related customers were generally firm.
- ▶ In FY03/27, the company intends to focus on increasing semiconductor/FPD-related sales, which contribute strongly to earnings, while also actively pursuing orders to grow sales in other fields.

Segment profit, segment profit margins

- ▶ Segment profit in Thermal Spraying (linked to recurring profit on the consolidated income statement) fell 0.7% YoY to JPY8.8bn in FY03/26, and the segment profit margin deteriorated 1.0pp to 21.6%. With sales growth limited to a modest 3.8% YoY, the benefit of higher sales was limited, and the company could not fully absorb increases in manufacturing costs (including depreciation), personnel expenses, and other expenses. Another factor was that sales in the highly profitable semiconductor/FPD field remained level with the previous year through cumulative Q3 (April–December), reflecting the order declines in 1H. Quarterly segment profit in Thermal Spraying was as follows.

Profit (recurring profit) in the Thermal Spraying segment

- FY03/26: JPY8.8bn (-0.7% YoY)
 - Q1 (April–June): JPY2.6bn (+18.2% YoY)
 - Q2 (July–September): JPY1.5bn (-26.6% YoY)
 - Q3 (October–December): JPY2.1bn (-17.2% YoY)
 - Q4 (January–March): JPY2.6bn (+25.7% YoY)

Semiconductor/FPD-related sales are the primary swing factor for segment profit

- ▶ As the quarterly trend shows, profit continued to expand in Q1, when semiconductor/FPD-related sales grew as the company worked through the high backlog accumulated at end-FY03/25. However, profit declines became significant in Q2 and Q3, when those sales decelerated. Over the full year, the profit gains achieved in Q1 were eroded in Q2–Q3, but the company recovered in Q4 to secure a result roughly level with the previous year (-0.7% YoY). Semiconductor/FPD-related sales account for 60–65% of Thermal Spraying segment sales, but given the profitability of semiconductor-related work, the company suggests their share of segment profit is even higher. The company therefore recognizes that the increase in semiconductor/FPD-related sales in Q4 made a pronounced contribution.

- ▶ Meanwhile, because the surge in semiconductor/FPD-related orders—the leading indicator for sales—began in Q3 (see "Orders" above), the company understands Q3 marked the earnings bottom in the current adjustment phase and, as already demonstrated by the Q4 results, that the recovery will strengthen in FY03/27.

TOCALO aims to offset rising personnel expenses by expanding sales and improving productivity

- ▶ Apart from the FY03/26 results (segment profit declined 0.7% YoY), the company expects rising manufacturing and SG&A costs, as well as higher depreciation stemming from increased capital investment for future growth to continue putting downward pressure on earnings. Among these factors, the company identifies rising personnel expenses—such as labor costs in manufacturing and indirect personnel costs in SG&A—as the most significant constraint on improving profitability. With fixed costs continuing to rise, any decline in sales is likely to weigh more heavily on earnings than in the past.
- ▶ The company positions these rising personnel expenses as a form of human capital investment. It noted that once personnel expenses (per employee) increase, lowering them is difficult, and with production volumes expanding on the back of recovering orders, reducing headcount on manufacturing lines is also not feasible. As such, the company believes that improving profitability requires generating sufficient sales to absorb higher personnel costs, which in turn makes expanding production capacity essential.
- ▶ At the same time, the company is also working to limit headcount growth at its expanded production facilities (including new plants) by significantly increasing automation through the introduction of advanced equipment. Given that fluctuations in operating rates for semiconductor/FPD-related production are inevitable depending on order trends, the company plans to strengthen initiatives aimed at leveling production and improving productivity, with the goal of enhancing profitability.

Domestic Subsidiaries (4.9% of consolidated sales)

Domestic Subsidiaries segment: Accounted for 4.9% of consolidated sales in FY03/26. This segment includes the operations of Japan Coating Center Co., Ltd. (JCC), which was made a wholly owned subsidiary in September 2004. JCC specializes in surface modification using physical vapor deposition (PVD), whereby metals such as titanium and chromium are ionized in a vacuum together with reactive gases to form dense, high-adhesion ceramic coatings on the surfaces of cutting tools, molds, and other components—enhancing wear and corrosion resistance. While the majority of JCC's sales are from the automotive sector, it also serves customers in machine tools and other industries. In August 2024, TOCALO acquired 100% of the shares of Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, bringing the number of operating companies in this segment to two.

- Sales: JPY2.9bn (+8.5% YoY)
- Segment profit: JPY331mn (-4.3% YoY)
 - Segment profit margin: 11.5% (-1.5pp YoY)
- Orders: JPY2.8bn (+1.0% YoY)
- Order backlog: JPY112mn (-37.8% YoY)

Orders

- ▶ Orders in the Domestic Subsidiaries segment in FY03/26 were JPY2.8bn (+1.0% YoY). In the segment's mainstay automotive field, the recovery in domestic automobile production has been delayed (domestic production volume in FY03/26 was up 0.1% YoY), so the company's orders have yet to recover in earnest, but the company judges that signs of a bottom are beginning to emerge. The company also recognizes while the performance (orders) of the Domestic Subsidiaries segment is not determined solely by automobile production volumes, they are certainly the largest variable.
- ▶ Through 1H (April–September) of FY03/26, the impact of US tariff policy (moves to reduce production for the US market ahead of Japan–US government negotiations) weighed heavily on the Domestic Subsidiaries segment, but the company judges sentiment has improved somewhat since Q3 (October–December). The company believes the

emerging signs of a bottom in domestic production volumes, accompanying this improvement in sentiment, contributed to its order growth, albeit to a limited extent.

Additional contribution from the newly consolidated subsidiary

- ▶ Another factor behind the order growth in the Domestic Subsidiaries segment (+1.0% YoY) in FY03/26 was the contribution (boost) from a newly consolidated subsidiary. On August 26, 2024, the company acquired the shares of Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tool and precision machinery parts, making it a wholly owned subsidiary, and has consolidated it since Q3 FY03/25 (October–December 2024). Consequently, FY03/26 results included roughly four additional months of Terada Kosakusho's orders YoY (a net increase), and the company recognizes that these orders lifted segment orders to a certain extent. However, given the scale of Terada Kosakusho's business (recent annual sales of JPY400–450mn, per Shared Research estimates), the company suggested the boost was limited.
- ▶ The company recognizes that the turnaround to order growth in the Domestic Subsidiaries segment in was driven by these two factors: signs of a bottoming out in domestic automobile production and the inclusion of Terada Kosakusho as a newly consolidated subsidiary. However, the company noted that order growth of just 1.0% YoY in FY03/26 fell short of its expectations. According to the company, this was due to weak orders at Terada Kosakusho stemming from a one-off factor (circumstances at a major customer related to its production plans), which it expects to be resolved quickly. The company therefore thinks there will be no lingering impact in FY03/27.

Sales

- ▶ Sales in FY03/26 were JPY2.9bn (+8.5% YoY), a record high. As with orders, one factor behind the 8.5% YoY sales growth was the boost from newly consolidated Terada Kosakusho.

Signs of recovery in domestic automobile production and contribution from the newly consolidated subsidiary

- ▶ Until the company acquired Terada Kosakusho (a manufacturer of machine tools and precision machinery parts) in August 2024, the Domestic Subsidiaries segment consisted solely of Japan Coating Center Co., Ltd. (JCC), a wholly owned subsidiary. JCC primarily performs surface modification processing using physical vapor deposition (PVD) technology on products such as cutting tools, blades, and molds.
- ▶ Within JCC's operations, the core business of surface modification processing for cutting tools is primarily geared toward the automotive industry. While sales in the Domestic Subsidiaries segment are not directly tied to domestic automobile production, the correlation is strong. Consequently, during periods of weak domestic production, the segment's performance—i.e., at JCC—was also sluggish, particularly in terms of profitability. Specifically, in 2H FY03/22 through FY03/23, supply constraints caused by semiconductor shortages, and in late FY03/24 through the end of calendar 2024, production disruptions stemming from a series of certification-related misconduct issues at automakers, led to lower domestic output, weighing heavily on the performance of the Domestic Subsidiaries segment.
- ▶ The company noted that the performance of newly consolidated Terada Kosakusho is less dependent on domestic automobile production than that of JCC. Accordingly, it expects the Domestic Subsidiaries segment's performance to become increasingly decoupled from domestic automobile production volumes from FY03/26 into FY03/27 and beyond. While Terada Kosakusho was consolidated starting in Q3 FY03/25, only eight months of its results were included in that fiscal year due to a difference in fiscal year-ends. From FY03/26 onward, its fiscal year has been aligned with that of the company.

Segment profit, segment profit margin

- ▶ Segment profit in Domestic Subsidiaries fell 4.3% YoY to JPY331mn in FY03/26, and the segment profit margin deteriorated 1.5pp to 11.5%.
- ▶ Despite sales growth of 8.5% YoY, segment profit fell 4.3% YoY mainly because orders at Terada Kosakusho were weak due to a one-off factor (see above). Another factor was an increase in goodwill amortization, as FY03/26 was the first full 12-month period of Terada Kosakusho's consolidation. As for JCC, according to the company, it stepped up cost reductions through productivity improvements amid sluggish domestic production volumes, and non-automotive business, such as industrial machinery-related work, was solid. The company therefore suggested that JCC's FY03/26 performance exceeded FY03/25, but this was not enough to fully absorb the weak performance at Terada Kosakusho.

Seeking a new medium-term direction for the Domestic Subsidiaries segment

- ▶ From a medium-term perspective, the company is in a transitional phase, exploring a new direction for the Domestic Subsidiaries segment. Specifically, while continuing to emphasize automotive-related business, it aims to expand non-automotive business, moving away from a structure consisting solely of JCC, which is heavily dependent on automobile production.
- ▶ The company expects Terada Kosakusho to be an important piece in expanding non-automotive business, and Terada Kosakusho is in fact making capital investments with a medium-term perspective under the company's leadership, including construction of a new plant. Separately from the FY03/26 results, the company intends to pursue medium-term earnings growth at Terada Kosakusho. In parallel, the company is also taking steps to strengthen the performance of JCC by investing to expand production capacity for non-automotive fields. Through these efforts, the company intends to gradually reduce its dependence on domestic automobile production while lifting the overall earnings base of the Domestic Subsidiaries segment.

Overseas Subsidiaries (21.0% of consolidated sales)

Overseas Subsidiaries segment

The Overseas Subsidiaries segment is expanding rapidly and accounted for 21.0% of consolidated sales in FY03/26. This segment covers subsidiaries in China (two companies), Taiwan, and the US; however, as the US subsidiary has yet to begin full-scale operations, the segment effectively consists of three companies in China and Taiwan. Like the Thermal Spraying segment (handled by TOCALO), the business is primarily focused on semiconductor and FPD-related fields. In particular, the company is placing emphasis on supporting a major Taiwanese semiconductor device manufacturer by restoring and recoating used equipment components with high precision to extend the service life of semiconductor manufacturing equipment and optimize costs. The segment is also expanding into non-semiconductor areas, including the production and repair of components for steel, petroleum, and paper manufacturing equipment, as well as on-site thermal spraying repair work at natural gas plants.

The company's consolidated overseas sales (with an overseas sales ratio of 30.1% in FY03/25) consist of sales from the Overseas Subsidiaries segment plus export sales from the Thermal Spraying segment. Currently, sales from the Overseas Subsidiaries segment are the larger of these two components.

- Sales: JPY12.3bn (+31.7% YoY)
- Segment profit: JPY4.9bn (+48.3% YoY)
 - Segment profit margin: 40.2% (+4.5pp YoY)
- Orders: JPY12.7bn (+23.9% YoY)
- Order backlog: JPY3.3bn (+16.3% YoY)

Orders

- ▶ Orders in the Overseas Subsidiaries segment in FY03/26 were JPY12.7bn (+23.9% YoY), a record high. The increase was mainly attributable to active sales efforts against the backdrop of a recovery in semiconductor markets overseas, such as China and Taiwan, which led to order growth including from new customers. Due to the difference in fiscal year-ends at overseas subsidiaries, the company's FY03/26 results (April 2025–March 2026) incorporate the overseas subsidiaries' results for January–December 2025.

Sales

- ▶ The segment covers subsidiaries in China (two companies), Taiwan, and the US, but as the US subsidiary has not yet begun full-scale operations, the segment effectively comprises the three companies in China and Taiwan. As the Chinese and Taiwanese subsidiaries have December fiscal year-ends, their results for January–December 2025 are incorporated in FY03/26. In FY03/26, amid the expansion of the global semiconductor market including AI-related demand, the Overseas Subsidiaries segment benefited from growth in sales to existing customers as well as order wins from new customers. As a result, FY03/26 sales expanded 31.7% YoY to JPY12.3bn, a record high like orders,

and exceeded JPY10.0bn for the first time. Orders had already topped JPY10.0bn in FY03/25, but sales had not yet reached that level.

- ▶ In FY03/26, higher sales volumes drove the sales increase, but the company suggested there was some erosion from forex. This is because the segment's results incorporate January–December 2025 for China, the main market of its overseas business, and the yen was still somewhat strong during that period. However, the contribution from higher volumes was markedly larger than the erosion from forex. Against this backdrop, sales in the Overseas Subsidiaries segment expanded 31.7% YoY to JPY12.3bn, the highest growth rate among the company's four business segments.

Segment profit and segment profit margin

- ▶ Segment profit in FY03/26 rose 48.3% YoY to JPY4.9bn, a record high like sales. In addition to the benefit of higher sales, an improved sales mix, including an increase in semiconductor/FPD-related recoating, and sales growth outside the semiconductor field also contributed, absorbing the forex impact (which was minor). As a result, the segment profit margin improved 4.5pp to 40.2%, roughly double the 21.6% margin of the Thermal Spraying segment (parent), exceeding it by 18.6pp.

Positioning overseas operations as a new growth driver

Five-year CAGR through FY03/26 rose above 20%

- ▶ As the FY03/26 results show, the company's Overseas Subsidiaries segment continues to expand substantially. The segment's share of consolidated sales rose from 12.2% in FY03/21 to 21.0% in FY03/26. The company forecasts a slight decline to 19.4% in FY03/27, but still expects the share to remain near 20%. The segment's five-year CAGR from FY03/21 to FY03/26 was 20.6%, exceeding the 6.2% CAGR of the Thermal Spraying segment over the same period and making the largest contribution to the 8.3% CAGR of consolidated sales.

Demand for TOCALO's thermal spraying is expanding

- ▶ The main driver of the expansion in overseas business has been the company's ability to efficiently capture rising demand for thermal spraying, fueled by robust semiconductor demand, from both existing and new customers. Another factor has been capital investment aimed at boosting production capacity and improving quality. In particular, on the capacity front, the company has built a new plant in Taiwan, its third overseas site, and introduced new production equipment in China, with the benefits materializing in earnest in FY03/26. The company expects demand for semiconductor-related thermal spraying in these regions to continue expanding and is considering further measures, including additional capacity increases.

Restructuring of the US business initiated

- ▶ In addition to its operations in East Asia (China and Taiwan), the company has also begun restructuring its business in the US, further stepping up efforts to expand its overseas operations. On August 22, 2025, the company announced that through its wholly owned subsidiary TOCALO USA, Inc. (TCA; California), it will establish a new company in Arizona. The Arizona subsidiary will provide surface modification processing for semiconductor manufacturing equipment parts, strengthening service capabilities for major customers building supply chains in the US, with the aim of expanding the company's US business. While the company is still assessing the contribution to earnings of this new subsidiary from FY03/27 onward, it expects the business to capture demand for thermal spraying in the US and become a new driver of overseas expansion.

Other Surface Treatments (4.2% of consolidated sales)

Other Surface Treatments segment: Accounted for 4.2% of consolidated sales in FY03/26. This segment provides various types of surface treatment processing, with its core business being the Toyota Diffusion (TD) process applied to agricultural equipment parts. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating.

- Sales: JPY2.5bn (-14.3% YoY)
- Segment profit: JPY281mn (-33.4% YoY)

- Segment profit margin: 11.4% (-3.3pp YoY)
- Orders: JPY2.5bn (-13.3% YoY)
- Order backlog: JPY387mn (+11.2% YoY)

Order backlog

- Orders in the Other Surface Treatments segment in FY03/26 were JPY2.5bn (-13.3% YoY). The YoY decline was mainly attributable to inventory adjustments at customers in the mainstay agricultural machinery parts field. While the FY03/26 orders of JPY2.5bn did not fall as low as the JPY2.1bn recorded in FY03/21, when the segment was hit directly by the COVID-19 pandemic, they were the lowest level since then. The company sees slight signs of a bottom in the inventory adjustments, centered on agricultural machinery parts, but is concerned that a full-fledged recovery in orders will take some more time.

Sales, segment profit, segment profit margin

- Sales in the Other Surface Treatments segment in FY03/26 were JPY2.5bn (-14.3% YoY), and segment profit, unable to fully absorb the impact of lower sales, fell 33.4% YoY to JPY281mn. The segment profit margin deteriorated 3.3pp to 11.4%.
 - The YoY decline in sales was mainly due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, as customers undertook inventory adjustments. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating. The company performs this surface treatment (TD process) for agricultural equipment parts and supplies them to Japanese agricultural equipment manufacturers, who then export their products to the US and other markets.
 - While TD processing was sluggish, the company noted that CDC-ZAC processing—a chemical densification method that forms a composite ceramic coating through chemical reactions, characterized by ceramics' superior corrosion resistance and high hardness—remained relatively firm, particularly in medical-related applications (declining less than TD processing). Although this was not enough to fully offset the weakness in the TD process in FY03/26, the company sees grounds for optimism from FY03/27 onward.

Q4 (January–March) results

TOCALO reported the following results for Q4 FY03/26.

- Sales: JPY15.9bn (+10.8% YoY)
- Operating profit: JPY4.6bn (+21.0% YoY)
- Recurring profit: JPY4.9bn (+28.2% YoY)
 - RPM: 30.6% (+4.2pp YoY)
- Net income attributable to owners of parent: JPY3.6bn (+59.3% YoY)
- Orders: JPY17.2bn (+21.6% YoY)

Overview

- Consolidated sales in Q4 were JPY15.9bn (+10.8% YoY), marking the ninth consecutive quarter of YoY sales growth and a record high for any quarter. Sales by business segment were as follows.
 - Consolidated sales: JPY15.9bn (+10.8% YoY)
 - Thermal Spraying (parent): JPY10.8bn (+11.8% YoY)
 - Domestic Subsidiaries: JPY741mn (+0.5% YoY)
 - Overseas Subsidiaries: JPY3.6bn (+17.0% YoY)
 - Other Surface Treatments: JPY615mn (-18.8% YoY)
 - Royalty Income: JPY79mn (+14.5% YoY)
- Sales in the mainstay Thermal Spraying segment rose 11.8% YoY in Q4, mainly because semiconductor/FPD-related sales, the segment's mainstay, grew 10.5% YoY. Outside the Thermal Spraying segment, sales in the Overseas Subsidiaries segment (mainly China and Taiwan) rose 17.0% YoY to JPY3.6bn, sales in the Domestic Subsidiaries

segment edged up 0.5% YoY to JPY741mn, and sales in the Other Surface Treatments segment fell 18.8% YoY to JPY615mn. Although the Domestic Subsidiaries segment showed little growth, all segments including Royalty Income reported YoY sales growth.

- ▶ Consolidated recurring profit in Q4 was JPY4.9bn (+28.2% YoY), the first YoY quarterly profit growth in two quarters. RPM improved 4.2pp to 30.6%.
 - Consolidated recurring profit: JPY4.9bn (+28.2% YoY)
 - Thermal Spraying (parent): JPY2.6bn (+25.7% YoY)
 - Domestic Subsidiaries: JPY89mn (-25.2% YoY)
 - Overseas Subsidiaries: JPY1.4bn (+4.9% YoY)
 - Other Surface Treatments: JPY75mn (-22.7% YoY)
 - Consolidation adjustments: JPY723mn (addition)
- ▶ By business segment, profit in the Thermal Spraying segment rose 25.7% YoY and profit in the Overseas Subsidiaries segment rose 4.9% YoY, while profit in the Domestic Subsidiaries segment fell 25.2% YoY and profit in the Other Surface Treatments segment fell 22.7% YoY. The company's segment profit links to recurring profit on the income statement. The pronounced contribution from profit growth in the Thermal Spraying segment, driven by higher semiconductor/FPD-related sales, lifted consolidated recurring profit above the year-earlier level for the first time in two quarters. In addition, the consolidated RPM exceeded 30% for the first time on a quarterly basis, evidence of a pronounced improvement in profitability.

Orders

- ▶ Consolidated orders in Q4 were JPY17.2bn (+21.6% YoY), the second consecutive quarter of YoY growth and a record high for any quarter. This was mainly because semiconductor/FPD-related orders, the mainstay of the Thermal Spraying segment (parent), surged 49.7% YoY to JPY8.2bn. The Q4 figure of JPY8.2bn followed the Q3 (October–December) figure of JPY7.9bn, marking the second consecutive quarter of orders at the JPY8.0bn level. The company had previously used JPY6.0bn as a benchmark for quarterly semiconductor/FPD-related orders. However, in light of the surge in orders in Q3–Q4, the company suggested that the benchmark for quarterly orders has moved up a notch.
- ▶ Outside the Thermal Spraying segment, orders in the Overseas Subsidiaries segment rose 7.7% YoY on the buoyant semiconductor market, while orders in the Domestic Subsidiaries segment fell 6.2% YoY. Orders in the Other Surface Treatments segment (agricultural machinery and other applications) rose 5.2% YoY, the first increase in five quarters. The breakdown of the JPY17.2bn in Q4 orders is as follows.
 - Consolidated orders: JPY17.2bn (+21.6% YoY)
 - Thermal Spraying segment (parent): JPY12.3bn (+29.8% YoY)
 - Semiconductor/FPD-related: JPY8.2bn (+49.7% YoY)
 - Industrial machinery-related: JPY1.5bn (+8.2% YoY)
 - Steel making-related: JPY850mn (+6.9% YoY)
 - Other: JPY1.7bn (-4.6% YoY)
 - Domestic Subsidiaries segment: JPY725mn (-6.2% YoY)
 - Overseas Subsidiaries segment: JPY3.5bn (+7.7% YoY)
 - Other Surface Treatments segment: JPY693mn (+5.2% YoY)

Results by segment (January–March)

- ▶ Below is a breakdown of individual segment performances. The sales shares provided for each segment represent percentages of the company's consolidated Q4 FY03/26 sales of JPY15.9bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 68.2% of consolidated sales)

- Sales: JPY10.8bn (+11.8% YoY)
- Segment profit: JPY2.6bn (+25.7% YoY)

- Segment profit margin: 23.7% (+2.7pp YoY)
- Orders: JPY12.3bn (+29.8% YoY)

Overview

- ▶ Thermal Spraying (parent) is the company's largest segment, accounting for 68.2% of consolidated sales in Q4. Segment sales in Q4 were JPY10.8bn (+11.8% YoY), the first YoY quarterly sales growth in three quarters. Although steel making-related sales were roughly flat at JPY987mn (-0.1% YoY), semiconductor/FPD-related sales, the segment's mainstay, rose 10.5% YoY to JPY6.8bn, industrial machinery-related sales grew 33.2% YoY to JPY1.5bn, and other sales rose 9.3% YoY to JPY1.5bn, lifting overall segment sales 11.8% YoY. The breakdown of the JPY10.8bn in Thermal Spraying sales is as follows.
 - Thermal Spraying segment: JPY10.8bn (+11.8% YoY)
 - Semiconductor/FPD-related: JPY6.8bn (+10.5% YoY)
 - Semiconductor-related: JPY6.3bn (+11.3% YoY)
 - FPD-related: JPY555mn (+1.5% YoY)
 - Industrial machinery-related: JPY1.5bn (+33.2% YoY)
 - Steel making-related: JPY987mn (-0.1% YoY)
 - Other: JPY1.5bn (+9.3% YoY)
- ▶ Segment profit in Q4 rose 25.7% YoY to JPY2.6bn, and the segment profit margin improved 2.7pp to 23.7%. The increase in highly profitable semiconductor/FPD-related sales improved the sales mix. For Q4 earnings, see the Thermal Spraying segment section under "Results by segment (FY03/26)" above.

