TOCALO Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 8, 2023

Event Summary

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[Participants]		
[Number of Speakers]	4	
	Kazuya Kobayashi	Representative Director, President and Executive Officer
	Hiroshi Goto	Director, Managing Executive Officer, General Manager of Administration
	Kenji Hosomi	Manager of Accounting Division
	Hiroshi Shimizu	Manager of Corporate Planning Division
[Analyst Names]*	Mitsuhiro Osawa	Ichiyoshi Research Institute

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Thank you for your patience. It is time to begin the financial results briefing of TOCALO Co., Ltd. This briefing will be held in a hybrid format with a live-streamed online session in addition to the on-site session. First of all, I would like to introduce the four people who are attending from the Company. First, this is Mr. Kazuya Kobayashi, Representative Director, President and Executive Officer.

Kobayashi: I am Kobayashi. Thank you for joining us today.

Moderator: Thank you. Next is Mr. Hiroshi Goto, Director, Managing Executive Officer, General Manager of Administration.

Goto: I am Goto. Thank you for your time.

Moderator: Thank you. Next is Mr. Kenji Hosomi, Manager of Accounting Division.

Hosomi: I am Hosomi. Thank you for your participation.

Moderator: Thank you. Next is Mr. Hiroshi Shimizu, Manager of Corporate Planning Division.

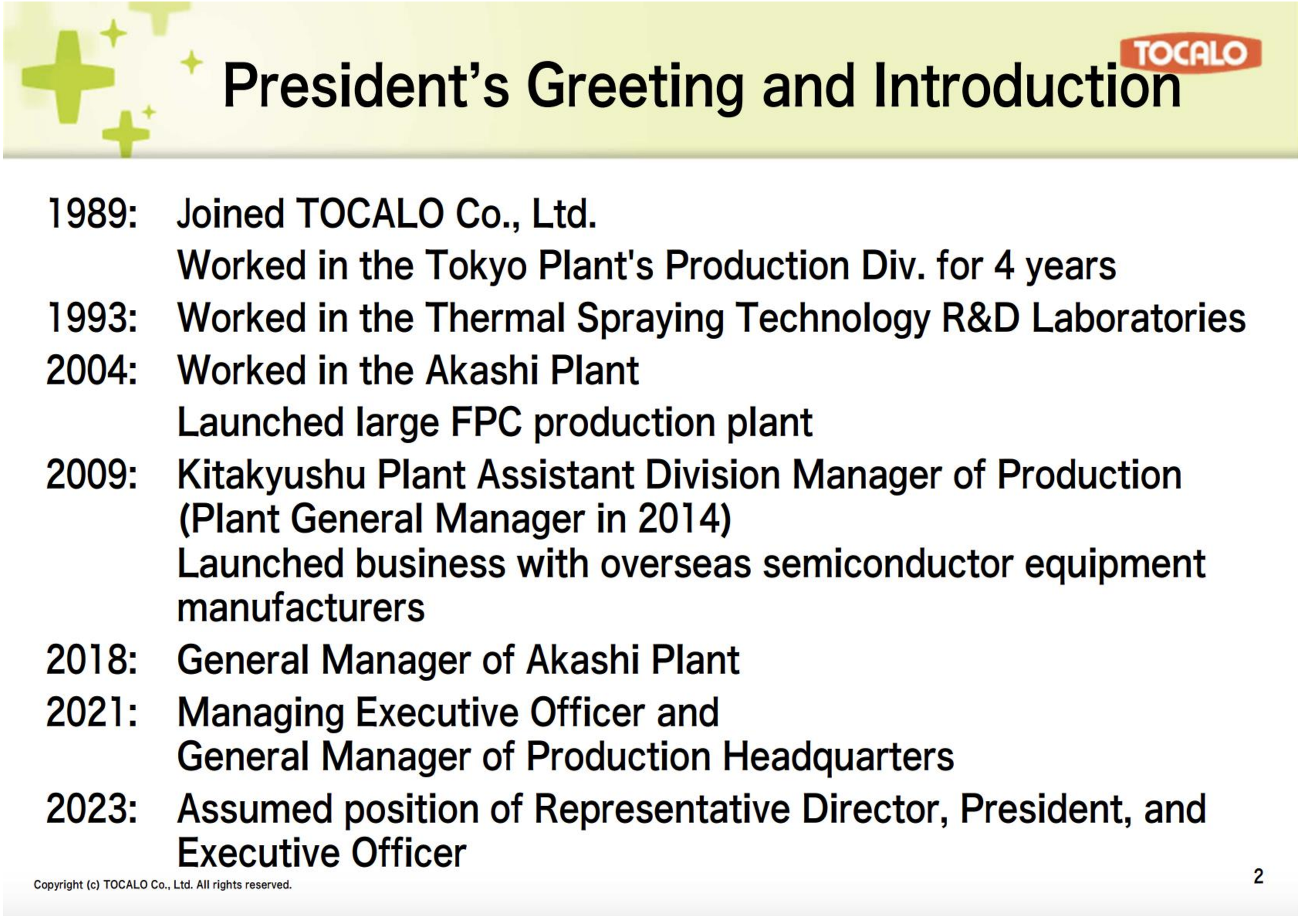
Shimizu: I am Shimizu. Thank you for your time.

Moderator: Thank you.

Mr. Kobayashi will give you an explanation today. After the explanation, there will be time for taking questions from the audience. We will then take questions from those who are participating online. If you have any questions, please enter your company name and your name, and then enter your questions via chat. Questions will be accepted even during the explanation.

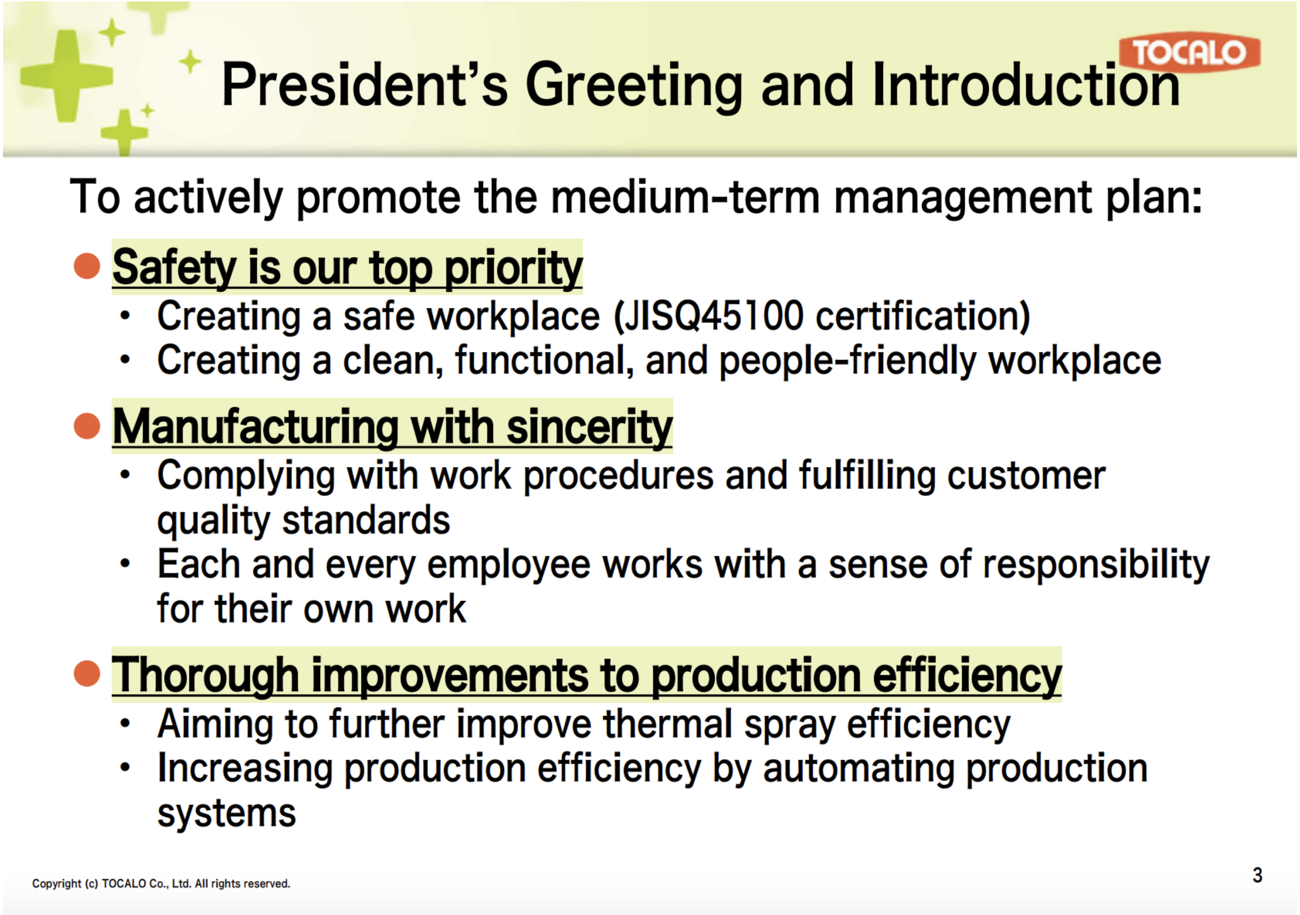
Then, Mr. Kobayashi, please start.

Kobayashi: Hello, everyone. I am President Kobayashi. Thank you very much for taking the time out of your busy schedule today to participate in the financial results briefing of TOCALO. It appears that nearly 60 people have joined us today for both on-site and the live webcast. Let me begin my explanation. Thank you for your cooperation.



I would like to begin by introducing myself. Since this is the first time that I participate in the financial results briefing, let me tell you a little about my background. I joined the Company in 1989 and was assigned to the Tokyo Plant. After working in the manufacturing department of the Tokyo Plant for about four years, I was transferred to the Thermal Spraying Technology R&D Laboratories and then to the Akashi Plant. During my time at the Akashi Plant, I worked on a large-scale FPD production plant, from FPD production to plant construction, and then I launched FPD production.

After that, I was transferred to the Kitakyushu Plant and became the Kitakyushu Plant Manager in 2014, where I established business with overseas semiconductor equipment manufacturers. After that, I returned to the Akashi Plant again, and in 2021, I became Managing Executive Officer and General Manager of the Production Headquarters, and this fiscal year I became President and Representative Director.



