TOCALO Co., Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2024

May 15, 2024

Event Summary

[Company Name]	TOCALO Co., Ltd.	
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[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2024	
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[Venue]	Webcast	
[Venue Size]		
[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	Accounting Division Manager
	Hiroshi Shimizu	Corporate Planning Division Manager
[Analyst Names]*	Mitsuhiro Osawa	Ichiyoshi Research Institute
	Yoshihiro Ujihara	SBI Securities

*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. The time has arrived and we will now begin the financial results briefing for TOCALO Co., Ltd. This briefing is a hybrid of on-site and live-streaming online session. First, I would like to introduce the four people from the Company who are with us today. First, Mr. Kazuya Kobayashi, Representative Director, President and Executive Officer.

Kobayashi: Hello.

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

Goto: I am Goto. Hello.

Moderator: Thank you for your presence today. Next is Mr. Kenji Hosomi, Accounting Division Manager.

Hosomi: I am Hosomi. Hello.

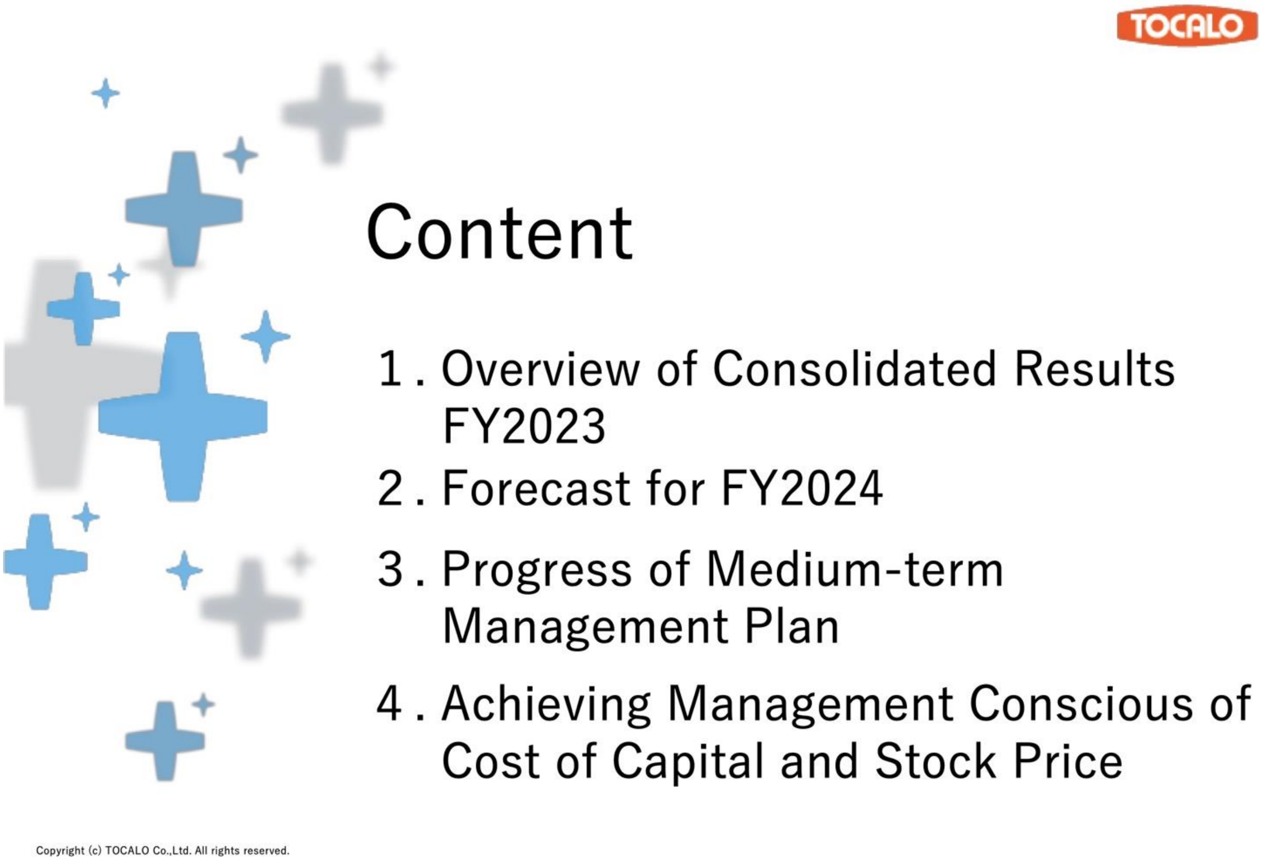
Moderator: Thank you for your presence today. Next is Mr. Hiroshi Shimizu, Corporate Planning Division Manager.

Shimizu: I am Shimizu. Hello.

Moderator: Thank you very much. President Kobayashi will give a presentation today, and after his presentation, we will have a question-and-answer period.

After that they will take questions from those who are participating online. If you have any questions, please enter the name of the institution and your name and enter the chat to ask your question. Questions will be accepted during the explanation. Then, Mr. Kobayashi, please.

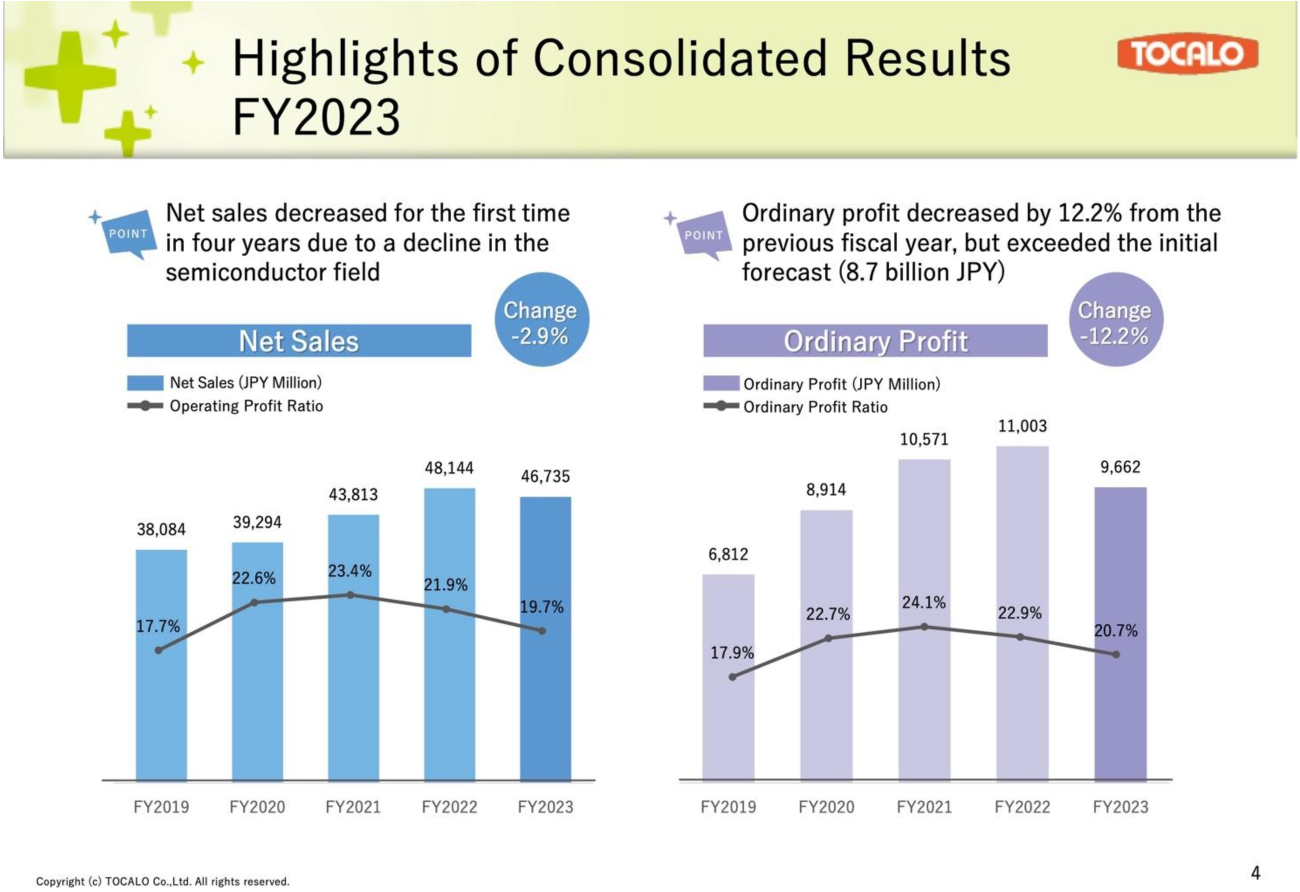
Kobayashi: Hello, everyone. I am President Kobayashi. Thank you very much for taking the time today to participate in the financial results briefing for the fiscal year ended March 31, 2024, of TOCALO. About 80 people are attending today, both real and live. We will now begin the explanation.



Content

1. Overview of Consolidated Results FY2023
2. Forecast for FY2024
3. Progress of Medium-term Management Plan
4. Achieving Management Conscious of Cost of Capital and Stock Price

These are the four items I will explain today.



Highlights of Consolidated Results FY2023

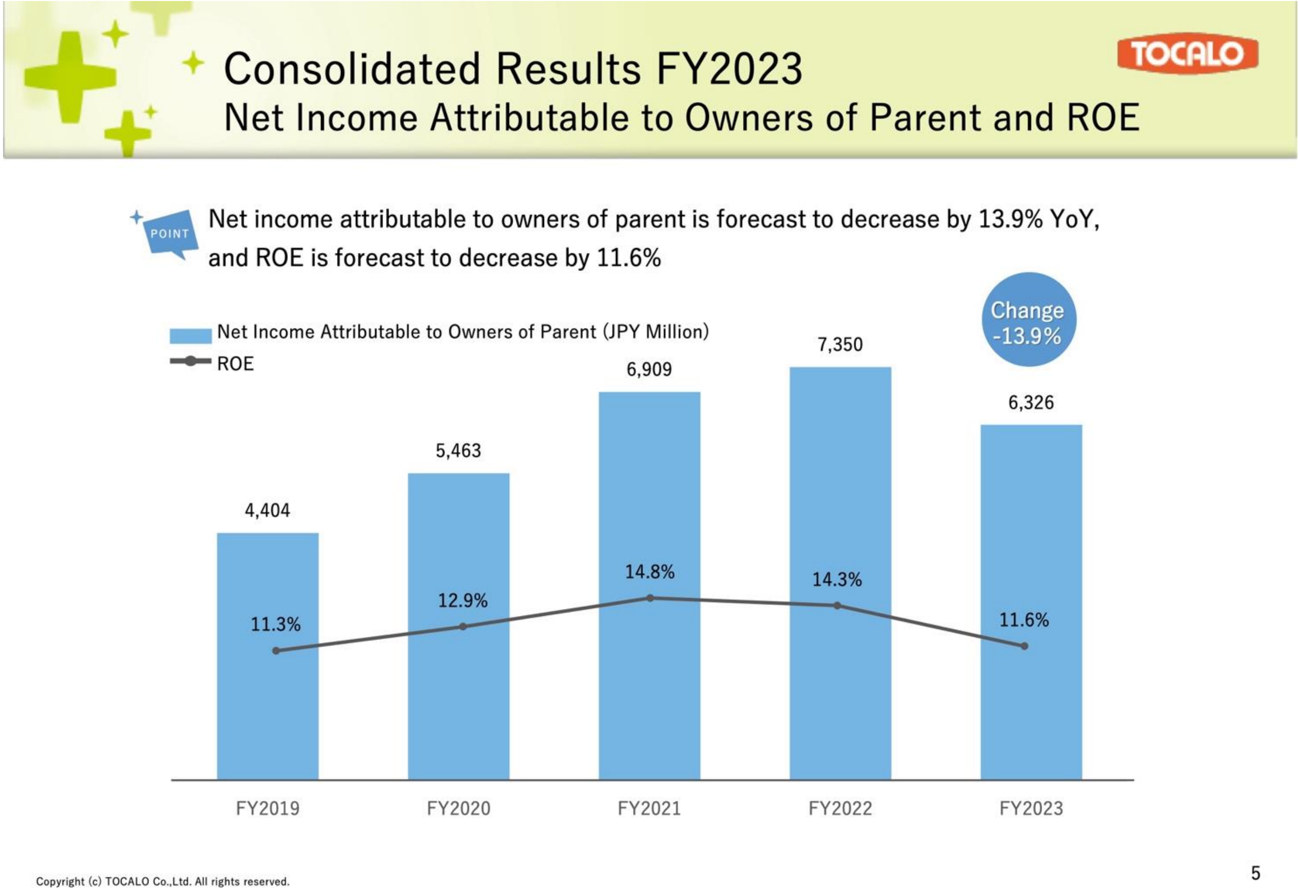
TOCALO

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

POINT Ordinary profit decreased by 12.2% from the previous fiscal year, but exceeded the initial forecast (8.7 billion JPY)

First, I will provide an overview of the financial results for the fiscal year ended March 31, 2024. This graph shows actual results for the fiscal year ended March 31, 2024. On the left are net sales and operating margin, and on the right are recurring profit and recurring profit margin. Results for the fiscal year ended March 31, 2024, were sales of JPY46.7 billion, operating income of JPY9.1 billion, ordinary income of JPY9.6 billion, and ordinary income margin of 20.7%.

Sales declined for the first time in four fiscal years due to a drop in the semiconductor field. Ordinary income was down 12.2% from the previous year, but slightly higher than our initial plan of JPY8.7 billion.



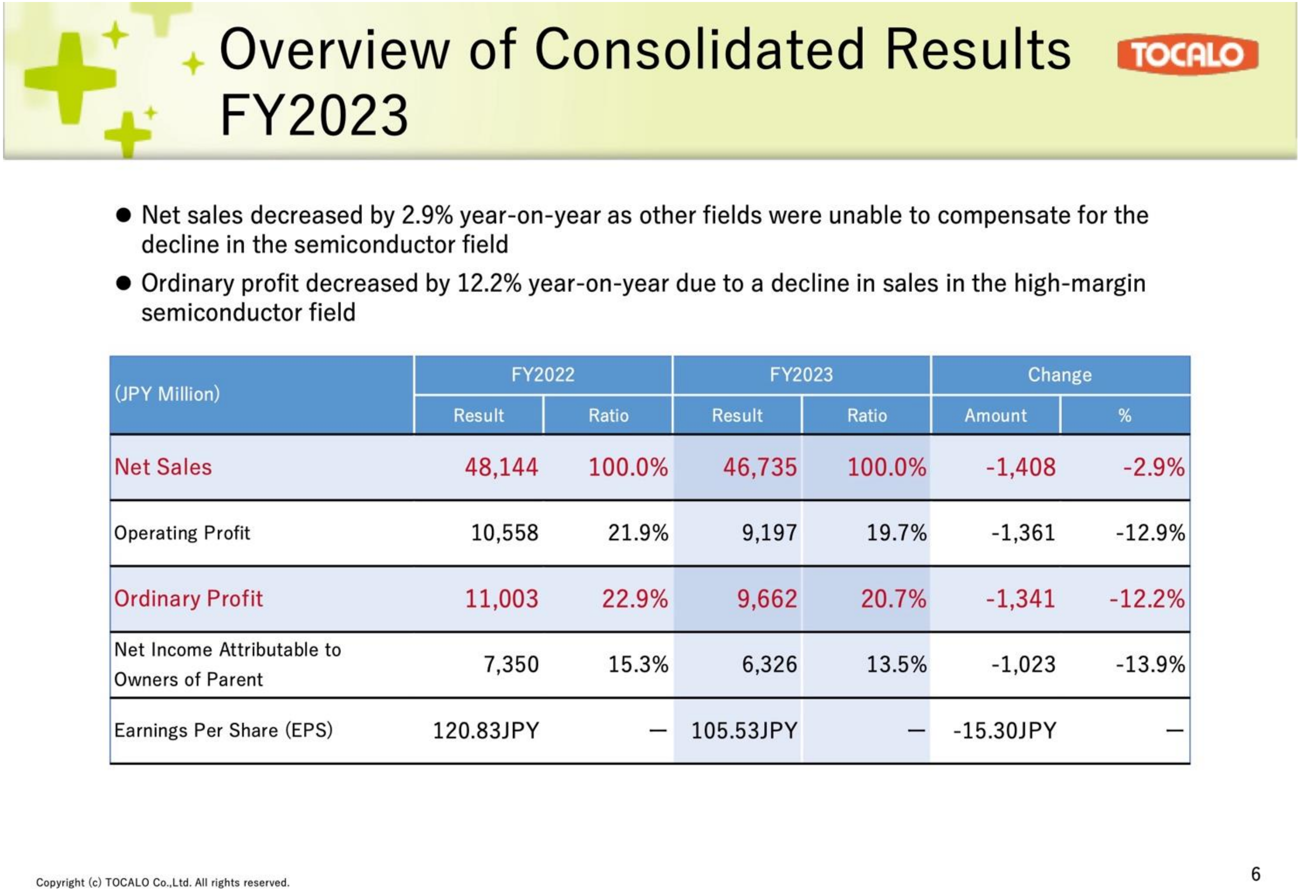
Consolidated Results FY2023

Net Income Attributable to Owners of Parent and ROE

TOCALO

POINT Net income attributable to owners of parent is forecast to decrease by 13.9% YoY, and ROE is forecast to decrease by 11.6%

Net income attributable to shareholders of the parent company decreased 13.9% from the previous year to JPY6.3 billion, and ROE was 11.6%.



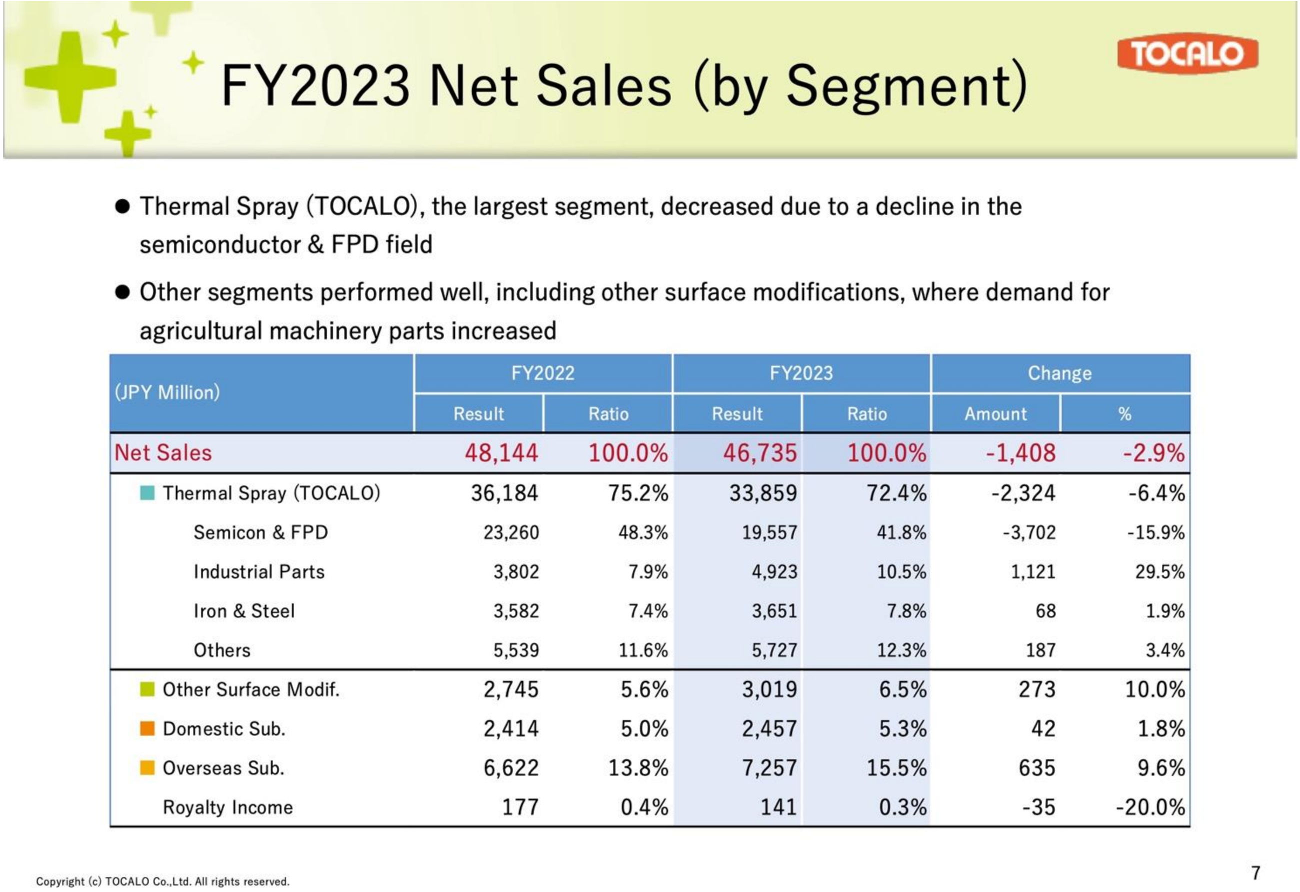
Overview of Consolidated Results FY2023

TOCALO

- Net sales decreased by 2.9% year-on-year as other fields were unable to compensate for the decline in the semiconductor field
- Ordinary profit decreased by 12.2% year-on-year due to a decline in sales in the high-margin semiconductor field

(JPY Million)	FY2022		FY2023		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	48,144	100.0%	46,735	100.0%	-1,408	-2.9%
Operating Profit	10,558	21.9%	9,197	19.7%	-1,361	-12.9%
Ordinary Profit	11,003	22.9%	9,662	20.7%	-1,341	-12.2%
Net Income Attributable to Owners of Parent	7,350	15.3%	6,326	13.5%	-1,023	-13.9%
Earnings Per Share (EPS)	120.83JPY	—	105.53JPY	—	-15.30JPY	—

Net sales were down 2.9% from the previous year, as the decline in the semiconductor field was not offset by other fields. Ordinary income decreased 12.2% from the previous year, due to lower sales in the high-margin semiconductor field. The ordinary income margin declined 2.2 percentage points to 20.7%.



