

# FY2019 Earnings Presentation

February 17, 2019



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I

FY2019

# Financial Summary

## Business Environment and Financial Events

- The sense of global economy slow down from the impact of U.S.-China trade friction became clear in the latter half of 2019
- R&I has upgraded the rating from BBB+ to A- and issued the first unsecured straight bonds (dated July 5, 2019)
- Consolidation of Tokai COBEX HoldCo GmbH and execution of the hybrid finance

## Operating Trends

Net sales:	¥262 billion (Increased 13.3% YoY) <ul style="list-style-type: none"><li>➢ Sales prices improved for graphite electrodes and fine carbon</li><li>➢ M&amp;A projects contributed to consolidated net sales</li></ul>
Operating income:	¥54.3 billion (Decreased 25.6% YoY) <ul style="list-style-type: none"><li>➢ Lower in volume</li></ul>
Special income:	¥0.13 billion (FY2018 ¥22.94 billion*)
Special loss:	¥1.89 billion (FY2018 ¥0.12 billion) <ul style="list-style-type: none"><li>➢ ¥1.31 billion impairment loss on Anode material division assets etc. and removal costs of idle assets</li></ul>

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

- Net sales: ¥262 billion, Operating income: ¥54.3 billion, ROS 20.7%

	(Millions of yen)			
	Jan-Dec 2018	Jan-Dec 2019	YoY Change	% Change
Net sales	231,302	262,028	+30,726	+13.3%
Operating income	73,065	54,344	(18,721)	(25.6%)
Ordinary Income	72,991	52,986	(20,004)	(27.4%)
Net Income Attributable to Owners of the Parent Company	73,393	31,994	(41,399)	(56.4%)

Group companies (As of December 31, 2019)

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

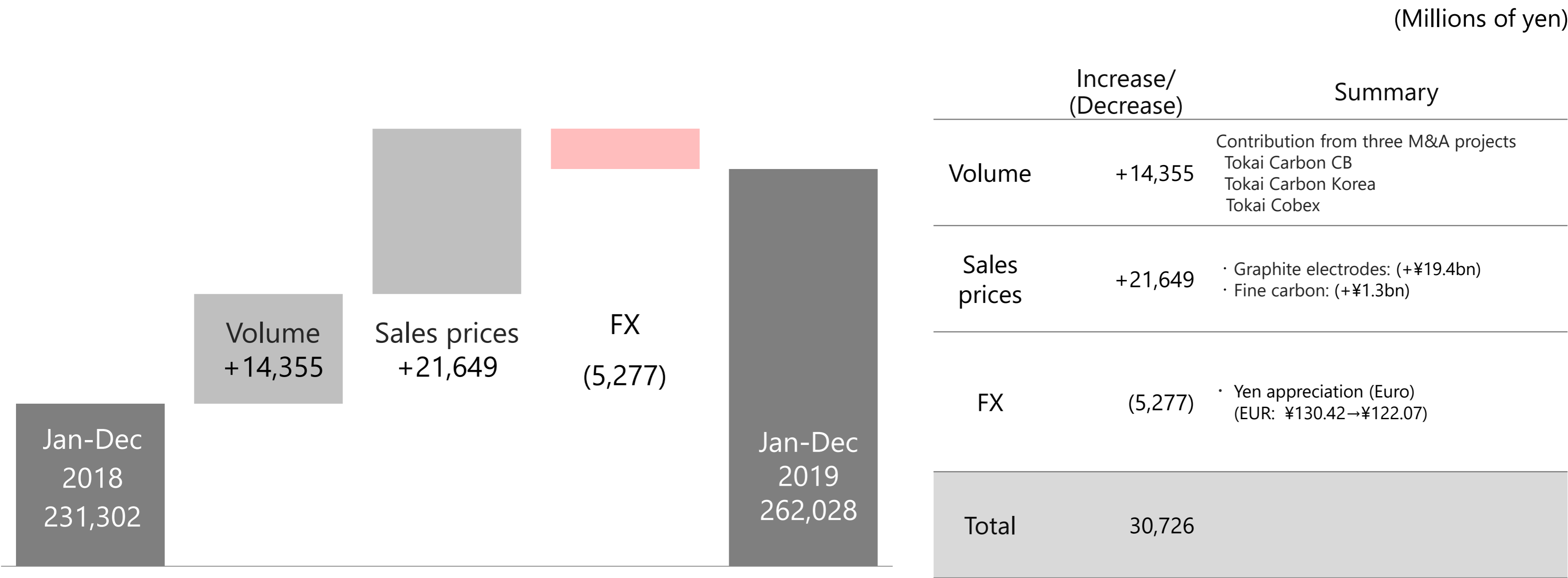
Average exchange rates:

