

#### **TOCALO** Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2025

November 11, 2024

#### **Event Summary**

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[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

#### **Presentation**

**Moderator:** Hello everyone. We will now begin the IR meeting of TOCALO Co., Ltd. This briefing will be held in a hybrid format, with a live webcast in addition to the on-site event. First of all, I would like to introduce today's attendees. Mr. Kazuya Kobayashi, Representative Director, President and Executive Officer.

Kobayashi: I am Kobayashi. Thank you.

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

Goto: I am Goto. Thank you.

Moderator: Mr. Kenji Hosomi, Accounting Division Manager.

Hosomi: I am Hosomi. Thank you.

Moderator: Mr. Hiroshi Shimizu, Corporate Planning Division Manager.

Shimizu: I am Shimizu. Thank you.

**Moderator:** Today, President Kobayashi will speak, and after his explanation, we will first take questions from the audience. Once we have completed this round, we will continue to take questions from those who are participating online. Mr. Kobayashi, please.

**Kobayashi:** Hello. I am President Kobayashi. Thank you very much for taking the time today to participate in the financial results briefing of TOCALO. It appears that nearly 100 people have attended today's event, both real and live. Thank you.





Content

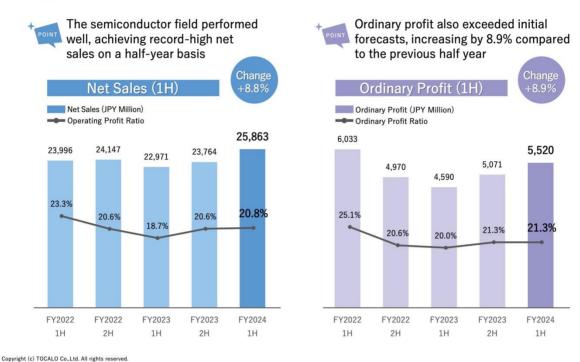
- 1. Overview of Consolidated Results 1H FY2024
- 2. Consolidated Forecast FY2024
- 3. Progress of Medium-term Management Plan
- 4. Topics

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These are the four items I will explain today.



## Highlights of Consolidated Results 11 FY2024



First, I will provide an overview of the financial results for Q2 of the fiscal year ending March 31, 2025. The graph above compares semiannual results with the previous four quarters. On the left are net sales and operating margin, and on the right are recurring profit and recurring profit margin.

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## Overview of Consolidated Results 1H FY2024



- As orders in the semiconductor field increase, production capacity is also gradually being increased, with net sales increasing by 12.6% year-on-year
- Ordinary profit increased by 20.3% year-on-year due to increased sales in the highly profitable semiconductor field

(IDV Million)	1H FY2023		1H F	Y2024	Change	
(JPY Million)	Result	Ratio	Result	Ratio	Amount	%
Net Sales	22,971	100.0%	25,863	100.0%	2,891	12.6%
Operating Profit	4,295	18.7%	5,383	20.8%	1,087	25.3%
Ordinary Profit	4,590	20.0%	5,520	21.3%	930	20.3%
Net Income Attributable to Owners of Parent	2,985	13.0%	3,556	13.8%	570	19.1%
Earnings Per Share (EPS)	49.42JPY	_	59.83JPY	_	10.41JPY	

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The H1 results for the current fiscal year were net sales of JPY25.8 billion, operating income of JPY5.3 billion, and ordinary income of JPY5.5 billion. Net sales reached a record high on a half-year basis due to strong sales in the semiconductor field. Ordinary income also exceeded the initial forecast, increasing 8.9% over H2 of the previous year.

Sales in H1 were up 12.6% from the same period of the previous year, although production capacity is being raised in stages toward H2 in response to increased orders in the semiconductor field. Ordinary income increased 20.3% YoY, mainly due to increased sales in the highly profitable semiconductor field.



## 1H FY2024 Net Sales (by Segment)



- Thermal Spray (TOCALO), our largest segment, increased by 15.4% year-on-year due to strong performance in all fields
- Other surface modifications saw decreased sales due to customer inventory adjustments for agricultural machinery parts
- Overseas subsidiaries performed well, primarily in semiconductor-related areas, and increased by 13.7% year-on-year

(IDV/Aleiban)	1H FY2023		1H F)	/2024	Change	
(JPY Million)	Result	Ratio	Result	Ratio	Amount	%
Net Sales	22,971	100.0%	25,863	100.0%	2,891	12.6%
■ Thermal Spray (TOCALO)	16,748	72.9%	19,325	74.7%	2,577	15.4%
Semicon & FPD	9,737	42.4%	11,395	44.1%	1,657	17.0%
Industrial Parts	2,224	9.7%	2,370	9.2%	145	6.5%
Iron & Steel	1,746	7.6%	2,029	7.8%	283	16.2%
Others	3,039	13.2%	3,530	13.6%	490	16.1%
Other Surface Modif.	1,515	6.6%	1,381	5.4%	-134	-8.9%
Domestic Sub.	1,230	5.4%	1,191	4.6%	-38	-3.1%
Overseas Sub.	3,422	14.9%	3,890	15.0%	467	13.7%
Royalty Income	54	0.2%	73	0.3%	19	35.2%

