

# Q1 FY2022 Earnings Presentation

2022/5/12



**TOKAI CARBON CO., LTD.**

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Q1 FY2022

# Financial Summary

- The International Monetary Fund (IMF) revised the outlook for the global economic growth rate for 2022 downward from 4.4% in January to 3.6% and continued to revised it downward by 0.2% to 3.6% for 2023. Amid the global economy having not yet fully recovered from the COVID-19 pandemic, Ukraine crisis and the resulting economic sanctions against Russia have caused soaring resource prices, leading to concerns regarding further inflationary pressure and major disruptions in supply chains.
- Amid the emergence of geopolitical risks and soaring costs for raw materials and energy around the globe, the company's performance for Q1 saw a substantial YoY increase in both net sales and operating income, with 28.8% for net sales, 94.7% for operating income, 110.2% for ordinary income, and 105.5% for quarterly net income.
- Progress was generally in line with the 1st half forecasts, which are weighted heavily toward Q2, with rates of 46.7% for net sales, 46.7% for operating income, 52.5% for ordinary income, and 40.4% for quarterly net income.
- In the graphite electrode business, demand for electrodes was strong particularly in the U.S., backed by robust steel production and the startup of new electric furnaces designed to reduce CO<sub>2</sub> emissions. Amid rising raw material costs due to high prices for crude oil and coal, selling prices reversed after having remained sluggish due to the global economic slowdown caused by U.S.-China trade friction and reduced demand resulting from the COVID-19 pandemic.
- In the carbon black business, although partially affected by the cold wave that hit the southern U.S. in February last year and the resulting large-scale power outages, operations are now at full capacity thanks to a rapid recovery in global demand for auto and tire production.
- In the fine carbon business and the industrial furnaces and related products business, continued strong demand remained backed by increasing growth in the EV, 5G, and IoT related markets. Overall performance was driven by components for semiconductor manufacturing equipment produced at the company's subsidiary in Korea.
- In the smelting and lining business, despite being partially affected by Ukraine crisis, global aluminum production and relining demand in aluminum smelters was strong. Carbon electrodes for polysilicon and aluminum alloys for semiconductors performed well and demand remained strong.

# Summary of Consolidated Results

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- Reversal in the market for graphite electrodes and continued strong markets for other businesses led to YoY increases in net sales and operating income
- Net sales ¥69.5b, Operating income ¥7.9b, ROS 11.4% (significant improvement YoY from ROS 7.6%)

( Millions of yen )

	Jan-Mar 2021	Jan-Mar 2022	YoY Change	%Change
Net sales	53,968	69,512	+15,544	+28.8%
Operating income	4,077	7,938	+3,861	+94.7%
Ordinary income	3,999	8,406	+4,407	+110.2%
Net income attributable to owners of the parent company	1,968	4,044	+2,076	+105.5%

Group companies (As of March 31, 2022)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2021      USD1= ¥105.90  
                  EUR1= ¥127.69
- 2022      USD1= ¥116.20  
                  EUR1= ¥130.39

# Net Sales, Operating Income and EBITDA by Segment

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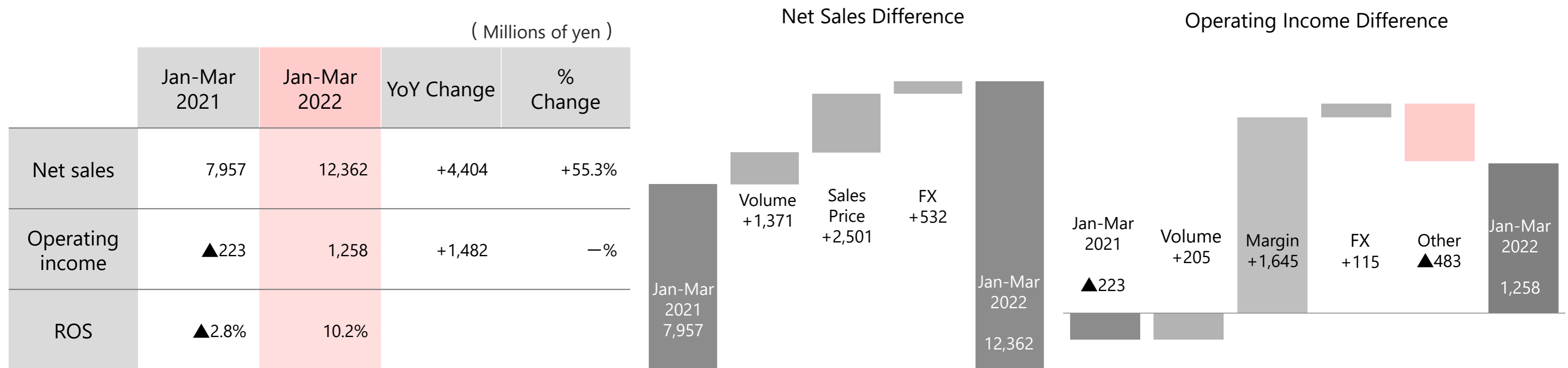
- Net sales and operating income increased in the 5 main segments

