

Q1 FY2019 Earnings Presentation

2019/5/9



TOKAI CARBON CO., LTD.

Table of Contents

I Q1 FY2019 Financial Summary P 3

II Earnings Forecast for FY2019 P16

I

Q1 FY2019

Financial Summary

Business Environment

Graphite Electrode: Continuous growth of world EAF. Tight supply and demand balance.

Carbon Black: Stable production level at our customers as Tire and Automobile industry

Fine Carbon: Continuous strong demand from General industry and Semiconductor market

Operating Trends

Net Sales: Increased 65.5% YoY

Sales prices improved for Graphite Electrode, Carbon Black and Fine Carbon

M&A projects contributed to consolidated net sales

Operating income : Increased 68.3% YoY

The sales price for Graphite Electrodes increased and other businesses also saw firm demand overall

M&A projects contributed to consolidated profit

Revision of Earnings Forecast for FY2019 (as of May 9)

The level of supply and demand tightness for Graphite Electrodes has been relaxed compare to FY2018. We newly incorporated this condition to our Earnings Forecast for FY2019 with other economical condition changes as the US-China trade friction.

Summary of Consolidated Results

5

- Net sales ¥68.8 billion (+66% YoY)
- Operating income ¥21.2 billion (+68% YoY)
- ROS 30.8% (30.3% for Q1 FY2018)

(Millions of yen)

	Jan-Mar 2018	Jan-Mar 2019	YoY Change	% Change
Net sales	41,595	68,838	+27,242	+65.5%
Operating income	12,610	21,226	+8,615	+68.3%
Ordinary Income	12,584	21,186	+8,601	+68.4%
Net Income Attributable to Owners of the Parent Company	9,153	13,236	+4,083	+44.6%

Group companies (As of March 31, 2019)

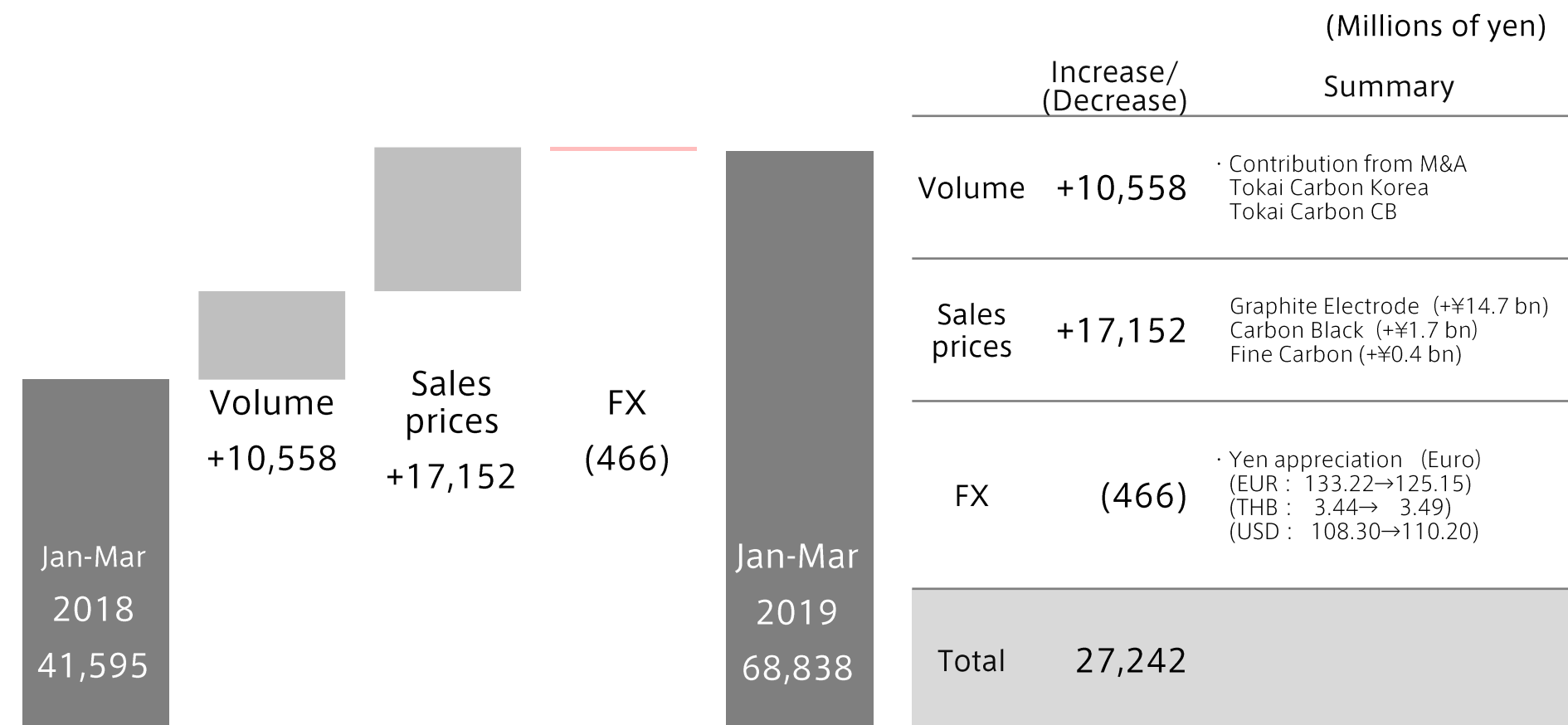
- Consolidated subsidiaries: 30
- Equity method affiliates: 2

