

# **Tokai Carbon Acquisition of U.S. Carbon Black Manufacturer Sid Richardson Carbon, Ltd.**

June 26, 2018

Tokai Carbon Co., Ltd.  
Hajime Nagasaka, President & CEO

# Introduction

The decision was made at today's meeting of the Board of Directors to acquire Sid Richardson Carbon, Ltd. and its two affiliated companies and we have signed an agreement for an interest transfer. We will go forward with contract procedures and will take the steps necessary for approval under competition laws by the appropriate regulatory authorities. Ultimately, we expect to complete the acquisition of all interests in the company (closing) by early September 2018.

This acquisition represents a strategic investment that is part of Tokai Carbon's growth strategy under the Mid-Term Management Plan T-2018. It is especially important for us to establish a global production and sales system by advancing into the carbon black business in non-Asian regions.

This presentation explains the background and our company's goals with respect to this acquisition, and we hope that it will be an aid to your understanding of its significance.

Data about economic conditions, trends in product demand, and other information contained in this presentation is based on information obtainable as of the date on which these materials are presented and may change significantly according to a variety of factors in the future.

# Overview of the acquisition

Company to be acquired	Carbon black manufacturer Sid Richardson Carbon, Ltd. (SRC) (headquarters in U.S.) and its two affiliated companies
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Acquisition price	¥34.1 billion <sup>*</sup>
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Financing	Bank loans (Planned)
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<sup>\*</sup> Calculated at ¥110 to one U.S. dollar. The actual acquisition price will be the price adjusted at the time of acquisition of the interests as specified in the purchase agreement.

# Summary of today's presentation

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## About Sid Richardson Carbon

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The significance of this acquisition (summary)

# Overview of Sid Richardson Carbon, Ltd. (SRC)

Company name	Sid Richardson Carbon, Ltd. (SRC)
Date of establishment	February 1993 (in business since 1947)
Business units	Head office: Fort Worth (Texas) Manufacturing locations/Annual production capacity: Borger (Texas) 170KT Big Spring (Texas) 115KT Addis (Louisiana) 155KT Research laboratories: Fort Worth (Texas) Sales office: Akron (Ohio)
Business results	Year ended December 2017 (actual): Sales \$311.9 million EBITDA \$37.6 million Year ending December 2018 (plan): Sales \$386.6 million EBITDA \$50.0 million
Number of employees	Approximately 350
Description of business	Furnace black manufacture, sales, research & development

# History of SRC

1947	Founded for the purpose of developing the West Texas Keystone oilfield
1948	Channel black plant in Odessa, Texas acquired
1961	Big Spring Plant built in Texas
1970	Addis Plant built in Louisiana
1972	Research laboratories built in Fort Worth, Texas
1986	Borger Plant in Texas acquired from Phillips Petroleum

# Carbon black capacity in U.S.

- No.1 supplier in the U.S.
- SRC has 3 plants in North America centered around leading tire manufacturers

(thousand tons)

	Company name	U.S. Annual Production Capacity	U.S. No. of Plants
1	Sid Richardson Carbon (SRC)	440	3
2	Cabot	380	3
3	Orion Engineered Carbons	370	4
4	Continental Carbon (Group member of CSRC)	305	3
5	Columbian Chemicals (Group member of Birla Carbon)	230	2

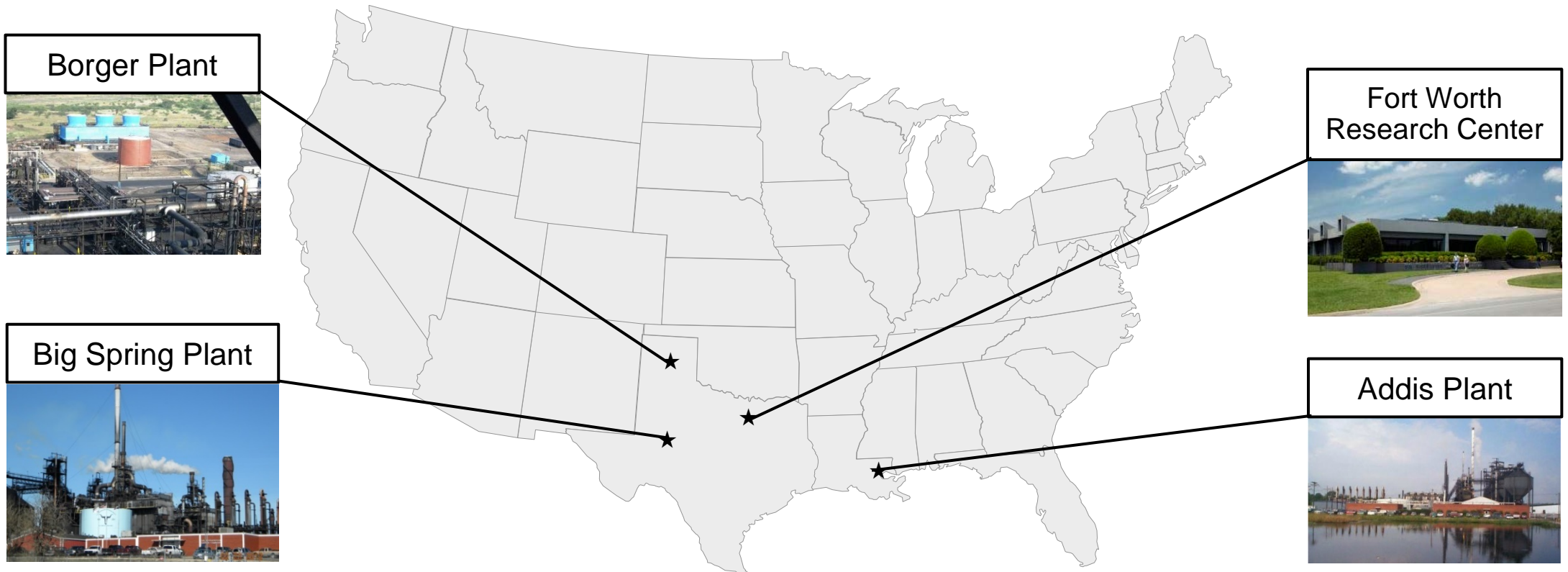
\* Carbon Black Association data and Tokai Carbon estimates

