



Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2020 [Japanese GAAP]

November 4, 2020

Company name: Tokai Carbon Co., Ltd. Listed on: Tokyo Stock Exchange
 Stock code: 5301 URL <https://www.tokaicarbon.co.jp/>
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 Scheduled date for submission of quarterly report : November 13, 2020
 Date for commencement of dividend payments : —
 Supplementary notes to quarterly financial statements : Yes
 Briefing on quarterly financial statements : Yes (Conference call for analysts and institutional investors)

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2020 (January 1 to September 30, 2020)

(1) Consolidated Operating Results

(Percentage figures represent 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, 2020	144,623	(27.2)	7,404	(84.8)	6,157	(87.2)	1,018	(96.7)
Nine months ended September 30, 2019	198,624	27.8	48,571	(3.2)	48,136	(5.6)	30,485	(48.2)

Note: Comprehensive income: Nine months ended September 30, 2020 (5,441) million yen [-%]
 Nine months ended September 30, 2019 20,148 million yen [(65.1)%]

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
Nine months ended September 30, 2020	4.78	-
Nine months ended September 30, 2019	143.02	-

Note: At the end of the previous fiscal year, the Company finalized the provisional accounting treatment related to the business combination with Tokai COBEX HoldCo GmbH. Figures for the nine months ended September 30, 2019 have been adjusted to reflect the finalized provisional accounting treatment.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital-to-asset Ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	448,916	218,630	43.9
As of December 31, 2019	462,872	232,975	45.8

For reference: Shareholders' capital: As of September 30, 2020 196,986 million yen
 As of December 31, 2019 211,838 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, 2019	-	24.00	-	24.00	48.00
Fiscal year ending December 31, 2020	-	15.00	-		
Fiscal year ending December 31, 2020 (Forecast)				15.00	30.00

Note: Amendment to most recently disclosed dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2020 (January 1 to December 31, 2020)

(Percentage figures 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	190,000	(27.5)	6,100	(88.8)	5,000	(90.6)	500	(98.4)	2.35

Note: Amendment to most recently disclosed earnings forecast: Yes

* Notes:

- (1) Changes in significant subsidiaries during the period
(changes in specific subsidiaries accompanying changes in the scope of consolidation) : Yes
Newly added: Tokai Carbon Savoie SAS; Excluded: None
Note: For details, please see page 11 of the Supplemental Materials (2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Business Combination)).

- (2) Application of accounting principles peculiar 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, 2020	224,943,104 shares	As of December 31, 2019	224,943,104 shares
(b) Number of treasury stock at the end of the period	As of September 30, 2020	11,770,771 shares	As of December 31, 2019	11,790,987 shares
(c) Average number of shares during the period	Nine months ended September 30, 2020	213,164,282 shares	Nine months ended September 30, 2019	213,153,169 shares

- * Quarterly financial results are not subject to quarterly review 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 Quarterly Account Settlement Supplementary Explanation)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Thursday, November 5, 2020.

The materials for this briefing will be posted on the corporate website on that day.

○ Supplemental Materials

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1. Qualitative Information Related to This Quarter's Settlement

(1) Explanation regarding quarterly operating results

During the first nine months of 2020 (January 1 to September 30, 2020), the global economy saw extremely sluggish production and consumption activities due to the effects of the novel coronavirus (COVID-19). Countries, including China, which resumed its economic activities earlier than other countries, are continuously struggling to maintain and expand social and economic activities amid efforts to prevent the spread of COVID-19. However, as COVID-19 continues to spread in many countries and regions, the global economic outlook for the year under review remains unclear.

The Tokai Carbon Group has conducted business activities in accordance with the medium-term management plan "T-2022," a rolling plan extending from 2020 through 2022, announced in February 2020, but has been forced to report a decline in earnings in our main businesses of Graphite Electrodes and Carbon Black due to decreased demand from respective end-users of the steel and tire industries. The Group has also been continuously taking measures, including group-wide investment restraint, reduction of inventories, improvement of productivity, and reduction of expenses, because its earnings have not recovered on a full-scale basis despite the pursuit of growth opportunities through investment in strategic areas, including the acquisition of Carbone Savoie International SAS, a French carbon and graphite products manufacturer.

