

Q3 FY2023
Earnings Presentation
2023/11/8



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I

Q3 FY2023

Financial Summary

- The International Monetary Fund (IMF) forecast the global economic growth rate for 2023 at 3.0% in July, and while it does not lead to a severe recession, it does consider the growing geopolitical risks and the need to control inflation to be a burden. It is expected that the year-on-year growth rate will slow and regional disparities will widen. In October, the growth rate for 2024 was revised downward to 2.9%, and an expectation of slowing inflation and a soft-landing scenario moving forward, the business environment is expected to remain in a state of high uncertainty.
- Under these circumstances, although valuation loss on inventory was recorded in graphite electrodes under bearish steel market conditions and intensifying competition, and the fine carbon sales declined due to the delayed recovery of the memory semiconductor market, the Company saw strong performance YoY for January-September 2023 in carbon black, smelting and lining, etc. Coupled with the positive effect provided by the weak yen, net sales and operating income experienced increases in the high single-digits while ROS was secured in the double-digits.
- EBITDA, a point of focus in measuring cash-based earning capacity, achieved growth. EBITDA margin was also maintained at over 20%.
- While there will be some disparity between business segments and regions from the fourth quarter, a certain period of time is expected to be necessary for market recovery in the main segments, and the full-year outlook YoY was revised downward net sales +6.6%, operating income -16.2%. There is no change in the annual dividend forecast (36 yen per share).
- Free cash flow for January-September remained positive due to improved working capital and other factors that served to absorb the increase in capital investment. The Company will leverage the investment capacity provided by the financial soundness and liquidity that has been maintained at favorable levels and engage in initiatives to increase earnings and reduce costs as we continue to adopt a rigorous approach to investment in strengthening our business portfolio and striving to achieve growth as promoted in T-2025 while proceeding to enhance the profitability of capital (capital efficiency).

Summary of Consolidated Results

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- While there is some disparity between business segments and regions, consolidated results saw YoY increases in net sales and operating income
- Net sales ¥267.6b (+8.7%), operating income ¥29.7b (+6.2%), ROS 11.1% (-0.3% points)
- Exchange rate impact on net sales +¥15.0b, operating income +¥1.9b
- EBITDA ¥56.8b (+7.4%), EBITDA margin 21.3% (-0.2% points)

(Millions of yen)

	Jan-Sep 2022	Jan-Sep 2023	YoY Change	%Change
Net sales	246,332	267,675	+21,342	+8.7%
Operating income	28,015	29,749	+1,734	+6.2%
Ordinary income	32,132	33,034	+902	+2.8%
Net income attributable to owners of the parent company	16,121	21,375	+5,253	+32.6%
EBITDA	52,961	56,893	+3,932	+7.4%

Group companies (As of September 30, 2023)

- Consolidated subsidiaries: 31
- Equity method affiliates: 1

Average exchange rates:

- 2022 USD1= ¥128.05 EUR1= ¥135.95
- 2023 USD1= ¥138.11 EUR1= ¥149.62

Net Sales, Operating Income and EBITDA by Segment

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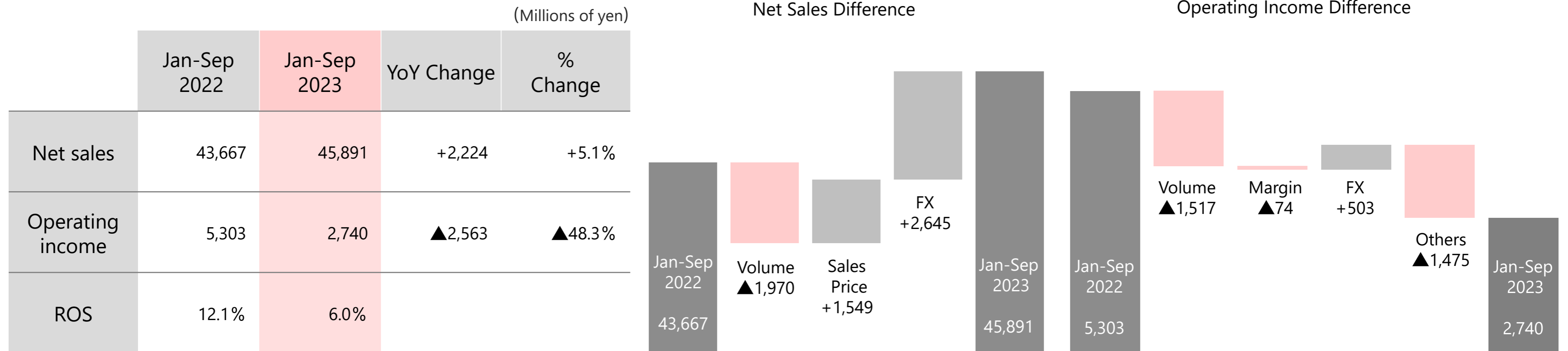
- Although income decreased in graphite electrodes and decline continued in fine carbon, the difference was covered by carbon black and smelting and lining

