



# **First Quarter, FY 2017**

## **Analyst Meeting Material**

**First Quarter Results for the Year ending December 31, 2017**

May 9, 2017



**Tokai Carbon Co., Ltd.**

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# **I . First Quarter, FY 2017 Financial Summary**

# First Quarter, FY 2017 (January-March 2017)

## ■ Business Environment

- Carbon Black:** Robust order inquiries from tire manufacturers led to growth in sales volume as the offensive drive by Chinese carbon black manufactures to push exports weakened. The price of oil used as the raw material was increased as crude oil prices rose and the company raised carbon black sales prices in line with that.
- Graphite Electrodes:** The structural imbalance between supply and demand caused sales prices to decline from the first quarter of last year, despite recent signs of a turnaround in market prices. Efforts to reduce fixed costs during that period helped somewhat.
- Fine Carbon:** The imbalance between supply and demand persisted, but it was apparent that the decline in market prices had bottomed out with signs of a rebound in the solar power industry. The initial benefits from the business restructuring last year began to emerge from the first quarter of 2017.

## ■ Operating Trends

- Sales:** Sales rose 6.5% YoY due to volume growth in carbon black and graphite electrodes sold, among other factors.
- Operating income:** Operating income rose 219.3% YoY. This was due to the results achieved in reducing fixed costs and the fact that the one-time loss recorded during the first quarter of last fiscal year was not a factor in the current quarter, in addition to growth in volume sales.

## ■ Revision of Earnings Forecast (on May 9, 2017)

The previous forecasts (February 9) for net sales and operating income were revised upward. Carbon black growth drove the improvement.

# Summary of Consolidated Results

- Growth in carbon black sales volume and other factors resulted in growth in net sales.
- The increase in operating income was partially due to the lack of the one-off loss incurred in the fine carbon business during the first quarter of last fiscal year.

(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	22,643	24,104	+1,461	+6.5%
Operating Income	557	1,781	+1,223	+219.3%
Ordinary Income	526	2,014	+1,488	+282.6%
Net Income Attributable to Owners of the Parent Company	36	1,604	+1,568	(Major growth)

Group companies:

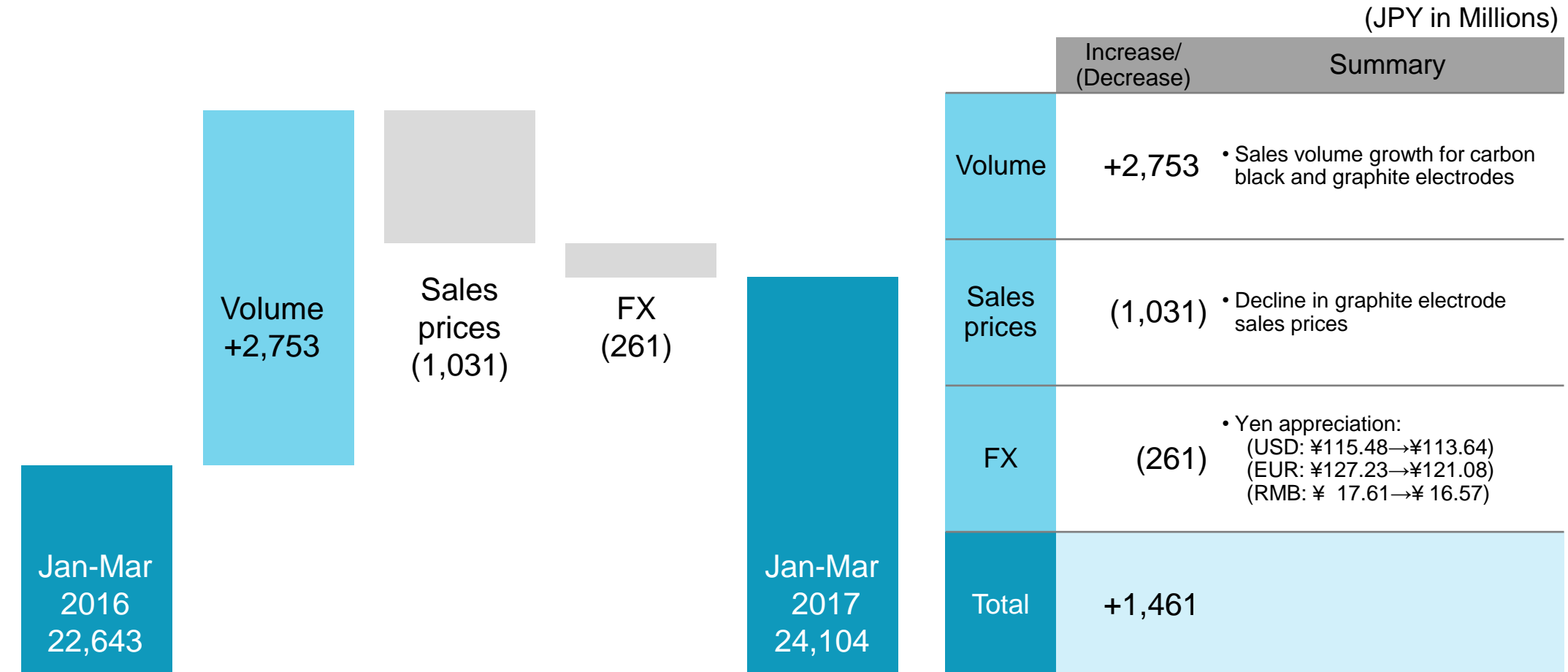
- Consolidated subsidiaries: 24
- Equity method affiliates: 5

