

Q3 FY2019
Analyst Meeting Material
2019/11/6



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I

Q3 FY2019

Financial Summary

Business Environment

- Graphite Electrodes: The European economy slow down and the U.S. China trade friction caused a decline in volume.
- Carbon Black: The U.S.-China trade friction caused a decline in volume in the Asian region.
- Fine Carbon: The pace of growth in the semiconductor market decelerated, and the consolidation of Tokai Carbon Korea as a subsidiary contributed to consolidated performance.

Operating Trends

- Net Sales: Increased 27.8% YoY
 - Sales prices improved for graphite electrodes, carbon black and fine carbon.
 - M&A projects contributed to consolidated net sales.
- Operating income: Decreased 1.5% YoY
 - Higher sales price for graphite electrodes but lower in volume.

Revision of Earnings Forecast for FY2019 (on November 6)

- The global economic deceleration caused a decline in sales volume for graphite electrode and other businesses. We newly incorporated this condition to our forecasts.

Summary of Consolidated Results

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■ Net sales ¥198.6 billion Operating income ¥49.4 billion ROS 24.9%

	(Millions of yen)			
	Jan-Sep 2018	Jan-Sep 2019	YoY Change	% Change
Net sales	155,385	198,624	+43,239	+27.8%
Operating income	50,160	49,422	(738)	(1.5%)
Ordinary Income	50,982	48,987	(1,995)	(3.9%)
Net Income Attributable to Owners of the Parent Company	58,814	31,048	(27,765)	(47.2%)

Group companies (As of Sep 30, 2019)

- Consolidated subsidiaries: 33(add: COBEX Group, removed: Daiya Tsusho)
- Equity method affiliates: 2

Average exchange rates for the first nine months:

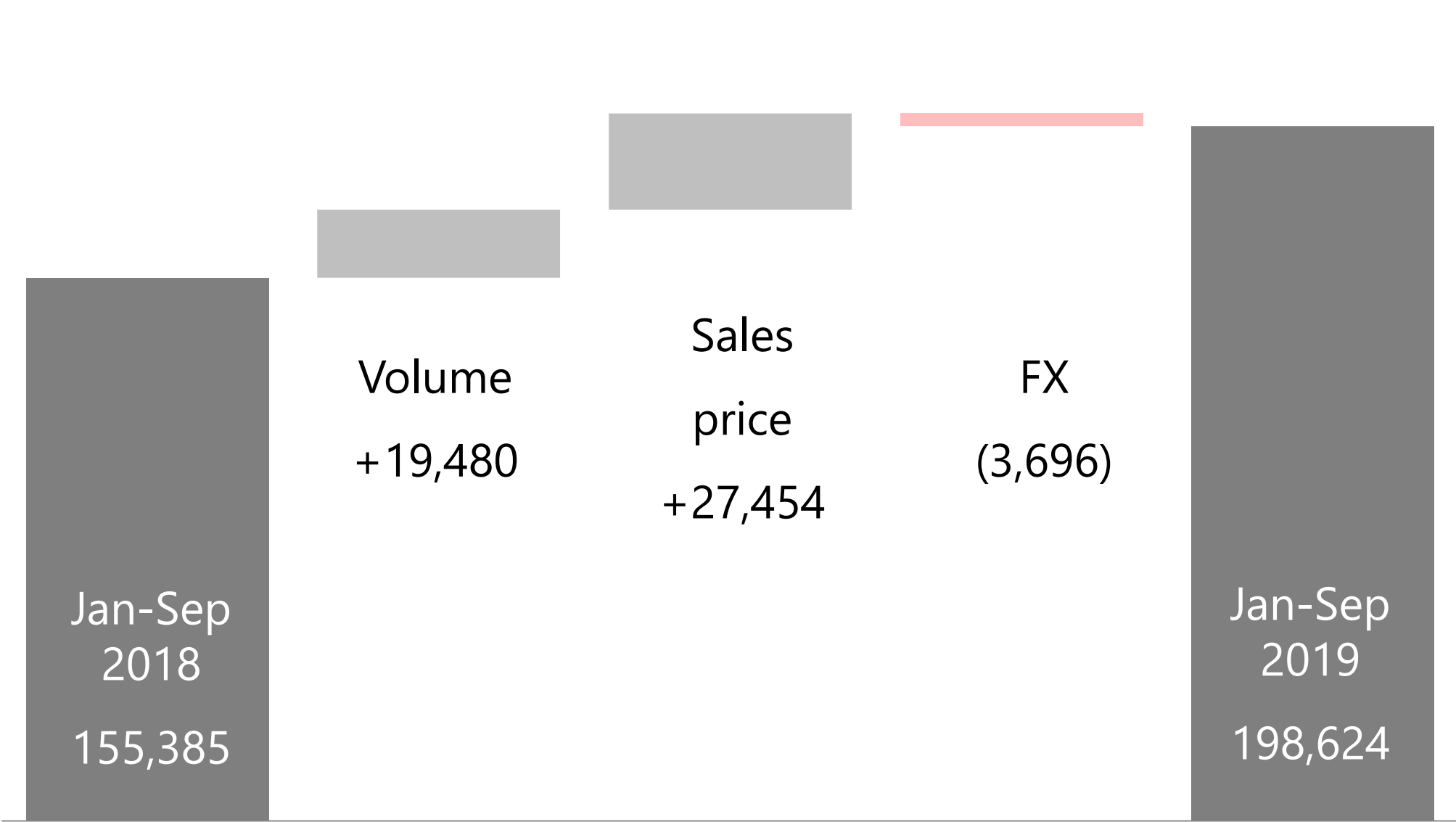
- 2018 \$1=¥109.61
- 2019 \$1=¥109.15

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

**Net income attributable to owners of the parent company in January-September 2018 includes special income of ¥22.8 billion.

