



March 22, 2024

Company: TOCALO Co., Ltd.
Representative: Kazuya KOBAYASHI, President and
Executive Officer
(Stock code: 3433 (Prime Market of
Tokyo Stock Exchange))
Contact: Hiroshi GOTO, Managing Executive
Officer
Phone: +81-78-303-3433

Response Toward Achieving Management Conscious of Cost of Capital and Stock Price

TOCALO Co., Ltd. hereby announces that at the Board of Directors meeting today, the Board conducted an analysis of the current situation of cost of capital and return on capital, and decided on a response policy for improvement. The details are as follows.

1. Analysis of Current Situation

The Company recognizes that it has been able to maintain a return on capital that exceeds shareholders' expectations, as our ROE has exceeded the cost of shareholders' equity (approximately 8-10%) for the last nine years. As a result, the Company has earned a certain level of market valuation and has been able to maintain a stable PBR of more than 1. However, due to the impact of the accumulation of equity as a result of steady performance progress, ROE for the most recent four years has not reached our target (15%). 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 the Company's Various Indicators)

	FY ended 3/2019	FY ended 3/2020	FY ended 3/2021	FY ended 3/2022	FY ended 3/2023
Net sales (million yen)	39,742	38,084	39,294	43,813	48,144
Recurring profit (million yen)	8,076	6,812	8,914	10,571	11,003
Recurring profit ratio (%)	20.3	17.9	22.7	24.1	22.9
Equity ratio (%)	65.6	65.9	68.9	70.6	72.5
ROE (%)	15.2	11.3	12.9	14.8	14.3
Net assets per share (yen)	617.80	662.28	727.06	807.31	884.83
Share price at end of fiscal year (yen)	872	1,019	1,448	1,360	1,296
PBR	1.41	1.54	1.99	1.68	1.46

2. Policy for Future Response

In order to further increase the value of shareholders' equity, the Company aims to achieve a stable ROE of 15% through the following three measures.

[Target]

Achievement of a stable ROE of 15%.

[Measures To Be Taken]

① Improvement of Profitability

- The Company will expand business by developing new coatings and creating new markets, without relying on existing markets, by establishing our presence as a top manufacturer for surface modification centered on thermal spraying.
- The Company will enhance quality control and improve productivity by making manufacturing processes more sophisticated and efficient through the promotion of automation and IoT, development of new coating equipment, and other means.
- The Company will continue to make capital investments (five to seven billion yen per year) and development investments (about 5% of net sales ratio) to ensure technological superiority and improve profitability.

② 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.
- The Company 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 funds.

③ Strengthening of Shareholder Returns

- In order to maintain a high and stable level of dividends, the Company will target a consolidated dividend payout ratio of about 50% and a dividend on equity (DOE) ratio of 5% or more.
- The Company will also consider flexibly implementing acquisition of its own shares.

For further details, please refer to the attached document.

New possibilities for a bright future

Response Toward Achieving Management Conscious of Cost of Capital and Stock Price

March 22, 2024



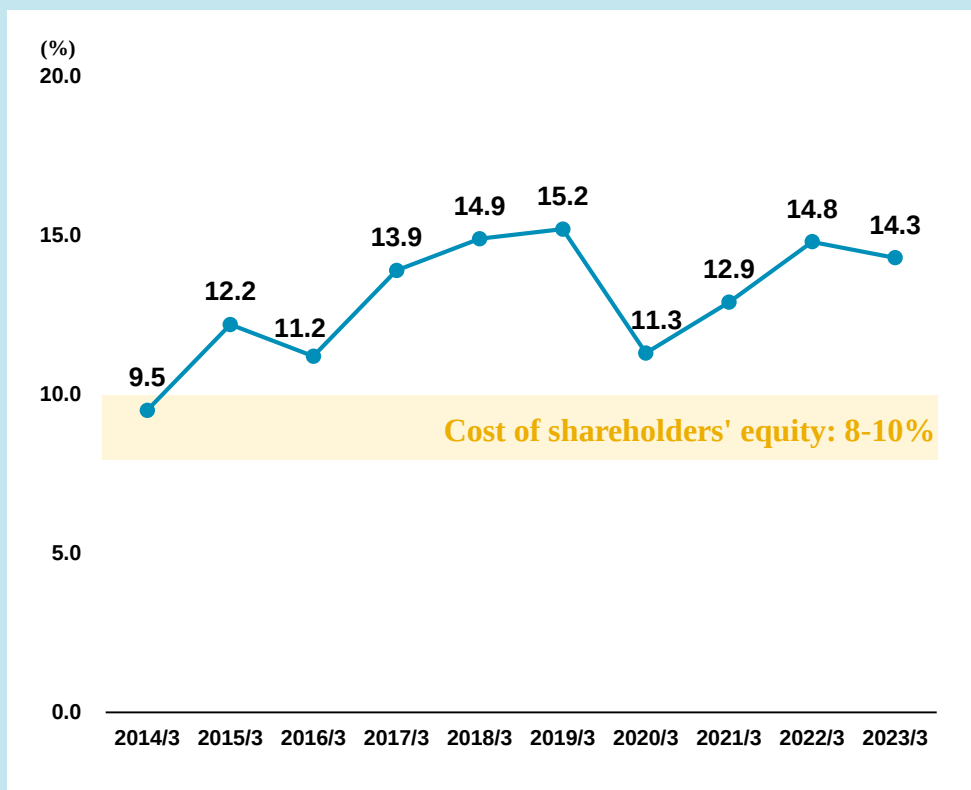
The Company recognizes that we have been able to maintain a return on capital that exceeds shareholders' expectations, as our ROE has exceeded the cost of shareholders' equity for the last nine years. As a result, we have earned a certain level of market valuation and have been able to maintain a stable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

