

# Q2 FY2022 Earnings Presentation

2022/8/9



**TOKAI CARBON CO., LTD.**

## Table of Contents

I	Q2 FY2022 Financial Summary	P 3-13
II	T-2024 Progress Report	P14-17
	Reference material	P18-21

# I

Q2 FY2022

## Financial Summary

- The International Monetary Fund (IMF) revised the outlook for the global economic growth rate for 2022 downward from 3.6% in April to 3.2% and for 2023 downward from 3.6% in April to 2.9%. The IMF indicated downside risks from high inflation accelerated by the conflict in Ukraine were emerging and recession of the global economy if left uncontained.
- Amid soaring costs for raw materials and energy around the globe, the company's performance for Q2 saw a substantial YoY increase in both net sales and operating income, with 33.8% for net sales, 52.7% for operating income, 82.7% for ordinary income, and 62.1% for quarterly net income.
- Progress was generally in line with the 1st half forecasts, with rates of 105.4% for net sales, 98.3% for operating income, 121.6% for ordinary income, and 92.5% 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 along with the de-carbonization trend. 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 excessive market inventory amount and reduced demand resulting from the COVID-19 pandemic.
- In the carbon black business, although there was some impact from capital investment (e.g. gas scrubbers) to meet environmental and associated equipment issues, operations were at full capacity at bases in Japan, Thailand, and Canada 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 fine carbon 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.
- Rating & Investment Information (R&I) affirmed an issuer rating of A- and a commercial paper rating of a-1 and changed the rating outlook to Positive from Stable due to improved profitability and financial foundations. The company also increased the amount of CP that it may issue (¥50.0b to ¥60.0b) in order to secure liquid funds.

# Summary of Consolidated Results

5

- Reversal in the market for graphite electrodes and strong markets for fine carbon led to YoY increases in net sales and operating income
- Net sales ¥157.0b, Operating income ¥16.7b, ROS 10.6% (improvement YoY from ROS 9.3%)

(Millions of yen)

	Jan-Jun 2021	Jan-Jun 2022	YoY Change	%Change
Net sales	117,380	157,070	+39,690	+33.8%
Operating income	10,945	16,717	+5,772	+52.7%
Ordinary income	10,646	19,448	+8,802	+82.7%
Net income attributable to owners of the parent company	5,708	9,253	+3,544	+62.1%

Group companies (As of June 30, 2022)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2021 USD1= ¥107.69  
EUR1= ¥129.82
- 2022 USD1= ¥122.89  
EUR1= ¥134.25

# Net Sales, Operating Income and EBITDA by Segment

6

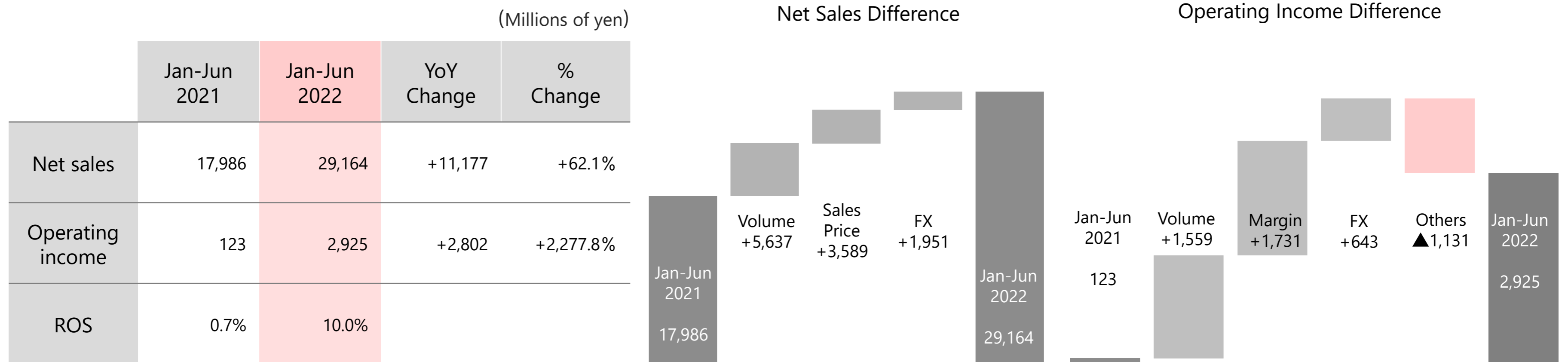
- Net sales and operating income increased in the 4 main segments. EBITDA significantly increased due to improved profitability

(Millions of yen)