- 2018 \$1=¥110.43
- 2019 \$1=¥109.05

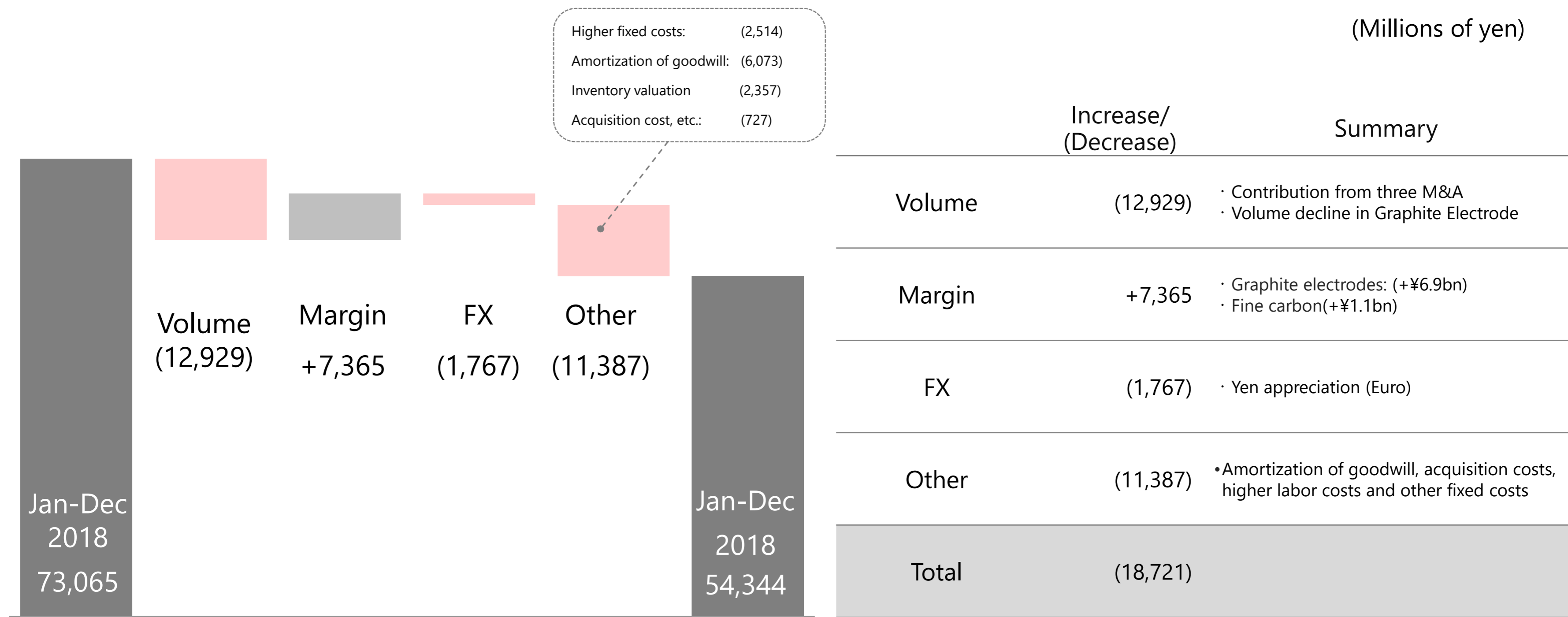
\*\*The provisional accounting treatment of Tokai Carbon Korea Co., Ltd. and Tokai Carbon CB Ltd. business combination was finalized. This resulted in the retroactive adjustment of 2018 figures.

\*\*Net income attributable to owners of the parent company in January-December 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 and fine carbon increased



■ Operating income declined by 25.6% YoY, majorly due to the volume decline in Graphite Electrode



# Net Sales and Operating Income by Segment

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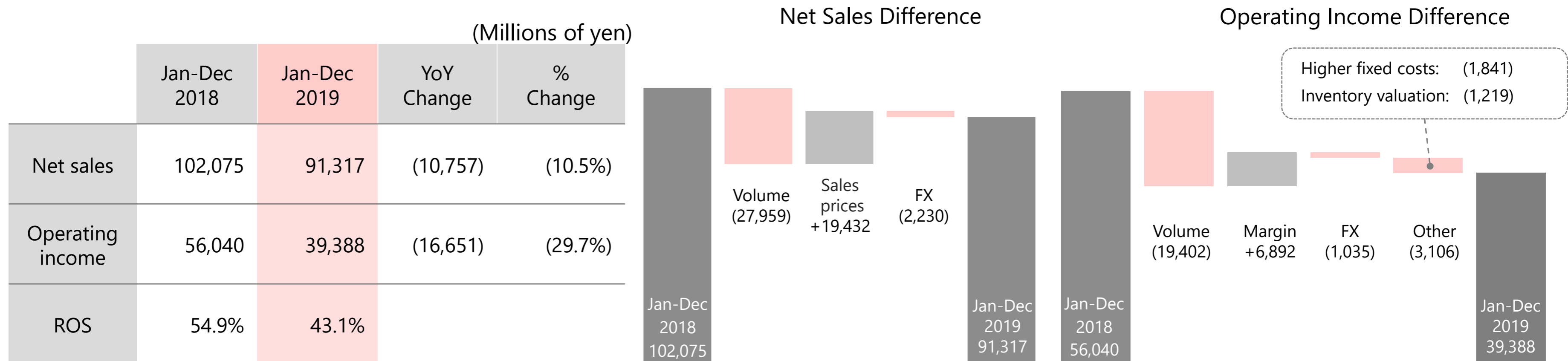
- Net sales increased and Operating income decreased YoY
- Sales of friction materials dropped due to the exit from the four-wheel automotive business
- Weaker sales in Anode material business

(Millions of yen)

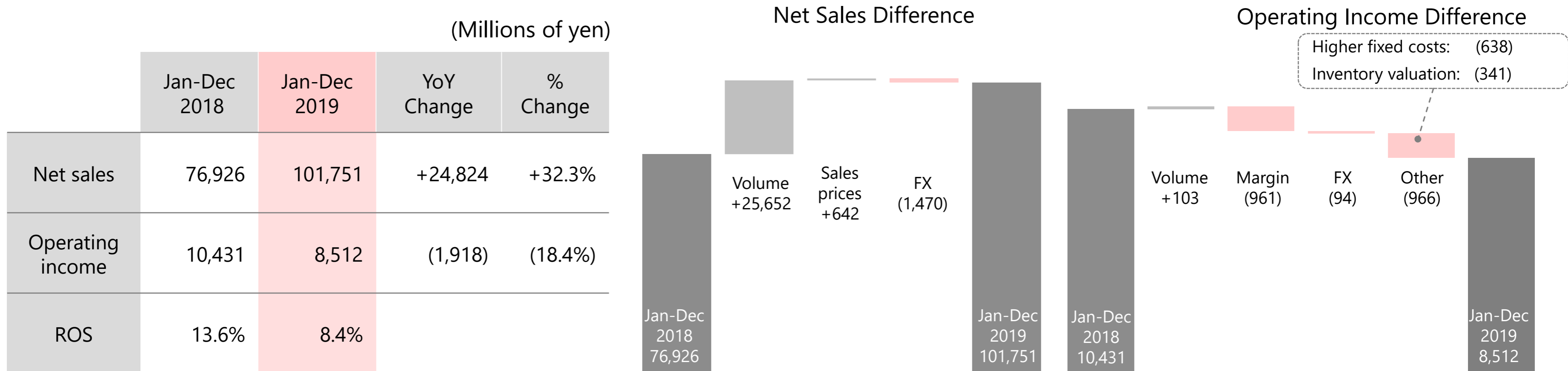
		Net sales			Operating income		
		Jan-Dec 2018	Jan-Dec 2019	YoY Change	Jan-Dec 2018	Jan-Dec 2019	YoY Change
Graphite Electrodes		102,075	91,317	(10,757)	56,040	39,388	(16,651)
Carbon Black		76,926	101,751	+24,824	10,431	8,512	(1,918)
Fine Carbon		25,403	30,369	+4,966	3,715	6,107	+2,392
Smelting and Lining		—	14,662	+14,662	—	(1,600)	(1,600)
Industrial Furnaces and Related Products		11,371	12,641	+1,269	3,043	3,227	+184
Other Operations	Friction materials	9,480	7,480	(2,000)	—	—	—
	Anode materials	5,894	3,661	(2,232)	—	—	—
	Others	150	144	(5)	—	—	—
		15,525	11,286	(4,238)	1,068	(21)	(1,089)
Inter-segment eliminations		—	—	—	(1,233)	(1,270)	(36)
Total		231,302	262,028	+30,726	73,065	54,344	(18,721)