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)	FY2022		FY2023		Change	
	Result	Ratio	Result	Ratio	Amount	%
Net Sales	48,144	100.0%	46,735	100.0%	-1,408	-2.9%
🟦 Thermal Spray (TOCALO)	36,184	75.2%	33,859	72.4%	-2,324	-6.4%
Semicon & FPD	23,260	48.3%	19,557	41.8%	-3,702	-15.9%
Industrial Parts	3,802	7.9%	4,923	10.5%	1,121	29.5%
Iron & Steel	3,582	7.4%	3,651	7.8%	68	1.9%
Others	5,539	11.6%	5,727	12.3%	187	3.4%
🟩 Other Surface Modif.	2,745	5.6%	3,019	6.5%	273	10.0%
🟧 Domestic Sub.	2,414	5.0%	2,457	5.3%	42	1.8%
🟨 Overseas Sub.	6,622	13.8%	7,257	15.5%	635	9.6%
Royalty Income	177	0.4%	141	0.3%	-35	-20.0%

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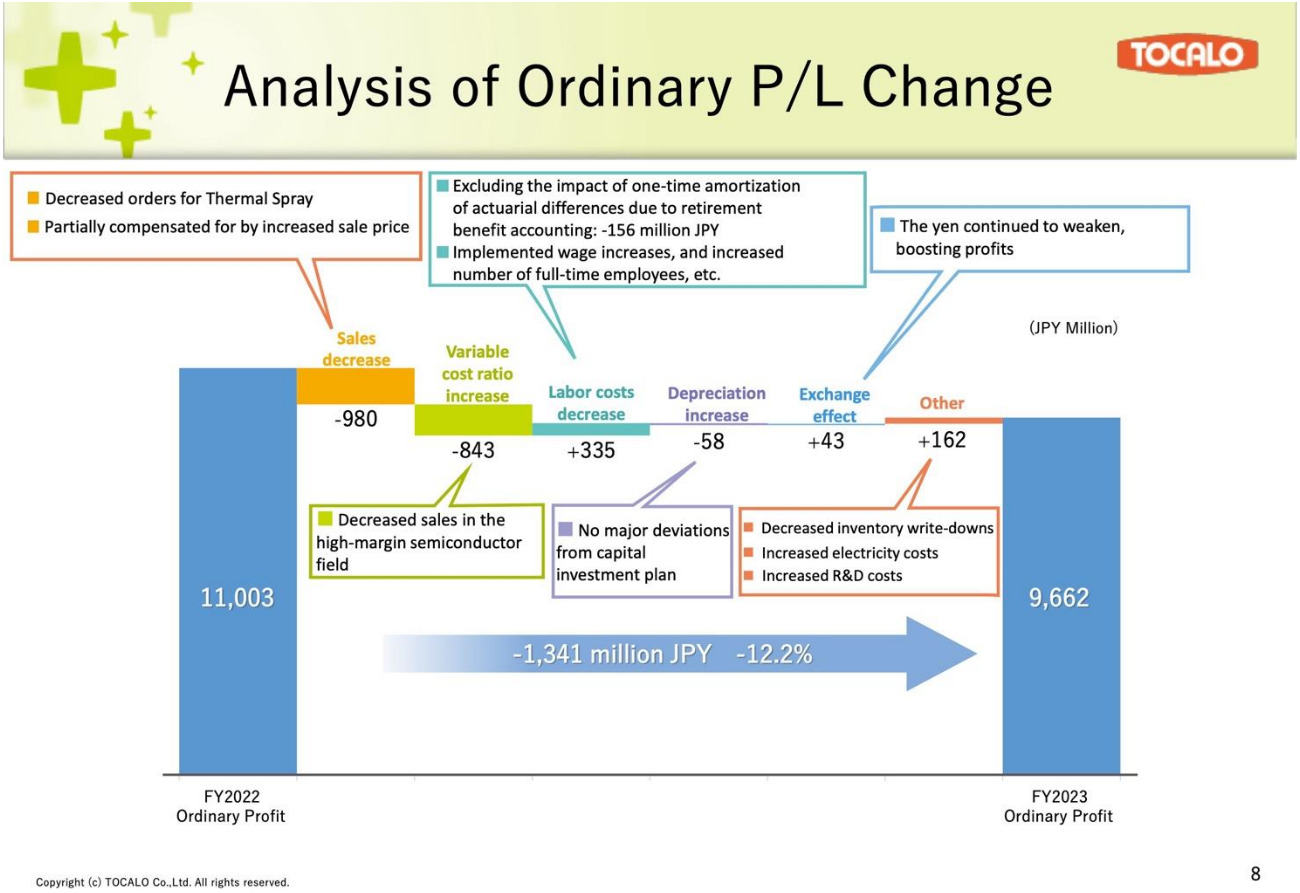
In the largest segment, thermal spray processing, non-consolidated, sales declined due to a large drop in the semiconductor and FPD fields, despite strong sales in the industrial machinery and other fields. Other segments performed well, especially other surface finishing treatment, which saw an increase in sales for agricultural machinery parts.



Analysis of Ordinary P/L Change

- Decreased orders for Thermal Spray
- Partially compensated for by increased sale price

- Excluding the impact of one-time amortization of actuarial differences due to retirement benefit accounting: -156 million JPY
- Implemented wage increases, and increased number of full-time employees, etc.

- The yen continued to weaken, boosting profits

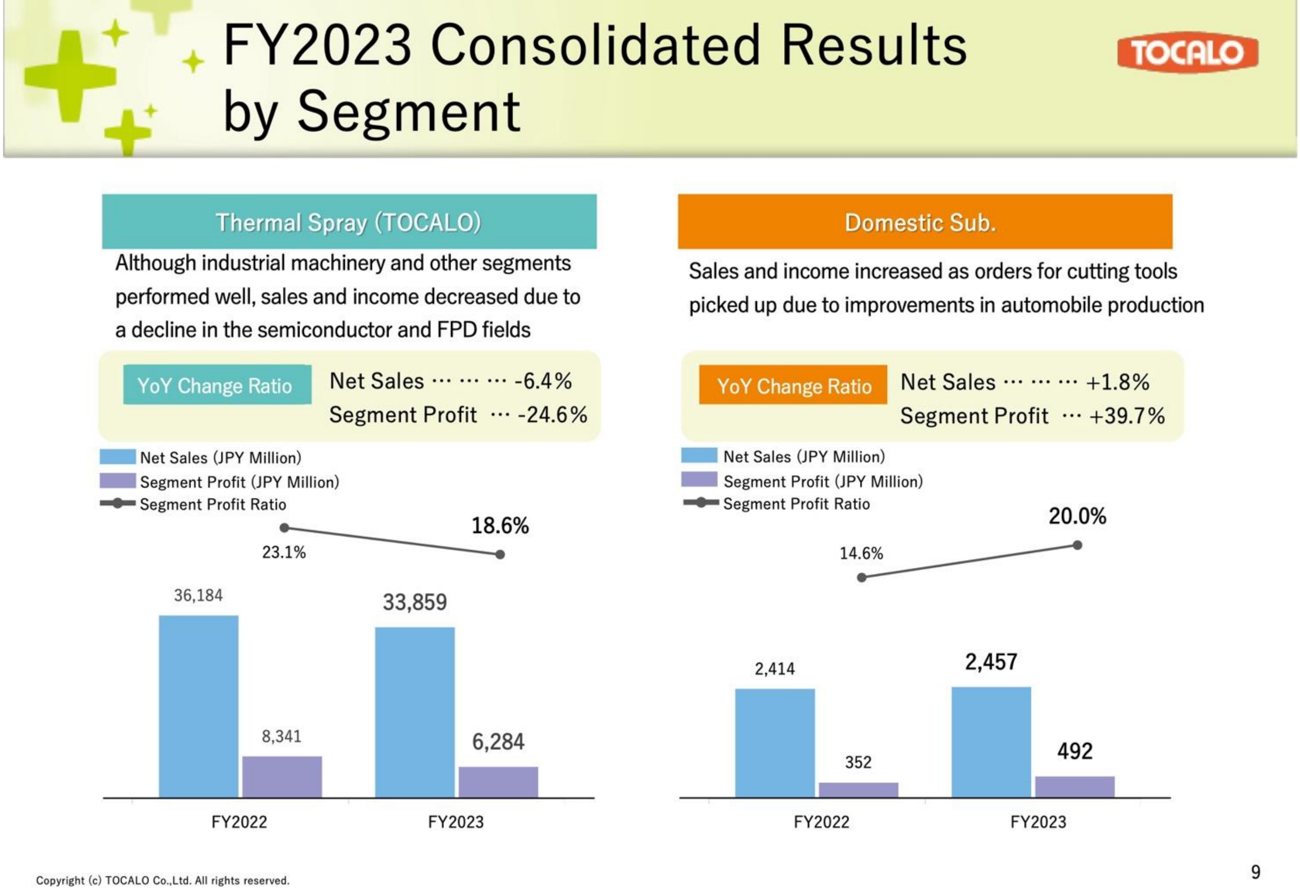
- Decreased sales in the high-margin semiconductor field

- No major deviations from capital investment plan

- Decreased inventory write-downs
- Increased electricity costs
- Increased R&D costs

-1,341 million JPY -12.2%

This is an analysis of the change in ordinary income from the previous year. Ordinary income for the fiscal year ended March 31, 2024, was JPY9.662 billion, down JPY1.341 billion from the previous year, mainly due to lower sales and changes in the sales mix. The decrease of JPY335 million in personnel expenses was due to a reversal of expenses of approximately JPY500 million in the fiscal year ended March 31, 2024, due to an increase in the market value of pension assets and higher interest rates in relation to the Company's lump-sum amortization of actuarial gains and losses in its retirement benefit accounting. Excluding this effect, personnel expenses in real terms increased by JPY156 million.



FY2023 Consolidated Results by Segment

TOCALO

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 … … … -6.4%
Segment Profit … -24.6%

Domestic Sub.

Sales and income increased as orders for cutting tools picked up due to improvements in automobile production

YoY Change Ratio
Net Sales … … … +1.8%
Segment Profit … +39.7%

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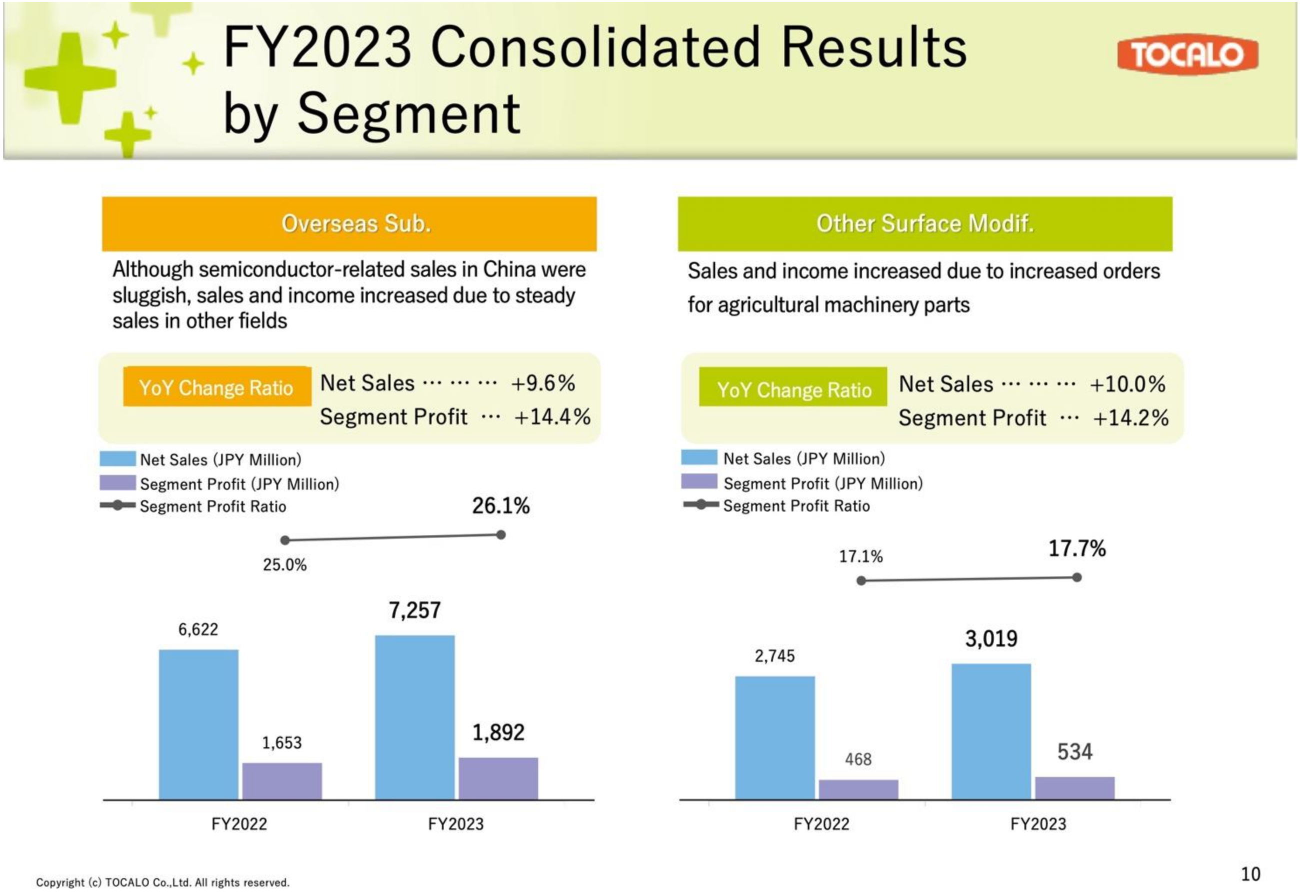
This is a comparison of sales and profit by segment with the previous year. Thermal spray processing, non-consolidated, posted lower sales and profits due to declines in the semiconductor and FPD fields.

Domestic subsidiaries posted increases in both sales and profits as an improvement in automobile production led to a pickup in orders for cutting tools-related products.



FY2023 Consolidated Results by Segment

Overseas Sub.

Although semiconductor-related sales in China were sluggish, sales and income increased due to steady sales in other fields

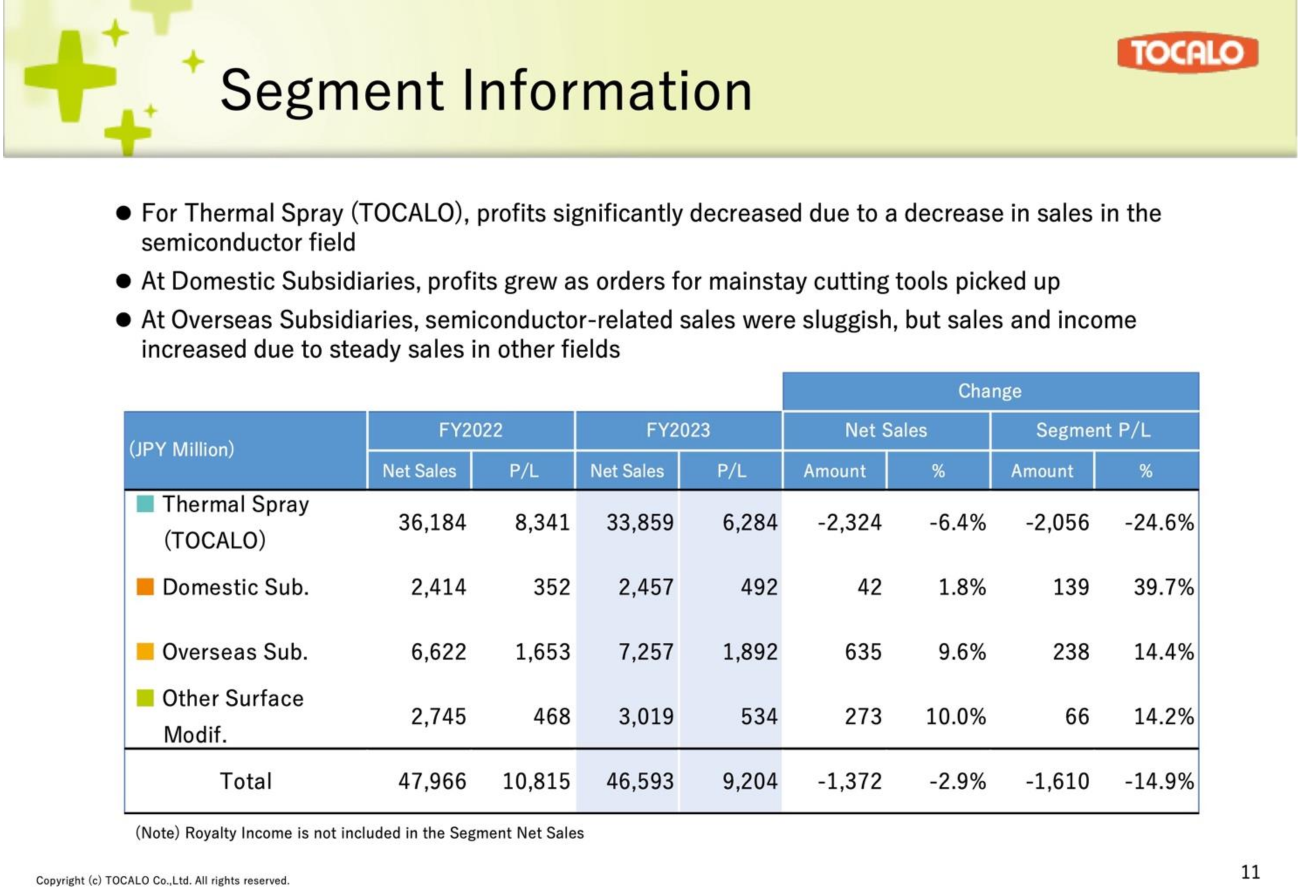
YoY Change Ratio Net Sales ··· ··· ··· +9.6%
Segment Profit ··· +14.4%

Other Surface Modif.

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

YoY Change Ratio Net Sales ··· ··· ··· +10.0%
Segment Profit ··· +14.2%

Overseas subsidiaries posted increases in both sales and income, despite sluggish semiconductor-related sales in China, due to steady growth in other areas. Other surface treatment business recorded an increase in both sales and profit due to an increase in orders for agricultural machinery parts.