\* Continental Carbon is a subsidiary of CSRC. Columbian Chemicals is a subsidiary of Birla Carbon



# Features of SRC

- Possesses 3 production sites and a Research Center in the important U.S. market
- SRC has an excellent customer base including leading tire makers Bridgestone, Michelin, Goodyear and Continental
- World-class efficient production system backed by state of the art facilities
- Cutting-edge technology of utilizing lighter feedstock oil



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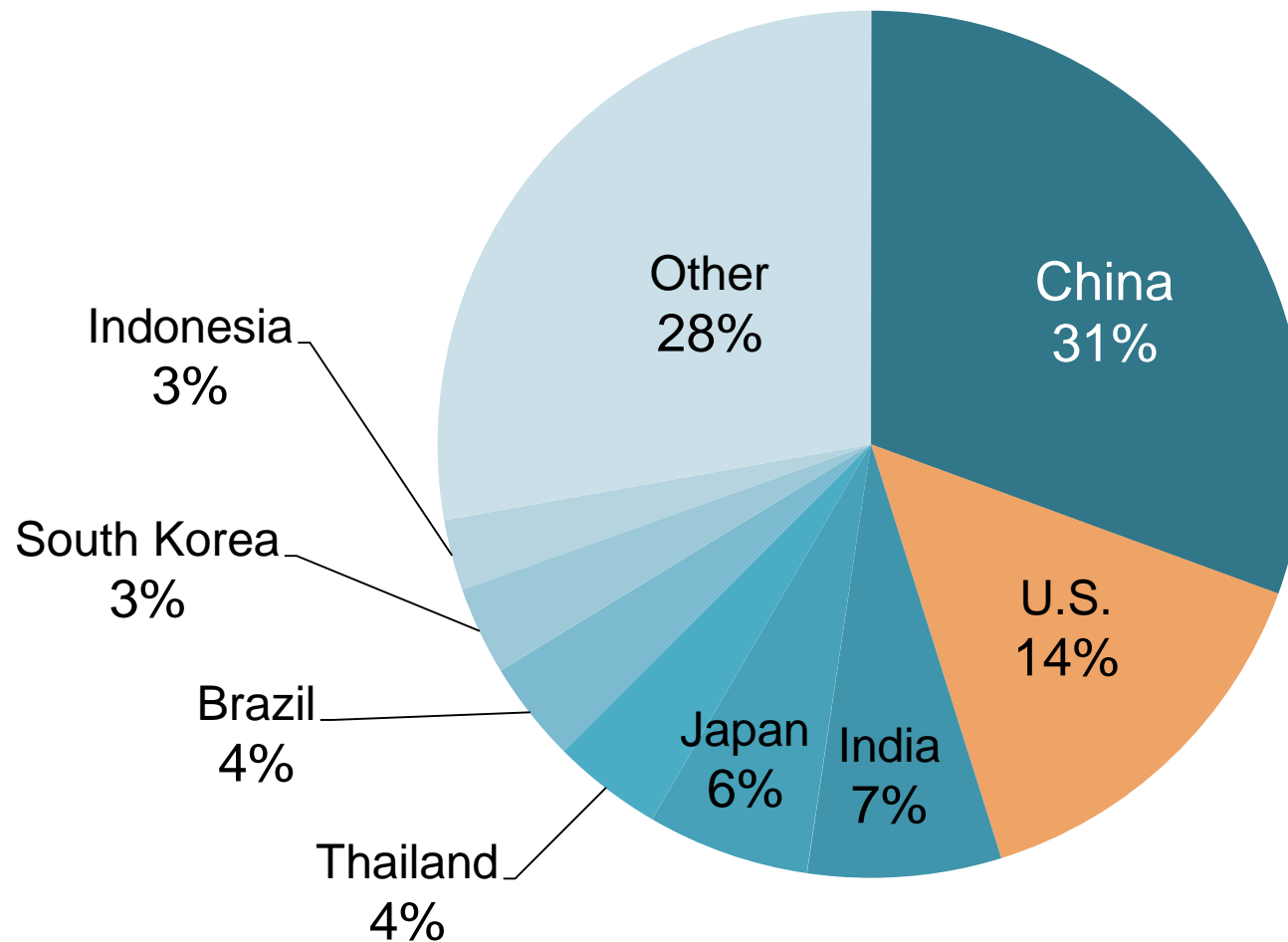
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**The significance of this acquisition (summary)**