\*\*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.

- Deceleration of the European economy from the beginning of the year and the prolonged U.S.-China trade friction impacted the lower YoY sales volume. European location recorded a valuation loss of approximately 1.2 billion yen due to a decline in profitability of inventories.
- Selling price increased YoY (ROS 43.1%)

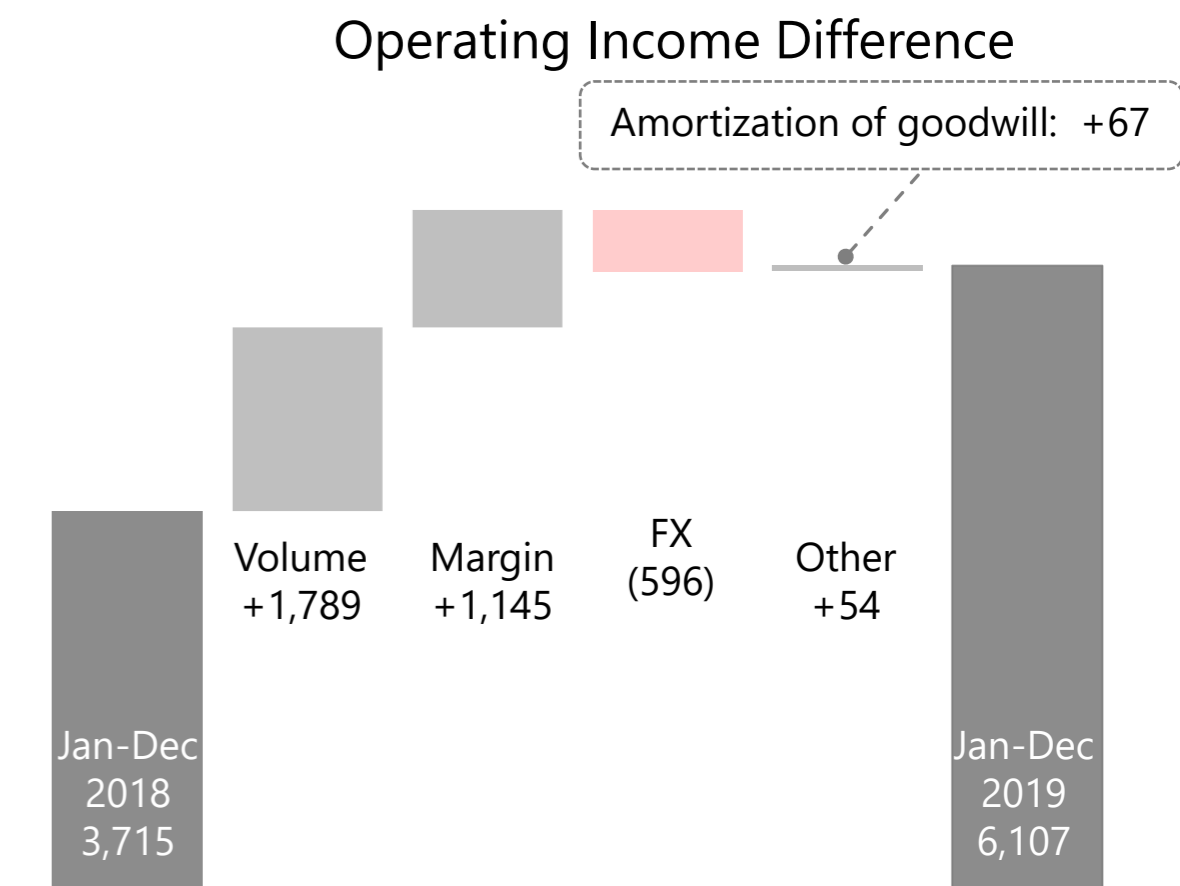
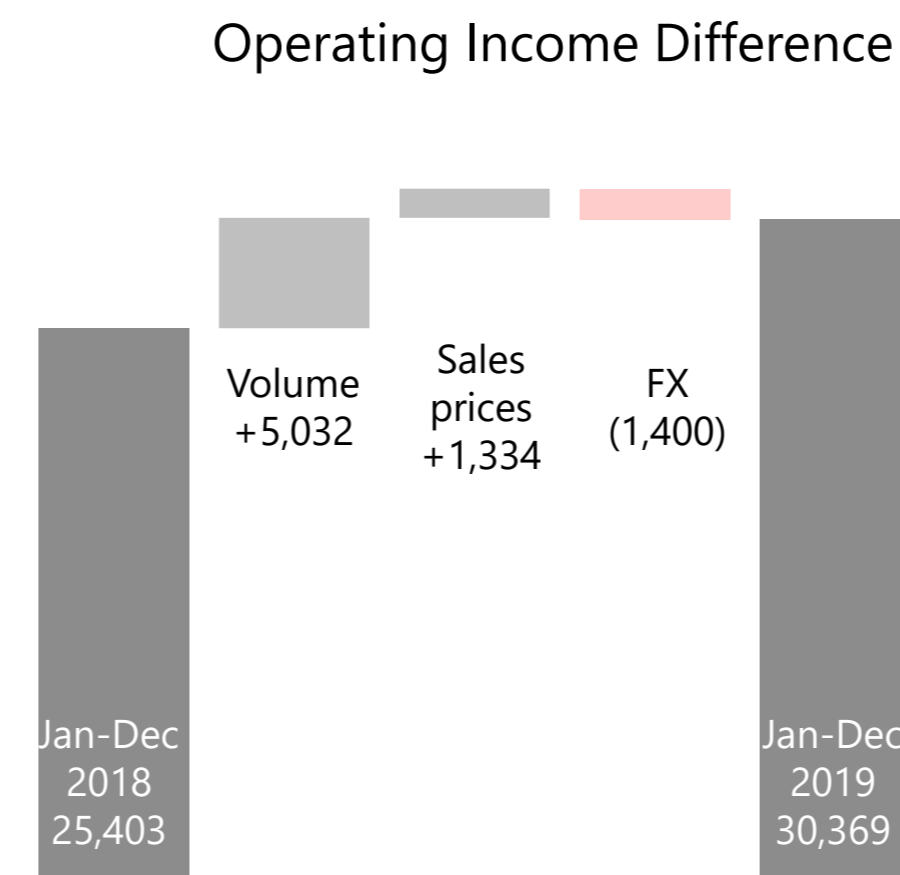