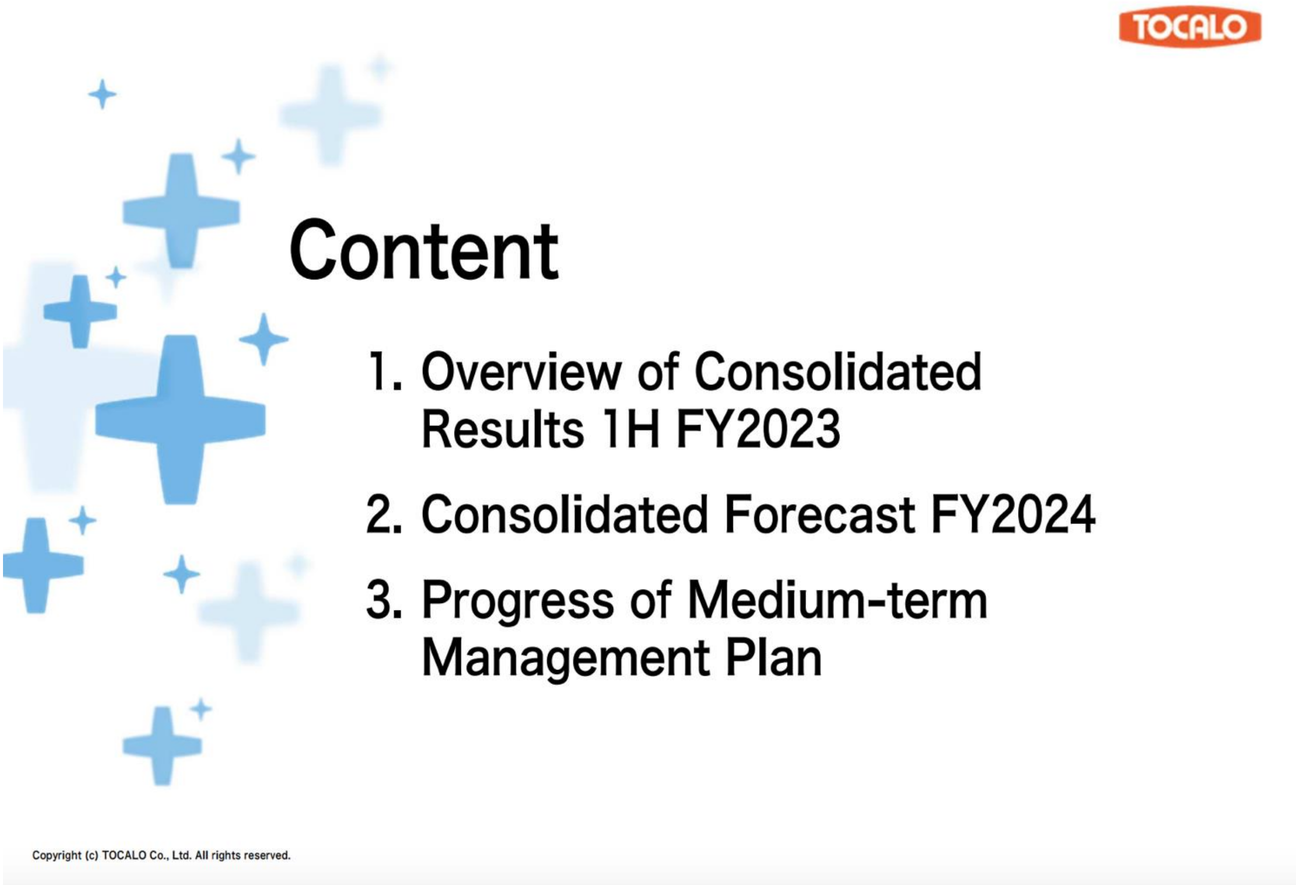
As for my policy, because I participated in the formulation of our medium-term management plan when I was General Manager of the Production Headquarters, I would like to continue to actively promote the medium-term management plan. Of these, since I am from a manufacturing background, I would like to focus on the three points in particular. The first is to make products with the highest priority on safety. I would like to introduce such systems as ISO45000 or JISQ45100 to our company and promote the creation of a safe workplace.

Also, our current focus is on "creating a clean, functional, and people-friendly workplace." Our goal is to create a workplace where both men and women can work regardless of gender, and I will continue to promote this. Then we are going to do sincere manufacturing, which is a matter of course, but I would like to make sure that we are complying with work procedures and satisfying the quality standards of our customers.

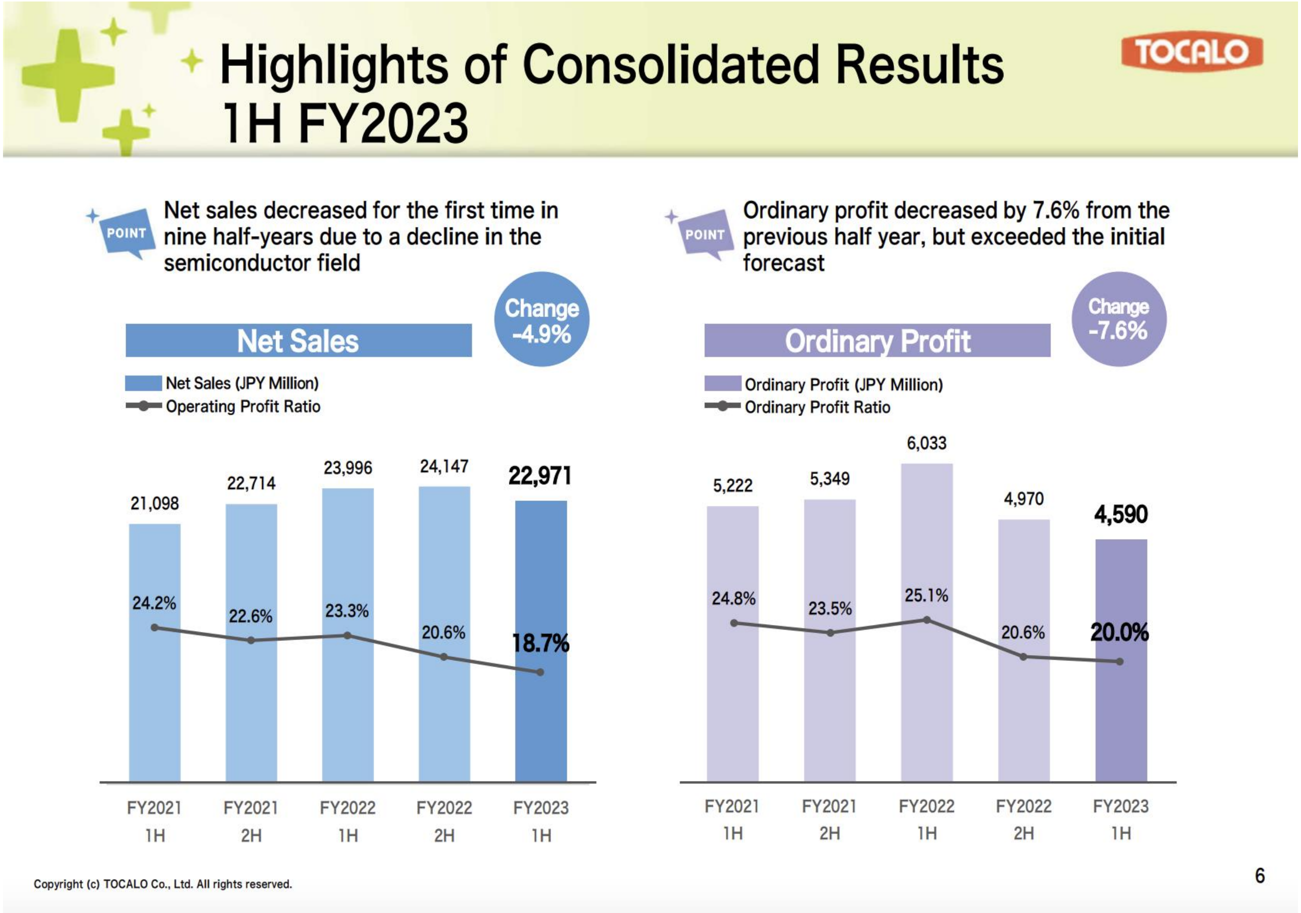
In addition, as you can see in this page saying, "Each worker must have a sense of responsibility", what I am saying within the company is that I want each worker to be particular about his or her own quality, and I encourage each worker to be aware that he or she is responsible for making the product.

And last but not least, I would like to thoroughly improve production efficiency. I would like to focus on further improving thermal spraying efficiency and automating our production system to thoroughly increase production efficiency.

That is my policy, though I explained it very briefly.



Now I would like to get into today's content. These are the three items I will explain today.



First, I would like to provide highlights of the financial results for Q2 of the fiscal year ending March 2024.

The graphs compare semiannual results with the previous four semi-annual periods.

The left graph shows net sales and operating margin, and the right graph shows ordinary profit and ordinary profit margin. The results for H1 of the current fiscal year were net sales of JPY22.9 billion, ordinary profit of JPY4.5 billion, ordinary profit margin of 20.0%. We experienced the first decline in net sales in nine semi-annual periods due to the decline in the semiconductor field since H2 of the previous fiscal year. Ordinary profit was down 7.6% against H2 of the previous fiscal year.

Overview of Consolidated Results 1H FY2023

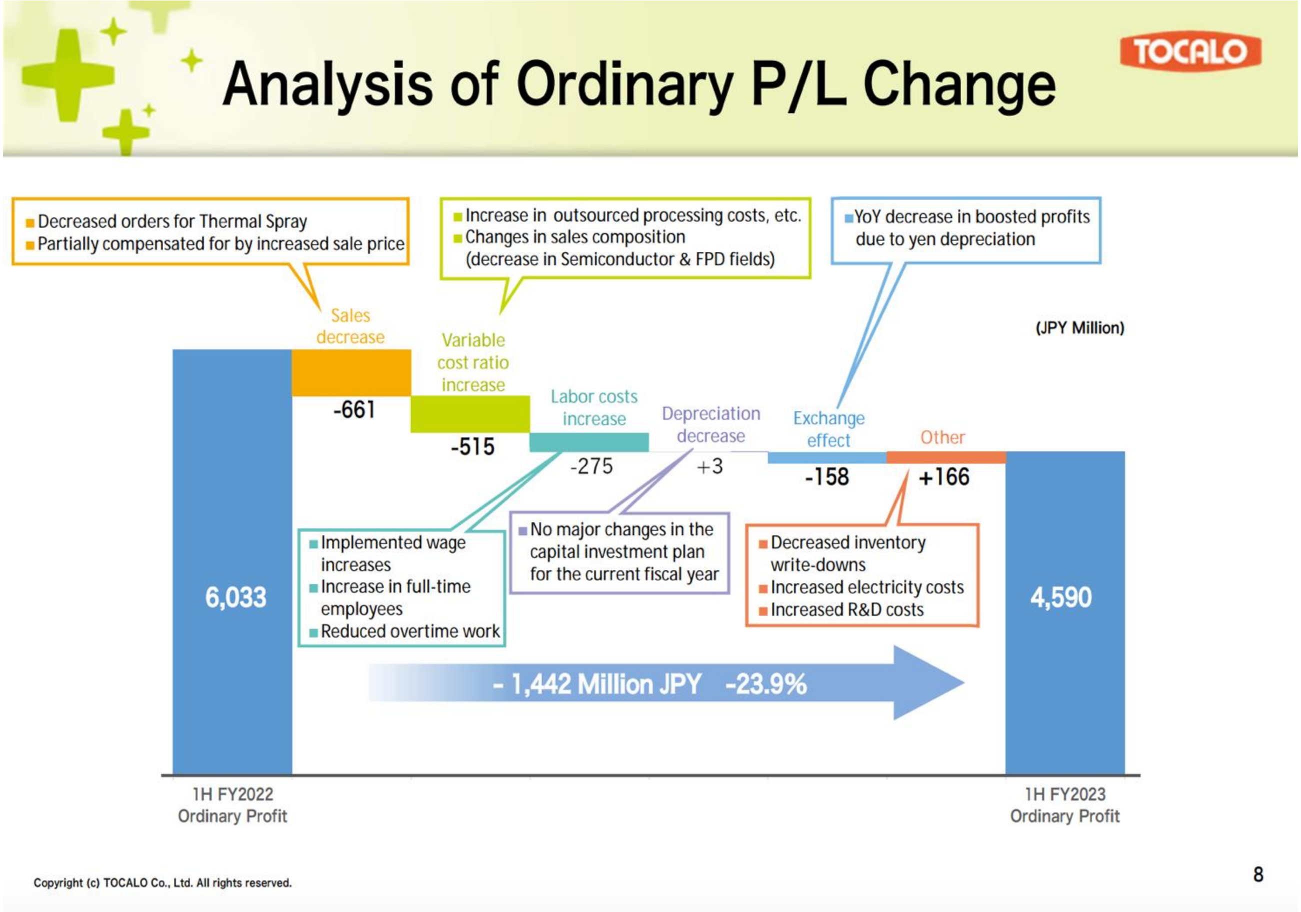
TOCALO

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	—

Compared to H1 of the previous fiscal year, when the semiconductor field was strong, sales were down 4.3% YoY, partly due to the semiconductor market entering an adjustment phase. Ordinary profit decreased 23.9% YoY due to changes in the sales mix as well as increases in labor and R&D expenses.



