

Q1 FY2021 Earnings Presentation

2021/5/11



TOKAI CARBON CO., LTD.

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I

Q1 FY2021

Financial Summary

Business Environment and Events

- Although sales and profits declined YoY, mainly due to a significant decline in graphite electrode business, the global economy is recovering at a faster pace than expected. Our overall business performance is on a recovery trend from Q3 FY2020.
- On the other hand, there are emerging risk factors as re-expansion of COVID-19 and the disruption of marine transportation due to the shortage of containers.
- The steel industry, linked to graphite electrode business, is expected to take some time for a full-fledged recovery but United States already shows a good sign of clear recovery in demand. Currently, with the completion of inventory adjustment in the graphite electrode industries, our former 70% production cut has been eased.
- Carbon black business was partially affected by the cold wave in southern U.S. in February accompanied by power outage, but is currently in full operation due to the recovery in demand from the global automobile industry.
- Demand for fine carbon and industrial furnaces continues to be robust backed by the growth in the 5G and IoT markets. Components for semiconductor manufacturing equipment produced at Korean subsidiary led the good performance.
- Smelting and lining business recorded higher sales but declined in margin due to the sales mix of the product. The market is robust by growing aluminum production, higher carbon electrode demand from the recovery in silicon metal demand and strong demand of furnace linings for the blast furnace mainly in China.
- Along with the expanding European EV market and the demands of battery manufacturers, our French site will commence a production plan of anode material for LiB.

Summary of Consolidated Results

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- Net sales ¥54.0b, Operating income 4.1b, ROS 7.6%
- Net sales increased and Operating income declined YoY

(Millions of yen)

	Jan-Mar 2020	Jan-Mar 2021	YoY Change	%Change
Net sales	52,790	53,968	+1,178	+2.2%
Operating income	6,750	4,077	▲2,673	▲39.6%
Ordinary income	6,573	3,999	▲2,574	▲39.2%
Net income attributable to owners of the parent company	4,583	1,968	▲2,615	▲57.1%

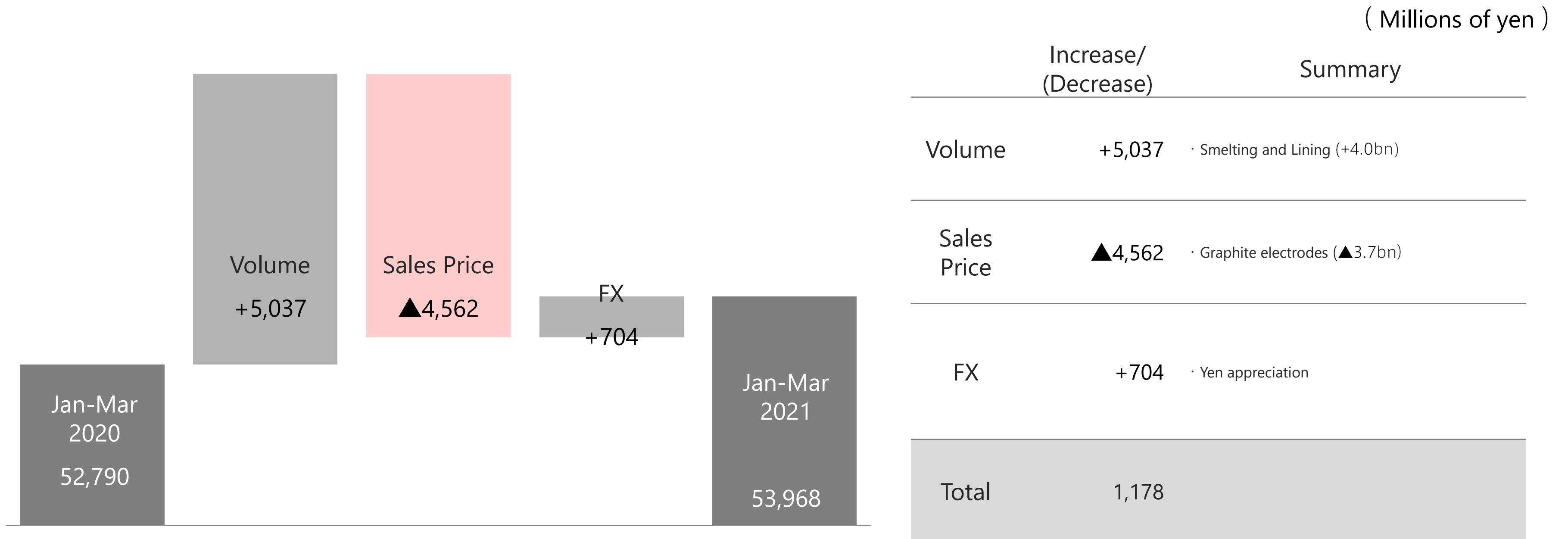
Group companies (As of March 31, 2021)

- Consolidated subsidiaries: 34
- Equity method affiliates: 2

Average exchange rates:

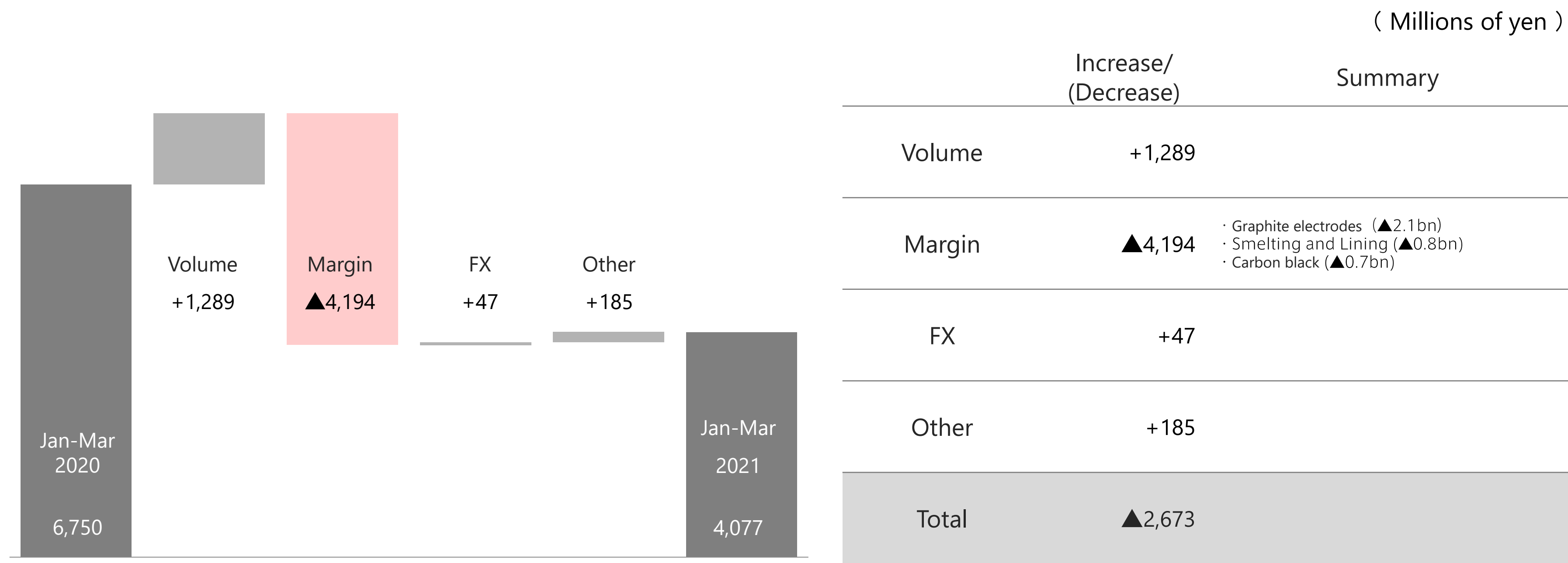
- 2020 USD1= ¥108.92
 EUR1= ¥120.11
- 2021 USD1= ¥105.90
 EUR1= ¥127.69

- Net sales increased 2.2% YoY
- Tokai Carbon Savoie (France) of Smelting and Lining business contributed from August 2020
- Sales decline for the Graphite Electrode business due to lower pricing YoY



YoY Analysis: Operating Income

- Operating income declined 39.6% YoY mainly due to the decline in margin of Graphite Electrode business



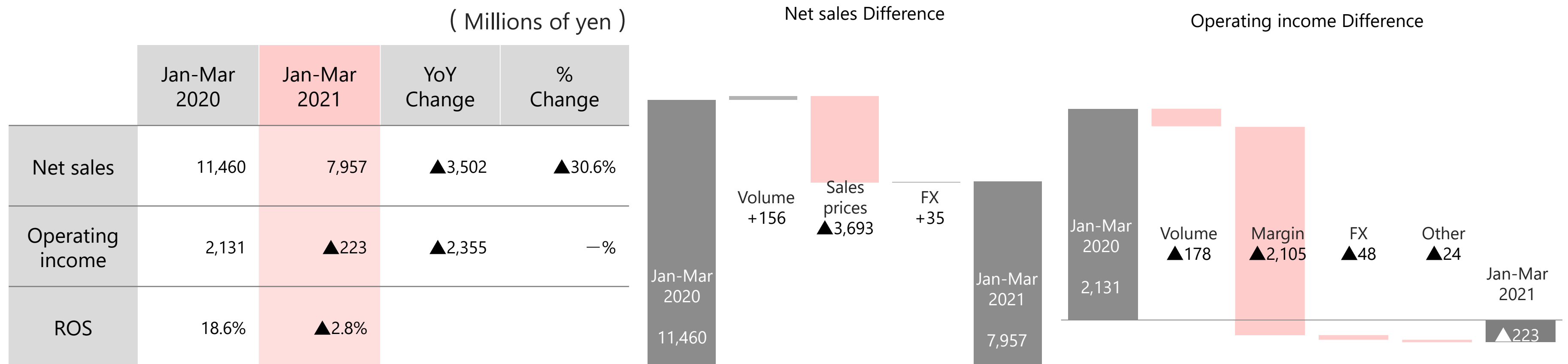
Net Sales and Operating Income by Segment

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(Millions of yen)

		Net sales			Operating income		
		Jan-Mar 2020	Jan-Mar 2021	YoY Change	Jan-Mar 2020	Jan-Mar 2021	YoY Change
Graphite Electrodes		11,460	7,957	▲3,502	2,131	▲223	▲2,355
Carbon Black		21,030	21,595	+565	1,741	1,807	+65
Fine Carbon		7,825	8,826	+1,000	1,919	2,146	+226
Smelting and Lining		6,652	10,766	+4,114	175	42	▲133
Industrial Furnaces and Related Products		3,242	1,982	▲1,260	868	521	▲347
Other Operation	Friction materials	1,639	2,134	+494	—	—	—
	Anode materials	903	670	▲232	—	—	—
	Others	35	34	▲1	—	—	—
		2,579	2,839	+260	242	138	▲104
Inter segment eliminations		—	—	—	▲330	▲355	▲25
Total		52,790	53,968	+1,178	6,750	4,077	▲2,673

