

Q1 FY2023 Earnings Presentation

2023/5/12



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Q1 FY2023

Financial Summary

- The International Monetary Fund (IMF) announced that, on April 11, 2023, the outlook for global economic growth will fall to 2.8% in 2023, down 0.1% from 3 months earlier. Amid lingering concerns about a recession in the U.S. and economic stagnation in Europe, as financial system instability in the U.S. and Europe and other risk factors are, in principle, not factored in the outlook, the IMF also suggested some downside scenarios, taking into account increasing uncertainty.
- Financial issues such as monetary tightening and subsequent financial system instability have been posing significant downside risks to the global economy. Under these circumstances, the Company recorded significant increases both in net sales and operating income. Net sales increased by 24.5% YoY, operating income increased by 44.8% YoY, ordinary income increased by 40.4% YoY, and net income attributable to owners of the parent company increased by 96.9% YoY. Progress against the 1st half forecasts was steady, with rates of 43.7% for net sales, 57.5% for operating income, 59.0% for ordinary income, and 72.4% for quarterly net income.
- EBITDA, a key indicator measuring cash-based earning capacity, was ¥20.0b (+¥4.4b YoY), up 28.4% YoY, and EBITDA margin was 23.2% (+0.7% YoY), which remains over 20%.
- In the graphite electrode business, recovery is modest due to continued weakness in steel production in some areas, while demand in the U.S. is strong with a focus on large diameter electrodes, backed by a shift to EAF for lower CO₂ emissions. Demand in Europe remains sluggish due to macroeconomic deterioration caused by the Ukraine crisis, and competition is intensifying in Japan and Asia. We will build an optimal production system with our global three plants to ensure capturing the opportunities from the reversal of supply-demand situation.
- In the carbon black business, although it was affected by capital investment to meet U.S. environmental standards (e.g., gas scrubbers) and subsequent equipment problems last year, it recovered significantly by capturing strong U.S. demand. Operations were at full capacity at bases in Japan and Thailand with strong global auto and tire production.
- In the fine carbon business, market uncertainty is further 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. Demand for high value-added components for semiconductor manufacturing facilities produced at a subsidiary in Korea is decreasing. On the other hand, demand of semiconductors for electric vehicles (EV) and renewable energy remains strong. Rapid growth of advanced driver assistance systems (ADAS) and EVs are supporting the increasing demand for SiC semiconductors that are the core component for the power semiconductor.
- In the Smelting and Lining business, steady global aluminum production and relining demand in aluminum smelters continued to lead to capturing strong graphitized cathodes demand. Amid expectations for resumption of economic activities after ending the zero-COVID policy in China, relining demand in blast furnaces is showing signs of recovery.
- Rating and Investment Information, Inc. (R&I) raised our issuer credit rating from A- (rating outlook: positive) to A (rating outlook: stable) in view of higher profitability and strengthened financial base through the enhancement of our business portfolio.

Summary of Consolidated Results

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- Carbon black and other core businesses were firm leading to YoY increases in net sales and operating income
- Net sales ¥86.5b (+24.5% YoY), Operating income ¥11.4b (+44.8% YoY), ROS 13.3% (+1.9% YoY)

(Millions of yen)

	Jan-Mar 2022	Jan-Mar 2023	YoY Change	%Change
Net sales	69,512	86,530	+17,017	+24.5%
Operating income	7,938	11,493	+3,554	+44.8%
Ordinary income	8,406	11,804	+3,397	+40.4%
Net income attributable to owners of the parent company	4,044	7,964	+3,919	+96.9%

Group companies (As of March 31, 2023)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2022 USD1= ¥116.2
 EUR1= ¥130.39
- 2023 USD1= ¥132.34
 EUR1= ¥142.10