This is an analysis of YoY changes in ordinary profit. Ordinary profit for H1 was JPY4.59 billion, a decrease of JPY1.442 billion YoY. The main factors were a decrease in sales and an increase in the variable ratio due to a change in the sales mix, as well as higher labor costs.

As for the foreign exchange effect, the weaker yen boosted profits, but the positive effect was about JPY158 million less YoY.

1H FY2023 Net Sales (by Segment)

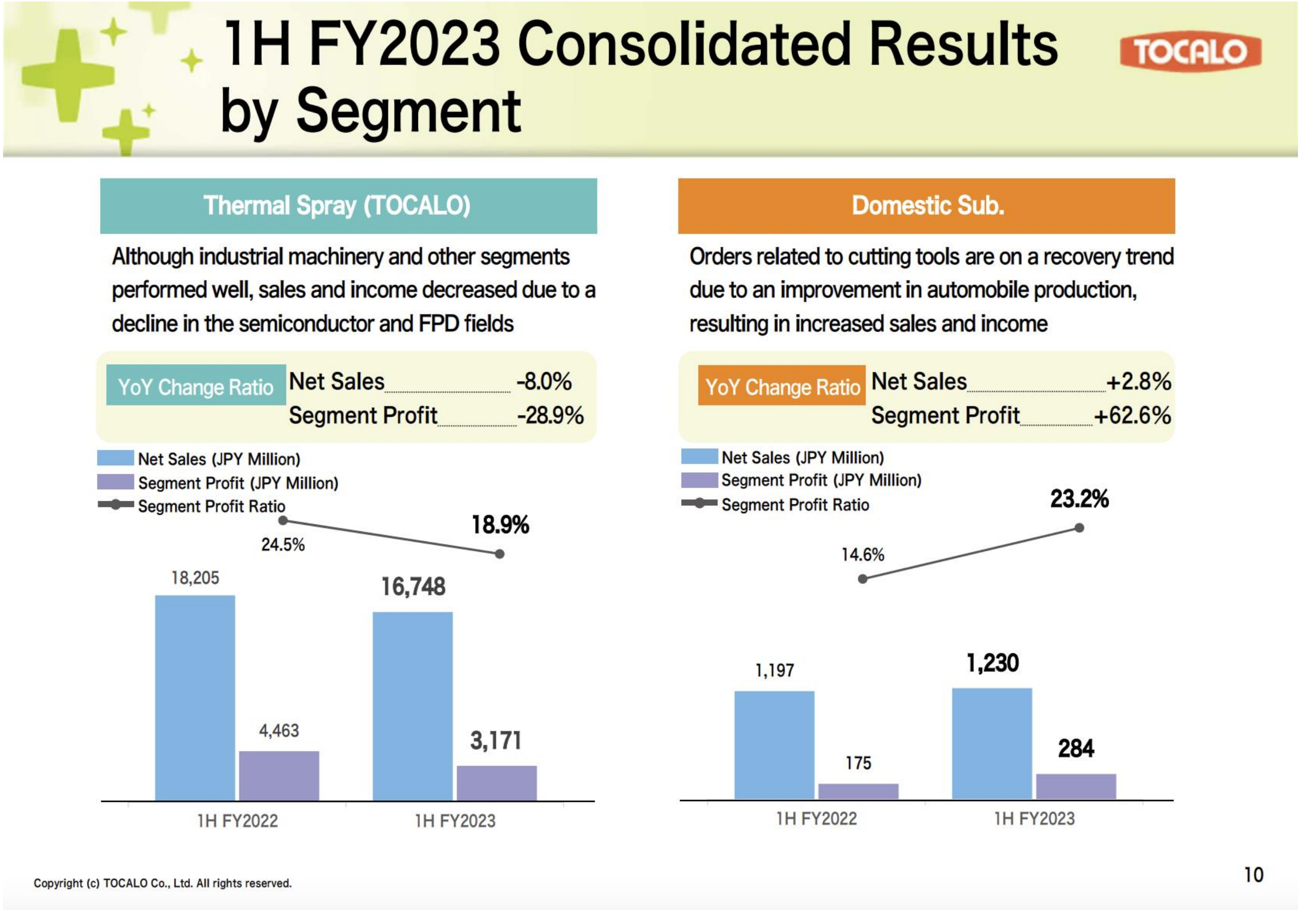
TOCALO

- 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%

9

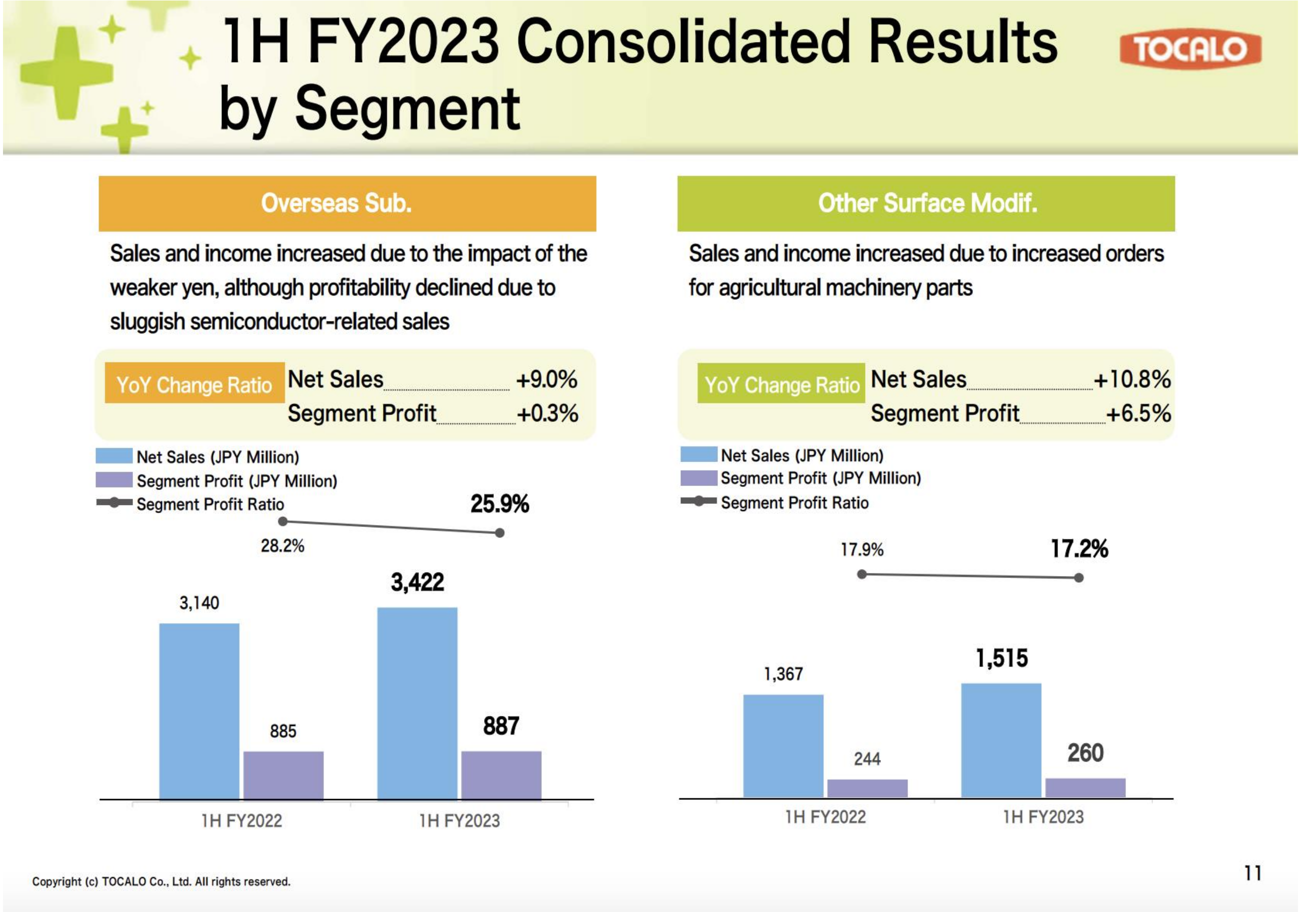
Next, I would like to discuss sales by segment. In the largest segment, thermal spray on a non-consolidated basis, sales declined due to a large drop in semiconductors and FPDs, despite strong sales in industrial machinery and other fields. Other segments performed well, especially the other surface modification segment, which saw an increase in sales for agricultural machinery parts.



This is a YoY comparison of sales and profit by segment.

Both sales and profits of the thermal spray segment on a non-consolidated basis declined due to a drop in the semiconductor and FPD fields.

Domestic subsidiaries posted increases in both sales and profit due to an improvement in automobile production and other production and a recovery in orders for cutting tools and other products.



As for overseas subsidiaries, profitability declined due to sluggish semiconductor-related sales, but the impact of yen depreciation led to higher sales and profits.

In the other surface modification, both sales and profit increased due to an increase in orders for agricultural equipment parts.

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

12

A table summarizing the sales and profit of each segment is shown here.

The details are as explained earlier.

Financial Position

TOCALO

- 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

13

This is the financial situation at the end of Q2 of the current fiscal year.

Total assets were JPY75.2 billion, equity was JPY54.1 billion, and the equity ratio was 72%, maintaining a healthy situation. Interest-bearing debt decreased by JPY444 million YoY to JPY2.3 billion with no new borrowings.

