TOCALO Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2019

May 14, 2019

Event Summary

[Company Name]	TOCALO Co., Ltd.
[Event Type]	Earnings Announcement
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2019
[Fiscal Period]	FY2018 Annual
[Date]	May 14, 2019
[Number of Pages]	41
[Time]	13:29 – 14:22 (Total: 53 minutes, Presentation: 43 minutes, Q&A: 10 minutes)
[Venue]	Nikkei Kayabacho Bekkan B1 2-6-1 Kayabacho Nionbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	238 m^2
[Participants]	50
[Number of Speakers]	3 Noriyuki Mifune — President Hiroshi Goto — Director Kenji Hosomi — Deputy Manager, Corporate Planning Office

Presentation

Moderator: Thank you very much for your attention. Now, we will hold an investor relations meeting for TOCALO Co., Ltd.

First of all, I would like to introduce you to the attendees of the company. Dr. Noriyuki Mifune, President of the company.

Mifune: Thank you very much.

Moderator: Mr. Hiroshi Goto, Director, Manager of the Accounting Department, and Manager of the Corporate Planning Department.

Goto: Thank you for your cooperation.

Moderator: Mr. Kenji Hosomi, Deputy Manager of the Corporate Planning Department.

Hosomi: Thank you for your attention.

Moderator: Today, we will have an explanation from President Mifune, and then receive your questions. Thank you very much for your cooperation.

Now, would you please explain the financial results, Dr. Mifune?

Mifune: Good morning. I'm Mifune, the president of TOCALO Co., Ltd. Thank you very much for your attendance at our IR meetings and corporate briefings today. In addition, we are very grateful for your support for our business. I would like to take this opportunity to thank you. Thank you very much.

I would now like to explain the announcement of the financial results for the fiscal year ended March 31, 2019.

I have prepared about four topics today, and some of them you may have heard many times, but for people hearing for the first time, I would like to discuss the overview of the company and the financial results for the fiscal year ended March 31, 2019, the forecast for the fiscal year ending March 31, 2020: the current fiscal year, and what we will do for sustainable growth.

So, I would like to briefly explain an overview of the company.

会社概要

TOCALO

■ トーカロ株式会社

事業内容：溶射を中心とした表面改質加工

本　　社：兵庫県神戸市

設　　立：1951年７月

資 本 金：26億5,882万3千円

売 上 高：連結 395億58百万円（2019年3月期）

従業員数：連結 1,021名（2019年３月末現在）

4

We operate a coating job shop, which is commonly referred to as a surface reforming process centered on thermal spraying. Established in 1951, this year marks the 69th anniversary.

I have been the president since 2013, so six years have passed since then, and the seventh year will begin from this coming July.

The company's capital is 2.6 billion yen, and as I will explain later, its consolidated sales were 39.558 billion yen in the fiscal year ended March 31, 2019. The number of direct employees is 1,021 on a consolidated basis. Including temporary staff, the number of people in the household is about 1,500 to 1,600.

As for our factories, our head office is located in Kobe, where we have been founded, and we are now expanding our operations nationwide. The main factories are the Akashi Plant and the Tokyo Plant, which is located in Funabashi, Chiba Prefecture.

The thermal spraying technology itself has prospered mainly in the iron and steel industry in Japan. So, there are many applications for steel. In the past, the thermal spraying technology was located in areas with large steel mills, such as the Pacific Belts; the Kanto region, the Chubu region, the Kansai region, the Mizushima region, and the Kitakyushu region.

Recently, Tokyo Electron Ltd., our largest customer, has a factory in Miyagi, so we have set up a technical service center next to it, and we are conducting our business on a daily basis.

グループ会社

会社名	設立年月	本社	出資比率	主な事業分野
連結子会社				
日本コーティングセンター株式会社	1985年 4月	神奈川県	100%	PVD処理加工
東華隆(広州)表面改質技術有限公司	2005年 4月	中国 広東省	70%	溶射(鉄鋼他)
東賀隆(昆山)電子有限公司	2011年 5月	中国 江蘇省	90%	溶射(半導体・F P D)
漢泰国際電子股份有限公司	2011年 6月	台湾 台南市	50%	溶射(半導体・F P D)
TOCALO USA, Inc.	2015年11月	米国 CA州	100%	溶射(半導体他)
関係会社（持分法非適用）	タイ1社、インドネシア2社			溶射(鉄鋼他)

 6

Also, overseas or group companies. We have set up one company in Japan and several overseas companies. One is for surface modification centered on thermal spraying.

In 2004, we acquired a PVD company from the Sumitomo Metal Mining Co., Ltd. and made it a subsidiary because we wanted to go further into the world of physical vapor deposition. Such as physical vapor deposition that could not be handled by thermal spraying and thin films.

This is the Japan Coating Center, which is now called the JCC.

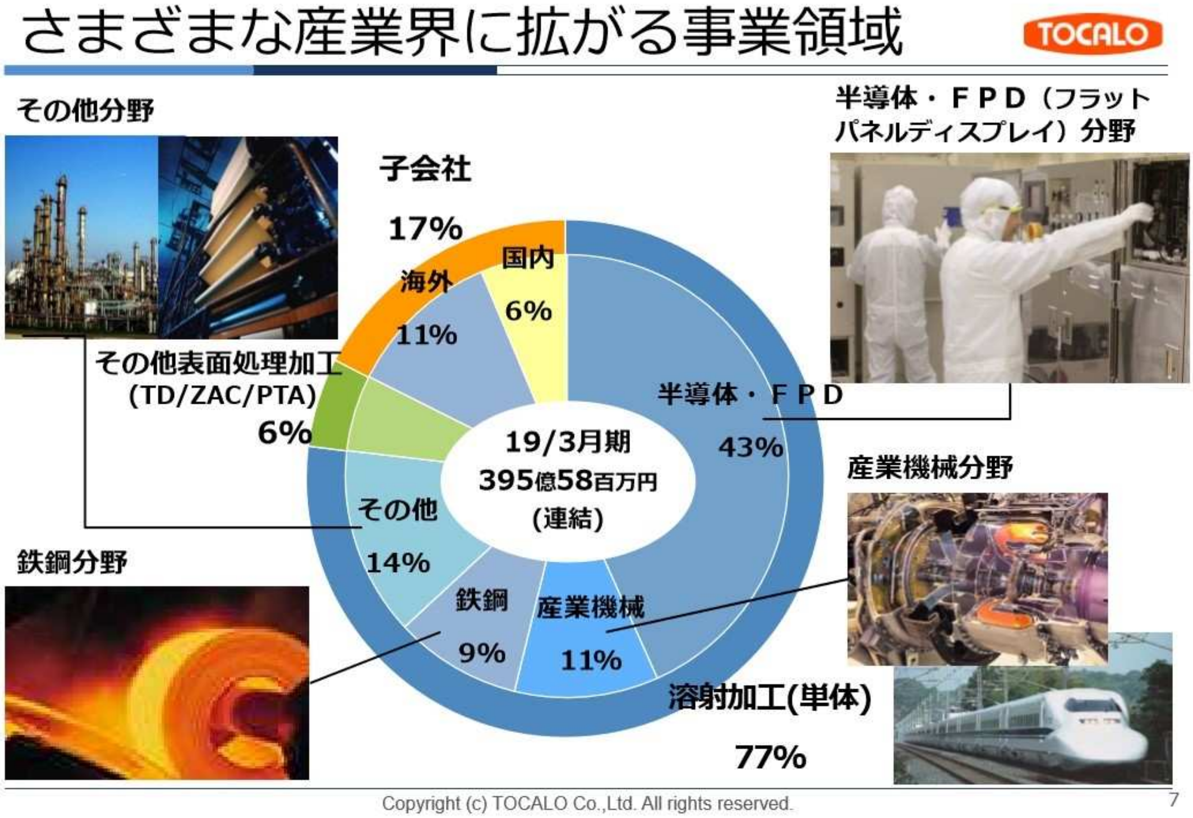
And we have three joint ventures with HAN TAI TECHNOLOGY Co.,Ltd., a Taiwanese company, which is written in these Chinese characters. One is a job shop centered on steel, which is located in Guangzhou, China.

The other is TOCALO & HANTAI (KUNSHAN) CO, LTD, a company in Kunshan that provides service coatings for semiconductors, FPDs, and flat panel displays. In addition, one of our bases is located in Tainan Taiwan, which is the base of Han Tai, and we provide coating services for semiconductors and FPDs.

Each of these companies have a different stake, but we are doing it with HAN TAI TECHNOLOGY.

Last year, we launched TOCALO USA in California, and we are now working on coating services in the U.S., particularly in the semiconductor field.

Also, there is a factory in Thailand and Indonesia that produces Japanese CGLs and galvanized steel sheets, and we have factories in Thailand and Indonesia to provide maintenance services.



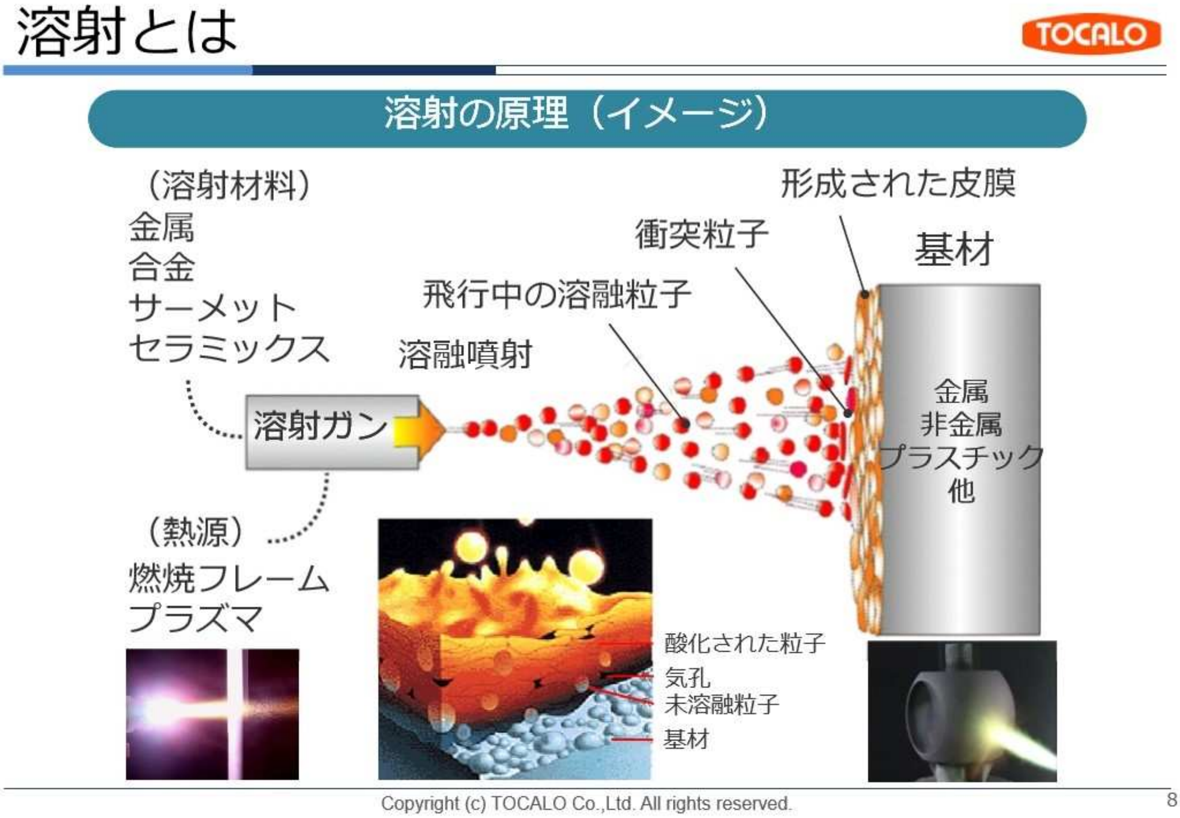
In terms of our business domains and the industries we are dealing with, the most common are semiconductors and FPDs, or flat panel displays, and the second is industrial machinery and iron and steel. The blue area shows thermal spray, but this is 77%.

We also deal with papers, petroleum refineries, and so on in the other industries.

17% is a subsidiary that I explained a little earlier, but one was JCC, 6%, which carries out physical vapor deposition. Then, overseas accounted for 11%. For overseas, there are two companies in China and in Taiwan. We have little sales in the United States, but only four companies make up 11%.

Therefore, TOCALO accounts as a standalone in the green area, and 6% were working on surface treatment other than thermal spraying, such as diffusion, chemical compactness, or PTA, a special overlay equipment.

For this reason, TOCALO has 77% and 6%, summing to 83% for TOCALO as a standalone including subsidiaries in both domestic and overseas. Our business domains are divided into the businesses of thermal spraying and the domestic JCC, and the other businesses are divided into overseas and other surface treatment businesses.