Net Sales, Operating Income and EBITDA by Segment

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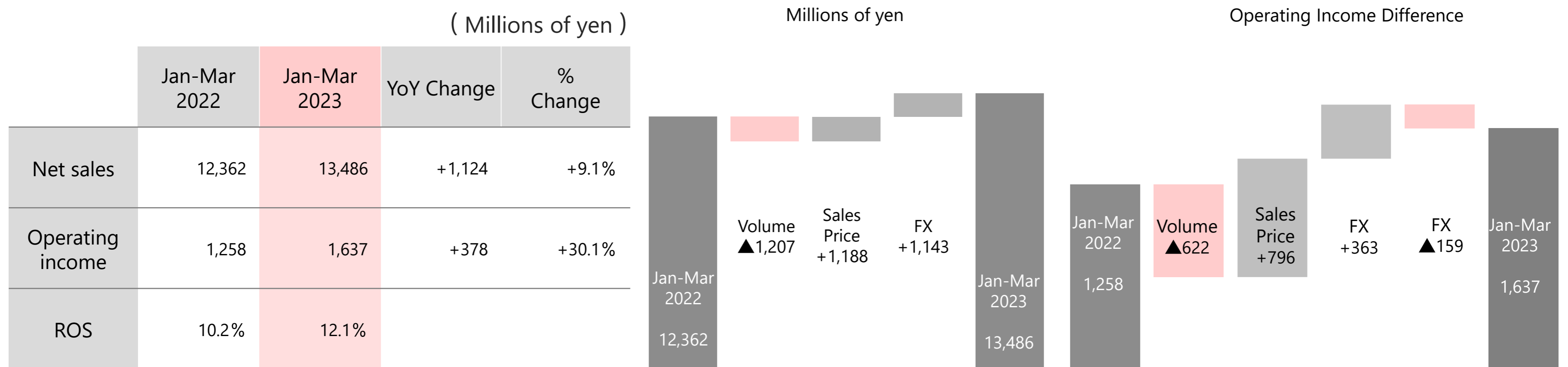
- Net sales, operating income and EBITDA increased in four main segments

(Millions of yen)

	Net sales			Operating income			EBITDA		
	Jan-Mar 2022	Jan-Mar 2023	YoY Change	Jan-Mar 2022	Jan-Mar 2023	YoY Change	Jan-Mar 2022	Jan-Mar 2023	YoY Change
Graphite Electrodes	12,362	13,486	+1,124	1,258	1,637	+378	2,535	2,975	+440
Carbon Black	29,430	37,406	+7,975	3,049	5,757	+2,708	4,616	7,583	+2,967
Fine Carbon	10,935	11,444	+509	2,912	3,103	+190	4,382	4,767	+385
Smelting and Lining	11,605	19,218	+7,613	67	408	+340	3,171	3,870	+699
Industrial Furnaces and Related Products	2,523	2,449	▲73	763	534	▲228	820	616	▲204
Other Operation	Friction materials	2,290	2,460	+169	—	—	—	—	—
	Anode materials	330	29	▲301	—	—	—	—	—
	Others	34	33	▲0	—	—	—	—	—
	Total Others	2,655	2,523	▲132	201	301	+99	312	415
Inter segment eliminations	—	—	—	▲314	▲249	+64	▲185	▲133	+52
Total	69,512	86,530	+17,017	7,938	11,493	+3,554	15,653	20,095	4,442
Return on sales	—	—	—	11.4%	13.3%	+1.9%	22.5%	23.2%	+0.7%