Average exchange rates for the first quarter:

- 2018 \$1 = ¥108.30
- 2019 \$1 = ¥110.20

*The provisional accounting treatment of the TOKAI CARBON GE HOLDING LLC, Tokai Carbon Korea Co., Ltd., and Tokai Carbon CB Ltd. business combination was finalized. This resulted in the retroactive adjustment of 2018 figures.

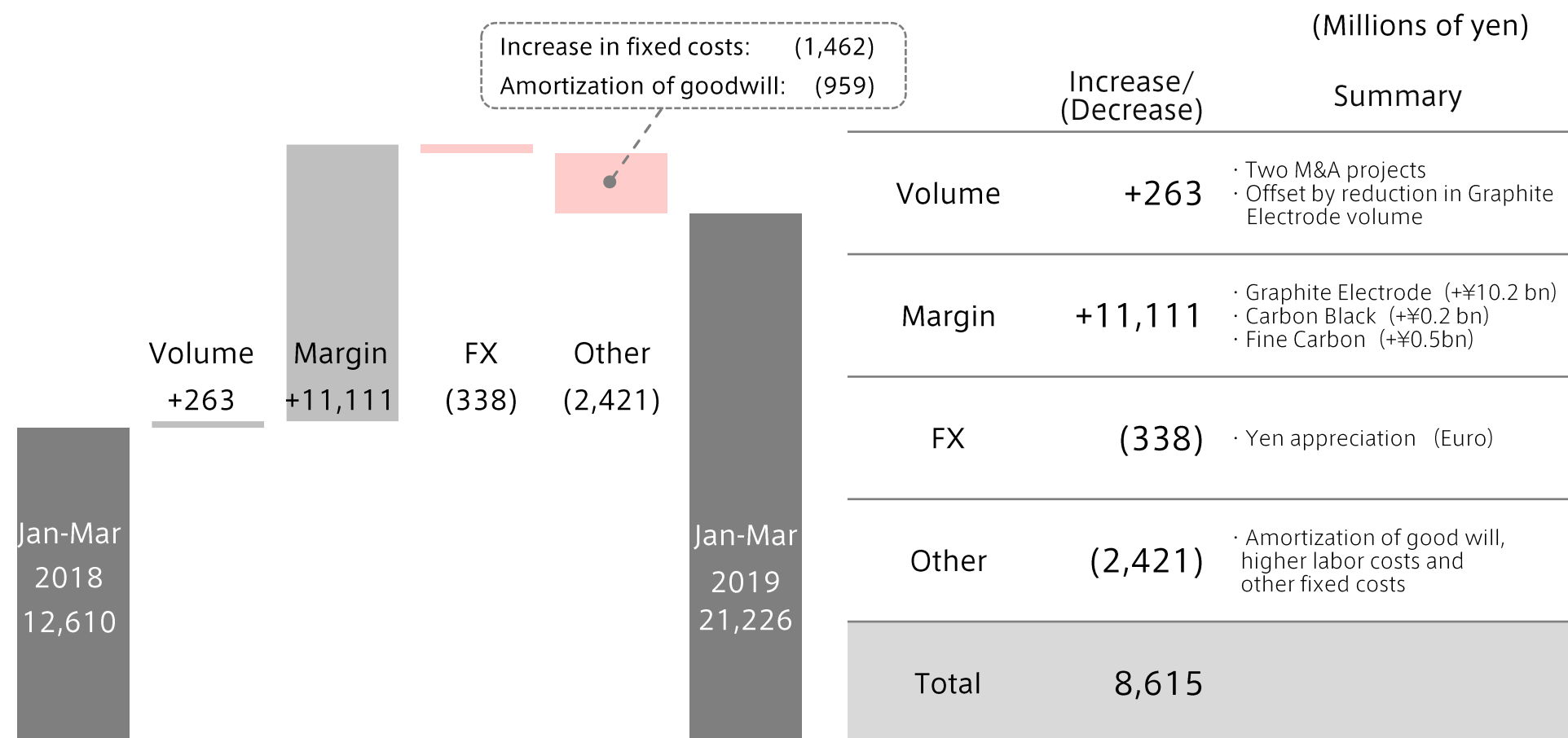
- An increase in sales prices for Graphite Electrodes, Carbon Black led to YoY growth
- Contribution of newly consolidated Tokai Carbon Korea and Tokai Carbon CB