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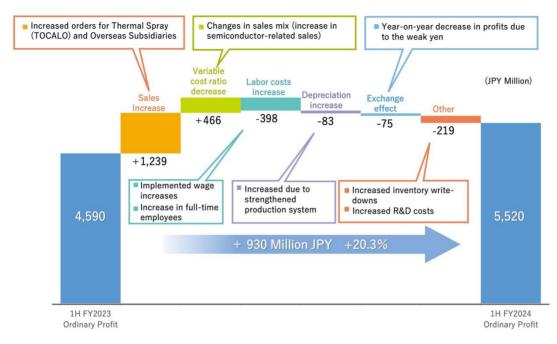
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Thermal spray processing, non-consolidated, the largest segment, performed well in all areas, increasing 15.4% YoY. In other surface treatment processing, sales decreased due to inventory adjustments by customers for agricultural machinery parts. Overseas subsidiaries performed well, especially in the semiconductor-related sector, with a 13.7% increase over the same period last year.



## Analysis of Ordinary P/L Change





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This is an analysis of YoY changes in ordinary income. Ordinary income for H1 of the current fiscal year was JPY5.52 billion, an increase of JPY930 million YoY, mainly due to positive factors such as increased sales and changes in the sales mix. Negative factors included increased personnel costs. As for the foreign exchange impact, the yen's depreciation boosted profits by JPY75 million less than in the same period of the previous year.



## 1H FY2024 Consolidated Results by Segment



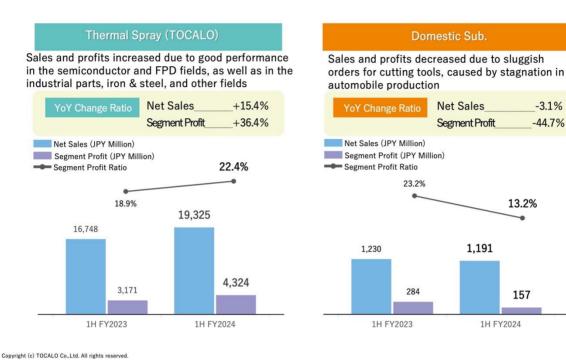
-3.1%

-44.7%

13.2%

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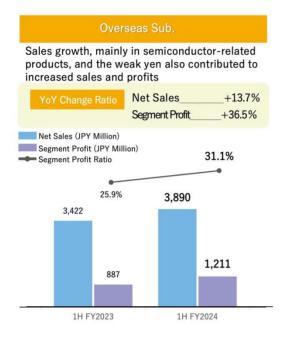


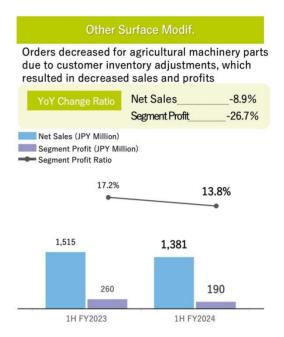
This is a comparison of sales profit by segment with the same period of the previous year. Thermal spray processing, non-consolidated, recorded increases in both sales and income due to strong sales in the semiconductor and FPD fields, as well as in the industrial machinery, steel, and other fields. Domestic subsidiaries posted declines in both sales and earnings due to sluggish orders for cutting tools-related products, reflecting the impact of stagnant automobile production.



# 1H FY2024 Consolidated Results by Segment







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Overseas subsidiaries posted increases in both sales and income due to sales growth mainly in semiconductorrelated products, as well as the impact of the yen's depreciation. In other surface treatment processing, sales and profits declined due to a decrease in orders for agricultural machinery parts as a result of customers' inventory adjustments.



## Segment Information



- Thermal Spray (TOCALO) and Overseas Subsidiaries saw significant increases in profits due to sales growth, primarily in semiconductor-related products
- Domestic Subsidiaries and Other Surface Modifications saw a decline in orders for their main products, which led to a decline in profit ratios

						Cha	nge	
(183)	1H FY	2023	1H FY2024		Net Sales		Segment P/L	
(JPY Million)	Net Sales	P/L	Net Sales	P/L	Amount	%	Amount	%
Thermal Spray (TOCALO)	16,748	3,171	19,325	4,324	2,577	15.4%	1,153	36.4%
Domestic Sub.	1,230	284	1,191	157	-38	-3.1%	-127	-44.7%
Overseas Sub.	3,422	887	3,890	1,211	467	13.7%	323	36.5%
Other Surface Modif.	1,515	260	1,381	190	-134	-8.9%	-69	-26.7%
Total	22,917	4,604	25,789	5,884	2,872	12.5%	1,279	27.8%

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

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The following table lists YoY comparisons of net sales and income for each segment. The segments showed a clear divide between success and failure. Thermal spray processing, non-consolidated and overseas subsidiaries reported a significant increase in profits due to sales growth mainly in the semiconductor-related sector. Domestic subsidiaries and other surface finishing operations each saw a decline in orders for core products, resulting in lower profit margins.



