

Toyo Tanso Co., Ltd.

Results for the First Half of the Fiscal Year Ending December 31, 2020

August 18, 2020
Toyo Tanso Co., Ltd.

Summary of Results for the First Half of the Fiscal Year Ending December 31, 2020

1. Results for the First Half of the Fiscal Year Ending December 31, 2020

✓ Sales and income have substantially decreased due to COVID-19.

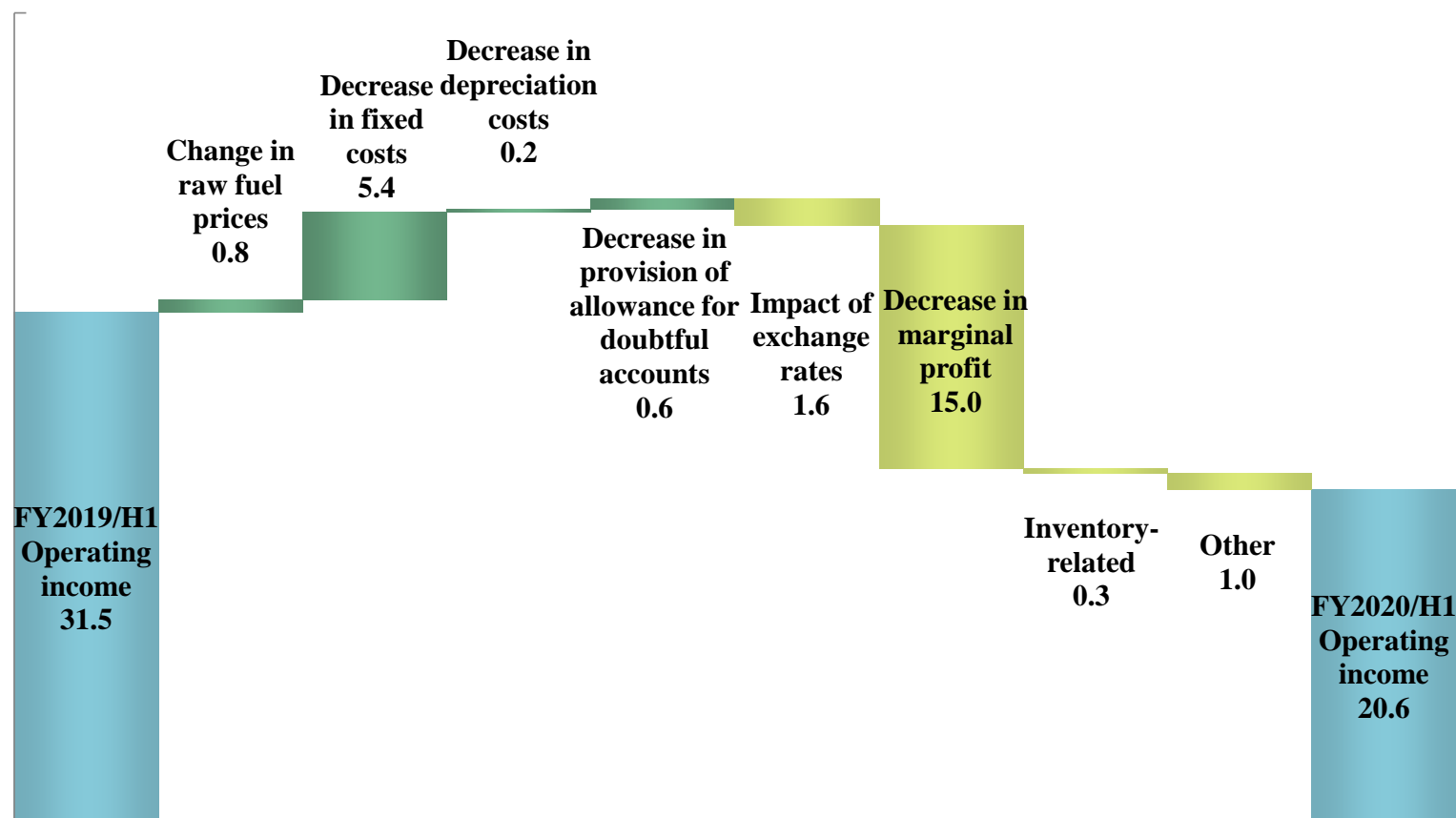
(Unit: Yen, millions)	FY2019	FY2020	
	H1	H1	Year-on-year change
Net sales	19,141	15,514	(3,627) / (19.0) %
Operating income	3,158	2,063	(1,094) / (34.7) %
(Ratio of operating income to net sales)	16.5%	13.3%	
Ordinary income	3,066	2,105	(960) / (31.3) %
(Ratio of ordinary income to net sales)	16.0%	13.6%	
Profit attributable to owners of parent	2,303	1,461	(841) / (36.5) %
Profit attributable to owners of parent per share (basic) (yen)	109.83	69.69	
Exchange rate	110.1 yen/\$ 124.3 yen/€ 16.2 yen/CNY	108.3 yen/\$ 119.3 yen/€ 15.4 yen/CNY	

2. Factors Affecting Changes in Operating Income

(First half of fiscal year ended December 2019 vs. first half of fiscal year ending December 2020)

