

Q2 FY2021
Earnings Presentation
2021/8/11



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I

Q2 FY2021

Financial Summary

[General]

- The pace of global economic recovery has been accelerating as economic measures take greater effect in countries around the world. The OECD increased its global economic growth outlook for 2021, centered on the U.S., China, and the euro area.
- Recorded a large YoY increase in both Net sales and Operating income, with results significantly outperforming forecasts for Q2. Raised full-year guidance.
- On the other hand, risks remain, including the slowing of the economic recovery as the Delta variant spreads globally, lower auto production and slower sales due to the semiconductor chip shortage, and disruptions to shipping owing to the container shortage
- The steel industry, which is linked to the graphite electrode business, has recovered significantly, and graphite electrode demand has also recovered in the U.S. and Europe. Utilization rates at the company's plants have risen to 70-80%.

[By segment]

- In the graphite electrode business, Net sales and Operating income both fell YoY, but Operating income turned positive after a loss in Q2. In the carbon black business, both Net sales and Operating income increased significantly on a rapid recovery in global demand from the automotive industry. In the fine carbon business and the industrial furnaces and related products business, both Net sales and Operating income increased as the company captured demand in the rapidly growing market for products related to 5G and the IoT. The smelting and lining business also saw an increase in Net sales and Operating income, thanks to a global increase in aluminum production volumes backed by an increase in demand for aluminum for electric vehicles.

[Financial]

- The company renewed its credit rating, successfully maintaining an issuer rating of A- (rating direction: stable) and a commercial paper rating of a-1 from Rating and Investment Information (R&I), despite the difficult environment caused by COVID-19. The company also increased the amount of CP that it may issue (¥40.0b to ¥50.0b), in order to secure liquid funds.
- The company issued ¥10.0b in 2nd Unsecured Straight Bonds (five-year bonds, 0.12% interest rate), for the first time in approximately two years, since issuing its first three-year bonds in June 2019. The decision to issue these bonds was based on the expectation of higher auction yields in bond purchase operations as the deadline for the Bank of Japan's expanded bond purchase operations draws close.

Summary of Consolidated Results

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- Net sales ¥117.4b, Operating income ¥10.9b, ROS 9.3%
- Net sales and Operating income increased YoY

(Millions of yen)

	Jan-Jun 2020	Jan-Jun 2021	YoY Change	%Change
Net sales	93,738	117,380	+23,642	+25.2%
Operating income	5,817	10,945	+5,127	+88.1%
Ordinary income	5,163	10,646	+5,483	+106.2%
Net income attributable to owners of the parent company	2,158	5,708	+3,549	+164.4%

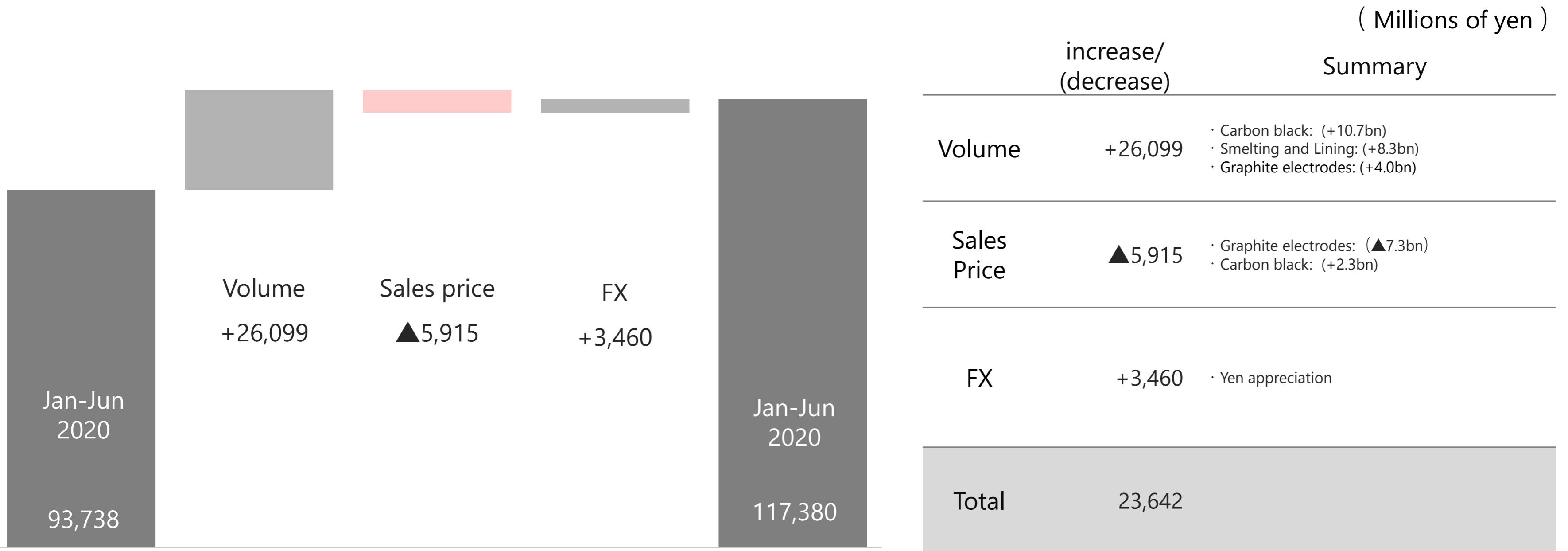
Group companies (As of June 30, 2021)