YoY Analysis: Operating Income

7

- Operating income grew 68.3% YoY due to an increase in sales price for Graphite Electrode, Fine Carbon and Carbon Black



Net Sales and Operating Income by Segment

8

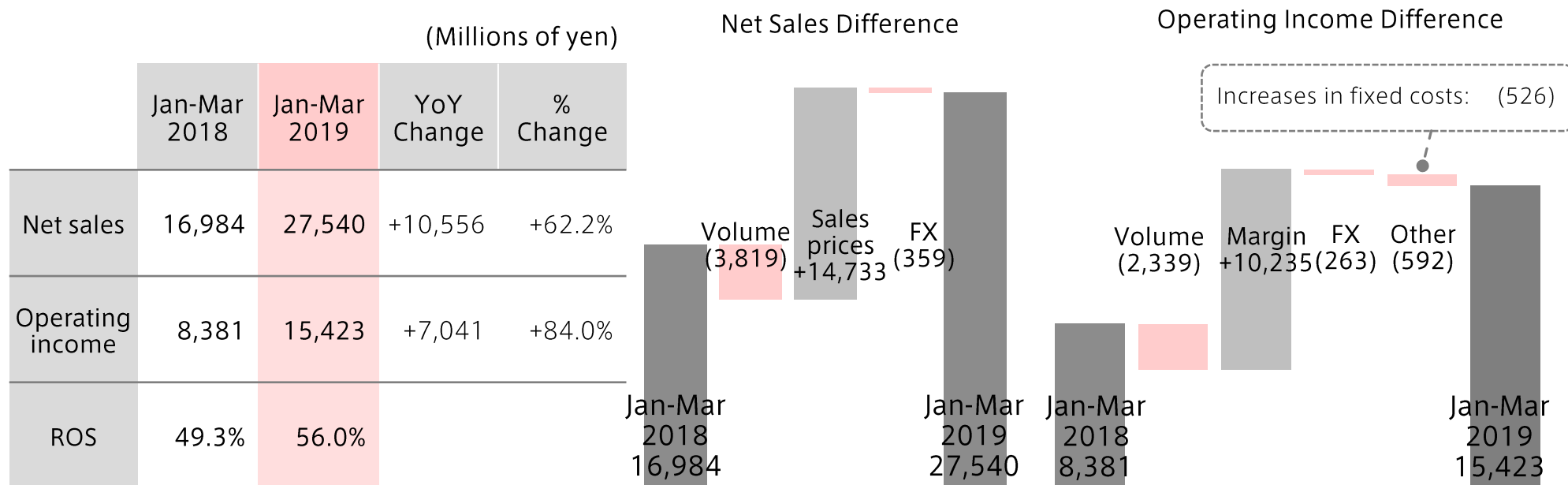
- Solid business results from the three core divisions
- Sales for Friction Material dropped due to exiting from the four wheel automotive business

(Millions of yen)