# U.S. is the second largest market in the world

■ Market scale  
(Monetary basis/2016)

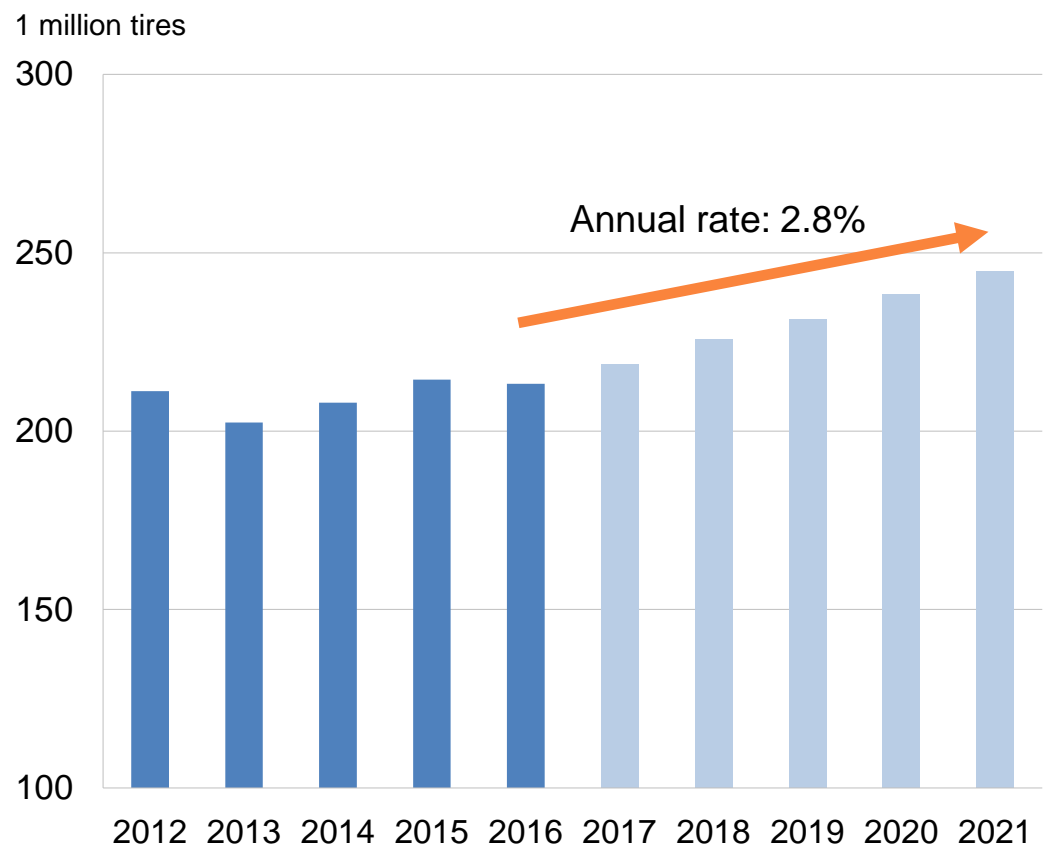


\* Tokai Carbon estimates

# Forecast for tire production in North America

■ Many tire manufacturers have announced capital spending plans and the 5-year growth rate (forecast) is around 3% per year

■ Forecast for tire production volume (North America)