※EBITDA =Operation income + Depreciation + Goodwill amortization

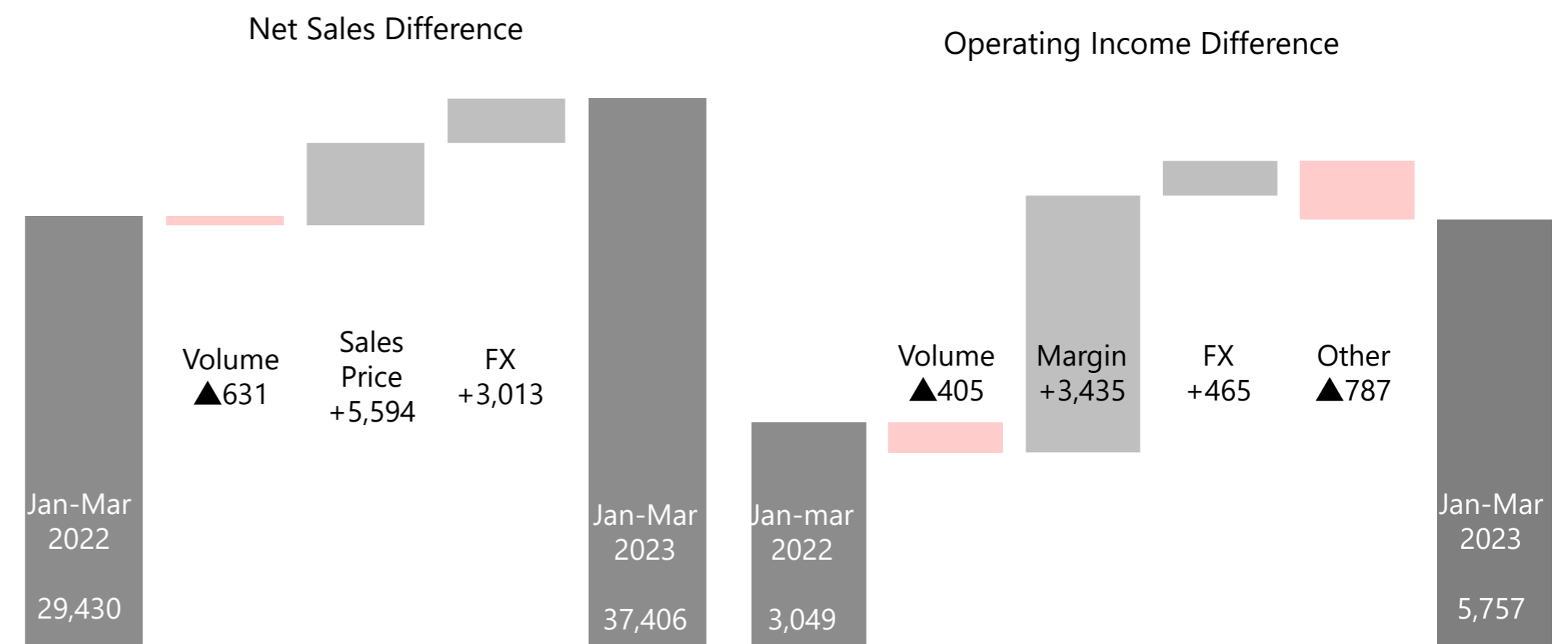
- The electrode market remained weak due to a downturn in steel demand caused by uncertainties surrounding global economic trends.
- By region, although order booking is slow in Europe and Japan, we see firm sales for larger diameter electrodes in U.S.
- Amid intensifying competition in Japan and Asia, we maintain average sale prices considering the size and location mix through assessing the supply-demand balance.



- Amid concerns about a global economic slowdown, demand for tires remains firm.
- Net sales and operating income increased due to the reflection of environmental equipment investment costs to sales prices and from higher productivity.

(Millions of yen)

