Q2 FY2023
Earnings Presentation

2023/8/9

TOKAI CARBON CO., LTD.

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Q2 FY2023

Financial Summary

FY2023 Business Topics (January-June 2023)

- The International Monetary Fund (IMF) revised the outlook for the global economic growth rate for 2023 downward in April. Measures to control inflation gained significant weight in developed countries, and while severe recession has been avoided to date, there are signs of economic slowdown. Despite the revision upward of 0.2 points to 3.0% on July 25, 2023, the business environment remains in a state of high uncertainty from factors including geopolitical risks and monetary and fiscal policy trends in major economies.
- Under these circumstances, although there was some disparity between business segments and regions, the Company generally saw strong consolidated performance for January-June 2023 in carbon black, smelting and lining, etc. Net sales and operating income experienced double-digit increases YoY in concert with a rising ROS. Operating income, ordinary income, and quarterly net income each exceeded the initial forecasts, and progress against the full-year forecasts was steady.
- EBITDA, a point of focus in measuring cash-based earning capacity, achieved double-digit growth. EBITDA margin was also over 20%.
- While the business environment in the second half is expected to remain difficult to foresee, there is no change in the full-year outlook and the dividend forecast (36 yen per share).
- Financial soundness and liquidity were maintained at favorable levels while still seeking balance with capital efficiency. The Company will leverage the newfound investment capacity provided by our credit rating being upgraded to A in May 2023 and continue to adopt a rigorous approach to investment in strengthening our business portfolio and striving to achieve growth as promoted in T-2025.

- Carbon black and other core businesses were firm, leading to YoY increases in net sales and operating income
- Net sales ¥178.4b (+13.6% YoY), operating income ¥21.7b (+30.0% YoY), ROS 12.2% (+1.6% YoY)

(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	%Change
Net sales	157,070	178,428	+21,357	+13.6%
Operating income	16,717	21,738	+5,020	+30.0%
Ordinary income	19,448	24,109	+4,660	+24.0%
Net income attributable to owners of the parent company	9,253	15,904	+6,650	+71.9%

Group companies （As of June 30, 2023）
- Consolidated subsidiaries: 31社
- Equity method affiliates: 1社

Average exchange rates:
- 2022 USD1= ¥122.89
  EUR1= ¥134.25
- 2023 USD1= ¥134.85
  EUR1= ¥145.79

Net Sales, Operating Income and EBITDA by Segment

■ Net sales, operating income, and EBITDA increased in three of four main segments

(Millions of yen)

		Net sales			Operating income			EBITDA		
		Jan-Jun 2022	Jan-Jun 2023	YoY Change	Jan-Jun 2022	Jan-Jun 2023	YoY Change	Jan-Jun 2022	Jan-Jun 2023	YoY Change
Graphite Electrodes		29,164	30,407	+1,243	2,925	3,164	+239	5,547	5,897	+350
Carbon Black		63,729	73,831	+10,102	4,785	10,773	+5,987	8,214	14,499	+6,285
Fine Carbon		23,695	21,373	▲2,322	6,787	5,041	▲1,745	9,887	8,406	▲1,481
Smelting and Lining		26,606	41,473	+14,866	▲3	1,392	+1,396	6,472	8,530	+2,058
Industrial Furnaces and Related Products		8,904	5,707	▲3,197	2,518	1,263	▲1,254	2,683	1,431	▲1,252
Other Operation	Friction materials	4,493	4,859	+366	—	—	—	—	—	—
	Anode materials	409	709	+299	—	—	—	—	—	—
	Others	68	66	▲1	—	—	—	—	—	—
	Total Others	4,970	5,635	+664	387	635	+248	607	865	+258
Inter-segment eliminations		—	—	—	▲681	▲533	+148	▲424	▲292	+132
Total		157,070	178,428	+21,357	16,717	21,738	+5,020	32,987	39,338	+6,351
Return on sales		—	—	—	10.6%	12.2%	+1.6%	21.0%	22.0%	+1.0%

