

Q1 FY2020
Earnings Presentation
2020/5/12



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Q1 FY2020

Financial Summary

Business Environment and Financial Events

- There were no material impact of enlarging COVID-19 infection to our Q1 results; Q1 sales was 44.0% of its 1st Half guidance (¥120.1b) and Q1 operating income was 64.3% of its 1st Half guidance (¥10.5b)
- The end of pandemic is unclear and it is difficult to forecast the future results at the moment; we will promptly announce the forecast once we come up with the rational estimation
- As a response to the pandemic, we will minimize the capital expenditures, implement thorough cost reduction, reduce inventory to generate cash and secure higher financial liquidity
- In order to seize new growth opportunities, we signed the put option agreement relating to a securities purchase agreement acquiring 100% shares in Carbone Savoie International SAS, the holding company of a French manufacture of carbon and graphite products Carbone Savoie SAS (dated April 10 2020)
- Maintained R & I rating and outlook (A-stable → A-stable, dated April 30, 2020)

Operating Trends

- Net Sales ¥52.7 billion (decreased 23.3%YoY)
 - Lower shipping volume at Graphite electrodes and Carbon Black
 - Tokai COBEX sales was consolidated from August 2019
- Operating income ¥6.7 billion (decreased 68.2%YoY)
 - Lower operating rate, Lower sales price

Summary of Consolidated Results

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- Net sales ¥52.7 billion, Operating income ¥67 billion, ROS 12.8%
- Net sales and Operating income decreased YoY

	(Millions of yen)			
	Jan-Mar 2019	Jan-Mar 2020	YoY Change	% Change
Net sales	68,838	52,790	▲16,048	▲23.3%
Operating income	21,226	6,750	▲14,475	▲68.2%
Ordinary income	21,186	6,573	▲14,613	▲69.0%
Net income Attribute to Owners of the Parent Company	13,236	4,583	▲8,653	▲65.4%

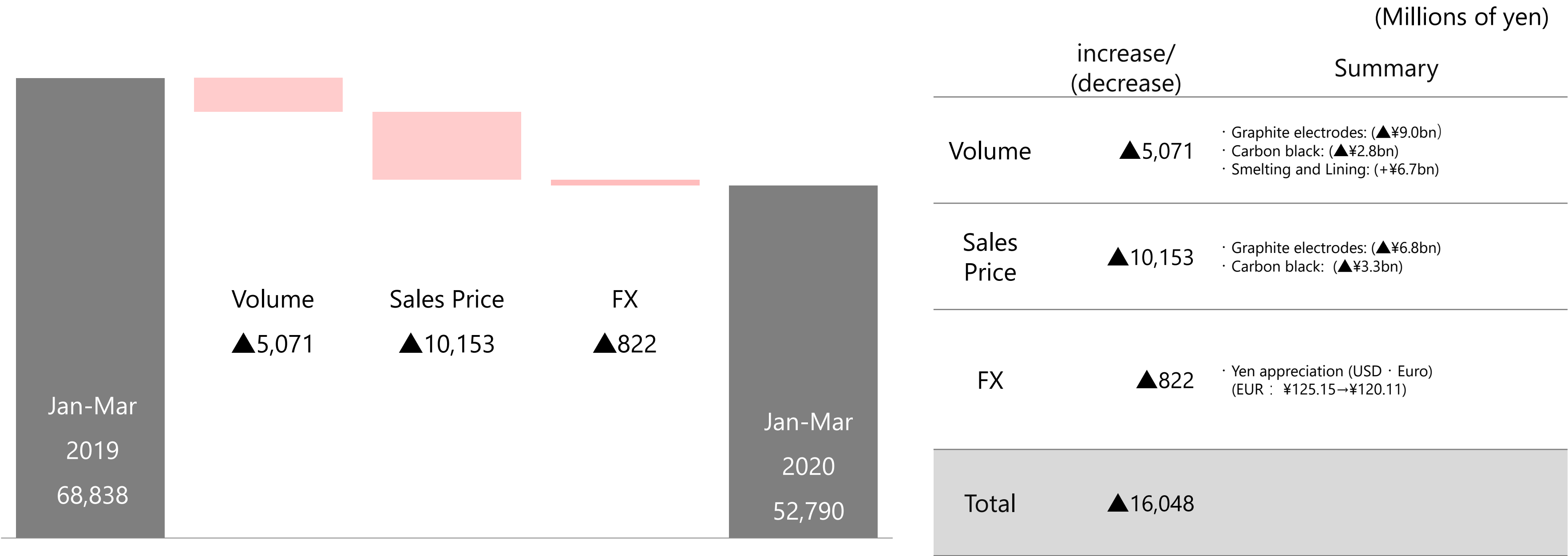
Group companies (As of March 31,2020)