Our cost of shareholders' equity

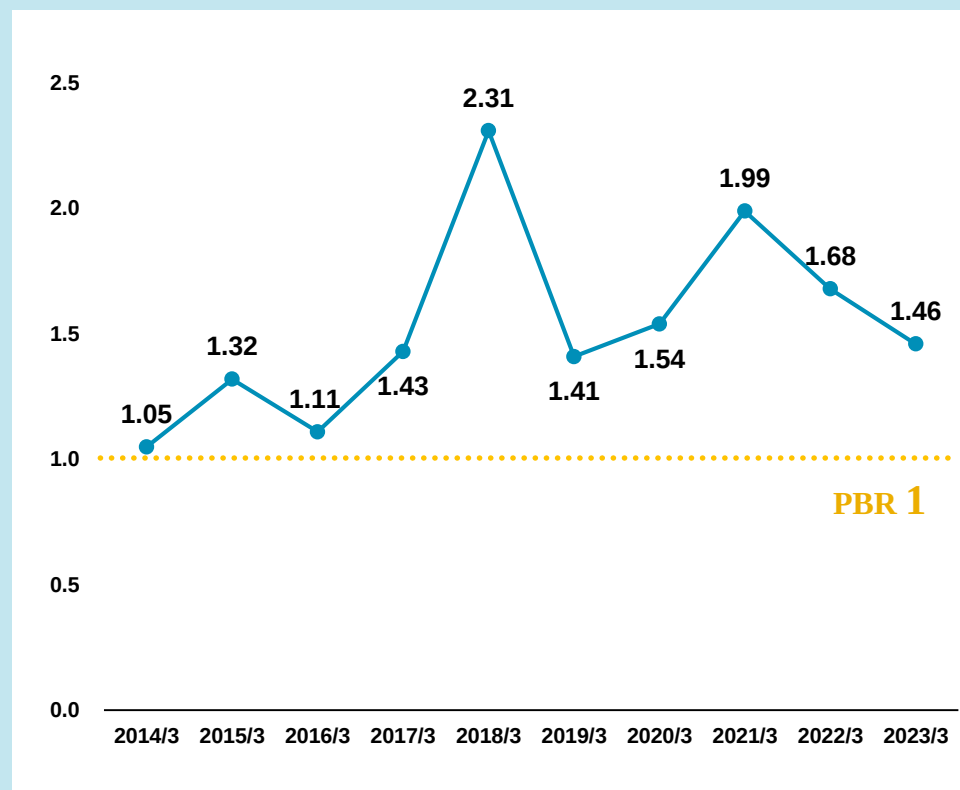
8-10% (Reference value)
(Approx.)

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%.