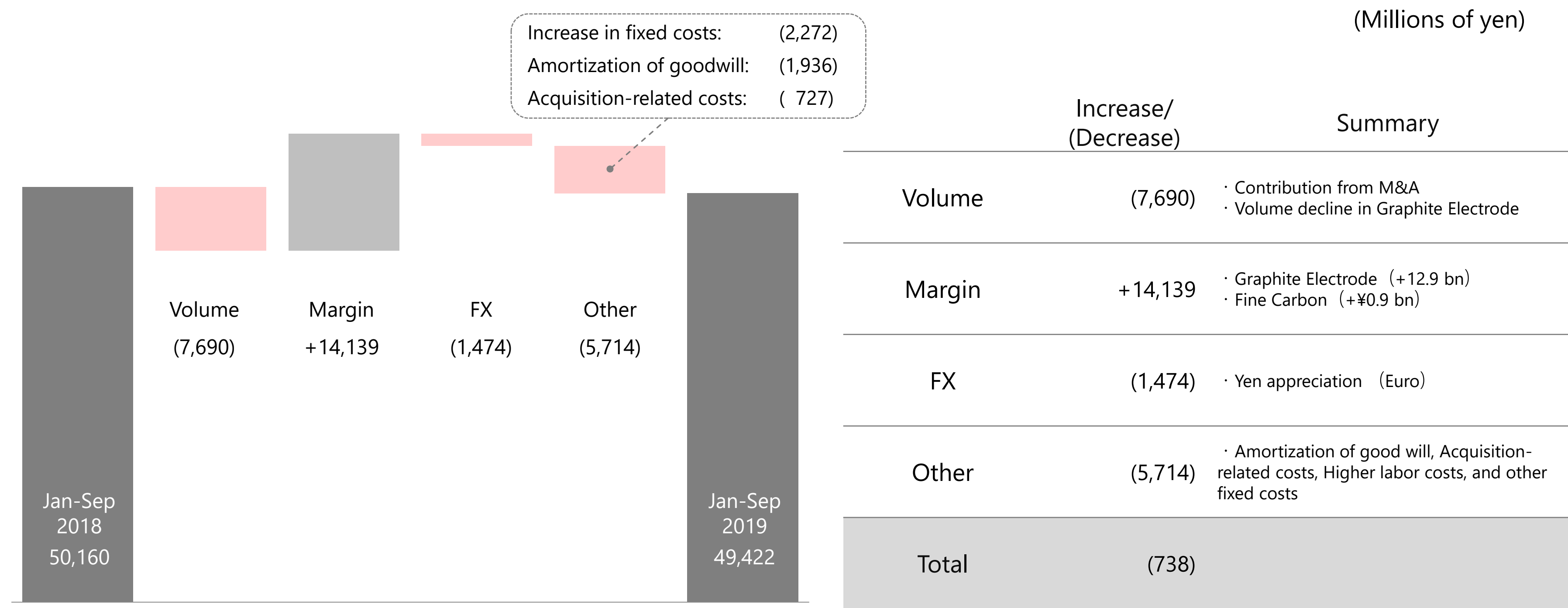
- The consolidation of Tokai Carbon Korea and Tokai Carbon CB (U.S.) contributed to performance.
- Sales prices for graphite electrodes, carbon black, and fine carbon increased.

(Millions of yen)



	Increase/ (Decrease)	Summary
Volume	+19,480	<div>· Contribution from M&A</div> <div>· Tokai Carbon CB</div> <div>· Tokai Carbon Korea</div>
Sales prices	+27,454	<div>· Graphite Electrode (+¥22.8 bn)</div> <div>· Carbon Black (+¥3.0 bn)</div> <div>· Fine Carbon(+¥1.2 bn)</div>
FX	(3,696)	<div>· Yen appreciation (Euro)</div> <div>(EUR : 130.97→122.66)</div>
Total	43,239	

■ Operating income declined by 1.5% YoY, majorly due to the volume decline in Graphite Electrode



Net Sales and Operating Income by Segment

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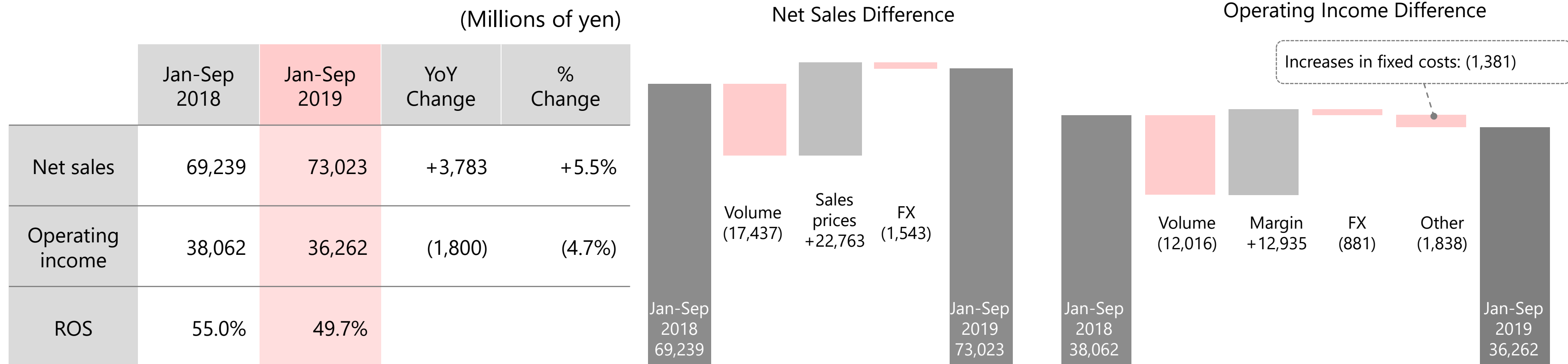
- Net sales increased and Operating income decreased YoY, in Graphite Electrode division
- Sales of friction materials dropped due to the exit from the four-wheel automotive business

(Millions of yen)