Cash Flow

TOCALO

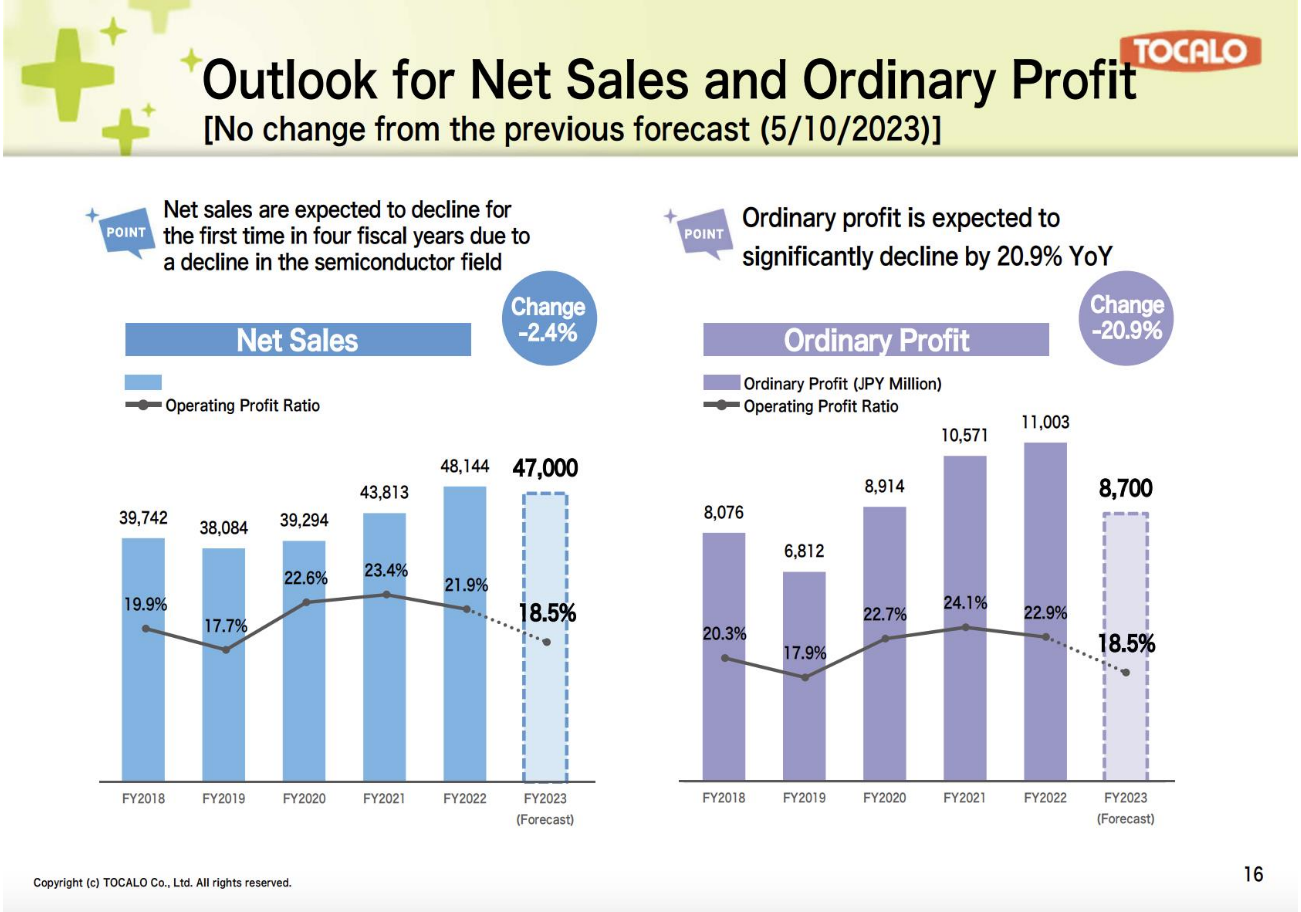
- Free Cash Flow (Operating CF + Investment CF) +3,100 Million JPY
- Investment CF/Acquisition of tangible fixed assets
  Previous term: -900 Million JPY   Current term: -1,600 Million JPY
- Financial CF/Dividends paid
  Previous term: -1,500 Million JPY   Current term: -1,600 Million JPY
  Acquisition 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

14

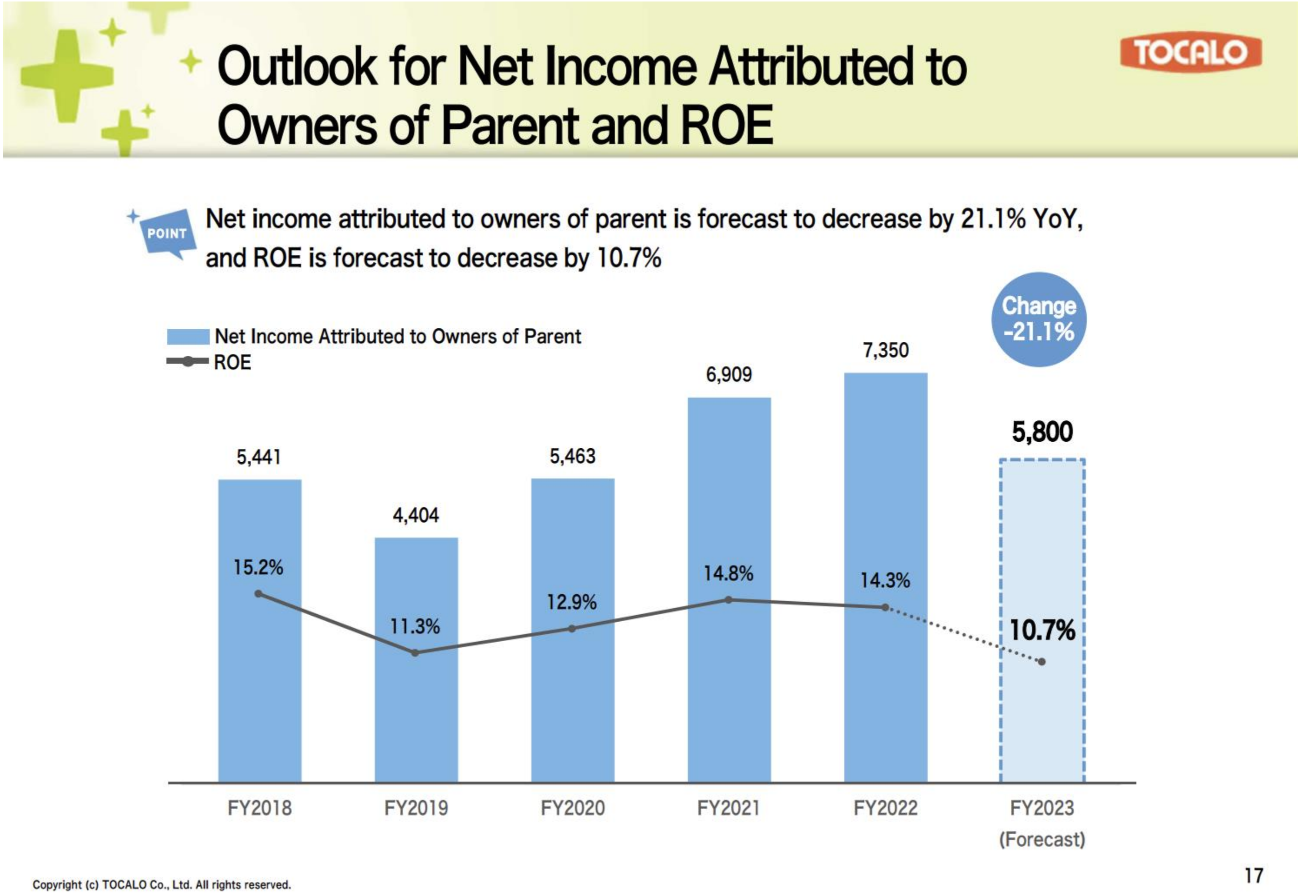
This page shows cash flows in H1 of the current fiscal year.

Operating cash flow was positive JPY4.4 billion, investing cash flow was negative JPY1.2 billion, and free cash flow was JPY3.1 billion, which indicates a healthy situation. Financing cash flow was negative JPY3.8 billion due to dividend payments, share buybacks, and then repayment of borrowings, resulting in a cash balance of JPY18.9 billion at the end of Q2.



Next, I will explain our consolidated earnings forecast for the fiscal year ending March 2024.

The full-year forecasts remain unchanged from those announced on May 10. We are targeting net sales of JPY47 billion, ordinary profit of JPY8.7 billion, and a profit margin of 18.5%.



This page shows the full-year forecasts for net income attributable to owners of parent and ROE.

Net income is projected at JPY5.8 billion and ROE at 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	—

18

Comparison table with the previous fiscal year's results is shown here. The sales forecast is negative JPY1.1 billion YoY. This is due to a JPY2.5 billion decrease in sales in semiconductors and FPDs. The ordinary profit forecast is JPY8.7 billion, a decrease of JPY2.3 billion YoY, and the ordinary profit margin is 18.5%.

The timing of a recovery in the semiconductor market remains uncertain and unpredictable.