※EBITDA =Operating income + Depreciation + Goodwill amortization

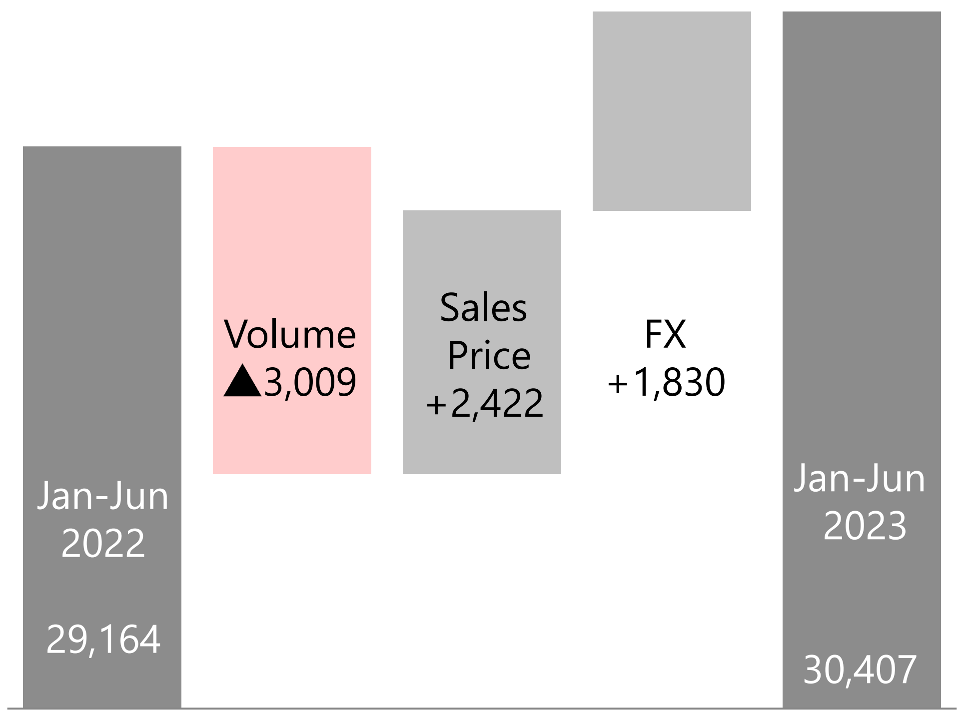
Graphite Electrodes

- Sales volumes deviated downward owning to a decline in EAF operating rates in each region. Sales prices rose due to increased sales of large diameter electrodes with a focus on North America and combined with factors related to exchange rates, leading to increases in net sales and operating income.
- Weakening of market conditions included as result from aggressive price-cutting continued by major manufacturers in the European market and by Chinese and Indian manufacturers in the Asian market.

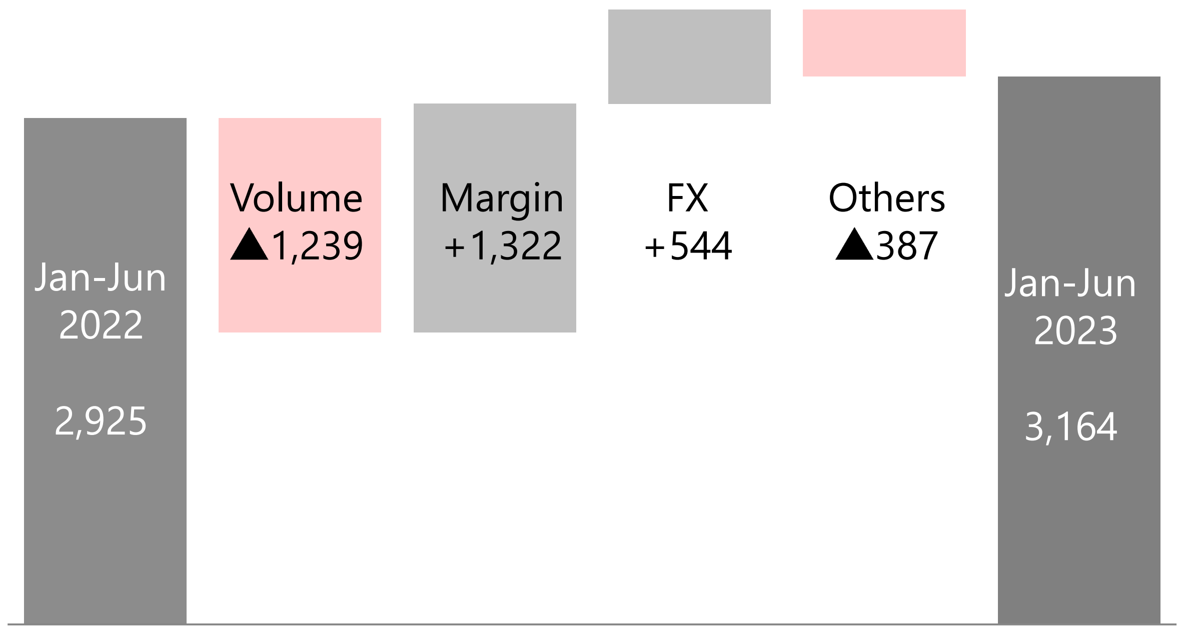
(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	% Change
Net sales	29,164	30,407	+1,243	+4.3%
Operating income	2,925	3,164	+239	+8.2%
ROS	10.0%	10.4%		