- Consolidated subsidiaries: 33
- Equity method affiliates: 2

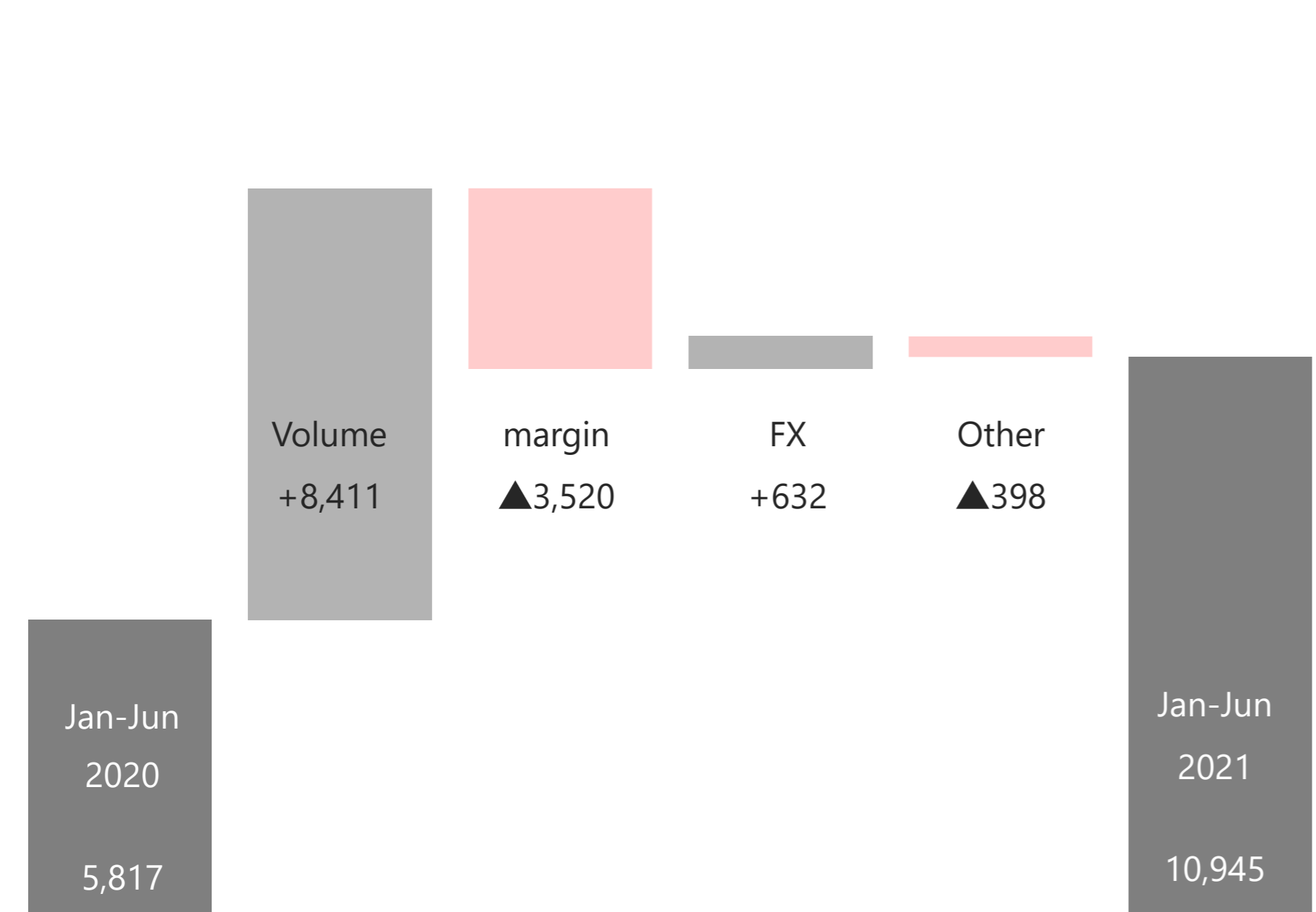
Average exchange rates:

- 2020 USD1= ¥108.27
EUR1= ¥119.30
- 2021 USD1= ¥107.69
EUR1= ¥129.82

- Net sales increased 25.2% YoY
- Net sales increased in the carbon black business in line with the recovery in demand while Tokai COBEX Savoie started its contribution to the consolidated results from August 2020.



- Operating income increased 88.1% YoY
- Operating income increased in all businesses apart from the graphite electrode business (YoY)



	Increase/ (decrease)	Summary
Volume	+8,411	· Carbon black: (+3.8bn) · Smelting and Lining: (+1.8bn)
Margin	▲3,520	· Graphite electrodes: (▲1.7bn) · Smelting and Lining: (▲1.3bn)
FX	+632	
Other	▲398	
Total	5,127	

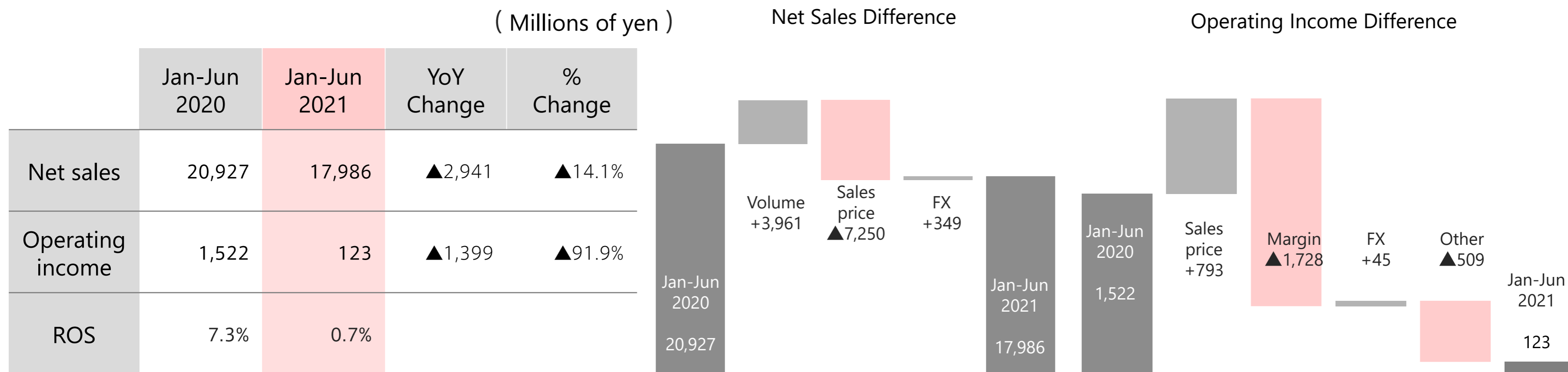
Net Sales and Operating Income by Segment

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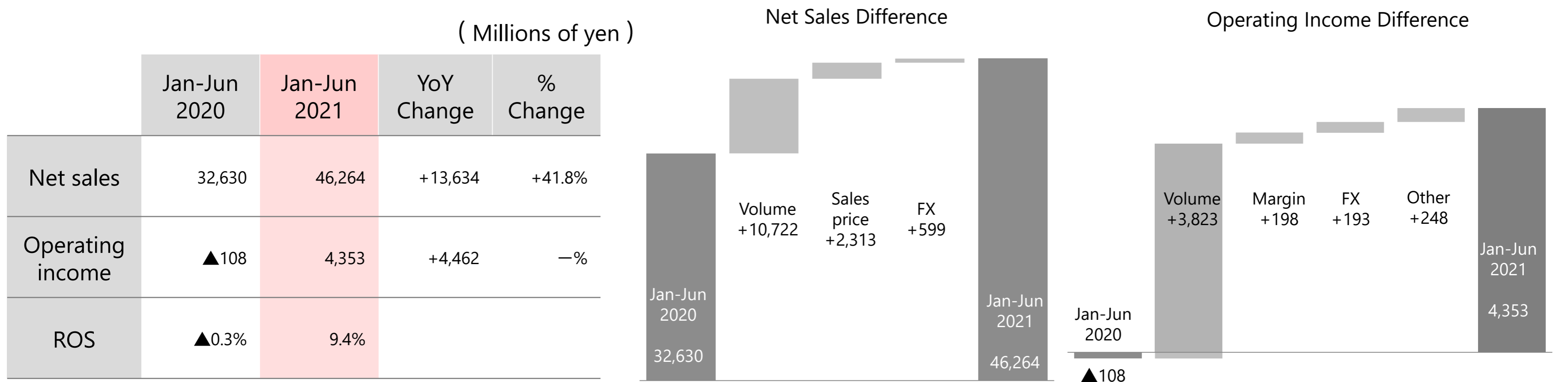
(Millions of yen)

		Net sales			Operating income		
		Jan-Jun 2020	Jan-Jun 2021	YoY Change	Jan-Jun 2020	Jan-Jun 2021	YoY Change
Graphite Electrodes		20,927	17,986	▲2,941	1,522	123	▲1,399
Carbon Black		32,630	46,264	+13,634	▲108	4,353	+4,462
Fine Carbon		15,544	18,677	+3,133	3,484	4,557	+1,073
Smelting and Lining		12,900	21,893	+8,992	▲238	302	+541
Industrial Furnaces and Related Products		6,390	6,539	+149	1,659	1,953	+293
Other Operation	Friction materials	3,175	4,404	+1,228	—	—	—
	Anode materials	2,097	1,547	▲549	—	—	—
	Others	71	67	▲3	—	—	—
		5,344	6,019	+675	233	348	+114
Inter-segment eliminations		—	—	—	▲734	▲692	+41
Total		93,738	117,380	+23,642	5,817	10,945	+5,127

