

Q1 FY2024 Earnings Presentation

2024/5/10



TOKAI CARBON CO., LTD.

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I

Q1 FY2024

Financial Summary

- In April, the International Monetary Fund (IMF) revised the outlook for the global economic growth rate for 2024 slightly upward to 3.2%, the same rate as the previous year, mainly due to strong performance in the U.S. and other countries, while also revising the rate downward in Germany and other European countries, seeing that regional differences are evident and the pace of recovery in the macroeconomy is steady and resilient, but also slow. Economic conditions, including interest rate and exchange rate trends, remain uncertain primarily owing to concerns about growing geopolitical risks and the need to control inflation.
- For the first quarter, the Company saw strong performance in carbon black, and sales of fine carbon, where the power semiconductors and memory semiconductor markets had bottomed out, showing a recovery trend. On the other hand, the performance has deteriorated in graphite electrodes, which are still affected by bearish steel market conditions and intensifying competition, and in smelting and lining for aluminum smelters and electronic device industry. As for consolidated results, net sales decreased and operating income decreased significantly. EBITDA, a point of focus in measuring cash-based earning capacity, also declined. EBITDA margin was in the upper 10% range.
- Negative free cash flow (excess outflow) increased YoY, mainly due to decreased earnings resulting from continued investments. There were no significant changes in the net D/E ratio, short and long-term liabilities, and direct/indirect funding structure, and the Company maintained high financial soundness, liquidity, and sufficient capacity for investment.

Summary of Consolidated Results

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- Consolidated results saw YoY decreases in net sales and operating income
- Net sales ¥82.1 b (-5.0%) , operating income ¥3.4 b (-69.6%) , ROS 4.2% (-9.1%points)
- EBITDA ¥13.6 b (-31.9%) , EBITDA margin 16.7% (-6.5%points)

(Millions of yen)

	Jan-Mar 2023	Jan-Mar 2024	YoY Change	%Change
Net sales	86,530	82,161	(4,368)	(5.0)%
Operating income	11,493	3,489	(8,003)	(69.6)%
Ordinary income	11,804	4,687	(7,116)	(60.3)%
Net income attributable to owners of the parent company	7,964	1,627	(6,336)	(79.6)%
EBITDA	20,095	13,693	(6,402)	(31.9)%

Average exchange rates:

- 2023 USD1= ¥132.34 EUR1= ¥142.10
- 2024 USD1= ¥148.61 EUR1= ¥161.31

Net Sales, Operating Income and EBITDA by Segment

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- Strong performance in carbon black, fine carbon, and industrial furnaces
- Significant decreases in net sales and operating income for smelting and lining and graphite electrodes

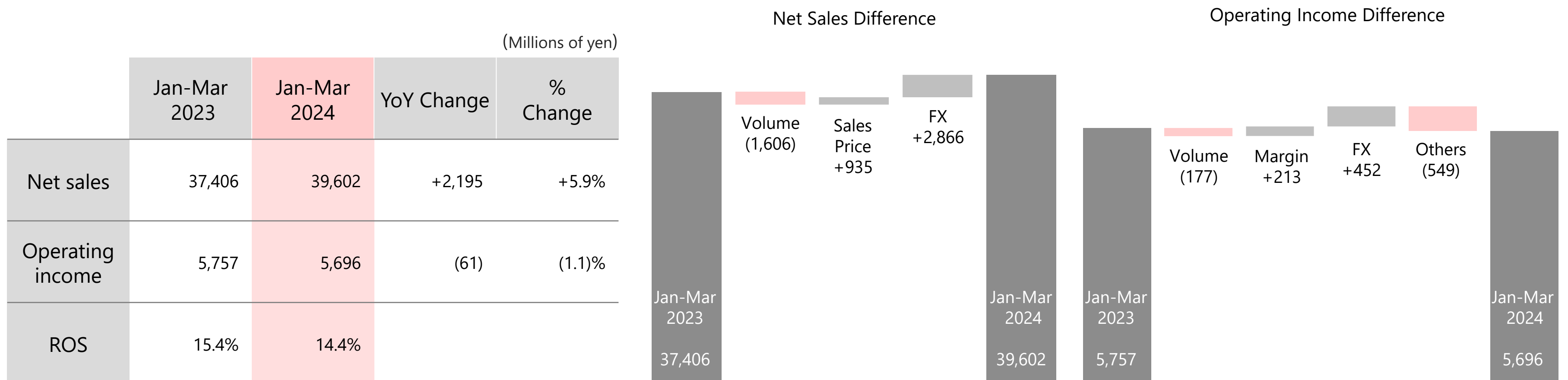
(Millions of yen)