(Millions of yen)

		Net sales			Operating income			EBITDA		
		Jan-Sep 2022	Jan-Sep 2023	YoY Change	Jan-Sep 2022	Jan-Sep 2023	YoY Change	Jan-Sep 2022	Jan-Sep 2023	YoY Change
Graphite Electrodes		43,667	45,891	+2,224	5,303	2,740	▲2,563	9,368	6,935	▲2,433
Carbon Black		103,350	111,131	+7,781	8,986	15,925	+6,939	14,223	21,685	+7,462
Fine Carbon		36,823	32,413	▲4,409	11,099	7,504	▲3,594	15,856	12,690	▲3,166
Smelting and Lining		42,755	59,484	+16,729	▲305	1,135	+1,440	9,601	12,160	+2,559
Industrial Furnaces and Related Products		11,923	9,885	▲2,038	3,308	2,553	▲754	3,549	2,812	▲737
Other Operation	Friction materials	6,834	6,984	+149	—	—	—	—	—	—
	Anode materials	875	1,785	+909	—	—	—	—	—	—
	Others	102	99	▲3	—	—	—	—	—	—
	Total Others	7,812	8,868	+1,055	699	1,083	+384	1,049	1,434	+385
Inter-segment eliminations		—	—	—	▲1,077	▲1,194	▲116	▲687	▲824	▲137
Total		246,332	267,675	+21,342	28,015	29,749	+1,734	52,961	56,893	+3,932
Return on sales		—	—	—	11.4%	11.1%	▲0.3%	21.5%	21.3%	▲0.2%