As a result, for the first nine months of 2020, net sales fell 27.2% year on year to 144,623 million yen. Operating income declined 84.8% year on year to 7,404 million yen. Ordinary income declined 87.2% year on year to 6,157 million yen. Net income attributable to owners of the parent company declined 96.7% year on year to 1,018 million yen.

Results by business segment were as follows:

Graphite Electrodes

The global steel industry saw a decrease in operations due to steel market conditions that have continuously worsened since last year amid the global economic slowdown, spread of COVID-19, and other factors. The steel production bottomed out in April, and Company's production is currently on a recovery track. However, its Graphite Electrode sales volume decreased year on year. Operating income also decreased year on year due to worsening Graphite Electrode market conditions and rising cost rates caused by a production adjustment.

As a result, net sales for the Graphite Electrodes business were down 58.5% year on year to 30,282 million yen, while operating income fell 99.1% year on year to 318 million yen.

Carbon Black

Due to significantly stagnant corporate activities caused by the spread of COVID-19, including those of end-users in the tire industry, sales volume of the Company declined year on year. Moreover, due mainly to declines in sales prices and higher cost rates associated with production adjustments, operating income decreased year on year.

As a result, net sales for the Carbon Black business decreased by 37.3% year on year to 50,400 million yen, while operating income fell 91.9% year on year to 648 million yen.

Fine Carbon

Shipments remained strong for the semiconductor industry and solar power industry, but dropped for general industry due to production corrections by customers associated with the spread of COVID-19. On the other hand, shipments of solid SiC (silicon carbide) products, which are high value-added products, increased amid globally strong demand.

As a result, net sales for the Fine Carbon business rose 1.4% year on year to 23,582 million yen, while operating income increased by 1.7% year on year to 5,004 million yen.

Smelting and Lining

Following the conversion of Tokai COBEX HoldCo GmbH (the former COBEX HoldCo GmbH), a German carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 26, 2019, the Company established the Smelting and Lining Division as a new business segment. In addition, the Company converted Tokai Carbon Savoie International SAS (the former Carbone Savoie International SAS), a French carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 17, 2020, and added them to this segment. This segment is mainly engaged in manufacturing, sales, and R&D of cathodes for smelting aluminum, furnace linings, carbon electrodes, and other products.

As the aluminum market saw sluggish prices as it was affected by the global economic slowdown, shipments of aluminum smelting cathodes fell amid decreased demand for replacing aluminum smelting pots. On the other hand, shipments of furnace linings, which are used for linings of blast furnaces, remained solid due to strong demand for replacing them in China.

As a result, net sales for the Smelting and Lining business were 23,208 million yen, while operating loss was 1 million yen after deducting 7,360 million yen for amortization related to a valuation difference arising from the allocation of acquisition cost, amortization of goodwill, and others.

Industrial Furnaces and Related Products

Net sales of industrial furnaces increased year on year due to robust capital expenditures for major buyers in the IT-related sectors and energy-related industries. Net sales of heating elements and other products decreased year on year, resulting from falling demand for products for the electronic components industry and the Chinese glass industry, due to the global economic slowdown associated with the spread of COVID-19.

As a result, net sales for the Industrial Furnaces and Related Products business rose 12.2% year on year to 9,207 million yen, while operating income increased by 7.5% year on year to 2,317 million yen.

Other Operations

Friction materials

In addition to a decrease in sales due to the exit from the four-wheel automotive business, the spread of COVID-19 affected the markets for construction machinery, agricultural machinery and two-wheeled vehicles.

As a result, net sales of friction materials fell by 20.1% year on year to 4,615 million yen.

Anode materials

As competition was intensified by rising new players in the anode materials market, sales volume of the Company decreased year on year.

As a result, net sales of anode materials fell by 5.1% year on year to 3,218 million yen.

Others

Net sales from real estate leasing and other businesses fell 2.0% year on year to 106 million yen.

