トーカロ株式会社

TOCALO Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

November 9, 2021

Event Summary

[Company Name]	TOCALO Co., Ltd.	
[Company ID]	3433-QCODE	
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[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2022	
[Fiscal Period]	FY2021 Q2	
[Date]	November 9, 2021	
[Number of Pages]	63	
[Time]	13:30 – 14:25 (Total: 55 minutes, Presentation: 33 minutes, Q&A: 22 minutes)	
[Venue]	Webcast	
[Venue Size]	238 m^2	
[Participants]	50	
[Number of Speakers]	4	
	Noriyuki Mifune	Representative Director, President and Executive Officer / Doctor of Engineering
	Hiroshi Goto	Director / Managing Executive Officer / General Manager of Administration
	Kenji Hosomi	Deputy Director, Corporate Planning Office
	Hiroshi Shimizu	Manager, Corporate Planning Office
[Analyst Names]*	Mitsuhiro Osawa	Ichiyoshi Research Institute Inc.

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

Presentation

Moderator: It is time, so we will now begin the financial results briefing by TOCALO Co., Ltd. Today's briefing will be held in a hybrid format, with an onsite session and a live-streamed online session.

First of all, I would like to introduce you to 4 people from the Company. This is Dr. Noriyuki Mifune, Representative Director, President, and Executive Officer.

Mifune: Thank you very much.

Moderator: Mr. Hiroshi Goto, Director, Managing Executive Officer, and General Manager of the Administration Department.

Goto: Thank you very much.

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

Hosomi: My name is Hosomi. Thank you.

Moderator: This is Mr. Hiroshi Shimizu, Manager of the Corporate Planning Office.

Shimizu: I'm Shimizu. Thank you.

Moderator: Dr. Mifune will start the presentation today. After the presentation, we will have a question and answer session from those on-site. Then, we plan to take questions from those who are participating online. Now then, Dr. Mifune, you may begin.

Mifune: Hello, everyone, I am Mifune, President of TOCALO Co., Ltd.

Thank you very much for taking time out of your busy schedule to attend the Company briefing of TOCALO Co., Ltd. today.

As mentioned earlier, today's event will be the first of its kind. From Nikkei Kayabacho Annex where we have held this event thus far, this briefing is being held in real life and is being livestreamed at the same time. With this event being held in a hybrid format called Real Live, we hear that about 60 people have participated.

This is the first time we've done this, so I'm sure we'll make some mistakes. We apologize in advance. I'd like to start right away.

Today, as you may have already seen in the handouts and on the website, the presentation will be made up of 2 parts: the first part is about our financial results for the second quarter, and the second part is about our medium-term management plan that we will present for first time. I would like to talk about those parts, so my presentation will have 2 parts.

I think the presentation will take about 40 minutes. I would like to go through the presentation first and then take your questions after. Thank you.

Summary of result 1H FY2021

TOCALO

Highlights

(1) Increase in sales and profit compared with the same period of the previous fiscal year.

Record high sales and profit in the first half.

Continued strong performance in the semiconductor field.

Other fields also generally exceeded the initial forecast.

(2) Subsidiaries : Both domestic and overseas sales and profits of subsidiaries increased.

Japan's automotive field remains steady.

Strong performance in semiconductor and FPD fields in China and Taiwan.

China's oil sector sees no recovery in orders.

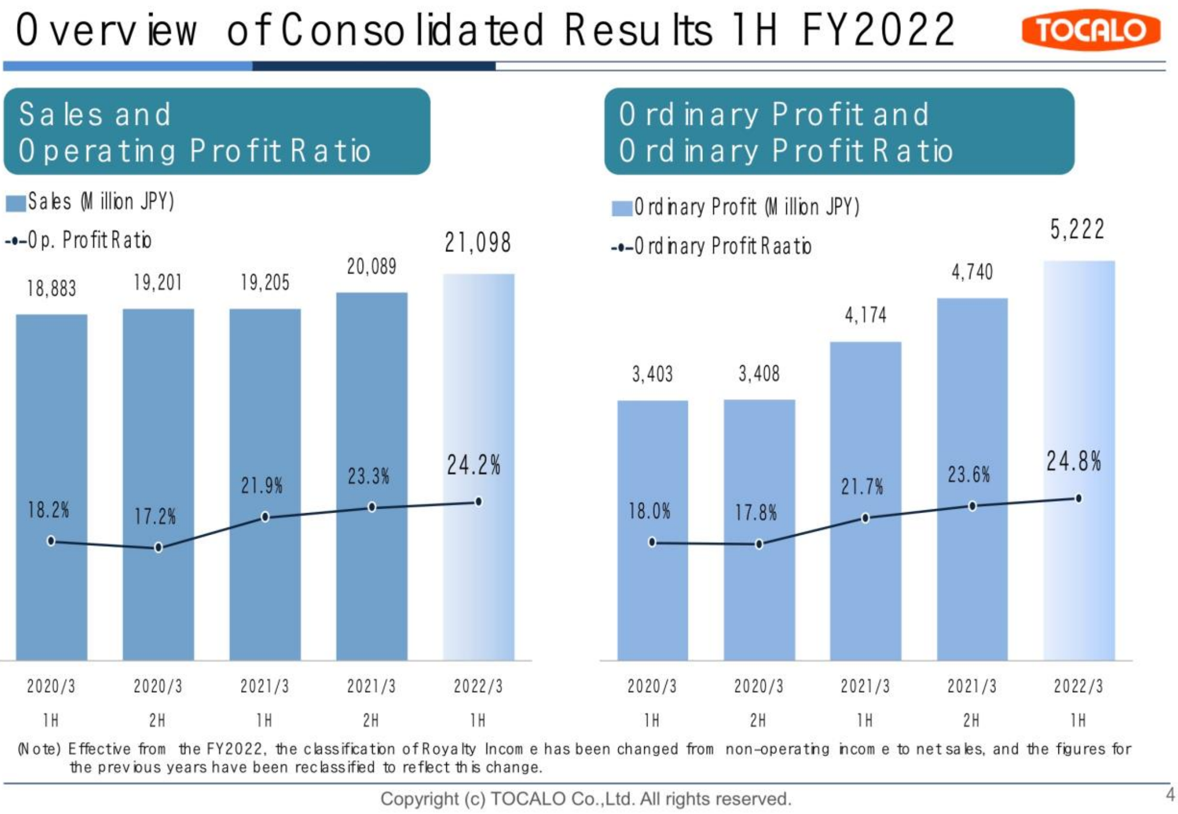
 3

Let me begin by explaining our financial results for the second quarter. I would like to give you an overview of our consolidated financial results for the second quarter of the fiscal year ending March 31, 2022, as well as our consolidated earnings forecast for the current fiscal year.

First of all, let us go to page 3 of the handout. It shows the highlights of the second quarter results, and the first 1 is the increase in both sales and profit compared to the same period last year.

In the first half of the fiscal year, we achieved record high sales and profits. The Semicon & FPD field continues to be strong, and we believe that we have been able to exceed our initial forecast in most other fields.

Secondly, both our domestic and overseas subsidiaries increased their sales and profits. Our domestic subsidiaries, especially those in the automobile industry, are on a recovery track, despite various problems. As for our overseas subsidiaries, the Semicon & FPD-related businesses in China and Taiwan are doing well, while the recovery of orders in the oil and gas-related field is lagging a bit. However, overall, we are doing reasonably well.



The graph on page 4 shows the first half results compared to the past 4 quarters.

On the left are sales and operating profit ratio, and on the right are ordinary profit and ordinary profit ratio. Sales for the first half of the current fiscal year stood at JPY21.098 billion. The operating profit ratio was 24.2%. Ordinary profit was JPY5.222 billion, as you can see on the right. The ordinary income margin was 24.8%.

Overview of Consolidated Results 1H FY2022

(Million JPY)	1H 2021/3		1H 2022/3		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	19,205	100.0%	21,098	100.0%	1,893	9.9%
Thermal Spray	14,965	77.9%	16,000	75.8%	1,034	6.9%
Semicon & FPD	9,019	47.0%	9,938	47.1%	919	10.2%
Industrial Parts	2,075	10.8%	1,757	8.3%	△ 317	-15.3%
Iron & Steel	1,739	9.1%	1,623	7.7%	△ 115	-6.6%
Others	2,131	11.0%	2,680	12.7%	548	25.8%
Other Surface Modif	1,029	5.4%	1,195	5.7%	166	16.1%
Domestic Sub.	892	4.6%	1,206	5.7%	313	35.1%
Overseas Sub.	2,205	11.5%	2,615	12.4%	409	18.6%
Royalty Income	111	0.6%	80	0.4%	△ 30	-27.5%
Operating Profit	4,203	21.9%	5,111	24.2%	908	21.6%
Ordinary Profit	4,174	21.7%	5,222	24.8%	1,048	25.1%
Net income attributable to owners of parent	2,688	14.0%	3,448	16.3%	760	28.3%

(Note) Effective from the FY2022, the classification of Royalty Income has been changed from non-operating income to net sales, and the figures for the previous years have been reclassified to reflect this change.

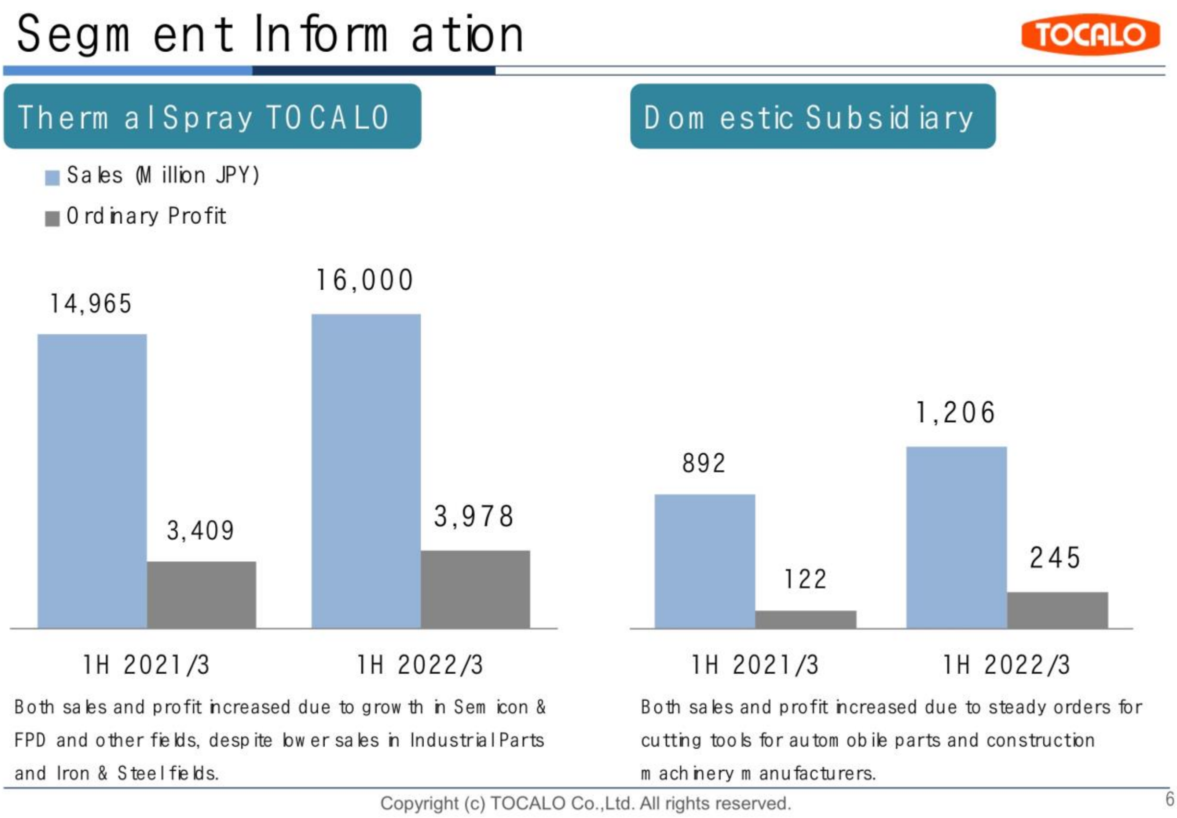
 5

Page 5 will be sales by segment. In the first half of the current fiscal year 2022, consolidated sales came to JPY21 billion, an increase of 9.9% over the same period last year.

Of this, the Semicon & FPD segment performed well, increasing 10.2% to JPY9.9 billion, and this was the driving force behind the increase in consolidated sales.

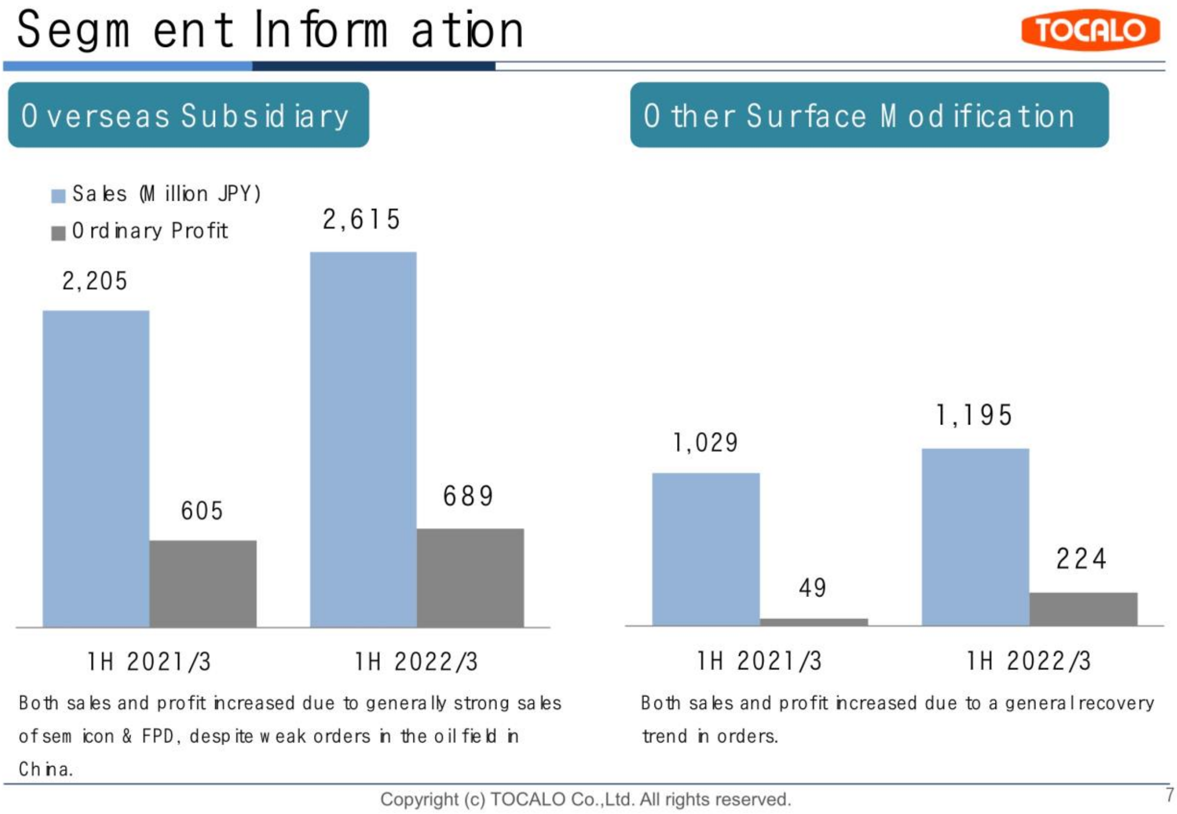
In addition, sales of the Industrial Parts and Iron & Steel segments were down slightly from the previous year, but those of the other segments were up. Domestic subsidiaries increased by 35.1% to JPY1.2 billion, partly due to a recovery in automobile-related business. Overseas subsidiaries increased by 18.6% to JPY2.6 billion, which is also a considerable contribution.

Operating profit increased by 21.6% to JPY5.1 billion. Then, ordinary profit increased by 25.1% to JPY5.2 billion. Net income for the quarter that is attributable to shareholders of the parent company increased by JPY3.4 billion, or 28.3%.



Now, let’s go to page 6. This page shows a comparison of sales and ordinary profit by segment with the same period of the previous year.

As you can see from the brief comments below, each of the 4 segments showed an increase in both sales and profits.



Overseas subsidiaries and Other Surface Modifications also saw increases in both sales and ordinary profit compared to the same period last year.