- Consolidated subsidiaries: 33
- Equity method affiliates: 2

Average exchange rates:

- 2019年 USD1=¥110.20
- 2020年 USD1=¥108.92

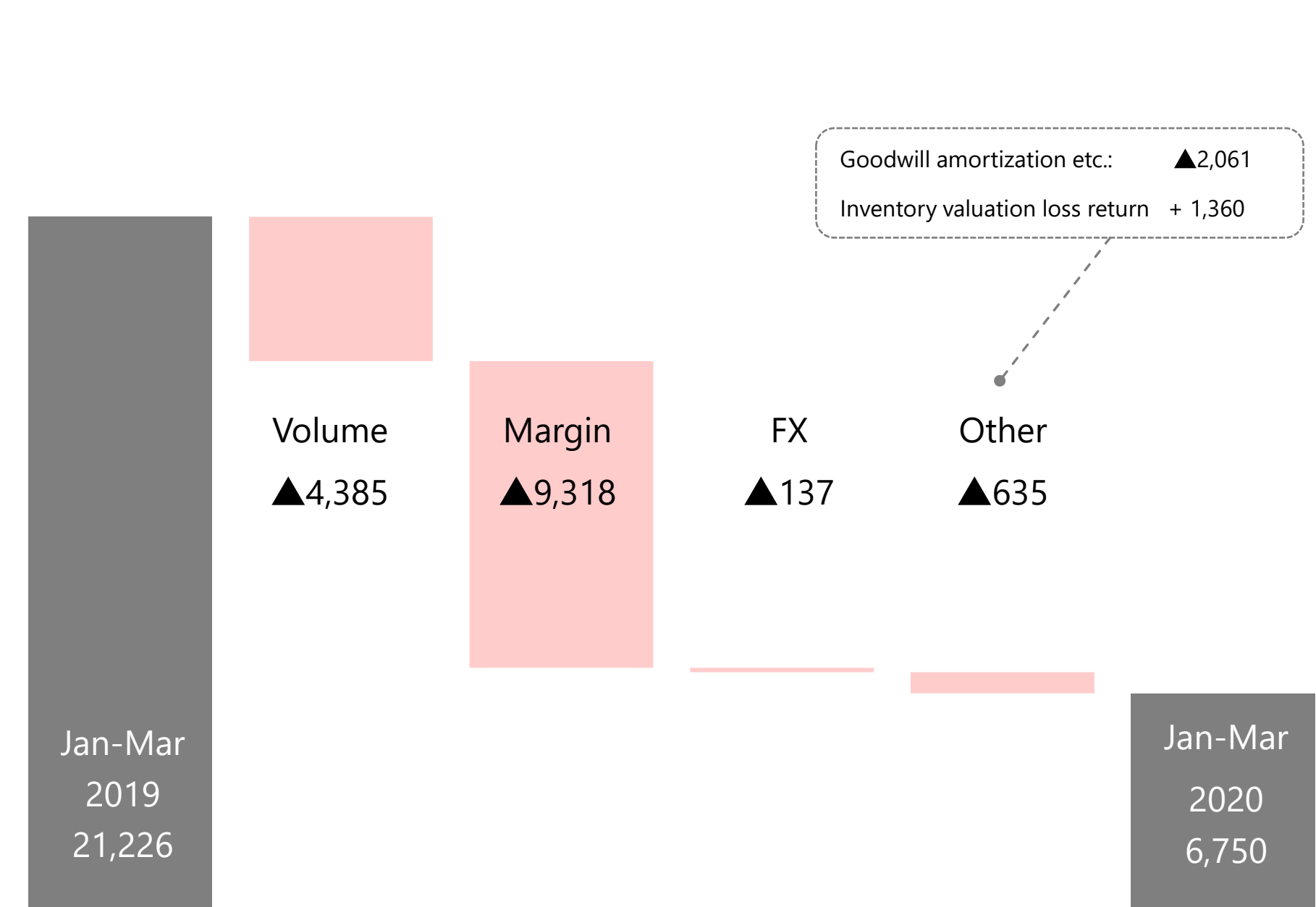
- Lower YoY sales volume and price for Graphite electrodes and Carbon black
- Result in, 23.3% decline of net sales YoY



YoY Analysis: Operating Income

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- Volume and Margin declined majorly for Graphite electrode and Carbon black
- Result in, 68.2% decline of operating income YoY