		Net sales			Operating income		
		Jan-Mar 2018	Jan-Mar2019	YoY Change	Jan-Mar2018	Jan-Mar 2019	YoY Change
Graphite Electrodes		16,984	27,540	+10,556	8,381	15,423	+7,041
Carbon Black		14,276	27,308	+13,032	2,816	3,424	+608
Fine Carbon		3,893	8,296	+4,402	708	1,905	+1,197
Industrial Furnaces and Related Products		2,663	2,212	(450)	633	586	(46)
Other Operations	Friction materials	2,296	2,030	(266)	-	-	-
	Anode materials	1,439	1,413	(26)	-	-	-
	Others	42	36	(5)	-	-	-
		3,778	3,480	(298)	320	166	(154)
Inter-segment eliminations		—	—	—	(250)	(279)	(29)
Total		41,595	68,838	+27,242	12,610	21,226	+8,615

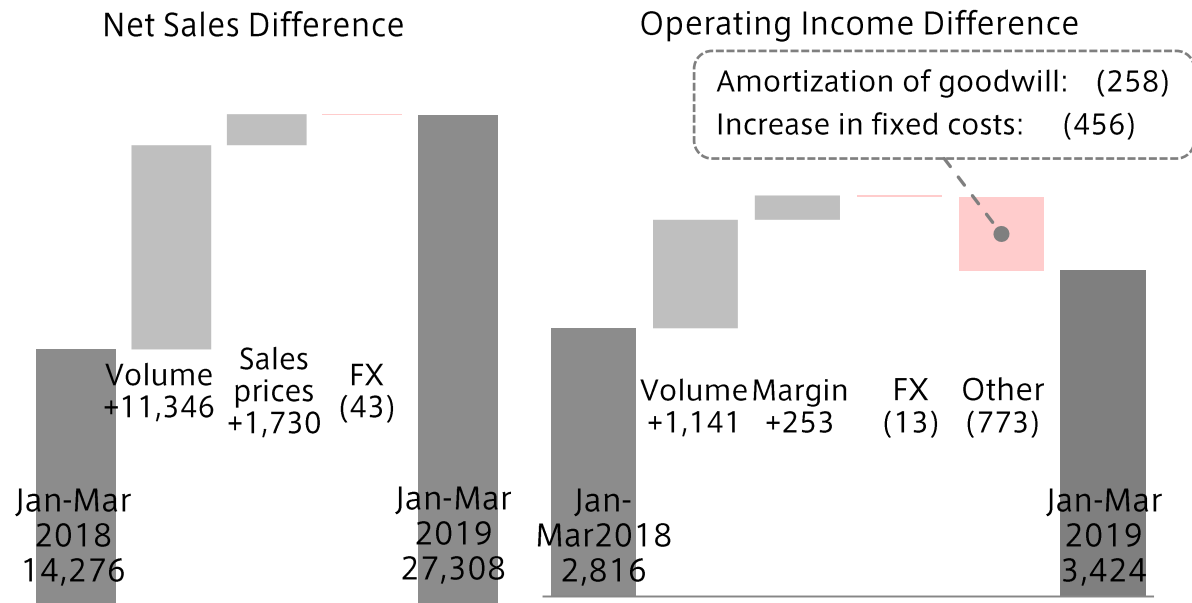
*The provisional accounting treatment of the TOKAI CARBON GE HOLDING LLC, Tokai Carbon Korea Co., Ltd., and Tokai Carbon CB Ltd. business combination was finalized. This resulted in the retroactive adjustment of 2018 figures.

- YoY Growth of Net Sales, Operating Income, ROS
- Graphite Electrode sales price increased by 20% from the previous quarter and doubled on a YoY base
- The fundamental situation surrounding Graphite Electrode is unchanged, although the criticalness of shortage at customer has been relaxed and our sales output is coming to a normal level



- YoY growth: Net Sales 91.3% Operating Income 21.6%
- Stable production level at our customers as Tire and Automobile industry
- Price revision based on higher feedstock oil price
- Consolidated contribution of Tokai Carbon CB Ltd. from September 2018

	Jan-Mar 2018	Jan-Mar 2019	YoY Change	% Change
Net sales	14,276	27,308	+13,032	+91.3%
Operating income	2,816	3,424	+608	+21.6%
ROS	19.7%	12.5%		