Average exchange rate for the first quarter:

- 2016 \$1 = ¥115.48
- 2017 \$1 = ¥113.64

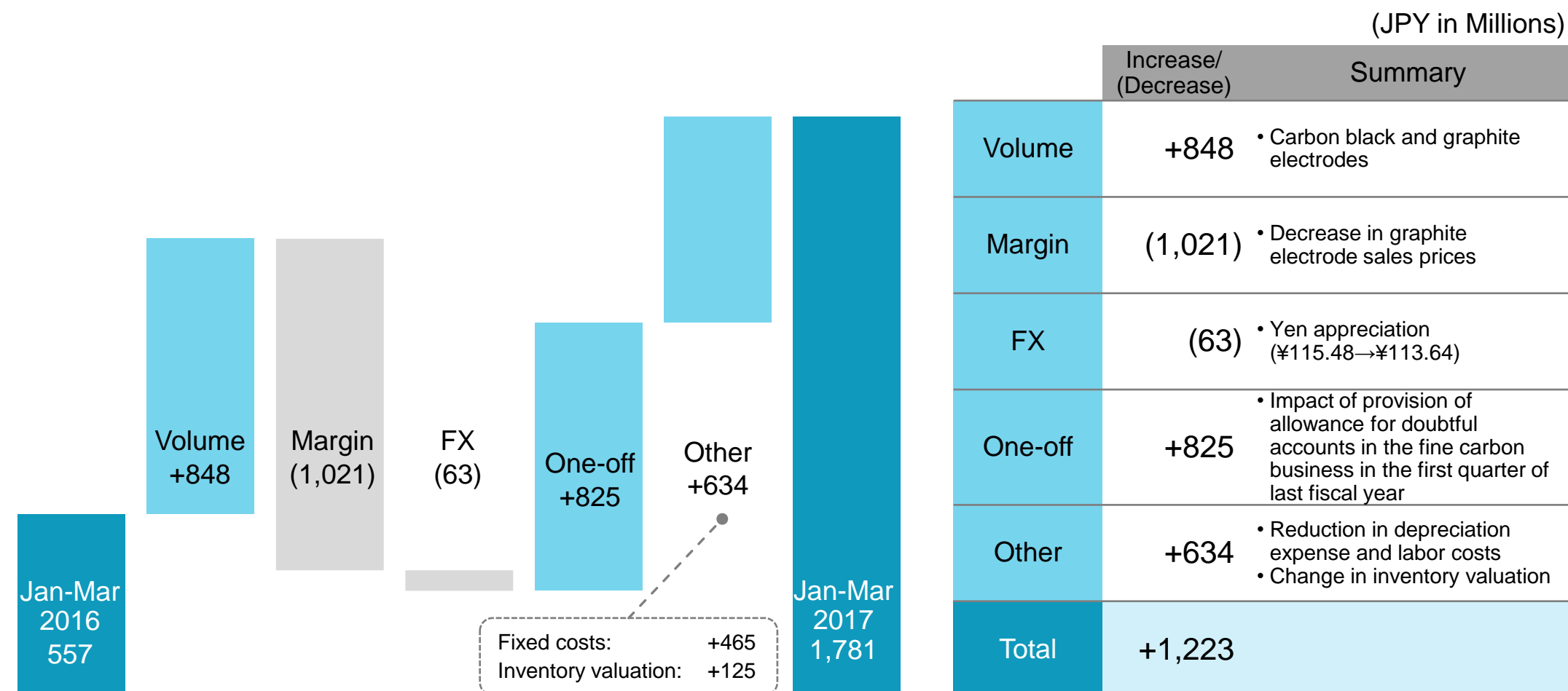
## YoY Analysis: Net Sales

- Net sales increased over the first quarter of last fiscal year due to growth in volume sales of carbon black and graphite electrodes segments. Part of this growth was negated by the decline in graphite electrode sales prices.



# YoY Analysis: Operating Income

- The decrease in graphite electrode sales prices caused the operating margin to shrink.
- The increase in operating income was caused by the absence of the one-off loss recorded in the first quarter of last fiscal year (in the fine carbon business), a reduction in fixed costs, and other factors.



