

Q3 FY2022 Earnings Presentation

2022/11/8

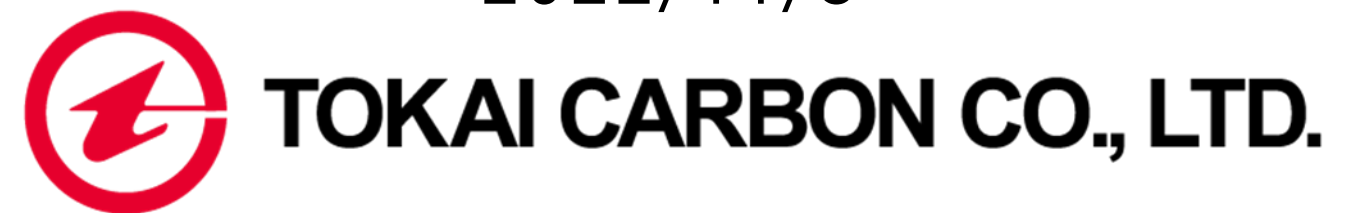


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Q3 FY2022

Financial Summary

- The International Monetary Fund (IMF) announced the outlook for the global economic growth rate on October 11. The growth rate for 2022 remains unchanged at 3.2% from the previous outlook (July) and the outlook for 2023 has been revised downward 0.2% to 2.7% against the backdrop of the energy crisis associated with the situation in Ukraine, monetary tightening by central banks of various countries, and the economic slowdown in China. The IMF pointed out that appropriate measures of monetary and fiscal policies are required to contain inflation.
- Amid soaring costs for raw materials and energy around the globe, the company's performance for Q3 continued to be strong with a substantial YoY increase in both net sales and operating income, with 33.1% (33.8% Q2 YoY) for net sales, 58.6% (52.7% Q2 YoY) for operating income, 83.1% (82.7% Q2 YoY) for ordinary income, and 68.6% (62.1% Q2 YoY) for quarterly net income.
- Progress against the FY2022 guidance are 80.8% for net sales, 80.0% for operating income, 94.5% for ordinary income, and 80.6% for net income that is beyond the standard progress rate of 75.0% for Q3.
- The soaring raw material prices, fuel expenses, transportation costs, etc., caused by rising crude oil prices and the sharp depreciation of the yen are being passed on to product prices in all businesses.
- In the graphite electrode business, crude steel production continues to decline, mainly in the major producing countries of Japan and in Europe, due to macroeconomic deterioration caused by the Ukraine crisis. The future upward trend of EAF demand backed by the de-carbonization remains unchanged.
- In the carbon black business, operations were at full capacity at bases in Japan, Thailand, and Canada with strong global auto and tire production. The U.S. operation was impacted by the capital investment (e.g. gas scrubbers) to meet U.S. environmental and the associated equipment issues.
- In the fine carbon business, continued strong demand remained amid increasing uncertainty in the semiconductor market. High value-added components for semiconductor manufacturing facility produced at subsidiary in Korea is expanding. Rapid growth of advanced driver assistance systems (ADAS) and electric vehicles (EV) are supporting the expanding demand for SiC semiconductors that are the core component for the power semiconductor.
- In the smelting and lining business, despite being partially affected by Ukraine crisis, global aluminum production and relining demand in aluminum smelters are strong. Supply and demand of Carbon electrodes have been tight due to a strong demand of polysilicon and aluminum alloys.
- In the industrial furnaces and related products business, by increasing growth in the EV, 5G, and IoT related markets led a continued strong demand, despite China operation being partially affected by lockdowns.

Summary of Consolidated Results

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- Reversal in the market for graphite electrodes and increasing growth of markets for fine carbon led to YoY increases in net sales and operating income
- Net sales ¥246.3b, Operating income ¥28.0b, ROS 11.4% (ROS 9.5% YoY)

(Millions of yen)

	Jan-Sep 2021	Jan-Sep 2022	YoY Change	%Change
Net sales	185,095	246,332	+61,237	+33.1%
Operating income	17,669	28,015	+10,345	+58.6%
Ordinary income	17,547	32,132	+14,585	+83.1%
Net income attributable to owners of the parent company	9,559	16,121	+6,562	+68.6%