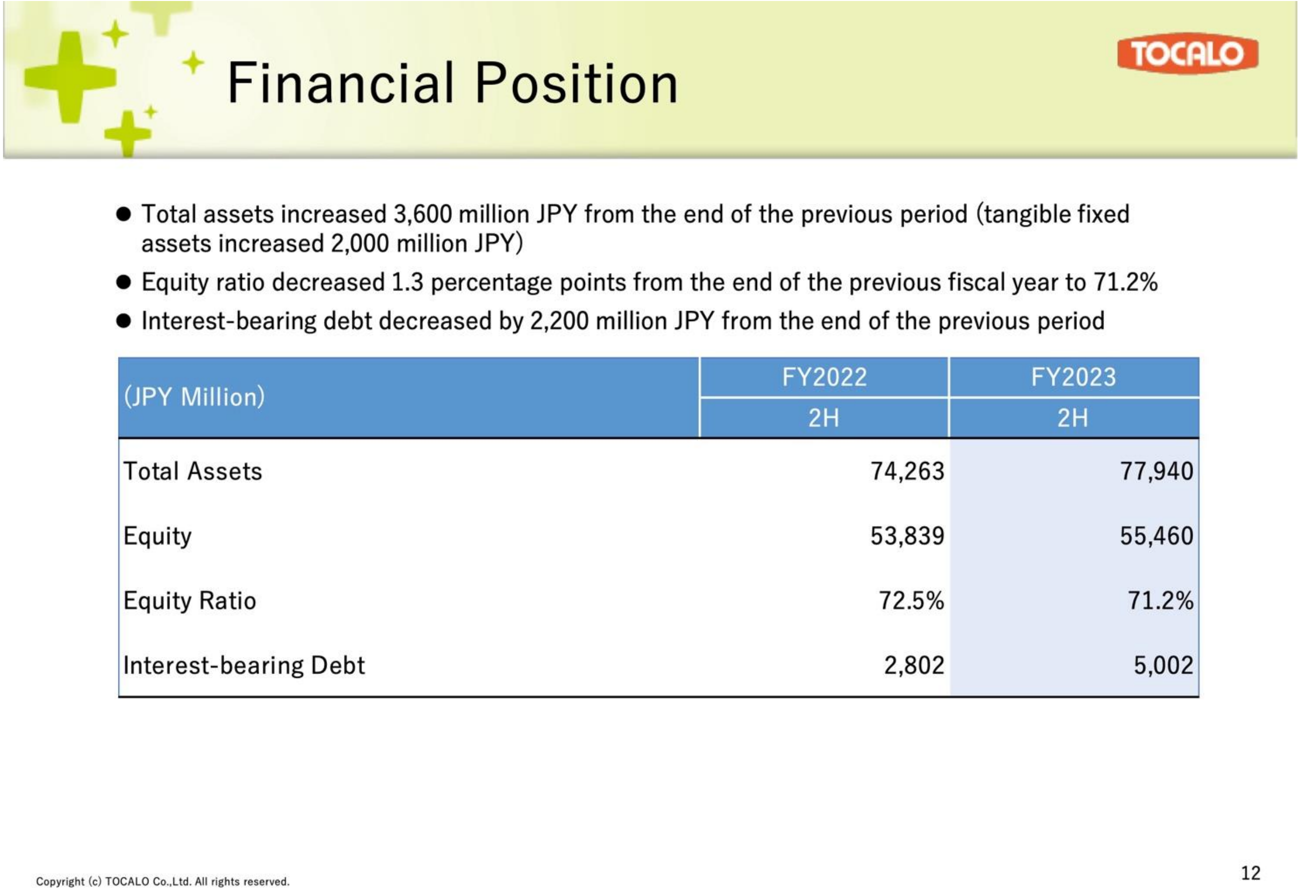
Segment Information

- For Thermal Spray (TOCALO), profits significantly decreased due to a decrease in sales in the semiconductor field
- At Domestic Subsidiaries, profits grew as orders for mainstay cutting tools picked up
- At Overseas Subsidiaries, semiconductor-related sales were sluggish, but sales and income increased due to steady sales in other fields

(JPY Million)	FY2022		FY2023		Change			
					Net Sales		Segment P/L	
	Net Sales	P/L	Net Sales	P/L	Amount	%	Amount	%
🟦 Thermal Spray (TOCALO)	36,184	8,341	33,859	6,284	-2,324	-6.4%	-2,056	-24.6%
🟧 Domestic Sub.	2,414	352	2,457	492	42	1.8%	139	39.7%
🟨 Overseas Sub.	6,622	1,653	7,257	1,892	635	9.6%	238	14.4%
🟩 Other Surface Modif.	2,745	468	3,019	534	273	10.0%	66	14.2%
Total	47,966	10,815	46,593	9,204	-1,372	-2.9%	-1,610	-14.9%

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

The following table lists the YoY comparisons of net sales and income for each segment.

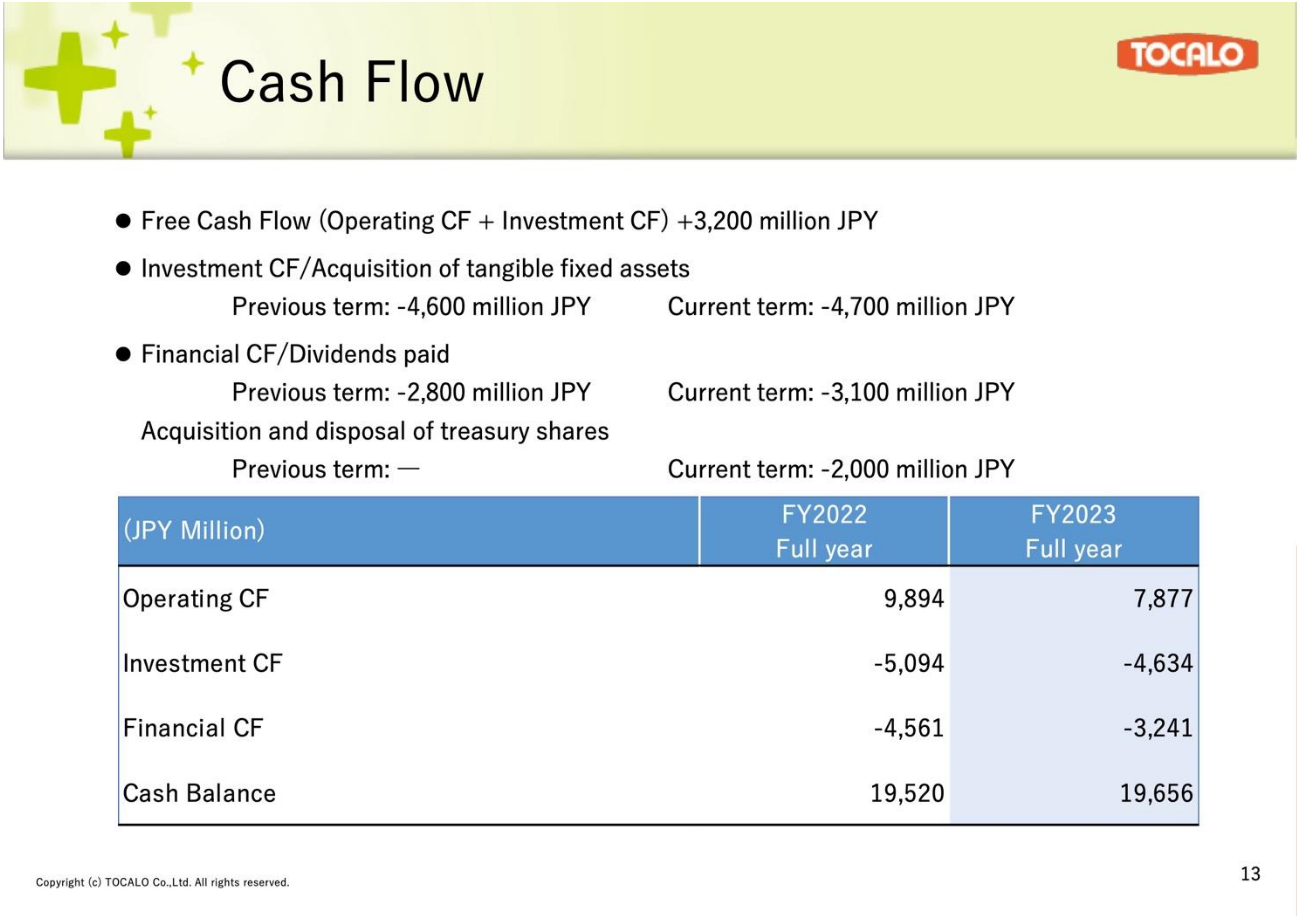


Financial Position

- Total assets increased 3,600 million JPY from the end of the previous period (tangible fixed assets increased 2,000 million JPY)
- Equity ratio decreased 1.3 percentage points from the end of the previous fiscal year to 71.2%
- Interest-bearing debt decreased by 2,200 million JPY from the end of the previous period

(JPY Million)	FY2022	FY2023
	2H	2H
Total Assets	74,263	77,940
Equity	53,839	55,460
Equity Ratio	72.5%	71.2%
Interest-bearing Debt	2,802	5,002

The financial position at the end of the fiscal year ended March 31, 2024. Total assets increased JPY3.6 billion from the end of the previous period, mainly due to an increase in tangible fixed assets. The equity ratio declined 1.3 percentage points from the end of the previous fiscal year to 71.2%. Interest-bearing debt increased JPY2.2 billion from the end of the previous period to JPY5 billion.



Cash Flow

- Free Cash Flow (Operating CF + Investment CF) +3,200 million JPY
- Investment CF/Acquisition of tangible fixed assets

  Previous term: -4,600 million JPY　　Current term: -4,700 million JPY
- Financial CF/Dividends paid

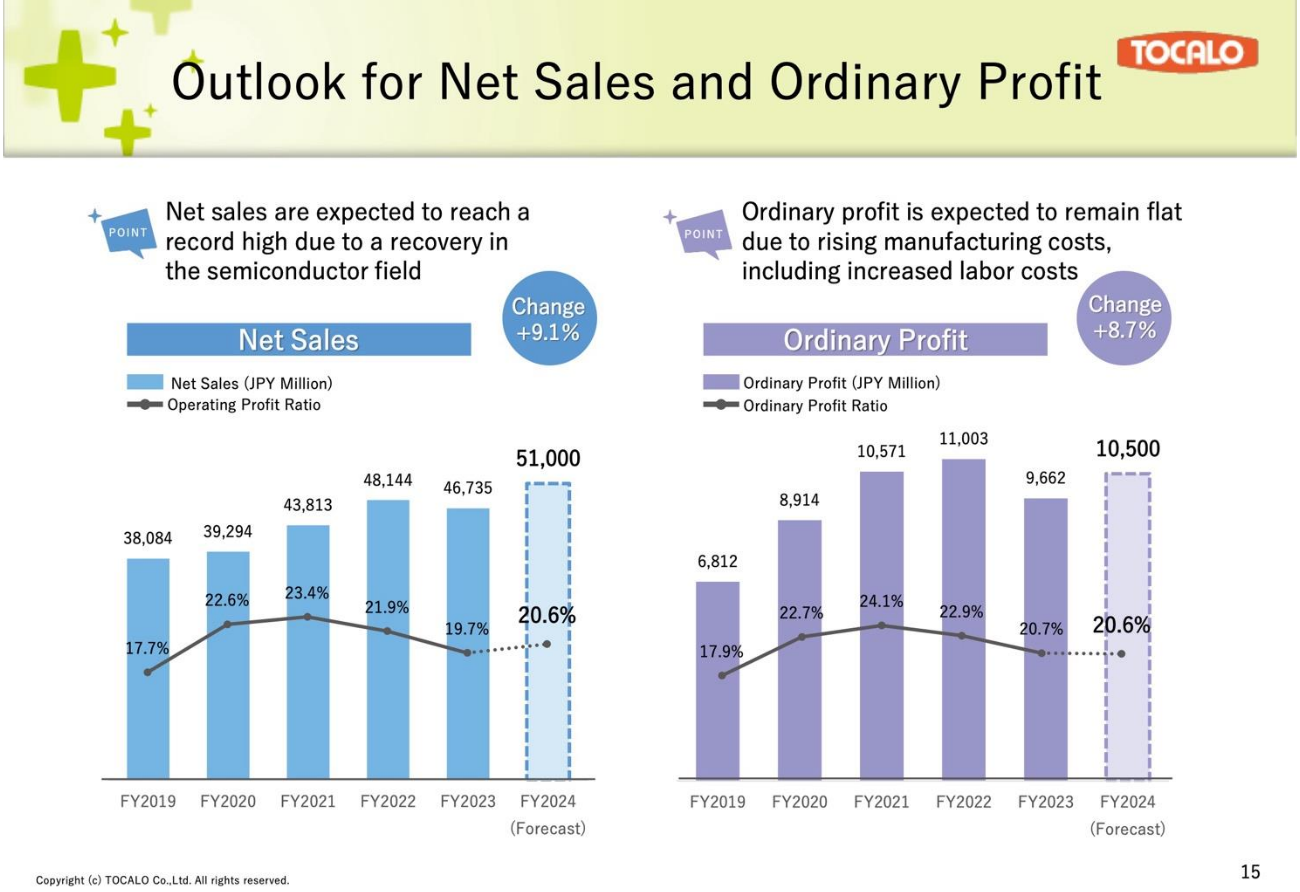
  Previous term: -2,800 million JPY　　Current term: -3,100 million JPY

  Acquisition and disposal of treasury shares

  Previous term: —　　Current term: -2,000 million JPY

(JPY Million)	FY2022 Full year	FY2023 Full year
Operating CF	9,894	7,877
Investment CF	-5,094	-4,634
Financial CF	-4,561	-3,241
Cash Balance	19,520	19,656

This is the cash flow situation for the year ended March 31, 2024. With operating cash flow of JPY7.8 billion and investing cash flow of negative JPY4.6 billion, free cash flow is positive JPY3.2 billion, a healthy situation. Financing cash flow was negative JPY3.2 billion, due to net of dividends and share buybacks and increased borrowings. As a result, there was little change in cash for the year ended March 31, 2024. So, the cash balance at the end of the period was JPY19.6 billion, unchanged from the previous period.



Outlook for Net Sales and Ordinary Profit

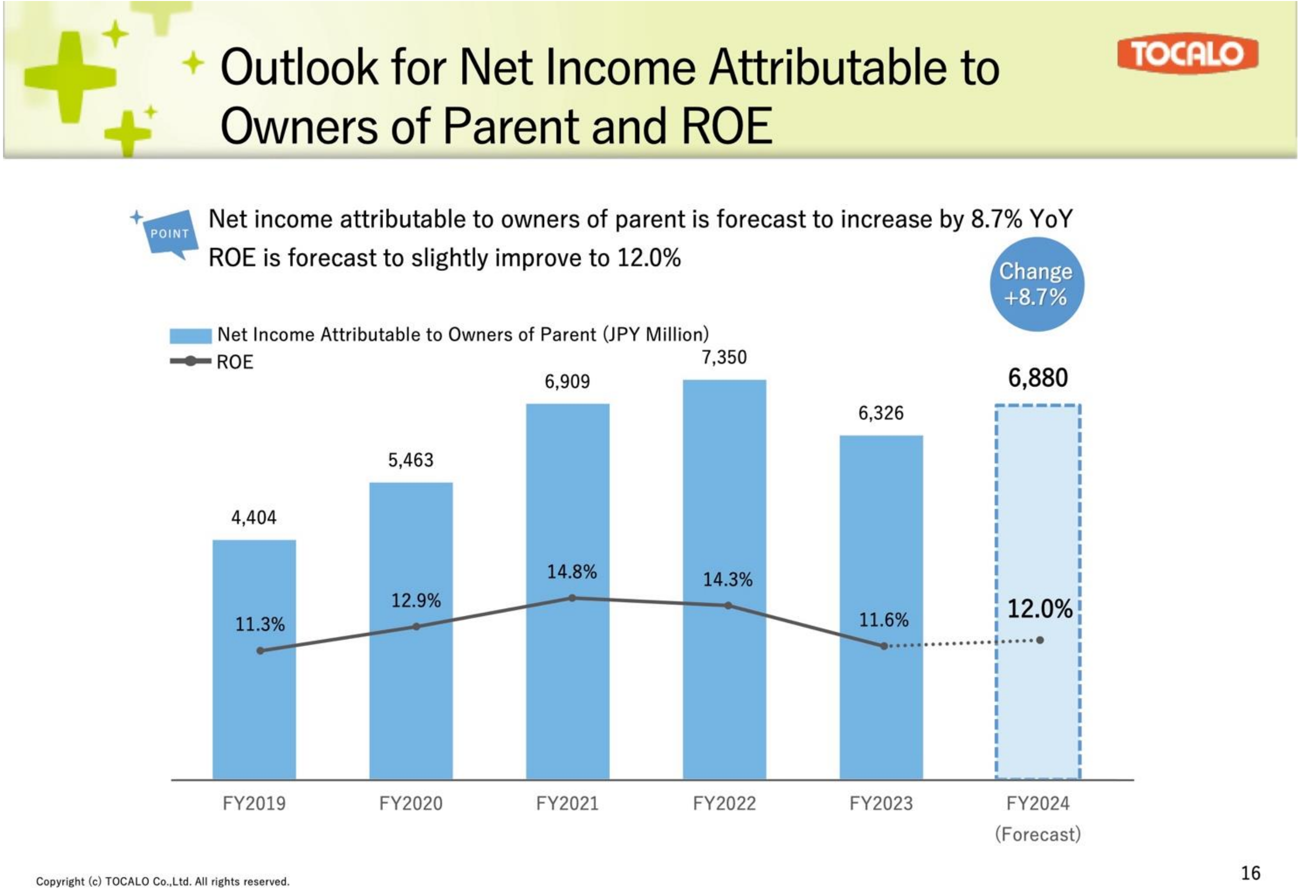
TOCALO

POINT Net sales are expected to reach a record high due to a recovery in the semiconductor field

POINT Ordinary profit is expected to remain flat due to rising manufacturing costs, including increased labor costs

I would like to explain the consolidated earnings forecast for the fiscal year ending March 31, 2025. For the fiscal year ending March 31, 2025, we forecast sales of JPY51 billion, operating income of JPY10.5 billion, and ordinary income of JPY10.5 billion. Sales are expected to reach a record high due to the recovery in the semiconductor field.

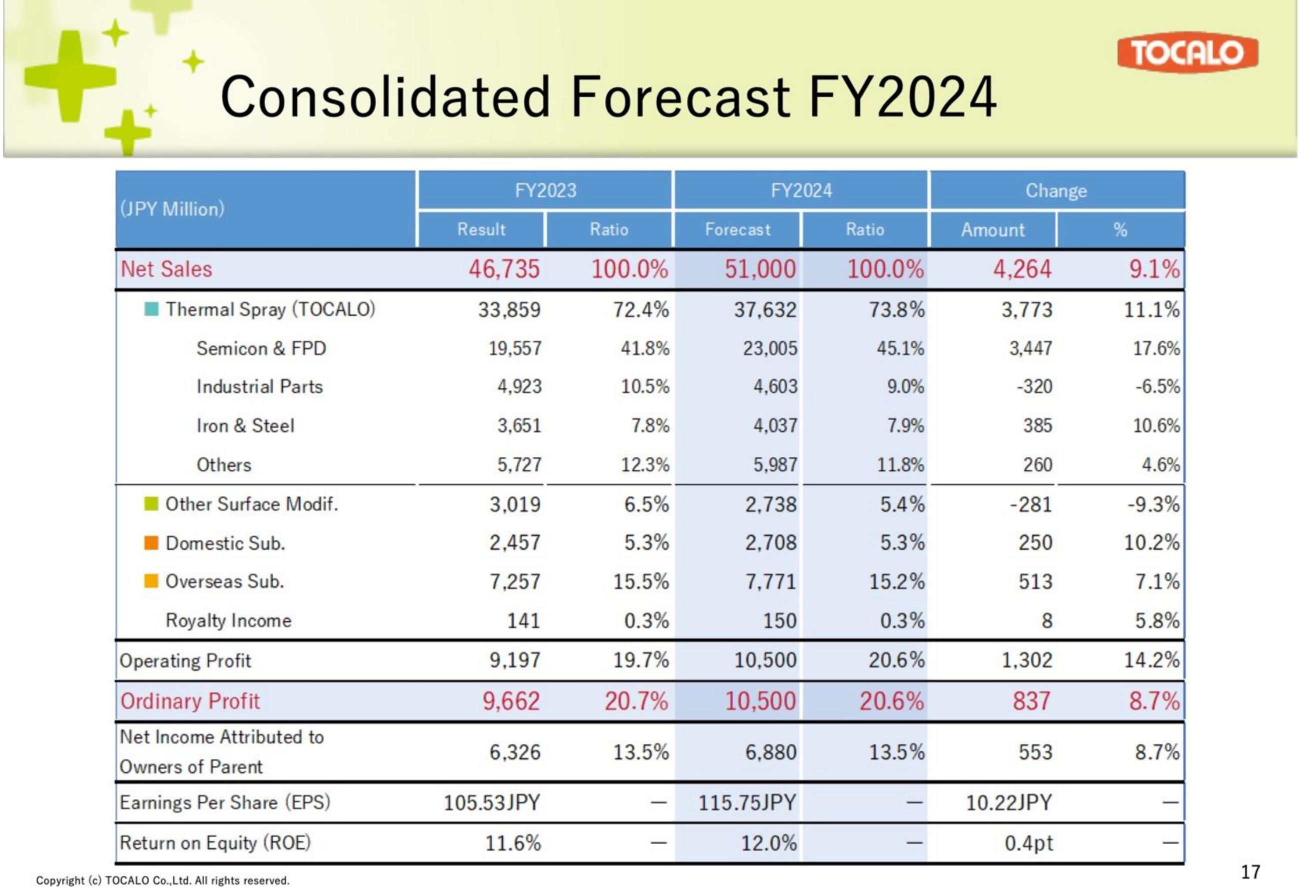
The ordinary income margin is expected to remain flat due to higher manufacturing costs, including increased labor costs.