# Net Sales and Operating Income by Segment

- Net sales: Net sales recorded YoY growth due to growth in volume sales of carbon black and other factors.
- Operating income: Operating income growth was due to the absence of the one-off loss (in the fine carbon business) recorded in the first quarter of last fiscal year.

(JPY in Millions)

		Net Sales			Operating Income		
		Jan-Mar 2016	Jan-Mar 2017	YoY Change	Jan-Mar 2016	Jan-Mar 2017	YoY Change
Carbon Black		9,487	11,344	+1,856	1,117	1,479	+361
Graphite Electrodes		5,522	5,136	(386)	178	144	(33)
Fine Carbon		3,435	3,394	(40)	(804)	47	+851
Industrial Furnaces and Related Products		1,240	1,207	(33)	151	195	+43
Others	Friction materials	1,925	2,033	+107	-	-	-
	Anode materials	990	930	(60)	-	-	-
	Others	40	58	+17	-	-	-
		2,957	3,021	+64	151	209	+57
Inter-segment eliminations		-	-	-	(236)	(294)	(58)
Total		22,643	24,104	+1,461	557	1,781	+1,223



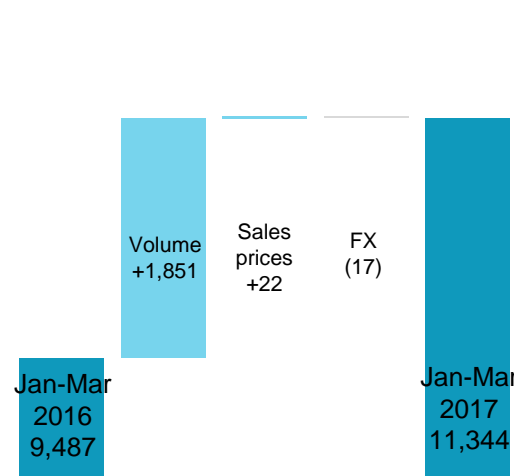
# Carbon Black

- An increase in order inquiries from tire manufacturers and a decrease in imported goods led to an increase in net sales over the first quarter of last fiscal year.
- Operating income recorded YoY growth on the back of growth in volume sales, despite the temporary decrease in the operating margin caused by a lag in increasing sales prices after the increase in raw material prices.

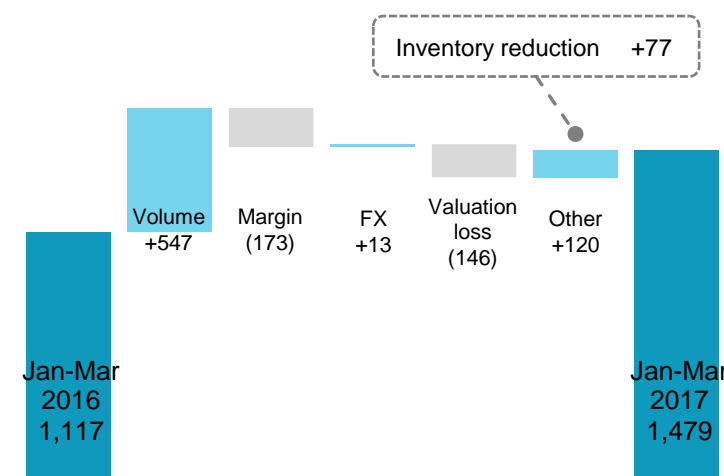
(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	9,487	11,344	+1,856	+19.6%
Operating Income	1,117	1,479	+361	+32.4%
ROS	11.8%	13.0%		

Net Sales Variance



Operating Income Variance

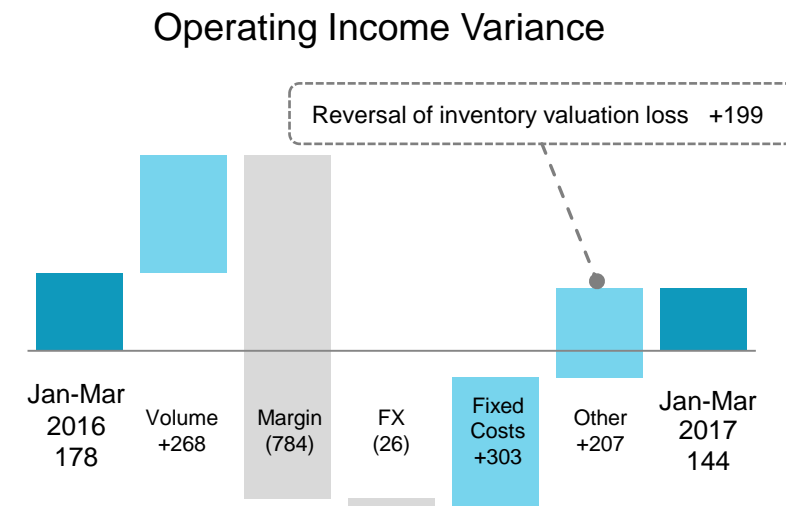
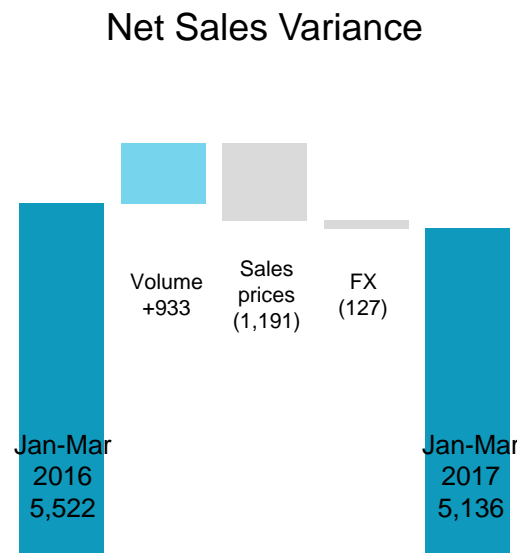