Group companies (As of September 30, 2022)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2021 USD1= ¥108.50
EUR1= ¥129.83
- 2022 USD1= ¥128.05
EUR1= ¥135.95

Net Sales, Operating Income and EBITDA by Segment

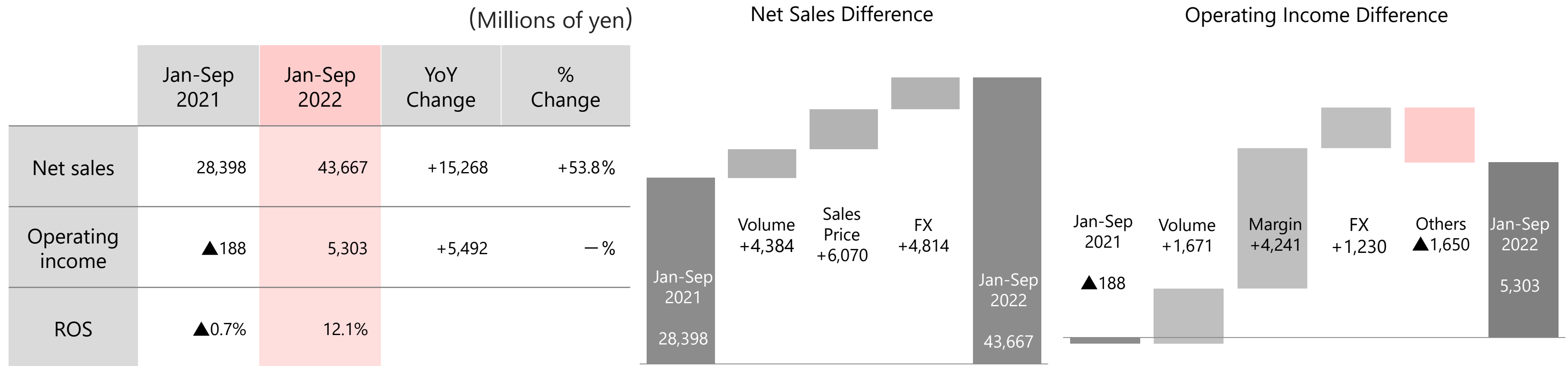
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- Net sales significantly increased in the 4 main segments. Operating income and EBITDA significantly increased in the 3 main segments.

(Millions of yen)

	Net sales			Operating income			EBITDA		
	Jan-Sep 2021	Jan-Sep 2022	YoY Change	Jan-Sep 2021	Jan-Sep 2022	YoY Change	Jan-Sep 2021	Jan-Sep 2022	YoY Change
Graphite Electrodes	28,398	43,667	+15,268	▲188	5,303	+5,492	3,034	9,368	+6,334
Carbon Black	72,262	103,350	+31,087	6,684	8,986	+2,301	11,184	14,223	+3,039
Fine Carbon	28,551	36,823	+8,272	7,016	11,099	+4,083	11,156	15,856	+4,700
Smelting and Lining	35,219	42,755	+7,535	1,220	▲305	▲1,525	10,289	9,601	▲688
Industrial Furnaces and Related Products	11,427	11,923	+496	3,360	3,308	▲51	3,550	3,549	▲1
Other Operation	Friction materials	6,590	6,834	+244	—	—	—	—	—
	Anode materials	2,544	875	▲1,669	—	—	—	—	—
	Others	101	102	+1	—	—	—	—	—
	Total Others	9,236	7,812	▲1,423	603	699	+95	1,000	1,049
Inter-segment eliminations	—	—	—	▲1,027	▲1,077	▲50	▲602	▲687	▲85
Total	185,095	246,332	+61,237	17,669	28,015	+10,345	39,613	52,961	+13,348
Return on sales	—	—	—	9.5%	11.4%	+1.9%	21.4%	21.5%	+0.1%

- The electrode market reversed as the market inventory normalized. Orders and operation now back to normal.
- Order booking is slow in Europe but we see firm demand for high quality larger diameter electrodes in U.S.
- Selling prices rose by about 20% YoY.

