

GRAFTech International

# Q4 2019 Results (Unaudited)

February 6, 2020

# Forward-looking Statements

NOTE ON FORWARD-LOOKING STATEMENTS: This presentation and related discussions may contain forward-looking statements that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as “will,” “may,” “plan,” “estimate,” “project,” “believe,” “anticipate,” “expect,” “intend,” “should,” “would,” “could,” “target,” “goal,” “continue to,” “positioned to,” "are confident", "remain solid", "remain positive", "remain optimistic" or the negative version of those words or other comparable words. Any forward-looking statements contained in this presentation are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. The inclusion of this forward-looking information should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will be achieved. Our expectations and targets are not predictions of actual performance and historically our performance has deviated, often significantly, from our expectations and targets. These forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to: the cyclical nature of our business and the selling prices of our products may lead to periods of reduced profitability and net losses in the future; the possibility that we may be unable to implement our business strategies, including our initiative to secure and maintain longer-term customer contracts, in an effective manner; the possibility that tax legislation could adversely affect us or our stockholders; pricing for graphite electrodes has historically been cyclical and the price of graphite electrodes may decline in the future; the sensitivity of our business and operating results to economic conditions and the possibility others may not be able to fulfill their obligations to us in a timely fashion or at all; our dependence on the global steel industry generally and the electric arc furnace ("EAF") steel industry in particular; the possibility that global graphite electrode overcapacity may adversely affect graphite electrode prices; the competitiveness of the graphite electrode industry; our dependence on the supply of petroleum needle coke; our dependence on supplies of raw materials (in addition to petroleum needle coke) and energy; the possibility that our manufacturing operations are subject to hazards; changes in, or more stringent enforcement of, health, safety and environmental regulations applicable to our manufacturing operations and facilities; the legal, compliance, economic, social and political risks associated with our substantial operations in multiple countries; the possibility that fluctuation of foreign currency exchange rates could materially harm our financial results; the possibility that our results of operations could deteriorate if our manufacturing operations were substantially disrupted for an extended period, including as a result of equipment failure, climate change, regulatory issues, natural disasters, public health crises, political crises or other catastrophic events; our dependence on third parties for certain construction, maintenance, engineering, transportation, warehousing and logistics services; the possibility that we are unable to recruit or retain key management and plant operating personnel or successfully negotiate with the representatives of our employees, including labor unions; the possibility that we may divest or acquire businesses, which could require significant management attention or disrupt our business; the sensitivity of goodwill on our balance sheet to changes in the market; the possibility that we are subject to information technology systems failures, cybersecurity attacks, network disruptions and breaches of data security; our dependence on protecting our intellectual property; the possibility that third parties may claim that our products or processes infringe their intellectual property rights; the possibility that significant changes in our jurisdictional earnings mix or in the tax laws of those jurisdictions could adversely affect our business; the possibility that our indebtedness could limit our financial and operating activities or that our cash flows may not be sufficient to service our indebtedness; the possibility that restrictive covenants in our financing agreements could restrict or limit our operations; the fact that borrowings under certain of our existing financing agreements subjects us to interest rate risk; the possibility of a lowering or withdrawal of the ratings assigned to our debt; the possibility that disruptions in the capital and credit markets could adversely affect our results of operations, cash flows and financial condition, or those of our customers and suppliers; the possibility that highly concentrated ownership of our common stock may prevent minority stockholders from influencing significant corporate decisions; the possibility that we may not pay cash dividends on our common stock in the future; the fact that certain of our stockholders have the right to engage or invest in the same or similar businesses as us; the possibility that the market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets, including by Brookfield; the fact that certain provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws could hinder, delay or prevent a change of control; the fact that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders; and our status as a "controlled company" within the meaning of the New York Stock Exchange (“NYSE”) corporate governance standards, which allows us to qualify for exemptions from certain corporate governance requirements.

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements, including the Risk Factors section of our Annual Report on Form 10-K and other filings with the SEC. The forward-looking statements made in this presentation relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward-looking statement, except as required by law, whether as a result of new information, future developments or otherwise.