	Increase/ (decrease)	Summary
Volume	▲4,385	· Graphite electrodes: (▲¥5.7bn) · Carbon black: (▲¥1.0bn) · Smelting and Lining: (+¥2.4bn)
Margin	▲9,318	· Graphite electrodes: (▲¥8.2bn) · Carbon black: (▲¥1.3bn)
FX	▲137	· Yen appreciation
Other	▲635	· Goodwill amortization, etc. · Inventory valuation loss return
Total	▲14,475	

Net Sales and Operating Income by Segment

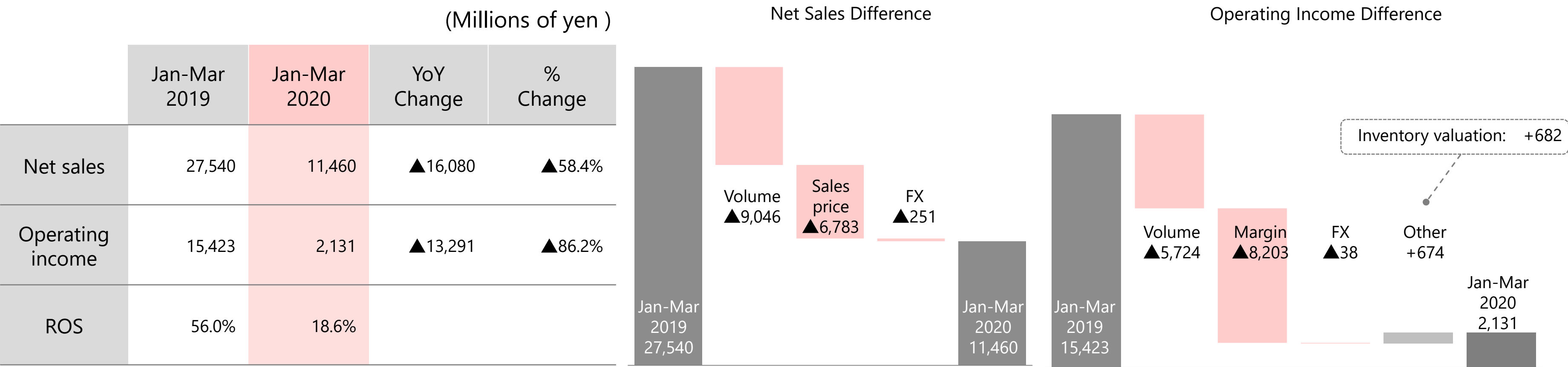
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- Breakdown by segments ; Net sales, Operating income
- Tokai COBEX business is the segmented as a “Smelting and Lining” (from August 2019)

(Millions of yen)

		Net sales			Operating income		
		Jan-Mar 2019	Jan-Mar 2020	YoY Change	Jan-Mar 2019	Jan-Mar 2020	YoY Change
Graphite Electrodes		27,540	11,460	▲16,080	15,423	2,131	▲13,291
Carbon Black		27,308	21,030	▲6,278	3,424	1,741	▲1,682
Fine Carbon		8,296	7,825	▲470	1,905	1,919	+13
Smelting and Lining		—	6,652	+6,652	—	175	+175
Industrial Furnaces and Related Products		2,212	3,242	+1,030	586	868	+282
Other Operation	Friction materials	2,030	1,639	▲391	—	—	—
	Anode materials	1,413	903	▲509	—	—	—
	Others	36	35	▲0	—	—	—
		3,480	2,579	▲901	166	242	+76
Inter-segment eliminations		—	—	—	▲279	▲330	▲50
Total		68,838	52,790	▲16,048	21,226	6,750	▲14,475