		Net sales			Operating income			EBITDA		
		Jan-Mar 2023	Jan-Mar 2024	YoY Change	Jan-Mar 2023	Jan-Mar 2024	YoY Change	Jan-Mar 2023	Jan-Mar 2024	YoY Change
Carbon Black		37,406	39,602	+2,195	5,757	5,696	(61)	7,583	8,368	+784
Fine Carbon		11,444	12,537	+1,092	3,103	3,078	(24)	4,767	4,926	+158
Smelting and Lining		19,218	14,030	(5,188)	408	(3,546)	(3,954)	3,870	551	(3,319)
Graphite Electrodes		13,486	10,874	(2,612)	1,637	(2,175)	(3,813)	2,975	(753)	(3,729)
Industrial Furnaces and Related Products		2,449	2,485	+36	534	511	(23)	616	579	(37)
Others	Friction materials	2,460	2,064	(396)	—	—	—	—	—	—
	Anode materials, etc.	62	568	+505	—	—	—	—	—	—
	Total	2,523	2,632	+108	301	224	(76)	415	331	(83)
Inter-segment eliminations		—	—	—	(249)	(300)	(50)	(133)	(309)	(175)
Total		86,530	82,161	(4,368)	11,493	3,489	(8,003)	20,095	13,693	(6,402)
Return on sales		—	—	—	13.3%	4.2%	(9.1)%pt	23.2%	16.7%	(6.5)%pt

