

FY2022  
Earnings Presentation

2023/2/10



**TOKAI CARBON CO., LTD.**

## Table of Contents

I	FY2022 Financial Summary	P 3-13
II	Earnings Forecast FY2023	P14-16
	Reference material	P17-20

# I

FY2022

## Financial Summary

- The International Monetary Fund (IMF) announced that, on January 30, 2023, the outlook for the global economic growth will fall to 2.9% in 2023, up 0.2% from 3 months earlier, and rise to 3.1% in 2024. Although downside risks have been mitigated since the previous forecast announcement in October 2022, responding to slower price increase and expectations for the normalization of the Chinese economy, the energy crisis caused by the Ukraine situation and monetary tightening by national central banks due to rising prices weigh on economic activity.
- Amid soaring costs for raw materials and energy around the globe, the company recorded significant increases both in net sales and operating income for two consecutive quarters, net sales increased by 31.5% YoY, operating income increased by 64.7% YoY, ordinary income increased by 71.7% YoY, and net income attributable to owners of the parent company increased by 39.2% YoY. Compared to the full-year forecast, net sales increased by 11.6%, operating income increased by 16.0%, ordinary income increased by 25.1%, and net income attributable to owners of the parent company increased by 12.1%, all of which exceeded the forecast.
- EBITDA, a key indicator measuring cash-based earning capacity, was ¥75.5b (+¥21.0b YoY), up 38.6% YoY, and EBITDA margin was 22.2% (+1.1% YoY), which remains over 20%.
- In the graphite electrode business, the market conditions, which had delayed compared to face-to-face industries, recovered overall with the completion of inventory adjustments. However, demand in Europe is sluggish due to macroeconomic deterioration caused by the Ukraine crisis, and competition is intensifying in Japan and Asia. On the other hand, demand in the U.S. is strong with a focus on large diameter electrodes, backed by a shift to EAF for lower CO2 emission. We will carefully monitor demand changes by region.
- In the carbon black business, although production was partially reduced due to capital investment to meet U.S. environmental standards (e.g. gas scrubbers), it was recovered by capturing strong U.S. demand through the second half. Operations were at full capacity at bases in Japan, Thailand, and Canada with strong global auto and tire production.
- In the fine carbon business, market uncertainty is increasing due U.S. export restrictions targeting China and a slack in the supply and demand conditions of semiconductors, reflecting concerns over recession in various countries. 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, blast furnace lining blocks were affected by the Ukraine crisis. Steady global aluminum production and relining demand in aluminum smelters led to capturing strong carbon electrodes demand with focus on graphitized cathodes, polysilicon for semiconductors and aluminum alloys. Rising costs were passed on to product prices.
- Rating and Investment Information, Inc. (R&I) renewed issuer credit rating of A- and changed the rating outlook for the Company from “stable” to “positive” in view of our strengthened business base and increased profitability despite an uncertain external environment. Limit amount for the issuance of CP increased from ¥50b to ¥60b to ensure liquidity.

# Summary of Consolidated Results

5

- Net sales ¥340.3b, Operating income ¥40.5b, ROS 11.9% (ROS 9.5% YoY)
- 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

(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	258,874	340,371	+81,496	+31.5%
Operating income	24,647	40,588	+15,941	+64.7%
Ordinary income	24,770	42,521	+17,751	+71.7%
Net income attributable to owners of the parent company	16,105	22,418	+6,313	+39.2%

Group companies (As of December 31, 2022)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2021 USD1= ¥109.80  
EUR1= ¥129.89
- 2022 USD1= ¥131.43  
EUR1= ¥138.04

# Net Sales, Operating Income and EBITDA by Segment

6

- Net sales significantly increased in the 4 main segments. OP, EBITDA significantly increased in the 3 segments

(Millions of yen)

	Net sales			Operating income			EBITDA		
	Jan-Dec 2021	Jan-Dec 2022	YoY Change	Jan-Dec 2021	Jan-Dec 2022	YoY Change	Jan-Dec 2021	Jan-Dec 2022	YoY Change
Graphite electrodes	40,619	59,630	+19,011	▲400	8,032	+8,432	4,162	13,549	+9,387
Carbon black	99,491	138,484	+38,993	8,783	12,282	+3,498	14,868	20,491	+5,623
Fine Carbon	39,125	49,393	+10,268	9,611	14,825	+5,214	15,199	21,270	+6,071
Smelting and Lining	49,696	65,203	+15,506	1,925	1,345	▲580	14,097	14,829	+732
Industrial Furnaces and Related Products	18,019	16,272	▲1,747	5,396	4,475	▲921	5,701	4,797	▲904
Other Operations	Friction materials	8,880	9,362	+482	—	—	—	—	—
	Anode materials	2,907	1,888	▲1,019	—	—	—	—	—
	Others	135	136	+0	—	—	—	—	—
	Total Others	11,922	11,387	▲535	754	1,108	+354	1,313	1,589
Inter-segment eliminations	—	—	—	▲1,423	▲1,480	▲56	▲824	▲954	▲130
<b>Total</b>	<b>258,874</b>	<b>340,371</b>	<b>+81,496</b>	<b>24,647</b>	<b>40,588</b>	<b>+15,941</b>	<b>54,518</b>	<b>75,572</b>	<b>+21,054</b>
Return on sales	—	—	—	9.5%	11.9%	+2.4%	21.1%	22.2%	+1.1%