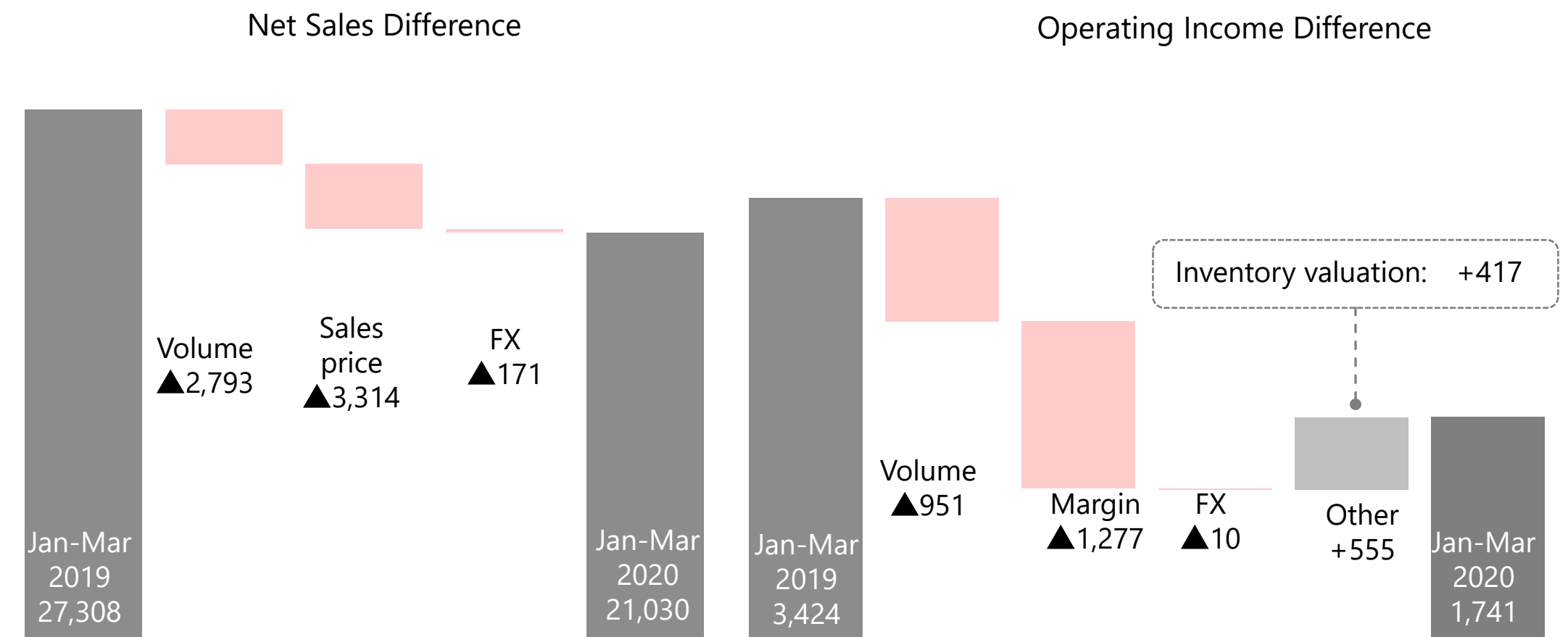
- Sales volume and price declined YoY due to the slow down of steel production and de-stocking of graphite electrode
- ROS 18.6% (Q1 2019: 56.0%)



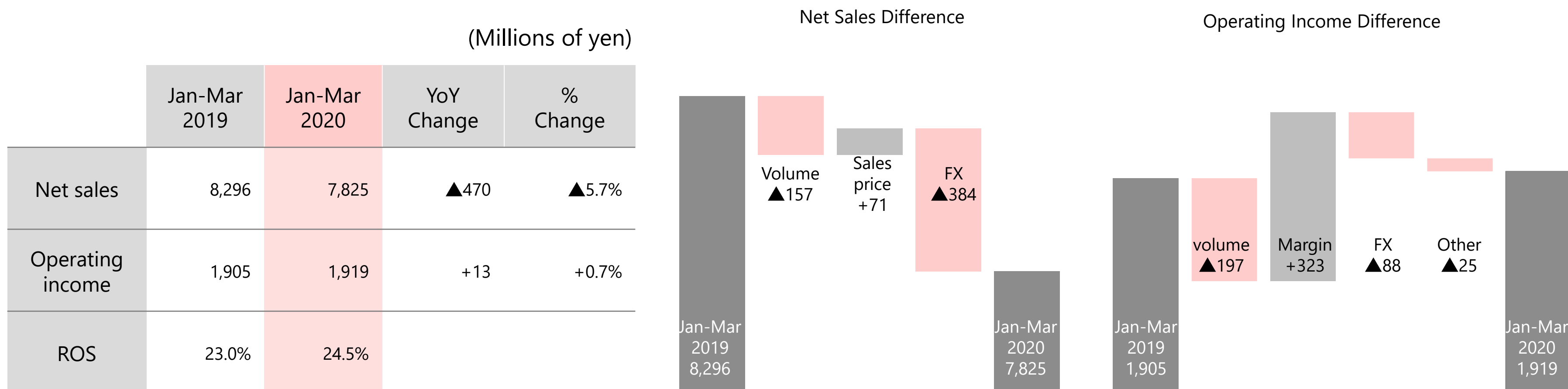
- Lower sales volume due to the lower tire demand and operational shut down of Tire producers lead by the spread of new coronavirus
- Lower margin due to the change in feedstock oil price and lower production volume
- ROS 8.3% (Q1 2019: 12.5%)