※EBITDA = Operating income + Depreciation + Goodwill amortization

※The order of segments has been changed from the current fiscal year

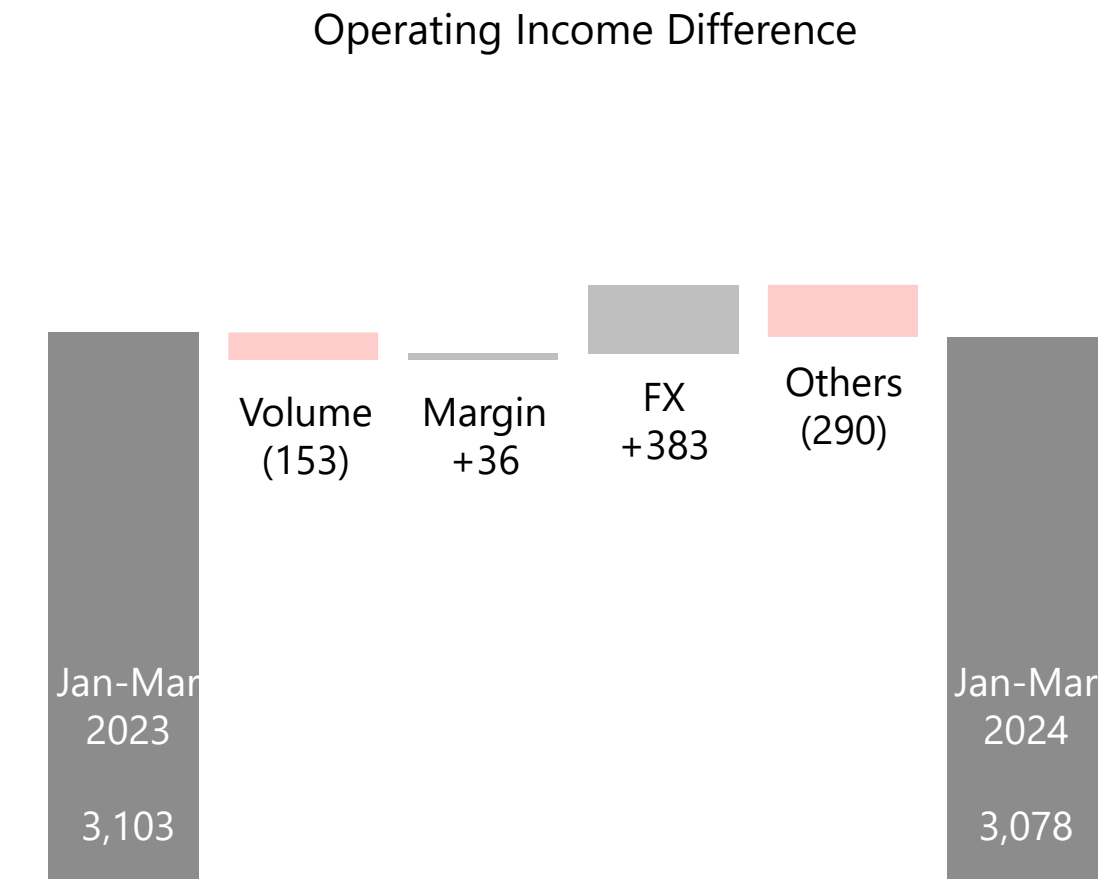
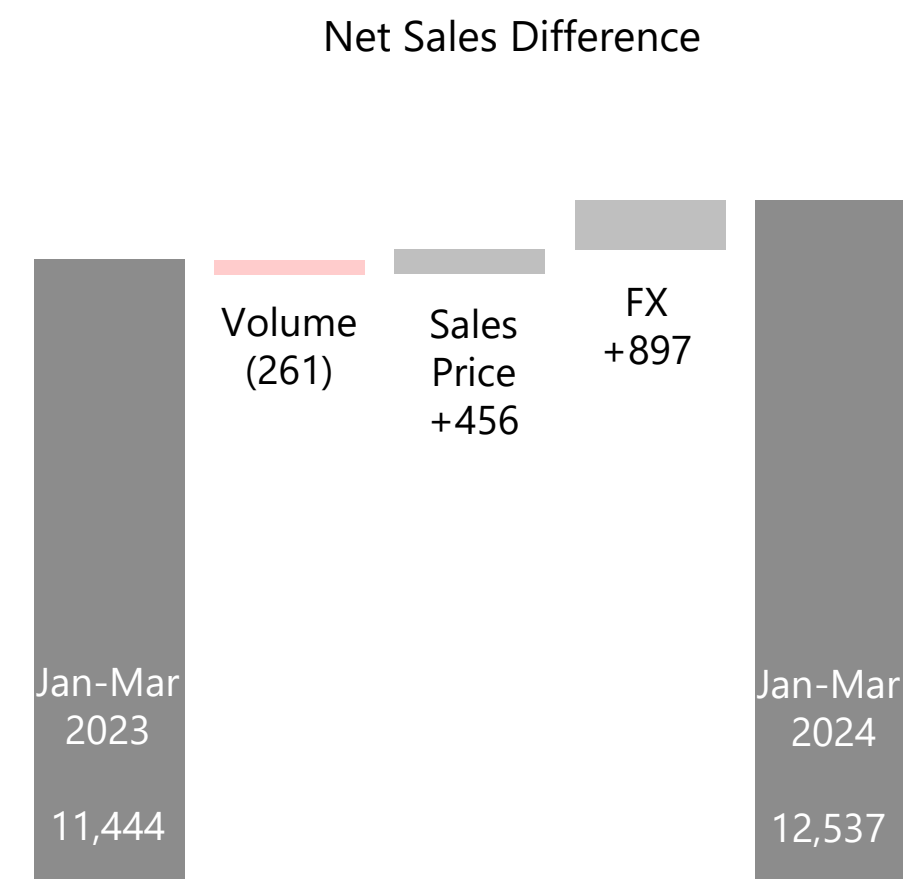
- Sales volumes slightly decreased YoY due to continued inventory adjustments for replacement tires at tire manufacturers.
- Net sales increased and operating income decreased by only 1%, partly reflecting foreign exchange inflows, despite an increase in depreciation due to environmental investment.



- Sales of Solid SiC focus rings for memory semiconductors declined due to reduced demand for smartphones and PCs. On the other hand, overall net sales increased YoY, driven by strong demand for power semiconductors. Operating income decreased slightly.

(Millions of yen)

