TOCALO Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2021

November 10, 2020

Event Summary

[Company Name]	TOCALO Co., Ltd.
[Company ID]	3433-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2021
[Fiscal Period]	FY2020 Q2
[Date]	November 10, 2020
[Number of Pages]	40
[Time]	13:30 – 14:26 (Total: 56 minutes, Presentation: 46 minutes, Q&A: 10 minutes)
[Venue]	Nikkei Kayabacho Bekkan B1, 2-6-1 Kayabacho Nihonbashi, Chuo-ku, Tokyo 103-0025 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	238 m^2
[Participants]	50
[Number of Speakers]	3

Noriyuki Mifune	President
Hiroshi Goto	Director, Director of Accounting and Corporate Planning
Kenji Hosomi	Deputy Director, Corporate Planning Office

Presentation

Moderator: Now that it is time, we will hold an Investor Relations Meeting for TOCALO Co., Ltd.

First of all, I would like to introduce three people from the company. First of all, Mr. Noriyuki Mifune, President and Representative Director.

Mifune: I am Mifune.

Moderator: Thank you very much. Next, Mr. Hiroshi Goto, the Director, Deputy Manager of the Administration Division, Director of Accounting Department and Corporate Planning Department.

Goto: This is Goto. Thank you.

Moderator: Thank you very much. Next, Mr. Kenji Hosomi, Deputy Manager of the Corporate Planning Department.

Hosomi: I am Hosomi. Thank you.

Moderator: Thank you very much.

Today, President Mifune will be giving an explanation. Once the explanation is finished, we will set aside time for a question-and-answer session.

Well then, President Mifune, would you please explain the results?

Mifune: Thank you. I am Mifune, the President of TOCALO Co., Ltd. Today, I am wearing a face shield, so I would like to give an explanation by removing my mask. Thank you.

We sincerely thank you for attending the briefing on our second quarter financial results today amid the busy season and the coronavirus situation. I would like to express my gratitude. Also, thank you very much for your support and going through the trouble for our business operation every day. I would like to take this opportunity to express my gratitude. Thank you very much.

Now, I would like to explain the financial results for the second quarter of the fiscal year ending March 2021.

Today, I would like to explain four topics, which is nothing different than before. I would like to talk about the overview of the company, the second quarter's financial results, the forecast for the fiscal year ending March 2021, and finally what we will do to achieve sustainable growth.

Company Profile

TOCALO

TOCALO Co.,Ltd.

Business : Surface Modification (Main tech. :Thermal Spray Coating)

Head Office : Kobe City, Hyogo

Established : July, 1951

Capital : JPY2,658,823,000

Consolidated Revenue : JPY39,558million(FY2020)

Group Manpower : 1,060 (As of Mar.31,2020)

 4

Firstly, I would like to start by explaining briefly on the overview of the company, because I explain it every time.

Our business is the processing of surface modifications, centered primarily on thermal sprays. Since our establishment was in 1951, we have reached our 70th anniversary this year. In the previous fiscal year, the company's capital was JPY2.6 billion and net sales were JPY37.896 billion, and the number of employees exceeded 1,000 on a consolidated basis.

Kobe is where we were founded, and our head office is located in Kobe, which is on the island called Port Island. The supercomputer became Fugaku now from Kei, and our headquarters is facing Fugaku.

As for the factory, since Kobe is our birthplace, of course, there is a factory in Kobe, but the main factories are in Akashi and Tokyo's Funabashi. We also have factories in Mizushima, Kitakyushu, and Nagoya.

Originally, thermal spraying was developed in Europe and North America mainly by industries, such as aerospace, gas turbines and other energy sources, and oil and gas.

Japan is certainly supported by the steel industry and the development of thermal spraying has led to the creation of the world's highest quality in the steel industry and the ironmaking industry. It may be correct for us to say that adopting our thermal spraying helped us nurture it together. Because of this, the locations of our factories are situated in the old-fashioned name of the Taiheiyo Belt, a region where ironmaking flourished.

The other is a technical service center in Miyagi. We currently have a semiconductor-related customer's factory, which is the main indicator of our sales, and we are in the vicinity of that factory, where we are conducting technology development and developing products in anticipation of the future.

Group Companies

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

 6

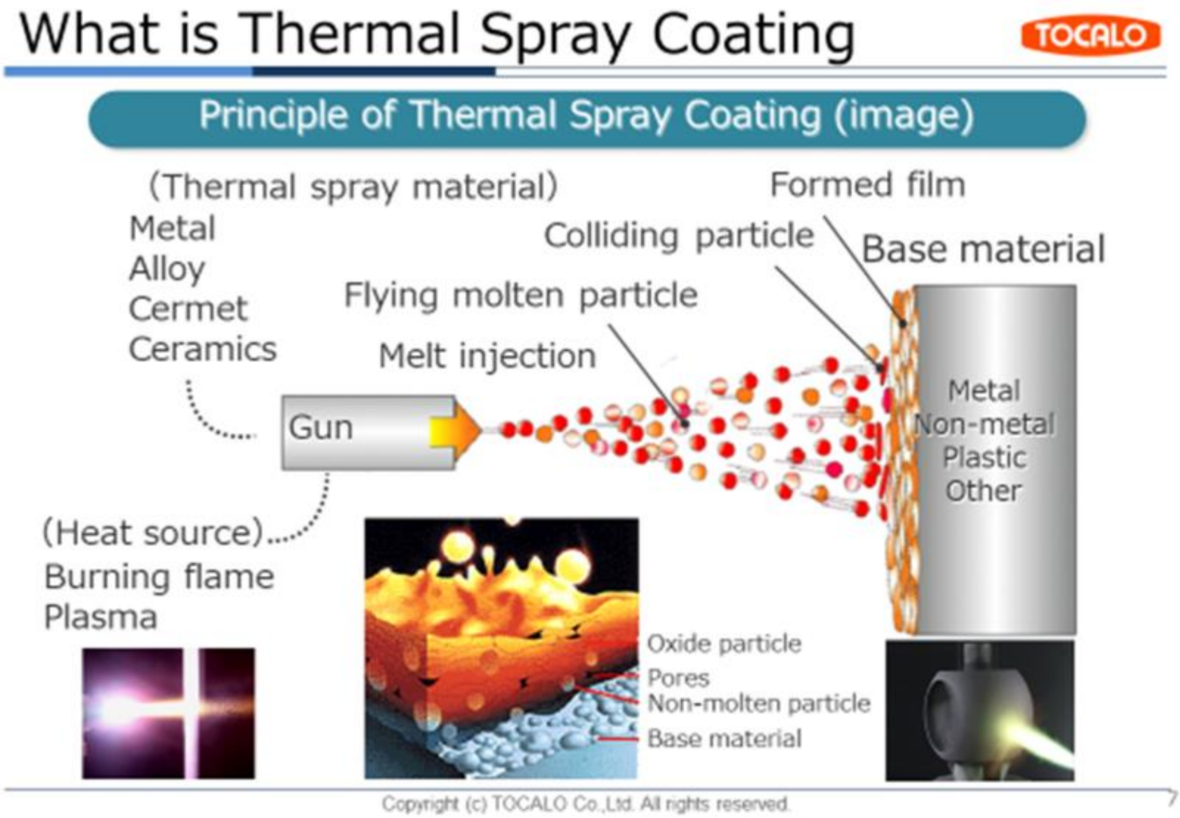
In regards to our subsidiaries, about 80% and 90% of sales is achieved by thermal spraying. However, there are very few areas where it is not possible to deal with only by thermal spraying of surface treatment. We have a company that does PVD, creating thin but hard coating or effective coating by physical vapor deposition. Japan Coating Center Co., Ltd. was transferred from Sumitomo Metal Mining Co., Ltd. in 2004 and became our wholly owned subsidiary.

As for overseas, the top three are in Chinese characters. We have the Han Tai group in Taiwan, but we have made a joint valve with the Han Tai group, where there is two in China and one in Taiwan. The shareholding ratio is described here.

In terms of overseas strategies, we have established overseas subsidiaries to offer recoating and maintenance services in various locations for semiconductor and FPD-related products, and the recoating of rolls related to the steel industry, which have been used for overseas strategies.

We have finally established a subsidiary in the U.S., which is finally starting to move.

Although not consolidated, we also have subsidiaries and affiliates in Indonesia and Thailand, places where Japanese steel manufacturers are expanding in.

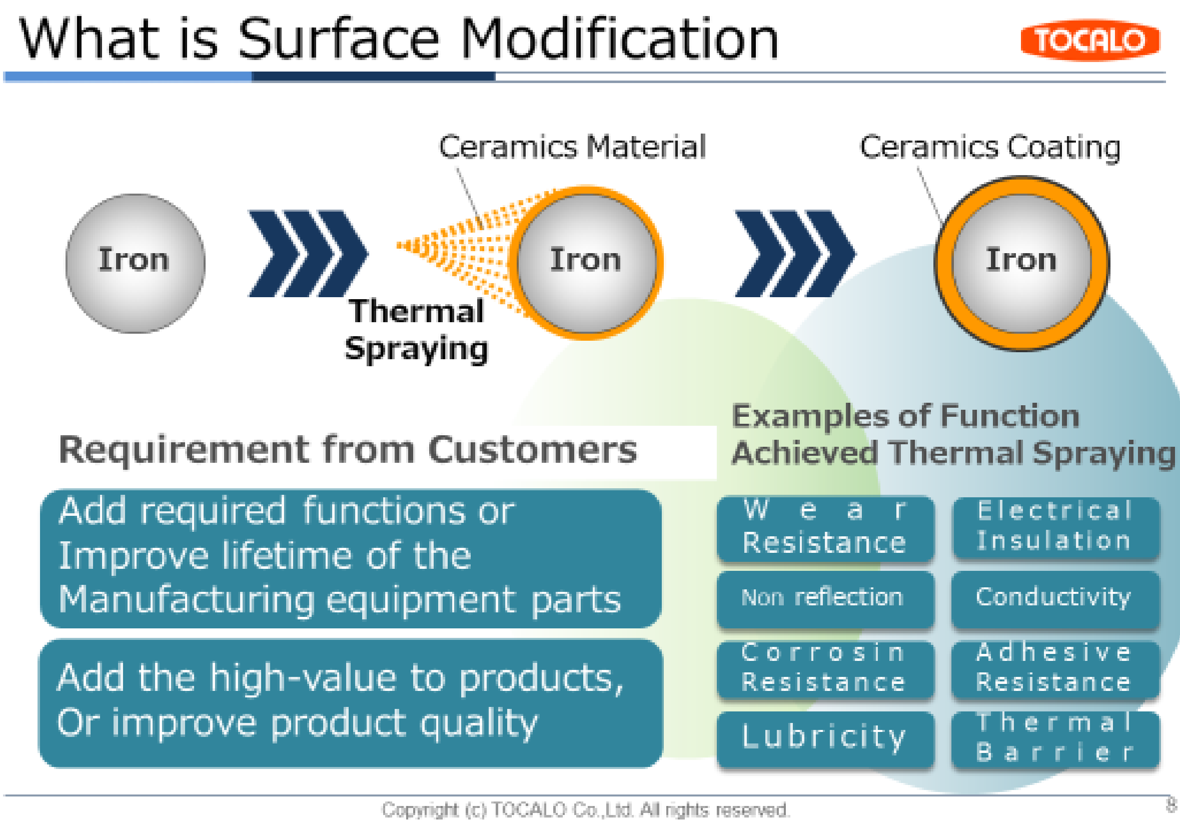


Regarding thermal spraying, it is not well known for the most part, so I think we have to position it as a thermal spraying within the surface modifications.

With a very simple technique, as described here in Kanji, when a molten material is sprayed, it has a simple structure, and what energy is applied to the molten material is a combustion of a carbon-hydrogen gas, or it is discharged into an active gas, and the active gas is converted into a plasma to form a frame of, for example, 10,000 degrees.

Inside that, although they are materials, we add in various metals, alloys, cermet, ceramics, and other products to be melted. When we blow them at a certain speed or higher to make the coating. It is a very simple industry.

It's so simple that it's very difficult to control it. Making a coating that solves problems suited to the customer's and user's environment is the point, and that's a part of our business there.



In general, surface modifications become a business category, but we will improve the surface to a new quality. Generally, when we think of surface modification, we think of chrome plating, heat treatment, quenching, and welding, but we focus on thermal spraying.