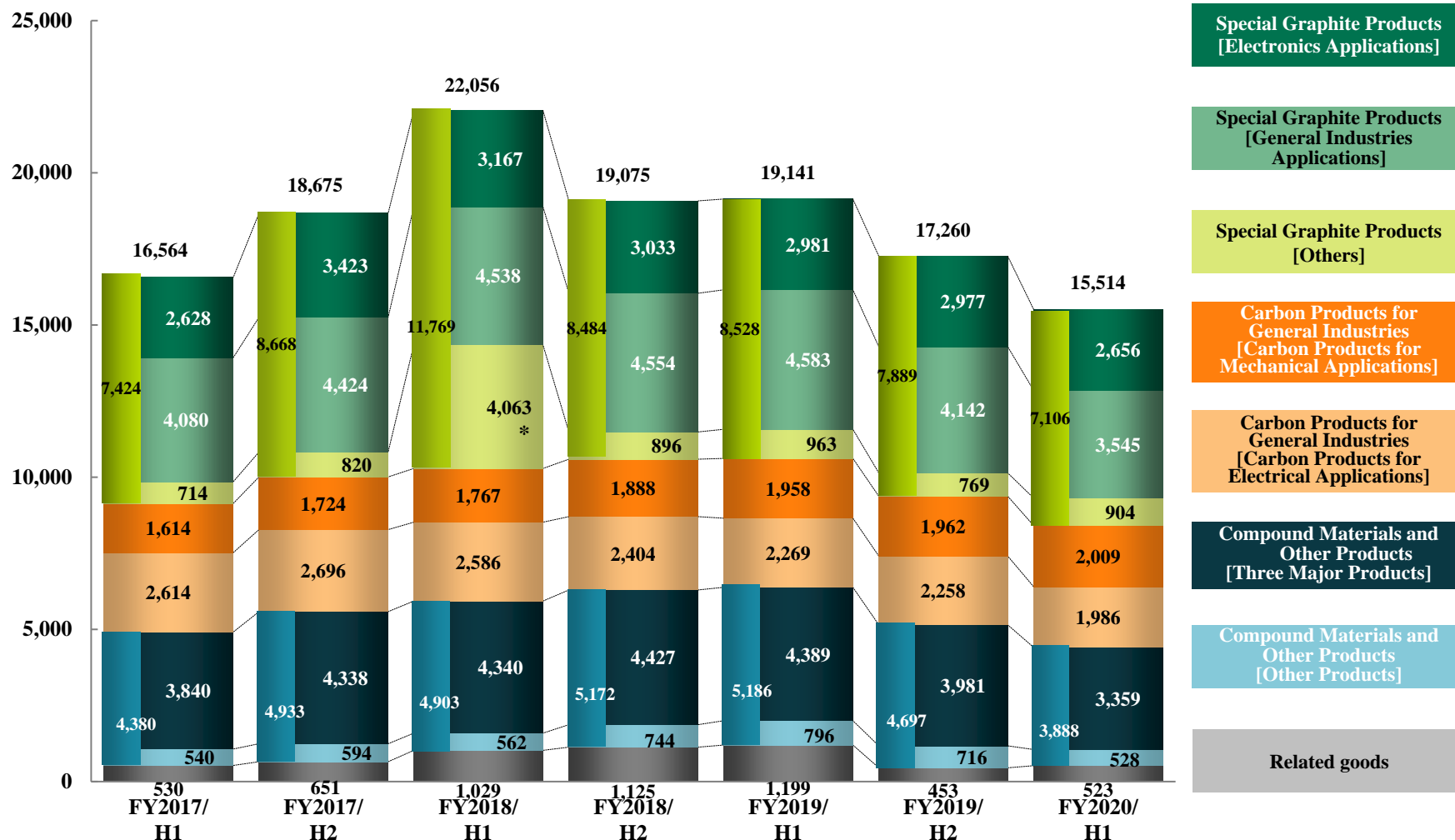
- ✓ Operating income decreased by 34.7% year on year due to a substantial decrease in marginal profit brought about by lower sales, and despite a decrease in personnel costs and other fixed costs.

(Unit: Yen, 100 millions)



3. Net Sales by Product and Segment

(Unit: Yen, millions)

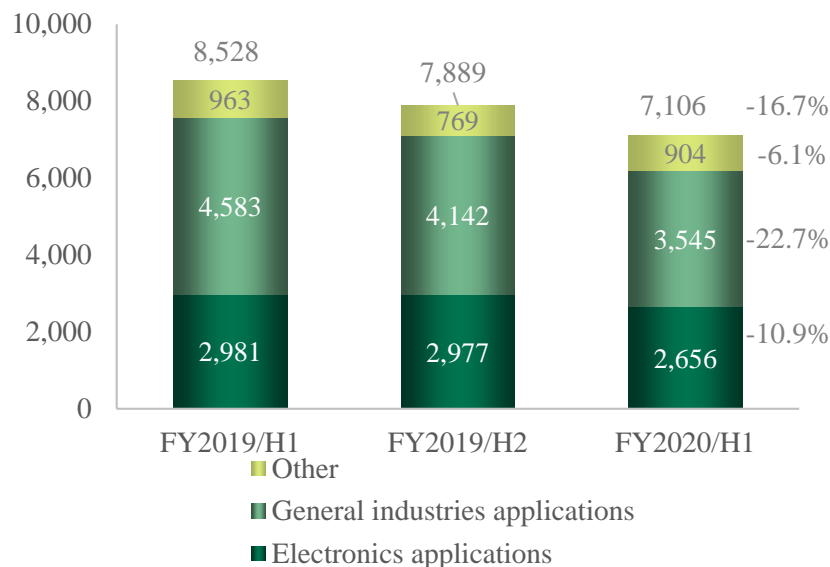


* Net sales for special graphite products [others] for the fiscal year ended December 31, 2018, include 3,204 million yen in net sales for China's high-temperature reactor-pebble-bed modules (HTR-PM).

3. Key Points of Net Sales by Product and Segment (1)

<Special Graphite Products>

(Unit: Yen, millions)



Key points

[Electronics applications]

In applications for single-crystal silicon manufacturing, an adjustment trajectory became apparent entering into this fiscal term. Whereas recovery in the second half had initially been projected, launches are likely to encounter delays due to COVID-19. In solar cell applications, there has been a conspicuous trend where costs are being passed on to components as prices of wafers drop. When accepting orders, the Company has been placing priority on profitability.

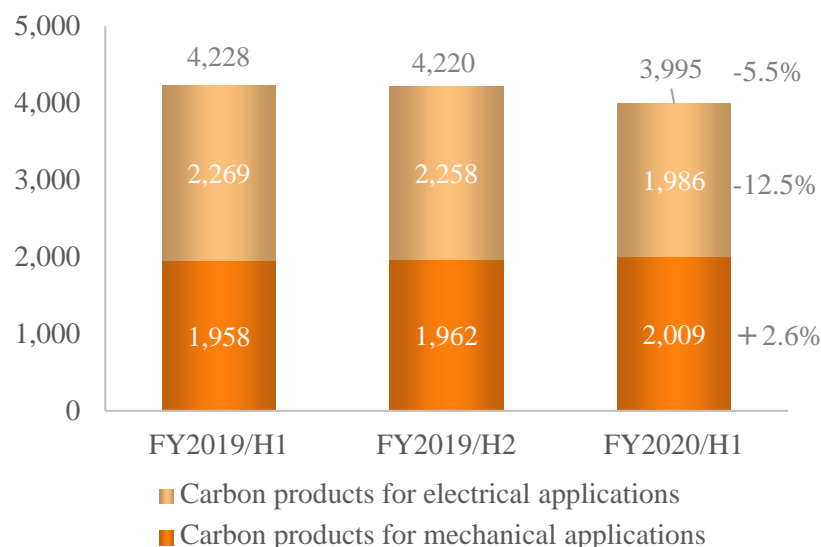
[General industries applications]

COVID-19 substantially affected business involving applications for EDM electrodes and industrial furnaces, mainly for automotive and aircraft applications. The Company struggled to generate sales with respect to continuous casting applications as well as optical fiber applications in China.