#### **Financial Position**



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- Total assets decreased by 200 million JPY from the end of the previous period (cash and deposits: -3,100 million JPY, fixed assets: +2,700 million JPY)
- Equity ratio increased by 3.6 points from the end of the previous period to 74.8%
- Interest-bearing debt decreased by 400 million JPY from the end of the previous period

(JPY Million)	FY2	FY2024	
GFT Willion	1H	2H	1H
Total Assets	75,226	77,940	77,687
Equity	54,186	55,460	58,072
Equity Ratio	72.0%	71.2%	74.8%
Interest-bearing Debt	2,358	5,002	4,582

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This is the financial position at the end of Q2. Total assets amounted to JPY77.6 billion, shareholders' equity was JPY58 billion, and the equity ratio rose 3.6% from the end of the previous period to 74.8%, reflecting the accumulation of retained earnings. Interest-bearing debt decreased by JPY0.4 billion from the end of the previous period to JPY4.5 billion due to no new borrowings.





• Free Cash Flow (Operating CF + Investment CF) -700 million JPY

• Investment CF/Acquisition of tangible fixed assets

Previous term: -1,600 million JPY Current term: -2,800 Million JPY

Acquisition and share acquisition

Previous term: -

Current term: -1,200 million JPY (made TERADA KOSAKUSHO Co., Ltd. and a Thai JV into fully owned subsidiaries)

Financial CF/Dividends paid

Previous term: -1,600 million JPY

Current term: -1,600 million JPY

Acquisition and disposal of treasury shares

Previous term: -1,400 million JPY Current term: -

(JPY Million)	FY2023 1H	FY2024 1H
Operating CF	4,422	2,696
Investment CF	-1,294	-3,404
Financial CF	-3,803	-2,546
Cash Balance	18,995	16,594

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Next is the cash flow situation in H1. Operating cash flow was positive JPY2.7 billion, investing cash flow was negative JPY3.4 billion, and free cash flow was negative JPY0.7 billion. This was due to the shortening of payment sites to suppliers, which resulted in a cash outflow of approximately JPY3 billion, as well as aggressive capital expenditures and acquisitions.

Financing cash flow was negative JPY2.5 billion, mainly due to dividends and repayment of borrowings. As a result, the cash balance at the end of Q2 of the current fiscal year was JPY16.5 billion.

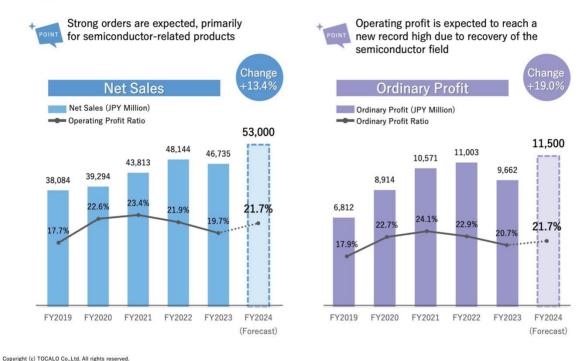


#### Outlook for Net Sales and Ordinary Profit



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[Revisions to the forecast announced on May 9, 2024]

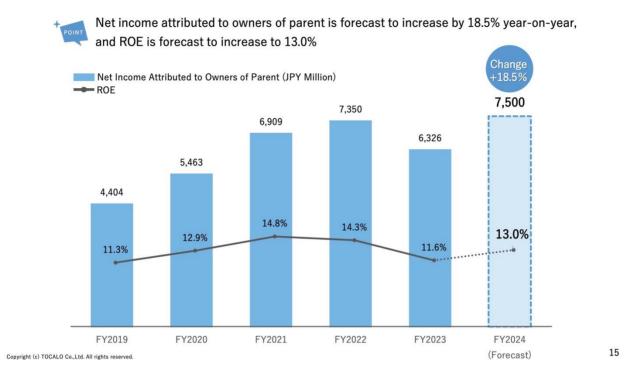


I would like to explain our consolidated business forecast for the fiscal year ending March 31, 2025. We have revised our full-year forecasts upward because the H1 results exceeded our previous forecasts and we expect orders to remain strong in H2, particularly for semiconductor-related products. For the full year, we aim for net sales of JPY53 billion and ordinary income of JPY11.5 billion.



## Outlook for Net Income Attributed to Owners of Parent and ROE





These are our full-year forecasts for net income attributable to shareholders of the parent company and ROE. Net income is expected to be JPY7.5 billion and ROE to rise to 13%.



