(TSE Prime Market Code 3433)

New possibilities for a bright future

Financial Summary (1H FY2023)

11/8/2023

Kazuya Kobayashi
Representative Director, President and Executive Officer

TOCALO トーカロ株式会社

President's Greeting and Introduction

1989: Joined TOCALO Co., Ltd.
Worked in the Tokyo Plant's Production Div. for 4 years

1993: Worked in the Thermal Spraying Technology R&D Laboratories

2004: Worked in the Akashi Plant
Launched large FPC production plant

2009: Kitakyushu Plant Assistant Division Manager of Production (Plant General Manager in 2014)
Launched business with overseas semiconductor equipment manufacturers

2018: General Manager of Akashi Plant

2021: Managing Executive Officer and General Manager of Production Headquarters

2023: Assumed position of Representative Director, President, and Executive Officer

President's Greeting and Introduction

TOCALO

To actively promote the medium-term management plan:

- **Safety is our top priority**
  - Creating a safe workplace (JISQ45100 certification)
  - Creating a clean, functional, and people-friendly workplace
- **Manufacturing with sincerity**
  - Complying with work procedures and fulfilling customer quality standards
  - Each and every employee works with a sense of responsibility for their own work
- **Thorough improvements to production efficiency**
  - Aiming to further improve thermal spray efficiency
  - Increasing production efficiency by automating production systems

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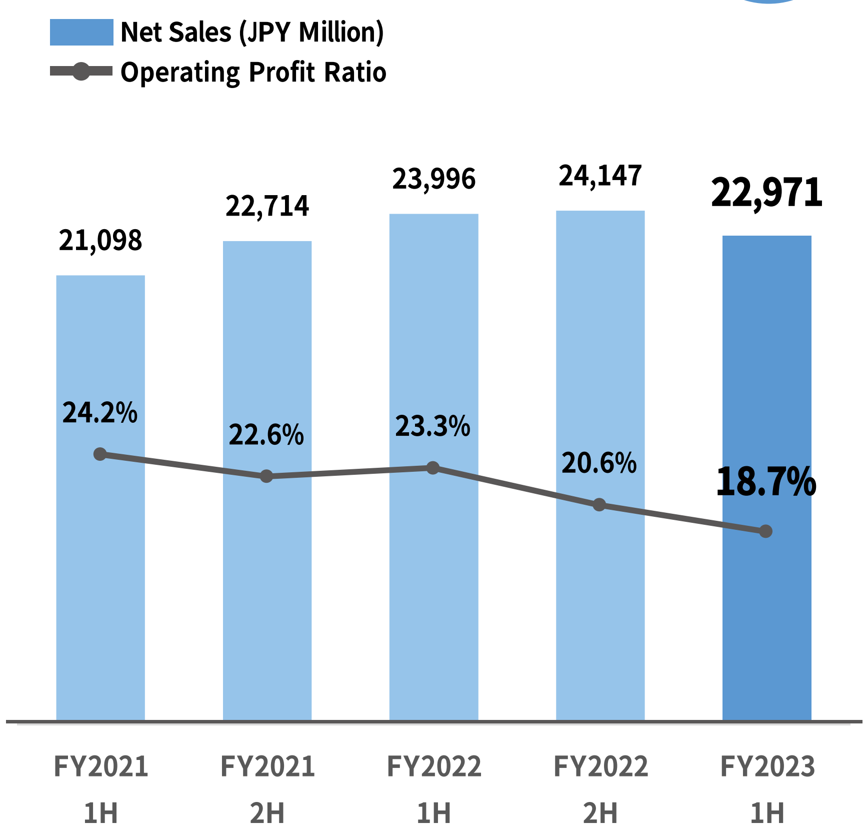
1. Overview of Consolidated Results 1H FY2023

Highlights of Consolidated Results 1H FY2023

POINT Net sales decreased for the first time in nine half-years due to a decline in the semiconductor field

Change -4.9%

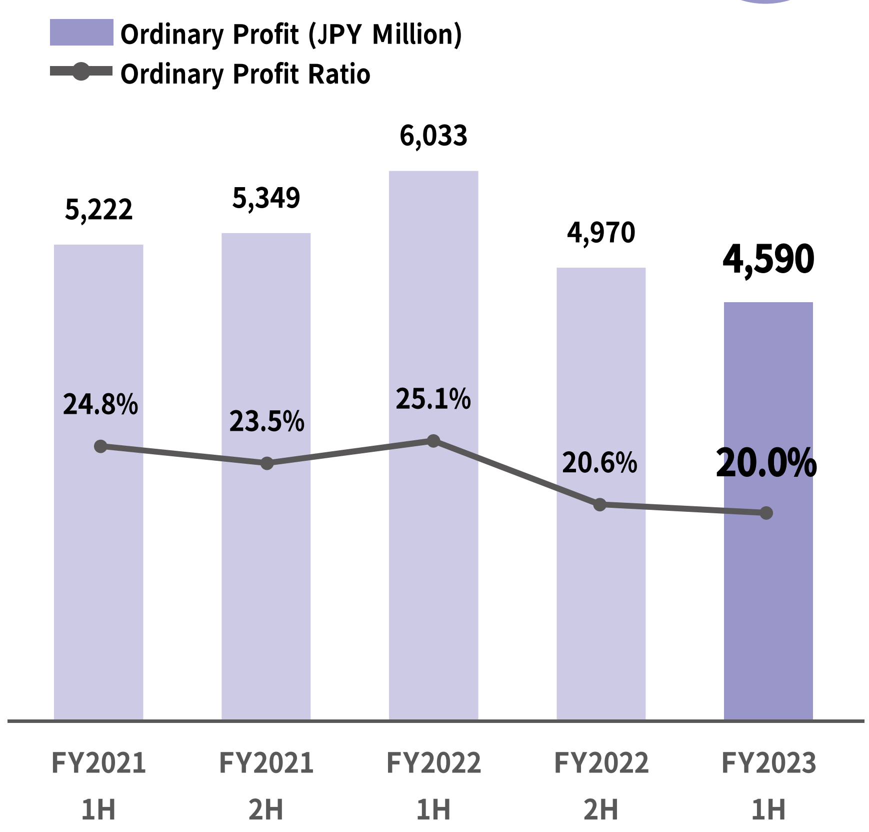
Net Sales



POINT Ordinary profit decreased by 7.6% from the previous half year, but exceeded the initial forecast

Change -7.6%

Ordinary Profit



Overview of Consolidated Results 1H FY2023

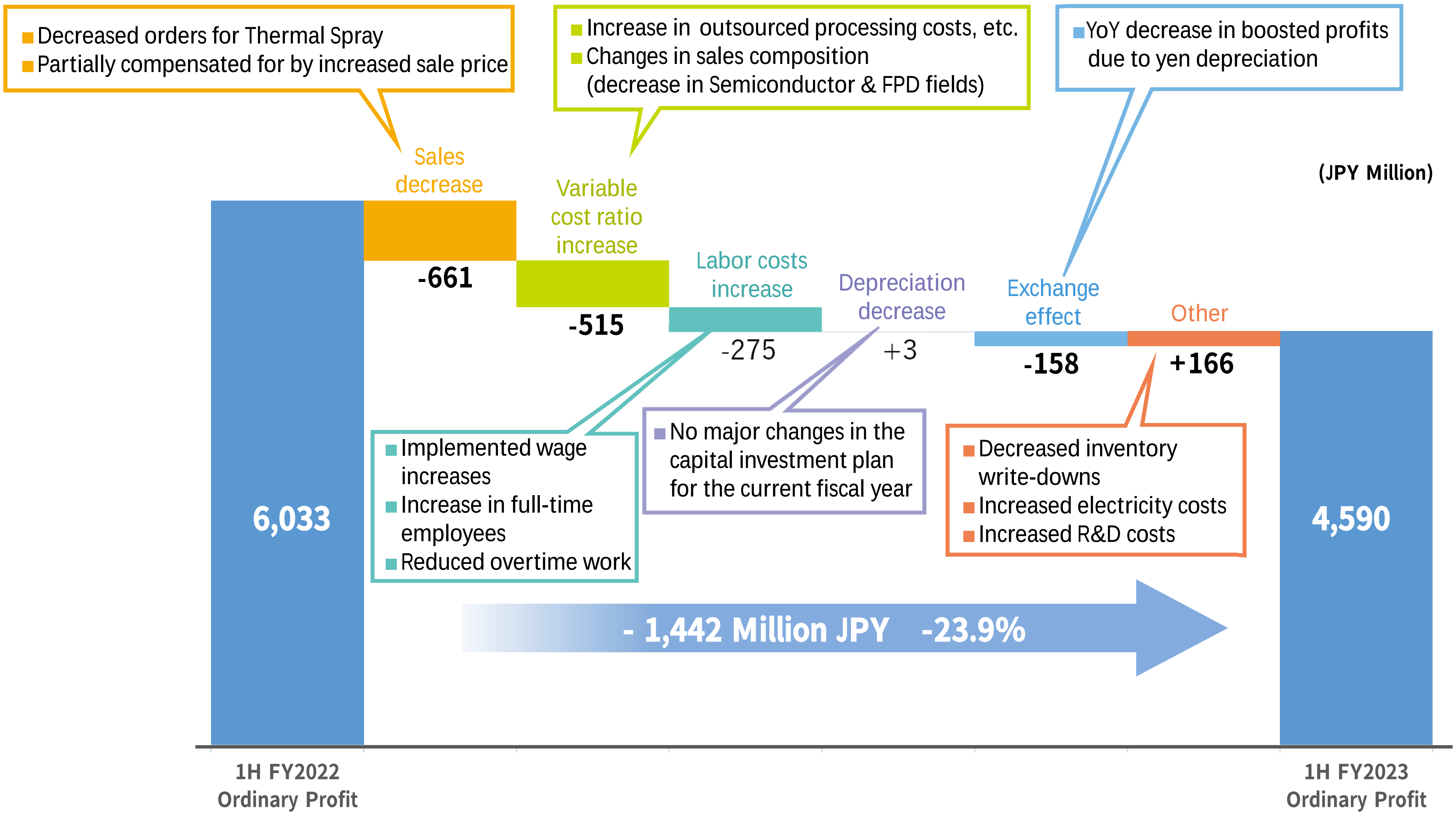
TOCALO

While the semiconductor field was very strong in the first half of the previous year,

- Net sales decreased by 4.3% year-on-year due to the semiconductor market entering an adjustment phase
- Ordinary profit decreased by 23.9% year-on-year due to a change in the sales mix and an increase in personnel costs and R&D expenses, etc.