Outlook for Net Income Attributable to Owners of Parent and ROE

POINT Net income attributable to owners of parent is forecast to increase by 8.7% YoY
ROE is forecast to slightly improve to 12.0%

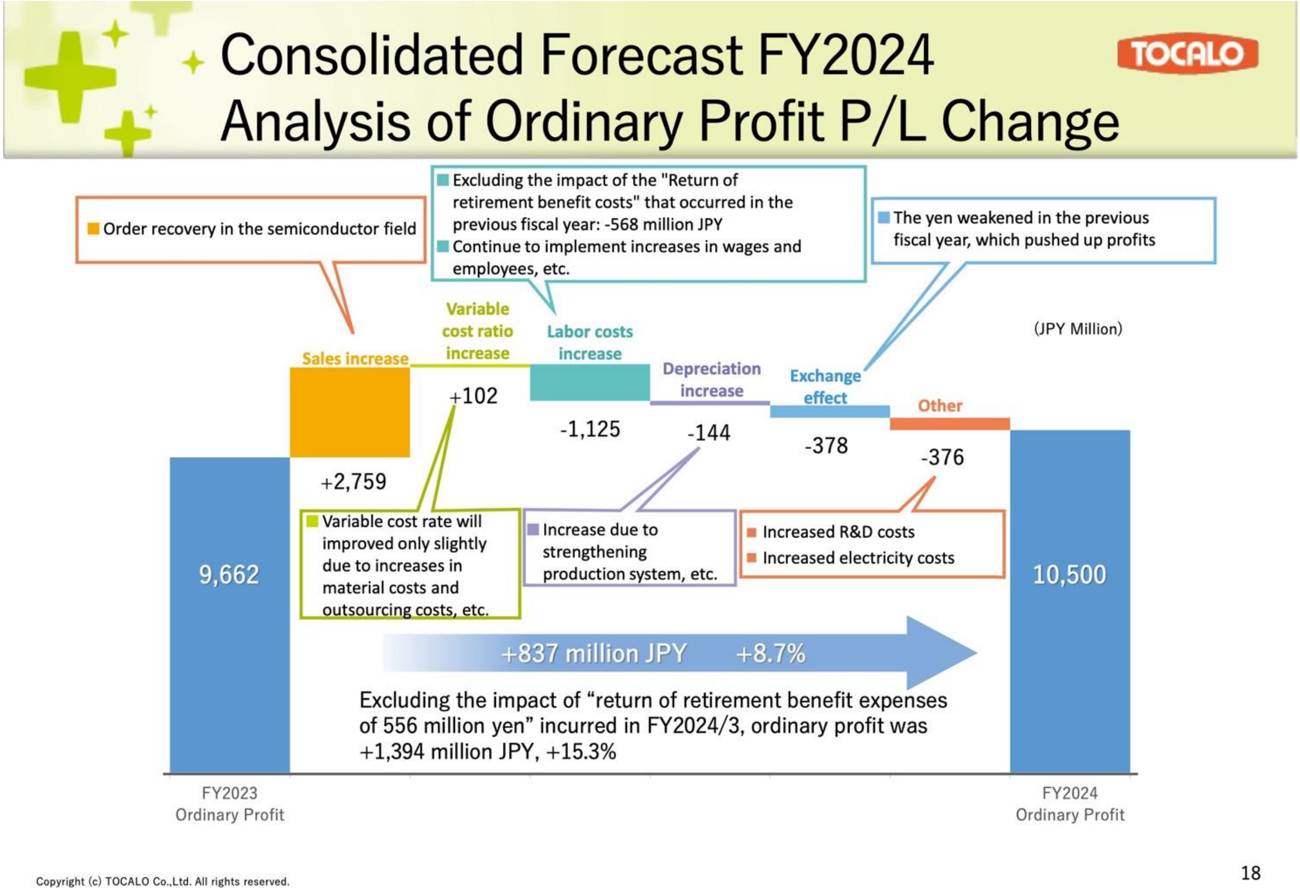
Net income attributable to shareholders of the parent company is expected to increase by 8.7% YoY to JPY6.8 billion, while ROE is expected to improve only slightly to 12%. Aggressive capital investment is expected in the current fiscal year and beyond. We will continue to consider share buybacks while keeping a close eye on the progress of our business performance.



Consolidated Forecast FY2024

(JPY Million)	FY2023		FY2024		Change	
	Result	Ratio	Forecast	Ratio	Amount	%
Net Sales	46,735	100.0%	51,000	100.0%	4,264	9.1%
🟦 Thermal Spray (TOCALO)	33,859	72.4%	37,632	73.8%	3,773	11.1%
Semicon & FPD	19,557	41.8%	23,005	45.1%	3,447	17.6%
Industrial Parts	4,923	10.5%	4,603	9.0%	-320	-6.5%
Iron & Steel	3,651	7.8%	4,037	7.9%	385	10.6%
Others	5,727	12.3%	5,987	11.8%	260	4.6%
🟩 Other Surface Modif.	3,019	6.5%	2,738	5.4%	-281	-9.3%
🟧 Domestic Sub.	2,457	5.3%	2,708	5.3%	250	10.2%
🟨 Overseas Sub.	7,257	15.5%	7,771	15.2%	513	7.1%
Royalty Income	141	0.3%	150	0.3%	8	5.8%
Operating Profit	9,197	19.7%	10,500	20.6%	1,302	14.2%
Ordinary Profit	9,662	20.7%	10,500	20.6%	837	8.7%
Net Income Attributed to Owners of Parent	6,326	13.5%	6,880	13.5%	553	8.7%
Earnings Per Share (EPS)	105.53JPY	—	115.75JPY	—	10.22JPY	—
Return on Equity (ROE)	11.6%	—	12.0%	—	0.4pt	—

Comparison table with the previous year's results. The sales forecast is up JPY4.2 billion from the previous year, mainly due to a JPY3.4 billion increase in sales in the semiconductor and FPD fields. The semiconductor and FPD sectors account for 45% of sales. The ordinary income forecast is JPY10.5 billion, JPY0.8 billion higher than the previous year, and the ordinary income margin will be 20.6%. One reason for the flat recurring profit margin is the return of approximately JPY500 million in retirement benefit accounting expenses incurred in the previous fiscal year.



Consolidated Forecast FY2024 Analysis of Ordinary Profit P/L Change

TOCALO

- Order recovery in the semiconductor field
- Excluding the impact of the "Return of retirement benefit costs" that occurred in the previous fiscal year: -568 million JPY
- Continue to implement increases in wages and employees, etc.
- The yen weakened in the previous fiscal year, which pushed up profits
- Variable cost rate will improved only slightly due to increases in material costs and outsourcing costs, etc.
- Increase due to strengthening production system, etc.
- Increased R&D costs
- Increased electricity costs

+837 million JPY +8.7%

Excluding the impact of “return of retirement benefit expenses of 556 million yen” incurred in FY2024/3, ordinary profit was +1,394 million JPY, +15.3%

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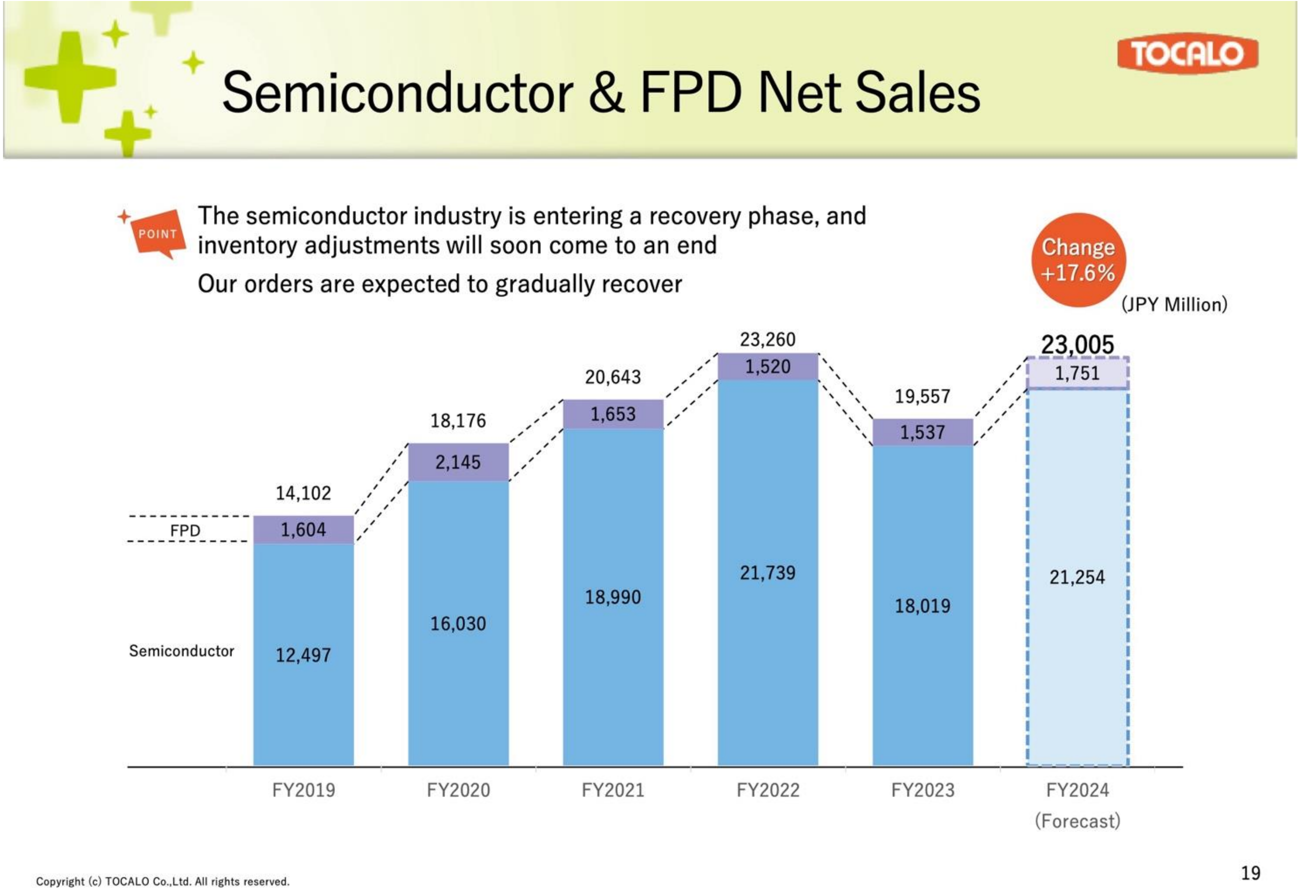
This is an analysis of the YoY change in ordinary income forecast for the fiscal year ending March 31, 2025. The main positive factor is the increase in sales, especially in the semiconductor field. As for negative factors, the increase in personnel expenses of JPY1.125 billion appears to be a major factor, but the actual increase in personnel expenses is expected to be JPY568 million, including JPY556 million in return for retirement benefit expenses incurred in the previous fiscal year.

In short, the previous year's ordinary income includes JPY556 million in return for retirement benefit expenses, and excluding this, the previous year's ordinary income was actually about JPY9.1 billion. Therefore, if we look at ordinary income of JPY10.5 billion for the current fiscal year, we see an increase of JPY1.394 billion, or 15.3%, over the previous year.

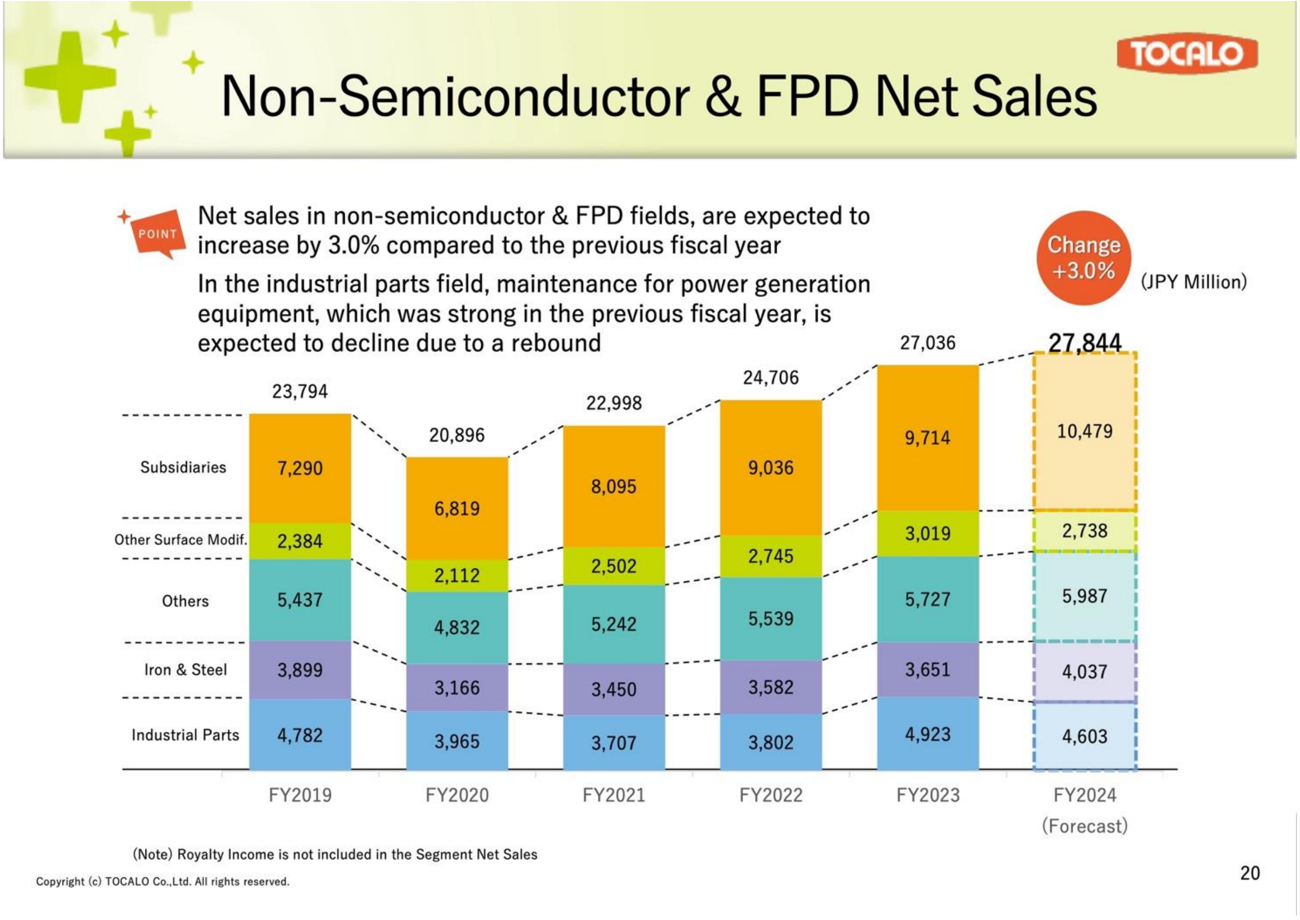


Semiconductor & FPD Net Sales

The semiconductor industry is entering a recovery phase, and inventory adjustments will soon come to an end

Our orders are expected to gradually recover

Sales trends in the semiconductor and FPD fields. The forecast for the fiscal year ending March 31, 2025, is JPY23 billion, of which JPY21.2 billion is for semiconductors and JPY1.7 billion is for FPDs. The semiconductor industry is entering a recovery phase, and we expect inventories to clear out soon, which will lead to a gradual recovery in our orders.



Non-Semiconductor & FPD Net Sales

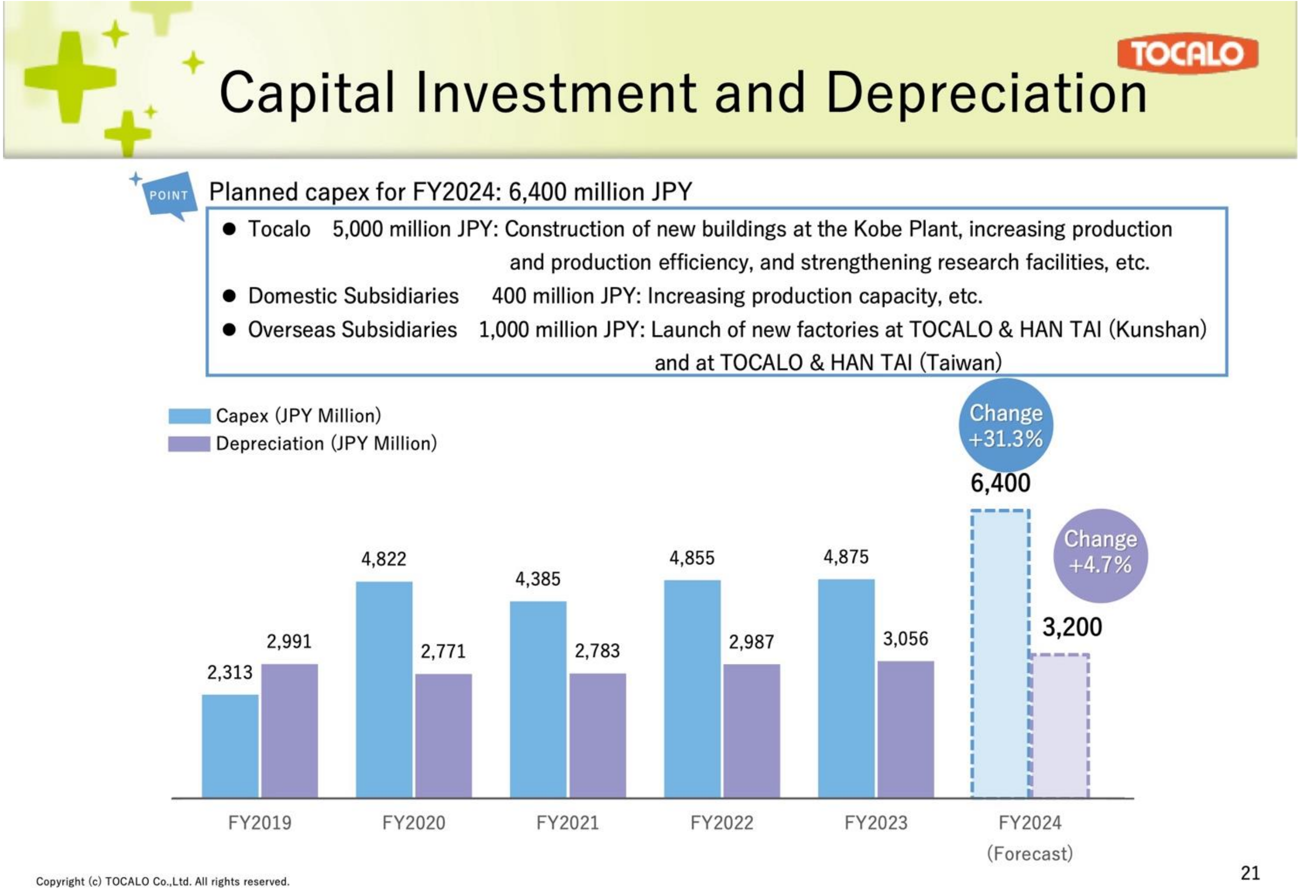
POINT

Net sales in non-semiconductor & FPD fields, are expected to increase by 3.0% compared to the previous fiscal year

In the industrial parts field, maintenance for power generation equipment, which was strong in the previous fiscal year, is expected to decline due to a rebound

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

Sales trends outside the semiconductor and FPD fields. The forecast for the fiscal year ending March 31, 2025, is JPY27.8 billion, a 3% increase from the previous year's JPY27 billion. In the industrial machinery field, maintenance for power generation facilities, which was strong in the previous fiscal year, is less planned for this fiscal year, resulting in lower sales. As for other surface treatments, sales of processing for agricultural machinery parts will decrease due to inventory adjustments by customers.