In regards to customers' needs, they want to use our products in the production lines of their factories, and to improve productivity and to make good products by improving durability. Another need is that the products of our customers are incorporated with thermal sprayed parts, which enhances functions leading to the sales of their products. In this way, they are marketing our thermal sprays and surface treatment products.

Simply stated, for example, Shinkansen bearings have been coated to provide a function to insulate electricity, but the Shinkansen takes electricity from the pantograph to run a traction motor.

If electricity leaks from any part and the balls of the bearings are damaged, a crater is generated. This prevents smooth rotation, which leads to an accident. There are many parts done to prevent leakage of current. One of these is a coating on the outside of the bearings.

We spray oxide ceramics on iron, supply ones that have are electricity insulated to bearing manufacturers. These bearing manufacturers supply these to motor manufacturers, which is then used by Shinkansen manufacturers for example. This is the same story for countries around the world, in China, and in Europe as well.

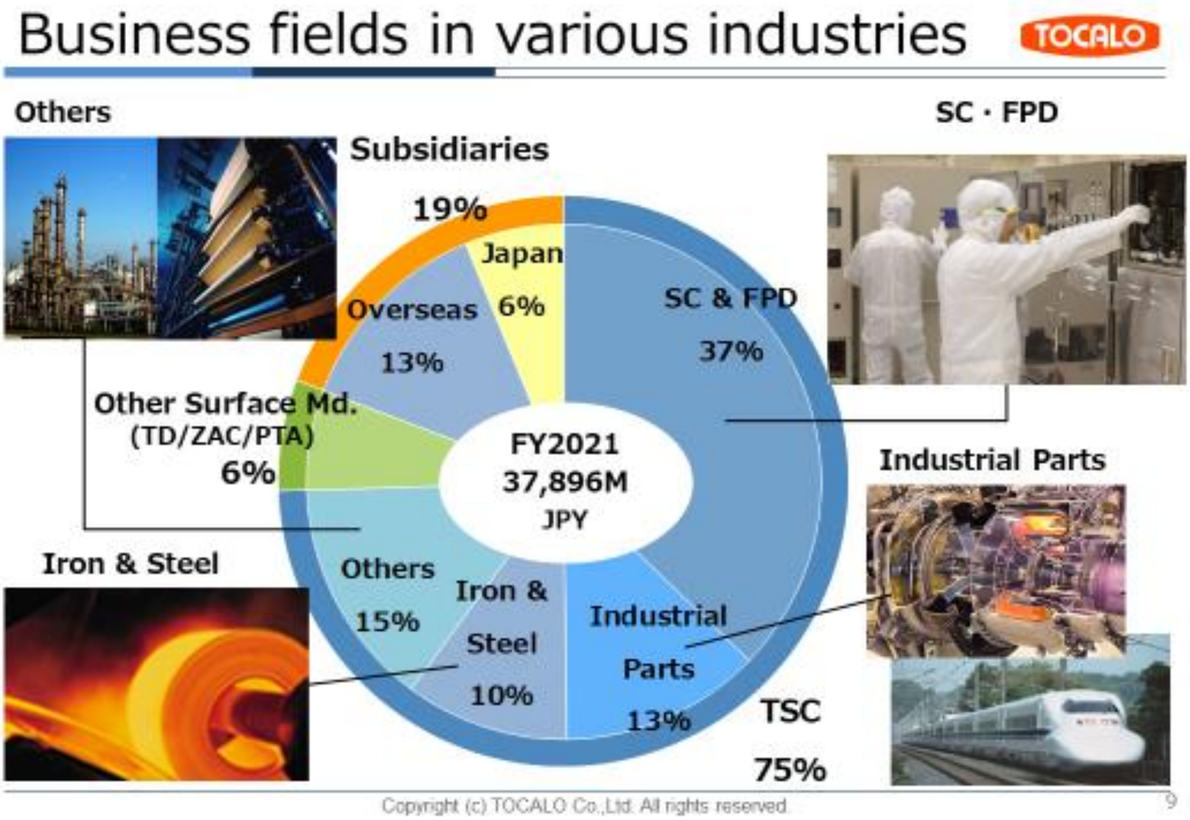
The plant's production facilities uses steel, paper, and so on. Today, I also came by bullet train. When I passed through the Fuji area, there were many paper manufacturers, but when I was young, I often went there, and it was nostalgic. That place is making tissues. There is a factory that makes tissue paper.

Paper is an industry of drying, in which products are drained from pulp and the essential point is how much water is drained. At first, about 95% was water, but in the end, about 5% remained to produce products. The same goes for tissues, but in the case of tissues, softness is sought at the same time as drying. What makes tissues soft? They make wrinkles.

I think tissues become soft when it is crumpled with wrinkles, but to put this wrinkle, there are dozens of large rolls, each having a diameter of about 3 meters or 4 meters, width of about 3 meters, 4 meters or 5 meters. This paper is then pulled to form a paper product, but at this time, they scrape it to add wrinkles. They take off the stuck pieces with a plate called Doctor Blade.

They scrape it off to add wrinkles. They place a steel plate called Doctor Blade at this time on top of the roll. The roll becomes damaged. If the roll gets damaged, they won't be able to take such thin paper. Holes will open. When a coating is made on the surface of the roll, or a cermet coating, it will not be damaged. The same type of wrinkles are made evenly. This is how you can make that softness. In short, thermal spraying is essential.

Now, I think there are about 150 pieces for big rolls that are making tissues in Japan. You can think of it that mostly are thermal sprayed. This is how facial tissues are made. To improve the durability of production facilities at these factories, our thermal spraying is being used.

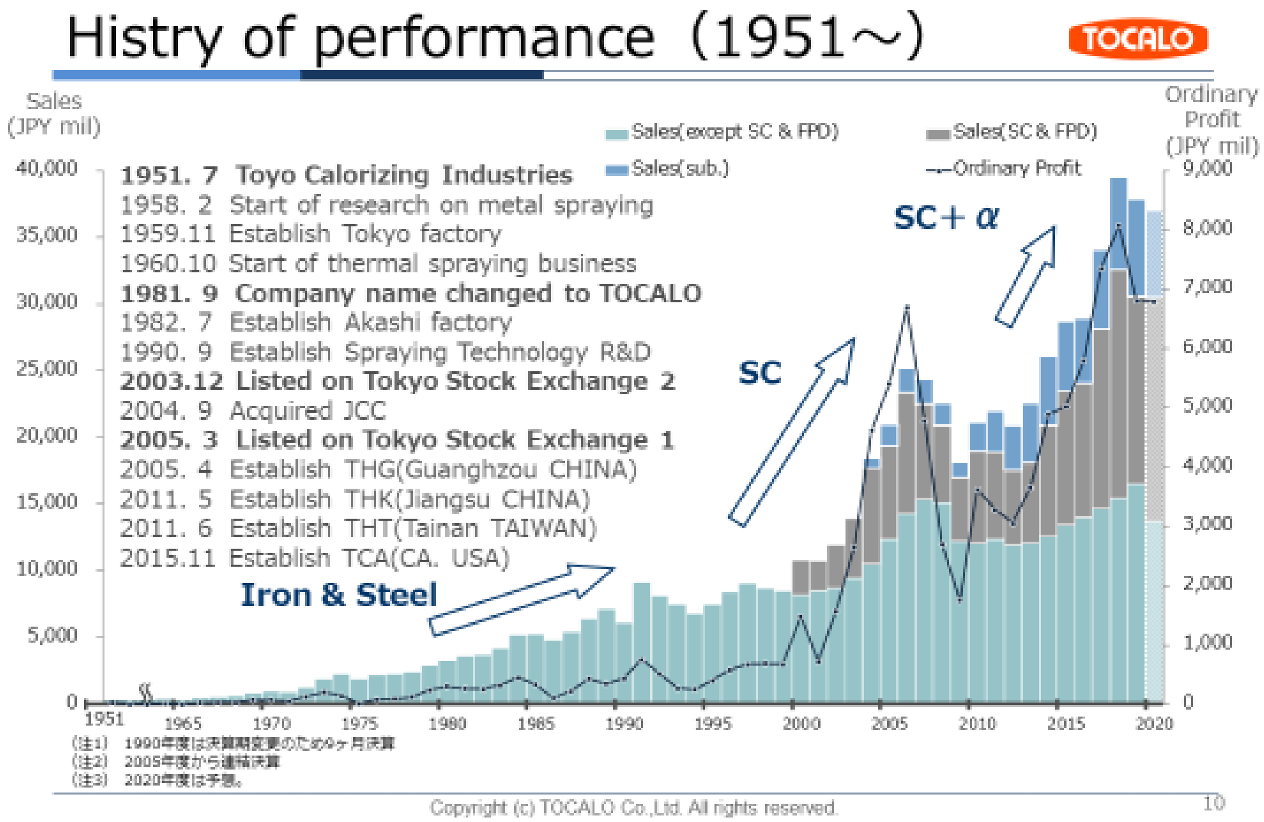


I will explain the main business areas of our group.

Sales in the previous fiscal year ended March 31, 2020, amounted to JPY37.896 billion. The products are used in a variety of fields. The blue expresses thermal spray coating (non-consolidated), and the green expresses other surface treatment, as we are also doing treatment that does not use thermal spraying. This is what TOCALO itself is doing for 75% and 6%, totaling 81%.

Furthermore, as I have explained earlier, the domestic, Japan Coating Center, and PVD account for 6%. In addition, for overseas companies, the two in China, Taiwan, and barely any in the United States, these three companies raise about 13%. Of these, the biggest part of the thermal spraying processing is semiconductors and FPDs. Although, it is not the semiconductors themselves that are being coated, please understand that thermal spraying is being used in the equipment that makes semiconductors.

Next, I will discuss engineering related issues such as bearings, industrial machinery related to infrastructure, such as gas turbines and boilers, the iron and steel industry, which the Japanese thermal spraying technology has originally grown, and other related issues such as paper, which I mentioned earlier, and petroleum.

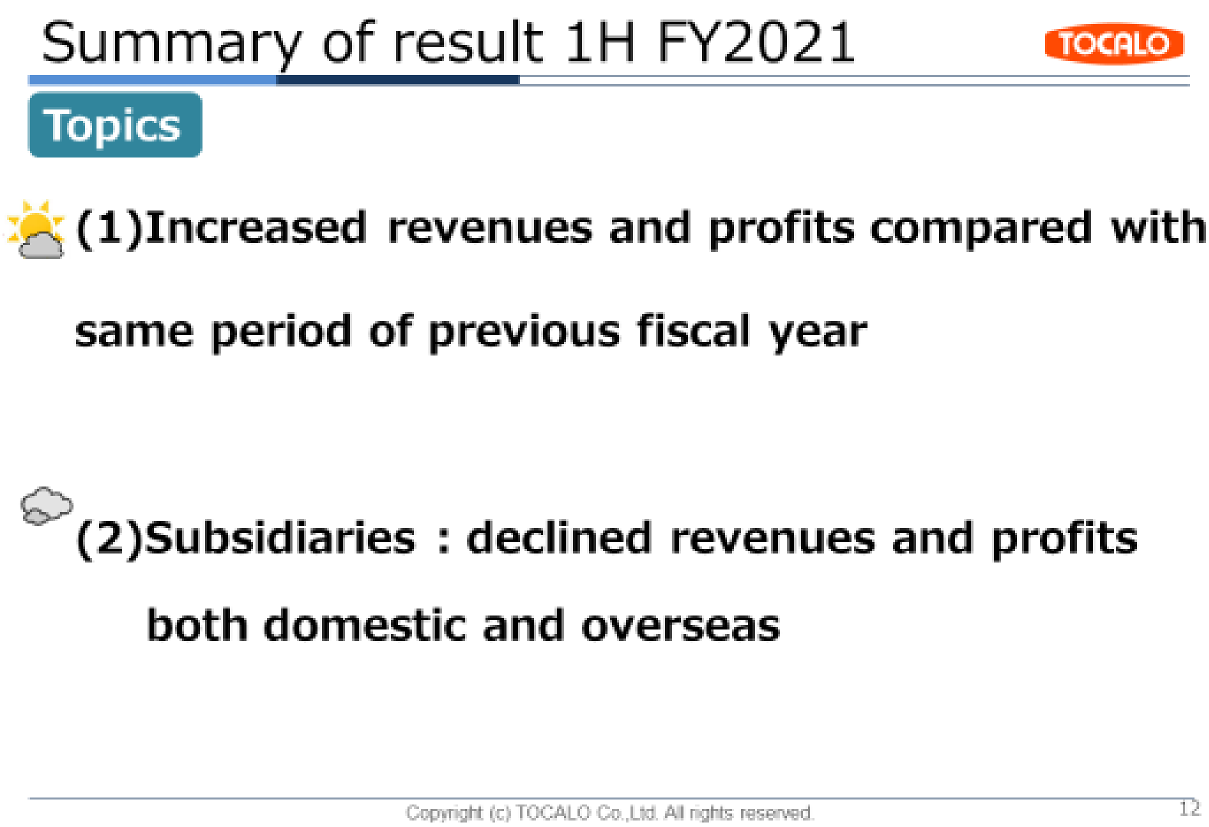


This is our history.