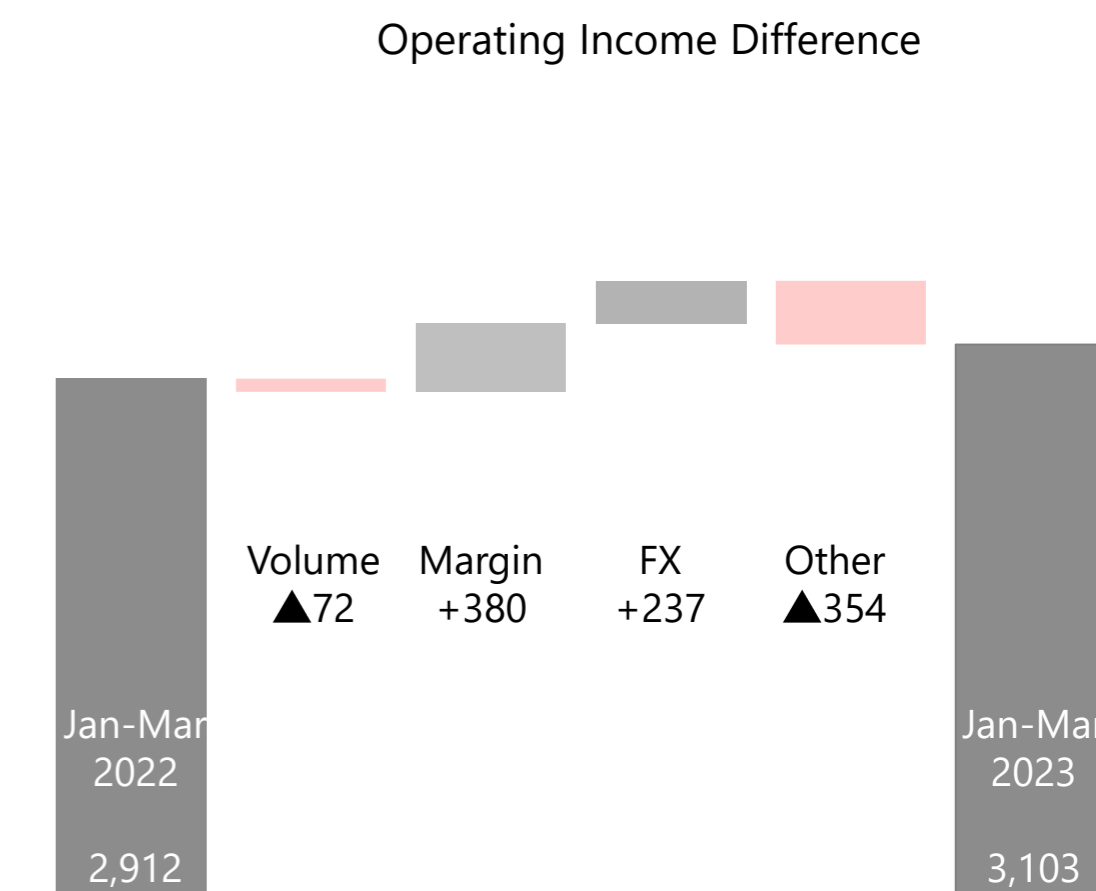
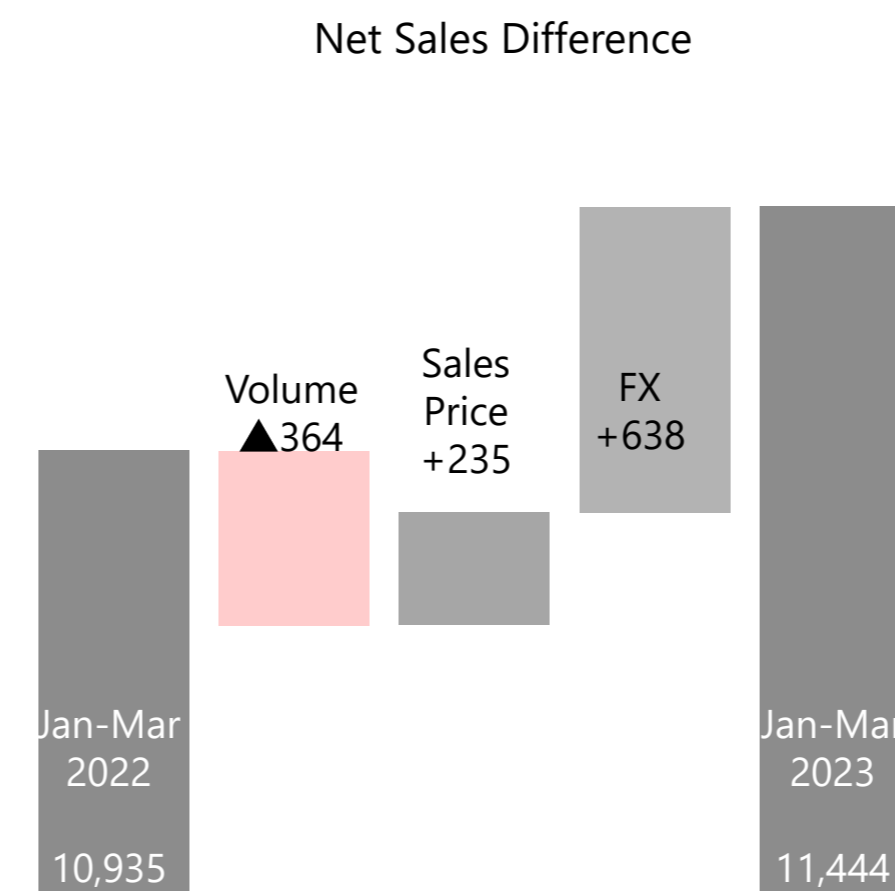
	Jan-Mar 2022	Jan-Mar 2023	YoY Change	% Change
Net sales	29,430	37,406	+7,975	+27.1%
Operating income	3,049	5,757	+2,708	+88.8%
ROS	10.4%	15.4%		