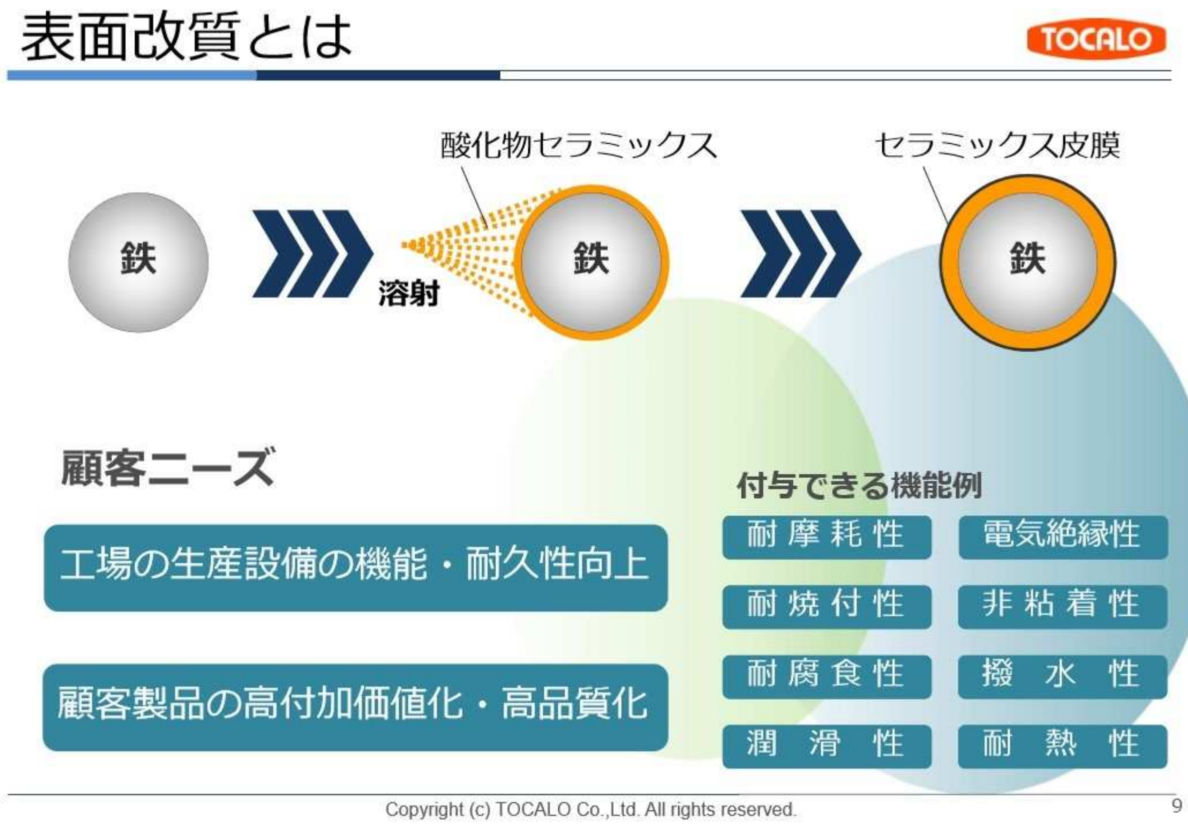


I think it is better to explain what thermal spraying is, and I think it is a technology that has yet to be known to the world.

The technology is simply written in this word. As the word spells out, it melts and sprays. There is a thermal spraying gun. There is a flame for melting the material, a device for generating energy, and a hydrocarbon combustion flame, a plasma flame, or a high-temperature flame like this, is generated, and the body or wire material is supplied to the flame, and then it is struck.

The coating will be applied to this material. This is an example being done on the ball bubble, but this is coating in general.

It is simply about melting and spraying, but I believe that controlling the air pore ratio, strength, and coating performance are key, and the part about controlling and being carried out according to the design is our business focus.



Surface modification, for example, involves applying a functional material to a surface of another material to produce something new. If ceramics are thermal sprayed onto the iron, the iron will work as a strength member in terms of strength.

The appeal of this surface treatment is that if a material is coated with a surface with functions such as abrasion-resistance, corrosion-resistance, lubrication, or electrical insulation, it is possible to produce a component with a high added value.

In terms of needs, an example is in a production line of a factory, or steel rolls, which produce very high-quality steel sheets. We can coat the rolls to make steel plates that are hard to damage and improve the quality of the production equipment at the factory, and the life of the rolling material.

The customer then ships the product. For example, in the case of a semiconductor manufacturing apparatus, if we thermal spray parts of the semiconductor manufacturing apparatus, the function or added value of the manufacturing apparatus is increased, and therefore, we provide thermal spraying to the parts. These two are the objectives.

For example, our coating is used with products shipped by customers such as semiconductor manufacturing apparatus, gas turbine blades, NAS batteries, and insulated bearings.

This is the image of where it is being used. I don't think this is included in the handouts.

For example, the most famous smartphones and tablets are assembled with a variety of components. For example, what is contained in this is a semiconductor, lithium batteries, polarizing films, separators, and other optical films.

I think this glass is about 0.6 millimeters, but a thin glass is on the surface.

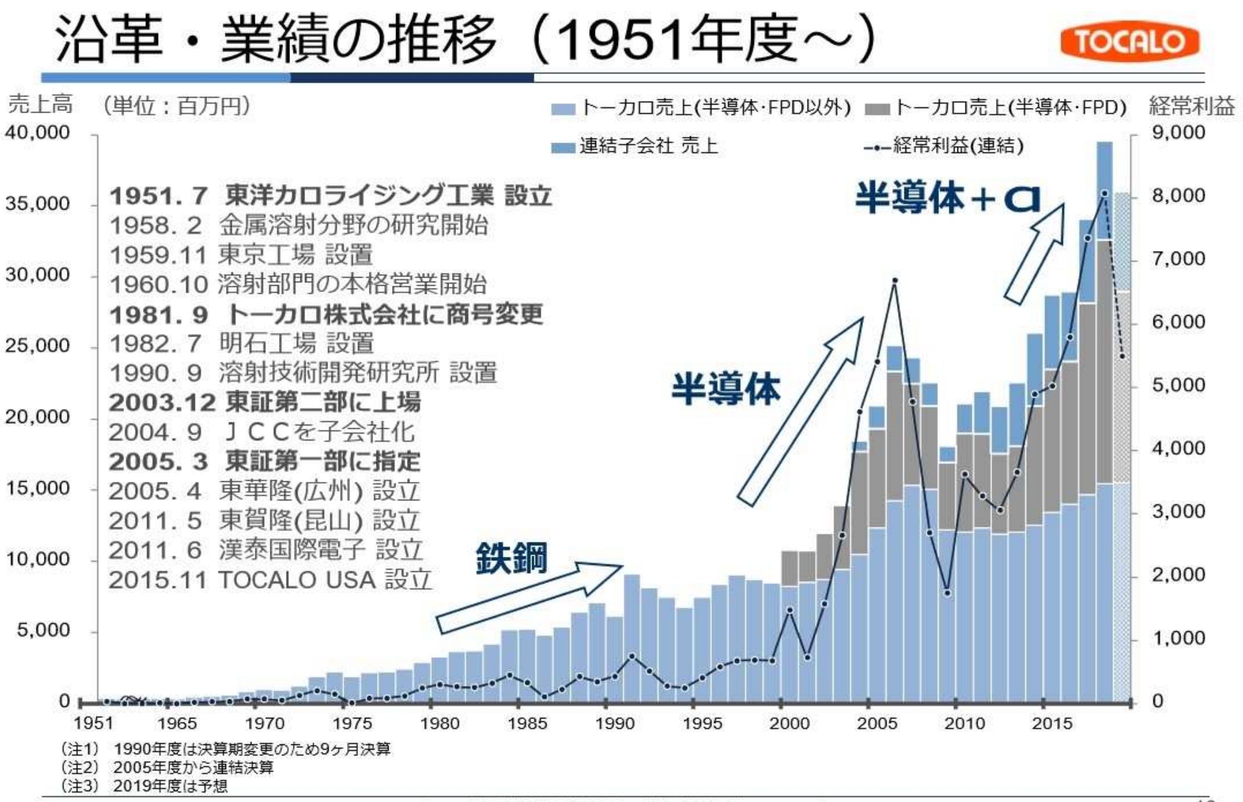
This base circuit is made of copper foil. The screen is liquid crystal. And a ceramic condenser or a multi-layer ceramic condenser.

The smartphone has been assembled with all the different parts. To create parts for each element, there is thermal spraying on the production line for the film rolls, rolls when making a liquid crystal glass, or a roll for making a copper foil, for example.

Then, if FPD is used, is it sprayed on the inner surface of the circuit for the FPD. Then, if a ceramic capacitor is used, is it sprayed on the baking plate, on the tray, to prevent reactions. There are a lot of applications for semiconductors.

In such a situation, a variety of components are produced through thermal spraying, which is a very key part. That is where our customers are.

We don't manufacture smartphones directly, but it is used in the manufacturing of the component parts.



10

Next, I would like to talk about the history of our company. We were established in 1951. At the outset, I think we can see from the factory layout that I mentioned earlier. As the thermal spraying industry has prospered, especially in the iron and steel industry, until the collapse of the bubble economy, we have seen growth centered on iron and steel. This is the sales of thermal spraying.

We set to work with semiconductors around 1995, when the Hanshin Earthquake struck. After that, we began research and development.

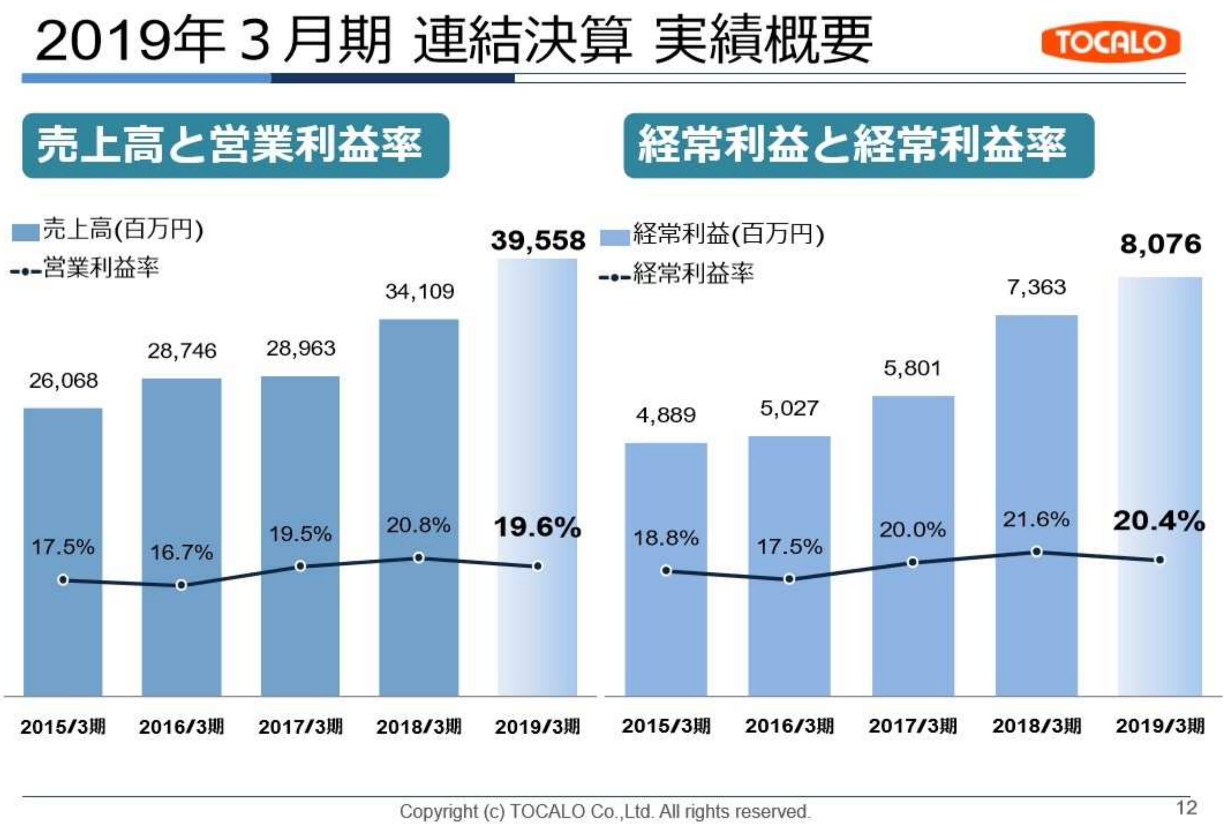
It has become a little business with fruit around 2000. Sales grew at a rapid pace, and we decided to establish subsidiaries. The subsidiary's sales trend is at the top in blue, and the gray color is semiconductors and FPDs. The lower part is the general business.

It can be said that semiconductors are growing rapidly. There are various things such as MBOs. As a result, semiconductors grew for earnings.

In this area, our performance in fiscal 2007 was particularly strong, and we generated nearly 7 billion yen in profits. There were also semiconductors, and the maintenance of petrochemicals, which has recently been a little under-fire. However, we have a method to thermal spray into a single tube of secondary batteries of NAS batteries, and this has been swept quantitatively That is the world.