Since our founding in 1951, there have been about three waves of our growth process. Until the bubble burst, we had a lot of tie-ups with steel manufacturers, so the slow growth seen here is from steel.

From there, the application to semiconductors has been increasing since about 2000. In this gray area, we started research and development on semiconductors from about 1995. In truth, the semiconductor industry is an industry that dislikes dust the most, so we were not sure if we could use because we laminated thermal spraying powder. Things progressed, and around 2000, the general portion of thermal spraying saw a rise. In addition, the semiconductor portion showed a positive gain, and this is where we saw the second rapid growth.

After that, there was the collapse of the Lehman Brothers, so we also saw a decrease. This gray portion of semiconductors, and overseas sales, and sales of subsidiaries have started to rise. Supported by this, we have reached the highest level of profit in the year before last. It rose to about JPY8 billion. Last year, the economy of semiconductors fell slightly, so the gray portion fell slightly, but this year, the general and non-semiconductor divisions fell somewhat, which I would like to explain later, so the situation on a whole is declining.

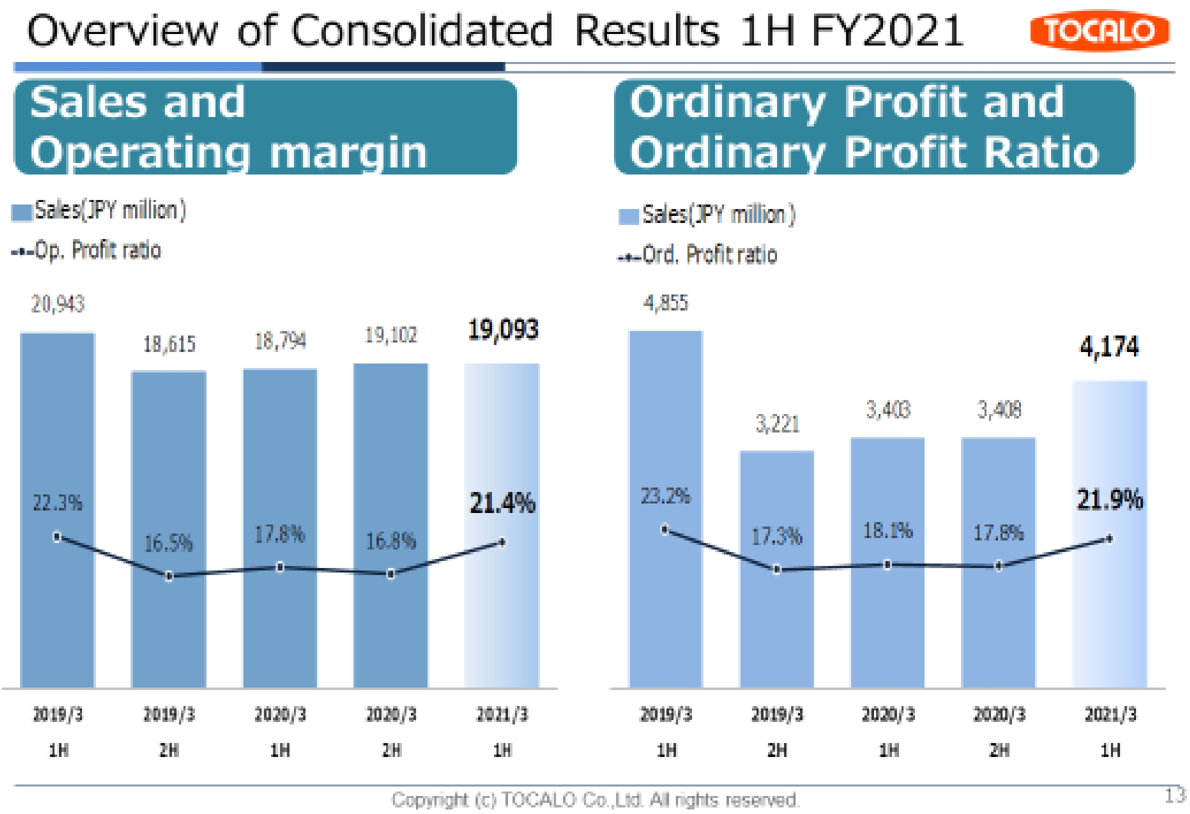


Now, let me explain the overview of the second quarter consolidated financial results.

In terms of highlights, the first highlight is that there was an increase in both sales and profits and a slight increase in sales compared with the same period of the previous fiscal year. However, thanks to the fact that semiconductors and FPDs have pulled up on one leg, ordinary income has also risen thanks to an extremely strong increase in sales. In other areas, the economy has receded considerably, mainly due to the effects of the coronavirus and the overall drop in the market centering on steel. As a result, we saw a drop due to this sluggish economy.

As for our subsidiaries in Japan, the Japan Coating Center or JCC as we call it, but here, there are many car-related business, so they were not doing good due to the fall in car-related falls especially in the first half of the year.

As for overseas subsidiaries, China is also steel-related business as well as oil and gas, but the growth on that side has not recovered much. In addition, the semiconductor-related business in Taiwan and China rallied, even though business was temporarily suspended due to the coronavirus.



This shows the profit of sales for each quarter of the consolidated statements for the second quarter, and lists about five terms for every six months from the fiscal year ended March 2019.

First of all, in terms of sales compared to the previous period, it has risen slightly compared to the previous period. I feel that we have reached this level compared to the second half of the previous fiscal year.

In terms of profits, some have risen mainly in semiconductors, so in this sense, profits have risen slightly, the profit margin has reached JPY4.174 billion, or 21.9%.

Overview of Consolidated Results 1H FY2021

(百万円)	2020/3 2Q Result	2020/3 2Q Ratio	2021/3 2Q Result	2021/3 2Q Ratio	Change Amount	Change Ratio
Turnover	**18,794**	**100.0%**	**19,093**	**100.0%**	**299**	**1.6%**
Thermal Spray	14,097	75.0%	14,965	78.4%	867	6.2%
Semi-con, FPD	6,764	36.0%	9,019	47.2%	2,254	33.3%
Industrial Parts	2,474	13.2%	2,075	10.9%	△ 399	-16.1%
Iron & Steel	1,972	10.5%	1,739	9.1%	△ 232	-11.8%
Others	2,886	15.3%	2,131	11.2%	△ 754	-26.1%
Other Surface Md.	1,161	6.2%	1,029	5.3%	△ 132	-11.4%
Domestic Sub.	1,197	6.4%	892	4.7%	△ 304	-25.4%
Overseas Sub.	2,337	12.4%	2,205	11.6%	△ 131	-5.6%
Operational Profit	**3,348**	**17.8%**	**4,091**	**21.4%**	**743**	**22.2%**
Prdinary Profit	**3,403**	**18.1%**	**4,174**	**21.9%**	**771**	**22.7%**
Net Profit atribute to Parent Company	**2,148**	**11.4%**	**2,688**	**14.1%**	**539**	**25.1%**

14

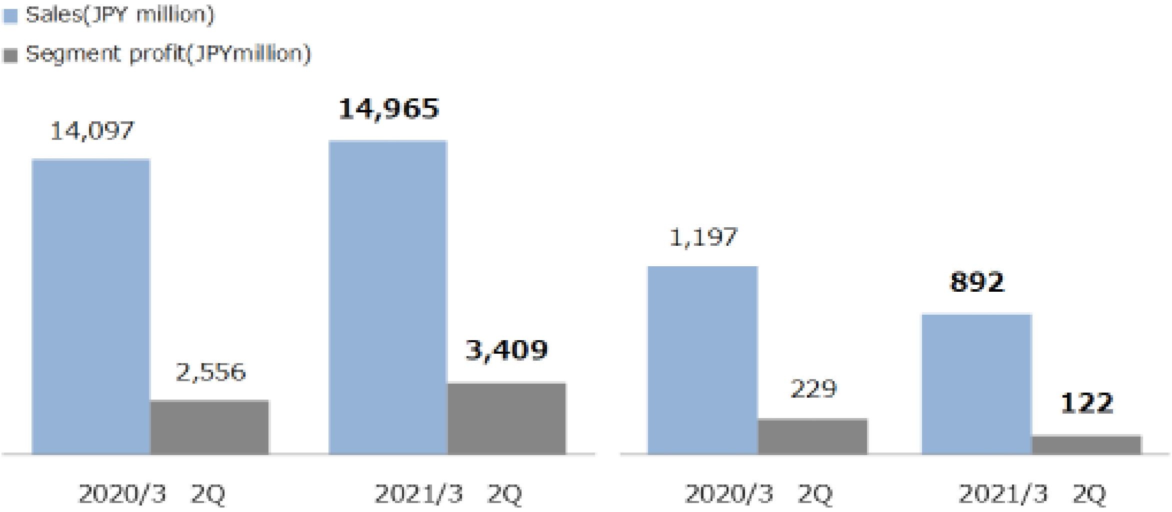
Talking about what was good, I would like you to take a look at this part.

Sales have been rising, and have been rising compared to the previous period. There has been an increase in thermal spraying treatment. In particular, sales of semiconductors and FPDs have been growing by 33.3%, but all else are negative. These include industrial machinery, steel, and other divisions, thermal spraying, and other surface treatment and other than thermal spraying. In addition, there are negative effects for the domestic subsidiary JCC and overseas subsidiaries. However, semiconductors and FPDs have been able to take on them single-handedly, which has made sales positive.

Segment Information

TOCALO

Thermal Spraying Tocalo | **Domestic Subsidiary**

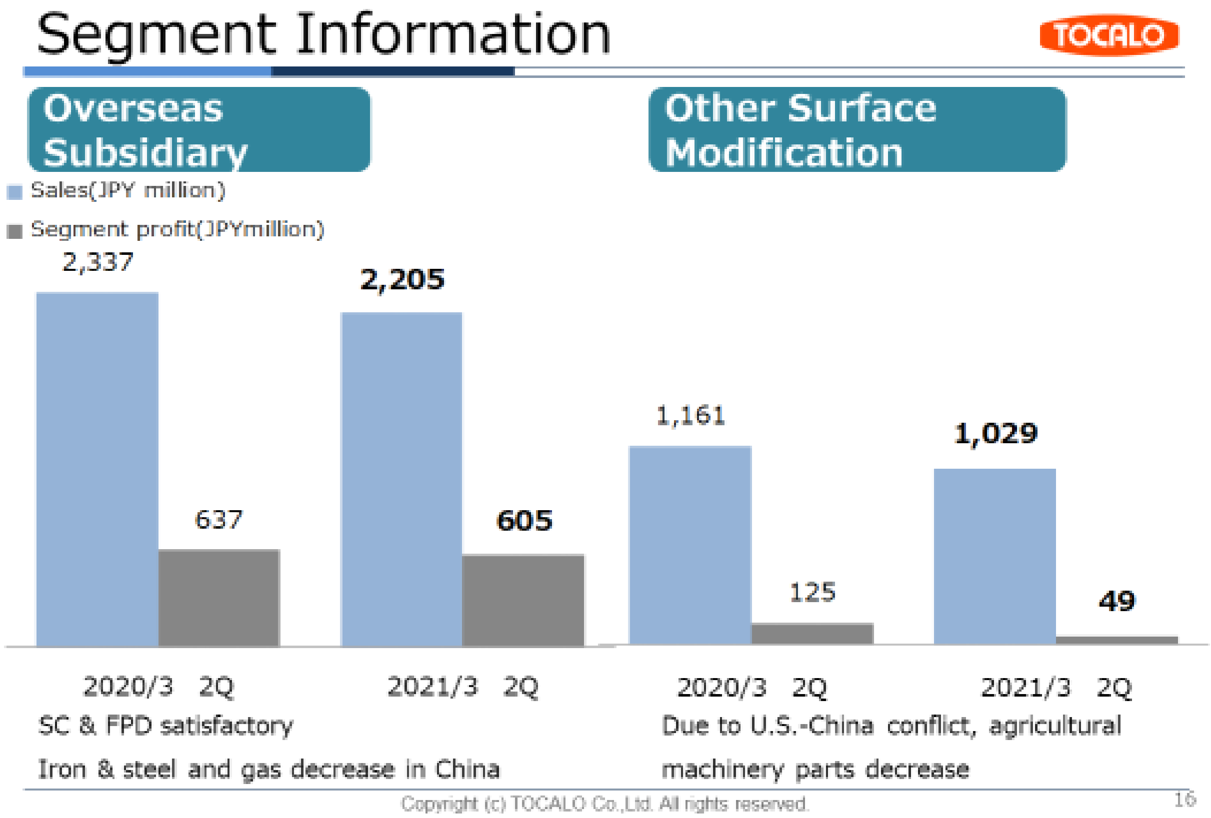


Industrial parts and Iron & Steel decrease

SC & FPD significantly increase

PVD decrease due to Car sales down

 15



In the same way, here we are looking at sales and profits by segment, but in conjunction with the explanation I just mentioned, semiconductors and FPDs are driving the overall numbers, and it is only here that we see an increase in sales and profits. Including these, the thermal spraying processing and single divisions achieved increases in both sales and profits. And besides that, whether they are the domestic subsidiary JCC, or overseas subsidiaries, our overseas subsidiaries also worked hard. But they did not do as good as last year. Sales and profits also declined for surface treatment processing.

