

Q3 FY2020
Earnings Presentation
2020/11/5



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Q3 FY2020

Financial Summary

Business Environment and Events

- The global economy is moderately recovering after easing of lockdowns in developed countries, however COVID-19 still has a significant impact on Q3 financial results
- The steel industry, which relates to our core business Graphite Electrode, will need more time for a full recovery
- Carbon Black business turned around in Q3 due to the demand recovery of tire industry lead mainly by United States. Fine Carbon and Industrial Furnace businesses remain strong backed by the strong growth of 5G, IoT-markets
- Measures to improve profitability underway by company-wide investment restraint, production adjustment/inventory reduction, productivity improvement/cost reduction and steady liquidity
- On July 17 2020, completed acquisition of all shares of Carbone Savoie International SAS, which owns Carbone Savoie SAS, a French carbon graphite product manufacturer (deemed acquisition date July 31)
- An extraordinary loss of 446 million yen was recorded due to the disaster caused by the torrential rain in July 2020 at Tanoura Plant (Kumamoto Prefecture), a manufacturing site to produce material for the fine carbon business
- FY2020 earnings forecast was revised after recording the estimation of total extraordinary income/loss from the disaster and insurance income

Summary of Consolidated Results

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- Net sales ¥146.6 billion, Operating income ¥7.4 billion, ROS 5.1%
- Net sales and Operating income decreased YoY

	(Millions of yen)			
	Jan-Sep 2019	Jan-Sep 2020	YoY Change	%Change
Net sales	198,624	144,623	▲54,001	▲27.2%
Operating income	48,571	7,404	▲41,166	▲84.8%
Ordinary income	48,136	6,157	▲41,979	▲87.2%
Net income attributable to owners of the parent company	30,485	1,018	▲29,466	▲96.7%

Group companies (As of September 30, 2020)

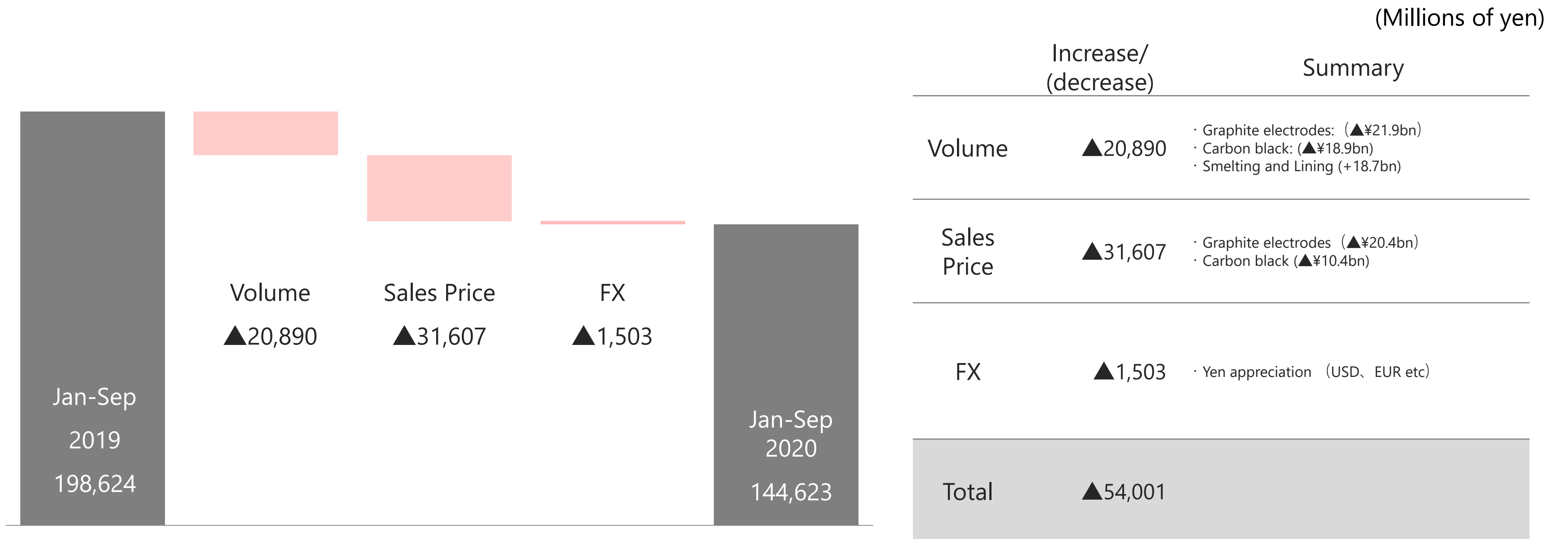
- Consolidated subsidiaries: 35 (Consolidation of Carbon Savoie Group)
- Equity method affiliates: 2

Jan-Sep Average exchange rates:

- 2019 USD1 = ¥109.15 EUR1 = ¥122.66
- 2020 USD1 = ¥107.59 EUR1 = ¥120.90

*The provisional accounting treatment of Tokai COBEX HoldCo GmbH business combination was finalized. This resulted in the retroactive adjustment of 2019 figures.