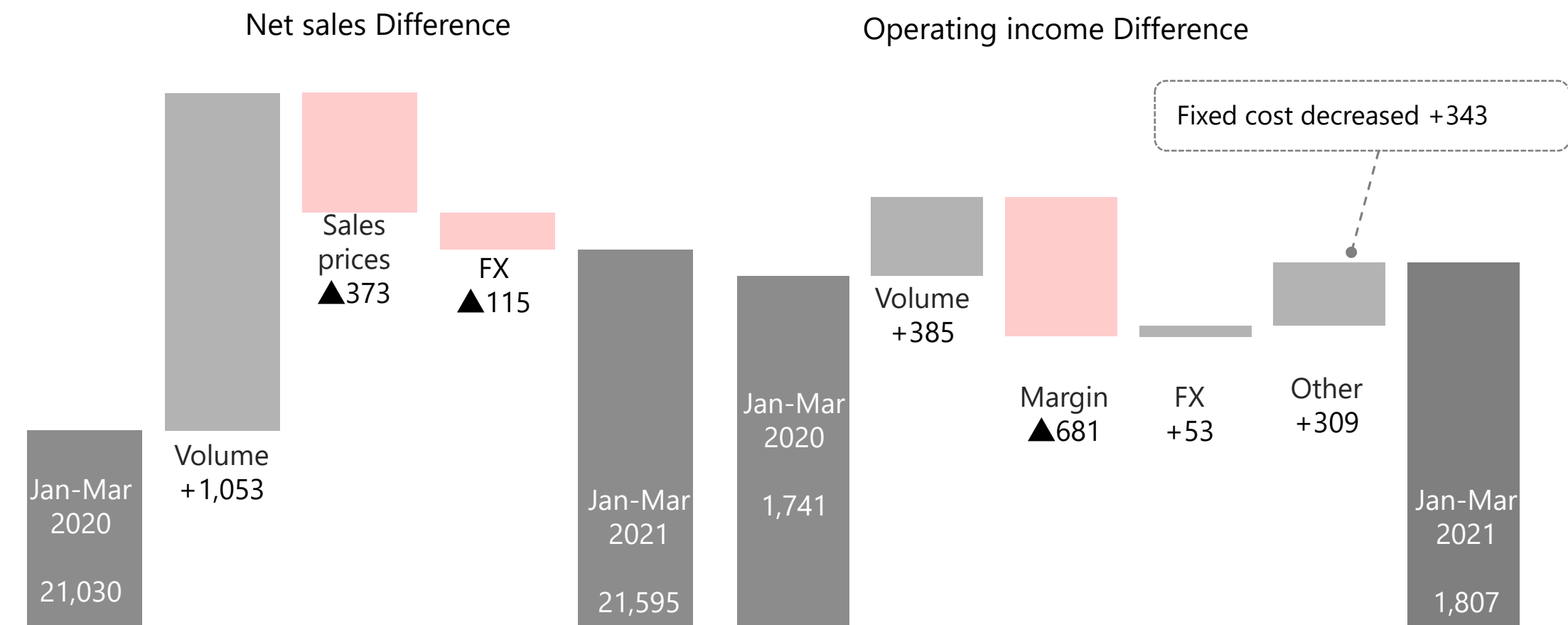
- The market inventory level along with new inquiries has been normalized for Graphite Electrode.
- Sales volume recovered to a level of Q1 FY2020. There are signs of reversal in sales prices although still at a lower level on a YoY basis. Recorded 223m operating loss.



- Net sales and Operating income increased YoY
- The cold wave in southern U.S. and power outage in February partially affected the operation in U.S., but recorded robust sales for the overall business due to the recovery in demand of the global automobile industry.

(Millions of yen)