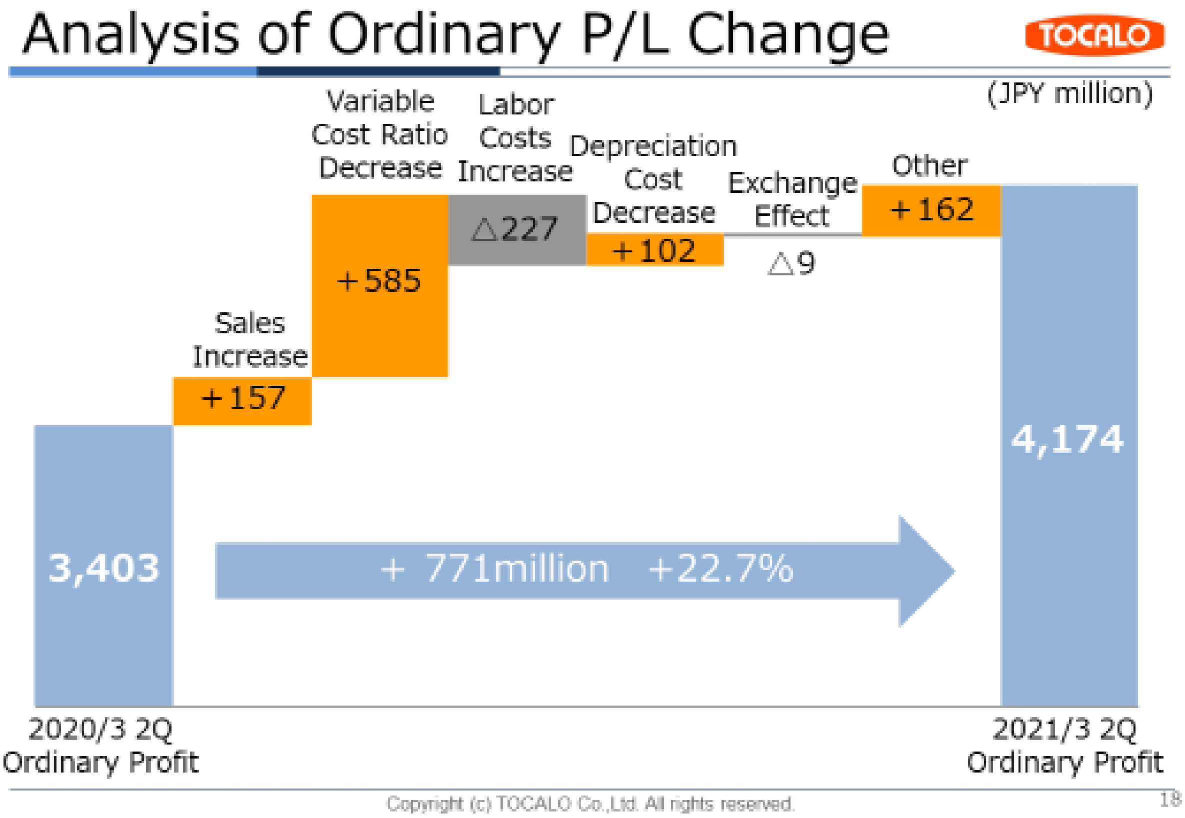
Segment Information

TOCALO

(百万円)	2020/3 2Q		2021/3 2Q		Change			
					Sales		Seg profit	
	Sales	Seg profit	Sales	Seg profit	Amount	Ratio	Amount	Ratio
Ther Spray Tocalo	14,097	2,556	14,965	3,409	867	6.2%	852	33.4%
Domestic sub.	1,197	229	892	122	△ 304	-25.4%	△ 106	-46.4%
Overseas Sub.	2,337	637	2,205	605	△ 131	-5.6%	△ 32	-5.0%
Other Surface Modi	1,161	125	1,029	49	△ 132	-11.4%	△ 75	-60.1%
Total	18,794	3,548	19,093	4,187	299	1.6%	639	18.0%

(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。

This summarizes in a list of the things that I just explained, and basically it is this part here. This thermal spraying processing here has led both sales and profits, particularly for semiconductors and manufacturing equipment for FPD.



Analyzing the reasons of ordinary income compared with the previous year of the same period and looking at the increase and decrease factor, we can see that profits will increase due to the increase in sales. The decline in the variable expense ratio means that in the general sectors other than semiconductor and FPD sectors, the outsourcing costs are high in the steel and industrial machinery sectors, but many of them are in the form of polishing or finishing, but the amount has become extremely small.

Regarding personnel expenses, since the semiconductor sector was busy, the number of employees has been increasing, so the amount has risen. In other areas, transportation expenses have decreased due to the coronavirus, and royalty from overseas has increased. Therefore, these became a plus and contributed to the sales figure of JPY4.174 billion.

Financial

(JPY million)	FY2020		FY2021
	1H	2H	1H
Total asset	56,596	61,122	61,817
Net Worth	38,663	40,263	42,140
Capital	68.3%	65.9%	68.2%
Int-bearing Debt Outstanding	5,860	8,145	7,057

- From the previous period, total asset increase 695 million yen (Fixed asset increase 744million yen)
- From the previous period, capital adequacy ratio +2.3% (68.2%)
- From the previous period, interest bearing debt decrease 1.088 billion yen (no borrowings for the current fiscal year)

19

Regarding our financial position, total assets have increased, partly due to an increase of JPY744 million in fixed assets, so total assets have increased by JPY695 million. The equity ratio has increased by 2.3% from the previous fiscal year to 68.2% because of the increase in shareholders' equity in the previous fiscal year's accumulated profits.

For the current fiscal year, we borrowed JPY3 billion at the end of the previous fiscal year, but there are no borrowings for the current fiscal year, so the liability will be JPY7 billion as is.

Cash Flow

TOCALO

(JPY million)	FY2020 2Q	FY2021 2Q
Operating CF	**2,025**	**4,180**
Investment CF	**△ 2,771**	**△ 1,932**
Financial CF	**361**	**△ 2,002**
Cash Balance	**11,781**	**16,714**

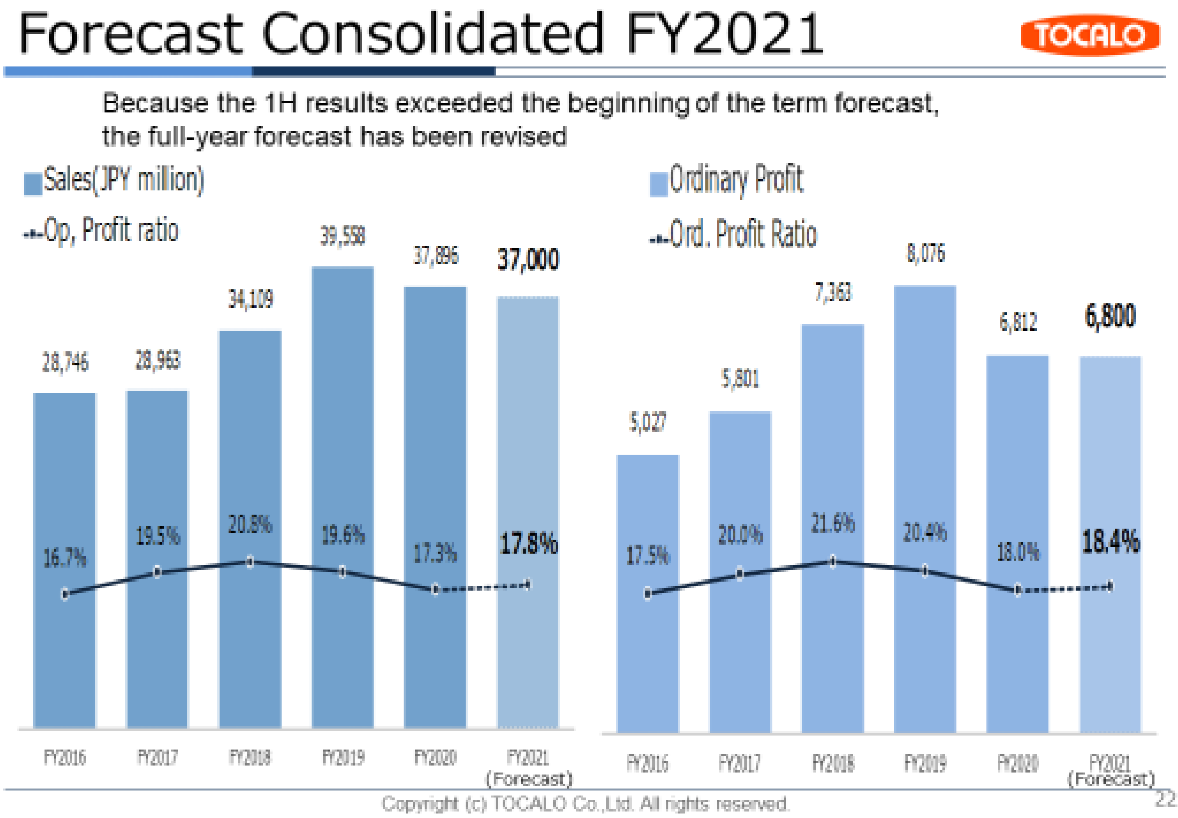
・2Q Free Cash flow（Operating ＣＦ＋Investment ＣＦ）：＋2.2 billion yen
・Investment ＣＦ／Acquisition of tangible fixed assets
Previous term：△2.4billion yen　This term：△1.8billion yen
・Financial ＣＦ／Long-term borrowing income
Previous term：＋2.1billion yen　This term：　no
※ From the previous period, long-term borrowing 3 billion yen coexisting with the coronavirus, thinking of keeping funds at hand

 20

Regarding the cash flow situation, the sum of free cash flow, operating cash flow, and investing cash flow for the second quarter is positive at JPY2.2 billion, so I think it is sound.

Furthermore, in terms of finance, we now have cash equivalents of JPY16.714 billion, but within this amount, about JPY7 billion is the debt I have just mentioned, so the subtracted amount will be net cash.