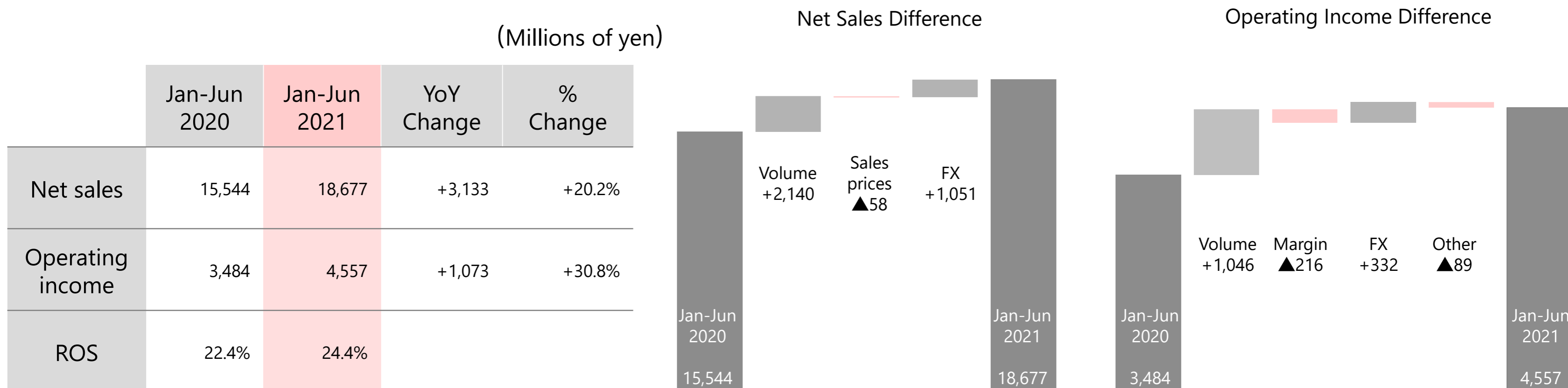
- Crude steel production recovered significantly in Jan.-Jun. 2021, increasing 14% YoY (+11% in China; +18% ex. China), and the company saw growth in electrode sales volume. There are signs that this will lead to a rebound in market conditions, but prices for Jan.-Jun. were mostly from the previous contracts, leading to YoY declines in both Net sales and Operating income
- Recent plant utilization rates have increased to 70-80% following the recovery in demand and the normalization of market inventory levels



- This business was affected by the cold wave in the southern U.S. in February, but sales volume increased thanks to a rapid recovery in auto production in China, as well as a global recovery in demand in the tire and auto component industries
- YoY: Crude oil prices increased, leading to higher adjusted carbon black sales prices
- YoY: Plant utilization rates increased, resulting in a recovery in margins



- The semiconductor and solar power generation markets were strong. The general industrial market also trended toward recovery
- Growth accelerated in solid SiC (Silicon Carbide) focus rings, used in the etching process in semiconductor production

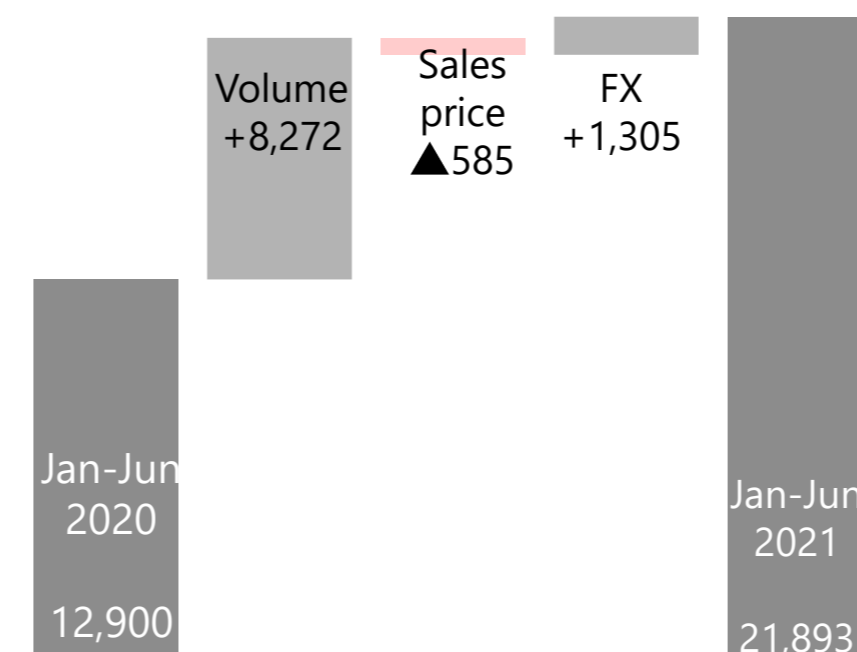


- Cathode block sales were strong, supported by continuing strong aluminum demand
- Sales and profits increased YoY in line with economic recoveries in multiple countries and a recovery in auto production
- Tokai COBEX Savoie (France) contributed to consolidated Net sales from August 2020
- Non-consolidated Operating income for the division of ¥5.271b (before consolidated adjustments of ¥4.969b, including goodwill amortization)

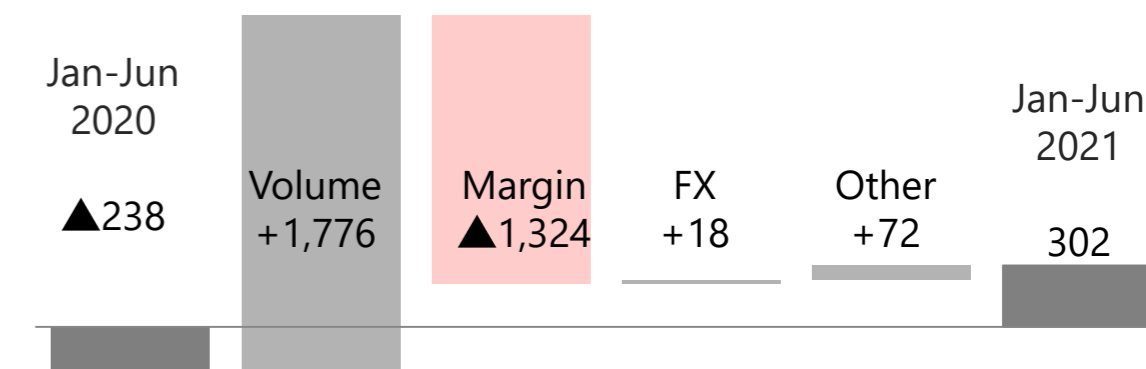
(Millions of yen)

	Jan-Jun 2020	Jan-Jun 2021	YoY Change	% Change
Net sales	12,900	21,893	+8,992	+69.7%
Operating income	▲238	302	+541	—
ROS	▲1.9%	1.4%		