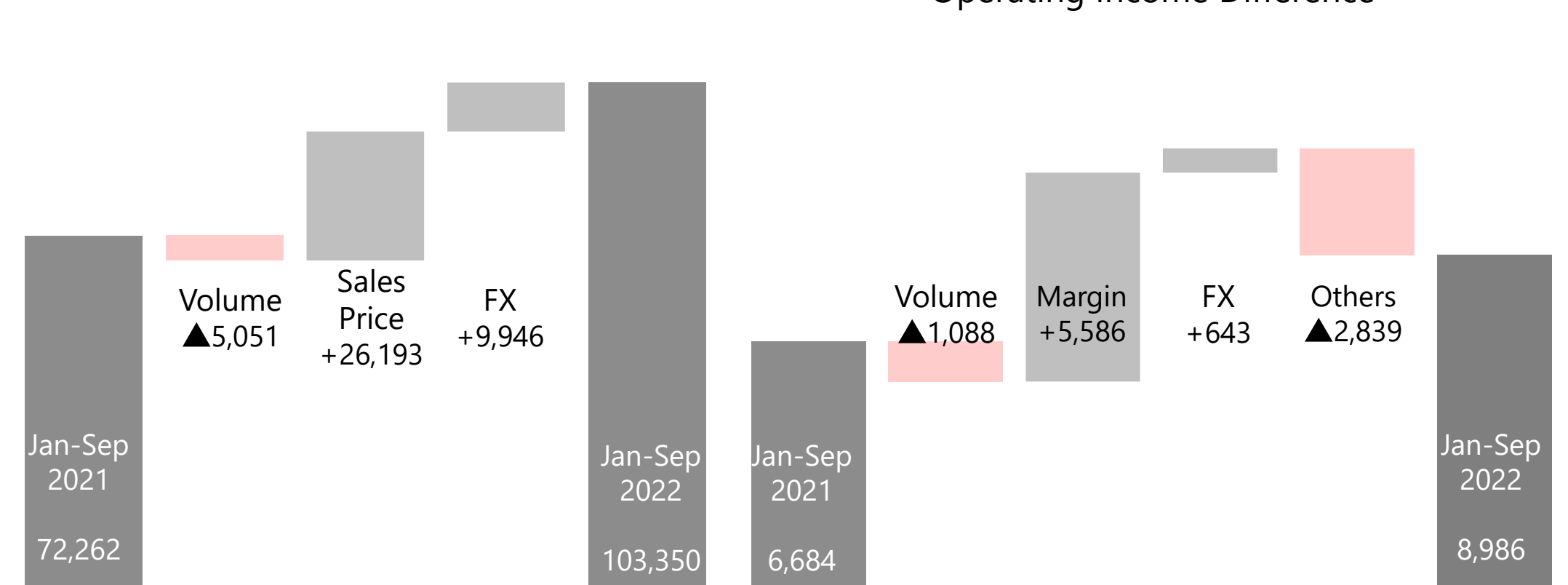


- Slow recovery of car production due to a shortage of semiconductors, although demand for replacement tires as for trucks and buses remains robust.
- Overall sales volumes decreased YoY due to the sale of Tokai Carbon (Tianjin) Co., Ltd in China. However, overall net sales increased due to a higher selling price driven by passing on the rising costs of raw material oil.
- Environmental equipment at US will be restored by the end of 2022. Full operation expected from 2023.

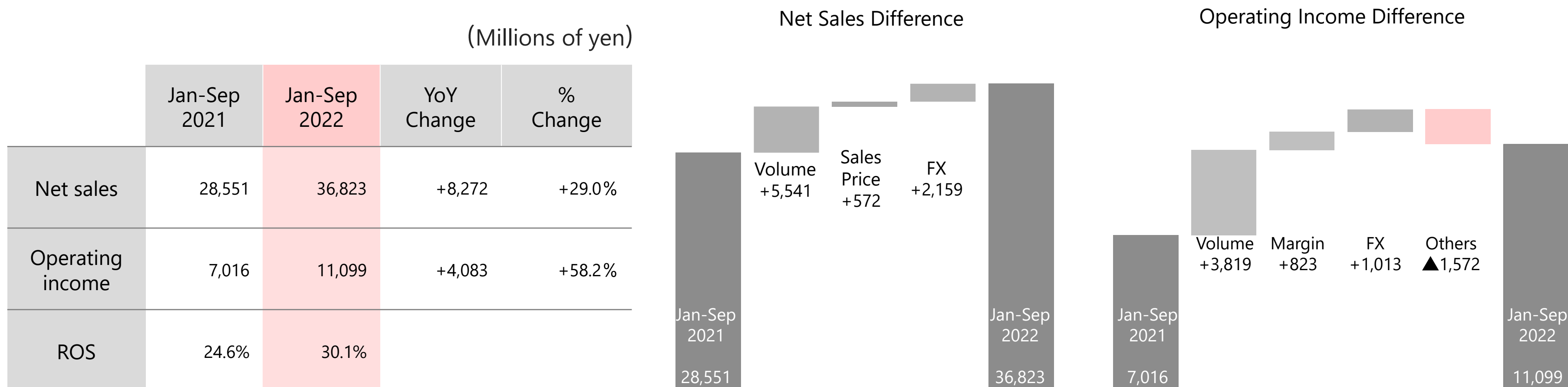
(Millions of yen)