\* Tokai Carbon estimates

■ Main capital spending plans of North American tire manufacturers

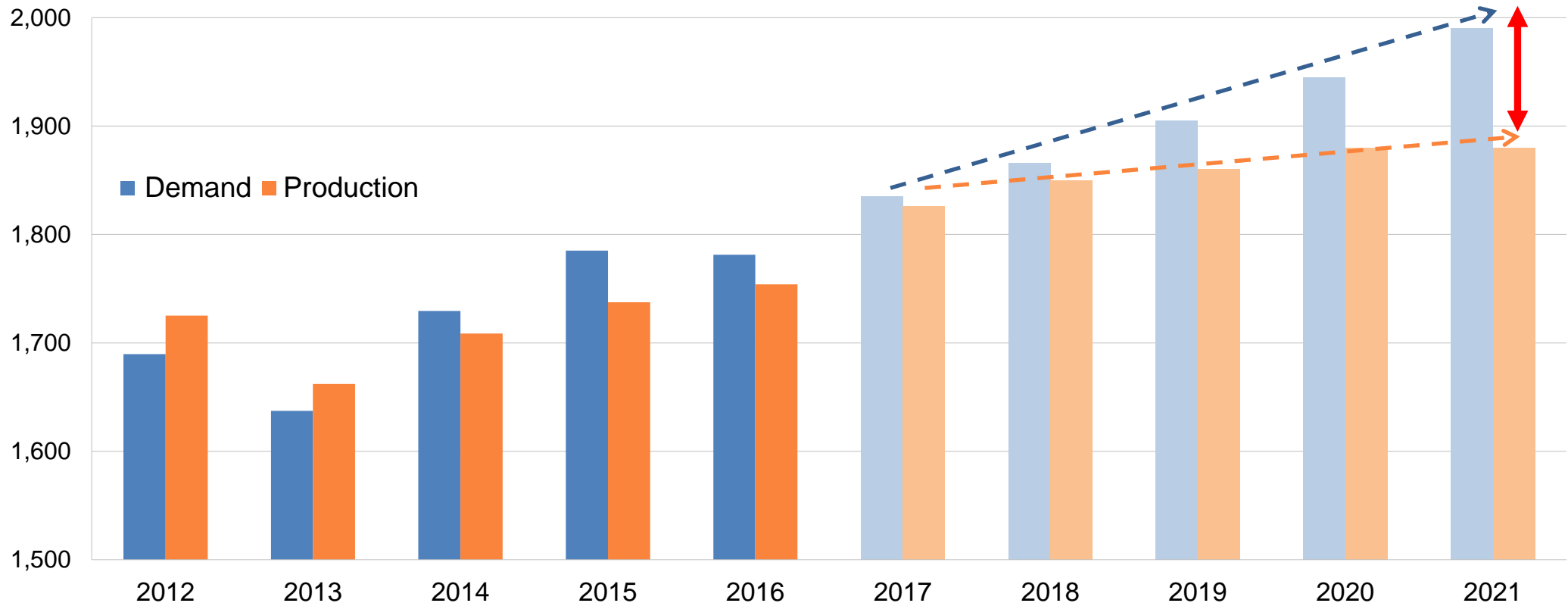
Company name	Head Office	Amount (1 million USD)	Period
Continental	Germany	1,400	2019-2022
Wanli Tire	China	1,000	2020-2025
Hankok Tire	Korea	800	2016-2018
Giti Tire Group	Singapore	560	2018-2019
Qingdao Sentury	China	530	2019-2023
Michelin	France	510	2018-2020
Continental	Germany	500	2014-2021
Bridgestone	Japan	344	2016-2026
Goodyear	U.S.	300	2018-2020

# Demand forecast in North America

- The gap between supply and demand in North America is expected to expand
  - ✓ While demand is expected to grow steadily, production capacity is expected to be maxed out

## ■ North American carbon black supply and demand balance

Thousand tons



\* Tokai Carbon estimates

# High barriers to enter into the North American carbon black market

## ■ Trend toward more stringent environmental regulations

- Based on the Clean Air Act in 2007, the EPA (United States Environmental Protection Agency) required that the five furnace black manufacturers with production operations in the U.S. make capital investments to meet environmental regulations (off-gas cleaning equipment, etc.)
- With Cabot in November 2013, Continental in March 2015, SRC, Orion and Columbian in December 2017, each reached agreements on standards for fines and capital investment
  - ✓ SRC fines: \$999,000 (2018)  
Spending on environmental technology: Approximately \$490,000 (2018-2021)  
Additional capital spending: Approximately \$100 million (2018-2023)

(web link) <https://www.epa.gov/enforcement/sid-richardson-carbon-and-energy-company-clean-air-act-settlement>



**In practice, it is difficult to build new carbon black plants in the U.S.**

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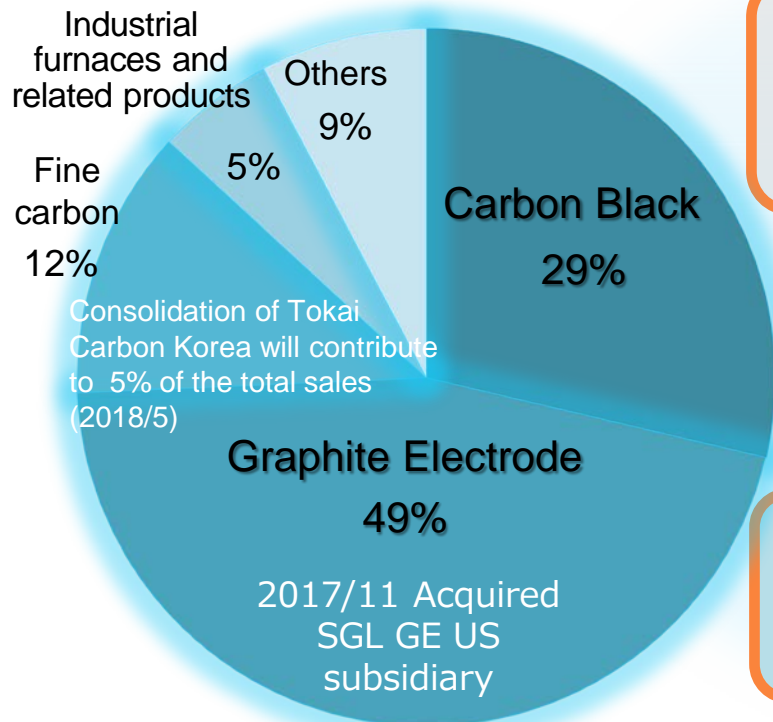
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**The significance of this acquisition (summary)**