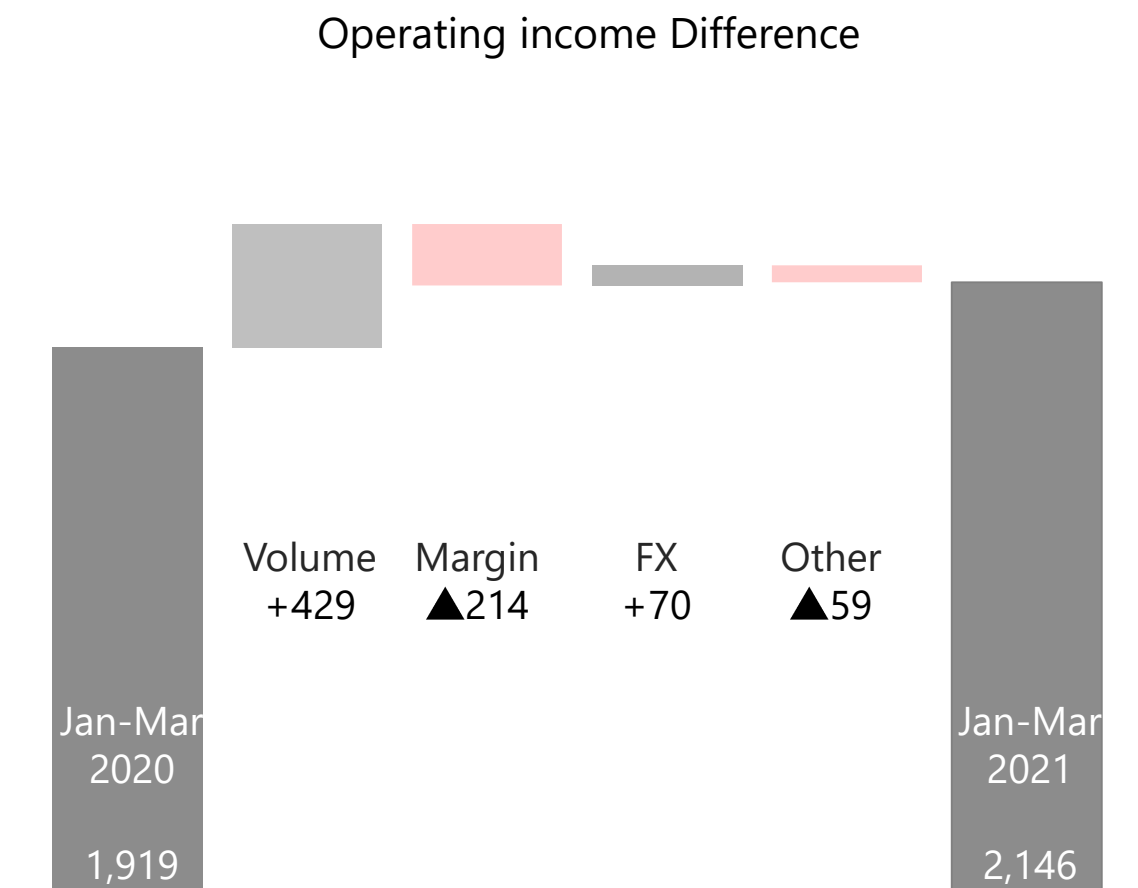
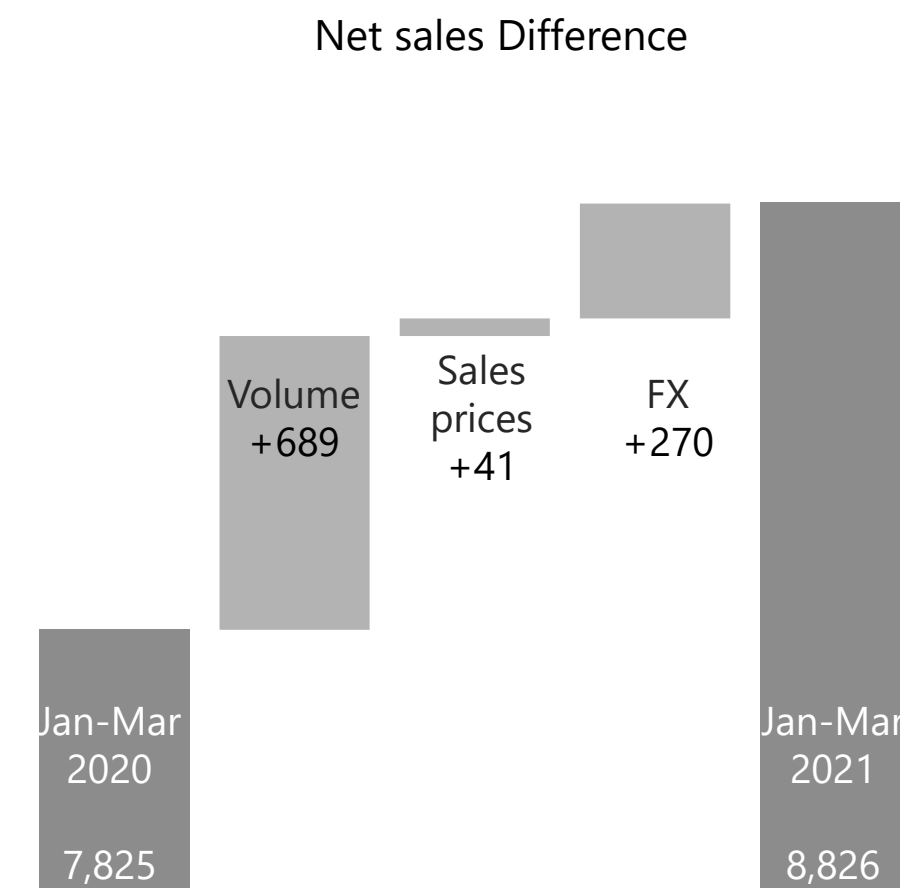
	Jan-Mar 2020	Jan-Mar 2021	YoY Change	% Change
Net sales	21,030	21,595	+565	+2.7%
Operating income	1,741	1,807	+65	+3.8%
ROS	8.3%	8.4%		



- Net sales and Operating income increased YoY
- The semiconductor and solar power generation markets remained strong
- The solid SiC (Silicon Carbide) focus ring, used in the etching process of the semiconductor production, lead the growth

(Millions of yen)