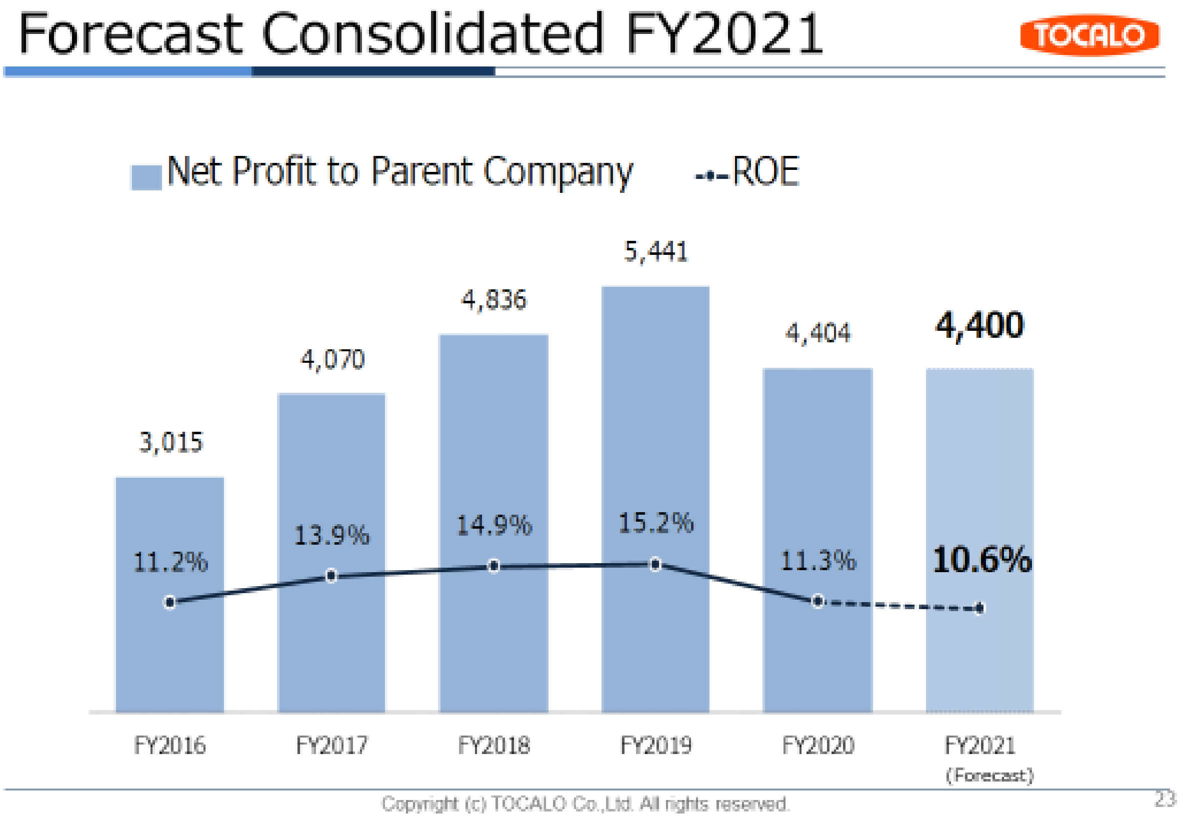
Currently, due to the coronavirus, we want to make cash at hand bountiful. While we are coexisting with the coronavirus, we are thinking of keeping funds at hand.



The third is about our earnings forecast for the fiscal year ending March 2021.

For the consolidated performance format of the fiscal year ending March 2021, we have announced our first earnings forecast at the end of July, but as I explained earlier, sales and profits have increased thanks to the semiconductors and FPDs related business. In that sense, we have upwardly revised our forecasts, with net sales of JPY37 billion for the current fiscal year, profits of JPY6.8 billion, and an ordinary income margin of 18.4%.

However, although we revised our net sales forecast upward by JPY500 million and ordinary income forecast by JPY800 million, we have added increased sales from the previous fiscal year to our original plan at the beginning of the fiscal year. We just added the upward revision in the first half of the fiscal year, so there is still some unclear trends in the second half, and we made this announcement in such a way.



The net income will be JPY4.4 billion. ROE will be 10.6%, while our initial plan was less than 10%, but with this, we finally made it to the double-digit level. We did set a target of 15%, but we could not reach that goal. However, for the time being, we are making progress in maintaining the double digits.

Revision of consolidated forecast

TOCALO

(JPY million)	FY2021				Change	
	July Forecast	Ratio	This Forecast	Ratio	Amount	Ratio
Turnover	**36,500**	**100.0%**	**37,000**	**100.0%**	**500**	**1.4%**
Thermal Spray	28,108	77.0%	28,487	77.0%	379	1.3%
Semi-con,FPD	15,903	43.6%	16,843	45.5%	940	5.9%
Industrial Psrts	3,768	10.3%	3,645	9.9%	△ 123	-3.3%
Iron & Steel	3,400	9.3%	3,406	9.2%	6	0.2%
Others	5,035	13.8%	4,591	12.4%	△ 444	-8.8%
Other Surface Md.	1,987	5.5%	2,045	5.5%	57	2.9%
Domestic Sub.	1,986	5.4%	1,912	5.2%	△ 73	-3.7%
Overseas Sub.	4,417	12.1%	4,554	12.3%	137	3.1%
Operating Profit	**5,800**	**15.9%**	**6,600**	**17.8%**	**800**	**13.8%**
Ordinary Profit	**6,000**	**16.4%**	**6,800**	**18.4%**	**800**	**13.3%**
Net Profit attribute to Parent Company	**3,880**	**10.6%**	**4,400**	**11.9%**	**520**	**13.4%**

 24

This is the difference between the first forecast announced in July and the current revised forecast. Basically, the semiconductor portion did good in the first half, so the accumulation of that amount is as explained earlier.

For overseas, Taiwan mainly works on semiconductors and FPD, and half of China doing semiconductors and FPD. This is picking up considerably, and is showing the kind of environment that is published in newspapers. Therefore, we have made this figure due to this effect.

Forecast Consolidated FY2021

TOCALO

(百万円)	FY2020		FY2021		Change	
	Result	Ratio	Forecast	Ratio	Amount	Ratio
Turnover	**37,896**	**100.0%**	**37,000**	**100.0%**	**△ 896**	**-2.4%**
Thermal Spray	28,221	74.5%	28,487	77.0%	265	0.9%
Semi-con,FPD	14,102	37.2%	16,843	45.5%	2,741	19.4%
Industrial Psrts	4,782	12.6%	3,645	9.9%	△ 1,137	-23.8%
Iron & Steel	3,899	10.3%	3,406	9.2%	△ 492	-12.6%
Others	5,437	14.4%	4,591	12.4%	△ 845	-15.6%
Other Surface Md.	2,384	6.3%	2,045	5.5%	△ 338	-14.2%
Domestic Sub.	2,364	6.2%	1,912	5.2%	△ 451	-19.1%
Overseas Sub.	4,925	13.0%	4,554	12.3%	△ 371	-7.5%
Operating Profit	**6,550**	**17.3%**	**6,600**	**17.8%**	**49**	**0.8%**
Ordinary Profit	**6,812**	**18.0%**	**6,800**	**18.4%**	**△ 12**	**-0.2%**
Net Profit attribute to Parent Company	**4,404**	**11.6%**	**4,400**	**11.9%**	**△ 4**	**-0.1%**

25

Next compares figures with the previous period.

Sales were JPY37.9 billion in the previous fiscal year and JPY37 billion this time. It's a little low, but around that point. We have already announced that our profit was JPY6.8 billion, and this time we brought it up to JPY6.8 billion, which is about the same level as in the previous fiscal year.

As I mentioned earlier, the figures of the second half of the fiscal year is as planned in the previous fiscal year, so we must continue to pay close attention to how the figures will move.

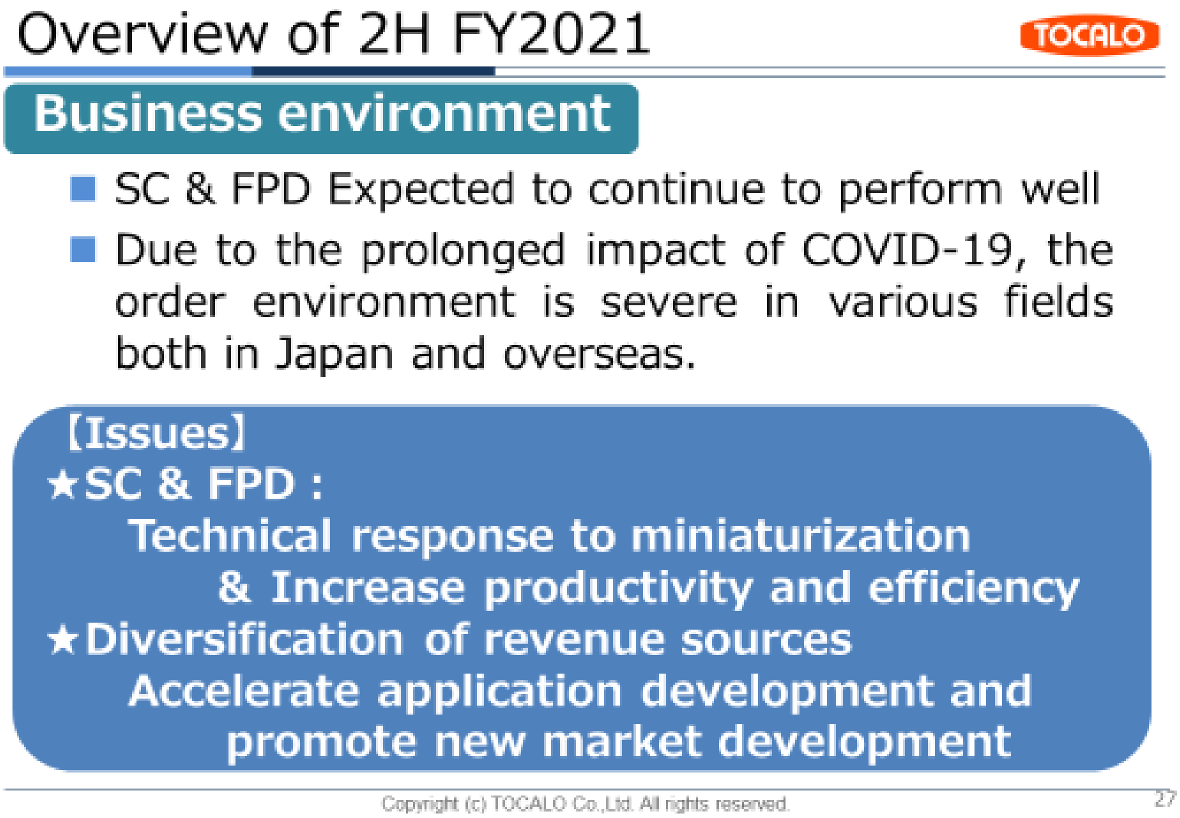
1H FY2021 Progress Rate

(JPY million)	1H FY2021		FY 2021		1H Result
	Result	Ratio	Forecast	Ratio	Ratio
Turnover	**19,093**	**100.0%**	**37,000**	**100.0%**	**51.6%**
Thermal Spray	14,965	78.4%	28,487	77.0%	52.5%
Semi-con,FPD	9,019	47.2%	16,843	45.5%	53.5%
Industrial Psrts	2,075	10.9%	3,645	9.9%	56.9%
Iron & Steel	1,739	9.1%	3,406	9.2%	51.1%
Others	2,131	11.2%	4,591	12.4%	46.4%
Other Surface Md.	1,029	5.3%	2,045	5.5%	50.3%
Domestic Sub.	892	4.7%	1,912	5.2%	46.7%
Overseas Sub.	2,205	11.6%	4,554	12.3%	48.4%
Operating Profit	**4,091**	**21.4%**	**6,600**	**17.8%**	**62.0%**
Ordinary Profit	**4,174**	**21.9%**	**6,800**	**18.4%**	**61.4%**
Net Profit attribute to Parent Company	**2,688**	**14.1%**	**4,400**	**11.9%**	**61.1%**

26

This is the progress rate, but it is the progress rate regarding this time's revised figures.

For the time being, since the first half result was good, it is said that every sector covers more than 50%. However, as I have been saying many times, the trend in the second half has to be predicted from now.



The theme for the second half is that the semiconductor and FPD sectors are continuing to perform well, so we will probably do well. I feel that we have to follow this trend.

Another issue is, after all, how much will the coronavirus influence. Hokkaido is seeing an increase in new cases now. And in all respects, there is a relationship between temperature and humidity, and how much it will spread in relationship with the flu. So basically, it will depend on how to assess this part and how to move the factory while managing the situation.

As for the theme, we are now working on semiconductors and FPDs. However, the width of wires is becoming thinner and denser, as it is often said to be 27 Nanos, 15, 14 Nanos, 7 Nanos, and 5 Nanos. Therefore, our technological capabilities and mass production will depend on our vertical start-up, and we must improve our production efficiency to respond to this situation.