# In the context of the Mid-Term Management Plan

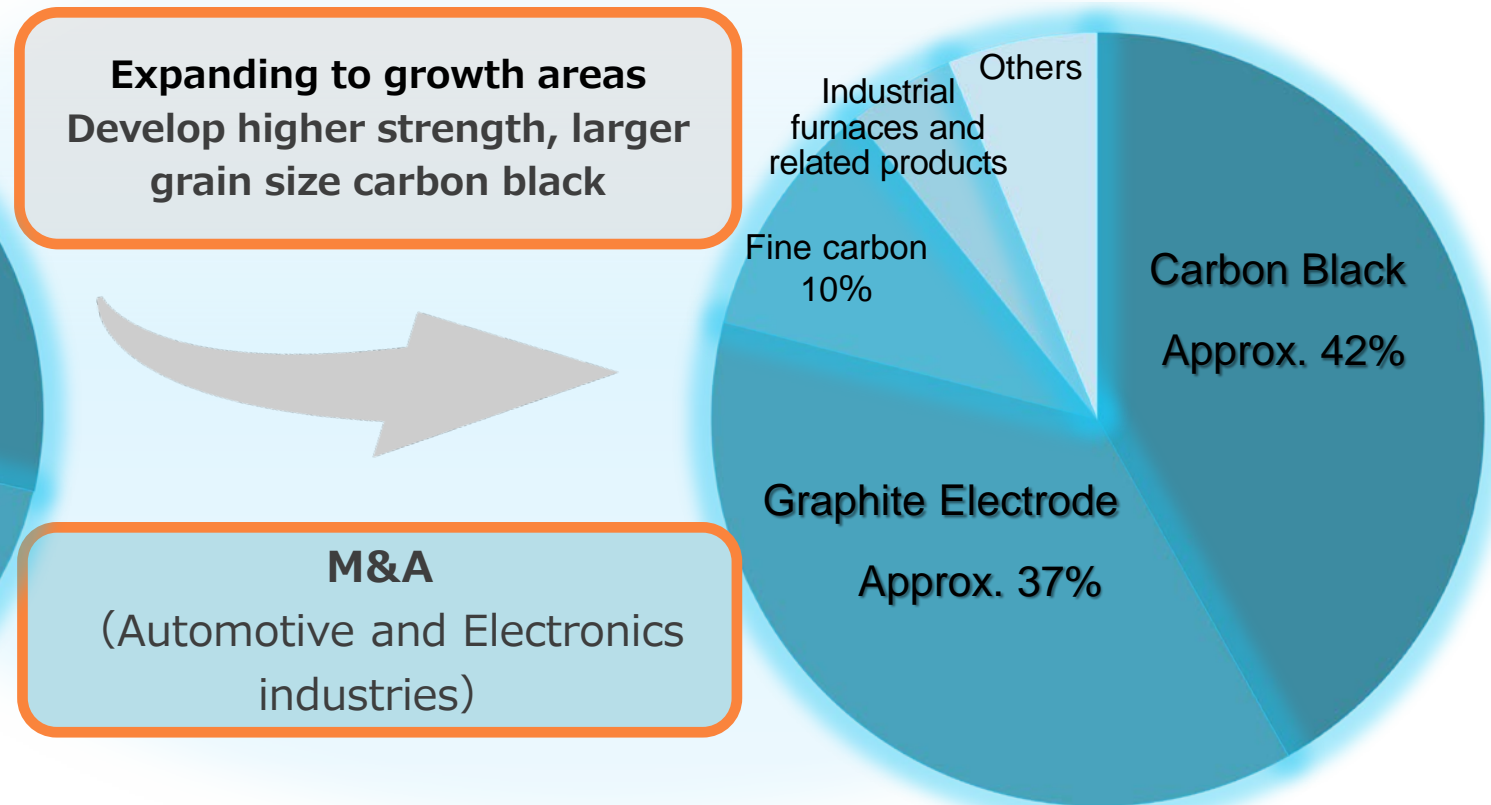
Expand business scale by rolling out to growth areas and M&A