# Key Investment Highlights

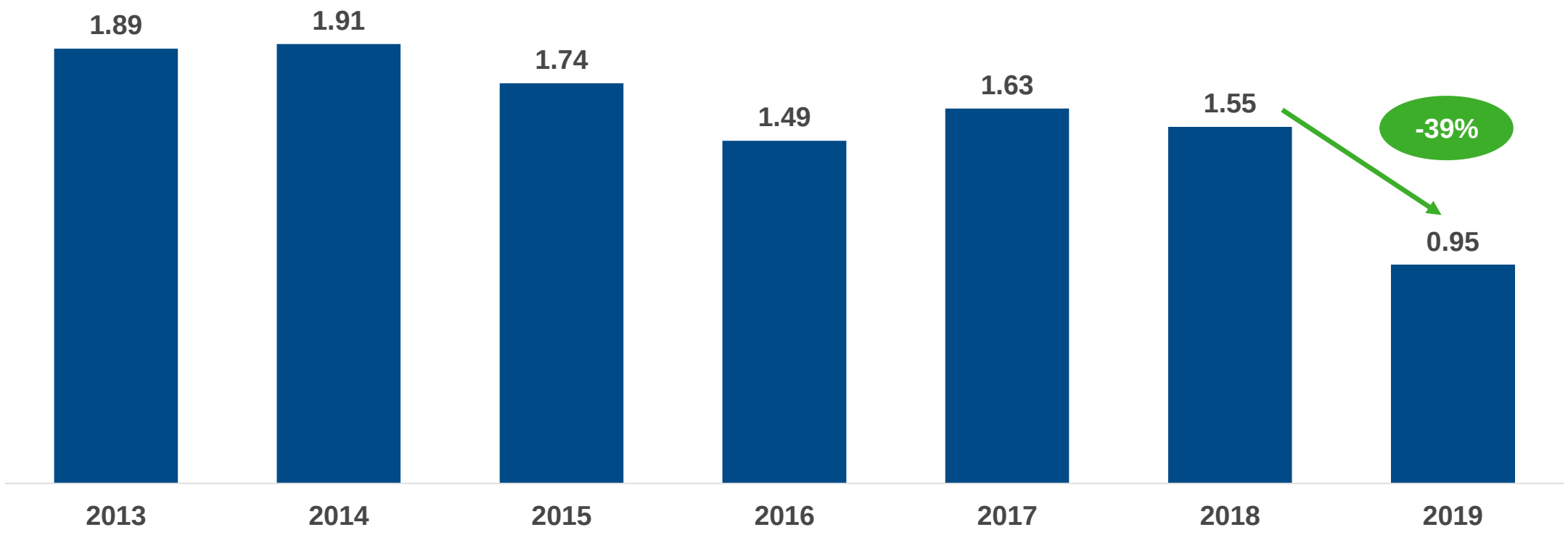
- ☑ Mission critical, highly engineered consumable for the growing EAF market
- ☑ High capacity, low cost, high quality production
- ☑ Vertical integration provides security of supply and sustainable competitive advantage
- ☑ Long-term contracts provide profitability, stability and visibility
- ☑ Generating meaningful cash flows; prioritizing shareholder returns and debt repayments

## Global Network of Production and Sales



# Building Safe and Efficient Operations

## Total Recordable Injury Rates[1]




[1] Total recordable injury rates measured per 200,000 hours worked.

# Market Positioning

**Market Conditions**

- Global crude steel production (ex-China) down in 2019; key regions including Europe and South America are particularly weak
- Customers are destocking graphite electrodes; we continue to expect conditions to improve in H2/20
- Long-term EAF growth story remains strong

**Vertical Integration as a Sustainable Competitive Advantage**

- Wholly-owned Seadrift subsidiary offers secure, high-quality supply of petroleum needle coke
- Internal needle coke production is cost advantaged relative to third party needle coke