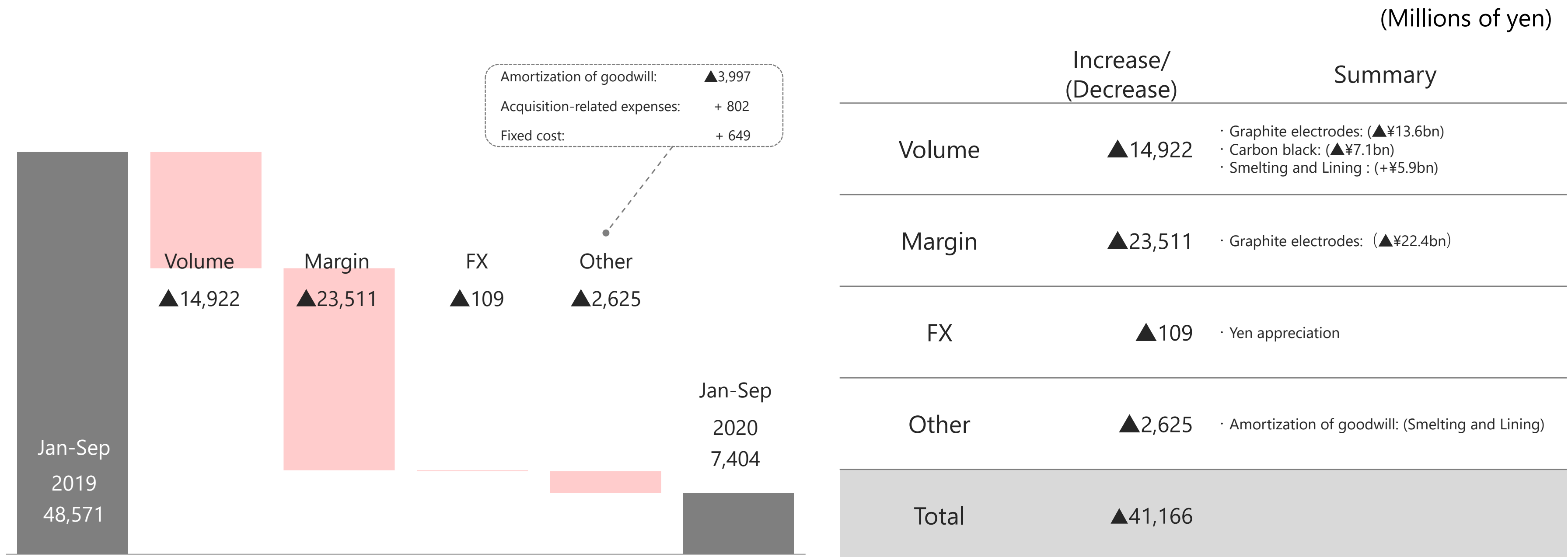
- Lower sales volume and lower sales price (Graphite electrodes and Carbon black)
- Result in, Net sales decline 27.2% YoY



YoY Analysis: Operating Income

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- Lower sales volume (Graphite electrodes and Carbon black) and lower margin (Graphite electrodes). Result in, Operating income decline 84.8% YoY



Net Sales and Operating Income by Segment

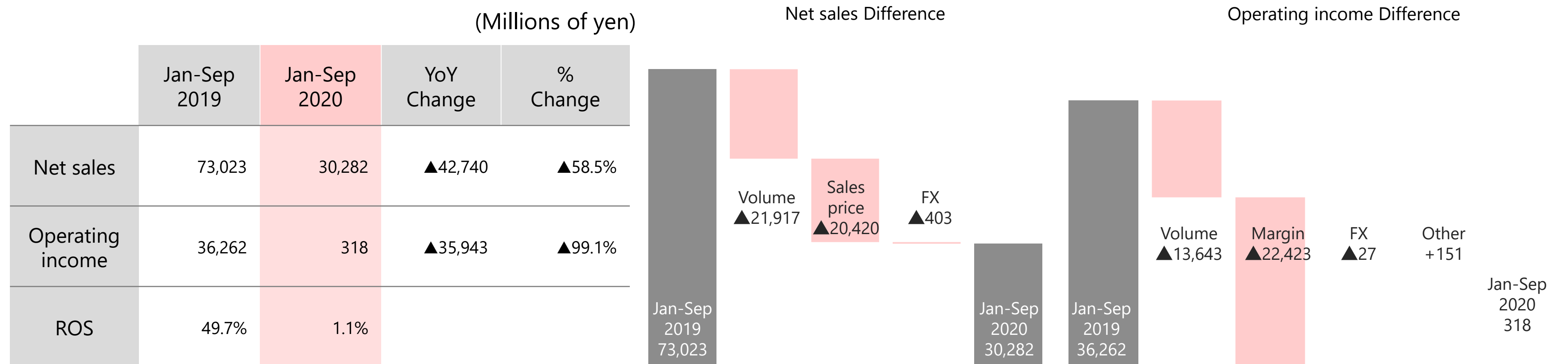
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- Lower sales and income YoY for the core business, Graphite Electrode and Carbon Black

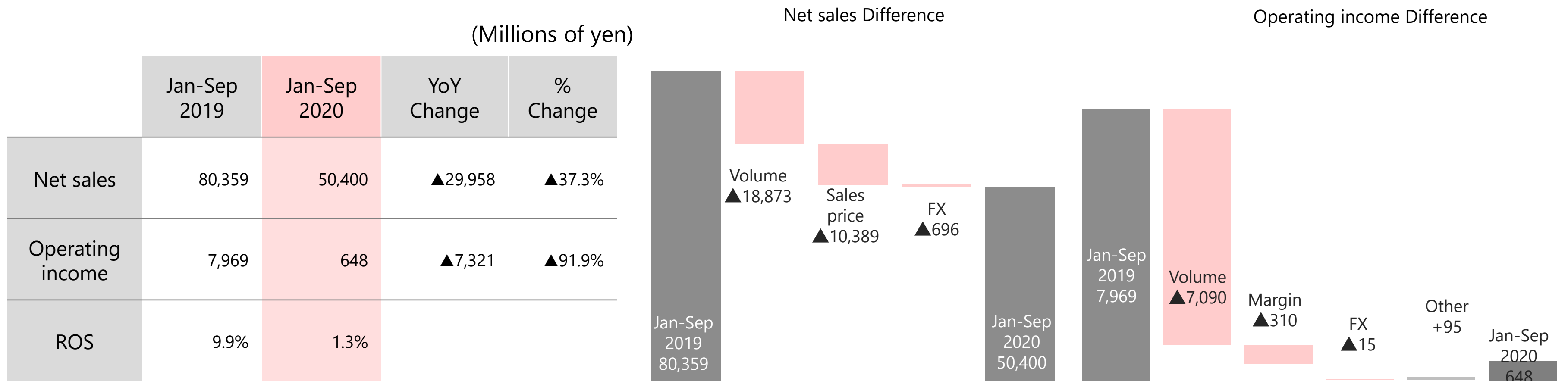
(Millions of yen)