**FY2018 Sales Forecast  
(Before acquisition)**



**¥204.0 billion**

**Annualized Sales \*  
(After acquisition)**



**Approx. ¥250.0 billion**

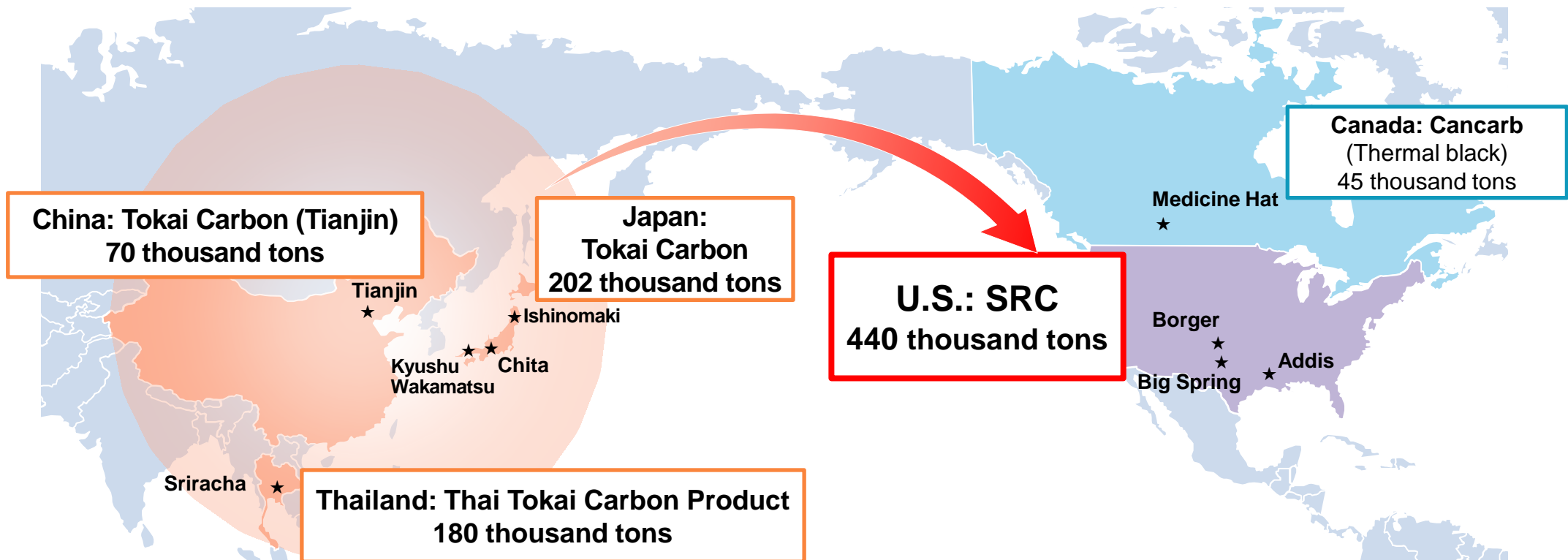
\*The sales contribution of the acquisition will be only for the term after closing of FY2018



# Expanding carbon black business domains

- Tokai Carbon has already established its position as a leading company in Asia
- Essential factor to expand the business domains was to expand to non-Asian markets (Carbon black is not suitable for export due to its low bulk density and higher freight cost)
- North America is a particularly important market with strong demand. Many Japanese tire manufacturers have also moved into this market for producing tires.
  - ✓ Tokai Carbon moved into North America in 2014 with the acquisition of Cancarb of Canada in the thermal black\* market.

- The global deployment of Tokai Carbon's carbon black business



\* Thermal black: Produced from natural gas. Thermal black has a larger grain size than furnace black, and is used in the manufacture of rubber products for automobiles.

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**The significance of this acquisition (summary)**

# Establishing a presence as a global player

- As a result of this acquisition, Tokai Carbon will effectively become the fourth largest player in the global market

(thousand tons)

	Company name	HQ	No. of Plants	Annual Production Capacity
1	Cabot	U.S.	19	2,130
2	Birla Carbon	India	17	2,010
3	Orion Engineered Carbons	Luxembourg	14	1,295
4	Black Cat	China	8	1,145
	<b>Tokai Carbon &amp; SRC</b>	<b>Japan &amp; U.S.</b>	<b>9</b>	<b>937</b>
5	China Synthetic Rubber Corp.	Taiwan	8	810
6	OMSK Carbon	Russia	3	500
7	Tokai Carbon	Japan	6	497
8	Longxing Chemical	China	3	495
9	Phillips Carbon Black	India	4	472
10	Sid Richardson Carbon (SRC)	U.S.	3	440



\* Carbon Black Association data and Tokai Carbon estimates.

\* Continental Carbon is a subsidiary of CSRC. Columbian Chemicals is a subsidiary of Birla Carbon

\* Black Cat produces only in China. The actual production capacity is not clear

# The joining of forces between two historic companies



## Sid Richardson Carbon, Ltd.

- A history of over 70 years
- No. 1 production capacity in the U.S.
- Excellent customer base in the U.S.

**2018**  
**This Acquisition**

2014: [Canada] Acquisition of Cancarb Limited

2004: [China] Tokai Carbon (Tianjin) Co., Ltd. established

2000: [Thailand] Thai Tokai Carbon Product Acquisition of management rights (conversion to wholly-owned subsidiary in 2017)

1986: Borger Plant (located in TX) acquired

1972: Fort Worth, TX research labs built

1979: Ishinomaki Plant goes into operation

1970: Addis Plant (located in LA) built

1961: Big Spring Plant (located in TX) built

1962: Chita Plant goes into operation

1948: Entry into the carbon black business (Plant acquisitions)

1947: Established for oilfield development

1941: First production of furnace black in Japan (Kyushu Wakamatsu Plant)