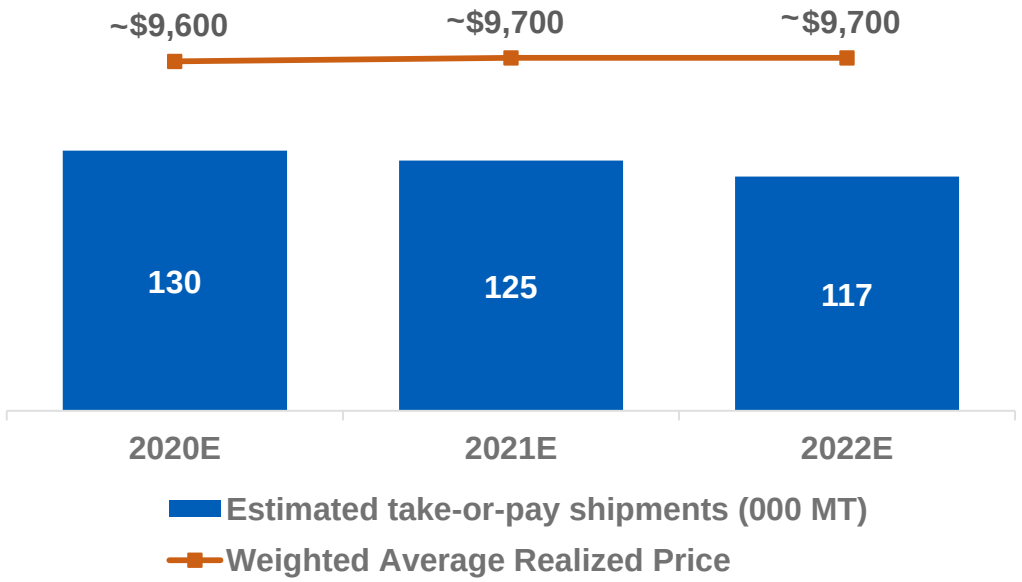
**Long-Term Contracts**

- Majority of GrafTech volumes sold on long-term contracts
- Fixed price, fixed volume long-term contracts offer customers security of high quality supply
- Offer profitability and visibility of cash flows

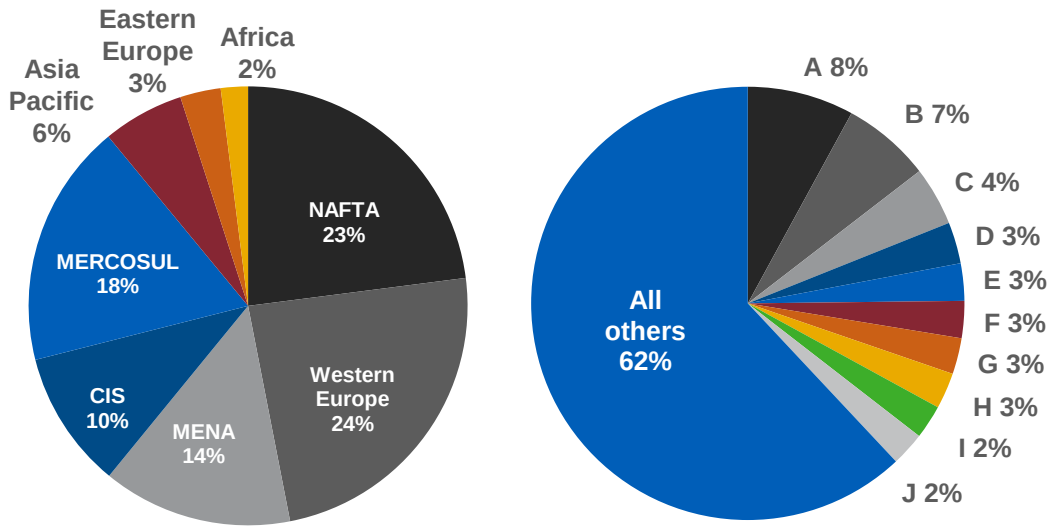
# Long-Term Contracts Provide Profitability and Visibility

- Vertical integration supports commercial strategy to sell two-thirds of cumulative production on long-term (2018 – 2022), take-or-pay, fixed price and volume contracts
- Long-term agreements (LTAs) with >100 customers including 2019 shipments of approximately 145,000 MT at average pricing of ~$9,900/MT
- 2020 estimated shipment volume adjusted due to customer financial difficulties and variability associated with certain LTA provisions

## Estimated Take-or-Pay Shipments[1]




## >100 Customers Located Globally[2]

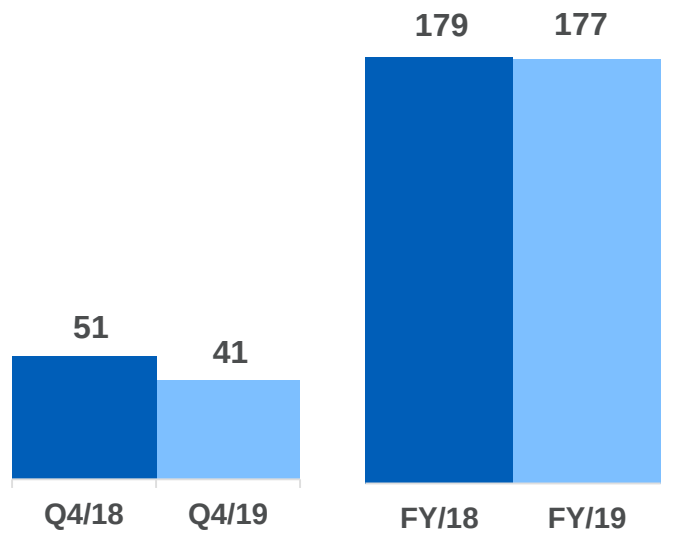



[1]Contracts have fixed prices and either fixed volumes (83% of the portfolio) or a specified volume range (17% of the portfolio). Due to contracts with a specified volume range, the aggregate difference between the volume midpoint and the minimum or maximum volumes across our cumulative portfolio of take-or-pay contracts is approximately 5,000 MT per year in 2020-2022. [2]Based on contracted volume 2018-2022 as of December 31, 2019.