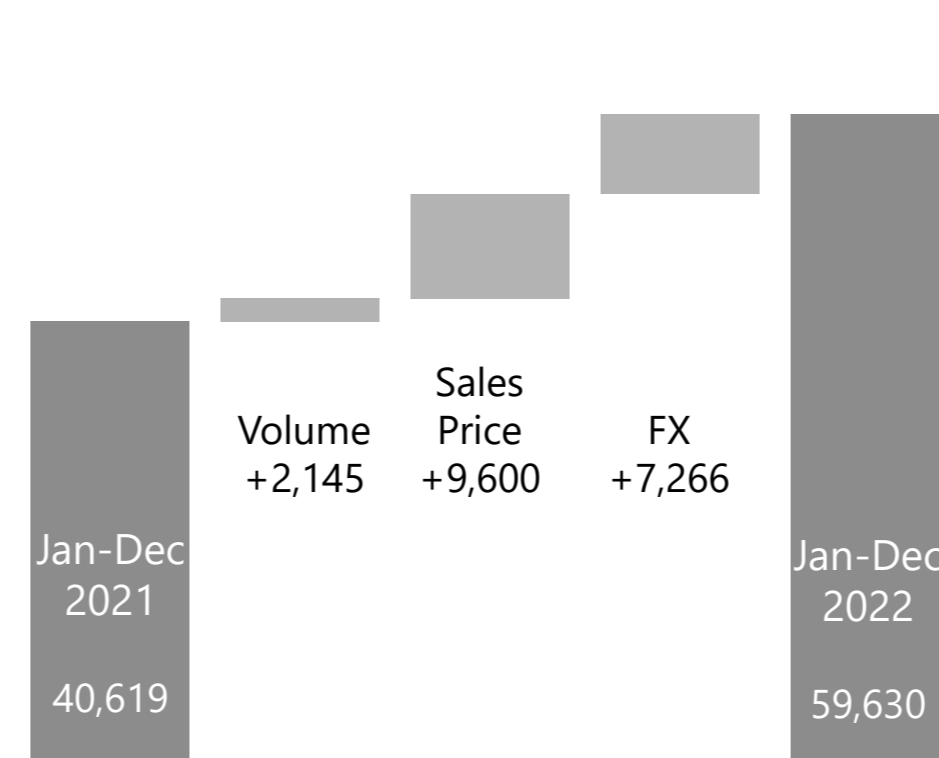
※EBITDA = Operation income + Depreciation + Goodwill amortization

- The electrode market reversed as the market inventory normalized. Sales prices rose in the second half by about 30% YoY.
- We see firm demand for high quality larger diameter electrodes in U.S.
- Order booking is slow in Europe.
- Amid intensifying competition in Japan and Asia, we maintain sale prices through flexible production adjustments, while assessing the supply-demand balance.

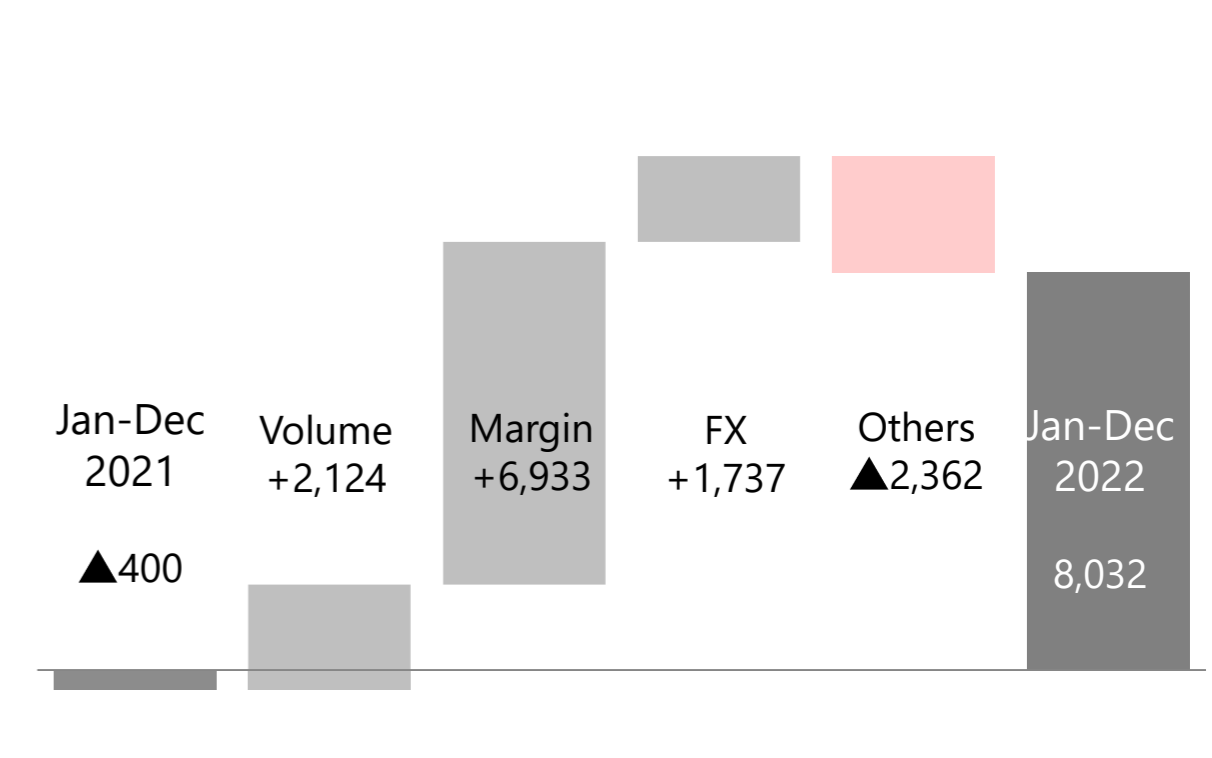
(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	40,619	59,630	+19,011	+46.8%
Operating income	▲400	8,032	+8,432	—%
ROS	▲1.0%	13.5%		