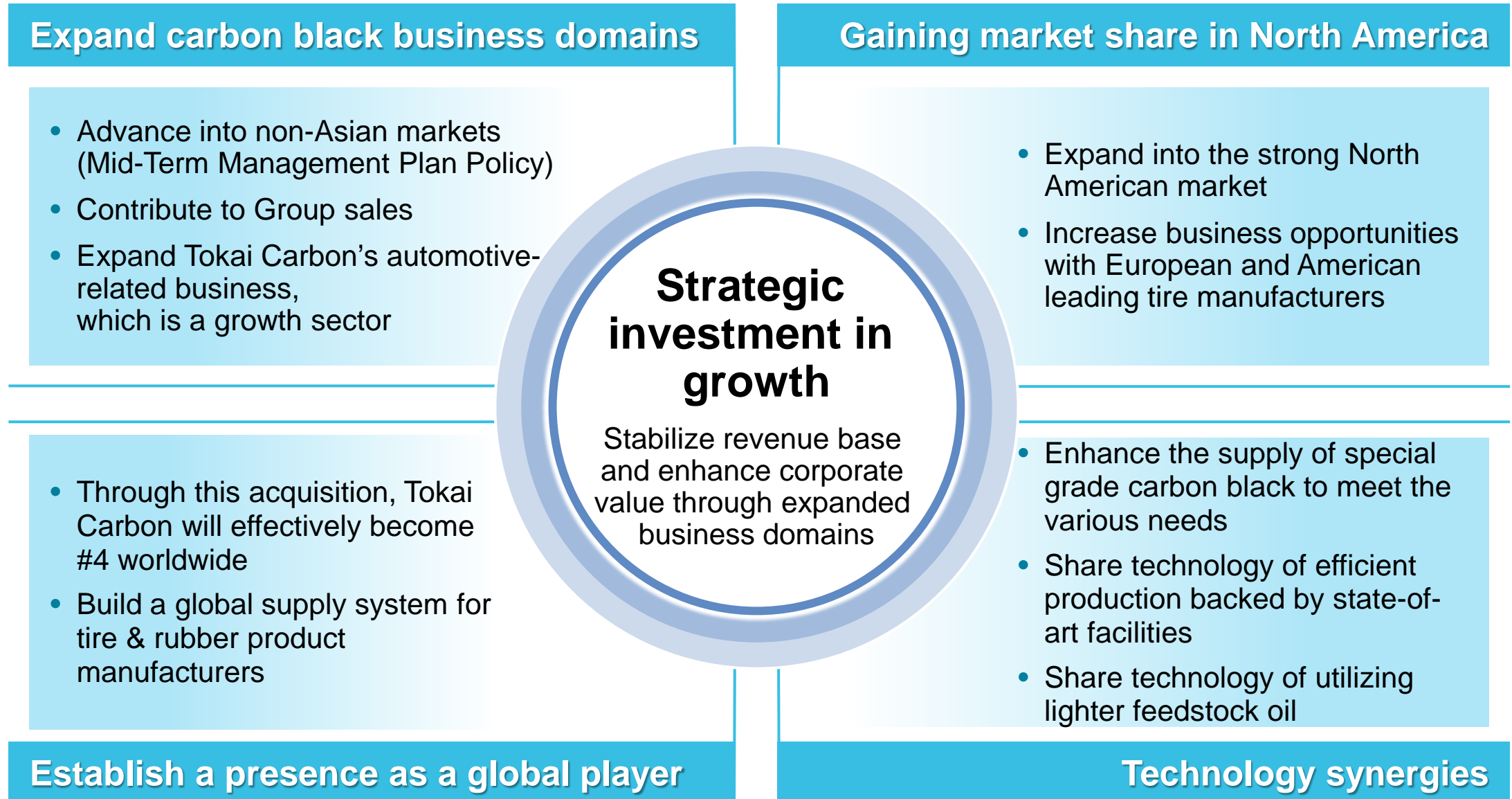
1918: Established as Tokai Electrode Mfg. Co. Ltd. (TDK)



## Tokai Carbon Co., Ltd. Carbon black business

- Intends to further expand its business domain
- History of approximately 80 years
- No. 1 production capacity in Japan
- Stable customer base primarily in Asia

# Goals of this acquisition



# Timetable / Impact on results

## Timetable

- Board of Directors resolution: June 26, 2018
- Contract signing date: June 26, 2018
- Complete transfer of interests: Expected in early September, 2018
- This timetable is as of June 26, 2018, and is subject to change depending on approval procedures with regulatory authorities according to competition laws and other circumstances such as fulfillment of closing conditions, etc.

## Impact on results

- The impact on financial results for the year ending December 2018 will be reviewed and will be promptly disclosed in the event of any changes in performance forecasts or any other matters that needs to be disclosed.