# Graphite Electrodes

- Net sales declined by 7.0% YoY despite growth in volume sales. The decline was caused by the decrease in sales prices.
- Efforts to reduce costs were not able to compensate for the large impact from the decline in sales prices, causing operating income to decline 18.8% YoY.
- Other: Reversal of inventory valuation loss

(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	5,522	5,136	(386)	(7.0%)
Operating Income	178	144	(33)	(18.8%)
ROS	3.2%	2.8%		



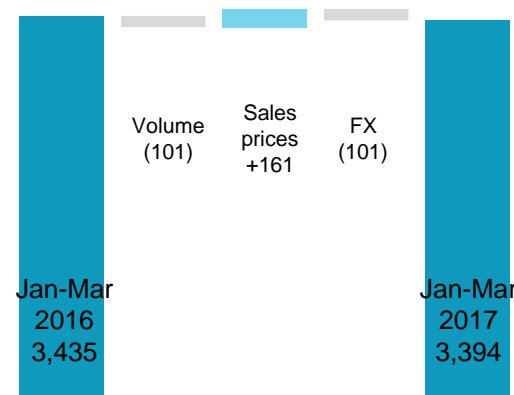
## Fine Carbon

- Net sales were nearly flat with the first quarter of last fiscal year.
- Operating income increased due to the absence of the one-off loss recognized in the first quarter of last fiscal year (provision of approximately 800 million yen to the allowance for doubtful accounts due to concerns over the collection of receivables due from a U.S. customer).
- Other: Reduction in depreciation expenses, labor costs, and other expenses helped to boost profits.

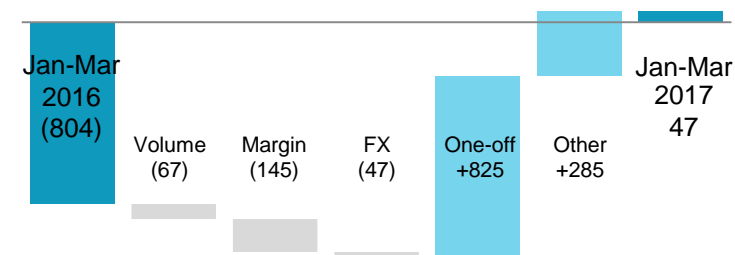
(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	3,435	3,394	(40)	(1.2%)
Operating Income	(804)	47	+851	
ROS	(23.4%)	1.4%		

Net Sales Variance



Operating Income Variance



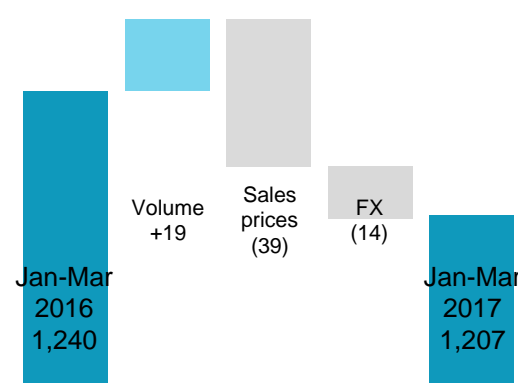
# Industrial Furnaces and Related Products (Tokai Konetsu Kogyo Co., Ltd.)

- Net sales were nearly flat and operating income increased slightly from the first quarter of the previous fiscal year.
- Industrial furnace sales saw a temporary decline in China, however sales to IT-related sectors, the main source of demand, remained flat.
- Heating elements and other products saw strong demand from the electronic components and glass industries, and for electric power infrastructure in China.