Net Sales Difference



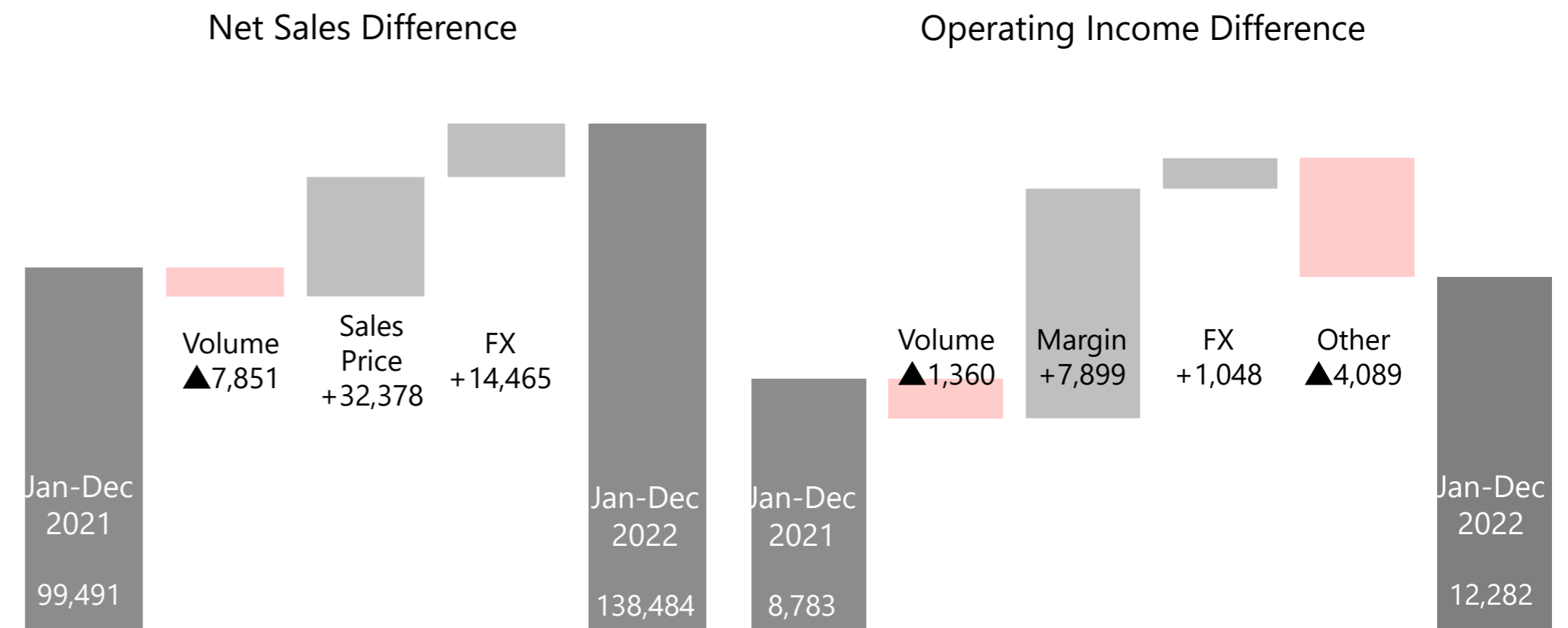
Operating Income Difference



- Prolonged car production adjustment due to a shortage of semiconductors and component procurement caused by re-spread of COVID-19, although demand for replacement tires as for trucks and buses remains robust. Demand for carbon black remains generally firm.
- Overall sales volumes decreased YoY due to the sale of Tokai Carbon (Tianjin) Co., Ltd in China. However, net sales increased due to sales price adjustment for higher raw oil and energy costs.
- Environmental equipment at US will be restored by the end of 2022. Full operation expected from 2023.