Net Sales Difference



Operating Income Difference



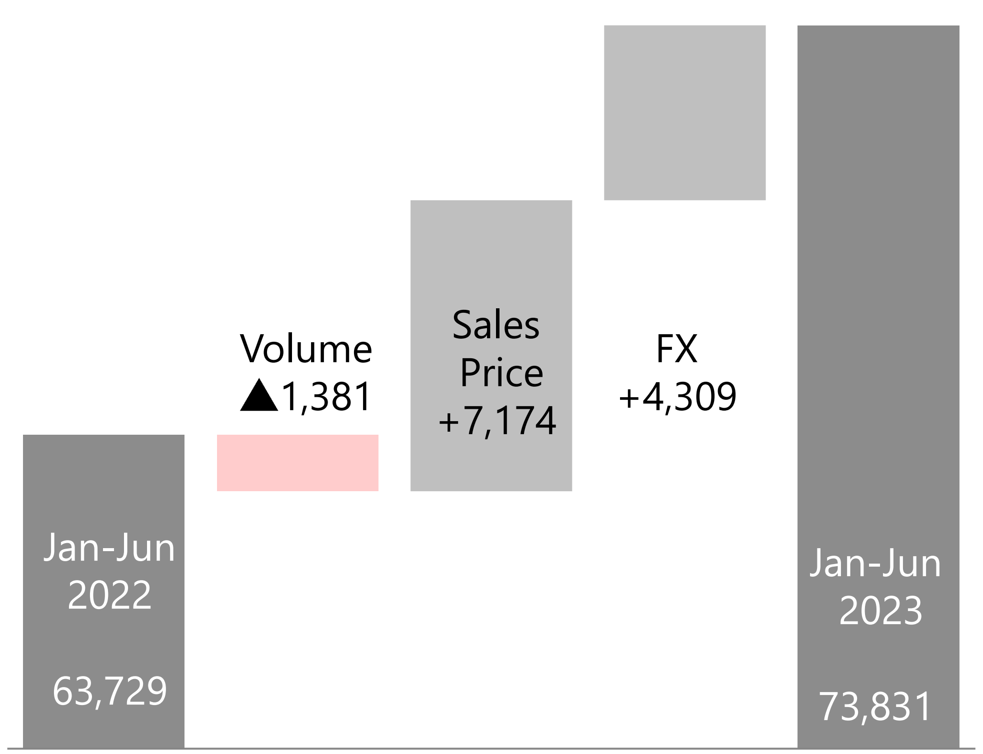
Carbon Black

- Sales volumes for tires, etc. remained at roughly the same levels YoY due to recovery in demand for new cars and related products despite being impacted by production adjustments for some customers.
- Net sales and operating income increased due to the reflection of environmental equipment investment costs to sales prices with a focus on North America and from higher productivity.

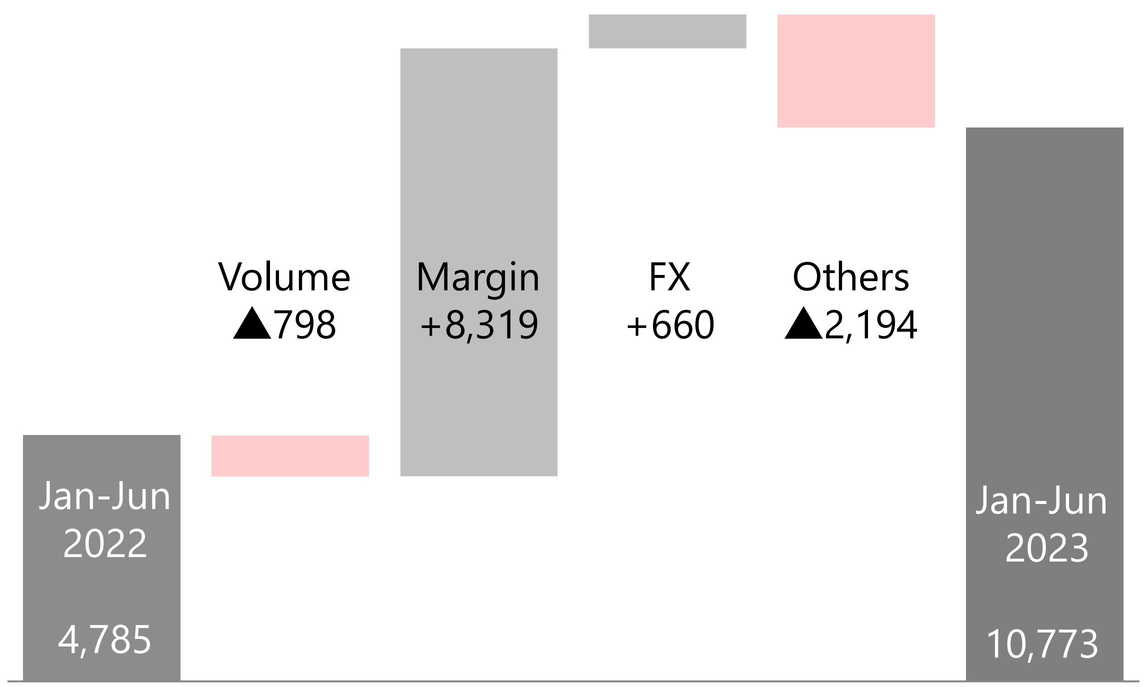
(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	% Change
Net sales	63,729	73,831	+10,102	+15.9%
Operating income	4,785	10,773	+5,987	+125.1%
ROS	7.5%	14.6%		