		Net sales			Operating income			EBITDA		
		Jan-Jun 2021	Jan-Jun 2022	YoY Change	Jan-Jun 2021	Jan-Jun 2022	YoY Change	Jan-Jun 2021	Jan-Jun 2022	YoY Change
Graphite Electrodes		17,986	29,164	+11,177	123	2,925	+2,802	2,187	5,547	+3,360
Carbon Black		46,264	63,729	+17,464	4,353	4,785	+431	7,309	8,214	+905
Fine Carbon		18,677	23,695	+5,018	4,557	6,787	+2,229	7,286	9,887	+2,601
Smelting and Lining		21,893	26,606	+4,713	302	▲3	▲306	6,358	6,472	+114
Industrial Furnaces and Related Products		6,539	8,904	+2,365	1,953	2,518	+565	2,078	2,683	+605
Other Operation	Friction materials	4,404	4,493	+89	—	—	—	—	—	—
	Anode materials	1,547	409	▲1,137	—	—	—	—	—	—
	Others	67	68	+0	—	—	—	—	—	—
	Total Others	6,019	4,970	▲1,048	348	387	+39	606	607	+1
Inter-segment eliminations		—	—	—	▲692	▲681	+10	▲411	▲424	▲13
Total		117,380	157,070	+39,690	10,945	16,717	+5,772	25,414	32,987	+7,573
Return on sales		—	—	—	9.3%	10.6%	+1.3%	21.7%	21.0%	▲0.7%

※EBITDA = Operation income + Depreciation + Goodwill amortization

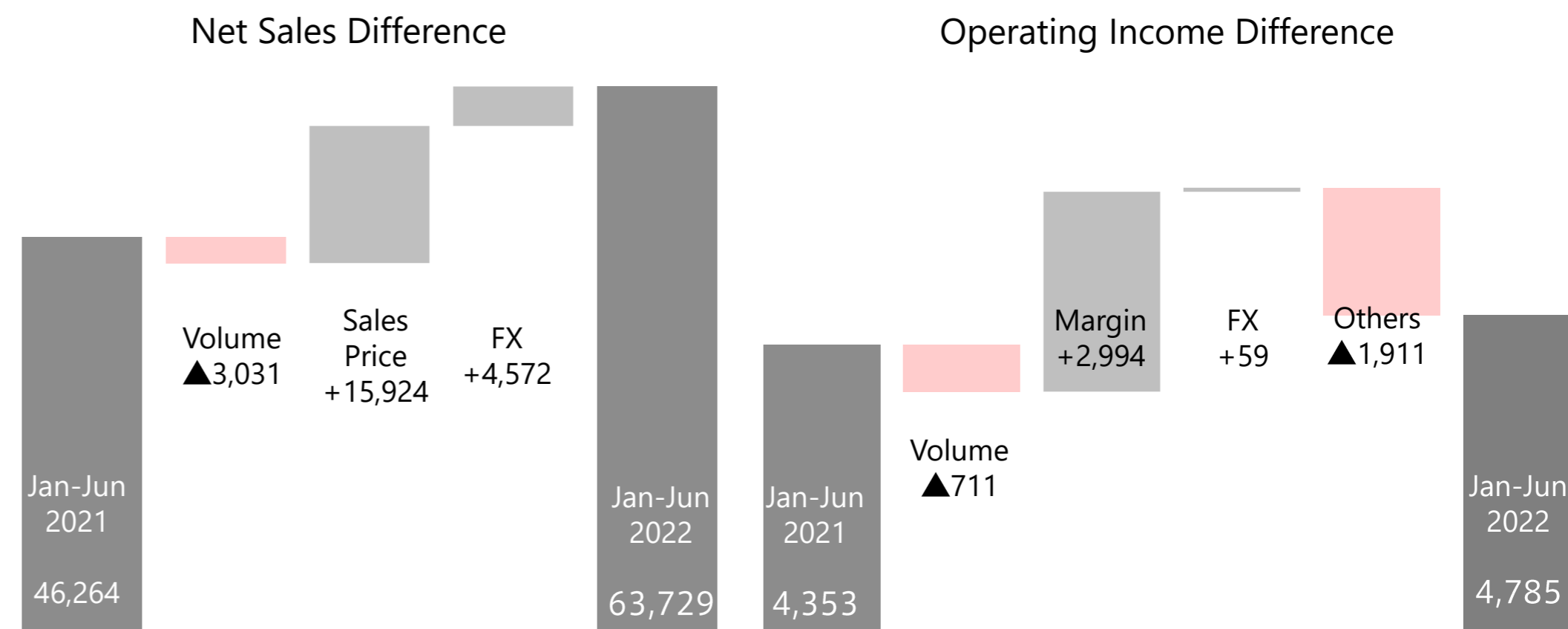
- The steel industry recovered as inventory of graphite electrodes in the market continued to level. The electrode market reversed after bottoming out last year. Orders for high-quality electrodes are strong particularly in Europe and the U.S., and the company's bases in those locations are operating at full capacity. Selling prices rose by about 20% YoY