3. Key Points of Net Sales by Product and Segment (2)

<Carbon Products for General Industries>

(Unit: Yen, millions)



Key points

[Carbon products for mechanical applications]

Domestic sales of shaft bearings, sealing rings, and other mainstay products were solid overall. This segment was the only one to record a year-on-year gain in sales amid a poor business environment, given a smooth start facilitated by orders received for overseas projects, as well as pantograph sliders.

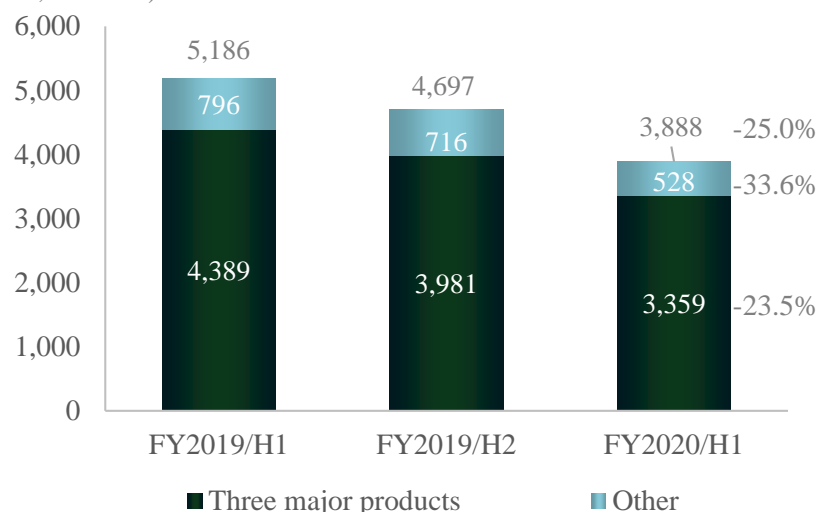
[Carbon products for electrical applications]

In the area of small-motor applications, the Company has been encountering an ongoing slump due to a trend toward use of brushless motors in home appliances (vacuum cleaners and washing machines). Sales with respect to power tool applications were relatively solid. In response to competition against cheap products from local manufacturers in China, the Company has been improving profitability by further cutting costs and revising prices, while maintaining and expanding market share through various initiatives that include enhancing manufacturing bases that address customer demand.

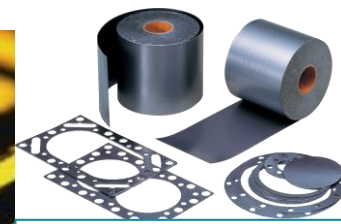
3. Key Points of Net Sales by Product and Segment (3)

<Compound Materials and Other Products>

(Unit: Yen, millions)



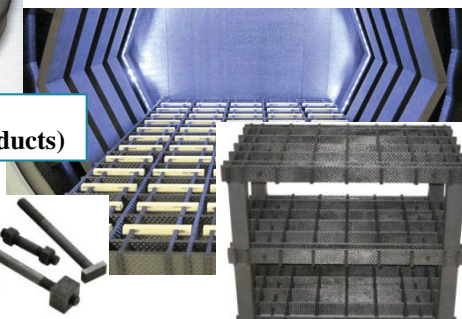
**MOCVD susceptor
(SiC-coated graphite products)**



Graphite sheet products



**Bolts and nuts
(C/C composite products)**



**Three-layered trays
(C/C composite products)**

Key points

[Three major products]

In the area of SiC-coated graphite products, sales decreased significantly amid languishing performance in LED applications, and despite solid results in semiconductor applications. Growth seems likely over the medium- to long-term, particularly with respect to products for power devices and LED applications. With facility expansion initiatives slated for completion within the year, the Company will embark on acquisitions of customer certifications and phase-in operations beginning in the next fiscal year.