Domestic Subsidiaries (4.7% of consolidated sales)

- Sales: JPY741mn (+0.5% YoY)
- Segment profit: JPY89mn (-25.2% YoY)
 - Segment profit margin: 12.0% (-4.1pp YoY)
- Orders: JPY725mn (-6.2% YoY)

Overview

- ▶ Sales in Q4 were JPY741mn (+0.5% YoY), the sixth consecutive quarter of YoY sales growth. This result was because growth in domestic automobile production (up 3.1% YoY in January–March 2026) absorbed the impact of weak orders at Terada Kosakusho.
- ▶ Segment profit in Domestic Subsidiaries in Q4 fell 25.2% YoY to JPY89mn, the first YoY quarterly profit decline in two quarters. The segment profit margin also deteriorated 4.1pp to 12.0%. The profit decline was mainly attributable to weakness at Terada Kosakusho. As Q4 earnings were broadly similar to those for FY03/26, see the Domestic Subsidiaries segment section under "Results by segment (FY03/26)" above.

Overseas Subsidiaries (22.8% of consolidated sales)

- Sales: JPY3.6bn (+17.0% YoY)
- Segment profit: JPY1.4bn (+4.9% YoY)
 - Segment profit margin: 38.9% (-4.4pp YoY)
- Orders: JPY3.5bn (+7.7% YoY)

Overview

- ▶ The segment covers subsidiaries in China (two companies), Taiwan, and the US, but as the US subsidiary has not yet begun full-scale operations, the segment effectively comprises the three companies in China and Taiwan. As the Chinese and Taiwanese subsidiaries have December fiscal year-ends, the company's Q4 (January–March 2026) results incorporate these subsidiaries' results for October–December 2025 (three months). Sales in the Overseas Subsidiaries segment in Q4 rose 17.0% YoY to JPY3.6bn against the backdrop of the expanding global semiconductor market, including AI-related demand, marking the 21st consecutive quarter of YoY sales growth.

- ▶ Segment profit in Q4 rose 4.9% YoY to JPY1.4bn, the 11th consecutive quarter of YoY profit growth. An improved sales mix, including an increase in semiconductor/FPD-related recoating, contributed, as did sales growth outside the semiconductor field. However, due to changes in the sales mix and other factors, the segment profit margin deteriorated 4.4pp to 38.9%. As Q4 earnings were broadly similar to those for FY03/26, see the Overseas Subsidiaries segment section under "Results by segment (FY03/26)" above.

Other Surface Treatments (3.9% of consolidated sales)

- Sales: JPY615mn (-18.8% YoY)
- Segment profit: JPY75mn (-22.7% YoY)
 - Segment profit margin: 12.2% (-0.6pp YoY)
- Orders: JPY693mn (+5.2% YoY)

Overview

- ▶ Sales were JPY615mn (-18.8% YoY), the fourth consecutive quarter of YoY sales decline. Segment profit, unable to fully absorb the impact of lower sales, fell 22.7% YoY to JPY75mn, the eighth consecutive quarter of YoY profit decline. As a result, the segment profit margin deteriorated 0.6pp to 12.2%.
- ▶ The YoY decline in sales was primarily due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, caused by customer inventory adjustments. The TD process is a surface modification method that forms a functional film by immersing the target workpiece in a high-temperature molten salt bath and allowing vanadium and other carbides to diffusely permeate the surface of the base material. As Q4 earnings were broadly similar to those for FY03/26, see the Other Surface Treatments segment section under "Results by segment (FY03/26)" above.

Cumulative Q3 FY03/26 results (February 4, 2026)

Cumulative Q3 (April–December, nine months) results

- Sales: JPY42.6bn (+6.8% YoY)
- Operating profit: JPY9.5bn (+12.2% YoY)
- Recurring profit: JPY9.9bn (+12.8% YoY)
 - RPM: 23.2% (+1.2pp YoY)
- Net income attributable to owners of the parent: JPY6.4bn (+11.5% YoY)
- Orders: JPY44.6bn (+6.2% YoY)
- Order backlog: JPY13.4bn (+17.2% YoY)

Sales

- ▶ Sales in cumulative Q3 reached JPY42.6bn (+6.8% YoY), marking a record high for the period. Sales by segment are as follows.

Sales by segment

- Consolidates sales: JPY42.6bn (+6.8% YoY)
 - Thermal Spraying (TOCALO): JPY29.9bn (+1.2% YoY)
 - Domestic Subsidiaries: JPY2.1bn (+11.6% YoY)
 - Overseas Subsidiaries: JPY8.7bn (+38.9% YoY)
 - Other Surface Treatments: JPY1.9bn (-12.8% YoY)
 - Royalty Income: JPY81mn (-12.0% YoY)
- ▶ By segment, sales from Thermal Spraying (TOCALO), which accounted for around 71% of consolidated sales, increased only 1.2% YoY. This reflected a 6.3% YoY decline in orders for semiconductor and flat panel display (FPD) applications, the core business area, during 1H (April–September). As a result, cumulative Q3 sales for semiconductor and FPD applications were broadly flat at +0.3% YoY, which was the main factor behind the sluggish growth in Thermal Spraying. Within Thermal Spraying excluding semiconductor and FPD applications, sales for

industrial machinery applications rose at a double-digit pace (+11.1% YoY), while sales for steelmaking-related applications increased 1.3% YoY, and sales for other applications declined 3.0% YoY.

- ▶ Meanwhile, sales from Overseas Subsidiaries (mainly in China and Taiwan) increased 38.9% YoY; sales from Domestic Subsidiaries rose 11.6% YoY, while sales from Other Surface Treatments declined 12.8% YoY.
- ▶ Orders for semiconductor and FPD applications, which had been somewhat weak in 1H, rebounded in Q3 (October–December) with an 18.4% YoY increase and rose 2.3% YoY on a cumulative Q3 basis. In addition, the order backlog at end-Q3 increased 18.5% YoY, indicating the recovery and expansion trend is gaining momentum.

Recurring profit and RPM

- ▶ Consolidated recurring profit in cumulative Q3 (April–December) increased 12.8% YoY to JPY9.9bn, while RPM improved by 1.2pp YoY to 23.2%. Recurring profit of JPY9.9bn, like sales, marked a record high for cumulative Q3. Result by segment is as follows.

Recurring profit by segment

- Consolidated recurring profit: JPY9.9bn (+12.8% YoY)
 - Thermal Spraying (TOCALO): JPY6.2bn (+8.6% YoY)
 - Domestic Subsidiaries: JPY242mn (+6.6% YoY)
 - Overseas Subsidiaries: JPY3.4bn (+77.4% YoY)
 - Other Surface Treatments: JPY206mn (-36.6% YoY)
 - Consolidated adjustments: -JPY332mn
- ▶ By segment, profit from Thermal Spraying (TOCALO) declined 8.6% YoY to JPY6.2bn. Profit from Overseas Subsidiaries rose sharply by 77.4% YoY to JPY3.5bn, while profit from Domestic Subsidiaries increased 6.6% YoY to JPY242mn, and profit from Other Surface Treatments fell 36.6% YoY to JPY206mn. Although profit from Thermal Spraying remained at a high level despite the YoY decline, and profit from Other Surface Treatments was also weak, these declines were more than offset by the significant earnings expansion at Overseas Subsidiaries, leading to a record-high consolidated recurring profit. Segment profit is directly linked to recurring profit on the income statement.
- ▶ Operating profit increased 12.2% YoY to JPY9.5bn, while net income attributable to owners of the parent rose 11.5% YoY to JPY6.4bn; both figures marked record highs on a cumulative Q3 basis.

Progress against full-year forecast

- ▶ In its cumulative Q3 FY03/26 (April–December 2025) results announcement on February 4, 2026, the company left its full-year forecast unchanged. Progress rates against the full-year forecast were 74.8% for sales, 73.3% for operating profit, 76.1% for recurring profit, and 77.3% for net income attributable to owners of the parent. Each figure remained around the 75% benchmark. In its core Thermal Spraying segment, the company believes inventory adjustments for semiconductor/FPD-related work driven by market volatility concluded during the cumulative Q3 period. Seeing no specific cause for concern regarding its full-year targets, the company maintained its initial forecasts.

Orders (April–December)

- ▶ In cumulative Q3 FY03/26, consolidated orders rose 6.2% YoY to JPY44.6bn, marking a record high and up from the 2.6% YoY increase reported for 1H (April–September). The breakdown of the JPY44.6bn in consolidated orders (+6.2% YoY) is as follows. For further details on orders by segment, refer to the "Results by segment (April–December)" section later in this report.
- Consolidated orders: JPY44.6bn (+6.2% YoY)
 - Thermal Spraying (TOCALO): JPY31.5bn (+2.4% YoY)
 - Semiconductor/FPD-related: JPY19.8bn (+2.3% YoY)
 - Industrial machinery-related: JPY4.1bn (+4.7% YoY)
 - Steelmaking-related: JPY3.1bn (+0.7% YoY)
 - Other: JPY4.6bn (+2.5% YoY)
 - Domestic Subsidiaries: JPY2.1bn (+3.8% YoY)
 - Overseas Subsidiaries: JPY9.2bn (+31.5% YoY)
 - Other Surface Treatments: JPY1.8bn (-18.8% YoY)

- ▶ In cumulative Q3 FY03/26, orders in the core Thermal Spraying segment grew 2.4% YoY. Additionally, orders in the Overseas Subsidiaries segment expanded 31.5% YoY, and those in the Domestic Subsidiaries segment rose 3.8% YoY. While orders in the Other Surface Treatments segment underperformed with an 18.8% YoY decline, the impact on consolidated results was limited.

Orders in the Thermal Spraying segment turned upward

- ▶ Within the Thermal Spraying segment, orders grew 2.4% YoY in cumulative Q3. This followed a 3.8% YoY decline in 1H (April–September), and the turnaround further boosted consolidated orders. In fact, orders in the Thermal Spraying segment for in Q3 significantly exceeded previous record highs for any single quarter. According to the company, the primary factor behind this sharp recovery in Q3 orders was the contribution of large-scale projects from certain customers in the semiconductor/FPD-related field.
- ▶ The company believes that even excluding these one-time large projects, the recovery in semiconductor/FPD-related orders is becoming notable and continues to drive the overall increase in consolidated orders. For further details on order trends in the semiconductor/FPD-related field, refer to the "Thermal Spraying" subsection under "Results by segment (April–December)" later in this report.

Order backlog (end-December 2025)

- ▶ Consolidated order backlog at end-Q3 (end-December 2025) rose 17.2% YoY to JPY13.4bn, marking the second consecutive quarter of YoY growth.
 - **Consolidated order backlog: JPY13.4bn (+17.2% YoY)**
 - Thermal Spraying (TOCALO): JPY9.6bn (+16.9% YoY)
 - Semiconductor/FPD-related: JPY7.2bn (+18.5% YoY)
 - Industrial machinery-related: JPY666mn (+41.1% YoY)
 - Steelmaking-related: JPY991mn (-8.9% YoY)
 - Other: JPY766mn (+28.1% YoY)
 - Domestic Subsidiaries: JPY127mn (-11.2% YoY)
 - Overseas Subsidiaries: JPY3.3bn (+28.0% YoY)
 - Other Surface Treatments: JPY311mn (-30.3% YoY)
- ▶ Consolidated order backlog fell YoY at end-Q1 (end-June 2025) for the first time in 17 quarters, but turned upward again at end-1H (end-September 2025), and this trend continued through end-Q3. At JPY13.4bn, the end-Q3 order backlog remained above JPY10.0bn for the seventh consecutive quarter and exceeded the JPY11.2bn recorded at end-1H by more than JPY2.0bn. However, a primary factor behind the significant increase at end-Q3 was the inclusion of large-scale projects, likely a one-off factor, in Q3 (October–December) orders for semiconductor/FPD-related work (see "Orders [April–December]" above).
- ▶ By segment, the order backlog in the Thermal Spraying segment rose 16.9% YoY, driven by the contribution of large-scale projects in the semiconductor/FPD-related field. Additionally, the order backlog in the Overseas Subsidiaries segment expanded 28.0% YoY, further contributing to the overall accumulation of the consolidated order backlog. Meanwhile, although the order backlog in the Domestic Subsidiaries segment fell 11.2% YoY and that of the Other Surface Treatments segment declined 30.3% YoY, their impact on the consolidated total remained extremely limited.
- ▶ For details of order backlog by segment at end-Q3, see the section "Results by segment (April–December)" below.

Factors affecting changes (YoY) in recurring profit

- ▶ Consolidated recurring profit, which is closely linked to segment profit in each business, increased JPY1.1bn YoY, from JPY8.8bn in cumulative Q3 FY03/25 to JPY9.9bn. The following factors contributed to the change.
 - Increase in sales: Positive impact of JPY2.2bn
 - Decrease in variable cost ratio: Positive impact of JPY388mn
 - Increase in personnel expenses: Negative impact of JPY898mn
 - Increase in depreciation: Negative impact of JPY356mn
 - Foreign exchange effects: Negative impact of JPY247mn
 - Other factors: Positive impact of JPY83mn

Higher sales, coupled with a decline in the variable cost ratio, contributed to recurring profit growth

- ▶ In cumulative Q3 FY03/26, the largest contribution to profit was a JPY2.2bn increase in gross profit resulting from higher sales. While sales in the core Thermal Spraying segment grew only 1.2% YoY, a 38.9% YoY increase in sales in the Overseas Subsidiaries segment provided a significant boost. This limited growth in the Thermal Spraying segment was due to semiconductor/FPD-related sales remaining largely flat (+0.3% YoY). Regarding the JPY388mn positive impact from a lower variable cost ratio, an improved product mix and the effects of price revisions—particularly for high-margin semiconductor/FPD-related work—supported profitability. These factors successfully offset the impact of high manufacturing costs, such as processing materials and outsourcing expenses.

From lower sales to higher sales, and from a higher variable cost ratio to a lower variable cost ratio

- ▶ In FY03/24, recurring profit fell 12.2% YoY to JPY9.7bn, marking the first decline in four years. This was mainly attributable to two negative factors: lower sales and a higher variable cost ratio, stemming from a drop in semiconductor/FPD-related sales and the resulting deterioration in product mix. In FY03/25, however, relatively high-margin semiconductor/FPD-related sales recovered, turning these factors into positives—sales increased and the variable cost ratio decreased—which drove recurring profit to a record high.
- ▶ The company believes that the shift seen in FY03/25—where the two previously negative factors of declining sales and a rising variable cost ratio turned positive—continued through cumulative Q3 FY03/26. Since the initial forecast announced in May 2024, the company has expected that while increases in personnel, depreciation, and R&D expenses would persist in FY03/26, the dual positive impact of higher sales and a lower variable cost ratio would absorb these costs. As a result, the company continues to forecast record-high earnings for the second consecutive year. In cumulative Q3 FY03/26, the profit-boosting effects exceeded initial expectations, and the company anticipates this trend will remain stronger than projected through Q4 and for the full year. For details, see the "Company forecast" section.

Other factors (subsidy income under non-operating income)

- ▶ The JPY83mn positive impact categorized as "other factors" reflected several elements, the main one being an increase in subsidy income recorded under non-operating income, which rose JPY278mn YoY from JPY13mn to JPY291mn. Other items included inventory valuation losses, changes in R&D expenses, and electricity costs. According to the company, aside from the increase in subsidy income, these factors consisted of various minor fluctuations and were not significant drivers of profit variation.
- ▶ The company identified higher R&D expenses as having a relatively significant impact. Cumulative Q3 R&D expenses totaled JPY1.3bn, up JPY92mn from JPY1.2bn in the same period of the previous year, reducing profit by that amount. However, as the company forecasts a JPY131mn YoY increase in R&D expenses for the full-year FY03/26, progress was generally in line with its target.

Foreign exchange effects

- ▶ In cumulative Q3, foreign exchange effects reduced profit by JPY247mn YoY. Of this amount, a JPY182mn negative impact stemmed from a deterioration in foreign exchange gains/losses under non-operating income. The remaining JPY65mn negative impact was due to exchange rate differences related to the translation of overseas subsidiary results (entirely within the Overseas Subsidiaries segment) and foreign exchange gains/losses on certain exports (mostly within the Thermal Spraying segment). The latter resulted from exports to overseas customers by the parent company. According to the company, this only had a limited impact on earnings—and smaller than the translation impact from overseas subsidiaries—because the scale of exports remains small and price negotiations in foreign currencies are reflected.

Over the medium term, the company expects foreign exchange fluctuations to have greater impact on its earnings

- ▶ Separately from its cumulative Q3 results, the company expects the impact of foreign exchange fluctuations on its consolidated earnings (exposure) to gradually increase from FY03/27 onward. Historically, currency fluctuations have rarely had a significant impact on earnings trends, and the contribution to profit remained limited even during periods of yen depreciation. This was primarily because the scale of Overseas Subsidiaries' earnings was relatively small, and profit growth was somewhat constrained by upfront investment costs. However, the performance of Overseas Subsidiaries—which continue to capture robust semiconductor demand—is expanding significantly. Consequently, the impact of exchange rates used for translating local currencies into yen on consolidated earnings is also on a gradual upward trend. Another factor is the growing volume of exports to overseas customers within the Thermal Spraying (TOCALO) segment, driven by the business expansion of these clients.

- ▶ Against a backdrop of growing demand for its thermal spraying technology, the company aims to expand the performance of its overseas subsidiaries over the medium to long term. It has already made capex for new plants in China and Taiwan (with some investments still ongoing). Consequently, the company believes that in the near future, the impact of foreign exchange fluctuations on consolidated earnings—particularly the impact of translating Overseas Subsidiary results into yen—will no longer be limited.

Rise in personnel expenses and depreciation

- ▶ In cumulative Q3 FY03/26, personnel expenses rose, resulting in a JPY898mn negative impact on profit. The increase reflected wage hikes, a rise in full-time employees, and higher operating activity in semiconductor/FPD-related production, including greater overtime costs. The company noted that while all of these factors contributed to higher personnel expenses, the entire impact was absorbed by the positive effect of higher sales, including an improved product mix driven by growth in semiconductor-related sales.
- ▶ Meanwhile, given the current economic climate and pressure for sustained wage hikes, rising personnel expenses (including labor costs) are becoming a structural drag on profit likely to persist from FY03/27 onward, rather than being limited to cumulative Q3 FY03/26. While the company aims to curb these costs through tighter controls, it also positions higher personnel spending as a broad investment in human capital to boost employee motivation and talent development.
- ▶ Depreciation expenses increased JPY356mn YoY, representing a negative impact on profit. This was due to active capital investment both in Japan and overseas, and the increase was in line with the company's initial forecast.

Results by segment (April–December)

- ▶ Below is a breakdown of individual segment performances. The sales shares provided for each segment represent percentages of the company's consolidated cumulative Q3 sales of JPY42.6bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 70.1% of consolidated sales)

The Thermal Spraying segment represents TOCALO's non-consolidated results and is the company's core business, accounting for 72.3% of consolidated sales in FY03/25. The segment centers on thermal spraying, a surface treatment process that forms a coating on a target surface by spraying molten metals or ceramics using high-temperature heat sources such as plasma or gas. In addition to thermal spraying, TOCALO also provides a range of ancillary surface modification services, including the Toyota Diffusion (TD) process, zinc alloy coating (ZAC), plasma transferred arc (PTA) processing, and physical vapor deposition (PVD). These treatments enhance the surface properties of materials by adding functions such as abrasion and heat resistance, conductivity or insulation, and thermal shielding or dissipation.

By application, semiconductors and flat panel displays (FPDs) account for approximately 62% of the segment's sales. TOCALO provides thermal spraying for components used in semiconductor and FPD manufacturing equipment—particularly for dry etching equipment used in semiconductor fabrication, where thermal spraying is required to prevent particle generation and enable electrostatic adsorption. Outside of semiconductors and FPDs, thermal spraying for industrial machinery components accounts for about 12%, steelmaking equipment for about 10%, and other applications for around 16%.

The company also exports to overseas customers. Of its JPY39.2bn sales in FY03/25, exports accounted for approximately 18% and domestic sales for the remaining 82%. On a consolidated basis, overseas sales (representing an overseas sales ratio of 30.1% in FY03/25) is the sum of sales from the Overseas Subsidiaries segment and exports from the Thermal Spraying segment.