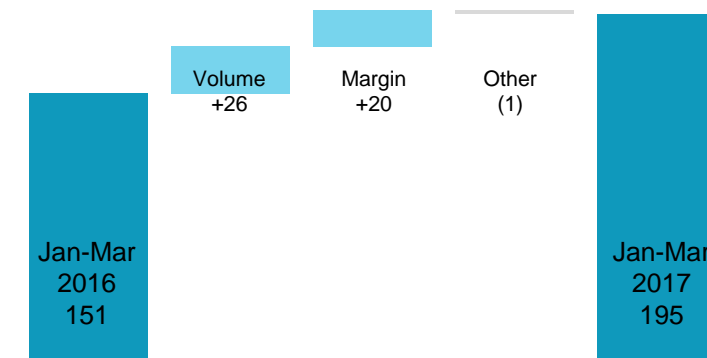
(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	1,240	1,207	(33)	(2.7%)
Operating Income	151	195	+43	+29%
ROS	12.2%	16.2%		

Net Sales Variance



Operating Income Variance



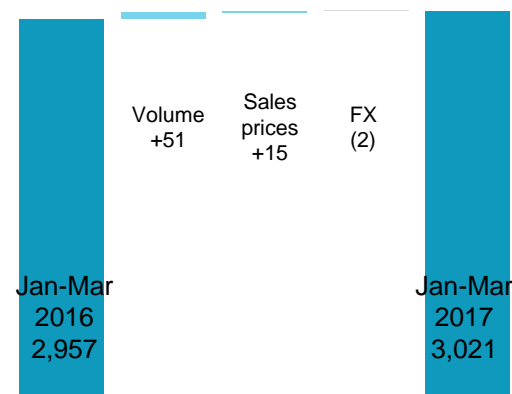
## Others (Friction Materials, LiB, Real Estate)

- The rebound in the market for construction machinery and other factors resulted in 5.6% YoY growth in sales of friction materials.
- LiB anode materials saw a 6.1% YoY decrease in sales due to the impact of operational adjustment by customers.

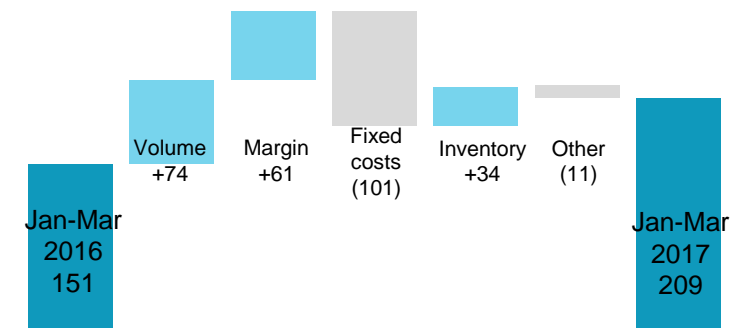
(JPY in Millions)

	Jan-Mar 2016	Jan-Mar 2017	YoY Change	% Change
Net Sales	2,957	3,021	+64	+2.2%
Operating Income	151	209	+57	+38.0%
ROS	5.1%	6.9%		

Net Sales Variance



Operating Income Variance



# Cash Flows

(JPY in Millions)

## Major Cash Flow Items

	Jan-Mar 2016	Jan-Mar 2017	Summary
Cash flows from operating activities	2,083	2,551	
Net income (loss) before income taxes for the quarter	526	2,073	
Depreciation and amortization	2,011	1,642	
Impairment loss	0	0	
Loss (gain) on sale of property, plant and equipment	0	1	• The net loss from last period decreased the amount of income taxes paid.
Increase (decrease) in allowance for doubtful accounts	502	(13)	
Decrease (increase) in trade receivables	2,979	830	
Decrease (increase) in inventories	3,497	(837)	
Income tax paid	(3,562)	(1,257)	
Cash flows from investing activities	(1,533)	(937)	
Purchase of property, plant and equipment	(1,613)	(885)	
Proceeds from sale of property, plant and equipment	6	2	
Cash flows from financing activities	(1,454)	(7,449)	
Net increase (decrease) in short-term borrowings	(748)	540	• Cash outflow due to repayment of parent company long-term loan (JPY 5.044 billion)
Proceeds from long-term debt	0	0	
Repayment of long-term debt	(1)	(6,255)	
Cash and cash equivalents at end of period	21,567	22,413	

# Balance Sheet

(JPY in Millions)

## Major Balance Sheet Items

	December 31, 2016	March 31, 2017	Summary
Total fixed assets	158,824	151,785	
Current assets	77,645	71,809	
Cash and cash equivalents	16,528	17,920	
Notes and accounts receivable	24,220	23,235	
Merchandise and finished goods	7,516	6,975	
Work in process	7,886	8,133	
Raw materials and supplies	5,330	6,340	
Fixed assets	81,178	79,976	
Tangible fixed assets	43,122	42,399	
Intangible fixed assets	10,534	10,067	
Investments and other assets	27,521	27,509	
Total liabilities	45,834	39,689	
Current liabilities	29,028	23,057	
Long-term liabilities	16,806	16,632	
Total net assets	112,989	112,095	
Shareholder's capital	99,693	100,635	
Other accumulated comprehensive income	11,296	10,446	
Non-controlling interests	1,998	1,014	
Total liabilities and net assets	158,824	151,785	