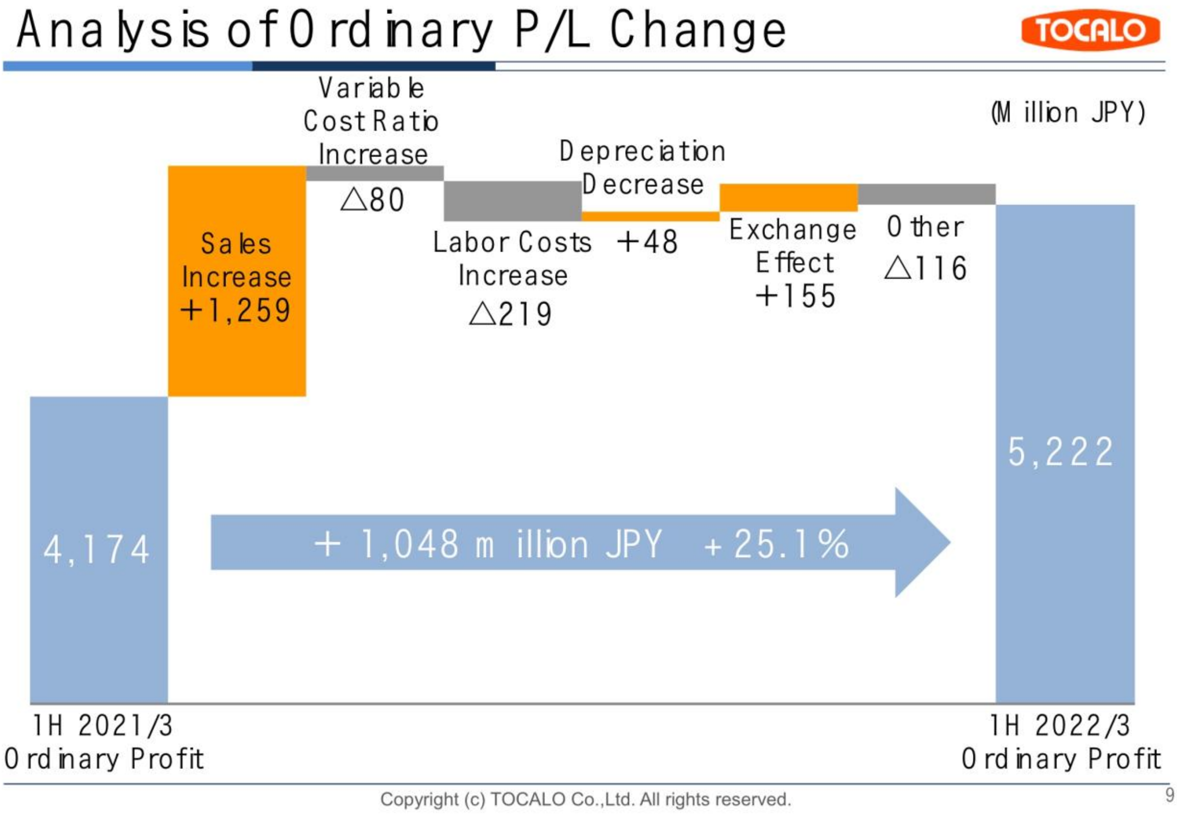
Segment Information

TOCALO

(Million JPY)	1H 2021/3		1H 2022/3		Change			
					Net Sales		Segment P/L	
	Net Sales	P/L	Net Sales	P/L	Amount	Ratio	Amount	Ratio
Thermal Spray TOCALO	14,965	3,409	16,000	3,978	1,034	6.9%	568	16.7%
Domestic Sub.	892	122	1,206	245	313	35.1%	122	100.1%
Overseas Sub.	2,205	605	2,615	689	409	18.6%	84	14.0%
Other Surface Modif.	1,029	49	1,195	224	166	16.1%	175	350.3%
Total	19,093	4,187	21,017	5,138	1,924	10.1%	951	22.7%

(Note) Royalty Income is not included in the Segment Net Sales. Segment P/L is adjusted with Ordinary Profit in the consolidated statements of income.

Page 8 also shows a table of sales and profit for each of the segments that were explained in the graph, compared to the same period of the previous year, so I will spare you the explanation.



Page 9 shows the YoY comparison and analysis of changes in ordinary profit.

For the first half of this fiscal year, ordinary profit was JPY5.222 billion, an increase of JPY1.048 billion from the same period last year, mainly due to an increase in sales of JPY1.259 billion.

In addition, since the Japanese yen has weakened considerably, the foreign exchange impact has been about JPY155 million, which I think is worth mentioning.

Financial Position

TOCALO

(Million JPY)	FY 2021		FY 2022
	2Q	4Q	2Q
Total Assets	61,817	64,183	66,430
Equity	42,140	44,201	46,633
Equity ratio	68.2%	68.9%	70.2%
Interest-bearing debt	7,057	6,031	5,073

・From the previous period, Total Assets increase 2,247 million yen.
(Tangible Fixed Assets increase 1,509 million yen)
・From the previous period, Equity ratio +1.3% points (70.2%)
・From the previous period, Interest-bearing debt decrease 957 million yen.
(No borrowings for the current fiscal year)

 10

Page 10 shows our financial status.

Total assets at the end of the interim period stood at JPY66.4 billion and our equity was JPY46.6 billion. We believe that we are maintaining a sound business position with an equity ratio of 70.2%. Interest-bearing debt decreased by JPY1 billion from the end of the previous fiscal year to JPY5 billion.

Cash Flow

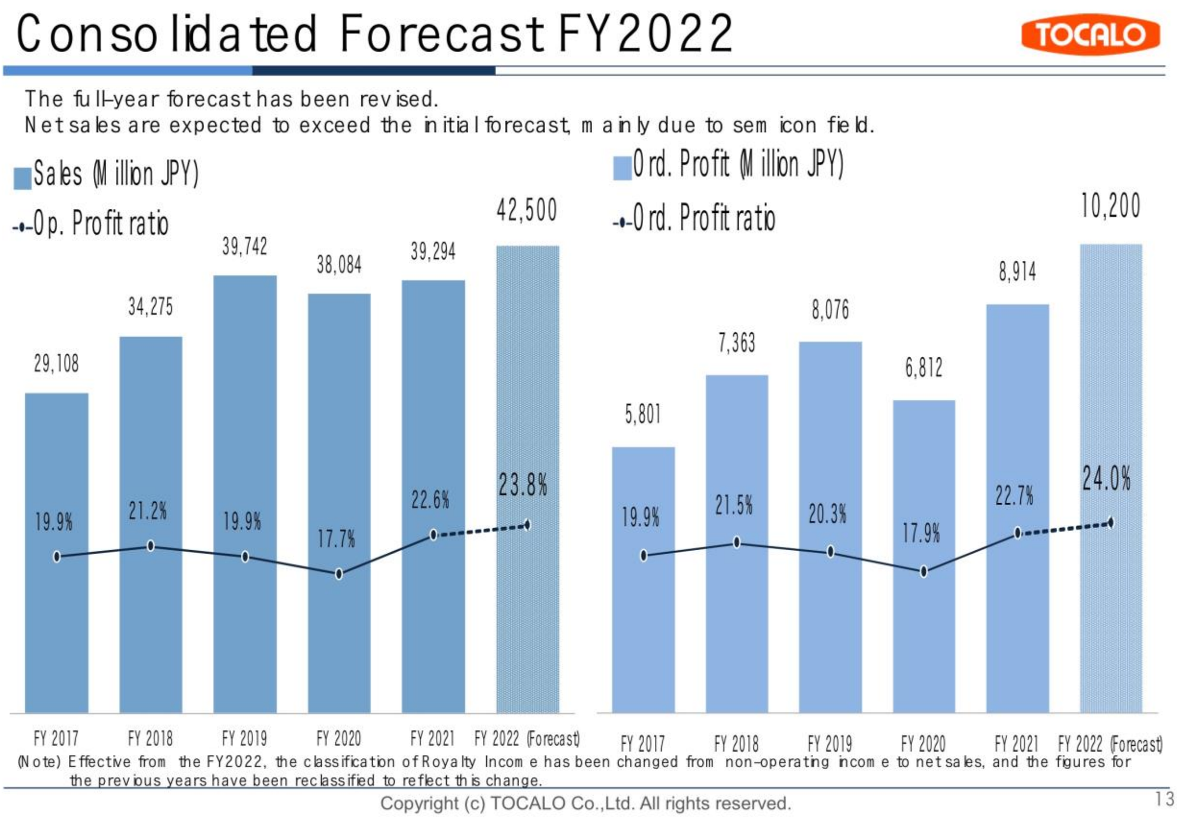
(Million JPY)	FY 2021 1H	FY 2022 1H
Operating CF	4,180	4,706
Investment CF	△1,932	△1,820
Financial CF	△2,002	△2,494
Cash Balance	16,714	19,174

・1H Free Cash Flow (Operating CF + Investment CF) : +2.8 billion yen
・Investment CF / Purchase of property, plant and equipment
1H FY2021 : △1.8 billion yen 1H FY2022 : △1.8 billion yen
・Financial CF / Dividends paid
1H FY2021 : △0.7 billion yen 1H FY2022 : △1.3 billion yen

 11

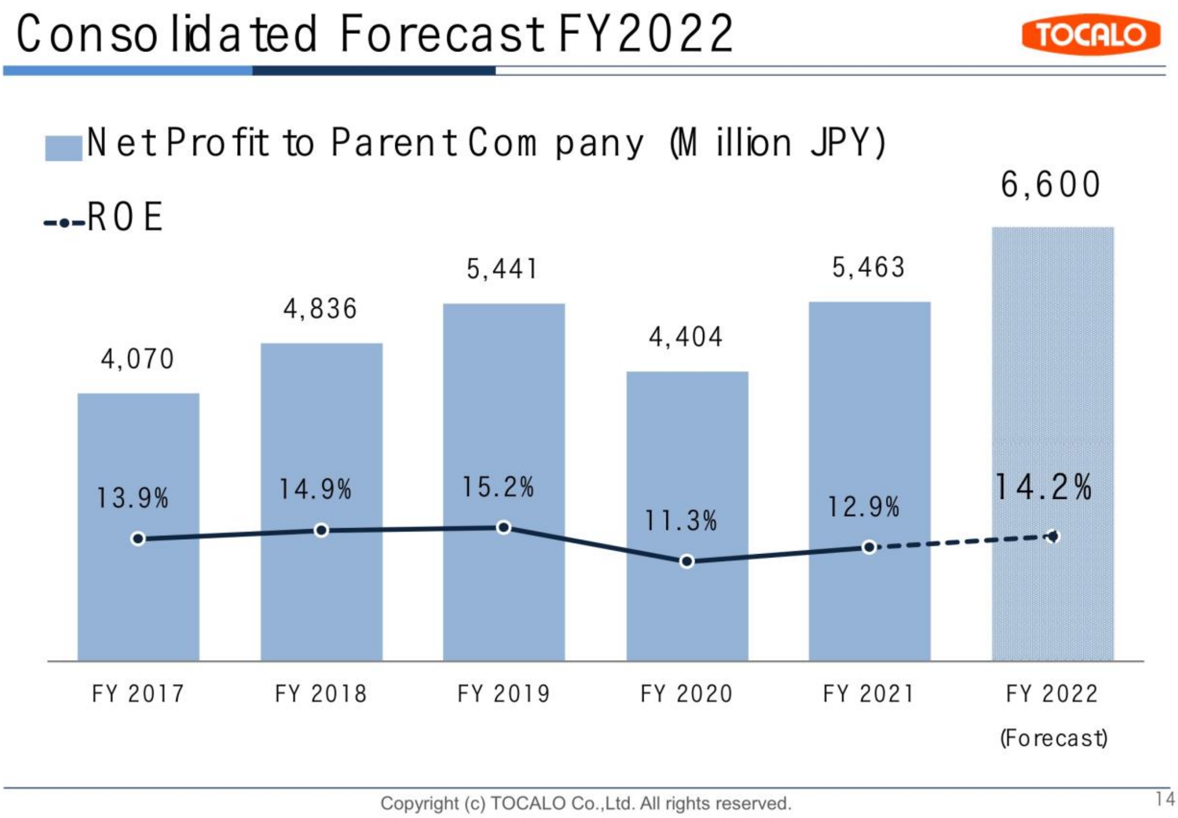
Page 11 shows the status of our cash flow.

In the first half of this fiscal year, our operating cash flow was JPY4.7 billion, and investment cash flow was negative JPY1.8 billion. With this, our free cash flow, which is the sum of these 2, was positive JPY2.8 billion, indicating that our company is in a healthy state. Financial cash flow was negative JPY2.4 billion due to the payment of dividends and repayment of borrowings. As a result, the cash balance at the end of the first half of this fiscal year was JPY19.1 billion.



Next, I would like to explain our consolidated earnings forecast for the current fiscal year. We revised our forecast upward at the end of last month.

As shown in the graph on page 13, we have revised upward our consolidated sales for the current fiscal year to JPY42.5 billion, ordinary profit to JPY10.2 billion, and ordinary profit ratio to 24%. Both sales and profits are expected to reach record highs.



Page 14 shows the forecast for net income attributable to shareholders of the parent company and ROE.

Net profit is expected to be JPY6.6 billion, also a record high. As for ROE, we currently expect it to rise to 14.2%. Unfortunately, we are a little short of our target of 15%.

Summary of revision

TOCALO

(Million JPY)	FY 2022				Change	
	Initial Forecast	Ratio	Revised Forecast	Ratio	Amount	Ratio
Net Sales	41,000	100.0%	42,500	100.0%	1,500	3.7%
Thermal Spray	31,045	75.7%	31,830	74.9%	785	2.5%
Semicon & FPD	19,462	47.5%	20,000	47.1%	538	2.8%
Industrial Parts	3,895	9.5%	3,780	8.9%	△115	-3.0%
Iron & Steel	3,105	7.6%	3,280	7.7%	175	5.6%
Others	4,583	11.1%	4,770	11.2%	187	4.1%
Other Surface Modif.	2,247	5.6%	2,460	5.7%	213	9.5%
Domestic Sub.	2,396	5.8%	2,450	5.8%	54	2.3%
Overseas Sub.	5,182	12.6%	5,600	13.2%	418	8.1%
Royalty Income	130	0.3%	160	0.4%	30	23.1%
Operating Profit	9,000	22.0%	10,100	23.8%	1,100	12.2%
Ordinary Profit	9,000	22.0%	10,200	24.0%	1,200	13.3%
Net income attributable to owners of parent	5,800	14.1%	6,600	15.5%	800	13.8%

Page 15 outlines the differences between the forecast announced at the beginning of the fiscal year and the revised forecast at the end of October.

Consolidated sales have been revised upward by JPY1.5 billion. Of that amount, JPY500 million is for Semicon & FPD. Iron & Steel, Others, and Overseas Subsidiaries were revised upward by JPY200 million to JPY400 million.

However, since the Industrial Parts business did not perform well in the first half of the year, we have revised our forecast downward by JPY100 million, and that is even if we do our best in the second half.

Profits have been revised upward by JPY1.1 billion for operating profit, JPY1.2 billion for ordinary profit, and JPY0.8 billion for net profit.

Consolidated Forecast FY2022

TOCALO

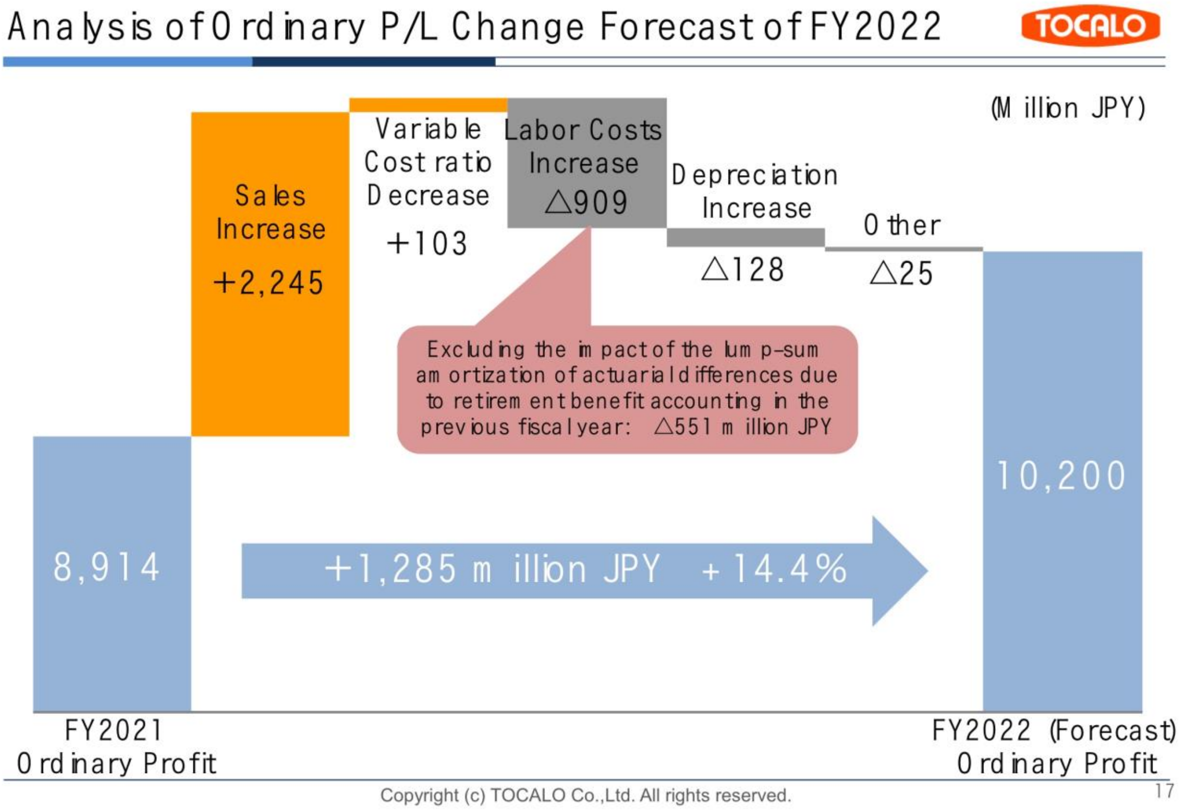
(Million JPY)	FY 2021		FY 2022		Change	
	Result	Ratio	Forecast	Ratio	Amount	Ratio
Net Sales	39,294	100.0%	42,500	100.0%	3,205	8.2%
Thermal Spray	30,141	76.7%	31,830	74.9%	1,688	5.6%
Semicon & FPD	18,176	46.3%	20,000	47.1%	1,823	10.0%
Industrial Parts	3,965	10.1%	3,780	8.9%	△ 185	-4.7%
Iron & Steel	3,166	8.1%	3,280	7.7%	113	3.6%
Others	4,832	12.2%	4,770	11.2%	△ 62	-1.3%
Other Surface Modif	2,112	5.4%	2,460	5.7%	347	16.4%
Domestic Sub.	2,018	5.1%	2,450	5.8%	431	21.4%
Overseas Sub.	4,800	12.2%	5,600	13.2%	799	16.6%
Royalty Income	221	0.6%	160	0.4%	△ 61	-27.7%
Operating Profit	8,890	22.6%	10,100	23.8%	1,209	13.6%
Ordinary Profit	8,914	22.7%	10,200	24.0%	1,285	14.4%
Net income attributable to owners of parent	5,463	13.9%	6,600	15.5%	1,136	20.8%

(Note) Effective from the FY2022, the classification of Royalty Income has been changed from non-operating income to net sales, and the figures for the FY2021 have been reclassified to reflect this change.