The above factors resulted in net sales for Other Operations falling by 14.4% year on year to 7,941 million yen, and operating income falling by 33.2% year on year to 188 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Previous fiscal year (As of December 31, 2019)	Third quarter of the fiscal year under review (As of September 30, 2020)
Assets		
Current assets		
Cash and cash equivalents	52,695	58,154
Notes and accounts receivable	50,648	37,712
Merchandise and finished goods	20,227	15,384
Work in process	35,116	34,027
Raw materials and supplies	31,036	23,921
Other	6,971	5,772
Allowance for doubtful accounts	(248)	(207)
Total current assets	196,446	174,766
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	23,092	25,077
Machinery, equipment and vehicles, net	42,139	48,495
Furnaces, net	4,700	8,309
Land	7,315	7,598
Construction in progress	17,792	22,818
Other, net	6,302	7,226
Total tangible fixed assets	101,343	119,526
Intangible fixed assets		
Software	1,728	2,061
Goodwill	64,543	62,160
Customer-related assets	67,494	62,389
Other	8,200	7,687
Total intangible fixed assets	141,966	134,298
Investments and other assets		
Investment securities	18,842	15,912
Net defined benefit asset	2,633	2,512
Deferred tax assets	997	1,214
Other	693	736
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	23,115	20,325
Total fixed assets	266,425	274,150
Total assets	462,872	448,916

(Millions of yen)

	Previous fiscal year (As of December 31, 2019)	Third quarter of the fiscal year under review (As of September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable	24,857	12,459
Electronically recorded obligations	4,078	2,772
Short-term loans payable	37,530	2,941
Commercial paper	30,000	40,000
Current portion of long-term loans payable	833	7,285
Income tax payable	3,658	2,026
Consumption taxes payable	359	—
Accrued expenses	2,813	3,060
Reserve for bonuses	1,550	2,066
Other	11,859	14,664
Total current liabilities	117,541	87,277
Long-term liabilities		
Bonds payable	35,000	55,000
Long-term loans payable	44,666	53,677
Deferred tax liabilities	21,431	21,033
Net defined benefit liability	6,246	7,159
Reserve for directors' retirement benefits	86	79
Reserve for executive officers' retirement benefits	66	73
Provision for environment and safety measures	296	455
Other	4,561	5,529
Total long-term liabilities	112,355	143,008
Total liabilities	229,896	230,286
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	17,333	17,338
Retained earnings	173,310	166,016
Treasury stock	(7,260)	(7,248)
Total Shareholders' equity	203,819	196,543
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	8,415	6,404
Deferred gains or losses on hedges	34	(98)
Foreign currency translation adjustments	(1,671)	(6,834)
Remeasurements of defined benefit plans	1,239	971
Total accumulated other comprehensive income	8,019	443
Non-controlling interests	21,137	21,643
Total net assets	232,975	218,630
Total liabilities and net assets	462,872	448,916

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of 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, 2019)	First nine months of the fiscal year under review (January 1 to September 30, 2020)
Net sales	198,624	144,623
Cost of sales	122,572	106,100
Gross profit	76,051	38,522
Selling, general and administrative expenses	27,480	31,117
Operating income	48,571	7,404
Non-operating income		
Interest income	226	156
Dividend income	370	343
Equity in income of non-consolidated subsidiaries and affiliates	71	112
Other	551	553
Total non-operating income	1,220	1,166
Non-operating expenses		
Interest expenses	431	692
Foreign exchange losses	423	258
Other	800	1,462
Total non-operating expenses	1,655	2,413
Ordinary income	48,136	6,157
Extraordinary income		
Gain on sales of fixed assets	59	41
Gain on termination of retirement benefit plan	53	-
Gain on liquidation of subsidiaries and associates	23	-
Total extraordinary income	135	41
Extraordinary loss		
Loss on disaster	-	446
Loss on valuation of investment securities	-	117
Loss on sales of fixed assets	0	0
Loss on retirement of fixed assets	443	-
Total extraordinary loss	443	565
Quarterly net income before income taxes	47,828	5,633
Income taxes - current	15,589	4,227
Income taxes - deferred	144	(1,545)
Total income taxes	15,734	2,682
Quarterly net income	32,093	2,950
Quarterly net income attributable to non-controlling interests	1,608	1,932
Quarterly net income attributable to owners of the parent company	30,485	1,018