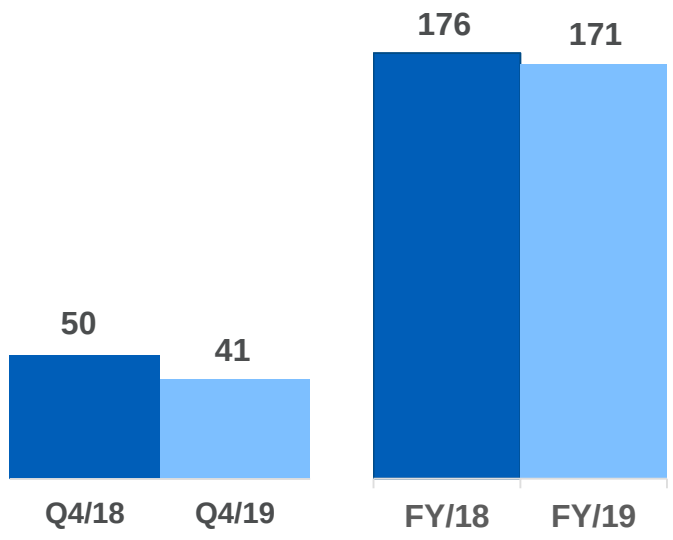
# Production and Sales

- Q4/19 graphite electrode production volumes of 41 thousand MT were in-line with sales volumes
- Q4/19 production and sales volumes were down from the prior year period, but roughly in-line with Q3/19
- 2019 net sales down from the prior year primarily due to lower volumes

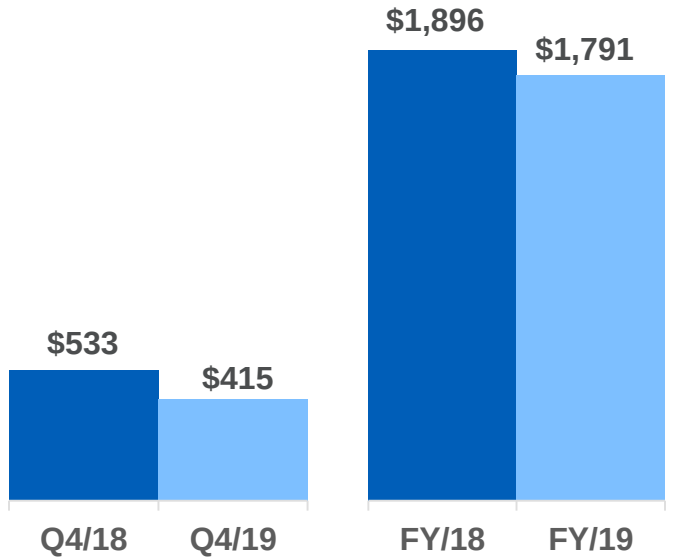
## Production (000 MT)




## Sales Volumes (000 MT)[1]




## Net Sales ($M)




[1]As of Q1/19, sales volumes have been recast to include only graphite electrodes manufactured by GrafTech. This presentation better reflects management's assessment of profitability and excludes resales of low grade electrodes manufactured by third-party suppliers. For comparability purposes, the prior period has been recast to conform to this presentation.