- Deterioration in the memory market affected solid SiC (Silicon Carbide) focus rings used in the semiconductor production etching process.
- Demand for semiconductors for EVs and renewable energy remained strong.
- The semiconductor market is expected to temporarily shrink in 2023. Despite of the current market condition, we will continue growth investments as planned to follow up with the mid term market expansion.

(Millions of yen)

	Jan-Mar 2022	Jan-Mar 2023	YoY Change	% Change
Net sales	10,935	11,444	+509	+4.7%
Operating income	2,912	3,103	+190	+6.6%
ROS	26.6%	27.1%		

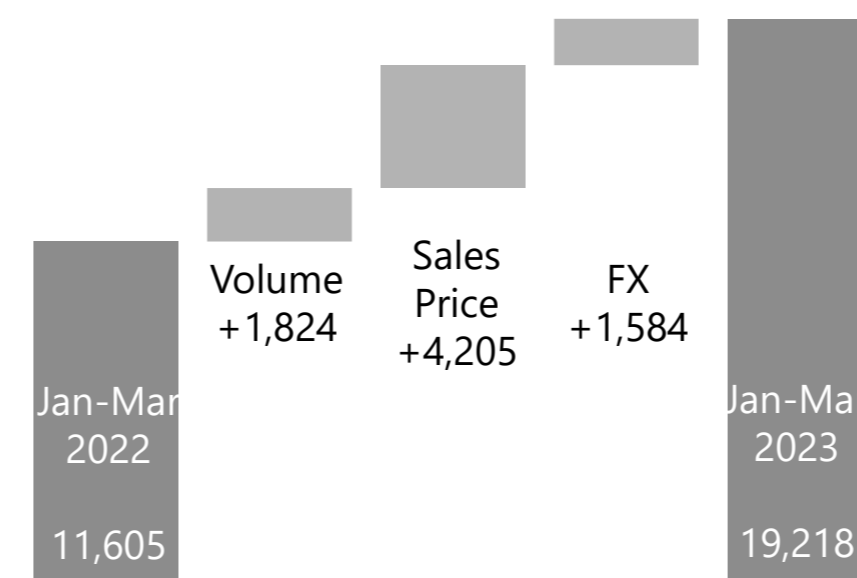


- Demand for mainstay cathode blocks was strong due to the expansion of smelting lines in the Middle East, stemming from soaring energy prices in the U.S. and Europe.
- Amid expectations for the resumption of economic activities in China, relining demand in blast furnaces is showing signs of recovery.
- Soaring raw material prices and energy costs, and rising labor costs due to inflation were absorbed by an effort toward higher productivity and higher cost passed on to sales prices.
- Operating income excluding goodwill amortization was ¥3.11b (ROS 16.2%).