16

Page 16 shows the comparison between the revised plan and the previous year's results.

Consolidated sales will be JPY3.2 billion, an increase of 8.2%, of which the Semicon & FPD segment will account for JPY1.8 billion, an increase of 10%. The Other Surface Modifications and subsidiaries contributed to the increase in sales. Ordinary profit increased by 14.4% or JPY1.28 billion to JPY10.2 billion, with a profit ratio of 24%.



On page 17, it shows that the revised forecast for ordinary profit is JPY10.2 billion, but this is an analysis of the factors that caused changes from the previous year's results. The main factor was an increase in sales, which contributed JPY2.2 billion.

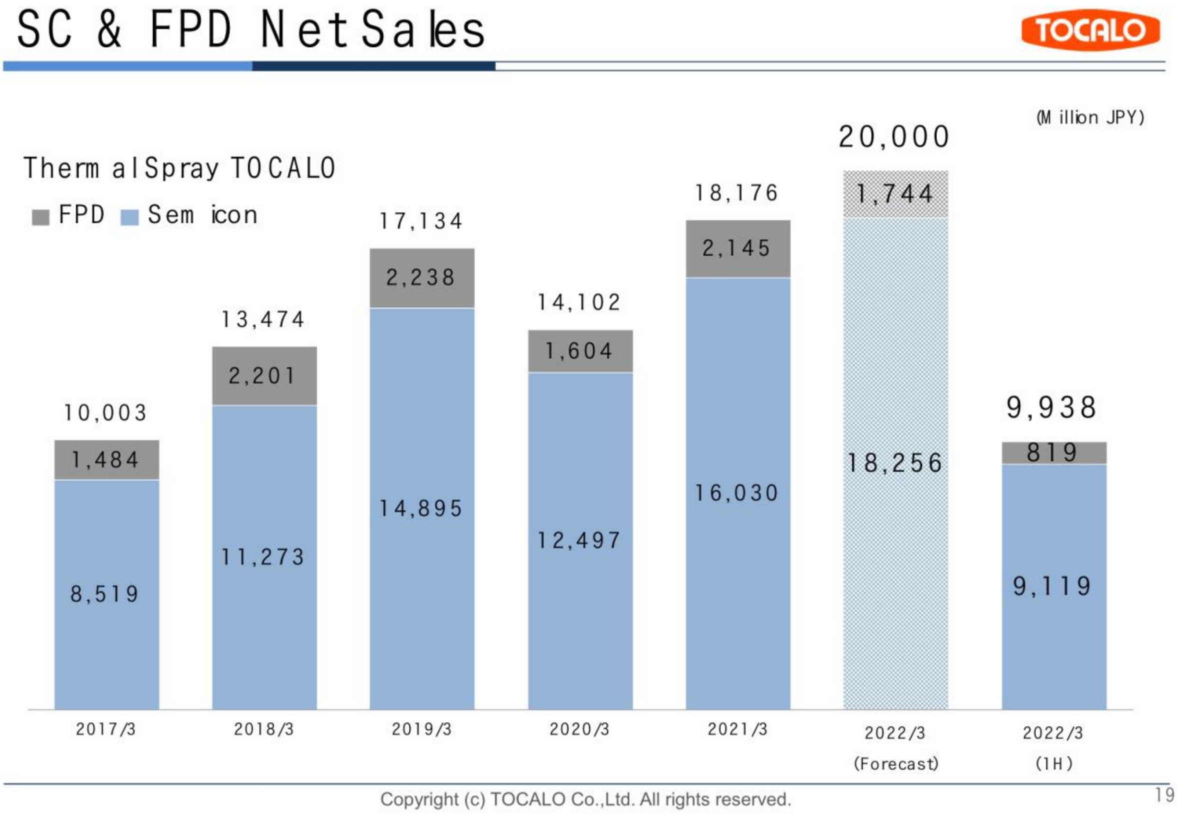
As for the increase in expenses, the increase in labor costs is shown as JPY900 million. Of this amount, last year we treated the actuarial differences due to retirement benefit accounting every year. At the end of last fiscal year, there was a JPY358 million increase due to the high stock prices, and if we exclude that, the increase in labor costs will actually become JPY550 million.

1H FY2022 Progress Rate

(Million JPY)	1H 2022/3		FY 2022/3		Progress
	Result	Ratio	Forecast	Ratio	Rate
Net Sales	21,098	100.0%	42,500	100.0%	49.6%
Thermal Spray	16,000	75.8%	31,830	74.9%	50.3%
Semicon & FPD	9,938	47.1%	20,000	47.1%	49.7%
Industrial Parts	1,757	8.3%	3,780	8.9%	46.5%
Iron & Steel	1,623	7.7%	3,280	7.7%	49.5%
Others	2,680	12.7%	4,770	11.2%	56.2%
Other Surface Modif.	1,195	5.7%	2,460	5.7%	48.6%
Domestic Sub.	1,206	5.7%	2,450	5.8%	49.2%
Overseas Sub.	2,615	12.4%	5,600	13.2%	46.7%
Royalty Income	80	0.4%	160	0.4%	50.5%
Operating Profit	5,111	24.2%	10,100	23.8%	50.6%
Ordinary Profit	5,222	24.8%	10,200	24.0%	51.2%
Net income attributable to owners of parent	3,448	16.3%	6,600	15.5%	52.3%

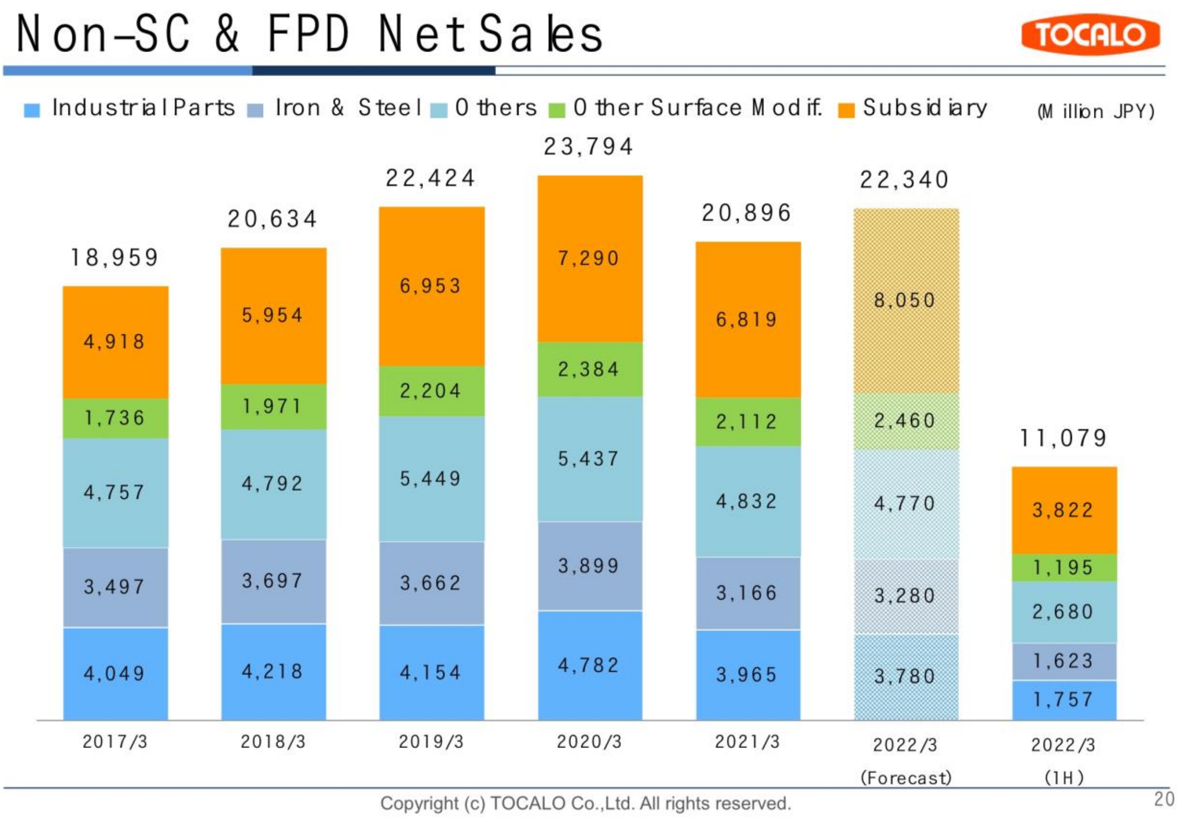
 18

Page 18 shows the progress rate of the first half results against the revised forecast. The figures have been revised and adjusted to approximately 50%, so we will be using those figures.



Page 19 shows the trend of sales in the Semicon & FPD field in the past 5 years.

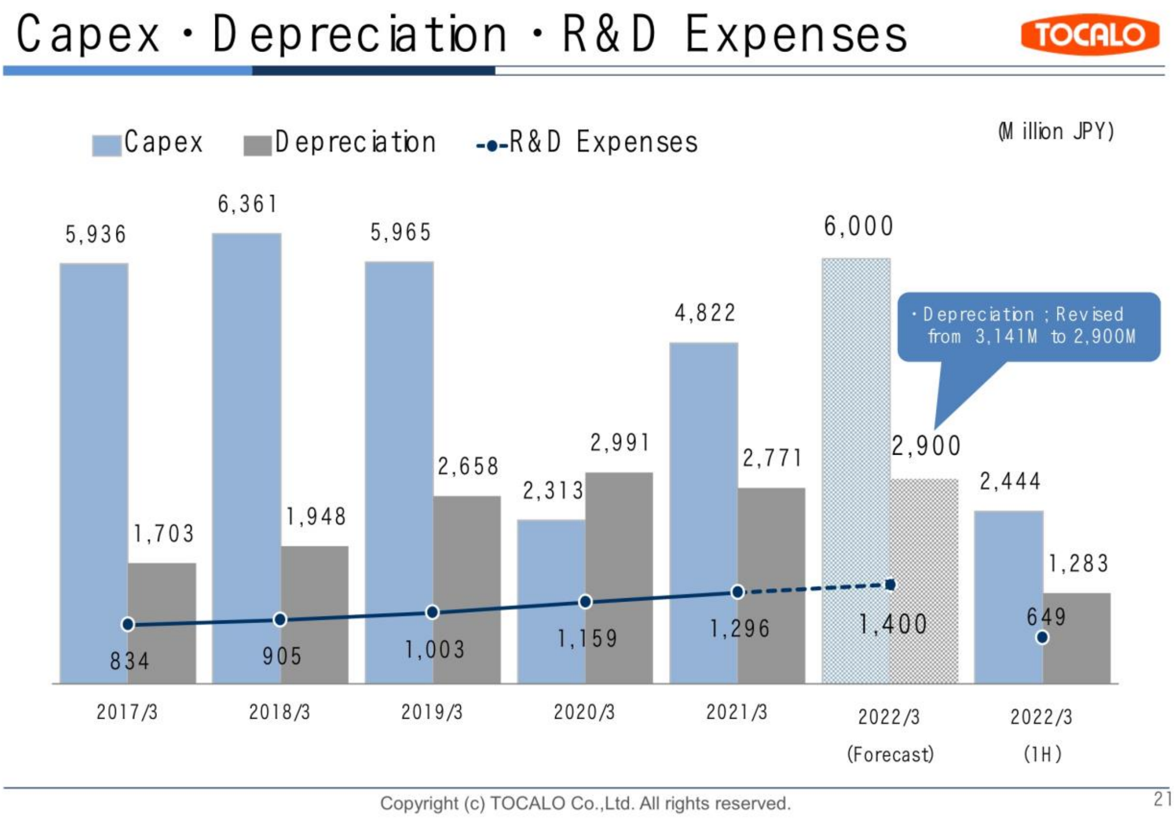
The results for the first half of the current fiscal year are the JPY9.9 billion on the rightmost part. Of this total, semiconductor sales were JPY9.1 billion and FPD sales were JPY0.8 billion. Our revised sales forecast for this fiscal year is JPY20 billion, and we are on track to reach the JPY20 billion mark. Of that amount, JPY18.2 billion will be from semiconductors and JPY1.7 billion from FPDs.



Next, we will look at the sales trends in segments other than Semicon & FPD.

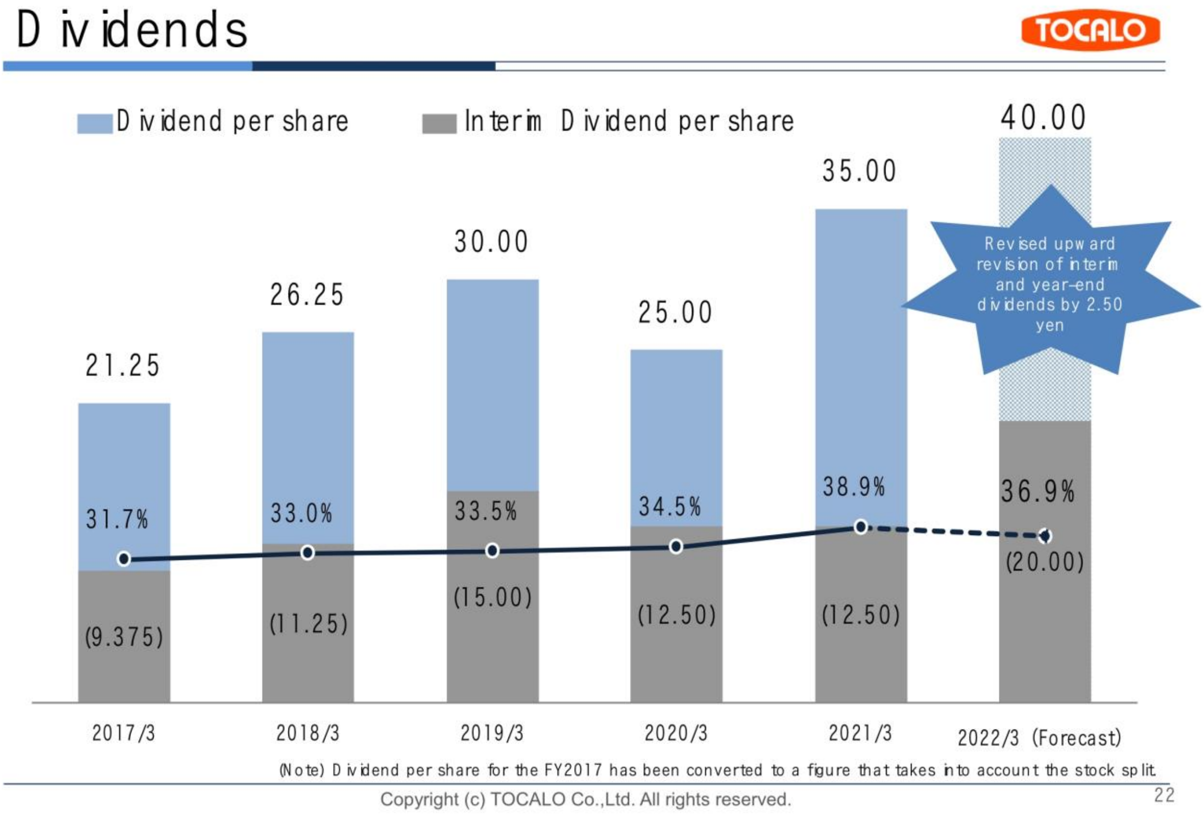
The forecast for the current fiscal year is JPY22.3 billion, which is a recovery from the JPY20.8 billion in the previous year. However, we have yet to reach the JPY23.7 billion in sales that we achieved in the previous year, the fiscal year ending March 2020.