• Changes in ROE

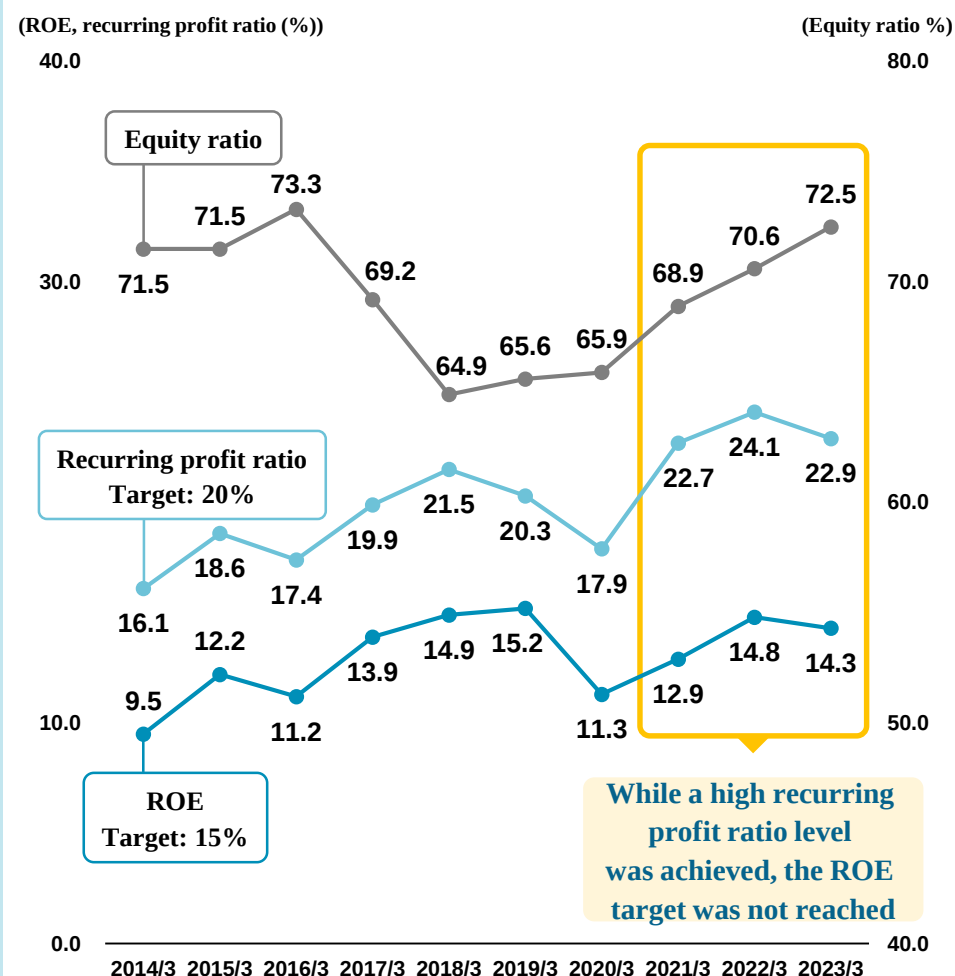


• Changes in PBR

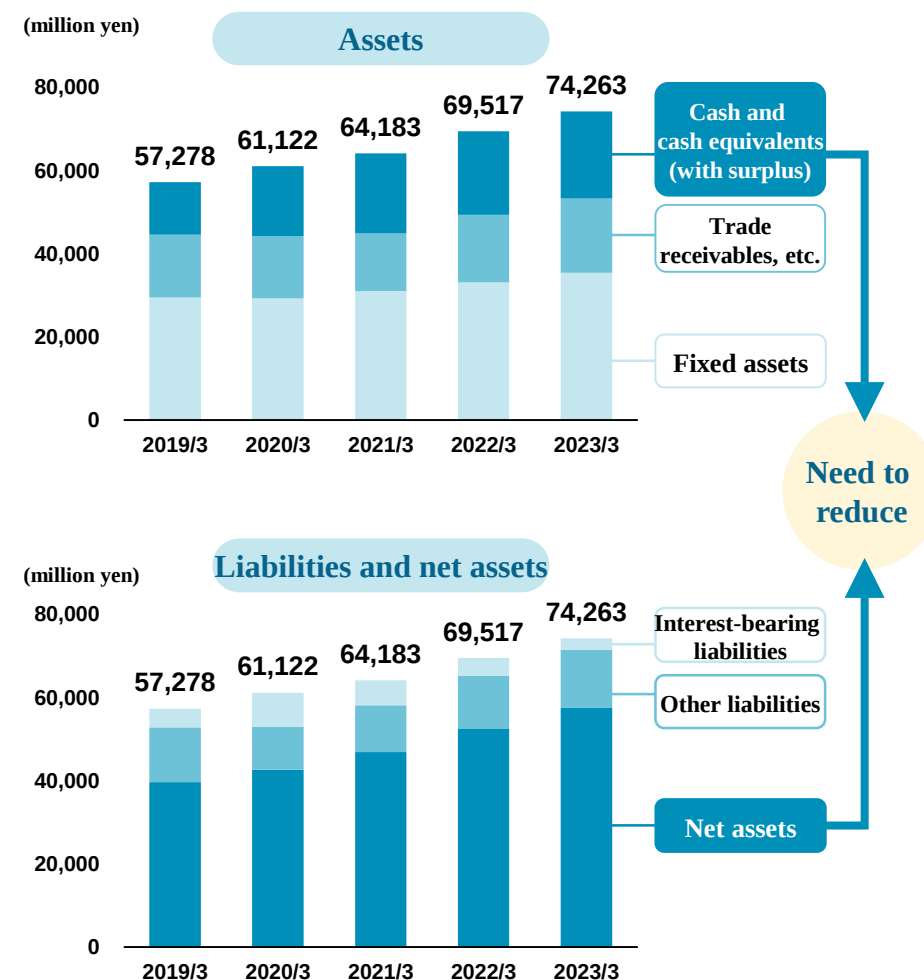


While the Company's PBR has remained stable at more than 1, ROE has fallen short of the target due to the impact of the accumulation of equity as a result of steady performance progress. Going forward, we believe it is necessary to take proactive measures to improve capital efficiency with respect to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