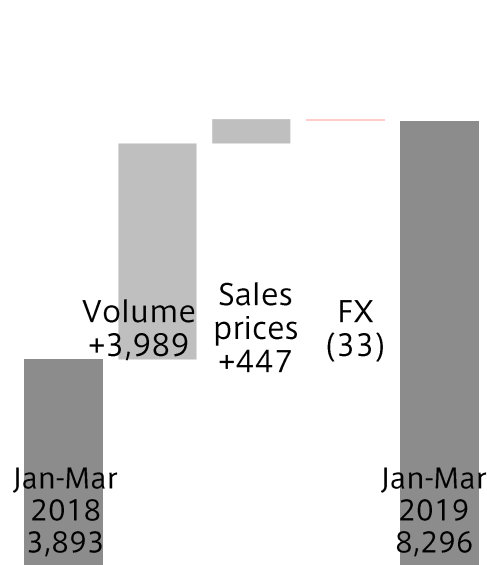


- YoY growth: Net Sales 113.1% Operating Income 168.9%
- Robust demand from General and Semiconductor industries
- Consolidated contribution of Tokai Carbon Korea from June 2018

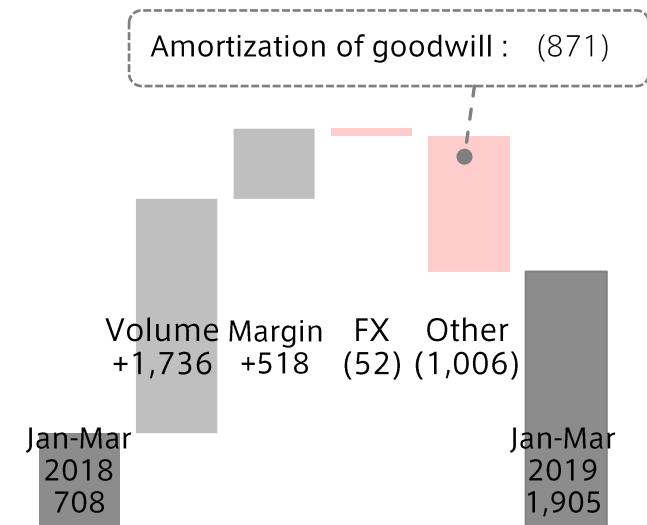
(Millions of yen)

	Jan-Mar 2018	Jan-Mar 2019	YoY Change	% Change
Net sales	3,893	8,296	+4,402	+113.1%
Operating income	708	1,905	+1,197	+168.9%
ROS	18.2%	23.0%		