		Net sales			Operating income		
		Jan-Sep 2019	Jan-Sep 2020	YoY Change	Jan-Sep 2019	Jan-Sep 2020	YoY Change
Graphite Electrodes		73,023	30,282	▲42,740	36,262	318	▲35,943
Carbon Black		80,359	50,400	▲29,958	7,969	648	▲7,321
Fine Carbon		23,246	23,582	+336	4,919	5,004	+85
Smelting and Lining		4,511	23,208	+18,697	▲2,095	▲1	+2,093
Industrial Furnaces and Related Products		8,208	9,207	+999	2,155	2,317	+162
Other Operation	Friction materials	5,774	4,615	▲1,158	—	—	—
	Anode materials	3,392	3,218	▲174	—	—	—
	Others	108	106	▲2	—	—	—
		9,275	7,941	▲1,334	282	188	▲93
Inter-segment eliminations		—	—	—	▲922	▲1,071	▲148
Total		198,624	144,623	▲54,001	48,571	7,404	▲41,166

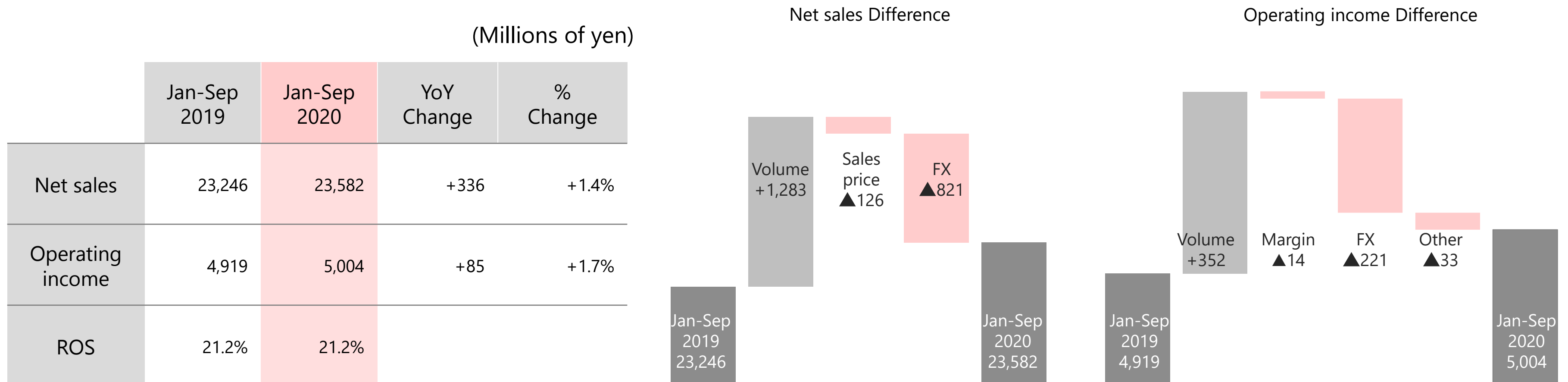
- In addition to the deterioration of the steel market due to the global economic slowdown, steel industry faced a lower operation due to the spread of COVID-19, that impacted the lower sales volume, lower sales price and lower operating rate in Graphite Electrode business
- Resulted in, Net sales decline 58.5%, Operating income decline 99.1% YoY



- Customers (tire manufacturers, etc.) stagnated their production due to COVID-19, which significantly impacted our sales volume from end of March. Lower utilization rate resulted in higher cost ratio
- ROS 1.3% (YoY 9.9%)
- Currently along with the demand recovery, shipments have come back to the same level as the previous year, mainly in North American and Thai markets