(Millions of yen)

	Jan-Mar 2019	Jan-Mar 2020	YoY Change	% Change
Net sales	27,308	21,030	▲6,278	▲23.0%
Operating income	3,424	1,741	▲1,682	▲49.1%
ROS	12.5%	8.3%		



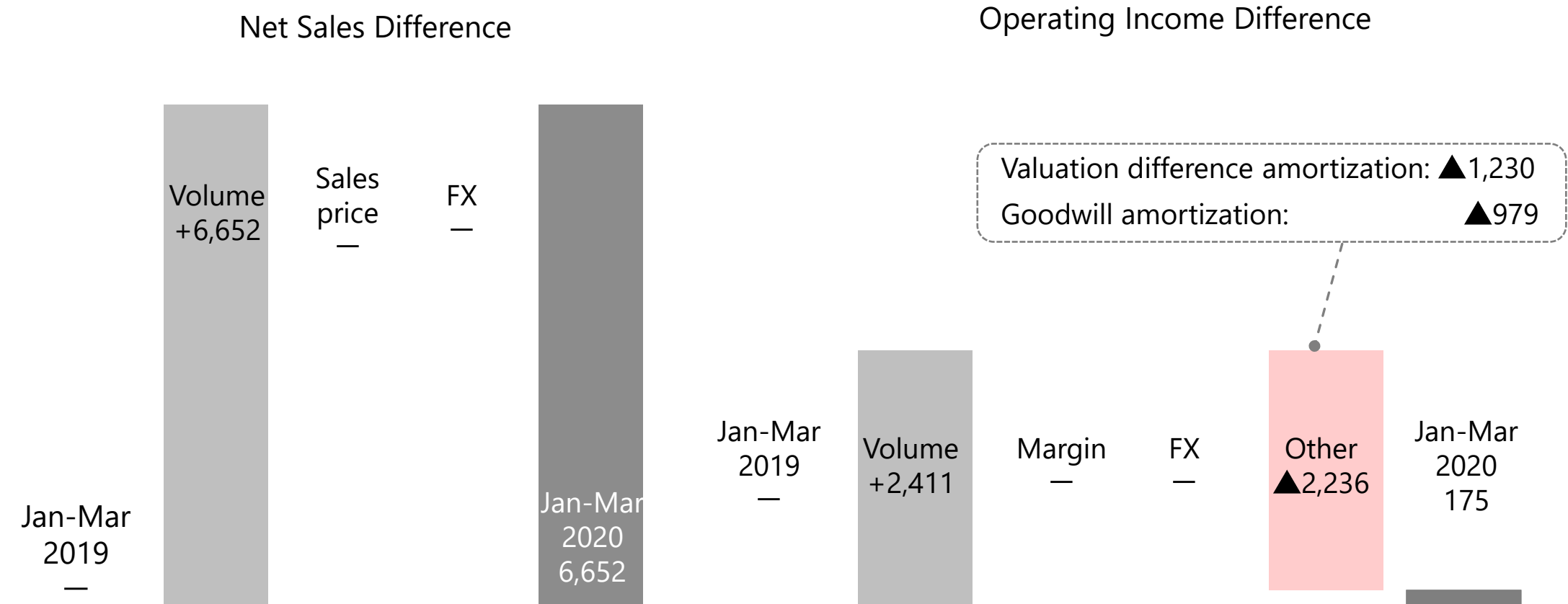
- Lower sales volume in the general industry due to the production and inventory adjustments lead by the spread of new coronavirus
- Solid sales of semiconductors and PV business
- Results in, Sales 5.7% decrease YoY, Operating income 0.7% increase YoY



