

Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 [Japanese GAAP]

November 7, 2022

Company name: Tokai Carbon Co., Ltd. Listing: Tokyo Stock Exchange Prime Market
 Securities code: 5301 URL: <https://www.tokaicarbon.co.jp/en/>
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 Scheduled date to file quarterly report: November 11, 2022
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (Conference call for analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 (January 1 to September 30, 2022)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Quarterly Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2022	246,332	33.1	28,015	58.6	32,132	83.1	16,121	68.6
Nine months ended September 30, 2021	185,095	28.0	17,669	137.9	17,547	183.9	9,559	818.6

Note: Comprehensive income: Nine months ended September 30, 2022: 54,296 million yen (115.2%)
 Nine months ended September 30, 2021: 25,225 million yen (-%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
Nine months ended September 30, 2022	75.62	-
Nine months ended September 30, 2021	44.84	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	562,933	298,475	47.7
As of December 31, 2021	512,503	256,570	44.7

For reference: Shareholders' capital: As of September 30, 2022: 268,640 million yen
 As of December 31, 2021: 229,210 million yen

2. Dividends

	Annual Dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	15.00	-	15.00	30.00
Fiscal year ending December 31, 2022	-	15.00	-		
Fiscal year ending December 31, 2022 (Forecast)			-	15.00	30.00

Note: Amendment to most recently disclosed dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2022 (January 1 to December 31, 2022)

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	305,000	17.8	35,000	42.0	34,000	37.3	20,000	24.2	93.82

Note: Amendment to most recently disclosed consolidated earnings forecast: None

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanying changes in the scope of consolidation): Yes

Newly included: -

Excluded: 1 company (Tokai Carbon (Tianjin) Co., Ltd.)

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policy and changes and restatements of accounting estimates

(a) Changes in accounting policy accompanying the revision of accounting standards: Yes

(b) Changes in accounting policy other than those listed in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares issued (common stock)

(a) Number of shares issued at the end of the period (including treasury stock)

As of September 30, 2022	224,943,104 shares	As of December 31, 2021	224,943,104 shares
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(b) Number of treasury stock at the end of the period

As of September 30, 2022	11,747,938 shares	As of December 31, 2021	11,762,569 shares
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(c) Average number of shares during the period

Nine months ended September 30, 2022	213,189,325 shares	Nine months ended September 30, 2021	213,177,407 shares
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* The financial results are not subject to audit by certified public accountants or audit firms.

* Appropriate use of earnings forecasts and other pertinent information

(Cautionary statement on forward-looking statements)

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors.

(How to obtain the supplemental material on quarterly financial results)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Tuesday, November 8, 2022. The materials for this briefing will be posted on the corporate website on that day.

Supplemental Materials

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1. Operating Results

(1) Operating Results for the Third Quarter of the Fiscal Year Ending December 31, 2022

During the first nine months of 2022 (from January 1, 2022 to September 30, 2022) the global economy simultaneously experienced a significant slowdown in the pace of economic recovery and an increase in inflation, contrary to expectations at the beginning of the year. Although lockdowns occurred in major Chinese cities, the balance between anti-infection measures and economic activities progressed in countries around the world. However, generally speaking, the supply chain disruption triggered by Russia's invasion of Ukraine, the advance of global inflation and the resulting monetary tightening have become major downward factors, and uncertainty about the future of the global economy has increased again.

Under these circumstances, in February this year, Tokai Carbon Group disclosed the rolling medium-term management plan "T-2024", for the three-year period from 2022 to 2024. Based on the three basic policies of "returning core businesses to a path of growth," "optimizing the business portfolio (selection and concentration)," and "strengthening the consolidated governance structure," we aim to achieve quantitative targets of 356 billion yen in net sales, 57 billion yen in operating income, 16% in ROS, and 91 billion yen in EBITDA by 2024. Focusing on our core businesses of graphite electrodes and carbon black, we are working to secure appropriate profits by passing through the rising costs to selling prices. At the same time, we are expanding our production capacity for the growing future demand.

In February this year, we disclosed our new long-term vision for 2030, "Contributing to the Realization of a Sustainable Society with Advanced Materials and Solutions." We also established the Sustainability Committee to discuss important matters related to sustainability and the Carbon Neutral Committee to serve as a control tower for accelerating carbon neutral issues.