Net Sales Difference



Operating Income Difference



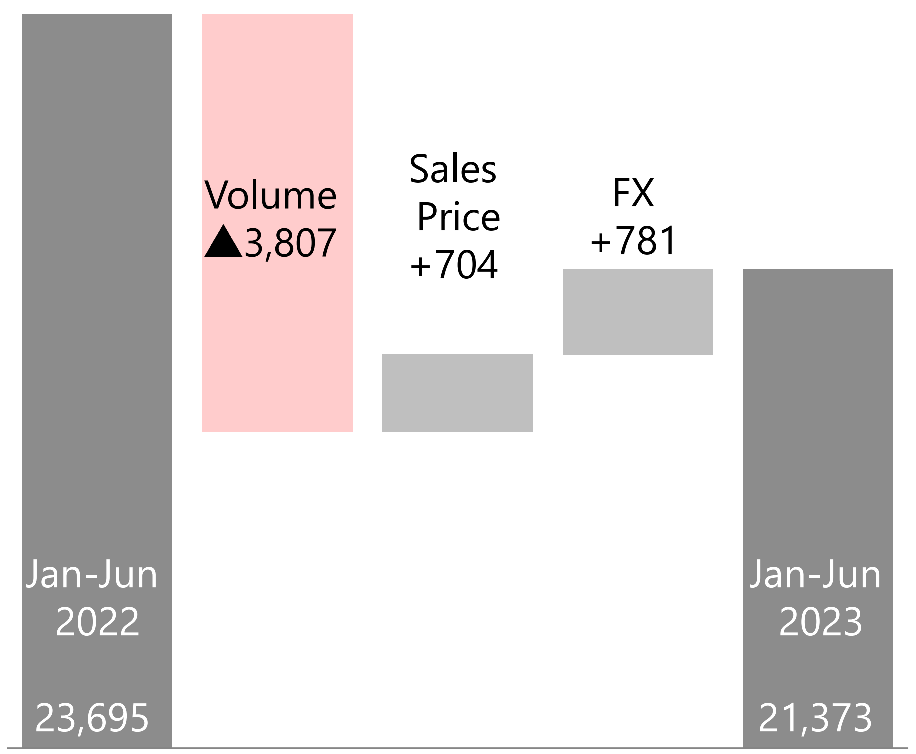
Fine Carbon

- Sales of products for power semiconductors and the general industrial market were strong. However, there was a downturn in sales of products for semiconductor manufacturing equipment due to inventory adjustments by customers resulting from reduced demand for smartphones and PCs and the prolongation of U.S. policies targeting China, leading to decreases in net sales and operating income.
- There is concern that recovery in memory and other semiconductor markets may be postponed. Despite the current market conditions, growth investments continue for medium- to long-term market expansion.

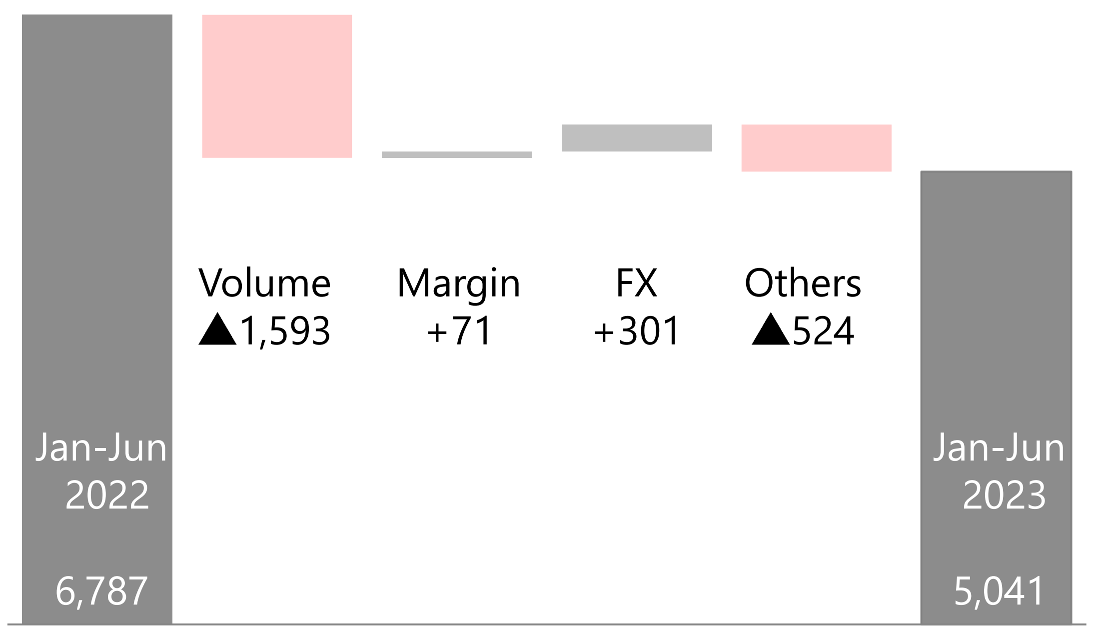
(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	% Change
Net sales	23,695	21,373	▲2,322	▲9.8%
Operating income	6,787	5,041	▲1,745	▲25.7%
ROS	28.6%	23.6%		