- Tokai Carbon CB Ltd. contributed from September 2018 as new subsidiary
- U.S.-China trade friction led to a YoY decline in sales volume
- Margin compression due to the rising cost rate



- Sales for semiconductors, photovoltaic power generation, and general industrial applications, which are face-to-face industries, were firm, but sales volume lowered in the latter half of 2019 due to the effects of prolonged U.S.-China trade friction.
- As an overall result, net sales increased by 19.5% YoY, operating income increased 64.4% YoY due to the consolidation of Tokai Carbon Korea from June 2018

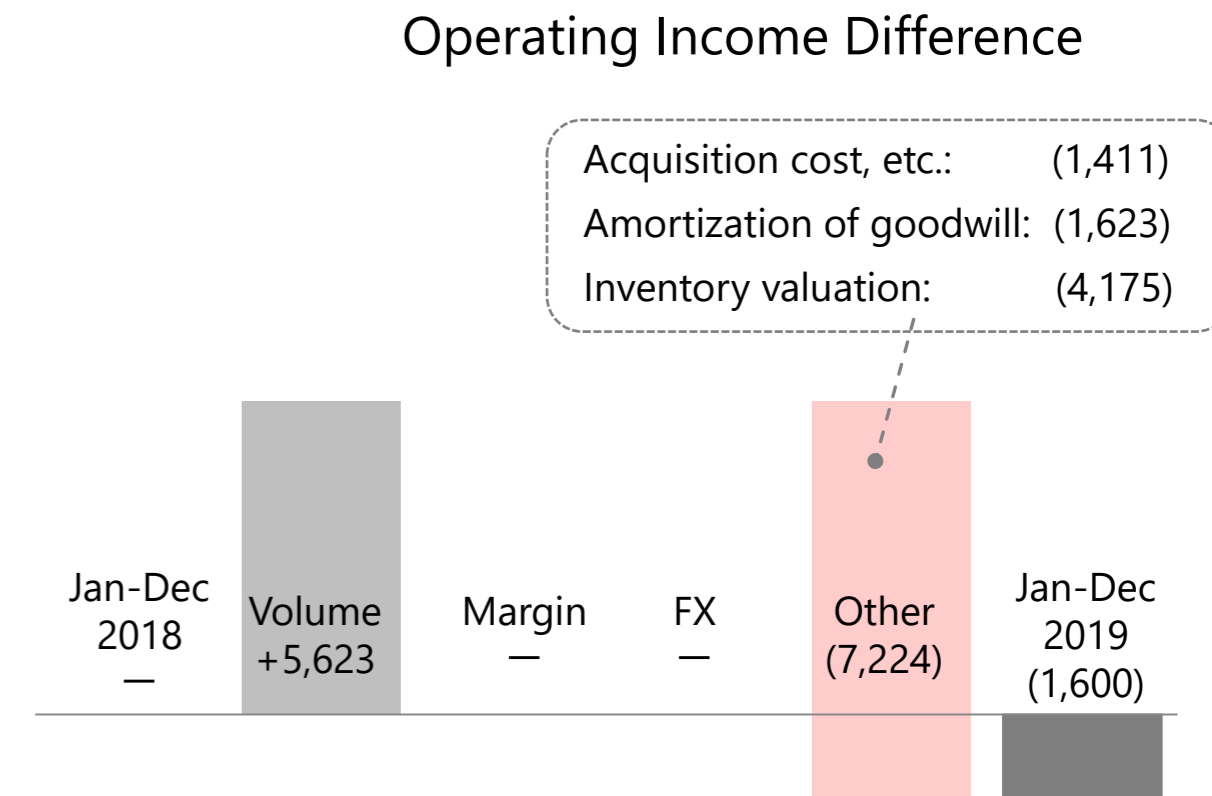
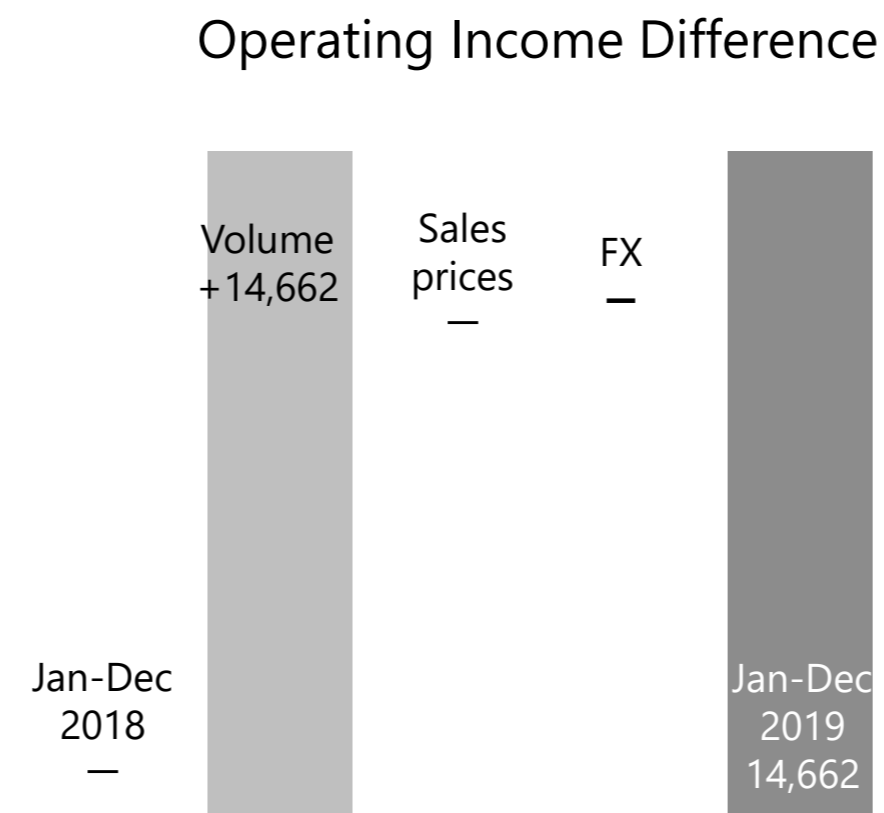
	Jan-Dec 2018	Jan-Dec 2019	YoY Change	% Change
Net sales	25,403	30,369	+4,966	+19.5%
Operating income	3,715	6,107	+2,392	+64.4%
ROS	14.6%	20.1%		