( Millions of yen )

		Net sales			Operating income			EBITDA		
		Jan-Mar 2021	Jan-Mar 2022	YoY Change	Jan-Mar 2021	Jan-Mar 2022	YoY Change	Jan-Mar 2021	Jan-Mar 2022	YoY Change
Graphite Electrodes		7,957	12,362	4,404	▲223	1,258	1,482	770	2,535	+1,765
Carbon Black		21,595	29,430	7,835	1,807	3,049	1,242	3,237	4,616	+1,379
Fine Carbon		8,826	10,935	2,108	2,146	2,912	766	3,476	4,382	+906
Smelting and Lining		10,766	11,605	838	42	67	24	2,989	3,171	+182
Industrial Furnaces and Related Products		1,982	2,523	540	521	763	241	582	820	+238
Other Operation	Friction materials	2,134	2,290	156	—	—	—	—	—	—
	Anode materials	670	330	▲340	—	—	—	—	—	—
	Others	34	34	0	—	—	—	—	—	—
	Total Others	2,839	2,655	▲183	138	201	63	264	312	+48
Inter segment eliminations		—	—	—	▲355	▲314	41	▲215	▲185	+30
Total		53,968	69,512	15,544	4,077	7,938	3,861	11,106	15,653	+4,547
Return on sales		—	—	—	7.6%	11.4%	+3.8%	20.6%	22.5%	+1.9%

※EBITDA =Operation income + Depreciation + Goodwill amortization

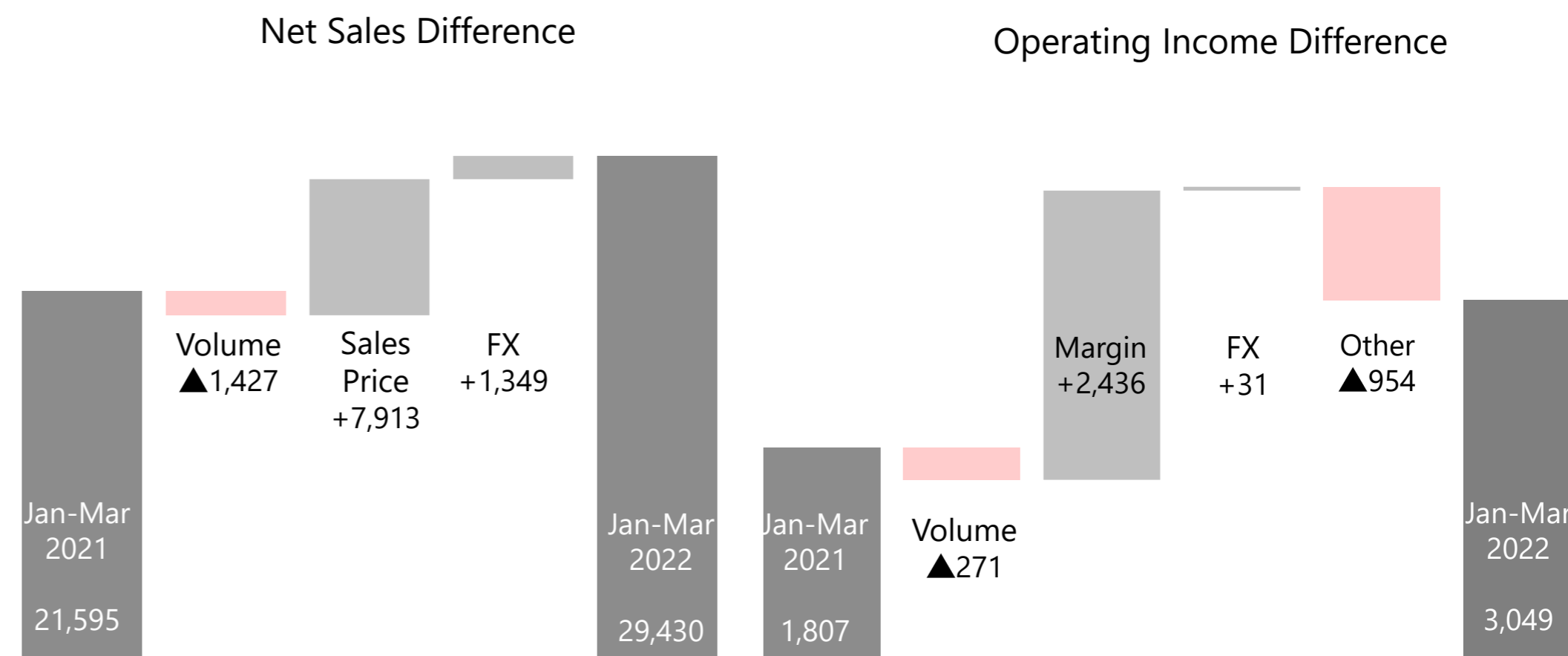
- The steel industry recovered as inventory of graphite electrodes in the market continued to level. The electrode market reversed after bottoming out last year. Orders for high-quality electrodes are strong particularly in Europe and the U.S., and the company's bases in those locations are operating at full capacity which supports the company to achieve higher selling prices