Net Sales Difference



Operating Income Difference



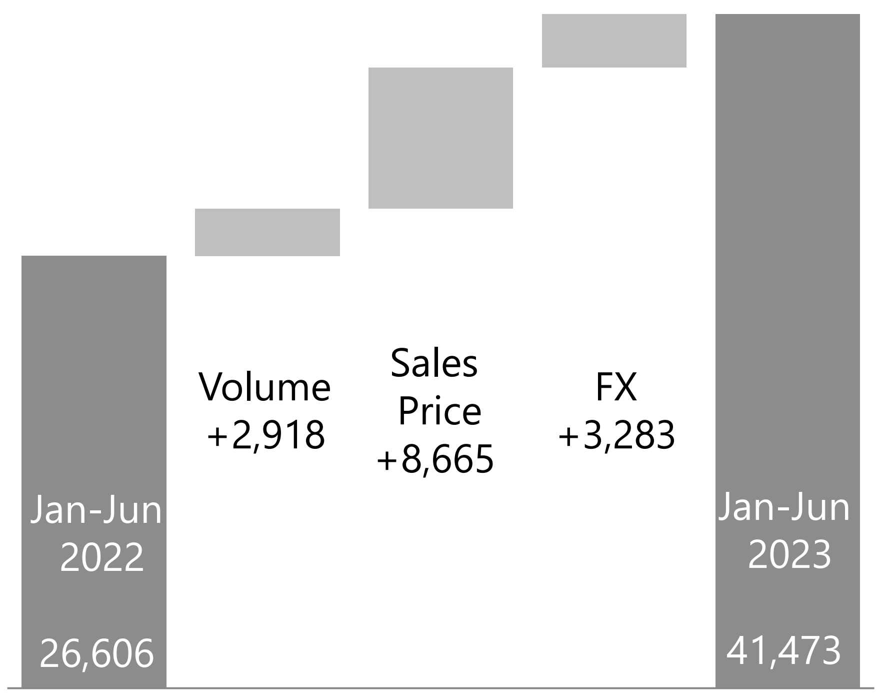
Smelting and Lining

- Sales of cathodes for aluminum smelting were strong, supported by demand from emerging markets amid declining trends in prices for both energy and primary aluminum.
- Rising production costs from raw material prices and labor costs were absorbed by an effort toward higher productivity and higher costs passed on to sales prices, leading to increases in net sales and operating income.
- Operating income excluding goodwill amortization was ¥6.94b (ROS 16.7%), an increase of 33.9% YoY.

(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	% Change
Net sales	26,606	41,473	+14,866	+55.9%
Operating income	▲3	1,392	+1,396	－%
ROS	▲0.0%	3.4%		

Net Sales Difference



Operating Income Difference

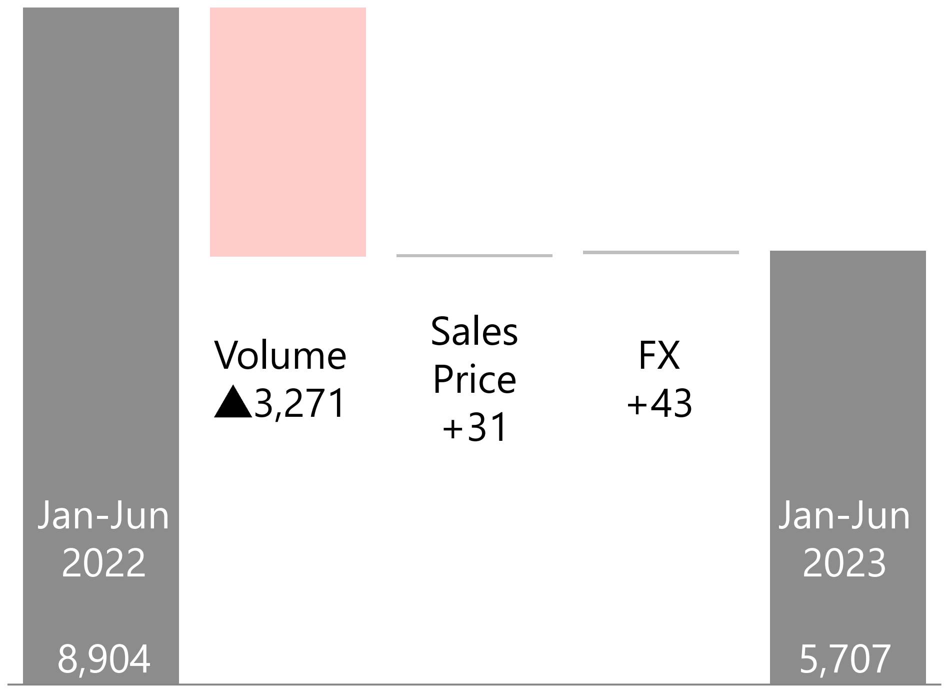
Industrial Furnace and Related Products

- Net sales and operating income decreased due to the delayed recovery of demand from the electronic component-related industry in addition to sales for the energy-related industry, a primary source of demand, being concentrated in the second half.
- 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.

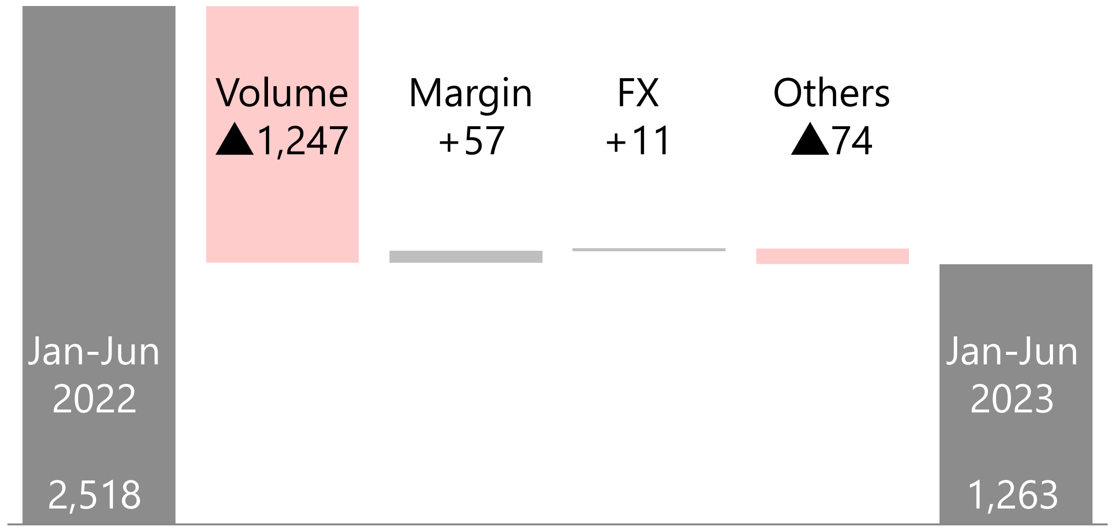
(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	YoY Change	% Change
Net sales	8,904	5,707	▲3,197	▲35.9%
Operating income	2,518	1,263	▲1,254	▲49.8%
ROS	28.3%	22.1%		