We experienced a little drop during the Lehman Shock, but the semiconductor business has been growing recently again. In addition to semiconductors, subsidiaries have also grown considerably. The general business has been steadily growing as well. The semiconductors are a large part, but we have seen an increase in the additional portions for growth this time.

Unfortunately, as I will explain later, this fiscal year will fall a little.



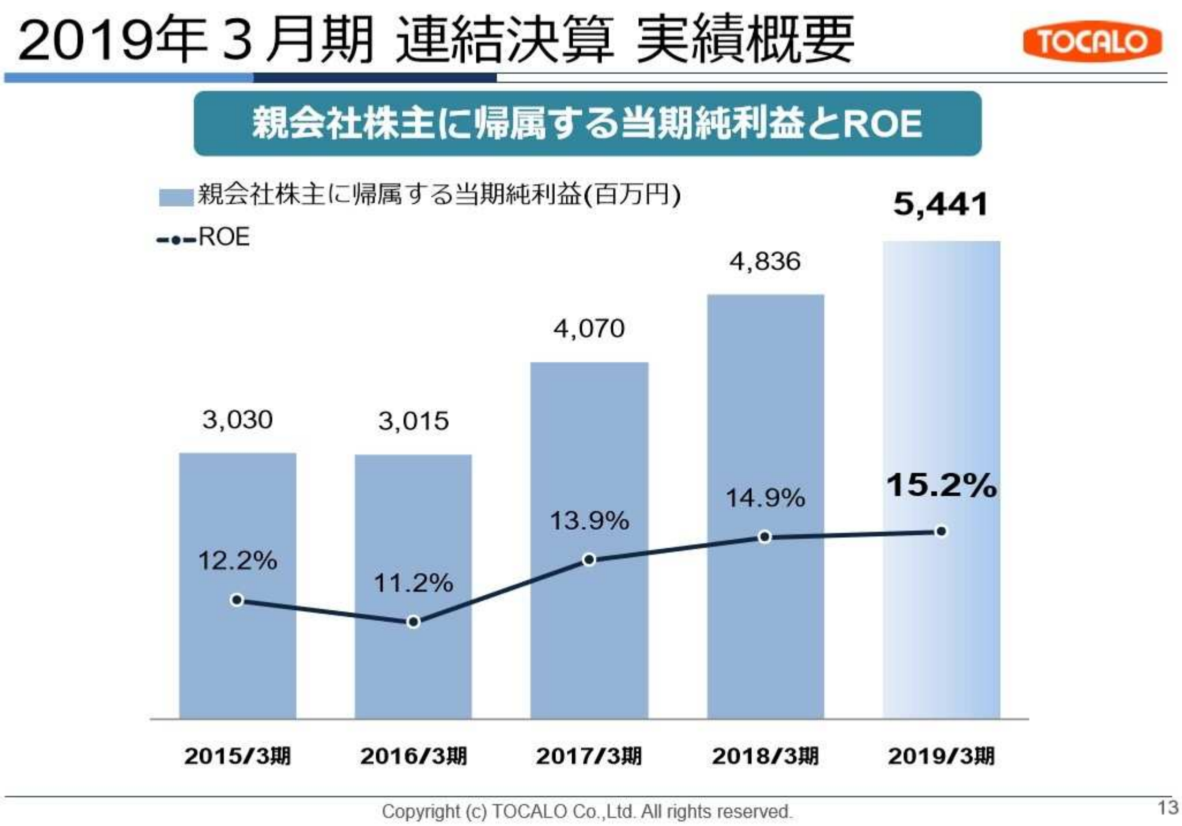
Next, I would like to outline the financial results for the fiscal year ended March 31, 2019.

First of all, I would like to explain the results of 2019 during the course of the past five years. First, sales and operating profit margin. Sales have been growing steadily since 2015, reaching 39.558 billion yen in the fiscal year ended March 31, 2019, with an operating income margin of 19.6%.

On July 31, last year, we revised up our forecast to 41 billion yen, but it did not reach that point. There was a slowdown in the second half of the year, and results were a little too small.

Also, ordinary income is 8.076 billion yen. This was also revised to 9 billion yen on July 31 last year, but unfortunately the semiconductor slowdown was in the fourth quarter and we didn't reach the figure.

However, recurring profit was 20.4%, which was an extremely high margin.



Next, I would like to ask about the current net income. Net income has been growing for the past five years, with a little decrease here. We have been growing over the past three years. In the last fiscal year, we reached 5.441 billion yen in net income and 15.2% in ROE. We targeted 15% in ROE, so we have achieved the goal.

2019年３月期 連結決算 実績概要

TOCALO

ハイライト

(1) ６期連続の増収増益（経常利益ベース）

売上・利益ともに過去最高を更新するも
半導体・ＦＰＤ分野の溶射加工が下期に失速し
７月に上方修正した業績予想には届かず

(2) エネルギー分野の溶射加工が増収

スポット受注の大型プラント向け溶射加工が貢献

(3) 国内外子会社も総じて好調

半導体関連のほか中国の鉄鋼及び石油･ガス分野も拡大

14

Looking at the financial highlights for the fiscal year ended March 31, 2019, on a recurring profit basis, we have worked to increase sales and profits for the sixth consecutive fiscal year.

In the fiscal year ended March 31, 2019, we set a record high. I believe that the semiconductor and FPD sectors are being reported on newspapers. The results were slightly stalled in the second half of the fiscal year and did not reach our upwardly revised forecasts in July. That is the summary

In particular, in the first half and the first quarter of the fiscal year, there was a very strong growth in semiconductor-related business. Due to this energy-related business, spot orders were between 700 million and 800 million yen, and we were forced to revise upward due to the large contribution of this amount. This part was quite effective.

Domestic and JCC were fair, and there were two, China and Taiwan with very good performances. There were a lot of jobs related to semiconductors, such as spares, recoating, or re-spraying.

In Guangzhou in particular, there has been considerable growth in the steel and oil and gas sectors, and these sectors have contributed to our performance.

2019年３月期 連結決算 実績概要

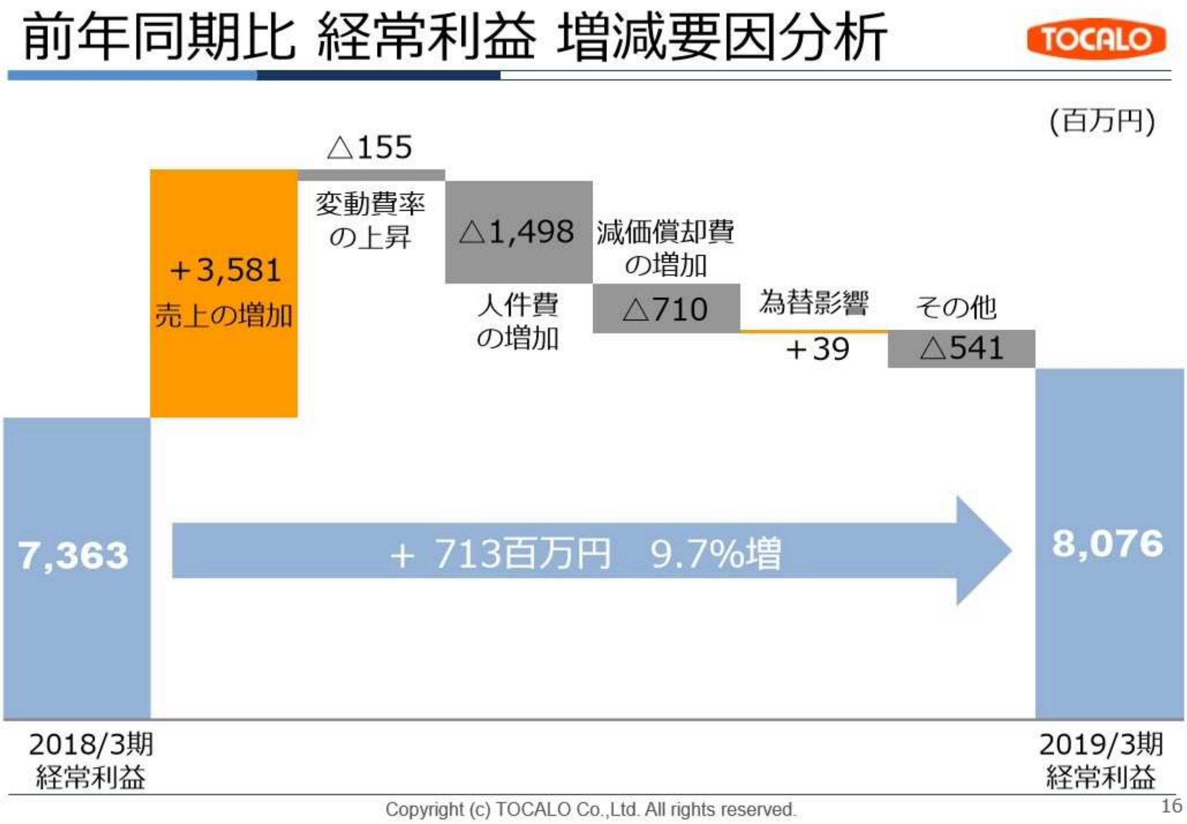
(百万円)	2018/3期		2019/3期		前年同期比増減	
	実績	構成比	実績	構成比	金額	率
売上高	**34,109**	**100.0%**	**39,558**	**100.0%**	**5,449**	**16.0%**
溶射加工(単体)	26,183	76.8%	30,400	76.8%	4,217	16.1%
半導体・ＦＰＤ	13,474	39.5%	17,134	43.3%	3,659	27.2%
産業機械	4,218	12.4%	4,154	10.5%	△ 64	-1.5%
鉄鋼	3,697	10.8%	3,662	9.3%	△ 35	-1.0%
その他	4,792	14.1%	5,449	13.7%	656	13.7%
その他表面処理加工	1,971	5.7%	2,204	5.6%	233	11.8%
国内子会社	2,312	6.8%	2,493	6.3%	181	7.8%
海外子会社	3,642	10.7%	4,460	11.3%	818	22.5%
営業利益	**7,110**	**20.8%**	**7,741**	**19.6%**	**631**	**8.9%**
経常利益	**7,363**	**21.6%**	**8,076**	**20.4%**	**713**	**9.7%**
親会社株主に帰属する当期純利益	**4,836**	**14.2%**	**5,441**	**13.8%**	**604**	**12.5%**

 15

To summarize, sales and ordinary income were 39.558 billion yen and 8.076 billion yen, respectively, showing a 27.2% increase in the semiconductor field compared to the fiscal year ended March 2018. Recurring profit rose 9.7%.

Industrial machinery, iron and steel, and others; spraying processes other than semiconductors and FPDs had a few bumps. Some of these have been revised by industry. This number is 656 million yen, but I think it's just a little higher overall.

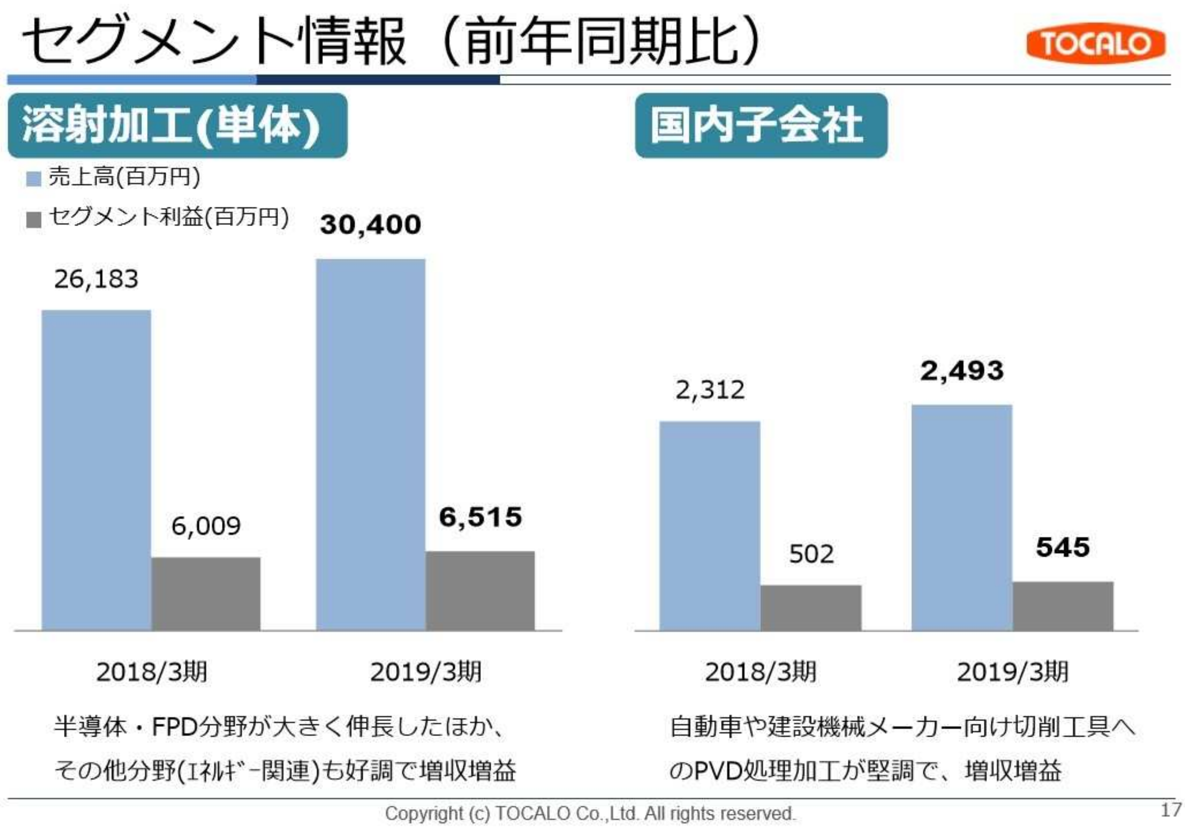
However, as I mentioned earlier, the relationship between spots was between 700 million and 800 million yen, in that sense, it is almost flat.