• Changes in key indicators



• Balance sheet status



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**

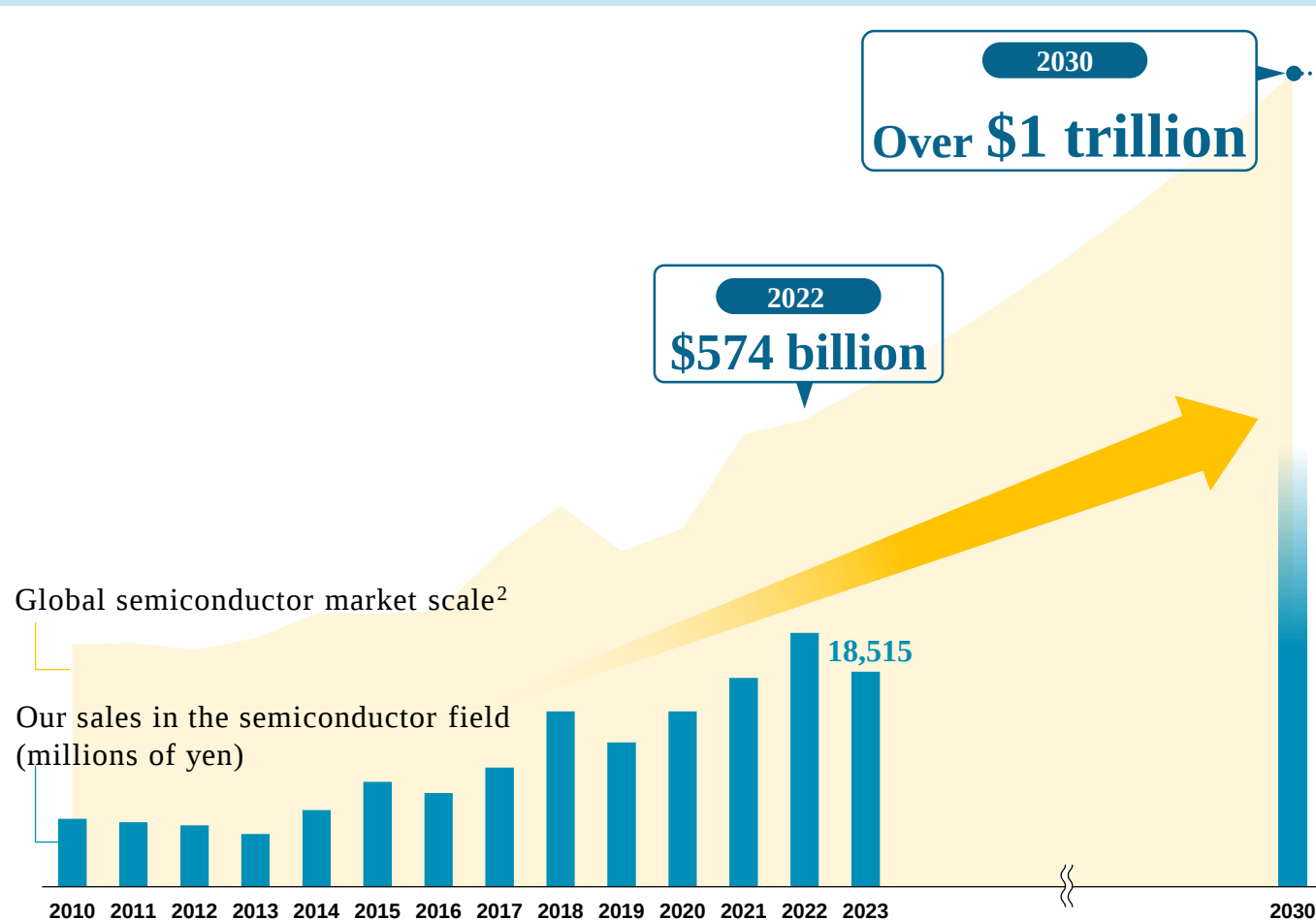
① Improvement of Profitability

(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.