- Sales: JPY29.9bn (+1.2% YoY)
- Segment profit: JPY6.2bn (-8.6% YoY)
 - Segment profit margin: 20.9% (-2.2pp YoY)
- Orders: JPY31.5bn (+2.4% YoY)
- Order backlog: JPY9.6bn (+16.9% YoY)

Orders

- Cumulative Q3 orders in the Thermal Spraying segment totaled JPY31.5bn (+2.4% YoY), marking a record high for cumulative Q3. While 1H (April–September) orders fell 3.8% YoY, they turned to a YoY increase for cumulative Q3 due to a surge in semiconductor/FPD-related orders in Q3 (October–December). Solid performance in industrial machinery-related orders—though smaller in scale than those for the semiconductor/FPD sector—also contributed to the turnaround.
- The breakdown of Thermal Spraying orders of JPY31.5bn (+2.4% YoY) is as follows.
 - Thermal Spraying segment (TOCALO): JPY31.5bn (+2.4% YoY)
 - Semiconductor/FPD-related: JPY19.8bn (+2.3% YoY)
 - Industrial machinery-related: JPY4.1bn (+4.7% YoY)
 - Steelmaking-related: JPY3.1bn (+0.7% YoY)
 - Other businesses: JPY4.6bn (+2.5% YoY)

Semiconductor/FPD-related orders recovered sharply in Q3

- Cumulative Q3 orders in the Thermal Spraying segment turned to a YoY increase because semiconductor/FPD-related orders rose 2.3% YoY to JPY19.8bn. This sub-segment is the mainstay of the business, accounting for approximately 60–65% of total segment orders on a full-year basis. While semiconductor/FPD-related orders were sluggish in 1H, falling 6.3% YoY, they recovered sharply in Q3 (October–December) with an 18.4% YoY increase. This sharp turnaround in the sector, which accounts for over 60% of the segment total, drove the overall growth in segment orders. Quarterly results for semiconductor/FPD-related orders were as follows.
 - Cumulative Q3 (April–December): JPY19.8bn (+2.3% YoY)
 - Q1 (April–June): JPY5.9bn (-6.3% YoY)
 - Q2 (July–September): JPY6.0bn (-6.3% YoY)
 - Q3 (October–December): JPY7.9bn (+18.4% YoY)
- As noted above, the sharp recovery in Q3 offset the sluggishness seen in Q1 and Q2. According to the company, the primary driver for the sharp recovery in semiconductor/FPD-related orders in Q3 was the contribution of large-scale, one-off projects from certain customers, which differ from standard mass-produced items. While the company did not disclose specific details of these projects, it suggested that the results were greater the normal levels driven by mass production, with Q3 orders of JPY7.9bn exceeding the previous all-time quarterly record of JPY6.7bn (October–December 2024) by more than JPY1.2bn. Accordingly, the company noted that the Q3 result was due to special factors and that quarterly orders are unlikely to remain at the JPY8.0bn level, at least under its current production capacity.

The surge in Q3 orders included extraordinary factors

- Meanwhile, the company recognizes that even on a standard basis—centered on mass-produced items and excluding the large-scale projects (for which it did not disclose specific order values)—orders began to recover in Q3, turning around from the declines in Q1 (-6.3% YoY) and Q2 (-6.3% YoY). The company expects the recovery in orders to strengthen further in Q4 (January–March) and FY03/27. It believes that the decline in orders ended in Q1 and Q2.
- Although orders in Q1 and Q2 fell 6.3% YoY, the company views the order levels—approximately JPY6.0bn in each quarter—as high. It previously expected Q1 and Q2 orders to decline YoY but not fall below JPY5.0bn on a quarterly basis. From this perspective, the company views the results positively, as orders remained steady at around JPY6.0bn and did not decline as much as feared.

Non-semiconductor/FPD-related orders

- ▶ Excluding semiconductor/FPD-related orders, industrial machinery-related orders rose 4.7% YoY, steelmaking-related orders increased 0.7% YoY, and other orders grew 2.5% YoY. Within the industrial machinery-related sector, bearing-related orders—which have been on an upward trend since FY03/25—drove growth. Although the growth rate for industrial machinery-related orders was 4.7% YoY, the company believes cumulative Q3 FY03/26 performance remained at a high level, considering that the same period in the previous year was a record high for cumulative Q3. The company thinks the turnaround in semiconductor/FPD-related orders had a large impact, while the continued expansion of industrial machinery-related orders at record-high levels provided a degree of support.
- ▶ Steelmaking-related orders remained roughly flat YoY (+0.7%), but the company believes performance was firm. In the other category, orders grew YoY, supported by firm demand in energy-related sectors such as power plants.

Sales

- ▶ The Thermal Spraying segment (TOCALO) is the company's largest segment, accounting for 70.1% of consolidated sales in cumulative Q3. Sales in this segment rose 1.2% YoY to JPY29.9bn, marking a new record high for cumulative Q3. The breakdown of the JPY29.9bn sales (+1.2% YoY) is as follows.
 - Thermal Spraying segment: JPY29.9bn (+1.2% YoY)
 - Semiconductor/FPD-related: JPY18.0bn (+0.3% YoY)
 - Semiconductor: JPY16.6bn (-0.6% YoY)
 - FPD: JPY1.3bn (+12.6% YoY)
 - Industrial machinery-related: JPY4.2bn (+11.1% YoY)
 - Steelmaking-related: JPY3.0bn (+1.3% YoY)
 - Other businesses: JPY4.7bn (-3.0% YoY)

Semiconductor/FPD-related sales reached a record high

- ▶ Cumulative Q3 FY03/26 sales in the Thermal Spraying segment reached a record high for cumulative Q3, but the growth rate slowed to 1.2% YoY—a further deceleration from the 3.3% YoY increase recorded in 1H. The primary reason for this was that sales for the mainstay semiconductor/FPD-related sector remained nearly flat at 0.3% YoY growth. Quarterly sales trends for the semiconductor/FPD-related sector were as follows.

Sales trends for the semiconductor/FPD-related sector

- Cumulative Q3 (April–December): JPY18.0bn (+0.3% YoY)
 - Q1 (April–June): JPY6.3bn (+10.0% YoY)
 - Q2 (July–September): JPY5.7bn (+0.4% YoY)
 - Q3 (October–December): JPY6.0bn (-8.3% YoY)
- ▶ Lead times for semiconductor/FPD-related orders (the period from order receipt to sales recognition) vary by project and product but are generally around three months, although they may lengthen during peak periods. According to the company, the YoY decline in sales for this sector was solely due to the YoY decrease in orders during 1H.
- ▶ In Q1 (April–June), sales grew 10.0% YoY despite a 6.3% YoY decline in orders. This was primarily due to progress in clearing the order backlog accumulated as of end-March 2025 following the recovery in orders during the previous fiscal year (FY03/25). In Q2 (July–September), although orders fell 6.3% YoY, as in Q1, sales remained roughly flat YoY as the company cleared the backlog as of end-June 2025. Conversely, the company believes the 8.3% YoY decline in Q3 sales was because the order declines in Q1 and Q2 led to a reduced order backlog as of end-September 2025, which then manifested as lower sales after the roughly three-month lead time.
- ▶ Conversely, while partially supported by one-off large projects, the company expects the recovery in Q3 orders to drive a turnaround in Q4 (January–March) sales. It anticipates that sales will return to YoY growth by Q1 FY03/27 (April–June 2026) at the latest.
- ▶ According to the company, the decline in Q3 sales was partly due to the progress made in clearing the order backlog through end-1H. This was facilitated by the phased expansion of production capacity that the company has been implementing since 1H FY03/25.

Production capacity expansion contributed to reducing the order backlog

- ▶ On a quarterly basis, sales fluctuate in line with changes in orders after a lead time, but the company's policy of expanding production capacity remains unchanged. The company considers capacity expansion essential for business growth driven by the expansion of the semiconductor market.
- ▶ This capacity includes not only production equipment but also workers on the manufacturing lines, including temporary staff. Although automation has advanced in semiconductor/FPD-related thermal spraying through new and upgraded equipment, a significant portion of the process remains labor-intensive and dependent on manual work.

Increasing personnel is a key priority in the company's production capacity expansion

- ▶ While the company is expanding production equipment for semiconductor/FPD-related thermal spraying, it is also increasing headcount on its production lines. However, due to the recent labor shortage, personnel expansion has not kept pace. Additionally, the time required for production line workers to reach the necessary technical skill level has been another factor slowing workforce expansion. Because of this situation (where expanding production capacity takes time), sales failed to reach record highs despite record-high orders and order backlogs until the middle of the previous fiscal year (FY03/25).
- ▶ However, the company believes the effects of its phased production capacity expansion efforts—encompassing both equipment installation and personnel increases—are starting to materialize. Indeed, sales reached a record high (cumulative Q3 semiconductor/FPD-related sales hit an all-time high). Nonetheless, the company recognizes that current capacity remains insufficient for medium-to-long-term business growth despite these phased increases. While the company has already announced multiple expansion initiatives, such as the construction of a new plant, it plans to provide further details, including additional expansion plans, in its next medium-term management plan scheduled for release in May 2026.

Sales trends in non-semiconductor and FPD-related categories

- ▶ Excluding semiconductor/FPD-related sales, industrial machinery-related sales rose 11.1% YoY to JPY4.2bn, steelmaking-related sales increased 1.3% YoY to JPY3.0bn, and sales from other businesses fell 3.0% YoY to JPY4.7bn. In the industrial machinery-related sector, increased orders for bearings—a key customer segment—offset a decline in sales to certain other customers, leading to record-high cumulative Q3 sales for this category. Steelmaking-related sales also grew, exceeding the high levels seen in the same period of the previous year. While sales from other businesses declined YoY, the company stated there were no specific negative factors, and demand from power plant and energy-related sectors remained generally firm.
- ▶ While the company focuses primarily on growth in semiconductor/FPD-related sales, which significantly contribute to overall performance, it also intends to actively pursue order acquisition and drive sales growth in non-semiconductor/FPD areas.

Segment profit, segment profit margins

- ▶ In cumulative Q3, segment profit for Thermal Spraying (which links to recurring profit on the consolidated income statement) fell 8.6% YoY to JPY6.2bn, and the segment profit margin declined 2.2pp YoY to 20.9%. Because sales from the mainstay semiconductor/FPD-related sector remained flat YoY, the segment was unable to generate sufficient top-line growth to offset rising manufacturing costs.
- ▶ The company believes the primary reason for the decline in segment profit in cumulative Q3 was that the sluggish sales growth in the relatively high-margin semiconductor/FPD-related sector could not fully offset increases in manufacturing costs and SG&A expenses. This impact was particularly pronounced in Q2 (July–September) and Q3 (October–December). Quarterly trends for segment profit in Thermal Spraying were as follows.

Profit trends in the Thermal Spraying segment

- Cumulative Q3 (April–December): JPY6.2bn (-8.6% YoY)
 - Q1 (April–June): JPY2.6bn (+18.2% YoY)
 - Q2 (July–September): JPY1.5bn (-26.6% YoY)
 - Q3 (October–December): JPY2.1bn (-17.2% YoY)

Semiconductor/FPD-related sales are the primary swing factor for segment profit

- ▶ As shown by the quarterly trends, profit growth continued in Q1, when high semiconductor/FPD-related sales—driven by clearing of the order backlog—supported profit. However, profit declines became significant in Q2 and Q3 as those sales slowed. On a cumulative Q3 basis, the profit gains achieved in Q1 were effectively wiped out by the declines in Q2 and Q3. While the semiconductor/FPD-related sector accounts for 60–65% of Thermal Spraying sales, the company suggests its contribution to segment profit is even higher given the sector's superior profitability. According to the company, although the rate of profit decline peaked in Q2, the decline in Q3 weighed more heavily on consolidated results, as Q3 is typically the quarter with the highest profit weighting for the year.
- ▶ However, since orders—a leading indicator of sales—for semiconductor/FPD-related services began recovering in Q3 (see the "Orders (April–December)" section above), the company anticipates that Q3 will mark the earnings trough of the current adjustment phase. It expects the recovery to strengthen in Q4 (January–March) and the next fiscal year (FY03/27).
- ▶ Apart from the cumulative Q3 FY03/26 results (segment profit declined 8.6% YoY), the company expects rising manufacturing and SG&A costs, as well as higher depreciation stemming from increased capital investment for future growth to continue putting downward pressure on earnings. Among these factors, the company identifies rising personnel expenses—such as labor costs in manufacturing and indirect personnel costs in SG&A—as the most significant constraint on improving profitability. With fixed costs continuing to rise, any decline in sales is likely to weigh more heavily on earnings than in the past.

TOCALO aims to offset rising personnel expenses by expanding sales and improving productivity

- ▶ The company positions these rising personnel expenses as a form of human capital investment. It noted that once personnel expenses (per employee) increase, lowering them is difficult, and with production volumes expanding on the back of recovering orders, reducing headcount on manufacturing lines is also not feasible. As such, the company believes that improving profitability requires generating sufficient sales to absorb higher personnel costs, which in turn makes expanding production capacity essential.
- ▶ At the same time, the company is also working to limit headcount growth at its expanded production facilities (including new plants) by significantly increasing automation through the introduction of advanced equipment. Given that fluctuations in operating rates for semiconductor/FPD-related production are inevitable depending on order trends, the company plans to strengthen initiatives aimed at leveling production and improving productivity, with the goal of enhancing profitability.

Domestic Subsidiaries (5.0% of consolidated sales)

Domestic Subsidiaries segment: Accounted for 4.9% of consolidated sales in FY03/25. This segment includes the operations of Japan Coating Center Co., Ltd. (JCC), which was made a wholly owned subsidiary in September 2004. JCC specializes in surface modification using physical vapor deposition (PVD), whereby metals such as titanium and chromium are ionized in a vacuum together with reactive gases to form dense, high-adhesion ceramic coatings on the surfaces of cutting tools, molds, and other components—enhancing wear and corrosion resistance. While the majority of JCC's sales are from the automotive sector, it also serves customers in machine tools and other industries. In August 2024, TOCALO acquired 100% of the shares of Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, bringing the number of operating companies in this segment to two.

- Sales: JPY2.1bn (+11.6% YoY)
- Segment profit: JPY242mn (+6.6% YoY)
 - Segment profit margin: 11.3% (-0.5pp YoY)
- Orders: JPY2.1bn (+3.8% YoY)
- Order backlog: JPY127mn (-11.2% YoY)

Orders

- ▶ Cumulative Q3 orders in the Domestic Subsidiaries segment rose 3.8% YoY to JPY2.1bn. In the automobile sector, the segment's mainstay, orders have yet to see a full-scale recovery as domestic auto production has yet to pick up (cumulative Q3 domestic production fell 1% YoY), though signs of bottoming out are appearing. Until 1H, performance was heavily pressured by the impact of US tariff policies—with production for the US scaled back ahead of Japan–US government negotiations—but the company believes that sentiment has improved somewhat since the start of Q3 (October–December). It views this psychological improvement and the emerging bottoming-out trend in domestic production as having contributed to orders, albeit to a limited extent.
- ▶ While the performance (orders) of the Domestic Subsidiaries segment is not determined by automobile production volumes alone, the company acknowledges that it is undoubtedly the primary swing factor. However, as US tariff policies have not yet fully stabilized, the company remains cautious and is not optimistic about a future recovery in domestic production volumes.

Additional contribution from the newly consolidated subsidiary

- ▶ Another factor behind the increase in orders for the Domestic Subsidiaries segment in cumulative Q3 was the contribution from a newly consolidated subsidiary. On August 26, 2024, the company acquired Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, as a wholly owned subsidiary and has consolidated it since Q3 FY03/25 (October–December 2024). Consequently, in cumulative Q3 FY03/26, Terada Kosakusho's orders included approximately five additional months of contribution compared to the same period last year, boosting orders for the segment. However, given Terada Kosakusho's scale (with estimated annual sales of JPY400–450mn, according to Shared Research estimates), the company indicated that this boost was limited.
- ▶ The company recognizes that the turnaround to order growth in the Domestic Subsidiaries segment in cumulative Q3 was driven by these two factors: signs of a bottoming out in domestic automobile production and the inclusion of Terada Kosakusho as a newly consolidated subsidiary.

Sales

- ▶ Cumulative Q3 sales reached a record high for the period, rising 11.6% YoY to JPY2.1bn. As with orders, the roughly 12% YoY increase in sales was partly driven by the contribution from newly consolidated Terada Kosakusho.

Signs of recovery in domestic automobile production and contribution from the newly consolidated subsidiary

- ▶ Until the company acquired Terada Kosakusho (a manufacturer of machine tools and precision machinery parts) in August 2024, the Domestic Subsidiaries segment consisted solely of Japan Coating Center Co., Ltd. (JCC), a wholly owned subsidiary. JCC primarily performs surface modification processing using physical vapor deposition (PVD) technology on products such as cutting tools, blades, and molds.
- ▶ Within JCC's operations, the core business of surface modification processing for cutting tools is primarily geared toward the automotive industry. While sales in the Domestic Subsidiaries segment are not directly tied to domestic automobile production, the correlation is strong. Consequently, during periods of weak domestic production, the segment's performance—i.e., at JCC—was also sluggish, particularly in terms of profitability. Specifically, in 2H FY03/22 through FY03/23, supply constraints caused by semiconductor shortages, and in late FY03/24 through the end of calendar 2024, production disruptions stemming from a series of certification-related misconduct issues at automakers, led to lower domestic output, weighing heavily on the performance of the Domestic Subsidiaries segment.
- ▶ The company noted that the performance of newly consolidated Terada Kosakusho is less dependent on domestic automobile production than that of JCC. Accordingly, it expects the Domestic Subsidiaries segment's performance to become increasingly decoupled from domestic automobile production volumes from FY03/26 into FY03/27 and beyond. While Terada Kosakusho was consolidated starting in Q3 FY03/25, only eight months of its results were included in that fiscal year due to a difference in fiscal year-ends. From cumulative Q3 FY03/26 onward, its fiscal year has been aligned with that of the company.

Segment profit, segment profit margin

- ▶ In cumulative Q3, segment profit in the Domestic Subsidiaries segment rose 6.6% YoY to JPY242mn, while the segment profit margin fell 0.5pp YoY to 11.3%.

- ▶ The 6.6% YoY increase in segment profit in cumulative Q3 was driven by the performance contribution from Terada Kosakusho and a rebound from a low profit level in the same period last year. However, according to the company, the Domestic Subsidiaries segment's performance remains sluggish and has not yet reached a full-scale recovery. Additionally, the company indicated that the profit contribution from Terada Kosakusho in cumulative Q3 was limited, as the impact of goodwill amortization has begun.

Seeking a new medium-term direction for the Domestic Subsidiaries segment

- ▶ The company is exploring a new medium-term direction for the Domestic Subsidiaries segment. While JCC, the segment's core subsidiary, remains heavily dependent on automobile production, the company plans to reinforce the segment's business structure by expanding into non-automotive fields while maintaining its focus on automotive demand.
- ▶ The company sees Terada Kosakusho as an important piece in its strategy to expand business beyond the automotive sector. Under the company's leadership, Terada has already begun making medium-term capital investments, including the construction of a new plant. The company aims to grow Terada Kosakusho into a meaningful earnings driver, independently of its short-term contribution, including that in cumulative Q3 FY03/26. In parallel, the company is also taking steps to strengthen the performance of JCC by investing to expand production capacity for non-automotive fields. Through these efforts, the company intends to gradually reduce its dependence on domestic automobile production while lifting the overall earnings base of the Domestic Subsidiaries segment.

Overseas Subsidiaries (20.3% of consolidated sales)

Overseas Subsidiaries segment

The Overseas Subsidiaries segment is expanding rapidly and accounted for 17.2% of consolidated sales in FY03/25. This segment covers subsidiaries in China (two companies), Taiwan, and the US; however, as the US subsidiary has yet to begin full-scale operations, the segment effectively consists of three companies in China and Taiwan. Like the Thermal Spraying segment (handled by TOCALO), the business is primarily focused on semiconductor and FPD-related fields. In particular, the company is placing emphasis on supporting a major Taiwanese semiconductor device manufacturer by restoring and recoating used equipment components with high precision to extend the service life of semiconductor manufacturing equipment and optimize costs. The segment is also expanding into non-semiconductor areas, including the production and repair of components for steel, petroleum, and paper manufacturing equipment, as well as on-site thermal spraying repair work at natural gas plants.

The company's consolidated overseas sales (with an overseas sales ratio of 30.1% in FY03/25) consist of sales from the Overseas Subsidiaries segment plus export sales from the Thermal Spraying segment. Currently, sales from the Overseas Subsidiaries segment are the larger of these two components.

- Sales: JPY8.7bn (+38.9% YoY)
- Segment profit: JPY3.5bn (+77.4% YoY)
 - Segment profit margin: 40.8% (+8.8pp YoY)
- Orders: JPY9.2bn (+31.5% YoY)
- Order backlog: JPY3.3bn (+28.0% YoY)

Orders

- ▶ Cumulative Q3 orders in the Overseas Subsidiaries segment rose 31.5% YoY to JPY9.2bn, setting a new record high for the period. In just nine months, orders reached approximately 90% of the FY03/25 full-year total of JPY10.3bn. The primary driver of this growth was the recovery of semiconductor markets in overseas regions such as China and Taiwan, combined with proactive sales efforts that led to higher orders, including from new customers. Due to differences in fiscal year-ends, the company's cumulative Q3 results include figures for overseas subsidiaries for the January–September period.

Sales

- ▶ While the segment includes two subsidiaries in China, one in Taiwan, and one in the US, it effectively consists of the three entities in China and Taiwan, as the US subsidiary has yet to begin full-scale operations. Since the Chinese and Taiwanese subsidiaries have December fiscal year-ends, the company's cumulative Q3 results include their performance for the January–September period. The significant growth was driven by the global expansion of the semiconductor market—including AI-related demand—which boosted sales from existing customers and facilitated the acquisition of new customers.
As a result, cumulative Q3 sales in the Overseas Subsidiaries segment rose 38.9% YoY to JPY8.7bn, setting a new record high for the period.
- ▶ In cumulative Q3 FY03/26, sales growth in the Overseas Subsidiaries segment was primarily driven by increased sales volumes. However, the company noted there was some offsetting impact from foreign exchange, as the yen was relatively stronger during the January–September 2025 period covered by the subsidiaries in China, the segment's main market. Despite this, the positive impact from increased sales volume significantly outweighed the negative impact from forex. As a result, segment sales grew 38.9% YoY to JPY8.7bn—the highest growth rate among the four segments.