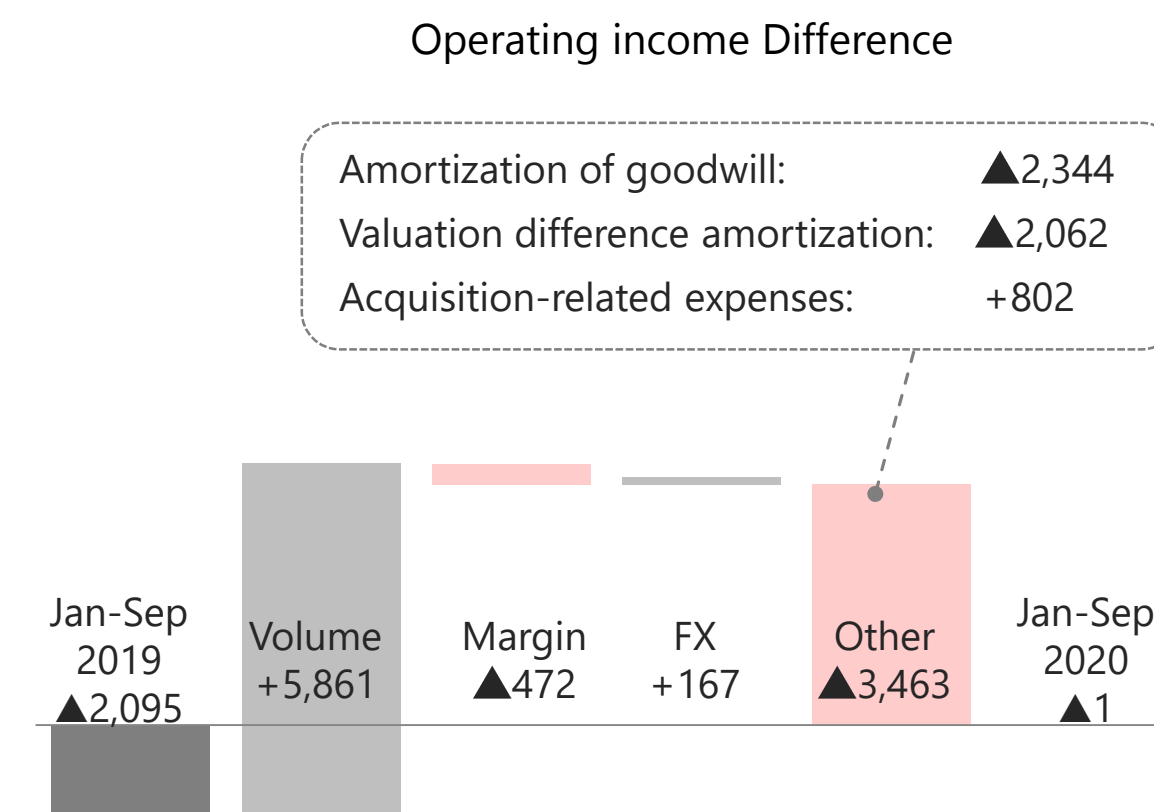
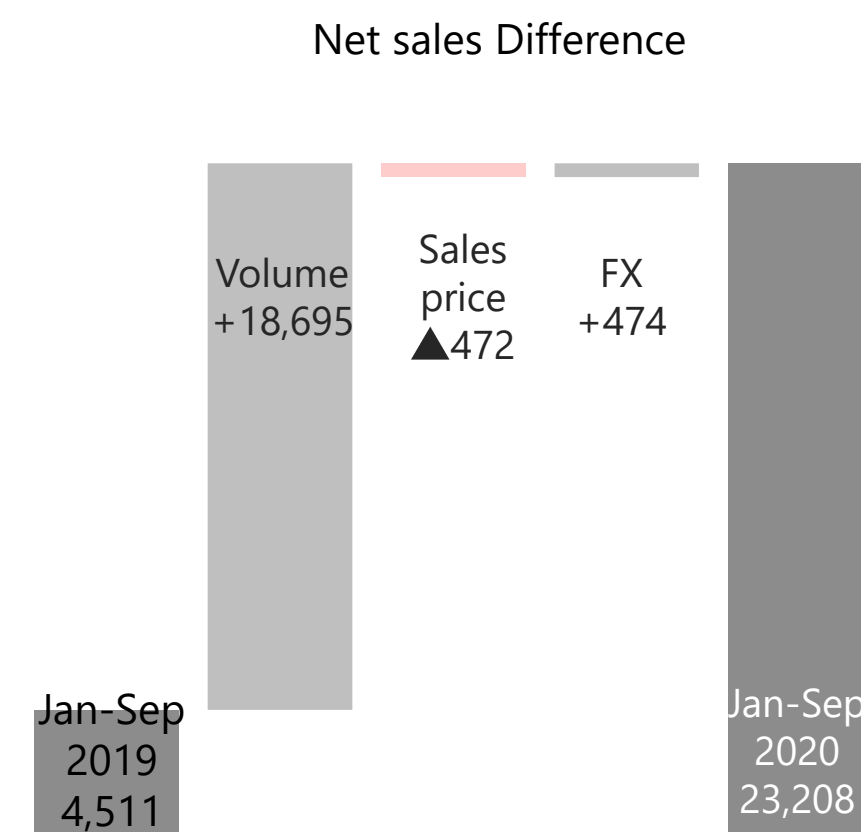
- Sales volume for general industry dropped due to the spread of COVID-19
- Robust sales of Semiconductors and PV businesses



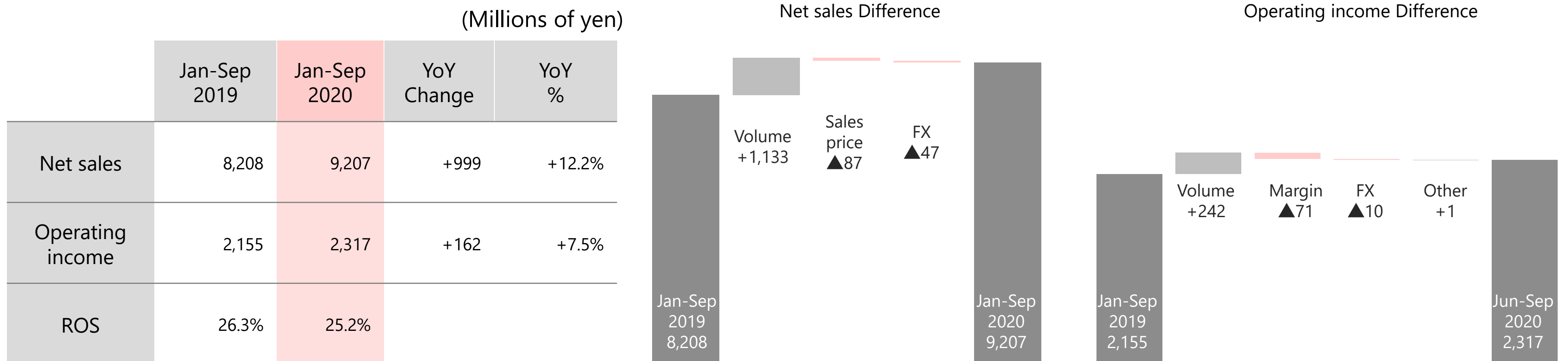
- Tokai COBEX (TCX) consolidated from August 2019
- Tokai Carbon Savoie (TCS) consolidated from August 2020
- Operating income of total TCX and TCS for Jan-Sep 2020 was ¥7.36b, although the contribution to the consolidated operating income was negative ¥1m. This was due to the ¥3.7b amortization cost of the valuation difference from acquisition-cost-allocation, ¥2.9b goodwill amortization and ¥0.6b one-off M&A related cost incurred by the segment accounting.