- Overall sales volumes decreased YoY due to the sale of Tokai Carbon (Tianjin) Co., Ltd in China. The net sales and operating income although increased by the improved selling prices due to the recovery of replacement tires particularly in Europe and the U.S.
- Global supply of carbon black is becoming increasingly tight, and the company will continue to invest in facility upgrades and environmental facilities to ensure a stable supply
- Raw material oil is also projected to remain tight, and ensuring stable procurement will be an important issue for the business

( Millions of yen )

	Jan-Mar 2021	Jan-Mar 2022	YoY Change	% Change
Net sales	21,595	29,430	+7,835	+36.3%
Operating income	1,807	3,049	+1,242	+68.8%
ROS	8.4%	10.4%		

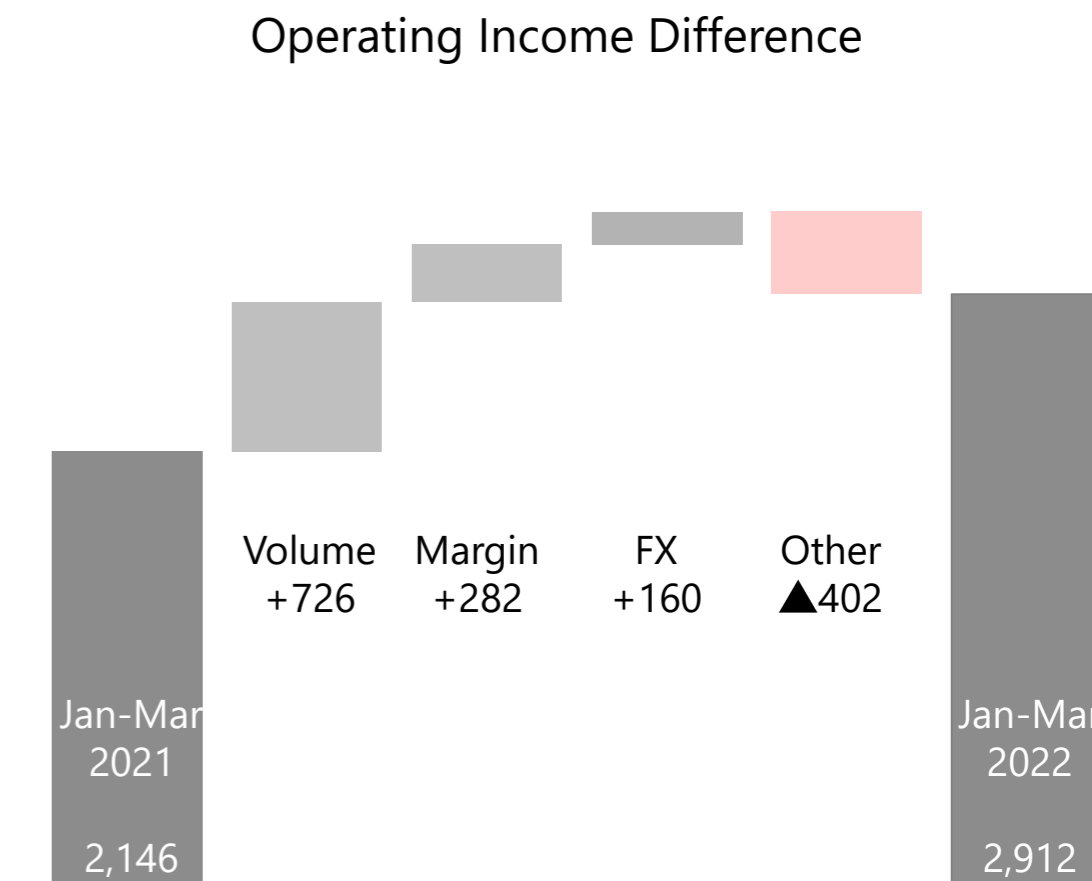
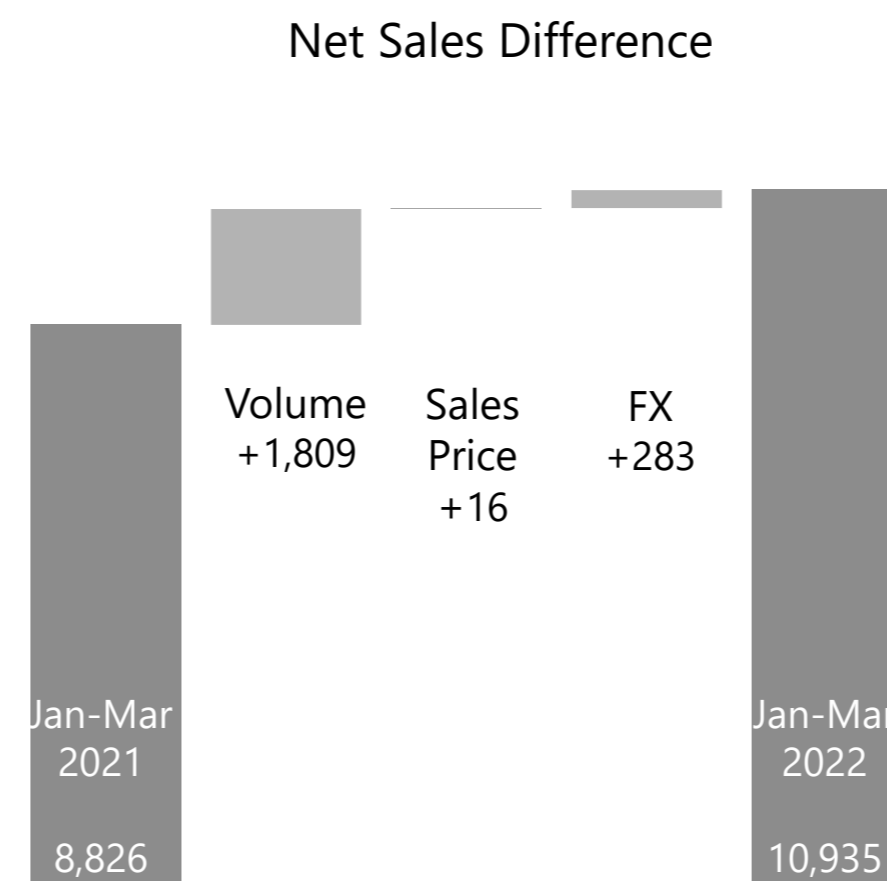