		Net sales			Operating income		
		Jan-Sep 2018	Jan-Sep 2019	YoY Change	Jan-Sep 2018	Jan-Sep 2019	YoY Change
Graphite Electrodes		69,239	73,023	+3,783	38,062	36,262	(1,800)
Carbon Black		48,987	80,359	+31,371	7,660	7,969	+309
Fine Carbon		17,518	23,246	+5,727	2,293	4,919	+2,625
Smelting and Lining		—	4,511	+4,511	—	(1,244)	(1,244)
Industrial Furnaces and Related Products		7,991	8,208	+217	2,048	2,155	+107
Other Operations	Friction materials	7,018	5,774	(1,244)	—	—	—
	Anode materials	4,515	3,392	(1,122)	—	—	—
	Others	114	108	(5)	—	—	—
		11,648	9,275	(2,372)	894	282	(612)
Inter-segment eliminations		—	—	—	(798)	(922)	(124)
Total		155,385	198,624	+43,239	50,160	49,422	(738)

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

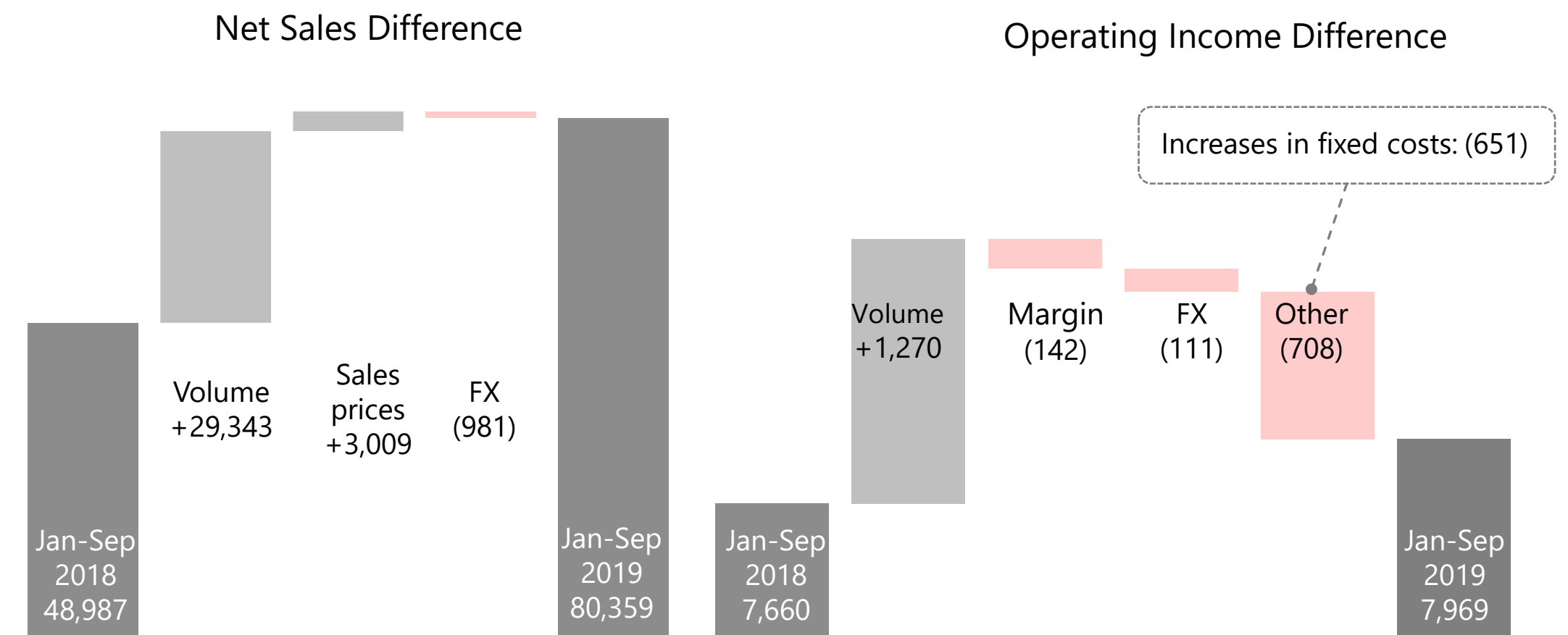
- Net sales increased and Operating income decreased on YoY
- The U.S.-China trade friction and the European economy deceleration caused a decline in sales volume YoY. Higher sales price YoY brought the increase in net sales amount by 5.5% YoY
- ROS 49.7% (55.0% for Q3 FY2018)



- U.S.-China trade friction led to a YoY decline in sales volume in the Asian region
- The consolidation of Tokai Carbon CB Ltd. from September 2018 contributed to growth in both net sales and operating income

(Millions of yen)