Although we have recovered from last year, our results are still not as good as they were at our peak. We believe that there is still room for recovery, especially in the Industrial Parts and Iron & Steel fields.



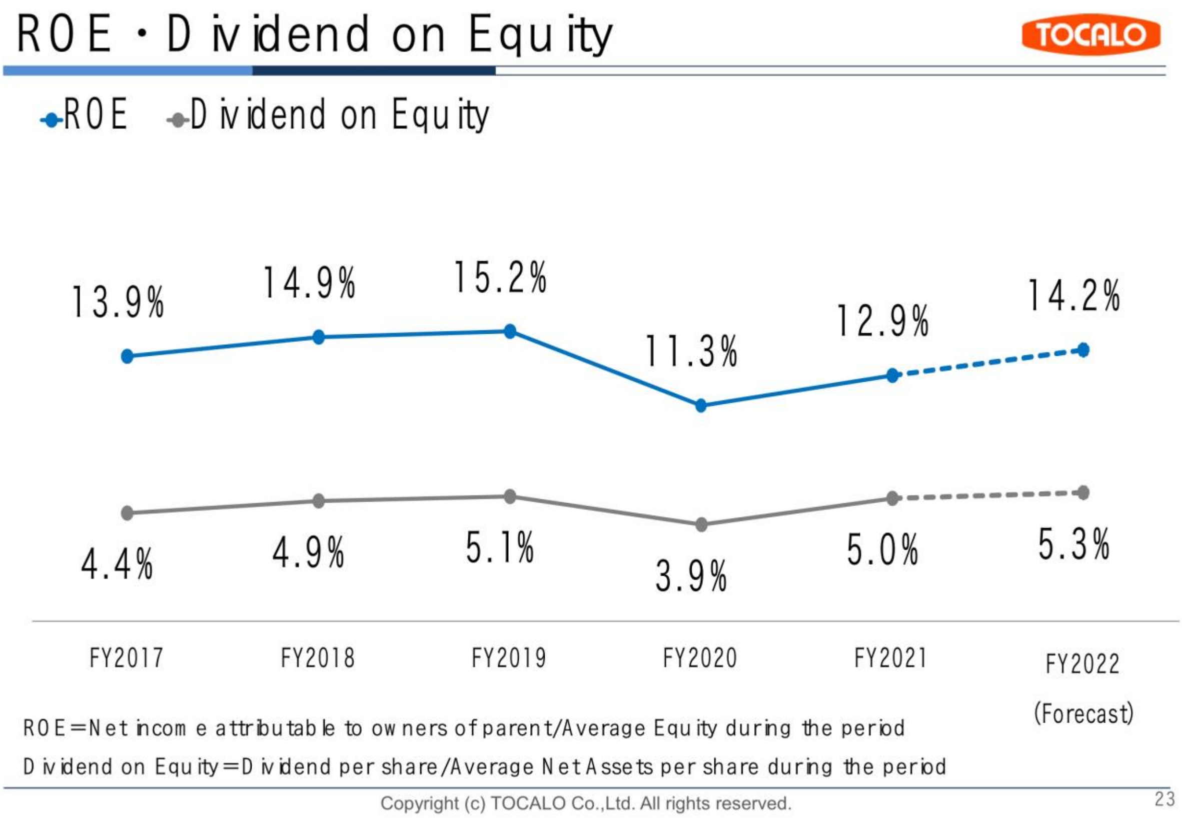
Let's go to page 21, which shows capital expenditure, depreciation and amortization, and research and development expenses.

The results for the first half of the fiscal year are as follows: capital expenditure on the rightmost part is JPY2.4 billion, depreciation is JPY1.2 billion, and R&D is JPY0.6 billion. Given this, we have maintained our initial forecast for capital expenditure of JPY6 billion and R&D of JPY1.4 billion for the current fiscal year, but we have slightly revised the forecast for depreciation to JPY2.9 billion due to the delay in progress.



Page 22 is about dividends and dividend payout ratio.

Based on the results of the first half of the fiscal year, we have revised the dividend for the current fiscal year upward to JPY40. It will be JPY20 at the interim and JPY20 at the end of the fiscal year. The dividend payout ratio is expected to be 36.9% at this rate.



Page 23 shows the changes in ROE and the ratio of dividend on equity.

Based on the revised forecast, we expect ROE to be 14.2% and the ratio of dividend on equity to be about 5.3% for this fiscal year, as mentioned earlier.

Financial Highlights

TOCALO

(Million JPY)	FY 2017 Result	FY 2018 Result	FY 2019 Result	FY 2020 Result	FY 2021 Result	FY 2022 Forecast
Orders received	29,506	36,851	38,915	38,011	39,021	–
Backlog of Orders	3,983	6,725	6,081	6,195	6,143	–
Net Sales	29,108	34,275	39,742	38,084	39,294	42,500
Operating Profit	5,783	7,270	7,905	6,727	8,890	10,100
Ordinary Profit	5,801	7,363	8,076	6,812	8,914	10,200
Ordinary Profit Ratio	19.9%	21.5%	20.3%	17.9%	22.7%	24.0%
Net income attributable to owners of	4,070	4,836	5,441	4,404	5,463	6,600
Earnings Per Share (EPS)	66.95	79.56	89.51	72.45	89.86	108.54
Total Assets	44,302	52,664	57,278	61,122	64,183	69,185
Equity	30,647	34,174	37,559	40,263	44,201	48,568
Equity ratio	69.1%	64.9%	65.6%	65.9%	68.9%	70.2%
Return on Equity (ROE)	13.9%	14.9%	15.2%	11.3%	12.9%	14.2%
Return on Asset (ROA)	14.1%	15.2%	14.7%	11.5%	14.2%	15.3%
Return on Invested Capital (ROIC)	12.3%	13.6%	13.3%	9.8%	11.9%	12.9%

ROE=Net income attributable to owners of parent/Average Equity during the period、ROA=Ordinary Profit/Average Total Assets during the period、ROIC=Operating Profit after tax/Average Invested Capital during the period
Earnings Per Share (EPS) for the FY2017 has been converted to a figure that takes into account the stock split.
Effective from the FY2022, the classification of Royalty Income has been changed from non-operating income to Net Sales.

 24

Finally, here are the highlights of the management index to date. We hope you find this information useful.

That would be all for the explanation of our financial results for the second quarter.

Next, I would like to explain our medium-term management plan.

We recently celebrated the 70th anniversary of our company, and for the first time in our 70-year history, we have formulated a medium-term management plan, as requested by many of you, and this is an opportunity for us to announce it to the public.

It is a 5-year plan that covers the period from the current fiscal year ending March 2022 to the fiscal year ending March 2026. At the top of the cover, there is an inscription that reads, "Contributing to a prosperous future for people and nature." This is the vision of our group, which I will explain later, and what we are aiming for in 2030.

Page 2 is the table of contents for this plan. It consists of 3 parts: 1 is about the recognition of the current situation, which is our business environment, while the other 2 are the overview of our medium-term plan, and our measures and numerical targets.

Page 3 begins with an explanation of our current business environment.

There are 14 pages in this section, from page 4 to page 17. The contents may overlap with the contents that we have already explained in various events, such as the announcement of our financial results, so due to time constraints, I would like to just take a quick look at the pages today.

会社概要

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 390億73百万円（2021年3月期）

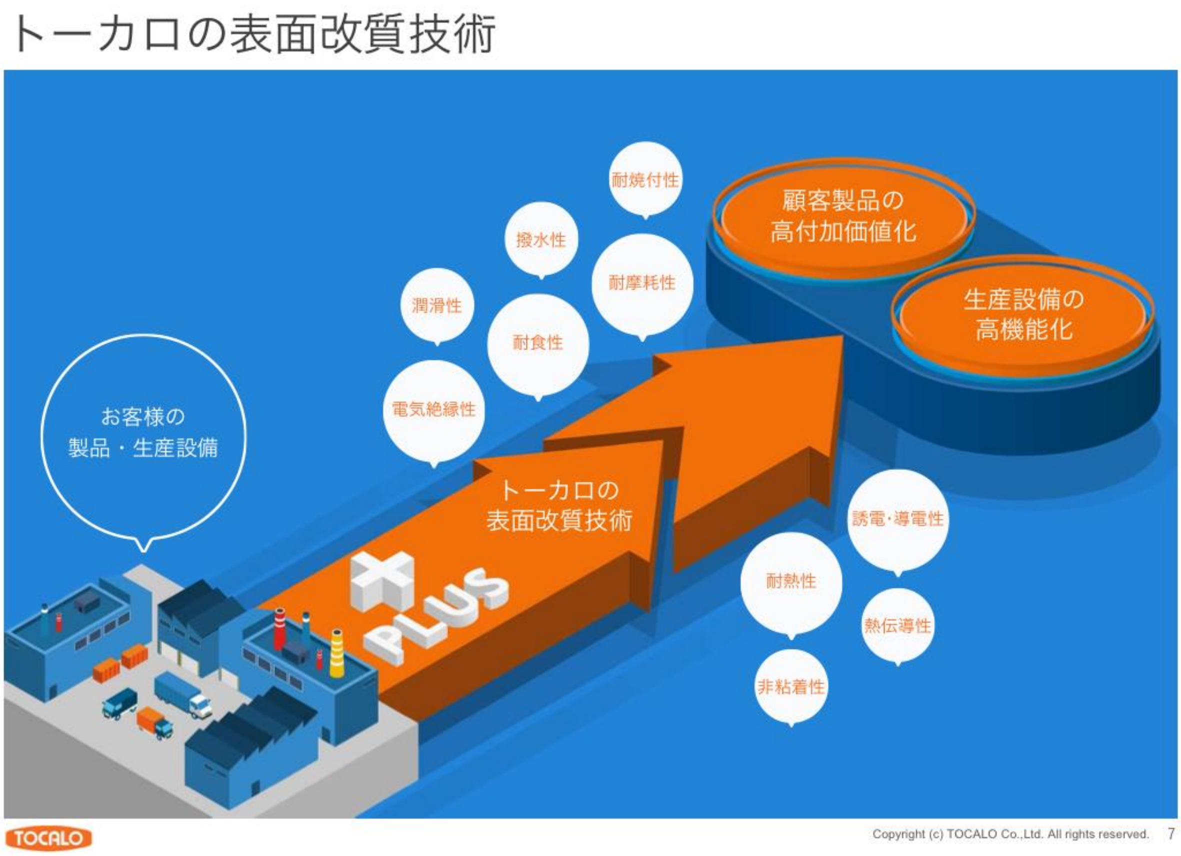
従業員数：連結 1,121名（2021年3月末現在）

TOCALO 4

Page 4 is our corporate profile.

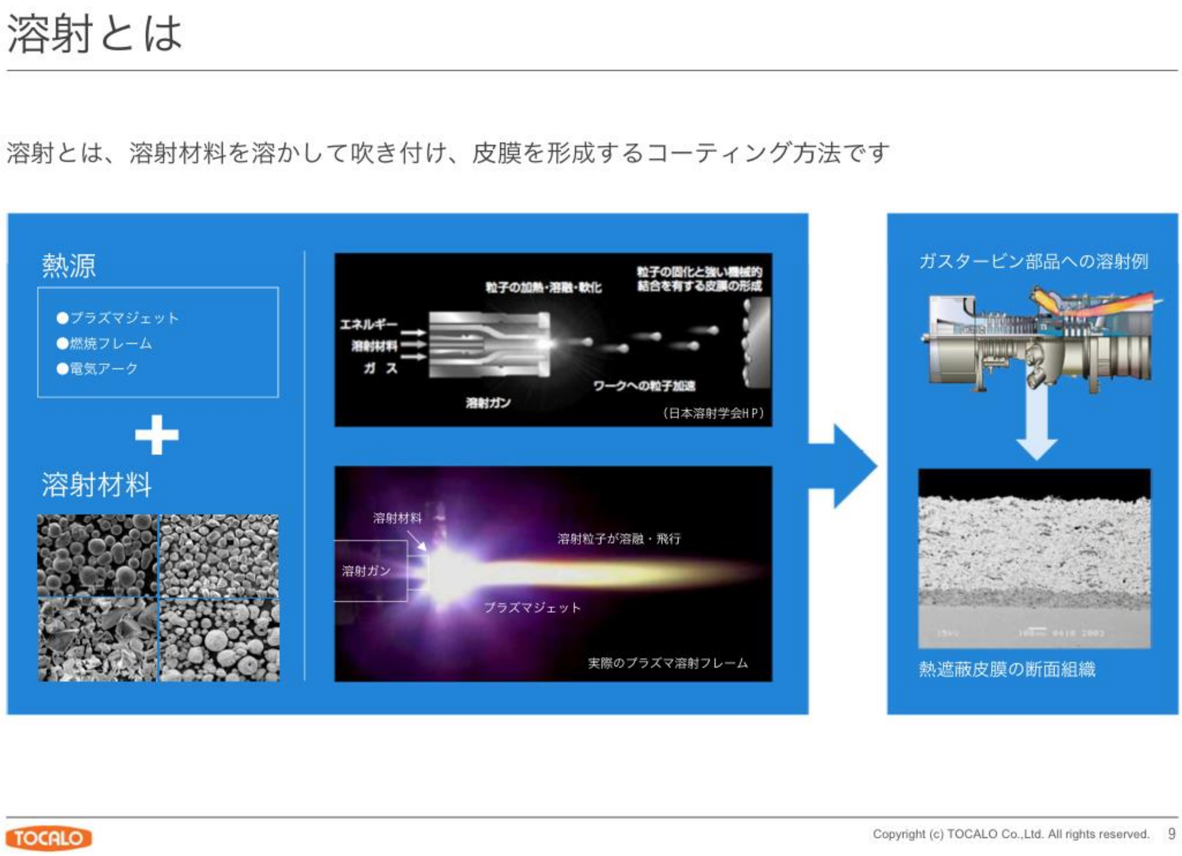
Page 5 is a list of our main offices. The new Mizushima plant is scheduled to be completed this month.

Page 6 is about our group companies. We are a group of companies that are scattered around the world.

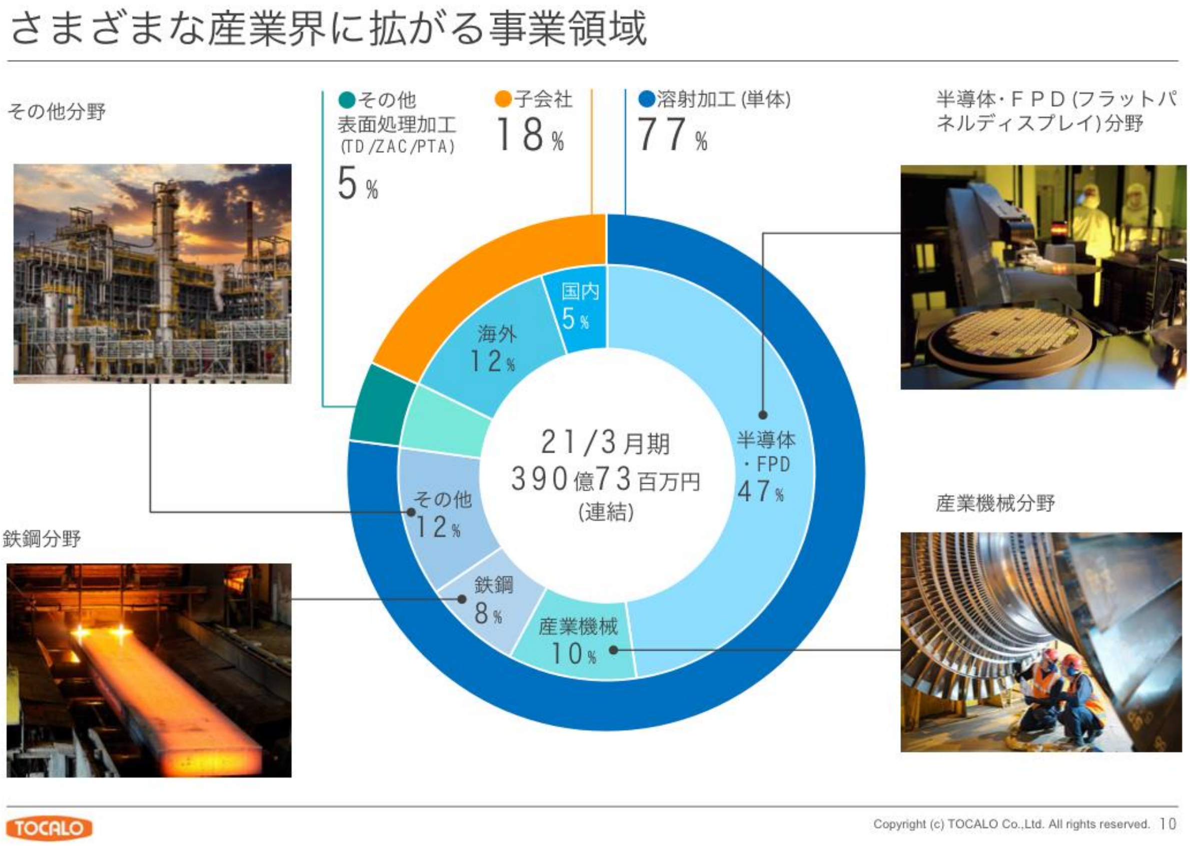


Page 7 shows the image of TOCALO's surface modification technology.