Segment profit and segment profit margin

- ▶ Segment profit in the Overseas Subsidiaries segment rose 77.4% YoY to JPY3.5bn, setting a new record high for cumulative Q3 in tandem with the record-high sales. In addition to higher sales, profit was bolstered by an improved sales mix—driven primarily by increased recoating for semiconductor/FPD components—and growth in non-semiconductor-related sales, which more than offset foreign exchange impacts (which the company noted were minor). Consequently, the segment profit margin rose 8.8pp YoY to 40.8%. This is 19.9pp higher than the 20.9% margin of the Thermal Spraying segment, representing nearly double the profitability.

Positioning overseas operations as a new growth driver

Assuming five-year CAGR of 20% through FY03/26

- ▶ As demonstrated by the cumulative Q3 results, the Overseas Subsidiaries segment continues to experience significant business expansion. The segment's share of consolidated sales has risen from 12.2% in FY03/21 to 17.2% in FY03/25, and is projected to reach 21.1% in FY03/26 (company forecast). Over the five years from FY03/21 to FY03/26, the company expects sales CAGR for the segment of 20.1%, outpacing 5.4% in the Thermal Spraying segment and 7.7% for consolidated sales, making it the largest contributor.

Demand for TOCALO's thermal spraying is expanding

- ▶ The main driver of the expansion in overseas business has been the company's ability to efficiently capture rising demand for thermal spraying, fueled by robust semiconductor demand, from both existing and new customers. Another factor has been capital investment aimed at boosting production capacity and improving quality. In particular, the company is building a third plant in Taiwan and introducing new manufacturing equipment in China, measures that are expected to contribute materially to sales growth from 2H FY03/26 onward. The company expects demand for semiconductor-related thermal spraying in these regions to continue expanding and is considering further measures, including additional capacity increases.

Restructuring of the US business initiated

- ▶ In addition to its operations in East Asia (China and Taiwan), the company has also begun restructuring its business in the US, further stepping up efforts to expand its overseas operations. On August 22, 2025, the company announced that through its wholly owned subsidiary TOCALO USA, Inc. (TCA; California), it will establish a new company in Arizona. The Arizona subsidiary will provide surface modification processing for semiconductor manufacturing equipment parts, strengthening service capabilities for major customers building supply chains in the US, with the aim of expanding the company's US business. While the company is still assessing the contribution to earnings of this new subsidiary from FY03/27 onward, it expects the business to capture demand for thermal spraying in the US and become a new driver of overseas expansion.
- ▶ The company plans to present a concrete outlook for its overseas business from FY03/27 onward—including the recently announced restructuring of its US operations and the expansion of its existing businesses in China and Taiwan—in its next medium-term management plan, scheduled for release in or after May 2026.

Other Surface Treatments (4.3% of consolidated sales)

Other Surface Treatments segment: Accounted for 5.3% of consolidated sales in FY03/25. This segment provides various types of surface treatment processing, with its core business being the Toyota Diffusion (TD) process applied to agricultural equipment parts. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating.

- Sales: JPY1.9bn (-12.8% YoY)
- Segment profit: JPY206mn (-36.6% YoY)
 - Segment profit margin: 11.1% (-4.2pp YoY)
- Orders: JPY1.8bn (-18.8% YoY)
- Order backlog: JPY311mn (-30.3% YoY)

Order backlog

- ▶ Cumulative Q3 orders in the Other Surface Treatments segment declined 18.8% YoY to JPY1.8bn. The decrease was primarily due to inventory adjustments by customers in the mainstay agricultural machinery parts business. The cumulative Q3 order total of JPY1.8bn represents the lowest level for the period since cumulative Q3 FY03/21 (April–December 2020: JPY1.5bn), when orders were directly impacted by the COVID-19 pandemic. While there are some signs of bottoming out in inventory adjustments—particularly in agricultural machinery parts—the company remains concerned that it will take more time for orders to see a full-scale recovery.

Sales, segment profit, segment profit margin

- ▶ Cumulative Q3 sales in the Other Surface Treatments segment declined 12.8% YoY to JPY1.9bn, and segment profit decreased 36.6% YoY to JPY206mn, as the impact of lower sales could not be fully absorbed. The segment profit margin fell 4.2pp YoY to 11.1%.
- ▶ The YoY decline in sales was mainly due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, as customers undertook inventory adjustments. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating. The company performs this surface treatment (TD process) for agricultural equipment parts and supplies them to Japanese agricultural equipment manufacturers, who then export their products to the US and other markets.
- ▶ While TD processing was sluggish, the company noted that CDC-ZAC processing—a chemical densification method that forms a composite ceramic coating through chemical reactions, characterized by ceramics' superior corrosion resistance and high hardness—remained relatively firm, particularly in medical-related applications (declining less than TD processing). Although this was not sufficient to fully offset the weakness in TD processing in cumulative Q3, the company sees potential for improvement from Q4 onward.

Q3 (October–December) results

TOCALO reported the following results for Q3 FY03/26 (October–December 2025).

- Sales: JPY14.3bn (+1.9% YoY)
- Operating profit: JPY3.0bn (-3.1% YoY)
- Recurring profit: JPY3.1bn (-3.6% YoY)
 - RPM: 21.9% (-1.2pp YoY)
- Net income attributable to owners of the parent: JPY2.0bn (-9.4% YoY)
- Orders: JPY16.5bn (+13.0% YoY)

Overview

- ▶ In Q3, consolidated sales rose 1.9% YoY to JPY14.3bn. This marked the eighth consecutive quarter of YoY sales growth and a record high for Q3. The breakdown of sales by segment is as follows.
 - Consolidated sales: JPY14.3bn (+1.9% YoY)
 - Thermal Spraying (TOCALO): JPY9.9bn (-2.8% YoY)
 - Domestic Subsidiaries: JPY733mn (+0.7% YoY)
 - Overseas Subsidiaries: JPY3.0bn (+28.4% YoY)
 - Other Surface Treatments: JPY624mn (-15.9% YoY)
 - Royalty Income: JPY19mn (flat YoY)
- ▶ While consolidated sales in Q3 grew, the mainstay Thermal Spraying segment saw a 2.8% YoY decline. This was mainly due to an 8.3% YoY decrease in sales from the semiconductor/FPD-related sector—the segment's core business—following a decline in orders through 1H. Regarding other segments, sales in the Overseas Subsidiaries segment (primarily China and Taiwan) rose 28.4% YoY to JPY3.0bn, while sales in the Domestic Subsidiaries segment grew 0.7% YoY to JPY733mn, and sales in the Other Surface Treatments segment fell 15.9% YoY to JPY624mn. Ultimately, the sales growth in the Overseas Subsidiaries segment offset the declines in both the Thermal Spraying and Other Surface Treatments segments.
- ▶ Consolidated recurring profit in Q3 fell 3.6% YoY to JPY3.1bn, marking the first YoY decline in eight quarters. RPM also decreased by 1.2pp YoY to 21.9%.
 - Consolidated recurring profit: JPY3.1bn (-3.6% YoY)
 - Thermal Spraying (TOCALO): JPY2.1bn (-17.2% YoY)
 - Domestic Subsidiaries: JPY88mn (+25.7% YoY)
 - Overseas Subsidiaries: JPY1.2bn (+53.8% YoY)
 - Other Surface Treatments: JPY59mn (-56.3% YoY)
 - Consolidated adjustments: JPY286mn (subtraction)
- ▶ By business segment, recurring profit declined 17.2% YoY in the Thermal Spraying segment, grew 53.8% YoY in the Overseas Subsidiaries segment, rose 25.7% YoY in the Domestic Subsidiaries segment, and fell 56.3% YoY in the Other Surface Treatments segment. The company's segment profit is linked to recurring profit on the income statement. Although the Overseas Subsidiaries segment saw strong profit expansion, it was insufficient to offset the profit decline in the Thermal Spraying segment (caused by lower semiconductor/FPD-related sales) and the continued weakness in the Other Surface Treatments segment. Consequently, quarterly consolidated recurring profit fell YoY for the first time in eight quarters.

Order trend

- ▶ In Q3, consolidated orders rose 13.0% YoY to JPY16.5bn, marking the first YoY increase in two quarters. This figure represents an all-time high for any single quarter, surpassing the previous record of JPY14.6bn by approximately JPY1.9bn. The primary driver was the Thermal Spraying segment (TOCALO), where orders for semiconductor and FPD-related products surged 18.4% YoY to JPY7.9bn. The company noted that this JPY7.9bn figure was temporarily inflated by large-scale orders from certain customers. However, management believes that even without these one-off orders, demand in the semiconductor/FPD sector has entered a recovery phase, remaining above the JPY6.0bn quarterly threshold that the company uses as a benchmark for strong market conditions.
- ▶ Outside the Thermal Spraying segment, orders in the Overseas Subsidiaries segment rose 24.0% YoY, supported by the booming semiconductor market, while orders in the Domestic Subsidiaries segment fell 4.5% YoY. In contrast, orders in the Other Surface Treatments segment (e.g., agricultural machinery) remained weak, falling 25.2% YoY due to the impact of customer inventory adjustments. The breakdown of Q3 orders, which reached a record JPY16.5bn, is as follows.
 - Consolidated orders: JPY16.5bn (+13.0% YoY)
 - Thermal Spraying (TOCALO): JPY12.0bn (+14.6% YoY)
 - Semiconductor/FPD-related: JPY7.9bn (+18.4% YoY)
 - Industrial machinery-related: JPY1.5bn (+11.5% YoY)
 - Steelmaking-related: JPY955mn (-12.9% YoY)
 - Other businesses: JPY1.5bn (+21.3% YoY)

- Domestic Subsidiaries: JPY741mn (-4.5% YoY)
- Overseas Subsidiaries: JPY3.2bn (+24.0% YoY)
- Other Surface Treatments: JPY598mn (-25.2% YoY)

Results by segment (October–December)

- ▶ Below is a breakdown of individual segment performances for Q3 FY03/26. The sales shares provided for each segment represent percentages of the company's consolidated Q3 FY03/26 sales of JPY14.3bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 69.4% of consolidated sales)

- Sales: JPY9.9bn (-2.8% YoY)
- Segment profit: JPY2.1bn (-17.2% YoY)
 - Segment profit margin: 20.9% (-3.7pp YoY)
- Orders: JPY12.0bn (+14.6% YoY)

Overview

- ▶ The Thermal Spraying segment is the company's largest business, accounting for 69.4% of consolidated sales in Q3. Sales in the segment declined 2.8% YoY to JPY9.9bn, marking the second consecutive quarter of YoY decline. While sales from the core semiconductor/FPD-related business fell 8.3% YoY to JPY6.0bn, the overall segment decline was limited to 2.8% because other areas saw a recovery: industrial machinery-related sales rose 9.4% YoY to JPY1.5bn, steelmaking-related sales increased 10.1% YoY to JPY1.0bn, and sales from other businesses grew 2.9% YoY to JPY1.4bn. The breakdown of the JPY9.9bn in segment sales is as follows.
 - Thermal Spraying segment: JPY9.9bn (-2.8% YoY)
 - Semiconductors and FPDs: JPY6.0bn (-8.3% YoY)
 - Semiconductors: JPY5.6bn (-7.0% YoY)
 - FPDs: JPY376mn (-25.0% YoY)
 - Industrial machinery-related: JPY1.5bn (+9.4% YoY)
 - Steelmaking-related: JPY1.0bn (+10.1% YoY)
 - Other businesses: JPY1.4bn (+2.9% YoY)
- ▶ Segment profit in Q3 fell 17.2% YoY to JPY2.1bn, primarily due to the impact of lower sales. The segment profit margin also decreased by 3.7pp YoY to 20.9%. This decline was driven by a deterioration in the sales mix, as sales from highly profitable semiconductor/FPD-related operations decreased. However, while the margin fell YoY, it showed a clear recovery from the 16.9% recorded in Q2.
- ▶ For performance trends in Q3, please refer to the Thermal Spraying subsection under the earlier "Results by segment (April–December)" section.

Domestic Subsidiaries (5.1% of consolidated sales)

- Sales: JPY733mn (+0.7% YoY)
- Segment profit: JPY88mn (+25.7% YoY)
 - Segment profit margin: 12.0% (+2.4pp YoY)
- Orders: JPY741mn (-4.5% YoY)

Overview

- ▶ Sales in Q3 rose 0.7% YoY to JPY733mn, marking the fifth consecutive quarter of YoY growth. This modest growth rate reflects a 1.9% YoY decline in domestic automobile production during the quarter (October–December 2025), as well as the fact that the incremental boost from the consolidation of Terada Kosakusho has normalized.

- ▶ Segment profit in Q3 rose 25.7% YoY to JPY88mn, marking the first YoY increase in two quarters. The segment profit margin also improved by 2.4pp YoY to 12.0%. However, the company noted that this growth was primarily a rebound from the previous year's low profit level, which had been suppressed by one-off expenses, and is not indicative of a sharp recovery in underlying earnings.
- ▶ As the business performance in Q3 was generally in line with the cumulative Q3 trend, please refer to the earlier "Results by segment (April–December)" section for details on the Domestic Subsidiaries segment.

Overseas Subsidiaries (21.0% of consolidated sales)

- Sales: JPY3.0bn (+28.4% YoY)
- Segment profit: JPY1.2bn (+53.8% YoY)
 - Segment profit margin: 39.9% (+6.6pp YoY)
- Orders: JPY3.2bn (+24.0% YoY)

Overview

- ▶ This segment covers two subsidiaries in China, one in Taiwan, and one in the US. However, it effectively consists of the three entities in China and Taiwan, as the US subsidiary has yet to reach full-scale operations. Because the subsidiaries in China and Taiwan have December fiscal year-ends, the company's Q3 results include the July–September performance of these overseas entities. Sales in the Overseas Subsidiaries segment rose 28.4% YoY to JPY3.0bn, driven by the global expansion of the semiconductor market, including AI-related demand. This marked the 20th consecutive quarter of YoY sales growth.
- ▶ Segment profit in Q3 rose 53.8% YoY to JPY1.2bn, marking the 10th consecutive quarter of YoY growth. This was driven by an improved sales mix—specifically increased recoating for semiconductor and FPD-related products—as well as sales growth in non-semiconductor areas. The segment profit margin also improved by 6.6pp YoY to 39.9%.
- ▶ As the business performance in Q3 was generally in line with the cumulative Q3 trend, please refer to the earlier "Results by segment (April–December)" section for details on the Overseas Subsidiaries segment.

Other Surface Treatments (4.4% of consolidated sales)

- Sales: JPY624mn (-15.9% YoY)
- Segment profit: JPY59mn (-56.3% YoY)
 - Segment profit margin: 9.5% (-8.7pp YoY)
- Orders: JPY598mn (-25.2% YoY)

Overview

- ▶ Sales decreased 15.9% YoY to JPY624mn, marking the third consecutive quarter of YoY decline. Segment profit also fell 56.3% YoY to JPY59mn, as the impact of lower sales could not be fully absorbed, resulting in the seventh consecutive quarter of YoY profit decline. Consequently, the segment profit margin deteriorated by 8.7pp YoY to 9.5%.
- ▶ The YoY decline in sales was primarily due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, caused by customer inventory adjustments. The TD process is a surface modification method that forms a functional film by immersing the target workpiece in a high-temperature molten salt bath and allowing vanadium and other carbides to diffusely permeate the surface of the base material.
- ▶ As the business performance in Q3 was generally in line with the cumulative Q3 trend, please refer to the earlier "Results by segment (April–December)" section for details on the Other Surface Treatments segment.

1H FY03/26 results (November 6, 2025)

1H (April–September) results

- Sales: JPY28.3bn (+9.5% YoY; company forecast: JPY28.0bn)
- Operating profit: JPY6.5bn (+21.1% YoY; JPY6.3bn)

- Recurring profit: JPY6.8bn (+22.4% YoY; JPY6.3bn)
 - RPM: 23.9% (+2.6pp YoY; 22.5%)
- Net income attributable to owners of the parent: JPY4.4bn (+24.5% YoY; JPY4.0bn)
- Orders: JPY28.1bn (+2.6% YoY)
- Order backlog: JPY11.2bn (+3.1% YoY)

Sales

- ▶ 1H (April–September) consolidated sales came to JPY28.3bn (+9.5% YoY), marking a record high for 1H. The figure was also broadly in line with the company's forecast.
- ▶ By segment, sales from Thermal Spraying (handled by TOCALO, the parent company), which accounted for around 71% of consolidated sales, increased 3.3% YoY. This was mainly due to a 5.2% YoY increase in sales for semiconductor and flat panel display (FPD) applications, the core business area, although the growth rate slowed to single digits. Among other applications within Thermal Spraying, sales for industrial machinery applications grew 12.0% YoY, while sales for steel-related applications declined 2.7% YoY, and sales for other applications fell 5.4% YoY. Outside the Thermal Spraying segment, sales from Overseas Subsidiaries (mainly in China and Taiwan) increased 45.2% YoY, sales from Domestic Subsidiaries were up 18.3% YoY, while sales from Other Surface Treatments declined 11.1% YoY.

Recurring profit and RPM

- ▶ Consolidated recurring profit for 1H (April–September) increased 22.4% YoY to JPY6.8bn, setting a new record high for 1H, in line with sales. RPM improved by 2.6pp YoY to 23.9%.
- ▶ By segment, profit from Thermal Spraying (TOCALO, the parent company) declined 3.6% YoY to JPY4.2bn. Profit from Overseas Subsidiaries surged 92.6% YoY to JPY2.3bn, while profit from Domestic Subsidiaries dipped 1.9% YoY to JPY154mn, and profit from Other Surface Treatments fell 22.6% YoY to JPY147mn. Although profit from Thermal Spraying remained at a high level, it fell short of the year-ago result, and profits from Domestic Subsidiaries and Other Surface Treatments were also sluggish. However, the sharp profit growth at Overseas Subsidiaries more than offset these declines, resulting in a record-high recurring profit on a consolidated basis. Segment profits are directly linked to recurring profit on the income statement.

1H results progress

- ▶ At the 1H (April–September) results announcement on November 6, 2025, the company left unchanged its full-year forecast for FY03/26. Progress rates against the forecast were 49.7% for sales, 50.1% for operating profit, 52.0% for recurring profit, and 53.1% for net income attributable to owners of the parent. Each figure was either around or slightly above the 50% benchmark. The company sees no particular cause for concern regarding achieving its FY03/26 targets, noting that adjustments for semiconductor and FPD-related demand in its core Thermal Spraying segment were completed in 1H.

Orders

- ▶ In 1H FY03/26, consolidated orders rose 2.6% YoY to JPY28.1bn, setting a new record high for 1H.
- ▶ In 1H FY03/26, orders in the core Thermal Spraying segment declined 3.8% YoY, but this was offset by a sharp increase in the Overseas Subsidiaries segment, while the Domestic Subsidiaries segment also recorded YoY growth. Within the Thermal Spraying segment, orders in the semiconductor and FPD fields—its main pillars—fell 6.3% YoY. However, the company noted that it had anticipated this decline based on major customers' production plans, and sees no cause for concern. In fact, it believes the drop was smaller than initially expected.
- ▶ The breakdown of 1H FY03/26 consolidated orders of JPY28.1bn (+2.6% YoY) is as follows. For details of orders by segment, see the section "Results by segment (April–September)" below.
- **Consolidated orders: JPY28.1bn (+2.6% YoY)**
 - Thermal Spraying segment (TOCALO): JPY19.5bn (-3.8% YoY)
 - Semiconductor/FPD-related: JPY11.9bn (-6.3% YoY)
 - Industrial machinery-related: JPY2.5bn (+1.0% YoY)

- Steelmaking-related: JPY2.1bn (+8.3% YoY)
- Other businesses: JPY3.1bn (-4.9% YoY)
- Domestic Subsidiaries segment: JPY1.3bn (+9.0% YoY)
- Overseas Subsidiaries segment: JPY6.0bn (+35.9% YoY)
- Other Surface Treatments segment: JPY1.2bn (-15.2% YoY)

Order backlog

- ▶ As of end-Q2 FY03/26 (end-September 2025), consolidated order backlog stood at JPY11.2bn, down 1.3% YoY, marking the second consecutive quarter of YoY decline. This followed end-Q1's YoY drop, which had been the first in 17 quarters. However, the backlog has remained above JPY10.0bn for six straight quarters, indicating continued high levels. By segment, backlog declined 5.1% YoY in Thermal Spraying, rose 24.0% in Domestic Subsidiaries, increased 32.8% in Overseas Subsidiaries, and fell 13.6% in Other Surface Treatments. The breakdown of the JPY11.2bn order backlog is provided below.

- **Consolidated order backlog: JPY11.2bn (-1.3% YoY)**
 - Thermal Spraying segment (TOCALO): JPY7.6bn (-5.1% YoY)
 - Semiconductor/FPD-related: JPY5.2bn (-11.1% YoY)
 - Industrial machinery-related: JPY673mn (+33.0% YoY)
 - Steelmaking-related: JPY1.0bn (+15.1% YoY)
 - Other businesses: JPY647mn (-8.5% YoY)
 - Domestic Subsidiaries segment: JPY119mn (+24.0% YoY)
 - Overseas Subsidiaries segment: JPY3.2bn (+32.8% YoY)
 - Other Surface Treatments segment: JPY336mn (-13.6% YoY)

While still high, order backlog in semiconductor/FPD-related fields declined

- ▶ The order backlog for the mainstay Thermal Spraying segment declined 5.1% YoY, mainly due to an 11.1% drop in semiconductor/FPD-related backlog. According to the company, this was the result of progress in clearing the large backlog accumulated at end-Q4 FY03/25 (March 2025), as well as somewhat weaker orders in 1H. Outside the semiconductor/FPD category, backlog rose 33.0% YoY for industrial machinery-related, 15.1% YoY for steelmaking-related, and fell 8.5% YoY for other businesses. As a result, the Thermal Spraying segment's backlog fell below JPY8.0bn for the second consecutive quarter. However, the company views the end-Q2 level as within a normal range, citing seasonal factors such as the post-March decline in backlog through 1H.
- ▶ At end-Q2, the company noted that the Thermal Spraying segment backlog of JPY7.6bn (-5.1% YoY), including JPY5.2bn (-11.1% YoY) in semiconductor/FPD-related backlog, was by no means low, and should provide a solid basis for sales recognition in 2H (October–March). While order backlog is fundamentally an indicator of future sales, and the YoY decline at end-Q2 warrants attention, the company pointed out that the backlog increased compared to end-Q1. Given this and the production outlook of major customers in 2H, the company does not view the situation as cause for excessive concern.
- ▶ For details of order backlog by segment at end-Q2, see the section “Results by segment (April–September)” below.