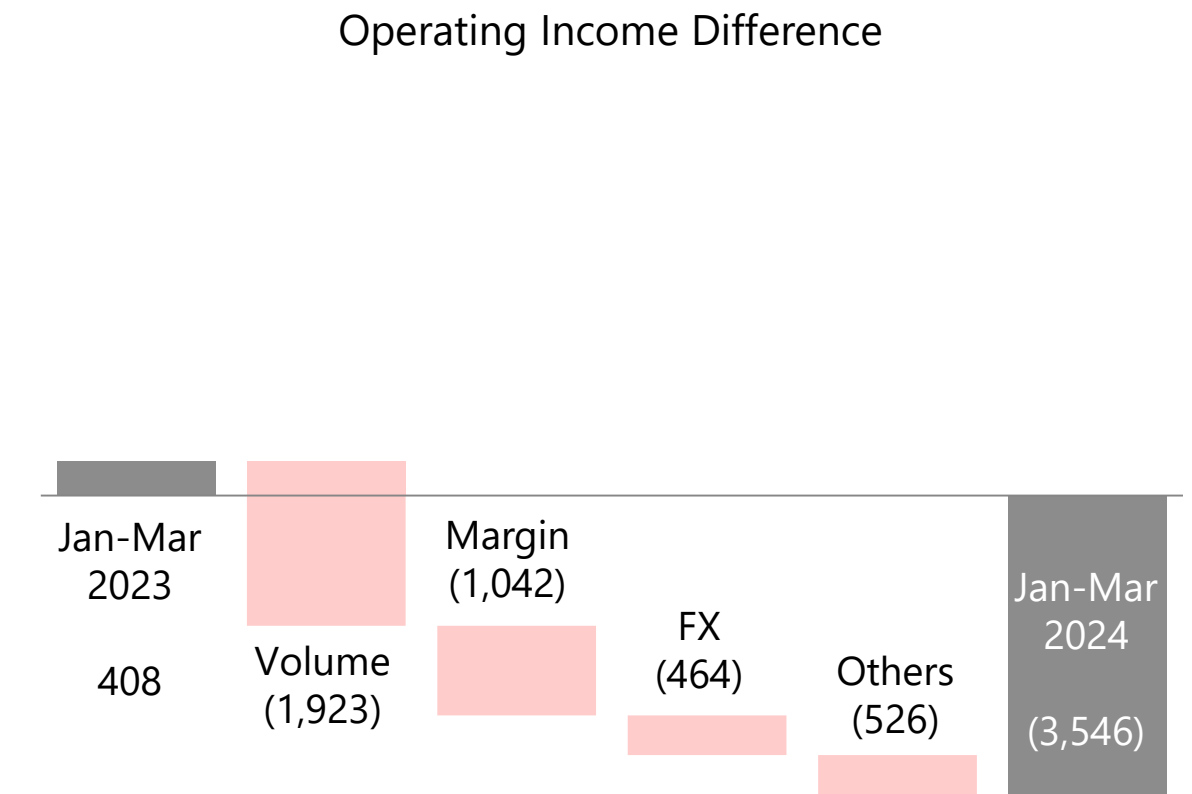
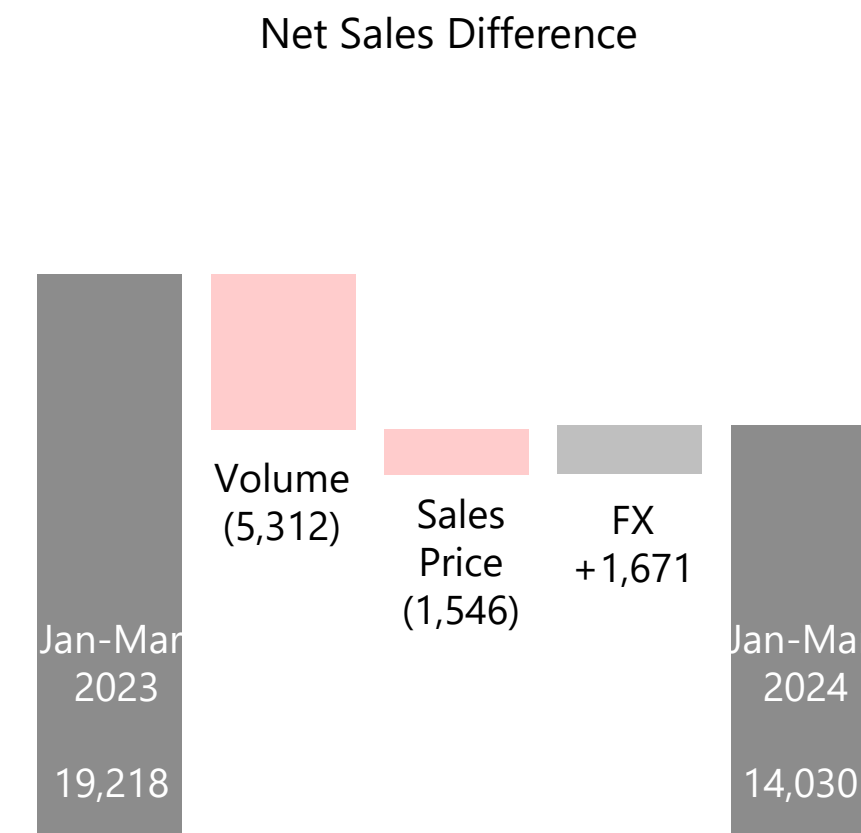
	Jan-Mar 2023	Jan-Mar 2024	YoY Change	% Change
Net sales	11,444	12,537	+1,092	+9.5%
Operating income	3,103	3,078	(24)	(0.8)%
ROS	27.1%	24.6%		