※EBITDA =Operating income + Depreciation + Goodwill amortization

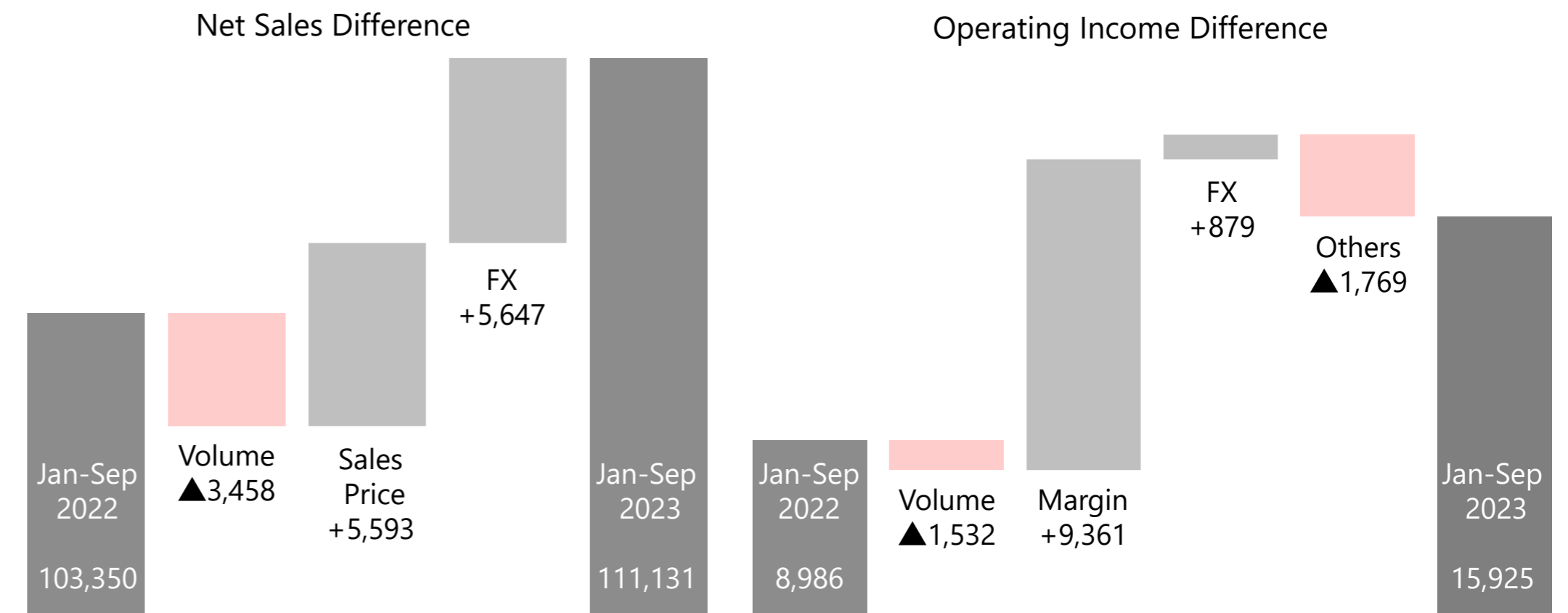
- Sales volumes declined in Europe due to sluggish steel production in the region. Intensifying competition continues in European and Asian markets. North America continued its strong performance.
- Sales prices rose due to higher sales of large diameter electrodes in North America. Higher energy costs, declined operating rates and valuation loss in inventory