1H FY2023 Progress Rate

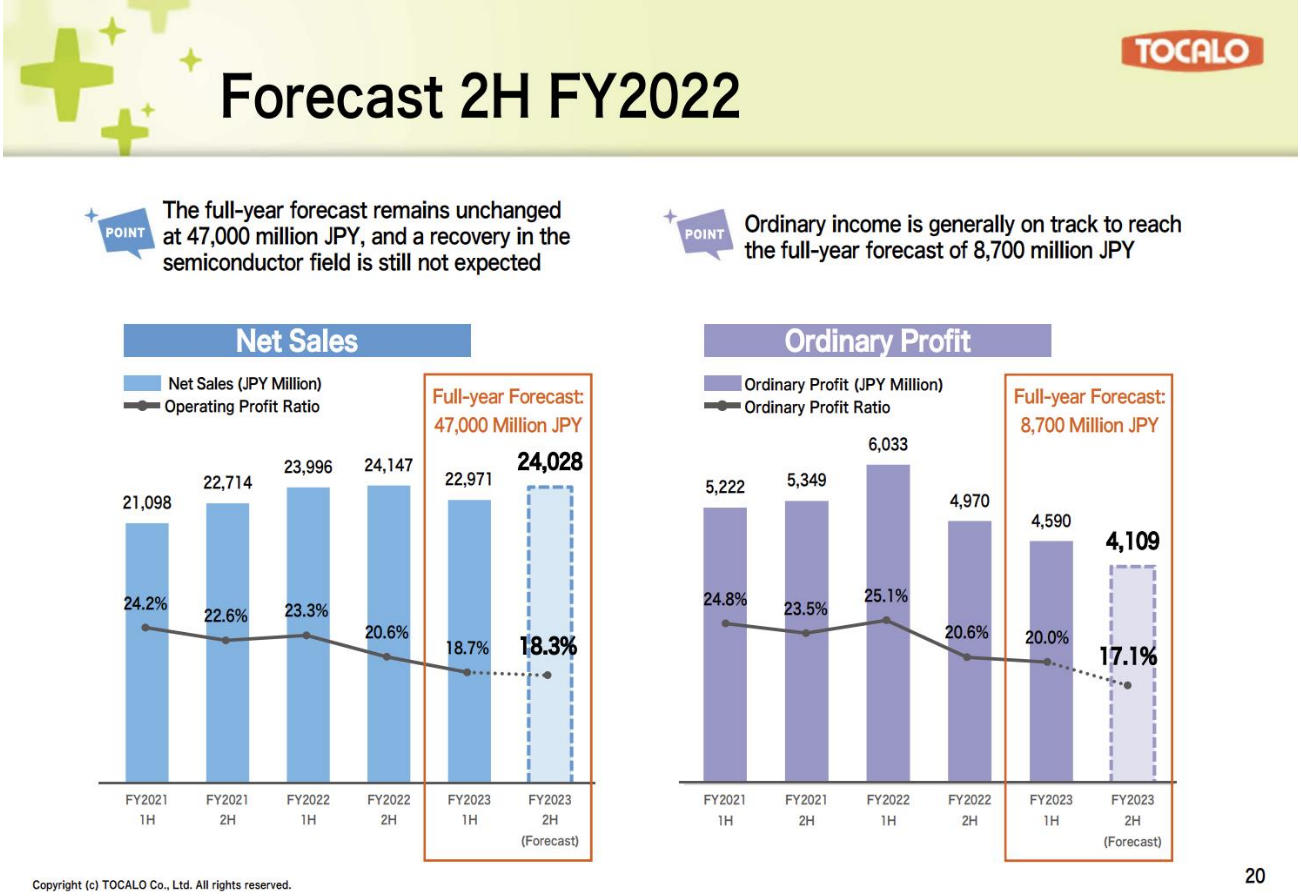
TOCALO

(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%

19

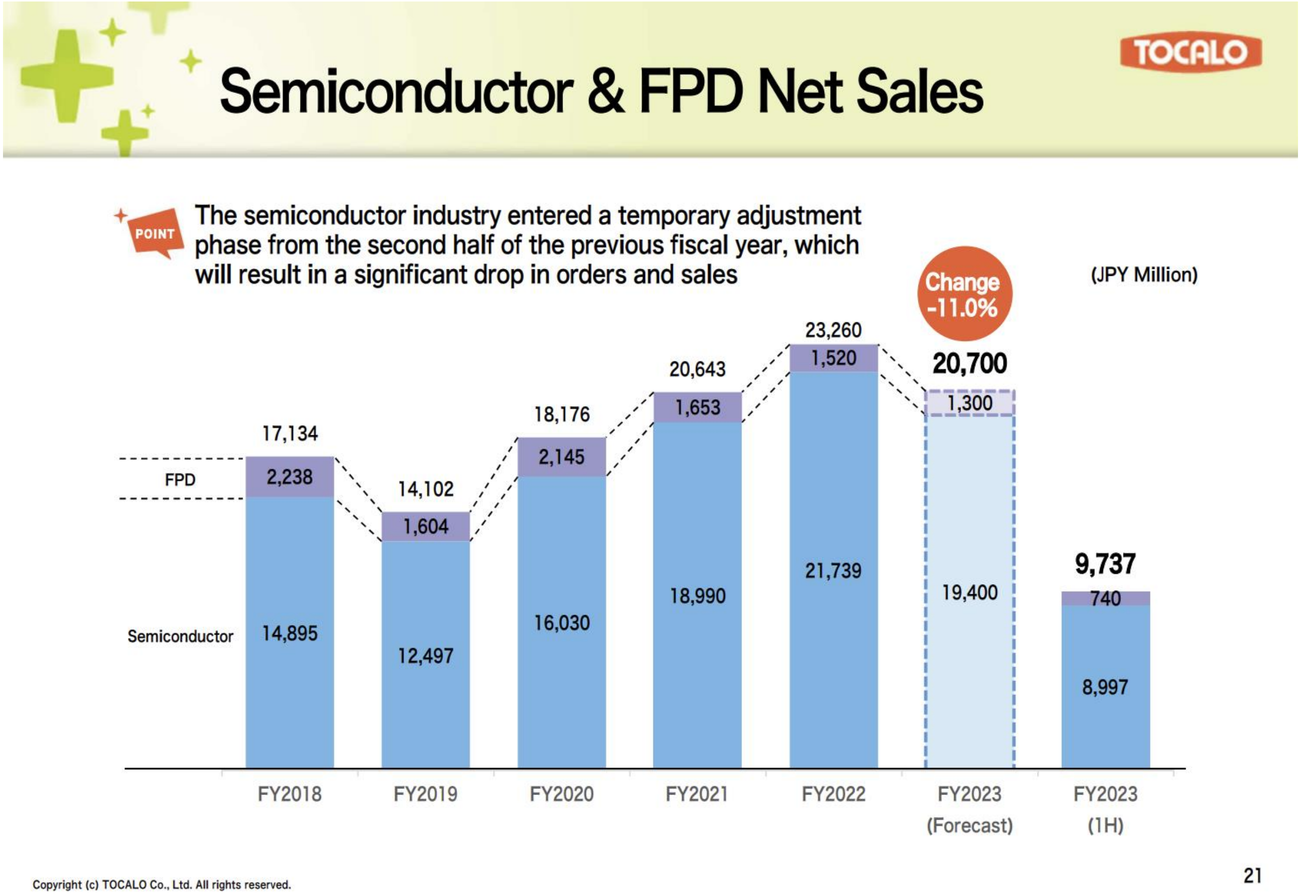
This is the progress rate in H1 against the full-year forecast. We maintain our initial sales forecast assuming that semiconductors and FPDs will enter a recovery trend in H2, but the current situation is somewhat difficult.

Regarding ordinary profit, the H1 results reached 52.8%, and we believe that we are generally on track toward the full-year forecast of JPY8.7 billion.

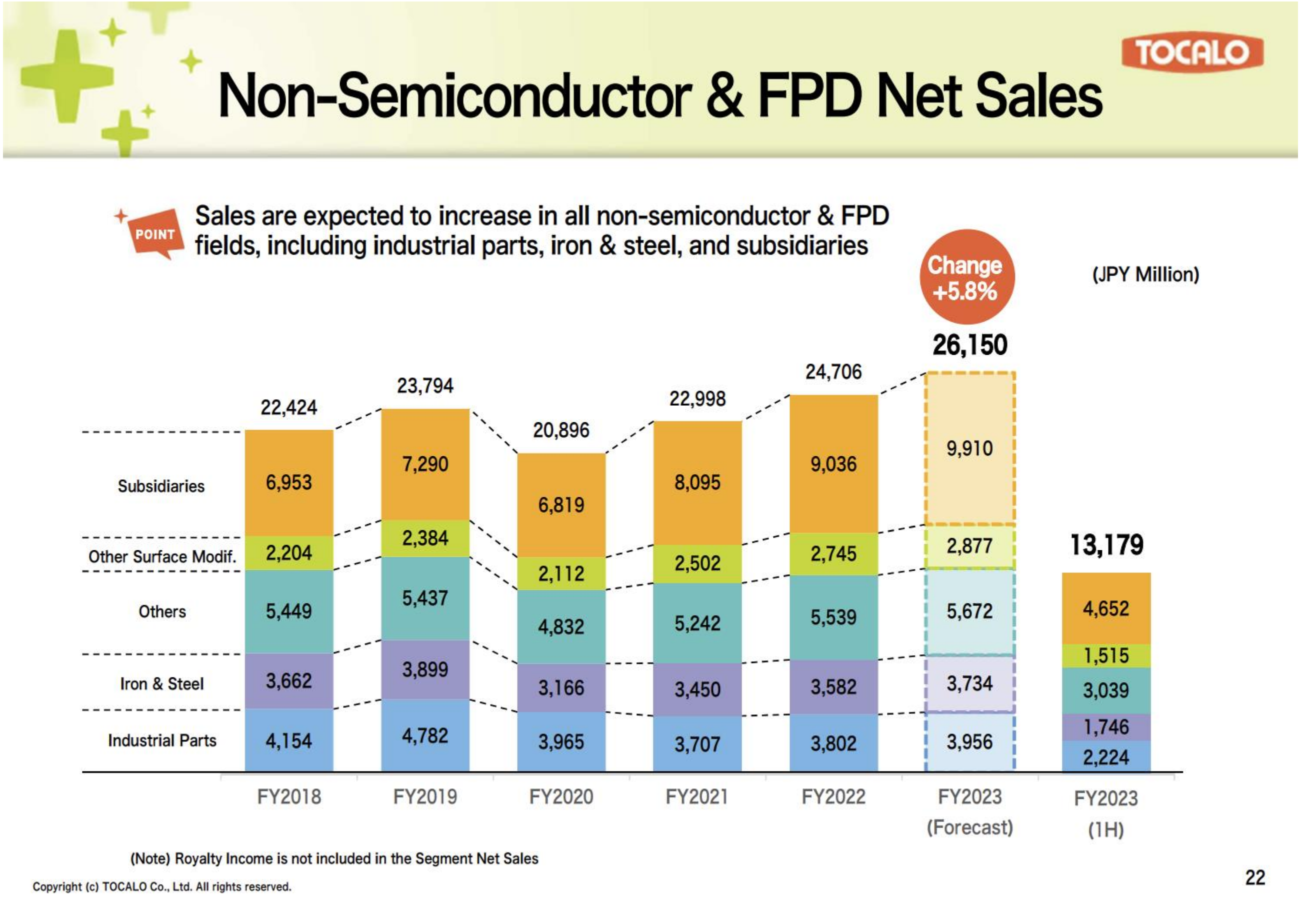


The graphs show the H2 forecast compared to the previous five semi-annual periods. On the left are net sales and operating margin, and on the right are ordinary profit and ordinary profit margin.

Both net sales and ordinary profit remain unchanged from our initial full-year forecast, so this H2 forecast is simply a subtraction of the H1 results. As I mentioned earlier, sales are currently in a somewhat difficult situation, but ordinary profit is currently on track toward the full-year forecast of JPY8.7 billion.

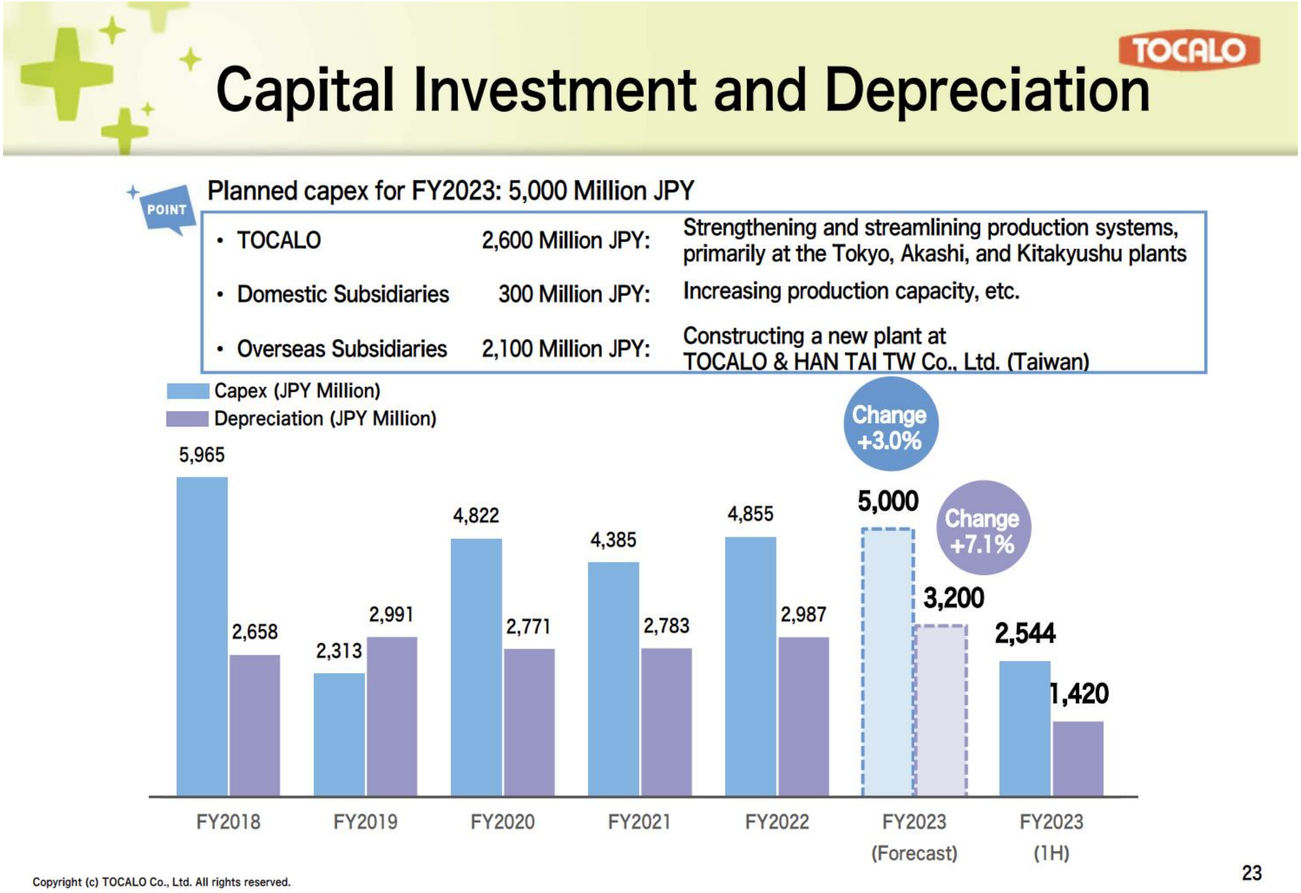


This page shows sales trends in the semiconductor and FPD fields. The forecast for the current period is JPY20.7 billion, of which JPY19.4 billion is for semiconductors and JPY1.3 billion is for FPDs. The actual results for H1 were JPY9.7 billion, and the progress rate was 47% of the full-year forecast.