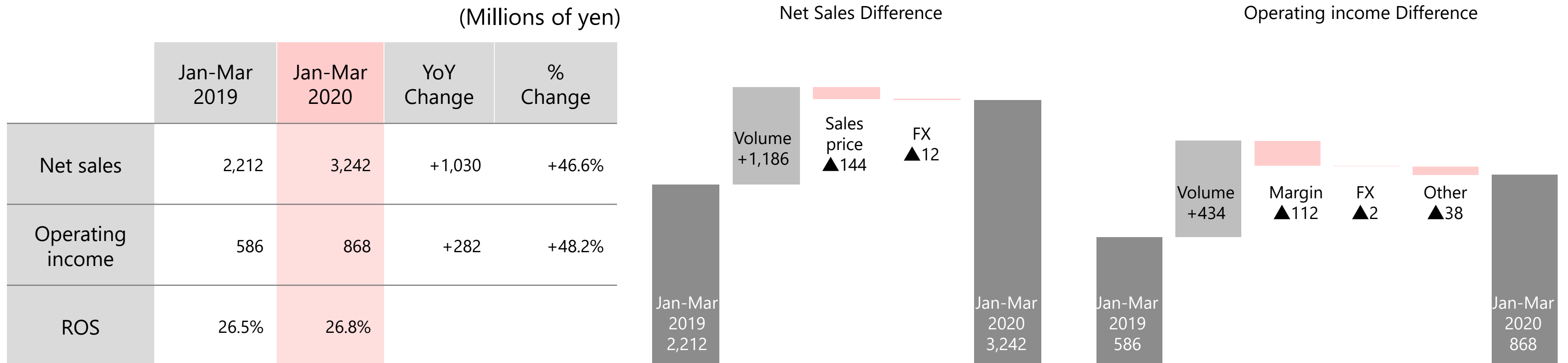
- Tokai COBEX HoldCo GmbH (TCX) contributed to consolidated performance from August 2019
- This business was established as a new segment called “Smelting and Lining” business
- Q1 Operating income of TCX resulted in ¥2.4b. In the segment accounting, valuation difference arising from the allocation of acquisition cost was amortized by ¥1.2b and amortization of goodwill was ¥1.0b. By accounting these two items, the consolidated operating income contribution was approximately ¥0.2b (¥175m).

(Millions of Yen)

	Jan-Mar 2019	Jan-Mar 2020	YoY Change	& Change
Net sales	—	6,652	+6,652	—
Operating income	—	175	+175	—
ROS	—%	2.6%		

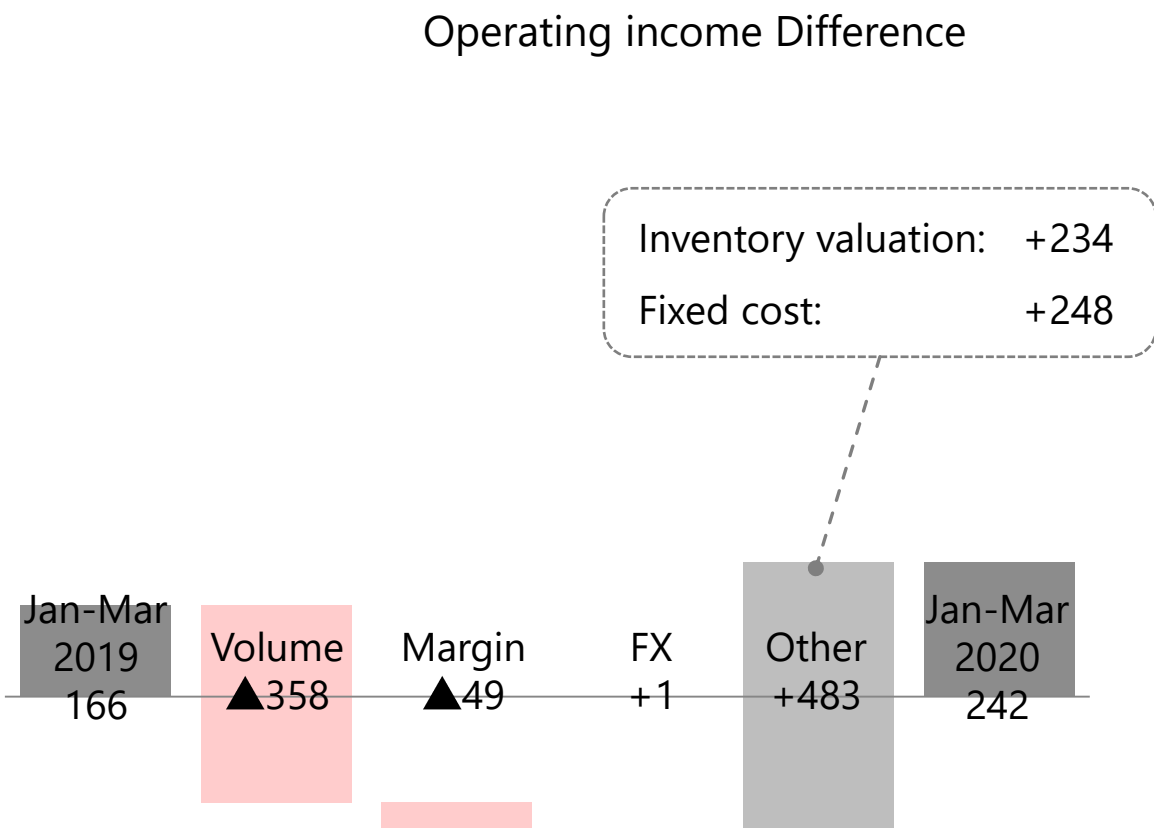
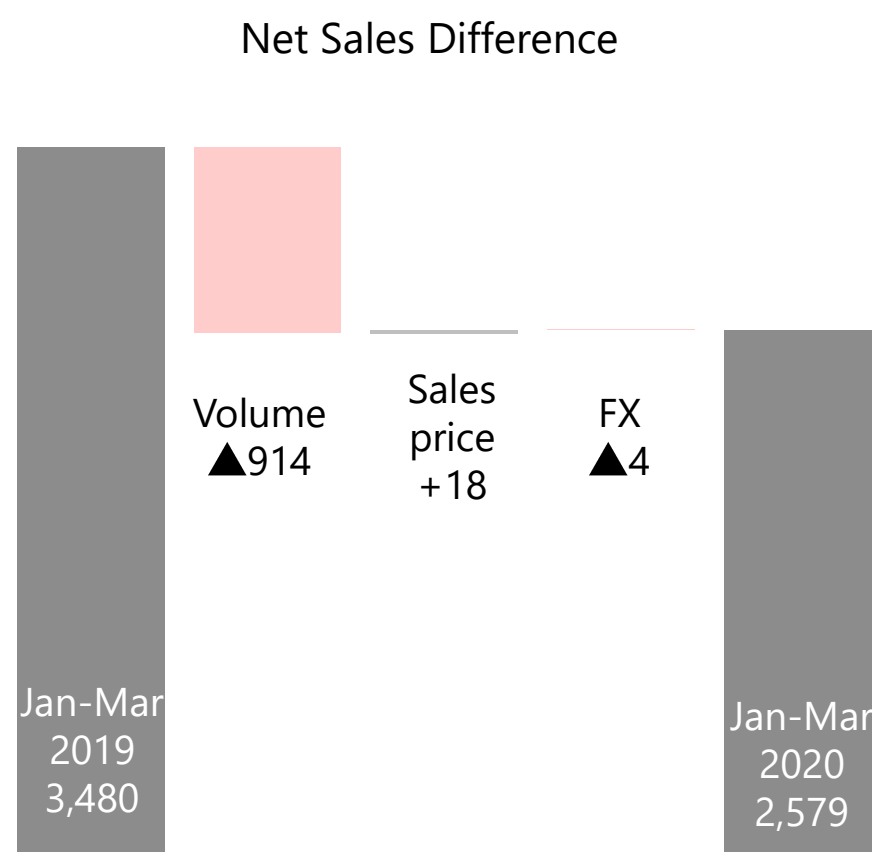