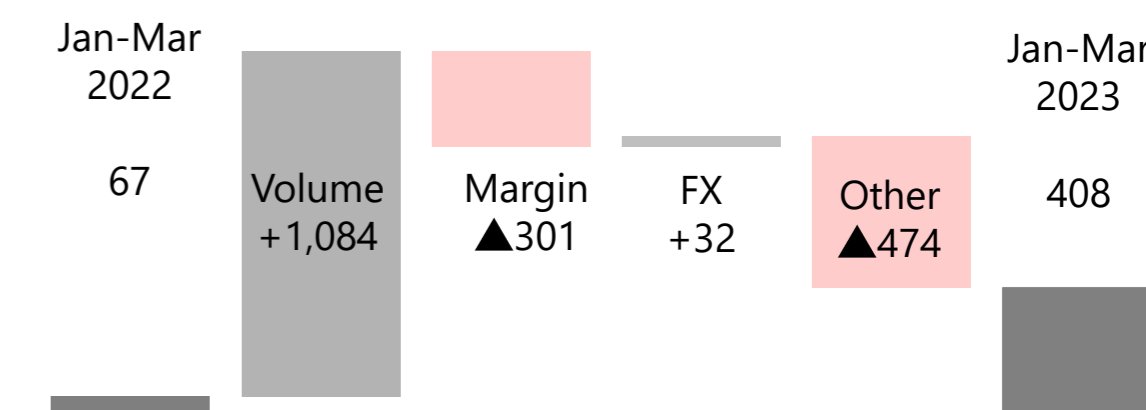
(Millions of yen)

	Jan-Mar 2022	Jan-Mar 2023	YoY Change	% Change
Net sales	11,605	19,218	+7,613	+65.6%
Operating income	67	408	+340	+506.4%
ROS	0.6%	2.1%		

Net Sales Difference



Operating Income Difference

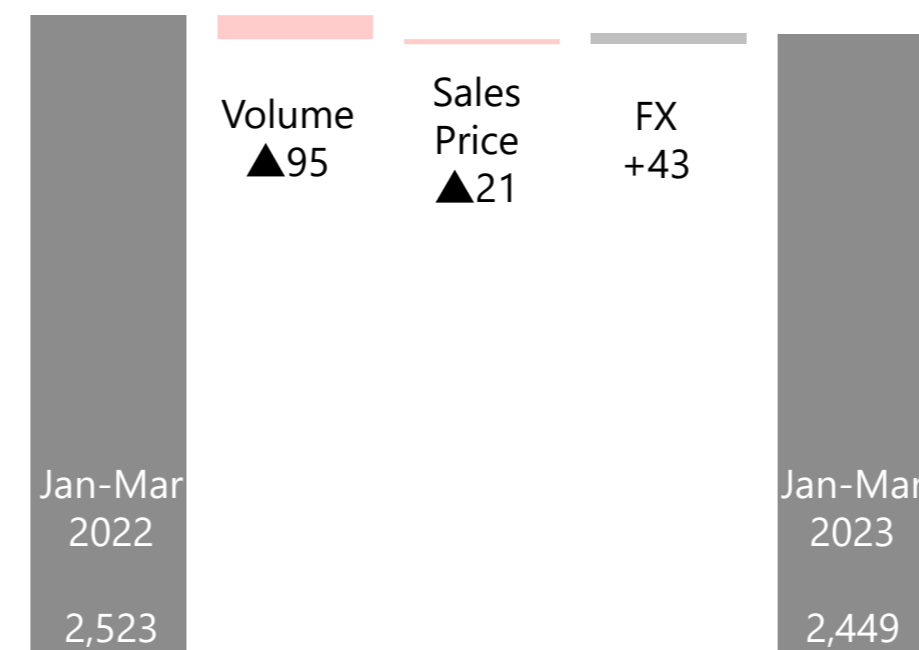


- Sluggishness in the electronic components industry due to slowdown in smartphone demand
- Demand from energy related industry continues to be strong
- Growth investment for industrial furnaces and ceramic heaters on track, with a view to medium to long term market expansion for Multi Layer Ceramic Capacitors (MLCC) and Lithium Ion Battery (LiB) electrode materials.