(JPY Million)	1H FY2022		1H FY2023		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	23,996	100.0%	22,971	100.0%	-1,025	-4.3%
Operating Profit	5,581	23.3%	4,295	18.7%	-1,285	-23.0%
Ordinary Profit	6,033	25.1%	4,590	20.0%	-1,442	-23.9%
Net Income Attributed to Owners of Parent	3,919	16.3%	2,985	13.0%	-933	-23.8%
Earnings Per Share (EPS)	64.45JPY	—	49.42JPY	—	-15.03JPY	—

Analysis of Ordinary P/L Change



1H FY2023 Net Sales (by Segment)

TOCALO

- Thermal Spray (TOCALO), the largest segment, decreased due to a decline in the Semiconductor & FPD field
- Other segments performed well, including other surface modifications, where demand for agricultural machinery parts increased

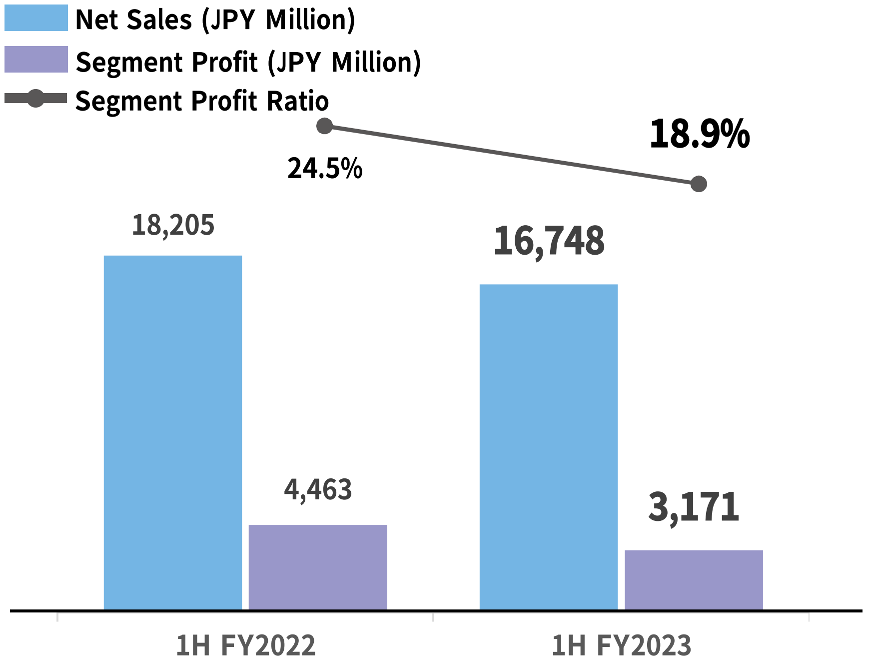
(JPY Million)	1H FY2022		1H FY2023		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	23,996	100.0%	22,971	100.0%	-1,025	-4.3%
Thermal Spray (TOCALO)	18,205	75.9%	16,748	72.9%	-1,456	-8.0%
Semicon & FPD	12,100	50.4%	9,737	42.4%	-2,363	-19.5%
Industrial Parts	1,739	7.2%	2,224	9.7%	485	27.9%
Iron & Steel	1,775	7.4%	1,746	7.6%	-29	-1.6%
Others	2,588	10.9%	3,039	13.2%	450	17.4%
Other Surface Modif.	1,367	5.6%	1,515	6.6%	148	10.8%
Domestic Sub.	1,197	5.0%	1,230	5.4%	32	2.8%
Overseas Sub.	3,140	13.1%	3,422	14.9%	282	9.0%
Royalty Income	86	0.4%	54	0.2%	-32	-37.3%

1H FY2023 Consolidated Results by Segment

Thermal Spray (TOCALO)

Although industrial machinery and other segments performed well, sales and income decreased due to a decline in the semiconductor and FPD fields

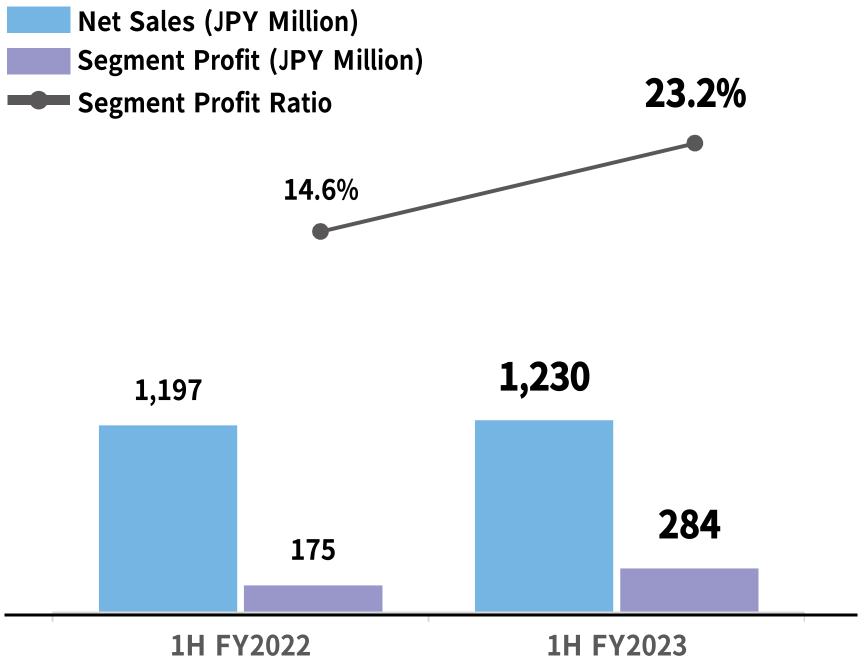
YoY Change Ratio		
	Net Sales	-8.0%
	Segment Profit	-28.9%



Domestic Sub.

Orders related to cutting tools are on a recovery trend due to an improvement in automobile production, resulting in increased sales and income

YoY Change Ratio		
	Net Sales	+2.8%
	Segment Profit	+62.6%

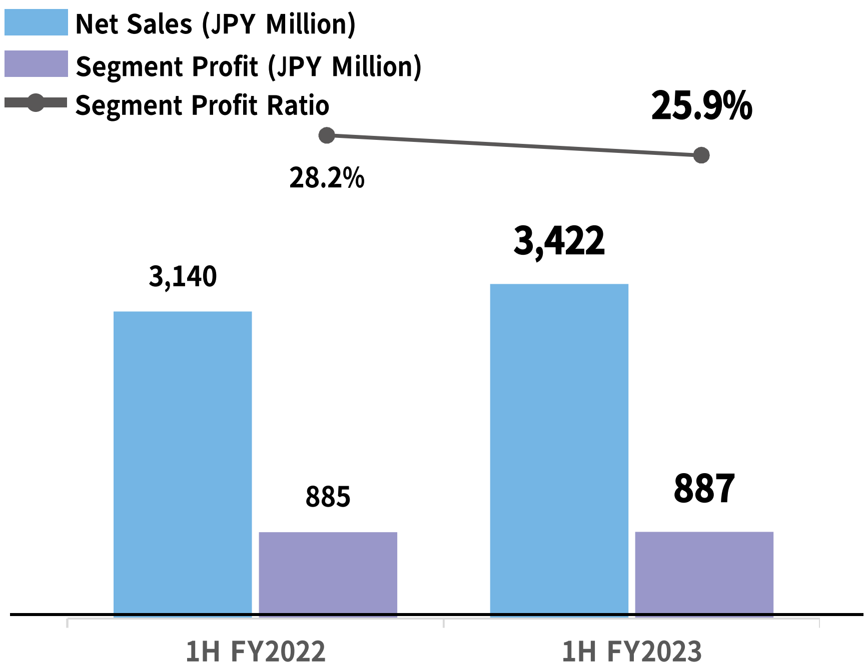


1H FY2023 Consolidated Results by Segment

Overseas Sub.

Sales and income increased due to the impact of the weaker yen, although profitability declined due to sluggish semiconductor-related sales

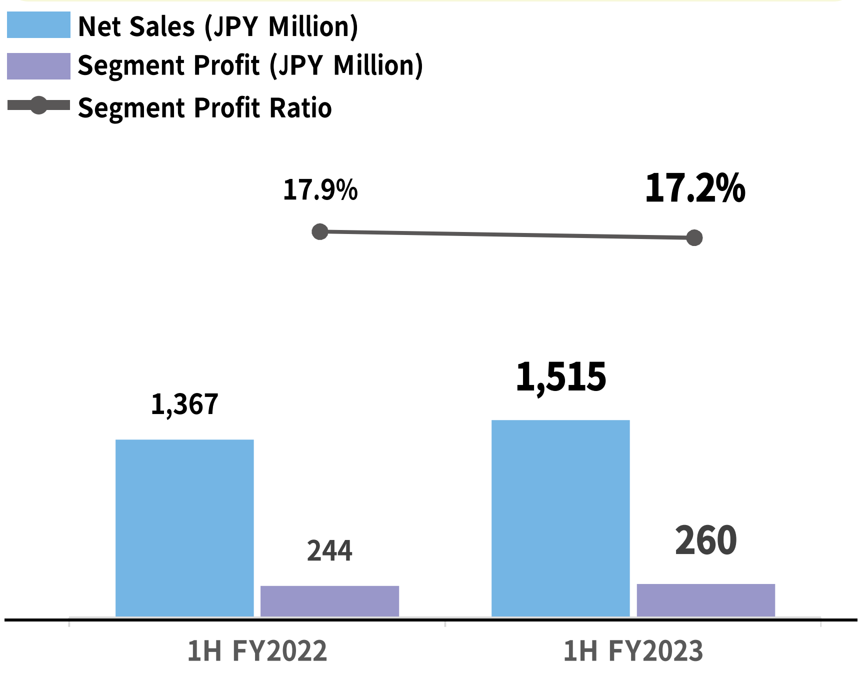
YoY Change Ratio		
	Net Sales	+9.0%
	Segment Profit	+0.3%



Other Surface Modif.