Net Sales Difference



Operating Income Difference



Cash Flow

Major Cash Flow items

(Millions of yen)

	Jan-Jun 2022	Jan-Jun 2023	Summary
Cash flows from operating activities	9,888	17,383	
Net income (loss) before income taxes	19,181	24,287	
Depreciation and amortization	12,623	13,680	
Amortization on goodwill	3,646	3,919	
Decrease (increase) in trade receivable	▲5,119	3,142	Working capital: ▲¥14.1 billion (Jan-Jun 2022 ▲¥18.4 billion)
Decrease (increase) in inventories	▲14,313	▲7,904	
Increase (decrease) in accounts payable-trade	971	▲9,437	
Income tax paid	▲7,101	▲10,304	
Cash flows from investing activities	▲17,661	▲20,861	Free cash flow: ▲¥3.4 billion (Jan-Jun 2021 ▲¥7.7 billion)
Purchase of property, pant and equipment	▲16,902	▲23,459	
Cash flows from financing activities	▲7,577	▲287	
Net increase (decrease) in short-term Loans payable	2,209	4,696	
Acquisition of share of subsidiaries	▲5,024	-	
Payment of dividends	▲3,197	▲3,197	
Cash and cash equivalents at end of period	53,831	51,251	

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

Major Balance Sheet Items

(Millions of yen)

	December 31, 2022	June 30, 2023	Summary
Total assets	576,465	630,385	・Cash/monthly sales: 2.4 times（End of FY2022: 2.5 times） ・Inventory: (+¥15.7 billion from End of FY2022) ・Tangible fixed assets: (+¥27.4 billion from End of FY2022) ・Intangible fixed assets:(+¥4.4 billion from End of FY2022)
Net income (loss) before income taxes	246,691	262,102	
Cash and cash equivalents	70,909	70,072	
Notes and accounts receivable	65,197	65,707	
Inventory	101,330	117,109	
Fixed assets	329,773	368,282	
Tangible fixed asset	181,948	209,442	
Intangible fixed assets	118,839	123,313	
Investments and other assets	28,986	35,525	
Total liabilities	275,596	276,853	・Net interest bearing debt: ¥106.4 billion（+¥5.9 billion from End of FY2022) ・Interest bearing debt: ¥176.5 billion（+¥5.0 billion from End of FY2022) ・Direct funding ratio: 65.1％(End of FY2022:67.1％), Long term debt ratio: 55.5％(End of FY2022:52.9％) ・Short term credit line:¥66.0 billion（+¥0 billion from End of FY2022）：¥10.0 billion executed (+¥4.0 billion from End of FY2022) ・Liquidation of receivables and CP issuance limit ¥78.0 billion（+¥0 billion from End of FY2022）：¥60.0 billion executed（+¥0 billion from End of FY2022)
Current liabilities	146,696	132,109	
Long term liabilities	128,900	144,743	
Total net assets	300,868	353,531	・Capital to asset ratio: 50.7％ (End of FY2022: 46.6％) ・Adjusted Capital to asset ratio*： 56.3％ (End of FY2022: 52.7％) ・Net D/E ratio: 0.3times (End of FY2022: 0.4 times) ・Adjusted Net D/E ratio: 0.2times (End of FY2022: 0.2times)
Shareholder's capital	218,761	231,494	
Other accumulated Comprehensive income	50,065	88,153	
Non controlling interests	32,041	33,882	
Total liabilities and net assets	576,465	630,385	

※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（2023-2025）

T-2025 Progress Report

In 2023, the first fiscal year of the mid-term management plan, the Company is experiencing the impact of the delayed recovery of graphite electrodes and the slowdown in demand for semiconductor manufacturing equipment in the fine carbon business. However, our mid-term viewpoint remains unchanged. We are continuously engaged in our capital investment and development to achieve the targets of T-2025.

T-2025 Basic Policies

① Returning core business to a path of growth

- ✓ Environmental investments and costs of raw material oil successfully passed on to selling prices for carbon black, improving margin.
- ✓ U.S. carbon black production stabilized
- ✓ Weakening of market conditions for graphite electrodes. Delay in improvement of profitability