- Property, plant and equipment (decrease of JPY1.202 billion from the end of the previous period)  
Capital expenditures: JPY1.2 billion (decrease of JPY1.066 billion from the end of the previous period)  
Depreciation and amortization: JPY1.642 billion (decrease of JPY311 million from the end of the previous period)

- Interest-bearing debt of JPY11.26 billion (decrease of JPY5.787 billion from the end of the previous period)

- Capital-to-asset ratio: 73.2% (End of previous period: 69.9%)



## **II . Earnings Forecast for FY 2017**



# Revision of Consolidated Earnings Forecast for FY 2017 (announced May 9)

- Growth in sales volume and increase in sales prices for carbon black
- The earnings forecast has been revised upward due to benefits from growth in carbon black segment sales, cost reductions in the graphite electrodes segment, and other factors.

(JPY in Millions)

	Previous Forecast (February 9)			New Forecast for FY 2017			Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net Sales	43,000	46,000	89,000	47,000	48,000	95,000	+6,000	+6.7%
Operating Income	1,800	3,400	5,200	3,100	3,600	6,700	+1,500	+28.8%
Ordinary Income	2,300	3,800	6,100	3,500	4,300	7,800	+1,700	+27.9%
Net Income Attributable to Owners of the Parent Company	4,200	2,800	7,000	4,700	3,500	8,200	+1,200	+17.1%
ROS	4.2%	7.4%	5.8%	6.6%	7.7%	7.2%	—	—
ROIC	—	—	4.2%	—	—	5.2%	—	—
ROE	—	—	6.4%	—	—	6.8%	—	—

Group companies:

- Consolidated subsidiaries: 24
- Equity method affiliates: 5

Average exchange rate:

- 2016: \$1 = ¥108.85
- 2017 (2Q onward): \$1 = ¥105.00 (Actual for 1Q: ¥113.64)

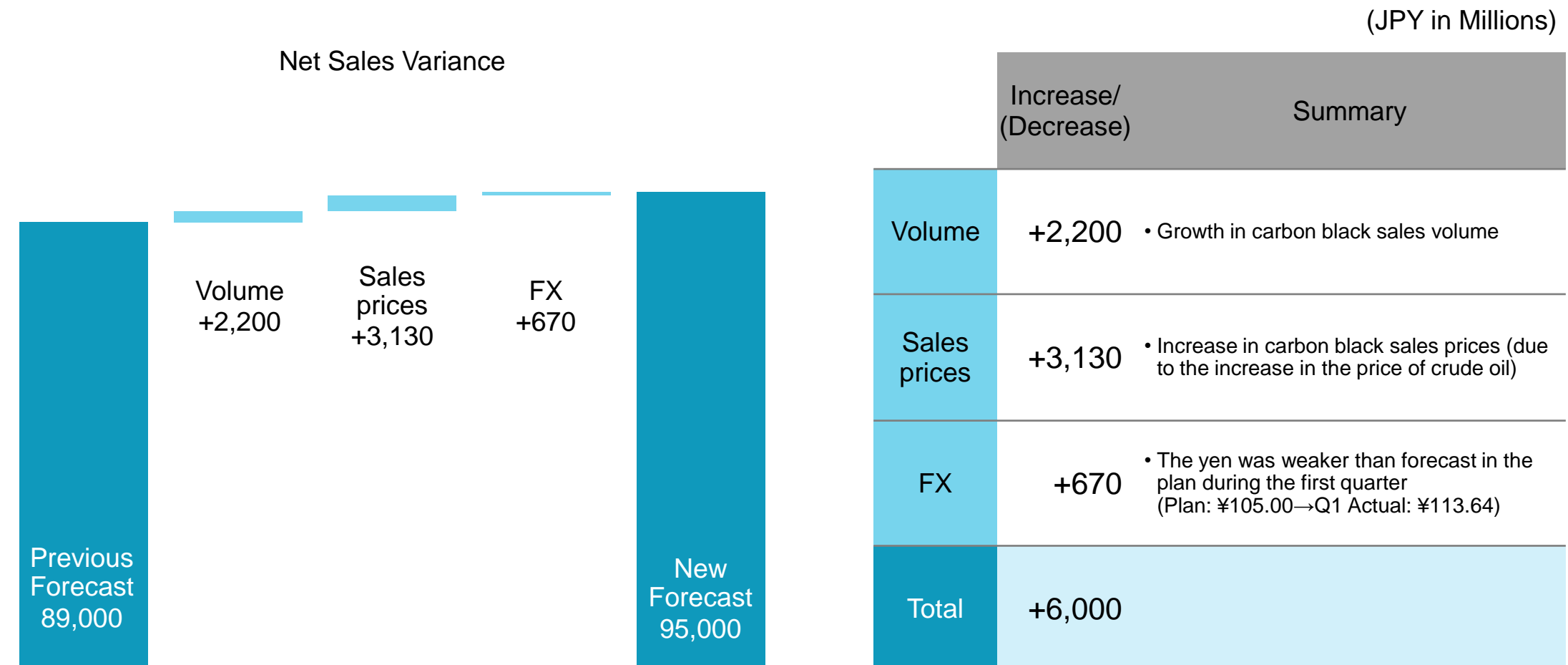
# Net Sales and Operating Income Forecast by Segment