Net Sales Difference

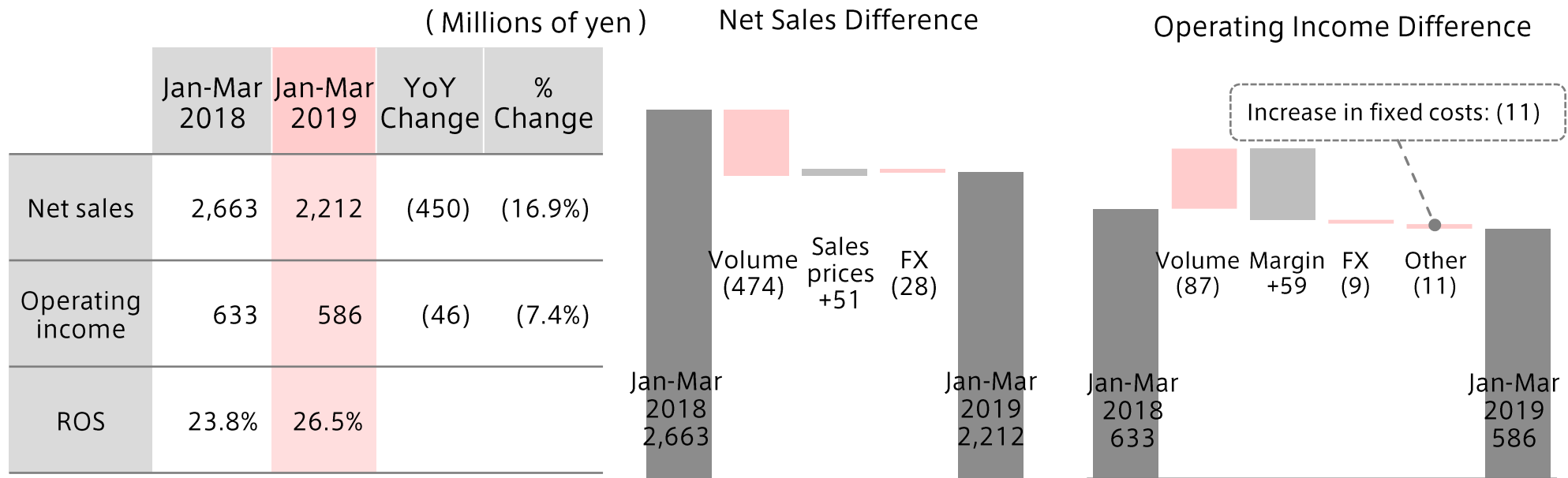


Operating Income Difference



Industrial Furnaces and Related Products 12

- Net Sales 16.9% growth, Operating Income 7.4% decrease on YoY base
- Industrial furnace sales dropped in Q1 since most of the shipments for 2019 are concentrated in the 2nd Half
- Ceramic heater and other business had robust demand from the MLCC (multi-layer ceramic capacitors) and Sheet Glass industries that resulted in a higher Net Sales on a YoY base



■ Friction Materials:

- Net Sales dropped by ¥266 million (-11.6%) YoY
- Exiting from the four wheel automotive business in line with our business restructuring project

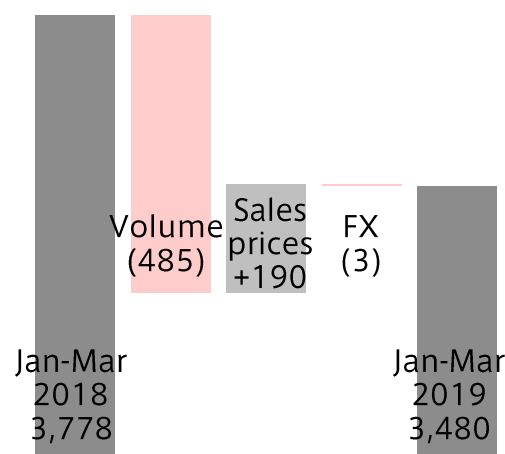
■ Anode Materials:

- Net Sales dropped by ¥26 million (-1.8%) YoY
- Sales volume dropped due to the production adjustment occurred at customer side

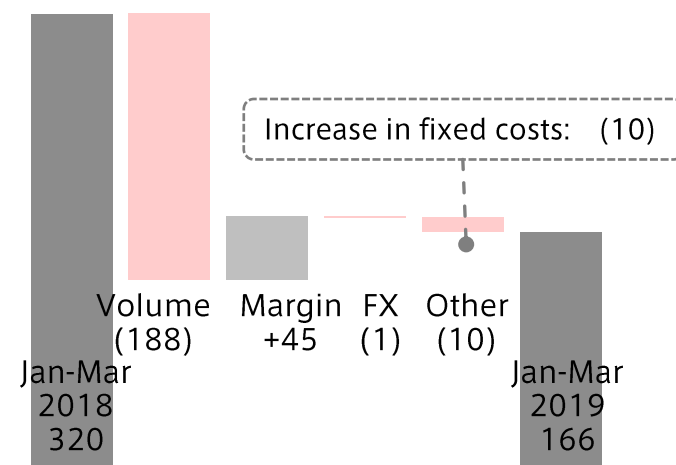
(Millions of yen)

	Jan-Mar 2018	Jan-Mar 2019	YoY Change	% Change
Net sales	3,778	3,480	(298)	(7.9%)
Operating income	320	166	(154)	(48.2%)
ROS	8.5%	4.8%		

Net Sales Difference



Operating Income Difference



(Millions of yen)

Major Cash Flow Items

	Jan-Mar 2018	Jan-Mar 2019	Summary
Cash flows from operating activities	6,633	3,901	
Net income (loss) before income taxes	12,584	21,074	
Depreciation and amortization	1,768	3,335	
Amortization on good will	196	665	
Decrease (increase) in trade receivables	(4,981)	(424)	
Decrease (increase) in inventories	(5,201)	(8,995)	
Increase (decrease) in accounts payable-trade	2,022	(2,279)	
Income tax paid	244	(9,474)	
Cash flows from investing activities	(1,308)	(4,215)	
Purchase of property, plant and equipment	(1,257)	(4,247)	
Cash flows from financing activities	(1,790)	(2,981)	
Net increase (decrease) in short-term loans payable	(333)	(330)	
Payment of dividends	(1,278)	(2,557)	
Cash and cash equivalents at end of period	24,985	37,699	