### Consolidated Forecast FY2024



(Overview of Revisions)

(IDV MIE)		FY2				
(JPY Million)	May forecast	Ratio	Revised forecast	Ratio	Amount	%
Net Sales	51,000	100.0%	53,000	100.0%	2,000	3.9%
■ Thermal Spray (TOCALO)	37,632	73.8%	38,315	72.3%	682	1.8%
Semicon & FPD	23,005	45.1%	23,795	44.9%	790	3.4%
Industrial Parts	4,603	9.0%	4,640	8.8%	37	0.8%
Iron & Steel	4,037	7.9%	3,950	7.5%	-87	-2.2%
Others	5,987	11.8%	5,930	11.1%	-57	-1.0%
Other Surface Modif.	2,738	5.4%	2,760	5.2%	22	0.8%
Domestic Sub.	2,708	5.3%	2,775	5.2%	67	2.5%
Overseas Sub.	7,771	15.2%	9,000	17.0%	1,229	15.8%
Royalty Income	150	0.3%	150	0.3%	0	-0.1%
Operating Profit	10,500	20.6%	11,500	21.7%	1,000	9.5%
Ordinary Profit	10,500	20.6%	11,500	21.7%	1,000	9.5%
Net Income Attributed to Owners of Parent	6,880	13.5%	7,500	14.2%	620	9.0%
Earnings Per Share (EPS)	115.75JPY	_	126.16JPY	_	10.41JPY	_
Return on Equity (ROE)	12.0%	_	13.0%	_	1.0pt	_

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This is a detailed statement of changes in the revised forecast compared to the forecast announced in May. Sales were revised upward by JPY2 billion. The main breakdown of the increase is approximately JPY0.8 billion in the semiconductor and FPD fields and approximately JPY1.2 billion in overseas subsidiaries. Operating income and ordinary income both increased by JPY1 billion. Net income for the period is assumed to be positive JPY6.



### Consolidated Forecast FY2024



(Compared to the Previous Period)

(JPY Million)	FY2023		FY20	024	Change	
(JPY Willion)	Resullt	Ratio	Revised Forecast	Ratio	Amount	%
Net Sales	46,735	100.0%	53,000	100.0%	6,264	13.4%
■ Thermal Spray (TOCALO)	33,859	72.4%	38,315	72.3%	4,455	13.2%
Semicon & FPD	19,557	41.8%	23,795	44.9%	4,237	21.7%
Industrial Parts	4,923	10.5%	4,640	8.8%	-283	-5.8%
Iron & Steel	3,651	7.8%	3,950	7.5%	298	8.2%
Others	5,727	12.3%	5,930	11.1%	202	3.5%
Other Surface Modif.	3,019	6.5%	2,760	5.2%	-259	-8.6%
Domestic Sub.	2,457	5.3%	2,775	5.2%	317	12.9%
Overseas Sub.	7,257	15.5%	9,000	17.0%	1,742	24.0%
Royalty Income	141	0.3%	150	0.3%	8	5.7%
Operating Profit	9,197	19.7%	11,500	21.7%	2,302	25.0%
Ordinary Profit	9,662	20.7%	11,500	21.7%	1,837	19.0%
Net Income Attributed to Owners of Parent	6,326	13.5%	7,500	14.2%	1,173	18.5%
Earnings Per Share (EPS)	105.53JPY	_	126.16JPY	_	20.63JPY	_
Return on Equity (ROE)	11.6%	_	13.0%	_	1.4pt	_

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This is the comparison table with the previous year's results. The sales forecast is an increase of JPY6.2 billion from the previous year's actual results, which mainly consists of JPY4.2 billion in semiconductors and FPDs and an additional JPY1.7 billion from overseas subsidiaries. The ordinary income forecast is JPY11.5 billion, an increase of JPY1.8 billion YoY with a profit margin of 21.7%.



## 1H FY2024 Progress Rate



(JPY Million)	1H FY	′2024	FY20	Progress	
GFT Willion)	Result	Ratio	Revised Forecast	Ratio	Rate
Net Sales	25,863	100.0%	53,000	100.0%	48.8%
■ Thermal Spray (TOCALO)	19,325	74.7%	38,315	72.3%	50.4%
Semicon & FPD	11,395	44.1%	23,795	44.9%	47.9%
Industrial Parts	2,370	9.2%	4,640	8.8%	51.1%
Iron & Steel	2,029	7.8%	3,950	7.5%	51.4%
Others	3,530	13.6%	5,930	11.1%	59.5%
Other Surface Modif.	1,381	5.4%	2,760	5.2%	50.1%
Domestic Sub.	1,191	4.6%	2,775	5.2%	42.9%
Overseas Sub.	3,890	15.0%	9,000	17.0%	43.2%
Royalty Income	73	0.3%	150	0.3%	49.1%
Operating Profit	5,383	20.8%	11,500	21.7%	46.8%
Ordinary Profit	5,520	21.3%	11,500	21.7%	48.0%
Net Income Attributed to Owners of Parent	3,556	13.8%	7,500	14.2%	47.4%
Earnings Per Share (EPS)	59.83JPY	_	126.16JPY	_	47.4%

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This is the percentage of progress of the H1 results against the full-year forecast. The H1 progress rate for net sales and ordinary income is 48.8% and 48%, respectively, both of which are expected to grow further in H2.