- Tokai COBEX HoldCo GmbH (TCX) contributed to consolidated performance from August 2019
- This business is established as a new segment called “Smelting and Lining” business

Operating income of TCX for the five-month (August to December 2019) amounted to 5.6 billion yen. In the segment accounting, valuation difference arising from the allocation of acquisition cost of 4.2 billion million yen, amortization of goodwill of 1.6 billion yen and acquisition-related expenses of 1.4 billion yen were recorded that led the 1.6 billion operating loss. Out of these costs, 3.6 billion yen was incurred as a one-off item that are not expected to arise in the next consolidated fiscal year and thereafter.

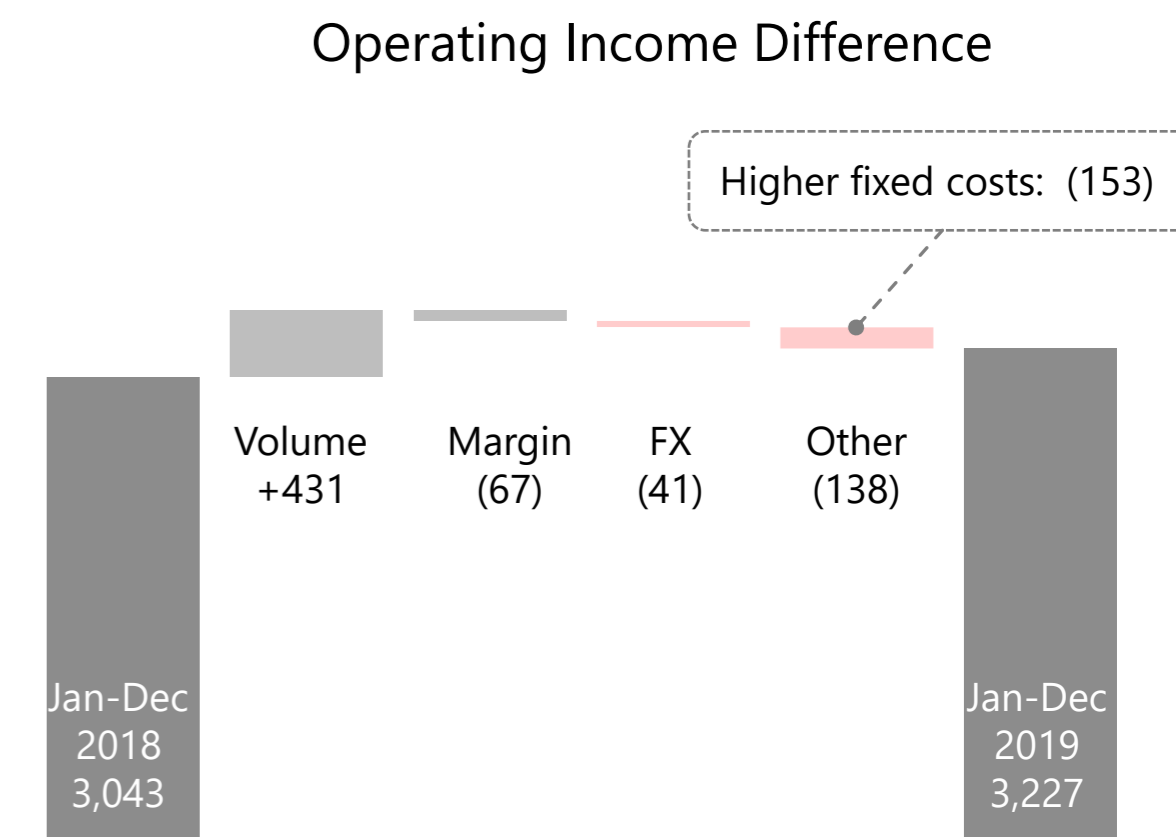
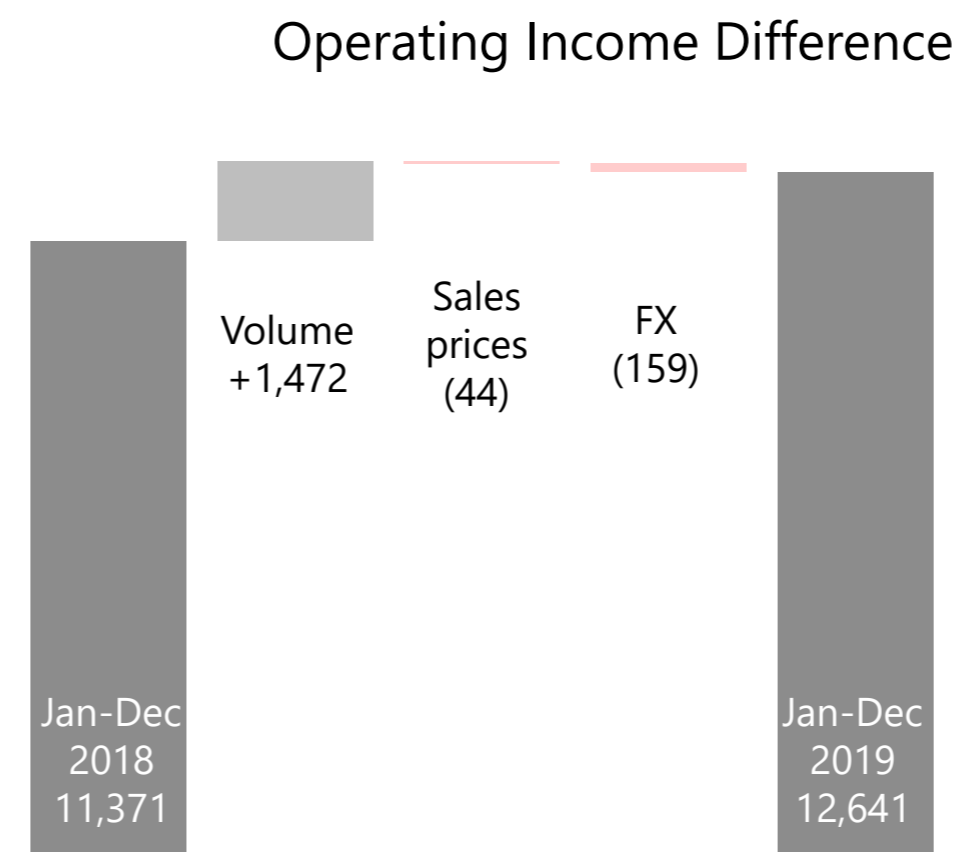
	(Millions of yen)			
	Jan-Dec 2018	Jan-Dec 2019	YoY Change	% Change
Net sales	—	14,662	+14,662	—
Operating income	—	(1,600)	(1,600)	—
ROS	—%	—%		