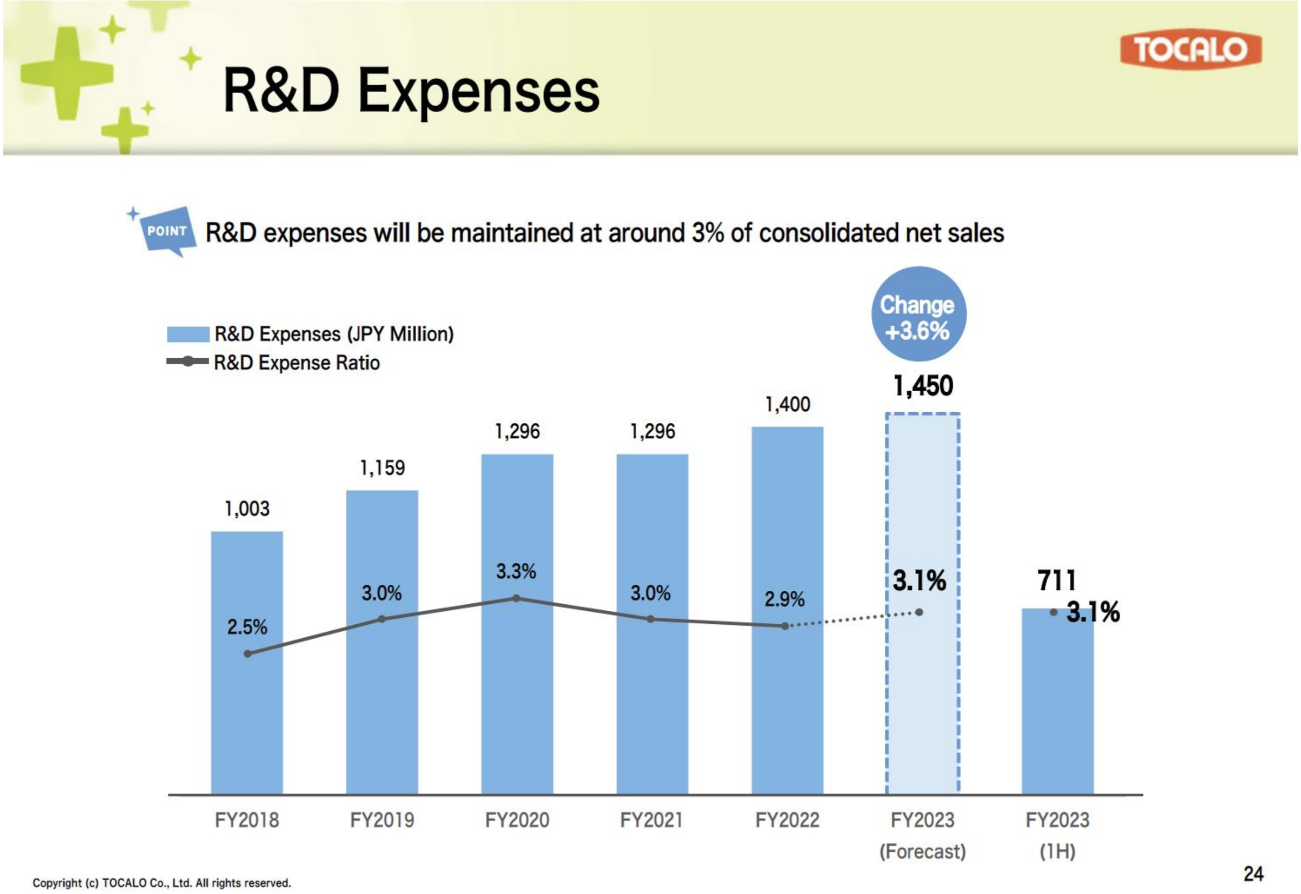


This page shows sales trends other than the semiconductor and FPD fields.

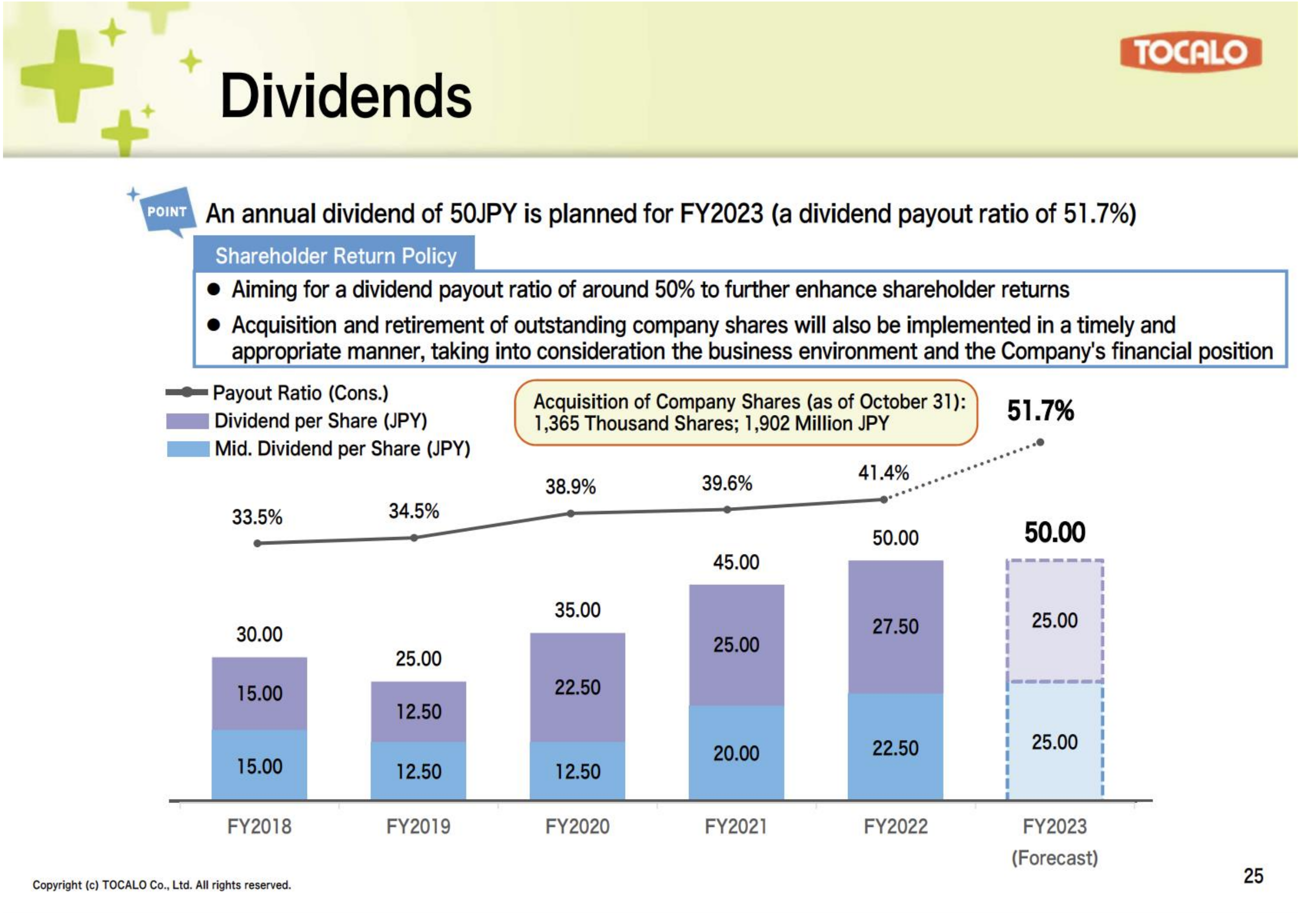
The forecast for the current period is JPY26.1 billion, a 5.8% increase from the previous period's JPY24.7 billion. Against this full-year forecast, H1 results amounted to JPY13.1 billion, a progress rate of 50.4%. There is no rapid growth like in semiconductors, but we aim for a steadily growth step by step.



Capital investment and depreciation are shown here. The forecast for the current fiscal year remains unchanged from the plan at the beginning of the fiscal year, with capital investments of JPY5 billion and depreciation of JPY3.2 billion. Capital investments were JPY2.5 billion yen for H1, compared to the full-year forecast of JPY5 billion, a progress rate of 50.9%.

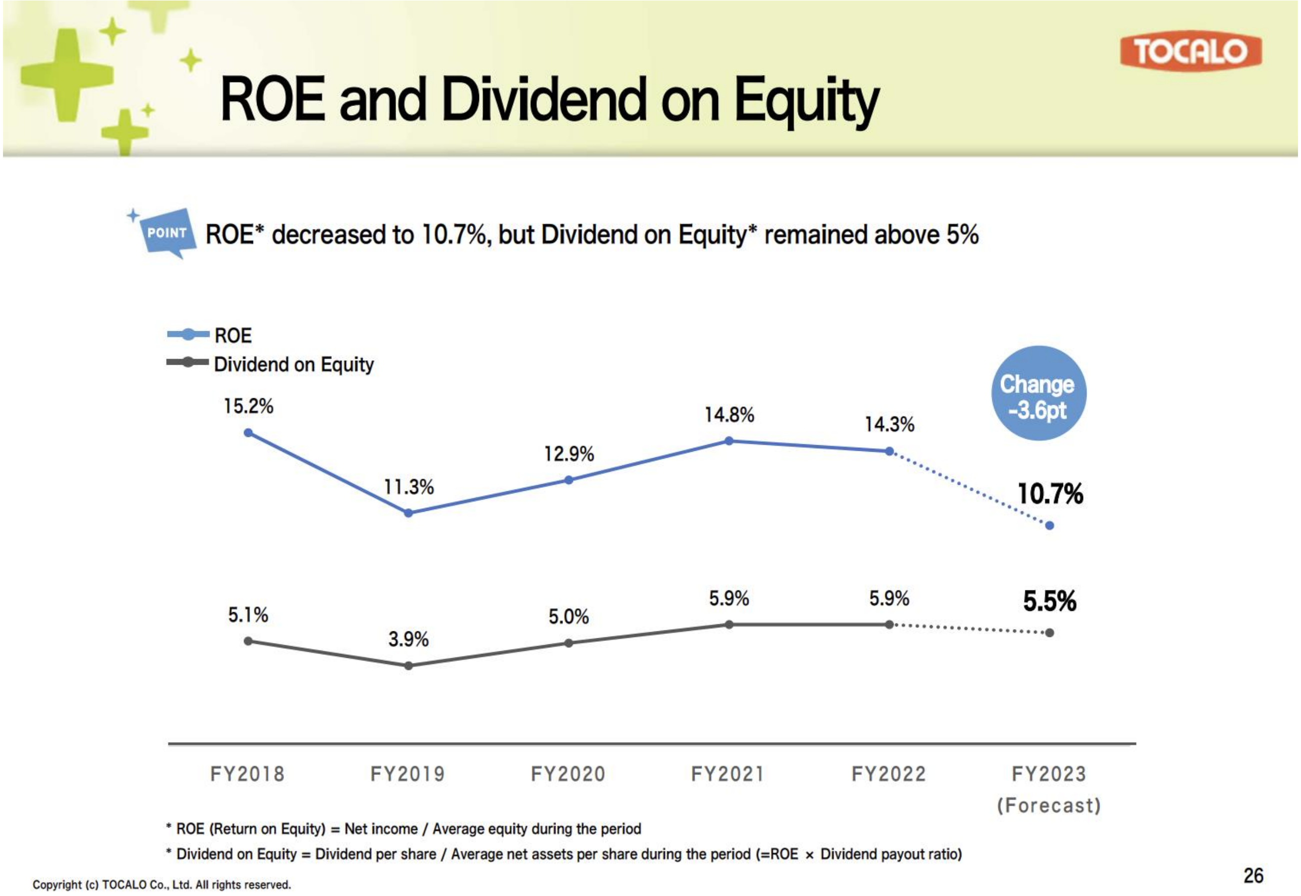


Next, take a look at the trends of R&D expenses. R&D expenses for the current fiscal year are expected to be JPY1.45 billion, or 3.1% of net sales. The actual results for H1 were JPY711 million, a progress rage of 49% of the full-year forecast.