Sales and income increased due to increased orders for agricultural machinery parts

YoY Change Ratio		
	Net Sales	+10.8%
	Segment Profit	+6.5%



Segment Information

- For Thermal Spray (TOCALO), profits significantly decreased due to a decrease in sales in the semiconductor field
- At Domestic Subsidiaries, profits grew due to a recovery in orders for mainstay cutting tools
- At Overseas Subsidiaries, semiconductor-related sales were sluggish and profit margins declined, but profits were maintained due to the impact of the weaker yen

(JPY Million)	1H FY2022		1H FY2023		Change			
					Net Sales		Segment P/L	
	Net Sales	P/L	Net Sales	P/L	Amount	%	Amount	%
Thermal Spray (TOCALO)	18,205	4,463	16,748	3,171	-1,456	-8.0%	-1,292	-28.9%
Domestic Sub.	1,197	175	1,230	284	32	2.8%	109	62.6%
Overseas Sub.	3,140	885	3,422	887	282	9.0%	2	0.3%
Other Surface Modif.	1,367	244	1,515	260	148	10.8%	15	6.5%
Total	23,909	5,768	22,917	4,604	-992	-4.2%	-1,164	-20.2%

(Note) Royalty Income is not included in the Segment Net Sales

Financial Position

- Total assets increased 962 million JPY from the end of the previous period (tangible fixed assets increased 1,395 million JPY)
- Equity ratio decreased 0.5 percentage points from the end of the previous fiscal year to 72.0%
- Interest-bearing debt decreased by 444 million JPY from the end of the previous period

(JPY Million)	FY2022		FY2023
	1H	2H	1H
Total Assets	72,454	74,263	75,226
Equity	52,170	53,839	54,186
Equity Ratio	72.0%	72.5%	72.0%
Interest-bearing Debt	3,526	2,802	2,358

Cash Flow

TOCALO

- Free Cash Flow (Operating CF + Investment CF) +3,100 Million JPY
- Investment CF/Acquisition of tangible fixed assets

  Previous term: -900 Million JPY　　Current term: -1,600 Million JPY
- Financial CF/Dividends paid

  Previous term: -1,500 Million JPY　　Current term: -1,600 Million JPY

  Acquisition and disposal of treasury shares

  Previous term: —　　Current term: -1,600 Million JPY

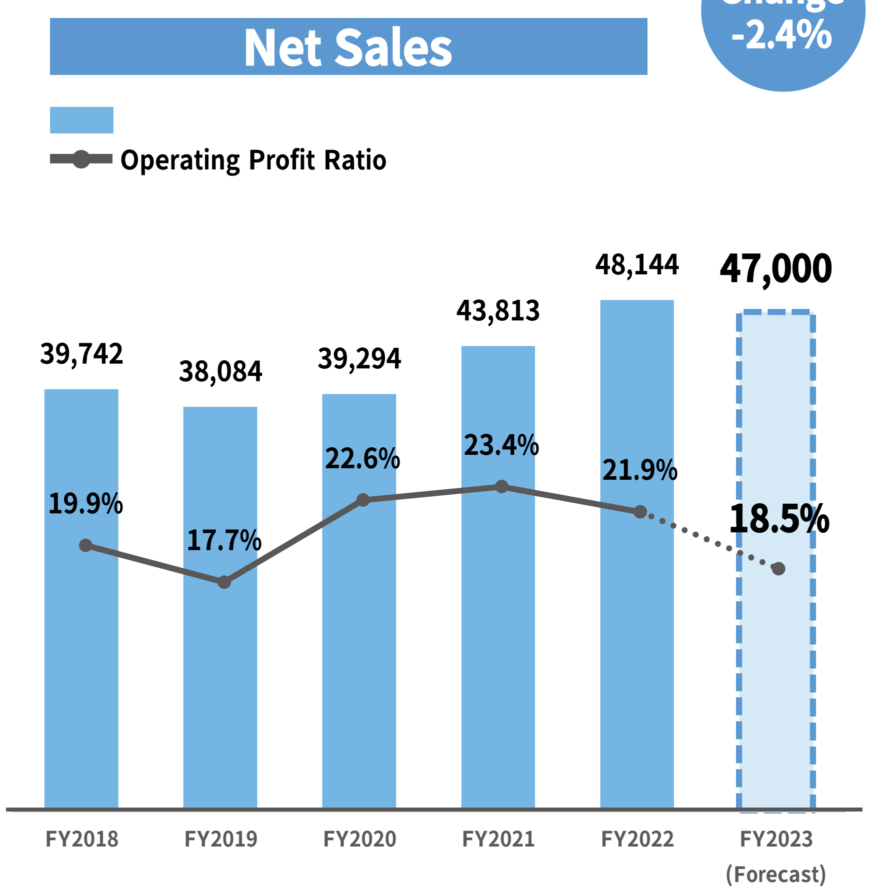
(JPY Million)	FY2022 1H	FY2023 1H
Operating CF	5,005	4,422
Investment CF	-1,353	-1,294
Financial CF	-2,430	-3,803
Cash Balance	20,650	18,995

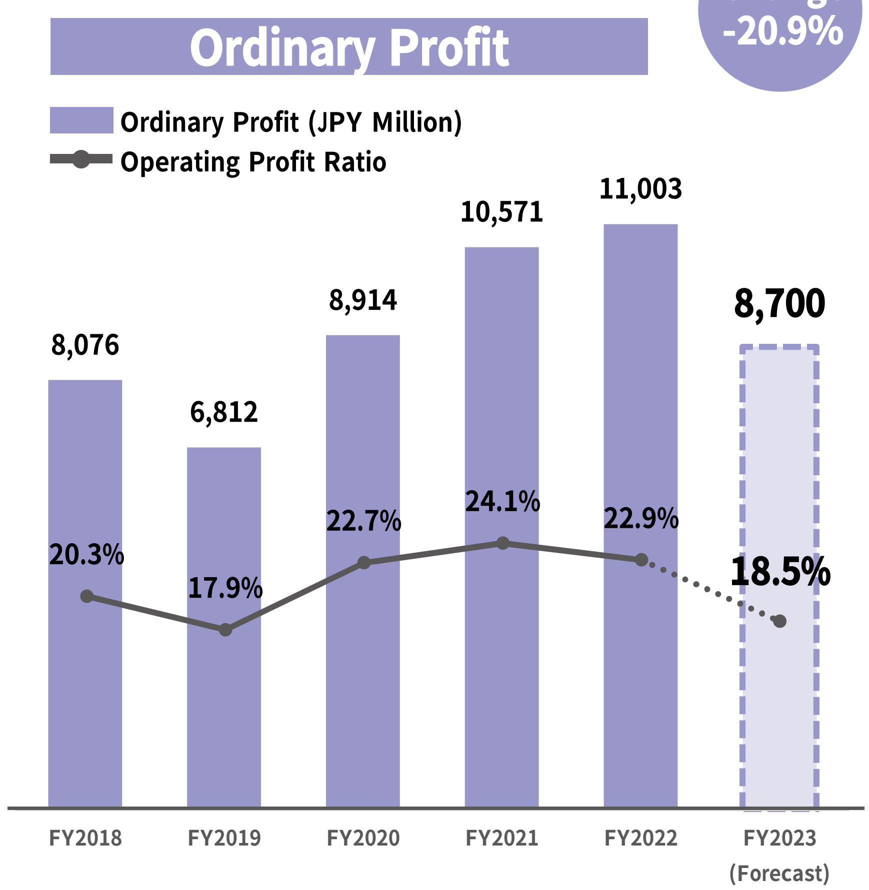
2. Consolidated Forecast FY2024

Outlook for Net Sales and Ordinary Profit
[No change from the previous forecast (5/10/2023)]

POINT Net sales are expected to decline for the first time in four fiscal years due to a decline in the semiconductor field