Page 8 shows TOCALO’s proprietary technologies.

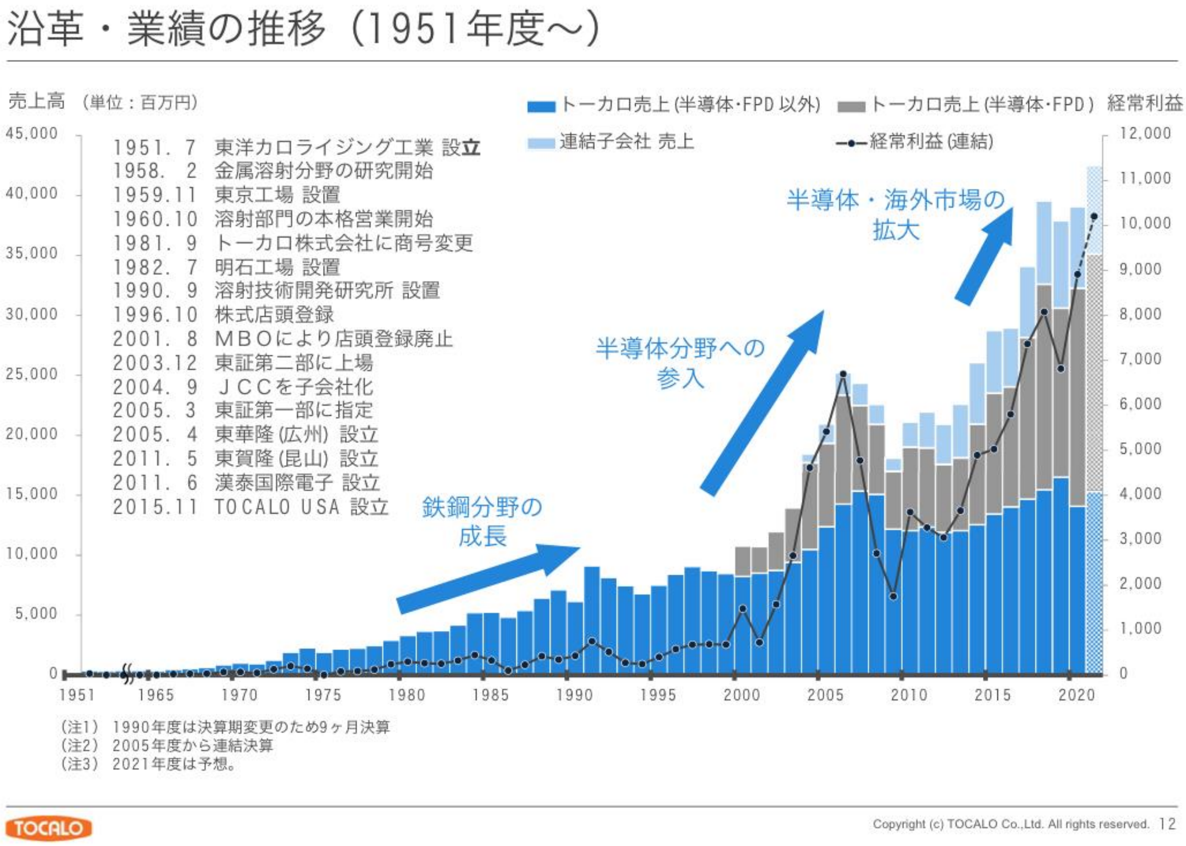


Thermal spray is the core of our company.



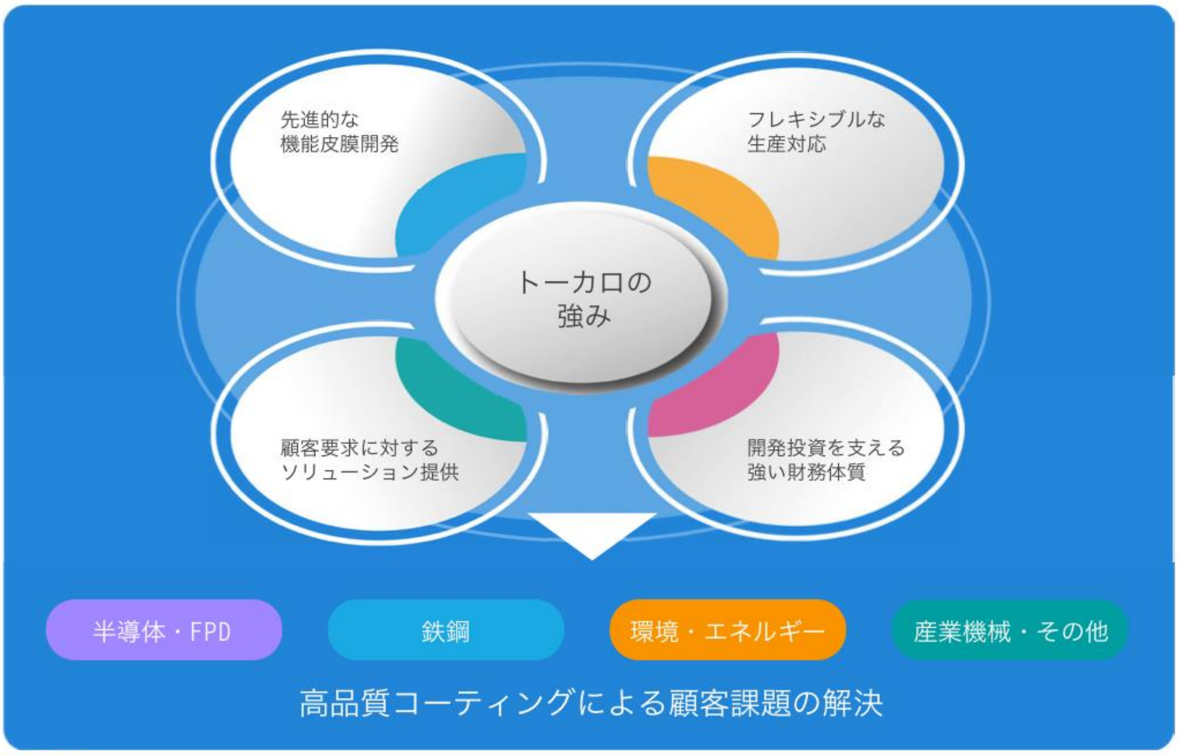
This is a list of our business areas that extend across various industries, or the scope of application for our customers.

This is the transition of application development from around 1990 to the recent past.



This describes our company's history and business performance since it was founded in 1951.

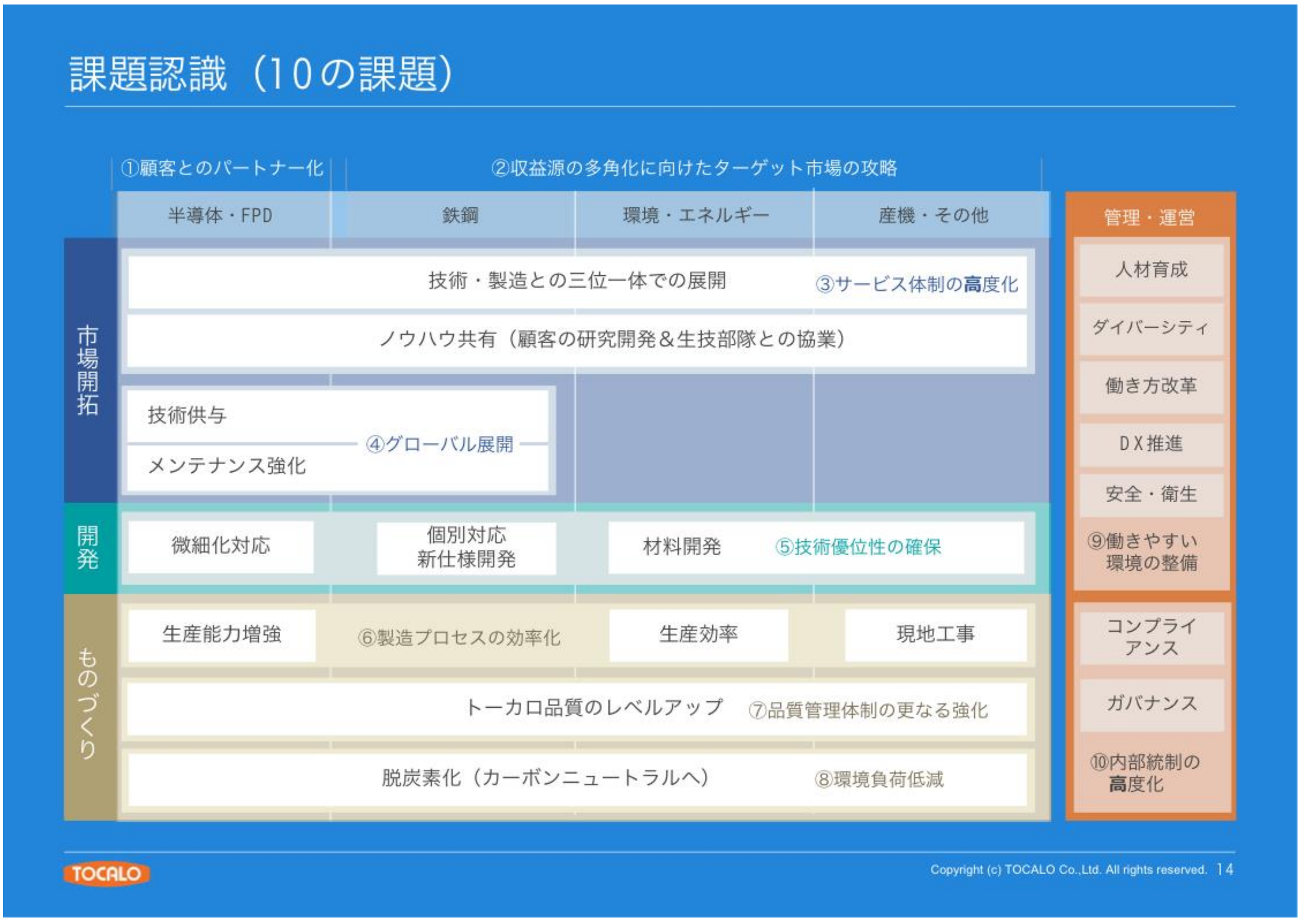
当社のビジネスの視点



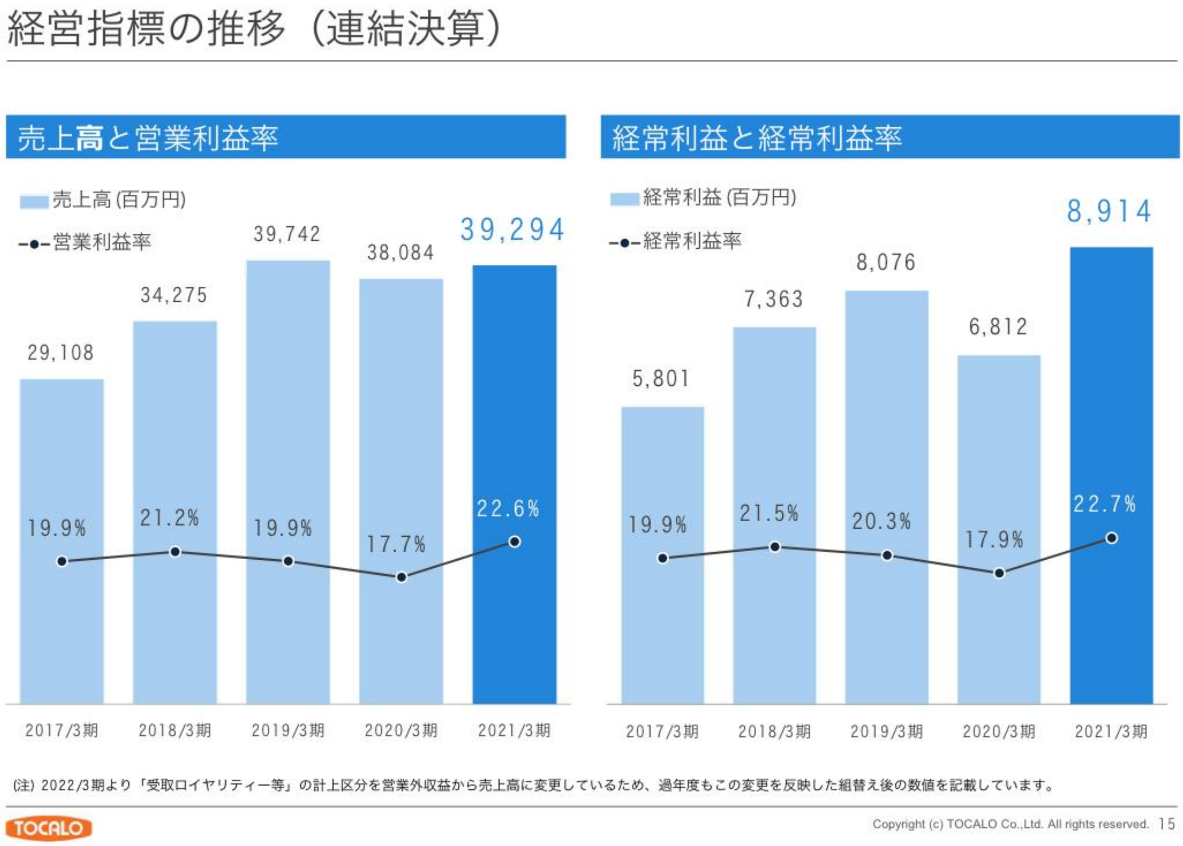
TOCALO

 13

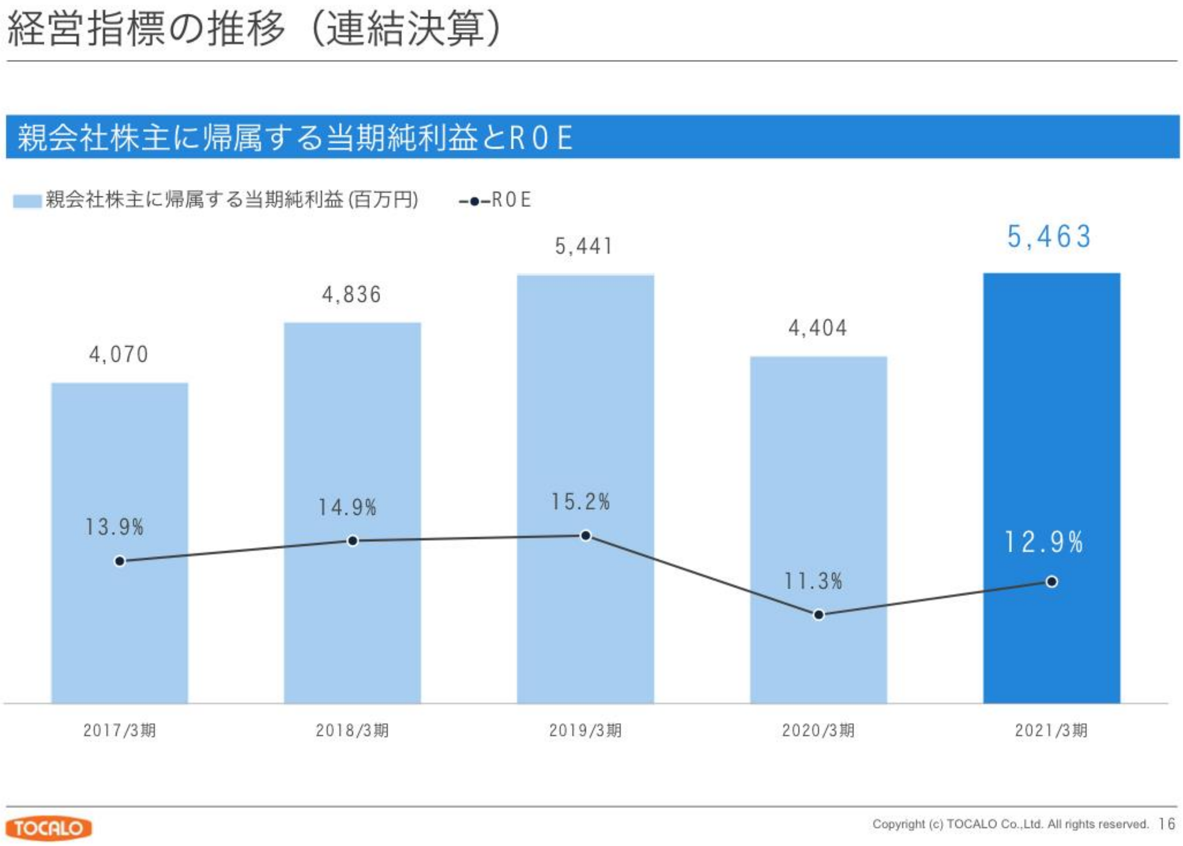
Page 13 discusses our business perspective.