Factors affecting changes (YoY) in recurring profit

- ▶ Consolidated recurring profit, which is closely linked to segment profit in each business, increased JPY1.2bn YoY, from JPY5.5bn in 1H FY03/25 to JPY6.8bn. The following factors contributed to the change.
 - 1) Upward impact of JPY1.6bn due to an increase in sales
 - 2) Upward impact of JPY366mn due to a decrease in the variable cost ratio
 - 3) Downward impact of JPY742mn due to an increase in personnel expenses
 - 4) Downward impact of JPY226mn due to an increase in depreciation
 - 5) Downward impact of JPY256mn due to foreign exchange effects
 - 6) Upward impact of JPY455mn due to other factors

Profit boosting factors

- ▶ In 1H FY03/26, the largest contribution came from a JPY1.6bn gain driven by higher gross profit on increased sales. The main factor was a 5.2% YoY rise in semiconductor/FPD-related sales within the Thermal Spraying segment,

supported by a recovery in sales volumes and higher selling prices resulting from ongoing, timely price revisions. A decrease in the variable cost ratio also contributed JPY366mn to profit growth. While manufacturing costs such as materials and outsourcing expenses remained high, the improved product mix—driven by increased sales of high-margin semiconductor/FPD-related products—supported stronger profitability.

Higher sales, coupled with a decline in the variable cost ratio, contributed to recurring profit growth

- ▶ In FY03/24, recurring profit fell 12.2% YoY to JPY9.7bn, marking the first decline in four years. This was mainly attributable to two negative factors: lower sales and a higher variable cost ratio, stemming from a drop in semiconductor/FPD-related sales and the resulting deterioration in product mix. In FY03/25, however, relatively high-margin semiconductor/FPD-related sales recovered, turning these factors into positives—sales increased and the variable cost ratio decreased—which drove recurring profit to a record high.
- ▶ The company expects the shift seen in FY03/25—when two previously negative factors (declining sales and a rising variable cost ratio) turned positive (higher sales and a lower variable cost ratio)—will continue throughout FY03/26. Although the company anticipates continued increases in personnel costs, depreciation, and R&D expenses, it believes the dual positive impacts of sales growth and a lower variable cost ratio will be sufficient to absorb these negative factors. For details, see the “Company forecast for FY03/26” section.
- ▶ In 1H FY03/26, the two factors that drove profit growth in the previous fiscal year—higher sales and a lower variable cost ratio—continued to contribute, resulting in record-high earnings for 1H. Although personnel expenses, depreciation, and R&D costs continued to rise in 1H FY03/26 (see below), these increases were fully absorbed by the combined positive impact of higher sales and a lower variable cost ratio. At the beginning of the fiscal year, the company indicated that it aims to achieve record-high performance in FY03/26 for the second consecutive year, by offsetting various negative factors with the same drivers. For details, see the section “Company forecast for FY03/26.”

Other factors (subsidy income under non-operating income)

- ▶ The JPY455mn positive impact categorized as “other factors” reflected several elements, the main one being an increase in subsidy income recorded under non-operating income, which rose JPY275mn YoY from JPY11mn to JPY286mn. Other items included inventory valuation losses, changes in R&D expenses, and electricity costs. According to the company, however, aside from the increase in subsidy income, the remaining fluctuations were minor in aggregate and not significant drivers of profit variation.

Profit depressing factors

Foreign exchange effects

- ▶ In 1H FY03/26, foreign exchange effects had a negative impact of JPY256mn on profit. This consisted of a JPY186mn negative impact from deterioration in foreign exchange gains/losses under non-operating income, and a JPY70mn negative impact from exchange rate differences related to the translation of overseas subsidiary results and other factors. The deterioration in foreign exchange gains/losses (JPY186mn negative impact) was due to a shift from a JPY74mn gain in the same period last year to a JPY112mn loss in 1H FY03/26, reflecting yen appreciation. Although overseas subsidiaries recorded stronger earnings on the back of a recovery in the semiconductor market, the impact was partially offset by a decline in yen-converted earnings, resulting in the JPY70mn negative effect.

Over the medium term, the company expects foreign exchange fluctuations to have greater impact on its earnings

- ▶ Apart from the 1H results, the company expects that the impact of foreign exchange rates on consolidated earnings will gradually increase from FY03/27 onward. Historically, forex fluctuations have had only a limited impact on earnings, with gains from yen depreciation remaining modest. This was mainly due to the small scale of foreign exchange gains and losses booked under non-operating income, as well as the limited earnings contribution from overseas subsidiaries, which had been constrained by investment costs. However, as these subsidiaries continue to grow by capturing strong demand in the semiconductor sector, their earnings are rising significantly. Accordingly, the impact of exchange rates used to translate local-currency earnings into yen is expected to grow over time and have a greater influence on the company's consolidated results.
- ▶ In the medium to long term, the company aims to expand the performance of its overseas subsidiaries and has already made capital investments—some still ongoing—in new plants in China and Taiwan. Accordingly, the company believes that fluctuations in foreign exchange rates, particularly when converting overseas subsidiary earnings into yen, will soon have more than a limited impact on consolidated earnings.

Rise in personnel expenses and depreciation

- ▶ In 1H FY03/26, personnel expenses rose, resulting in a JPY742mn negative impact on profit. The increase reflected wage hikes, a rise in full-time employees, and higher operating activity in semiconductor/FPD-related production, including greater overtime costs. The company noted that while all of these factors contributed to higher personnel expenses, the entire impact was absorbed by the positive effect of higher sales, including an improved product mix driven by growth in semiconductor-related sales.
- ▶ At the same time, the company noted that rising personnel expenses, including labor costs, are not unique to 1H but are becoming a structural drag on profit amid the current economic environment and calls for sustained wage hikes. While seeking to curb cost increases through stronger cost control, the company also positions higher personnel spending as a broad investment in human capital, intended to boost employee motivation and support talent development.
- ▶ Depreciation expenses increased JPY226mn YoY, representing a negative impact on profit. This was due to active capital investment both in Japan and overseas, and the increase was in line with the company's initial forecast.

Results by segment (April–September)

- ▶ Below is a breakdown of individual segment performances. The sales shares provided for each segment represent percentages of the company's consolidated 1H FY03/26 sales of JPY28.3bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 70.5% of consolidated sales)

The Thermal Spraying segment represents TOCALO's non-consolidated results and is the company's core business, accounting for 72.3% of consolidated sales in FY03/25. The segment centers on thermal spraying, a surface treatment process that forms a coating on a target surface by spraying molten metals or ceramics using high-temperature heat sources such as plasma or gas. In addition to thermal spraying, TOCALO also provides a range of ancillary surface modification services, including the Toyota Diffusion (TD) process, zinc alloy coating (ZAC), plasma transferred arc (PTA) processing, and physical vapor deposition (PVD). These treatments enhance the surface properties of materials by adding functions such as abrasion and heat resistance, conductivity or insulation, and thermal shielding or dissipation.

By application, semiconductors and flat panel displays (FPDs) account for approximately 62% of the segment's sales. TOCALO provides thermal spraying for components used in semiconductor and FPD manufacturing equipment—particularly for dry etching equipment used in semiconductor fabrication, where thermal spraying is required to prevent particle generation and enable electrostatic adsorption. Outside of semiconductors and FPDs, thermal spraying for industrial machinery components accounts for about 12%, steelmaking equipment for about 10%, and other applications for around 16%.

- Sales: JPY20.0bn (+3.3% YoY)
- Segment profit: JPY4.2bn (-3.6% YoY)
 - Segment profit margin: 20.9% (-1.5pp YoY)
- Orders: JPY19.5bn (-3.8% YoY)
- Order backlog: JPY7.6bn (-5.1% YoY)

Orders

- ▶ In 1H FY03/26, orders in the Thermal Spraying segment totaled JPY19.5bn (-3.8% YoY), the second-highest level for 1H on record. The company views the order environment as remaining strong.

Semiconductor- and FPD-related orders

- ▶ The YoY decline in 1H orders was mainly due to a 6.3% drop in semiconductor/FPD-related orders, which fell to JPY11.9bn. The company does not view this figure as low and believes the decline should not be seen as overly pessimistic. It also attributed the decrease in part to the record-high 1H result in the previous year.
- ▶ While the company recognizes the need to carefully monitor semiconductor/FPD-related orders from Q3 (October–December) onward, it does not expect them to fall significantly below JPY5.0bn per quarter. During the recent downturn—from January–March 2023 to January–March 2024—quarterly orders hovered slightly above or below JPY5.0bn, contributing to the decline in FY03/24 results. In contrast, orders totaled JPY5.9bn and JPY6.0bn in Q1 and Q2 FY03/26, respectively, remaining near the JPY6.0bn level the company sees as indicative of strong demand. Based on customers' production plans, the company expects orders to return to a growth trajectory from Q3 onward.
- ▶ The breakdown of Thermal Spraying orders of JPY19.5bn (-3.8% YoY) is as follows.
 - Thermal Spraying segment (TOCALO): JPY19.5bn (-3.8% YoY)
 - Semiconductor/FPD-related: JPY11.9bn (-6.3% YoY)
 - Industrial machinery-related: JPY2.5bn (+1.0% YoY)
 - Steelmaking-related: JPY2.1bn (+8.3% YoY)
 - Other businesses: JPY3.1bn (-4.9% YoY)

Non-semiconductor/FPD-related orders

- ▶ Excluding semiconductor/FPD-related orders, industrial machinery-related orders rose 1.0% YoY, steelmaking-related orders increased 8.3% YoY, and orders for other businesses fell 4.9% YoY. Growth in industrial machinery-related orders was driven by bearings, which have been on an upward trend since FY03/25. Although the YoY growth rate was modest at 1.0%, the company believes the 1H FY03/26 result remains at a high level, given that 1H FY03/25 marked a record high for 1H.
- ▶ Steelmaking-related orders recorded the highest YoY growth rate among all applications, including semiconductor/FPD-related. While part of the increase reflected a rebound from the relatively low level in 1H FY03/25, the company believes that overall demand remained solid. In other applications, orders for energy-related uses such as power plants were also firm, although total orders declined YoY.

Sales

- ▶ The Thermal Spraying segment (TOCALO), the company's largest segment, accounted for 70.5% of consolidated sales in 1H FY03/26. Sales in this segment rose 3.3% YoY to JPY20.0bn, marking a new record high for 1H. The breakdown of the JPY20.0bn in Thermal Spraying segment sales is as follows.
 - Thermal Spraying segment: JPY20.0bn (+3.3% YoY)
 - Semiconductor and FPD-related: JPY12.0bn (+5.2% YoY)
 - Semiconductors: JPY11.0bn (+3.0% YoY)
 - FPDs: JPY973mn (+39.6% YoY)
 - Industrial machinery-related: JPY2.7bn (+12.0% YoY)
 - Steelmaking-related: JPY2.0bn (-2.7% YoY)
 - Other businesses: JPY3.3bn (-5.4% YoY)

Semiconductor/FPD-related sales reached a record high

- ▶ The record-high 1H sales in the Thermal Spraying segment were primarily driven by a 5.2% YoY increase in semiconductor/FPD-related sales, the segment's mainstay. While orders for semiconductor/FPD-related applications declined 6.3% YoY in 1H (see "Orders" section above), sales grew YoY thanks in part to progress in reducing the order backlog that had accumulated by the end of the prior fiscal year. The company attributes this progress to the phased expansion of production capacity it began implementing in 1H FY03/25.

Production capacity expansion contributed to reducing the order backlog

- ▶ According to the company, the main reason sales lagged behind the recovery in orders as of end-Q2 was a shortage of production capacity, which had not yet reached a level sufficient to meet demand. This capacity

includes not only production equipment but also workers on the manufacturing lines, including temporary staff. Although automation has advanced in semiconductor/FPD-related thermal spraying through new and upgraded equipment, a significant portion of the process remains labor-intensive and dependent on manual work.

- ▶ The company has been upgrading production equipment for semiconductor and FPD-related thermal spraying while also increasing headcount on the manufacturing lines. However, due to a recent labor shortage, staffing has not kept pace. In addition, workers on the production lines require time to reach the necessary skill level, which has also slowed workforce expansion. As a result, despite record-high orders and order backlog in 1H FY03/25 (April–September 2024), sales did not reach an all-time high.
- ▶ Nevertheless, in response to the recovery in semiconductor/FPD-related orders, the company began raising production capacity early in FY03/25. This included not only installing new equipment but also increasing the workforce on manufacturing lines, with capacity being gradually expanded from around May 2024, following the announcement of FY03/24 results. According to the company, these phased capacity enhancements began to show results in Q3 FY03/25 (October–December 2024).
- ▶ Supported by increased production capacity, the company made progress in clearing its order backlog, resulting in semiconductor and FPD-related sales of JPY12.0bn in 1H FY03/26—up 5.2% YoY despite a decline in new orders. However, this figure fell just short of the record-high JPY12.1bn posted in 1H FY03/23 (April–September 2022). According to the company, the primary factor behind this shortfall was the decline in order volume, but some sales recognition was also deferred to later periods due to timing adjustments with customers. The company believes that, in substance, sales remained at a record-high level.

Sales trends in non-semiconductor and FPD-related categories

- ▶ Excluding semiconductor/FPD-related sales, industrial machinery-related sales (accounting for 13.3% of the Thermal Spraying segment) rose 12.0% YoY to JPY2.7bn. Growth in bearing-related orders—one of the company's key customer segments—offset significant declines from certain other customers, resulting in record-high 1H sales for this category. Steelmaking-related sales (9.9%) declined 2.7% YoY to JPY2.0bn, but the company considers the result to be strong. Sales from other businesses (16.7%) fell 5.4% YoY to JPY3.3bn. According to the company, there were no specific negative factors behind the decline, and demand related to power plants and the energy sector remained generally firm.
- ▶ While the company focuses primarily on growth in semiconductor/FPD-related sales, which significantly contribute to overall performance, it also intends to actively pursue order acquisition and drive sales growth in non-semiconductor/FPD areas.

Segment profit, segment profit margins

- ▶ Although high-margin semiconductor/FPD-related sales increased within the Thermal Spraying segment, segment profit (linked to recurring profit on the consolidated income statement) declined 3.6% YoY to JPY4.2bn in 1H FY03/26. The segment profit margin also fell 1.5pp YoY to 20.9%.

Profit decline in Q2 weighed on 1H profit

- ▶ The decline in segment profit in 1H FY03/26 was primarily due to a drop in profit in Q2 (July–September 2025), when lower overall sales—including those in the semiconductor field—made it difficult for the company to fully offset increases in manufacturing costs and SG&A expenses. In Q2, semiconductor/FPD-related sales were nearly flat, rising just 0.4% YoY, while semiconductor-related sales excluding FPD declined 2.0% YoY. Sales related to industrial machinery, steelmaking, and other businesses also fell YoY. Although segment profit grew 18.2% YoY in Q1 (April–June 2025), the Q2 decline effectively offset the gains made in Q1. That said, the company attributes the Q2 profit decline to temporary, quarter-specific factors and does not view the modest drop in segment profit in 1H as a cause for concern.
- ▶ Apart from the 1H FY03/26 results (segment profit declined 3.6% YoY), the company expects rising manufacturing and SG&A costs, as well as higher depreciation stemming from increased capital investment for future growth to continue putting downward pressure on earnings. Among these factors, the company identifies rising personnel expenses—such as labor costs in manufacturing and indirect personnel costs in SG&A—as the most significant constraint on improving profitability. With fixed costs continuing to rise, any decline in sales is likely to weigh more heavily on earnings than in the past.

TOCALO aims to offset rising personnel expenses by expanding sales and improving productivity

- ▶ The company positions these rising personnel expenses as a form of human capital investment. It noted that once personnel expenses (per employee) increase, lowering them is difficult, and with production volumes expanding on the back of recovering orders, reducing headcount on manufacturing lines is also not feasible. As such, the company believes that improving profitability requires generating sufficient sales to absorb higher personnel costs, which in turn makes expanding production capacity essential.
- ▶ At the same time, the company is also working to limit headcount growth at its expanded production facilities (including new plants) by significantly increasing automation through the introduction of advanced equipment. Given that fluctuations in operating rates for semiconductor/FPD-related production are inevitable depending on order trends, the company plans to strengthen initiatives aimed at leveling production and improving productivity, with the goal of enhancing profitability.

Domestic Subsidiaries (5.0% of consolidated sales)

Domestic Subsidiaries segment: Accounted for 4.9% of consolidated sales in FY03/25. This segment includes the operations of Japan Coating Center Co., Ltd. (JCC), which was made a wholly owned subsidiary in September 2004. JCC specializes in surface modification using physical vapor deposition (PVD), whereby metals such as titanium and chromium are ionized in a vacuum together with reactive gases to form dense, high-adhesion ceramic coatings on the surfaces of cutting tools, molds, and other components—enhancing wear and corrosion resistance. While the majority of JCC's sales are from the automotive sector, it also serves customers in machine tools and other industries. In August 2024, TOCALO acquired 100% of the shares of Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, bringing the number of operating companies in this segment to two.

- Sales: JPY1.4bn (+18.3% YoY)
- Segment profit: JPY154mn (-1.9% YoY)
 - Segment profit margin: 10.9% (-2.3pp YoY)
- Orders: JPY1.3bn (+9.0% YoY)
- Order backlog: JPY119mn (+24.0% YoY)

Orders

- ▶ In 1H FY03/26, orders in the Domestic Subsidiaries segment rose 9.0% YoY to JPY1.3bn. The company believes this increase was partly due to signs of a bottoming out in domestic automobile production, which had been on a downward trend. While domestic automobile output in 1H was roughly flat YoY at -0.4%, the company sees emerging signs of stabilization following a period of decline caused by certification-related misconduct issues, including production suspensions for affected models. The company also noted that 1H performance was affected by US tariff policy, as certain automakers scaled back US-bound production ahead of Japan-US government negotiations.
- ▶ As a result, the company believes the underlying sense of recovery—or bottoming out—in domestic automobile production is stronger than the headline figure of a 0.4% YoY decline suggests. Domestic automobile production volume trends for 1H were as follows.
 - April–September 2020: 3.3mn units (-30.8% YoY)
 - April–September 2021: 3.6mn units (+8.0% YoY)
 - April–September 2022: 3.7mn units (+3.1% YoY)
 - April–September 2023: 4.4mn units (+17.3% YoY)
 - April–September 2024: 4.1mn units (-6.0% YoY)
 - April–September 2025: 4.1mn units (-0.4% YoY)
- ▶ The company acknowledges while the performance (orders) of the Domestic Subsidiaries segment is not determined solely by automobile production volumes, it is certainly the largest variable factor. The company believes the gradual strengthening of the bottoming-out trend in domestic automobile production was one reason

behind the increase in orders in 1H FY03/26. At the same time, it notes absolute production volumes during the period were still not at a sufficiently high level, and thus the contribution of production trends to order growth in the Domestic Subsidiaries segment may have been limited.

Additional contribution from the newly consolidated subsidiary

- ▶ Another factor behind the increase in orders for the Domestic Subsidiaries segment in 1H FY03/26 was the contribution from a newly consolidated subsidiary. On August 26, 2024, the company acquired Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, making it a wholly owned subsidiary and consolidating it from Q3 FY03/25 (October–December 2024). Accordingly, Terada Kosakusho's orders were included on a net basis in 1H FY03/26, boosting orders in the Domestic Subsidiaries segment. However, given Terada Kosakusho's scale (with estimated annual sales of JPY450–500mn, according to Shared Research), the company indicated that the uplift to 1H orders was limited.
- ▶ The company believes that the turnaround to higher orders in the Domestic Subsidiaries segment in 1H was attributable to these two factors: the bottoming out of domestic automobile production and the addition of Terada Kosakusho.

Sales

- ▶ In 1H FY03/26, sales in the Domestic Subsidiaries segment rose 18.3% YoY to JPY1.4bn, setting a new record high for 1H. As with orders, the nearly 20% YoY increase in sales was primarily driven by the contribution from newly consolidated Terada Kosakusho.

Signs of recovery in domestic automobile production and contribution from the newly consolidated subsidiary

- ▶ Until the company acquired Terada Kosakusho (a manufacturer of machine tools and precision machinery parts) in August 2024, the Domestic Subsidiaries segment consisted solely of Japan Coating Center Co., Ltd. (JCC), a wholly owned subsidiary. JCC primarily performs surface modification processing using physical vapor deposition (PVD) technology on products such as cutting tools, blades, and molds.
- ▶ Within JCC's operations, the core business of surface modification processing for cutting tools is primarily geared toward the automotive industry. While sales in the Domestic Subsidiaries segment are not directly tied to domestic automobile production, the correlation is strong. Consequently, during periods of weak domestic production, the segment's performance—i.e., at JCC—was also sluggish, particularly in terms of profitability. Specifically, in 2H FY03/22 through FY03/23, supply constraints caused by semiconductor shortages, and in late FY03/24 through the end of calendar 2024, production disruptions stemming from a series of certification-related misconduct issues at automakers, led to lower domestic output, weighing heavily on the performance of the Domestic Subsidiaries segment.
- ▶ The company noted that performance of Terada Kosakusho, a newly consolidated subsidiary, is less dependent on domestic automobile production than JCC. Accordingly, from FY03/26 onward, it expects the performance of the Domestic Subsidiaries segment to become less aligned with domestic automobile production volumes over time. Terada Kosakusho was consolidated beginning in Q3 FY03/25 (October–December 2024), but due to a difference in fiscal year-ends, only eight months of its results were included in FY03/25. From 1H FY03/26 onward, its fiscal year has been aligned with that of the parent company.

Segment profit, segment profit margin

- ▶ Segment profit in the Domestic Subsidiaries segment in 1H FY03/26 declined 1.9% YoY to JPY154mn, while the segment profit margin fell 2.3pp YoY to 10.9%.
- ▶ The 1.9% YoY decline in segment profit in 1H FY03/26 was primarily due to sluggish performance in JCC's automotive-related business, despite the contribution from newly consolidated Terada Kosakusho. While domestic automobile production volumes were roughly flat YoY, the company believes the vehicle mix served by JCC worsened during the period. Additionally, it suggested the profit contribution from Terada Kosakusho was limited—possibly even slightly negative—due to the start of goodwill amortization.