(Millions of yen)

	Jan-Sep 2019	Jan-Sep 2020	YoY Change	YoY %
Net sales	4,511	23,208	+18,697	+414.5%
Operating income	▲2,095	▲1	+2,093	-
ROS	▲46.4%	0.0%		

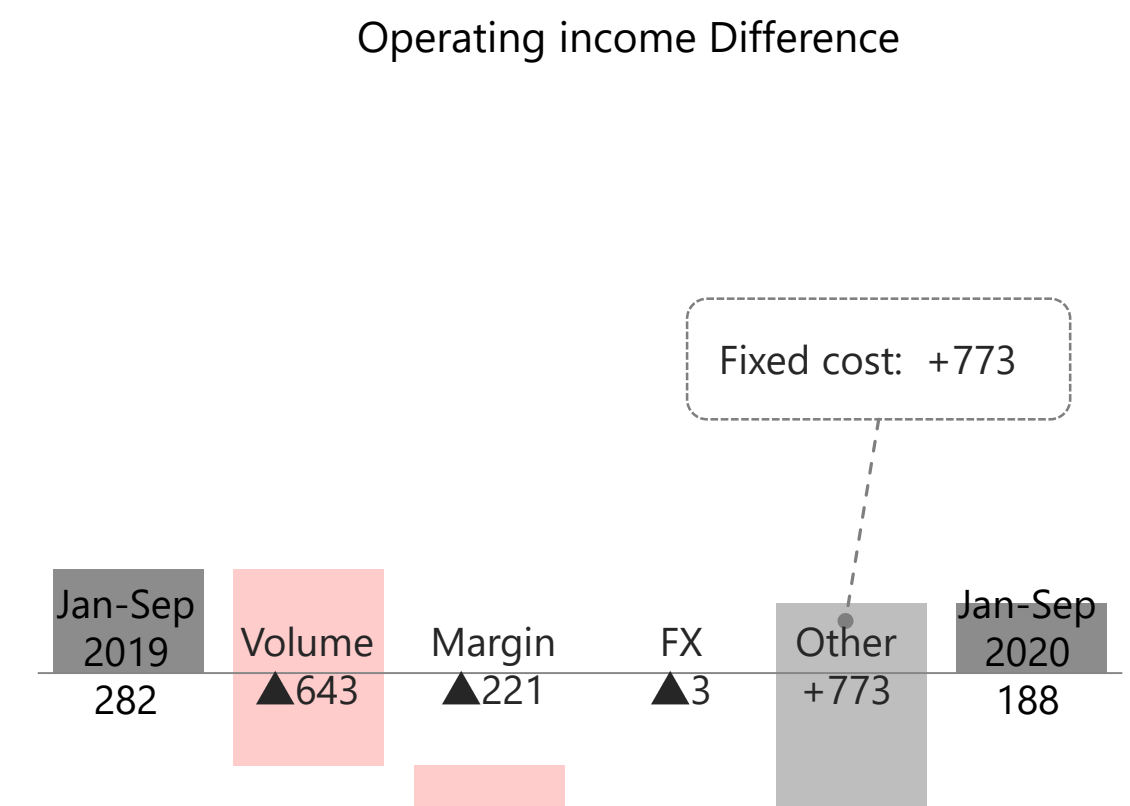
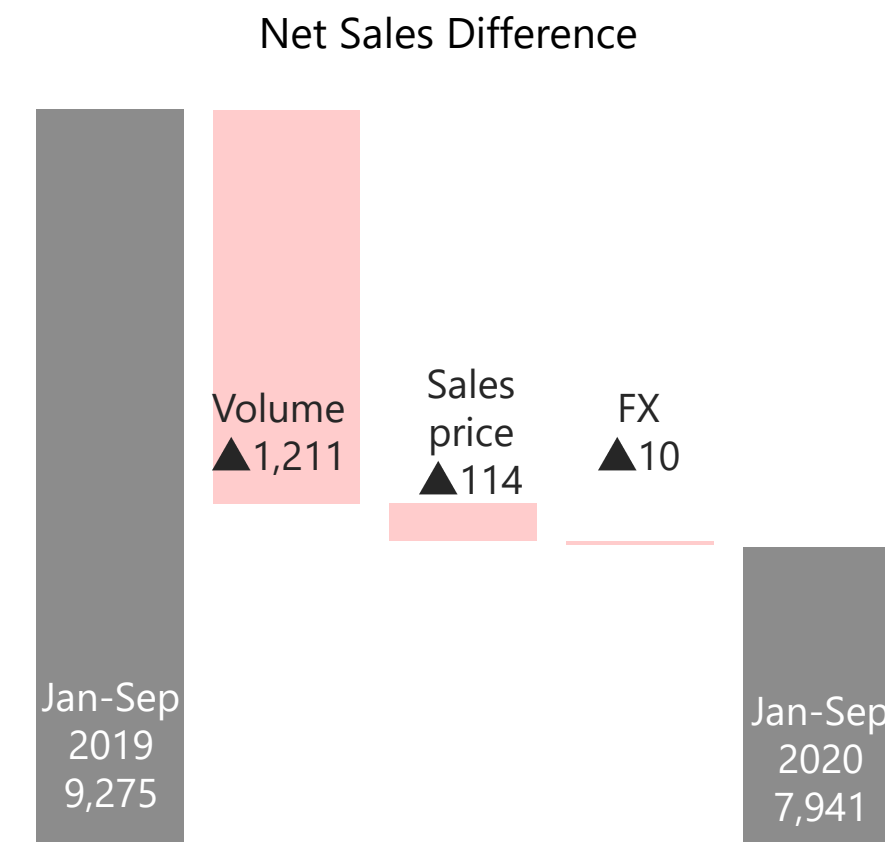