※This material is provided only for reference and will not be reviewed by CPA

Major Balance Sheet Items

(Millions of yen)

	December 31, 2018	March 31, 2019	Summary
Total assets	329,868	336,286	
Current assets	164,220	169,113	
Cash and cash equivalents	46,797	43,195	<ul style="list-style-type: none"> · Tangible fixed assets (+¥2,222 million from the end of the previous period) · Intangible fixed assets (decrease of ¥1,526 million from the end of the previous period) Capital expenditures: ¥4,235 million (+¥2,656 million from the end of the previous period) Depreciation and amortization: ¥3,335million (+¥1,566million from the end of the previous period) Amortization of goodwill: ¥665million (+¥468million from the end of the previous period)
Notes and accounts receivable	55,137	55,615	
Inventory	58,789	67,763	
Fixed assets	165,648	167,173	
Tangible fixed assets	80,312	82,535	
Intangible fixed assets	61,805	60,279	
Investments and other assets	23,529	24,358	
Total liabilities	122,035	117,230	
Current liabilities	91,654	84,932	<ul style="list-style-type: none"> · Interest-bearing debt of ¥49,284million (decrease of ¥426 million from the end of the previous period)
Long-term liabilities	30,381	32,298	
Total net assets	207,833	219,056	
Shareholder's capital	179,500	190,179	<ul style="list-style-type: none"> · Capital-to-asset ratio:58.9% (End of previous period: 56.7%)
Other accumulated comprehensive income	7,640	7,813	
Non-controlling interests	20,692	21,062	
Total liabilities and net assets	329,868	336,286	

II

FY2019

Earnings Forecast

Consolidated Earnings Forecast FY2019

17

- Net Sales: ¥287.9 billion
- Operating Income: ¥75.4 billion
- ROS: 26.2%

(Millions of yen)

	Previous Forecast (February 12)			New Forecast for FY 2019			YoY Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net sales	155,800	166,900	322,700	144,600	143,300	287,900	(34,800)	(10.8%)
Operating income	48,500	50,200	98,700	42,700	32,700	75,400	(23,300)	(23.6%)
Ordinary Income	48,900	50,100	99,000	42,700	32,700	75,400	(23,600)	(23.8%)
Net Income Attributable to Owners of the Parent Company	32,800	33,300	66,100	27,800	21,500	49,300	(16,800)	(25.4%)
ROS	31.1%	30.1%	30.6%			26.2%	—	—
ROIC	—	—	31.2%	—	—	—	—	—
ROE	—	—	28.7%	—	—	23.7%	—	—

Group companies

- Consolidated subsidiaries: 30
- Equity method affiliates: 2

Average exchange rates:

- 2018 \$ 1=¥110.43
- 2019 \$ 1= ¥105.00 (2Q onward)

Forecast by Segment FY2019

18

(Millions of yen)

		Previous Forecast (February 12)			New Forecast for FY 2019			YoY Change	% Change
		1H	2H	Full Year	1H	2H	Full Year		
Net sales		155,800	166,900	322,700	144,600	143,300	287,900	(34,800)	(10.8%)
Graphite Electrodes		68,100	73,700	141,800	60,800	54,600	115,400	(26,400)	(18.6%)
Carbon Black		57,700	57,600	115,300	55,400	57,400	112,800	(2,500)	(2.2%)
Fine Carbon		16,400	18,200	34,600	16,000	17,200	33,200	(1,400)	(4.0%)
Industrial Furnaces and Related Products		5,700	8,300	14,000	5,800	8,300	14,100	+100	+0.7%
Other Operations	Friction materials	4,600	4,500	9,100	4,000	4,300	8,300	(800)	(8.8%)
	Anode materials	3,200	4,500	7,700	2,500	1,400	3,900	(3,800)	(49.4%)
	Others	100	100	200	100	100	200	0	+0%
	Total Others	7,900	9,100	17,000	6,600	5,800	12,400	(4,600)	(27.1%)
Operating income		48,500	50,200	98,700	42,700	32,700	75,400	(23,300)	(23.6%)
Graphite Electrodes		36,000	36,700	72,700	31,900	21,300	53,200	(19,500)	(26.8%)
Carbon Black		7,500	7,100	14,600	6,600	6,700	13,300	(1,300)	(8.9%)
Fine Carbon		4,000	4,700	8,700	3,300	3,700	7,000	(1,700)	(19.5%)
Industrial Furnaces and Related Products		1,500	2,100	3,600	1,500	2,100	3,600	0	+0%
Other Operations		600	700	1,300	200	0	200	(1,100)	(84.6%)
Inter-segment eliminations		(1,100)	(1,100)	(2,200)	(800)	(1,100)	(1,900)	+300	(13.6%)