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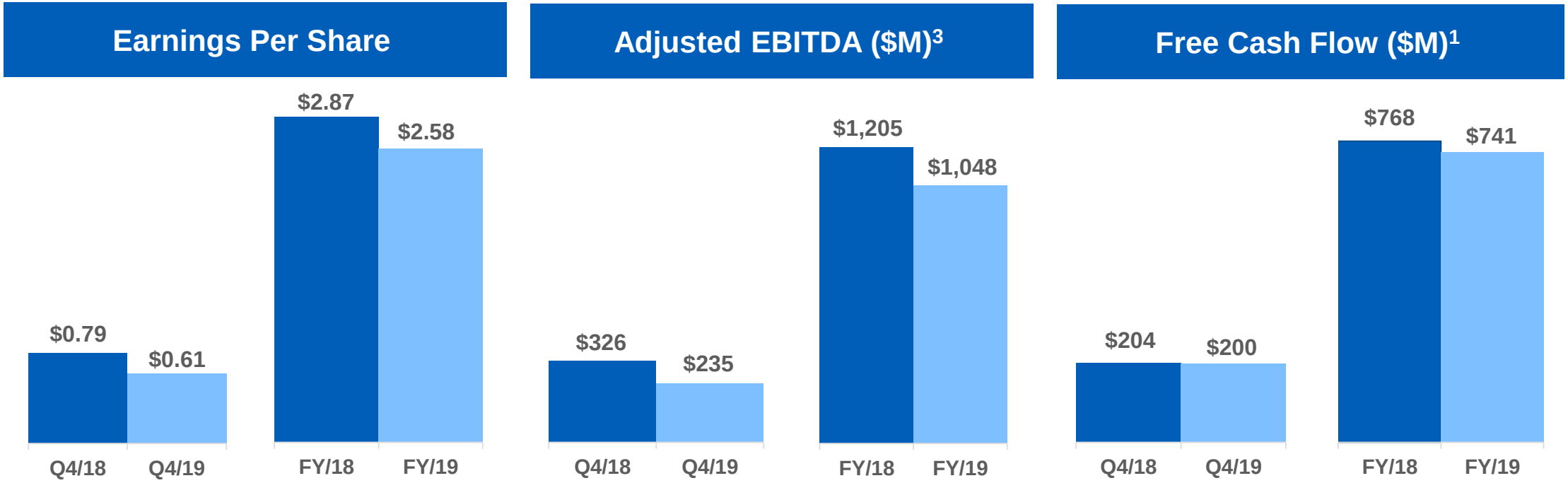
# Strong Cash Flow Generation

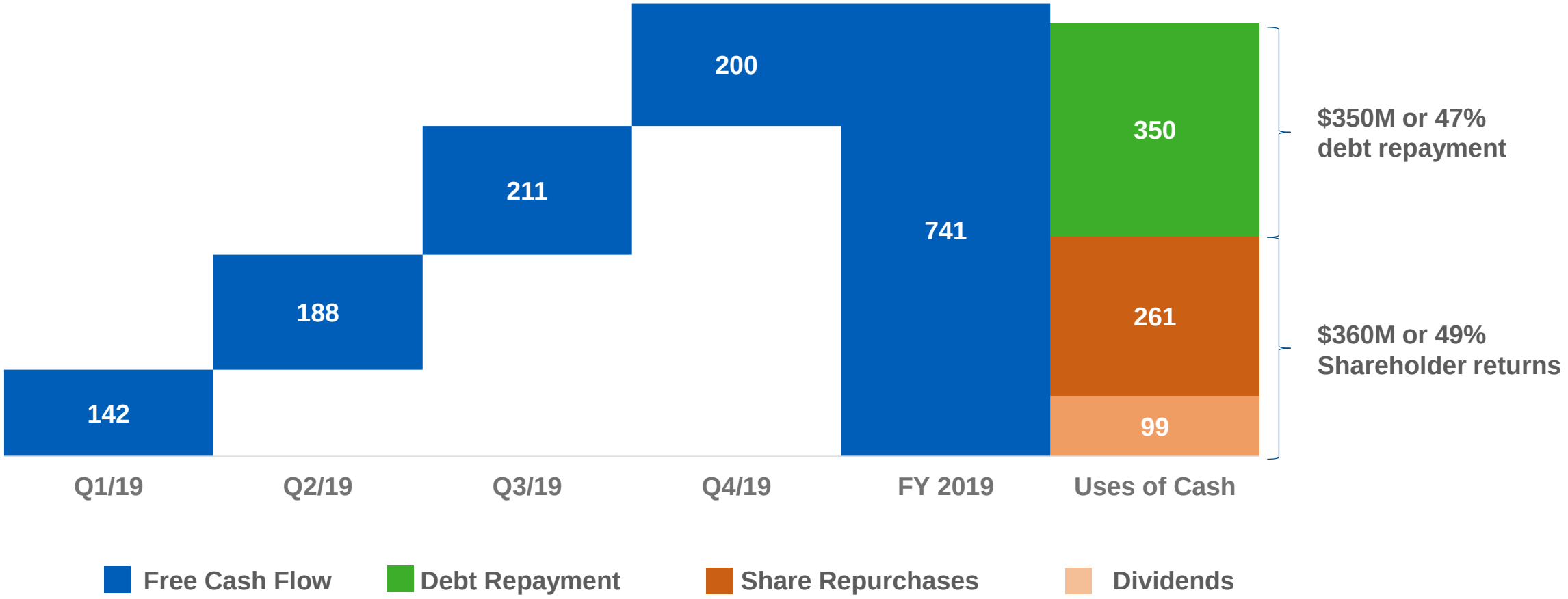
- Q4/19 Free cash flow (FCF)[1] was similar to the prior year period as favorable working capital changes partially offset lower volumes and higher costs
- FY 2019 Free Cash Flow[1] of $741 million represents more than 20% of market capitalization as of December 31, 2019[2]