POINT Ordinary profit is expected to significantly decline by 20.9% YoY

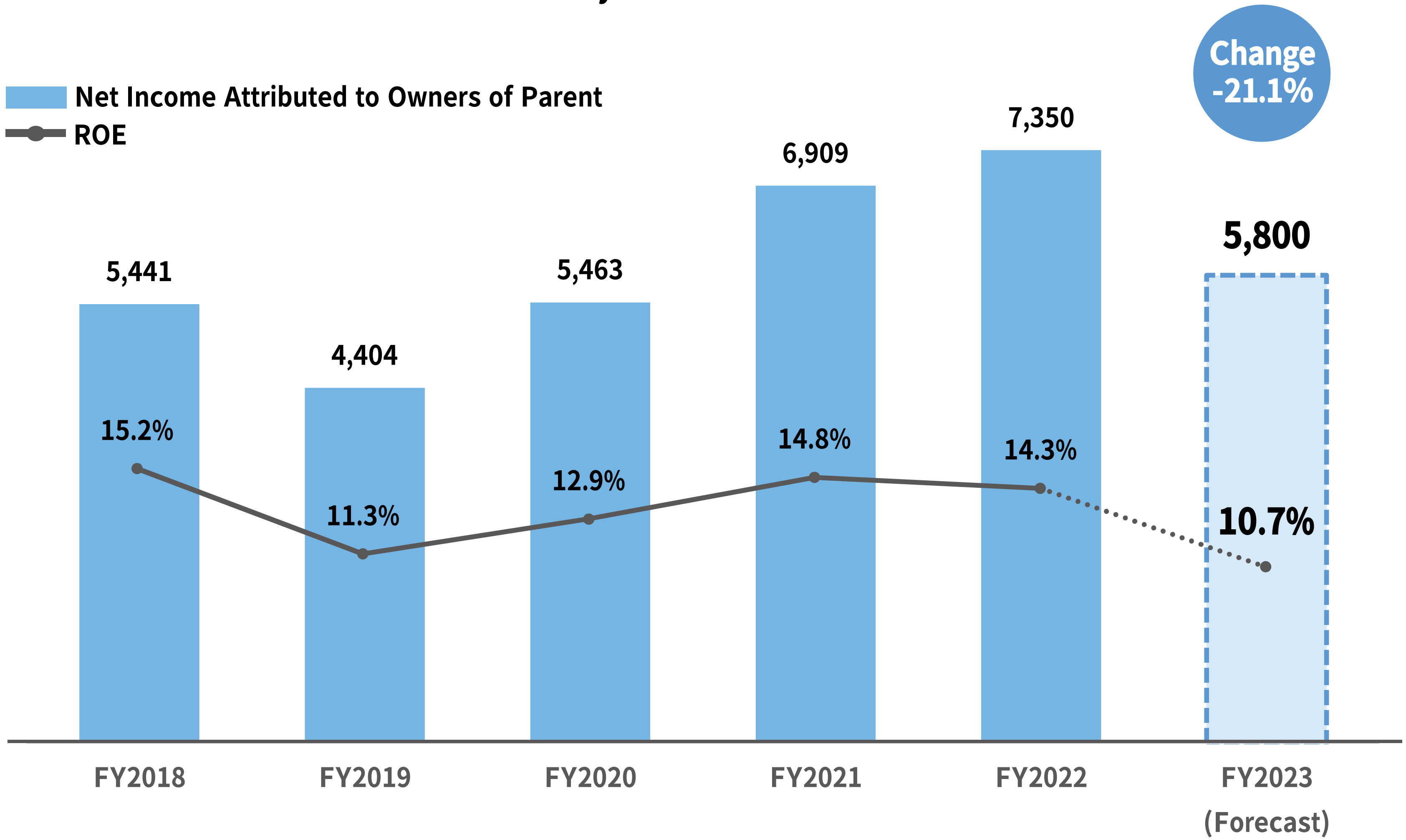




Outlook for Net Income Attributed to Owners of Parent and ROE

POINT

Net income attributed to owners of parent is forecast to decrease by 21.1% YoY, and ROE is forecast to decrease by 10.7%



Consolidated Forecast FY2023

(JPY Million)	FY2022		FY2023		Change	
	Result	Ratio	Forecast	Ratio	Amount	%
Net Sales	48,144	100.0%	47,000	100.0%	-1,144	-2.4%
Thermal Spray (TOCALO)	36,184	75.2%	34,063	72.5%	-2,121	-5.9%
Semicon & FPD	23,260	48.3%	20,700	44.0%	-2,560	-11.0%
Industrial Parts	3,802	7.9%	3,956	8.4%	154	4.1%
Iron & Steel	3,582	7.4%	3,734	7.9%	151	4.2%
Others	5,539	11.6%	5,672	12.2%	133	2.4%
Other Surface Modif.	2,745	5.6%	2,877	6.1%	131	4.8%
Domestic Sub.	2,414	5.0%	2,656	5.7%	241	10.0%
Overseas Sub.	6,622	13.8%	7,254	15.4%	631	9.5%
Royalty Income	177	0.4%	150	0.3%	-27	-15.5%
Operating Profit	10,558	21.9%	8,700	18.5%	-1,858	-17.6%
Ordinary Profit	11,003	22.9%	8,700	18.5%	-2,303	-20.9%
Net Income Attributed to Owners of Parent	7,350	15.3%	5,800	12.3%	-1,550	-21.1%
Earnings Per Share (EPS)	120.83JPY	―	96.70JPY	―	-24.13JPY	―
Return on Equity (ROE)	14.3%	―	10.7%	―	-3.6pt	―

1H FY2023 Progress Rate

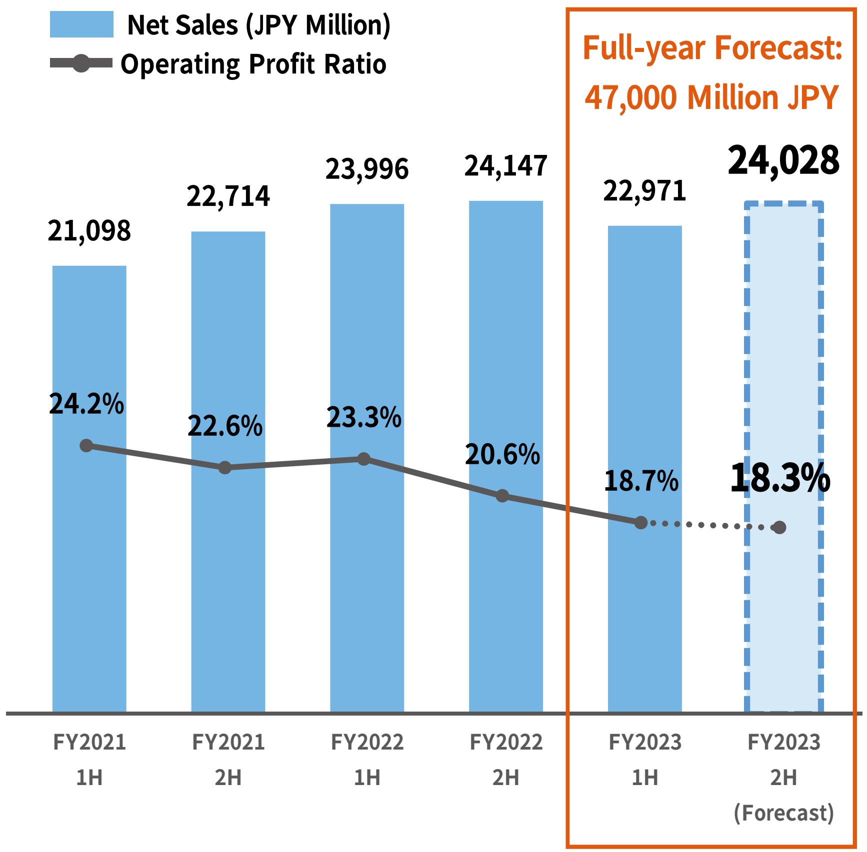
(JPY Million)	1H FY2023		FY2023		Progress Rate
	Result	Ratio	Forecast	Ratio	
Net Sales	22,971	100.0%	47,000	100.0%	48.9%
Thermal Spray (TOCALO)	16,748	72.9%	34,063	72.5%	49.2%
Semicon & FPD	9,737	42.4%	20,700	44.0%	47.0%
Industrial Parts	2,224	9.7%	3,956	8.4%	56.2%
Iron & Steel	1,746	7.6%	3,734	7.9%	46.8%
Others	3,039	13.2%	5,672	12.2%	53.6%
Other Surface Modif.	1,515	6.6%	2,877	6.1%	52.7%
Domestic Sub.	1,230	5.4%	2,656	5.7%	46.3%
Overseas Sub.	3,422	14.9%	7,254	15.4%	47.2%
Royalty Income	54	0.2%	150	0.3%	36.3%
Operating Profit	4,295	18.7%	8,700	18.5%	49.4%
Ordinary Profit	4,590	20.0%	8,700	18.5%	52.8%
Net Income Attributed to Owners of Parent	2,985	13.0%	5,800	12.3%	51.5%
Earnings Per Share (EPS)	49.42JPY	—	96.70JPY	—	51.1%

Forecast 2H FY2022

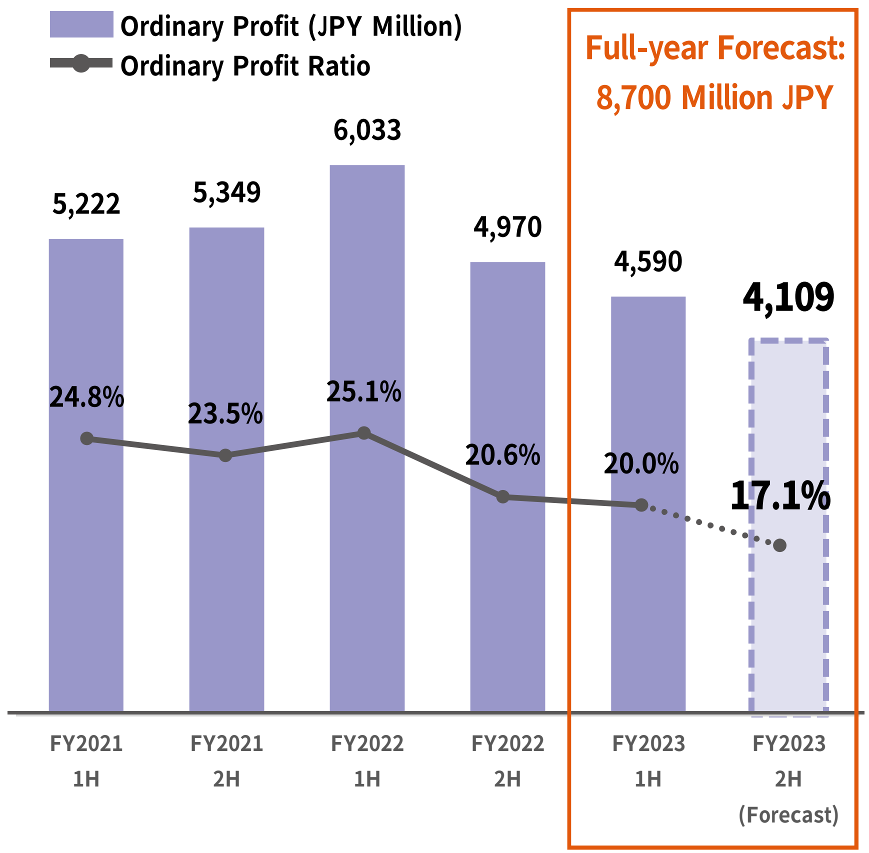
POINT The full-year forecast remains unchanged at 47,000 million JPY, and a recovery in the semiconductor field is still not expected