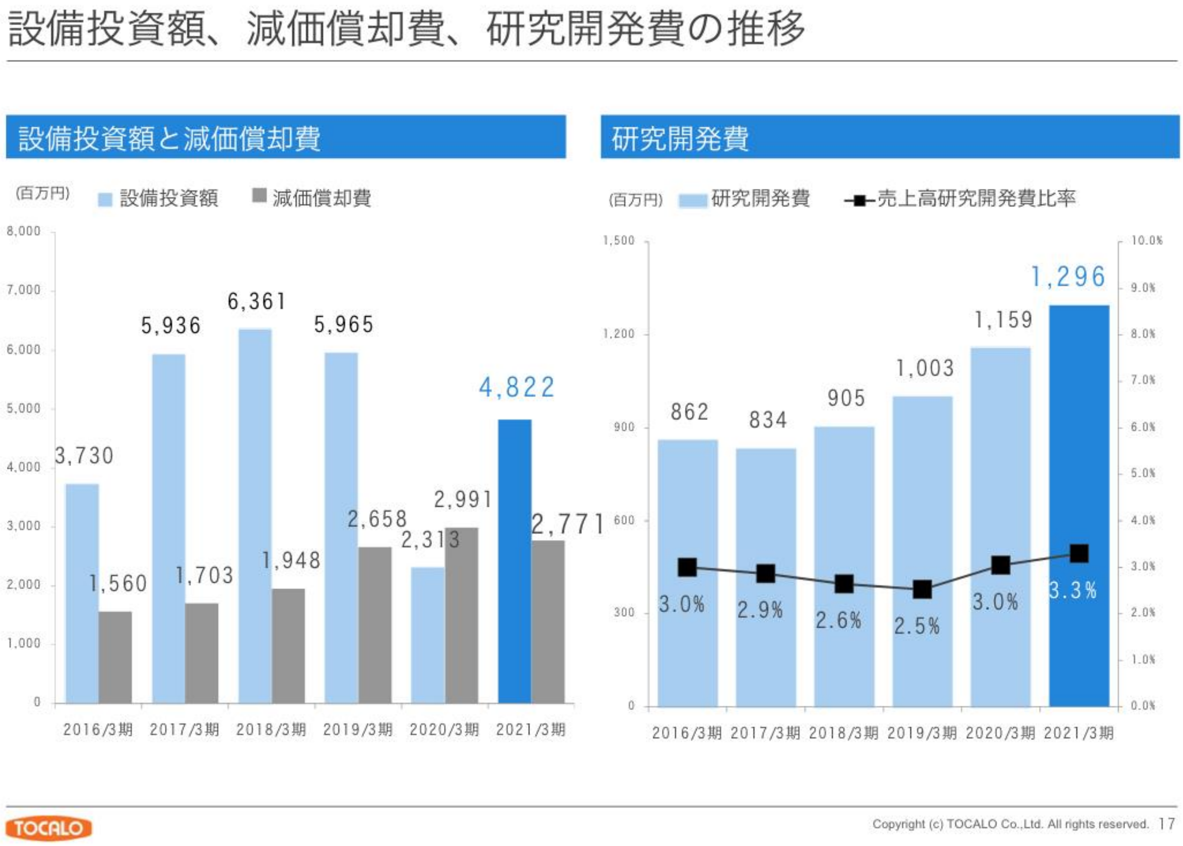
On page 14, we have selected 10 issues that we are currently aware of, and we are trying to address them.



Page 15 shows the changes in management indices: net sales and ordinary profit. This is what I just explained earlier.

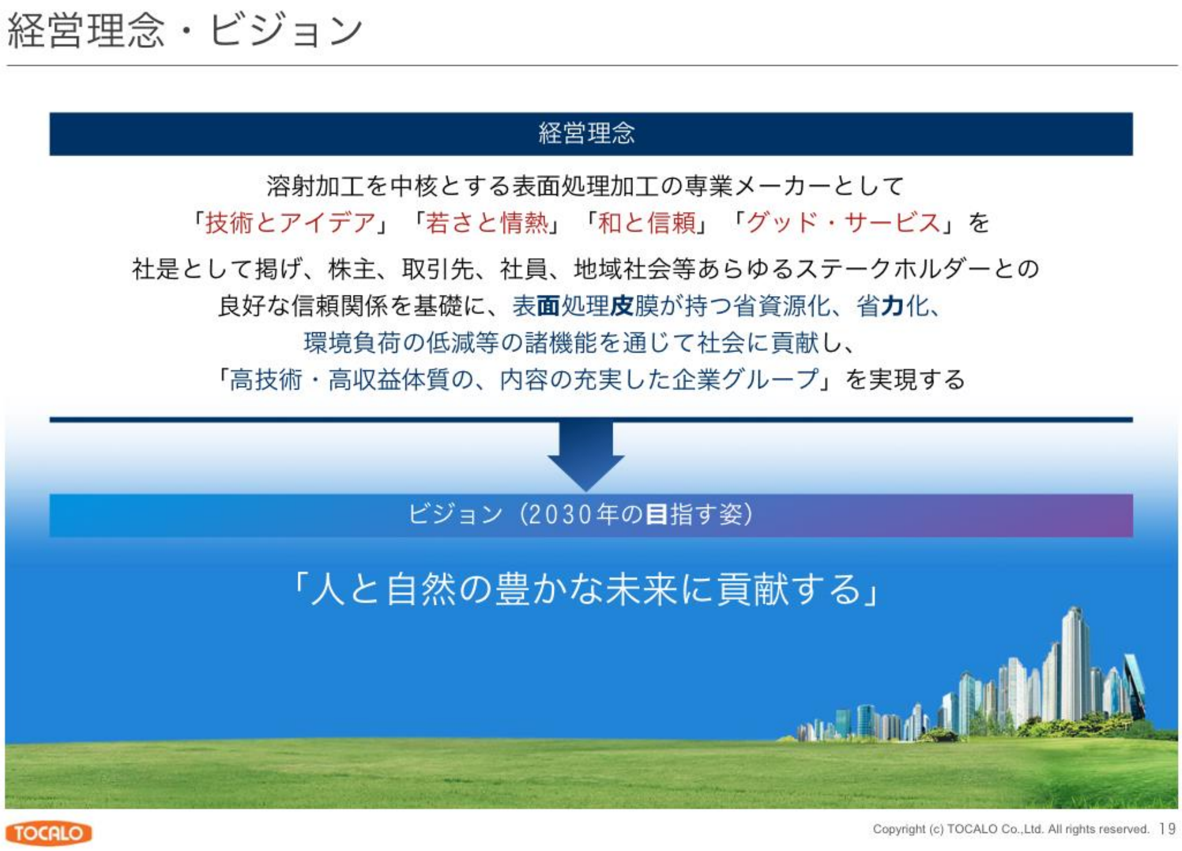


Page 16 shows the trend of net income and ROE.



Page 17 shows the trends in capital expenditures, depreciation and amortization, and R&D expenses.

If you have any questions, please contact the person in charge at a later date, and we will be happy to provide you with a detailed answer.



This page is an overview of our medium-term management plan.

First of all, on page 19, we have our management philosophy and vision, which are stated in every company.

Our management philosophy, although it may be long, is this: As a specialized manufacturer of surface treatment processes centered on thermal processing, our corporate motto is to provide technologies and ideas, youth and passion, harmony and trust, and good service. Based on our good relationship of trust with all stakeholders such as our shareholders, business partners, employees, and local communities, we will contribute to society through the various functions of surface treatment film such as the ability to save resources and power, and reduce the environmental impact of our products, and will become a corporate group with high technology, high profitability, and rich in content.

This is a management philosophy that has been stated for a long time, and I think it is the perfect phrase to address the current environmental issues. With this, our vision for the next 5 years of this medium-term management plan and for 2030 is to be a company that "contributes to a prosperous future for people and nature.”

ミッション

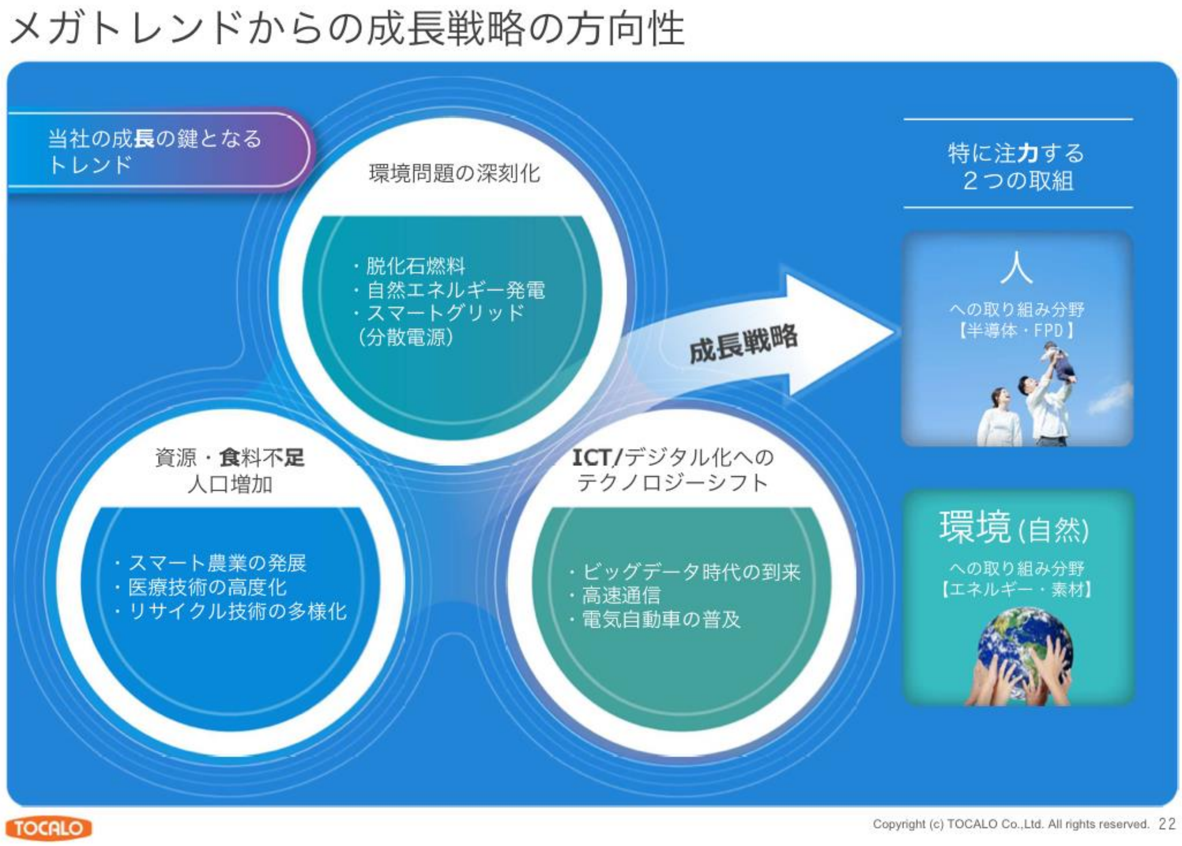
Page 20 shows our mission.

The mission of our group is "to enhance corporate value through continuous growth with an emphasis on ESG.” In order to achieve this goal, we must “create high-quality and high value-added products (films) and provide them to our customers.” Further, we must "contribute to technologies that help in the preservation of the global environment," "make our employees and their families proud to work energetically and safely at TOCALO," and "be trusted by our customers, shareholders, business partners, and local communities forever.” We would like to work to achieve those 4 goals.

Page 21 shows the direction of TOCALO from the perspective of megatrends.

The world is making great strides toward the realization of carbon neutrality in 2050. We would like to contribute to the world in terms of both technology and the environment. Among the megatrends, or major changes in society, we believe that the following 3 trends in particular will be key to our growth.

The first is the "increasing severity of environmental problems" and the second is the "technological shift to ICT (Information & Communication Technology)/digitalization.” The third trend is "shortage of resources and food, and population growth.” In order to address these 3 issues, we will vigorously promote TOCALO’s growth strategy, new product development and new market development.



Page 22 shows the direction of our growth strategy.

I have explained the 3 trends that are key to our growth. When it comes to the direction of our growth strategy for each of these items, for the "increasing severity of environmental problems," it will be non-fossil fuel, renewable energy power generation, and so on.

As for ICT (Information & Communication Technology)/Technology shift to digitalization, it is about the advent of the big data era, high-speed communication, and so on.

In the area of "shortage of resources and food, and population growth," the development of smart agriculture, the advancement of medical technologies, and the diversification of recycling technologies are expected to become topics in this field.

From these, we will focus on People and the Environment (Nature) as the 2 initiatives that our group will particularly focus on.

In the area of People, we would like to develop applications for industries centering on the semiconductor and FPD industries, and in the area of Environment (Nature), we would like to develop applications in the fields of energy and materials.

As for the growth strategy shown on page 23, and as I explained earlier, our first growth strategy is to focus on People. In the fields of semiconductors, FPDs, medical, agriculture, and food, we would like to proceed by organizing our development direction and targets.

On this page, we have outlined the direction and targets for development in the fields of energy, materials, and other related areas, including transportation, as part of our efforts under our second growth strategy, which are the environment and nature.

However, we think it will be difficult to achieve this in just 5 years. We hope, though, that this will be the direction we will take.

ビジネスモデルの進化（1）

テーマ		主に拡販に関する施策	主に社内管理に関する施策
市場開拓の強化	サービス体制の高度化	●サプライヤーからパートナーに ●顧客への最適なソリューションの提供 ●重点分野のプロジェクト設置（収益源の多角化）	●ＤＸ（Digital Transformation）の推進 ●問題解決型エキスパートの育成
	グローバル展開	●メンテナンスビジネスの再構築 ●現地化の推進（現地優良企業との協業） ●技術供与（ライセンスビジネスの強化）	●グローバルリスク管理体制の強化 ●グローバル人財の計画的育成
技術開発体制の強化	技術優位性の確保	●先進的皮膜開発への重点投資 ●産学官連携の推進	●知的財産戦略の強化 ●人財育成プランの高度化 ●技術データベースの拡充

TOCALO

 26

From this page, our measures and numerical targets will be shown.

These 2 pages, 26 and 27, show the measures to be taken to deal with the 10 issues I mentioned earlier on page 14 as a representation of the evolution of our business model.

Page 26 talks about the enhancement of market development and the strengthening of the technology development system.