- The semiconductor and solar power generation markets were strong. The general industrial market also shifted toward recovery
- Overall growth was driven by solid SiC (Silicon Carbide) focus rings used in the semiconductor production etching process. Growth investments were accelerated to accompany rapid market expansion

( Millions of yen )

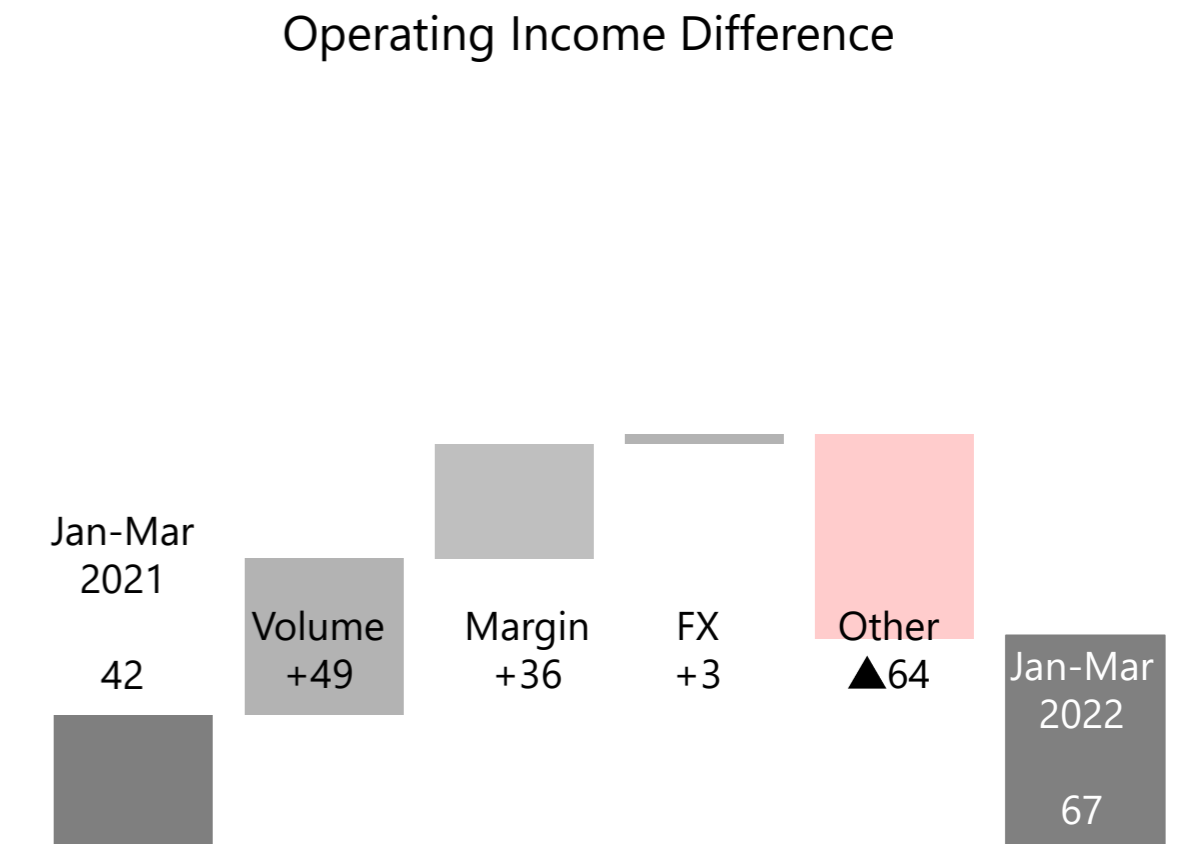
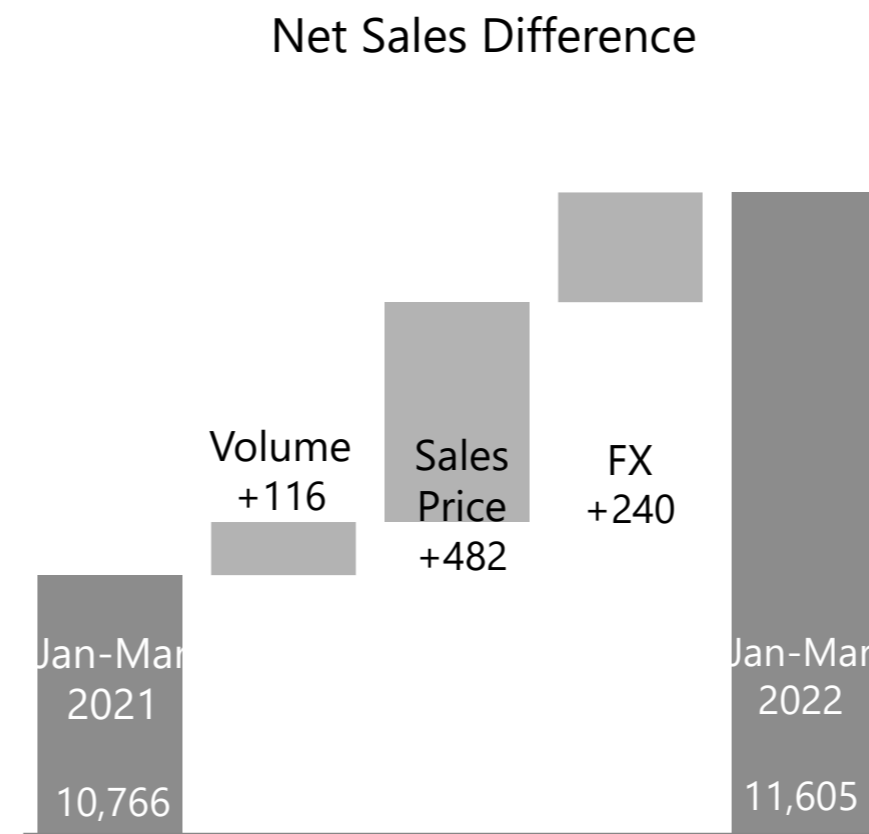
	Jan-Mar 2021	Jan-Mar 2022	YoY Change	% Change
Net sales	8,826	10,935	+2,108	+23.9%
Operating income	2,146	2,912	+766	+35.7%
ROS	24.3%	26.6%		



- Despite uncertainties surrounding the impact of Ukraine crisis, demand for cathode relining was strong overall

( Millions of yen )