(JPY in Millions)

	Previous Forecast (February 9)			New Forecast for FY 2017			Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net Sales	43,000	46,000	89,000	47,000	48,000	95,000	+6,000	+6.7%
Carbon Black	19,700	20,700	40,400	22,900	23,000	45,900	+5,500	+13.6%
Graphite Electrodes	8,300	8,500	16,800	8,500	8,200	16,700	(100)	(0.6%)
Fine Carbon	6,500	6,800	13,300	6,600	6,900	13,500	+200	+1.5%
Industrial Furnaces and Related Products	2,800	3,500	6,300	2,800	3,700	6,500	+200	+3.2%
Others	Friction materials	3,900	4,100	8,000	4,100	8,200	+200	+2.5%
	Anode materials	1,700	2,300	4,000	2,000	4,000	—	—
	Others	100	100	200	100	200	—	—
	Total Others	5,700	6,500	12,200	6,200	12,400	+200	+2.5%
Operating Income	1,800	3,400	5,200	3,100	3,600	6,700	+1,500	+28.8%
Carbon Black	2,100	2,600	4,700	2,800	2,400	5,200	+500	+10.6%
Graphite Electrodes	(600)	(300)	(900)	(100)	100	0	+900	—
Fine Carbon	300	700	1,000	200	800	1,000	—	—
Industrial Furnaces and Related Products	400	500	900	400	500	900	—	—
Others	200	500	700	400	400	800	+100	+14.3%
Inter-segment eliminations	(600)	(600)	(1,200)	(600)	(600)	(1,200)	—	—

# Analysis of Variance from Previous Forecast: Net Sales

- The previous forecast was increased by JPY 6 billion due to growth in carbon black sales volume and an increase in sales prices, among other factors.