POINT Ordinary income is generally on track to reach the full-year forecast of 8,700 million JPY

Net Sales

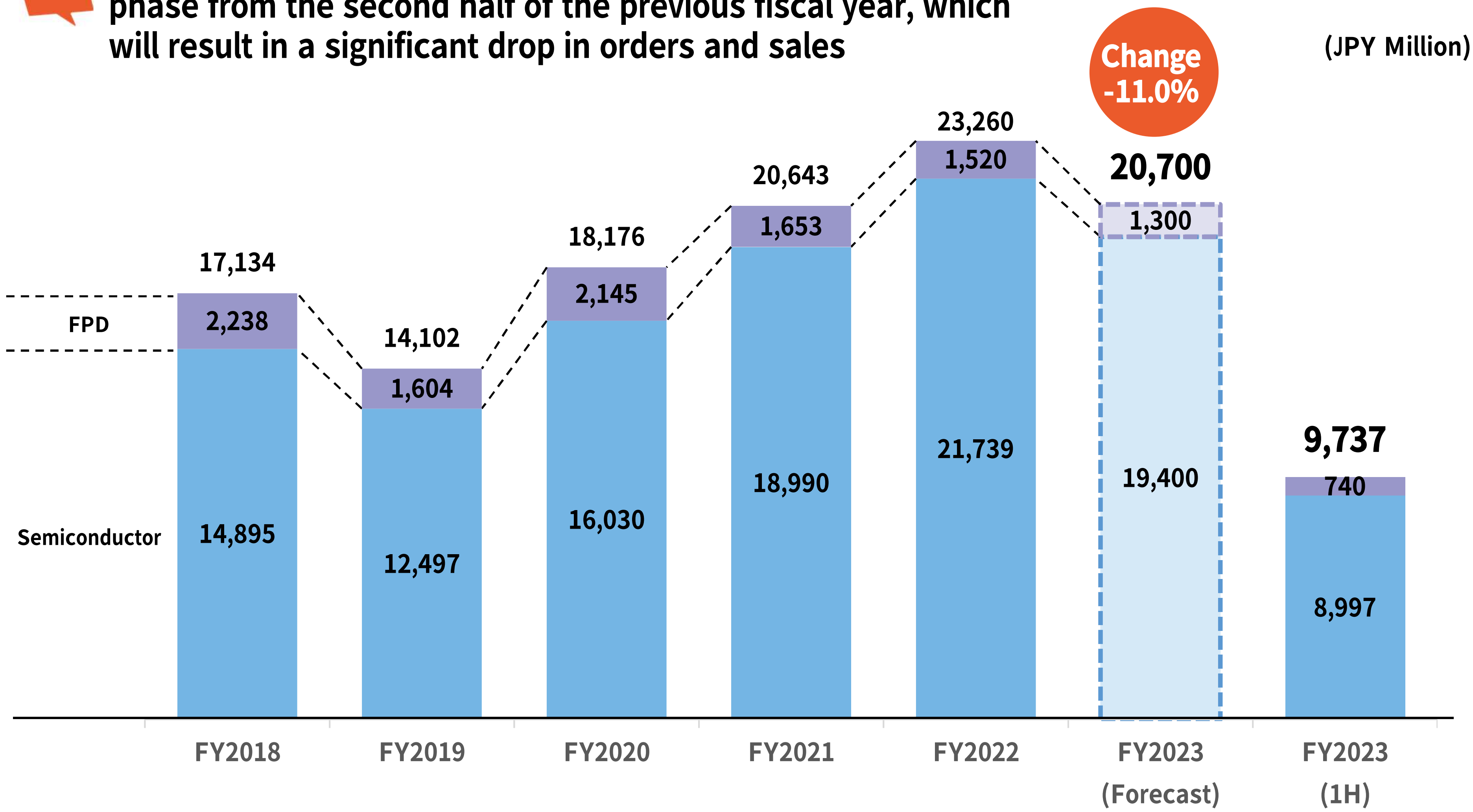


Ordinary Profit



Semiconductor & FPD Net Sales

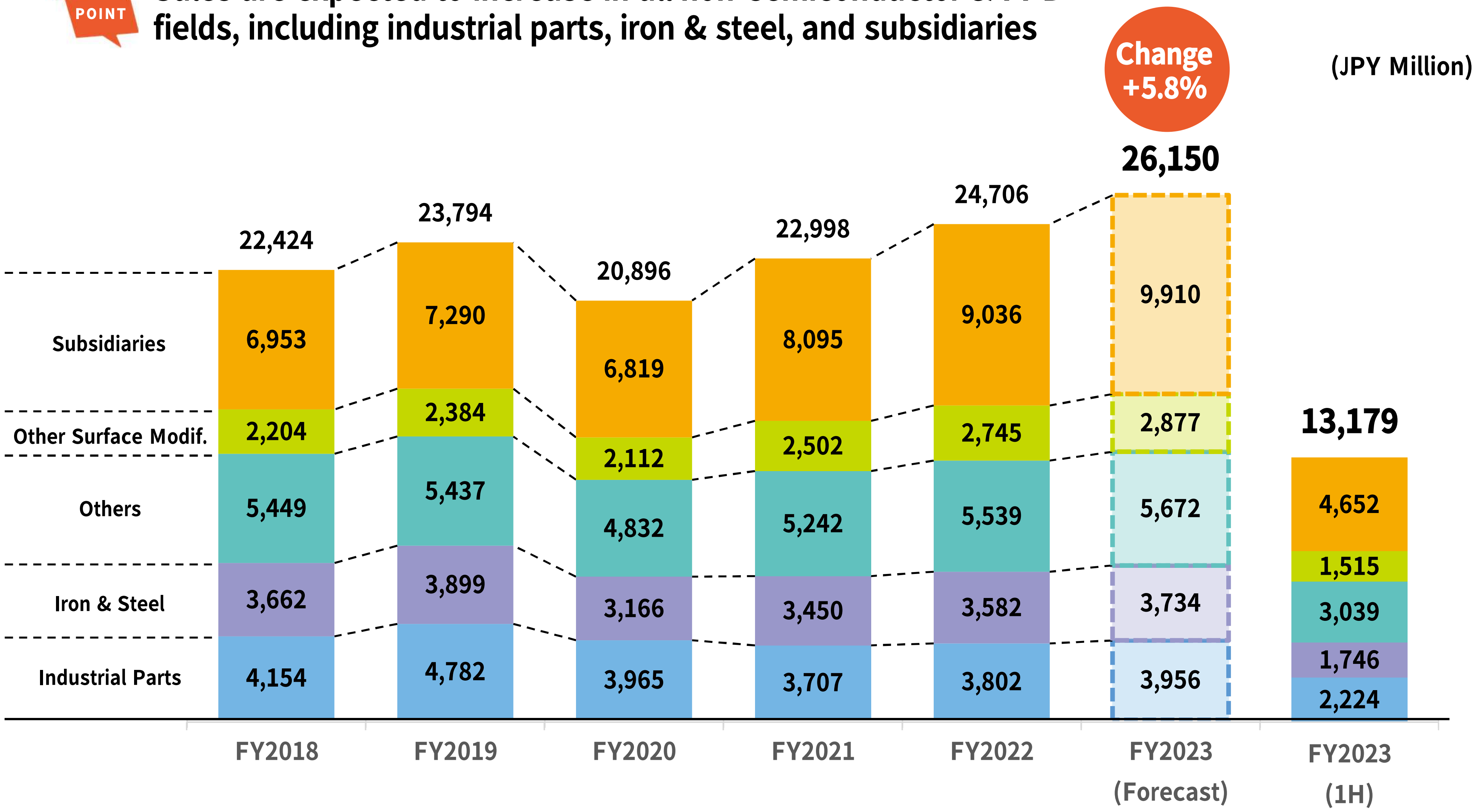
POINT The semiconductor industry entered a temporary adjustment phase from the second half of the previous fiscal year, which will result in a significant drop in orders and sales



Non-Semiconductor & FPD Net Sales

POINT

Sales are expected to increase in all non-semiconductor & FPD fields, including industrial parts, iron & steel, and subsidiaries