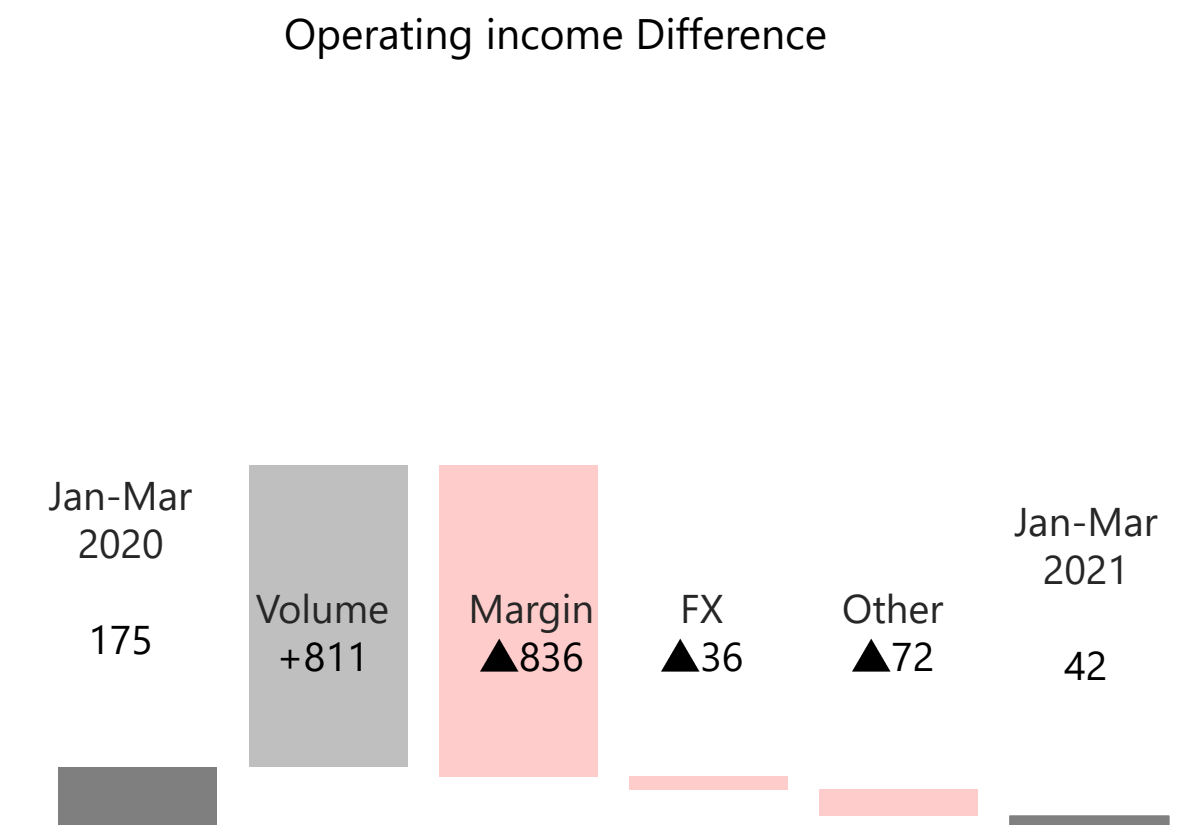
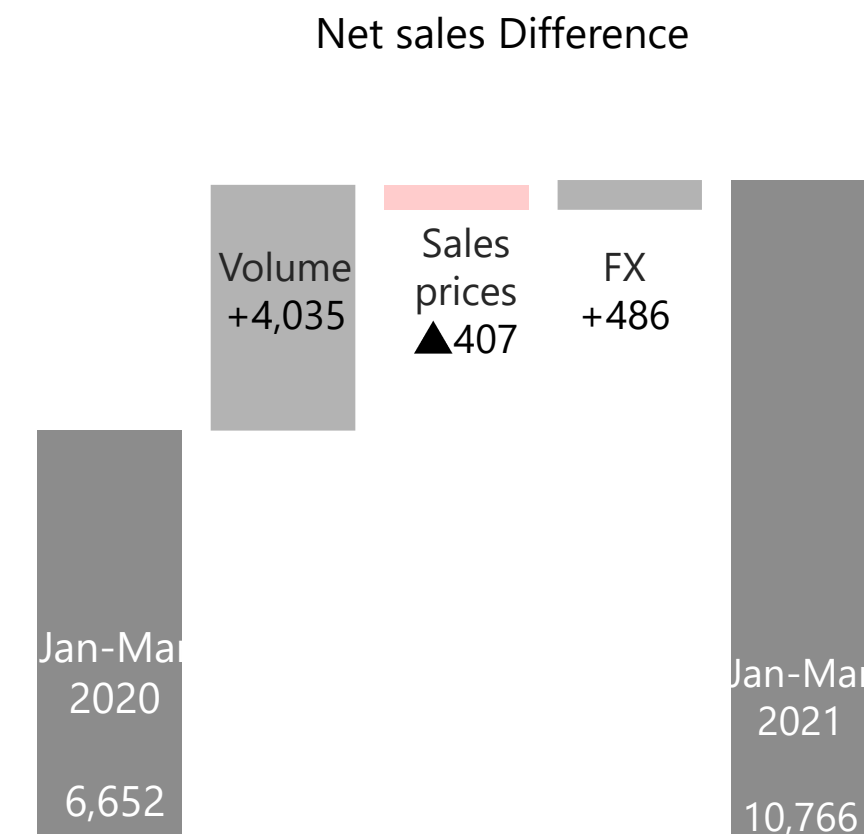
	Jan-Mar 2020	Jan-Mar 2021	YoY Change	% Change
Net sales	7,825	8,826	+1,000	+12.8%
Operating income	1,919	2,146	+226	+11.8%
ROS	24.5%	24.3%		