- Overall sales volumes decreased YoY due to the sale of Tokai Carbon (Tianjin) Co., Ltd in China. However, net sales and operating income increased owing to improved selling prices due to the recovery of replacement tires particularly in U.S.
- Supply of carbon black is becoming increasingly tight especially in the U.S., and the company will continue to invest in facility upgrades and environmental facilities to ensure a stable supply
- Passing on the rising costs of raw material oil to the selling price

(Millions of yen)

	Jan-Jun 2021	Jan-Jun 2022	YoY Change	% Change
Net sales	46,264	63,729	+17,464	+37.7%
Operating income	4,353	4,785	+431	+9.9%
ROS	9.4%	7.5%		

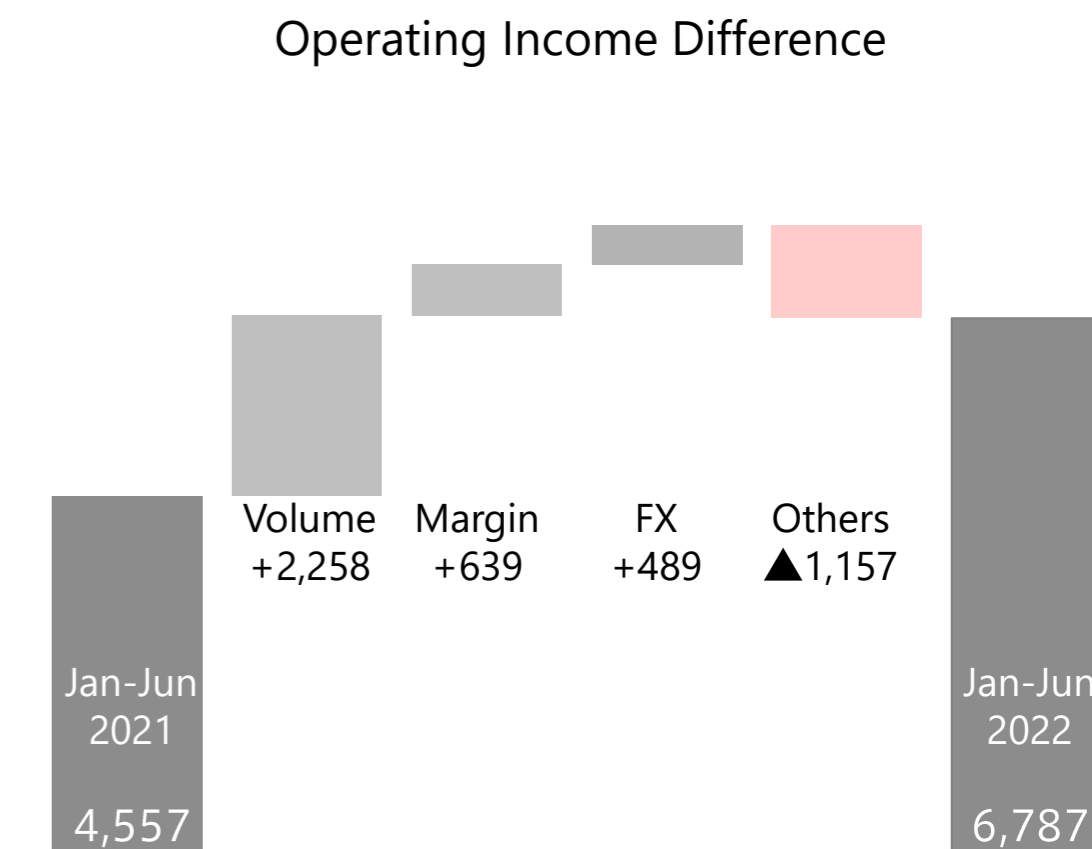
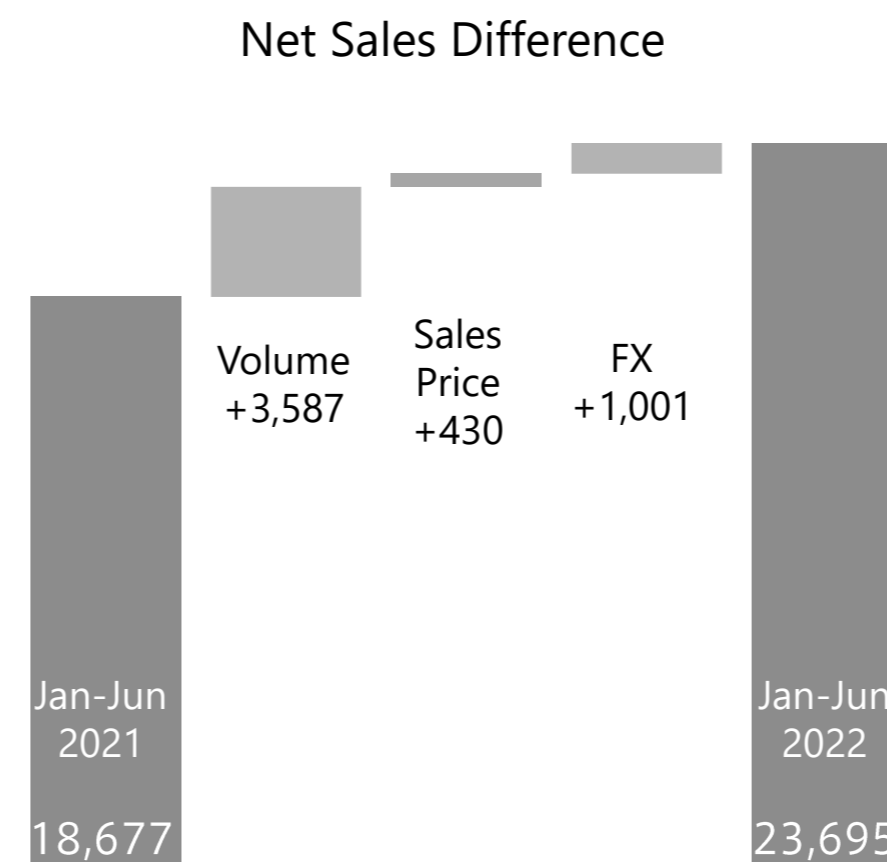