For the second half of the fiscal year, we will have to prepare for the next fiscal year where we are still surely coexisting with the coronavirus, how we can move that, what we will do for the next fiscal year, and how we will develop various applications.

Overview of 2H FY2021

TOCALO

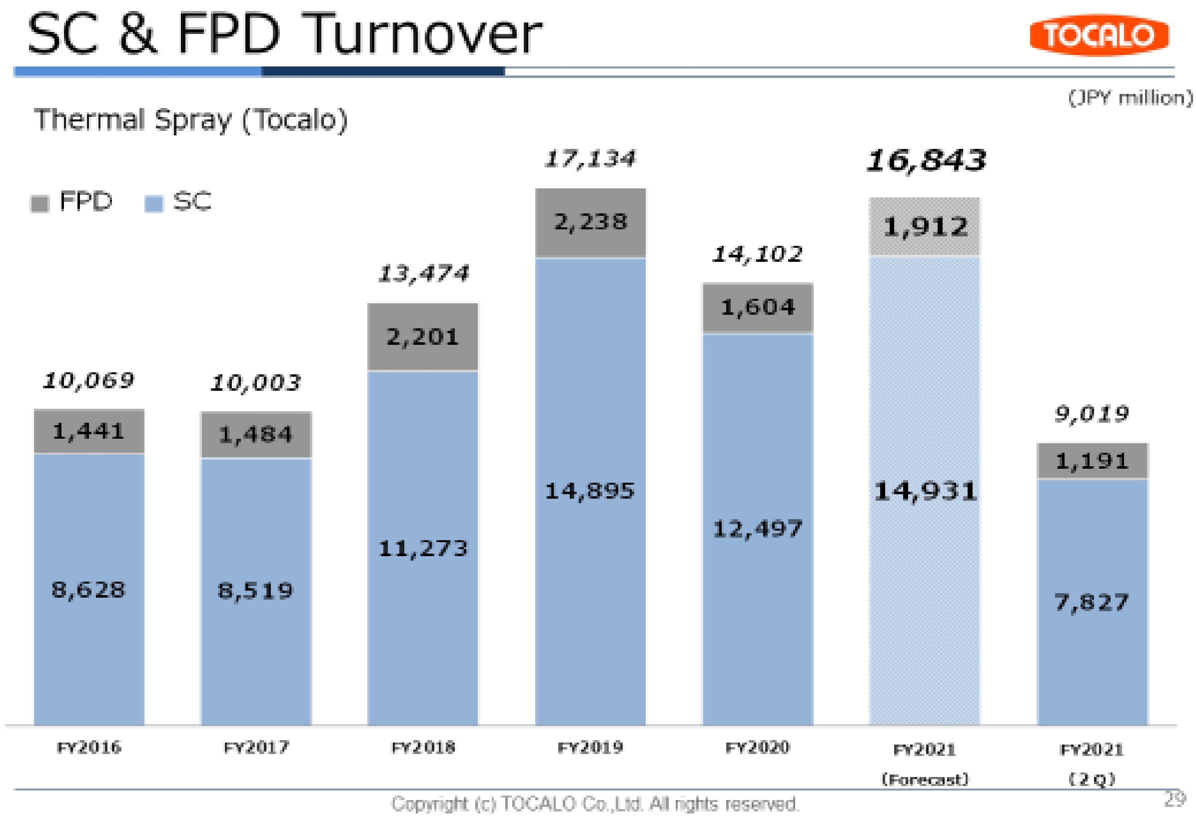
Impact and response of COVID-19

- Due to the effects of the COVID-19, future prospects are unstable
  - ・Iron & Steel and Industrial Parts, Order postponement occurred
  - ・SC & FPD impact is small in domestic and overseas
    Supported the business results for this term
- Domestic subsidiary will continue to face a difficult order environment, especially in the automobile field
- Overseas subsidiaries are on a recovery trend even though operations are temporarily suspended from January to March.

Tocalo Policy
①Considering the safety of employees and clients first
②Thorough risk management for business continuity

As I mentioned earlier, due to the effects of the coronavirus, future prospects are unstable. There was news that Pfizer has developed a very effective vaccine, but while we look forward to it, I think it will not make it in time for this fiscal year.

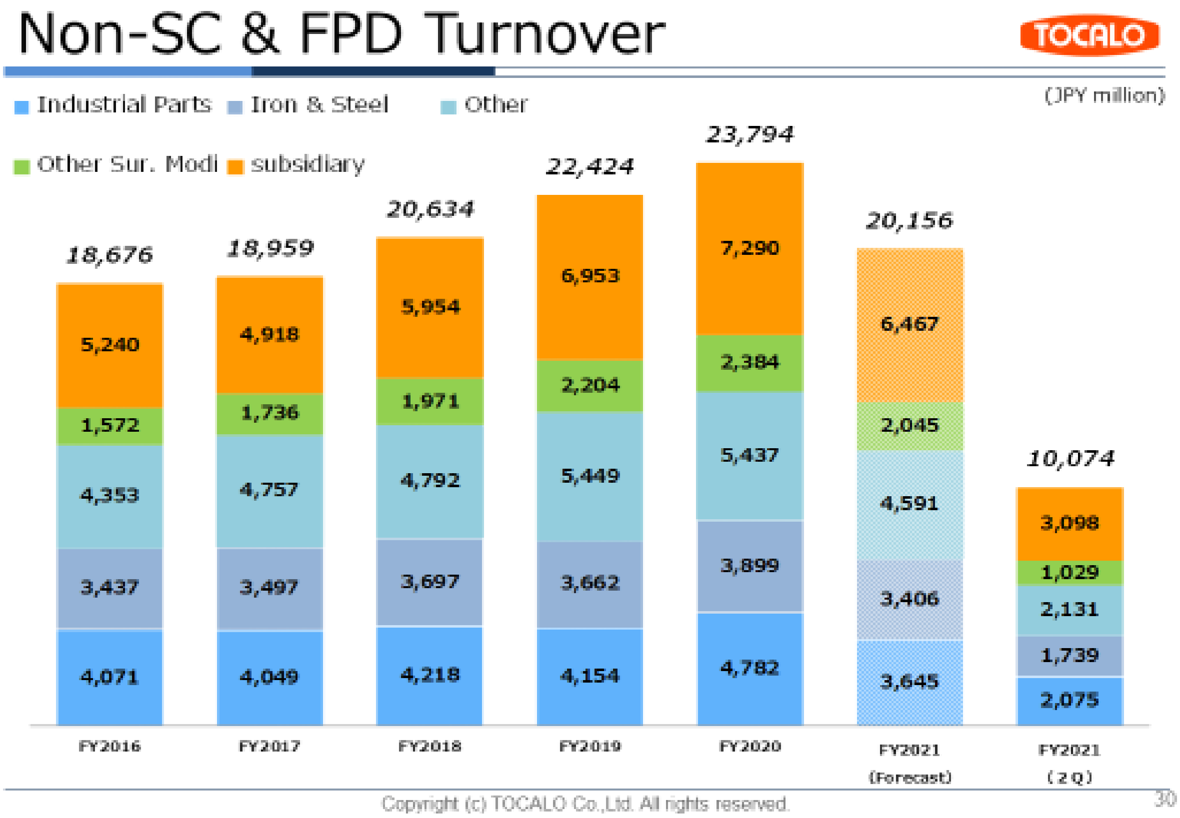
What should be done in this situation? As we have been doing from the past, there are many basic measures, such as considering the safety of employees and clients first, and also hand washing and sanitization. Avoiding closed spaces, crowds, and close contact. I think there are many other things, but risk management will be done in each factory and each division. Everyone has a common awareness that the only thing to do is to not stop the factory, and eliminating chances of a person of high-risk contact, and to not spread the virus even though one or two people test positive. We would like to continue our business for the time being. Since we are receiving orders, if we continue to run our business, our business performance will improve to a certain degree.



This is the trend of semiconductors.

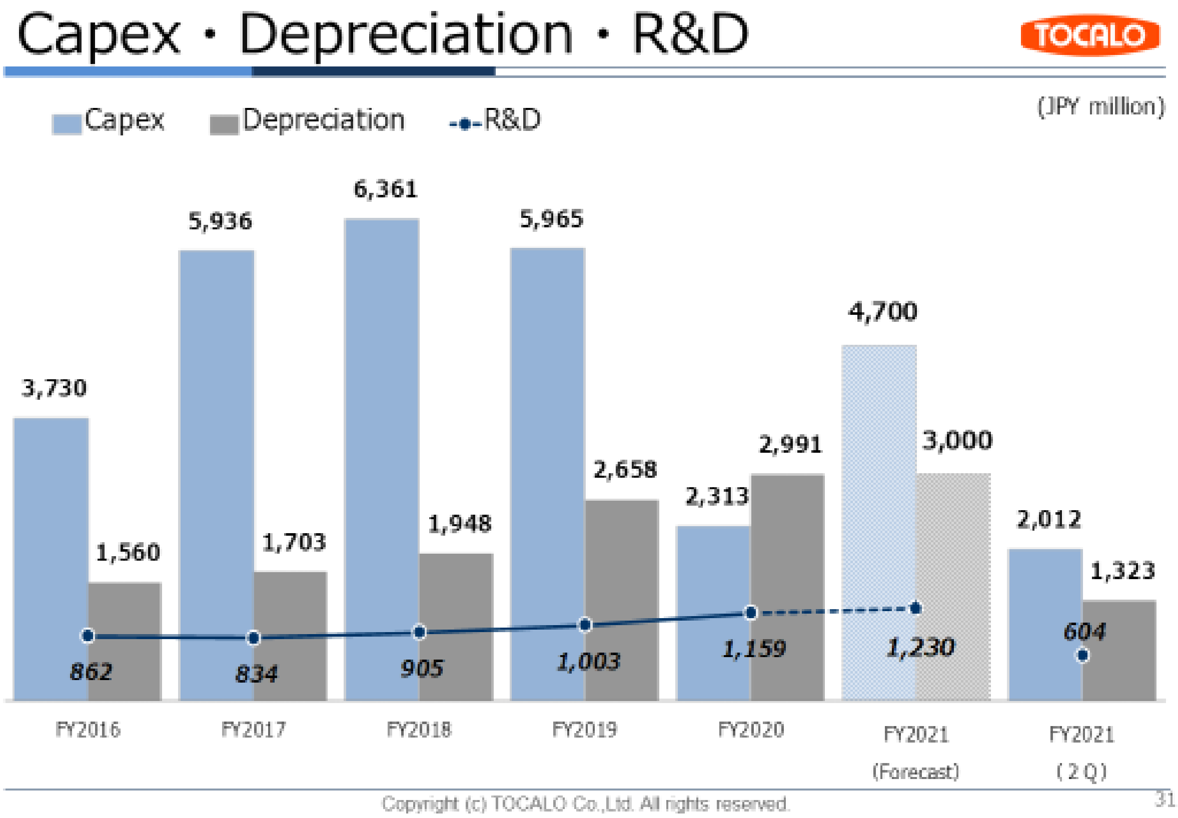
Here are about five periods since around 2016, but we are expecting JPY16.8 billion this fiscal year. Currently, it is about JPY9 billion, but if it is doubled, it is JPY18 billion, but these are the numbers for the time being.

As a whole, as other divisions have come down, the figure is around 45%. The percentage of the Semiconductor Division is accounted for by the business for the previous fiscal year was 37%, and the figure for the previous fiscal year was extremely favorable, and this was 43% when we achieved a profit of JPY8 billion, so it has increased slightly. However, if we can make a profit here, there will also be various other areas of R&D, so this is probably the figure for this year.