Seeking a new medium-term direction for the Domestic Subsidiaries segment

- ▶ The company is exploring a new medium-term direction for the Domestic Subsidiaries segment. While JCC, the segment's core subsidiary, remains heavily dependent on automobile production, the company plans to reinforce the

segment's business structure by expanding into non-automotive fields while maintaining its focus on automotive demand.

- ▶ The company sees Terada Kosakusho as an important piece in its strategy to expand business beyond the automotive sector. Under the company's leadership, Terada has already begun making medium-term capital investments, including the construction of a new plant. The company aims to grow Terada Kosakusho into a meaningful earnings driver, independently of its short-term contribution, including that in 1H FY03/26. In parallel, the company is also taking steps to strengthen the performance of JCC by investing to expand production capacity for non-automotive fields. Through these efforts, the company intends to gradually reduce its dependence on domestic automobile production while lifting the overall earnings base of the Domestic Subsidiaries segment.

Overseas Subsidiaries (20.0% of consolidated sales)

Overseas Subsidiaries segment: Accounted for 17.2% of consolidated sales in FY03/25. This segment covers subsidiaries in China (two companies), Taiwan, and the US; however, as the US subsidiary has yet to begin full-scale operations, the segment effectively consists of three companies in China and Taiwan. Like the Thermal Spraying segment (handled by the parent company), the business is primarily focused on semiconductor and FPD-related fields. In particular, the company is placing emphasis on supporting a major Taiwanese semiconductor device manufacturer by restoring and recoating used equipment components with high precision to extend the service life of semiconductor manufacturing equipment and optimize costs. The segment is also expanding into non-semiconductor areas, including the production and repair of components for steel, petroleum, and paper manufacturing equipment, as well as on-site thermal spraying repair work at natural gas plants.

- Sales: JPY5.6bn (+45.2% YoY)
- Segment profit: JPY2.3bn (+92.6% YoY)
 - Segment profit margin: 41.3% (+10.2pp YoY)
- Orders: JPY6.0bn (+35.9% YoY)
- Order backlog: JPY3.2bn (+32.8% YoY)

Orders

- ▶ Orders in the Overseas Subsidiaries segment in 1H FY03/26 rose 35.9% YoY to JPY6.0bn, setting a new record high for 1H. The increase was mainly driven by a recovery in semiconductor markets in overseas regions such as China and Taiwan, combined with proactive sales efforts that led to higher orders, including from new customers. Due to differences in fiscal year-ends, the company's 1H consolidated results include figures for overseas subsidiaries for the January–June 2025 period.

Sales

- ▶ This segment includes two subsidiaries in China, one in Taiwan, and one in the US, but as the US subsidiary has yet to begin full-scale operations, it effectively comprises the three entities in China and Taiwan. As the Chinese and Taiwanese subsidiaries have December fiscal year-ends, the company's 1H FY03/26 results include their performance for January–June 2025. In 1H FY03/26, sales in the Overseas Subsidiaries segment rose 45.2% YoY to JPY5.6bn, setting a new record high for 1H, in line with the record-high order levels. The increase was driven by a global expansion in the semiconductor market—including AI-related demand—which led to higher sales from existing customers as well as new order wins.
- ▶ In 1H FY03/26, sales growth in the Overseas Subsidiaries segment was primarily driven by increased sales volumes. However, the company noted there was some offsetting impact from foreign exchange, as the yen was relatively stronger during the January–June 2025 period covered by the subsidiaries in China, the segment's main market. Despite this, the positive impact from increased sales volume significantly outweighed the negative impact from forex. As a result, segment sales grew 45.2% YoY to JPY5.6bn—the highest growth rate among all segments.

Segment profit and segment profit margin

- ▶ In 1H FY03/26, segment profit in the Overseas Subsidiaries segment increased 92.6% YoY to JPY2.3bn, setting a new record high for 1H, in line with the record-high sales. In addition to higher sales, profit was boosted by an improved sales mix—particularly increased recoating of semiconductor/FPD manufacturing equipment components—and growth in non-semiconductor-related sales. These factors more than offset the minor negative impact of foreign exchange. As a result, the segment profit margin rose 10.2pp YoY to 41.3%, exceeding that of the Thermal Spraying segment (20.9%) by 20.4pp.

Positioning overseas operations as a new growth driver

Assuming five-year CAGR of 20% through FY03/26

- ▶ The Overseas Subsidiaries segment continues to expand. The segment's share of consolidated sales has risen from 12.2% in FY03/21 to 17.2% in FY03/25, and is projected to reach 21.1% in FY03/26 (company forecast). Over the five years from FY03/21 to FY03/26, the company expects sales CAGR for the segment of 20.1%, outpacing 5.4% in the Thermal Spraying segment and 7.7% for consolidated sales, making it the largest contributor.

Demand for TOCALO's thermal spraying is expanding

- ▶ The main driver of the expansion in overseas business has been the company's ability to efficiently capture rising demand for thermal spraying, fueled by robust semiconductor demand, from both existing and new customers. Another factor has been capital investment aimed at boosting production capacity and improving quality. In particular, the company is building a third plant in Taiwan and introducing new manufacturing equipment in China, measures that are expected to contribute materially to sales growth from 2H FY03/26 onward. The company expects demand for semiconductor-related thermal spraying in these regions to continue expanding and is considering further measures, including additional capacity increases.

Restructuring of the US business initiated

- ▶ In addition to its operations in East Asia (China and Taiwan), the company has also begun restructuring its business in the US, further stepping up efforts to expand its overseas operations. On August 22, 2025, the company announced that through its wholly owned subsidiary TOCALO USA, Inc. (TCA; California), it will establish a new company in Arizona. The Arizona subsidiary will provide surface modification processing for semiconductor manufacturing equipment parts, strengthening service capabilities for major customers building supply chains in the US, with the aim of expanding the company's US business. While the company is still assessing the contribution to earnings of this new subsidiary from FY03/27 onward, it expects the business to capture demand for thermal spraying in the US and become a new driver of overseas expansion.
- ▶ The company plans to present a concrete outlook for its overseas business from FY03/27 onward—including the recently announced restructuring of its US operations and the expansion of its existing businesses in China and Taiwan—in its next medium-term management plan, scheduled for release in or after May 2026.

Other Surface Treatments (4.3% of consolidated sales)

Other Surface Treatments segment: Accounted for 5.3% of consolidated sales in FY03/25. This segment provides various types of surface treatment processing, with its core business being the Toyota Diffusion (TD) process applied to agricultural equipment parts. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating.

- Sales: JPY1.2bn (-11.1% YoY)
- Segment profit: JPY147mn (-22.6% YoY)
 - Segment profit margin: 12.0% (-1.8pp YoY)
- Orders: JPY1.22bn (-15.2% YoY)
- Order backlog: JPY336mn (-13.6% YoY)

Order backlog

- ▶ In 1H FY03/26, orders in the Other Surface Treatments segment declined 15.2% YoY to JPY1.2bn. The decrease was primarily due to inventory adjustments by customers in the core agricultural equipment parts business. The 1H order total of JPY1.2bn represents the lowest 1H level since April–September 2020 (JPY967mn), when orders were directly impacted by the COVID-19 outbreak. The company remains concerned that inventory adjustments—particularly in agricultural equipment parts—will continue for some time.

Sales, segment profit, segment profit margin

- ▶ In 1H FY03/26, sales in the Other Surface Treatments segment declined 11.1% YoY to JPY1.2bn. Segment profit also fell 22.6% YoY to JPY147mn, as the impact of lower sales could not be fully absorbed. The segment profit margin decreased 1.8pp YoY to 12.0%.
 - ▶ The YoY decline in sales was mainly due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, as customers undertook inventory adjustments. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating. The company performs this surface treatment (TD process) for agricultural equipment parts and supplies them to Japanese agricultural equipment manufacturers, who then export their products to the US and other markets.
 - ▶ While TD processing was sluggish, the company noted that CDC-ZAC processing—a chemical densification method that forms a composite ceramic coating through chemical reactions, characterized by ceramics' superior corrosion resistance and high hardness—remained relatively firm, particularly in medical-related applications (declining less than TD processing). Although this was not sufficient to fully offset the weakness in TD processing in 1H, the company sees potential for improvement from Q3 onward.

Q2 (July–September) results

TOCALO reported the following results for Q2 FY03/26 (July–September 2025).

- Sales: JPY13.2bn (+1.2% YoY)
- Operating profit: JPY2.7bn (-0.6% YoY)
- Recurring profit: JPY2.7bn (+4.1% YoY)
 - RPM: 20.5% (+0.5pp YoY)
- Net income attributable to owners of the parent: JPY1.8bn (+10.5% YoY)
- Orders: JPY13.7bn (-0.6% YoY)

Overview

- ▶ Consolidated sales in Q2 FY03/26 rose 1.2% YoY to JPY13.2bn, marking the seventh consecutive quarter of YoY sales growth and the highest Q2 sales on record.
 - ▶ By business segment, the Thermal Spraying segment (TOCALO), which accounts for approximately 74% of consolidated sales, declined 5.2% YoY. This was mainly due to a 6.3% YoY decrease in orders and only marginal growth in sales (+0.4% YoY) for semiconductor and FPD-related operations, which are the segment's core businesses. Among the other segments, sales in the Overseas Subsidiaries segment (mainly China and Taiwan) rose 30.4% YoY, sales in the Domestic Subsidiaries segment increased 16.7% YoY, while sales in the Other Surface Treatments segment declined 6.9% YoY.
- ▶ Consolidated recurring profit in Q2 FY03/26 increased 4.1% YoY to JPY2.7bn, marking the seventh consecutive quarter of YoY growth. RPM also improved by 0.5pp YoY to 20.5%.
 - ▶ By business segment, profit in the Thermal Spraying segment declined 26.6% YoY, while the Overseas Subsidiaries segment recorded strong growth of 49.5% YoY. In contrast, profit in the Domestic Subsidiaries segment fell 37.3% YoY, and profit in the Other Surface Treatments segment dropped 16.7% YoY. The company's segment profit is linked to recurring profit on the income statement. Although the decline in profit from the core Thermal Spraying segment was a significant negative factor, it was largely offset by profit growth in the Overseas Subsidiaries segment, allowing the company to maintain YoY profit growth on a quarterly basis. That said, the rate of

profit growth narrowed to the low single digits (+4.1% YoY), which the company attributes in part to the weak performance of the Thermal Spraying segment.

Order trend

- ▶ In Q2 FY03/26, consolidated orders declined 0.6% YoY to JPY13.7bn, marking the first YoY decrease in seven quarters, though the level remained largely flat. The decline was primarily due to temporary inventory adjustments by major customers, which led to a 6.3% YoY drop in orders for semiconductor and FPD-related products—the core business of the Thermal Spraying segment (TOCALO). Nevertheless, semiconductor/FPD-related orders in Q2 totaled JPY6.0bn, which the company views as solid, noting that it is roughly in line with the JPY6.0bn threshold it uses as a benchmark for strong demand.
- ▶ Outside the Thermal Spraying segment, orders in the Overseas Subsidiaries segment rose 20.8% YoY, supported by continued strength in the semiconductor market. Orders in the Domestic Subsidiaries segment also increased 10.2% YoY. In contrast, orders in the Other Surface Treatments segment (e.g., agricultural machinery) remained weak, falling 10.2% YoY due to ongoing inventory adjustments by customers. The breakdown of Q2 FY03/26 orders, which totaled JPY13.7bn, is as follows.
 - Consolidated orders: JPY13.7bn (-0.6% YoY)
 - Thermal Spraying segment (TOCALO): JPY9.4bn (-5.9% YoY)
 - Semiconductor/FPD-related: JPY6.0bn (-6.3% YoY)
 - Industrial machinery-related: JPY1.2bn (+0.9% YoY)
 - Steelmaking-related: JPY844mn (-12.2% YoY)
 - Other businesses: JPY1.4bn (-5.6% YoY)
 - Domestic Subsidiaries segment: JPY701mn (+10.2% YoY)
 - Overseas Subsidiaries segment: JPY3.0bn (+20.8% YoY)
 - Other Surface Treatments segment: JPY609mn (-10.2% YoY)

Results by segment (July–September)

- ▶ Below is a breakdown of individual segment performances for Q2 FY03/26. The sales shares provided for each segment represent percentages of the company's consolidated Q2 FY03/26 sales of JPY13.2bn. Consolidated sales include royalty income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 69.7% of consolidated sales)

- Sales: JPY9.2bn (-5.2% YoY)
- Segment profit: JPY1.5bn (-26.6% YoY)
 - Segment profit margin: 16.9% (-4.9pp YoY)
- Orders: JPY9.4bn (-5.9% YoY)

Overview

- ▶ The Thermal Spraying segment (TOCALO), the company's largest business segment, accounted for 69.7% of consolidated sales in Q2 FY03/26. Segment sales declined 5.2% YoY to JPY9.2bn, marking the first YoY decline in six quarters. The decrease was mainly due to soft performance across several categories: while sales in the core semiconductor/FPD-related business rose slightly by 0.4% YoY to JPY5.7bn, sales for industrial machinery fell 14.1% YoY to JPY984mn, steelmaking-related sales declined 5.3% YoY to JPY988mn, and sales from other businesses dropped 17.3% YoY to JPY1.5bn. The breakdown of the JPY9.2bn in Thermal Spraying segment sales is as follows.
 - Thermal Spraying segment: JPY9.2bn (-5.2% YoY)
 - Semiconductors and FPDs: JPY5.7bn (+0.4% YoY)
 - Semiconductors: JPY5.3bn (-2.0% YoY)
 - FPDs: JPY450mn (+42.4% YoY)
 - Industrial machinery-related: JPY984mn (-14.1% YoY)

- Steelmaking-related: JPY988mn (-5.3% YoY)
 - Other businesses: JPY1.5bn (-17.3% YoY)
- ▶ Segment profit in Q2 FY03/26 declined 26.6% YoY to JPY1.5bn, due in part to lower sales. The segment profit margin also fell 4.9pp YoY to 16.9%. While semiconductor/FPD-related sales remained roughly flat YoY, a 2.0% decline in sales from the more profitable semiconductor category weighed on overall profitability. At 16.9%, the segment margin marked the lowest level since July–September 2019 (15.5%), when results were impacted by US–China trade tensions. However, the company views the margin decline in Q2 as temporary, partly due to one-off cost increases, and expects profitability to improve from Q3 onward.
- ▶ As the business performance in Q2 was generally in line with the 1H trend, please refer to the earlier "Results by segment (April–September)" section for details on the Thermal Spraying segment.

Domestic Subsidiaries (5.2% of consolidated sales)

- Sales: JPY679mn (+16.7% YoY)
- Segment profit: JPY37mn (-37.3% YoY)
 - Segment profit margin: 5.4% (-4.7pp YoY)
- Orders: JPY701mn (+10.2% YoY)

Overview

- ▶ Sales in Q2 FY03/26 increased 16.7% YoY to JPY679mn, marking the fourth consecutive quarter of YoY sales growth. Although orders declined due to a 2.8% YoY drop in domestic automobile production during the quarter, the increase in sales was driven by the consolidation of Terada Kosakusho, which contributed to a net gain.
- ▶ Segment profit in Q2 FY03/26 declined 37.3% YoY to JPY37mn, marking the first YoY decline in three quarters. The segment profit margin also fell 4.7pp YoY to 5.4%. At JPY37mn, Q2 segment profit was the lowest on record for a quarterly period, falling below the JPY52mn recorded in July–September 2020, which had been affected by the COVID-19 pandemic. In addition to weak performance in the automotive-related business, the start of goodwill amortization related to newly consolidated Terada Kosakusho also contributed to the decline.
- ▶ As the business performance in Q2 was generally in line with the 1H trend, please refer to the earlier "Results by segment (April–September)" section for details on the Domestic Subsidiaries segment.

Overseas Subsidiaries (20.1% of consolidated sales)

- Sales: JPY2.6bn (+30.4% YoY)
- Segment profit: JPY993mn (+49.5% YoY)
 - Segment profit margin: 37.5% (+4.8pp YoY)
- Orders: JPY3.0bn (+20.8% YoY)

Overview

- ▶ This segment includes two subsidiaries in China, one in Taiwan, and one in the US, but effectively consists of the three entities in China and Taiwan, as the US subsidiary has yet to begin full-scale operations. As subsidiaries in China and Taiwan have December fiscal year-ends, the company's Q2 results include the April–June performance of these overseas subsidiaries. In Q2 FY03/26, sales in the Overseas Subsidiaries segment increased 30.4% YoY to JPY2.6bn, driven by continued global expansion in the semiconductor market, including AI-related demand. This marked the 19th consecutive quarter of YoY sales growth.
- ▶ In Q2 FY03/26, segment profit rose 49.5% YoY to JPY993mn, marking the ninth consecutive quarter of YoY profit growth. Profit growth was driven by an improved sales mix—particularly increased recoating in semiconductor/FPD-related business—as well as higher sales in non-semiconductor areas. The segment profit margin also improved by 4.8pp YoY to 37.5%.
- ▶ As the business performance in Q2 was generally in line with the 1H trend, please refer to the earlier "Results by segment (April–September)" section for details on the Overseas Subsidiaries segment.

Other Surface Treatments (4.7 of consolidated sales)

- Sales: JPY618mn (-6.9% YoY)
- Segment profit: JPY60mn (-16.7% YoY)
 - Segment profit margin: 9.7% (-1.1pp YoY)
- Orders: JPY609mn (-10.2% YoY)

Overview

- ▶ Sales decreased 6.9% YoY to JPY618mn, marking the second consecutive quarter of YoY decline. Segment profit fell 16.7% YoY to JPY60mn, as the impact of lower sales could not be fully offset, resulting in the sixth consecutive quarter of profit decline. Consequently, the segment profit margin declined by 1.1pp YoY to 9.7%.
- ▶ The YoY decline in sales was primarily due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, caused by customer inventory adjustments. The TD process is a surface modification method that forms a functional film by immersing the target workpiece in a high-temperature molten salt bath and allowing vanadium and other carbides to diffusely permeate the surface of the base material.
- ▶ As the business performance in Q2 was generally in line with the 1H trend, please refer to the earlier "Results by segment (April–September)" section for details on the Other Surface Treatments segment.

Q1 FY03/26 results (August 5, 2025)

Q1 (April–June) results

- Sales: JPY15.2bn (+17.8% YoY)
- Operating profit: JPY3.8bn (+42.8% YoY)
- Recurring profit: JPY4.1bn (+38.6% YoY)
 - RPM: 26.8% (+4.1pp YoY)
- Net income attributable to owners of the parent: JPY2.6bn (+36.9% YoY)
- Orders: JPY14.4bn (+5.8% YoY)
- Order backlog: JPY10.6bn (-6.7% YoY)

Sales

- ▶ Q1 (April–June) consolidated sales were JPY15.2bn, up 17.8% YoY, setting a new all-time high for any quarter and marking the sixth consecutive quarter of YoY sales growth.
- ▶ By segment, sales from Thermal Spraying (handled by TOCALO, the parent company), which accounted for about 71.2% of consolidated sales, grew 11.8% YoY, driving the overall sales growth. This was mainly due to a 10.0% YoY rise in sales from the core sectors of semiconductor and flat panel displays (FPDs). Outside the semiconductor and FPD fields, industrial machinery-related sales grew 36.4% YoY, showing a significant increase, while steelmaking-related sales remained flat YoY. Sales from other businesses grew 6.9% YoY.
- ▶ In Overseas Subsidiaries (mainly in China and Taiwan), sales grew 61.4% YoY, while in Domestic Subsidiaries, sales rose 19.9% YoY. Sales in Other Surface Treatments decreased 14.9% YoY. Sales growth in Overseas Subsidiaries was particularly strong, with their share of consolidated sales reaching 19.8%, the highest quarterly level on record.

Recurring profit and RPM

- ▶ Consolidated recurring profit for Q1 (April–June) rose 38.6% YoY to JPY4.1bn, setting a new all-time high for any quarter and marking the sixth consecutive quarter of YoY profit growth. RPM improved by 4.1pp YoY to 26.8%.
- ▶ By segment, profit from Thermal Spraying (TOCALO, the parent company) increased 18.2% YoY to JPY2.6bn, profit from Overseas Subsidiaries grew approximately 2.4x to JPY1.3bn, profit from Domestic Subsidiaries increased 19.4% to JPY117mn, and profit from Other Surface Treatments declined 26.3% YoY to JPY87mn. Both Thermal Spraying and Overseas Subsidiaries set new records for all quarters (note: the Overseas Subsidiaries result

matched the January–March 2025 figure), with particularly strong contributions from the expanded profitability of Overseas Subsidiaries. Segment profits are directly linked to recurring profit on the income statement.

- ▶ Operating profit rose 42.8% YoY to JPY3.8bn, while net income attributable to owners of the parent increased 36.9% YoY to JPY2.6bn. Both figures, like recurring profit, marked record highs for any quarter.

Q1 results progress

- ▶ At the announcement of its Q1 (April–June) results on August 5, 2025, the company left unchanged its full-year forecast for FY03/26. Against this forecast, Q1 results represented progress rates of 26.6% for sales, 29.5% for operating profit, 31.2% for recurring profit, and 31.0% for net income attributable to owners of the parent. Each figure exceeded the 25% benchmark, with profit categories in particular surpassing it by around 5pp. However, the company decided to keep its initial projection unchanged, judging it necessary to assess potential indirect impacts in 2H (October–March) from US tariff policies, such as changes in demand for customer products and possible revisions to customers' sales plans.
- ▶ Against the company's 1H (April–September) forecast announced at the beginning of the fiscal year, Q1 results represented progress rates of 54.1% for sales, 60.9% for operating profit, 64.3% for recurring profit, and 63.9% for net income attributable to owners of the parent. All figures exceeded the 50% benchmark, and the company stated it has no particular concerns regarding its 1H results.