- The semiconductor and solar power generation markets were strong. The general industrial market also shifted toward recovery
- Overall growth was driven by solid SiC (Silicon Carbide) focus rings used in the semiconductor production etching process
- Growth investments continue for medium- to long-term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

(Millions of yen)

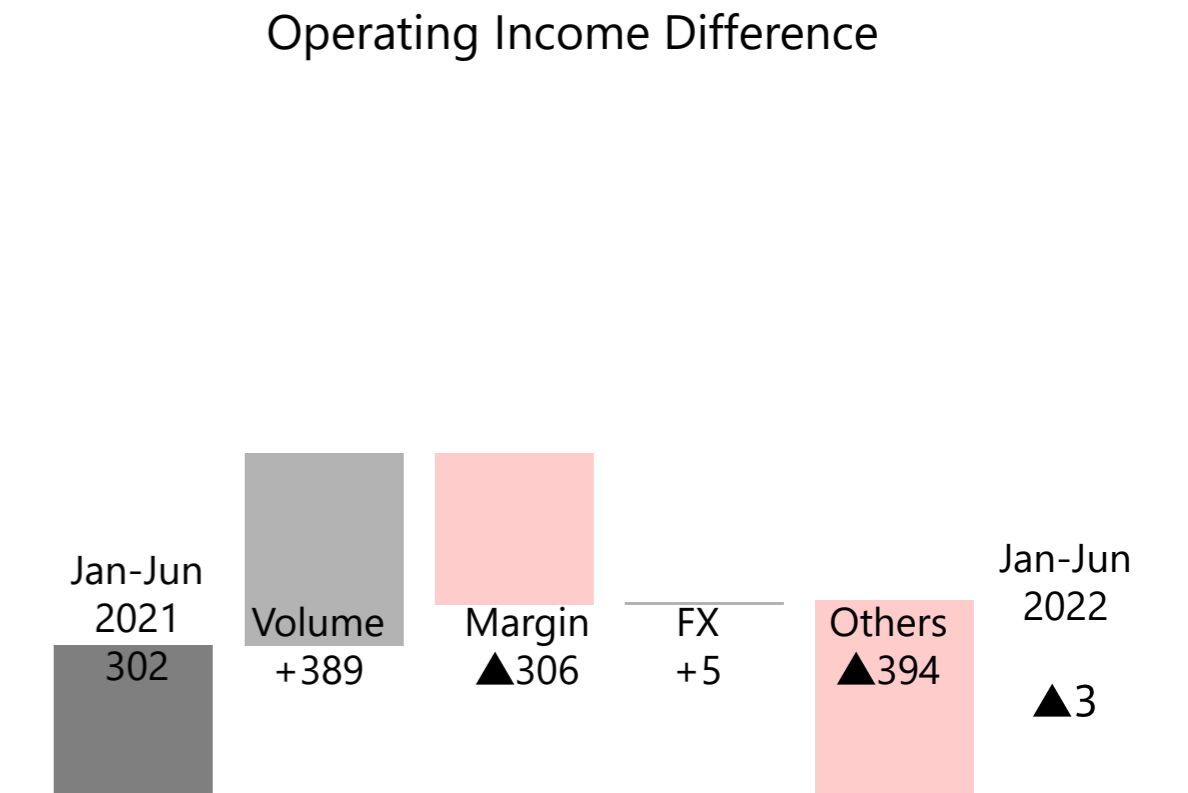
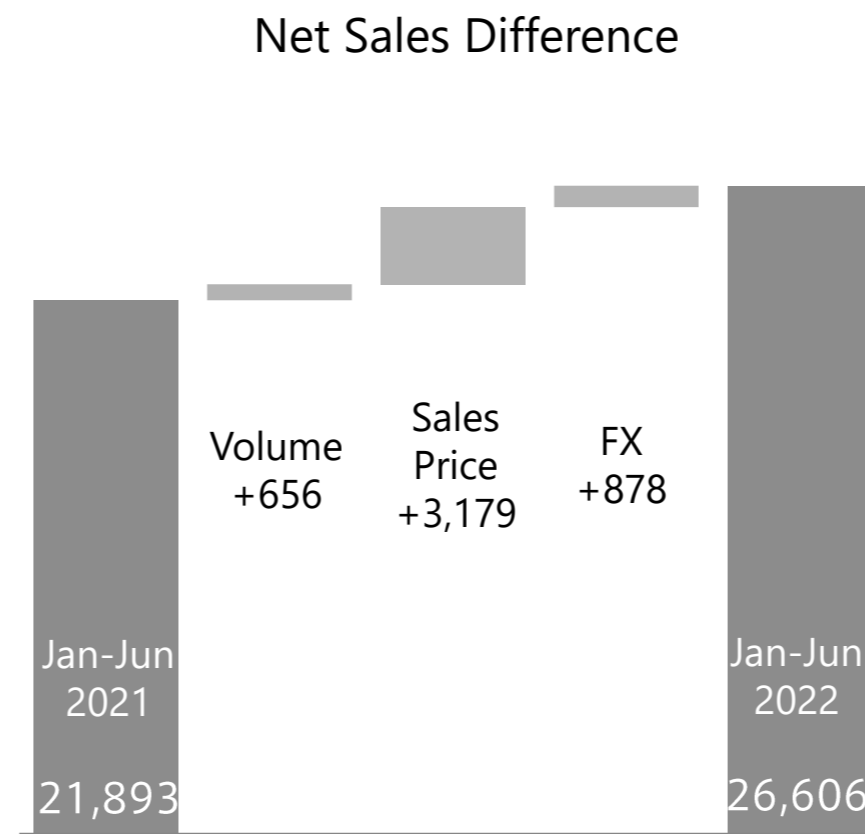
	Jan-Jun 2021	Jan-Jun 2022	YoY Change	% Change
Net sales	18,677	23,695	+5,018	+26.9%
Operating income	4,557	6,787	+2,229	+48.9%
ROS	24.4%	28.6%		