Net Sales Difference



Operating Income Difference

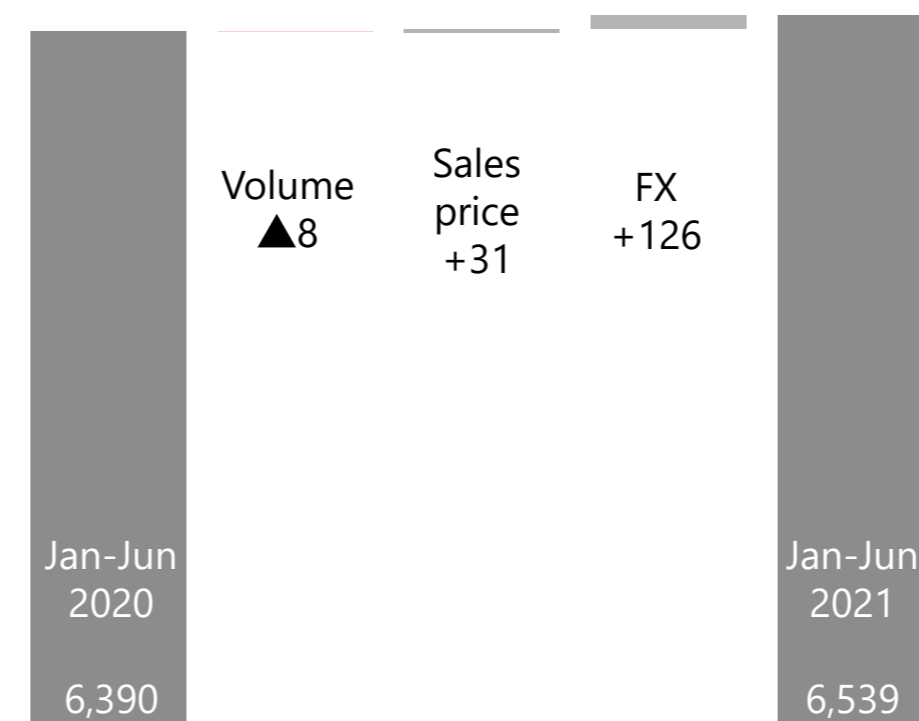


- Increase in both Net sales and Operating income
- Ceramic heaters, etc. were particularly strong YoY amid growth in demand from the electronic components industry and demand in China
- Demand for industrial furnaces also remained strong, partly for MLCCs amid demand from the electric vehicle and 5G sectors

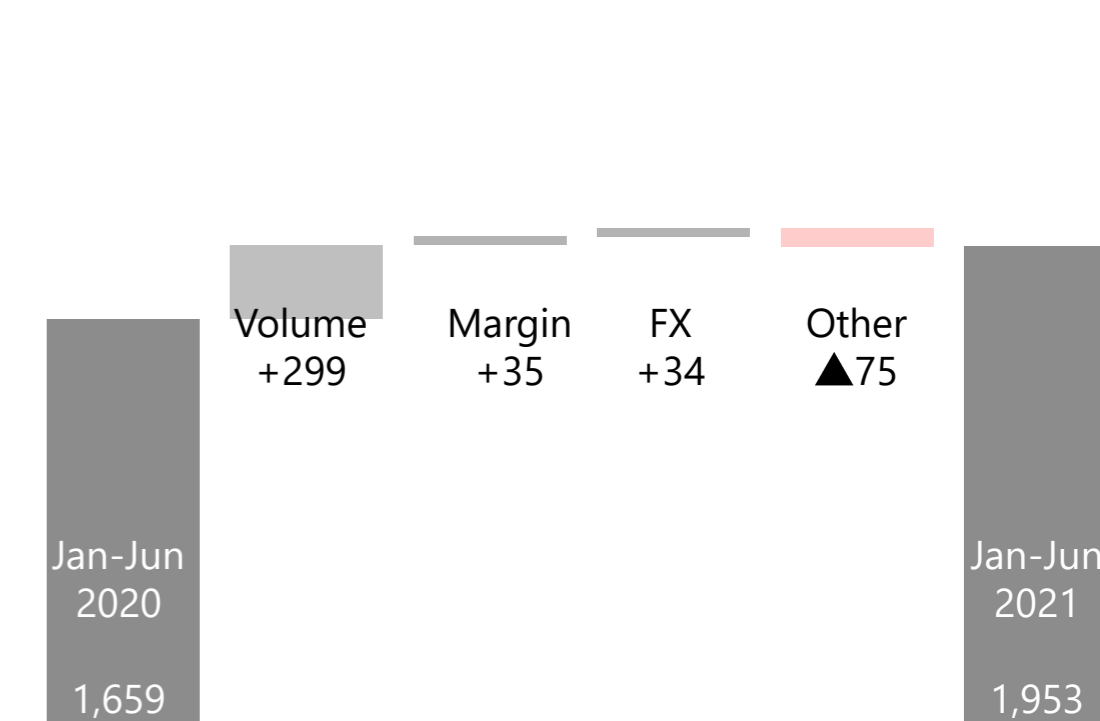
(Millions of yen)

	Jan-Jun 2020	Jan-Jun 2021	YoY Change	% Change
Net sales	6,390	6,539	+149	+2.3%
Operating income	1,659	1,953	+293	+17.7%
ROS	26.0%	29.9%		

Net Sales Difference



Operating Income Difference



Friction materials: Improved demand for construction and agriculture machinery, motorcycle and electromagnetic applications due to the global economic recovery