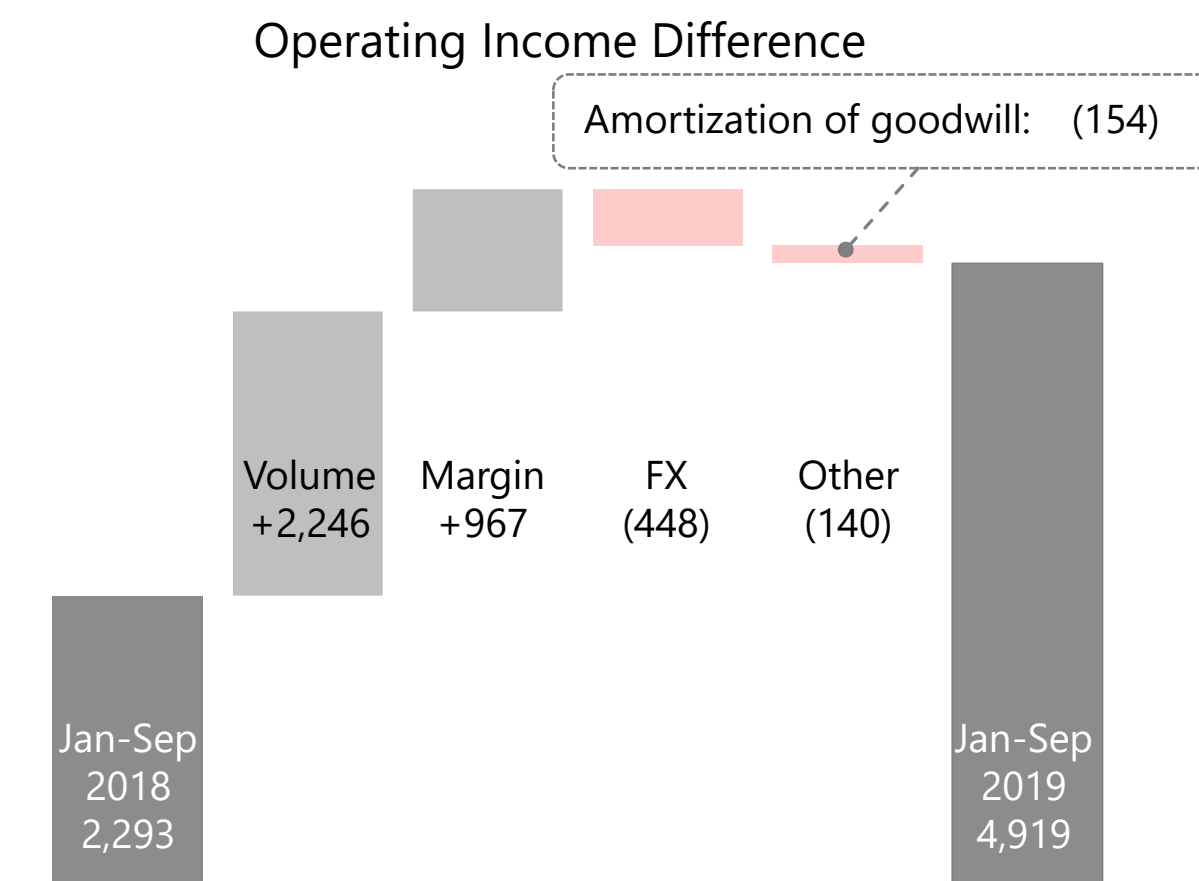
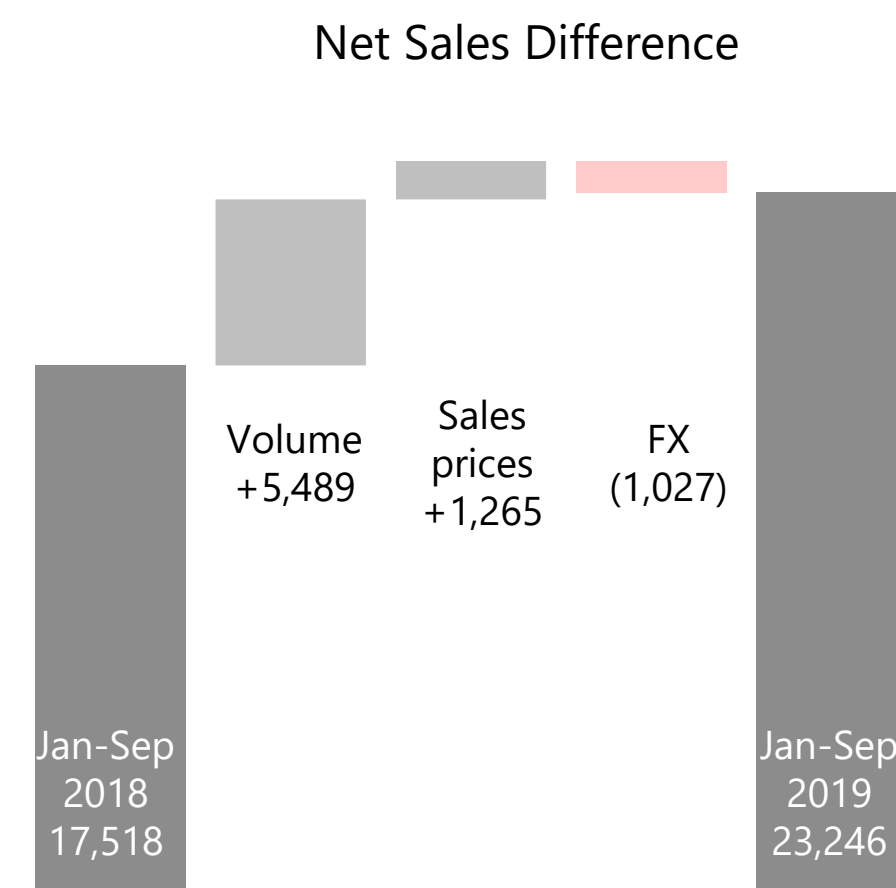
	Jan-Sep 2018	Jan-Sep 2019	YoY Change	% Change
Net sales	48,987	80,359	+31,371	+64.0%
Operating income	7,660	7,969	+309	+4.0%
ROS	15.6%	9.9%		



- Net sales increased by 32.7% YoY, operating income increased by 114.5% YoY
- Industrial application remained strong, and graphite production facilities was at a high operating rate
- The consolidation of Tokai Carbon Korea from June 2018 contributed to consolidated performance

(Millions of yen)