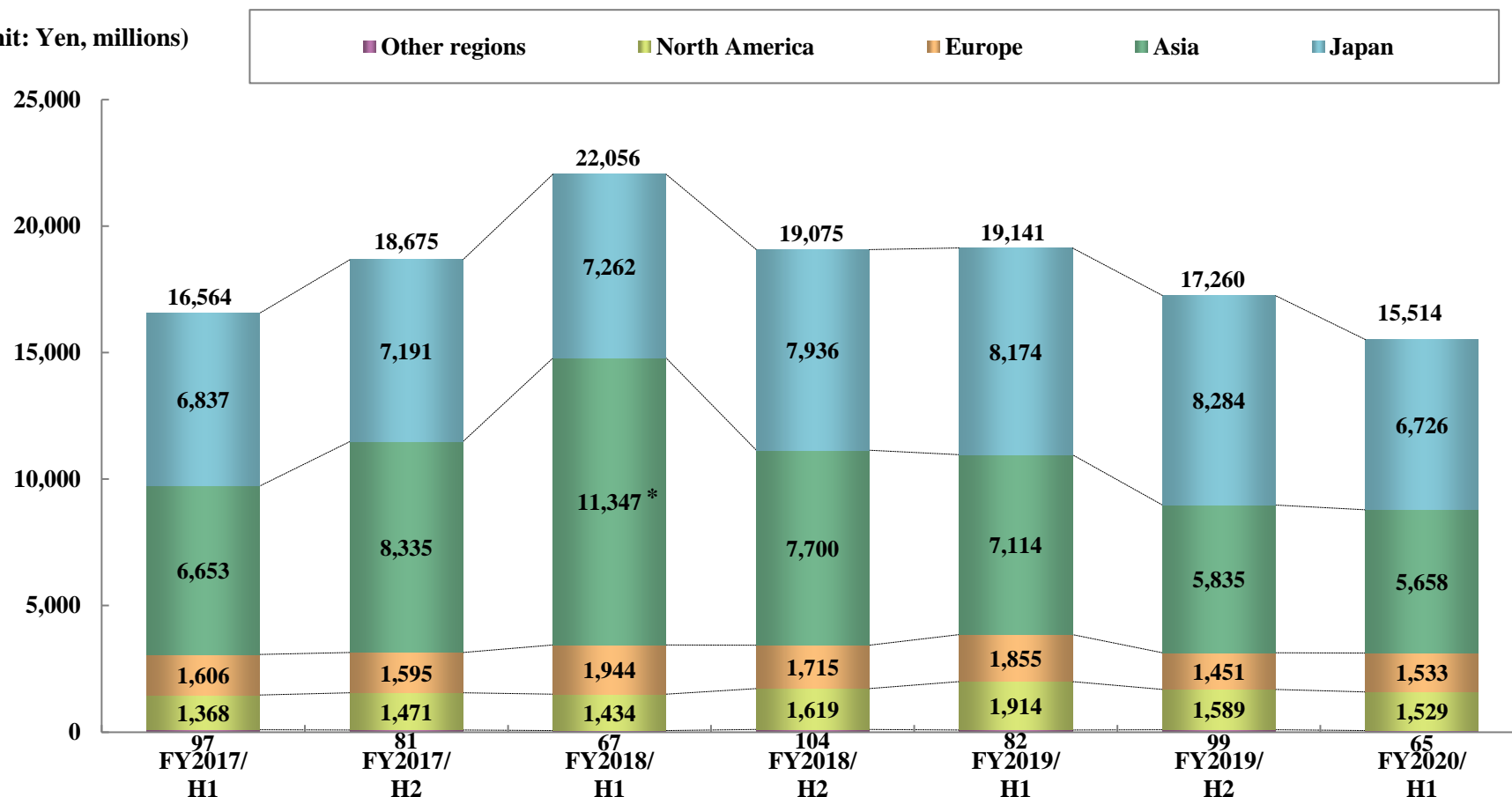
In the area of C/C composite products, semiconductor applications and industrial furnace applications both generated lackluster results. The area of solar cell applications encountered drastically reduced use of C/C composite products for manufacture of polycrystal silicon given that single-crystal silicon has become the norm.

Sales of graphite sheet products for metallurgical and electronics applications, particularly for automotive use, were generally sluggish.

4. Sales by Region

✓ Sales by region were down across the board by about 20% year on year

(Unit: Yen, millions)



* Net sales in Asia for the first half of the fiscal year ended December 31, 2018, include 3,204 million yen in net sales for China's high-temperature reactor-pebble-bed modules (HTR-PM).

5. Consolidated Balance Sheet and Statement of Cash Flows

(Unit: Yen, millions)				(Unit: Yen, millions)		
Consolidated Balance Sheet	Jun. 30, 2019	Dec. 31, 2019	Jun. 30, 2020	Consolidated Statement of Cash Flows	FY2019 H1	FY2020 H1
Total assets	74,397	76,082	74,847	Cash and cash equivalents at end of period	7,186	10,474
Notes and accounts receivable - trade	13,797	14,195	11,666	Net increase (decrease) in cash and cash equivalents	771	4,373
Inventories	15,100	15,416	15,769	Cash and cash equivalents at beginning of period	6,414	6,101
Property, plant and equipment	23,993	24,874	26,369	Net cash provided by (used in) operating activities	3,233	3,785
Total liabilities and net assets	74,397	76,082	74,847	Net cash provided by (used in) investing activities	(1,219)	1,778
Interest-bearing liabilities	491	296	298	Net cash provided by (used in) financing activities	(1,148)	(1,116)
Capital stock	7,947	7,947	7,947			
Net assets	64,877	65,706	65,712			
Equity ratio	86.3%	85.4%	86.8%			

*Balance of cash and deposits, and securities: 17,226 million yen

Forecasts for the Fiscal Year Ending December 31, 2020

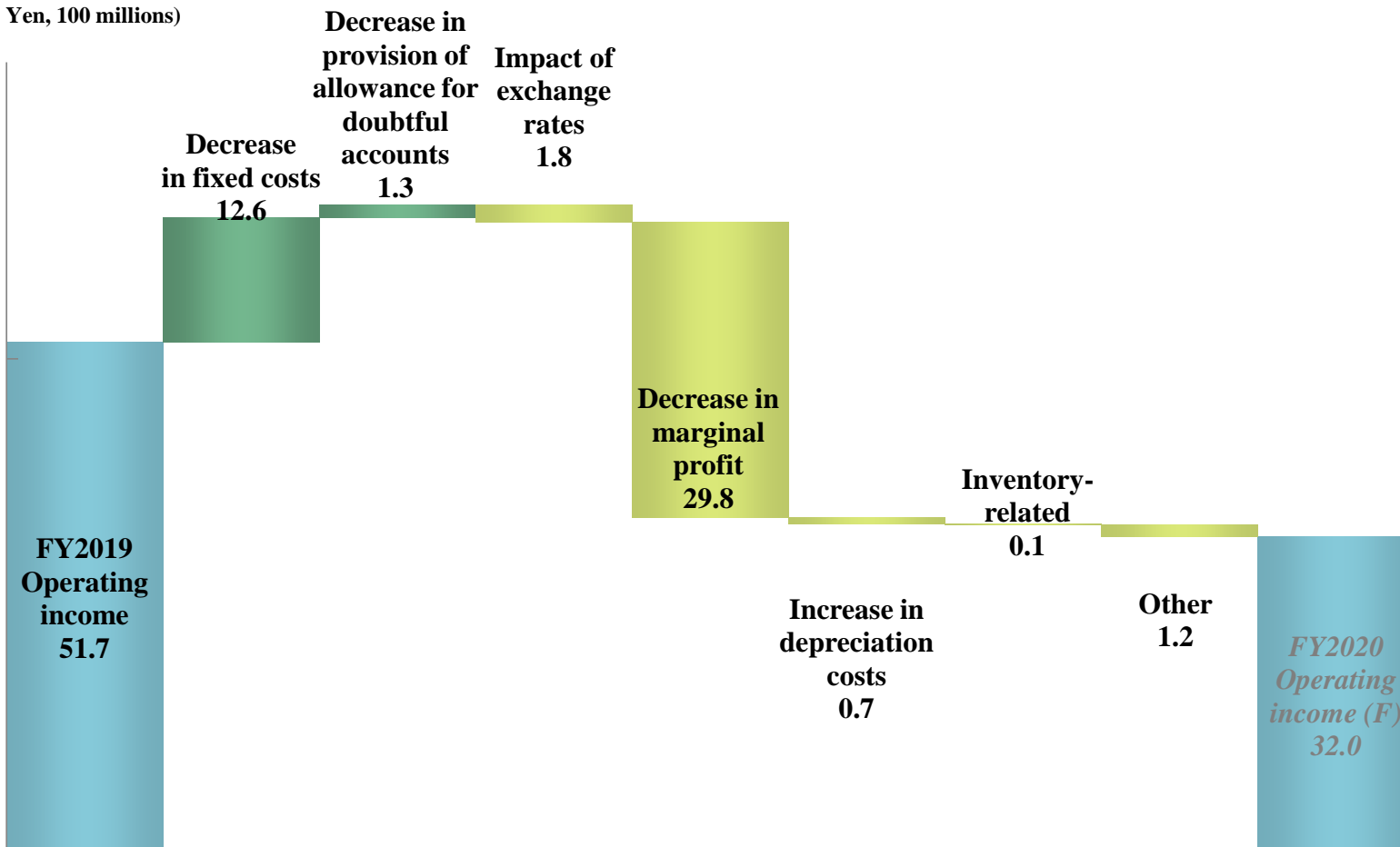
1. Forecasts for the Fiscal Year Ending December 31, 2020