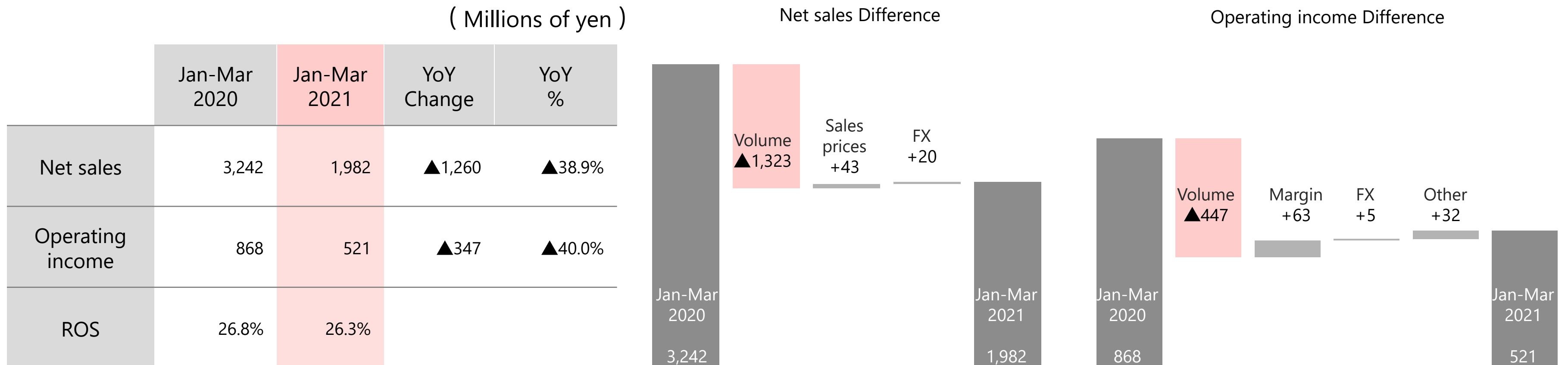
- Demand of aluminum market and re-lining of blast furnace, were stable due to recovery in Chinese economy and automobile production.
- Sales mix of the product lowered the margin on a YoY basis

(Millions of yen)

	Jan-Mar 2020	Jan-Mar 2021	YoY Change	YoY %
Net sales	6,652	10,766	+4,114	+61.8%
Operating income	175	42	▲133	▲75.7%
ROS	2.6%	0.4%		



- Industrial Furnace : Sales decline YoY, as shipments for key customers are from Q2 and beyond
- Ceramic heaters and others : Sales increase YoY. Continued robust demand from the electronic components industry and China.