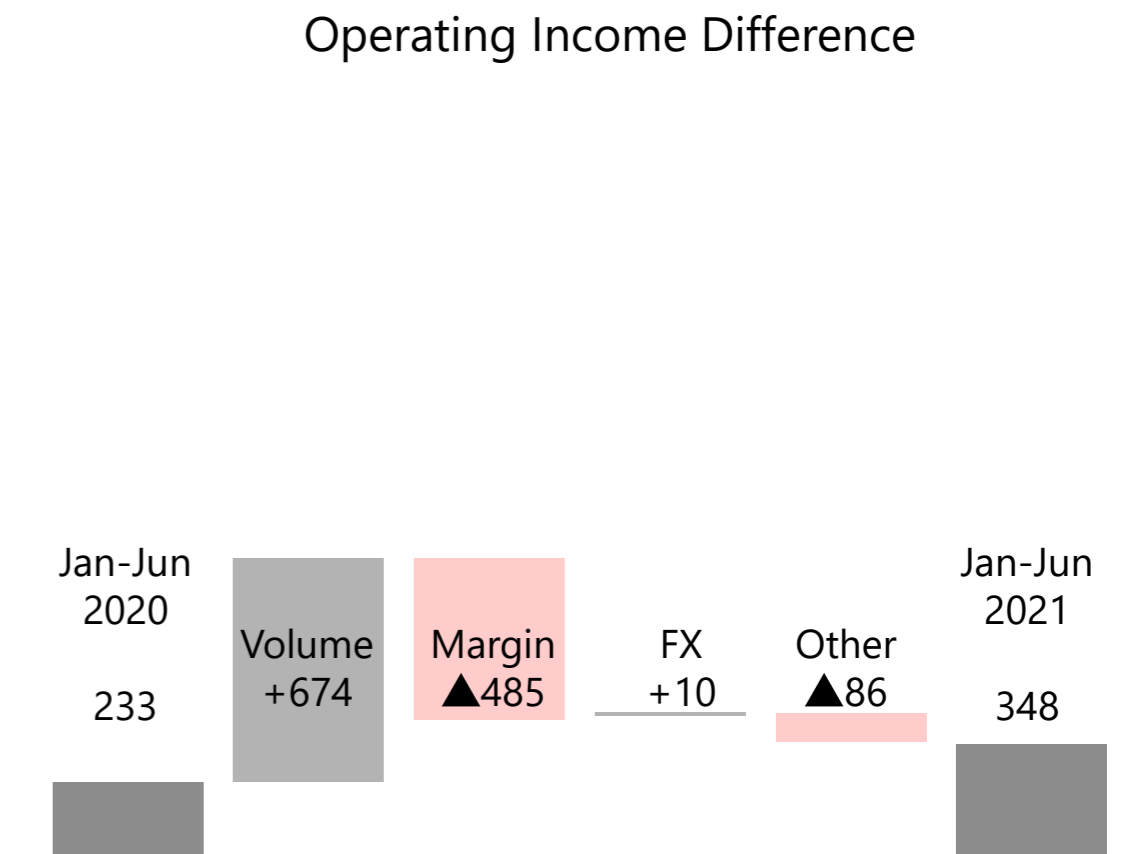
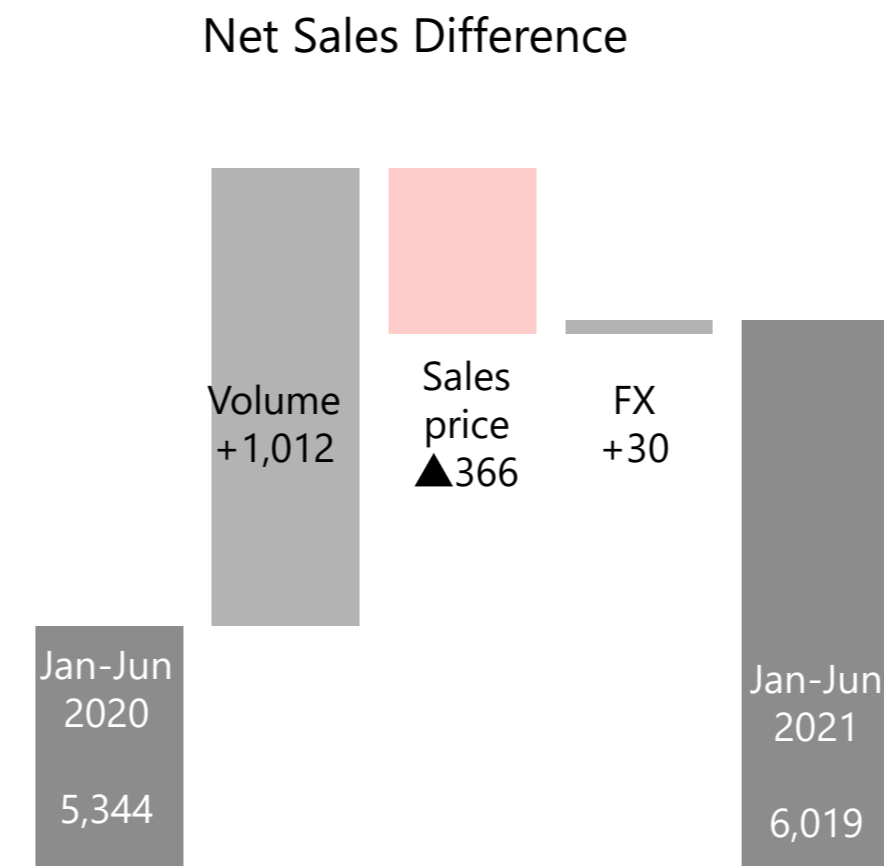
Net sales ¥440.4 million (+38.7% YoY)

Anode materials: Lower sales volume YoY, due to harsh competition with new entrants

Net sales ¥154.7 million (▲26.2% YoY)

(Millions of yen)

	Jan-Jun 2020	Jan-Jun 2021	YoY Change	% Change
Net sales	5,344	6,019	+675	+12.6%
Operating income	233	348	+114	+48.9%
ROS	4.4%	5.8%		



Major Cash Flow items

(Millions of yen)

	Jan-Jun 2020	Jan-Jun 2021	Note
Cash flows from operating activities	25,536	14,504	
Net income (loss) before income taxes	5,074	10,782	
Depreciation and amortization	9,998	10,990	
Amortization on goodwill	3,194	3,478	
Decrease (increase) in trade receivable	15,716	▲4,772	· Working capital: ▲6,663 million (Jan-Jun 2020 10,933 million)
Decrease (increase) in inventories	7,077	▲5,914	
Increase (decrease) in accounts payable-trade	▲11,860	4,023	
Income tax paid	▲3,663	▲4,083	
Cash flows from investing activities	▲13,532	▲19,555	· Free cash flow: ▲5,050 million (Jan-Jun 2020 +12,003 million)
Purchase of property, plant and equipment	▲12,063	▲16,337	
Acquisition of subsidiary	-	-	
Cash flows from financing activities	9,095	11,626	
Net increase (decrease) in short-term Loans payable	▲4,944	6,111	
Bond issuance	20,000	10,000	
Payment of dividends	▲5,115	▲3,197	
Cash and cash equivalents at end of period	66,630	66,501	

Major Balance Sheet Items

(Millions of yen)

	December 31, 2020	June 30, 2021	Summary
Total assets	459,709	501,609	
Current assets	177,678	202,654	· Cash/monthly sales: 4.0 times ((End of FY2020: 4.0 times)
Cash and cash equivalents	67,174	78,259	· Inventory: (+¥7,820 million from End of FY2020)
Notes and accounts receivable	41,438	47,421	· Tangible fixed assets: (+¥12,981 million from the end of FY2020)
Inventory	63,799	71,620	· Intangible fixed assets: (▲¥2,355 million from the end of FY 2020)
Fixed assets	282,031	298,954	
Tangible fixed assets	125,007	137,989	
Intangible fixed assets	133,349	130,993	
Investments and other assets	23,674	29,971	
Total liabilities	234,894	256,930	· Interest bearing debt: +¥174,857 million (+¥16,214 million from End of FY2020)
Current liabilities	92,656	110,930	· Direct funding ratio: 65.8% (End of FY2020: 59.9%), Long term debt ratio: 61.2 % (End of FY2020: 67.3%)
Long term liabilities	142,237	146,000	· Short term credit line: ¥62 billion ¥2.0 billion executed
			· Liquidation of receivables and CP issuance limit: ¥68 billion (+¥10 billion from End of FY2020), ¥50 billion executed (+¥10 billion from End of FY2020)
Total net assets	224,815	244,678	· Capital to asset ratio: 43.7% (End of FY2020 43.8%)
Shareholder's capital	196,543	199,072	· Adjusted Capital to asset ratio* : 50.7% (End of FY2020: 51.4%)
Other accumulated Comprehensive income	4,723	20,255	· Net D/E ratio: 0.4 times (End of FY2020: 0.5 times)
Non controlling interests	23,548	25,349	· Adjusted Net D/E ratio: 0.2 times (End of FY2020: 0.2 times)
Total liabilities and net assets	459,709	501,609	

※Adjusted capital-to-asset ratio is the ratio that takes into account the equity qualifications of rating agencies in hybrid finance

II

FY2021

Earnings Forecast

Consolidated Earnings Forecast FY2021

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- Revised full-year earnings forecasts in line with the recovery in earnings in the carbon black segment, fine carbon segment, etc.