Reference Material

Net Sales of Main Subsidiaries

20

(Millions of Yen)

Subsidiary	Jan-Mar 2018	Jan-Mar 2019	YoY Change	Location /Business	Summary
TOKAI ERFTCARBON	7,683	9,580	+1,897	Germany Graphite Electrodes	
TOKAI CARBON GE	5,840	10,872	+5,031	U.S. Graphite Electrodes	· Contributing to consolidated results from November 2017
THAI TOKAI CARBON PRODUCT	4,571	4,680	+108	Thailand Carbon Black	
Tokai Carbon Tianjin	1,472	1,136	(335)	China Carbon Black	
Tokai Carbon CB	—	12,154	+12,154	U.S. Carbon Black	· Contributing to consolidated results from September 2018
Cancarb	1,914	1,785	(128)	Canada Carbon Black	
Tokai Carbon Korea	—	4,532	+4,532	Korea Fine Carbon	· Contributing to consolidated results from June 2018

(Millions of Yen)

	2015	2016	2017	2018	2019(Forecast)
Net Sales	104,864	88,580	106,252	231,302	287,900
Operating Income	4,088	1,131	11,093	73,065	75,400
Net Income Attributable to Owners of the Parent Company	2,484	(7,929)	12,346	73,393	49,300
ROS (%)	3.9%	1.3%	10.4%	31.6%	26.2%
ROE (%)	2.0%	(6.8%)	10.4%	46.8%	23.7%
ROIC (%)	2.1%	0.7%	7.7%	29.6%	-
Depreciation and Amortization	9,242	8,124	6,647	10,383	12,000
Capital Investment	5,301	6,013	4,282	11,794	32,000
Research and Development Expenses	1,822	2,249	1,482	1,883	-
Number of Employees	2,092	1,980	2,142	2,944	-
Exchange Rate (JPY/USD)	121.05	108.85	112.19	110.43	105.0

Quarterly Segment Results by Segment

22

(Millions of Yen)

		2018					2019 f				
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2(f)	H2(f)	Full Year	
Net Sales		41,595	50,092	63,697	75,917	231,302	68,838	75,762	143,300	287,900	
	Graphite Electrodes	16,984	23,121	29,134	32,835	102,075	27,540	33,260	54,600	115,400	
	Carbon Black	14,276	14,916	19,794	27,938	76,926	27,308	28,092	57,400	112,800	
	Fine Carbon	3,893	5,434	8,191	7,884	25,403	8,296	7,704	17,200	33,200	
	Industrial Furnaces and Related Products	2,663	2,685	2,642	3,380	11,371	2,212	3,588	8,300	14,100	
	Other Operations	Friction materials	2,296	2,385	2,336	2,462	9,480	2,030	1,970	4,300	8,300
		Anode materials	1,439	1,512	1,563	1,379	5,894	1,413	1,087	1,400	3,900
		Others	42	36	36	36	150	36	64	100	200
		Total Others	3,778	3,934	3,935	3,877	15,525	3,480	3,120	5,800	12,400
Operating Income		12,610	15,902	21,647	22,905	73,065	21,226	21,474	32,700	75,400	
	Graphite Electrodes	8,381	12,311	17,369	17,978	56,040	15,423	16,477	21,300	53,200	
	Carbon Black	2,816	2,382	2,461	2,771	10,431	3,424	3,176	6,700	13,300	
	Fine Carbon	708	526	1,058	1,421	3,715	1,905	1,395	3,700	7,000	
	Industrial Furnaces and Related Products	633	691	723	995	3,043	586	914	2,100	3,600	
	Other Operations	320	261	312	174	1,068	166	34	0	200	
	Inter-segment eliminations	(250)	(271)	(277)	(435)	(1,233)	(279)	(521)	(1,100)	(1,900)	

Disclaimer Regarding Forward-looking Statements 23

- 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.

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TOKAI CARBON