ビジネスモデルの進化 (2)

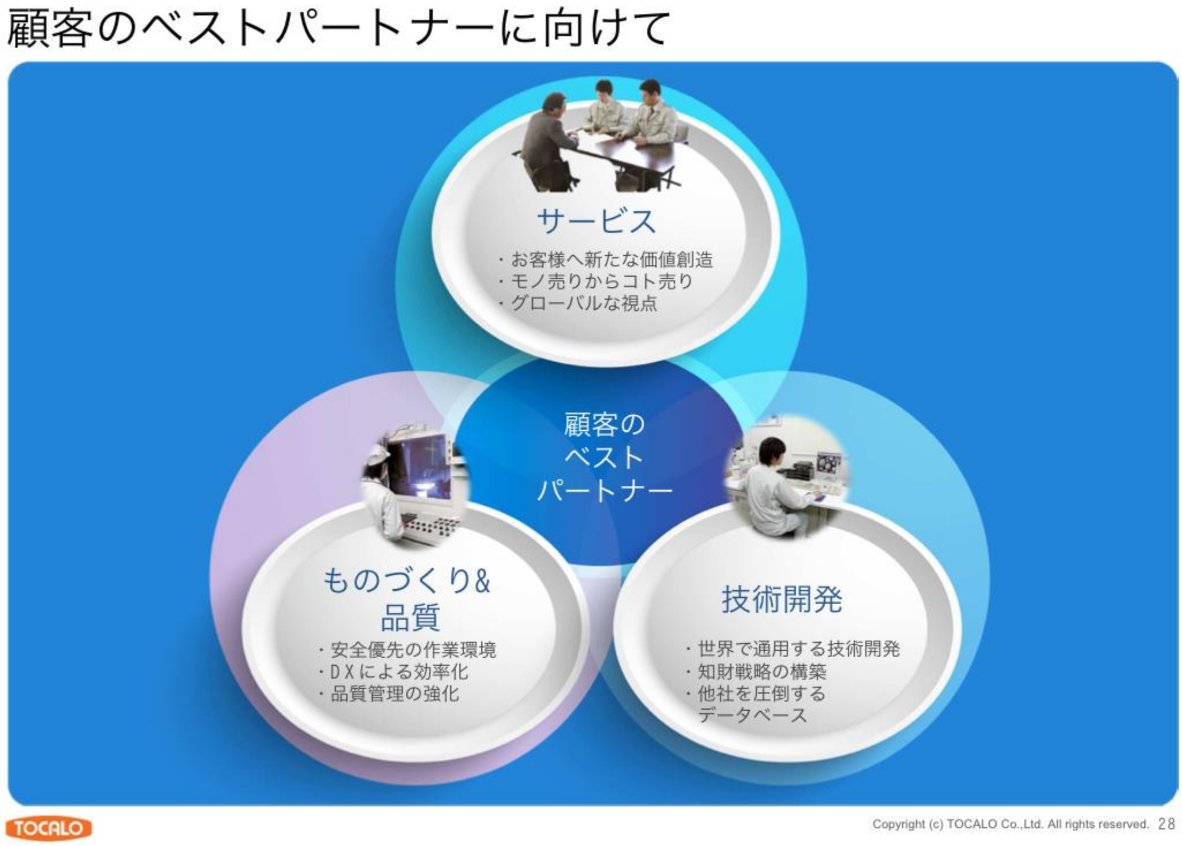
テーマ		主に拡販に関する施策	主に社内管理に関する施策
ものづくりの高度化	製造プロセスの高度化と効率化	●生産能力の増強 ●コスト＆デリバリーの最適化 ●新規成膜技術の実用化 ●現地工事のスマート化	●安全第一の徹底 ●人財育成と技術伝承 ●自動化・IoTの推進
	品質管理体制の更なる強化	●プロセス管理の強化 ●製品の性能保証への取り組みと確立	●品質システム運用（ISOなど） ●PQP（Product Qualification Plan 製品品質保証計画）構築
	環境負荷低減	●脱炭素化（カーボンニュートラル）に向けた戦略策定 ●グリーン成長戦略の検討・実施	●加工手法改善等による電力使用量削減 ●再生可能エネルギーの活用 ●水質汚染・大気汚染防止への取り組み
100年企業を目指した持続的成長	人財育成と働きやすい環境の整備	●ダイバーシティ推進（女性、障がい者、中途採用等）	●働き方改革の推進 ●DX推進 ●中長期的人財育成プラン策定
	内部統制の高度化	●ESGへの積極的取り組み ●内外投資家とのエンゲージメント推進	●コーポレートガバナンスコードへの対応 ●コンプライアンスの徹底

TOCALO

 27

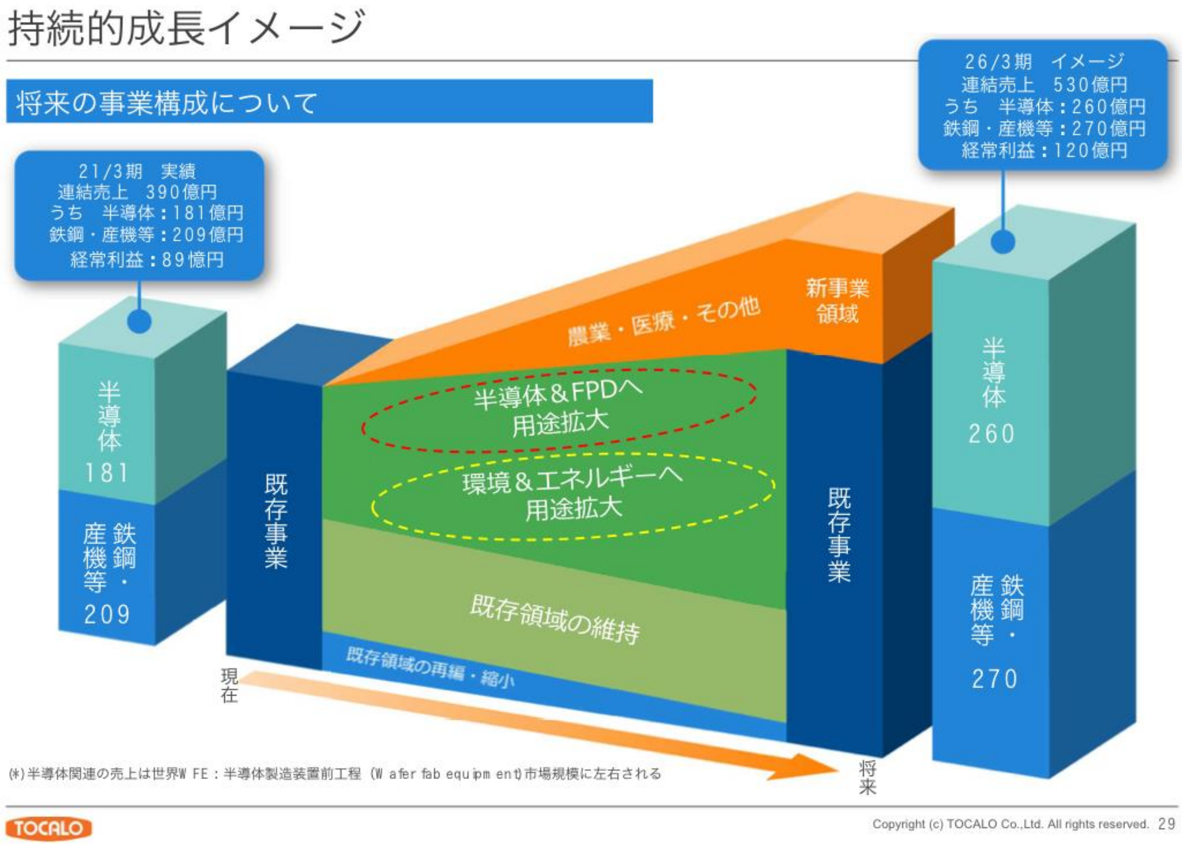
On page 27, we categorize the measures to be taken in the future from each of the above 4 perspectives, including "advancement of manufacturing" and "sustainable growth toward a 100-year company."

Over the 5 years under the mid-term plan, we will be implementing the PDCA cycle while clarifying the action plan for each year.



Page 28 is about our being the best partner for our customers.

In terms of service, manufacturing and quality, and technological development, our group will continue to work towards becoming our customers' best partner, and not as their supplier.



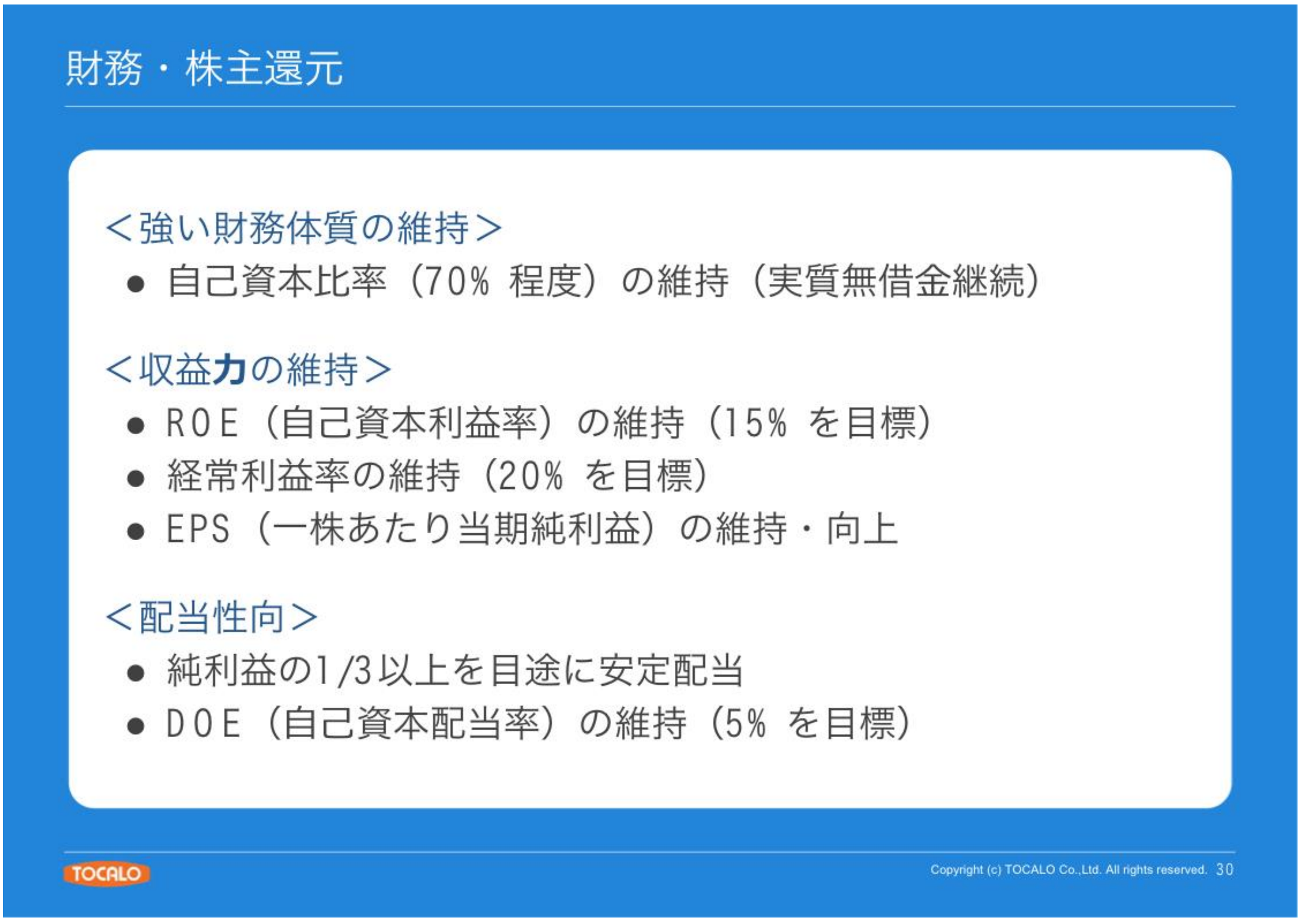
This page shows a diagram on sustainable growth.

It also describes the growth image and figures throughout the period of this mid-term plan. However, I don't think it's a good idea to let these numbers stand on their own.

In the fiscal year ending March 2026, consolidated sales will be JPY53 billion, of which JPY26 billion will be in the Semicon & FPD-related business, and JPY27 billion will be in the Iron & Steel, Industrial Parts, and Other businesses. We would like to achieve JPY12 billion in ordinary profit.

We plan to increase our sales by JPY14 billion, or 35%, over the next 5 years, using the JPY39 billion in fiscal year ending March 2021 as the launch pad. Of this, we plan to increase sales of semiconductors by JPY7.9 billion, or 43%, with JPY18.1 billion as the launch pad. As for ordinary profit, with JPY8.9 billion as the launch pad, we plan to increase ordinary profit by 34%, or JPY3.1 billion. We hope all our employees will work together to achieve sustainable growth.

However, as mentioned in the explanatory note, we believe that semiconductor-related sales are very susceptible to market trends. These numerical targets will probably be reviewed periodically in the future.

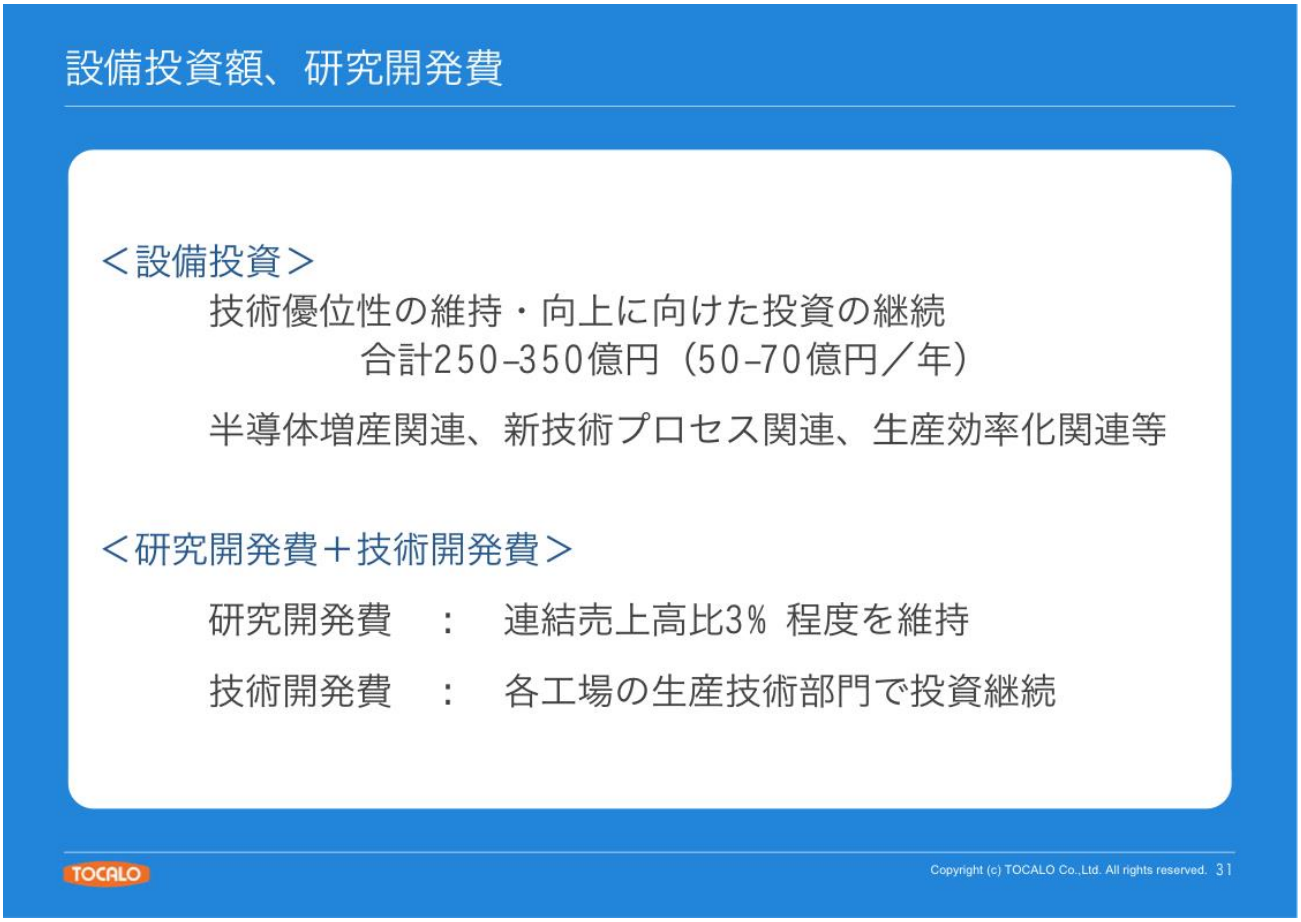


Page 30 is about finances and shareholder return.

In order to maintain a strong financial structure, we currently have an equity ratio of about 70%, and we are operating our business virtually debt-free. We will continue to do that in the future.

In order to maintain profitability, we are targeting ROE and return on equity of 15% and ordinary profit ratio of 20%, and we will strive to maintain and improve EPS and net income per share.