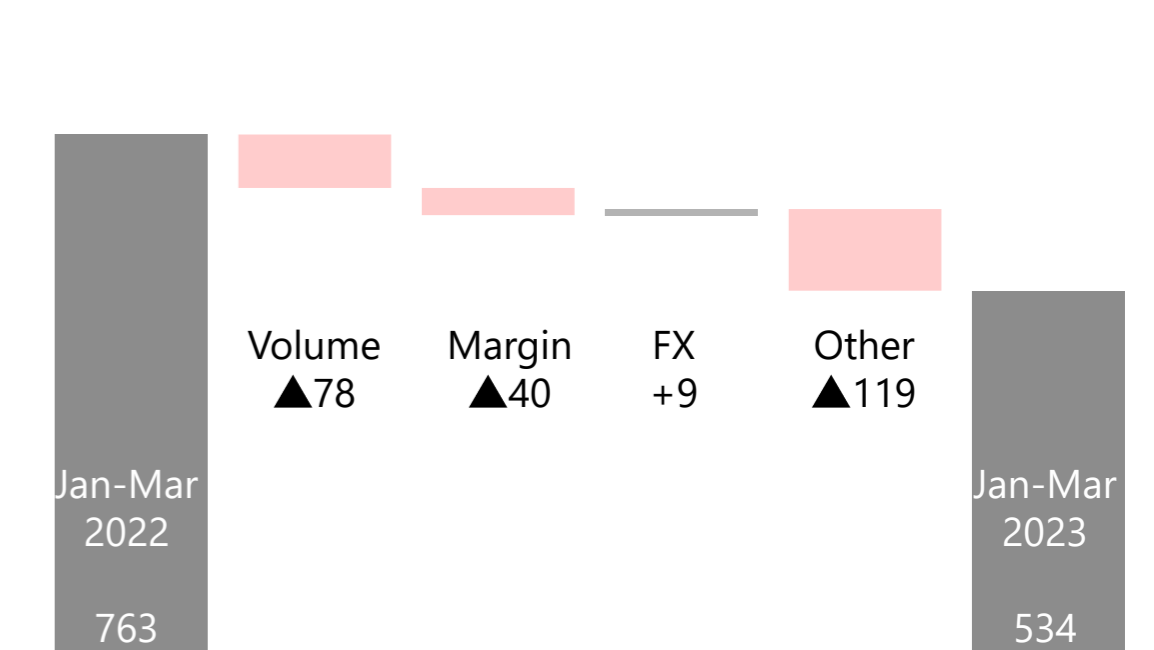
(Millions of yen)

	Jan-Mar 2022	Jan-Mar 2023	YoY Change	% Change
Net sales	2,523	2,449	▲73	▲2.9%
Operating income	763	534	▲228	▲29.9%
ROS	30.2%	21.8%		

Net Sales Difference



Operating Income Difference



Major Cash Flow items

(Millions of yen)

	Jan-Mar 2022	Jan-Mar 2023	Summary
Cash flows from operating activities	4,324	7,745	
Net income (loss) before income taxes	8,335	11,977	
Depreciation and amortization	5,951	6,679	
Amortization on goodwill	1,762	1,922	
Decrease (increase) in trade receivable	3,071	2,897	· Working capital: ▲7,700 million (Jan-Mar2022 ▲6,700million)
Decrease (increase) in inventories	▲8,985	▲5,863	
Increase (decrease) in accounts payable-trade	▲862	▲4,760	
Income tax paid	▲4,948	▲5,107	
Cash flows from investing activities	▲8,127	▲11,558	· Free cash flow ▲3,800million (Jan-Mar2022 ▲3,800 million)
Purchase of property, plant and equipment	▲7,673	▲12,957	
Cash flows from financing activities	▲5,334	▲2,152	
Net increase (decrease) in short-term Loans payable	▲1,894	1,376	
Payment of dividends	▲3,197	▲3,197	
Cash and cash equivalents at end of period	57,507	44,032	

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

Major Balance Sheet Items

(Millions of yen)