Analysis of the factors behind the increase and decrease in ordinary profit in the fiscal year ended March 2019 shows that the ordinary profit rose from 7.363 billion yen for the previous year to 8.076 billion yen, an increase of 713 million yen, or 9.7%. The biggest factor is the increase in sales.

Also, there was a considerable backlog of orders, and some were handled by sheer human resources. In that sense, personnel expenses increased by about 1.5 billion yen, and this was a negative effect.

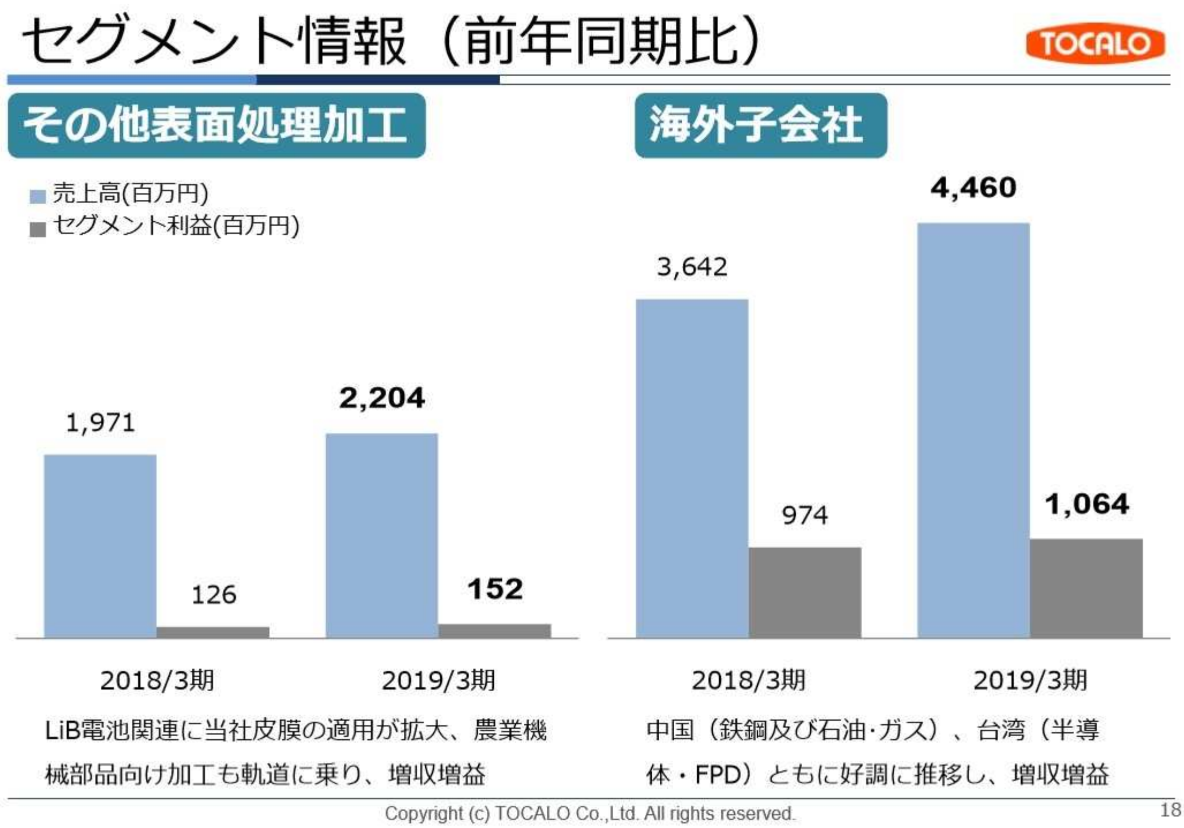
In the last three years or so, we have invested about 18 billion yen, from just under 6 billion yen, and the depreciation of this amount had an effect. Ordinary income has fallen to 8.076 million yen, feeling that the profit margin has declined a little.



Looking at the results by segment, we see that there are three segments, one of which is the thermal spray-on process alone. The part of the thermal spraying process which we do as TOCALO. Then, there is domestic subsidiaries and others.

On a standalone basis, the semiconductor and FPD related sectors are growing significantly. In addition, orders for other energy-related spots are growing. As a result, sales and profits are growing to 30.4 billion yen and 6.5 billion yen respectively.

The Japan Coating Center, JCC also saw some growth. In particular, sales of PVD processing related to cutting tools for automobiles, construction machinery, and such grew, resulting in higher sales and profits.



In addition, the others sector includes surface finishes, which includes chemical refining processes, diffusion processes, and special overlays, other than thermal spraying at TOCALO. It has also been adopted in production lines of rolls for lithium battery related areas.

Surface treatment was adopted for large-scale agricultural machinery such as combined machinery, and that part of it grew. These developments have enabled us to achieve increases in both sales and profits.

As a whole, however, the profit margin is a little low.

With regard to overseas subsidiaries, as I mentioned earlier, I thought that the steel and oil and gas related to China, and FPD in Taiwan, will decline slightly. However, overseas subsidiaries have performed strongly, and we have been able to increase both sales and profits.

セグメント情報（前年同期比）

TOCALO

(百万円)	2018/3期		2019/3期		前年同期比増減			
					売上高		セグメント利益	
	売上高	セグメント利益	売上高	セグメント利益	金額	率	金額	率
溶射加工(単体)	26,183	6,009	30,400	6,515	4,217	16.1%	506	8.4%
国内子会社	2,312	502	2,493	545	181	7.8%	43	8.6%
その他	5,613	1,101	6,665	1,216	1,051	18.7%	115	10.5%
その他表面処理加工	1,971	126	2,204	152	233	11.8%	25	20.4%
海外子会社	3,642	974	4,460	1,064	818	22.5%	89	9.2%
合計	34,109	7,612	39,558	8,278	5,449	16.0%	665	8.7%

(注) セグメント利益は、連結損益計算書の経常利益と調整を行っております。

 19

I have summarized these graphs in this figure. Ultimately, we have posted net sales of 39.550 billion yen, or 8.278 billion yen in ordinary profit, which is the figure before adjustments at the time of consolidation. In reality, the figure will be a little more than 8 billion yen.

財政状態

TOCALO

(百万円)	2018/3期 4Q末	2019/3期 4Q末
総資産	**52,664**	**57,278**
自己資本	**34,174**	**37,559**
自己資本比率	**64.9%**	**65.6%**
有利子負債残高	**2,486**	**4,478**

・総資産は前期末比 46億円の増加（うち、有形固定資産の増加 28億円）

・自己資本比率は前期末比 0.7ポイント上昇の65.6%

・有利子負債は前期末比 19億円の増加

（7月に15億円、 3月に14億円の長期借入を実施）

20

The financial situation. Total assets increased by 4.6 billion yen from the end of the previous fiscal year. Of which property, plant and equipment increased by 2.8 billion yen. In relation to the increase in production of semiconductors in particular, we increased the capacity of factories in Akashi, Kitakyushu, and Tokyo. We spent more than 3 billion yen on these factories, and we believe that the amount of fixed assets is increasing.

The shareholders' equity ratio rose slightly to 65.6%. Interest-bearing debt increased due to the long-term debt of1.5 billion yen in last July and 1.4 billion yen in this March.

As of March 31, we had cash on hand of 12.6 billion yen and interest-bearing debt of 4.4 billion yen.

キャッシュ・フローの状況

TOCALO

(百万円)	2018/3期	2019/3期
営業キャッシュ・フロー	7,611	8,044
投資キャッシュ・フロー	△ 4,681	△ 4,617
財務キャッシュ・フロー	△ 2,217	40
現金及び現金同等物の期末残高	8,807	12,213

・投資ＣＦ／有形固定資産の取得　前期：△43億円　当期：△69億円
有価証券の償還収入（純額）前期：　なし　当期：＋20億円
・財務ＣＦ／長期借入による収入　前期：　なし　当期：＋29億円
・フリーキャッシュ・フロー（営業ＣＦ＋投資ＣＦ）はプラスで推移

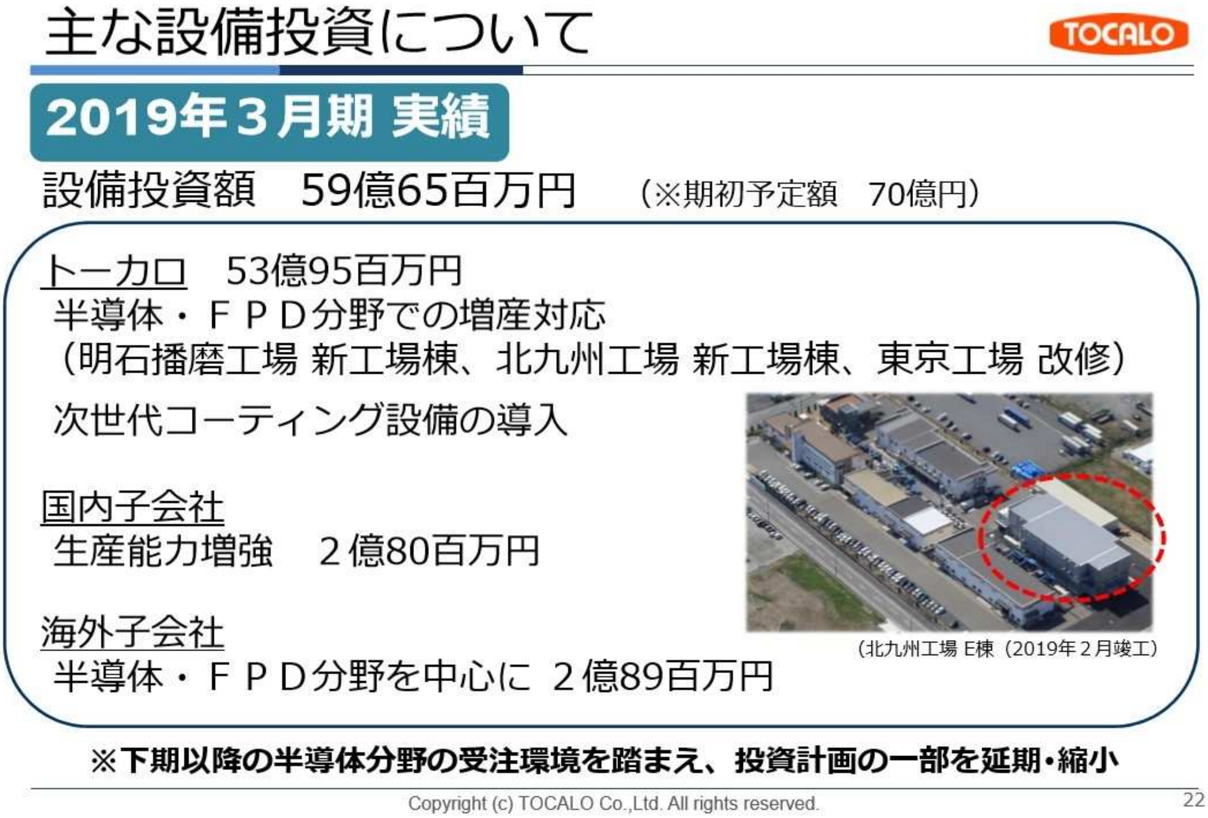
Regarding the cash flow, the cash flow from operating activities was the essence of profit from operating activities.

Regarding investment, we have acquired tangible fixed assets of 6.9 billion yen this fiscal year, and as I mentioned earlier, we have invested 5.9 billion yen, 6.3 billion yen, and 5.9 billion yen in the past three fiscal years. Therefore, there are various things related to that.

Then we redeemed the securities and received about 2 billion yen positive cash.

Also, we had 2.9 billion in long-term debt in financing cash flow, which ultimately amounted to 4.617 billion.