[1]Non-GAAP measure, see page 16 for reconciliation. [2]Market capitalization of $3.1B is based on 270M shares outstanding with a share price of $11.62 as of December 31, 2019. [3]Non-GAAP measure, see page 15 for reconciliation.

# Strong Cash Flow Generation

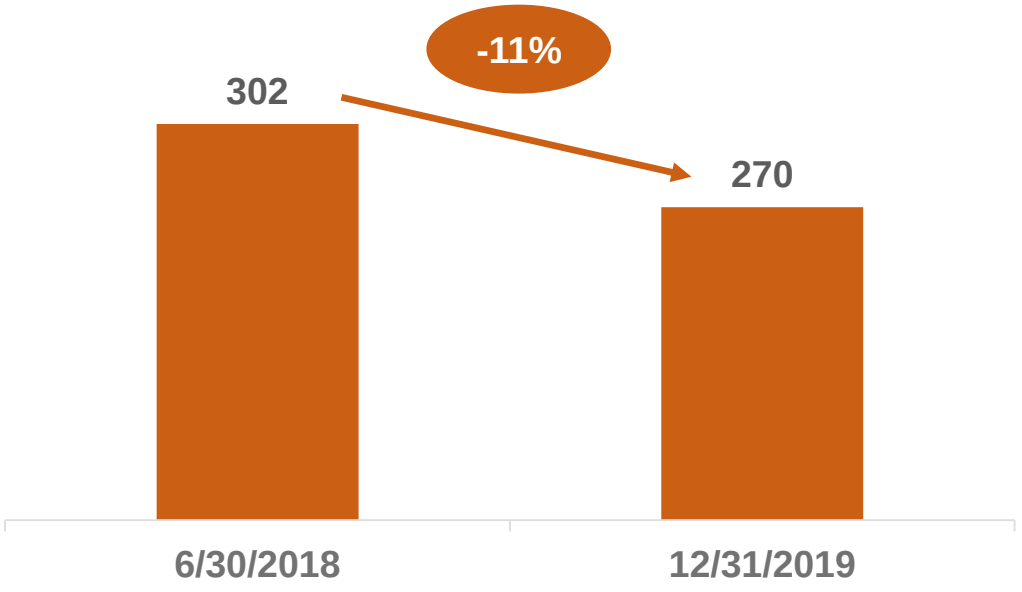
## 2019 Free Cash Flow[1] Generation and Uses of Cash