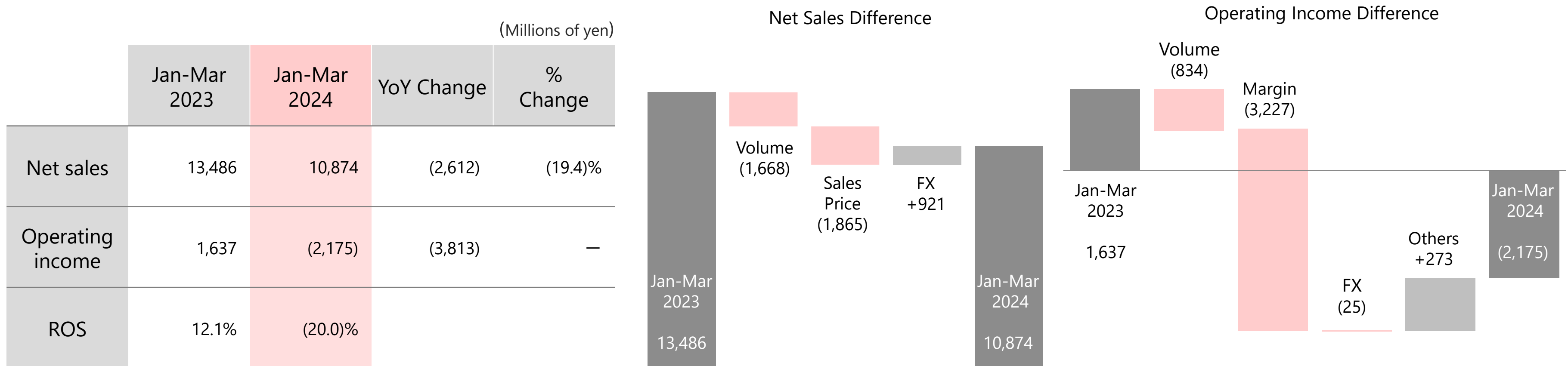
- Both sales volume and sales prices of cathodes declined due to a drop in demand for cathode relining for aluminum smelting furnaces. Raw material and energy costs remained high, resulting in decreases in net sales and operating income.

(Millions of yen)

	Jan-Mar 2023	Jan-Mar 2024	YoY Change	% Change
Net sales	19,218	14,030	(5,188)	(27.0)%
Operating income	408	(3,546)	(3,954)	—
ROS	2.1%	(25.3)%		