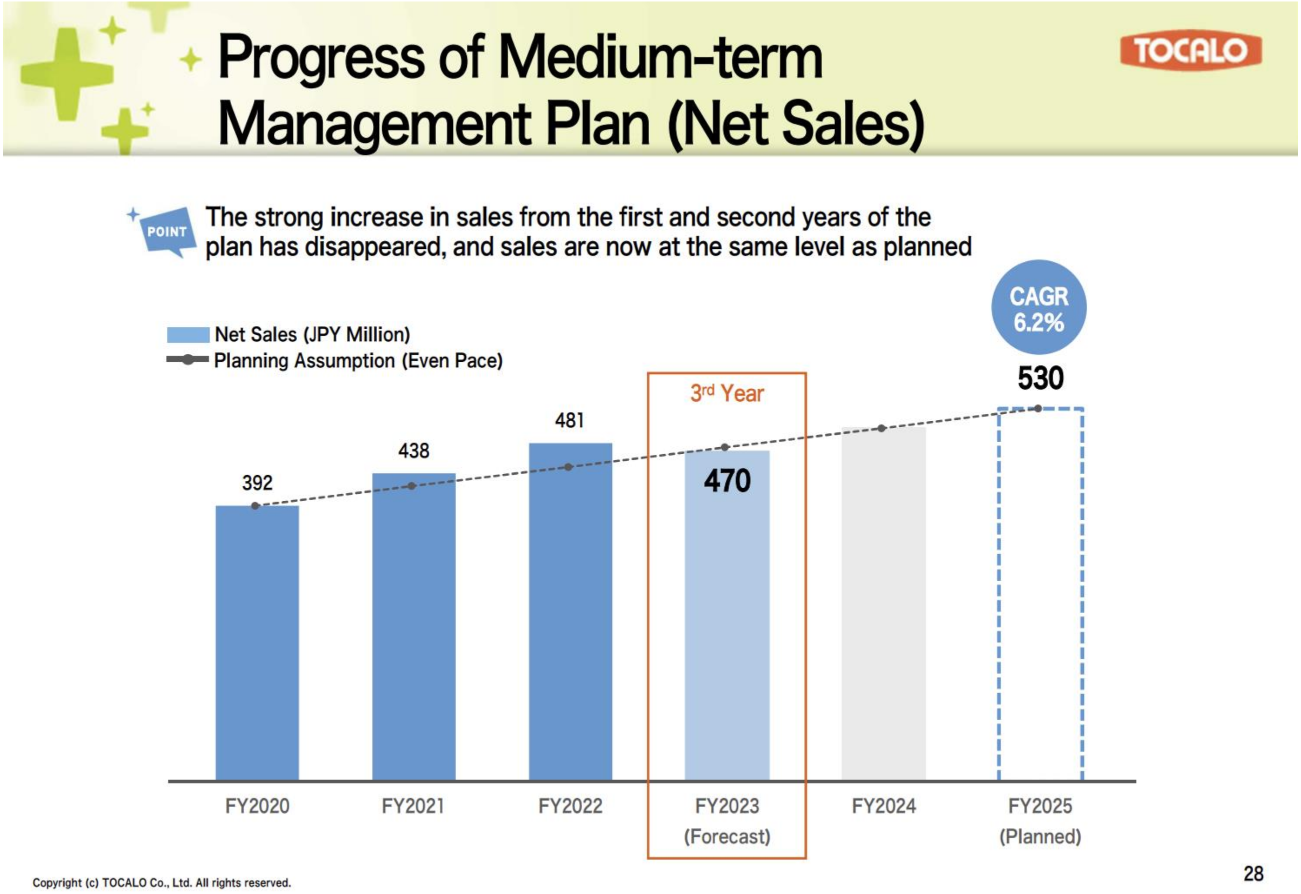


Dividend amount and payout ratio are shown here.

The interim dividend for the current fiscal year is JPY25 per share. At present, we also plan to pay a year-end dividend of JPY25, for an annual dividend of JPY50. Dividend payout ratio is expected to be 51.7%. In addition, the Company has been purchasing treasury stocks up to JPY2 billion since May of this fiscal year, and as of the end of October, we had purchased JPY1.9 billion, which is 95% of the total.

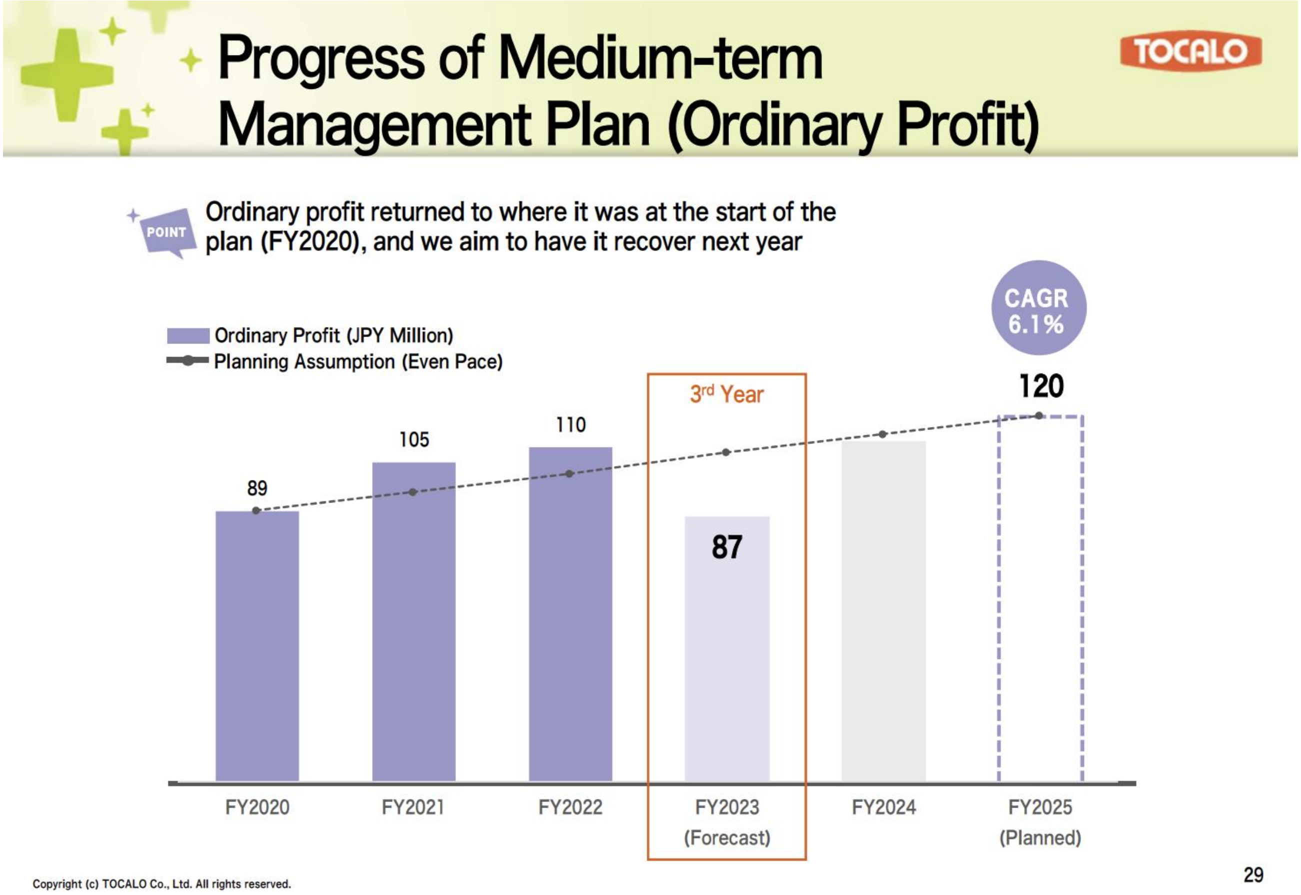


This page shows the trends of ROE and dividend-on-equity ratio. For the current fiscal year, we expect ROE to be 10.7% and the dividend-on-equity ratio to be around 5.5%.

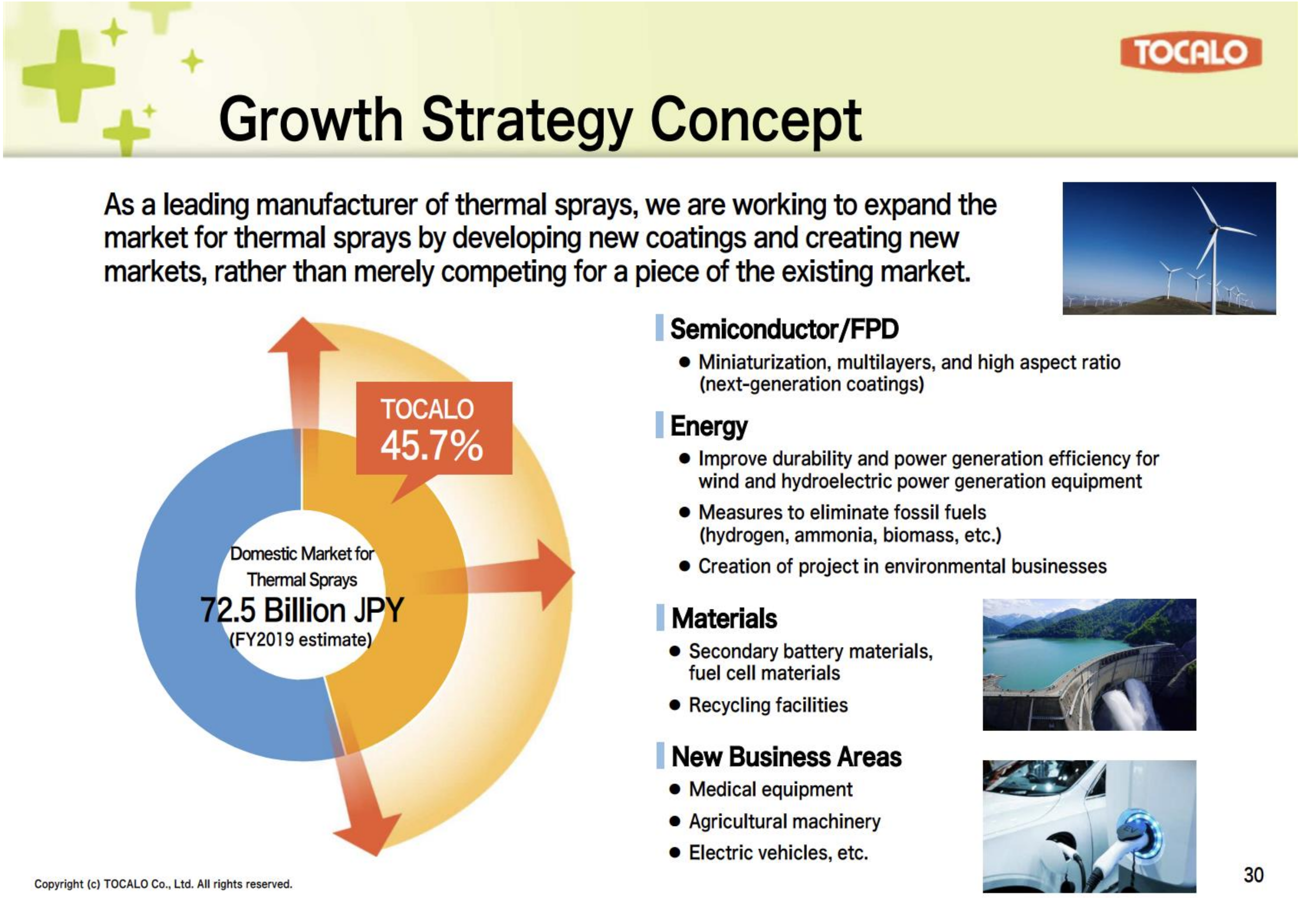


Finally, I would like to explain the progress of the medium-term management plan. The current fiscal year is the third year, or the halfway point of the five-year plan.