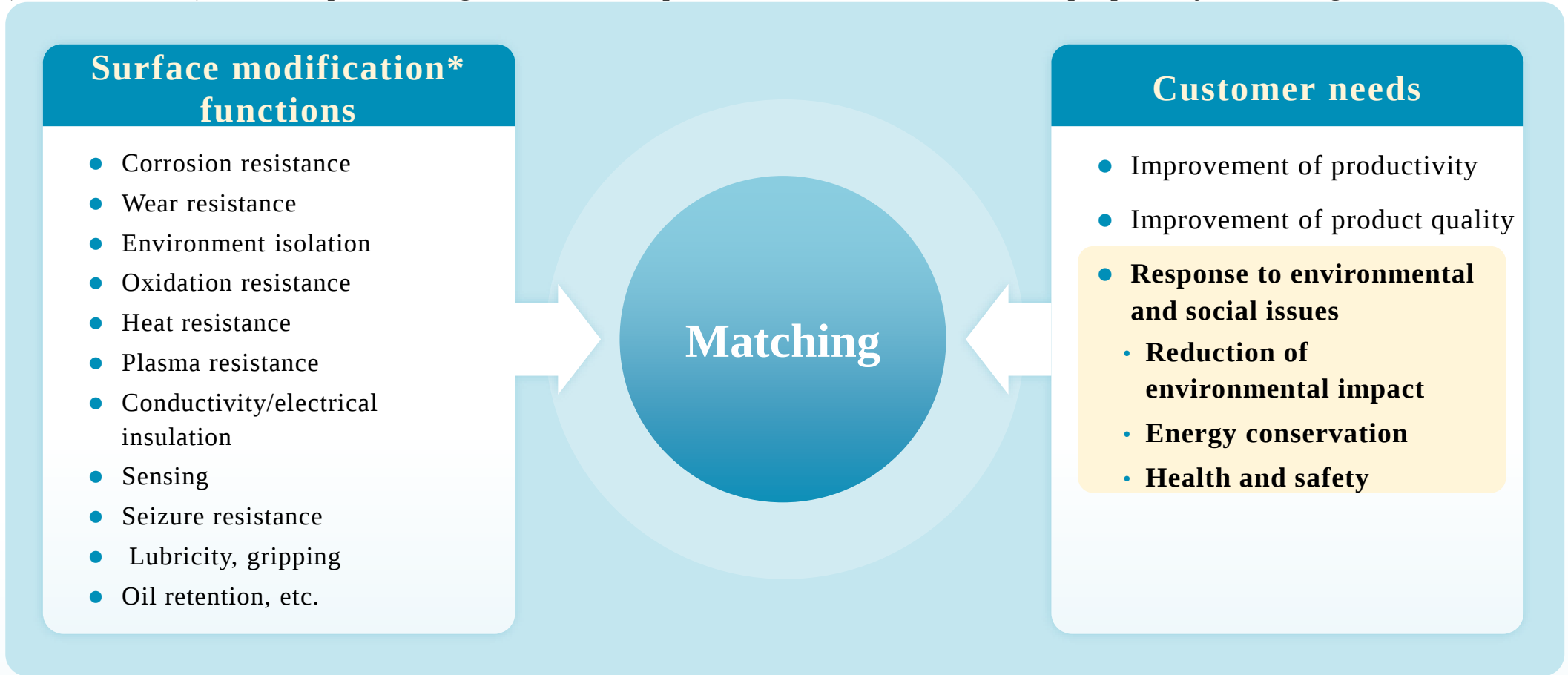
2. Compiled by the Company based on the World Semiconductor Market Statistics (WSTS), translated by the Japan Electronics and Information Technology Industries Association.

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.



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.

① Improvement of Profitability

(3/3: Manufacturing Process and Profit Structure)

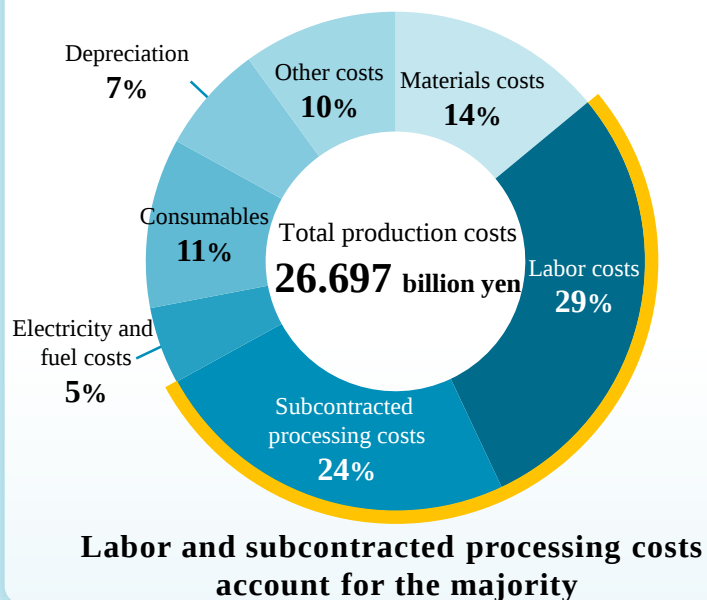
TOTALO

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)