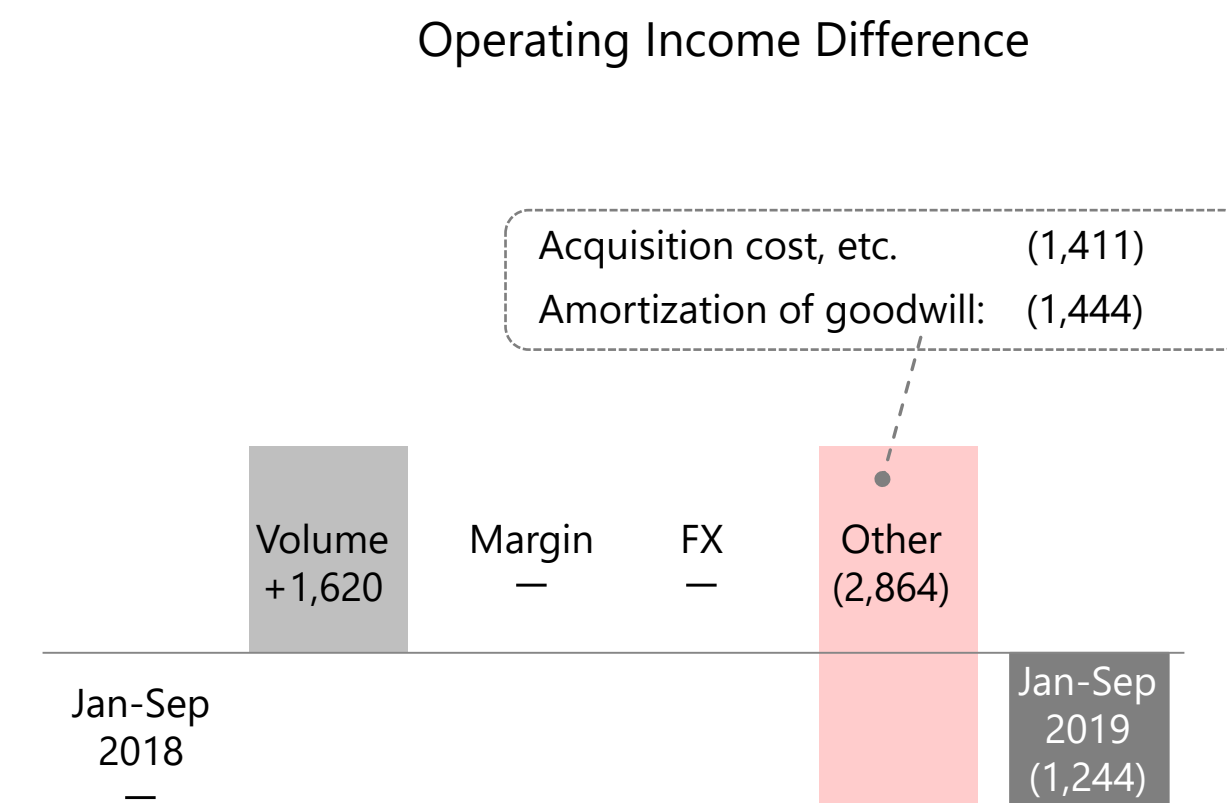
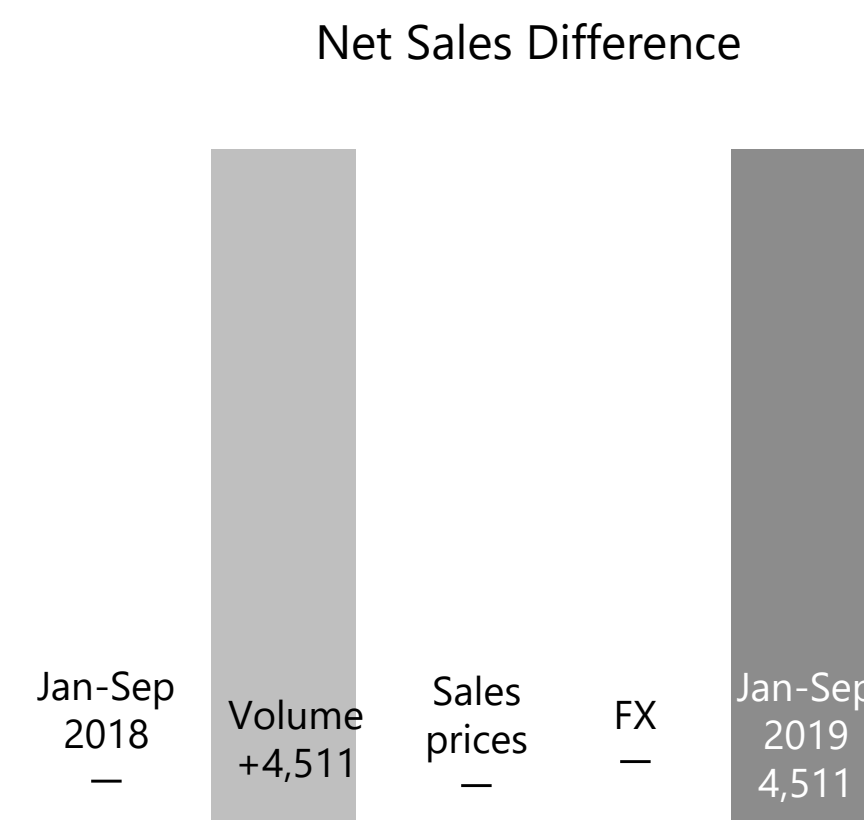
	Jan-Sep 2018	Jan-Sep 2019	YoY Change	% Change
Net sales	17,518	23,246	+5,727	+32.7%
Operating income	2,293	4,919	+2,625	+114.5%
ROS	13.1%	21.2%		