- Ceramic heaters and others: Lower sales YoY. Demand of electric components industry and China dropped by slow down in global economy due to the spread of COVID-19 pandemic
- Industrial furnaces: Higher sales YoY. Robust CAPEX in IT and Energy related industry



- Friction materials : Lower sales volume due to the exit from the four-wheel automotive business and spread of the COVID-19 pandemic
Net sales ¥4,615 million (▲ 20.1% YoY)
- Anode materials : Lower sales volume due to the harsh competition driven by the new entrants
Net sales ¥3,218 million (▲ 5.1% YoY)

	Jan-Mar 2019	Jan-Mar 2020	YoY Change	% Change
Net sales	9,275	7,941	▲1,334	▲14.4%
Operating income	282	188	▲93	▲33.2%
ROS	3.0%	2.4%		



Financial policies to expand and diversify our global business base

Basic Financial Policies

- We will enhance our management structure and maintain and improve our credit rating (R&I: A-)
- Secure long term security funds and fine access to the financial and capital markets
- Secure liquidity and mitigation of the refinancing risk
- Global fund management and optimizing efficiency
- (Global Cash Management System ・ In-house banking)

Liquidity on Hand

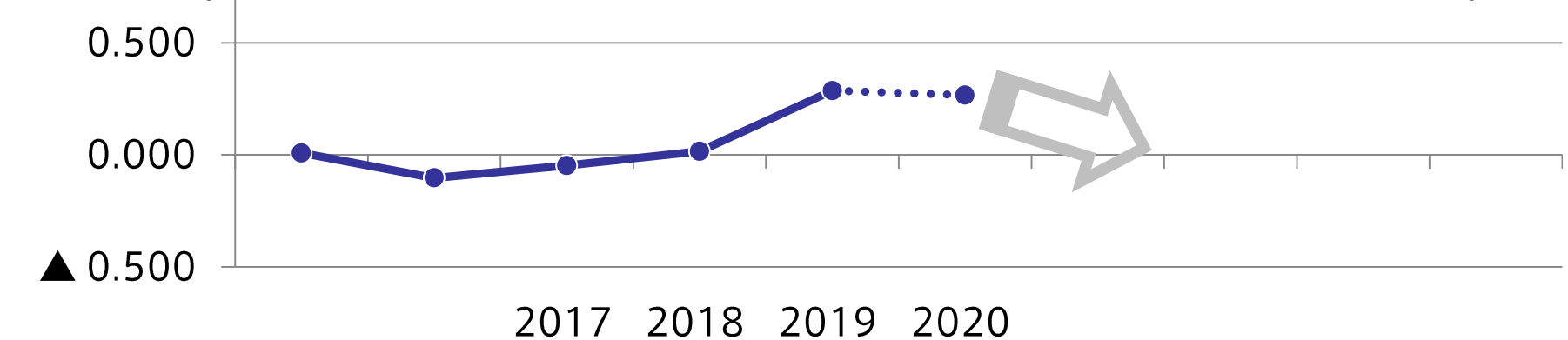
- Raise the level of liquidity on hand by 3.0 times in 3 years

Promote to higher the level of liquidity on hand (cash + short-term liquidity limit) in order to enhance durability against uncertainty.

Optimizing the cash efficiency by controlling the cash position of the entire group utilizing the GCMS (Global Cash Management System).

	2017/12	2018/12	2019/12	2020/9
Untapped short-term liquidity line	240	340	420	780
Cash and deposits	222	468	527	582
On-hand liquidity ratio (times)	2.5	2.4	2.4	3.6

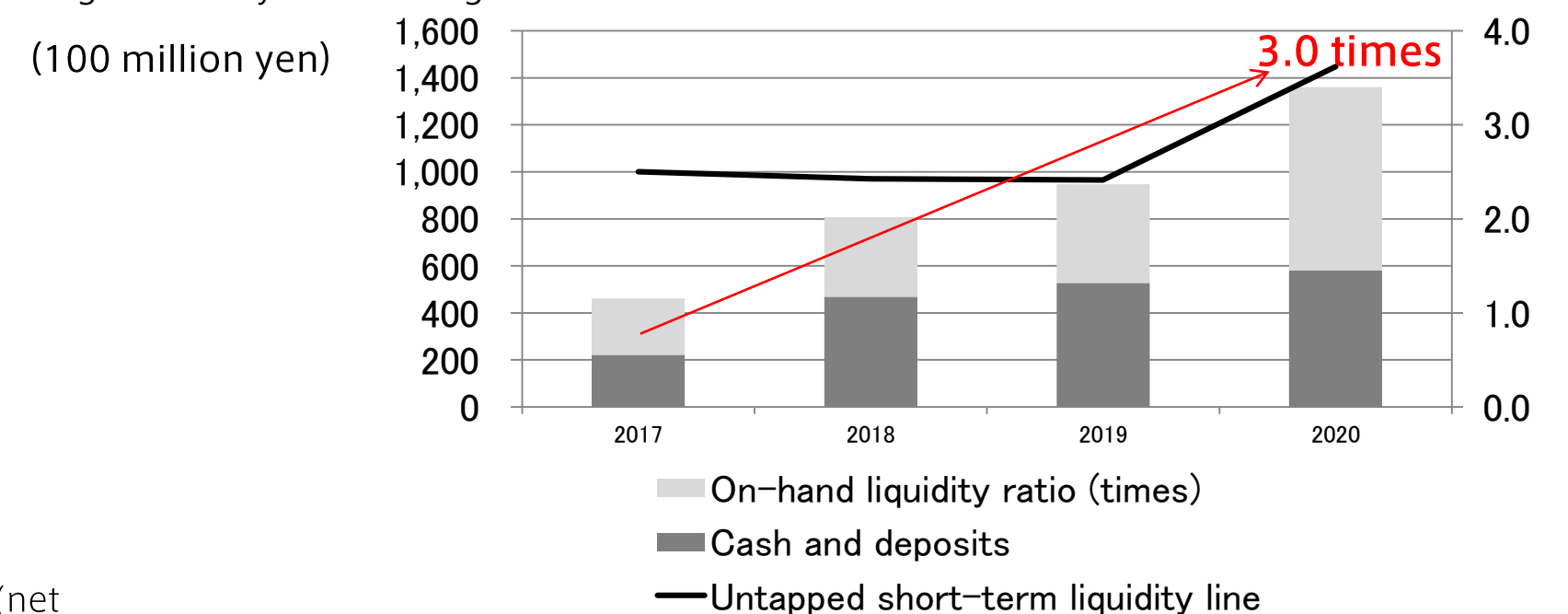
Lower adjusted net D/E ratio from 0.3 times to 0.0 times in four to five years



