

【Updated】Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2023 [Japanese GAAP]

November 7, 2023

Company name: Tokai Carbon Co., Ltd.	Listing: Tokyo Stock Exchange Prime Market
Securities code: 5301	URL: https://www.tokaicarbon.co.jp/en/
Representative: Hajime Nagasaka, President & Chief Executive Officer	
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Scheduled date to file quarterly report:	November 10, 2023
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, 2023 (January 1 to September 30, 2023)

(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, 2023	267,675	8.7	29,749	6.2	33,034	2.8	21,375	32.6
Nine months ended September 30, 2022	246,332	33.1	28,015	58.6	32,132	83.1	16,121	68.6

Note: Comprehensive income: Nine months ended September 30, 2023: 68,677 million yen (26.5%)
 Nine months ended September 30, 2022: 54,296 million yen (115.2%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
Nine months ended September 30, 2023	100.26	-
Nine months ended September 30, 2022	75.62	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	637,322	361,345	51.2
As of December 31, 2022	576,465	300,868	46.6

For reference: Shareholders' capital: As of September 30, 2023: 326,115 million yen
 As of December 31, 2022: 268,827 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, 2022	-	15.00	-	15.00	30.00
Fiscal year ending December 31, 2023	-	18.00	-		
Fiscal year ending December 31, 2023 (Forecast)				18.00	36.00

Note: Amendment to most recently disclosed dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2023 (January 1 to December 31, 2023)

(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	363,000	6.6	34,000	△16.2	38,000	△10.6	20,000	△10.8	93.8

Note: Amendment to most recently disclosed consolidated earnings forecast: Yes

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanying changes in the scope of consolidation): None

(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: None

(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, 2023	224,943,104 shares	As of December 31, 2022	224,943,104 shares
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(b) Number of treasury stock at the end of the period

As of September 30, 2023	11,727,130 shares	As of December 31, 2022	11,748,117 shares
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(c) Average number of shares during the period

Nine months ended September 30, 2023	213,207,708 shares	Nine months ended September 30, 2022	213,189,325 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 Wednesday, November 8, 2023. 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, 2023

During the first nine months of 2023 (from January 1, 2023 to September 30, 2023) the global economy initially experienced positive influences such as the easing of supply constraints and the reopening of the Chinese economy. Following that however, a sense of stagnation grew due to the continuation of high inflation and high interest rates in Europe and the United States and the slowdown of the Chinese economy.

The ongoing fragmentation of the global economy due to the conflict between the United States and China, etc., and the downward movement of the Chinese economy, etc., are risk factors, and uncertainties about the future are increasing.

Under these circumstances, in February this year, we announced the Group's rolling medium-term management plan "T-2025," which covers the three years from 2023 to 2025. Under the three basic policies of "Returning core businesses to a path of growth," "Optimizing the business portfolio (selection and concentration)," and "Establishing a sustainable management base," we aim to achieve net sales of 484 billion yen, operating income of 69 billion yen, ROS of 14%, and EBITDA of 113 billion yen as quantitative targets in 2025. Focusing on our core graphite electrode and carbon black businesses, we are working to ensure reasonable profits by adjusting the sales prices to cope with the increases in raw materials and other costs. We are steadily improving productivity and expanding production capacity in anticipation of future demand growth. With the aim of achieving carbon neutral, we are working to reduce CO2 emissions and exploring and investigating relevant technologies on a consolidated basis, mainly through the Carbon Neutral Committee, which was established in February 2022.

As a result, net sales for the first nine months of 2023 increased 8.7% year on year to 267,675 million yen. Operating income increased 6.2% year on year to 29,749 million yen. Ordinary income increased 2.8% year on year to 33,034 million yen. Quarterly net income attributable to owners of the parent company increased 32.6% year on year to 21,375 million yen.

Results by business segment were as follows:

Graphite Electrodes

With steel production in Europe sluggish, the sales volume of our graphite electrodes also declined compared to the same period of the previous year, mainly at our European location. Manufacturing costs increased due to persistently high energy costs and lower operating rates despite an increase in shipments of large-diameter electrodes mainly in North America resulting in higher average selling prices.