(Note) Royalty Income is not included in the Segment Net Sales

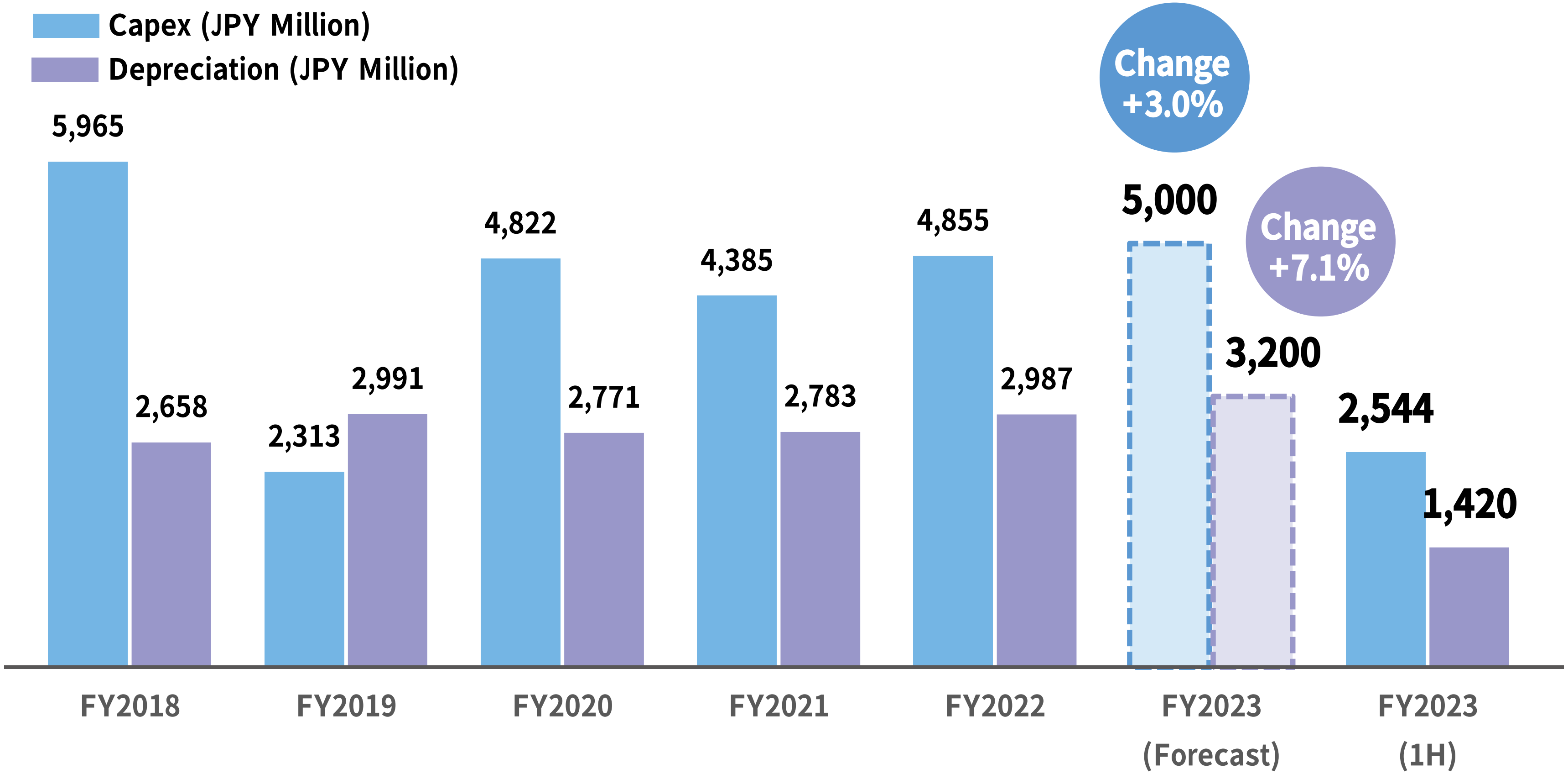
Capital Investment and Depreciation

TOCALO

POINT

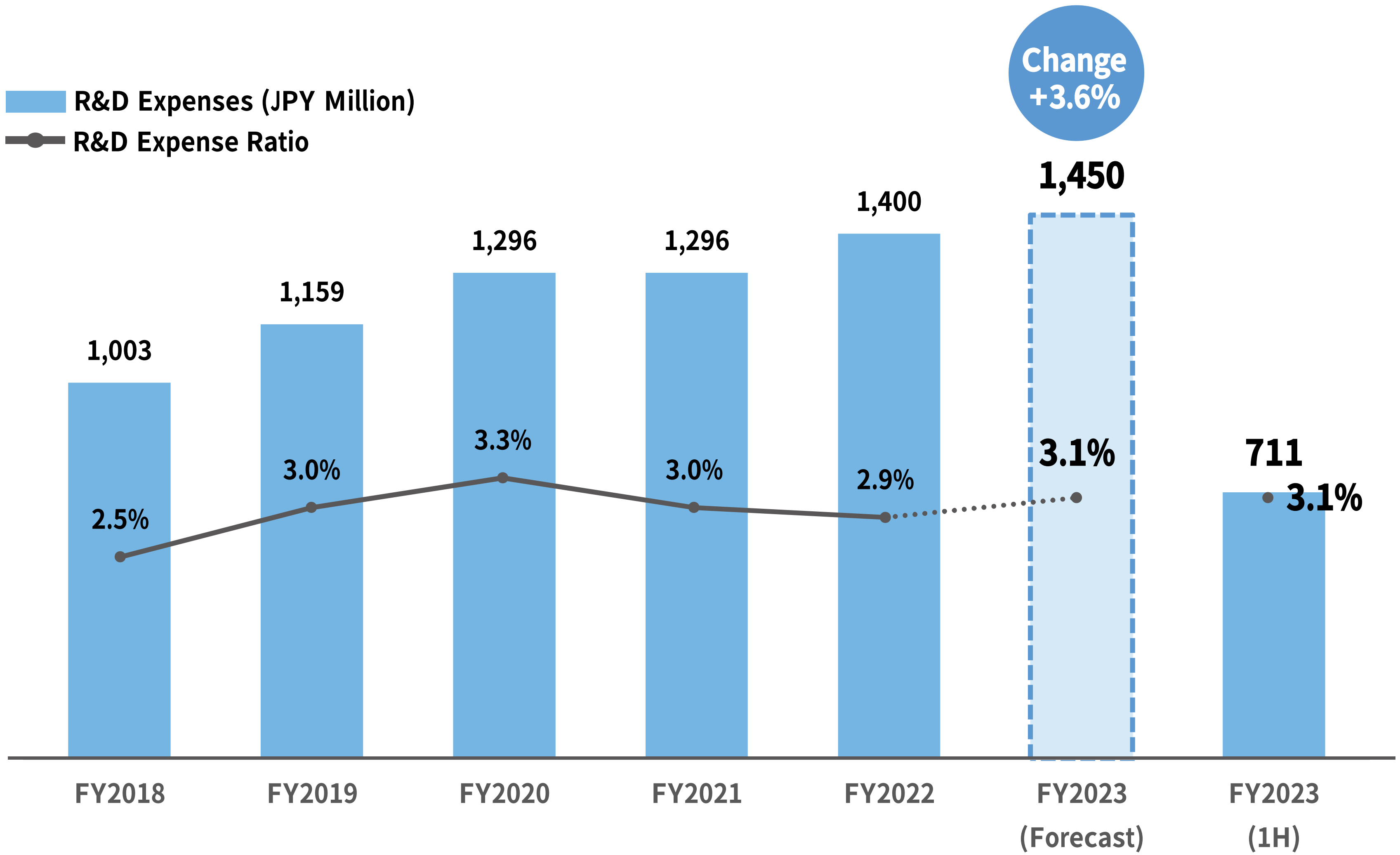
Planned capex for FY2023: 5,000 Million JPY

• TOCALO	2,600 Million JPY:	Strengthening and streamlining production systems, primarily at the Tokyo, Akashi, and Kitakyushu plants
• Domestic Subsidiaries	300 Million JPY:	Increasing production capacity, etc.
• Overseas Subsidiaries	2,100 Million JPY:	Constructing a new plant at TOCALO & HAN TAI TW Co., Ltd. (Taiwan)



R&D Expenses

POINT R&D expenses will be maintained at around 3% of consolidated net sales

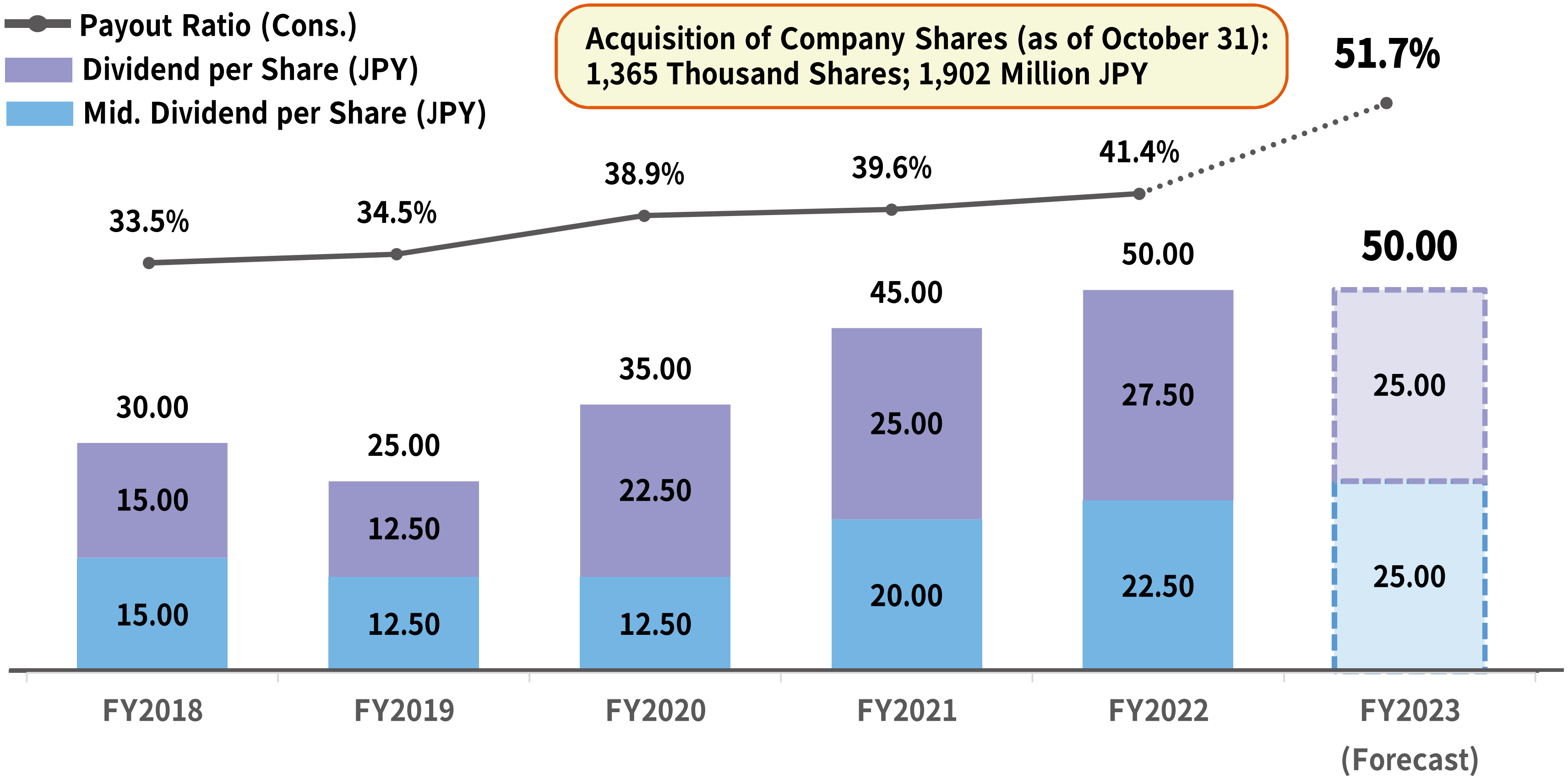


Dividends

POINT An annual dividend of 50JPY is planned for FY2023 (a dividend payout ratio of 51.7%)