(100 million yen)

	2017/12	2018/12	2019/12	2020/9
Adjusted net interest-bearing debt	▲60	29	703	657
Adjusted equity	1,264	1,871	2,368	2,320
Adjusted net D/E (times)	▲0.047	0.016	0.297	0.283

*Adjusted net D/E is the debt-to-equity ratio that takes into account the equity credit assigned by rating agencies in hybrid financing.



*On-hand liquidity ratio is calculated by dividing liquidity on hand (cash + deposits) by monthly sales (net sales/consolidated accounting period)

Cash Flow (Reference)

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Major Cash Flow items

(Millions of yen)

	Jan-Sep 2020	Jan-Sep 2020	概要
Cash flows from operating activities	26,001	40,505	Working capital +18,597 (Jan-Sep 2019: ▲18,337)
Net income (loss) before income taxes	47,828	5,633	
Depreciation and amortization	12,010	15,357	
Amortization on goodwill	2,583	4,858	
Decrease (increase) in trade receivable	9,067	15,055	
Decrease (increase) in inventories	▲21,111	16,185	
Increase (decrease) in accounts payable-trade	▲6,293	▲12,643	
Income tax paid	▲18,083	▲3,940	
Cash flows from investing activities	▲90,681	▲36,508	・ Free cash flow: +¥3,997 million (decrease ▲¥64,679 million YoY)
Purchase of property, plant and equipment	▲16,307	▲19,135	
Acquisition of subsidiary	▲73,643	▲15,229	
Cash flows from financing activities	65,048	167	
Net increase (decrease) in short-term Loans payable)	63,760	▲10,553	
Bond issuance	10,000	20,000	
Payment of dividends	▲7,673	▲8,313	
Cash and cash equivalents at end of period	38,673	50,064	

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

Major Balance Sheet Items

(Millions of yen)

	December 31, 2019	September 30, 2020	概要
Total assets	462,872	448,916	
Current assets	196,446	174,766	
Cash and cash equivalents	52,695	58,154	
Notes and accounts receivable	50,648	37,712	・ Cash/monthly sales:3.6 times (End of FY2019:2.4 times)
Inventory	86,380	73,333	・ Inventory (▲¥13,046 million from the end of FY2019)
Fixed assets	266,425	274,150	・ Tangible fixed assets:(+¥18,183 million from the end of FY2019)
Tangible fixed assets	101,343	119,526	・ Intangible fixed assets:(▲¥7,667 million from the end of FY 2019)
Intangible fixed assets	141,966	134,298	
Investments and other assets	23,115	20,325	
Total liabilities	229,896	230,286	Interest-bearing debt:¥+158,905 million(+10,875 million from End of FY2019)
Current liabilities	117,541	87,277	・ Direct-funding ratio:59.8% (End of FY2019: 43.9%)
Long-term liabilities	112,355	143,008	・ Long-term debt ratio: 68.4 % (End of FY2019: 53.8%)
			・ Short term credit line:¥62 billion (End of FY2019: ¥40 billion), ¥20 billion executed
			・ Liquidation of receivables and CP issuance limit: ¥58 billion (End of FY2019: ¥48 billion), ¥40 billion executed
Total net assets	232,975	218,630	
Shareholder's capital	203,819	196,543	・ Capital-to-asset ratio: 43.9% (End of 2019 45.8%)
Other accumulated Comprehensive income	8,019	443	・ Adjusted Capital-to-asset ratio*:51,7% (End of 2019: 51.2%)
Non-controlling interests	21,137	21,643	・ Net D/E ratio: 0.5 times (End of 2019: 0.5 times)
			・ Adjusted Net D/E ratio: 0.3 times (End of 2019: 0.3 times)
Total liabilities and net assets	462,872	448,916	

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

II

FY2020

Earnings Forecast

Consolidated Earnings Forecast FY2020

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- Revised FY2020 Earnings Forecast after incorporating the disaster loss and insurance income, for the torrential rain hitting Tanoura Plant (Ashikita-machi, Ashikita-gun, Kumamoto) in July 2020, as extraordinary loss/income.

(Millions of yen)

	Previous Forecast August 5			Updated Forecast for FY 2020			YoY Change	% Change
	1H	2H	Full year	1H	2H	Full year		
Net sales	93,738	96,262	190,000	93,738	96,262	190,000	0	—
Operating income	5,817	283	6,100	5,817	283	6,100	0	—
Ordinary income	5,163	▲163	5,000	5,163	▲163	5,000	0	—
Net Income attributable to owners of the parent company	2,158	▲1,158	1,000	2,158	▲1,658	500	▲500	▲50.0%
ROS	6.2%	0.3%	3.2%	6.2%	0.3%	3.2%	—	—
ROIC	—	—	—	—	—	—	—	—
ROE	—	—	0.5%	—	—	0.3%	—	—

Group companies

- Consolidated subsidiaries: 35
- Equity method affiliates: 2

Average exchange rates:

- USD1=¥106 , EUR1=¥119

Net Sales and Operating Income Forecast by Segment

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(Millions of yen)