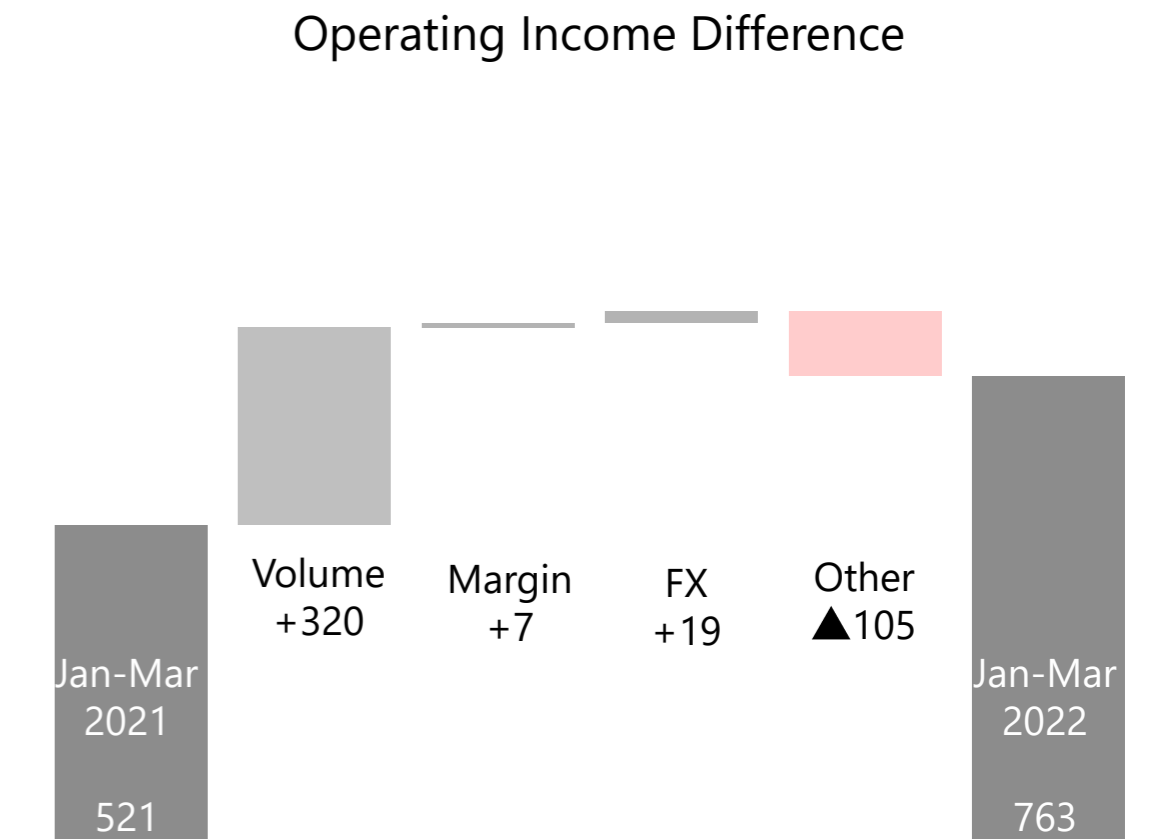
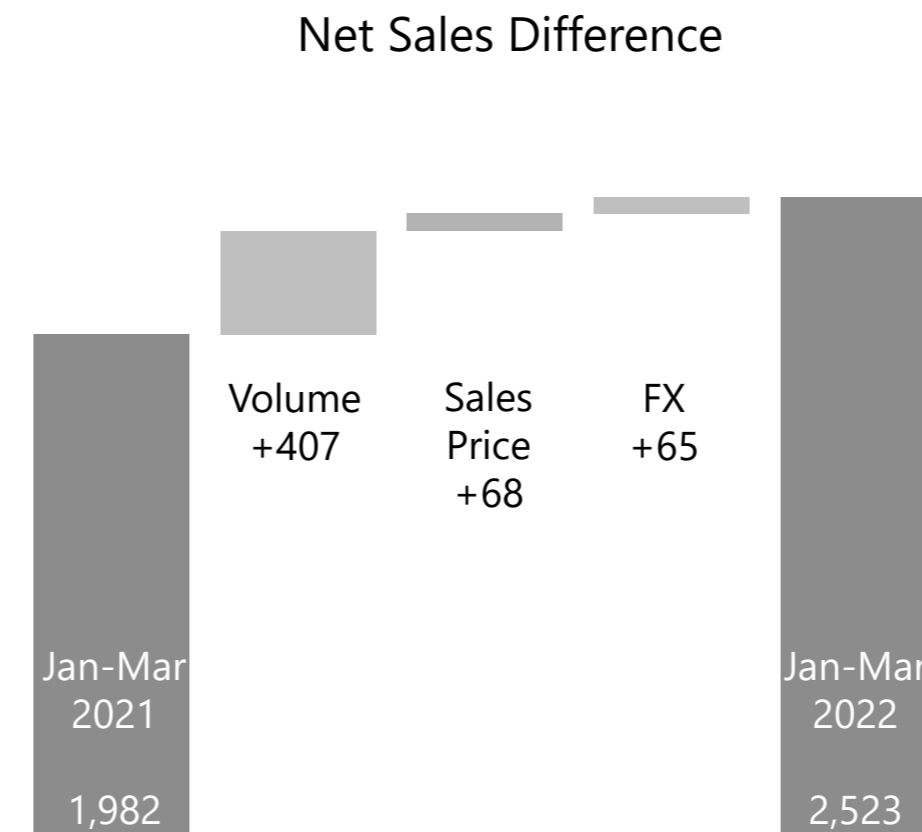
	Jan-Mar 2021	Jan-Mar 2022	YoY Change	% Change
Net sales	10,766	11,605	+838	+7.8%
Operating income	42	67	+24	+57.4%
ROS	0.4%	0.6%		