(Unit: Yen, millions)	FY2019	FY2020 (forecast)			
			Breakdown		Year-on-year change
Net sales	36,402	30,000	H1	15,514	(6,402) / (17.6) %
			H2 (F)	14,485	
Operating income	5,175	3,200	H1	2,063	(1,975) / (38.2) %
			H2 (F)	1,136	
(Ratio of operating income to net sales)	14.2%	10.7%			
Ordinary income	5,207	3,200	H1	2,105	(2,007) / (38.6) %
			H2 (F)	1,094	
(Ratio of ordinary income to net sales)	14.3%	10.7%			
Profit attributable to owners of parent	2,944	2,200	H1	1,461	(744) / (25.3) %
			H2 (F)	738	
Profit attributable to owners of parent per share (basic) (yen)	140.40	104.90	H1	69.69	
			H2 (F)	35.21	
Exchange rate		(Assumed exchange rates for 2H)			
	109.1 yen/\$	105 yen/\$			
	122.1 yen/€	115 yen/€			
	15.8 yen/CNY	15.0 yen/CNY			

2. Factors Affecting Changes in Operating Income (fiscal year ended December 2019 vs. fiscal year ending December 2020)

- ✓ Operating income decreased by 38.2% amid a situation where the Company cut fixed costs substantially, yet that lower amount did not make up for a decrease in marginal profit brought about by a drop in sales.

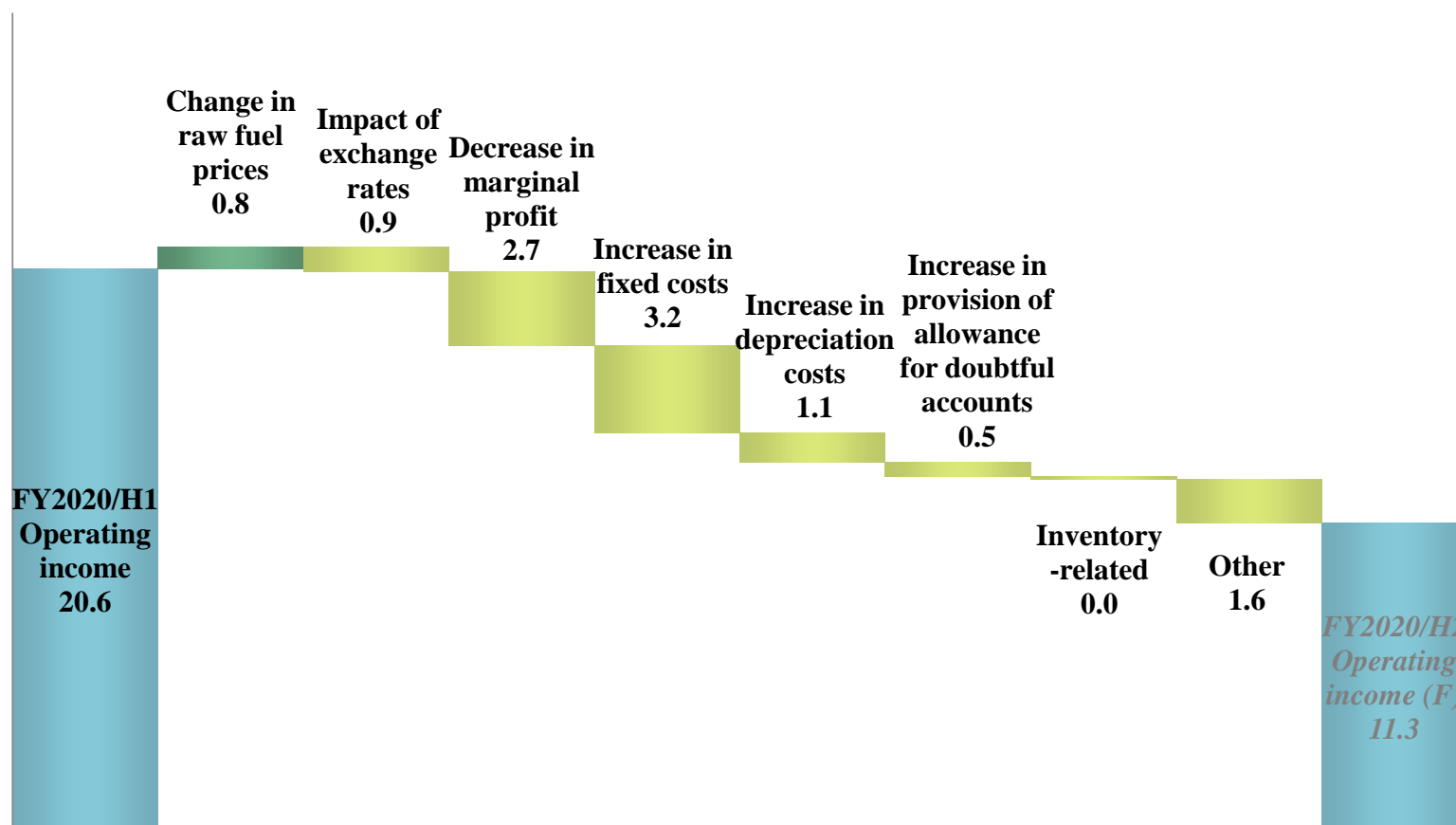
(Unit: Yen, 100 millions)



2. Factors Affecting Changes in Operating Income (first half vs. second half of fiscal year ending December 2020)

- ✓ Operating income projected in the second half is likely to be roughly half that of the first half due to a decrease in marginal profit resulting from lower sales, an increase in personnel costs and other fixed costs, and an increase in depreciation costs.