Capital Investment and Depreciation

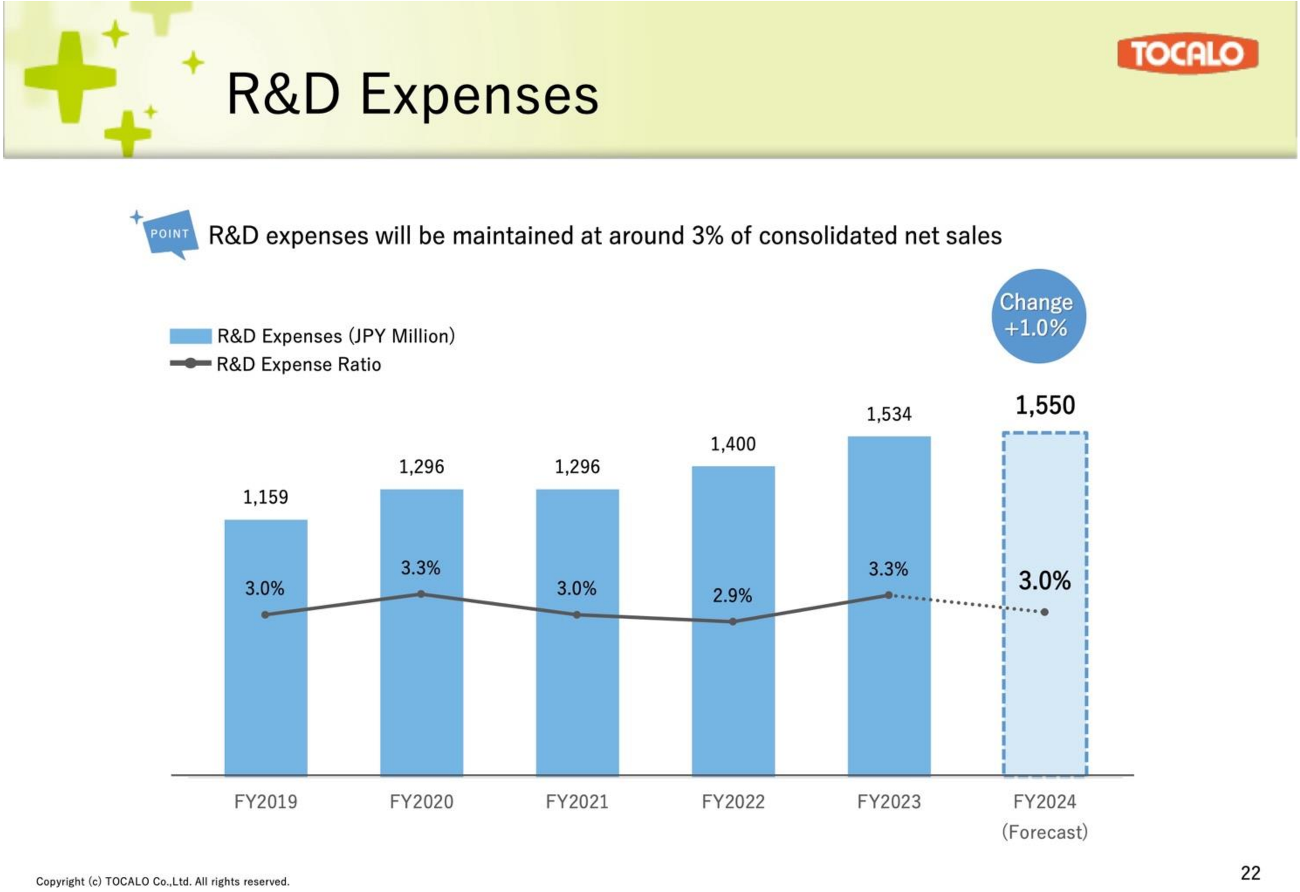
POINT Planned capex for FY2024: 6,400 million JPY

- Tocalo 5,000 million JPY: Construction of new buildings at the Kobe Plant, increasing production and production efficiency, and strengthening research facilities, etc.
- Domestic Subsidiaries 400 million JPY: Increasing production capacity, etc.
- Overseas Subsidiaries 1,000 million JPY: Launch of new factories at TOCALO & HAN TAI (Kunshan) and at TOCALO & HAN TAI (Taiwan)

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 (Forecast)
Capex (JPY Million)	2,313	4,822	4,385	4,855	4,875	6,400
Depreciation (JPY Million)	2,991	2,771	2,783	2,987	3,056	3,200

Capital expenditures and depreciation. For the fiscal year ending March 31, 2025, we expect capital expenditures of JPY6.4 billion and depreciation expenses of JPY3.2 billion.

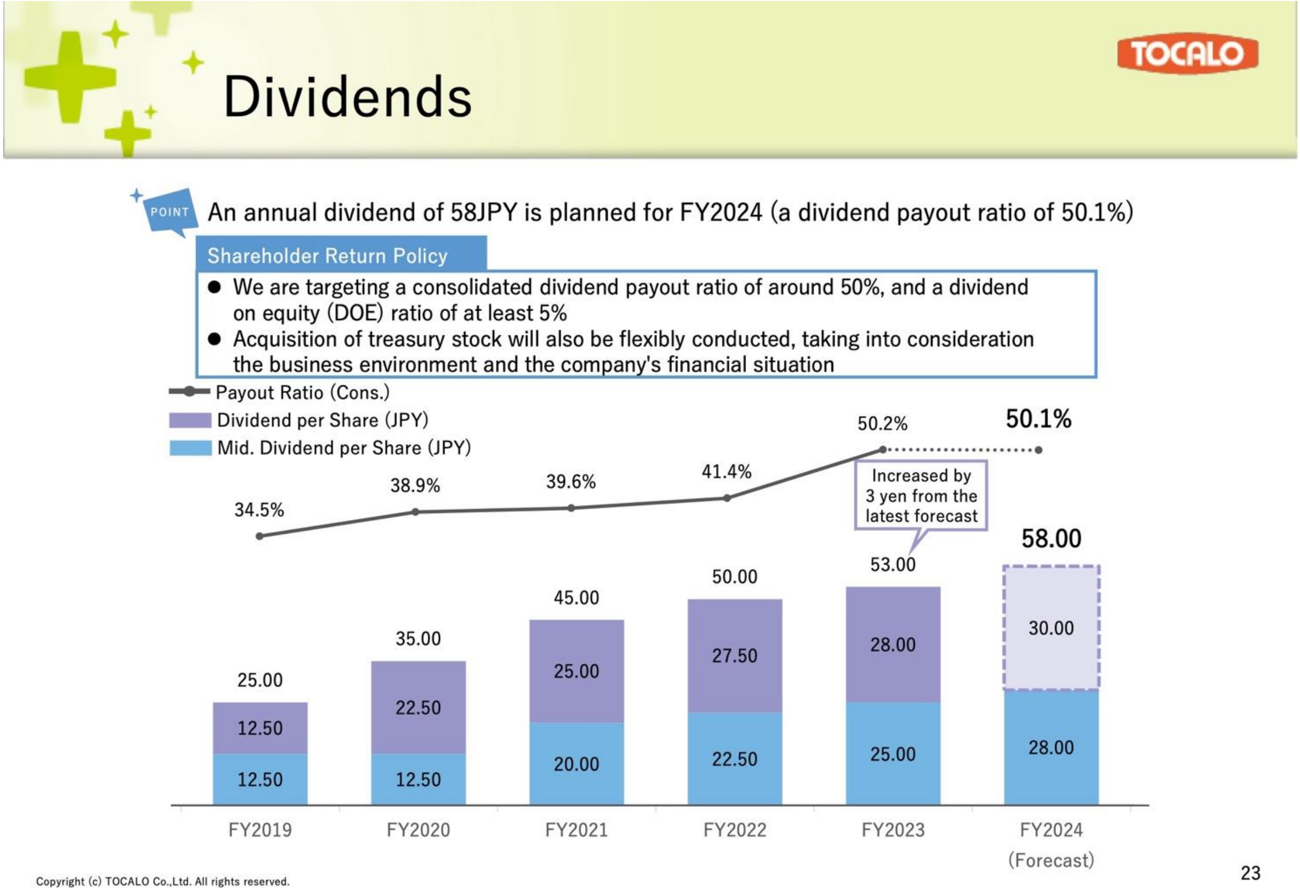
On a non-consolidated basis, TOCALO plans to invest a total of JPY5 billion in the construction of a new building at its Kobe Plant, as well as in capital expenditures to increase production and improve production efficiency, mainly in the semiconductor field. In our overseas subsidiaries, we plan to invest JPY1 billion in facilities for the launch of new plants in Kunshan, China and Taiwan.



R&D Expenses

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

Research and development expenses. For the fiscal year ending March 31, 2025, we expect R&D expenses to be JPY1.55 billion, or 3% of sales.



Dividends

TOCALO

POINT An annual dividend of 58JPY is planned for FY2024 (a dividend payout ratio of 50.1%)

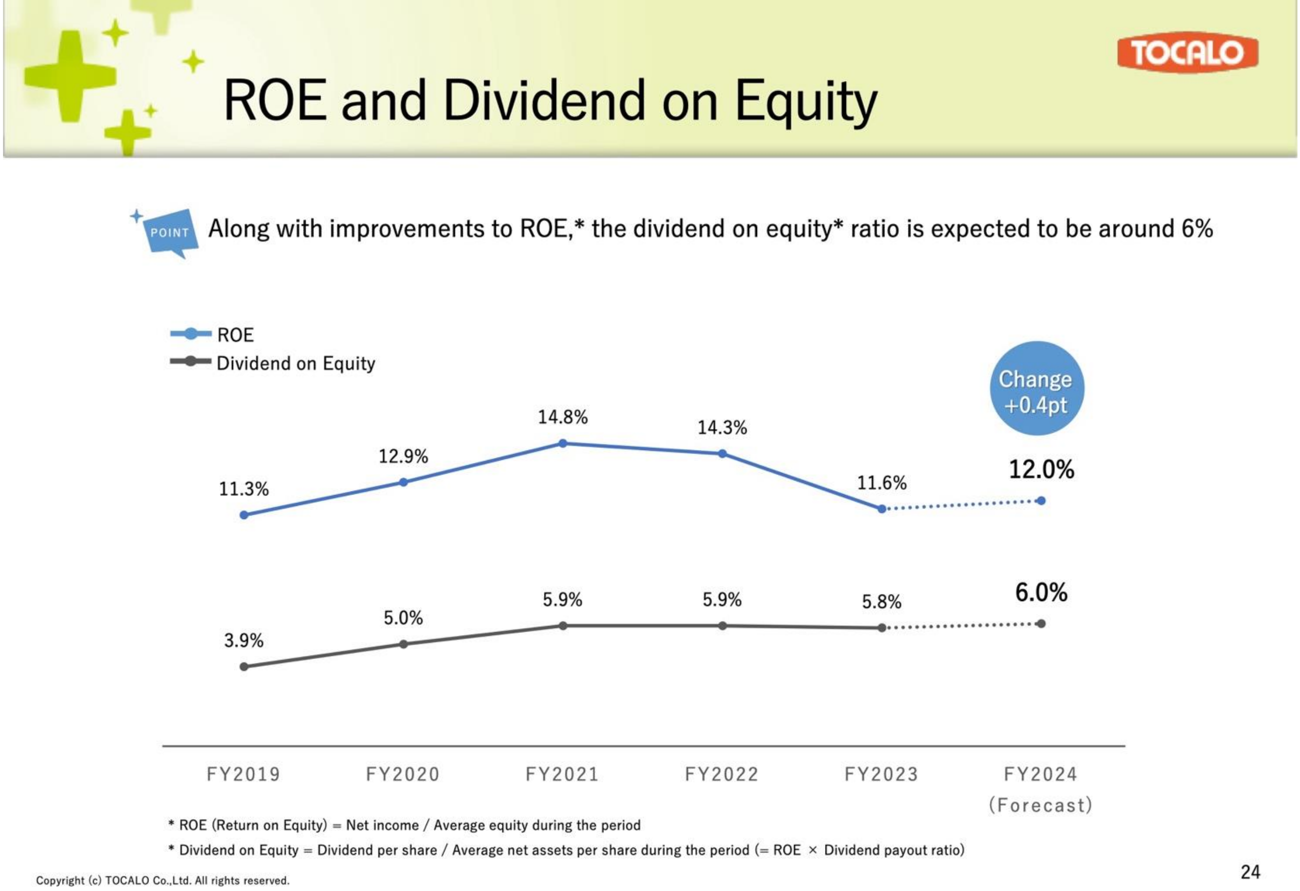
Shareholder Return Policy

- We are targeting a consolidated dividend payout ratio of around 50%, and a dividend on equity (DOE) ratio of at least 5%
- Acquisition of treasury stock will also be flexibly conducted, taking into consideration the business environment and the company's financial situation

Increased by 3 yen from the latest forecast

Dividend amount and dividend payout ratio. For the fiscal year ended March 31, 2024, the year-end dividend will be increased by JPY3 from the latest forecast, bringing the annual dividend to JPY53 per share.

Earnings per share of JPY105.53 and a dividend payout ratio of 50.2% are assumed. The annual dividend for the fiscal year ending March 31, 2025, is expected to be JPY58 per share. Earnings per share forecast is JPY115.75, with a payout ratio of 50.1%.



ROE and Dividend on Equity

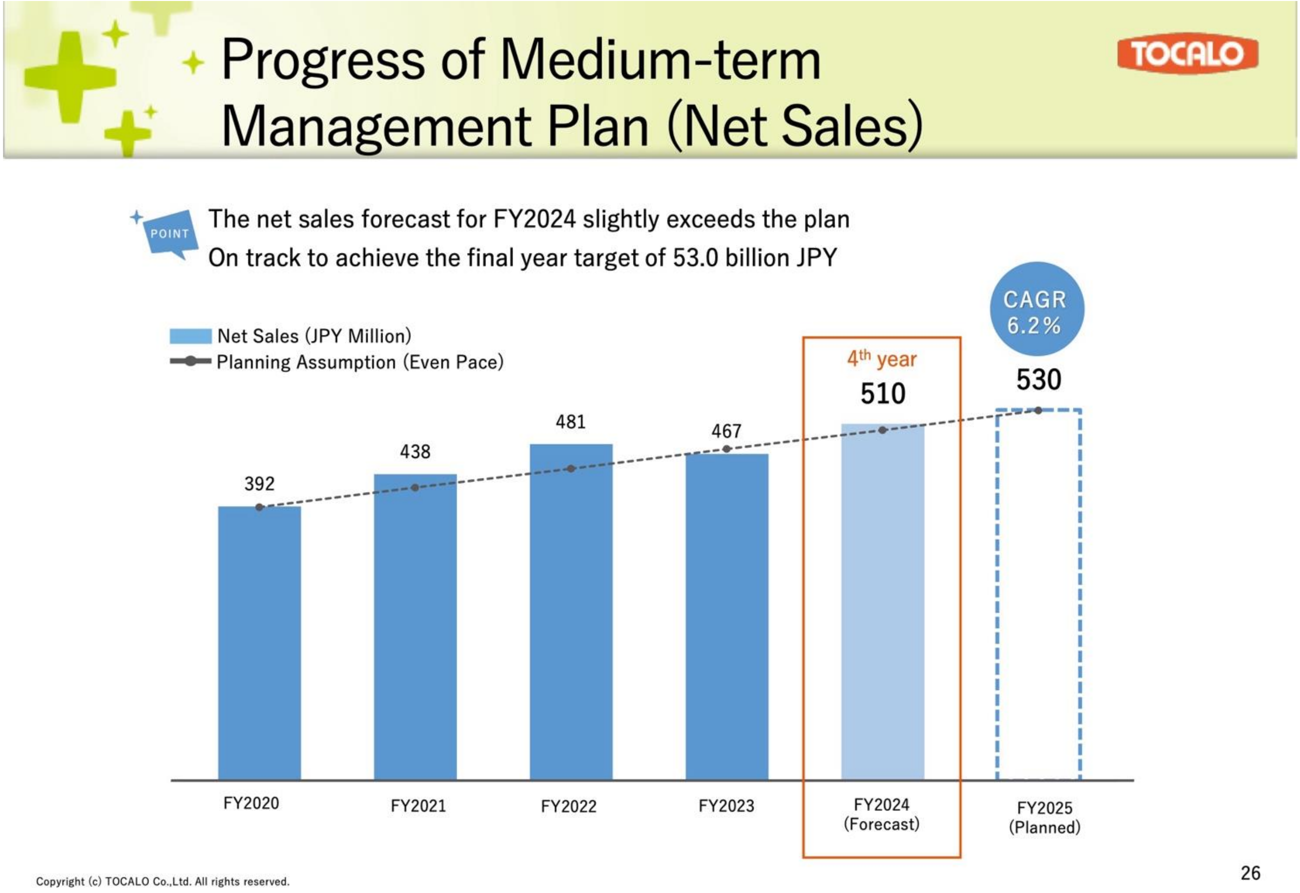
TOCALO

POINT Along with improvements to ROE,* the dividend on equity* ratio is expected to be around 6%

* 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)

ROE and dividend on equity ratio DOE. For the fiscal year ending March 31, 2025, we expect ROE to be 12% and the ratio of dividends on equity around 6%.



Progress of Medium-term Management Plan (Net Sales)

TOCALO

POINT

The net sales forecast for FY2024 slightly exceeds the plan

On track to achieve the final year target of 53.0 billion JPY

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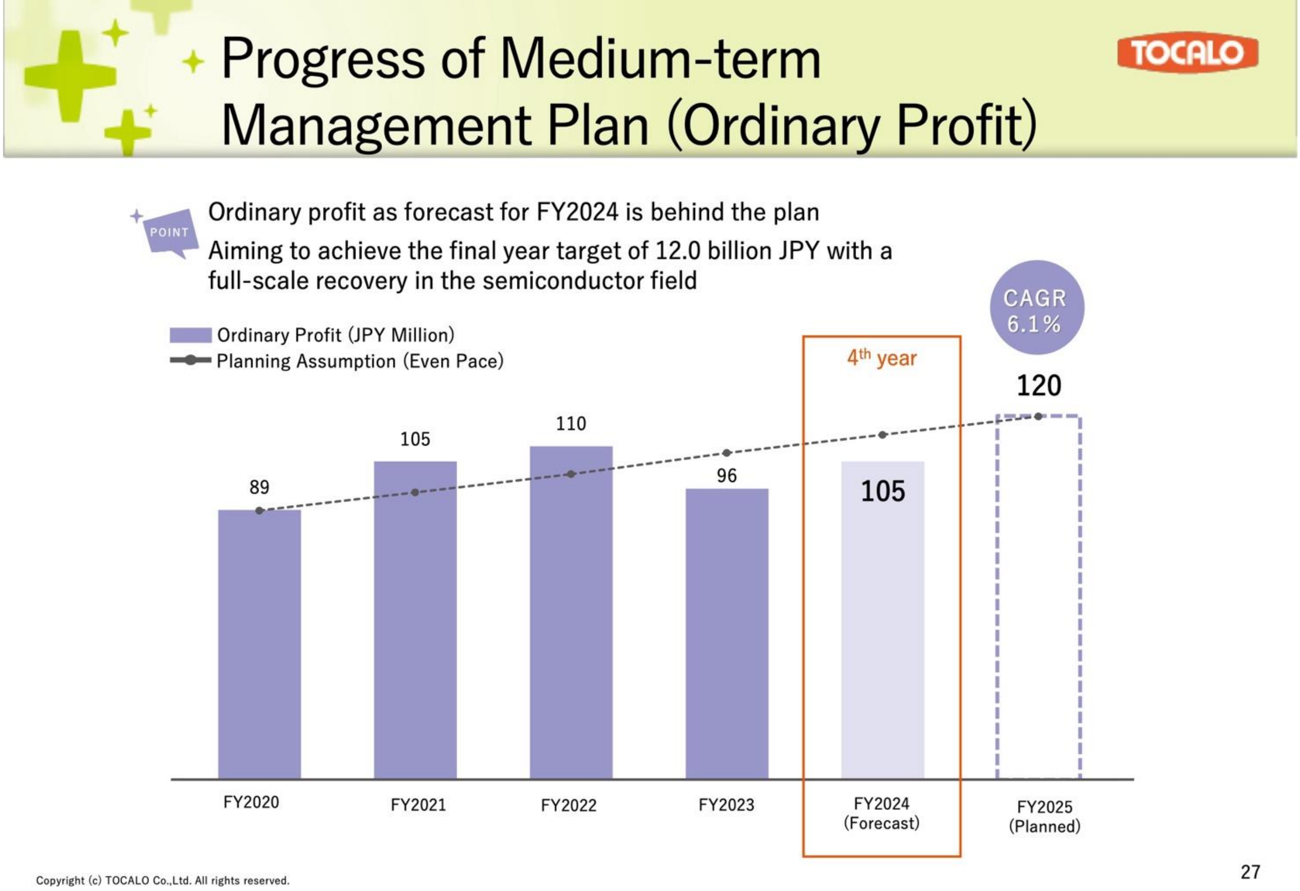
I will then explain the progress of the medium-term management plan. The current fiscal year is the fourth year of the five-year plan. As for progress against the sales target of the medium-term management plan, the forecast of JPY51 billion for the fiscal year ending March 31, 2025, is slightly ahead of the plan. We are on track to achieve our goal of JPY53 billion for the final fiscal year ending March 31, 2026.