(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	99,491	138,484	+38,993	+39.2%
Operating income	8,783	12,282	+3,498	+39.8%
ROS	8.8%	8.9%		



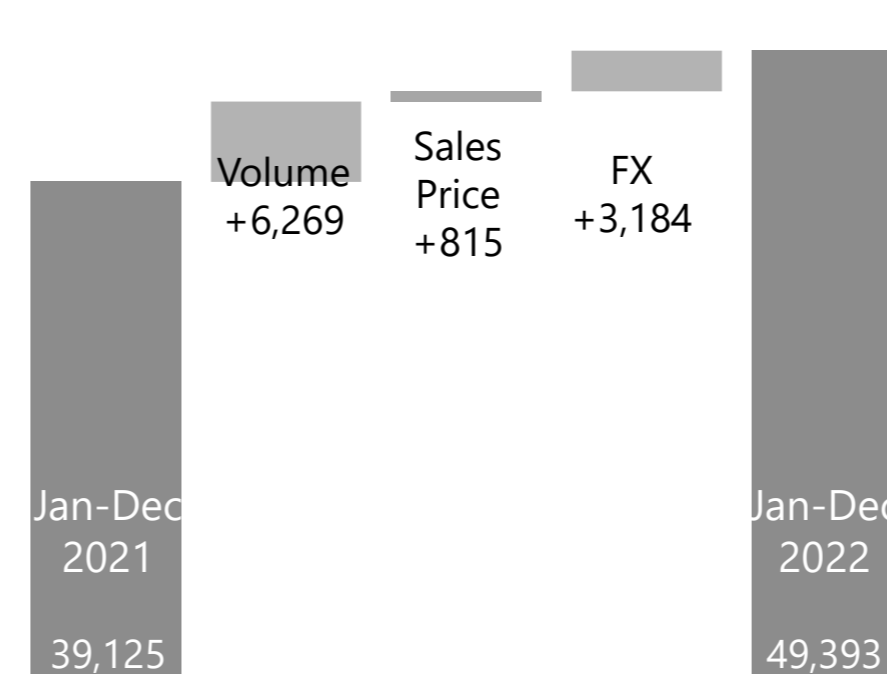


- Overall growth was driven by solid SiC (Silicon Carbide) focus rings used in the semiconductor production etching process throughout the year. In addition, demand for SiC semiconductor related products is expanding due to the rapid growth of the industry. Shipments to the general industrial market were strong as well.
- The semiconductor market is expected to temporarily shrink in 2023. Despite of the current market condition, growth investments will be proceeded as planned to follow up with the mid term market expansion.

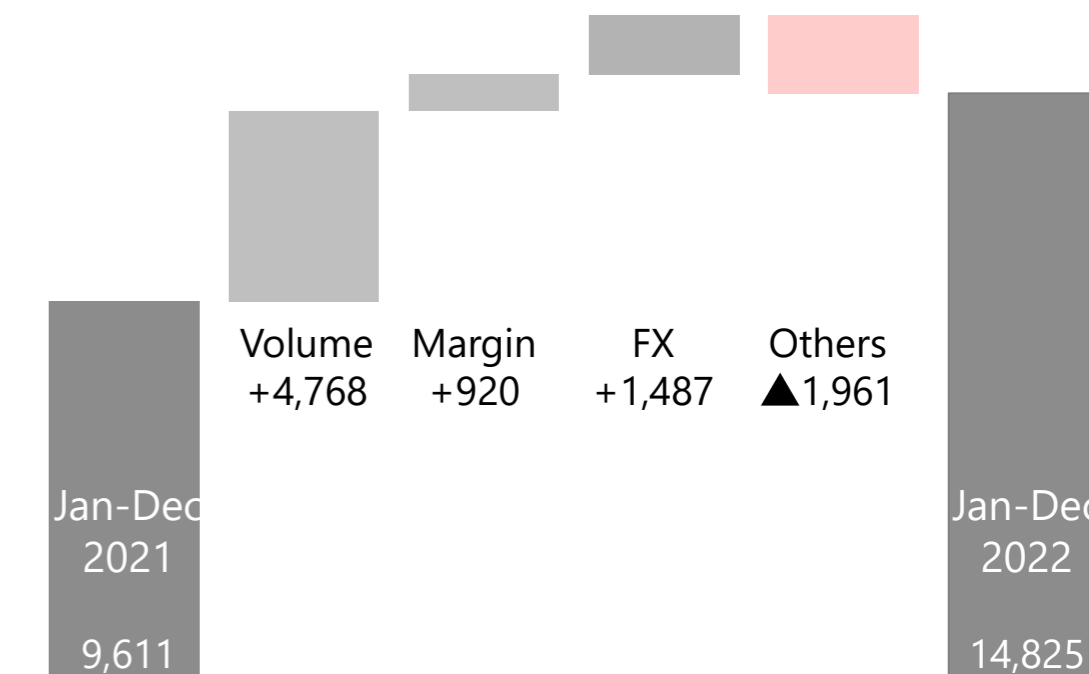
(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	39,125	49,393	+10,268	+26.2%
Operating income	9,611	14,825	+5,214	+54.3%
ROS	24.6%	30.0%		