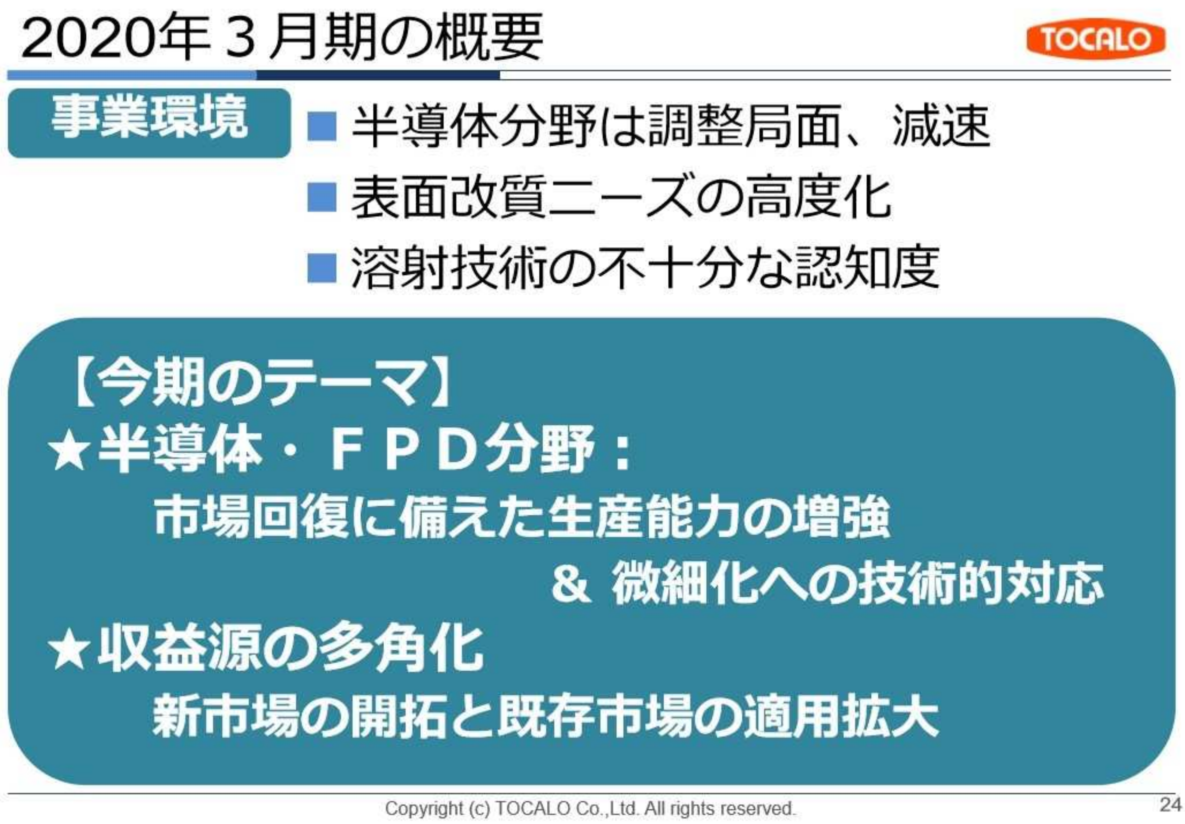
Also, free cash flow has been positive for some time.



In the fiscal year ended March 31, 2019, capital expenditures were about 6.0 billion yen: 5.9 billion yen, to be exact, and the initial plan was 7.0 billion yen. However, the order environment has slowed somewhat from the middle of the fiscal year, particularly for semiconductors, and we have postponed some of these investments to roughly 6.0 billion yen.

TOCALO has invested 5.395 billion yen of them, and these factories have been expanded. One example is the Kanda-cho factory in Kitakyushu. We built a new semiconductor factory as Building E. Not only semiconductors, but we have built factories geared for semiconductors.

Also, the JCC is installing machinery and equipment and doing a little more overseas.



I would like to briefly explain the financial forecasts for the fiscal year ending March 2020, or the current fiscal year.

As for the business environment, the semiconductor sector, which is currently accounted for 43% of our total sales, is the most interesting part of the business environment. The current situation is still in the adjustment phase. That's why it is slowing considerably.

However, there are areas in which we recognize that, but we do not expect that this will continue in the future, and we are in a difficult state because we don't know when the market will recover while monitoring the situation closely.

I believe that we must continue to strengthen our production capacity to prepare for such a situation.

The other is the refinement, which has now reached 10 nanometers, 7 nanometers, 5 nanometers, and 3 nanometers. The engineers are working hard to address these issues, as we have to build surface modification technologies that prevent the inclusion of dust or particle, and we have to do so with great enthusiasm.

Whether or not we can respond to this issue will be a key to our business in the future.

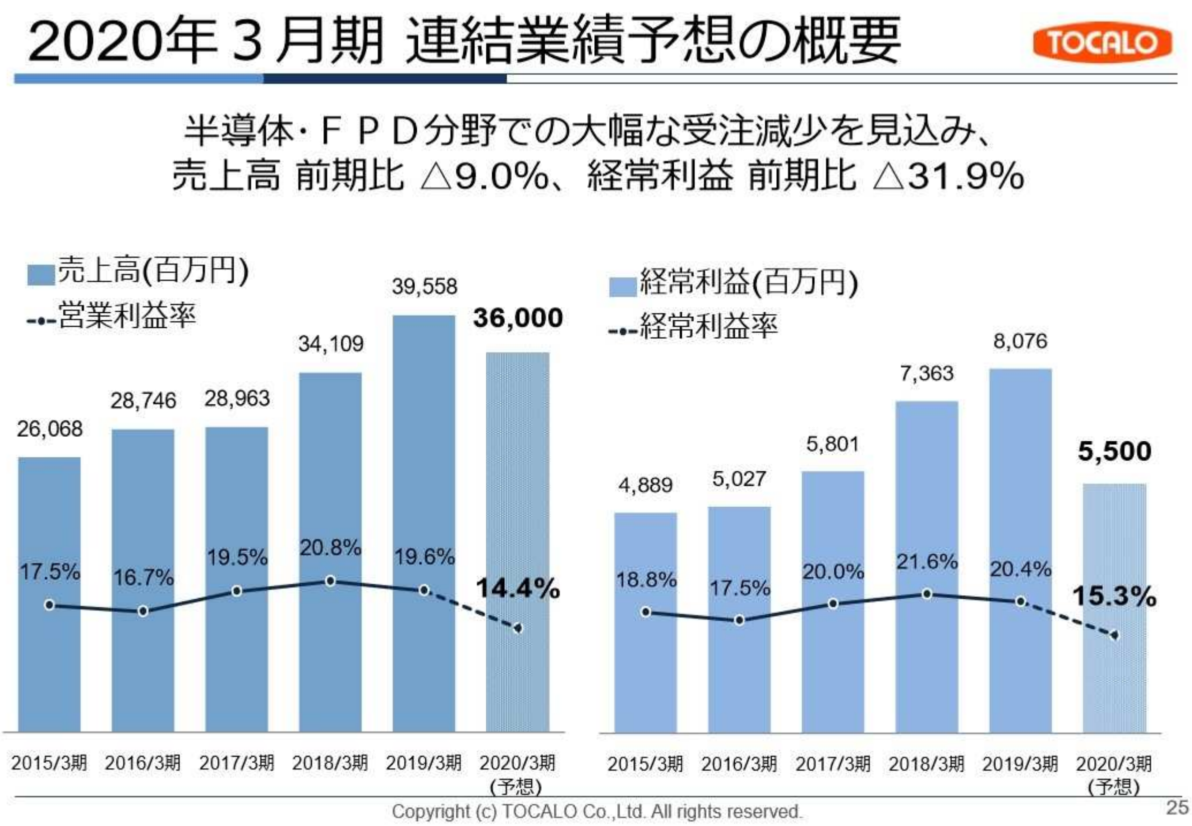
Surface technology has become very sophisticated. As I mentioned earlier, the name of thermal spraying is still not known, and where it is being used, it is highly regarded. Next, there are new demands, and there are demands that have become more sophisticated, and we are going to respond to these demands.

There are still a lot of standardized technologies, such as chrome plating or welding or heat treatment, which have been established academically in the past, and we must try to replace them with thermal spraying.

I believe that one of our points is to spread the advantages of thermal spraying as much as possible.

In the field of steel, where we excel, zinc plating, high tensile strength steel plates, and other production lines are using thermal spraying in most cases.

On the other hand, there are still some things such as rolling, which thermal spraying is not prevalent so I would like to replace them. Therefore, we want to diversify our earnings. In short, the goal for the current fiscal year will be to cultivate new markets.

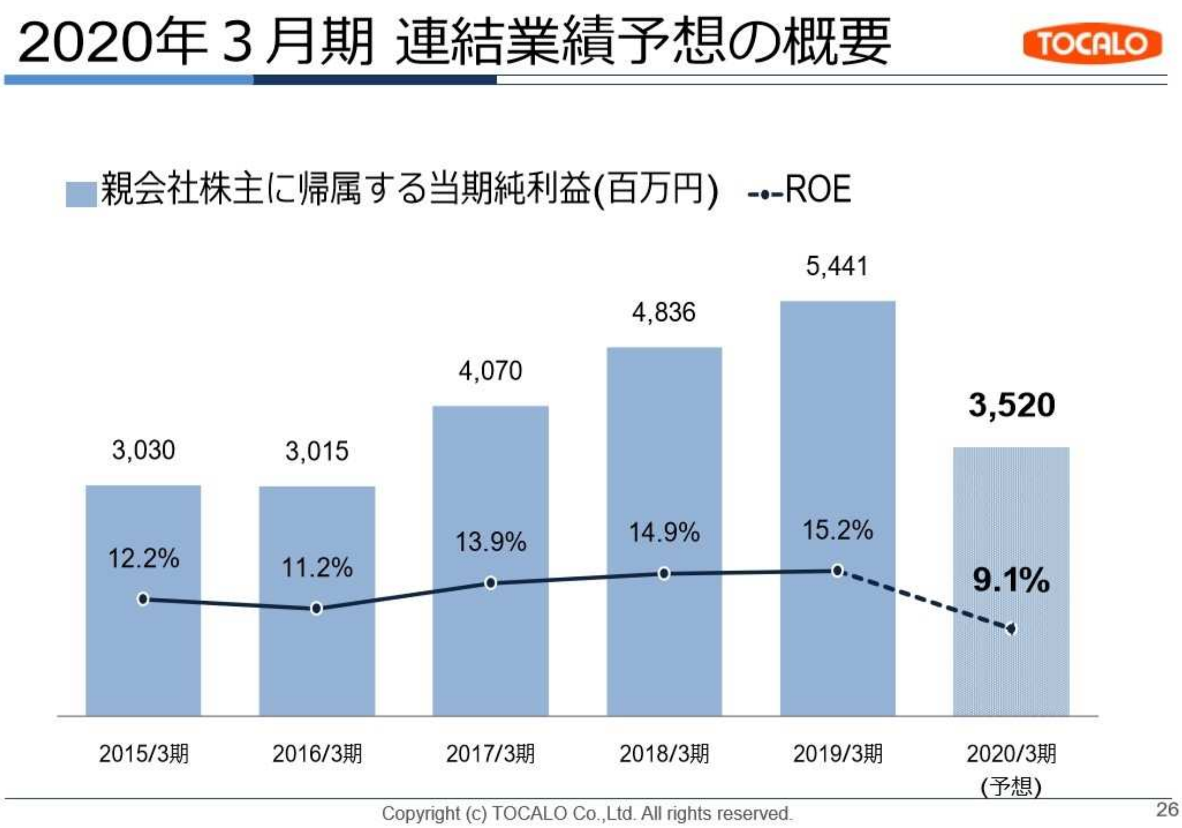


Unfortunately, we anticipate a significant decline in orders in the semiconductor and FPD fields. The estimate of sales is 36 billion yen, decreasing from 39.5 billion in the previous fiscal year and the estimate of the operating profit margin falls below 15%: 14.4% to be exact.