Progress of Medium-term Management Plan (Ordinary Profit)

Ordinary profit as forecast for FY2024 is behind the plan

Aiming to achieve the final year target of 12.0 billion JPY with a full-scale recovery in the semiconductor field

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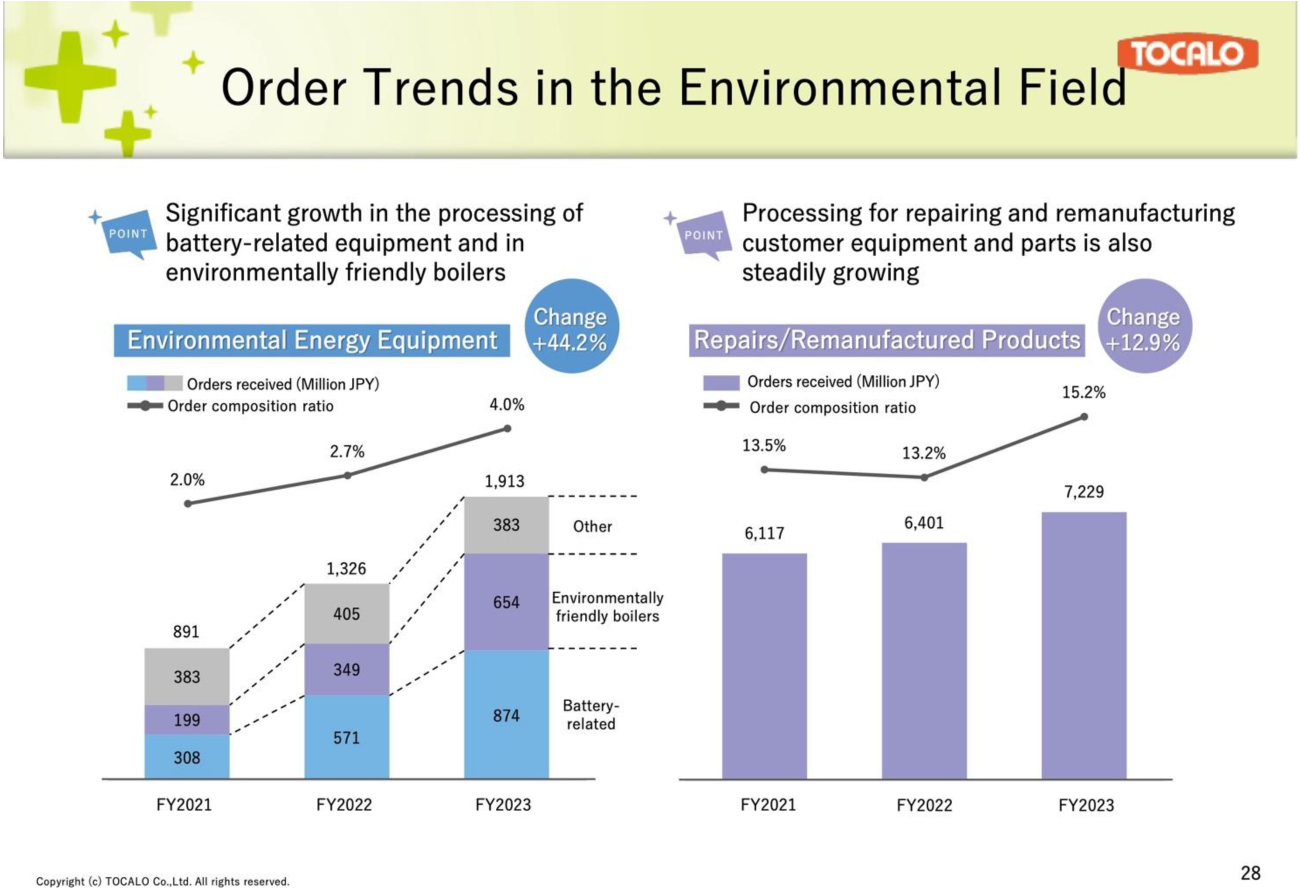
Regarding the progress of ordinary income, the forecast of JPY10.5 billion for the fiscal year ending March 31, 2025, is behind schedule. With a full-fledged recovery in the semiconductor field starting in H2 of the fiscal year, we believe we will be able to achieve our ordinary income target of JPY12 billion for the fiscal year ending March 31, 2026, the final year of the plan.



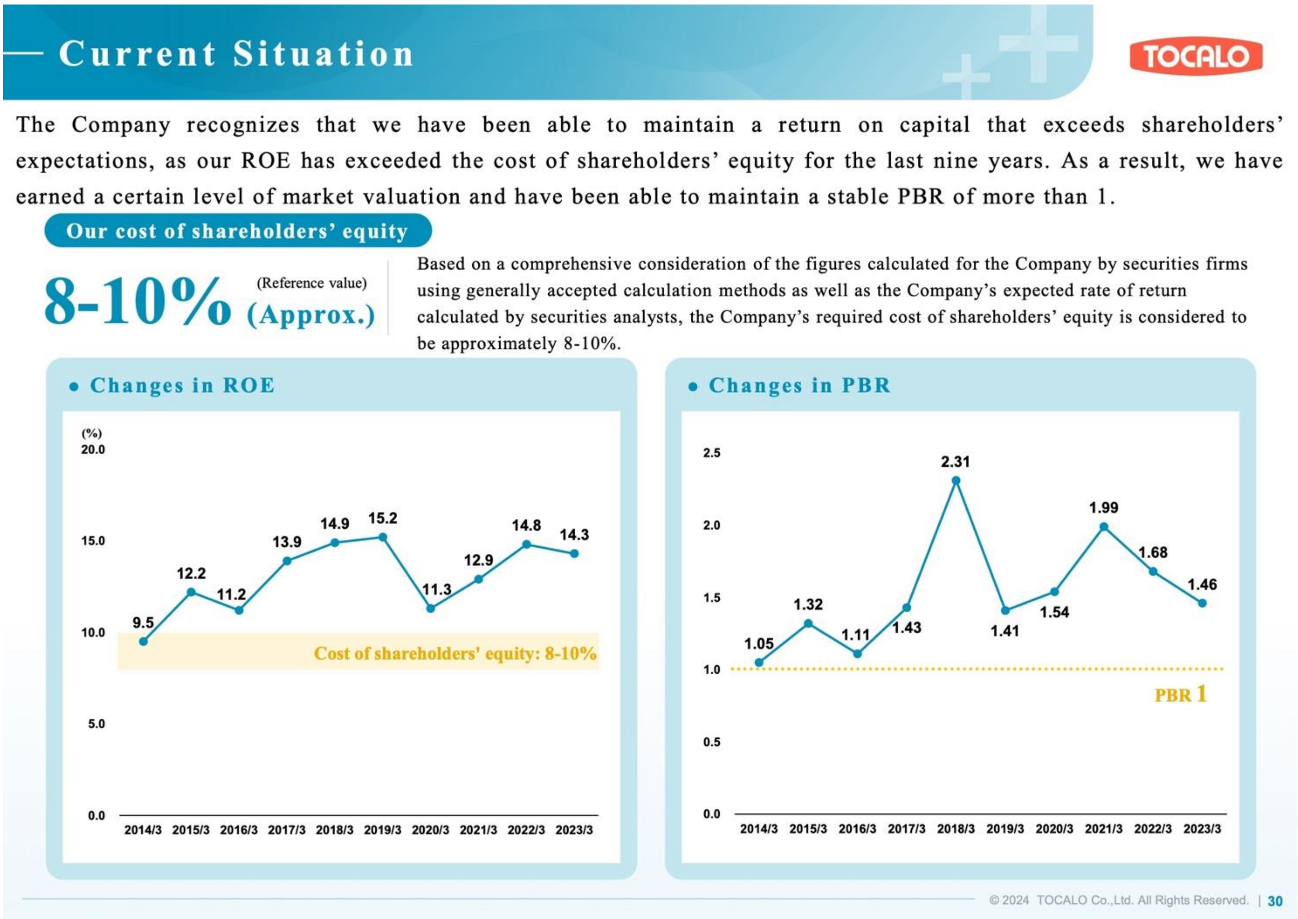
Order Trends in the Environmental Field

POINT Significant growth in the processing of battery-related equipment and in environmentally friendly boilers

POINT Processing for repairing and remanufacturing customer equipment and parts is also steadily growing

We are focusing on the development of coating technologies and publicity for our customers' GHG emission reduction, energy conservation measures, and the spread and efficiency of renewable energy generation. As a KPI, we have set the amount of orders in the environmental field. The left graph shows orders received for environmental energy equipment, and the right graph shows orders received for repair and remanufactured products.

Environmental energy equipment saw significant growth in processing of battery-related equipment and environmentally friendly boilers. Repair and remanufactured products are processed to repair and remanufacture customers' equipment parts, etc., which is also growing steadily.



Current Situation

The Company recognizes that we have been able to maintain a return on capital that exceeds shareholders' expectations, as our ROE has exceeded the cost of shareholders' equity for the last nine years. As a result, we have earned a certain level of market valuation and have been able to maintain a stable PBR of more than 1.

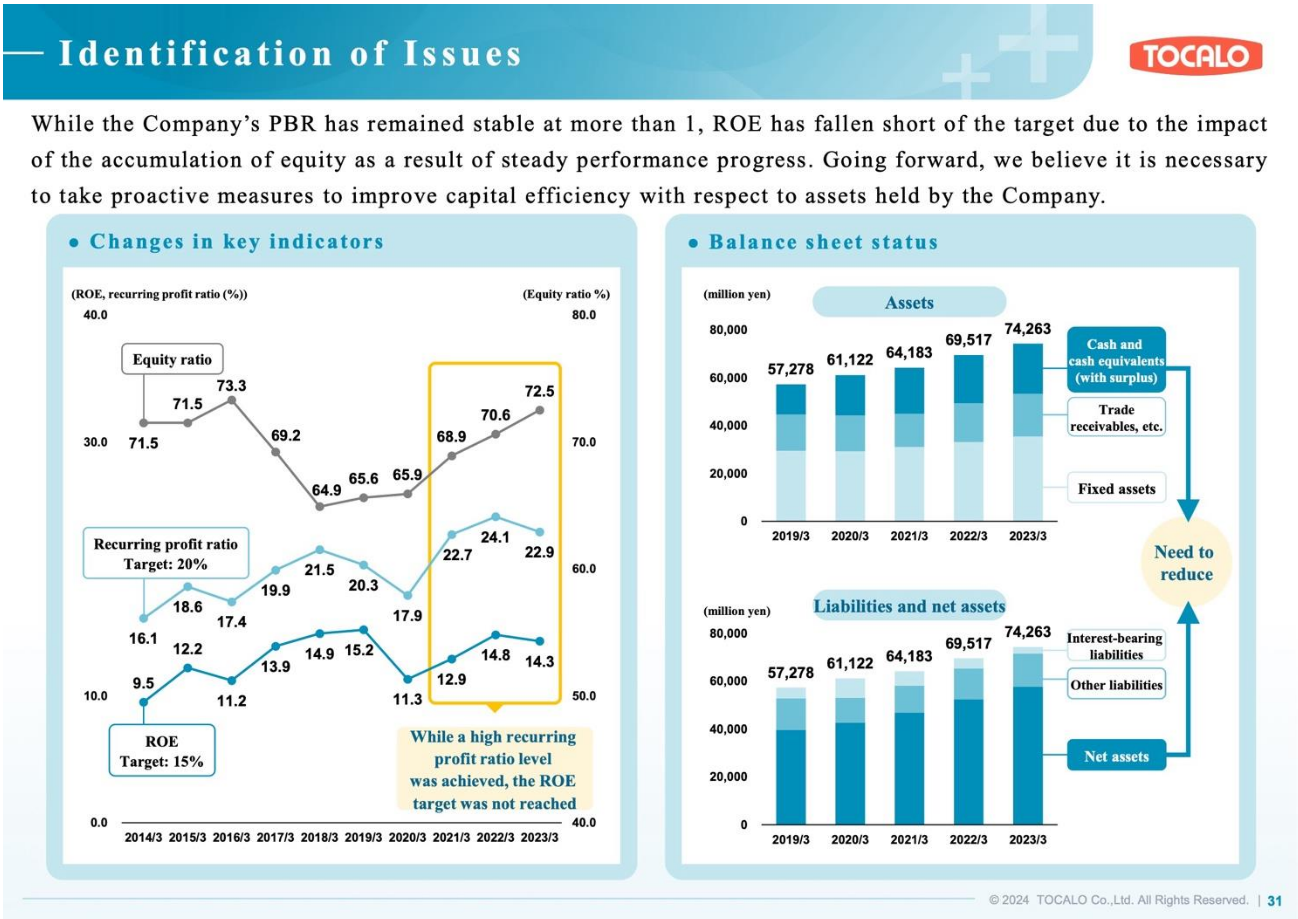
Our cost of shareholders' equity

8-10% (Reference value) **(Approx.)**

Based on a comprehensive consideration of the figures calculated for the Company by securities firms using generally accepted calculation methods as well as the Company's expected rate of return calculated by securities analysts, the Company's required cost of shareholders' equity is considered to be approximately 8-10%.

Finally, I would like to briefly explain the measures we have taken to achieve cost of capital and stock price conscious management as disclosed in March 2024.

We perceive our cost of capital to be in the 8% to 10% range, but our ROE for the past nine years has been above that level, and we believe we have been able to maintain a reasonable return on capital. And the P/B ratio has remained above 1 times.



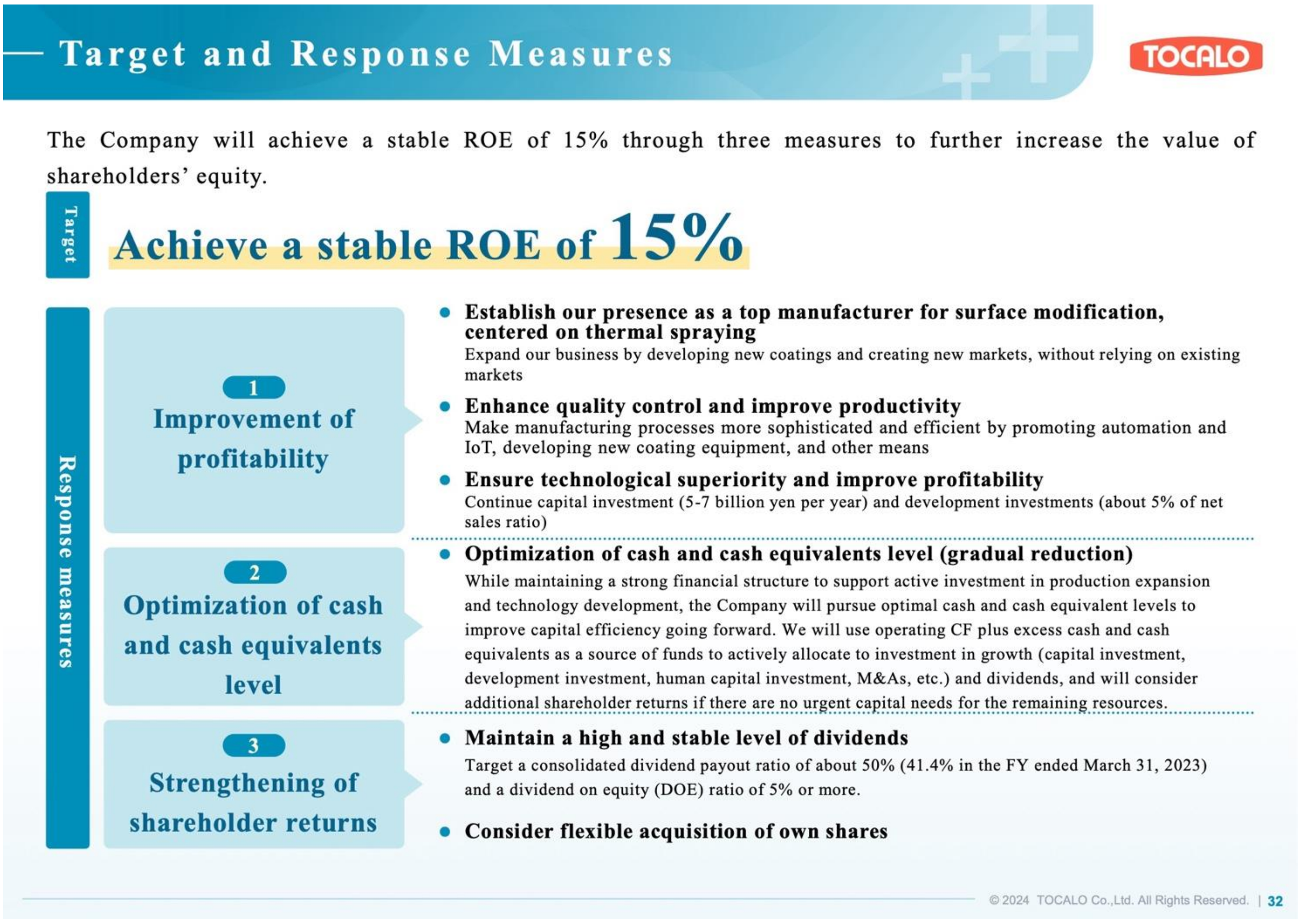
Identification of Issues

While the Company's PBR has remained stable at more than 1, ROE has fallen short of the target due to the impact of the accumulation of equity as a result of steady performance progress. Going forward, we believe it is necessary to take proactive measures to improve capital efficiency with respect to assets held by the Company.

● Changes in key indicators

● Balance sheet status

However, due to the impact of the buildup of equity capital, ROE has not reached the target of 15%, and we will take measures to improve capital efficiency in the future.



Target and Response Measures

TOCALO

The Company will achieve a stable ROE of 15% through three measures to further increase the value of shareholders' equity.