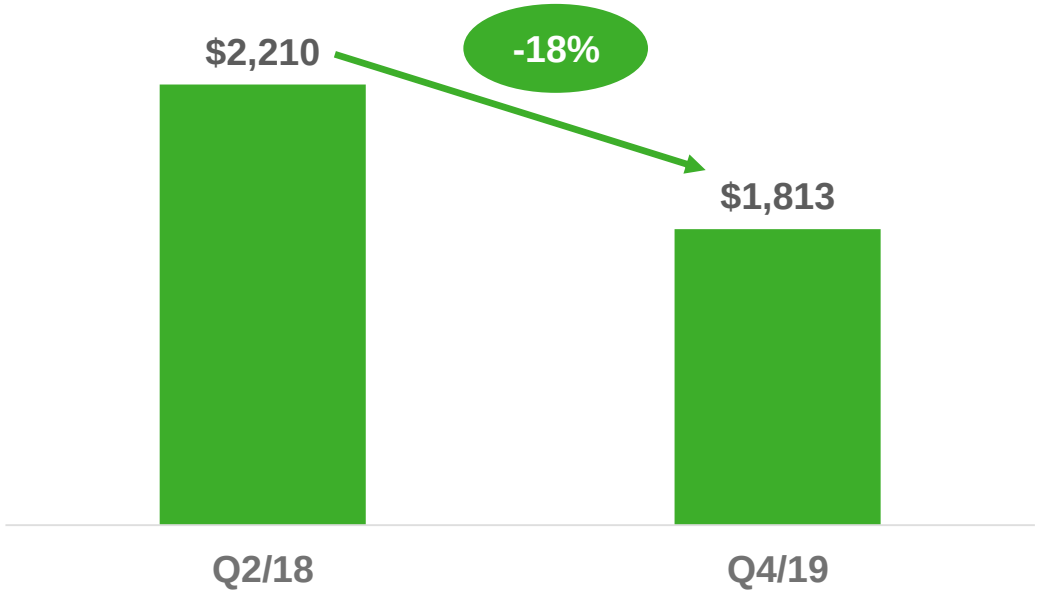

[1] Non-GAAP measure, see page 16 for reconciliation.

# Shareholder Returns and Debt Repayment

## Shares Outstanding (M)




## Total Debt (M$)




- Shareholder returns and debt repayment continue to be the key priorities
- In 2020, we expect to use 50-60% of cash for debt repayment with the balance for shareholder returns[1]

**Since our IPO we have reduced debt by 18% and repurchased 11% of shares outstanding**

[1] Any dividends or share repurchases are subject to the discretion and approval by the Board of Directors and may vary in amounts from prior periods due to circumstances considered by the Board of Directors at the time of such approval.

# Shareholder Returns and Debt Repayment Remain Key Priorities

## Generate meaningful cash flows and preserve liquidity

- As of 12/31/19, total liquidity was approximately $328M[1] including $81M in cash and cash equivalents
- 2019 Free cash flow[2] of $741M

## Reinvest in the business to maintain productive, high quality, low cost operations

- Focus on maintaining the assets and operational improvements that generate high returns on investment
- Expect capital expenditures of $60M – $70M in 2020

## Return capital to shareholders

- Primarily regular quarterly dividends and share repurchases[3]
- Authorized open market repurchases of up to $100M of common stock or ~15% of public float at the time the program was approved[4]; $79M remaining[5]

## Adjust the capital structure to allow for operational and strategic flexibility

- Monitor and adjust balance sheet to preserve flexibility though the cycle
- Continue to repay debt and maintain strong liquidity

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[1] Liquidity includes available revolver capacity and cash and cash equivalents. [2] Non-GAAP measure, see page 16 for reconciliation. [3]Any dividends or share repurchases are subject to the discretion and approval by the Board of Directors and may vary in amounts from prior periods due to circumstances considered by the Board of Directors at the time of such approval. [4] Based on market price of $11.18 per share as of July 30, 2019. [4] As of February 5, 2020.

# An Industry Leading Graphite Electrode Manufacturer

- ☑ Graphite electrodes are a highly engineered, mission critical industrial consumable
- ☑ Operating three of the largest graphite electrode manufacturing facilities in the world
- ☑ Vertical integration into petroleum needle coke provides sustainable competitive advantage
- ☑ Commercial strategy focused on stable, long-term agreements
- ☑ Committed to returning cash to shareholders while maintaining a healthy balance sheet

**Petroleum Needle Coke**




Key raw material

**Ultra High Power Electrodes**



No substitute

**EAF Steelmaking**



# Disclosures

Disclosures

# Non-GAAP Financial Measures

Investors are encouraged to read the information contained in this presentation in conjunction with the following information, the Forward-looking statements information on slide 2 and the factors described under the “Risk Factors” section of the Company’s annual report on Form 10-K and disclosure in the Company’s other SEC filings.

We refer to Adjusted EBITDA from continuing operations in these slides as Adjusted EBITDA, which is a non-GAAP financial measure and the primary metric used by our management and our board of directors to establish budgets and operational goals for managing our business and evaluating our performance. We define Adjusted EBITDA from continuing operations as EBITDA from continuing operations plus any pension and other post-employment benefit plan expenses, initial and follow-on public offering expenses, non-cash gains or losses from foreign currency remeasurement of non-operating liabilities in our foreign subsidiaries where the functional currency is the U.S. dollar, related party Tax Receivable Agreement expense, stock-based compensation and non-cash fixed asset write offs. We define EBITDA from continuing operations, a non-GAAP financial measure, as net income or loss plus interest expense, minus interest income, plus income taxes, discontinued operations and depreciation and amortization from continuing operations. We monitor Adjusted EBITDA from continuing operations as a supplement to our GAAP measures, and believe it is useful to present to investors because we believe that it facilitates evaluation of our period to period operating performance by eliminating items that are not operational in nature, allowing comparison of our recurring core business operating results over multiple periods unaffected by differences in capital structure, capital investment cycles and fixed asset base. In addition, we believe Adjusted EBITDA from continuing operations and similar measures are widely used by investors, securities analysts, ratings agencies, and other parties in evaluating companies in our industry as a measure of financial performance and debt service capabilities.