	Jan-Sep 2021	Jan-Sep 2022	YoY Change	% Change
Net sales	72,262	103,350	+31,087	+43.0%
Operating income	6,684	8,986	+2,301	+34.4%
ROS	9.3%	8.7%		

Net Sales Difference



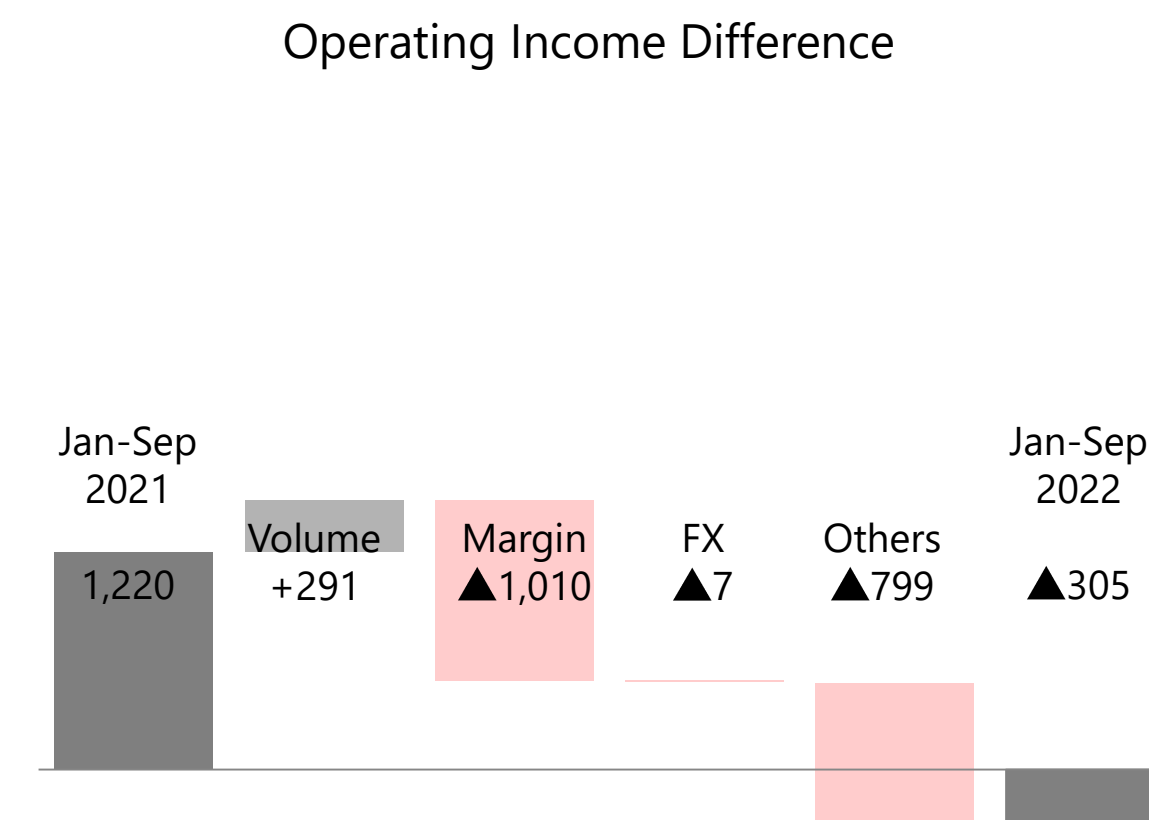
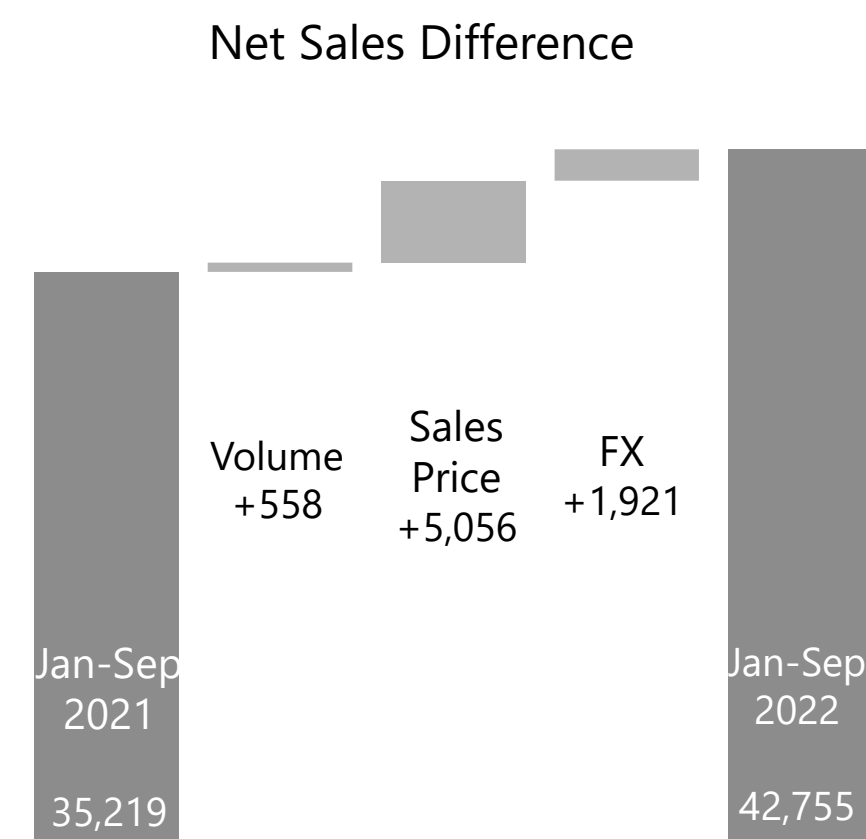
- Overall growth was driven by solid SiC (Silicon Carbide) focus rings used in the semiconductor production etching process. In addition, demand for SiC semiconductor related products is expanding due to the rapid growth of the industry. Shipments to the general industrial market were strong as well.
- Accelerating growth investments to follow up with the market expansion in a long run.