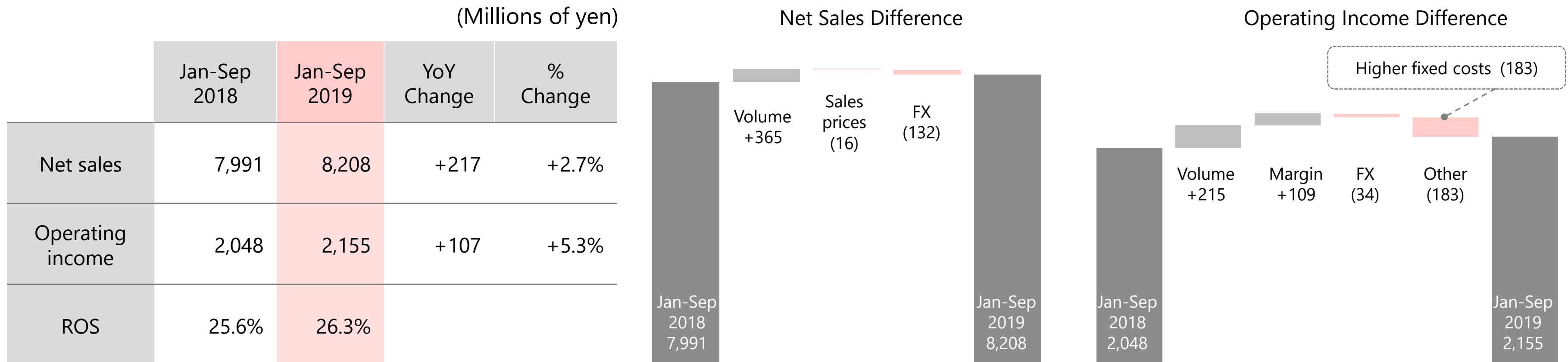
- Tokai COBEX HoldCo GmbH contributed to consolidated performance from August 2019
- This business is established as a new segment called “Smelting and Lining Division”
- Q3 FY2019 records a 1.2 billion yen operating loss due to a one time expense of acquisition cost

(Millions of yen)

	Jan-Sep 2018	Jan-Sep 2019	YoY Change	% Change
Net sales	—	4,511	+4,511	—
Operating income	—	(1,244)	(1,244)	—
ROS	—%	—%		

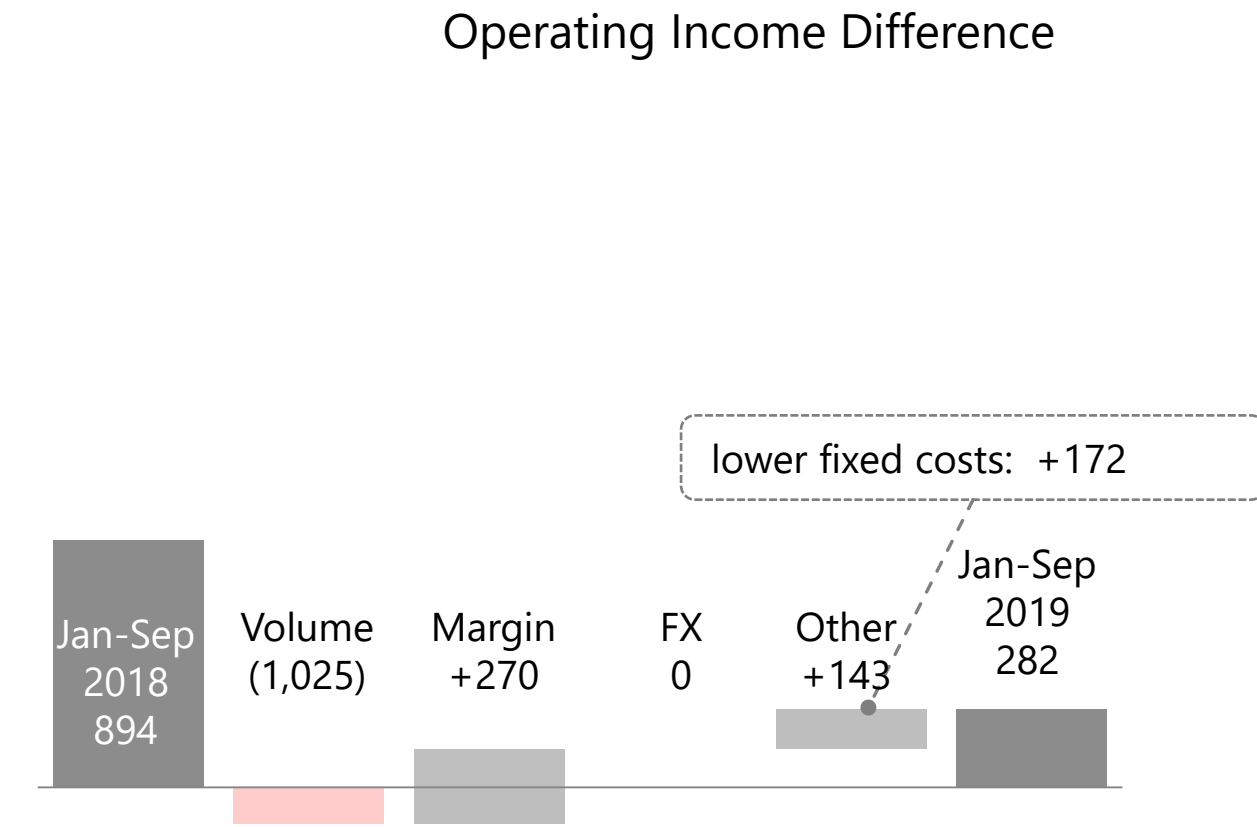
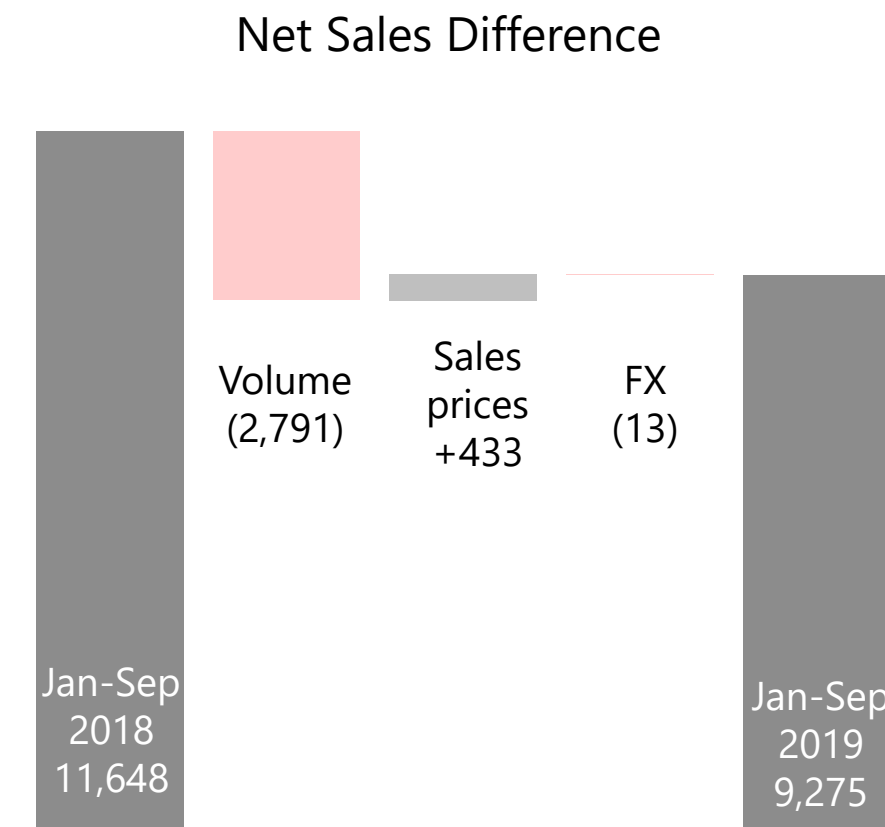