# 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.

For information about this acquisition:  
Corporate Planning Department  
Hajikano Tel.: +81-3-3746-5228

# Reference Material

## Establishing a presence as a global player

- As a result of this acquisition, Tokai Carbon will effectively become the fourth largest player in the global market

- Facilities and production capacities of the main furnace black players (after this acquisition)\*

Company name	HQ	Production facility status					Production capacity	
		China	Asia	North America	Europe	Other	No. of plants	Annual production capacity (KT)
Cabot	U.S.	○	○	○	○	○	19	2,130
Birla Carbon	India	○	○	○	○	○	17	2,010
Orion Engineered Carbons	Luxembourg	○	○	○	○	○	14	1,295
<b>Tokai Carbon &amp; SRC</b>	<b>Japan &amp; U.S.</b>	○	○	✗→○	✗	✗	<b>6→9</b>	<b>497→937</b>
China Synthetic Rubber Corp.	Taiwan	○	○	○	✗	✗	8	810
Black Cat	China	○	✗	✗	✗	✗	8	1,145
OMSK	Russia	✗	✗	✗	✗	○	3	500
Longxing Chemical	China	○	✗	✗	✗	✗	3	495
Phillips Carbon Black	India	✗	○	✗	✗	✗	4	472

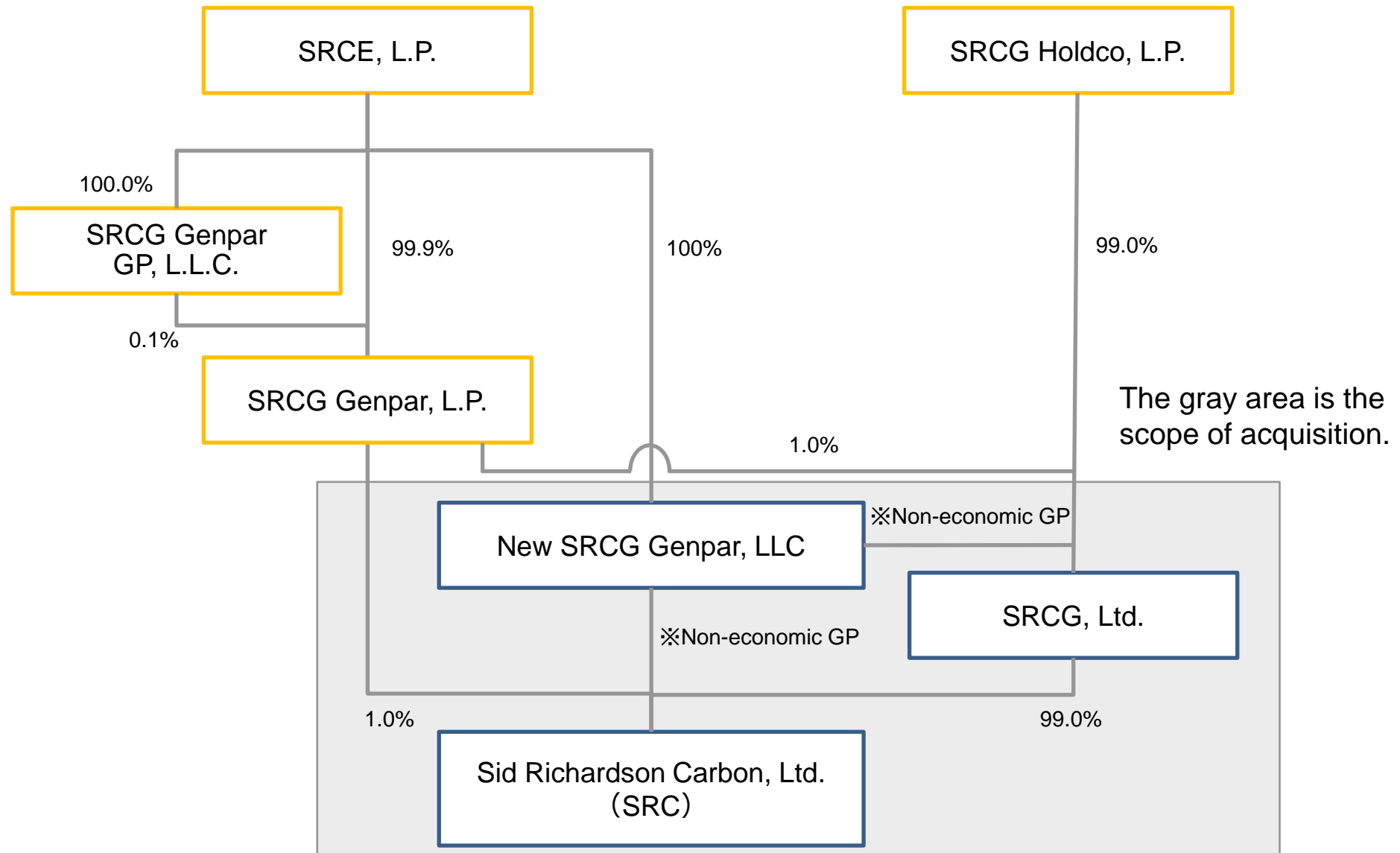
\* Production capacities and production facility status assume closing of this acquisition. Production capacities are based on Tokai Carbon assumptions and a total sum of existing production capacity.

Birla Carbon includes its subsidiary, Columbian, and CSRC includes its subsidiary, Continental.



# Reference Material

## Acquisition structure



\*Non-economic GP is a person or entity that serves as a general partner for purposes of satisfying the State Partnership Law (including responsibility for general partner liabilities), but does not receive proportionate amount of the profits or losses of the partnership. Non-economic GP does not own any partnership interest of the partnership.