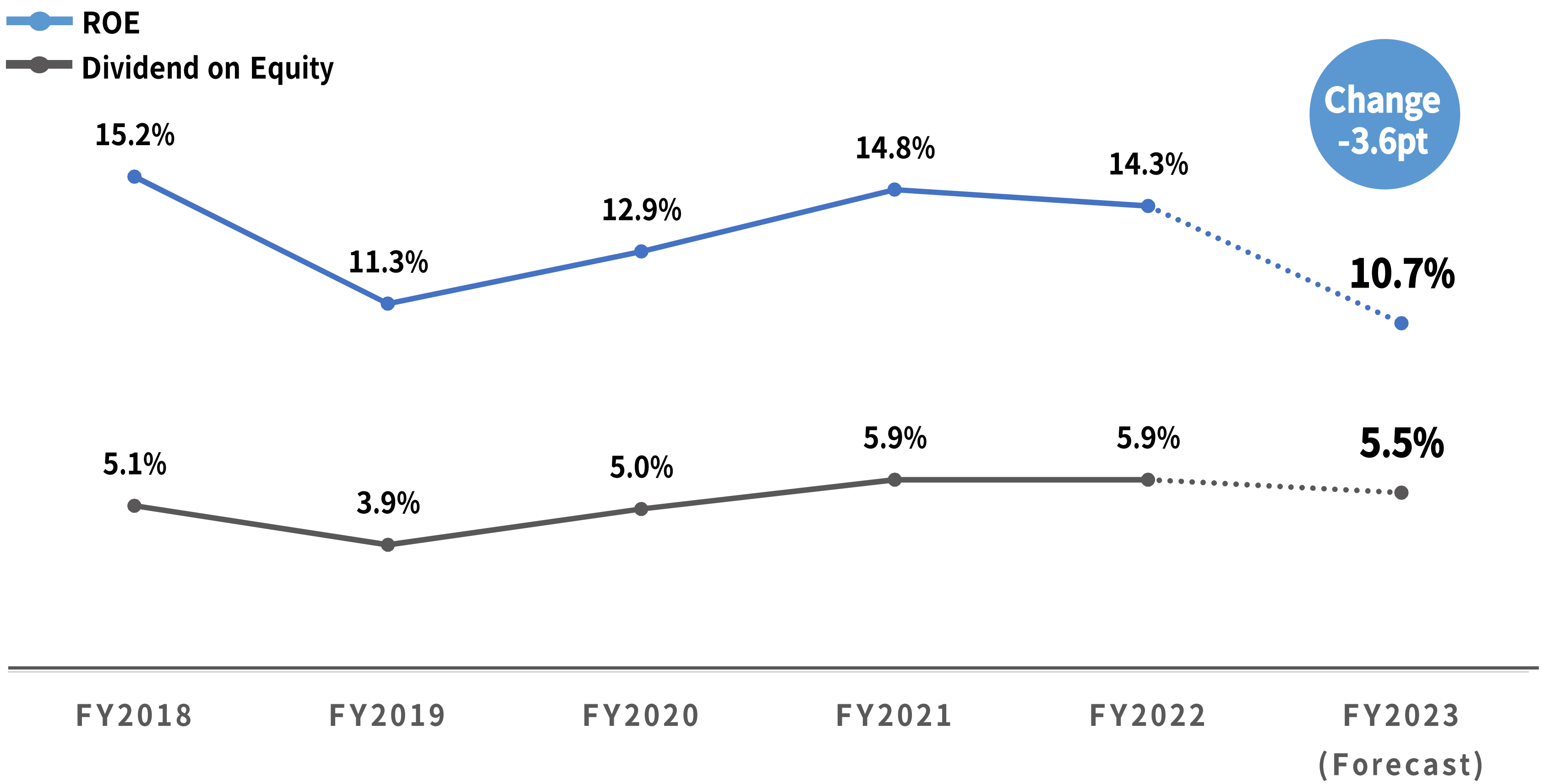
Shareholder Return Policy

- Aiming for a dividend payout ratio of around 50% to further enhance shareholder returns
- Acquisition and retirement of outstanding company shares will also be implemented in a timely and appropriate manner, taking into consideration the business environment and the Company's financial position



ROE and Dividend on Equity

POINT ROE* decreased to 10.7%, but Dividend on Equity* remained above 5%

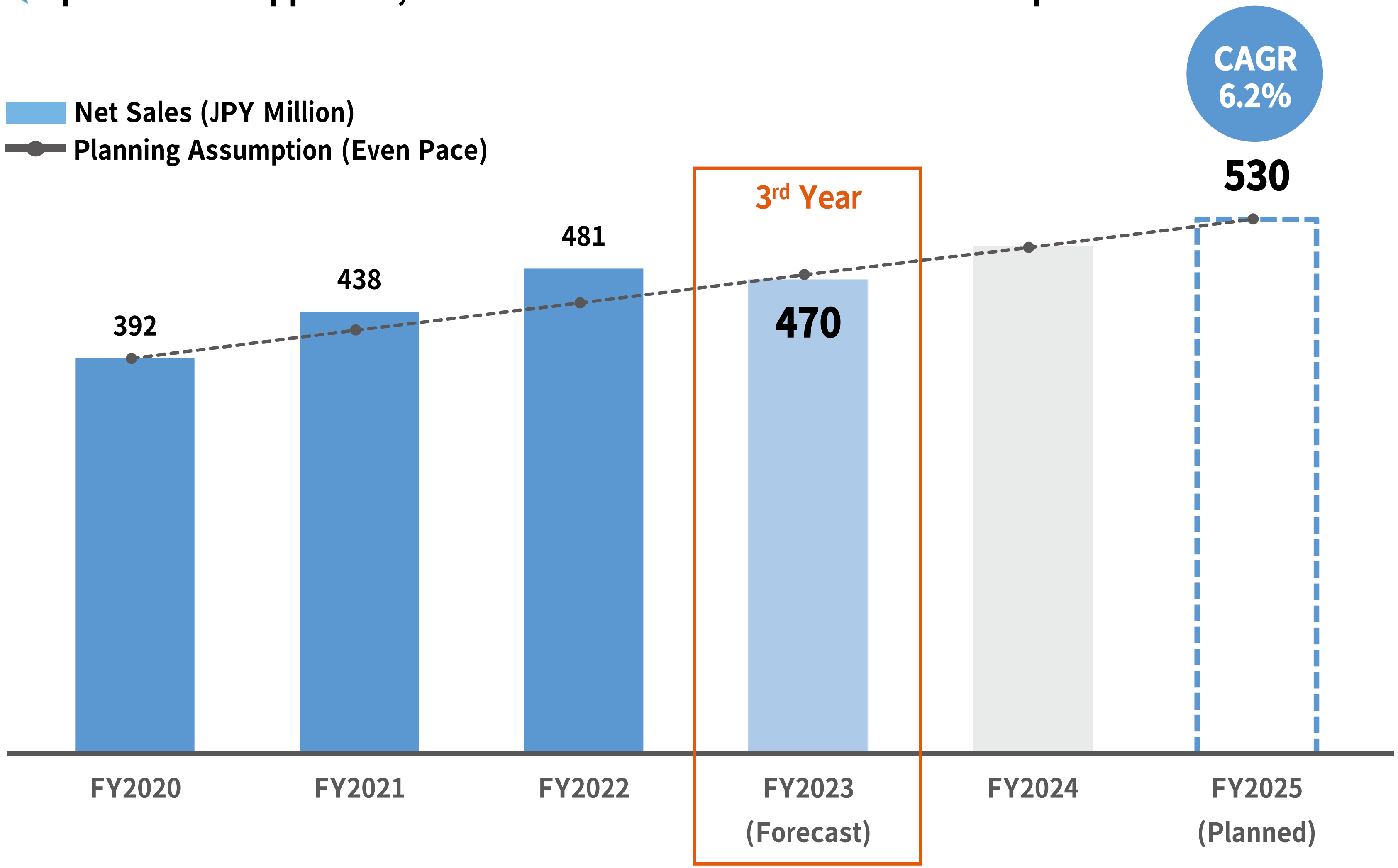


* ROE (Return on Equity) = Net income / Average equity during the period
* Dividend on Equity = Dividend per share / Average net assets per share during the period (=ROE × Dividend payout ratio)

3. Progress of Medium-term Management Plan

Progress of Medium-term Management Plan (Net Sales)