Net Sales Difference



Operating Income Difference

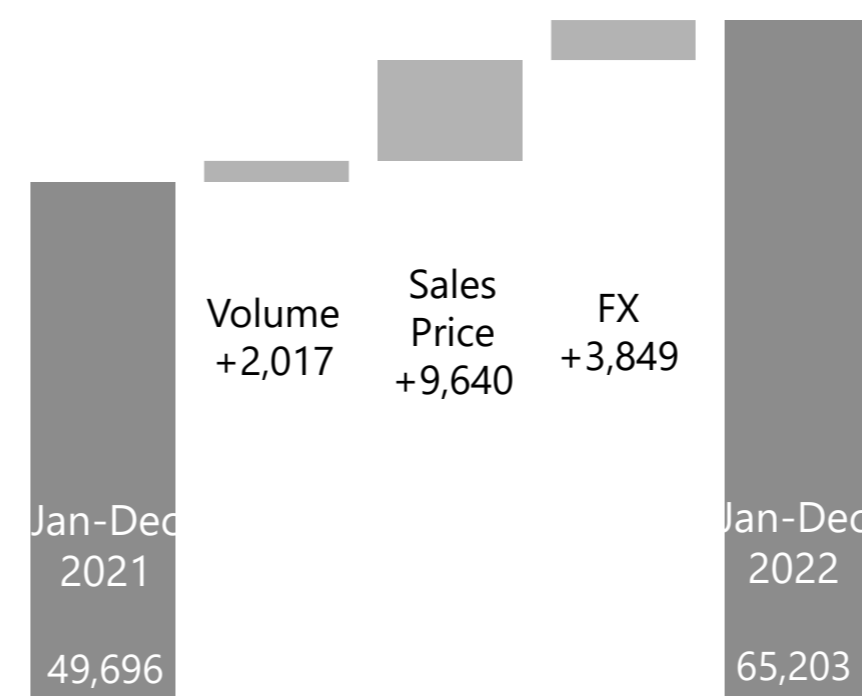


- Ukraine crisis affected the shipments of furnace lining blocks, although demand for cathodes and carbon electrodes was strong.
- Soaring raw material prices and rising labor costs due to inflation were absorbed by sales price adjustments and improving production efficiency. Operating income excluding goodwill amortization was ¥12.04b (ROS 18.5%).
- As shipments were concentrated in Q4, net sales for Q4 increased by ¥6.3b QonQ, and operating income increased by ¥1.95b. For the full year, segment operating income exceeded guidance and amounted to ¥1.34b.

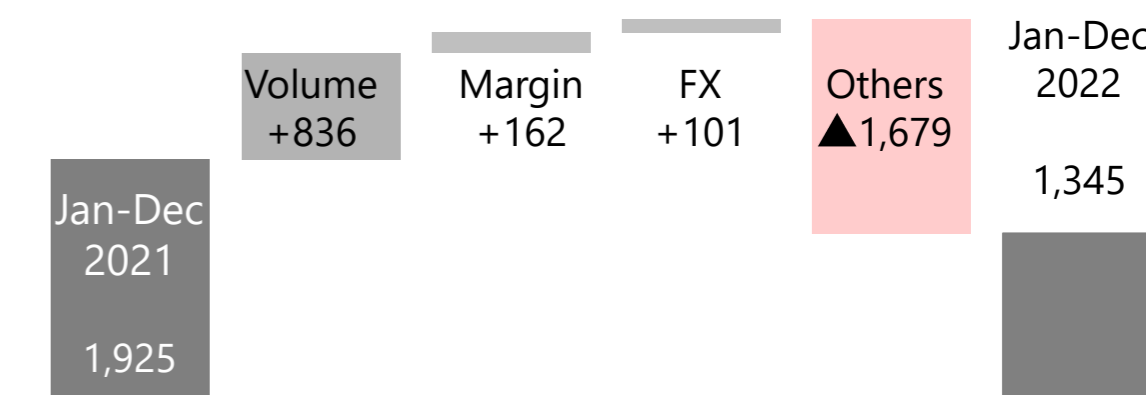
(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	49,696	65,203	+15,506	+31.2%
Operating income	1,925	1,345	▲580	▲30.1%
ROS	3.9%	2.1%		