(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, 2019)	First nine months of the fiscal year under review (January 1 to September 30, 2020)
Quarterly net income	32,093	2,950
Other comprehensive income		
Net unrealized gains/losses on other securities	31	(2,013)
Deferred gains or losses on hedges	-	(132)
Foreign currency translation adjustments	(11,730)	(6,010)
Remeasurements of defined benefit plans	(249)	(268)
Share of other comprehensive income of entities accounted for using equity method	1	32
Total other comprehensive income	(11,945)	(8,392)
Quarterly comprehensive income	20,148	(5,441)
(Of which)		
Quarterly comprehensive income attributable to owners of the parent company	20,491	(6,556)
Quarterly comprehensive income attributable to non- controlling interests	(343)	1,114

(3) Notes to Quarterly Consolidated Financial Statements
(Notes on the Going-concern Assumption)

N/A

(Notes When There Are Notable Fluctuations in Shareholders' equity Amount)

N/A

(Additional Information)

There are no material changes in the assumptions described in the Second Quarter Report (Additional Information), including those related to COVID-19 (e.g., future spread and end date)

(Segment Information)

I First nine months of the previous fiscal year (January 1 to September 30, 2019)

1. Information on the amounts of net sales and income (loss) for each 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	73,023	80,359	23,246	4,511	8,208	189,349	9,275	198,624	-	198,624
Inter-segment sales or transfers	13	54	88	-	469	626	0	626	(626)	-
Subtotal	73,036	80,413	23,335	4,511	8,678	189,975	9,275	199,250	(626)	198,624
Segment income (loss)	36,262	7,969	4,919	(2,095)	2,155	49,211	282	49,494	(922)	48,571

- Notes:
1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
 2. The 922-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 930 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 reportable segments.
 3. Segment income (loss) is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income
 4. Segment income (loss) is disclosed in the amount that reflects significant changes to the initial allocation of the acquisition cost due to the finalization of provisional accounting treatment stated in "Notes (Business Combination)."

2. Information on assets of each reportable segment

(Significant changes in assets through the acquisition of subsidiaries)

The Company acquired all the shares of Tokai COBEX HoldCo GmbH and its three group companies and included them in the scope of consolidation in the third quarter of the fiscal year under review. As a result, assets of the Smelting and Lining segment increased by 117,761 million yen compared to the end of the previous fiscal year.

These segment assets are disclosed in the amount that reflects significant changes to the initial allocation of the acquisition cost due to the finalization of provisional accounting treatment stated in "Notes (Business Combination)."

3. Information on impairment loss of fixed assets, or goodwill, etc. by reportable segment

(Important changes in the amount of goodwill)

The Company acquired all the shares of Tokai COBEX HoldCo GmbH and its three group companies and included them in the scope of consolidation as the Smelting and Lining business.

Goodwill increased by 39,496 million yen through the said acquisition for the first nine months of the fiscal year under review.

The said goodwill is disclosed in the amount that reflects significant changes to the initial allocation of the acquisition cost due to the finalization of provisional accounting treatment stated in "Notes (Business Combination)."

II First nine months of the fiscal year under review (January 1 to September 30, 2020)

Information on the amounts of net sales and income (loss) for each 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	30,282	50,400	23,582	23,208	9,207	136,682	7,941	144,623	-	144,623
Inter-segment sales or transfers	120	43	99	0	422	685	0	685	(685)	—
Subtotal	30,402	50,444	23,682	23,208	9,630	137,367	7,941	145,309	(685)	144,623
Segment income (loss)	318	648	5,004	(1)	2,317	8,287	188	8,476	(1,071)	7,404

- Notes:
1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
 2. The 1,071-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 1,038 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 reportable segments.
 3. Segment income (loss) is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income

(Business Combination)

Important review of the initially allocated acquisition cost that is reflected in comparative information

The accounting treatment that we used provisionally for the nine months ended September 30, 2019 in connection with the business combination with Tokai COBEX HoldCo GmbH on July 26, 2019 was finalized at the end of the previous fiscal year.