- Both industrial furnaces and ceramic heaters performed well due to strong demand from the electronic components industry and energy related industry

( Millions of yen )

	Jan-Mar 2021	Jan-Mar 2022	YoY Change	% Change
Net sales	1,982	2,523	+540	+27.3%
Operating income	521	763	+241	+46.3%
ROS	26.3%	30.2%		



## Major Cash Flow items

( Millions of yen )

	Jan-Mar 2021	Jan-Mar 2022	Summary
Cash flows from operating activities	3,935	4,324	
Net income (loss) before income taxes	4,013	8,335	
Depreciation and amortization	5,318	5,951	
Amortization on goodwill	1,710	1,762	
Decrease (increase) in trade receivable	▲342	3,071	Working capital: ▲6,776 million (Jan-Mar 2021 ▲2,476 million)
Decrease (increase) in inventories	▲2,367	▲8,985	
Increase (decrease) in accounts payable-trade	233	▲862	
Income tax paid	▲4,630	▲4,948	
Cash flows from investing activities	▲9,654	▲8,127	Free cash flow: ▲3,803 million (Jan-Mar 2021 ▲5,718 million)
Purchase of property, plant and equipment	▲7,476	▲7,673	
Cash flows from financing activities	▲4,833	▲5,334	
Net increase (decrease) in short-term Loans payable	▲1,434	▲1,894	
Payment of dividends	▲3,197	▲3,197	
Cash and cash equivalents at end of period	49,058	57,507	

Working capital = Trade receivables + Inventories – accounts payable-trade

## Major Balance Sheet Items

( Millions of yen )

	December 31, 2021	March 31, 2022	Summary
Total assets	512,503	526,630	
Net income (loss) before income taxes	215,149	220,677	
Cash and cash equivalents	78,858	72,827	
Notes and accounts receivable	56,668	54,500	· Cash/monthly sales: 3.1 times (End of FY2021: 3.7 times)
Inventory	72,479	83,095	· Inventory: (+¥10,616 million from End of FY2021)
Fixed assets	297,353	305,952	· Tangible fixed assets: (+¥6,167 million from the end of FY2021)
Tangible fixed asset	144,165	150,332	· Intangible fixed assets: (+¥2,155 million from the end of FY2021)
Intangible fixed assets	123,349	125,505	
Investments and other assets	29,838	30,114	
Total liabilities	255,932	254,076	· Net interest bearing debt: ¥93,693 million (+¥4.3 billion from End of FY2021)
Current liabilities	130,418	134,018	· Direct funding ratio: 69.1% (End of FY2021: 68.4%), Long term debt ratio: 51.3 % (End of FY2021: 55.6%)
Long term liabilities	125,514	120,058	· Short term credit line: ¥65 billion (+¥3.0 billion from End of FY2021) : ¥4.0 billion executed (+¥2.0 billion from End of FY2021)
Total net assets	256,570	272,553	· Liquidation of receivables and CP issuance limit ¥68 billion ( same as End of FY2021) : 50 billion executed ( same as End of FY2021)
Shareholder's capital	206,269	207,115	· Capital to asset ratio: 46.1 (End of FY2021 44.7%)
Other accumulated Comprehensive income	22,940	35,743	· Adjusted Capital to asset ratio* : 52.8% (End of FY2021: 51.6%)
Non controlling interests	27,360	29,694	· Net D/E ratio: 0.4 times (End of FY2021: 0.4 times)
Total liabilities and net assets	512,503	526,630	· Adjusted Net D/E ratio: 0.2 times (End of FY2021: 0.2 times)

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



In February 2022, we disclosed our sustainability and carbon neutral initiatives and growth plan for the next three years under the theme of business development and organizational structure in line with our long-term vision for 2030 that is "Contribute to a sustainable society through advanced materials and solutions".

## Turn around of Graphite Electrode

Efforts to correct selling prices under the circumstance of higher demand and healthy inventory level while higher raw material costs expected.

## Stabilize CB business at higher margin

Structure stable supply through facility upgrades and environmental investments with passing its cost to the selling price.

## Growth investment in FC

Capacity expansion on track both for graphite materials and CVD capacity in Korea. Graphite capacity increase contributes from 2<sup>nd</sup> half 2022.