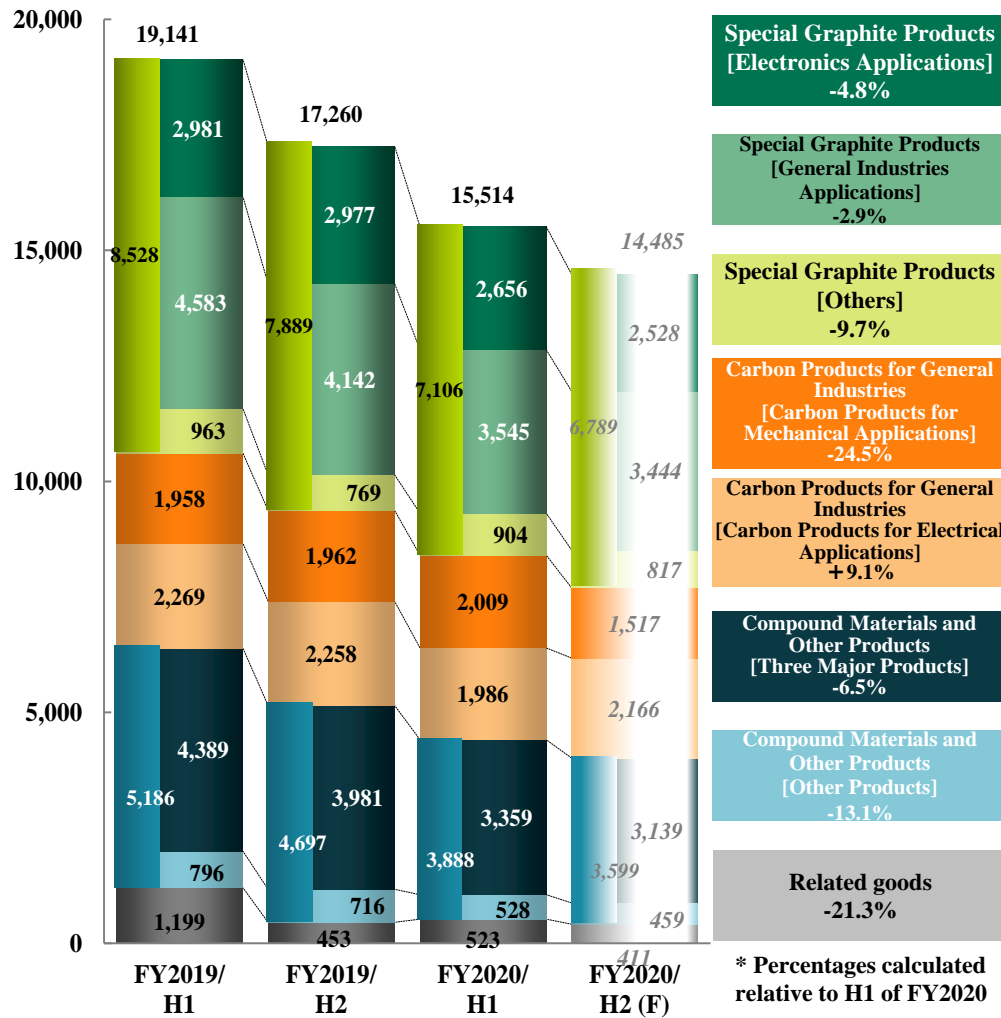
(Unit: Yen, 100 millions)



3. Net Sales by Product and Segment / Sales by Region

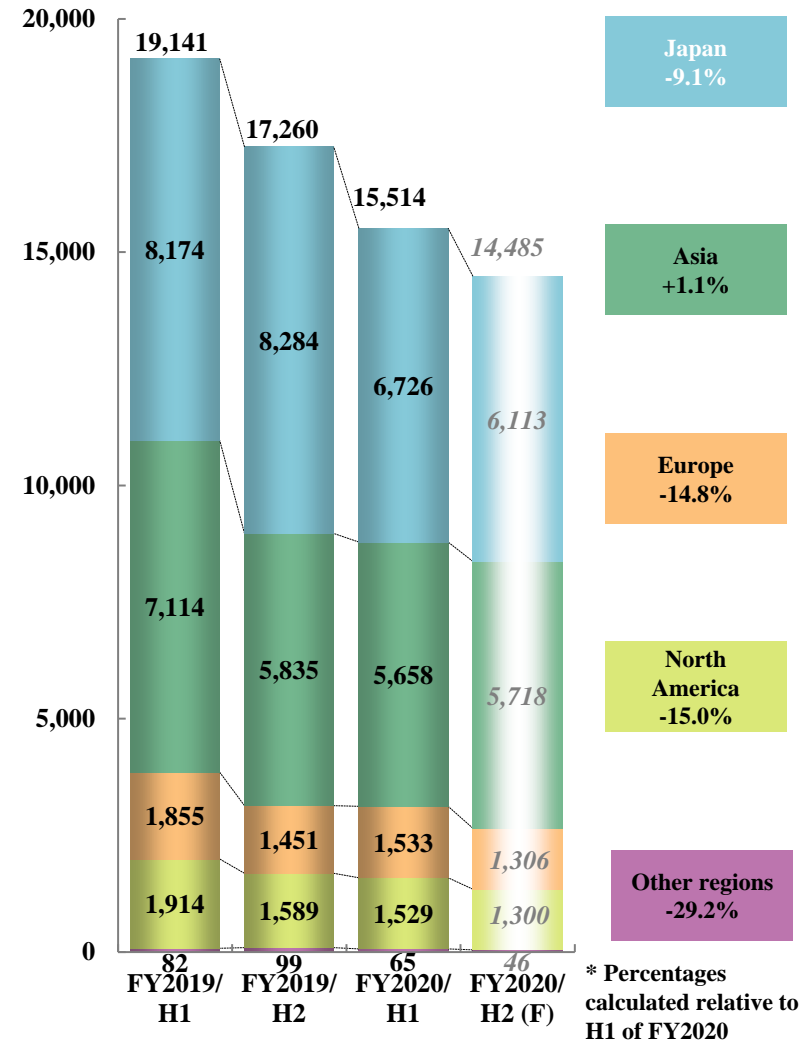
<Net sales by product and segment>

(Unit: Yen, millions)