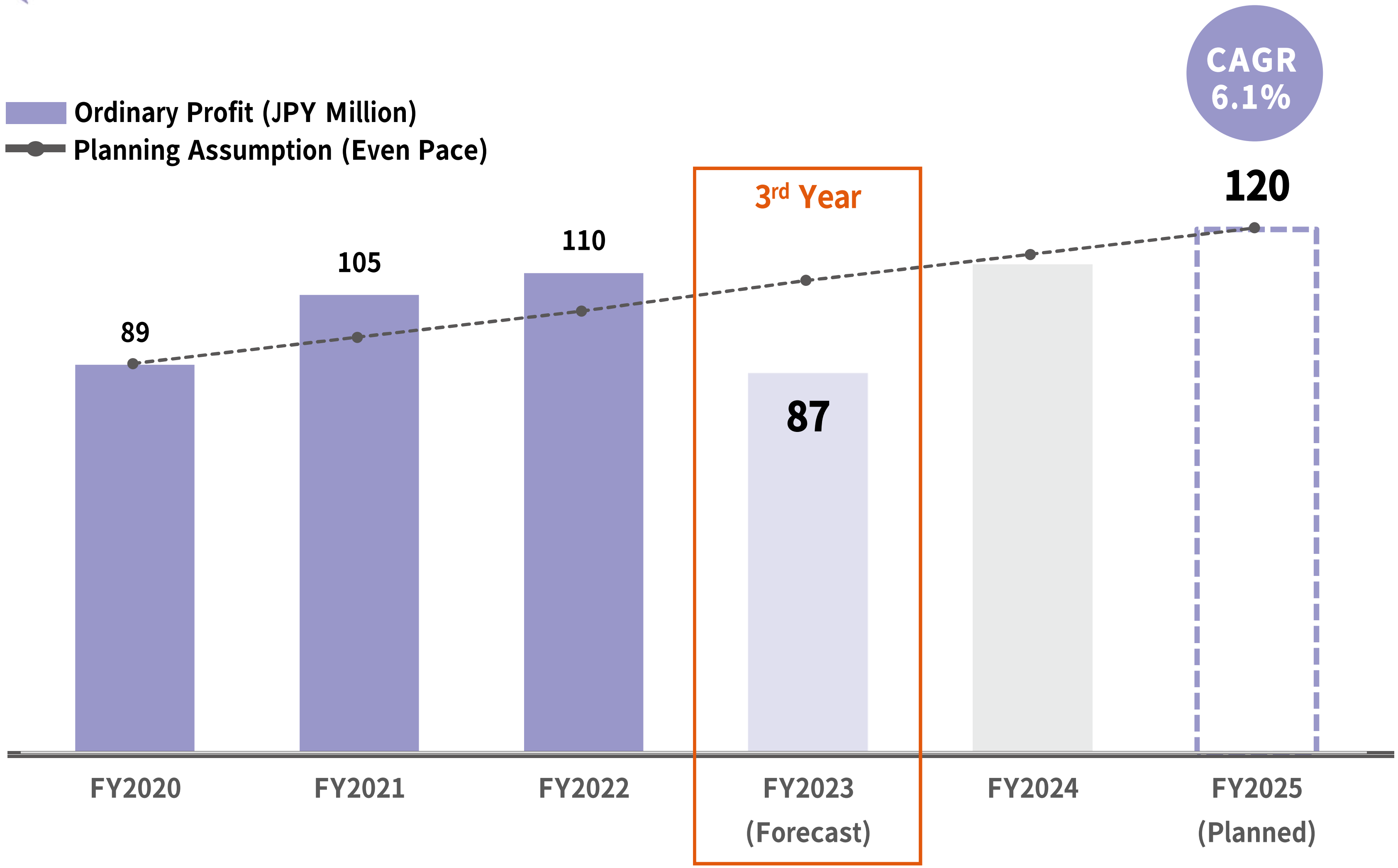
POINT The strong increase in sales from the first and second years of the plan has disappeared, and sales are now at the same level as planned



Progress of Medium-term Management Plan (Ordinary Profit)

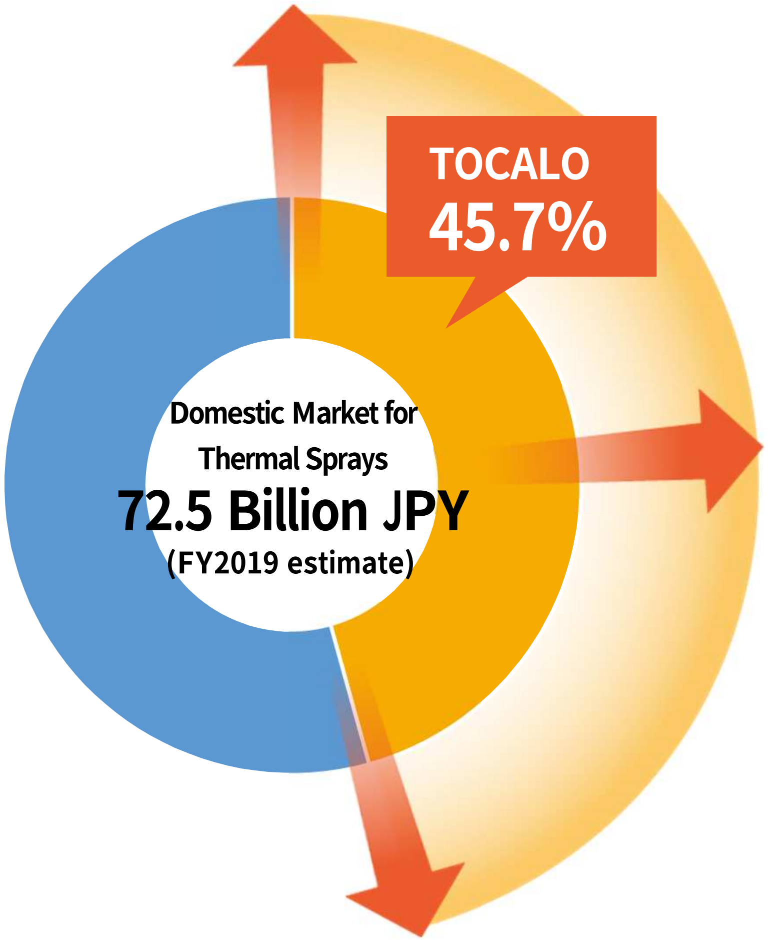
POINT

Ordinary profit returned to where it was at the start of the plan (FY2020), and we aim to have it recover next year



Growth Strategy Concept

As a leading manufacturer of thermal sprays, we are working to expand the market for thermal sprays by developing new coatings and creating new markets, rather than merely competing for a piece of the existing market.



Semiconductor/FPD

- Miniaturization, multilayers, and high aspect ratio (next-generation coatings)

Energy

- Improve durability and power generation efficiency for wind and hydroelectric power generation equipment
- Measures to eliminate fossil fuels (hydrogen, ammonia, biomass, etc.)
- Creation of project in environmental businesses

Materials

- Secondary battery materials, fuel cell materials
- Recycling facilities

New Business Areas

- Medical equipment
- Agricultural machinery
- Electric vehicles, etc.

Capital Investment from the Next Fiscal Year Onwards

POINT Construction of a new plant building at the Kobe Plant (decided)

- Use/Purpose: New orders, increased production, and improved production efficiency for the semiconductor and medical fields, etc.
- Location: 1-16-5 Mitsugaoka, Nishi-ku, Kobe City (450m from the existing Kobe Plant; land already acquired)
- Plant Overview: 3-story building, total floor area of 3,120m² (building area of 1,270m²)
- Construction Period: Construction to begin in May 2024, scheduled for completion in March 2025
- Construction Cost: 1,300 million JPY

POINT Construction of a new plant building at the Kitakyushu Plant (under consideration)

- Use/Purpose: New orders, increased production, and improved production efficiency for the semiconductor field
- Location: 10 Torigoe-cho, Kanda-machi, Miyako-gun, Fukuoka Prefecture (land adjacent to the Kitakyushu plant; land is owned by the Company)
- Plant Overview: 2-story building, total floor area of 7,500m² (not finalized)
- Construction Period: Construction to begin in February 2025, completion in spring 2026, and operation at the end of 2026 (not finalized)
- Construction Cost: 3,200 million JPY (not finalized)

POINT Construction of a new plant building at the Suzumi Workshop of the Tokyo Plant (under consideration)

- Use/Purpose: Partial transfer of production from the Tokyo Plant Gyoda Workshop to increase production for specific customers. In addition, will receive new orders, increase production, and improve production efficiency for the semiconductor and agricultural machinery fields
- Location: 631-13 Toyotomi-cho, Funabashi City, Chiba Prefecture (350m from Suzumi Workshop; land already acquired)
- An outline of the plant has not yet been determined (construction and relocation costs, etc. are expected to be approx. 3,000 million JPY)

Financial Highlights

(JPY Million)	FY2018 Result	FY2019 Result	FY2020 Result	FY2021 Result	FY2022 Result	FY2023 Forecast
Orders Received	38,915	38,011	39,021	45,394	48,419	—
Backlog of Orders	6,081	6,195	6,143	7,896	8,349	—
Net Sales	39,742	38,084	39,294	43,813	48,144	47,000
Operating Profit	7,905	6,727	8,890	10,255	10,558	8,700
Ordinary Profit	8,076	6,812	8,914	10,571	11,003	8,700
Ordinary Profit Ratio	20.3%	17.9%	22.7%	24.1%	22.9%	18.5%
Net Income Attributed to Owners of Parent	5,441	4,404	5,463	6,909	7,350	5,800
Earnings Per Share (EPS)	89.51JPY	72.45JPY	89.86JPY	113.62JPY	120.83JPY	96.70JPY
Total Assets	57,278	61,122	64,183	69,517	74,263	74,700
Equity	37,559	40,263	44,201	49,099	53,839	54,900
Equity Ratio	65.6%	65.9%	68.9%	70.6%	72.5%	73.5%
Return on Equity (ROE)	15.2%	11.3%	12.9%	14.8%	14.3%	10.7%
Return on Assets (ROA)	14.7%	11.5%	14.2%	15.8%	15.3%	11.7%
Return on Invested Capital (ROIC)	13.3%	9.8%	11.9%	13.0%	12.5%	10.0%

(Note) ROE＝Net income attribute 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.
Effective from the FY2021, the classification of Royalty Income has been changed from non-operating income to Net Sales

Notes

The financial forecasts and estimates in this Financial Summary are based on information available to the Company at the time of report issuance and certain assumptions judged to be reasonable by the Company, and therefore are not guarantees of future performance. Consequently, actual results may differ substantially from those described in this Financial Summary.

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