(Millions of yen)

	Previous Forecast (February 10)			Updated Forecast for FY 2021			YoY Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net sales	103,800	124,100	227,900	117,380	133,520	250,900	+23,000	+10.1%
Operating income	4,600	13,500	18,100	10,945	12,655	23,600	+5,500	+30.4%
Ordinary income	4,100	12,800	16,900	10,646	11,954	22,600	+5,700	+33.7%
Net Income attributable to owners of the parent company	200	8,700	8,900	5,708	6,292	12,000	+3,100	+34.8%
ROS	4.5%	10.8%	7.9%	9.3%	9.5%	9.4%	—	—
ROIC	—	—	3.7%	—	—	—	—	—
ROE	—	—	4.5%	—	—	5.7%	—	—

Group companies

- Consolidated subsidiaries: 33
- Equity method affiliates: 2

Average exchange rates:

- USD1=¥105 , EUR1=¥126

Net Sales and Operating Income Forecast by Segment

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(Millions of yen)

	Previous Forecast (February 10)			Updated Forecast for FY 2021			YoY Change	% Change
	1H	2H	Full year	1H	2H	Full year		
Net Sales	103,800	124,100	227,900	117,380	133,520	250,900	+23,000	+10.1%
Graphite Electrodes	13,500	27,400	40,900	17,986	22,914	40,900	-	-
Carbon Black	39,000	39,000	78,000	46,264	51,336	97,600	+19,600	+25.1%
Fine Carbon	15,800	17,900	33,700	18,677	17,523	36,200	+2,500	+7.4%
Smelting and Lining	20,800	24,800	45,600	21,893	23,707	45,600	-	-
Industrial Furnaces and Related Products	9,200	9,100	18,300	6,539	11,761	18,300	-	-
Other	3,300	3,600	6,900	4,404	4,596	9,000	+2,100	+30.4%
Operation	2,100	2,200	4,300	1,547	1,653	3,200	▲1,100	▲25.6%
	100	100	200	67	33	100	▲100	▲50.0%
	5,500	5,900	11,400	6,019	6,281	12,300	+900	+7.9%
Operating Income	4,600	13,500	18,100	10,945	12,655	23,600	+5,500	30.4%
Graphite Electrodes	▲2,000	3,300	1,300	123	1,177	1,300	-	-
Carbon Black	2,600	2,800	5,400	4,353	3,547	7,900	+2,500	+46.3%
Fine Carbon	2,300	3,400	5,700	4,557	3,743	8,300	+2,600	+45.6%
Smelting and Lining	200	2,000	2,200	302	1,898	2,200	-	-
Industrial Furnaces and Related Products	2,000	2,400	4,400	1,953	2,447	4,400	-	-
Others	200	300	500	348	552	900	+400	+80.0%
Inter-segment eliminations	▲700	▲700	▲1,400	▲692	▲708	▲1,400	-	-

III

T-2023 Mid-Term Management Plan Progress Report
Outlook

- Progress is generally in line with targets in accordance with the basic policies of the T-2023 Mid-Term Management Plan announced on May 11, 2021

T-2023 Basic policies

① Returning core businesses to a path of growth

- Manage to increase the operation rate as the market grows
- Improving and stabilizing the profitability of graphite electrodes

- ✓ Carbon black business progress generally in line with targets
- ✓ Electrode business to benefit from full-fledged price increases starting with commercial negotiations during the next fiscal year



② Optimizing the business portfolio (Selection & Concentration)

- Continually revising business composition and product composition
- Increasing production capacity for high value-added products
- Concentrating investment in promising businesses and product development

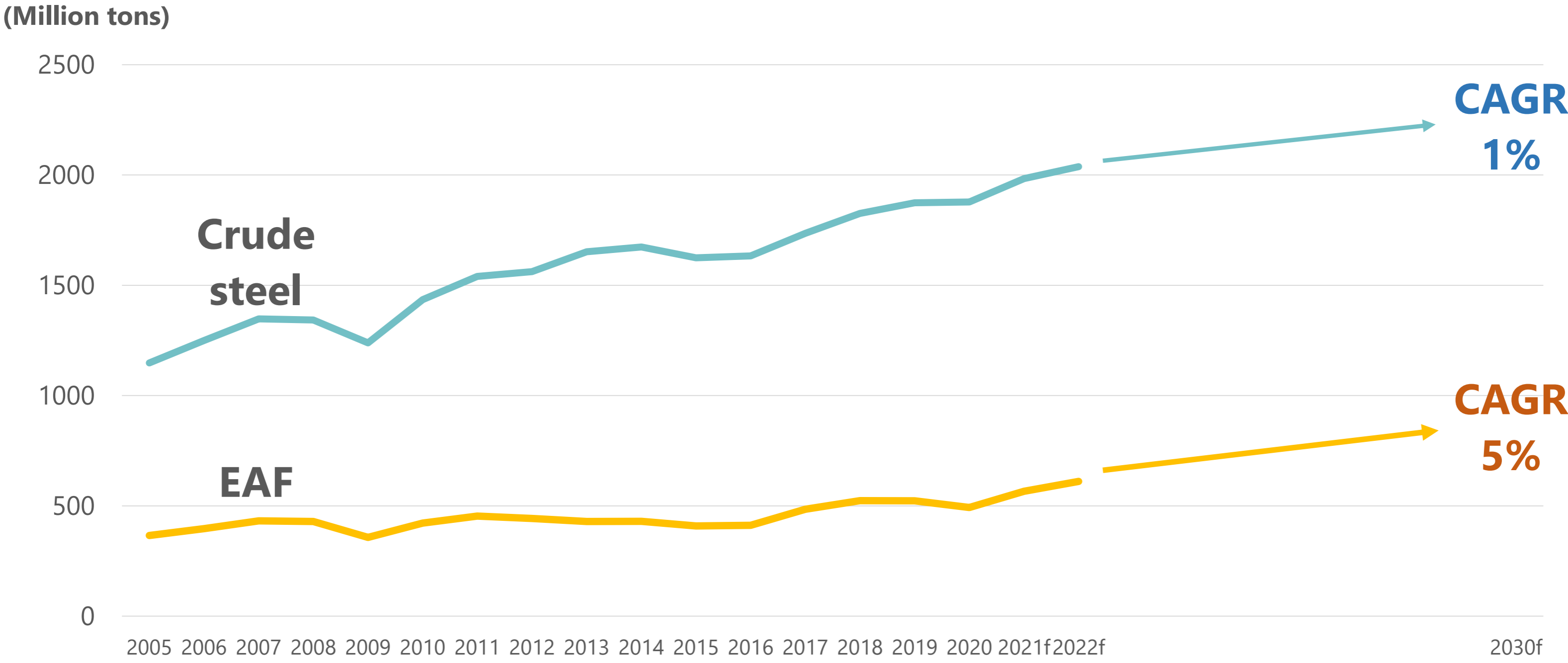
- ✓ Progress generally in line with targets, including initiatives targeting businesses being rebuilt

③ Strengthening the consolidated governance structure

- Responding to globalization of the head office organization
- Using the internal control system to manage subsidiaries
- Building an ESG management base