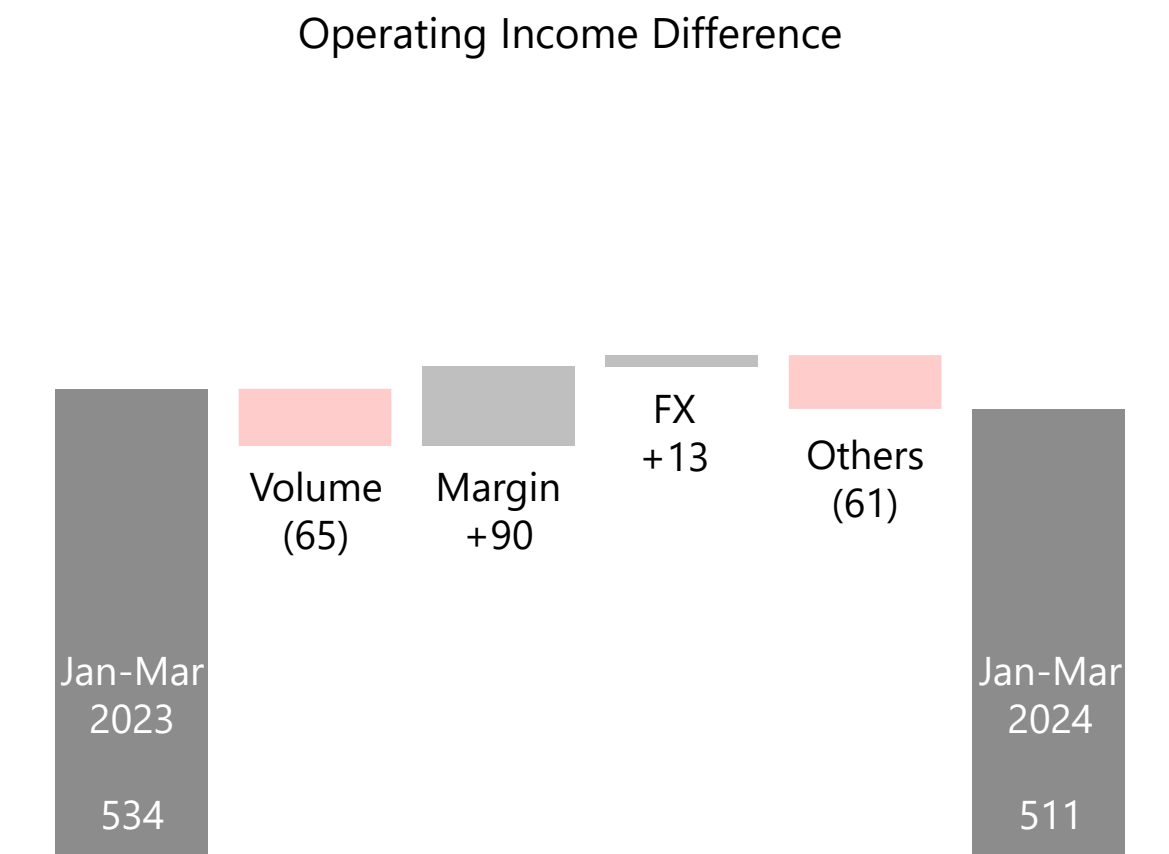
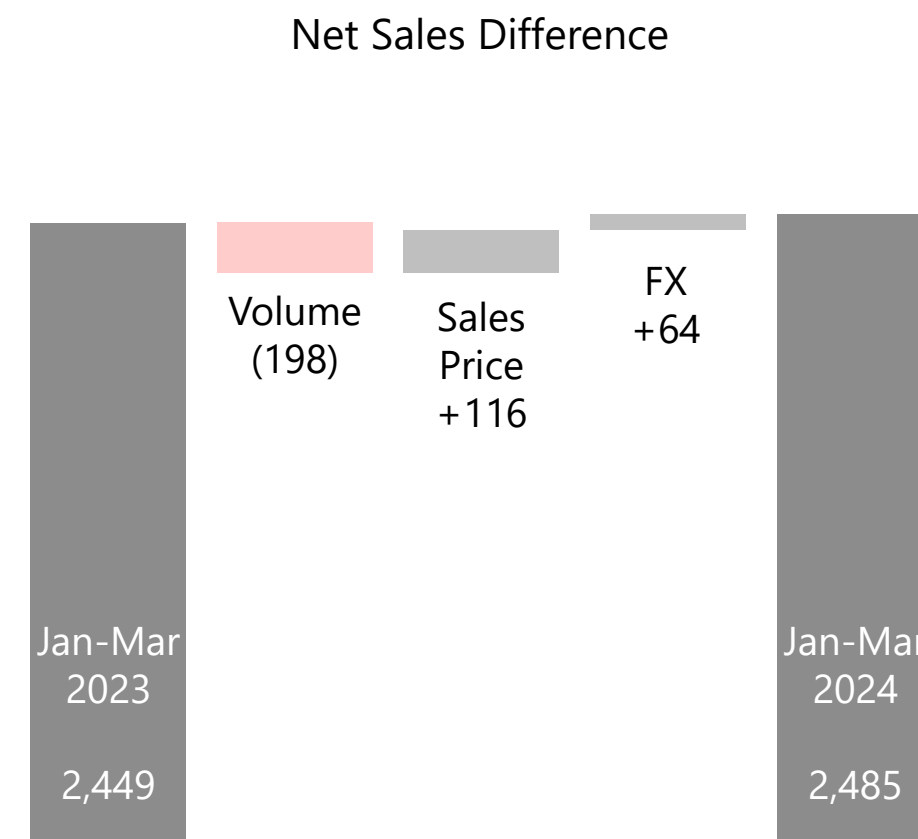
- While electric-arc furnace steel production remained sluggish around the world, low-priced products from China flowed into the global market alongside the overproduction of electrodes in China. Indian electrode manufacturers followed suit, resulting in a sharp decline in the market.
- Operating income decreased significantly YoY, partly due to increased fixed costs caused by low occupancy rates.