#### Forecast 2H FY2024





Orders are expected to become even stronger in the second half of the year, primarily for semiconductor-related products



Operating profit in the second half of the year will approach 6,000 million JPY, the highest ever on a half-year basis





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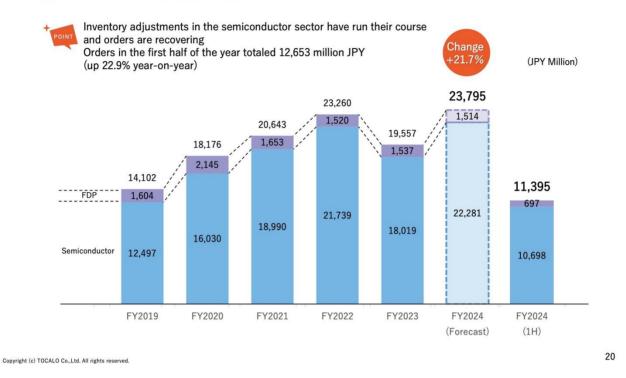
The graph compares H2 forecast with the previous five quarters. On the left are net sales and operating margin, and on the right are recurring profit and recurring profit margin. We have raised our H2 forecasts for net sales and ordinary income, as we expect to receive even stronger orders in H2 of the fiscal year, particularly for semiconductor-related products.

Ordinary income for H2 of the fiscal year is expected to approach JPY6 billion for H1 of the fiscal year ended March 31, 2023, which was a record high on a semi-annual basis.



#### Semiconductor & FPD Net Sales



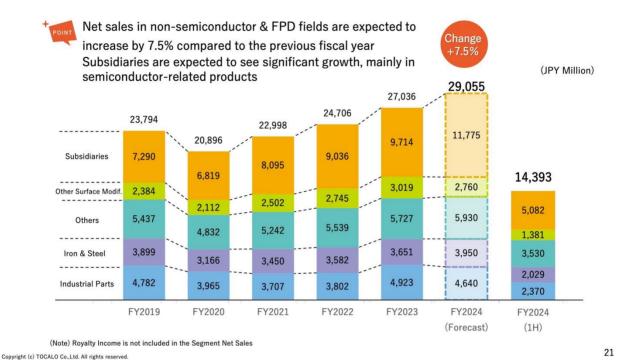


Sales trends in the semiconductor and FPD fields. The forecast for the current period is JPY23.7 billion, of which JPY22.2 billion is for semiconductors and JPY1.5 billion is for FPDs. Against this full-year forecast, actual sales for H1 were JPY11.3 billion, 47.9% of the full-year forecast. Orders received, which are a leading indicator of sales, grew to JPY12.6 billion in H1.



#### Non-Semiconductor & FPD Net Sales





Sales trends outside the semiconductor and FPD fields. The forecast for the current period is JPY29 billion, an increase of 7.5% from JPY27 billion in the previous period. The actual results for H1 were JPY14.3 billion, 49.5% of the full-year forecast. We expect the subsidiary to grow significantly, especially in the semiconductor-related sector.



#### Capital Investment and Depreciation

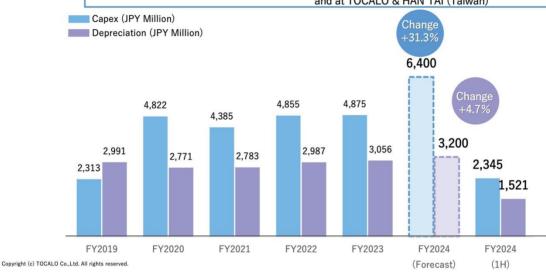


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Planned capex for FY2024: 6,400 Million JPY

- 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)

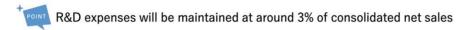


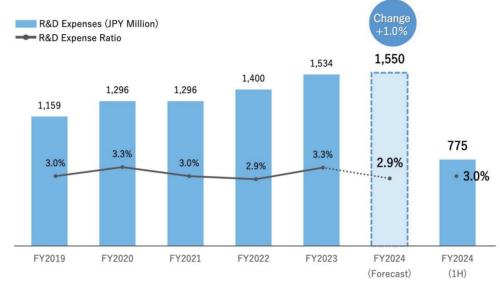
Capital expenditures and depreciation. The forecast for the current period remains unchanged from the plan at the beginning of the period, with capital expenditures of JPY6.4 billion and depreciation of JPY3.2 billion. Capital expenditures for H1 were JPY2.3 billion compared to the full-year forecast of JPY.4 billion, a progress rate of 36.7%.