Accordingly, an important review of the initially allocated acquisition cost is reflected in the comparative information included in the quarterly consolidated financial statements for the first nine months of the fiscal year under review. As a result of mainly allocating 40,657 million yen to customer-related assets, which are intangible fixed assets, 1,949 million yen to technology-related assets, 2,156 million yen to inventories, and 8,905 million yen to deferred tax liabilities, the provisionally calculated amount of goodwill (i.e. 75,337 million yen) decreased by 35,841 million yen to 39,496 million yen.

In addition, the quarterly consolidated statements of income for the first nine months of the previous fiscal year mainly show increased cost of sales and depreciation and decreased amortization of goodwill. As a result, operating income, ordinary income and quarterly net income before income taxes decreased by 850 million yen, respectively.

Business combination through acquisition

In accordance with the agreement entered into on July 17, 2020 that allows the Company and its subsidiary, Tokai COBEX GmbH, to jointly acquire all the shares of Carbone Savoie International SAS (“CSI”) held by Alandia Industries and to make CSI a subsidiary of the Company, the Company completed the share acquisition on the same date (July 17, 2020), as follows. CSI and its subsidiary are currently the Company’s consolidated subsidiaries.

1. Outline of business combinations

(1) Name and business description of acquired company

Name of acquired company Carbone Savoie International SAS

Business description Production, sales and R&D of cathodes, specialty graphite products and carbon

(2) Main reasons for completing the business combination

Our 3-year medium-term management plan “T-2022,” announced in February 2020, lays out the growth policy by utilizing strategic investment in existing and complementary businesses.

CSI and its group company Carbone Savoie SAS (“CS”) are based in France and have a history and tradition of more than 120 years. The companies offer high-performance, high-quality graphitized cathodes and specialty graphite materials backed by their high technology and good customer relations based on trust and achievements. CS’s core cathodes business for aluminum smelting is expected to achieve stable growth as the aluminum market, the end market of cathode business, is likely to continue growing steadily due to factors such as the continuous demand for light-weight materials in the transportation equipment sectors including those for automobiles and airplanes, the growing demand for aluminum amid the ongoing urbanization, the increase in utilization of aluminum for beverage containers and the substitute demand instead of copper in the electronics sector. In the business of specialty graphite materials, CS mainly deals in materials for heat exchangers and high temperature applications, and this market is also expected to continue to see solid growth of demand.

Through the acquisition, we aim to grow our Smelting and Lining business and Fine Carbon business, improve profitability, and diversify our portfolio. We believe that this will lead to further increase in our corporate value.

(3) Date of business combination

July 17, 2020

(4) Legal form of business combination

Share acquisition in cash

(5) Name of company after the business combination

Tokai Carbon Savoie International SAS

(6) Ratio of voting rights acquired

100%

- (7) Main grounds for determining the acquiring company
- The Company is the acquiring company because it acquired 100% of the voting rights of CSI by jointly acquiring them with its consolidated subsidiary, Tokai COBEX GmbH, through the share acquisition in cash.
2. Period of the acquired company's business performance that is included in the quarterly consolidated statements of income for the applicable cumulative period
- The deemed acquisition date is July 31, 2020, and therefore, the performance for the period from August 1 to September 30, 2020 was included.
3. Breakdown of the cost of acquiring the acquired company and consideration paid by type
- | | | |
|-------------------------------|------|--------------------------------------|
| Consideration for acquisition | Cash | JPY 20,279 million (EUR 166 million) |
| Acquisition cost | | JPY 20,279 million (EUR 166 million) |
4. Contents and amounts of main acquisition-related expenses
- Remuneration, fees, etc. for advisers and others: 609 million yen
5. Amount of goodwill posted, how goodwill arose, and amortization method and period
- (1) Amount of goodwill posted
- JPY 3,077 million (EUR 25,195 thousand)
- The amount described above is a provisionally calculated amount because the acquisition cost had yet to be allocated completely at the end of the third quarter of the fiscal year under review.
- (2) How goodwill arose
- Goodwill arose as expected excess earning power obtainable mainly through future business development.
- (3) Amortization method and period
- Straight-line amortization over a period of 17 years