Target

Achieve a stable ROE of 15%

Response measures

1 Improvement of profitability	● **Establish our presence as a top manufacturer for surface modification, centered on thermal spraying** Expand our business by developing new coatings and creating new markets, without relying on existing markets ● **Enhance quality control and improve productivity** Make manufacturing processes more sophisticated and efficient by promoting automation and IoT, developing new coating equipment, and other means ● **Ensure technological superiority and improve profitability** Continue capital investment (5-7 billion yen per year) and development investments (about 5% of net sales ratio)
2 Optimization of cash and cash equivalents level	● **Optimization of cash and cash equivalents level (gradual reduction)** While maintaining a strong financial structure to support active investment in production expansion and technology development, the Company will pursue optimal cash and cash equivalent levels to improve capital efficiency going forward. We will use operating CF plus excess cash and cash equivalents as a source of funds to actively allocate to investment in growth (capital investment, development investment, human capital investment, M&As, etc.) and dividends, and will consider additional shareholder returns if there are no urgent capital needs for the remaining resources.
3 Strengthening of shareholder returns	● **Maintain a high and stable level of dividends** Target a consolidated dividend payout ratio of about 50% (41.4% in the FY ended March 31, 2023) and a dividend on equity (DOE) ratio of 5% or more. ● **Consider flexible acquisition of own shares**

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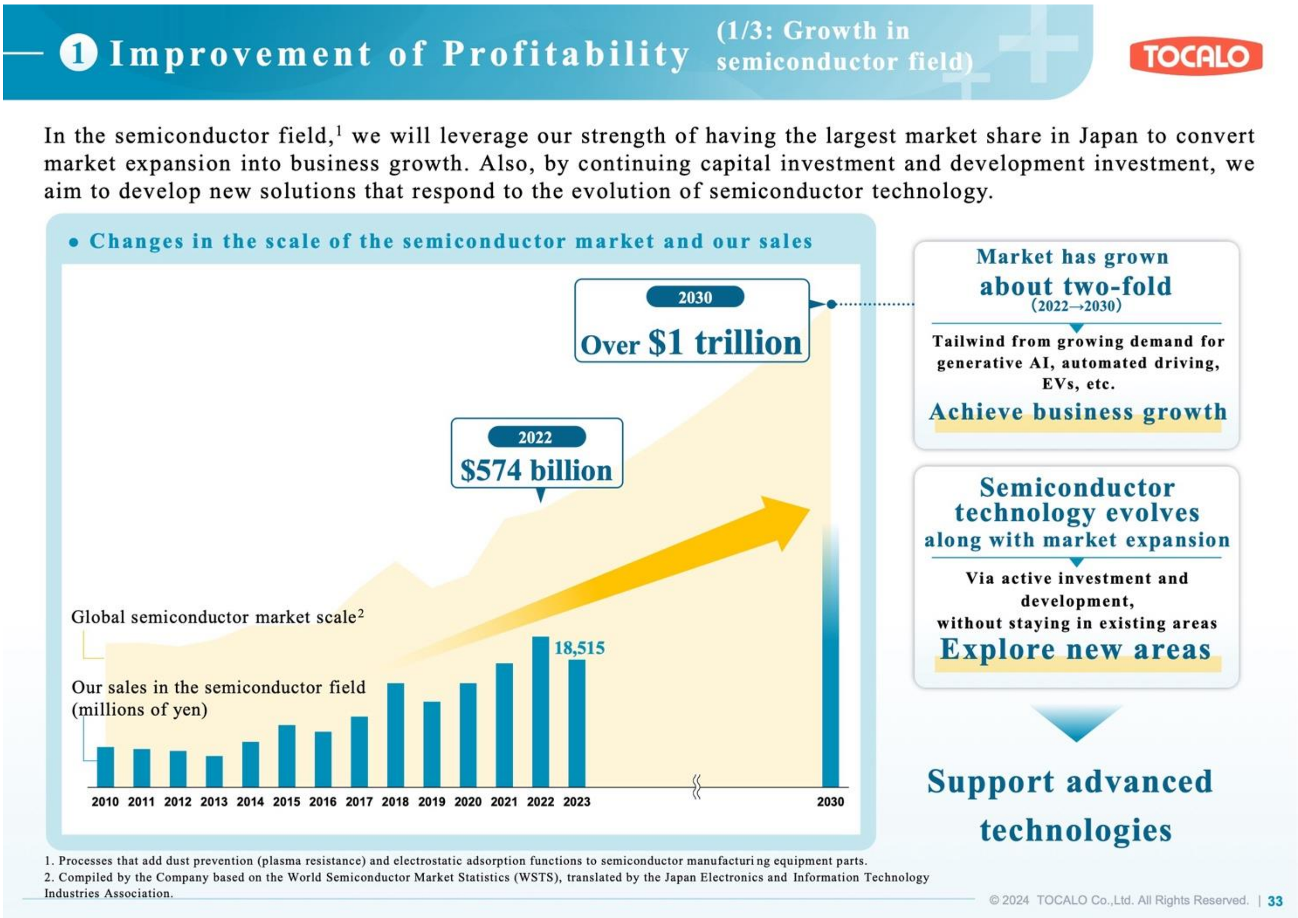
Specifically, we aim to achieve a stable ROE of 15% through these three measures: improving profitability, optimizing the level of cash and cash equivalents, and strengthening the return of capital to shareholders.



❶ Improvement of Profitability (1/3: Growth in semiconductor field)

TOCALO

In the semiconductor field,[1] we will leverage our strength of having the largest market share in Japan to convert market expansion into business growth. Also, by continuing capital investment and development investment, we aim to develop new solutions that respond to the evolution of semiconductor technology.

- Changes in the scale of the semiconductor market and our sales

Market has grown about two-fold
(2022→2030)

Tailwind from growing demand for generative AI, automated driving, EVs, etc.

Achieve business growth

Semiconductor technology evolves along with market expansion

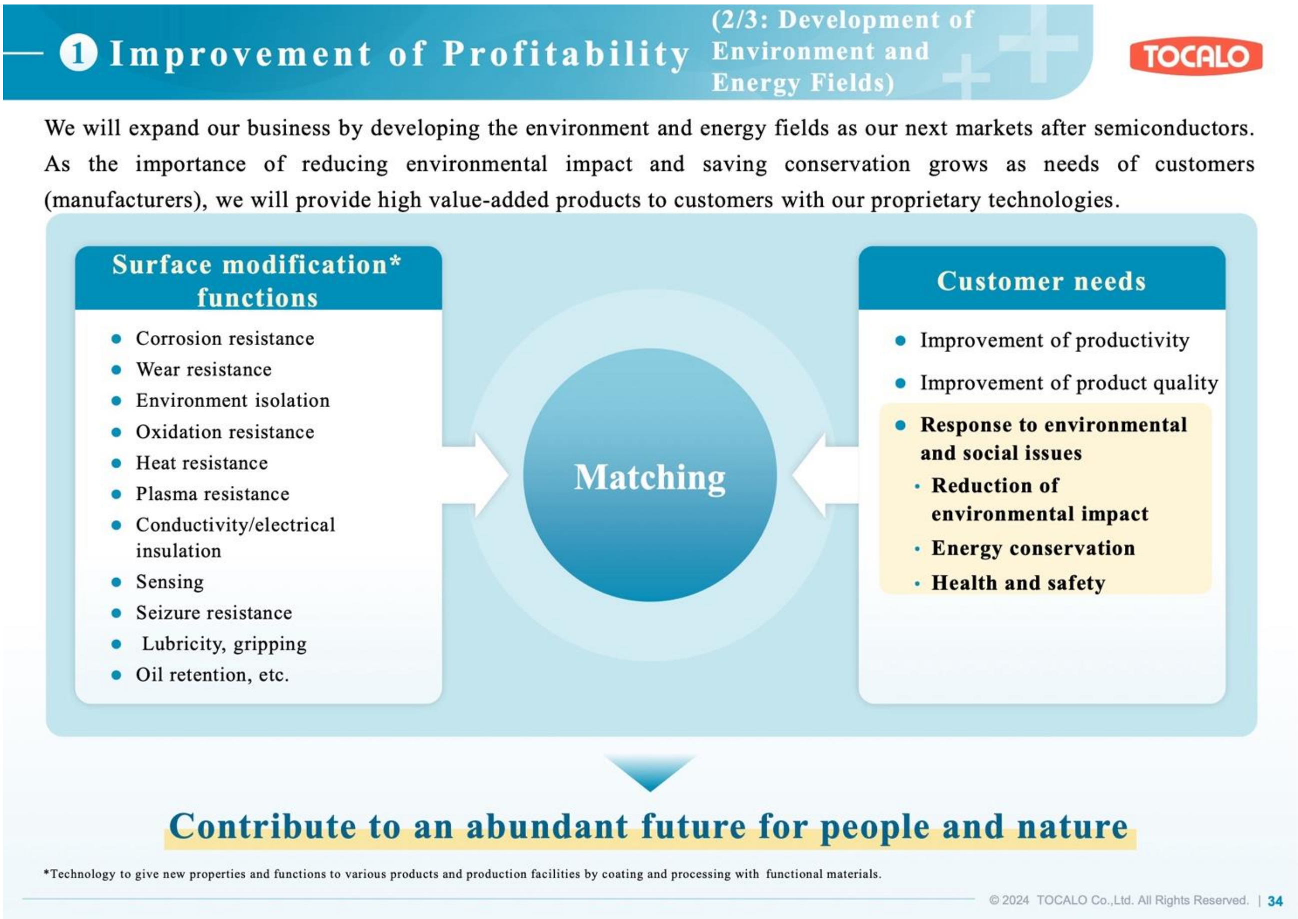
Via active investment and development, without staying in existing areas

Explore new areas

Support advanced technologies

1. Processes that add dust prevention (plasma resistance) and electrostatic adsorption functions to semiconductor manufacturing equipment parts.
2. Compiled by the Company based on the World Semiconductor Market Statistics (WSTS), translated by the Japan Electronics and Information Technology Industries Association.

First, regarding the improvement of profitability, in the semiconductor field, it is said that the semiconductor market will exceed USD1 trillion in FY2030, and demand for semiconductor production equipment related to our company will expand accordingly. In order to firmly link this opportunity to our company's growth, we will systematically execute capital and development investments to increase production and create new solutions.



① Improvement of Profitability (2/3: Development of Environment and Energy Fields)

TOCALO

We will expand our business by developing the environment and energy fields as our next markets after semiconductors. As the importance of reducing environmental impact and saving conservation grows as needs of customers (manufacturers), we will provide high value-added products to customers with our proprietary technologies.

Surface modification* functions

- Corrosion resistance
- Wear resistance
- Environment isolation
- Oxidation resistance
- Heat resistance
- Plasma resistance
- Conductivity/electrical insulation
- Sensing
- Seizure resistance
- Lubricity, gripping
- Oil retention, etc.

Matching

Customer needs

- Improvement of productivity
- Improvement of product quality
- **Response to environmental and social issues**
  - **Reduction of environmental impact**
  - **Energy conservation**
  - **Health and safety**

Contribute to an abundant future for people and nature

*Technology to give new properties and functions to various products and production facilities by coating and processing with functional materials.

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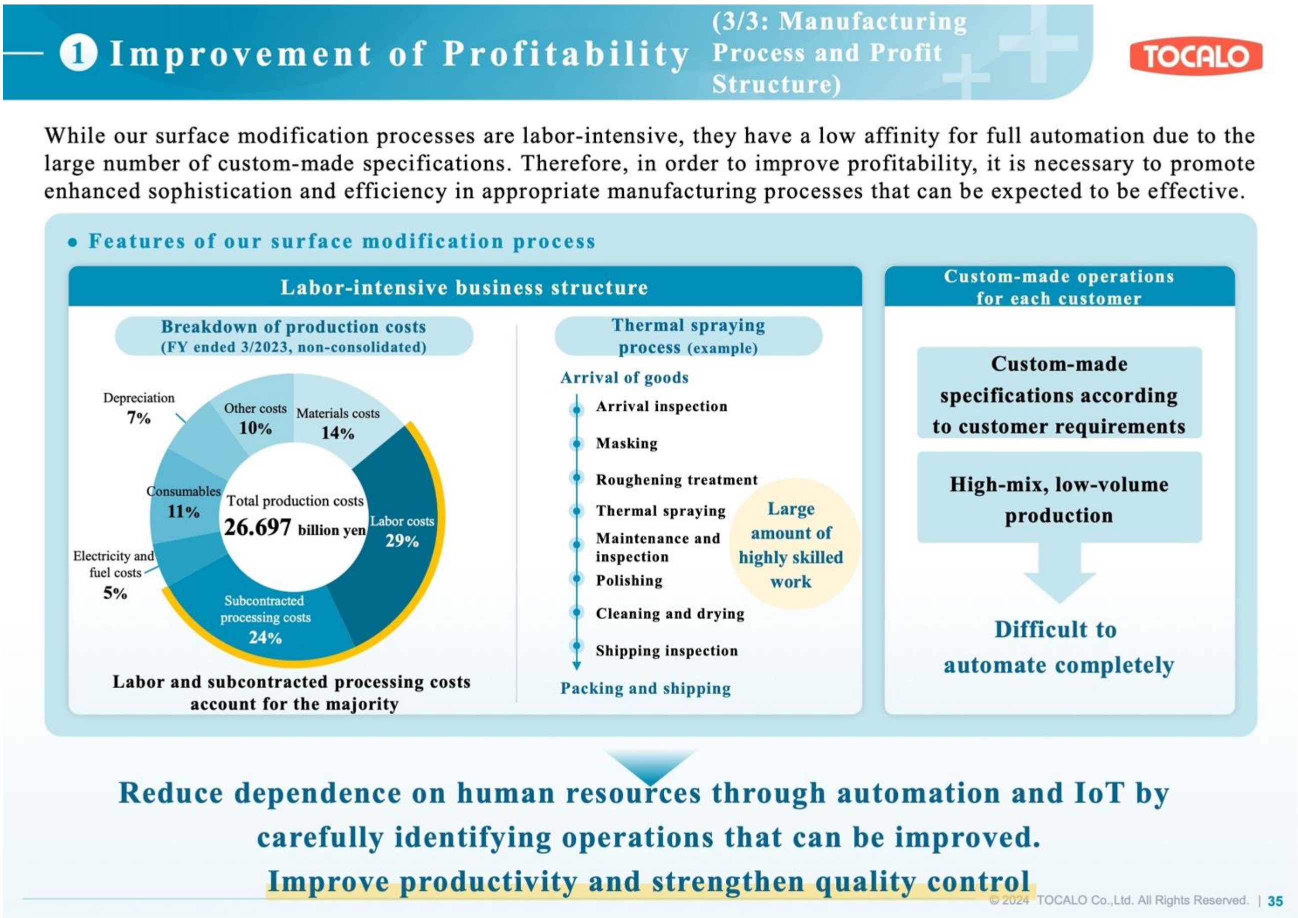
Next, another important growth strategy is to develop the environmental and energy fields as the next market after semiconductors. As the needs of our customers, manufacturers, increase in importance to reduce environmental impact and save energy, we will provide high value-added products to our customers with our proprietary technologies.



1 Improvement of Profitability (3/3: Manufacturing Process and Profit Structure)

TOCALO

While our surface modification processes are labor-intensive, they have a low affinity for full automation due to the large number of custom-made specifications. Therefore, in order to improve profitability, it is necessary to promote enhanced sophistication and efficiency in appropriate manufacturing processes that can be expected to be effective.

- **Features of our surface modification process**

Labor-intensive business structure

Breakdown of production costs
(FY ended 3/2023, non-consolidated)

Item	Share
Depreciation	7%
Other costs	10%
Materials costs	14%
Labor costs	29%
Subcontracted processing costs	24%
Electricity and fuel costs	5%
Consumables	11%

Total production costs 26.697 billion yen

Labor and subcontracted processing costs account for the majority

Thermal spraying process (example)

Arrival of goods
- Arrival inspection
- Masking
- Roughening treatment
- Thermal spraying
- Maintenance and inspection
- Polishing
- Cleaning and drying
- Shipping inspection

Packing and shipping

Large amount of highly skilled work

Custom-made operations for each customer

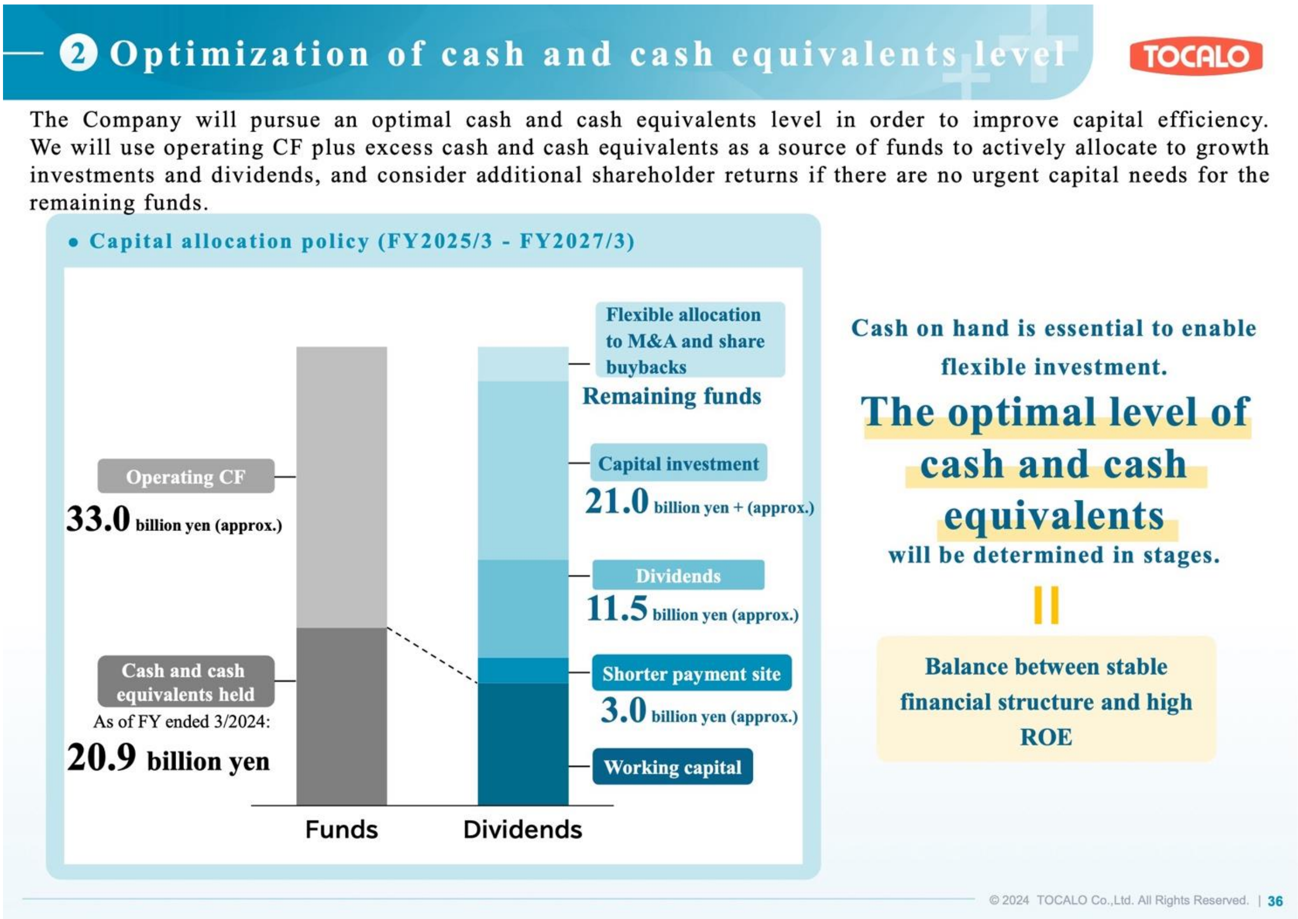
Custom-made specifications according to customer requirements

High-mix, low-volume production

Difficult to automate completely

Reduce dependence on human resources through automation and IoT by carefully identifying operations that can be improved.
Improve productivity and strengthen quality control

In addition, since our surface modification treatment is labor-intensive and often involves custom-made specifications, we believe it is important to work on upgrading and increasing efficiency while carefully identifying manufacturing processes that can be expected to improve efficiency. Depending on the process, we believe that a successful combination of superior skills and automation will be our strength and improve our profitability.



② Optimization of cash and cash equivalents level

TOCALO

The Company will pursue an optimal cash and cash equivalents level in order to improve capital efficiency. We will use operating CF plus excess cash and cash equivalents as a source of funds to actively allocate to growth investments and dividends, and consider additional shareholder returns if there are no urgent capital needs for the remaining funds.

- **Capital allocation policy (FY2025/3 - FY2027/3)**

Operating CF
33.0 billion yen (approx.)

Cash and cash equivalents held
As of FY ended 3/2024:
20.9 billion yen

Flexible allocation to M&A and share buybacks
Remaining funds

Capital investment
21.0 billion yen + (approx.)

Dividends
11.5 billion yen (approx.)

Shorter payment site
3.0 billion yen (approx.)

Working capital

Funds
Dividends

Cash on hand is essential to enable flexible investment.