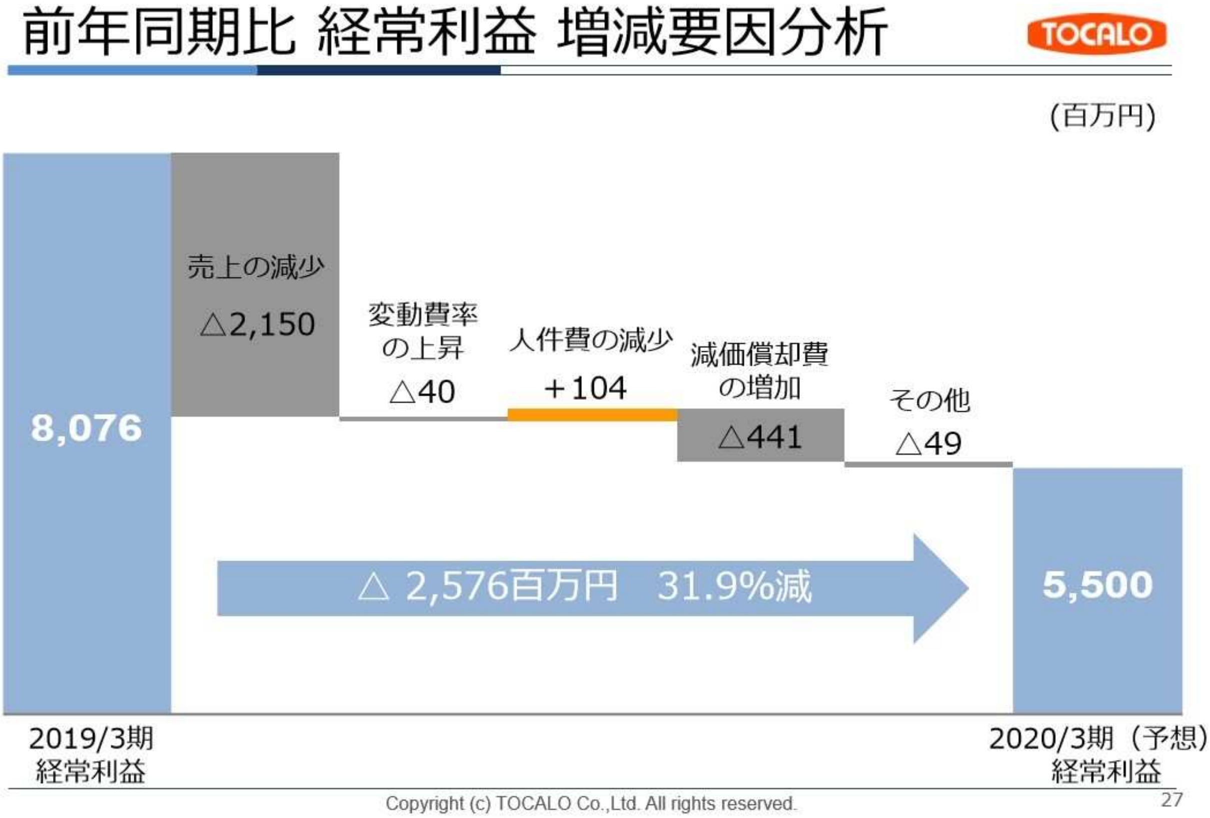
Ordinary income was also significantly lower at 5.5 billion yen, representing an ordinary income margin of 15.3%.

In fact, while sales have been higher than in the fiscal year ended March 2018, profits have been considerably lower by about 1.8 billion yen. This portion of the increase in personnel expenses in the fiscal year ended March 2019 is estimated to be between 1.4 billion and 1.5 billion yen.

Furthermore, the depreciation cost is estimated to be between 1 billion and 1.1 billion yen, and the portion of the depreciation cost has been turned on considerably. I believe that the key point for this time is how to make a profit, including the portion of the depreciation cost.



We have already achieved ROE of 15.2% in the previous fiscal year. However, we expect that net income will decline considerably, and the ROE to 9.1%, which is less than 10%. This is the forecast for the current fiscal year.



Looking at factors behind the increase and decrease in ordinary income, if it falls from 8.0 billion in the previous fiscal year to 5.5 billion, it will decrease by 32%. Sales declined the most, and personnel expenses were positive. However, personnel expenses declined less than sales decreased, and personnel expenses were positive 1.5 billion in the previous fiscal year.

We have made considerable progress toward shifting to full-time employees for the future, but we are unable to change too many personnel to this kind in the future. We will keep people in place to some extent.

There are various restrictions on overtime work and other issues related to work style reform, so I think that it will go no lower than this point to include the rotation of overtime work. We will have to work on this issue in the future, but that is the case.

Furthermore, depreciation and amortization expenses have increased slightly to 440 million, and we anticipate a decline in profit to 5.5 billion.

2020年３月期 連結業績予想

(百万円)	2019/3期		2020/3期		前期実績比増減	
	実績	構成比	予想	構成比	金額	率
売上高	**39,558**	**100.0%**	**36,000**	**100.0%**	**△ 3,558**	**-9.0%**
溶射加工(単体)	30,400	76.8%	26,658	74.1%	△ 3,742	-12.3%
半導体・ＦＰＤ	17,134	43.3%	13,500	37.5%	△ 3,634	-21.2%
産業機械	4,154	10.5%	3,650	10.1%	△ 503	-12.1%
鉄鋼	3,662	9.3%	4,047	11.2%	385	10.5%
その他	5,449	13.7%	5,459	15.3%	9	0.2%
その他表面処理加工	2,204	5.6%	2,322	6.4%	117	5.3%
国内子会社	2,493	6.3%	2,553	7.1%	60	2.4%
海外子会社	4,460	11.3%	4,465	12.4%	5	0.1%
営業利益	**7,741**	**19.6%**	**5,200**	**14.4%**	**△ 2,541**	**-32.8%**
経常利益	**8,076**	**20.4%**	**5,500**	**15.3%**	**△ 2,576**	**-31.9%**
親会社株主に帰属する当期純利益	**5,441**	**13.8%**	**3,520**	**9.8%**	**△ 1,921**	**-35.3%**

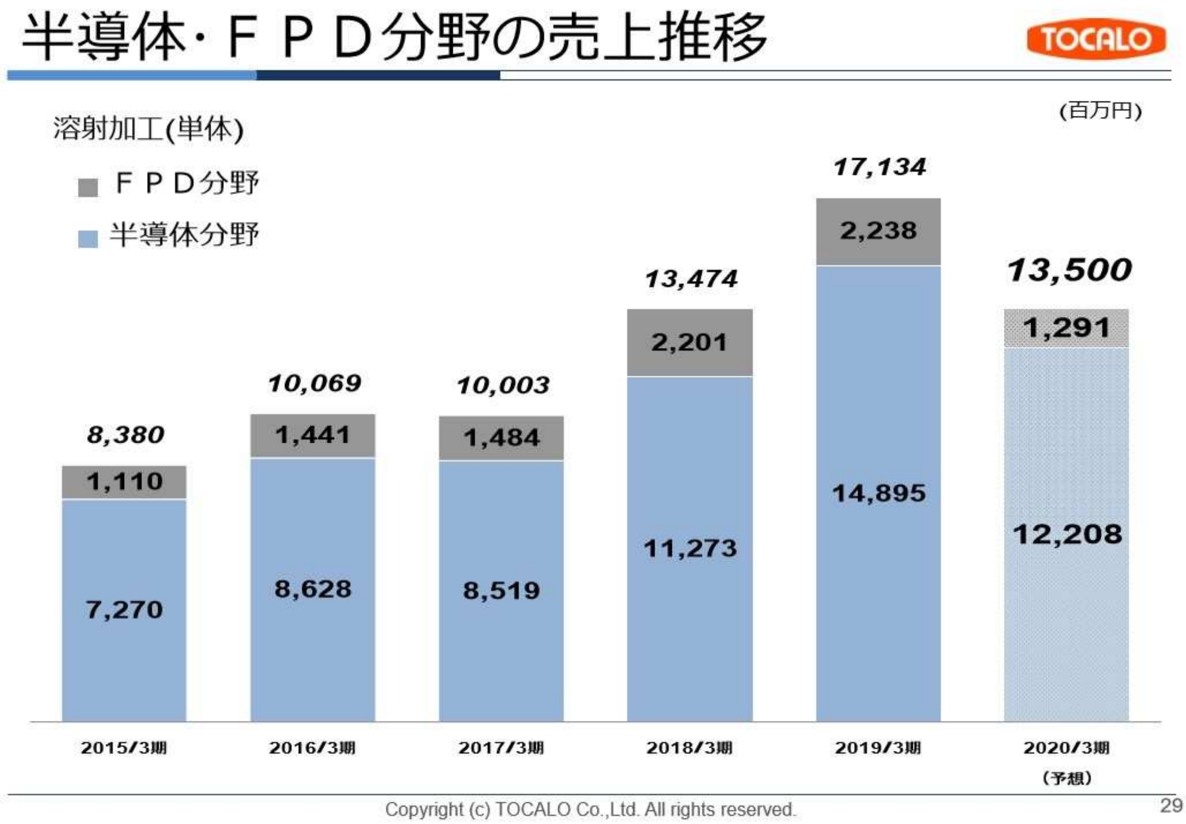
28

The slump in sales of semiconductors is expected to be about 13.5 billion yen, from 17.1 billion yen in the previous fiscal year.

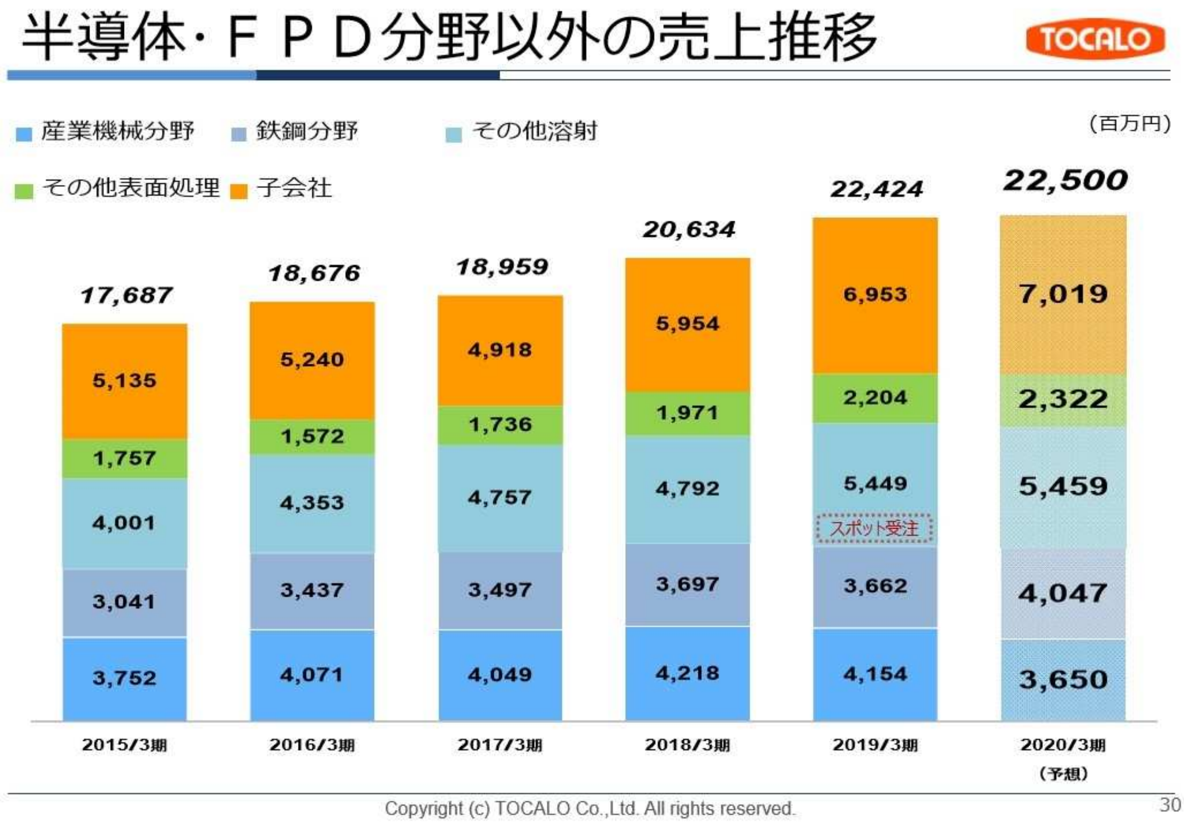
43% of the total, but it will decrease to 37.5% of the total, a decline of about 21.2%.

In the fiscal year ended March 31, 2019, there were 700 million yen to 800 million yen spots in the industrial machinery, iron and steel, and others, so if we consider this, it would seem like a slight positive.