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

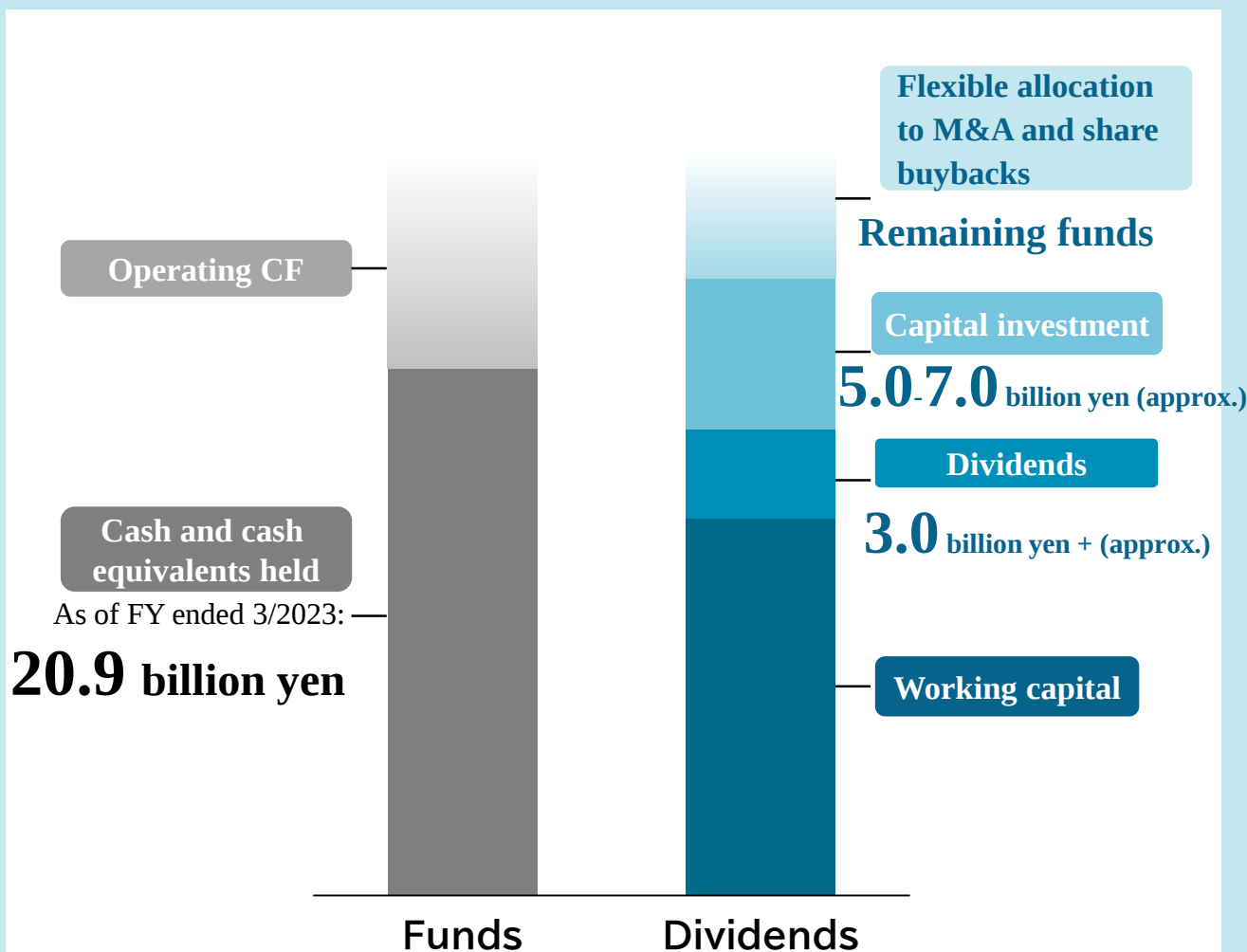
Reduce dependence on human resources through automation and IoT by carefully identifying operations that can be improved.

Improve productivity and strengthen quality control

② Optimization of cash and cash equivalents level

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



Cash on hand is essential to enable flexible investment.

The optimal level of cash and cash equivalents

will be determined in stages.