## **R&D Expenses**







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Research and development expenses. Research and development expenses for the current fiscal year are expected to be JPY1.55 billion, or 2.9% of net sales. The actual results for H1 of the fiscal year were JPY775 million, 50% of the full-year forecast.

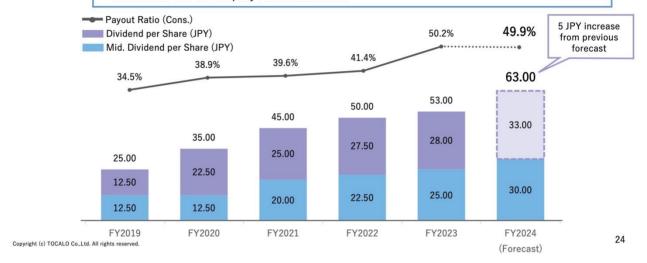




An annual dividend of 63 JPY is planned for FY2024 (a dividend payout ratio of 49.9%), an increase of 5 JPY from the previous forecast

#### 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

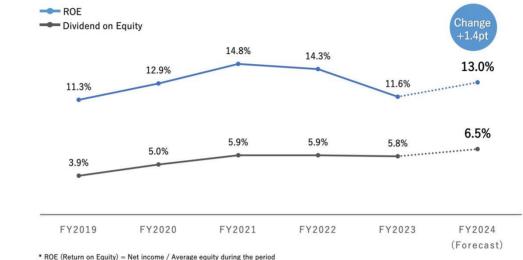


Dividend amount and dividend payout ratio. In line with the revision of the earnings forecast, the interim dividend for the current fiscal year has been increased by JPY2 from the previous forecast to JPY30, and the year-end dividend forecast has been increased by JPY3 to JPY33. The annual dividend is expected to be JPY63 per share, an increase of JPY5 from the previous forecast. The dividend payout ratio will be 49.9%.









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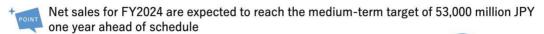
ROE and dividend on equity ratio DOE. ROE is expected to improve to 13% and the ratio of dividends to net assets to total assets to 6.5% during the current fiscal year.

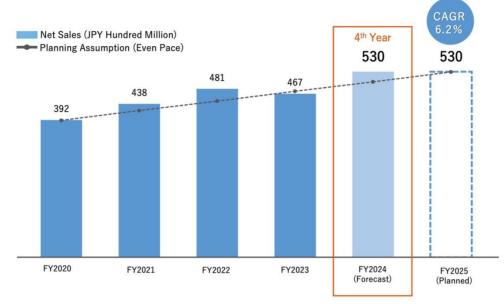
<sup>\*</sup> DOE (Dividend on Equity) = Dividend per share / Average net assets per share during the period (=ROE × Dividend payout ratio)



# Progress of Medium-term Management Plan (Net Sales)







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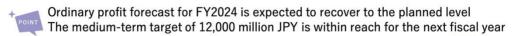
I will then explain the progress of the medium-term management plan. The current fiscal year is the fourth year of the five-year plan. First, in terms of sales, we expect to achieve the sales target of JPY53 billion in the current fiscal year, one year ahead of the target of the medium-term management plan.

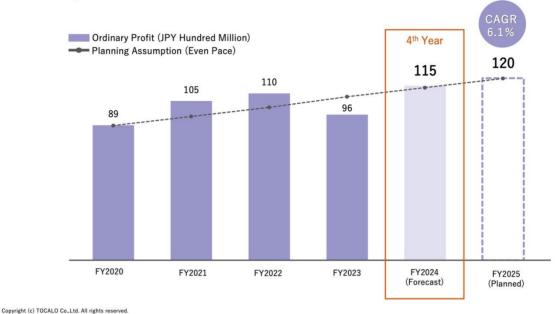


# Progress of Medium-term Management Plan (Ordinary Profit)



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Regarding the progress of ordinary income, the forecast for the current period is JPY11.5 billion, which is recovering to the planned level. We are now within range of achieving the ordinary income target of JPY12 billion in the medium-term management plan for the next fiscal year.



#### Thai JV Becomes a Wholly Owned Subsidiary Tocalo

New Company Name: TOCALO Surface Technology (Thailand) Co., Ltd.