<Sales by region>

(Unit: Yen, millions)

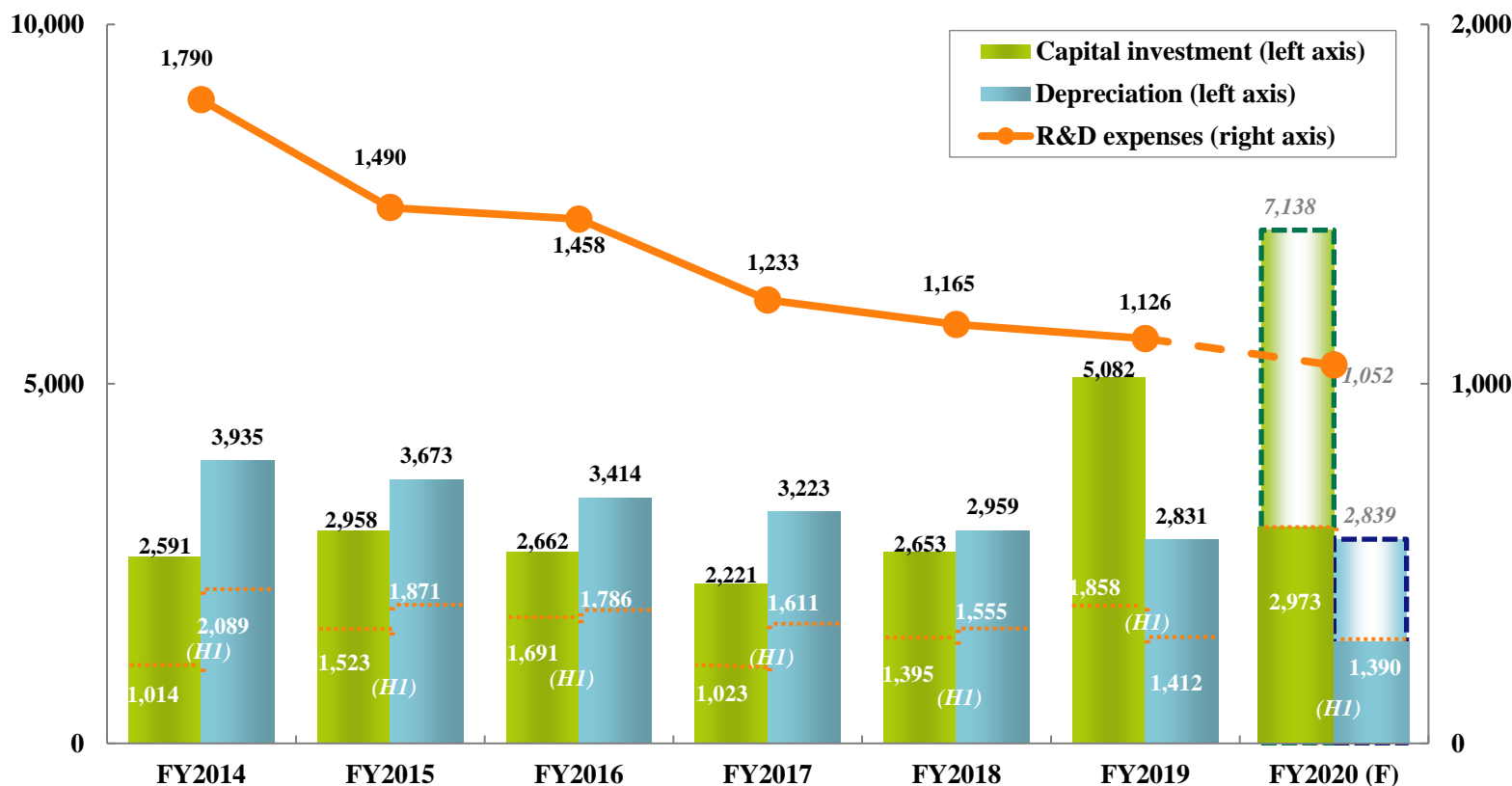


4. Capital Investment, Depreciation, and R&D Expenses

✓ The Company has been reducing capital investment this fiscal year in view of the business environment, yet there is a certain amount of capital investment shifted over from the previous fiscal year (approx. 2.0 billion yen).