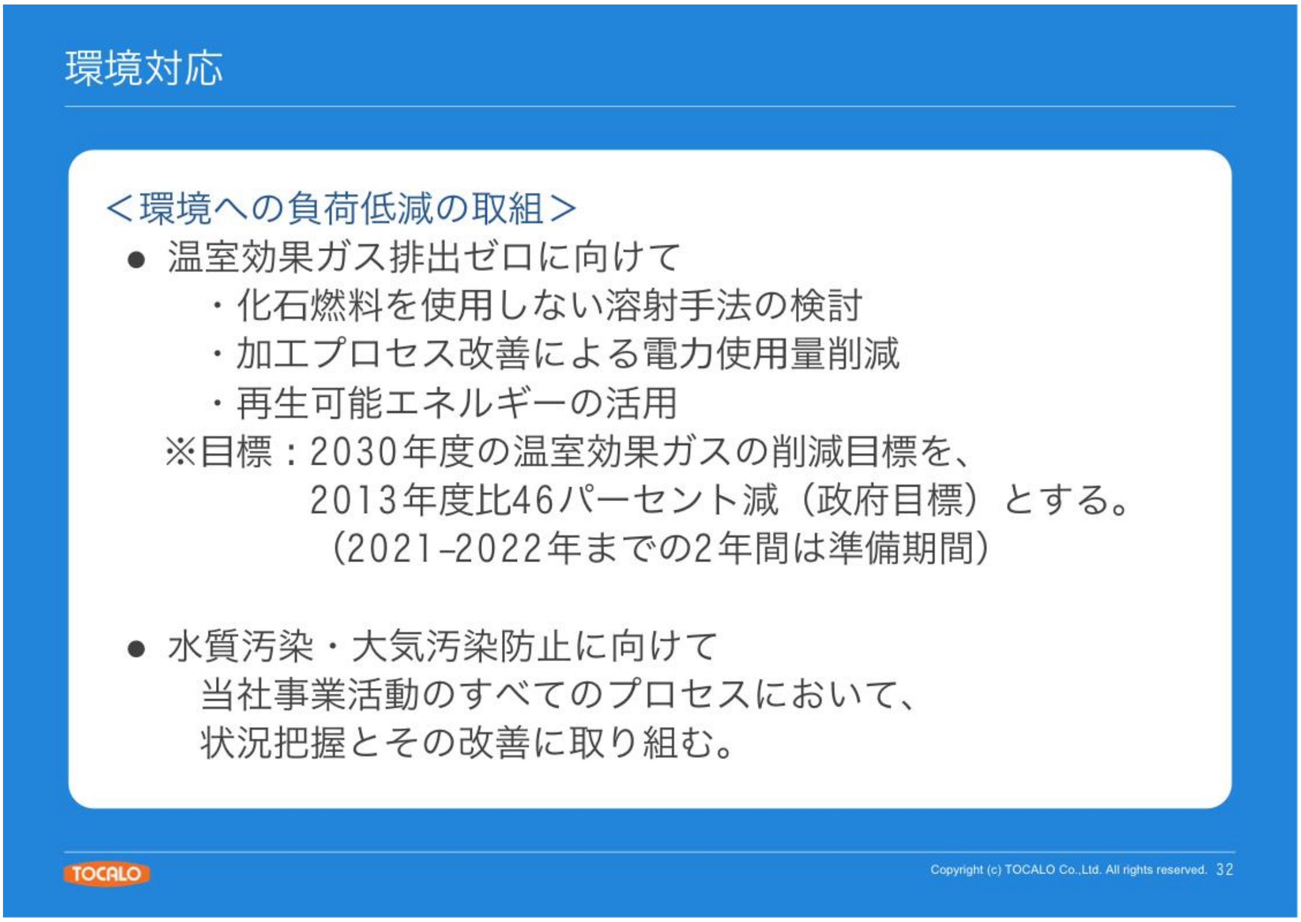
We aim to maintain a dividend payout ratio of at least 1/3 of net income, and we plan to target a dividend on equity ratio (DOE) of 5%.



Page 31 shows capital expenditures and research and development expenses.

In terms of capital expenditures, we will continue to actively work to maintain and improve our technological superiority, and we are planning to invest JPY25 billion to JPY35 billion over the next 5 years in areas such as increased semiconductor production, new technology processes, and production efficiency. On an annual basis, I think it will be JPY5 billion to JPY7 billion per year.

As for research and development, we continue to maintain a ratio of about 3% to consolidated net sales. In addition to that, we are planning to actively invest in technology development in the production technology departments of each plant.



Page 32 is about our environmental response.

We believe that our group must firmly promote efforts to reduce the burden on the environment. In order to achieve zero greenhouse gas emissions, we are considering thermal spraying methods that do not use fossil fuels, reducing the use of electricity by improving the manufacturing processes, and promoting the use of renewable energy.

Our target is the same as the Japanese government's target, which is to reduce greenhouse gas emissions by 46% by 2030 compared to FY2013. The Environmental Promotion Department was established in April this year, and we plan to use the next 2 years as a preparation period to assess the current situation and plan measures to reduce greenhouse gas emissions.

At the moment, we are still in the early stages of this project, but we would like to make a statement that we will do our best to achieve this goal by 2030 and put all our efforts into it.

Even when it comes to the prevention of water and air pollution, we would also like to understand and work to improve the situation.

社員の皆さんへ　BE TOCALO

TOCALO 33

Last but not least, these last 2 pages are the message we sent to our employees when we announced this plan internally. I would like to introduce it as 1 of the directions our group is aiming for.

Let me discuss BE KOBE on page 33. There is a monument erected in Meriken Park by the city of Kobe, where our head office is located, and BE KOBE is a message born 20 years after the Great Hanshin-Awaji Earthquake that sums the sentiment that “the charm of Kobe is in its people.” In other words, it is a message on Kobe's civic pride.

As a message that shows pride in Kobe, which loves people who are willing to take on new challenges and the feeling associated with that, it has become extremely popular among Kobe residents. In light of this, we also want to BE TOCALO.

The charm of TOCALO is definitely in its employees, and all of us at the Company have worked together to overcome many crises, such as the Great Hanshin Earthquake, overseas acquisitions, the Lehman Shock, and the Great East Japan Earthquake.

In the next 5 years to 10 years, everything in our society is going to change. We will continue to deal with these changes in a positive manner, step by step, with all of our employees working together.

We just sent a message of BE TOCALO to our employees to make them feel proud to be TOCALO employees. With this explanation, I would like to conclude today's presentation.

Thank you very much.

Moderator: Thank you very much for your explanation.

Question & Answer

Moderator: As announced, I would like to start with a question-and-answer session from all of you in the audience.

We are planning to publish a full transcript of this IR meeting, including the Q&A session. Please note that if you give your name or company name when asking a question, it will be made public.

Participant: Thank you very much for your explanation. I have 2 major questions.

The first 1 is a little bit about the current fiscal year, with only a short period left, and the second one is about the mid-term plan that was announced today, although I personally felt it was a little surprising.

The first question is about the upward revision in your results for this fiscal year. As your president mentioned at the spring results briefing, I think the major point is semiconductors, and at that time, he said that he could see about 3 months ahead for semiconductors.

Today, it is November, so can we assume that we have already seen until the end of this fiscal year? It may be too early to talk about the next fiscal year, but I would like to know how your president feels about it.

Mifune: It is true that we can only see about 3 months ahead.

Nowadays, semiconductor equipment manufacturers are also making a lot of forecasts, and according to these forecasts, it seems that most of them are receiving orders.

However, we don't want there to be any fluctuation when those come in, so we are working together with both parties so that the situation can be leveled out as much as possible.

In that sense, we can see for about 3 months. We may be seeing a little more, but I'm pretty sure that's about it. If you ask me to do that for a year, it’s a bit impossible.

Participant: Now that you mention it, is it correct to say that there will be no particular problem this year?

Mifune: Unless something goes wrong, I think.

Participant: Okay.

Now the second question is about the mid-term plan. On page 29 of the document you gave us, the president mentioned earlier that it would be better to let the numbers speak for themselves. Personally, I think so too, but when I see the data, I can't help but ask a lot of questions.

I would like to ask you 2 questions in this context.

First of all, in the new business fields of agriculture, medical care, and others, I think that you are expecting sales to exceed JPY10 billion in 5 years, according to this chart.

It is also written in the previous document, on page 23, but it would be very helpful if you could be a little more specific and say that by utilizing your company's technologies in various ways, you expect to generate sales of about JPY10 billion in 5 years through new businesses.

That's the first 1, and then I'd like to look at the figures since they are available. More or less, the ordinary profit ratio this fiscal year is estimated to be around 24%. Now, in the fiscal year ending March 2026, the ordinary profit ratio is at 22%. So, while I do not judge everything by the profit ratio, I wonder if it is still time for your company to invest in growth in the next 5 years. Is that correct?

In this regard, as I asked earlier, can you consider these new businesses to be still in the investment stage? I would be very grateful if you could give me your thoughts about those areas.

Mifune: I understand. Tough question.

With regard to the JPY10 billion you said, I'm sorry, this is just an image. It won't be much, as it would be much lower. We couldn't write the characters, though, so we had to make it look like this. However, with our hope included, we believe that medical care and agriculture will be the areas where we can make the most use of our relationships with people in the future.

We also do a lot of things in the medical field, but we are particularly interested in medical equipment. We're working on a variety of things like that, but it's just going to take some time—for example, endoscopes and many other things. With that equipment, to avoid getting blood on it, the solution would be on its surface treatment, as it could be coated.

We are starting a business in that area. However, if you ask me whether it will grow as much, I am not sure we can commit to that level yet.

But the place where our headquarters is located is a special medical zone, and there are many medical institutions in that area. We are definitely working on various tie-ups in this area.

However, I think we still have to work hard to see how far we can go in terms of commercialization. While it includes approval, of course, I think we have those areas.

In terms of agricultural machinery, this is about machines, so for example, the parts of a combine harvester that wear out, for example, are used all over the world. We are still working on it, but I'm sure there will be more places like that. Since we are dealing with the world, I am thinking that the number of such places will increase.

However, it is true that in terms of this allocation and ratio, it may be around 10 billion. I'm sorry. I just want you to be aware that it is not at that level.

The other is profit ratio.

Our target is 20% or more, so in that sense, we are probably off by a little. We are going to make some adjustments in the area of energy, including investment, but we still need to think about what we are going to do about our own renewable energy, fossil energy, and energy for our own use.

We also emit about tens of thousands and several thousands of tons of CO_2, so we need to figure out how to reduce it. The world now is 1 in which if we do not make our emissions zero (neutral), manufacturers, especially leading manufacturers, will not associate with us. So, I think we have to invest properly there, including investing in that area.

We will clear 20%, but I think it will be a bit up and down in that area. That is all.

Moderator: Do you have any other questions?

Participant: Thank you. Just 1 question.

Page 32 is about your medium-term plan, right? I am personally interested in the study of thermal spraying methods that do not use fossil fuels, but from a scientific point of view, I am curious to know how it will be done.

In your target, you say that the greenhouse gas reduction target for FY2030 is a 46% reduction from the FY2013 level, and that the years 2021 and 2022 will be a preparation period. There is a recent trend for zero emissions, isn't there? In short, they want to make our world carbon neutral.

While it will not happen immediately, given that there is a preparation period and so on, do you have an idea when in the future you will be able to declare carbon neutrality, such as in the next mid-term plan or at some other opportunity? That is all.

Mifune: I think that a company should declare itself carbon neutral at some point. However, in order to know when the next step will be, we need to have a clear understanding of what we are doing, how much energy we are using, and what we are using.

Then there is the fossil fuel-free thermal spraying method. Nowadays, thermal spraying is done by mixing oxygen and petroleum, which is a great fossil fuel like jet engines. It has its own characteristic that makes it very fast. On the other hand, there is also a method of using electrical energy to create plasma and melt it down. That will give you some speed.

However, this is taken not just from fossil fuels, but from renewable energy sources as well. When I showed you a picture of thermal spraying that does not use fossil fuel as much as possible, this is burning fuel, isn't it? You can tell that you are burning fossil fuels and kerosene.

As much as possible, we definitely have an idea of reducing CO_2 emissions, albeit it is very small compared to the overall CO_2 emissions, and we are making various efforts at the research institute toward that end.

Moderator: Do you have any other questions?

Osawa: Thank you for your hard work. My name is Osawa from Ichiyoshi Securities.

I have 2 questions about the medium-term plan. 1 is the growth of semiconductors. If the growth rate is based on the fact that WFE is linked to the market, as you mentioned, do you aim to outperform or exceed the market growth rate? I'm not sure what will happen if it’s at par with market growth.

With regard to outperforming, even if you are aiming to do that, there are cases where you can grow even more when the business is growing, and there is also the idea of reducing the decline where there is a cyclical decline. You can take the offensive by increasing the places where there can be growth, or taking customers.

For example, if you want to reduce the drop, it is recognized that you can intentionally increase the recoat or take it away, or that is centered on something like a chamber or an electrostatic chuck. You can propose to expand the range of thermal spraying.

Can you tell us about your approach to growth in this area, and what specific measures you are taking, including technology and areas to some extent?

Mifune: I understand. First of all, the global semiconductor index has been released, so if you compare the index for 2020 with that for 2030, there will be about twice as many semiconductors. I don't think we will be able to grow to that level. We are thinking of a growth rate that is a little lower than that.

However, as mentioned earlier, there are still waves, and when we talk about what kind of growth strategy we are going to adopt, we have to decide if we should go for recoat or where we should go. First of all, we need to develop the most advanced coatings that can be applied to the most advanced components to be able to compete in the market. That's the first thing we should do.

Then, when we come down from there, I think recoat will appear. In this way, we are definitely focusing on the application of coatings on materials that are used at the leading edge.

Nowadays, what competes with that are ceramics or sintered materials. Of course, the question is how we can compete with them through coating. We are putting a lot of effort into that.

Osawa: My other question is about fossil fuels, which were mentioned earlier.

I know that you are currently working on coal-fired boilers and thermal spraying, and personally, I don't think there is anything wrong with coal-fired power. I think that's where you were focused before, or since there is history, maybe it has to do with your customers.

Also, you mentioned a number of policies, but I would like to know if there is anything more in-depth than a general statement that you think is unique to TOCALO.

Mifune: No, I think we'll probably stick with a generalization. Coal-fired power is still said to account for about 20% of Japan's energy by 2030, and I don't think that will change suddenly.

However, even coal-fired power is efficient. Also, in the direction of reducing CO2 emissions as much as possible, we have made considerable progress in co-firing, such as mixing hydrogen and ammonia, so I believe that the amount of CO2 emissions will gradually decrease.

In the meantime, when using coal, the damage is terrible for boilers. So if you mix nitrogen and hydrogen, you get different damage.

There will be a world where coating will be required to protect boiler tubes and equipment, so we think that will be our turn to act. I think boiler systems will be around until around 2030.

However, we're not that into nuclear power. There are quite a lot of parts in that area, so in that sense, it would be a bit of a problem if we moved to nuclear power.

On the other hand, when it comes to renewable energy, we are not doing much with solar cells. But if we go to wind power or geothermal power generation, there is a world that exists that we are personally happy about. Something like that, I guess.

Moderator: If there are no other questions, we will move on to the question-and-answer session from those who are participating online.

The moderator will read your questions on your behalf.

For the first question, could you give us an idea of the growth of overseas business in the mid-term plan? We would also like to ask for quantitative information, such as the ratio of sales profit to the target for FY2026 and the scale of capital expenditures over the next 5 years, if there is any.

Mifune: We discussed this quite a bit, but I think it will change, especially in the semiconductor sector.

The point is that now, for example, semiconductor recoat systems are done in Taiwan and in China. We are doing it locally, but I wonder if we will be able to do it locally in another 5 years. I still think we should do it in the best place. For example, there is a great possibility that recoat materials will be returned to Japan. We are now considering the best quality products that will please our customers, and it's hard to know what the future holds.

It's the same in the US, but TSMC is coming out in the US. I heard that Intel is building a new factory. I really wonder if it would be done locally.

That, too, is an issue to be considered now. I think this will change the overseas ratio significantly. However, there is no doubt that the overseas ratio will increase.

We have subsidiaries and affiliates in Thailand and Indonesia, which are not consolidated yet.

Naturally, we would like to make those companies into subsidiaries, to make them subject to consolidation, and to promote and increase their commercialization. Japanese companies and major corporations are also leaving the country, so I think the number of companies will increase in line with that.

So, it is difficult to say what percentage we will set. The reality is that it is difficult to present figures for medical care and agriculture. If it comes out in the form of a yearly review, we would like to release the numbers again. That is all.

Moderator: Thank you very much.

If any of you here have any questions, we will be happy to answer them.

Participant: Thank you for your explanation.

I'm sorry to be so persistent, but I'd like to go over the sustainable growth image 1 more time, if I may. Over the past 5 years, sales have increased by more than 35%. On the other hand, the ordinary profit ratio has remained flat, which is a bit strange. I'm still a little concerned about what the premise is.

I wonder if the increase in sales would have a very low profit ratio. Or. It's simply too good right now, and there's nothing that can be done. Or, even if your business itself grows, the economies of scale may not work very well. I've been thinking about it a lot, but which 1 is the right image for you?

Mifune: I don't think the numbers are that bad. For example, we are talking about a JPY14 billion increase from JPY39 billion to JPY53 billion, right? The profit is JPY3 billion, right? That's how it is.

Participant: In other words, our first instinct as business analysts is to assume that if sales increase by 30% or more, the profit ratio will also increase. The fact that it hasn't increased makes me wonder what kind of image you have in your mind.

Mifune: That's probably the point, because we have challenges in many places. It is impossible for all of them to be successful, so in that sense, from the perspective of our industry, I don't think the numbers are that bad.

I don't think the number is as low as you say it is because of some strange factors. It's not. However, as asked earlier, there is a certain amount of uncertainty about the success of technological development for new semiconductors and other cutting-edge semiconductors.

Participant: Okay. Thank you.

Moderator: The scheduled end time has arrived, so we would like to conclude the briefing.

If you have any further questions, please contact our IR staff by e-mail or phone. We will be happy to answer your questions.

Thank you very much for your explanation, Dr. Mifune and everyone from TOCALO Co., Ltd.

Mifune: Thank you very much.

Moderator: Thank you again, analysts, for taking time out of your busy schedules to join us today.

[END]

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2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
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