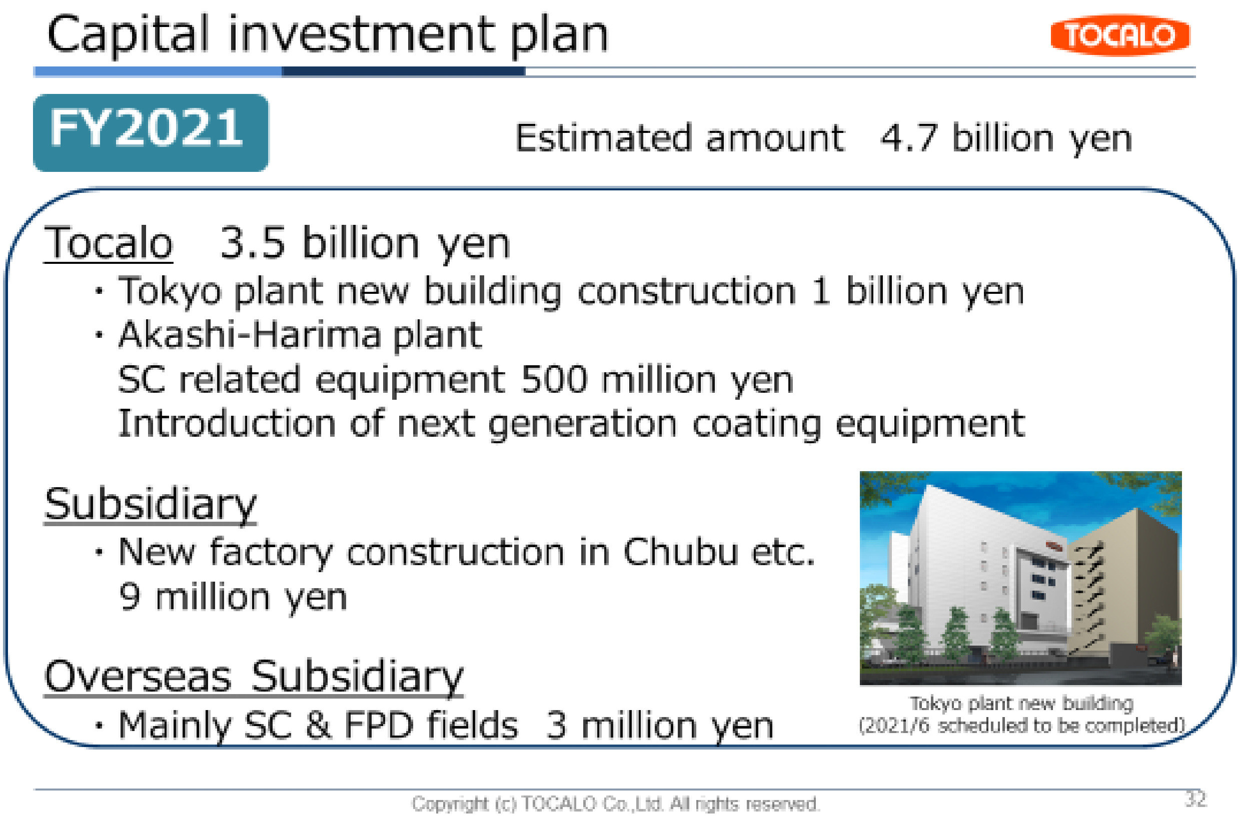


In sectors other than semiconductors and FPDs, the sales of industrial machinery, steel, other thermal spraying treatment, and other surface treatment have been gradually declining compared to the previous fiscal year. I think it's a matter of the economy as a whole, but it's going down little by little rather than a drop of one sector. So once the economy rebounds, and the U.S. economy rebounds and China rebounds, it will rise again over time.

In addition to external factors, I think that we must take an internal approach to increasing applications and developing markets in the future.



For this reason, we also have capital investment and R&D expenses, but for the current fiscal year, we are investing about JPY4.7 billion for capital investment, and now we are investing about JPY2 billion. We intend to do this in line with the budget.

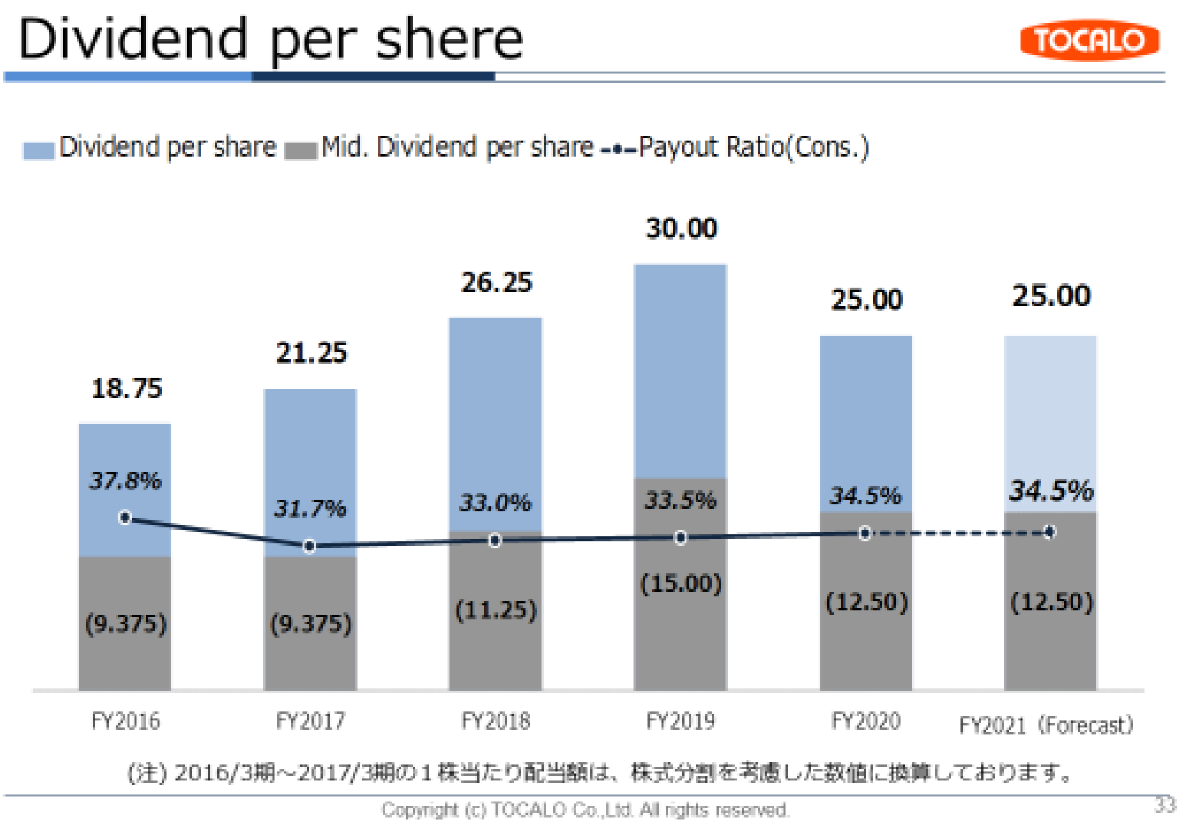


The amount invested is JPY3.5 billion for TOCALO of the main unit, JPY900 million for JCC, and JPY300 million for overseas subsidiaries, especially for Taiwanese affiliates.

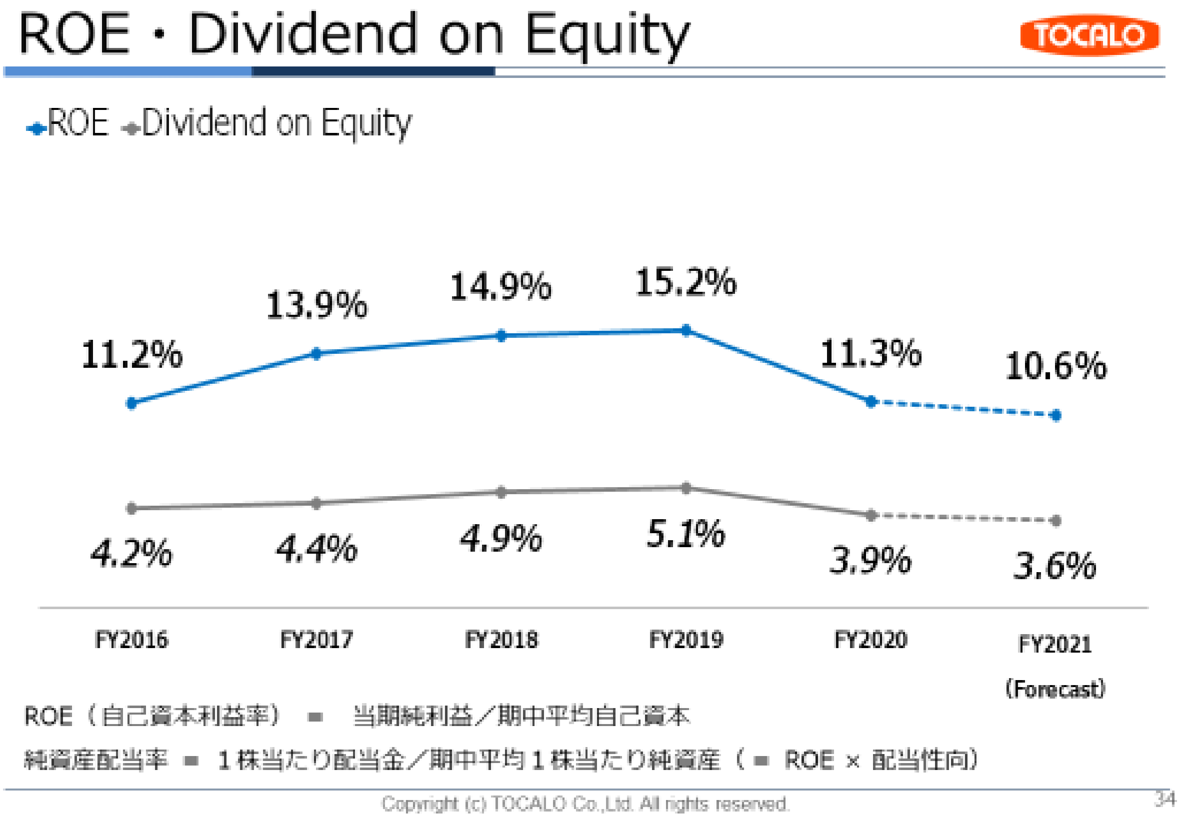
The new building in Tokyo is a facility that covers the coating of semiconductor chamber parts up to the finer parts of the extreme wiring we mentioned earlier. For example, we are thinking of making the ones used in clean room to make 1,000 to 100 or to 10. With those in mind for the future, as they will be coming up from next year, we are investing in equipment to be ready.

JCC's Chubu region is centered on the automobile industry, so we are planning to put in a new facility there. Rather, a plant for PVD coating for automobiles. As for overseas, a new location will be established in Tainan, Taiwan.

In particular, in terms of semiconductors, although we are not the single winner in TSMC, there is an extremely large global market, and in response to this, there is an industry that expands worldwide, so we are investing in facilities to respond to this situation.



As sales and profits will be on a par with the previous fiscal year, for the time being, dividends will be on a par with the previous fiscal year. This is why the dividend payout ratio is around 34.5%, so at this stage we are implementing this approach.



As I mentioned earlier, ROE is 10.6%, and we are barely maintaining double-digit ROE.

Finally, I can't say too much about sustained growth, but it's a plan as I always say.