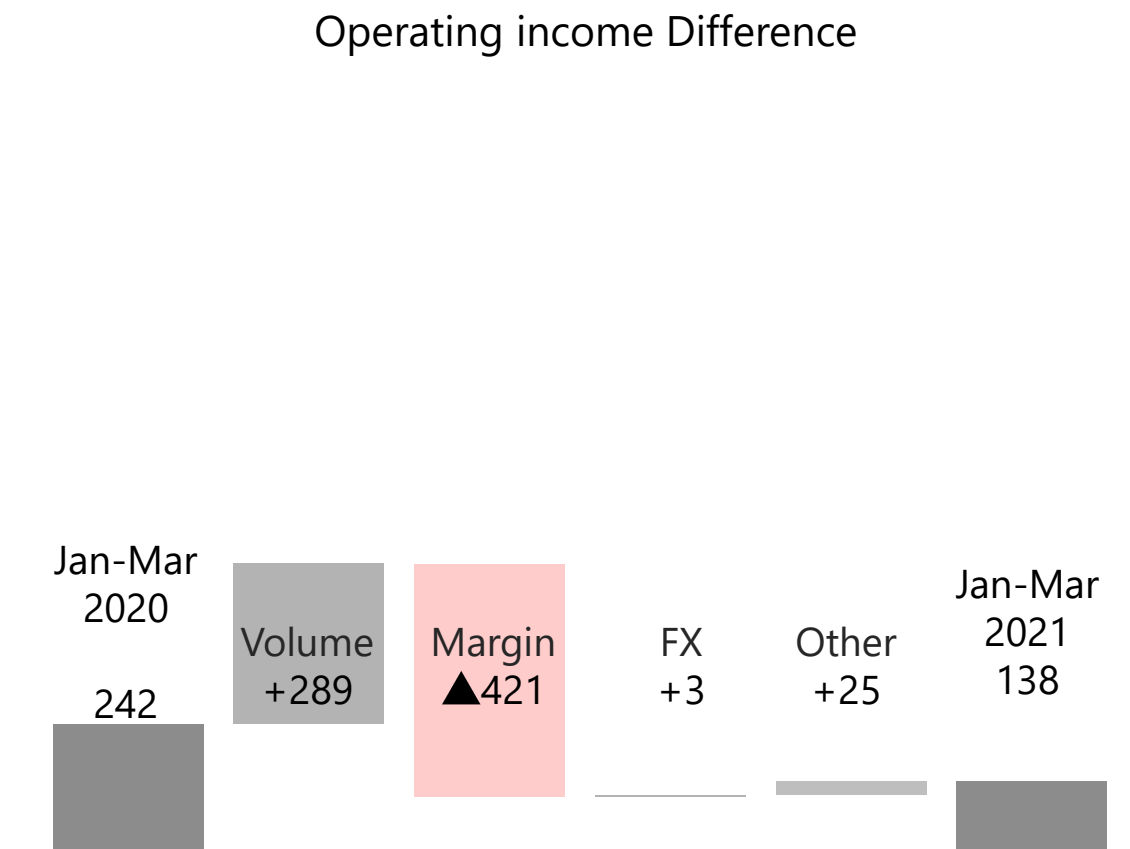
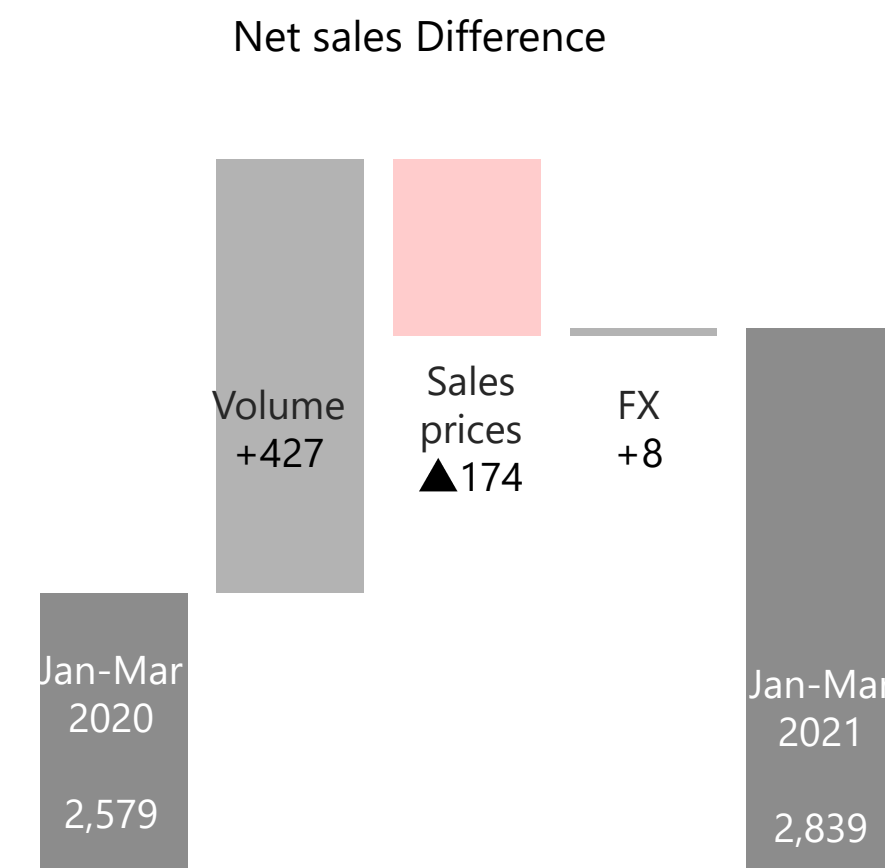
- Friction materials : Improved demand for construction and agriculture machinery, motorcycle and electromagnetic applications due to the recovery of the global economy

Net sales ¥2,134 million (+30.2% YoY)

- Anode materials : Lower sales volume YoY, due to a harsh competition with the new entrants

Net sales ¥670 million (▲ 25.8% YoY)

	(Millions of yen)			
	Jan-Mar 2020	Jan-Mar 2021	YoY Change	% Change
Net sales	2,579	2,839	+260	+10.1%
Operating income	242	138	▲104	▲43.0%
ROS	9.4%	4.9%		



Cash Flow (Reference)

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Major Cash Flow items

(Millions of yen)

	Jan-Mar 2020	Jan-Mar 2021	Note
Cash flows from operating activities	9,059	3,935	
Net income (loss) before income taxes	6,484	4,013	
Depreciation and amortization	4,951	5,318	
Amortization on goodwill	1,613	1,710	
Decrease (increase) in trade receivable	2,861	▲342	} · Working capital: ▲¥2,476 million (decrease ▲2,823 million YoY)
Decrease (increase) in inventories	3,198	▲2,367	
Increase (decrease) in accounts payable trade	▲8,883	233	
Income tax paid	▲1,165	▲4,630	
Cash flows from investing activities	▲6,488	▲9,654	· Free cash flow: ▲¥5,718 million (increase +2,570 million YoY)
Purchase of property, plant and equipment	▲6,314	▲7,476	
Acquisition of subsidiary	-	-	
Cash flows from financing activities	▲2,722	▲4,833	
Net increase (decrease) in short Term Loans payable)	2,502	▲1,434	
Bond issuance	-	-	
Payment of dividends	▲5,115	▲3,197	
Cash and cash equivalents at end of period	45,165	49,058	

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

Major Balance Sheet Items

(Millions of yen)