recorded in Europe (¥1.6b). Net sales and a decrease in operating income on YoY.



- 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 and bearish demand for aftermarket truck and bus tires, etc., and non-tire products.
- 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)

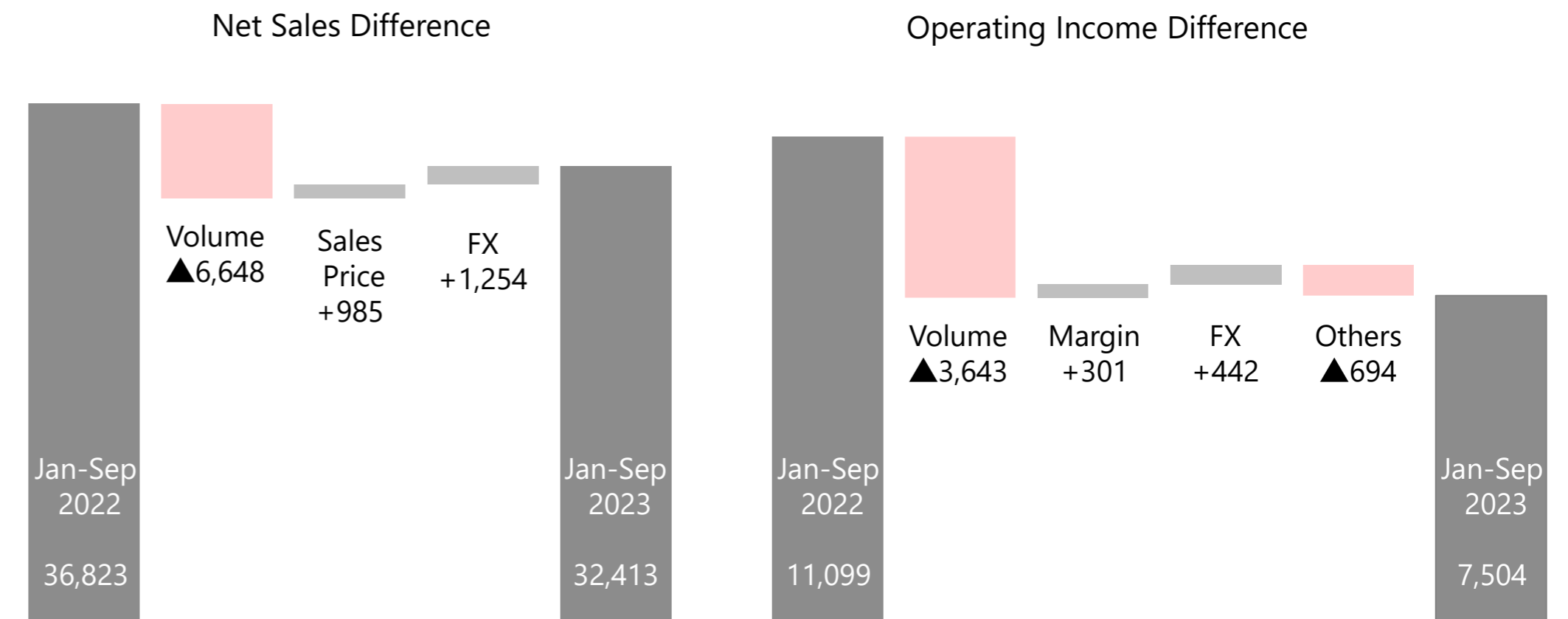
	Jan-Sep 2022	Jan-Sep 2023	YoY Change	% Change
Net sales	103,350	111,131	+7,781	+7.5%
Operating income	8,986	15,925	+6,939	+77.2%
ROS	8.7%	14.3%		



