

## Top Message

# Daring to take on challenges for the future

“Ties to Reliability” is the keyword for Tokai Carbon’s sustainable growth. By looking to the future, making changes and boldly taking on challenges, we will take Tokai Carbon’s business to a higher level.

**Hajime Nagasaka** President and CEO



# Steadfast Conviction opens up the Future



## Ties of Reliability

Tokai Carbon created this basic philosophy more than 20 years ago in anticipation of the 21st century. The basic philosophy embodies our belief that all of our stakeholders from our customers and shareholders to our business partners, employees, and society are essential partners of the Company and our wish for mutual prosperity. In 2022, Tokai Carbon announced its long-term vision to “contribute to a sustainable society through advanced materials and solutions” as its “vision for 2030,” which clarified our emphasis on sustainability as one facet of management. Even before this though, we have valued the concept of sustainability through our basic philosophy.

When I became president in 2015, Tokai Carbon’s business performance was stagnant. Although we were in a position to play a part in the automobile industry, we had been content with consolidated sales of around 100 billion yen and had been stagnating. I felt a strong sense of crisis about this situation, and decided that 2016, my second year as president, would be the year for fundamental structural reform. I worked to change the company’s attitude by promoting personnel exchanges between business divisions, hiring outside talent, and reforming governance. At the same time, I took decisive steps to thoroughly eliminate all accumulated waste within the company, such as withdrawing from non-core businesses

and unprofitable products, reducing excess production capacity and downsizing. I buckled down that a decrease in short-term sales and profits would be unavoidable. In fact, in 2016, our company recorded an extraordinary loss of over 10 billion yen, and our net income for the period was in the red by a large margin, which caused some people around me to express concern.

The structural reforms that I had pushed forward with such conviction began to pay off. By 2017, we pivoted from reform to growth strategies. To address the need to diversify our businesses and production sites, we strategically invested approximately 180 billion yen for about three years into five M&As overseas. As a result, our core Graphite Electrode and Carbon Black businesses acquired their first production bases in the United States. We also developed the Smelting and Lining business while strengthening the Fine Carbon business. As time goes by, compared to 2014, before I became president, our business scale in 2023 will have grown significantly, with consolidated sales approximately three times larger and consolidated operating profit approximately ten times larger. The proportion of overseas sales, which was just under 50%, has expanded to 80%. Even looking back now, I know I made the right decision to diversify our businesses and production sites. Without them, our company would probably in a much tougher place than it is now.

However, we are also seeing changes in our current



business environment. The performance of each business in 2023 was up and down. The core Carbon Black business realized profits surpassing forecasts now that its United States subsidiary is finally finding more solid footing after ongoing turmoil due to an upswing in environmental investment costs, equipment trouble and other such problems as well as successfully executing large price increases. However, our other businesses have been struggling due to fluctuations in the global economy and a lack of semiconductors. The Graphite Electrodes and Smelting and Lining businesses find themselves in a particularly harsh business environment. Graphite Electrodes remained stable in the United States but could not pull itself out of its slump in Germany and Japan over the last several years. One reason for this is the slowdown in global steel markets, but we also cannot ignore the flood of cheap products from companies in emerging nations such as China and India. Even in the Smelting and Lining business, Chinese competitors have been able to push farther into our market despite the clear separation of these markets. Competitors have also taken some of the overwhelming focus ring share that TOKAI CARBON KOREA Co., Ltd. has been proud to hold. The landscape of the current face-to-face markets before the COVID-19 pandemic has completely changed.

I believe we have to take decisive action to address these changes in the business environment. Considering

carbon neutrality and other major downstream business trends, I have great expectations for the latent potential of each Tokai Carbon business.

## Observe, orient and take firm actions

2023 has been a difficult year. We can also assume 2024 will be another tough year with the core Graphite Electrodes and Smelting and Lining businesses forced to plan actions to tackle a deficit. In particular, the significant changes in the Graphite Electrodes business environment are not temporary. That is why I am prepared to carry out more structural reforms. To realize sustainable growth in the future, 2024 is a year that we must begin again and become fully committed to put in the work to make it happen.

The three-year Medium-term Management Plan “T-2026” that runs from 2024 to 2026 announced in February 2024 positions “strengthening the earnings power of core businesses,” “enhancing business portfolio management,” and “pursuing sustainability management” as our basic policies. We aim to reach 458 billion yen in consolidated net sales and 53 billion yen in operating profit with a return on sales (ROS) of 12% and 104 billion



yen in earnings before interest, taxes, depreciation, and amortization (EBITDA) by 2026, which is the final year of this mid-term management plan.

### 1) Strengthening the revenue base of core businesses

We aim to build a structure that will enable us to generate stable profits from our core businesses, including the two business segments mentioned above, which are currently in difficult situations. First, we will give top priority to restructuring our Graphite Electrode business. In addition, in our Carbon Black and Fine Carbon businesses, we will respond to strong demand while improving the added value of our products. In the Carbon Black business, we will not only ensure stable operations at our U.S. bases, but also accelerate the horizontal expansion of specialty carbon black, which

is used as a filler for tires and a reinforcing material for other rubber products, and complete a project to build a new plant in Thailand. Additionally, in the Fine Carbon business, which has the greatest future growth potential, we believe that expanding production capacity to meet the needs of the rapidly expanding power semiconductor market will be a key point.