Orders

- ▶ In Q1 (April–June), consolidated orders rose 5.8% YoY to JPY14.4bn, marking the fifth consecutive quarter of YoY growth. Orders of JPY14.4bn also set a new record high for Q1 and, across all quarters, represented the second-highest level on record after JPY14.6bn in Q3 (October–December) FY03/25.
- ▶ In Q1, orders in the core Thermal Spraying segment declined by just under 2% YoY, but this was offset by strong growth in the Overseas Subsidiaries segment, with orders in the Domestic Subsidiaries segment also up YoY. Although consolidated orders remained at a high level, the company noted that orders in the semiconductor and FPD fields, the main pillars of the Thermal Spraying segment, fell 6.3% YoY, and stated it would continue to take a cautious stance toward 2H (October–March) performance.
- ▶ The breakdown of Q1 (April–June) orders of JPY14.4bn is as follows. For details of orders by segment, see the section "Results by segment (April–June)" below.
 - Thermal Spraying segment (TOCALO): JPY10.2bn (-1.7% YoY)
 - Semiconductor/FPD-related: JPY5.9bn (-6.3% YoY)
 - Industrial machinery-related: JPY1.4bn (+1.0% YoY)
 - Steelmaking-related: JPY1.3bn (+28.1% YoY)
 - Other businesses: JPY1.6bn (-4.3% YoY)
 - Domestic Subsidiaries segment: JPY647mn (+7.7% YoY)
 - Overseas Subsidiaries segment: JPY3.0bn (+55.7% YoY)
 - Other Surface Treatments segment: JPY607mn (-19.7% YoY)

Order backlog

- ▶ As of end-Q1 FY03/26 (end-June 2025), consolidated order backlog fell 6.7% YoY to JPY10.6bn. While the backlog remained above JPY10.0bn for the fifth consecutive quarter, it marked the first YoY decline in 17 quarters. By segment, order backlog fell 4.1% YoY in Thermal Spraying, rose to 2.4x the year-ago level in Domestic Subsidiaries, increased 46.0% YoY in Overseas Subsidiaries, and declined 8.2% YoY in Other Surface Treatments. The breakdown of the JPY10.6bn order backlog is provided below.
 - Thermal Spraying segment (TOCALO): JPY7.4bn (-4.1% YoY)
 - Semiconductor/FPD-related: JPY5.0bn (-4.4% YoY)
 - Industrial machinery-related: JPY494mn (-0.4% YoY)
 - Steelmaking-related: JPY1.2bn (+20.1% YoY)
 - Other businesses: JPY714mn (-28.5% YoY)
 - Domestic Subsidiary segment: JPY98mn (approx. 2.4x YoY)

- Overseas Subsidiaries segment: JPY2.8bn (+46.0% YoY)
- Other Surface Treatments segment: JPY345mn (-8.2% YoY)

Order backlog in semiconductor/FPD-related fields, while remaining at a high level, declined

- ▶ The order backlog for the mainstay Thermal Spraying segment fell 4.1% YoY, reflecting a 4.4% decline in semiconductor/FPD-related backlog. According to the company, this was due to the smooth fulfillment of the large backlog accumulated at end-Q4 FY03/25 (March 2025), combined with somewhat weaker orders in Q1. Among other categories, industrial machinery-related backlog declined 0.4% YoY, steelmaking-related backlog rose 20.1% YoY, and other businesses backlog fell 28.5% YoY. As a result, the Thermal Spraying segment's backlog, which had exceeded JPY8.0bn for three consecutive quarters since end-Q2 FY03/25 (September 2024), slipped below JPY8.0bn for the first time in four quarters.
- ▶ At end-Q1, the company noted that the Thermal Spraying segment backlog stood at JPY7.4bn (-4.1% YoY), including JPY5.0bn (-4.4% YoY) in semiconductor/FPD-related backlog, which it emphasized was by no means low and should be sufficient to support sales recognition in Q2 (July–September). However, order backlog is fundamentally an indicator of future sales trends. Accordingly, given the decline in backlog at end-Q1, the company indicated it will need to closely monitor the order backlog at end-Q2 (September 2025), particularly in semiconductor/FPD-related business, while also taking into account Q2 orders, to assess sales recognition from Q3 (October–December) onward.
- ▶ For details of order backlog by segment at end-Q1, see the section “Results by segment (April–June)” below.

Factors affecting changes (YoY) in recurring profit

- ▶ Consolidated recurring profit, which is closely linked to segment profit in each business, increased JPY1.1bn YoY, from JPY2.9bn in Q1 FY03/25 to JPY4.1bn. The following factors contributed to the change.
 - 1) Upward impact of JPY1.5bn due to an increase in sales
 - 2) Upward impact of JPY244mn due to a decrease in the variable cost ratio
 - 3) Downward impact of JPY449mn due to an increase in personnel expenses
 - 4) Downward impact of JPY97mn due to an increase in depreciation
 - 5) Downward impact of JPY291mn due to foreign exchange effects
 - 6) Upward impact of JPY240mn due to other factors

Profit boosting factors

- ▶ In Q1 (April–June), profit increased JPY1.5bn, driven by higher gross profit due to higher sales, primarily from a 10.0% YoY increase in semiconductor/FPD-related sales within the Thermal Spraying segment. This growth was supported by a recovery in sales volumes and timely price revisions, which led to higher selling prices. Additionally, a decrease in the variable cost ratio contributed JPY244mn to profit growth. While manufacturing costs, including material and outsourcing expenses, remained high, the shift in sales mix toward high-margin semiconductor/FPD-related products supported improved profitability.

An increase in sales, coupled with a decline in the variable cost ratio, contributed to recurring profit growth

- ▶ In FY03/24, recurring profit fell 12.2% YoY to JPY9.7bn, marking the first decline in four years. This was mainly attributable to two negative factors: lower sales and a higher variable cost ratio, stemming from a drop in semiconductor/FPD-related sales and the resulting deterioration in product mix. In FY03/25, however, semiconductor/FPD-related sales recovered, turning these factors into positives—sales increased and the variable cost ratio decreased—which drove recurring profit to a record high.
- ▶ The company expects that these two factors—higher sales and a lower variable cost ratio—which had been negative (lower sales and a higher variable cost ratio) in Q1 FY03/25, will continue to act as positive drivers in FY03/26. Although the company anticipates continued increases in personnel costs, depreciation, and R&D expenses, it believes that the dual positive impacts of sales growth and a lower variable cost ratio will be sufficient to absorb these negative factors. For details, see the “Company forecast for FY03/26” section.
- ▶ In Q1, the two factors that drove profit growth in the previous fiscal year—higher sales and a lower variable cost ratio—continued to contribute, resulting in record-high earnings not only for the quarter but also across all past quarters. Although personnel expenses, depreciation, and R&D costs continued to rise in Q1 (see below), these increases

were fully absorbed by the combined positive impact of higher sales and a lower variable cost ratio. At the beginning of the fiscal year, the company indicated that it aims to achieve record-high performance in FY03/26 for the second consecutive year, by offsetting various negative factors with the same drivers. For details, see the section "Company forecast for FY03/26."

Other factors (subsidy income under non-operating income)

- ▶ The JPY240mn positive impact categorized as "other factors" reflected several elements, the main one being an increase in subsidy income booked under non-operating income, which rose JPY277mn YoY from JPY8mn to JPY285mn. Other items included inventory valuation losses, higher R&D expenses, and increased electricity costs. According to the company, however, fluctuations in these items during Q1 were limited and not material as drivers of profit variation.

Profit depressing factors

Foreign exchange effects

- ▶ In Q1 (April–June), foreign exchange effects had a negative impact of JPY291mn on profit. This consisted of a JPY300mn negative impact from deterioration in foreign exchange gains/losses under non-operating income, partially offset by a JPY9mn positive impact from exchange rate differences related to the translation of overseas subsidiary results and other factors. The deterioration in foreign exchange gains/losses (JPY300mn negative impact) reflected the shift from a JPY208mn gain in the same period last year to a JPY92mn loss in Q1 FY03/26, due to yen appreciation. Although overseas subsidiaries posted stronger results on the back of a recovery in the semiconductor market, the company indicated that yen conversion of local currency earnings limited the impact to a minor positive factor.
- ▶ The company expects the impact of foreign exchange fluctuations on consolidated earnings (exposure) to gradually increase from FY03/26 onward. Historically, forex effects have had little influence on performance, and even during periods of yen depreciation, their contribution to profit was limited. This was mainly because foreign exchange gains and losses booked under non-operating income were small in scale, and overseas subsidiaries generated relatively modest earnings, partly weighed down by investment burdens. However, as overseas subsidiaries continue to capture demand in the semiconductor market, their earnings are expanding significantly, and the exchange rates used to translate local-currency earnings into yen are increasingly having a greater impact on consolidated performance.
- ▶ In the medium to long term, the company aims to expand the performance of its overseas subsidiaries and has already made capital investments—some still ongoing—in new plants in China and Taiwan. Accordingly, the company believes that fluctuations in foreign exchange rates, particularly when converting overseas subsidiary earnings into yen, will soon have more than a limited impact on consolidated earnings.

Rise in personnel expenses and depreciation

- ▶ In Q1, personnel expenses rose, resulting in a JPY449mn negative impact on profit. The increase reflected wage hikes, a rise in full-time employees, and higher operating activity in semiconductor/FPD-related production, including greater overtime costs. The company noted that while all of these factors contributed to higher personnel expenses, the entire impact was absorbed by the positive effect of higher sales, including an improved product mix driven by growth in semiconductor-related sales.
- ▶ At the same time, the company noted that rising personnel expenses, including labor costs, are not unique to Q1 but are becoming a structural drag on profit amid the current economic environment and calls for sustained wage hikes. While seeking to curb cost increases through stronger cost control, the company also positions higher personnel spending as a broad investment in human capital, intended to boost employee motivation and support talent development.
- ▶ Depreciation expenses increased JPY97mn YoY, representing a negative impact on profit. This was due to active capital investment both in Japan and overseas, and the increase was in line with the company's initial forecast.

Results by segment (April–June)

- ▶ Below is a breakdown of individual segment performances. The sales shares provided for each segment represent percentages of the company's consolidated Q1 FY03/26 sales of JPY15.2bn. Consolidated sales include royalty

income (which is low and has minimal impact on overall sales performance); accordingly, these segment sales shares do not add up to 100% of consolidated sales. Segment profits do not reflect impact from consolidation adjustments. When consolidated adjustments are reflected, total profit generated through all segments directly corresponds to the company's consolidated recurring profit.

Thermal Spraying (handled by TOCALO, the parent company; 71.2% sales share) —

- Sales: JPY10.8bn (+11.8% YoY)
- Segment profit: JPY2.6bn (+18.2% YoY)
 - Segment profit margin: 24.3% (+1.3pp YoY)
- Orders: JPY10.2bn (-1.7% YoY)
- Order backlog: JPY7.4bn (-4.1% YoY)

Orders

- ▶ In Q1 (April–June), orders in the Thermal Spraying segment fell 1.7% YoY to JPY10.2bn, marking the first quarterly YoY decline in six quarters.

Semiconductor- and FPD-related orders

- ▶ The decline in orders for the first time in six quarters was mainly due to a 6.3% YoY decrease in semiconductor/FPD-related orders, which fell to JPY5.9bn. The company emphasized, however, that the Q1 result of JPY5.9bn is by no means low, noting that it exceeded the Q4 FY03/25 (January–March 2025) result of JPY5.5bn and should not be viewed as overly pessimistic. It also attributed part of the decline to the record-high Q1 result in the previous year. That said, as orders fell below JPY6.0bn—a level maintained for three consecutive quarters from Q1 to Q3 FY03/25—and with major customers having revised down their supply-demand outlook for FY03/26, the company acknowledged the need to carefully monitor orders from Q2 (July–September) onward.
- ▶ While the company recognizes the need to carefully monitor orders from Q2 (July–September) onward, it noted that it does not expect orders to fall significantly below JPY5.0bn on a quarterly basis. The company recalled that during the temporary downturn in the semiconductor market from Q4 FY03/23 (October–December 2022) to Q4 FY03/24 (January–March 2024), quarterly orders fell below JPY5.0bn several times, leading to a decline in FY03/24 results. However, even if orders were to weaken temporarily from Q2 onward, the company believes they will not fall substantially below the JPY5.0bn level.
- ▶ The breakdown of Thermal Spraying orders of JPY10.2bn (-1.7% YoY) is as follows.
 - Thermal Spraying segment (TOCALO): JPY10.2bn (-1.7% YoY)
 - Semiconductor/FPD-related: JPY5.9bn (-6.3% YoY)
 - Industrial machinery-related: JPY1.4bn (+1.0% YoY)
 - Steelmaking-related: JPY1.3bn (+28.1% YoY)
 - Other businesses: JPY1.6bn (-4.3% YoY)

Excluding semiconductor/FPD-related orders

- ▶ Excluding semiconductor/FPD-related, industrial machinery-related orders rose 1.0% YoY, steelmaking-related orders increased 28.1% YoY, and orders for other businesses fell 4.3% YoY. Within industrial machinery-related orders, growth was driven by bearings, orders for which had been growing since FY03/25. Although the YoY growth rate for industrial machinery-related orders was limited to 1.0%, the company noted that, given the record-high Q1 result in the previous year, the pace of recovery exceeded its initial expectations.
- ▶ Steelmaking-related orders reached an all-time high across all quarters. However, the company explained that this was mainly due to a rebound from the low level in Q4 FY03/25 (January–March 2025) and the inclusion of one-time orders. As such, it does not expect steelmaking-related orders to remain at the same level as in Q1 going forward. For other businesses, orders for energy-related applications such as power plants remained firm, but overall orders fell YoY.

Sales

- ▶ The Thermal Spraying segment (TOCALO), the company's largest segment, accounted for 71.2% of consolidated sales in Q1. Sales in this segment rose 11.8% YoY to JPY10.8bn, setting a new record high for any quarter. It was also the second time that quarterly sales exceeded JPY10.0bn, following JPY10.2bn in Q3 FY03/25 (October–December 2024). The breakdown of the JPY10.8bn in Thermal Spraying segment sales is as follows.
 - Semiconductors and FPDs: JPY6.3bn (+10.0% YoY)
 - Semiconductors: JPY5.7bn (+8.0% YoY)
 - FPDs: JPY523mn (+37.3% YoY)
 - Industrial machinery-related: JPY1.7bn (+36.4% YoY)
 - Steelmaking-related: JPY986mn (flat YoY)
 - Other businesses: JPY1.9bn (+6.9% YoY)

Semiconductor/FPD-related sales reached a record high on a quarterly basis

- ▶ The record-high sales in the Thermal Spraying segment in Q1 were primarily driven by a recovery and expansion in orders from key customers, which lifted semiconductor/FPD-related sales 10.0% YoY. According to the company, the sales increase in Q1 was also strongly supported by the phased expansion of production capacity implemented from 1H FY03/25. This capacity expansion allowed the company to steadily work through accumulated order backlog and translate it into sales.
 - ▶ According to the company, the main reason sales lagged behind the recovery in orders as of end-Q2 was a shortage of production capacity, which had not yet reached a level sufficient to meet demand. This capacity includes not only production equipment but also workers on the manufacturing lines, including temporary staff. Although automation has advanced in semiconductor/FPD-related thermal spraying through new and upgraded equipment, a significant portion of the process remains labor-intensive and dependent on manual work.
 - ▶ The company is also working to increase headcount while enhancing production equipment for semiconductor and FPD-related thermal spraying. However, a recent labor shortage has stifled efforts to bolster staffing. Moreover, workers on the manufacturing lines require a certain amount of time to reach the necessary skill level for operations, further contributing to delays in strengthening manpower. Due to these constraints, despite record-high orders and order backlog in 1H (April–September) FY03/25, sales did not reach an all-time high.
 - ▶ Nevertheless, in response to the recovery in semiconductor/FPD-related orders, particularly from major customers, the company began raising production capacity early in FY03/25. This included not only installing new equipment but also increasing the workforce on manufacturing lines, with capacity being gradually expanded from around May 2024, following the announcement of FY03/24 results. According to the company, these phased capacity enhancements began to show results in Q3 FY03/25 (October–December 2024), as production volumes started to catch up with order levels. As a result, the company recorded record-high sales in Q1 FY03/26.

Sales in non-semiconductor and FPD-related categories

- ▶ Excluding semiconductor/FPD-related sales, industrial machinery-related sales (accounting for 15.5% of the Thermal Spraying segment) rose 36.4% YoY to JPY1.7bn, steelmaking-related sales (9.1%) were flat YoY at JPY986mn, and sales from other businesses (17.3%) increased 6.9% YoY to JPY1.9bn. Industrial machinery-related sales reached a record high for any quarter, driven by growth in orders for bearings, one of the company's key customer bases. Steelmaking-related sales held steady at the prior-year level, supported by growth outside the automotive sector. Meanwhile, the increase in sales from other businesses reflected contributions from large-scale project orders in the power plant and energy sectors.
- ▶ While the company focuses primarily on growth in semiconductor/FPD-related sales, which significantly contribute to overall performance, it also intends to actively pursue order acquisition and drive sales growth in non-semiconductor/FPD areas.

Segment profit, segment profit margins

- ▶ In Q1 (April–June), segment profit in the Thermal Spraying segment (linked to recurring profit on the consolidated income statement) rose 18.2% YoY to JPY2.6bn, supported by growth in high-margin semiconductor/FPD-related sales. This marked the fifth consecutive quarter of YoY profit growth. Segment profit of JPY2.6bn also set a new all-time high for any quarter, mirroring the record-high sales result.

- ▶ The segment profit margin improved 1.3pp YoY to 24.3%. However, this fell short of the 24.6% recorded in Q3 FY03/25 (October–December 2024), and the company noted that during the roughly two years prior to the semiconductor market adjustment (FY03/22–FY03/23), quarterly margins often exceeded 25%. It therefore believes there is still room for further improvement in profitability. According to the company, the margin has not yet fully recovered because of higher manufacturing costs and SG&A expenses over the past two to three years, as well as increased capital investment for future growth. Of these factors, the company views rising personnel expenses—including direct labor costs in manufacturing and indirect personnel expenses under SG&A—as the main constraint on improving profitability.
- ▶ However, the company positions these rising personnel expenses as a form of human capital investment. It noted that once personnel expenses (per employee) increase, lowering them is difficult, and with production volumes expanding on the back of recovering orders, reducing headcount on manufacturing lines is also not feasible. As such, the company believes that improving profitability requires generating sufficient sales to absorb higher personnel costs, which in turn makes expanding production capacity essential. In addition, given inevitable fluctuations in utilization rates for semiconductor/FPD-related operations depending on order trends, the company aims to raise productivity by leveling operations while pursuing further profitability gains.

Domestic Subsidiaries (4.8% sales share)

- Sales: JPY730mn (+19.9% YoY)
- Segment profit: JPY117mn (+19.4% YoY)
 - Segment profit margin: 16.0% (-0.1pp YoY)
- Orders: JPY647mn (+7.7% YoY)
- Order backlog: JPY98mn (approx. 2.4x YoY)

Orders

- ▶ In Q1 (April–June), orders in the Domestic Subsidiaries segment rose 7.7% YoY to JPY647mn, marking the fourth consecutive quarter of YoY growth. The company believes this increase partly reflected a bottoming out in domestic automobile production. Domestic automobile output in Q1 FY03/26 grew 2.2% YoY, suggesting signs of recovery after a prolonged decline triggered by certification-related misconduct issues (including production halts for affected models). Quarterly domestic automobile production volumes for the past year were as follows.
 - January–March 2024: 1,905,000 units (-14.4% YoY)
 - April–June 2024: 1,989,000 units (-5.2% YoY)
 - July–September 2024: 2,107,000 units (-6.7% YoY)
 - October–December 2024: 2,234,000 units (-7.6% YoY)
 - January–March 2025: 2,139,000 units (+12.3% YoY)
 - April–June 2025: 2,032,000 units (+2.2% YoY)
- ▶ The company acknowledges that while the performance (orders) of the Domestic Subsidiaries segment is not determined solely by automobile production volumes, it is certainly the largest variable factor. Domestic production had already turned upward in Q4 FY03/25 (January–March 2025), but the company noted that the rebound was less convincing given that production in Q4 FY03/24 (January–March 2024), which was directly hit by the series of misconduct scandals, had been at such a low level. However, with domestic production rising 2.2% YoY in Q1 FY03/26, the company sees a stronger sense of bottoming out in the market, and believes this contributed in part to the increase in Q1 orders. That said, as production volumes in Q1 remained at a relatively low level, the company judged that the contribution to order growth in the Domestic Subsidiaries segment was limited.

Additional contribution from the newly consolidated subsidiary

- ▶ Another factor behind the increase in orders for the Domestic Subsidiaries segment in Q1 FY03/26 was the contribution from a newly consolidated subsidiary. On August 26, 2024, the company acquired Terada Kosakusho Co., Ltd. (unlisted), a manufacturer of machine tools and precision machinery parts, making it a wholly owned subsidiary and consolidating it from Q3 FY03/25 (October–December 2024). Accordingly, Terada Kosakusho's orders were included on a net basis in Q1 FY03/26, boosting orders in the Domestic Subsidiaries segment. However, given Terada Kosakusho's scale (with estimated annual sales of JPY450–500mn, according to Shared Research), the company indicated that the uplift to Q1 orders was limited.

- ▶ The company believes that the turnaround to higher orders in the Domestic Subsidiaries segment in Q1 was attributable to these two factors: the bottoming out of domestic automobile production and the addition of Terada Kosakusho.

Sales

- ▶ In Q1 (April–June), sales in the Domestic Subsidiaries segment rose 19.9% YoY to JPY730mn, marking the third consecutive quarter of YoY growth. Sales of JPY730mn set a new record high for Q1 and came close to the all-time quarterly high of JPY737mn posted in Q4 FY03/25 (January–March 2025). The nearly 20% YoY increase in sales was mainly attributable to the same two factors as for orders: the bottoming out of domestic automobile production and the contribution from newly consolidated Terada Kosakusho.

Recovery in domestic automobile production and contribution from the newly consolidated subsidiary

- ▶ Until the company acquired Terada Kosakusho (a manufacturer of machine tools and precision machinery parts) in August 2024, the Domestic Subsidiaries segment consisted solely of Japan Coating Center Co., Ltd. (JCC), a wholly owned subsidiary. JCC primarily performs surface modification processing using physical vapor deposition (PVD) technology on products such as cutting tools, blades, and molds.
- ▶ Within JCC's operations, the core business of surface modification processing for cutting tools is primarily geared toward the automotive industry. While sales in the Domestic Subsidiaries segment are not directly tied to domestic automobile production, the correlation is strong. Consequently, during periods of weak domestic production, the segment's performance—i.e., at JCC—was also sluggish, particularly in terms of profitability. Specifically, in 2H FY03/22 through FY03/23, supply constraints caused by semiconductor shortages, and in late FY03/24 through the end of calendar 2024, production disruptions stemming from a series of certification-related misconduct issues at automakers, led to lower domestic output, weighing heavily on the performance of the Domestic Subsidiaries segment.
- ▶ The company noted that performance of Terada Kosakusho, a newly consolidated subsidiary, is less dependent on automobile production than JCC. Accordingly, from FY03/26 onward, it expects the performance of the Domestic Subsidiaries segment to become less aligned with domestic automobile production volumes over time. Due to a difference in fiscal year-ends, only eight months of Terada Kosakusho's results were included in the previous fiscal year starting from Q3 FY03/25 (October–December 2024). From Q1 FY03/26, its fiscal year has been aligned with that of the company.