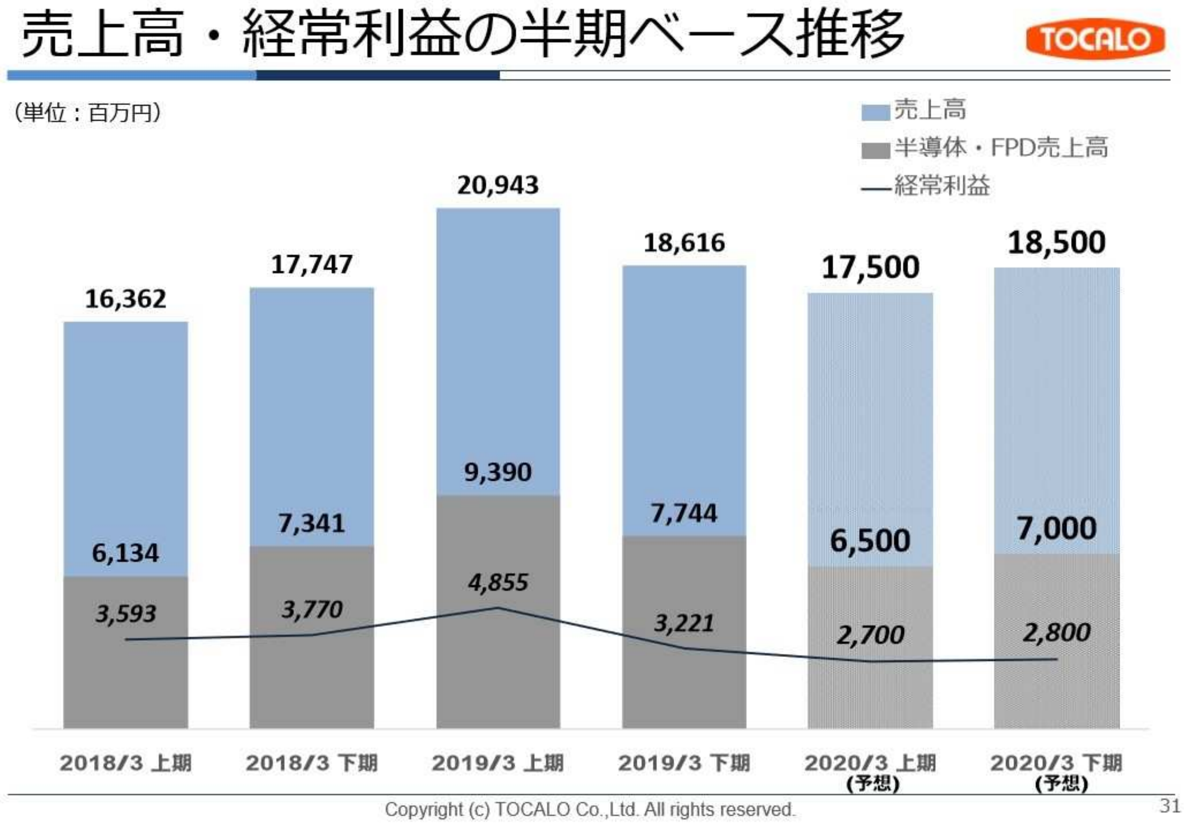
Also, our subsidiaries related has entered positive territory, with the aim of eventually settling to 5.5 billion.



As we will review again, sales in the semiconductor and FPD sectors were 17.1 billion yen in the previous fiscal year, and this is probably 13.5 billion yen. As I mentioned earlier, profits have been squeezed due to depreciation and personnel expenses.



In the sectors other than semiconductors and FPDs, there have been some spot orders. However, looking at the past five to six years, the number of orders has been gradually rising, including those from subsidiaries. In that sense, there has been no growth as much as that for semiconductors, but I believe that fields other than semiconductors and FPDs are steadily advancing.



On a half-year basis, sales and recurring profit reached 20.9 billion in the first half of the last fiscal year, showing the excellent performance. Semiconductors have reached 9.3 billion yen. In the second half of the year, in other words, the fourth quarter decelerated a little, but it has fallen to about 7.7 billion yen. This is an overall plan.

In the current fiscal year, the first half will be 17.5 billion, and the decline in semiconductors is still slightly continuing. So, I think this is a slight decline.

Then, a little later, but it will rise a little in the second half. I believe that it is difficult to predict where this will come from, and I believe that this will have a significant impact on our results for the current fiscal year.

We are looking at 18.5 billion yen.

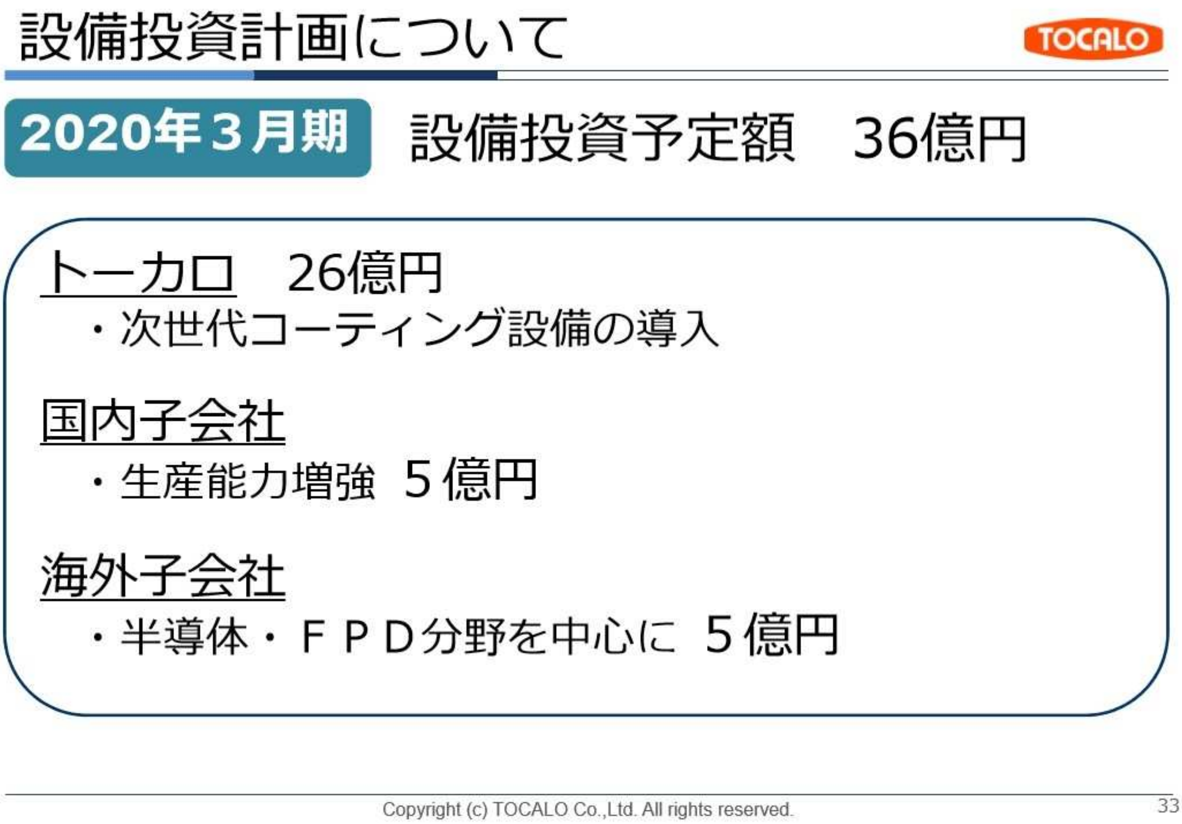
The timing of the market's recovery will considerably impact these figures. We don't sell semiconductors directly. Instead, there are people who supply manufacturing equipment to the semiconductor manufacturing process, and we are supplying to them. So, it's about the third stage, and it's difficult to read it.

I have been saying several times about capital investment since the last three years, and we have invested 5.9 billion, 6.3 billion, and 5.9 billion yen over the past three years. Sales decline this year so investments will decrease to 3.6 billion yen in the current fiscal year, I think it will take a little while looking at the situation.

However, there are cases of a sudden recovery, so in that sense, we must consider alternatives or cases where it occurs.

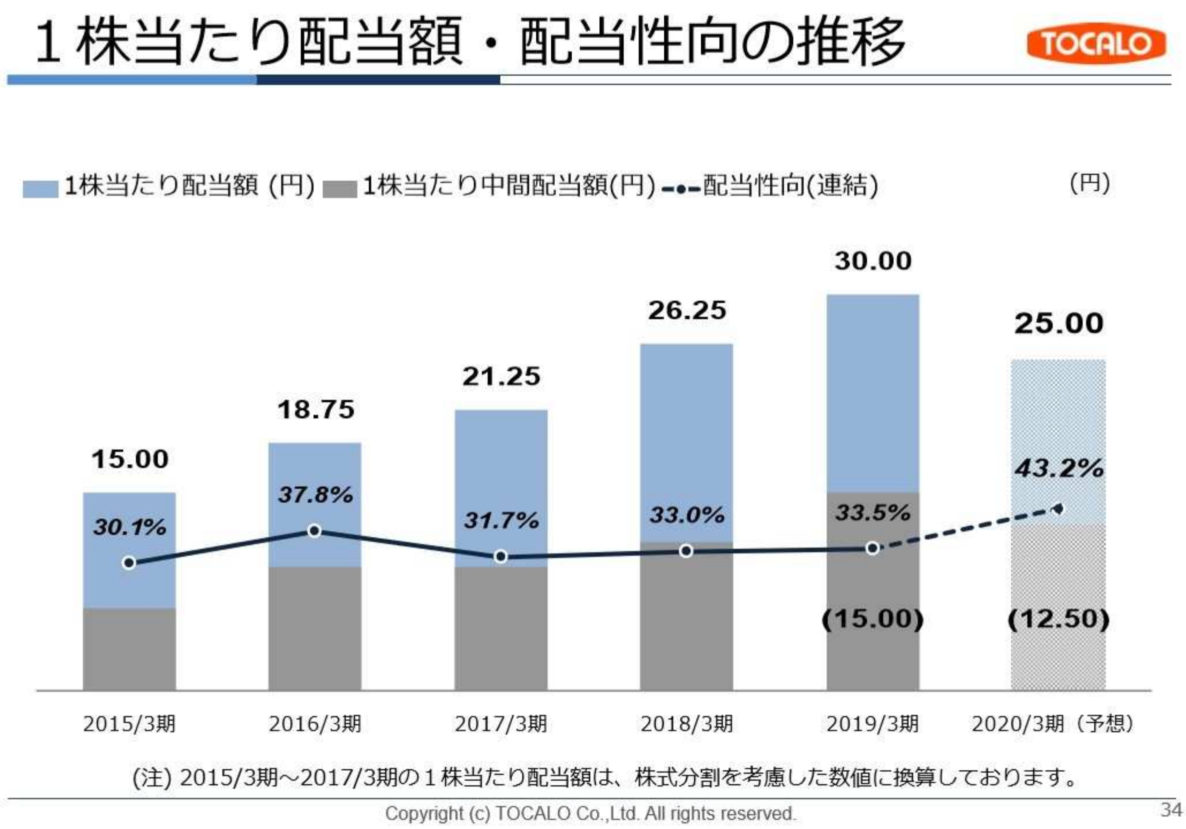
Depreciation and amortization will rise to 3.1 billion, due to the fact that there is a portion of depreciation and amortization.

We intend to spend about 3% on R&D on a constant basis.



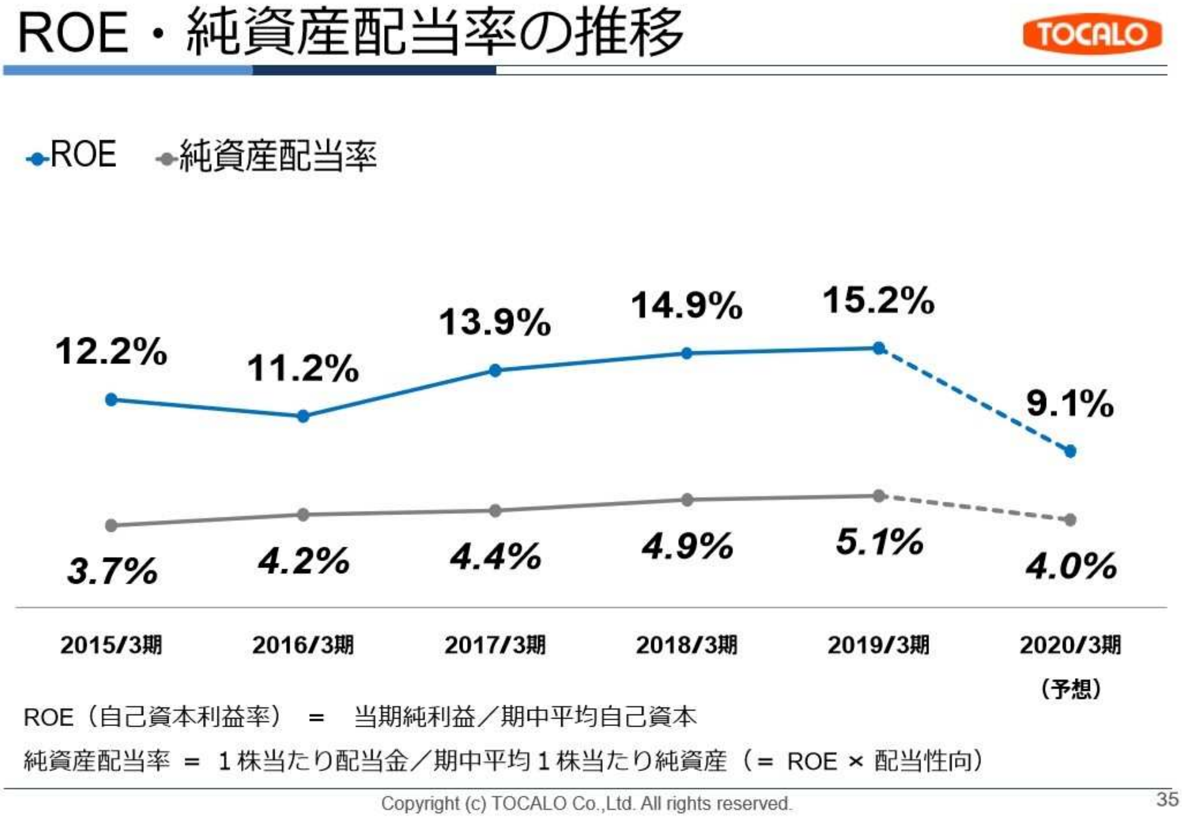
Regarding the content, as I mentioned earlier, we have built a venue or building. In that sense, we will strengthen the coating equipment for the next generation, and we will spend money there.