- Although shipments of furnace lining blocks was affected due to the Ukraine crisis, demand for cathodes 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. Operating income excluding goodwill amortization was ¥7.55b (ROS 17.7%).
- Due to seasonal fluctuations in net sales (shipments concentrated in Q4), segment income will decrease by ¥0.3b, but the full year is expected to exceed the guidance and be profitable.

(Millions of yen)

	Jan-Sep 2021	Jan-Sep 2022	YoY Change	% Change
Net sales	35,219	42,755	+7,535	+21.4%
Operating income	1,220	▲305	▲1,525	—%
ROS	3.5%	▲0.7%		

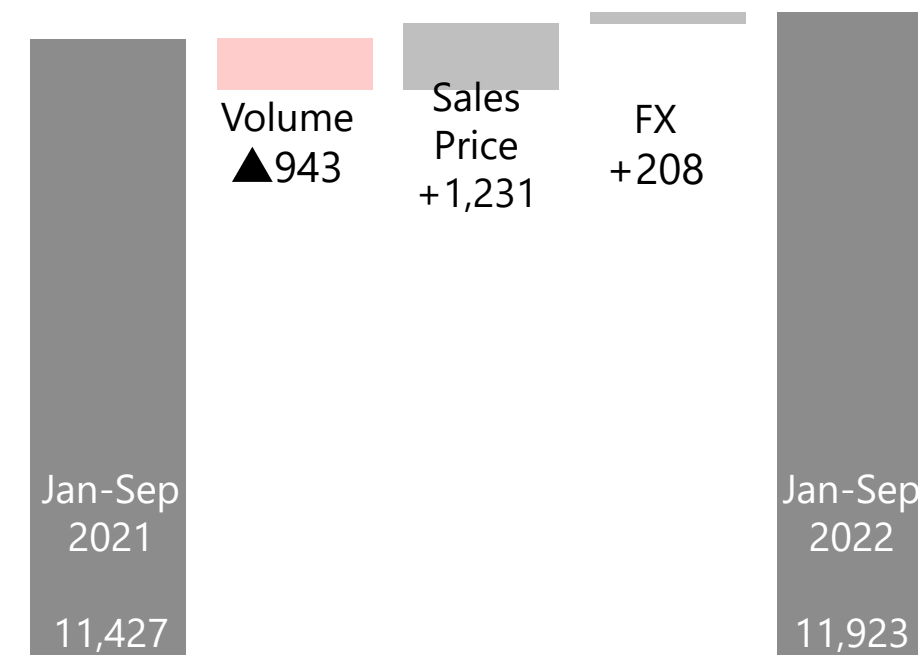


- Although production and shipment at bases in China were partially affected by lockdowns in the country, both industrial furnaces and ceramic heaters performed well.
- Demand from the electronic components industry and energy related industry continues to be strong. Growth investments continue with a view to medium- to long-term market expansion for Multi-Layer Ceramic Capacitors (MLCC) and Lithium Ion Battery (LiB) electrode materials.

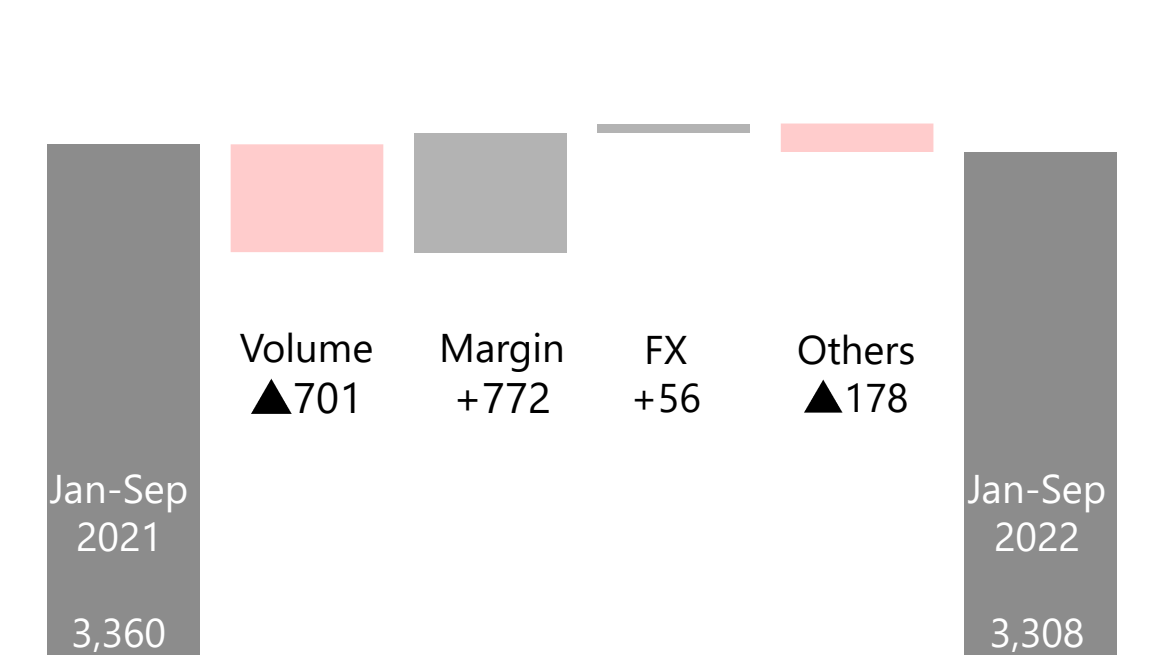
(Millions of yen)

	Jan-Sep 2021	Jan-Sep 2022	YoY Change	% Change
Net sales	11,427	11,923	+496	+4.3%
Operating income	3,360	3,308	▲51	▲1.5%
ROS	29.4%	27.7%		

Net Sales Difference



Operating Income Difference



Major Cash Flow items

(Millions of yen)