As a result, net sales for the first nine months of 2022 increased 33.1% year on year to 246,332 million yen. Operating income increased 58.6% year on year to 28,015 million yen. Ordinary income increased 83.1% year on year to 32,132 million yen. Quarterly net income attributable to owners of the parent company increased 68.6% year on year to 16,121 million yen.

Results by business segment were as follows:

Graphite Electrodes

Demand for graphite electrodes remained firm, despite concerns about the impact of the global economic slowdown and rising raw material and energy costs. Production and sales volumes increased at all sites, and average selling prices also rose.

As a result, net sales for the Graphite Electrodes business increased 53.8% year on year to 43,667 million yen, while operating income increased significantly to 5,303 million yen (compared with 138 million yen in operating loss for the same period of the previous year).

Carbon Black

Automobile production recovery has been delayed due to a shortage of semiconductors and other factors, however, demand in replacement tires remained strong, particularly for truck and bus applications in North America. Despite a decrease in overall sales volume year on year due to the sale of the China-based business, sales and profit increased due to measures such as passing on the increase in raw material oil prices to selling prices.

As a result, net sales for the Carbon Black business increased 43.0% year on year to 103,350 million yen, while operating income increased 34.4% year on year to 8,986 million yen.

Fine Carbon

Production and shipments for semiconductors and general industries remained steady. Demand for solar power generation was generally firm despite production adjustments in the face-to-face industry. In addition, demand for solid SiC (silicon carbide) products, a high-value-added product, remained strong worldwide.

As a result, net sales for the Fine Carbon business increased 29.0% year on year to 36,823 million yen, while operating income increased 58.2% year on year to 11,099 million yen.

Smelting & Lining

Due to the rise of energy costs, the operation of aluminum electrolytic furnaces varied depending on the location of users, but the sales of cathodes for aluminum electrolysis remained generally firm. Carbon electrodes sales also remained strong backed by the steady demand for metallic silicon. Earnings are currently under pressure due to goodwill depreciation and higher raw material costs. However, we are working to recover earnings by passing on higher costs to selling prices.

As a result, net sales for the Smelting and Lining business increased by 21.4% year on year to 42,755 million yen, and operating loss was 305 million yen (compared with 1,220 million yen in operating income in the same period of the previous year).

Industrial Furnaces and Related Products

Demand for industrial furnaces from energy-related and IT-related industries, which are our main customers, was strong. Demand for heating elements and other products was also strong in the electronic components industry.

As a result, net sales for the Industrial Furnaces and Related Products business increased 4.3% year on year to 3,308 million yen, while operating income decreased 1.5% year on year to 3,308 million yen.

Other Operations

Friction materials

Demand from major applications remained firm, although there were negative factors such as a slowdown in Chinese construction machinery and reduced production due to a shortage of parts on the customers' side.

As a result, net sales of friction materials increased 3.7% year on year to 6,834 million yen.

Anode materials

Competition intensified due to the rise of new competitors and sluggish sales of xEVs made with the Company's materials, resulting in decreased sales.

As a result, net sales of anode materials decreased 65.6% year on year to 875 million yen.

Others

Net sales from real estate leasing and other business increased 1.4% year on year to 102 million yen.

As a result, net sales for Other Operations decreased 15.4% to 7,812 million yen, while operating income increased 15.8% to 699 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Third quarter of the fiscal year under review (As of September 30, 2022)
Assets		
Current assets		
Cash and deposits	78,858	63,706
Notes and accounts receivable	56,668	68,558
Merchandise and finished goods	20,169	25,756
Work in progress	29,362	40,622
Raw materials and supplies	22,947	32,340
Other	7,377	9,488
Allowance for doubtful accounts	(234)	(285)
Total current assets	215,149	240,187
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	29,783	31,829
Machinery, equipment and vehicles, net	84,239	90,942
Land	7,724	8,090
Construction in progress	15,085	32,967
Other, net	7,332	8,380
Total tangible fixed assets	144,165	172,211
Intangible assets		
Goodwill	55,553	55,121
Customer-related assets	57,880	57,672
Other	9,914	10,308
Total intangible assets	123,349	123,103
Investments and other assets		
Investment securities	21,802	20,356
Net defined benefit asset	3,500	3,437
Deferred tax assets	3,620	2,496
Other	958	1,183
Allowance for doubtful accounts	(43)	(43)
Total investments and other assets	29,838	27,430
Total fixed assets	297,353	322,745
Total assets	512,503	562,933