Net Sales Difference



Operating Income Difference

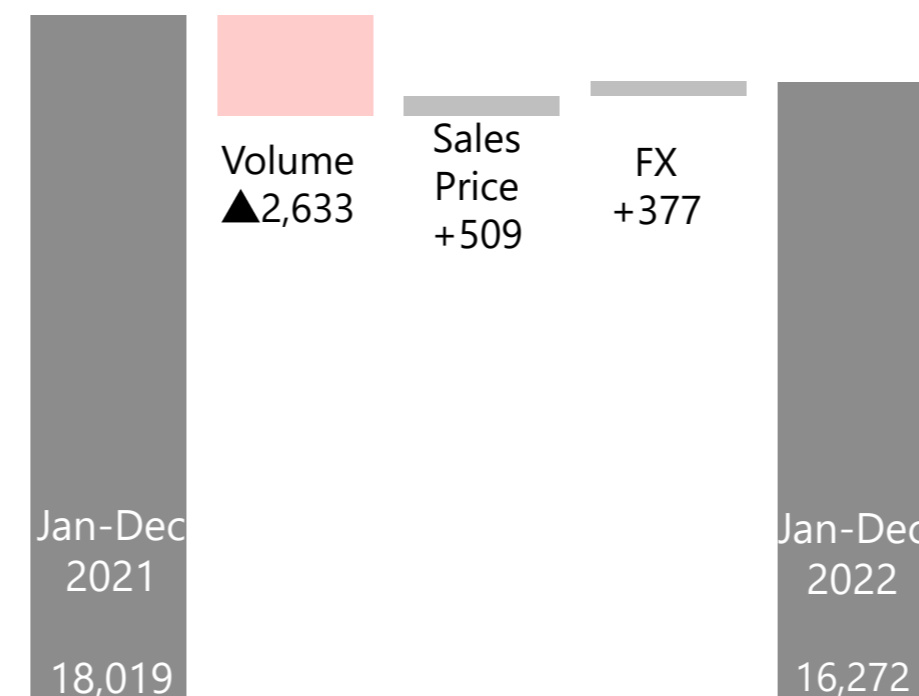


- Production and shipment were partially affected by lockdowns in China and slowdown in the face-to-face consumer electronic components industry.
- Demand from the electronic components industry and energy related industry continues to be strong. We continue growth investment for industrial furnaces and ceramic heaters with a view to medium to long term market expansion for Multi Layer Ceramic Capacitors (MLCC) and Lithium Ion Battery (LiB) electrode materials.

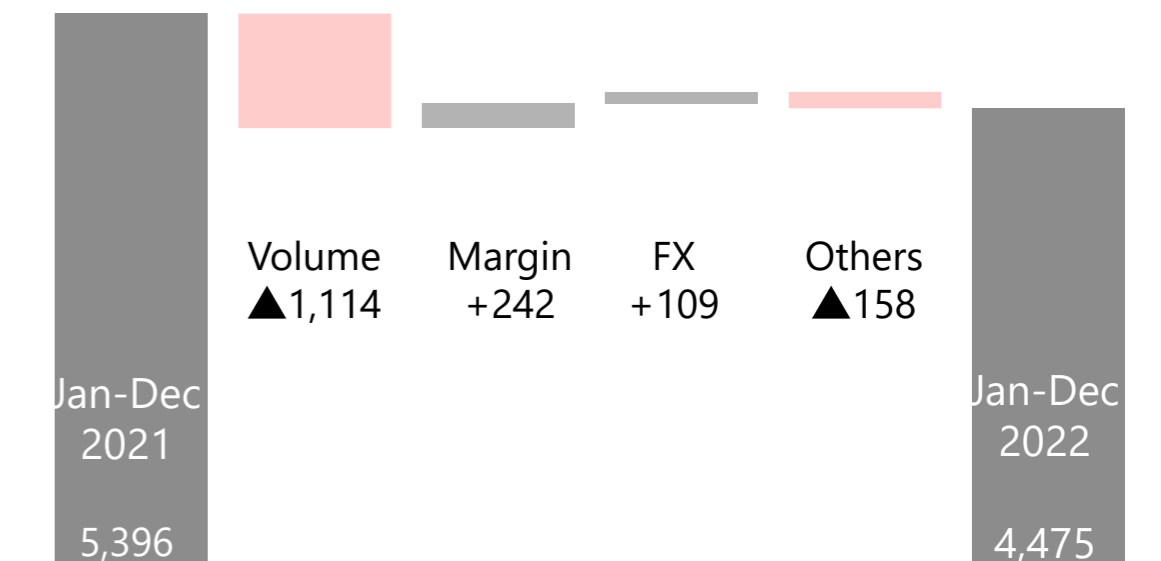
(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	YoY Change	%Change
Net sales	18,019	16,272	▲1,747	▲9.7%
Operating income	5,396	4,475	▲921	▲17.1%
ROS	29.9%	27.5%		

Net Sales Difference



Operating Income Difference



## Major Cash Flow items

(Millions of yen)

	Jan-Dec 2021	Jan-Dec 2022	Summary
Cash flows from operating activities	38,072	41,205	
Net income (loss) before income taxes	23,354	42,111	
Depreciation and amortization	22,900	27,460	
Amortization on goodwill	6,971	7,522	
Decrease (increase) in trade receivable	▲13,566	▲6,140	Working capital: ▲¥26.1billion (Jan-Dec 2021 ▲¥10.5billion)
Decrease (increase) in inventories	▲6,147	▲24,711	
Increase (decrease) in accounts payable-trade	9,142	4,659	
Income tax paid	▲4,582	▲9,696	
Cash flows from investing activities	▲35,282	▲49,900	Free cash flow: ▲¥8.6billion (Jan-Dec 2021 ▲¥2.7billion)
Purchase of property, plant and equipment	▲28,955	▲43,989	
Cash flows from financing activities	1,211	▲10,629	
Net increase (decrease) in short-term Loans payable	▲604	12,947	<ul style="list-style-type: none"> <li>· Redemption of ¥10,000 million in 1th Unsecured Straight Bond (3-year bonds, 0.12% interest rate)</li> <li>· Additional Acquisition of Shares of Consolidated Subsidiary(TCK) (Ratio of voting rights held 44.4% ⇒ 47.4%)</li> </ul>
issuance of corporate bonds	10,000	▲10,000	
Acquisition of share of subsidiaries	-	▲5,024	
Payment of dividends	▲6,395	▲6,395	
Cash and cash equivalents at end of period	64,435	49,377	