	Jan-Sep 2021	Jan-Sep 2022	Summary
Cash flows from operating activities	23,499	19,921	
Net income (loss) before income taxes	17,700	31,330	
Depreciation and amortization	16,727	19,385	
Amortization on goodwill	5,216	5,561	
Decrease (increase) in trade receivable	▲9,023	▲7,384	} Working capital: ▲¥28,783 million (Jan-Sep 2021 ▲¥10,160 million)
Decrease (increase) in inventories	▲5,794	▲19,560	
Increase (decrease) in accounts payable-trade	4,657	▲1,839	
Income tax paid	▲5,984	▲7,572	
Cash flows from investing activities	▲26,978	▲29,302	Free cash flow: ▲¥9,380 million (Jan-Sep 2021 ▲¥3,479 million)
Purchase of property, plant and equipment	▲23,119	▲26,577	
Cash flows from financing activities	3,679	▲14,435	
Net increase (decrease) in short-term Loans payable	1,616	8,813	<ul style="list-style-type: none"> · Redemption of ¥10,000 million in 1th Unsecured Straight Bond (3-year bonds, 0.12% interest rate) · Additional Acquisition of Shares of Consolidated Subsidiary(TCK) (Ratio of voting rights held 44.4% ⇒ 47.4%)
issuance of corporate bonds	10,000	▲10,000	
Acquisition of share of subsidiaries	0	▲5,024	
Payment of dividends	▲6,395	▲6,395	
Cash and cash equivalents at end of period	59,656	45,862	

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

Major Balance Sheet Items

(Millions of yen)

	December 31, 2021	September 30, 2022	Summary
Total assets	512,503	562,933	
Net income (loss) before income taxes	215,149	240,187	
Cash and cash equivalents	78,858	63,706	· Cash/monthly sales: 2.3 times (End of FY2021: 3.7 times)
Notes and accounts receivable	56,668	68,558	· Inventory: +¥26,240 million from End of FY2021
Inventory	72,479	98,719	· Tangible fixed assets: +¥28,046 million from the end of FY2021
Fixed assets	297,353	322,745	· Intangible fixed assets: ▲¥246 million from the end of FY2021
Tangible fixed asset	144,165	172,211	
Intangible fixed assets	123,349	123,103	
Investments and other assets	29,838	27,430	
Total liabilities	255,932	264,457	· Net interest bearing debt: ¥103,550 million (+¥14.1 billion from End of FY2021)
Current liabilities	130,418	134,620	· Bearing debt: ¥167,257 million (▲¥993 million from End of FY2021)
Long term liabilities	125,514	129,837	· Direct funding ratio: 68.8% (End of FY2021: 68.4%), Long term debt ratio: 54.5 % (End of FY2021: 55.6%)
			· Short term credit line: ¥66 billion (+¥4.0 billion from End of FY2021) : ¥6.0 billion executed (+¥4.0 billion from End of FY2021)
			· Liquidation of receivables and CP issuance limit ¥78 billion (+¥10 billion from End of FY2021) : ¥60 billion executed (+¥10 billion from End of FY2021)
Total net assets	256,570	298,475	· Capital to asset ratio: 47.7% (End of FY2021 44.7%)
Shareholder's capital	206,269	212,465	· Adjusted Capital to asset ratio*: 53.9% (End of FY2021: 51.6%)
Other accumulated Comprehensive income	22,940	56,175	· Net D/E ratio: 0.4 times (End of FY2021: 0.4 times)
Non controlling interests	27,360	29,835	· Adjusted Net D/E ratio: 0.2 times (End of FY2021: 0.2 times)
Total liabilities and net assets	512,503	562,933	

※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. Stable operation is expected from beginning of 2023



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
- ✓ Expanding equipment in China, Korea, and Japan to meet growing demand for fine carbon for SiC semiconductors

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 CO₂ 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>	<p>Higher raw material and energy costs.</p>	<p>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>
 <p>Carbon Black</p>	<p>No sales to Russia and Ukraine The rise in crude oil prices has been dealt with by the price formula system.</p>	<p>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>
 <p>Fine Carbon</p>	<p>No sales to Russia and Ukraine Higher raw material and energy costs have been reflected in sales prices.</p>	<p>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>
 <p>Smelting and Lining</p>	<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.</p>	<p>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>
 <p>Anode materials</p>	<p>No impact (Accelerate shift to a production system based on local production for local consumption).</p>	<p>Technology transfer to bases in France Plans are progressing with subsidies, etc.</p>