- Sales of solid SiC products used in etching devices for memory semiconductors remained negative YoY due to reduced demand for smartphones and PCs and the prolongation of U.S. policies.
- Sales of products for power semiconductors and the general industrial market were strong.
- Looking toward full recovery in semiconductor markets that are exhibiting signs of having neared the bottom point, growth investments continue for medium- to long-term market expansion.

(Millions of yen)

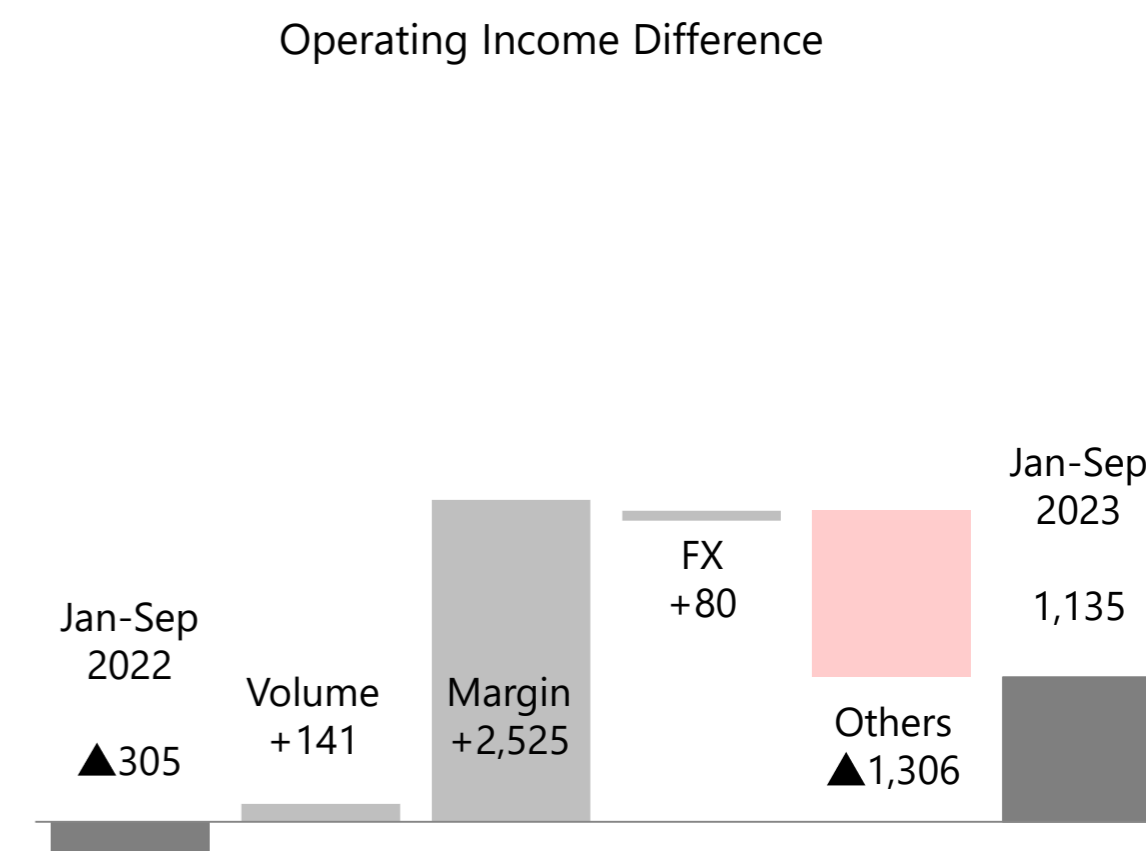
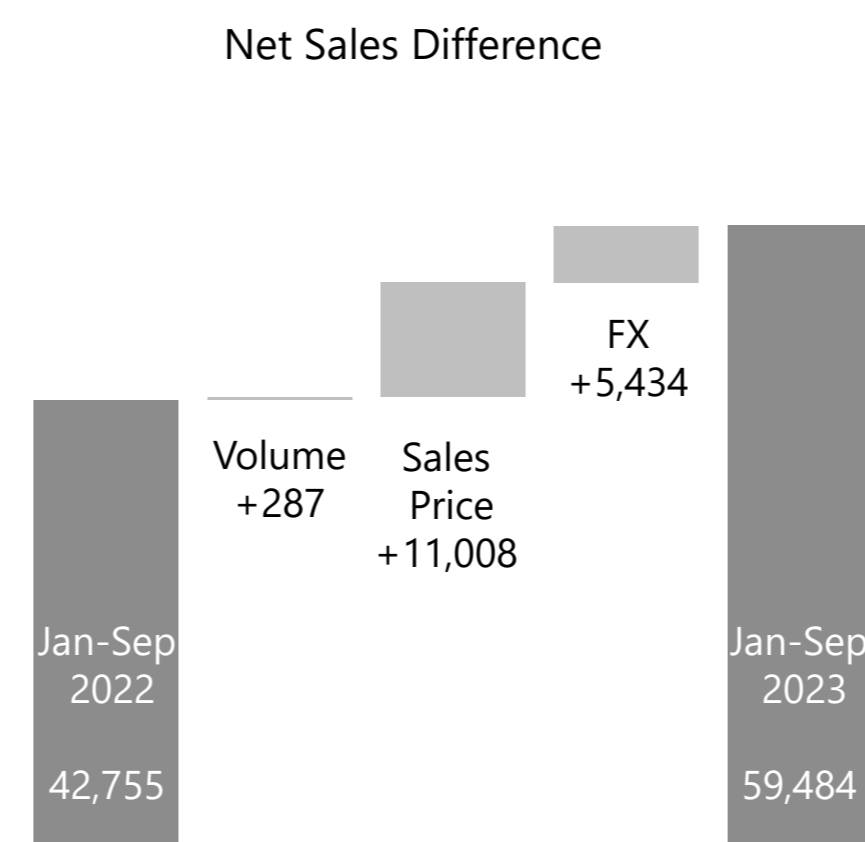
	Jan-Sep 2022	Jan-Sep 2023	YoY Change	% Change
Net sales	36,823	32,413	▲4,409	▲12.0%
Operating income	11,099	7,504	▲3,594	▲32.4%
ROS	30.1%	23.2%		