- ✓ Focusing on measures such as strengthening internal control systems at subsidiaries and quality management systems, in response to the revised CGC

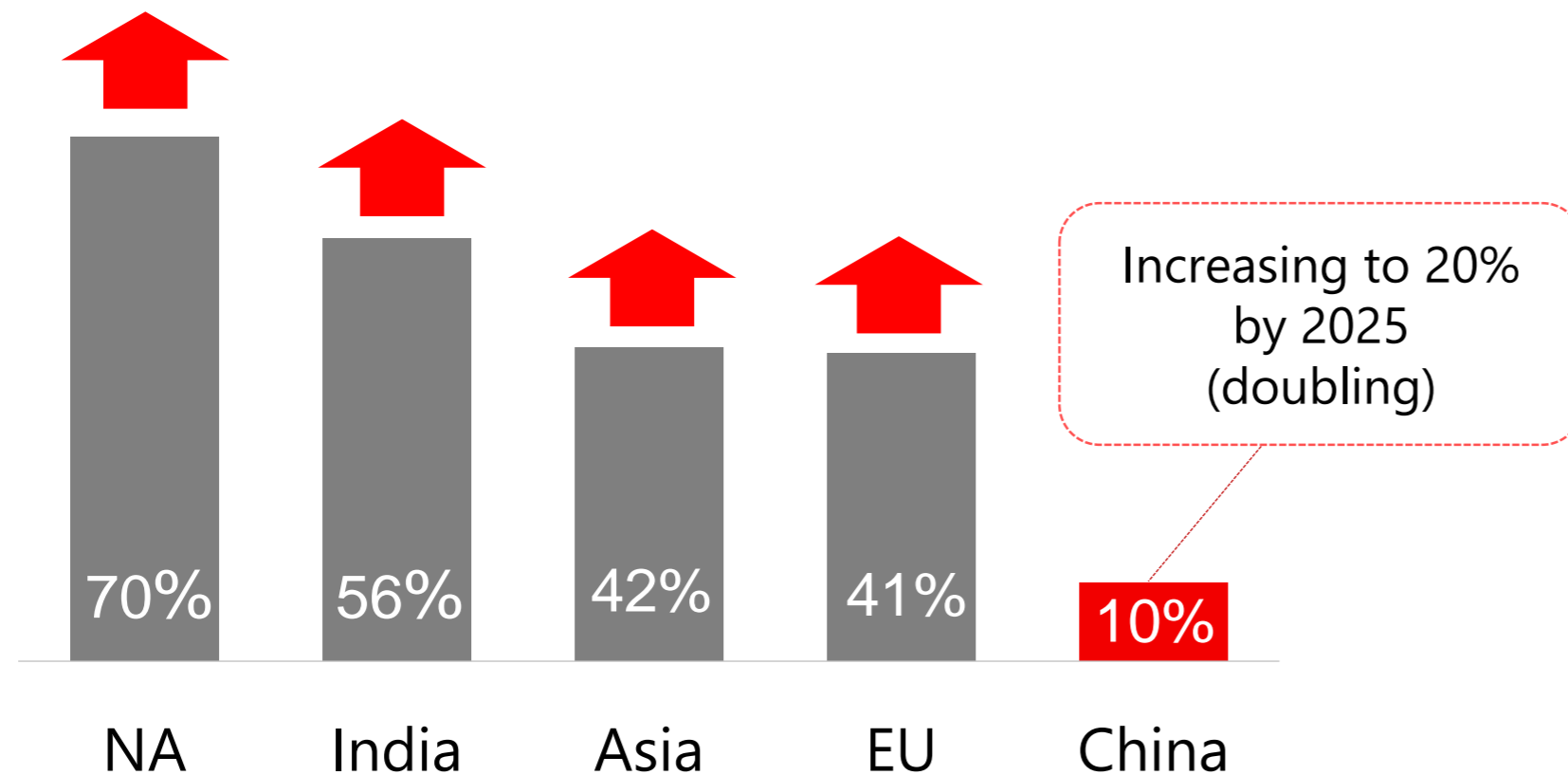
- As crude steel production continues to grow and the ratio of electric arc furnaces (EAFs) rises, EAF production volumes are expected to increase over the medium- to long-term



* All data Tokai Carbon estimates * CAGR: Compound Average Growth Rate for eight years from 2022 to 2030

- There is an increasingly active trend toward the use of EAF in steel production

Global EAF ratio (2020)



Main examples

Rising EAF ratio (China)

“The government is targeting a ratio of 15-20% crude steel production from EAFs as the number of EAFs increases, and aims to utilize 300mn tons of iron scrap per year, including that to be allocated to EAFs”

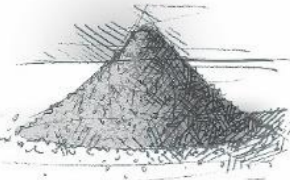
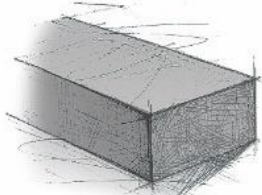
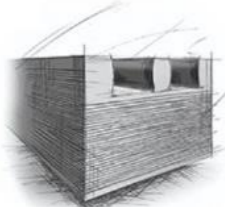
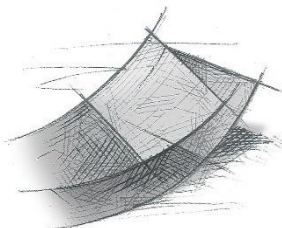
New EAF projects (Europe, America, etc.)

There are plans for new EAFs with capacity of approx. 45mn tons by 2024. This is equivalent to an 80,000 ton increase in demand when converted to electrodes.

EAF operation by EAF manufacturers (Japan)

Even among the major blast furnace steel manufacturers, there is an increasingly active trend toward R&D aimed at high-quality steel manufacturing through EAF and with larger facilities to gain higher productivity.

- The carbon black and fine carbon businesses are expected to recover quickly and continue to exhibit strong performance
- Concerns will remain for the auto production in relation to the semiconductor shortage, the resurgence of COVID-19, etc.
- Production of anode materials in French plant is progressing partly supported by the EU subsidies

Business	View on environment	Business outlook
 <p>Carbon black</p>	<ul style="list-style-type: none"> • Strong auto production to continue • Tire production to grow at annual rate of 5-7% 	<ul style="list-style-type: none"> • Strong sales (maintain full utilization) • Concerns surrounding impact of semiconductor shortage
 <p>Fine carbon</p>	<ul style="list-style-type: none"> • Strong demand in semiconductor and PV markets • To maintain annual growth rate of 3-4% 	<ul style="list-style-type: none"> • Strong sales (tighter demand for materials) • Increase production capacity in 2022
 <p>Smelting and lining</p>	<ul style="list-style-type: none"> • Strong market conditions • To maintain annual growth rate of 3-4% 	<ul style="list-style-type: none"> • Integration on track • Concerns surrounding COVID-19 and disruptions to logistics
 <p>Anode materials</p>	<ul style="list-style-type: none"> • Accelerating global shift to EVs • Production in areas of consumption an issue 	<ul style="list-style-type: none"> • Transfer of technology to French plants • Progress in line with targets, partly thanks to subsidies