- Inventory adjustments and project delays in the energy-related and electronic device industries have been recovering.

(Millions of yen)

	Jan-Mar 2023	Jan-Mar 2024	YoY Change	% Change
Net sales	2,449	2,485	+36	+1.5%
Operating income	534	511	(23)	(4.3)%
ROS	21.8%	20.6%		



Major Cash Flow items

(Millions of yen)

	Jan-Mar 2023	Jan-Mar 2024	Summary
Cash flows from operating activities	7,745	3,295	
Net income (loss) before income taxes	11,977	4,747	
Depreciation and amortization	6,679	8,051	
Amortization on goodwill	1,922	2,151	
Decrease (increase) in trade receivable	2,897	(3,492)	} Working capital: (¥8.3) billion (Jan-Mar 2023 -¥7.7 billion)
Decrease (increase) in inventories	(5,863)	(386)	
Increase (decrease) in accounts payable-trade	(4,760)	(4,480)	
Income tax paid	(5,106)	(3,297)	
Cash flows from investing activities	(11,558)	(14,240)	· Free cash flow: (¥10.9) billion (Jan-Mar 2023 -¥3.8 billion)
Purchase of fixed assets	(13,236)	(14,320)	
Cash flows from financing activities	(2,152)	(959)	
Net increase (decrease) in short-term Loans payable	1,376	(6,685)	
Corporate bond issuance and redemption	—	10,000	
Acquisition of share of subsidiaries	—	—	
Payment of dividends	(3,197)	(3,837)	
Cash and cash equivalents at end of period	44,032	47,469	

※Working capital = Trade receivables + Inventories – accounts payable-trade

Major Balance Sheet Items

(Millions of yen)

	December 31, 2023	March 31, 2024	Summary
Total assets	640,005	660,242	
Net income (loss) before income taxes	262,890	261,850	
Cash and cash equivalents	77,465	68,890	<ul style="list-style-type: none"> · Cash/monthly sales: 2.5 times (End of FY2023: 2.6 times) · Inventory: (+¥3.9 billion from End of FY2023) · Tangible fixed assets: (+¥15.1 billion from End of FY2023) · Intangible fixed assets: (-¥0.6 billion from End of FY2023)
Notes and accounts receivable	65,530	70,683	
Inventory	109,332	113,315	
Fixed assets	377,114	398,392	
Tangible fixed asset	223,804	238,907	
Intangible fixed assets	117,051	116,396	
Investments and other assets	36,258	43,088	
Total liabilities	279,902	279,125	<ul style="list-style-type: none"> · Net interest bearing debt: ¥101.0 billion (+¥11.9 billion from End of FY2023) · Interest bearing debt: ¥169.9 billion (+¥3.3 billion from End of FY2023) · Direct funding ratio: 67.7% (End of FY2023: 69.0%), Long term debt ratio: 62.2% (End of FY2023: 57.9%) · Short term credit line: ¥66.0 billion (+¥0.0 billion from End of FY2023): ¥6.0 billion executed (-¥1.0 billion from End of FY2023) · Liquidation of receivables and CP issuance limit ¥78.0 billion (+¥0.0 billion from End of FY2023): ¥50.0 billion executed (-¥10.0 billion from End of FY2023)
Current liabilities	136,971	124,428	
Long term liabilities	142,930	154,696	
Total net assets	360,103	381,117	<ul style="list-style-type: none"> · Capital to asset ratio: 52.1% (End of FY2023: 50.7%) · Adjusted Capital to asset ratio*: 57.4% (End of FY2023: 56.2%) · Net D/E ratio: 0.29 times (End of FY2023: 0.27 times) · Adjusted Net D/E ratio: 0.17 times (End of FY2023: 0.15 times)
Shareholder's capital	237,220	235,009	
Other accumulated Comprehensive income	87,271	108,885	
Non controlling interests	35,612	37,222	
Total liabilities and net assets	640,005	660,242	

※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

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(Millions of yen)