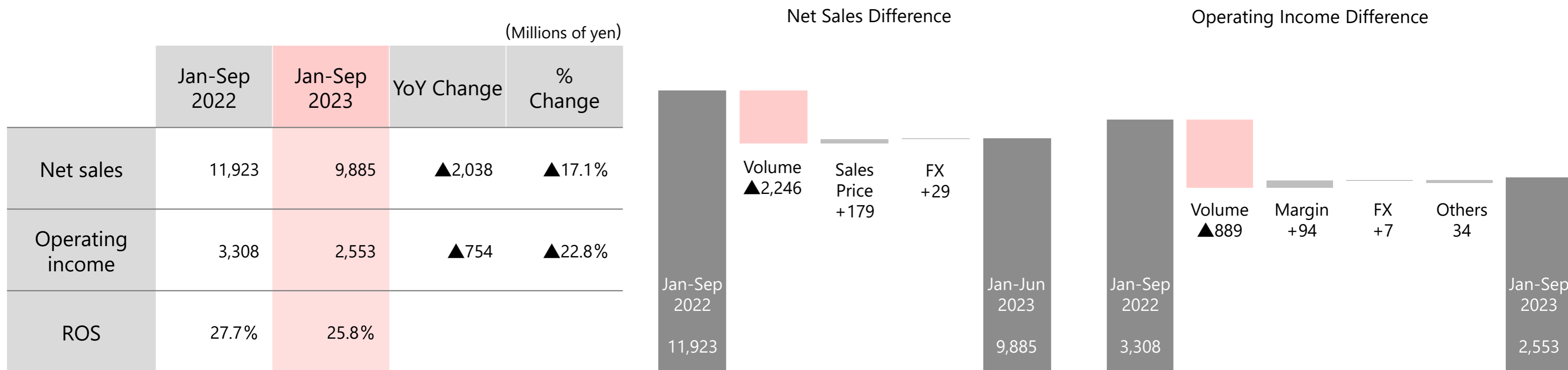
- While there were variances in demand by region, shipments of mainstay cathodes for aluminum smelting were strong in emerging markets. Orders of furnace lining blocks increased due to a recovery in demand for the refurbishment of blast furnaces. Carbon electrodes continue to be impacted by the delayed recovery of demand in electronic part-related industries.
- Despite rising raw material and energy costs, an effort toward higher productivity and higher costs passed on to sales prices led to continued stable results.
- Operating income excluding goodwill amortization was ¥9.69b (ROS 16.2%), an increase of 28.4% YoY.

	Jan-Sep 2022	Jan-Sep 2023	YoY Change	% Change
Net sales	42,755	59,484	+16,729	+39.1%
Operating income	▲305	1,135	+1,440	— %
ROS	▲0.7%	1.9%		

(Millions of yen)



- Inventory adjustments by customers for mainstay Multi Layer Ceramic Capacitors (MLCC) and increased demand for Lithium Ion Battery (LiB) electrode materials have been delayed longer than expected, leading to decreases in net sales and operating income.
- Growth investment for industrial furnaces and ceramic heaters on track with a view to medium to long term market expansion.



Major Cash Flow items

(Millions of yen)

	Jan-Sep 2022	Jan-Sep 2023	Summary
Cash flows from operating activities	19,921	37,035	
Net income (loss) before income taxes	31,330	33,109	
Depreciation and amortization	19,385	21,120	
Amortization on goodwill	5,561	6,023	
Decrease (increase) in trade receivable	▲7,384	597	} Working capital: ▲¥13.2 billion (Jan-Sep 2022 ▲¥28.7 billion)
Decrease (increase) in inventories	▲19,560	▲5,367	
Increase (decrease) in accounts payable-trade	▲1,839	▲8,514	
Income tax paid	▲7,572	▲9,933	
Cash flows from investing activities	▲29,302	▲32,901	
Purchase of property, plant and equipment	▲26,577	▲35,139	
Cash flows from financing activities	▲14,435	▲9,249	
Net increase (decrease) in short-term Loans payable	8,813	▲84	
Acquisition of share of subsidiaries	▲10,000	-	
Payment of dividends	▲5,024	-	
Cash and cash equivalents at end of period	▲6,395	▲7,035	

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

Major Balance Sheet Items

(Millions of yen)