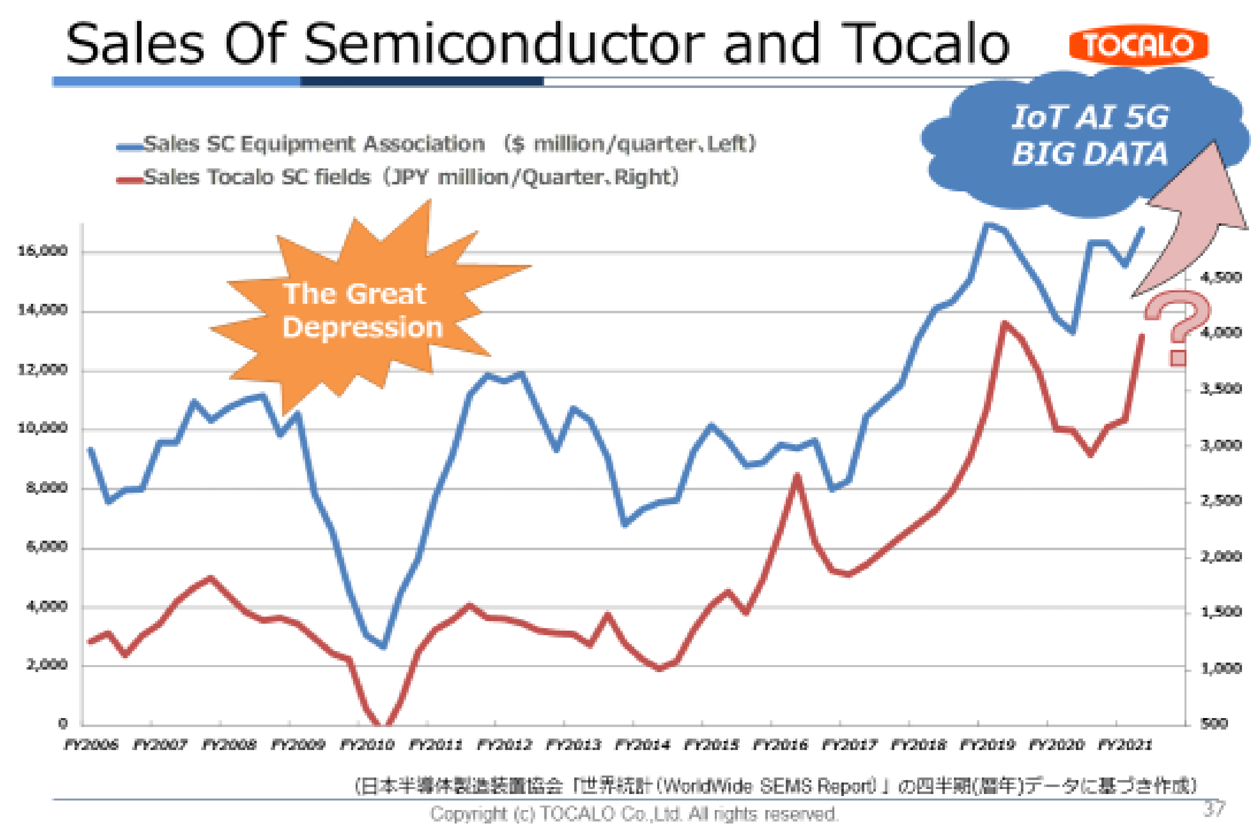
We must develop new products and create a new market to show how much we can cultivate the market as a leading manufacturer of thermal spraying-related and surface treatment products, and how much people can use our coating of thermal spraying to show that our products are useful for the world. This has been done in a considerable part in semiconductors and FPDs, and in addition, the technology of the other party will become high-tech. Therefore, we must develop new products to keep up with this trend.

In addition, we brought up items such as new materials, energy, transport equipment, and medical care. In particular, for the current fiscal year, as written on the right, we have no choice but to undertake technological development in the field of semiconductors and FPDs in conjunction with the refinement of next-generation coatings. I also think that we must expand the market even further.

Second, last month, Prime Minister Suga announced a carbon neutral policy to reduce greenhouse gas emissions to zero by 2050. This policy will have a considerable impact in the future, and the key to this energy policy is a message that has a considerable impact in the context surrounding Japan. We are involved in energy-related activities in various areas, so we have to determine what we can do amongst that, and will cultivate new markets. I would like to explain about this worth one sheet, but that is what we think.

The other is the coexistence with the coronavirus, which has not yet settled down, so as I mentioned earlier, how should we not stop the factory in response to the coronavirus?

Furthermore, we will either support Japanese companies centered on coating strategies, or we will continue to do so, even though global strategies depend on the coronavirus as well.



This is about semiconductors.

I think I explained this figure a year ago, but the worldwide sales of semiconductor production equipment have come out each quarter, and this figure is made based on the Semiconductor Equipment Association of Japan's worldwide SEMS report. This is written in blue. It's moving as shown.

Our semiconductor sales, which we have put together in the same way for each quarter, are just as special demand here, and we have developed a new coating. The blue part shows what will happen from now, just as far as the first quarter up to June of this year.

From the previous line, we have almost the same trend, and we can say that every sector can probably go this way. We intend to include mass production and technology, including the development of technologies that can be followed in accordance with these standards.

As there is time, there is a shift to a carbon-free society, transitioning from fossil fuels to green energy. Therefore, the coating business has done so to a certain extent. Until now, there has been a relationship between coal-fired power generation centered on boilers, as well as LNG and oil. However, there are gas turbine relationships, as well as LNG and vaporizers, but there is a vaporizer called ORV, and we are going to do so in a variety of ways, including the thermal spraying and the coating of that surface.

This will probably continue for some time, but what happens as a result of the transition is the relationships with renewable energy, including hydropower, geothermal, wind, and solar power. There is not much demand in thermal spraying for solar power. It was mostly made in China in relation to manufacturing equipment.

One is that low-efficient coal-fired thermal power will be stopped by 2030. It is said that around 100 plants will be stopped, so only the highly efficient ones will remain. A system will be ready for this purpose, but the coating is a must for boilers.

In short, they have to do the maintenance properly and operate under controlled conditions. So in this sense, coating for high-level maintenance is developed with various manufacturers, so is it a part of that side.

By gasifying with IGCC, they hope to reduce the CO2 of the sector. This demonstration plant is being built in Fukushima, so I think various coatings are being used in it.

Then, there is biomass. I am sure there will be many coming up such as ones to put in coal, but we have to be ready to respond to problems involving corrosion.

Today, Japan is the center of a hydrogen-based society. SOFC and solid-oxide fuel batteries, which use hydrogen, have been researched and developed in various ways, including how to make them by thermal spraying, and how to deal with electrodes. We have to think of our response. Furthermore, what do we do to make hydrogen? The best thing is to make hydrogen by electrolysis by using power generated by wind and solar power, for example. In this sense, the use of electrolyzing is related to the material and specific surface area of electrolyzing, which is a specialty for thermal spraying. Therefore, the development of a wide range of technologies to utilize thermal spraying is underway in the market.

Wind power and solar power cannot be used for stable power generation, so storage batteries are inevitably needed. In this sense, we believe that there will be a revival of NAS batteries, which we have been doing for many years. In the lithium batteries business, we are seeing a variety of materials that are applied to the thermal spraying of lithium-battery manufacturing equipment. In this sense, we are considering whether we will be able to expand our business in this interesting industry.

We have made this recently, so please excuse us if it is not in the materials we handed out.

I believe that this has been mentioned earlier, but the positive electrode, negative electrode, separator, and manufacturing equipment are essential for the production of lithium batteries. However, the contamination must be avoided at all costs. For example, lithium cobaltite, lithium nickelate, and so on are adjusted to produce such materials.

At that time, trays are needed, and there were various constraints, such as trays can’t react, contaminants cannot enter when transporting trays, and thermal spraying coating is being used here. Separators are also included together, and this is a film, so we have come from the point that we cannot make uniform films without uniform rolls.

In addition, lithium-ion batteries are often sheet-type, but negative electrode material are coated on the sheets, and they are manufactured with a certain thickness and density. But what is important is press rolls. As performance is determined by the press rolls, good batteries cannot be made if the press roll is damaged, so in this sense, although it is not entirely applicable, the industry of press rolls is becoming a reality.

Going forward, responses to renewable energy will progress at a considerable pace, and the administration has changed, and there is also talk about the U.S. and the Paris Agreement. In this sense, we feel that there will be a considerable driving force, and we hope to respond to this as well.

That is all. Thank you very much.

Question & Answer

Moderator: President Mifune, thank you very much for your explanation. Now, we will start the question-and-answer session.

If you have any questions, please raise your hand.

We plan to publish a transcript of this IR meeting, including the Q&A portion. If you wish to remain anonymous, please do not tell us your name when you ask questions.

Any questions?

Participant: Thank you for taking the trouble to come to Tokyo today.

I would like to confirm your dividend policy, and in regards to business performance. I think you mentioned the dividend-on-equity ratio in the table on page 34, which was about 5% in the past.

Of course, it seems to be important to invest in such facilities, to conduct research and development, or to assess the situation coexisting with the coronavirus. Considering the capital adequacy ratio and the situation of net cash, we decided that it was the DOE at that moment and that it was 5%, and the ratio of recoating was considerably higher. Therefore, the amount of fluctuation in earnings was considerably less than before, by a factor of half. So even in the case of semiconductors, the portion of the stock business of your company is considerably larger than in the past.

I am wondering if you could discuss this matter a little seriously within the time span of one or two years, the past few years from now. What is your view on this matter?

Mifune: We announce the DOE every year. We are doing this while looking at how we will make these figures valid and important in the future. I do understand what you are saying, but I would like to proceed with the discussions.

I think this dividend is an important policy, so we would like to set a dividend payout ratio like how some manufacturers are doing. However, since we are in the business of receiving orders on a daily basis, there are some difficulties.

Participant: Dividends are free cash flow for investors. Even if we propose, it would be a commitment, and not a promise. How should I say it? It is not a paper contract. If it becomes clear, I think that the capital cost will be taken quite seriously and the stock price will go up.

In that part, I think that this will be done for the benefit of employees at least, whether they are takeover defenses, so I would like to ask you to consider a little bit of such a thing as well. This is not a question, but thank you.

Mifune: Thank you for your valuable opinion.

Moderator: Thank you very much. Are there any other questions?

Participant: Thank you for today.

I have several questions, but first of all, I would like to ask about the plans for the second half of the year. First, with regard to semiconductors, this figure will not be seen if there is not a drop of 13% in the second half compared to the first half of the fiscal year. Naturally, I think there is an unclear situation, but if there is no rekindle of the coronavirus, please allow me to confirm just whether or not the current situation is coming up as a decrease. This is my first question.

Next, investment will be resumed at JPY4.7 billion and I think that there will be a large investment coming up. How much will depreciation increase in the next fiscal year? Regarding this, I think the new building, for example, will be completed in June. Please tell us whether there is a prospect that this will contribute to earnings.

My third question is about renewable energy, which you showed in the last two slides, and some other parts in the batteries section. You have said that the NAS battery is capable of being restored in the near-term. Are you saying that this a sign of revival?

In the case of lithium batteries, is there something that will change customers as a result of the thermal spraying application of some equipment, and is there anything that will be supplied to customers who are different from past customers? In short, I would like to check if the number of order to Tokyo Electron will decrease with that customer structure as the number of lithium batteries increases. This is all. Thank you in advance.

Mifune: First of all, when we announced the plan for the second half, there was a considerable sense of uncertainty of what will happen. However, as you said, if the coronavirus does not have such of an impact, I don't think the semiconductor and FPD industries will fall so much.

In addition, for example, even for steel, car shops are selling well. In that sense, we have heard good stories such as the early launch of a blast furnace. If the coronavirus does not become serious, I don't think there will be a factor to cause a fall that much. On the other hand, there are some things that I have expectations in.

Participant: As you can see on page 28, I do not know about the semiconductors and FPD parts, but I think that the steel industry itself contains quite a tough statement on automobiles. But this is not so far the impression if I am correct. For example, as long as I look at the financial statements of automobiles, such as Nippon Steel and JFE from yesterday or last week. Do you mean that there is something going on and that there is a slight delay?

Mifune: Steel is doing reasonably, and bearings are one of our main business in industrial machinery. Bearings have been gradually reduced in equipment budget by reducing the number of Shinkansen trains running. I have also heard that there is an accumulation of inventory in China in the same way. And so, there is a bad trend in that regard. We are forecasting to some extent for the future. In that sense, we are not expecting much, and we don't have much expectation for that part. That's the extent.

Next is about the depreciation for next year, correct? I think it will be about the same as this year. It will be around JPY3 billion.

Another question is about the NAS battery. We have great expectations, but there are still no signs of a revival. However, that battery is a very good battery for storage in terms of capacity. Of course, it is a technical problem, or a price problem, I think.

However, we've been working on it since 1995 and 1996, and it is the best performance-wise. That is probably why we expect a revival, and with the rise of renewable energy in Japan, we expect a revival. We are now preparing in detail. We still have the equipment, so we have expectations.

Lithium batteries may also be replaced by semiconductors.

Participant: That's a customer.

Mifune: It's impossible. Absolutely impossible. Never. Not with just lithium batteries. We don't know unless we combine all of the other renewable energies. For example, it would be interesting regarding hydrogenation, isn't it? Semiconductors are missing, so we will leave those there and increase the number in different places.

Participant: Thank you very much.

Moderator: Thank you very much.

Do you have any other questions? It seems that there are no questions, so we will like to conclude the briefing. Thank you, President Mifune.

Mifune: Thank you very much.

Moderator: Thank you very much to all for your cooperation.

[END]

Document Notes

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

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.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

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