		Previous Forecast August 5			Updated Forecast for FY 2020			YoY Change	% Change	
		1H	2H	Full year	1H	2H	Full year			
Net Sales			93,738	96,262	190,000	93,738	96,262	190,000	-	-
	Graphite Electrodes		20,927	16,172	37,100	20,927	16,172	37,100	-	-
	Carbon Black		32,630	29,069	61,700	32,630	29,069	61,700	-	-
	Fine Carbon		15,544	14,555	30,100	15,544	14,555	30,100	No revision for Net Sales	-
	Smelting and Lining		12,900	23,399	36,300	12,900	23,399	36,300		-
	Industrial Furnaces and Related Products		6,390	8,310	14,700	6,390	8,310	14,700		-
	Other Operation	Friction materials	3,175	2,925	6,100	3,175	2,925	6,100		-
		Anode materials	2,097	1,803	3,900	2,097	1,803	3,900		-
		Others	71	28	100	71	28	100	-	
Total Others		5,344	4,756	10,100	5,344	4,756	10,100	-	-	
Operating Income		5,817	283	6,100	5,817	283	6,100	-	-	
Graphite Electrodes		1,522	▲5,222	▲3,700	1,522	▲5,222	▲3,700	-	-	
Carbon Black		▲108	309	200	▲108	309	200	No revision for Operating Income	-	
Fine Carbon		3,484	2,516	6,000	3,484	2,516	6,000		-	
Smelting and Lining		▲238	1,939	1,700	▲238	1,939	1,700		-	
Industrial Furnaces and Related Products		1,659	1,740	3,400	1,659	1,740	3,400		-	
Others		233	▲234	0	233	▲234	0		-	
Inter-segment eliminations		▲734	▲765	▲1,500	▲734	▲765	▲1,500	-	-	

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	Jan-Sep 2019	Jan-Sep 2020	YoY Change	Location /Business	Remarks
Tokai ErftCarbon	22,917	9,653	▲13,263	Germany Graphite Electrodes	
Tokai Carbon GE	29,334	10,930	▲18,404	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	14,107	8,444	▲5,662	Thailand Carbon Black	
Tokai Carbon CB	35,329	22,306	▲13,023	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	5,231	4,178	▲1,052	Canada Carbon Black	
Tokai Carbon Korea	12,161	15,134	+2,972	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	4,511	21,724	+17,213	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

Key Indicators

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	f=forecast (Millions of yen)				
	2016	2017	2018	2019	2020f
Net Sales	88,580	106,252	231,302	262,028	190,000
Operating Income	1,131	11,093	73,065	54,344	6,100
EBITDA	9,627	18,201	85,374	77,053	32,000
Net income Attributable to Owners of the Parent Company	▲7,929	12,346	73,393	31,994	500
ROS (%)	1.3%	10.4%	31.6%	20.7%	3.2%
ROE (%)	▲6.8%	10.4%	46.8%	16.0%	0.3%
ROIC (%)	0.7%	7.7%	29.6%	13.1%	-
Capital Investment	6,013	4,282	11,794	24,341	35,000
Depreciation and Amortization	8,124	6,647	10,390	18,503	20,000
R&D Expenses	2,249	1,482	1,883	2,460	3,000
Interest bearing liabilities	17,048	16,144	49,710	148,030	-
Net D/E ratio	0.0	0.0	0.0	0.5	-
Adjusted Net D/E ratio	0.0	0.0	0.0	0.3	-
Number of Employees	1,980	2,142	2,944	3,714	-
Exchange Rate (JPY/USD)	108.85	112.19	110.43	109.05	106.00

※EBITDA =Operating income + Depreciation + Goodwill amortization

Quarterly Segment Results by Segment

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f=forecast (Millions of yen)

		2019					2020				
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4f	Full year(f)
Net Sales		68,838	70,338	59,448	63,404	262,028	52,790	40,948	50,885	45,377	190,000
Graphite Electrodes		27,540	29,511	15,971	18,294	91,317	11,460	9,467	9,354	6,818	37,100
Carbon Black		27,308	27,286	25,763	21,391	101,751	21,030	11,600	17,769	11,300	61,700
Fine Carbon		8,296	7,664	7,286	7,122	30,369	7,825	7,718	8,038	6,517	30,100
Smelting and Lining		—	—	4,511	10,151	14,662	6,652	6,248	10,307	13,092	36,300
Industrial Furnaces and Related Products		2,212	2,801	3,194	4,432	12,641	3,242	3,147	2,817	5,493	14,700
Other Operations	Friction materials	2,030	1,886	1,857	1,706	7,480	1,639	1,535	1,440	1,485	6,100
	Anode materials	1,413	1,151	827	269	3,661	903	1,193	1,121	682	3,900
	Others	36	36	36	35	144	35	35	35	-	100
	Total Others	3,480	3,073	2,721	2,011	11,286	2,579	2,765	2,597	2,160	10,100
Operating Income		21,226	19,215	8,129	5,773	54,344	6,750	▲932	1,587	▲1,304	6,100
Graphite Electrodes		15,423	15,917	4,921	3,126	39,388	2,131	▲609	▲1,204	▲4,018	▲3,700
Carbon Black		3,424	2,262	2,282	542	8,512	1,741	▲1,850	756	▲447	200
Fine Carbon		1,905	1,549	1,463	1,188	6,107	1,919	1,564	1,520	996	6,000
Smelting and Lining		—	▲972	▲1,123	494	▲1,600	175	▲414	237	1,702	1,700
Industrial Furnaces and Related Products		586	762	806	1,072	3,227	868	790	658	1,082	3,400
Other Operations		166	33	82	▲303	▲21	242	▲9	▲45	▲189	0
Inter-segment eliminations		▲279	▲339	▲304	▲347	▲1,270	▲330	▲404	▲336	▲429	▲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.

IR contact:
General Affairs Department TC-IR@tokaicarbon.co.jp



Building a Future of Technology and Trust
TOKAI CARBON CO., LTD.