Segment profit, segment profit margin

- ▶ Segment profit in the Domestic Subsidiaries segment in Q1 (April–June) rose 19.4% YoY to JPY117mn, marking the second consecutive quarter of YoY profit growth. However, the segment profit margin fell 0.1pp to 16.0%, remaining roughly flat YoY.
- ▶ Segment profit in Q1 (April–June) rose 19.4% YoY, mainly due to higher sales, including the contribution from newly consolidated Terada Kosakusho. Given the lackluster recovery in domestic automobile production, the company sees Terada Kosakusho's contribution as a meaningful driver of profit growth. However, goodwill amortization related to the consolidation, though limited in scale, offset part of the positive impact and was cited as one reason the segment profit margin remained roughly flat YoY.

Seeking a new medium-term direction for the Domestic Subsidiaries segment

- ▶ The company is exploring a new medium-term direction for the Domestic Subsidiaries segment. While JCC, the segment's core subsidiary, remains heavily dependent on automobile production, the company plans to reinforce the segment's business structure by expanding into non-automotive fields while maintaining its focus on automotive demand. In this strategy, Terada Kosakusho—acquired in August 2024—is expected to play a key role and has already begun medium-term investment, including construction of a new plant. The company intends to develop Terada Kosakusho into a distinct earnings contributor, separate from its short-term impact such as in Q1. At the same time, it is also working to enhance JCC's performance by investing in production capacity expansion to address both automotive and non-automotive demand.

Overseas Subsidiaries (19.8% sales share)

- Sales: JPY3.0bn (+61.4% YoY)

- Segment profit: JPY1.3bn (approx. 2.4x YoY)
 - Segment profit margin: 44.6% (+15.2pp YoY)
- Orders: JPY3.0bn (+55.7% YoY)
- Order backlog: JPY2.8bn (+46.0% YoY)

Orders

- ▶ Orders in the Overseas Subsidiaries segment in Q1 (April–June) rose 55.7% YoY to JPY3.0bn, marking the sixth consecutive quarter of YoY growth and a record high for Q1. Orders also remained near the record-high level of JPY3.3bn posted in Q4 FY03/25 (January–March 2025). The increase was driven mainly by a recovery in semiconductor markets in regions such as China and Taiwan, together with proactive sales efforts, which boosted orders including those from new customers. Due to differences in fiscal year-ends, the company's Q1 results include figures for its overseas subsidiaries for January–March 2025.

Sales

- ▶ This segment includes two subsidiaries in China, one in Taiwan, and one in the US, but is essentially made up of the three entities in China and Taiwan, as the US subsidiary is not yet fully operational. As subsidiaries in China and Taiwan have December fiscal year-ends, the company's Q1 (April–June) results include their performance for January–March 2025. In Q1, as with orders, sales in the Overseas Subsidiaries segment expanded 61.4% YoY to JPY3.0bn, marking a record high for Q1. The increase reflected both higher sales to existing customers and new order acquisitions, as the global semiconductor market's adjustment phase came to an end.
- ▶ In Q1, in addition to higher sales volumes, foreign exchange effects (conversion gains from yen depreciation) also contributed to growth, as results for China—where the January–March 2025 period is included—still reflected some yen weakness during that quarter. However, the company noted that the contribution from higher sales outweighed that of forex effects. Under these conditions, sales in the Overseas Subsidiaries segment rose 61.4% YoY, representing the highest growth rate among all segments.

Segment profit and segment profit margin

- ▶ In Q1 (April–June), segment profit surged to approximately 2.4x the year-ago level to JPY1.3bn, marking the eighth consecutive quarter of YoY profit growth. The increase was driven not only by higher sales but also by an improved sales mix, including growth in semiconductor/FPD-related re-coating, as well as contributions from mild yen depreciation and increased sales in non-semiconductor-related areas. As a result, segment profit reached a record high for Q1 and matched the all-time high of JPY1.3bn posted in Q4 FY03/25 (January–March 2025). The segment profit margin also improved 15.2pp YoY to 44.6%, exceeding that of the Thermal Spraying segment (24.3%) by 20.3pp.

Positioning overseas operations as a new growth driver

Assuming five-year CAGR of 20% through FY03/26

- ▶ The Overseas Subsidiaries segment continues to expand. The segment's share of consolidated sales has risen from 12.2% in FY03/21 to 17.2% in FY03/25, and is projected to reach 21.1% in FY03/26 (company forecast). Over the five years from FY03/21 to FY03/26, the company expects sales CAGR for the segment of 20.1%, outpacing 5.4% in the Thermal Spraying segment and 7.7% for consolidated sales, making it the largest contributor.

Demand for TOCALO's thermal spraying is expanding

- ▶ The main driver of the expansion in overseas business has been the company's ability to efficiently capture rising demand for thermal spraying, fueled by robust semiconductor demand, from both existing and new customers. Another factor has been capital investment aimed at boosting production capacity and improving quality. In particular, the company is building a third plant in Taiwan and introducing new manufacturing equipment in China, measures that are expected to contribute materially to sales growth from 2H FY03/26 onward. The company expects demand for semiconductor-related thermal spraying in these regions to continue expanding and is considering further measures, including additional capacity increases.

Restructuring of the US business initiated

- ▶ In addition to its businesses in East Asia (China and Taiwan), the company is further stepping up initiatives to expand its overseas operations through a new venture in the US. On August 22, 2025, the company announced that through

its wholly owned subsidiary TOCALO USA, Inc. (TCA; California), it will establish a new company in Arizona. The Arizona subsidiary will provide surface modification processing for semiconductor manufacturing equipment parts, strengthening service capabilities for major customers building supply chains in the US, with the aim of expanding the company's US business. While the company is still assessing the contribution to earnings of this new subsidiary from FY03/27 onward, it expects the business to capture demand for thermal spraying in the US and become a new driver of overseas expansion.

- ▶ The company plans to present a concrete outlook for its overseas business from FY03/27 onward—including the newly announced entry into the US market and the expansion of existing operations in China and Taiwan—in its next medium-term management plan, scheduled for release in May 2026 or later.

Other Surface Treatments (4.0% sales share)

- Sales: JPY610mn (-14.9% YoY)
- Segment profit: JPY87mn (-26.3% YoY)
 - Segment profit margin: 14.3% (-2.2pp YoY)
- Orders: JPY607mn (-19.7% YoY)
- Order backlog: JPY345mn (-8.2% YoY)

Order backlog

- ▶ In Q1 (April–June), orders in the Other Surface Treatments segment fell 19.7% YoY to JPY607mn. The decline was mainly attributable to inventory adjustments by customers in the core agricultural equipment parts business. At JPY607mn, Q1 orders marked the lowest quarterly level in 17 quarters, since January–March 2021 (JPY545mn). The company remains concerned that inventory adjustments, particularly in agricultural equipment parts, will continue for some time.

Sales, segment profit, segment profit margin

- ▶ In Q1 (April–June), sales in the Other Surface Treatments segment fell 14.9% YoY to JPY610mn. Segment profit also declined 26.3% YoY to JPY87mn, as the impact of lower sales could not be fully absorbed. This marked the fifth consecutive quarter of profit decline on a YoY basis. The segment profit margin dropped 2.2pp YoY to 14.3%.
 - ▶ The YoY decline in sales was mainly due to reduced orders for the Toyota Diffusion (TD) process applied to agricultural equipment parts, as customers undertook inventory adjustments. The TD process is a surface modification method in which the target workpiece is immersed in a high-temperature molten salt bath, allowing vanadium and other carbides to diffusely permeate the surface of the base material to form a functional coating. The company performs this surface treatment (TD process) for agricultural equipment parts and supplies them to Japanese agricultural equipment manufacturers, who then export their products to the US and other markets.
 - ▶ While TD processing was sluggish, the company noted that CDC-ZAC processing—a chemical densification method that forms a composite ceramic coating through chemical reactions, characterized by ceramics' superior corrosion resistance and high hardness—remained relatively firm, particularly in medical-related applications (declining less than TD processing). Although this was not sufficient to fully offset the weakness in TD processing in Q1 (April–June), the company sees potential for improvement from Q2 (July–September) onward.

Other information

History

Date	Description
June 1973	Established as Kizai Service Co., Ltd. in Yokohama, Kanagawa, with a capital of JPY10mn; started marketing industrial chemicals and chemical machinery equipment, offering related technical services
July 2000	Stopped operation, and became a dormant company
January 2001	Became wholly owned by JAFECO Buyout Number One Investment Limited Partnership operated by JAFECO Co., Ltd.; renamed to JAFECO SIG Co., Ltd.; changed the registered location of head office to Chiyoda, Tokyo; started tender offer of shares in TOCALO Co., Ltd. as a part of management buyout by the management of the substantial surviving company (TOCALO Co., Ltd., a OTC company)
March 2001	Completed tender offer of TOCALO Co., Ltd., making it a 97.9% subsidiary of JAFECO SIG.; changed registered location of the head office to Kobe, Hyogo
August 2001	Merged with TOCALO Co., Ltd. in an absorption-type merger, and renamed the new company as TOCALO Co., Ltd.
December 2003	Listed shares on the Second Section of the Tokyo Stock Exchange
September 2004	Acquired all shares in Japan Coating Center Co., Ltd. (now a consolidated subsidiary) and made it a subsidiary
March 2005	Listed shares on the First Section of the Tokyo Stock Exchange

Former TOCALO Co., Ltd.

Date	Description
July 1951	Toyo Calorizing Industry Co., Ltd. established in Kobe, Hyogo, with a capital of JPY1mn; established Kobe Plant and started marketing caloric processing
March 1958	Started research on metal thermal spraying
November 1959	Established Tokyo Plant in Funabashi, Chiba
October 1960	Started full-scale operation of metal thermal spraying
September 1981	Changed name to TOCALO Co., Ltd.
February 1996	New head office building completed
October 1996	Registered shares as an Over-The-Counter stock at Japan Securities Dealers Association
August 2001	Absorbed by JAFECO SIG Co., Ltd. in an absorption-type merger and delisted the OTC shares

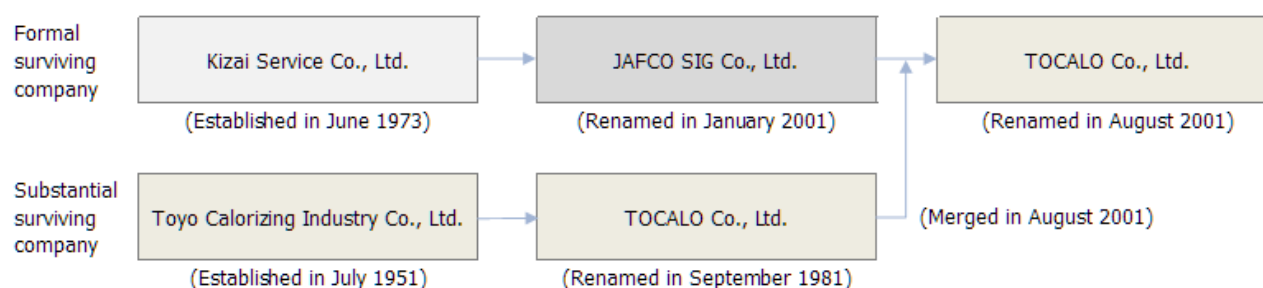
Source: Shared Research based on company data

MBO history

TOCALO Co., Ltd. (the formal surviving company) was founded in June 1973 as Kizai Service Co., Ltd., a company that sold chemical machinery and provided associated technical services. Kizai Service suspended its business activities in July 2000. In January 2001, JAFECO Buyout No. 1 Investment Limited Partnership (operated by JAFECO Co., Ltd. [now, JAFECO Group Co., Ltd.; TSE Prime: 8595]) acquired 100% of the outstanding shares in Kizai Service and changed its name to JAFECO SIG Co., Ltd. Between late January and early March of 2001, JAFECO SIG made a tender offer to the former TOCALO Co., Ltd. (the substantial surviving company), and acquired 97.9% of its outstanding shares. In August 2001, JAFECO SIG absorbed this new subsidiary and renamed itself TOCALO Co., Ltd.

The tender offer and the absorption-type merger were part of an MBO the management team of the former TOCALO Co., Ltd. conducted in a bid to maintain its independence from a potential takeover by an overseas heavy machinery manufacturer (Sulzer Metco). The shares of former TOCALO Co., Ltd. were mainly acquired from the then parent, Nittetsu Shoji Co., Ltd. (currently, Nippon Steel Trading Corporation [TSE Prime: 9810]).

MBO overview



Source: Shared Research based on company data

Corporate governance and top management

Top management

Kazuya Kobayashi, Representative Director, President and CEO (born December 24, 1964)

April 1989	Joined the company
April 2014	Plant manager, Kitakyushu Plant
April 2017	General manager, Quality Control Department
April 2018	Plant manager, Akashi Plant
June 2019	Director, Plant manager, Kitakyushu Plant
April 2020	Director, Deputy general manager, Manufacturing Department
June 2021	Managing executive officer, General manager, Manufacturing Department
June 2023	Representative Director, President and CEO (current)

Source: Shared Research based on company data

Takayuki Yoshizumi, Representative Director, Senior executive officer (born March 25, 1961)

April 1984	Joined the company
April 2006	Sales manager, Tokyo Plant
April 2013	Plant manager, Nagoya Plant
April 2018	Plant manager, Tokyo Plant
June 2019	Director, Plant manager of Tokyo Plant
April 2020	Director, Deputy general manager, Sales Department
June 2021	Managing executive officer, General manager, Sales Department
July 2021	TOCALO USA, Inc. Chairman of the Board
June 2023	Director, Managing executive officer, Sales Department
April 2025	Director, Managing executive officer, TOCALO & HAN TAI TW Co., Ltd.(current)
June 2025	Representative director, Senior executive officer(current)

Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Foreign shareholding	30%
Controlling shareholder	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	15
Number of directors	9
Directors' term of office under Articles of Incorporation	2 years
Chairperson of the Board of Directors	President
Number of outside directors	4
Number of independent outside directors	4
Number of members of Audit & Supervisory Board	4
Number of outside members of Audit & Supervisory Board	2
Other	
Participation in electronic voting platform	Yes
Providing convocation notice in English	Yes
Implementation of measures regarding director incentives	Performance-linked compensation
Eligible for stock option	None
Disclosure of directors' compensation	None
Policy to determine amount and calculation method of remuneration	Yes
Corporate takeover defenses	None

Source: Shared Research based on company data

Dividend policy

TOCALO considers returning profit to shareholders an important management policy. The company intends to actively improve shareholder returns while placing an emphasis on ensuring continuously stable dividends grounded in distribution that is backed by business results. The company's policy until FY03/23 was to pay a stable dividend, aiming for dividends equivalent to about one third of net income (net income attributable to owners of the parent). However, in order to further enhance the return of profits to shareholders, it changed its policy to aim for a dividend payout ratio of around 50% from FY03/24. In FY03/25, the company expects to pay dividends of JPY63.0 per share (versus JPY53 per share in FY03/24), including an interim dividend of JPY30.0 per share (versus JPY25.0 per share in FY03/24), for a consolidated payout ratio of 49.9%.

	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
(JPY)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Dividend per share	18.8	21.3	26.3	30.0	25.0	35.0	45.0	50.0	53.0	68.0
Payout ratio	37.8%	31.7%	33.0%	33.5%	34.5%	38.9%	39.6%	41.4%	50.2%	50.2%
DOE	4.2%	4.4%	4.9%	5.1%	3.9%	5.0%	5.9%	5.9%	5.8%	6.9%
ROE	11.2%	13.9%	14.9%	15.2%	11.3%	12.9%	14.8%	14.3%	11.6%	13.9%

Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held(000 shares)	Shareholding ratio
The Master Trust Bank of Japan, Ltd.	10,831	18.22%
Custody Bank of Japan, Ltd.	6,447	10.84%
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO) (Standing proxy: MUFG Bank, Ltd.)	2,736	4.60%
TOCALO Employees Shareholding Association	2,563	4.31%
NORTHERN TRUST CO.(AVFC) RE FIDELITY FUNDS (Standing proxy: The Hongkong and Shanghai Banking Corporation, Ltd. Tokyo Branch)	2,088	3.51%
GOVERNMENT OF NORWAY (Standing Proxy: Citibank, N.A Tokyo Branch)	1,447	2.43%
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd. Settlement Sales Department)	1,406	2.37%
Kumiko Saijo	1,036	1.74%
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd. Settlement Sales Department)	916	1.54%
KIA FUND F149 (Standing proxy: Citibank Japan, Ltd., N.A Tokyo Branch)	778	1.31%
Total	30,251	50.88%

Source: Shared Research based on company data

As of end-March 2025

Employees

Number of employees, other (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24	FY03/25
Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
No. of employees (ex. temp. employees)	857	898	955	1,021	1,060	1,121	1,176	1,300	1,389	1,516
Thermal Spraying (Parent)	430	449	504	538	553	569	611	683	751	790
Domestic Subsidiary (PVD process)	100	112	113	120	125	142	156	163	176	204
Other	263	265	275	292	309	328	327	376	324	421
Adjustments	64	72	63	71	73	82	82	78	99	101
Avg. number of temporary employees	239	245	236	251	263	253	265	164	148	132
Thermal Spraying (Parent)	117	111	108	114	128	139	147	127	114	99
Domestic Subsidiary (PVD process)	65	71	70	67	62	43	34	26	26	25
Other	50	56	52	60	61	60	71	4	0	2
Adjustments	7	7	6	10	12	11	13	7	2	6
Segment sales per employee	26.2	25.3	28.6	31.1	28.6	28.4	30.4	32.9	30.4	32.6
Thermal Spraying (Parent)	40.6	40.3	43.3	47.3	42.3	43.4	44.4	45.8	40.1	45.5
Domestic Subsidiary (PVD process)	13.2	13.0	14.5	15.2	14.7	13.2	14.8	15.2	15.1	13.6
Other	15.6	14.3	17.4	19.2	20.0	17.9	21.0	25.0	31.9	29.1
Segment profit per employee	4.6	5.1	6.2	6.3	5.1	6.5	7.3	7.5	6.3	7.5
Thermal Spraying (Parent)	8.3	8.7	9.8	10.0	7.7	9.5	10.7	10.3	7.3	10.0
Domestic Subsidiary (PVD process)	1.6	2.2	2.7	2.9	2.6	2.2	2.5	1.9	2.4	1.5
Other	1.9	1.9	3.4	3.5	3.6	3.7	5.0	5.6	7.5	8.9
No. of employees (parent)	534	560	605	648	667	695	752	811	889	943
Avg. number of temporary employees	137	131	123	132	148	158	165	138	122	107
Average age	38.7	38.7	38.3	38.1	38.3	38.4	38.2	39.2	39.0	39.3
Average years of service	13.4	13.4	12.7	12.5	12.3	13.1	13.2	12.7	12.5	12.8
Average annual salary (JPY'000)	7,068	6,992	7,104	7,264	7,389	7,164	7,499	7,493	7,550	7,318

Source: Shared Research based on company data

Note: Sales and operating profit per employee figures are reference values calculated based on the combined total of full-time employees and the average number of temporary workers (not including temporary workers received on dispatch)

News and topics

TOCALO acquires land for new factory building at Nagayo Plant

2025-11-12

- ▶ On November 12, 2025, TOCALO Co., Ltd. announced that it had signed a land purchase agreement for the construction of a new factory building at its Nagoya Plant. The land is located in Chita, Aichi Prefecture, approximately 12km (about a 14-minute drive) from the existing Nagoya Plant.
- ▶ According to the company, the purpose of acquiring the land for the new factory is to expand production capacity and strengthen operations in its core Thermal Spraying business, particularly in growth areas such as aerospace, industrial machinery, and steel. The company stated that the new factory will reinforce its order-taking and production capabilities in the Chubu region. The transfer of land ownership and the start of construction are scheduled for April 2026, with completion planned for October 2027. The acquisition cost of the land has not been disclosed.

TOCALO announces interim dividend and revises year-end dividend forecast

2025-11-06

On November 6, 2025, TOCALO Co., Ltd. announced the payment of an interim dividend and a revision to its year-end dividend forecast for FY03/26.

(Click [here](#) for the company's release.)

Details of the interim dividend are as follows:

- Interim dividend: JPY37.0 per share (vs. previous company forecast of JPY34.0; FY03/25 actual: JPY30.0)

The revised year-end dividend forecast is as follows:

- Year-end dividend: JPY33.0 per share (vs. previous forecast of JPY36.0; FY03/25 actual: JPY38.0)
- Annual dividend: JPY70.0 per share (unchanged from previous forecast; FY03/25 actual: JPY68.0)

At the 1H results announcement, the company kept its full-year dividend forecast at JPY70.0 per share, as it also left its FY03/26 earnings forecast unchanged. This decision reflects the company's dividend policy, which targets a consolidated payout ratio of around 50%, a dividend on equity (DOE) of at least 5%, and stable shareholder returns. Since the company raised the interim dividend to JPY37.0 per share—above the initial forecast of JPY34.0—it now expects to pay a year-end dividend of JPY33.0 per share, below the original forecast of JPY36.0, in order to keep the full-year total unchanged.

TOCALO plans to establish new subsidiary in Arizona, US

2025-08-25

On August 22, 2025, TOCALO Co., Ltd. announced plans to establish a new subsidiary in Arizona, the US, through its wholly owned US subsidiary, TOCALO USA, Inc. (TCA), based in California. The new company will strengthen the service framework for key clients involved in developing a domestic supply chain for surface treatment of semiconductor manufacturing equipment parts, as part of TOCALO's strategy to expand its business in the US market.

The new subsidiary is scheduled to be established in September 2025, with operations expected to begin around 2027 (exact timing yet to be determined). Capital will be a little over JPY100mn. As it will be a wholly owned second-tier subsidiary of TOCALO, it is expected to become a consolidated subsidiary upon establishment. According to the company, the impact on FY03/26 earnings will be minor, while the potential impact from FY03/27 onward is currently under review.

About Shared Research Inc.

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