- Ceramic heaters: Lower sales YoY, due to the weaker demand in electric components industry and in China, those lead by the spread of new coronavirus and slowdown of world economy
- Industrial furnaces: Higher sales YoY, due to the solid CAPEX in IT industry and energy related industry



- Friction materials: Lower sales volume due to the exit from the four-wheel automotive business and lower demand construction
Net sales ¥1,639 million (-19.3% YoY)
- Anode materials: Lower sales volume YoY due to the harsh competition driven by the new entrants
Net sales ¥ 903 million (-36.1% YoY)

	(Millions of yen)			
	Jan-Mar 2019	Jan-Mar 2020	YoY Change	% Change
Net sales	3,480	2,579	▲901	▲25.9%
Operating income	166	242	+76	+46.1%
ROS	4.8%	9.4%		



Major Cash Flow items

(Millions of yen)

	Jan-Mar 2019	Jan-Mar 2020	Summary
Cash flows from operating activities	3,901	9,059	
Net income (loss) before income taxes	21,074	6,484	
Depreciation and amortization	3,335	4,951	
Amortization on goodwill	665	1,613	
Decrease (increase) in trade receivable	▲424	2,861	
Decrease (increase) in inventories	▲8,995	3,198	
Increase (decrease) in accounts payable-trade	▲2,279	▲8,883	
Income tax paid	▲9,474	▲1,165	
Cash flows from investing activities	▲4,215	▲6,488	
Purchase of property, pant and equipment	▲4,247	▲6,314	• Free cash flow: ¥2,571 million (Q1 2019: negative ¥314m)
Cash flows from financing activities	▲2,981	▲2,722	
Net increase (decrease) in short-term Loans payable	▲330	2,504	
Payment of dividends	▲2,557	▲5,115	
Cash and cash equivalents at end of period	37,699	45,165	

Major Balance Sheet Items

(Millions of yen)