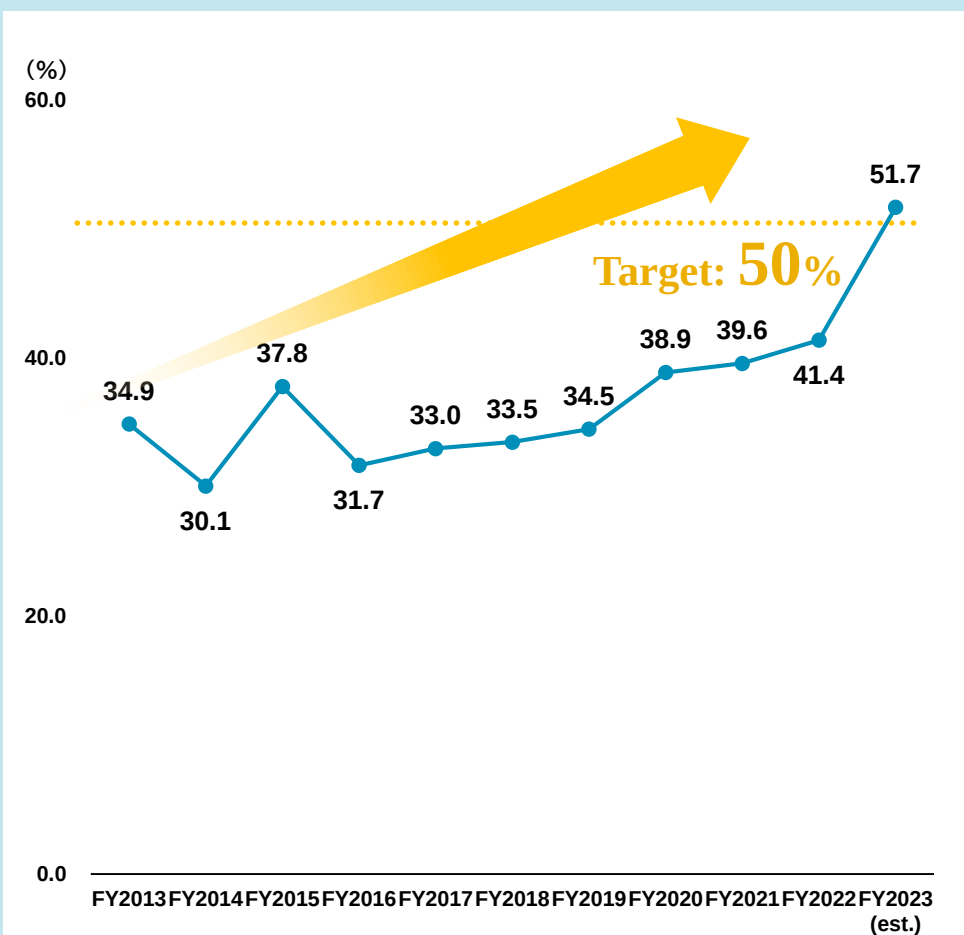


Balance between stable financial structure and high ROE

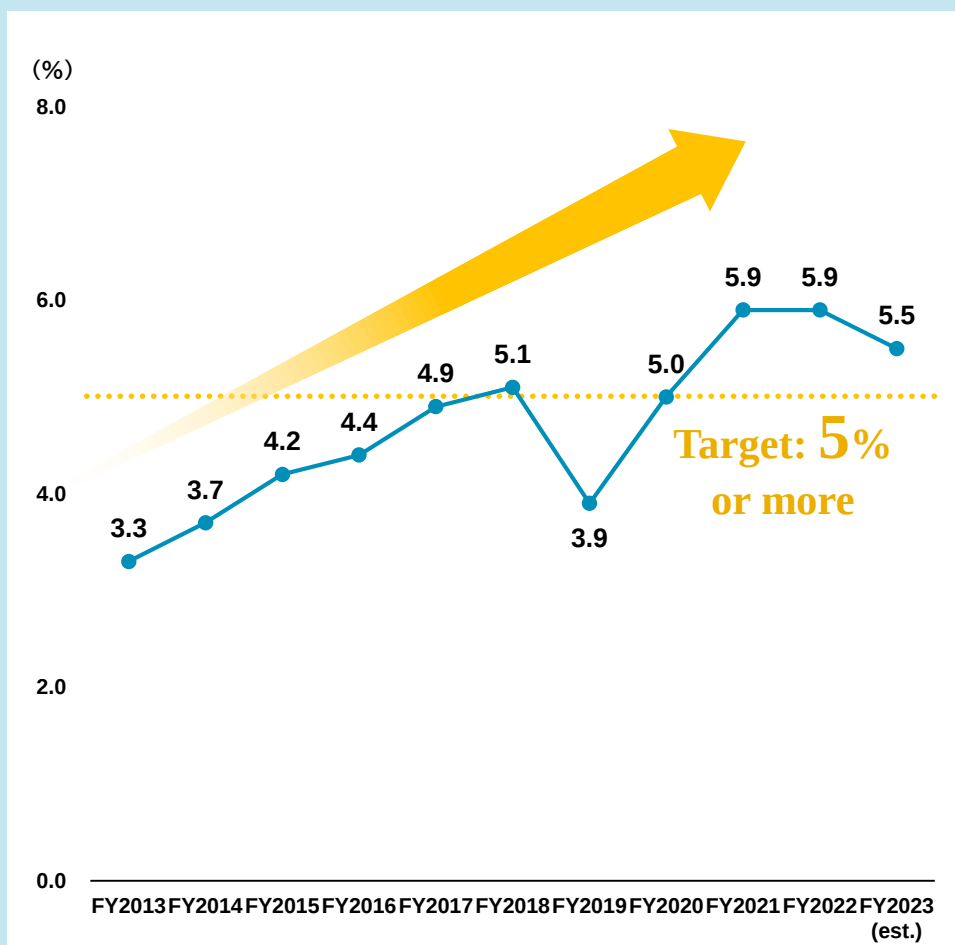
③ Strengthening of shareholder returns

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



As a top runner in surface modification technology centered on thermal spraying, the Company boasts the No. 1 market share in Japan. The thermal spraying method has many options in terms of base materials, etc., and its strength lies in its ability to provide optimal solutions to various customer issues.