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Third quarter of the fiscal year under review (As of September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable	22,294	22,661
Electronically recorded obligations	3,934	3,642
Short-term loans payable	2,000	6,000
Commercial papers	50,000	60,000
Current portion of loans payable	12,710	10,180
Income taxes payable	5,913	4,919
Provision for bonuses	2,777	3,561
Current portion of bonds payable	10,000	-
Provision for loss on sale of equity invested in associates	1,137	-
Other	19,650	23,654
Total current liabilities	130,418	134,620
Long-term liabilities		
Bonds payable	55,000	55,000
Long-term loans payable	38,539	36,076
Deferred tax liabilities	18,499	23,572
Retirement benefit liability	7,340	7,267
Provision for retirement benefits for directors	90	101
Provision for executive officers' retirement benefits	58	56
Provision for environment and safety measures	284	291
Other	5,701	7,471
Total long-term liabilities	125,514	129,837
Total liabilities	255,932	264,457
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	17,350	13,811
Retained earnings	175,727	185,454
Treasury stock	(7,244)	(7,236)
Total shareholders' equity	206,269	212,465
Accumulated other comprehensive income		
Valuation difference on other securities	9,370	8,338
Deferred gains or losses on hedges	(41)	(52)
Foreign currency translation adjustments	11,805	45,385
Cumulative remeasurements of defined benefit plans	1,805	2,504
Total accumulated other comprehensive income	22,940	56,175
Non-controlling interests	27,360	29,835
Total net assets	256,570	298,475
Total liabilities and net assets	512,503	562,933

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

First Nine-month Period

(Millions of yen)

	First nine months of the previous fiscal year (January 1 to September 30, 2021)	First nine months of the fiscal year under review (January 1 to September 30, 2022)
Net sales	185,095	246,332
Cost of sales	133,675	179,293
Gross profit	51,420	67,038
Selling, general and administrative expenses	33,750	39,023
Operating income	17,669	28,015
Non-operating income		
Interest income	189	366
Dividend income	366	471
Share of profit of entities accounted for using equity method	40	210
Foreign exchange gains	492	4,452
Other	698	391
Total non-operating income	1,788	5,892
Non-operating expenses		
Interest expenses	780	763
Other	1,129	1,011
Total non-operating expenses	1,910	1,775
Ordinary income	17,547	32,132
Extraordinary income		
Gain on sale of investment securities	47	54
Gain on sales of fixed assets	211	27
Total extraordinary income	258	82
Extraordinary losses		
Loss on retirement of fixed assets	47	581
Loss on sale of equity invested in associates	-	160
Accident-related loss	-	141
Loss on sales of fixed assets	3	0
Loss on sale of investment securities	-	0
Demolition and removal costs	30	-
Loss on liquidation of subsidiaries and associates	24	-
Total extraordinary losses	105	883
Quarterly net income before income taxes	17,700	31,330
Income taxes - current	6,186	6,833
Income taxes - deferred	(1,002)	4,642
Total income taxes	5,184	11,476
Quarterly net income	12,515	19,854
Quarterly net income attributable to non-controlling interests	2,956	3,732
Quarterly net income attributable to owners of the parent company	9,559	16,121

Quarterly Consolidated Statements of Comprehensive Income

First Nine-month Period

(Millions of yen)

	First nine months of the previous fiscal year (January 1 to September 30, 2021)	First nine months of the fiscal year under review (January 1 to September 30, 2022)
Quarterly net income	12,515	19,854
Other comprehensive income		
Valuation difference on other securities	2,697	(1,030)
Deferred gains or losses on hedges	69	(11)
Foreign currency translation adjustments	9,879	34,937
Remeasurements of defined benefit plans	(42)	698
Share of other comprehensive income of associates accounted for using equity method	105	(152)
Total other comprehensive income	12,709	34,441
Quarterly comprehensive income	25,225	54,296
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent company	22,294	49,356
Quarterly comprehensive income attributable to non- controlling interests	2,931	4,939

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not Applicable

(Notes on Significant Changes in Shareholders' Equity Amount)

The Company acquired additional shares of Tokai Carbon Korea Co., Ltd., a consolidated subsidiary, as of May 11, 2022. As a result, during the first nine months of the consolidated period, capital surplus decreased by 3,547 million yen and capital surplus at the end of the third quarter of the consolidated period was 13,811 million yen.