- Net sales increased 2.7% YoY and operating income increased 5.3% YoY.
- Industrial furnaces: Shipments to the information technology-related industry have increased
- Ceramic heaters and other products: Stable demand continues from sheet glass industries



- Friction materials: Exited from the four-wheel automotive business as part of our business restructuring project.
Net Sales ¥5,774 million (drop by 17.7% YoY)
- Anode materials: Our sales volume did not grow YoY, despite expansion of the secondary lithium-ion battery market.
Net Sales ¥3,392 million (drop by 24.9% YoY)

	(Millions of yen)			
	Jan-Sep 2018	Jan-Sep 2019	YoY Change	% Change
Net sales	11,648	9,275	(2,372)	(20.4%)
Operating income	894	282	(612)	(68.4%)
ROS	7.7%	3.0%		



Major Cash Flow Items

(Millions of yen)

	Jan-Sep 2018	Jan-Sep 2019	Summary
Cash flows from operating activities	30,633	26,001	
Net income (loss) before income taxes	73,909	48,679	
Depreciation and amortization	6,797	10,576	
Amortization on good will	1,268	3,166	
Loss (gain) on step acquisition	(22,843)	—	
Decrease (increase) in trade receivables	(13,268)	9,067	
Decrease (increase) in inventories	(17,229)	(21,111)	
Increase (decrease) in accounts payable- trade	6,623	(6,293)	
Income tax paid	(4,624)	(18,083)	
Cash flows from investing activities	(46,765)	(90,681)	
Purchase of property, plant and equipment	(4,800)	(16,307)	
Expenditure for acquisition of subsidiary	(40,094)	(73,643)	
Cash flows from financing activities	33,682	65,048	
Net increase (decrease) in short-term debt	37,739	63,760	
Issuance of bonds	—	10,000	
Payment of dividends	(3,836)	(7,673)	
Cash and cash equivalents at end of period	39,696	38,673	

Major Balance Sheet Items

(Millions of yen)

	December 31, 2018	September 31, 2019	Summary
Total assets	329,868	435,303	
Current assets	164,220	185,571	
Cash and cash equivalents	46,797	44,075	
Notes and accounts receivable	55,137	49,426	
Inventory	58,789	85,992	
Fixed assets	165,648	249,732	<ul style="list-style-type: none"> · Tangible fixed assets(+¥15,171 million from the end of the previous period) · Intangible fixed assets (+¥71,678 million from the end of the previous period)
Tangible fixed assets	80,312	95,484	Capital expenditures: ¥16,128 million (+¥9,006 million from the end of the previous period)
Intangible fixed assets	61,805	133,484	Depreciation and amortization: ¥10,576 million (+¥3,778 million from the end of the previous period)
Investments and other assets	23,529	20,764	Amortization of goodwill: ¥3,166 million (+¥1,898 million from the end of the previous period)
Total liabilities	122,035	215,101	
Current liabilities	91,654	161,874	
Long-term liabilities	30,381	53,226	<ul style="list-style-type: none"> · Interest-bearing debt of ¥148,517 million (+¥98,806 million from the end of the previous period)
Total net assets	207,833	220,202	
Shareholder's capital	179,500	202,874	
Other accumulated comprehensive income	7,640	(2,354)	
Non-controlling interests	20,692	19,682	<ul style="list-style-type: none"> · Capital-to-asset ratio:46.1 % (End of previous period: 56.7%)
Total liabilities and net assets	329,868	435,303	

II

FY2019

Earnings Forecast

- Reviewed our guidance reflecting the business environment change due to the slow down in world economy

(Millions of yen)

	Previous Forecast (Aug 6)			New Forecast for FY 2019			YoY Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net sales	139,176	165,224	304,400	139,176	123,424	262,600	(41,800)	(13.7%)
Operating income	40,441	36,459	76,900	40,441	17,559	58,000	(18,900)	(24.6%)
Ordinary Income	40,562	36,338	76,900	40,562	16,738	57,300	(19,600)	(25.5%)
Net Income Attributable to Owners of the Parent Company	26,067	23,233	49,300	26,067	10,033	36,100	(13,200)	(26.8%)
ROS	29.1%	22.1%	25.3%	29.1%	14.2%	22.1%	—	—
ROIC	—	—	—	—	—	—	—	—
ROE	—	—	23.7%	—	—	18.4%	—	—

Group companies

- Consolidated subsidiaries: 33(add: COBEX Group, removed: Daiya Tsusho)
- Equity method affiliates: 2