	December 31, 2019	March 31, 2020	Summary
Total assets	462,872	440,583	
Current assets	196,446	185,518	
Cash and cash equivalents	52,695	51,239	• Cash/monthly sales: 2.9times (End of FY2019: 2.4times)
Notes and accounts receivable	50,648	44,184	
inventory	86,380	81,804	
Fixed assets	266,425	255,064	• Tangible fixed assets: +¥1,060 million from the end of FY2019
Tangible fixed assets	101,343	102,404	• Intangible fixed assets: (¥8,127) million from the end of FY2019
Intangible fixed assets	141,966	133,839	
Investments and other assets	23,115	18,820	
Total liabilities	229,896	221,291	• Interest-bearing debt: ¥150,504 million (+¥2,474 million from End of FY2019)
Current liabilities	117,541	95,548	• Direct-funding ratio: 43.2 % (End of FY2019: 43.9%)
Long-term liabilities	112,355	125,742	• Long-term debt ratio: 61.0 % (End of FY2019: 53.8%)
			※ Short term credit line: ¥62 billion (End of FY2019: ¥40 billion), ¥19 billion executed
			※ Liquidation of receivables and CP issuance limit: ¥58 billion (End of FY2019: ¥48 billion), ¥30 billion executed
Total net assets	232,975	219,292	
Shareholder's capital	203,819	203,286	• Capital-to-asset ratio: 45.1% (End of 2019 45.8%)
Other accumulated Comprehensive income	8,019	▲4,582	• Adjusted Capital-to-asset ratio*: 50.8% (End of 2019: 51.2%)
Non-controlling interests	21,137	20,588	• Net D/E ratio: 0.5 times (End of 2019: 0.5 times)
			• Adjusted Net D/E ratio: 0.3 times (End of 2019: 0.3 times)
Total liabilities and net assets	462,872	440,583	

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

Reference Material

Net Sales of Main Subsidiaries

(Millions of yen)

Subsidiary	Jan-Mar 2019	Jan-Mar 2020	YoY Change	Location /Business	Summary
Tokai ErftCarbon	9,580	4,246	▲5,334	Germany Graphite Electrodes	
Tokai Carbon GE	10,872	3,431	▲7,440	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
Thai Tokai Carbon Product	4,680	3,583	▲1,096	Thailand Carbon Black	
Tokai Carbon Tianjin	1,136	617	▲519	China Carbon Black	
Tokai Carbon CB	12,154	9,813	▲2,341	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	1,785	1,637	▲147	Canada Carbon Black	
Tokai Carbon Korea	4,532	4,695	+162	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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*The impact of COVID-19 is not incorporated in our guidance since it is difficult to forecast the impact to our group at the moment

f=forecast (Millions of yen)

		2019					2020 f*			
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2 f	H2 f	Full Year
Net Sales		68,838	70,338	59,448	63,404	262,028	52,790	67,310	131,100	251,200
Graphite Electrodes		27,540	29,511	15,971	18,294	91,317	11,460	19,640	34,800	65,900
Carbon Black		27,308	27,286	25,763	21,391	101,751	21,030	25,870	46,400	93,300
Fine Carbon		8,296	7,664	7,286	7,122	30,369	7,825	5,875	15,000	28,700
Smelting and Lining		—	—	4,511	10,151	14,662	6,652	9,348	21,000	37,000
Industrial Furnaces and Related Products		2,212	2,801	3,194	4,432	12,641	3,242	3,858	8,500	15,600
Other Operations	Friction materials	2,030	1,886	1,857	1,706	7,480	1,639	2,261	3,900	7,800
	Anode materials	1,413	1,151	827	269	3,661	903	397	1,400	2,700
	Others	36	36	36	35	144	35	65	100	200
	Total Others	3,480	3,073	2,721	2,011	11,286	2,579	2,721	5,400	10,700
Operating Income		21,226	19,215	8,980	4,922	54,344	6,750	3,750	17,700	28,200
Graphite Electrodes		15,423	15,917	4,921	3,126	39,388	2,131	769	5,100	8,000
Carbon Black		3,424	2,262	2,282	542	8,512	1,741	1,859	4,000	7,600
Fine Carbon		1,905	1,549	1,463	1,188	6,107	1,919	281	2,900	5,100
Smelting and Lining		—	▲972	▲272	▲356	▲1,600	175	625	4,000	4,800
Industrial Furnaces and Related Products		586	762	806	1,072	3,227	868	732	2,200	3,800
Other Operations		166	33	82	▲303	▲21	242	▲42	200	400
Inter-segment eliminations		▲279	▲339	▲304	▲347	▲1,270	▲330	▲470	▲700	▲1,500

- 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



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