(Changes in Accounting Policy)

(Application of accounting standards for revenue recognition)

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as, "Revenue Recognition Accounting Standard") etc. has been applied from the beginning of the first three months of the consolidated period. With the application of the Revenue Recognition Accounting Standard, revenue is recognized at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

Moreover, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control over the goods or products is transferred to the customer is a normal period in total sales of the goods or products by applying the alternative treatment set forth in Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition.

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment provided in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. However, the application of the Revenue Recognition Accounting Standard, etc. does not have any impact on the profit or loss and the beginning retained earnings of the first nine months of the consolidated period.

In accordance with the transitional treatment set forth in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ statement No. 12, March 31, 2020), revenue derived from contracts with customers pertaining to the first nine months of the previous fiscal year is not presented.

(Application of accounting standard for fair value measurement)

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as, "Fair Value Measurement Accounting Standard") etc. has been applied from the beginning of the first three months of the consolidated period. In accordance with the transitional treatment set forth in Paragraph 19 of Fair Value Measurement Accounting Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth in the Fair Value Measurement Accounting Standard, etc. will be applied into the future. Moreover, there is no impact on the quarterly consolidated financial statements.

(Additional Information)

There is no significant change in the assumed information reported in "(Additional Information)" in the Securities Report for the previous fiscal year, regarding the effects of COVID-19 infections, including the estimation of the spread and timing of returning to normal.

(Segment Information)

I First nine months of the previous fiscal year (January 1 to September 30, 2021)

Information on net sales and amount of income or loss by reportable segment

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the quarterly consolidated statements of income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	28,398	72,262	28,551	35,219	11,427	175,858	9,236	185,095	-	185,095
Intersegment sales/transfers	97	56	96	34	628	912	-	912	(912)	-
Total	28,496	72,318	28,647	35,253	12,055	176,771	9,236	186,008	(912)	185,095
Segment income (loss)	(188)	6,684	7,016	1,220	3,360	18,092	603	18,696	(1,027)	17,669

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
2. The 1,027-million-yen negative adjustment in segment income/loss includes company-wide expenses of 984 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income/loss is reconciled to the operating income reported in the Quarterly Consolidated Statements of Income.

II First nine months of the fiscal year under review (January 1 to September 30, 2022)

1. Information on net sales and amount of income or loss by reportable segment

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the quarterly consolidated statements of income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	43,667	103,350	36,823	42,755	11,923	238,519	7,812	246,332	—	246,332
Intersegment sales/transfers	242	41	124	362	366	1,136	35	1,171	(1,171)	—
Total	43,909	103,391	36,948	43,117	12,289	239,656	7,847	247,504	(1,171)	246,332
Segment income (loss)	5,303	8,986	11,099	(305)	3,308	28,393	699	29,092	(1,077)	28,015

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
2. The 1,077-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 976 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income (loss) is reconciled to the operating income reported in the Quarterly Consolidated Statements of Income.

2. Information on assets by reportable segment

During the first three months of the fiscal year under review, as a result of the transfer of all equity interests of the Tokai Carbon (Tianjin) Co., Ltd. and the exclusion from the scope of consolidation, the amount of assets of reportable segments at the end of the third quarter of the of the fiscal year under review decreased by 5,977 million yen in the Carbon Black segment compared with the end of the previous fiscal year.

3. Changes in reportable segment, etc.

During the first six months of the fiscal year under review, the name of the reportable segment was changed from “Smelting and Lining” to “Smelting and Lining.” (“Seiren Lining Jigyo” to “Smelting & Lining Jigyo” in Japanese, no change in English translation.) This change is a change in segment name and has no impact on segment information.

Moreover, as a result of this change, segment information for the first nine months of the previous fiscal year is also presented under the new name.