	December 31, 2022	September 30, 2023	Summary
Total assets	576,465	637,322	
Net income (loss) before income taxes	246,691	259,822	
Cash and cash equivalents	70,909	68,662	<ul style="list-style-type: none"> · Cash/monthly sales: 2.3 times (End of FY2022: 2.5 times) · Inventory: (+¥13.9 billion from End of FY2022) · Tangible fixed assets: (+¥37.0 billion from End of FY2022) · Intangible fixed assets: (+¥1.0 billion from End of FY2022)
Notes and accounts receivable	65,197	68,872	
Inventory	101,330	115,255	
Fixed assets	329,773	377,499	
Tangible fixed asset	181,948	218,964	
Intangible fixed assets	118,839	119,891	
Investments and other assets	28,986	38,643	
Total liabilities	275,596	275,976	<ul style="list-style-type: none"> · Net interest bearing debt: ¥103.1 billion (+¥2.5 billion from End of FY2022) · Interest bearing debt: ¥171.7 billion (+¥0.3 billion from End of FY2022) · Direct funding ratio: 66.9%(End of FY2022:67.1%), Long term debt ratio: 56.6%(End of FY2022:52.9%) · Short term credit line: ¥66.0 billion (+¥0 billion from End of FY2022) : ¥6.0 billion executed (+¥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	130,889	
Long term liabilities	128,900	145,087	
Total net assets	300,868	361,345	<ul style="list-style-type: none"> · Capital to asset ratio: 51.2% (End of FY2022: 46.6%) · Adjusted Capital to asset ratio*: 56.7% (End of FY2022: 52.7%) · Net D/E ratio: 0.32 times (End of FY2022: 0.37 times) · Adjusted Net D/E ratio: 0.19 times (End of FY2022: 0.22 times)
Shareholder's capital	218,761	233,127	
Other accumulated Comprehensive income	50,065	92,988	
Non controlling interests	32,041	35,229	
Total liabilities and net assets	576,465	637,322	

※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

- Due to soft steel market and intensified competition in graphite electrodes and slow recovery of semiconductor market in fine carbon, the full-year forecast announced in February was revised downward (YoY Net sales +6.6%, Operating income -16.2%).

(Millions of yen)

	Previous Forecast (February 9)			Updated Forecast for FY 2023			Change from Previous Forecast		YoY Change	
	1H	2H	Full Year	1H	2H	Full Year	Amount	%	Amount	%
Net sales	198,000	212,000	410,000	178,428	184,572	363,000	▲47,000	▲11.5%	+22,629	+6.6%
Operating income	20,000	25,000	45,000	21,738	12,262	34,000	▲11,000	▲24.4%	▲6,589	▲16.2%
Ordinary income	20,000	25,000	45,000	24,109	13,891	38,000	▲7,000	▲15.6%	▲4,522	▲10.6%
Net income attributable to owners of the parent company	11,000	15,000	26,000	15,904	4,096	20,000	▲6,000	▲23.1%	▲2,419	▲10.8%

Average exchange rates:

- USD1=¥141 , EUR1=¥152

Consolidated Earnings Forecast FY2023 by Segment

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(Millions of yen)

	Previous Forecast (February 9)			Updated Forecast for FY 2023			YoY Change	% Change
	1H	2H	Full year	1H	2H	Full year		
Net Sales	198,000	212,000	410,000	178,428	184,572	363,000	▲47,000	▲11.5%
Graphite Electrodes	31,000	40,000	71,000	30,407	29,593	60,000	▲11,000	▲15.5%
Carbon Black	82,000	84,000	166,000	73,831	75,169	149,000	▲17,000	▲10.2%
Fine Carbon	25,000	27,000	52,000	21,373	22,627	44,000	▲8,000	▲15.4%
Smelting and Lining	45,000	44,000	89,000	41,473	39,527	81,000	▲8,000	▲9.0%
Industrial Furnaces and Related Products	9,000	11,000	20,000	5,707	11,293	17,000	▲3,000	▲15.0%
Other	5,500	5,500	11,000	4,859	4,141	9,000	▲2,000	▲18.2%
Operation	500	500	1,000	709	2,291	3,000	+2,000	+200.0%
	0	0	0	66	▲66	0	0	0%
	6,000	6,000	12,000	5,635	6,365	12,000	0	0%
Operating Income	20,000	25,000	45,000	21,738	12,262	34,000	▲11,000	▲24.4%
Graphite Electrodes	1,000	5,000	6,000	3,164	▲2,164	1,000	▲5,000	▲83.3%
Carbon Black	8,000	8,000	16,000	10,773	8,227	19,000	+3,000	+18.8%
Fine Carbon	7,000	9,000	16,000	5,041	4,959	10,000	▲6,000	▲37.5%
Smelting and Lining	1,000	1,000	2,000	1,392	▲892	500	▲1,500	▲75.0%
Industrial Furnaces and Related Products	3,000	3,000	6,000	1,263	2,737	4,000	▲2,000	▲33.3%
Others	1,000	0	1,000	635	365	1,000	0	0%
Inter-segment eliminations	▲1,000	▲1,000	▲2,000	▲533	▲967	▲1,500	+500	▲25.0%