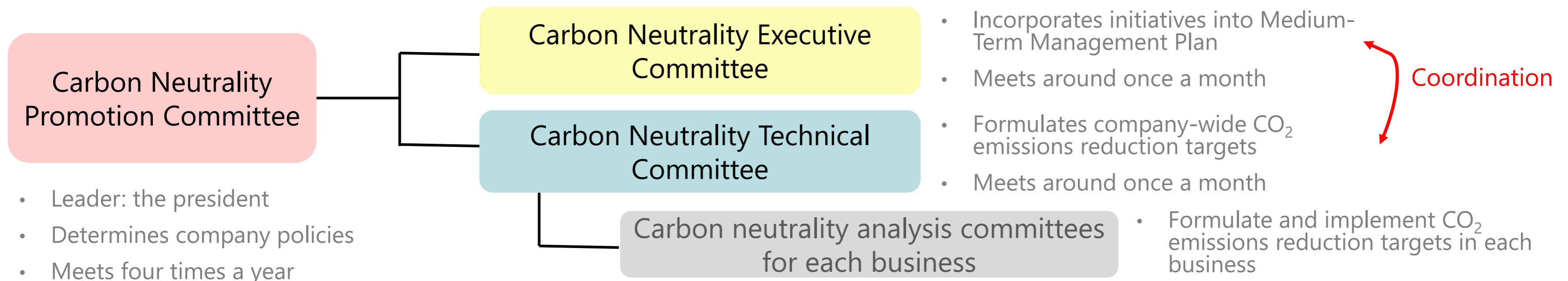
View on environment data is Tokai Carbon estimates, based on GDP growth rates, WSA, Notch, MarkLines, WSTS, CRU, etc.

- This project launched in May 2021 with the president as the project leader
- Focused on cross-organizational initiatives that target carbon neutrality

Project objectives

In addition to reducing CO₂ emissions, Tokai Carbon also aims to contribute to carbon neutrality, including utilizing renewable energy and developing products that enhance productivity for customers

Promotion system



- Carbon neutrality is an opportunity to increase the competitiveness of the company
- We will actively focus on enhancing our technical capabilities
- We plan to disclose CO₂ reduction targets and initiatives in our management strategies (to be reflected in the next Medium-Term Management Plan)

Direction of company-wide initiatives

CO₂ cuts via raw materials

- From nature
- Renewable/recyclable resources
- Recycled materials

CO₂ cuts in manufacturing processes

- Shift to fuels that reduce CO₂
- Moving from fossil fuels to electricity as a source of energy
- Utilizing renewable energy
- Enhancing productivity and yields
- Recovering and using CO₂

CO₂ cuts via capital investment

- Investment in saving energy
- Appropriately renewing facilities
- Facilities for recovering CO₂

Contributing to CO₂ cuts with products

- Reducing energy unit costs for customers
- Providing next-generation materials that enable customers to engage in new development

Reference Material

Net Sales of Main Subsidiaries

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Millions of yen

Subsidiary	Jan-Jun 2020	Jan-Jun 2021	YoY Change	Location /Business	Remarks
Tokai Erftcarbon	6,871	5,033	▲1,837	Germany Graphite Electrodes	
Tokai Carbon GE	7,049	8,635	+1,586	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	5,034	8,574	+3,540	Thailand Carbon Black	
Tokai Carbon Tianjin	1,517	2,264	+746	China Carbon Black	
Tokai Carbon CB	14,173	19,459	+5,285	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	3,024	4,380	+1,355	Canada Carbon Black	
Tokai Carbon Korea	9,669	12,471	+2,802	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	12,901	16,171	+3,270	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

	f=forecast (Millions of yen)				
	2017	2018	2019	2020	2021 (f)
Net Sales	106,252	231,302	262,028	201,542	250,900
Operating Income	11,093	73,065	54,344	7,858	23,600
EBITDA	18,201	85,374	77,053	35,262	52,000
Net income Attributable to Owners of the Parent Company	12,346	73,393	31,994	1,019	12,000
ROS (%)	10.4%	31.6%	20.7%	3.9%	9.4%
ROE (%)	10.4%	46.8%	16.0%	0.5%	5.7%
ROIC (%)	7.7%	29.6%	13.1%	1.6%	-
Capital Investment	4,282	11,794	24,341	28,873	25,000
Depreciation and Amortization	6,647	10,390	18,503	20,890	22,000
R&D Expenses	1,482	1,883	2,460	2,682	3,000
Interest bearing liabilities	16,144	49,710	148,030	158,643	-
Net D/E ratio	0.0	0.0	0.5	0.5	-
Adjusted Net D/E ratio	0.0	0.0	0.3	0.2	-
Number of Employees	2,142	2,944	3,714	4,178	-
Exchange Rate (JPY/USD)	112.19	110.43	109.05	106.82	105

Quarterly Segment Results by Segment

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f=forecast (Millions of yen)

		2020					2021			
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	H2 f	Full year
Net Sales		52,790	40,948	50,885	56,919	201,542	53,968	63,412	133,520	250,900
Graphite Electrodes		11,460	9,467	9,354	7,596	37,879	7,957	10,028	22,914	40,900
Carbon Black		21,030	11,600	17,769	20,354	70,754	21,595	24,669	51,336	97,600
Fine Carbon		7,825	7,718	8,038	8,192	31,775	8,826	9,851	17,523	36,200
Smelting and Lining		6,652	6,248	10,307	13,213	36,421	10,766	11,126	23,707	45,600
Industrial Furnaces and Related Products		3,242	3,147	2,817	4,665	13,873	1,982	4,556	11,761	18,300
Other Operations	Friction materials	1,639	1,535	1,440	1,894	6,510	2,134	2,269	4,596	9,000
	Anode materials	903	1,193	1,121	967	4,186	670	876	1,653	3,200
	Others	35	35	35	34	141	34	33	33	100
	Total Others	2,579	2,765	2,597	2,896	10,837	2,839	3,180	6,281	12,300
Operating Income		6,750	▲932	1,587	453	7,858	4,077	6,868	12,655	23,600
Graphite Electrodes		2,131	▲609	▲1,204	▲6,084	▲5,766	▲223	346	1,177	1,300
Carbon Black		1,741	▲1,850	756	2,543	3,192	1,807	2,546	3,547	7,900
Fine Carbon		1,919	1,564	1,520	1,642	6,647	2,146	2,411	3,743	8,300
Smelting and Lining		175	▲414	237	1,163	1,161	42	259	1,898	2,200
Industrial Furnaces and Related Products		868	790	658	1,447	3,765	521	1,431	2,447	4,400
Other Operations		242	▲9	▲45	110	298	138	210	552	900
Inter-segment eliminations		▲330	▲404	▲336	▲368	▲1,439	▲355	▲337	▲708	▲1,400

- Forward-looking statements in this document are based on information obtainable at the time this document was published and assumptions as of the date of publication concerning elements of uncertainty that could affect future earnings.
- Actual results may differ substantially, depending on various future factors. Factors that affect business performance include, but are not limited to, economic conditions, trends in product demand and market prices, and fluctuation in exchange rates.
- The quantitative goals, reference values, investment amounts, and other numerical goals in this document only express the medium-term strategy and vision of the company; they are not performance forecasts. The company is not obligated to update such information.
- Please see the disclosures in the Consolidated Financial Results for the official earnings forecast, based on the rules of Tokyo Stock Exchange, Inc.

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