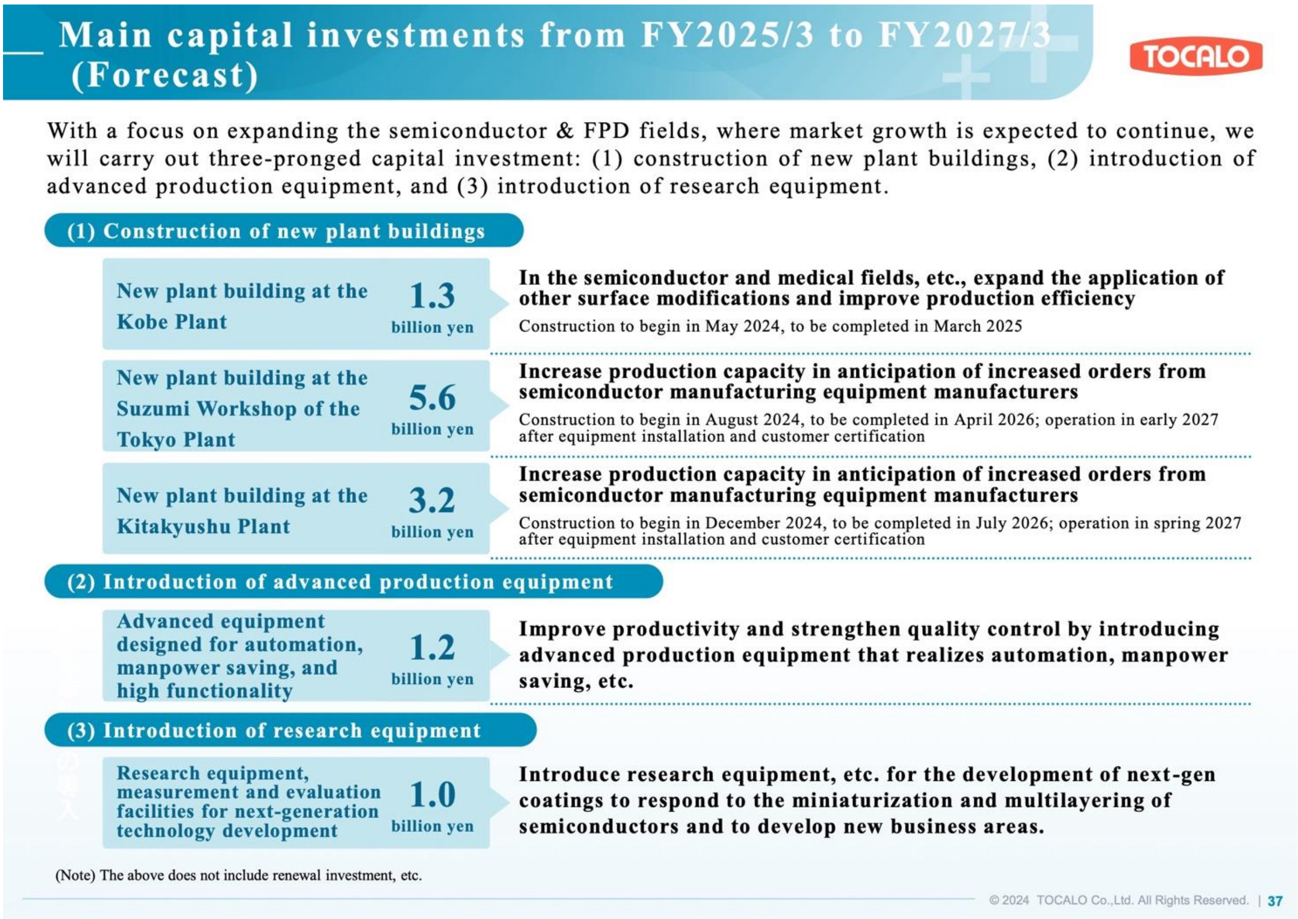
The optimal level of cash and cash equivalents
will be determined in stages.

||

Balance between stable financial structure and high ROE

In order to improve capital efficiency, we will study the optimal level of cash and cash equivalents. Please see this document for directions for the next three years.

Operating cash flow plus excess cash and cash equivalents will be used to fund capital expenditures and dividends, and additional shareholder returns will be considered if there are no other pressing capital needs, taking into account the impact of shorter payment sites to suppliers. We are considering aggressive capital investment in anticipation of future recovery and growth in the semiconductor sector.



Main capital investments from FY2025/3 to FY2027/3 (Forecast)

TOCALO

With a focus on expanding the semiconductor & FPD fields, where market growth is expected to continue, we will carry out three-pronged capital investment: (1) construction of new plant buildings, (2) introduction of advanced production equipment, and (3) introduction of research equipment.

(1) Construction of new plant buildings

New plant building at the Kobe Plant	1.3 billion yen	**In the semiconductor and medical fields, etc., expand the application of other surface modifications and improve production efficiency** Construction to begin in May 2024, to be completed in March 2025
New plant building at the Suzumi Workshop of the Tokyo Plant	5.6 billion yen	**Increase production capacity in anticipation of increased orders from semiconductor manufacturing equipment manufacturers** Construction to begin in August 2024, to be completed in April 2026; operation in early 2027 after equipment installation and customer certification
New plant building at the Kitakyushu Plant	3.2 billion yen	**Increase production capacity in anticipation of increased orders from semiconductor manufacturing equipment manufacturers** Construction to begin in December 2024, to be completed in July 2026; operation in spring 2027 after equipment installation and customer certification

(2) Introduction of advanced production equipment

Advanced equipment designed for automation, manpower saving, and high functionality	1.2 billion yen	**Improve productivity and strengthen quality control by introducing advanced production equipment that realizes automation, manpower saving, etc.**

(3) Introduction of research equipment

Research equipment, measurement and evaluation facilities for next-generation technology development	1.0 billion yen	**Introduce research equipment, etc. for the development of next-gen coatings to respond to the miniaturization and multilayering of semiconductors and to develop new business areas.**

(Note) The above does not include renewal investment, etc.

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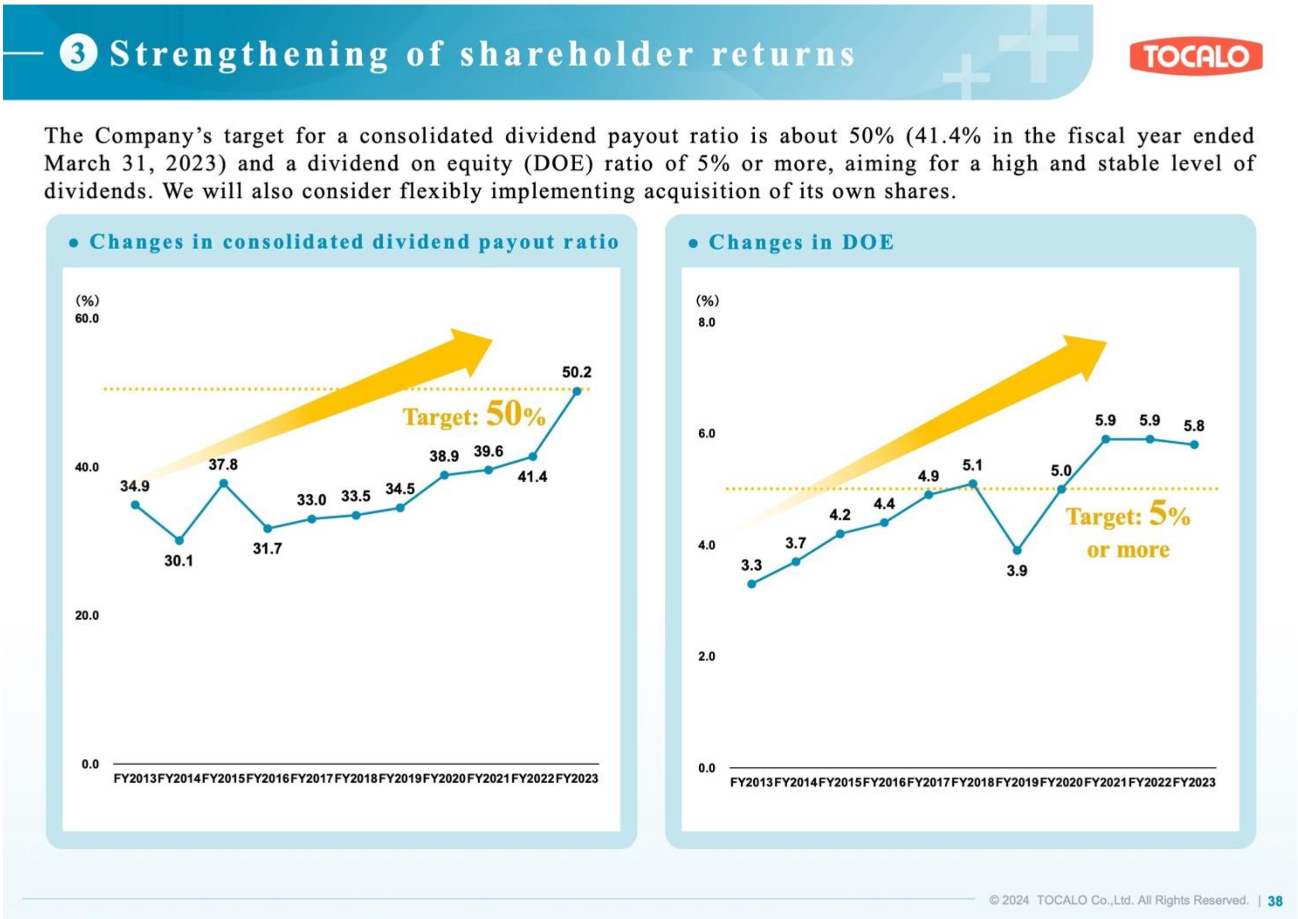
With a primary focus on expansion in the semiconductor and FPD fields, where market growth is expected, the Company intends to execute a three-pronged capital investment plan: construction of a new plant, followed by introduction of advanced equipment and introduction of research equipment.

These calculations are based only on what is currently available, and do not include investments in equipment related to the introduction of new plants or renewal investments. I believe that a much larger investment will be needed in real terms.



③ Strengthening of shareholder returns

TOCALO

The Company's target for a consolidated dividend payout ratio is about 50% (41.4% in the fiscal year ended March 31, 2023) and a dividend on equity (DOE) ratio of 5% or more, aiming for a high and stable level of dividends. We will also consider flexibly implementing acquisition of its own shares.

- Changes in consolidated dividend payout ratio

- Changes in DOE

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In terms of shareholder returns, we will provide a high and stable level of profit dividends, targeting a dividend payout ratio of approximately 50% and a DOE of at least 5%, based on a new policy starting from the fiscal year ended March 31, 2024.

That's all from me. Thank you for your attention.

Question & Answer

Moderator [M]: Thank you for the detailed explanation. As indicated, we will begin with a question-and-answer session from the audience. If you have any questions, please raise your hand and a staff member will bring the microphone to you. A full transcript of this financial results presentation, including the question-and-answer portion, will be made available to the public. Therefore, if you wish to remain anonymous, please do not give your name when asking a question. So, thank you very much for your question, yes, please. I will bring the microphone now.

Ujihara [Q]: Hello. I am Ujihara from SBI SECURITIES. Let me ask you a few questions. If it concerns a specific customer and your company is unable to make a statement, you are of course not required to respond. The first question is a bit of a footnote, a sensory question about the busyness in April to June or July to September period, regarding your company's thermal spray process, stand-alone.

Looking at the sales figures of TOCALO, Q3 of the last fiscal year was JPY8.5 billion, and Q4 was JPY8.5 billion as well, which seems to be a significant improvement from H1. I have a vague impression from the president’s explanation that you will be a little busier in April to June period as well. As for your company's shipment situation for semiconductors, the president mentioned earlier that you are planning to recover in stages. I would like to know how you are currently working in, if you could tell me. Your company's sales in the previous fiscal year were in the JPY9 billion range, so JPY8.5 billion is not bad, right? So, you are doing well.

Kobayashi [A]: Yes, the situation is recovering, or rather, there are companies that are doing well and others that are not yet at that level, and at this stage, some are operating at 100% and others at 50%. The overall number has increased compared to the past, and our production capacity has also increased, but from the perspective of our increased production capacity, we are still a little short.

Ujihara [Q]: So that's how it is.

Kobayashi [A]: Yes, I would say about 70% from our production capacity.

Ujihara [Q]: Well, from what president said earlier, do you feel that the level of the market is likely to rise a little more in H2?

Kobayashi [A]: Well, I used the word ,gradually recovering, or, in other words, clearing out the inventory, The companies we are working with right now are mainly semiconductor equipment manufacturers, and in the case of equipment, there is a certain amount of parts inventory held by various companies, and until that inventory is depleted, it is difficult for us to increase our orders, and we have received information that the inventory will be cleared by the end of the year at the latest, or by summer at the earliest.

Ujihara [Q]: I understand. Thank you. I have a few more questions, on page 21 of your presentation material, there is a figure of JPY6.4 billion for investment for this fiscal year. Also, on page 37, it says that of the JPY6.4 billion, this fiscal year, JPY1.3 billion will be spent on the new Kobe Plant building.

Out of this JPY6.4 billion investment, I think the depreciation for the next fiscal year will go up quite a bit. Although I don’t remember that you use fixed amount or fixed rate for depreciation, If you use the eight-year fixed rate, the amortization will increase significantly next year, so, I am asking how much of the JPY6.4 billion is invested in equipment that depreciates quickly.

In that case, I'm thinking that next year's amortization will be a bit more than JPY3.2 billion, so if you have any sense of what that might be, please let me know. If it is too difficult for the president, I would like to ask Mr. Goto to answer it.

Goto [A]: Thank you for your questions. Now, I will answer your question. I have not been able to make a precise calculation, but I think there will be a slight increase from JPY3.2 billion in depreciation and amortization. Machinery and equipment are depreciated on a six-year fixed rate basis, so as you say, the amount invested in new equipment will increase. However, as the depreciation of past years' depreciation is also declining quite quickly, we do not expect a dramatic increase in depreciation from the JPY3.2 billion. Is this enough for your answer?

Ujihara [Q]: Yes, Thank you. Also, finally, the second one on page 37, which is the construction of a new plant, is it read as Suzumi? The construction of Suzumi and Kitakyushu will be completed in April or July 2026, so, Mr. President, this is really an amateur's idea, but when I think about the number of etchers who will be leaving your major customers in the next 25 years, I honestly wonder if this facility of yours will be able to meet their needs in time. The president mentioned earlier that you are increasing a capacity of the current existing facilities, so I was wondering if that would probably be enough to get by for the time being.

From an amateur point of view, the completion of construction in April of 2026 seems to me to be a bit late, since many of your products are like the exclusive domain of your customers. I have such a feeling, but I think it is unnecessary meddling, but how does the president feel about it?

Kobayashi [A]: Actually, the growth of semiconductors came to a sudden halt last year after a slight plateau, but based on information that demand for semiconductors is expected to rise systematically from around 2020, 2021, we have already made investments to increase our capacity, and we expect that our investments will probably exceed our capacity investment around 2028. The current facilities can handle the current situation until about 2028. Of course, we may have to include the personnel requirements for two or three shifts, but the current facilities will probably be sufficient until 2028 or so.

We're going to start planning a little bit in the future to see if we're going to invest more and more in facilities there from 2026 and beyond, and whether we're going to build the building but not bury it all, but to be able to handle that increase in 2028 and beyond. I am thinking about it.

Ujihara [Q]: Okay, I understand very well. Thank you.

Moderator [M]: Thank you very much. Yes. Those of you who have raised your hands, please wait a moment, I will bring the microphone now.

Osawa [Q]: Thank you very much. I am Osawa from Ichiyoshi Research Institute. I have three points. The first is the same footnote, but I have a slightly different nuance to your answer. Orders for the January to March period have not changed much from the October to December period, but we believe that inquiries have strengthened within the Company. You mentioned summer at the earliest, but I have a feeling that orders for thermal spraying and semiconductors will change from April to June at the earliest.

The point is, however, that when we hear about the recovery of other suppliers, such as parts manufacturers, there are more places that have not changed, especially in the fall and before winter, If TOCALO’s return is faster than other companies, is it because of its relative upstream position in the supply chain, or is it because inventory adjustment, as mentioned earlier, has been completed to some extent? Or are there other factors that are unique to each individual?

Kobayashi [A]: That is about the growth of our figures in that semiconductor field.

Osawa [Q]: I have the impression that the current increase in inquiries is a bit faster than other companies, so I would like to know why.

Kobayashi [A]: We have certainly recovered from the bottom. In H2 of last year, from around October 2023, there was a shift toward inventory adjustment and the need to remove inventories, and production was curbed to a certain extent. After six months of production, which had been kept at less than 50% of our production capacity, we have seen an increase of about 30% from the bottom since February.

So that's why the numbers seem to have gone up a bit as soon as the period changed. However, from our point of view, there are still places where production is only 50% of the original peak in FY2022 or so, and the situation has remained the same. So, it's not that fast, but that it's coming back from a bit of an extreme stop. I think it is an image.

Osawa [Q]: I understand. Thank you. Secondly, regarding coatings for semiconductor manufacturing equipment, I would like to confirm whether ZAC and other such equipment are being used at the present time. In short, other than thermal spraying, are there any other projects in the works, and if so, what kind of parts and for what purpose are they being used? If you do not have such a case, fine.

Kobayashi [A]: Like the exhaust system. Our main focus is on the chamber, where gas is used, but our other surface modification technology is also being used for the exhaust system of the gas. In this respect, our technology is gradually being used for parts other than those parts that have been our main focus up to now.

Also, such things cannot be done in chambers with intense dry etching, but honestly speaking, some companies have begun to adopt such things in other chambers that are not dry etched. But we are still in the development stage, so it's not like we are basically working hard on production.

Osawa [Q]: This is a bit of an amateur question, but if you use ZAC for the exhaust system, for example, how would it be different from the existing thermal spraying, and what advantages would it have, such as lower cost?

Kobayashi [A]: I mentioned ZAC for exhaust systems, but basically, we use a lot of corrosive gases and the inside of gas piping is corroding. We have applications to stop that corrosion. In addition, when it comes to gas piping in the intake system, we are aiming to prevent metal contamination, so that even if corrosive gases flow, they can be stopped so that they do not corrode.

Osawa [Q]: Thank you very much, and the last point. You are going to focus on environmental energy in the future and currently working on thermal power generation, gas turbines, and other types of power generation, but you are also working on hydroelectric power, geothermal biomass, and other types of energy. How much is being done in the industry and how will it increase? What do you think about the growth trend of energy-related businesses other than thermal power?

Kobayashi [A]: I'm sorry, but I'm not sure if it's appropriate to say this here, since I’m not sure about the figure, but the current energy-related figures include thermal power-related figures as well. So, it is a little difficult to say whether we have a grasp of the figures for other than thermal power, but TOCALO is doing something other than thermal power such as biomass.

Thermal spraying has the great advantage of being able to do on-site work, so we will continue to do something that can be done on site. On the other hand, as for thermal power, various major companies are now encouraging the use of ammonia co-firing and we support them. Japan's efforts toward IGCC coal gasification power generation may be a technology that may eventually disappear, but it is a new experiment that is necessary to maintain the current electric power supply. We are trying to cooperate with them.

Also, if the market for methane, ammonia, or other liquefied gases increases in the future, hydrogen may be one of them, but parts for vaporizing such gases are inevitably needed. We are also working on such equipment for vaporization. We are still using liquefied natural gas vaporization in this market, but in the future, we are focusing on having our products used in equipment that can vaporize liquefied methane and ammonia gases made from natural energy sources.

Osawa [Q]: Thank you. After the Great East Japan Earthquake, there was quite a lot of attention paid to LNG and NAS batteries and other environmental issues, and there were hopes that they would grow, but they did not grow very much. This time, so it's another focus, and it's pretty much a growth factor that's not just semiconductors, realistically. I wanted to know if we can expect that.

Kobayashi [A]: I don't think that any single business will surpass that of the semiconductor industry, but I think it would be great that if 10 or 20 businesses such as the ammonia co-firing business and the liquefied gas vaporization business will overlap, we could eventually create a business model that can compete with the semiconductor industry. At this stage, we believe that the post-semiconductor business cannot be expressed in a single word, but our efforts toward the post-semiconductor business are to launch 10 or 20 business models.

Osawa [Q]: I understand. Thank you.

Moderator [M]: Thank you very much.

Hosoda [Q]: I am Hosoda from Plutus Consulting. Thank you very much for your explanation. I would like to ask two questions related to the cost of shareholders' equity on page 30, and your company has given a range of 8% to 10%. When the range is presented, it is difficult for us to analyze the variation in the equity spread from our point of view. The first point I would like to ask is whether your company plans to pinpoint, rather than range, the cost of shareholders' equity in the future. Also, I would like to know if there are any plans to disclose parameters such as beta and risk premiums when reporting the cost of capital.

Goto [A]: Yes. Thank you for your questions. I am Goto, General Manager of the Administration Division. As for presenting the range, we are of course trying to calculate the range ourselves, but we are also receiving various figures from the brokerage firms who are here today. Of course, as you mentioned in your question, the results can vary depending on the various parameters used. We have written 8% to 10% in aggregate, and we would like to discuss whether we plan to publish our own calculations at that point in the future. It may be that we are not making enough progress in capital cost itself to set a target with or without parameters, but we would like to study such a direction. I hope it answers your question.

Hosoda [M]: Thank you.

Moderator [M]: Thank you very much. Are there any other questions? If there are none, we would like to move on to a question-and-answer session from those participating online, but so far we have not received any questions online. Therefore, if I may, I would like to conclude today's financial results presentation of TOCALO. Thank you very much, Representative Director Mr. Kobayashi, as well as Mr. Goto, Mr. Hosomi, and Mr. Shimizu. Thank you very much for taking time out of your busy schedule to join us today.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].

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