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	Jan-Sep 2022	Jan-Sep 2023	YoY Change	Location /Business	Note
Tokai Erftcarbon	13,662	12,189	▲1,473	Germany Graphite Electrodes	
Tokai Carbon GE	22,645	26,769	+4,123	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	20,978	20,999	+20	Thailand Carbon Black	
Tokai Carbon CB	49,773	52,249	+2,476	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	7,124	7,599	+474	Canada Carbon Black	
Tokai Carbon Korea	24,732	17,514	▲7,217	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	43,117	59,848	+16,731	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	363,000
Operating income	54,344	7,858	24,647	40,588	34,000
ROS (%)	20.7%	3.9%	9.5%	11.9%	9.4%
EBITDA	77,053	35,262	54,518	75,572	70,000
EBITDA margin (%)	29.4%	17.5%	21.1%	22.2%	19.3%
Net income Attributable to Owners of the Parent Company	31,994	1,019	16,105	22,418	20,000
ROE (%)	16.0%	0.5%	7.5%	9.0%	7.2%
ROIC (%)	13.1%	1.6%	4.8%	7.1%	-
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	0.45	0.45	0.39	0.37	—
Adjusted Net D/E ratio	0.30	0.24	0.21	0.22	—
Number of Employees	3,714	4,178	4,289	4,378	—
Exchange Rate (JPY/USD)	109.05	106.82	109.80	131.43	141.00

※EBITDA = Operating income + Depreciation + Goodwill amortization

※ROIC = Operating Profit after Tax ÷ (Working Capital + Fixed Assets)

Quarterly Results by Segment

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f=forecast (Millions of yen)

		2022				2023						
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4f	Full year	
Net sales		69,512	87,558	89,261	94,038	340,371	86,530	91,897	89,247	95,326	363,000	
Graphite Electrodes		12,362	16,802	14,502	15,963	59,630	13,486	16,920	15,484	14,110	60,000	
Carbon Black		29,430	34,298	39,621	35,134	138,484	37,406	36,424	37,300	37,870	149,000	
Fine Carbon		10,935	12,760	13,127	12,569	49,393	11,444	9,928	11,040	11,588	44,000	
Smelting and Lining		11,605	15,001	16,148	22,448	65,203	19,218	22,254	18,011	21,517	81,000	
Industrial Furnaces and Related Products		2,523	6,381	3,018	4,348	16,272	2,449	3,258	4,177	7,116	17,000	
Others		Friction materials	2,290	2,202	2,341	2,528	9,362	2,460	2,398	2,124	2,018	9,000
		Anode materials	330	78	465	1,012	1,888	29	679	1,075	1,217	3,000
		Others	34	33	34	33	136	33	33	33	▲99	0
Total Others		2,655	2,315	2,842	3,575	11,387	2,523	3,112	3,233	3,132	12,000	
Operating income		7,938	8,778	11,297	12,573	40,588	11,493	10,244	8,010	4,253	34,000	
Graphite Electrodes		1,258	1,666	2,378	2,728	8,032	1,637	1,526	▲423	▲1,740	1,000	
Carbon Black		3,049	1,735	4,201	3,295	12,282	5,757	5,015	5,152	3,076	19,000	
Fine Carbon		2,912	3,874	4,312	3,726	14,825	3,103	1,938	2,462	2,497	10,000	
Smelting and Lining		67	▲71	▲301	1,650	1,345	408	984	▲257	▲635	500	
Industrial Furnaces and Related Products		763	1,754	790	1,166	4,475	534	728	1,290	1,448	4,000	
Other Operations		201	186	312	409	1,108	301	334	448	▲83	1,000	
Inter-segment eliminations		▲314	▲367	▲395	▲402	▲1,480	▲249	▲283	▲660	▲308	▲1,500	

- 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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