Subsidiary	Jan-Mar 2023	Jan-Mar 2024	YoY Change	Location /Business	Note
Thai Tokai Carbon Product	7,211	6,967	(243)	Thailand Carbon Black	
Tokai Carbon CB	17,611	19,095	+1,484	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	2,288	3,120	+831	Canada Carbon Black	
Tokai Carbon Korea	6,623	6,600	(22)	Korea Fine Carbon	• Contributing to consolidated results from June 2018
Tokai COBEX	19,291	14,084	(5,207)	Germany Smelting and Lining	• Contributing to consolidated results from August 2019
Tokai Erftcarbon	3,046	3,251	+205	Germany Graphite Electrodes	
Tokai Carbon GE	8,267	5,549	(2,717)	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017

Key Indicators

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(Millions of yen) f=forecast	2020	2021	2022	2023	2024f
Net sales	201,542	258,874	340,371	363,946	370,000
Operating income	7,858	24,647	40,588	38,728	23,000
ROS (%)	3.9%	9.5%	11.9%	10.6%	6.2%
EBITDA	35,262	54,518	75,572	75,949	65,000
EBITDA margin (%)	17.5%	21.1%	22.2%	20.9%	17.6%
Net income Attributable to Owners of the Parent Company	1,019	16,105	22,418	25,468	15,000
ROE (%)	0.5%	7.5%	9.0%	8.6%	4.8%
Adjusted ROIC (%)	7.4%	12.3%	14.3%	11.5%	7.5%
Capital Investment	28,873	30,347	48,150	53,316	80,000
Depreciation and Amortization	20,890	22,900	27,460	29,065	34,000
R&D Expenses	2,682	2,823	3,171	3,605	5,000
Interest bearing liabilities	158,643	168,249	171,452	166,642	—
Net D/E ratio	0.45	0.39	0.37	0.27	0.38
Adjusted Net D/E ratio	0.24	0.21	0.22	0.15	0.27
Number of Employees	4,178	4,289	4,378	4,427	—
Exchange Rate (JPY/USD)	106.82	109.80	131.43	140.56	135.00

※EBITDA = Operating income + Depreciation + Goodwill amortization

※Adjusted ROIC = Operating Profit after Tax adjusted for Goodwill amortization ÷ Invested Capital (Working Capital + Fixed Assets adjusted for Goodwill)

Quarterly Results by Segment

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(Millions of yen)

		2023					2024			
		Q1	Q2	Q3	Q4	Full year	Q1	Q2f (*)	H2f	Full year
Net sales		86,530	91,897	89,247	96,271	363,946	82,161	97,838	190,000	370,000
Carbon Black		37,406	36,424	37,300	37,292	148,423	39,602	45,397	85,000	170,000
Fine Carbon		11,444	9,928	11,040	12,905	45,319	12,537	13,462	32,000	58,000
Smelting and Lining		19,218	22,254	18,011	23,336	82,820	14,030	15,969	37,000	67,000
Graphite Electrodes		13,486	16,920	15,484	14,343	60,235	10,874	14,125	22,000	47,000
Industrial Furnaces and Related Products		2,449	3,258	4,177	5,729	15,614	2,485	6,014	8,500	17,000
Others										
Friction materials		2,460	2,398	2,124	2,011	8,995	2,064	2,435	4,500	9,000
Anode materials, etc.		62	712	1,108	652	2,536	568	431	1,000	2,000
Total		2,523	3,111	3,233	2,664	11,532	2,632	2,867	5,500	11,000
Operating income		11,493	10,244	8,010	8,979	38,728	3,489	6,510	13,000	23,000
Carbon Black		5,757	5,015	5,152	5,377	21,303	5,696	2,303	8,000	16,000
Fine Carbon		3,103	1,938	2,462	3,112	10,617	3,078	1,921	6,000	11,000
Smelting and Lining		408	984	(257)	1,170	2,305	(3,546)	(453)	(2,000)	(6,000)
Graphite Electrodes		1,637	1,526	(423)	(1,988)	752	(2,175)	1,775	(600)	(1,000)
Industrial Furnaces and Related Products		534	728	1,290	1,306	3,860	511	1,488	2,000	4,000
Other Operations		301	334	447	216	1,299	224	75	300	600
Inter-segment eliminations		(249)	(283)	(660)	(215)	(1,409)	(300)	(599)	(700)	(1,600)

(*) Q2f: Q2 displays the math of original first half forecast minus the Q1 actual results and not a quarterly update

- 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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