- Net sales increased 11.2% YoY and operating income increased 6.1% YoY
- Industrial furnaces: Higher sales volume to the IT industry
- Ceramic heaters and other products: Lower demand in electric components industry and in China, due to the U.S.-China trade friction, led to a lower sales YoY.

(Millions of yen)

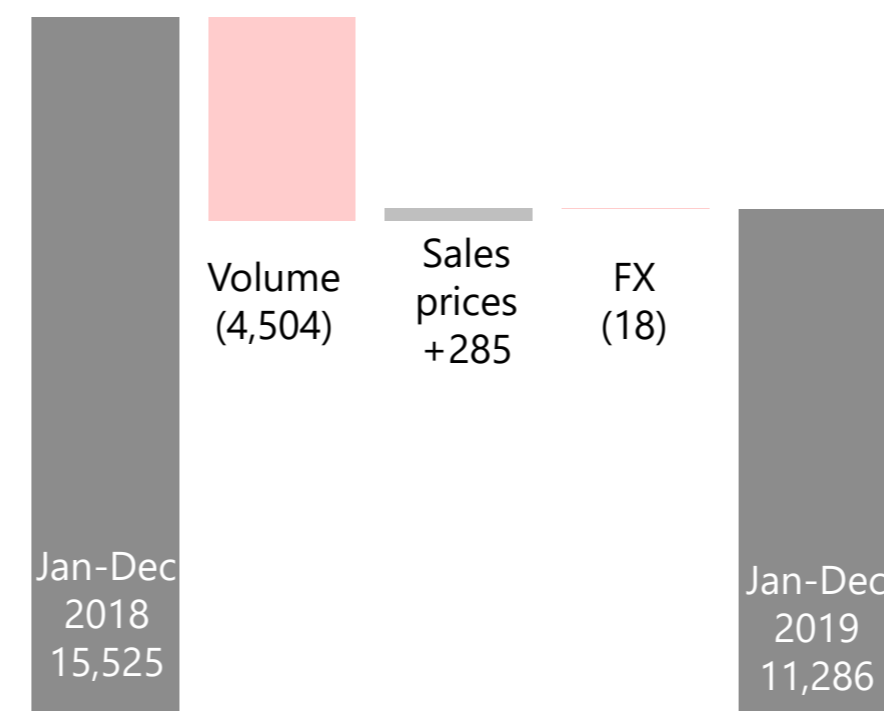
	Jan-Dec 2018	Jan-Dec 2019	YoY Change	% Change
Net sales	11,371	12,641	+1,269	+11.2%
Operating income	3,043	3,227	+184	+6.1%
ROS	26.8%	25.5%		