	December 31, 2020	March 31, 2021	Note
Total assets	459,709	475,308	
Current assets	177,678	178,499	
Cash and cash equivalents	67,174	60,034	
Notes and accounts receivable	41,438	42,859	· Cash/monthly sales: 3.3 times ((End of FY2020: 4.0 times)
Inventory	63,799	68,004	· Inventory: (+¥4,204 million from End of FY2020)
Fixed assets	282,031	296,809	· Tangible fixed assets: (+¥7,762 million from the end of FY2020)
Tangible fixed assets	125,007	132,770	· Intangible fixed assets:(+¥208 million from the end of FY 2020)
Intangible fixed assets	133,349	133,557	
Investments and other assets	23,674	30,481	
Total liabilities	234,894	237,805	· Interest bearing debt:+¥157,187 million (▲¥1,455 million from End of FY2020)
Current liabilities	92,656	95,336	· Direct funding ratio:60.4% (End of FY2020: 59.9%)
Long term liabilities	142,237	142,469	· Long term debt ratio: 65.4 % (End of FY2020: 67.3%)
			· Short term credit line:¥62 billion ¥4.0 billion executed
			· Liquidation of receivables and CP issuance limit:¥58 billion, ¥40 billion executed
Total net assets	224,815	237,503	
Shareholder's capital	196,543	195,313	· Capital to asset ratio: 44.7% (End of FY2020 43.8%)
Other accumulated Comprehensive income	4,723	17,110	· Adjusted Capital to asset ratio* :52,1% (End of FY2020: 51.4%)
Non controlling interests	23,548	25,078	· Net D/E ratio: 0.5 times (End of FY2020: 0.5 times)
			· Adjusted Net D/E ratio: 0.3 times (End of FY2020: 0.2 times)
Total liabilities and net assets	459,709	475,308	

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

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	Jan-Mar 2020	Jan-Mar 2021	YoY Change	Location /Business	Remarks
Tokai Erftcarbon	4,246	2,357	▲1,888	Germany Graphite Electrodes	
Tokai Carbon GE	3,431	3,461	+29	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	3,583	4,114	+530	Thailand Carbon Black	
Tokai Carbon Tianjin	617	1,101	+483	China Carbon Black	
Tokai Carbon CB	9,813	8,898	▲914	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	1,637	1,996	+358	Canada Carbon Black	
Tokai Carbon Korea	4,695	6,001	+1,305	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	6,652	8,189	+1,536	Germany Smelting and Lining	• Contributing to consolidated results from August 2019

Key Indicators

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	f=forecast (Millions of yen)				
	2017	2018	2019	2020	2021 (f)
Net Sales	106,252	231,302	262,028	201,542	227,900
Operating Income	11,093	73,065	54,344	7,858	18,100
EBITDA	18,201	85,374	77,053	35,262	47,000
Net income Attributable to Owners of the Parent Company	12,346	73,393	31,994	1,019	8,900
ROS (%)	10.4%	31.6%	20.7%	3.9%	7.9%
ROE (%)	10.4%	46.8%	16.0%	0.5%	4.5%
ROIC (%)	7.7%	29.6%	13.1%	1.6%	3.7%
Capital Investment	4,282	11,794	24,341	28,873	25,000
Depreciation and Amortization	6,647	10,390	18,503	20,890	22,000
R&D Expenses	1,482	1,883	2,460	2,682	3,000
Interest bearing liabilities	16,144	49,710	148,030	158,643	-
Net D/E ratio	0.0	0.0	0.5	0.5	-
Adjusted Net D/E ratio	0.0	0.0	0.3	0.2	-
Number of Employees	2,142	2,944	3,714	4,178	-
Exchange Rate (JPY/USD)	112.19	110.43	109.05	106.82	102

※EBITDA =Operation income + Depreciation + Goodwill amortization

Quarterly Segment Results

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f=forecast (Millions of yen)

		2020					2021				
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	H2 f	Full year	
Net Sales			52,790	40,948	50,885	56,919	201,542	53,968	49,832	124,100	227,900
	Graphite Electrodes		11,460	9,467	9,354	7,596	37,879	7,957	5,543	27,400	40,900
	Carbon Black		21,030	11,600	17,769	20,354	70,754	21,595	17,405	39,000	78,000
	Fine Carbon		7,825	7,718	8,038	8,192	31,775	8,826	6,974	17,900	33,700
	Smelting and Lining		6,652	6,248	10,307	13,213	36,421	10,766	10,034	24,800	45,600
	Industrial Furnaces and Related Products		3,242	3,147	2,817	4,665	13,873	1,982	7,218	9,100	18,300
	Other Operations	Friction materials	1,639	1,535	1,440	1,894	6,510	2,134	1,166	3,600	6,900
		Anode materials	903	1,193	1,121	967	4,186	670	1,430	2,200	4,300
		Others	35	35	35	34	141	34	66	100	200
Total Others		2,579	2,765	2,597	2,896	10,837	2,839	2,661	5,900	11,400	
Operating Income		6,750	▲932	1,587	453	7,858	4,077	523	13,500	18,100	
Graphite Electrodes		2,131	▲609	▲1,204	▲6,084	▲5,766	▲223	▲1,777	3,300	1,300	
Carbon Black		1,741	▲1,850	756	2,543	3,192	1,807	793	2,800	5,400	
Fine Carbon		1,919	1,564	1,520	1,642	6,647	2,146	154	3,400	5,700	
Smelting and Lining		175	▲414	237	1,163	1,161	42	158	2,000	2,200	
Industrial Furnaces and Related Products		868	790	658	1,447	3,765	521	1,479	2,400	4,400	
Other Operations		242	▲9	▲45	110	298	138	62	300	500	
Inter-segment eliminations		▲330	▲404	▲336	▲368	▲1,439	▲355	▲345	▲700	▲1,400	

- 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.
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- 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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TOKAI CARBON CO., LTD.