

TOKAI CARBON Recorded Net Loss for FY2024—No Immediate Impact on Rating, and JCR Will Pay Attention to Progress of Structural Reforms and Pace of Earnings Recovery

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the financial results for the fiscal year ended December 31, 2024 of TOKAI CARBON CO., LTD. (security code: 5301).

- (1) TOKAI CARBON CO., LTD. (the "Company") announced its financial results for the fiscal year ended December 31, 2024 (FY2024) on February 12. Although the Company firmly secured a black figure for the operating income at 19.3 billion yen (down 49.9% year-on-year), the profit levels were halved from the previous fiscal year due to the impact of continued losses in the Smelting and Lining (S&L) and Graphite Electrodes businesses. In addition, the recording of extraordinary losses of 76.8 billion yen resulted in a net loss attributable to owners of the parent company of 56.7 billion yen (compared with net income of 25.4 billion yen in the previous fiscal year). The main components of the extraordinary losses were 61.2 billion yen in structural reform expenses for S&L and 14.9 billion yen in the same expenses for Graphite Electrodes. The business environment for S&L has become increasingly difficult due to factors such as the prolonged inventory adjustment for cathodes for aluminum electrolysis. In response to this, the Company recorded impairment losses, mainly on intangible fixed assets such as goodwill arising from acquisitions made in 2019 and thereafter. With regard to Graphite Electrodes, earnings have been sluggish due to deteriorating supply and demand and competition, and in July 2024 the Company decided to restructure its production structure. The extraordinary losses recorded this time are in line with this decision, including impairment losses on fixed assets related to consolidation of domestic plants and reduction of production capacity at European bases.
- (2) Although the Company's equity capital was damaged by the recording of its largest ever net loss, its net DER, which takes into account the equity content of hybrid finance, is 0.20x (0.15x at the end of FY2023), and it maintains a reasonable level of soundness. In addition, reductions in depreciation and fixed expenses are expected from FY2025 onwards as a result of these measures, and JCR believes that this is expected to have a positive impact on its business performance. The Company forecasts an operating income of 23.3 billion yen (up 20.2% year-on-year) for FY2025, the first increase in three fiscal years. Based on these factors, JCR has determined that there is no need to immediately change the rating. However, due to the significant rise in costs in Europe, it is becoming difficult to foresee a return to profitability in the short term for the S&L. For this reason, the Company plans to implement business restructuring measures such as personnel reductions and revisions of production capacity in this business. JCR will continue to monitor the structural reforms in the two loss-making businesses, their progresses, and the pace of recovery in business performance.

Takeshi Fujita, Saori Kitamura

<Reference>

Issuer: TOKAI CARBON CO., LTD.

Long-term Issuer Rating: A+ Outlook: Stable



Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)