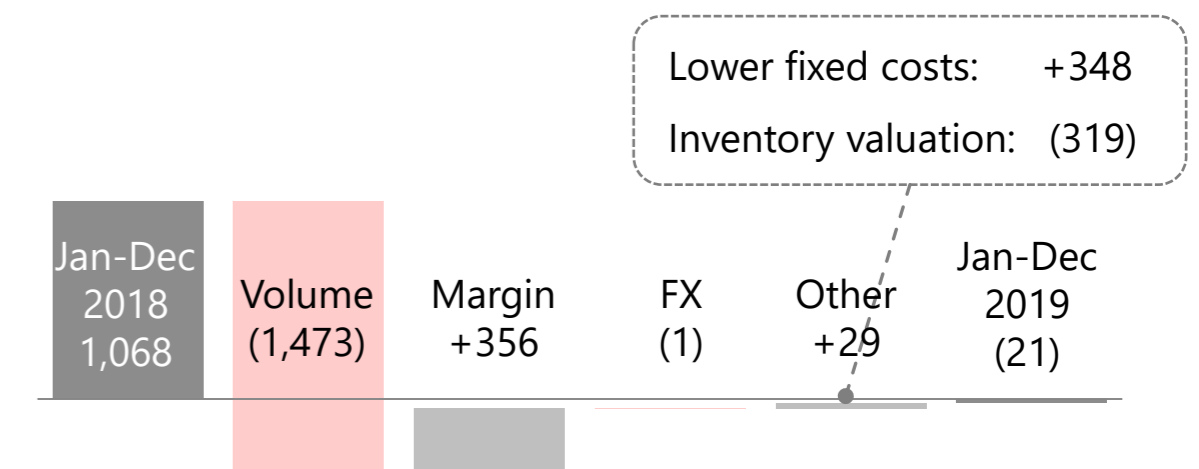
- Friction materials: Exited from the four-wheel automotive business as part of our business restructuring project.  
Net Sales ¥7,480 million (-21.1% YoY)
- Anode materials: Lower sales volume YoY due to a harsh competition, despite expansion of the secondary lithium-ion battery market  
Net Sales ¥3,661 million (-37.9% YoY)

	(Millions of yen)			
	Jan-Dec 2018	Jan-Dec 2019	YoY Change	% Change
Net sales	15,525	11,286	(4,238)	(27.3%)
Operating income	1,068	(21)	(1,089)	—%
ROS	6.9%	—%		

Operating Income Difference



Operating Income Difference



## Major Cash Flow Items

(Millions of yen)

	Jan-Dec 2018	Jan-Dec 2019	Summary
Cash flows from operating activities	44,109	41,664	
Net income (loss) before income taxes	95,811	51,226	
Depreciation and amortization	10,390	18,503	
Amortization on good will	1,918	4,205	
Loss (gain) on step acquisition	(22,843)	—	
Decrease (increase) in trade receivables	(15,370)	8,623	
Decrease (increase) in inventories	(23,182)	(19,778)	
Increase (decrease) in accounts payable- trade	9,508	730	
Income tax paid	(12,123)	(21,845)	
Cash flows from investing activities	(53,849)	(99,159)	
Purchase of property, plant and equipment	(8,491)	(23,984)	
Expenditure for acquisition of subsidiary	(43,789)	(73,643)	
Cash flows from financing activities	29,677	64,568	
Net increase (decrease) in short-term debt	33,735	38,221	
Issuance of bonds	—	35,000	
Payment of dividends	(3,836)	(7,673)	
Cash and cash equivalents at end of period	41,124	46,443	

## Major Balance Sheet Items

(Millions of yen)

	December 31, 2018	December 31, 2019	Summary
Total assets	329,868	462,872	
Current assets	164,220	196,446	
Cash and cash equivalents	46,797	52,695	
Notes and accounts receivable	55,137	50,648	
Inventory	58,789	86,380	
Fixed assets	165,648	266,425	<ul style="list-style-type: none"> <li>· Tangible fixed assets(+¥21,030 million from the end of the previous period)</li> <li>· Intangible fixed assets (+¥80,160 million from the end of the previous period)</li> <li>Capital expenditures: ¥24,341 million (+¥12,546 million from the end of the previous period)</li> <li>Depreciation and amortization: ¥18,503 million (+¥8,112 million from the end of the previous period)</li> <li>Amortization of goodwill: ¥4,205 million (+¥2,286 million from the end of the previous period)</li> </ul>
Tangible fixed assets	80,312	101,343	
Intangible fixed assets	61,805	141,966	
Investments and other assets	23,529	23,115	
Total liabilities	122,035	229,896	
Current liabilities	91,654	117,541	
Long-term liabilities	30,381	112,355	<ul style="list-style-type: none"> <li>· Interest-bearing debt of ¥148,030 million (+¥98,319 million from the end of the previous period)</li> <li>· Direct-funding ratio 43.9% (previous Year end: 0%)</li> <li>· Long-term debt ratio 53.8% (previous Year end:16.1%)</li> </ul>
Total net assets	207,833	232,975	
Shareholder's capital	179,500	203,819	
Other accumulated comprehensive income	7,640	8,019	<ul style="list-style-type: none"> <li>· Capital-to-asset ratio:45.8% (End of previous period: 56.7%)</li> <li>· Adjusted Capita-to-asset ratio※ 51.2%</li> </ul>
Non-controlling interests	20,692	21,137	
Total liabilities and net assets	329,868	462,872	

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

# II

FY2020

## Earnings Forecast

- Guidance reflecting the business environment change of slow down in world economy

(Millions of yen)

	FY2019 Results			FY2020 Forecast			YoY Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net sales	139,176	122,852	262,028	120,100	131,100	251,200	(10,828)	(4.1%)
Operating income	40,441	13,903	54,344	10,500	17,700	28,200	(26,144)	(48.1%)
Ordinary Income	40,562	12,424	52,986	10,300	17,500	27,800	(25,186)	(47.5%)
Net Income Attributable to Owners of the Parent Company	26,067	5,926	31,994	5,600	11,000	16,600	(15,394)	(48.1%)
ROS	29.1%	11.3%	20.7%	8.8%	13.5%	11.3%	—	—
ROIC	—	—	13.1%	—	—	5.7%	—	—
ROE	—	—	16.0%	—	—	8.0%	—	—

Group companies:

- Consolidated subsidiaries: 33
- Equity method affiliates: 2

Average exchange rates:

- 2019 \$1=¥109.05
- 2020 \$1=¥104.00

# Net Sales and Operating Income Forecast by Segment

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(Millions of yen)

		FY2019 Results			FY2020 Forecast			YoY Change	% Change	
		1H	2H	Full Year	1H	2H	Full Year			
Net Sales			139,176	122,852	262,028	120,100	131,100	251,200	(10,828)	(4.1%)
	Graphite Electrodes		57,052	34,265	91,317	31,100	34,800	65,900	(25,417)	(27.8%)
	Carbon Black		54,595	47,155	101,751	46,900	46,400	93,300	(8,451)	(8.3%)
	Fine Carbon		15,960	14,408	30,369	13,700	15,000	28,700	(1,669)	(5.5%)
	Smelting and Lining		—	14,662	14,662	16,000	21,000	37,000	+22,338	+152.4%
	Industrial Furnaces and Related Products		5,013	7,627	12,641	7,100	8,500	15,600	+2,959	+23.4%
	Other Operations	Friction materials	3,916	3,563	7,480	3,900	3,900	7,800	+320	+4.3%
		Anode materials	2,564	1,097	3,661	1,300	1,400	2,700	(961)	(26.2%)
		Others	72	72	144	100	100	200	-	-
Total Others		6,554	4,732	11,286	5,300	5,400	10,700	(586)	(5.2%)	
Operating Income			40,441	13,903	54,344	10,500	17,700	28,200	(26,144)	(48.1%)
	Graphite Electrodes		31,340	8,047	39,388	2,900	5,100	8,000	(31,388)	(79.7%)
	Carbon Black		5,686	2,825	8,512	3,600	4,000	7,600	(912)	(10.7%)
	Fine Carbon		3,455	2,651	6,107	2,200	2,900	5,100	(1,007)	(16.5%)
	Smelting and Lining		(972)	(628)	(1,600)	800	4,000	4,800	+6,400	-
	Industrial Furnaces and Related Products		1,348	1,878	3,227	1,600	2,200	3,800	+573	+17.8%
	Other		199	(220)	(21)	200	200	400	+421	-
	Inter-segment eliminations		(618)	(651)	(1,270)	(800)	(700)	(1,500)	(230)	-

Reference Material

# Net Sales of Main Subsidiaries

(Millions of yen)

Subsidiary	2018	2019	YoY Change	Location /Business	Summary
Tokai ErftCarbon	38,056	28,126	(9,930)	Germany Graphite Electrodes	
Tokai Carbon GE	39,429	36,248	(3,181)	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Products	19,730	17,971	(1,759)	Thailand Carbon Black	
Tokai Carbon Tianjin	5,599	4,822	(777)	China Carbon Black	
Tokai Carbon CB	15,750	43,813	+28,062	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	7,861	6,641	(1,220)	Canada Carbon Black	
Tokai Carbon Korea	10,154	16,075	+5,920	Korea Fine Carbon	• Contributing to consolidated results from June 2018

	(Millions of yen)				
	2016	2017	2018	2019	2020 (Forecast)
Net Sales	88,580	106,252	231,302	262,028	251,200
Operating Income	1,131	11,093	73,065	54,344	28,200
Net Income Attributable to Owners of the Parent Company	(7,929)	12,346	73,393	31,994	16,600
ROS (%)	1.3%	10.4%	31.6%	20.7%	11.3%
ROE (%)	(6.8%)	10.4%	46.8%	16.0%	8.0%
ROIC (%)	0.7%	7.7%	29.6%	13.1%	5.7%
Depreciation and Amortization	8,124	6,647	10,390	18,503	20,000
Capital Investment	6,013	4,282	11,794	24,341	35,000
Research and Development Expenses	2,249	1,482	1,883	2,460	3,000
Number of Employees	1,980	2,142	2,944	3,714	-
Exchange Rate (JPY/USD)	108.85	112.19	110.43	109.05	104.00

# Quarterly Segment Results by Segment

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(Millions of yen)

		2018					2019					
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	
Net Sales			41,595	50,092	63,697	75,917	231,302	68,838	70,338	59,448	63,404	262,028
	Graphite Electrodes		16,984	23,121	29,134	32,835	102,075	27,540	29,511	15,971	18,294	91,317
	Carbon Black		14,276	14,916	19,794	27,938	76,926	27,308	27,286	25,763	21,391	101,751
	Fine Carbon		3,893	5,434	8,191	7,884	25,403	8,296	7,664	7,286	7,122	30,369
	Smelting and Lining		—	—	—	—	—	—	—	4,511	10,151	14,662
	Industrial Furnaces and Related Products		2,663	2,685	2,642	3,380	11,371	2,212	2,801	3,194	4,432	12,641
	Other Operations	Friction materials	2,296	2,385	2,336	2,462	9,480	2,030	1,886	1,857	1,706	7,480
		Anode materials	1,439	1,512	1,563	1,379	5,894	1,413	1,151	827	269	3,661
		Others	42	36	36	36	150	36	36	36	35	144
Total Others		3,778	3,934	3,935	3,877	15,525	3,480	3,073	2,721	2,011	11,286	
Operating Income		12,610	15,902	21,647	22,905	73,065	21,226	19,215	8,980	4,922	54,344	
	Graphite Electrodes		8,381	12,311	17,369	17,978	56,040	15,423	15,917	4,921	3,126	39,388
	Carbon Black		2,816	2,382	2,461	2,771	10,431	3,424	2,262	2,282	542	8,512
	Fine Carbon		708	526	1,058	1,421	3,715	1,905	1,549	1,463	1,188	6,107
	Smelting and Lining		—	—	—	—	—	—	(972)	(272)	(356)	(1,600)
	Industrial Furnaces and Related Products		633	691	723	995	3,043	586	762	806	1,072	3,227
	Other Operations		320	261	312	174	1,068	166	33	82	(303)	(21)
	Inter-segment eliminations		(250)	(271)	(277)	(435)	(1,233)	(279)	(339)	(304)	(347)	(1,270)

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