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

(Millions of yen)

## Major Balance Sheet Items

	December 31, 2021	December 31, 2022	Summary
Total assets	512,503	576,465	
Net income (loss) before income taxes	215,149	246,691	
Cash and cash equivalents	78,858	70,909	
Notes and accounts receivable	56,668	65,197	· Cash/monthly sales: 2.5 times (End of FY2021: 3.7 times)
Inventory	72,479	101,330	· Inventory: +¥28.8billion from End of FY2021
Fixed assets	297,353	329,773	· Tangible fixed assets: +¥37.7billion from the end of FY2021
Tangible fixed asset	144,165	181,948	· Intangible fixed assets: ▲¥4.5billion from the end of FY2021
Intangible fixed assets	123,349	118,839	
Investments and other assets	29,838	28,986	
Total liabilities	255,932	275,596	· Net interest bearing debt: ¥100,500 million (+¥11.1 billion from End of FY2021)
Current liabilities	130,418	146,696	· Bearing debt: ¥171,400 million (+3.2billion from End of FY2021)
Long term liabilities	125,514	128,900	· Direct funding ratio:67.1% (End of FY2021: 68.4%), Long term debt ratio: 52.9 % (End of FY2021: 55.6%)
Total net assets	256,570	300,868	· Short term credit line:¥66 billion (+¥4.0 billion from End of FY2021) : ¥6.0 billion executed (+¥4.0 billion from End of FY2021)
Shareholder's capital	206,269	218,761	· Liquidation of receivables and CP issuance limit ¥78 billion (+¥10 billion from End of FY2021) : ¥60 billion executed (+¥10 billion from End of FY2021)
Other accumulated Comprehensive income	22,940	50,065	· Capital to asset ratio: 4766% (End of FY2021 44.7%)
Non controlling interests	27,360	32,041	· Adjusted Capital to asset ratio* :52.7% (End of FY2021: 51.6%)
Total liabilities and net assets	512,503	576,465	· Net D/E ratio: 0.4 times (End of FY2021: 0.4 times)
			· 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

FY2023

## Earnings Forecast

# Consolidated Earnings Forecast FY2023

15

- Global economic growth will slow in the first half due to the materialization of geopolitical risks and rapid monetary tightening by national central banks. From the second half, a moderate economic recovery is expected due to ripple effects of economic and fiscal policies in various countries.
- Momentum for our related markets will be maintained to realize a carbon neutral society in line with the global trend. Net sales and operating income are expected to increase for three consecutive quarters and the top line will reach an all-time high at the ¥400 billion level.

(Millions of yen)

	FY2022 Results			FY2023 Forecast			YoY Change	% Change
	1H	2H	Full year	1H	2H	Full year		
Net sales	157,070	183,300	340,371	198,000	212,000	410,000	+69,629	+20.5%
Operating income	16,717	23,871	40,588	20,000	25,000	45,000	+4,412	+10.9%
Ordinary income	19,448	23,072	42,521	20,000	25,000	45,000	+2,479	+5.8%
Net income attributable to owners of the parent company	9,253	13,165	22,418	11,000	15,000	26,000	+3,582	+16.0%
EBITDA	32,987	42,585	75,572	38,000	43,000	81,000	+5,428	+7.2%
EBITDA margin	21.0%	23.2%	22.2%	19.2%	20.3%	19.8%	—	—
ROS	10.6%	13.0%	11.9%	10.1%	11.8%	11.0%	—	—
ROIC	—	—	7.1%	—	—	7.0%	—	—
ROE	—	—	9.0%	—	—	9.5%	—	—

\* Earnings Forecast FY2023 : Average exchange rates: (Full year) USD1=¥130 , EUR1=¥140

# Consolidated Earnings Forecast FY2023 by Segment

16

(Millions of yen)