	December 31 2022	March 31 2023	Summary
Total assets	576,465	582,246	
Net income (loss) before income taxes	246,691	245,482	
Cash and cash equivalents	70,909	63,425	<ul style="list-style-type: none"> · Cash/monthly sales: 2.2 times (End of FY2022 2.5 times) · Inventory: (+¥7,300 million from End of FY2022) · Tangible fixed assets: (+¥7,300 million from the end of FY2022) · Intangible fixed assets: (+¥2,200 million from the end of FY2022)
Notes and accounts receivable	65,197	62,911	
Inventory	101,330	108,673	
Fixed assets	329,773	336,763	
Tangible fixed asset	181,948	189,334	
Intangible fixed assets	118,839	116,605	
Investments and other assets	28,986	30,823	
Total liabilities	275,596	270,163	<ul style="list-style-type: none"> · Net interest bearing debt: ¥109,500 million (+¥9,000 million from End of FY2022) · interest bearing debt: 172,900 million (+¥1,500 million from End of FY2022) · Direct funding ratio:66.5% (End of FY2022: 67.1%), Long term debt ratio: 57.1 % (End of FY2022: 52.9%) · Short term credit line:¥65,000 million (+¥0 billion from End of FY2022) : ¥6,000 million executed (+¥0 billion from End of FY2022) · Liquidation of receivables and CP issuance limit ¥78,000 million (+¥0 billion from End of FY2022) : 60,000 million executed (+¥0 billion from End of FY2022)
Current liabilities	146,696	131,416	
Long term liabilities	128,900	138,747	
Total net assets	300,868	312,082	<ul style="list-style-type: none"> · Capital to asset ratio: 48.1% (End of FY2022 46.6%) · Adjusted Capital to asset ratio* :54.1% (End of FY2022: 52.9%) · Net D/E ratio: 0.4 times (End of FY2022: 0.4 times) · Adjusted Net D/E ratio: 0.2 times (End of FY2021: 0.2 times)
Shareholder's capital	218,761	223,527	
Other accumulated Comprehensive income	50,065	56,252	
Non controlling interests	32,041	32,302	
Total liabilities and net assets	576,465	582,246	

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

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	Jan-Mar 2022	Jan-Mar 2023	YoY Change	Location /Business	Note
Tokai Erftcarbon	4,593	3,046	▲1,547	Germany Graphite Electrodes	
Tokai Carbon GE	5,128	8,267	+3,138	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	6,248	7,211	+962	Thailand Carbon Black	
Tokai Carbon CB	13,404	17,611	+4,206	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	2,146	2,288	+142	Canada Carbon Black	
Tokai Carbon Korea	7,508	6,623	▲885	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	11,649	19,291	+7,642	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

Key Indicators

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(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	63,000
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

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(Millions of yen)

	2022					2023			
	Q1	Q2	Q3	Q4	Full year	Q1	Q2f (*)	H2f	Full year
Net sales	69,512	87,558	89,261	94,038	340,371	86,530	111,470	212,000	410,000
Graphite electrodes	12,362	16,802	14,502	15,963	59,630	13,486	17,514	40,000	71,000
Carbon black	29,430	34,298	39,621	35,134	138,484	37,406	44,594	84,000	166,000
Fine Carbon	10,935	12,760	13,127	12,569	49,393	11,444	13,556	27,000	52,000
Smelting and Lining	11,605	15,001	16,148	22,448	65,203	19,218	25,782	44,000	89,000
Industrial Furnaces and Related Products	2,523	6,381	3,018	4,348	16,272	2,449	6,551	11,000	20,000
Other Operations									
Friction materials	2,290	2,202	2,341	2,528	9,362	2,460	3,040	5,500	11,000
Anode materials	330	78	465	1,012	1,888	29	471	500	1,000
Others	34	33	34	33	136	33	▲33	0	0
Total Others	2,655	2,315	2,842	3,575	11,387	2,523	3,477	6,000	12,000
Operating income	7,938	8,778	11,297	12,573	40,588	11,493	8,507	25,000	45,000
Graphite Electrodes	1,258	1,666	2,378	2,728	8,032	1,637	▲637	5,000	6,000
Carbon Black	3,049	1,735	4,201	3,295	12,282	5,757	2,243	8,000	16,000
Fine Carbon	2,912	3,874	4,312	3,726	14,825	3,103	3,897	9,000	16,000
Smelting and Lining	67	▲71	▲301	1,650	1,345	408	592	1,000	2,000
Industrial Furnaces and Related Products	763	1,754	790	1,166	4,475	534	2,466	3,000	6,000
Other Operations	201	186	312	409	1,108	301	699	0	1,000
Inter-segment eliminations	▲314	▲367	▲395	▲402	▲1,480	▲249	▲751	▲1,000	▲2,000

(*) Q2f: Q2 displays the math of original first half forecast minus the Q1 actual results and not a quarterly update

- 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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