- In October 2012, we established a joint venture, NEIS & TOCALO (Thailand), with Neis Co., Ltd. (a welding-related business) and entered the Thai thermal spraying processing market (steel and industrial machinery fields)
- In June 2024, we acquired the additional 51% of shares held by Neis Co., Ltd., making the joint venture into a wholly owned subsidiary so as to focus management resources on the thermal spraying processing business and expand operations
- In July 2024, we changed the company's name and increased capital by 70 million THB (approximately 300 million JPY)
- Currently, a new factory is under construction (started in August 2024, with completion expected in October 2025 and the start of operations expected in February 2026)

#### Most recent operating results

	Fiscal year ending December 2023
Net assets	158 million THB
Total assets	170 million THB
Net sales	79 million THB
Operating profit	3 million THB
Ordinary profit	3 million THB
Net income	2 million THB





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Finally, we would like to highlight three topics for the interim period. The first topic is the conversion of the Thai joint venture into a wholly owned subsidiary. In October 2012, NEIS & TOCALO (Thailand) was established as a joint venture with Neis and a company engaged in welding business to conduct thermal spray processing and welding business in Thailand. In June this year, the company became a wholly owned subsidiary of the NEIS Group by acquiring an additional 51% of its shares. Since then, the company has changed its name, increased its capital by JPY300 million, and is currently constructing a new plant. The new plant is scheduled to begin operations in February 2026.



### Acquired All Shares of TERADA KOSAKUSHO Co., Ltd.



- In August 2024, we acquired all shares of TERADA KOSAKUSHO Co., Ltd. (a machining business), and made it into a subsidiary
- TERADA KOSAKUSHO has outstanding machining technologies that are capable of manufacturing precision parts using a variety of materials
- By combining their technologies with our surface modification technologies, we anticipate being able to further enhance the value we provided to our customers
- Moving forward, we plan to start personnel exchanges and explore technical cooperation (such as machining before and after thermal spraying) as well as material production

#### Most recent operating results

	Fiscal year ending July 2023
Net assets	469 million JPY
Total assets	806 million JPY
Net sales	408 million JPY
Operating profit	92 million JPY
Ordinary profit	107 million JPY
Net income	78 million JPY





3

As for the second topic, in August 2024, we acquired all shares of TERADA KOSAKUSHO, a company engaged in the machining business with annual sales of approximately JPY400 million and made it a subsidiary. TERADA KOSAKUSHO possesses superior machining technology capable of manufacturing precision parts using a wide variety of materials, and we believe that combining this with our surface modification technology will further enhance the value we provide to our customers.

We are planning to start exchanges of human resources, technical cooperation, machining before and after thermal spraying, etc., and also to consider the production of materials.





### Publication of Our First Integrated Report

We published our first integrated report on October 31.

We strengthen and leverage non-financial capital (such as human resources, intellectual property, manufacturing facilities, and environmental measures) to create better products and services. Through this process, we aim to achieve sustainable growth, "Contributing to a bright future for people and nature," and we have included the status of these efforts in the report.







As the third topic, our first integrated report was issued on October 31. We strengthen and utilize nonfinancial capital such as human resources, intellectual property, manufacturing facilities, and environmental responsiveness to create better products and services.

Through this process, we aim to achieve sustainable growth and contribute to a prosperous future for people and nature, and we have posted the status of our efforts. We would like to take your feedback into consideration in order to further improve the content. Please give us your unreserved opinion.

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

#### **Question & Answer**

**Moderator** [M]: Thank you very much for your explanation, Mr. Kobayashi. We will begin by taking questions from the audience. If you are attending online, please use the Q&A function at the bottom of the screen to send us your questions during the Q&A session at the venue.

The IR meeting will be transcribed and published in its entirety, including the Q&A portion. If you give your company name and name when you ask a question, it will be made public as it is. If anyone in the audience has any questions, please raise your hand. We will bring a microphone. Are there any questions?

**Participant [Q]:** Thank you for your explanation. As far as M&A is concerned, in the immediate future, I think you will basically concentrate your management efforts on the establishment of a new joint venture company between TOCALO Surface Technology and TERADA KOSAKUSHO in Thailand, PMI, integration, and exchange of human resources. Is it correct to understand that you are not considering any new M&As? Thank you.

**Company Representative [A]:** Thank you. This time, as a topic, we discussed our joint venture in Thailand and the collaboration with TERADA KOSAKUSHO. From our company's perspective, we are placing great importance on the product lines of our long-standing customers and are focusing on the construction of new factories. As mentioned earlier, we are making significant investments in the expansion of the semiconductor industry.

Therefore, while I have highlighted those topics this time, it's not that we are focusing all our energy on them. The main priority remains on nurturing the growing businesses and figuring out how to increase domestic production, which continues to be our primary focus.

Participant [M]: I understand. Thank you.

Moderator [M]: How about the others then?

**Participant [Q]:** Thank you for your explanation. In your earlier explanation of the progress toward the midterm plan, you mentioned that net sales for the current fiscal year were achieved almost a year ahead of schedule, and that profits have also made considerable progress. Given this, is there a possibility that the target figures for the medium-term plan may be revised upward for the next fiscal year?