	FY2022 Results			FY2023 Forecast			YoY Change	%Change
	1H	2H	Full year	1H	2H	Full year		
Net sales	157,070	183,300	340,371	198,000	212,000	410,000	+69,629	+20.5%
Graphite electrodes	29,164	30,466	59,630	31,000	40,000	71,000	+11,370	+19.1%
Carbon black	63,729	74,755	138,484	82,000	84,000	166,000	+27,516	+19.9%
Fine Carbon	23,695	25,697	49,393	25,000	27,000	52,000	+2,607	+5.3%
Smelting and Lining	26,606	38,596	65,203	45,000	44,000	89,000	+23,797	+36.5%
Industrial Furnaces and Related Products	8,904	7,367	16,272	9,000	11,000	20,000	+3,728	+22.9%
Other Operations								
Friction materials	4,493	4,869	9,362	5,500	5,500	11,000	+1,638	+17.5%
Anode materials	409	1,478	1,888	500	500	1,000	▲888	▲47.0%
Others	68	68	136	0	0	0	▲136	-
Total Others	4,970	6,417	11,387	6,000	6,000	12,000	+613	+5.4%
Operating income	16,717	23,871	40,588	20,000	25,000	45,000	+4,412	+10.9%
Graphite electrodes	2,925	5,107	8,032	1,000	5,000	6,000	▲2,032	▲25.3%
Carbon black	4,785	7,496	12,282	8,000	8,000	16,000	+3,718	+30.3%
Fine Carbon	6,787	8,038	14,825	7,000	9,000	16,000	+1,175	+7.9%
Smelting and Lining	▲3	1,349	1,345	1,000	1,000	2,000	+655	+48.7%
Industrial Furnaces and Related Products	2,518	1,956	4,475	3,000	3,000	6,000	+1,525	34.1%
Other Operations	387	721	1,108	1,000	0	1,000	▲108	▲9.7%
Inter-segment eliminations	▲681	▲798	▲1,480	▲1,000	▲1,000	▲2,000	▲520	-



# Reference Material

# Net Sales of Main Subsidiaries

18

(Millions of yen)

Subsidiary	Jan-Dec 2021	Jan-Dec 2022	YoY Change	Location /Business	Note
Tokai Erftcarbon	12,217	16,340	+4,123	Germany Graphite Electrodes	
Tokai Carbon GE	18,819	33,825	+15,006	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	18,351	27,334	+8,982	Thailand Carbon Black	
Tokai Carbon CB	42,831	66,458	+23,626	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	8,505	9,639	+1,133	Canada Carbon Black	
Tokai Carbon Korea	26,020	32,531	+6,510	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	38,382	65,217	+26,835	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

(Millions of yen) f=forecast	2019	2020	2021	2022	2023f
Net sales	262,028	201,542	258,874	340,371	410,000
Operating income	54,344	7,858	24,647	40,588	45,000
ROS (%)	20.7%	3.9%	9.5%	11.9%	11.0%
EBITDA	77,053	35,262	54,518	75,572	81,000
EBITDA margin (%)	29.4%	17.5%	21.1%	22.2%	19.8%
Net income Attributable to Owners of the Parent Company	31,994	1,019	16,105	22,418	26,000
ROE (%)	16.0%	0.5%	7.5%	9.0%	9.5%
ROIC (%)	13.1%	1.6%	4.8%	7.1%	7.0%
Capital Investment	24,341	28,873	30,347	48,150	49,000
Depreciation and Amortization	18,503	20,890	22,900	27,460	28,000
R&D Expenses	2,460	2,682	2,823	3,171	4,000
Interest bearing liabilities	148,030	158,643	168,249	171,452	—
Net D/E ratio	0.5	0.5	0.4	0.4	—
Adjusted Net D/E ratio	0.3	0.2	0.2	0.2	—
Number of Employees	3,714	4,178	4,289	4,378	—
Exchange Rate (JPY/USD)	109.05	106.82	109.80	131.43	130

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

# Quarterly Segment Results by Segment

# 20

(Millions of yen)

		2021					2022				
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
Net sales		53,968	63,412	67,714	73,779	258,874	69,512	87,558	89,261	94,038	340,371
Graphite electrodes		7,957	10,028	10,412	12,220	40,619	12,362	16,802	14,502	15,963	59,630
Carbon black		21,595	24,669	25,997	27,228	99,491	29,430	34,298	39,621	35,134	138,484
Fine Carbon		8,826	9,851	9,873	10,574	39,125	10,935	12,760	13,127	12,569	49,393
Smelting and Lining		10,766	11,126	13,326	14,477	49,696	11,605	15,001	16,148	22,448	65,203
Industrial Furnaces and Related Products		1,982	4,556	4,888	6,592	18,019	2,523	6,381	3,018	4,348	16,272
Other Operations	Friction materials	2,134	2,269	2,186	2,289	8,880	2,290	2,202	2,341	2,528	9,362
	Anode materials	670	876	997	362	2,907	330	78	465	1,012	1,888
	Others	34	33	33	33	135	34	33	34	33	136
	Total Others	2,839	3,180	3,217	2,686	11,922	2,655	2,315	2,842	3,575	11,387
Operating income		4,077	6,868	6,724	6,977	24,647	7,938	8,778	11,297	12,573	40,588
Graphite electrodes		▲223	346	▲311	▲211	▲400	1,258	1,666	2,378	2,728	8,032
Carbon black		1,807	2,546	2,331	2,098	8,783	3,049	1,735	4,201	3,295	12,282
Fine Carbon		2,146	2,411	2,458	2,594	9,611	2,912	3,874	4,312	3,726	14,825
Smelting and Lining		42	259	917	705	1,925	67	▲71	▲301	1,650	1,345
Industrial Furnaces and Related Products		521	1,431	1,406	2,036	5,396	763	1,754	790	1,166	4,475
Other Operations		138	210	255	151	754	201	186	312	409	1,108
Inter-segment eliminations		▲355	▲337	▲334	▲396	▲1,423	▲314	▲367	▲395	▲402	▲1,480

- 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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