As a result, net sales for the Graphite Electrodes business increased 5.1% year on year to 45,891 million yen, and operating income decreased 48.3% year on year to 2,740 million yen.

Carbon Black

Despite production adjustments by tire manufacturers, demand for tires for new vehicles recovered and our sales volume was on a par with the same period of the previous year. Sales and income increased from the same period of the previous year, as sales price revisions, mainly in the U.S., partially compensated the depreciation burden of environmental capital investment.

As a result, net sales for the Carbon Black business increased 7.5% year on year to 111,131 million yen, while operating income increased 77.2% year on year to 15,925 million yen.

Fine Carbon

While demand for products for power semiconductors and general industrial applications was firm, sales of Solid SiC products used in etching process for memory semiconductors fell sharply. This was due to the customers'

inventory adjustments caused by declining demand for smartphones and PCs and the prolonged U.S. semiconductor regulation against China.

As a result, net sales for the Fine Carbon business decreased 12.0% year on year to 32,413 million yen, while operating income decreased 32.4% year on year to 7,504 million yen.

Smelting & Lining

Operating rates of aluminum electrolytic furnace companies that use cathode blocks varied from region to region due to differences in energy costs. Shipments to emerging countries in particular remained steady. Profitability was maintained by reflecting higher raw materials and energy costs in selling prices.

As a result, net sales for the Smelting and Lining business increased 39.1% year on year to 59,484 million yen, while operating income was 1,135 million yen (compared with operating loss of 305 million yen in the same period of the previous fiscal year).

Industrial Furnaces and Related Products

Net sales and operating income decreased year on year due to a decline in demand from major customers in the energy-related and electronic component-related industries.

As a result, net sales for the Industrial Furnaces and Related Products business decreased 17.1% year on year to 9,885 million yen, while operating income decreased 22.8% year on year to 2,553 million yen.

Other Operations

Friction materials

Shipments for electromagnetic applications were affected by inventory adjustments and other factors. However, shipments for construction machinery, motorcycles, and agricultural machinery remained firm, resulting in an overall increase in sales.

As a result, net sales of friction materials increased 2.2% year on year to 6,984 million yen.

Anode materials

Sales volume increased year on year due to an increase in sales volume for EVs and ESS (Energy Storage Systems).

As a result, net sales of anode materials increased 103.9% year on year to 1,785 million yen.

Others

Net sales from real estate leasing and other business decreased 3.3% year on year to 99 million yen.

As a result, net sales in Other Operations, increased 13.5% year on year to 8,868 million yen, while operating income increased 55.0% year on year to 1,083 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	Third quarter of the fiscal year under review (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	70,909	68,662
Notes and accounts receivable	65,197	68,872
Merchandise and finished goods	26,198	30,272
Work in progress	41,584	51,080
Raw materials and supplies	33,548	33,902
Other	9,528	7,349
Allowance for doubtful accounts	(274)	(318)
Total current assets	246,691	259,822
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	30,944	34,664
Machinery, equipment and vehicles, net	90,597	96,192
Land	8,035	12,338
Construction in progress	44,366	67,030
Other, net	8,004	8,737
Total tangible fixed assets	181,948	218,964
Intangible assets		
Goodwill	52,837	51,888
Customer-related assets	55,724	55,400
Other	10,276	12,602
Total intangible assets	118,839	119,891
Investments and other assets		
Investment securities	22,548	30,920
Net defined benefit asset	2,927	2,864
Deferred tax assets	2,210	3,746
Other	1,325	1,136
Allowance for doubtful accounts	(25)	(24)
Total investments and other assets	28,986	38,643
Total fixed assets	329,773	377,499
Total assets	576,465	637,322