**Company Representative [A]:** The next fiscal year will be the final year for us to review our mid-term management plan, and we will probably have a great deal of discussion about the next fiscal year, so we would like to discuss next fiscal year whether to raise the figures in the next mid-term management plan or review the current mid-term management plan.

Participant [M]: I understand. Thank you.

**Takeshita** [Q]: Thank you for your detailed explanation. My name is Takeshita from NEC Capital and I am participating for the first time. Thank you. I would like to ask you two questions. I believe that your recent business performance has been growing very steadily, and although data is not disclosed here, is the situation with orders also favorable? In this area, I would like to know the status of orders received, even if it is the president's personal opinion, in terms of the outlook for the next fiscal year and beyond. This is my first question.

Secondly, I would like to know about your overseas business, both domestic and overseas, and in which area you feel strong growth. My question may be a bit pointless, but on page 10, there is information on thermal

spray processing, domestic subsidiaries, and overseas subsidiaries, and I was wondering if the thermal spray processing, non-consolidated, has two sales, one overseas and one in Japan. I would like to know what kind of growth you expect for domestic and overseas sales. Thank you.

**Company Representative [A]:** First of all, regarding the order situation, I can't say too clearly because we have our own customers, but the outlook for some industries, such as the steel industry, is uncertain, but at this point, the semiconductor industry is on a steady rise, and it will continue to rise and rise and rise. We have also been talking about ensuring that we have sufficient production capacity. There are trends that will continue to evolve not only this year and next year, but also toward 2030.

Also, we have information that the aircraft industry is gradually expanding, although not by a large weight. I am not too worried about being held back now, this year, or next year. However, how to increase domestic semiconductor manufacturing capacity is now our theme. We are in the process of deciding that we need to make various investments to overcome these challenges.

Also, our overseas subsidiaries are currently growing at a significant rate, and we are seeing an increase in orders and production, mainly in the semiconductor business, at our overseas bases. Indeed, there are some uncertainties overseas, especially with the relationship between China and the United States. While there are concerns about how much production should be based in China, there are still some uncertainties. However, when we look at the trends in the semiconductor industry so far, and the growth projections we are hearing from equipment manufacturers about the future of the semiconductor industry, it is clear that, as you know, the number of fabs is expected to double by 2030.

Already in Japan, TSMC, Rapidus, KIOXIA, and others are already creating quite a few fabs at their production plants in Japan, but there is an expectation that a large number of fabs will be created at overseas locations as well. From that number, I understand that it may stagnate now, maybe stop for a bit at this point, or various other things, but if this fab is really going to achieve by 2030, that strong demand is going to continue. Our overseas subsidiaries now account for about 20% of our total sales, and we hope to expand this even further in the future. That's all from me.

**Takeshita** [M]: Thank you very much.

**Moderator [M]:** Does anyone have any other questions? We have received questions online. We have three items coming from one person, please respond one at a time.

**Participant [Q]:** The long-term growth of the semiconductor industry seems certain, but recently in President Kobayashi's meetings with customers, for example Tokyo Electron, do you feel that there has been a change, a slight toning down compared to six months ago or something like that? Please let me know this point.

**Company Representative [A]:** Yes. At present, the enthusiasm of manufacturers, or rather their forecasts, are expected to grow stronger toward 2030, as our sales staff and other senior management understand.

**Participant [Q]:** Thank you very much. Secondly, is there any need to expand your factory to the US. or other countries? This is a question in relation to President Trump.

**Company Representative [A]:** We have one base in the US called TOCALO USA. Furthermore, at this point, the current base has not yet become independent enough to generate profits on its own. However, with TSMC's investments in the US and other factors requiring business expansion, we are now at a stage where we are considering whether TOCALO should establish a base in the US. I hope to have something to report around next year or the year after.

**Participant [Q]:** Thank you very much. This the third and final question. Do you expect thermal spray processing for the steel and pairing industries to increase in the next fiscal year and beyond?

Company Representative [A]: It is in the general industry sector, but that is how we categorize it. The steel industry might be a bit challenging, but since we are not offering just one product to our customers, we are expanding our product range and adding more value to provide something different from what we have offered so far. Overall, we are aiming for growth. Our sales and manufacturing teams are working hard at this. While the field may be somewhat challenging, TOCALO is seriously committed to this and aims to target expansion.

The value of bearings is gradually being recognized, and there was some talk of overseas expansion, but now we are seeing a renewed appreciation of the high technology of Japanese bearings. In that regard, while I wouldn't say forever, I believe that over the next three to five years, we will continue to expand, and that is what I have heard as well.

**Moderator [M]:** Thank you very much. There being no further questions, this concludes the IR meeting of TOCALO.

Kobayashi [M]: Thank you very much. Thank you again to the audience for coming.

[END]

#### **Document Notes**

- 1. Portions of the document where the audio is unclear are marked with [inaudible].
- 2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
- 3. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.
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