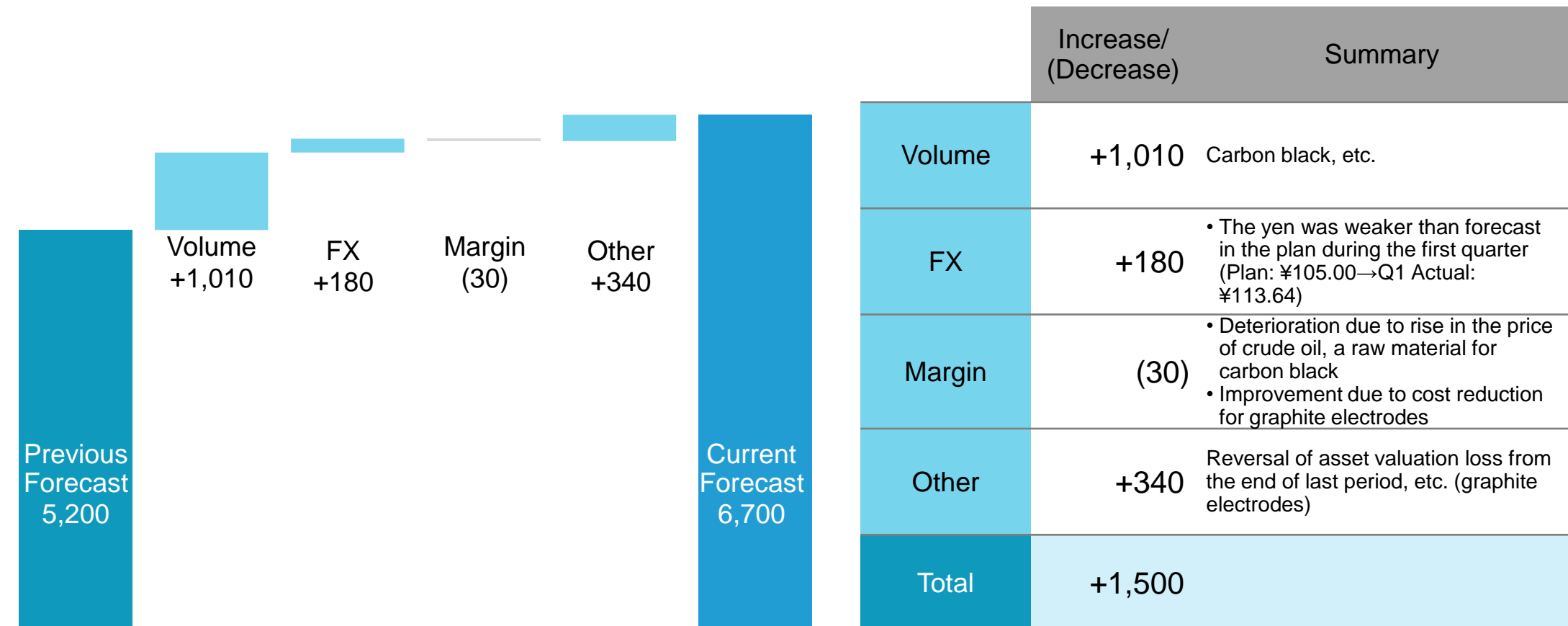


# Analysis of Variance from Previous Forecast: Operating Income

- Operating income was revised upward due to sales volume growth in the carbon black segment and a reduction in costs in graphite electrodes segment, among other factors.
- The reversal of an asset valuation loss for the graphite electrode business from the end of the previous period also boosted operating income during the first quarter.

Operating Income Variance

(JPY in Millions)



# Reference Material



# Quarterly Segment Results

(F) = Forecast (JPY in Millions)

		2016					2017 F			
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2 (F)	2H (F)	Full Year (F)
Net Sales		22,643	22,229	21,501	22,206	88,580	24,104	22,896	48,000	95,000
	Carbon Black	9,487	8,809	9,507	9,959	37,764	11,344	11,556	23,000	45,900
	Graphite Electrodes	5,522	5,311	4,810	5,069	20,714	5,136	3,364	8,200	16,700
	Fine Carbon	3,435	3,335	3,038	3,116	12,925	3,394	3,206	6,900	13,500
	Electric Furnaces and Related Products	1,240	1,715	1,084	1,202	5,243	1,207	1,593	3,700	6,500
	Others									
	Friction materials	1,925	1,842	1,873	1,965	7,606	2,033	2,067	4,100	8,200
	Anode materials	990	1,169	1,135	835	4,130	930	1,070	2,000	4,000
	Others	40	45	49	58	194	58	42	100	200
	Others Total	2,957	3,057	3,059	2,859	11,932	3,021	3,179	6,200	12,400
Operating Income		557	(638)	551	661	1,131	1,781	1,319	3,600	6,700
	Carbon Black	1,117	775	1,389	1,472	4,755	1,479	1,321	2,400	5,200
	Graphite Electrodes	178	(548)	(456)	(463)	(1,290)	144	(244)	100	0
	Fine Carbon	(804)	(450)	(306)	(264)	(1,825)	47	153	800	1,000
	Electric Furnaces and Related Products	151	229	61	73	516	195	205	500	900
	Others	151	145	117	107	522	209	191	400	800
	Inter-segment eliminations	(236)	(790)	(254)	(264)	(1,546)	(294)	(306)	(600)	(1,200)

# Reference Results (Consolidated)

(JPY in Millions)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	2017 January-March
Capital Investment	9,007	6,830	5,301	6,013	1,200
Depreciation and Amortization	8,656	8,629	9,242	8,124	1,642
Research and Development Expenses	1,800	1,882	1,822	2,249	378
Total Assets	183,427	210,439	184,074	158,824	151,785
Interest-bearing Debt at Fiscal Year-end	25,762	38,290	23,936	17,048	11,260
Number of Employees	1,916	2,064	2,092	1,980	1,957
Exchange Rate (JPY/USD)	97.65	105.85	121.05	108.85	113.64

## Net Sales of Main Subsidiaries

(JPY in Millions)

Subsidiary	Jan-Mar 2016	Jan-Mar 2017	YoY Change	Location/ Business	Summary
TOKAI ERFT CARBON	2,084	2,183	+98	Germany Graphite Electrodes	<ul style="list-style-type: none"> <li>• Growth in sales volume</li> <li>• Decrease in sales prices</li> <li>• FX (Decrease of JPY100 million)</li> </ul>
THAI TOKAI CARBON PRODUCT	2,454	3,436	+981	Thailand Carbon black	<ul style="list-style-type: none"> <li>• Growth in sales volume</li> <li>• Increase in sales prices</li> <li>• No FX effect</li> </ul>
Tokai Carbon Tianjin	822	969	+147	China Carbon black	<ul style="list-style-type: none"> <li>• Growth in sales volume</li> <li>• Increase in sales prices</li> <li>• FX (Decrease of JPY100 million)</li> </ul>
CANCARB LTD.	1,773	1,874	+100	Canada Carbon black	<ul style="list-style-type: none"> <li>• Growth in sales volume</li> <li>• Decrease in sales prices</li> <li>• FX (Increase of JPY100 million)</li> </ul>



# Cautionary Statement Regarding Future Prospects

The earnings forecasts and other 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.

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