## Selection and concentration

In February 2022, completed transfer of carbon black production base in China, Tokai Carbon (Tianjin) Co. Further optimization under discussion.

## Carbon Neutral

Good start-up of Carbon Neutral Committee. Started research in various subcommittees and study groups as a cross-divisional effort to realize this goal.

## Sustainability Committee

In January 2022, a new Sustainability Committee was established to deliberate on important sustainability-related matters and begun its activities.

# Reference Material

# Net Sales of Main Subsidiaries

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( Millions of yen )

Subsidiary	Jan-Mar 2021	Jan-Mar 2022	YoY Change	Location /Business	Note
Tokai Erftcarbon	2,357	4,593	+2,236	Germany Graphite Electrodes	
Tokai Carbon GE	3,461	5,128	+1,667	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	4,114	6,248	+2,133	Thailand Carbon Black	
Tokai Carbon CB	8,898	13,404	+4,505	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	1,996	2,146	+150	Canada Carbon Black	
Tokai Carbon Korea	6,001	7,508	+1,507	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	8,189	11,505	+3,316	Germany Smelting and Lining	• Contributing to consolidated results from August 2019



# Key Indicators

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( Millions of yen ) f=forecast	2018	2019	2020	2021	2022f
Net sales	231,302	262,028	201,542	258,874	305,000
Operating income	73,065	54,344	7,858	24,647	35,000
ROS (%)	31.6%	20.7%	3.9%	9.5%	11.5%
EBITDA	85,374	77,053	35,262	54,518	66,000
EBITDA margin (%)	36.9%	29.4%	17.5%	21.1%	21.6%
Net income Attributable to Owners of the Parent Company	73,393	31,994	1,019	16,105	20,000
ROE (%)	46.8%	16.0%	0.5%	7.5%	8.4%
ROIC (%)	29.6%	13.1%	1.6%	4.8%	6.5%
Capital Investment	11,794	24,341	28,873	30,347	38,000
Depreciation and Amortization	10,390	18,503	20,890	22,900	24,000
R&D Expenses	1,883	2,460	2,682	2,823	3,000
Interest bearing liabilities	49,710	148,030	158,643	168,249	-
Net D/E ratio	0.0	0.5	0.5	0.4	-
Adjusted Net D/E ratio	0.0	0.3	0.2	0.2	-
Number of Employees	2,944	3,714	4,178	4,289	-
Exchange Rate (JPY/USD)	110.43	109.05	106.82	109.80	110

※EBITDA = Operation income + Depreciation + Goodwill amortization ROIC= Operating Profit after Tax ÷ (Working Capital + Fixed Assets)

# Quarterly Segment Results by Segment

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f=forecast (Millions of yen)

	2021					2022			
	Q1	Q2	Q3	Q4	Full year	Q1	Q2f	H2f	Full year
Net sales	53,968	63,412	67,714	73,779	258,874	69,512	79,488	156,000	305,000
Graphite electrodes	7,957	10,028	10,412	12,220	40,619	12,362	17,638	35,000	65,000
Carbon black	21,595	24,669	25,997	27,228	99,491	29,430	27,570	57,000	114,000
Fine Carbon	8,826	9,851	9,873	10,574	39,125	10,935	9,065	21,000	41,000
Smelting and Lining	10,766	11,126	13,326	14,477	49,696	11,605	14,395	27,000	53,000
Industrial Furnaces and Related Products	1,982	4,556	4,888	6,592	18,019	2,523	7,477	10,000	20,000
Other Operations									
Friction materials	2,134	2,269	2,186	2,289	8,880	2,290	2,710	4,000	9,000
Anode materials	670	876	997	362	2,907	330	670	2,000	3,000
Others	34	33	33	33	135	34	▲34	0	0
Total Others	2,839	3,180	3,217	2,686	11,922	2,655	3,345	6,000	12,000
Operating income	4,077	6,868	6,724	6,977	24,647	7,938	9,062	18,000	35,000
Graphite Electrodes	▲223	346	▲311	▲211	▲400	1,258	1,742	6,000	9,000
Carbon Black	1,807	2,546	2,331	2,098	8,783	3,049	2,951	5,000	11,000
Fine Carbon	2,146	2,411	2,458	2,594	9,611	2,912	2,088	5,000	10,000
Smelting and Lining	42	259	917	705	1,925	67	▲67	0	0
Industrial Furnaces and Related Products	521	1,431	1,406	2,036	5,396	763	2,237	3,000	6,000
Other Operations	138	210	255	151	754	201	799	0	1,000
Inter-segment eliminations	▲355	▲337	▲334	▲396	▲1,423	▲314	▲686	▲1,000	▲2,000

- 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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Building a Future of Technology and Trust  
**TOKAI CARBON CO., LTD.**