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	Third quarter of the fiscal year under review (As of September 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable	28,119	21,920
Electronically recorded obligations	4,153	3,853
Short-term loans payable	10,940	11,317
Commercial papers	60,000	60,000
Current portion of loans payable	9,805	3,225
Income taxes payable	5,673	2,752
Contract liability	2,271	2,869
Provision for bonuses	3,887	3,768
Other	21,845	21,182
Total current liabilities	146,696	130,889
Long-term liabilities		
Bonds payable	55,000	55,000
Long-term loans payable	35,706	42,230
Deferred tax liabilities	24,171	31,571
Retirement benefit liability	6,567	7,221
Provision for retirement benefits for directors	105	103
Provision for executive officers' retirement benefits	58	50
Provision for environment and safety measures	315	387
Other	6,974	8,523
Total long-term liabilities	128,900	145,087
Total liabilities	275,596	275,976
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	13,811	13,825
Retained earnings	191,750	206,090
Treasury stock	(7,236)	(7,225)
Total shareholders' equity	218,761	233,127
Accumulated other comprehensive income		
Valuation difference on other securities	9,587	15,211
Deferred gains or losses on hedges	274	54
Foreign currency translation adjustments	37,681	75,141
Cumulative remeasurements of defined benefit plans	2,521	2,581
Total accumulated other comprehensive income	50,065	92,988
Non-controlling interests	32,041	35,229
Total net assets	300,868	361,345
Total liabilities and net assets	576,465	637,322

(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, 2022)	First nine months of the fiscal year under review (January 1 to September 30, 2023)
Net sales	246,332	267,675
Cost of sales	179,293	194,123
Gross profit	67,038	73,551
Selling, general and administrative expenses	39,023	43,802
Operating income	28,015	29,749
Non-operating income		
Interest income	366	940
Dividend income	471	528
Share of profit of entities accounted for using equity method	210	279
Foreign exchange gains	4,452	2,925
Other	391	766
Total non-operating income	5,892	5,441
Non-operating expenses		
Interest expenses	763	1,100
Other	1,011	1,055
Total non-operating expenses	1,775	2,156
Ordinary income	32,132	33,034
Extraordinary income		
Gain on sales of fixed assets	27	177
Gain on sale of investment securities	54	24
Total extraordinary income	82	201
Extraordinary losses		
Loss on retirement of fixed assets	581	91
Loss on sale of investment securities	0	34
Loss on sales of fixed assets	0	0
Loss on sale of equity invested in associates	160	-
Accident-related loss	141	-
Total extraordinary losses	883	126
Quarterly net income before income taxes	31,330	33,109
Income taxes - current	6,833	7,350
Income taxes - deferred	4,642	1,743
Total income taxes	11,476	9,093
Quarterly net income	19,854	24,015
Quarterly net income attributable to non-controlling interests	3,732	2,640
Quarterly net income attributable to owners of the parent company	16,121	21,375

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, 2022)	First nine months of the fiscal year under review (January 1 to September 30, 2023)
Quarterly net income	19,854	24,015
Other comprehensive income		
Valuation difference on other securities	(1,030)	5,628
Deferred gains or losses on hedges	(11)	(220)
Foreign currency translation adjustments	34,937	38,864
Remeasurements of defined benefit plans	698	59
Share of other comprehensive income of associates accounted for using equity method	(152)	328
Total other comprehensive income	34,441	44,661
Quarterly comprehensive income	54,296	68,677
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent company	49,356	64,298
Quarterly comprehensive income attributable to non- controlling interests	4,939	4,378

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not Applicable

(Notes on Significant Changes in Shareholders' Equity Amount)

Not Applicable

(Segment Information)

I First nine months of the previous fiscal year (January 1 to September 30, 2022)

1. Information on net sales and amount of income (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 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.

II First nine months of the fiscal year under review (January 1 to September 30, 2023)

Information on net sales and amount of income 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 Furnace and Related Products	Subtotal				
Net sales										
External sales	45,891	111,131	32,413	59,484	9,885	258,806	8,868	267,675	-	267,675
Intersegment sales/transfers	332	19	80	363	171	967	-	967	(967)	-
Total	46,223	111,151	32,494	59,848	10,056	259,774	8,868	268,643	(967)	267,675
Segment income	2,740	15,925	7,504	1,135	2,553	29,860	1,083	30,943	(1,194)	29,749

- 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 1,194-million-yen negative adjustment in segment income includes company-wide expenses of 1,240 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 is reconciled to the operating income reported in the Quarterly Consolidated Statements of Income.