Overview of thermal spraying method

Fine particles of metals and ceramics melted at high temperatures are sprayed at high speed onto the surfaces of machine parts, etc. to form highly functional coatings

Base materials

- Metals
- Non-metals
- Plastics
- Ceramics
- ...

Surface
modification

- Metals
- Alloys
- Cermet
- Ceramics



Finishing methods

- Surface roughness adjustment
- Surface profile alignment

Abundant functions

- Wear resistance
- Heat resistance
- Conductivity
- ...

High added value

- New product development
- Improved production efficiency
- Lowering of maintenance costs
- Higher quality products
- Safety measures

Advantages of thermal
spraying (others)

- Fast coating formation
- Thick coating formation is possible
- Mirror finish and machining are possible
- Moderate porosity
- Can be applied while maintaining low base material temperature
- Not limited by base material dimensions
- Can be applied onsite
- ...

Features

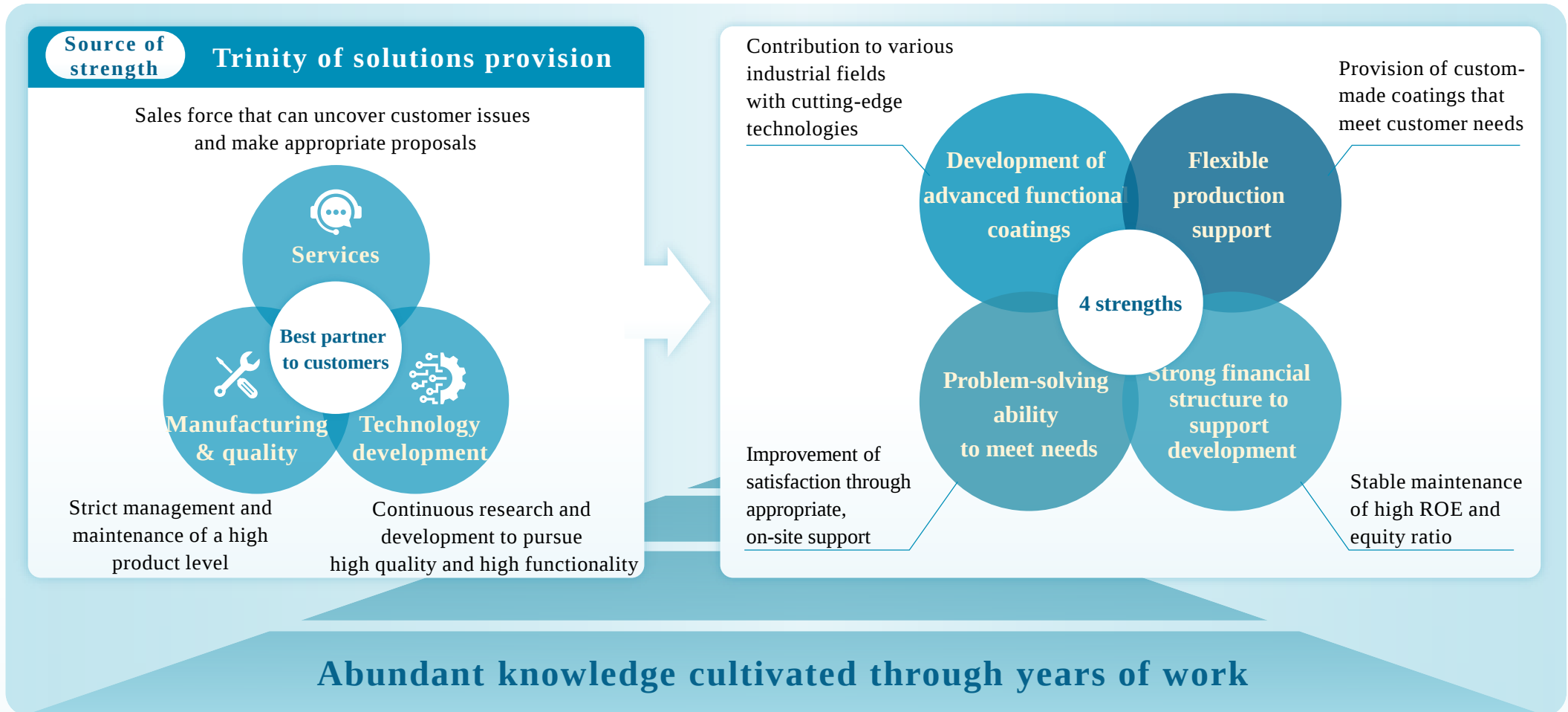
Can be applied to a wide variety of base materials

Flexible selection of thermal spraying materials and finishing methods

Optimal solutions

Strength lies in construction technology that leverages the advantages of thermal spraying

Our “abundant knowledge of surface modification technology” cultivated through responding to the various needs of all manufacturing industries is the source of our high competitive advantages.



Toward further enhancement of corporate value through technological exchange and joint development

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

Contact

TOCALO Co., Ltd.

Corporate Planning Division

TEL: +81 78-303-3433