## 2) Enhancing business portfolio management

Since I became president, I have withdrawn from non-core businesses, reformed our business structure through M&A, and worked on the subsequent growth strategy. From now on, I will work to further improve our management methods in order to “achieve management considering capital costs and stock prices.” Specifically, we will visualize the capital return and growth potential of each business, identify high-profit and growth businesses, and concentrate management resources there. We have been carrying out PMI\* for the subsidiaries we have acquired through M&A in order to maximize the benefits of integration. However, we are still only halfway there. As the global economy becomes increasingly uncertain, we believe that quickly recovering investment funds is also an important issue.

In terms of financial indicators, the targets are a net D/E ratio of around 0.35 times and a net interest-bearing debt/EBITDA ratio in the range of 1.0 times. Our approach to balance sheets has changed dramatically over the last nine years. We had been aiming for a net D/E ratio of 0.0 times as the Company had maintained virtually debt-free management. However, as we shifted toward a growth strategy driven by M&As, the structure of our corporate

balance sheet completely changed due to actively raising funds through both indirect and direct finance. Although we are currently working to complete the PMI, we should not miss those really good opportunities to further diversify and expand our business portfolio.

\*PMI: Post Merger Integration

## Solid Organization and Strong Human Resources

In aiming for the long-term vision toward 2030, it is necessary to share the basis for the daily actions and decisions of all group members. The idea of renewing the five action guidelines to “Integrity,” “Innovation,” “Challenge,” “Co-creation,” and “Agility” was one of its measures. As stated in the long-term vision, an approach pioneering innovation is essential for our advanced next-generation materials and solutions to contribute to society. Tokai Carbon has had its customer base since long ago, which may be why our employees are generally diligent and hardworking, which of course in itself is one of our strengths. On the other hand, it might be true that this culture tends to encourage conservative ideas and actions. I often feel we lack a strong offensive approach founded in autonomous thought and a willingness to take risks. I believe that this is a very important guideline for building an organization that can survive in today’s era, when common sense of the past is no longer applicable and change is the norm. I feel like I share this with

## Guidelines

Integrity  
Innovation  
Challenge  
Co-creation  
Agility

employees from our Group companies worldwide on an almost daily basis.

I am also more aware than ever of the importance in investing in human capital. Not too long ago, it was common to think that human resources could only be trained by enduring severe trials and environments, but times have clearly changed. To secure the excellent human capital said to be the source of corporate competitiveness, the company itself must change. Based on this approach, in 2023, Tokai Carbon (non-consolidated) conducted an employee engagement survey for the first time. Through this, we will foster an organization and culture in which employees with diverse values and backgrounds want to work together.



## Daring to Take on Challenges for the Future

### Clear and Proactive Initiatives For the Sustainable Society

Tokai Carbon uses fossil fuels as a principle raw material and utilizes production processes that emit a considerable amount of CO<sub>2</sub>. It goes without saying that initiatives toward carbon neutrality are essential to survive in a carbon-neutral society. The goal to realize a carbon-neutral society is a lofty one as we cannot expect to succeed simply through the extension of modern technologies. However, we will work with our customer and other external partners in efforts to overcome various challenges, such as the use of renewable energies, product recycling, exploration of raw biomass materials, and the collection and storage of CO<sub>2</sub>, while taking advantage of government grants and subsidies. We are already underway with initiatives towards our targets that first aim to reduce CO<sub>2</sub> emissions throughout the entire Group 25% (VS 2018) by 2030 before becoming carbon neutral in 2050.

Sustainable management encompasses both investments into human capital as well as carbon neutral efforts. As I said at the beginning, Tokai Carbon has striven in CSR activities to co-exist and co-prosper with society based on our basic philosophy. With even stronger recognition of the need to more actively help address environmental and social issues at a global scale like the SDGs, we have been ramping up ESG/sustainability initiatives since 2019. Our long-term vision drafted in 2022 reflects the fruits of these efforts. As more and more social issues appear throughout the world from global warming and other global environmental issues to human rights violations and poverty, I feel there is even greater importance and urgency for initiatives to realize a sustainable society.

Our company's sustainability management is being promoted through repeated discussions centered around the Sustainability Committee, of which I serve as chair. I will take the lead in addressing this issue, asking myself what kind of contribution our company can make to the realization of a sustainable society.

As mentioned above, 2024 is a year of fresh start, in which we must quickly respond to the changes in the business environment that are immediately upon us. My most urgent and important mission as president is to compile the necessary reform plans as quickly as possible and implement them without hesitation in order to lay a solid foundation for future growth.

In a tough business environment, the consolidated sales and operating income targets that we have set for the final year of our medium-term management plan are quite challenging, but I personally have a strong desire to take our business scale to an even higher level in the not-too-distant future. For the sake of the next generation who will be responsible for Tokai Carbon in the future, I want to do everything I can now to make Tokai Carbon a company that is trusted and recognized by society. This is my dream.

Please look forward to Tokai Carbon's bold efforts as we continue to take on new challenges towards the future.