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

CAPEX focus into High growth x High ROIC business area

ROIC in 2021: 4.8%, January to September 2022 (cumulative): 6.5%, 2024 plan: over 10%

ROIC (2022 result=6.5%)		Direction of efforts	Strategies and measures
Industrial Furnaces	30%	Growth investment Continuous investment	<ul style="list-style-type: none"> ● Expansion of production capacity for industrial furnaces and ceramic heaters (aim for 10% annual growth) ● FC production capacity increase (15% increase from Q4 2022, 16% increase in 2024) ● FC (China): Expansion of processing machines and refining capacity (contribution to be realized in 2024) ● FC (South Korea): Continuous investment to raise SiC capacity. Further expansion with the establishment of a new plant in 2026 ● Investment in environmental equipment for CB. Construction of a new factory in Thailand (relocation)
FC	16%		
CB	7%		
Graphite Electrodes	7%	Profitability improvement	<ul style="list-style-type: none"> ● Increase sales prices of graphite electrodes ● Streamline production of super size (large diameter) graphite electrodes, for which demand is increasing
WACC 5% line			
SL	0%*	Profitability improvement	<ul style="list-style-type: none"> ● Pass higher material, energy, and labor costs to sales prices (price increase). Improve yields and reduce fixed costs

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

* SL : ROIC excluding goodwill amortization related cost is 5.6 %.

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	Jan-Sep 2021	Jan-Sep 2022	YoY Change	Location /Business	Note
Tokai Erftcarbon	8,045	13,662	+5,617	Germany Graphite Electrodes	
Tokai Carbon GE	13,416	22,645	+9,229	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	12,951	20,978	+8,027	Thailand Carbon Black	
Tokai Carbon CB	31,189	49,773	+18,583	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	6,628	7,124	+495	Canada Carbon Black	
Tokai Carbon Korea	19,006	24,732	+5,726	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	27,038	42,820	+15,781	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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(Millions of yen)

	2021					2022				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4f (*)	Full year
Net sales	53,968	63,412	67,714	73,779	258,874	69,512	87,558	89,261	58,669	305,000
Graphite Electrodes	7,957	10,028	10,412	12,220	40,619	12,362	16,802	14,502	21,334	65,000
Carbon Black	21,595	24,669	25,997	27,228	99,491	29,430	34,298	39,621	10,651	114,000
Fine Carbon	8,826	9,851	9,873	10,574	39,125	10,935	12,760	13,127	4,178	41,000
Smelting and Lining	10,766	11,126	13,326	14,477	49,696	11,605	15,001	16,148	10,246	53,000
Industrial Furnaces and Related Products	1,982	4,556	4,888	6,592	18,019	2,523	6,381	3,018	8,078	20,000
Others										
Friction materials	2,134	2,269	2,186	2,289	8,880	2,290	2,202	2,341	2,167	9,000
Anode materials	670	876	997	362	2,907	330	78	465	2,127	3,000
Others	34	33	33	33	135	34	33	34	▲101	0
Total Others	2,839	3,180	3,217	2,686	11,922	2,655	2,315	2,842	4,193	12,000
Operating income	4,077	6,868	6,724	6,977	24,647	7,938	8,778	11,297	6,987	35,000
Graphite Electrodes	▲223	346	▲311	▲211	▲400	1,258	1,666	2,378	3,698	9,000
Carbon Black	1,807	2,546	2,331	2,098	8,783	3,049	1,735	4,201	2,015	11,000
Fine Carbon	2,146	2,411	2,458	2,594	9,611	2,912	3,874	4,312	▲1,098	10,000
Smelting and Lining	42	259	917	705	1,925	67	▲71	▲301	305	0
Industrial Furnaces and Related Products	521	1,431	1,406	2,036	5,396	763	1,754	790	2,693	6,000
Other Operations	138	210	255	151	754	201	186	312	301	1,000
Inter-segment eliminations	▲355	▲337	▲334	▲396	▲1,423	▲314	▲367	▲395	▲924	▲2,000

(*) Q4f:Q4 forecast is based on the full-year forecast , less the Q3 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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Building a Future of Technology and Trust
TOKAI CARBON CO., LTD.