② Optimizing the business portfolio

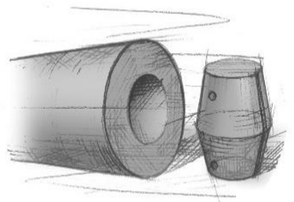
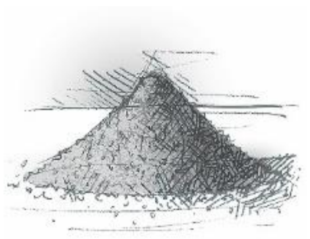
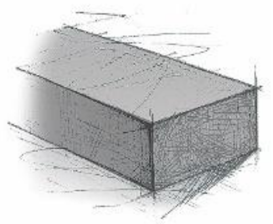
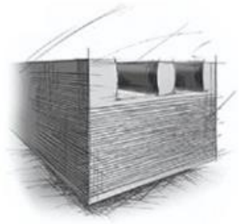
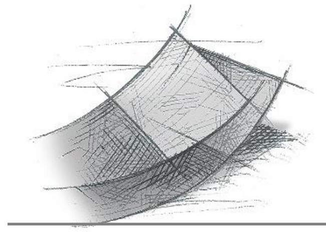
- ✓ Fine carbon business expected to grow due to investment to enhance production capacity in accordance with rapidly growing SiC semiconductor market
- ✓ Strengthen collaboration, co-creation with external partners to launch new businesses

③ Establishing a sustainable management base

- ✓ Pursuing carbon neutrality as the entire Group
  - ➢ Switching to CO_2-free power, research for product recycling
  - ➢ Establishing consolidated Scope 3 data collection system
- ✓ Efforts toward improving employee engagement
- ✓ Strengthening governance structure of subsidiaries in Japan and overseas
  - ➢ Global expansion of environment, safety, and compliance management systems
  - ➢ Promote adoption of new Guidelines and Global Code of Conduct

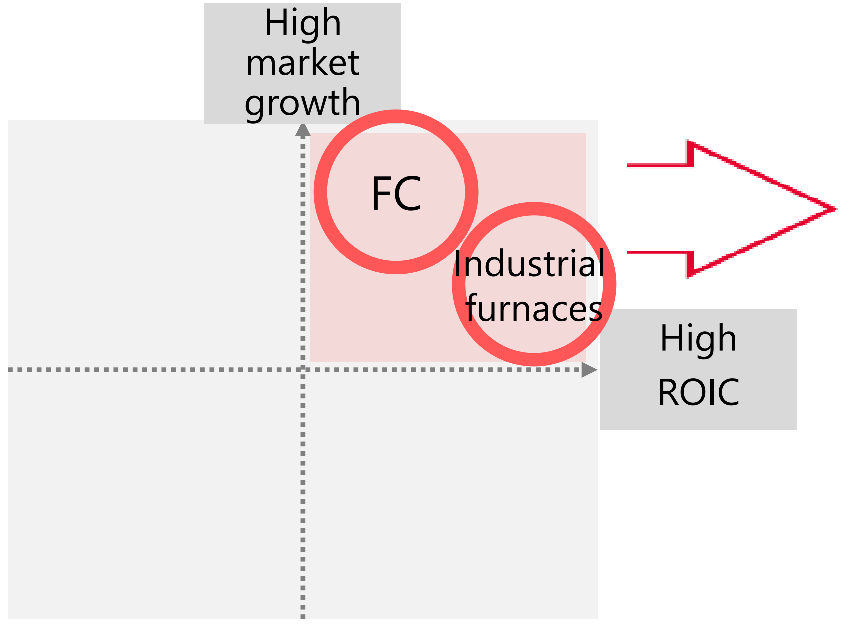
Changes in Business Environment and Outlook

The medium-term growth outlook for each segment remains unchanged

Business	Current conditions	Future outlook
 Graphite Electrodes	Decline in EAF operating rates due to global slowdown in steel production Weakening of market conditions for electrodes, particularly in Europe	The short-term outlook for the steel industry is becoming more uncertain. However, new EAF projects are progressing steadily particularly in the U.S., and the medium-term outlook for the expansion of the high-quality market remains unchanged.
 Carbon Black	Improved margins by setting appropriate selling prices that reflect environmental investments, raw material cost increases, etc. Demand for new cars is recovering, although demand for replacement tire (trucks, buses) is slow	Recovery in demand for replacement tires is uncertain, but medium-term growth outlook remains unchanged. Tighter demand-supply balance in U.S. and other markets
 Fine Carbon	Slowdown in demand for semiconductors in smartphones and PCs Significant decrease in sales of focus rings, a main product of the Company, also due to impact of U.S. restrictions targeting China, etc.	The semiconductor market is expected to return to growth path from 2024. Demand for products in power semiconductors for EV is stronger than anticipated, and efforts to enhance production capacity will continue.
 Smelting and Lining	Reduced production at European customers, although firm demand from strong investment in Middle East and others Orders for furnace blocks are strong Slowdown for carbon electrodes (decrease in demand for silicon metal due to semiconductor slump)	Realignment at four production site aiming further cost competitiveness Demand for cathodes and furnace blocks expected to be strong
 Anode materials	Promoting development of artificial anode materials toward global expansion (Certified to receive METI funding)	Enhance collaboration with bases in France Consider green-field investment in U.S.

Growth Investment in High Growth/High ROIC Areas

In 2023, the first fiscal year of the mid-term management plan, the Company is experiencing the impact of the delayed recovery of graphite electrodes and the slowdown of memory semiconductor manufacturing equipment in the fine carbon business. However, our mid-term viewpoint remains unchanged, and we will continue to focus on capital investment and development to achieve the targets of T-2025.



