

Zeon Corporation
First Quarter of FY2022
Meeting Minutes from Results Briefing for Analysts
(July 28, 2022)

[Briefing Materials]

<https://www.zeon.co.jp/en/ir/financial/bs/pdf/220728.pdf>

[Explanations]

P3 Exchange Rates and Prices of Raw Materials

The yen depreciated significantly against both the dollar and the euro YoY and QoQ.

As for raw material prices, Naphtha prices were 1.8 times higher YoY in response to worsening of the Russia-Ukraine situation and depreciation of the yen, and Asian butadiene prices were 1.3 times higher YoY due to the tight supply balance caused mainly by decreased cracker production.

P5 Performance Summary for First Quarter of FY2022

Net sales came in at 97.6B JPY, a record high for quarterly net sales. Compared to the same period of the previous year, net sales were up 10.4B JPY, operating income was down 3.1B JPY. Compared to the previous quarter, net sales were up 4.6B JPY, and operating income was up 2.7B JPY.

P6 Performance Summary by Segment

Net sales in the Elastomer Business came in at 53.5B JPY, and net sales in the Specialty Materials Business came in at 30.1B JPY, up both YoY and QoQ. Operating income in the Elastomer Business came in at 4.1B JPY, and operating income in the Specialty Materials Business came in at 7.0B JPY, down YoY, but up QoQ.

P8 Elastomer Business Overview

Progress was made on selling price adjustments in conjunction with rising Naphtha prices, but net sales were only up slightly overall due to decreased sales of latexes. When the Q1 FY2021 synthetic rubber sales volume is set to 100, it was down both YoY and QoQ. Demand was steady in Q1 FY2022, but we adjusted the sales volume due to scheduled regular repairs at the Tokuyama and Takaoka plants.

P9 Status of Each Segment in Elastomer Business

Overall, the sales volume in the Elastomer Business was down YoY and QoQ due to excessive market inventory of latexes, the decreased sales volume of chemicals, and synthetic rubber inventory adjustments.

P10 Elastomer Business Profit and Loss (QoQ)

The sales volume was down in each segment of the Elastomer Business, but the impact of sales QTY decreased 200M JPY owing to improvement in the synthetic rubber and chemical product mixes. In addition, COGS worsened by 3.8B JPY mainly in conjunction with rising raw material prices, but progress was made on selling price adjustments, so the sales price and exchange

rate improved by 2.6B JPY and 1.7B JPY, respectively. The impact of soaring raw material prices has mostly been absorbed. As for SG&A, when combining the deterioration due to the rise in ocean freight charges with the improvement owing to the decrease in repair costs and indirect department costs that occurred in Q4, SG&A improved by 1.0B JPY, resulting in an overall improvement in operating income (consolidated) of 1.4B JPY.

P11 Elastomer Business Profit and Loss (YoY)

The reason for the different trend compared to QoQ is the 2.0B JPY deterioration of SG&A, but the primary factor behind this was the increase in ocean freight charges.

P13 Summary of Specialty Materials Business

Net sales of both specialty plastics and specialty chemicals increased YoY and QoQ. The primary factors behind this were optical plastics price adjustments, recovery of the sales volume of optical films for small-to-medium size, and an increase in the sales volume of battery materials and chemical fragrances.

P14 Specialty Materials Business Profit and Loss (QoQ)

The sales volume of chemicals and optical films were steady, but the impact of sales price difference deteriorated by 100M JPY due to mixes of optical film products sold. COGS deteriorated by 700M JPY, including the deterioration of loss on disposal of inventories, but SG&A improved by 900M JPY owing to a decrease in new development costs and indirect department costs. As a result of the above, operating income (consolidated) improved by 1.0B JPY.

P15 Specialty Materials Business Profit and Loss (YoY)

COGS deteriorated by 1.7B JPY, including loss on disposal of inventories, but optical plastics/chemicals selling price adjustments and exchange rates resulted in a 1.6B JPY improvement. There was no impact on operating income. However, SG&A deteriorated by 1.3B JPY due to an increase in ocean freight charges, new development costs, and indirect department costs. As a result of the above, operating income (consolidated) deteriorated by 800M JPY.

P16 First Quarter Battery Materials Sales Volume (QoQ, YoY)

The sales volume of battery materials for EV, was sluggish compared to the initial performance forecast, while still relatively steady, up 135% YoY and 106% QoQ. On a quarterly basis, the lockdowns in China and soaring LIB material prices had an impact, but EV production recovered rapidly starting in May, owing to support measures by the Chinese government, including EV subsidies. For consumer use, etc., the lull in demand for home appliances and mobile devices continues, so the sales volume was down.

P17 First Quarter Optical Plastics Sales Volume (QoQ, YoY)

For optical use, demand was steady for security cameras, but the sales volume decreased for smartphones and printers due to a decline in production operations of customers caused by COVID-19 and the semiconductor shortage. For medical use, etc., demand was steady for prefilled syringes and other medical packaging and containers for semiconductors, so the sales volume was up YoY. The sales volume was down QoQ, but this was because the Q4 sales volume was significantly high as consolidated shipment with those for Q3 and before was made in Q4.

P18 First Quarter Optical Films Sales Volume (QoQ, YoY)

For small-to-medium size, the sales volume was up owing to a recovery in production for next-generation smartphones. For tablets and laptops, the sales volume was steady in Q1, but a lull is expected in education-related demand from Q2, which has been regarded as an uncertainty. For large size, the market is growing on display size basis owing to the trend toward larger screen TVs. However, television sales are slow worldwide, so panel inventory has been adjusted in the market, and the sales volume was mostly flat. This trend continued through Q2, and we expect a recovery in Q3 ahead of the World Cup and year-end sales season.

P20 Balance Sheet Overview

Total assets were up 13.4B JPY to 498.1B JPY, owing primarily to an increase in product inventories in the Elastomer Business ahead of regular repairs and an increase in trade receivables resulting from price adjustments. Subtracting the increase in trade payables arising from soaring raw material prices and redemptions of corporate bonds, net assets increased 6.2B JPY.

P21 Cash Flow Overview

CF from financing activities increased significantly. This was from -10.0B JPY in redemption of corporate bonds, -4.0B JPY in purchase of treasury shares, and -4.3B JPY in dividends, etc.

As a result, free CF was 1.0B JPY, and total CF was -17.3B JPY.

P23 FY2022 H1 Landing FCST (as of July 28)

Results in the Elastomer Business are expected to be higher than the initial performance forecasts, while results in the Specialty Materials Business are expected to be lower. Overall, net sales are expected to come in according to the initial forecast at 199.0B JPY, and operating income at 21.5B JPY.

P24 FY2022 Performance Forecast

The initial performance forecast is being left as-is. In H1, even if exchange rates and raw material prices are revised to the latest values, the positive factors of price revisions due to the weaker yen and higher raw material prices will be offset by negative factors such as the segment trend of sales volumes being lower than initially expected. The H1 forecasts are unchanged, and the uncertainties in the market environment will increase in H2, so we are continuing to carefully examine the situation. At this time, we have not made any revisions.

P24 Dividends

The initial dividend forecast is being left as-is.

(Note) Zeon's plans, forecasts, and other data appearing in this meeting minutes were calculated based on information which was available as of July 28th, 2022 and therefore includes risks and uncertainties. Actual results may differ depending on various factors.