As for progress toward the sales target of the medium-term management plan, the current forecast is JPY47 billion, with an average annual growth rate of 6.2%, which is on par with the plan level. We believe that we can achieve our target of JPY53 billion for the fiscal year ending March 31, 2026, if we continue on this path.



Progress on ordinary profit has been significantly below the plan due to a temporary drop in the semiconductor sector. We believe that we will be able to achieve our ordinary profit target of JPY12 billion for the final year of the plan, the fiscal year ending March 2026, because of expectations of a recovery in semiconductor production equipment from next year onward.



Regarding our growth strategy, as the leading thermal spray manufacturer, we would like to expand the thermal spray market by developing new coatings and creating new markets, rather than competing for a piece of the existing market pie. As you can see in the chart, TOCALO currently holds 45.7% of the domestic thermal spray market, but we would like to expand this share and further expand the domestic thermal spray market.

We would like to approach the environmental energy field, storage batteries and other materials, medical care, agriculture, and electric vehicles as targets.

This is a bit of a departure from our medium-term management plan, but I would like to introduce some of our capital investments for the next fiscal year and beyond.

First, we decided to build a new factory at the Kobe Plant. We are building a new plant to increase production in the semiconductor and medical fields and to develop new products. In response to this, we plan to invest JPY1.3 billion as the construction cost.

Following this, we are planning to construct a new factory at the Kitakyushu Plant. We own land adjacent to the current Kitakyushu Plant and plan to build a factory on that land. What we have decided so far is the construction part only, and the construction cost is expected to be JPY3.2 billion, not including equipment.

Another thing is that we are considering building a new factory at our Tokyo Plant. Our Tokyo Plant has two workshops, one in Gyoda and the other in Suzumi. The Gyoda Workshop manufactures semiconductors, and in order to further expand the production capacity of the Gyoda Workshop, we need to relocate the area for general productions and other areas for slightly different productions from the Gyoda Workshop to the Suzumi Workshop. Therefore, we are planning to build a new one in Suzumi.

The new factory in Suzumi is expected to cost about JPY3 billion, including construction costs, relocation of facilities, and installation of equipment. The costs for renewals of the Gyoda Workshop are not included in this figure.

That's all for the explanation. Thank you for your attention.

Question & Answer

Moderator [M]: Thank you for your explanation. As I mentioned earlier, we will take questions from on-site participants. If you have any questions, please raise your hand and a staff member will bring the microphone to you.

A full transcript of this briefing, including the question-and-answer session, will be made available to the public. Therefore, if you wish to remain anonymous, please do not give your name when asking a question. Now, does anyone have any questions? Yes, thank you. A staff member will come now with the microphone. You are in the fourth row of seats from the back. Yes. Go ahead.

Osawa [Q]: Thank you very much. I am Osawa from Ichiyoshi Research Institute. I would like to know three major things. Regarding the ordinary profit target of the medium-term management plan on page 29 of the material, I had the impression that the JPY12 billion profit target for the final fiscal year was a little conservative at the planning stage, but do you think that it is currently achievable, or do you think that there is no need to change it now because the demand environment for the fiscal year after next will be dependent on the semiconductor industry? Or is it that it was low to begin with, and although various things have changed due to recent delays, it should be able to achieve this level?

Kobayashi [A]: There are many ways to look at it, but if the semiconductor industry actually stops in a slump, or rather, because it has stopped, our profits dropped considerably, and the figure for this fiscal year was a poor JPY8.7 billion. We are not actually confident about the achievement of that target, or not sure that we will be able to recover to the JPY12 billion level. However, most of us expect that the number will return to last year's level in the next fiscal year, and if the growth rate continues at that rate, we will be able to achieve the JPY12 billion goal.

Osawa [Q]: I understand. Second, you mentioned at the beginning that you are focusing on manufacturing. I have an image that you make each product in a one-of-a-kind manner, with spraying done by man or machine with a thermal spray gun. What are the areas where there is room for automation, and what are the areas for improving production efficiency as you have done for a long time?

Kobayashi [A]: In our case, the thermal spraying process is actually almost completely automated using industrial robots. When it comes to replacing products on a production line, for example, there are processes that cannot be automated. However, there are areas, even if we make each product in a one-of-a-kind manner, where we can make programs such as machining by using the current IoT technologies or CADCAM. This is true for the movements of thermal spraying robots, as well as for machining operations. Even if each product is unique, automation can be achieved by creating programs ahead of time to eliminate waiting time. This is what we would like to actively work on.

I mentioned earlier that I am from the manufacturing field and that this is what is expected of me and what I am aiming for. Through getting out of the one-of-a-kind production system, we are thinking of expanding the number of products for which we receive orders, with the aim of automating or improving production efficiency.

I think that will be a choice.

Osawa [Q]: Thank you very much. Are the things you just mentioned something that your company has become able to do, or did you decide to focus more on this after you became President?

Kobayashi [A]: I believe that this is the result of discussions with the former president, Mifune, from the time the medium-term management plan was formulated, and we had many discussions about what direction we should take. I believe it is my mission to promote automation and increase production efficiency, which is what I have been doing since I joined this company, and I believe that this is one of the policies of TOCALO's medium-term management plan we had discussed.

Osawa [Q]: Thank you very much. Thirdly, in June, Tokyo Electron Ltd. announced the technology for 400-layer NAND channel hole etching equipment, which etches at minus 60 degrees Celsius, leading to a drastic change in etching gas. Is there any technology or business opportunity that is required because of this from your thermal spray, such as an increase in added value or demand?

Kobayashi [A]: I'm sorry, but I'm not very familiar with Tokyo Electron's minus NAND, but in my experience with thermal spray processing, the minus side becomes different when the temperature reaches minus 200 degrees Celsius or so. However, I have not experienced such a difficult situation in the range of minus 50 to 60 degrees Celsius. I don't think there are any business opportunities there, but I will check and answer later.

Osawa [M]: Okay. Thank you very much.

Moderator [M]: Thank you very much. Are there any other questions from the audience? There seems to be no questions. Now, if there are no questions from the audience, we will take questions from the online participants.

Excuse me, but I will take a seat.

We currently have two questions from our online participants. The first question.

Participant [Q]: In the opening policy President Kobayashi toughed on, there was a talk about promoting automation of production. Could you be more specific? What current processes will be automated and how effective will this be in saving manpower, and what is the time frame? For example, you are aiming for three years from now. Thank you.

Kobayashi [A]: Not all processes can be carried out in the same way, so let me explain process by process. As I mentioned earlier, robot processing for thermal spray has become indispensable. We are entering an era in which handwork is no longer allowed, both in Japan and overseas, and all robot programs must be made. In this day and age, we have put in place mechanisms and personnel to automate these programs, and gradually, one by one, we are putting together fully automated programs.

However, as I mentioned earlier, we may not be able to automate the entire process, including the transfer system and product replacement, but we are moving forward with the thermal spraying process, focusing on automatic programming of industrial robots and the like.

Moreover, this is also what I just mentioned, but we are also working on NC and CADCAM programs for machining and have already completed the installation of equipment for this area. I think that by the end of this fiscal year, we will be able to confirm the program and grasp what it can do.

Once the situation is confirmed, we will begin to consider what products are applicable, and what scale of production we will handle.

We had actually decided on some targets or product groups, but since we are an order-taking industry, we are sometimes in a situation where some of the targeted products have lost orders and we have to review plans for processed products. So, we are not able to proceed only with our own plans, but we are planning to establish a system to automate some process by the end of this fiscal year, and to begin intensive production of such products in the next fiscal year.

Moderator [M]: Thank you very much. Now, the second question.

Participant [Q]: In the Nikkan Kogyo Shimbun of November 1, there was an article about the construction of three new buildings. It reads that the Kobe Plant is engaged in coating to protect the exhaust gas pipes of etching equipment, and the Tokyo and Kitakyushu Plants are engaged in thermal spraying for electrostatic chucks and chamber parts of etching equipment. Is this true?

Kobayashi [A]: If you mean these plants will be dedicated to that, it may be slightly wrong. This is a bit of a difficult question. We do not make a product at one plant at a time, but we do make various other products at one plant. While making various products, the Kobe Plant will also handle with exhaust gas pipes. They will not be dedicated to one product.

Then, you mentioned ESC (electrostatic chuck), but there is no plan to make ESC, so that ESC information is wrong. The Kitakyushu and Tokyo Plants are going to make chamber parts related to semiconductor etching, at least at the current planning stage.

Moderator [M]: Thank you very much. Then there is one additional online question.

Participant [Q]: I know that President Kobayashi has only been in office for less than six months, but please talk about TOCALO's strengths or weaknesses that you recognized only after you became president. Thank you.

Kobayashi [A]: I feel that one of TOCALO's weaknesses is that we have not made enough effort to address mass production, which was mentioned earlier. I have worked in the manufacturing field, but as pointed out earlier, there are many products that are processed in a one-of-a-kind manner, and I had always thought that our strength was that we process each product in a one-of-a-kind manner, but when I took this position, I thought that was not quite right. Even if the product is one-of-a-kind, I think that a mass production approach is always necessary in order to increase automation and production efficiency.

One of our strengths is that we have a variety of personnel, and in our case, in particular, we have a relatively large sales staff. We have a sales staff of about 80 people, and I feel that our strength lies in the fact that our sales staff is moving toward their own goals.

I often hear that our focus is only on semiconductors, but in reality, the success of the semiconductors is the result of the sales staff's proper actions and efforts. When we think about what is after semiconductors, the future of our company will be determined by how our sales force, which is in charge of divisions other than semiconductors, feels about it and how they will proceed. I think our strength is that we have a large sales force and are able to do various things through trial and error.

Moderator [M]: Thank you very much. These are the questions from those who participate online. It seems that these are all the questions that have been asked both at the venue and online. We would like to conclude the financial results briefing of TOCALO.

Thank you very much, President Kobayashi, Mr. Goto, Mr. Hosomi, and Mr. Shimizu, for your time today.

Company Representative [M]: Thank you very much.

Moderator [M]: Thank you very much for your participation.

[END]

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