Average exchange rates:

- 2019 \$1=¥109.15 (Q1-Q3) , ¥105.00 (Q4)

Net Sales and Operating Income Forecast by Segment

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(Millions of yen)

		Previous Forecast (Aug 6)			New Forecast for FY 2019			YoY Change	% Change	
		1H	2H	Full Year	1H	2H	Full Year			
Net Sales			139,176	165,224	304,400	139,176	123,424	262,600	(41,800)	(13.7%)
	Graphite Electrodes		57,052	58,348	115,400	57,052	33,348	90,400	(25,000)	(21.7%)
	Carbon Black		54,595	58,205	112,800	54,595	48,705	103,300	(9,500)	(8.4%)
	Fine Carbon		15,960	17,240	33,200	15,960	14,340	30,300	(2,900)	(8.7%)
	Smelting and Lining		—	16,500	16,500	—	14,000	14,000	(2,500)	(15.2%)
	Industrial Furnaces and Related Products		5,013	9,087	14,100	5,013	7,687	12,700	(1,400)	(9.9%)
	Other Operations	Friction materials	3,916	4,384	8,300	3,916	3,684	7,600	(700)	(8.4%)
		Anode materials	2,564	1,336	3,900	2,564	1,536	4,100	+200	+5.1%
		Others	72	128	200	72	128	200	0	—
Total Others		6,554	5,846	12,400	6,554	5,348	11,900	(500)	—	
Operating Income		40,441	36,459	76,900	40,441	17,559	58,000	(18,900)	(24.6%)	
Graphite Electrodes		31,340	21,860	53,200	31,340	8,360	39,700	(13,500)	(25.4%)	
Carbon Black		5,686	7,614	13,300	5,686	4,114	9,800	(3,500)	(26.3%)	
Fine Carbon		3,455	3,545	7,000	3,455	2,645	6,100	(900)	(12.9%)	
Smelting and Lining		(972)	2,472	1,500	(972)	1,272	300	(1,200)	(80.0%)	
Industrial Furnaces and Related Products		1,348	2,252	3,600	1,348	1,752	3,100	(500)	(13.9%)	
Other		199	1	200	199	1	200	0	—	
Inter-segment eliminations		(618)	(1,282)	(1,900)	(618)	(582)	(1,200)	+700	—	

Reference Material

Net Sales of Main Subsidiaries

(Millions of yen)

Subsidiary	Jan-Sep 2018	Jan-Sep 2019	YoY Change	Location /Business	Summary
TOKAI ERFTCARBON	27,704	22,917	(4,787)	Germany Graphite Electrodes	
TOKAI CARBON GE	25,185	29,334	+4,149	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
THAI TOKAI CARBON PRODUCT	14,601	14,107	(494)	Thailand Carbon Black	
Tokai Carbon Tianjin	4,246	3,631	(614)	China Carbon Black	
Tokai Carbon CB	3,957	35,329	+31,372	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	5,898	5,231	(666)	Canada Carbon Black	
Tokai Carbon Korea	5,984	12,161	+6,176	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	262,600
Operating Income	4,088	1,131	11,093	73,065	58,000
Net Income Attributable to Owners of the Parent Company	2,484	(7,929)	12,346	73,393	36,100
ROS (%)	3.9%	1.3%	10.4%	31.6%	22.1%
ROE (%)	2.0%	(6.8%)	10.4%	46.8%	18.4%
ROIC (%)	2.1%	0.7%	7.7%	29.6%	—
Depreciation and Amortization	9,242	8,124	6,647	10,383	15,000
Capital Investment	5,301	6,013	4,282	11,794	27,600
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

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(f=forecast) (Millions of yen)

		2018					2019 f					
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4 f	Full Year f	
Net Sales			41,595	50,092	63,697	75,917	231,302	68,838	70,338	59,448	63,976	262,600
	Graphite Electrodes		16,984	23,121	29,134	32,835	102,075	27,540	29,511	15,971	17,377	90,400
	Carbon Black		14,276	14,916	19,794	27,938	76,926	27,308	27,286	25,763	22,941	103,300
	Fine Carbon		3,893	5,434	8,191	7,884	25,403	8,296	7,664	7,286	7,054	30,300
	Smelting and Lining		—	—	—	—	—	—	—	4,511	9,489	14,000
	Industrial Furnaces and Related Products		2,663	2,685	2,642	3,380	11,371	2,212	2,801	3,194	4,492	12,700
	Other Operations	Friction materials	2,296	2,385	2,336	2,462	9,480	2,030	1,886	1,857	1,826	7,600
		Anode materials	1,439	1,512	1,563	1,379	5,894	1,413	1,151	827	708	4,100
		Others	42	36	36	36	150	36	36	36	92	200
Total Others		3,778	3,934	3,935	3,877	15,525	3,480	3,073	2,721	2,626	11,900	
Operating Income		12,610	15,902	21,647	22,905	73,065	21,226	19,215	8,980	8,579	58,000	
Graphite Electrodes		8,381	12,311	17,369	17,978	56,040	15,423	15,917	4,921	3,438	39,700	
Carbon Black		2,816	2,382	2,461	2,771	10,431	3,424	2,262	2,282	1,831	9,800	
Fine Carbon		708	526	1,058	1,421	3,715	1,905	1,549	1,463	1,181	6,100	
Smelting and Lining		—	—	—	—	—	—	(972)	(272)	1,544	300	
Industrial Furnaces and Related Products		633	691	723	995	3,043	586	762	806	945	3,100	
Other Operations		320	261	312	174	1,068	166	33	82	(81)	200	
Inter-segment eliminations		(250)	(271)	(277)	(435)	(‘1,233)	(279)	(339)	(304)	(278)	(1,200)	

- 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.

IR contact:
General Affairs Department TC-IR@tokaicarbon.co.jp



Building a Future of Technology and Trust
TOKAI CARBON CO., LTD.