- Although shipments of furnace lining blocks was affected due to the Ukraine crisis, demand for cathodes for aluminum smelter and carbon electrodes was strong
- Soaring raw material prices and rising labor costs due to inflation were absorbed by raising selling prices and improving production efficiency

(Millions of yen)

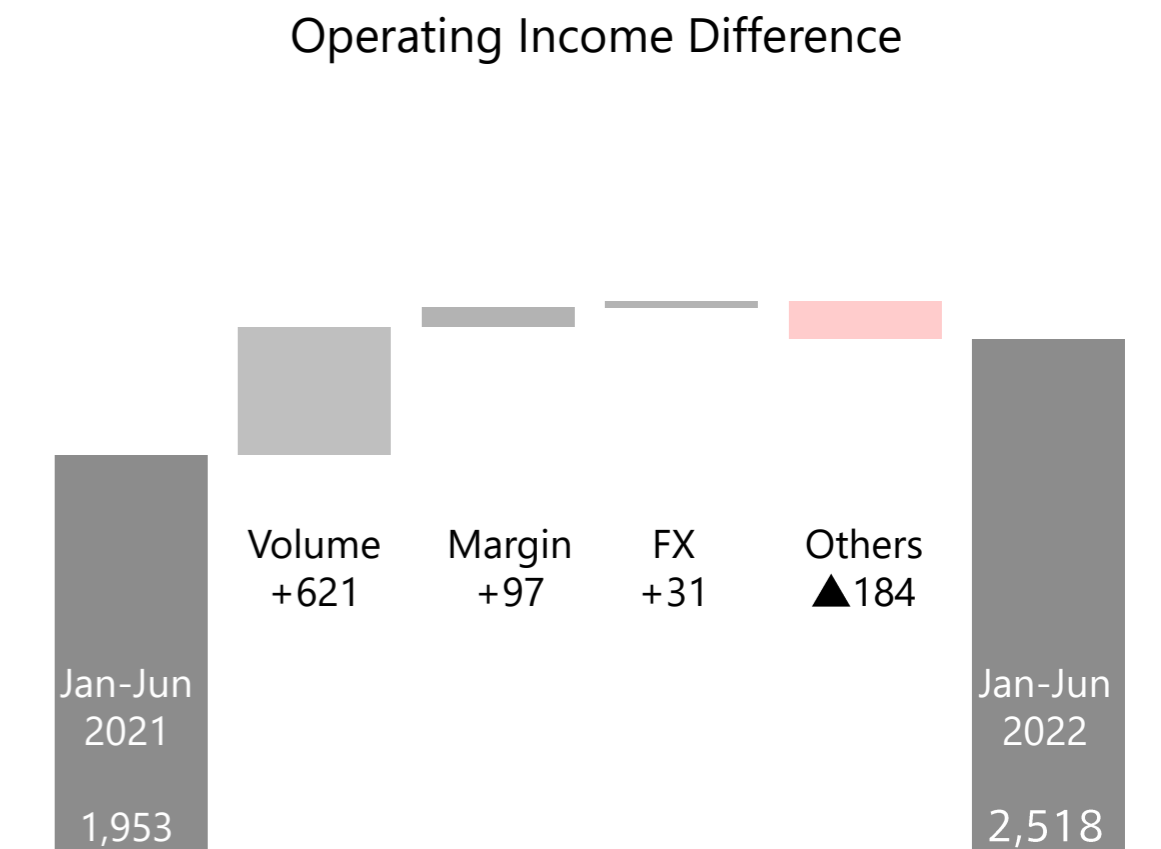
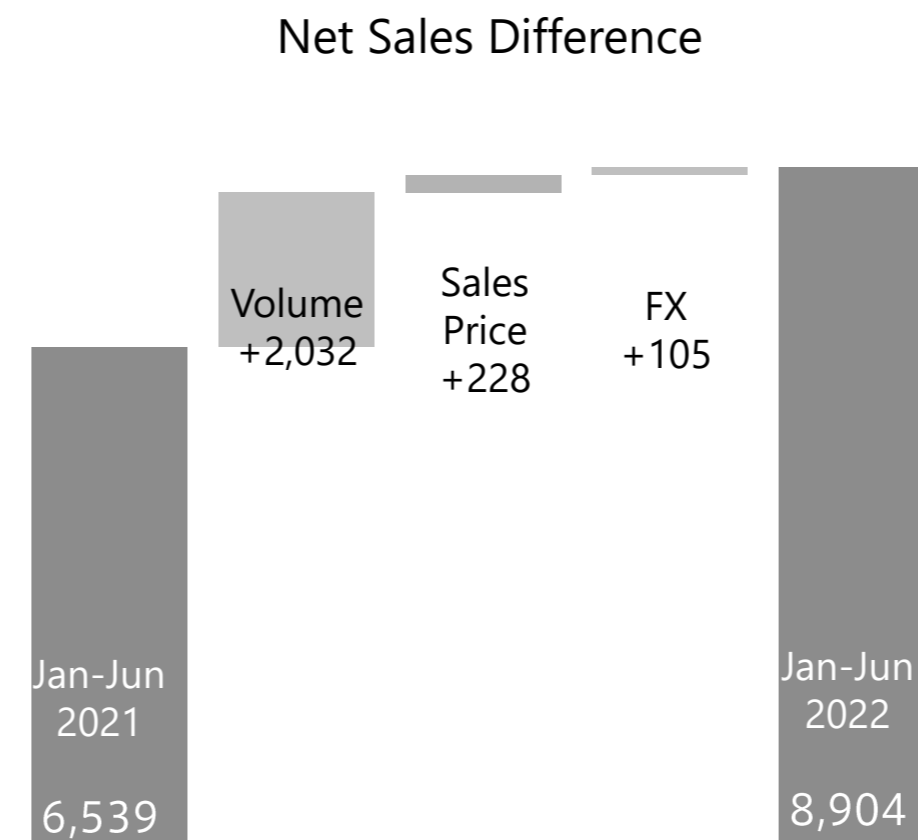
	Jan-Jun 2021	Jan-Jun 2022	YoY Change	% Change
Net sales	21,893	26,606	+4,713	+21.5%
Operating income	302	▲3	▲306	—%
ROS	1.4%	▲0.0%		



- Although production and shipment at bases in China were partially affected by lockdowns in the country, both industrial furnaces and ceramic heaters performed well
- Demand from the electronic components industry and energy related industry is strong. Growth investments continue in response to medium to long term market expansion

(Millions of yen)

	Jan-Jun 2021	Jan-Jun 2022	YoY Change	% Change
Net sales	6,539	8,904	+2,365	+36.2%
Operating income	1,953	2,518	+565	+28.9%
ROS	29.9%	28.3%		



## Major Cash Flow items

(Millions of yen)