Growth investment in high growth/high ROIC business areas

Business division	ROIC (FY2022)	Contributing market	Contributing market growth rate	Growth investment (Enhanced capacity)
Fine Carbon	16% *High return rate due to superior quality and mass production technologies for SiC-related products	Power semiconductors *Increased demand for EVs	21% annual growth SiC semiconductor	• Increase SiC production capacity of entire Group by 50% (2022→2025) • Increase production capacity of isotropic graphite materials by 30% (2022→2025)
Industrial Furnaces and Related Products	30% *Ensure an inimitable competitive advantage by accumulating design and assembly technologies; create high ROIC with minimal equipment investment costs	Multi Layer Ceramic Capacitors Lithium Ion Batteries *Increased EV demand *Dramatic increase in amount of MLCCs per vehicle as result of accelerating electrification	10-20% annual growth Industrial furnaces EREMA heating elements	• Expanded production capacity of industrial furnaces and EREMA heating elements in line with market growth • New industrial furnace plant (starting operation from 2023) • Production capacity of EREMA heating elements to be up by 40% in 2025

Growth Investment in Fine Carbon Business (FC Business)

Cumulative total of approximately ¥22.0b in capital investment is planned for the FC business over the three years of the mid-term management plan, strengthening production capacity in tandem with market expansion in the semiconductor industry. The Company will work to advance preparations for a global supply structure for high-purity products and SiC products, areas that are expected to see future growth.

Growth investment plan

Country	Investment overview	Related products	2022	2023	2024	2025	2026
Japan	Strengthen isotropic graphite abilities	ISO	Annual production of 8,000 to 9,400 tons		11,000 tons		Progressive contribution to results
Japan	Strengthen CVD furnaces	Solid SiC / SiC coat	Increase production capacity by 30%			Contribution to results	
South Korea	Strengthen CVD furnaces [Existing plants]	Solid SiC / TaC coat	Increase production capacity by 40%		Contribution to results		
South Korea	New plant construction	SiC related	Acquire land		Plant construction / CVD furnace investment		Progressive contribution to results
China	New plant construction [Expand and transfer]	High-purity products / SiC coat	Increase production capacity by 40%			Progressive contribution to results	

ON TRACK

- ✓ Grow into business able to create 24% of EBITDA for the Group by 2025
- ✓ Achieve targets for 2025 plan with ROS of 29%, ROIC of 18%, and EBITDA margin of 42%

Reference Material

Net Sales of Main Subsidiaries

(Millions of yen)

Subsidiary	Jan-Jun 2022	Jan-Jun 2023	YoY Change	Location /Business	Note
Tokai Erftcarbon	9,981	7,893	▲2,088	Germany Graphite Electrodes	
Tokai Carbon GE	13,674	17,979	+4,304	U.S. Graphite Electrodes	・Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	13,413	14,203	+790	Thailand Carbon Black	
Tokai Carbon CB	29,895	34,497	+4,602	U.S. Carbon Black	・Contributing to consolidated results from September 2018
Cancarb	4,734	4,882	+147	Canada Carbon Black	
Tokai Carbon Korea	16,217	11,583	▲4,633	Korea Fine Carbon	・Contributing to consolidated results from June 2018
Tokai COBEX	26,771	41,674	+14,903	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	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 =Operating income + Depreciation + Goodwill amortization ROIC= Operating Profit after Tax ÷ (Working Capital + Fixed Assets)

Quarterly Results by Segment

f=forecast (Millions of yen)

		2022					2023			
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	H2f (*)	Full year
Net sales		69,512	87,558	89,261	94,038	340,371	86,530	91,897	231,573	410,000
Graphite Electrodes		12,362	16,802	14,502	15,963	59,630	13,486	16,920	40,594	71,000
Carbon Black		29,430	34,298	39,621	35,134	138,484	37,406	36,424	92,170	166,000
Fine Carbon		10,935	12,760	13,127	12,569	49,393	11,444	9,928	30,628	52,000
Smelting and Lining		11,605	15,001	16,148	22,448	65,203	19,218	22,254	47,528	89,000
Industrial Furnaces and Related Products		2,523	6,381	3,018	4,348	16,272	2,449	3,258	14,293	20,000
Others	Friction materials	2,290	2,202	2,341	2,528	9,362	2,460	2,398	6,142	11,000
	Anode materials	330	78	465	1,012	1,888	29	679	292	1,000
	Others	34	33	34	33	136	33	33	▲66	0
	Total Others	2,655	2,315	2,842	3,575	11,387	2,523	3,112	6,365	12,000
Operating income		7,938	8,778	11,297	12,573	40,588	11,493	10,244	23,263	45,000
Graphite Electrodes		1,258	1,666	2,378	2,728	8,032	1,637	1,526	2,837	6,000
Carbon Black		3,049	1,735	4,201	3,295	12,282	5,757	5,015	5,228	16,000
Fine Carbon		2,912	3,874	4,312	3,726	14,825	3,103	1,938	10,959	16,000
Smelting and Lining		67	▲71	▲301	1,650	1,345	408	984	608	2,000
Industrial Furnaces and Related Products		763	1,754	790	1,166	4,475	534	728	4,738	6,000
Other Operations		201	186	312	409	1,108	301	334	365	1,000
Inter-segment eliminations		▲314	▲367	▲395	▲402	▲1,480	▲249	▲283	▲1,468	▲2,000

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

Disclaimer Regarding Forward-looking Statements

- 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.