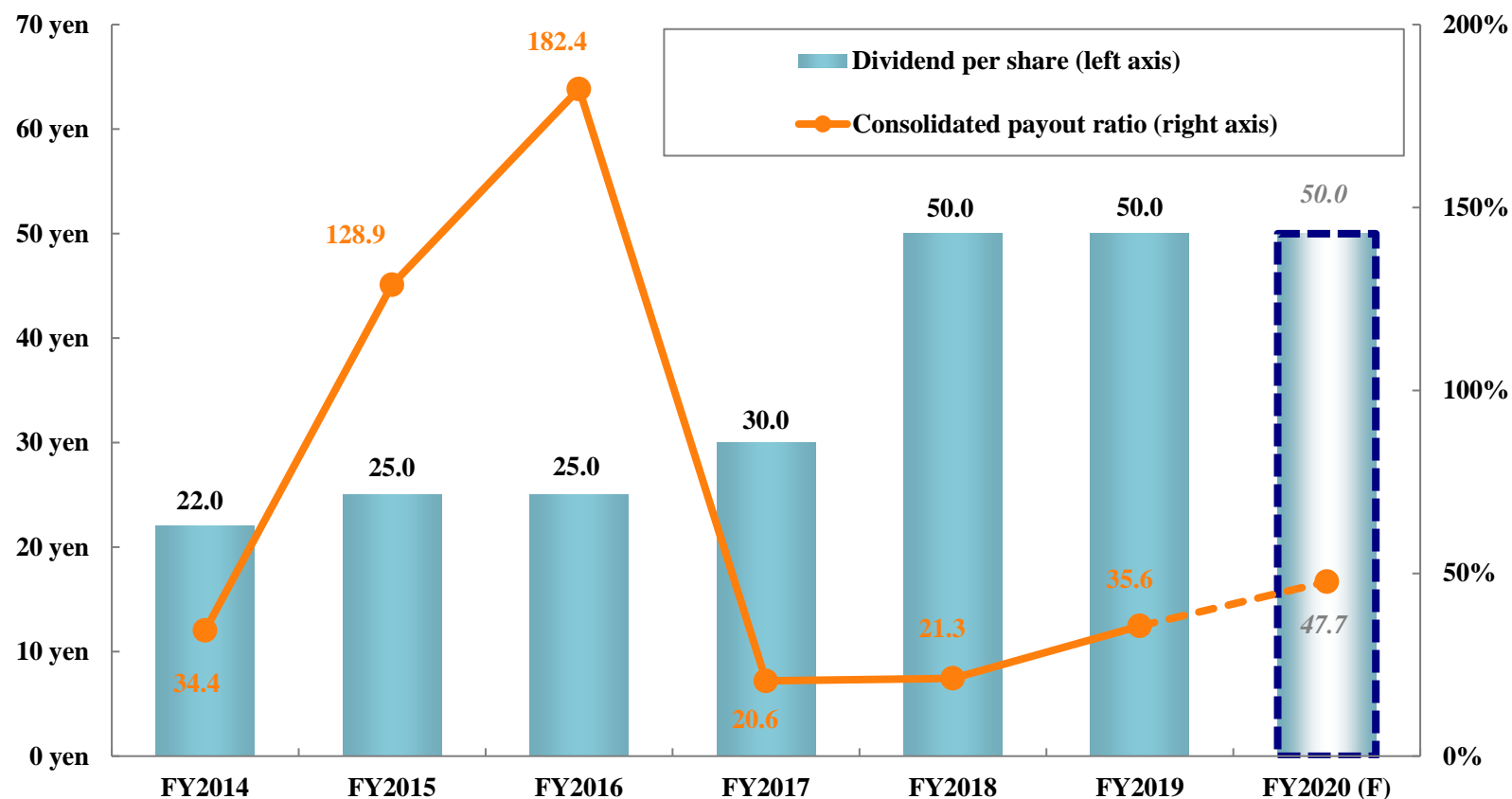
(Unit: Yen, millions)

(Unit: Yen, millions)



5. Dividend

✓ In FY2020, the Company will keep dividends on par with FY2019, despite a decrease in earnings.



Business Outlook

✓ **Effects of COVID-19 became apparent beginning in the second quarter.**

→ **The balance of outstanding orders having decreased substantially as of the end of the second quarter, and during the fiscal term pricing pressures have become apparent in some areas given that the Company continues to encounter substantial challenges.**

✓ **It is likely to take some time before the industries in which the Company operates begin to mount a recovery (electronics, transportation equipment, renewable energy, etc.).**

→ **Limited earnings recovery likely in FY2021**

✓ **Overseas demand is likely to mount a gradual recovery, the extent of which will vary depending on geographic area.**

→ **The Company has recently been gradually generating inquiries amid a scenario of relatively strong customer operations in China but lackluster recovery in Europe, the US, and southeast Asia.**

✓ **The fundamental trajectory under the medium-term management plan remains unchanged, but delays are likely regarding the timing for achieving the 50 billion yen sales target (by the year 2022 under the initial plan).**

→ **To be released as soon as the medium-term outlook becomes available**

2. Approach to Manufacturing during the COVID-19 Pandemic

- ✓ The Company will implement the following initiatives, with top priority placed on **“maximizing earnings during the economic downturn.”**

(1) Postpone non-essential capital investment and reduce investment amounts (20% less relative to initial plans)

- Implement initial plans for investment that places high priority on higher added-value areas of business, etc.
(Enhancement in SiC-coatings, augment capabilities with high-purity products, etc.)

(2) Implement initiatives to improve production efficiency

- Reduce defect rate through technological training and innovation
- Strengthen quality control frameworks worldwide
 - Upgrade guidance from main operations on processing and equipment maintenance
- Promote activities for labor optimization
 - Achieve maximum performance with limited resources by allocating surplus capacity generated by streamlining to busy sections of the Company

(3) Further reduce manufacturing costs

- Optimize procurement worldwide

3. R&D Looking toward the Post-covid-19 Landscape

We will engage in fundamental development and process development extending all the way back to raw materials with the aim of becoming a quality leader in carbon materials a decade from now, underpinned by our strategy of technology development.

Enhancement of development capabilities (slated for September 2020)

- ✓ We will promote effective and efficient approaches to development on a Company-wide basis, which will involve optimally allocating our resources while integrating our technology workforce now situated under our production divisions into our development divisions.
- ✓ We will furthermore allocate resources to carbon brushes.

《Recent developments in R&D》

► R&D for automotive applications

Carbon products for mechanical applications

We are establishing new manufacturing methods and processes that we aim to employ with respect to automotive applications.

► Functional improvement of materials for industrial furnaces

C/C composite products

Oil quenching of metals and other materials is making it possible to reduce oil penetration and thus prevent soot emissions. We are also developing new applications with our sights set on overseas expansion.

4. Business Activities for Helping to Achieve a Sustainable Society

Toyo Tanso will help seek solutions to social challenges by developing technologies that are closely aligned with its customers.

Electronics

[Semiconductor]

Components for crystal growth
Components for wafer processing

[Electronic component]

Jigs for electronic component manufacturing



Energy

[Power generation]

Grounding brushes for power generators
Components for solar power generation device manufacturing
Core components for next-generation atomic reactor

[Electronic component]

Catalyst carriers



Mobility

[Trains]

Pantograph sliders

[Aircraft]

Engine parts manufacturing
(electrodes for EDM, jigs for heat processing)

[Automotive]

Carbon brushes for fuel pumps
Gaskets



Social infrastructure

[Communications]

Components for optical fiber manufacturing
Components for cable manufacturing

[General industry]

Packing
Sealing ring bearings



Life science

[Medical care]

Target materials for CT devices
Analytical column filler

[Home appliances]

Components for LED manufacturing
Carbon brushes for cleaners
Components for compressors



SUSTAINABLE DEVELOPMENT GOALS

Toyo Tanso aims to help bring about achievement of the Sustainable Development Goals (SDGs).



Note: This presentation contains “forward-looking statements” and forecasts of business results. These statements are not historical facts but instead represent the Company’s beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond the Company’s control. It is possible that the Company’s actual results may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements.

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