	Jan-Jun 2021	Jan-Jun 2022	Summary
Cash flows from operating activities	14,504	9,888	
Net income (loss) before income taxes	10,782	19,181	
Depreciation and amortization	10,990	12,623	
Amortization on goodwill	3,478	3,646	
Decrease (increase) in trade receivable	▲4,772	▲5,119	Working capital: ▲¥18,461 million (Jan-Jun 2021 ▲¥6,663 million)
Decrease (increase) in inventories	▲5,914	▲14,313	
Increase (decrease) in accounts payable-trade	4,023	971	
Income tax paid	▲4,083	▲7,101	
Cash flows from investing activities	▲19,555	▲17,661	Free cash flow: ▲¥7,772 million (Jan-Jun 2021 ▲¥5,050 million)
Purchase of property, plant and equipment	▲16,337	▲16,902	
Cash flows from financing activities	11,626	▲7,577	
Net increase (decrease) in short-term Loans payable	6,111	2,209	
Acquisition of share of subsidiaries	-	▲5,024	
Payment of dividends	▲3,197	▲3,197	
Cash and cash equivalents at end of period	66,501	53,831	

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

## Major Balance Sheet Items

(Millions of yen)

	December 31, 2021	June 30, 2022	Summary
Total assets	512,503	559,400	
Net income (loss) before income taxes	215,149	238,391	
Cash and cash equivalents	78,858	70,567	
Notes and accounts receivable	56,668	65,504	· Cash/monthly sales: 2.7 times (End of FY2021: 3.7 times)
Inventory	72,479	92,605	· Inventory: (+¥20,126 million from End of FY2021)
Fixed assets	297,353	321,009	· Tangible fixed assets: (+¥19,801 million from the end of FY2021)
Tangible fixed asset	144,165	163,966	· Intangible fixed assets: (+¥4,410 million from the end of FY2021)
Intangible fixed assets	123,349	127,760	
Investments and other assets	29,838	29,283	
Total liabilities	255,932	265,822	· Net interest bearing debt: ¥100,087 million (+¥10.6 billion from End of FY2021)
Current liabilities	130,418	143,491	· Direct funding ratio: 73.2% (End of FY2021: 68.4%), Long term debt ratio: 50.1 % (End of FY2021: 55.6%)
Long term liabilities	125,514	122,331	· Short term credit line: ¥66 billion (+¥4.0 billion from End of FY2021) : ¥4.0 billion executed (+¥2.0 billion from End of FY2021)
Total net assets	256,570	293,578	· Liquidation of receivables and CP issuance limit ¥78 billion (+¥10 billion from End of FY2021) : 60 billion executed (+¥10 billion from End of FY2021)
Shareholder's capital	206,269	208,795	· Capital to asset ratio: 47.2% (End of FY2021 44.7%)
Other accumulated Comprehensive income	22,940	55,168	· Adjusted Capital to asset ratio* : 53.4% (End of FY2021: 51.6%)
Non controlling interests	27,360	29,614	· Net D/E ratio: 0.4 times (End of FY2021: 0.4 times)
Total liabilities and net assets	512,503	559,400	· 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

# II

Rolling Mid-Term Management Plan(2022-2024)

T-2024 Progress Report

## T-2024 Basic Policies

### ① Returning core businesses to a path of growth

- Improving and stabilizing the profitability of graphite electrodes and carbon black
- Reflecting equipment investment costs in sales prices

- ✓ Reversal of international market conditions for graphite electrodes. Implementation of price increases
- ✓ Environmental investments and costs of raw material oil passed on to selling prices for carbon black. Focus on stable operations of U.S. bases



### ② Optimizing the business portfolio

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

- ✓ Sale of the carbon black subsidiary in China
- ✓ Acquisition of additional shares of Tokai Carbon Korea

### ③ Strengthening the consolidated governance structure

- Pursuing carbon neutral as the entire group
- Responding to globalization of the head office organization

- ✓ Launch of the Sustainability Committee (renewal of the Long-term vision, Guidelines and Global Code of Conduct)
- ✓ Company-wide efforts for carbon neutrality underway (obtain a third-party certification for total CO<sub>2</sub> emissions, accelerate collaboration with business partners, enhance disclosure )



The medium-term growth outlook for each segment remains unchanged

Business	Impact of Russia's invasion of Ukraine	Future outlook
 <p>Graphite Electrodes</p>	Higher raw material and energy costs	The short-term outlook for the steel industry is becoming more uncertain. However, new electric arc furnace projects are progressing steadily particularly in the U.S., and the medium-term outlook for the expansion of the high-quality market remains unchanged.
 <p>Carbon Black</p>	No sales to Russia and Ukraine The rise in crude oil prices has been dealt with by the price formula system	Sales volume will be limited in 2022 due to environmental investments at U.S. plants. Both sales prices and volume are expected to rise after 2023.
 <p>Fine Carbon</p>	No sales to Russia and Ukraine Higher raw material and energy costs have been reflected in sales prices.	The semiconductor and photovoltaic (PV) markets will continue to grow. Graphite demand for the general industrial market will also recover. Orders for SiC products are stronger than anticipated, and efforts to enhance production capacity will continue.
 <p>Smelting and Lining</p>	Export of products to Russia and procurement of raw materials have been affected. Raw material and energy costs are rising. On the back of strong demand for cathodes and carbon electrodes, cost increases have been reflected in prices.	The focus will be on setting selling prices in anticipation of rising raw material and energy costs. Demand for cathodes and carbon electrodes is expected to remain strong.
 <p>Anode materials</p>	No impact	Technology transfer to bases in France Plans are progressing with subsidies, etc.