Free cash flow, a non-GAAP financial measure, is a metric used by our management and our board of directors to analyze cash flows generated from operations. We define free cash flow as net cash provided by operating activities less capital expenditures. We believe free cash flow is useful to present to investors because we believe that it facilitates comparison of the Company’s performance with its competitors.

Although Adjusted EBITDA from continuing operations, free cash flow and similar measures are frequently used by other companies, our calculation of these measures is not necessarily comparable to such other similarly titled measures of other companies. The non-GAAP presentations of Adjusted EBITDA from continuing operations and free cash flow are not meant to be considered in isolation or as a substitute for analysis of our results as reported under GAAP. When evaluating our performance, you should consider these measures alongside other measures of financial performance and liquidity, including our net income (loss) and cash flow from operating activities, respectively, and other GAAP measures.

# Reconciliation to Adjusted EBITDA from Cont'g Operations

| | For the Three Months Ended December 31, | | For the Year Ended December 31, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net income** | 174,922 | 229,632 | 744,602 | 854,219 |
| Add: | | | | |
| Discontinued operations | — | 254 | — | (331) |
| Depreciation and amortization | 15,432 | 18,667 | 61,819 | 66,413 |
| Interest expense | 28,859 | 34,674 | 127,331 | 135,061 |
| Interest income | (1,799) | (589) | (4,709) | (1,657) |
| Income taxes | 7,285 | 12,670 | 98,225 | 48,920 |
| **EBITDA from continuing operations** | 224,699 | 295,308 | 1,027,268 | 1,102,625 |
| Adjustments: | | | | |
| Pension and OPEB plan expenses (1) | 4,330 | 2,415 | 6,727 | 3,893 |
| Initial and follow-on public offering expenses (2) | 647 | 8 | 2,056 | 5,173 |
| Non-cash loss (gain) on foreign currency remeasurement (3) | 942 | (809) | 1,784 | 818 |
| Stock-based compensation (4) | 575 | 495 | 2,143 | 1,152 |
| Non-cash fixed asset write-off (5) | — | 3,819 | 4,888 | 4,882 |
| Related party Tax Receivable Agreement expense (6) | 3,393 | 24,677 | 3,393 | 86,478 |
| **Adjusted EBITDA from continuing operations** | 234,586 | 325,913 | 1,048,259 | 1,205,021 |

(1) Service and interest cost of our OPEB plans. Also includes a mark-to-market loss (gain) for plan assets as of December of each year.
(2) Legal, accounting, printing and registration fees associated with the initial and follow-on public offerings.
(3) Non-cash (gain) loss from foreign currency remeasurement of non-operating liabilities of our non-U.S. subsidiaries where the functional currency is the U.S. dollar.
(4) Non-cash expense for stock-based compensation grants.
(5) Non-cash fixed asset write-off recorded for obsolete assets.
(6) Non-cash expense for future payment to our sole pre-IPO stockholder for tax assets that are expected to be utilized.

# Reconciliation to Free Cash Flow

| (in thousands) | For the Three Months Ended December 31, 2019 | For the Three Months Ended December 31, 2018 | For the Year Ended December 31, 2019 | For the Year Ended December 31, 2018 |
|---|---|---|---|---|
| Net cash provided by operating activities | 220,544 | 224,359 | 805,316 | 836,603 |
| Capital expenditures | (20,050) | (20,589) | (64,103) | (68,221) |
| **Free cash flow** | **200,494** | **203,770** | **741,213** | **768,382** |

| (in thousands) | For the Three Months Ended March 31, 2019 | For the Three Months Ended June 30, 2019 | For the Three Months Ended September 30, 2019 | For the Three Months Ended December 31, 2019 | For the Year Ended December 31, 2019 |
|---|---|---|---|---|---|
| Net cash provided by operating activities | 156,817 | 202,206 | 225,749 | 220,544 | 805,316 |
| Capital expenditures | (14,569) | (14,630) | (14,854) | (20,050) | (64,103) |
| **Free cash flow** | **142,248** | **187,576** | **210,895** | **200,494** | **741,213** |