As for the JCC and subsidiaries, they are on a path to further expansion so there are costs for capacity expansion. As for overseas production, the demand for recoating are strong. Even if new production equipment is not sold, it is now in operation, and they are in capacity for recoating. In this sense, we will continue to invest in overseas subsidiaries.



This is the dividend per share and the dividend payout ratio. In the fiscal year ended March 31, 2019, the dividend payout ratio was 33.5% at 30 yen per share. Unfortunately, the dividend declined to 25 yen per share in the current fiscal year.

However, the dividend payout ratio rose to 43.2%.



Matters related to ROE. Regarding the ratio of dividends to net assets, please note. The ROE has reached 15.2%, but it will be 9.1% this fiscal year. The dividend-to-net assets ratio is calculated by multiplying ROE by the dividend payout ratio, so it will also decline.

I would like to talk a little about how we aim to achieve sustainable growth.

We have displayed a similar figure last year. We believe that we must open up the market by developing new products and creating new markets, so we want to do our best in this area.

We don't have these products, but we are doing business by coating our customers' parts and materials. I believe that one part of the competition will be whether or not we will raise awareness of these products or make technological improvements.

We can see that the semiconductors and FPDs will decelerate this year. From a medium-to long-term perspective, it is said anywhere, but it is certainly on the path of expansion. We are all waiting for that timing.

There are many triggers to that path, whether it is 5G, AI, big data, or IoT, and so on. There could be various negative transitions. In this sense, the production system anticipating market recovery should be enhanced at the same time in the near future.

As I explained earlier, the key point is how to develop technologies to respond to refinement.

In addition to this, we must also focus on diversifying our revenue sources or managing our operations in a manner that is geared for all conditions.

In that sense, as I mentioned earlier, the name recognition is not yet widespread. For steel, high-grade steel plates such as high-tensile and galvanized steel plates, thermal spraying has been adopted for all rolls.

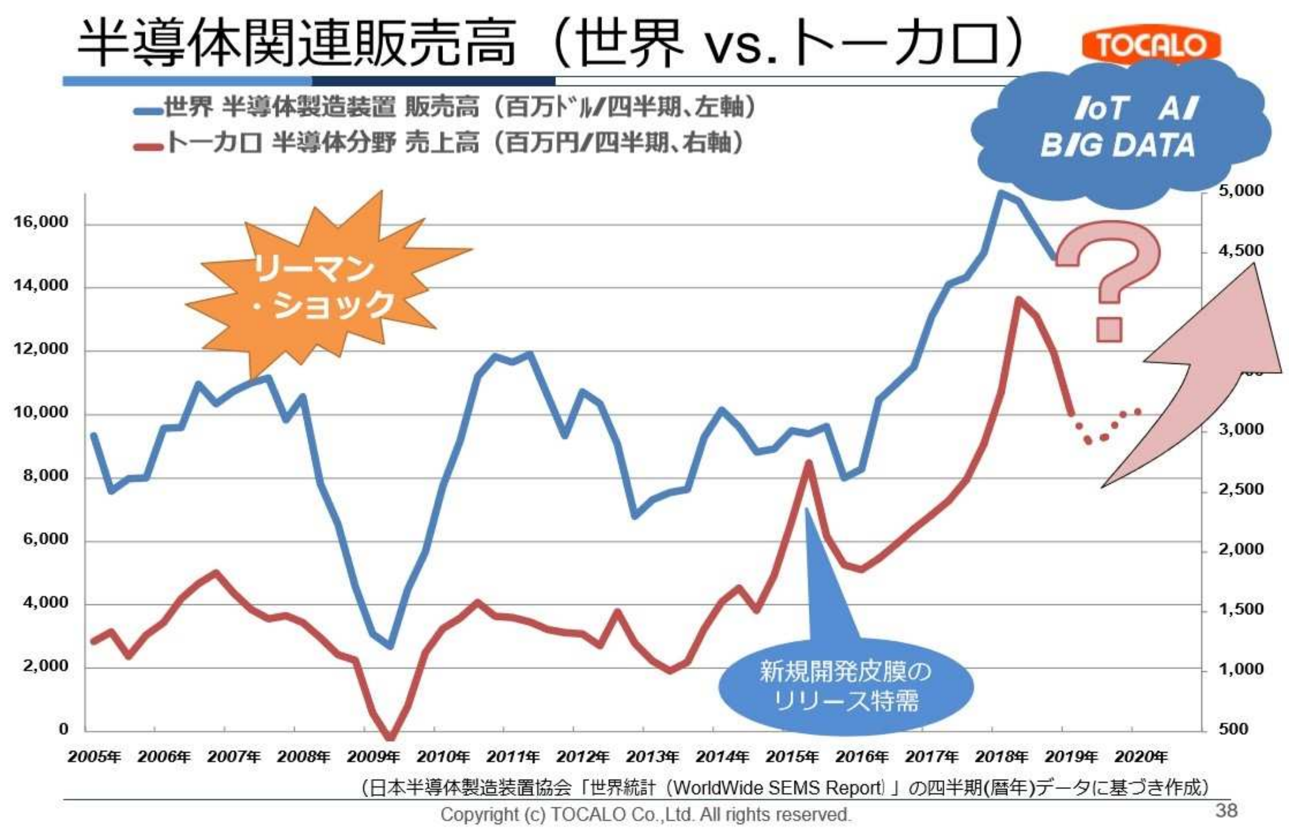
We are lacking in bars, steel bars, and wire rods, and we are losing to other surface treatment methods. In that sense, we would like to overturn that.

I would like to provide even better products, such as paper, film, and electronic components. Some of these areas are highly regarded, but some are not known. I believe that we will expand by taking measures one at a time.

The energy and nuclear power is an interesting topic, and coal-fired power is an environmental problem, and there are no new ones. However, we have to make sure that what is currently operating is maintained. Therefore, we have orders from them for the maintenance.

Therefore, many inquiries are coming from biomass, hydropower, geothermal energy, hydrogen, and so on, so I would like to push this further.

I would like to explain about how we will expand our business globally. Basically, we are a Japanese company, and we have been growing through our relationships with leading Japanese manufacturers. I would like to make use of this network and take the path that we have taken so far, and expand globally.



As I explained earlier, I think that this diagram has been presented last year. The Japan Semiconductor Manufacturing Equipment Association, or a global statistic is available. The horizontal axis shows the year, and quarterly data shows this blue figure in the form of sales of semiconductor manufacturing equipment.

And when we show our semi-annual sales, there are some areas where there was a very special demand that did not match, but we have almost the same line.

Our forecasts for the current fiscal year are about this level. I think this will vary considerably depending on how this will come in the future. I do not have this information on hand, so I would like to gather information from various sources and respond accordingly.

I would like to conclude this explanation. Thank you very much.

Question & Answer

Moderator: Thank you very much for your explanation. I would like to take your questions now.

We plan to announce this IR meeting, including the question-and-answer section. Therefore, if you have your affiliation or name at the time of your inquiry, it will be published as is. If you wish to remain anonymous, please refrain from mentioning your affiliation and name.

Are there any questions?

Participant: Thank you for your explanation.

Regarding semiconductors, I think there is good demand for recoat. In this sense, even though memory investment is currently halted, and the number of new products delivered is decreasing, there is a certain level of demand. So, do you think that this fiscal year will be a bottom for semiconductors?

Mifune: Whether or not it will be a bottom cannot be determined by us alone. As we explained in the diagram above, I believe that the first half of the fiscal year will be the lowest.

Participant: Understood.

In addition, where is the market for lithium-ion batteries? In the consumer, automotive, or other sectors?

Mifune: Consumer and automotive, both of which require components, such as separators or press rolls, and the surface treatment at the production line around them. It is adopted at the rolls.

I don't classify them as automotive or consumer goods.

Participant: Understood.

Also, there were spot orders in sectors other than the semiconductor and FPD fields. In other sectors, there are expectations for orders received or sales to continue to be at a high level in the new fiscal year. What is the growth of this?

Mifune: Generally speaking, industrial machinery, such as insulated bearings, should be on an increasing trend.

Also, energy related. The company is also investing in plant and equipment, mainly for high-tensile steel sheets. So, there should be a slight growth there.

Then, as I said earlier, I think it will increase in other sectors, such as rolling, where different surface treatments have been used, and so on.

I think the industry is deeply pocketed.

Participant: Understood.

Last but not least, I believe that personnel expenses have increased for the period that ended. Did personnel expenses increase in line with strong sales in the previous fiscal year? What caused personnel expenses to increase?

Mifune: About this time last year, we had a lot of outstanding orders, and it was difficult to complete them. Of course, we installed equipment. However, we were also utilizing a lot of human resources, and we have been dealing with them with a lot of people.

As a result, personnel expenses have increased by about 1.4 to 1.5 billion yen.

While we are implementing various measures such as restrictions on overtime work, we are reducing personnel expenses for some time now. Nevertheless, I want to keep it as much as possible, since we have nurtured a lot of things. I would like to maintain this level, anticipating increased production in the future.

So, I think that personnel expenses have not fallen even though sales have fallen this time.

Participant: Understood. Thank you very much.

Moderator: Next question please.

Wakita: Thank you for your explanation. Wakita of Shinwa Consulting.

I always listen to your company's financial results briefings with interest. I have two questions. Your largest business partner is Tokyo Electron Ltd., which is listed in the Securities Report.

I believe that the decision on the equipment is an independent decision.

Mifune: What decision?

Wakita: Capital expenditures. Capital expenditures is increasing isn't it? Do you think this is going to be for Tokyo Electron Ltd.?

I think you will make decisions on your own. On the other hand, I think that Tokyo Electron Ltd. is more cautious about semiconductor equipment. I believe that the impact on the situation will be somewhat emerging in the future. I would like to ask about the president's thoughts.

Mifune: The biggest one is Tokyo Electron Ltd. But, of course, there are many other semiconductor manufacturing equipment manufacturers, not only Tokyo Electron Ltd. but also other manufacturers.

Given these circumstances, we decide to invest in equipment by listening to a number of companies. Forecasts are also made.

Wakita: I believe your company's thermal spraying function is necessary for semiconductor manufacturing equipment. It is quite possible that Tokyo Electron Ltd. or Tokyo Electron Ltd.'s overseas expansion will be a significant part of your overseas expansion.

Is there other semiconductor equipment that uses your thermal spraying technology?

Mifune: Yes. For example, not mentioning names, there are some in Yamaguchi.

Wakita: Okay. That's what's going on nationwide.

Mifune: They have adopted a lot. In essence, there are many related to etching in our processes. Company H has this. For example, in overseas markets, we have relationships with Company A and so on.

Wakita: I think such a facility is not necessary because it's thermal spraying. That's why I'm paying attention to your company. As such, ROE is only 12-13% in the manufacturing industry.

I believe the reason ROE is below 10%, simply speaking, is that there are 18 billion in facilities. I don't know the details of this 18 billion equipment, but it's a semiconductor-related matter, correct?

Are there many facilities other than those related to semiconductors?

Mifune: Semiconductors are the most common. There are other things, so we should not say that capital investment is well-balanced. In that sense, while semiconductors are the largest in number, we need to invest in others as well.

Wakita: Okay. Semiconductors account for 70% to 80% of the total?

Mifune: Of course, there are more than half.

Wakita: Half or more.

I think it's very difficult to time capital expenditures. Since you've decided, I think it's going to be up to volume of demand.

It would be very difficult to see what happens in the future. Even if you can patiently spend a year or two, I'm thinking about long-term investment, so I think it's fine to have reduced ROE due to excess capacity over one to two years.

After three and four years, I think there is a possibility for semiconductors. President's opinions please.

Mifune: Of course, we are now making capital expenditures with the intention of doing so. You mentioned, it is not a capital investment industry, but the thermal spraying industry is still a capital investment industry. For example, there are many things that need to be done, such as the creation of a clean room.

There are a lot of issues we need to respond to. First of all, we have to properly install hardware and equipment, and then we have to include the soft part; the design department, and the coating design department, and so on.

In essence, thermal spraying equipment is sold anywhere in the world, and if you buy it, you can spray it. That is why the key point is to meet the customer's demand where it normally wouldn't.

Wakita: Lastly, how is thermal spraying overseas?

Mifune: For our subsidiary, we will deploy the same setup as in Japan.

Wakita: Have the same work done as in Japan. Understood. Thank you very much.

Moderator: Are there any other questions?

Considering that you would ask questions directly with the time left for the meeting, this concludes the TOCALO Co., Ltd. Investor Relations Meeting. Thank you very much for your time.

[END]

Document Notes

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

Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.