# Medium-term Measures to Achieve ROIC of 10% (T-2024)

CAPEX in High growth · High ROIC business area  
 Raise ROIC from 4.8% in 2021 to over 10% within 2024

	ROIC (2021 result=4.8%)	Direction of efforts	Strategies and measures
 <p>High ROIC</p>	Industrial Furnaces 38%	Growth investment Continuous investment	<ul style="list-style-type: none"> <li>● Expansion of production capacity for industrial furnaces and ceramic heaters (aim for 10% annual growth)</li> <li>● FC production capacity increase (15% increase from Q4 2022, 16% increase in 2024)</li> <li>● FC (China): Expansion of processing machines and refining capacity (contribution to be realized in 2024)</li> <li>● FC (South Korea): Continuous investment to raise SiC capacity. Further expansion with the establishment of a new plant in 2026</li> <li>● Investment in environmental equipment for CB</li> </ul>
	FC 11%		
	CB 7%		
<p>WACC 5% line</p>  <p>Low ROIC</p>	SL 1%	Profitability improvement	<ul style="list-style-type: none"> <li>● Pass higher material, energy, and labor costs to sales prices (price increase). Improve yields and reduce fixed costs</li> <li>● Increase sales prices of graphite electrodes</li> <li>● Streamline production of super size (large diameter) graphite electrodes, for which demand is increasing</li> </ul>
	Graphite Electrodes 0%		

FC=Fine Carbon, CB=Carbon Black, SL=Smelting & Lining,

# Reference Material

# Net Sales of Main Subsidiaries

19

(Millions of yen)

Subsidiary	Jan-Jun 2021	Jan-Jun 2022	YoY Change	Location /Business	Note
Tokai Erftcarbon	5,033	9,981	4,947	Germany Graphite Electrodes	
Tokai Carbon GE	8,635	13,674	5,038	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	8,574	13,413	4,838	Thailand Carbon Black	
Tokai Carbon CB	19,459	29,895	10,435	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	4,380	4,734	354	Canada Carbon Black	
Tokai Carbon Korea	12,471	16,217	3,745	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	16,171	26,539	10,368	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

# Key Indicators

20

(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

21

f=forecast (Millions of yen)

		2021					2022			
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	H2f (*)	Full year
Net sales		53,968	63,412	67,714	73,779	258,874	69,512	87,558	147,930	305,000
Graphite Electrodes		7,957	10,028	10,412	12,220	40,619	12,362	16,802	35,836	65,000
Carbon Black		21,595	24,669	25,997	27,228	99,491	29,430	34,298	50,271	114,000
Fine Carbon		8,826	9,851	9,873	10,574	39,125	10,935	12,760	17,305	41,000
Smelting and Lining		10,766	11,126	13,326	14,477	49,696	11,605	15,001	26,394	53,000
Industrial Furnaces and Related Products		1,982	4,556	4,888	6,592	18,019	2,523	6,381	11,096	20,000
Others	Friction materials	2,134	2,269	2,186	2,289	8,880	2,290	2,202	4,507	9,000
	Anode materials	670	876	997	362	2,907	330	78	2,591	3,000
	Others	34	33	33	33	135	34	33	▲68	0
	Total Others	2,839	3,180	3,217	2,686	11,922	2,655	2,315	7,030	12,000
Operating income		4,077	6,868	6,724	6,977	24,647	7,938	8,778	18,283	35,000
Graphite Electrodes		▲223	346	▲311	▲211	▲400	1,258	1,666	6,075	9,000
Carbon Black		1,807	2,546	2,331	2,098	8,783	3,049	1,735	6,215	11,000
Fine Carbon		2,146	2,411	2,458	2,594	9,611	2,912	3,874	3,213	10,000
Smelting and Lining		42	259	917	705	1,925	67	▲71	3	0
Industrial Furnaces and Related Products		521	1,431	1,406	2,036	5,396	763	1,754	3,482	6,000
Other Operations		138	210	255	151	754	201	186	613	1,000
Inter-segment eliminations		▲355	▲337	▲334	▲396	▲1,423	▲314	▲367	▲1,319	▲2,000

(\*) H2f:H2 forecast is based on the full-year forecast , less the Q2 actual results

- 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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**TOKAI CARBON CO., LTD.**