Zeon Corporation
First Quarter of FY2023
Meeting Minutes from Results Briefing for Analysts
(July 27, 2023)

[Briefing Materials]
https://www.zeon.co.jp/en/ir/financial/bs/pdf/230727.pdf

[Explanations]
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The yen continued to depreciate against both the dollar and the euro YoY and QoQ.
As for prices of main raw materials, Naphtha prices remained flat due to impact of reduced production of Naphtha crackers caused by sluggish ethylene market, while Asian butadiene prices fell due to weak market conditions for derivatives.

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For the quarter, net sales came to 91.9B JPY, and operating income came to 6.1B JPY.
YoY: Net Sales down 5.6B JPY, Operating Income down 4.6B JPY.
QoQ: Net Sales down 2.5B JPY, Operating Income up 6.8B JPY.
The significant increase in net income from the previous year was due to an impairment loss at the end of the previous year.

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Net sales in Elastomer Business came in at 52.2B JPY, up 1.3B JPY YoY but down 2.7B JPY QoQ, while net sales in Specialty Materials Business came in at 25.2B JPY, down 4.9B JPY YoY but up 1.3B JPY QoQ.
Operating income came in at 2.5B JPY in Elastomer Business and 4.0B JPY in Specialty Materials Business, both down YoY but up QoQ.

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The graph on the left shows Naphtha price vs. elastomer sales.
The graph on the right shows the synthetic rubber sales volume when that of Q1 FY2022 is 100.
Sales volume of synthetic rubber, especially general-purpose rubber, down due to economic slowdown in China. Selling prices for Elastomer Business overall were down due mainly to delayed recovery in demand for chemicals, easing supply and demand for latex gloves, and impact of Naphtha prices.

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This shows the sales volume when that of Q1 FY2022 is 100.
Overall sales volume in Elastomer Business decreased both YoY and QoQ, while chemical sales volume increased QoQ.
Net sales down YoY and QoQ due to decreased sales volume and drop in selling prices.
Operating income down YoY but up QoQ owing to yen depreciation and contribution of synthetic rubber mainly from reversal of loss on disposal and valuation for inventories.

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Sales QTY improved by total of 400M JPY due to 300M JPY increase mainly from adjustments under Accounting Standard for Revenue and firm sales volume of specialty rubbers.

COGS improved by 3B JPY with drop in raw material prices and reversal of loss on disposal and valuation for inventories.

SG&A improved by 700M JPY owing to decrease in logistics expense resulting from reduced shipments and decrease in indirect department cost allocation.

Totaling the above, operating income improved by 4.5B JPY.

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Sales QTY declined by 1.6B JPY due to lower sales volume.

Sales price deteriorated by 1.0B JPY with selling price revisions for chemicals, offset by 1.1B JPY improvement from yen depreciation.

COGS deteriorated by 1.5B JPY, while SG&A improved by 1.4B JPY owing to decreased ocean freight charges.

Totaling the above, operating income was minus 1.6B JPY.

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Sales of specialty plastics down YoY due to lower sales volumes of optical films and optical plastics for optical use, but up QoQ due to a recovery in sales volume of optical films from Q1. Sales of specialty chemicals down both YoY and QoQ due to impact of inventory adjustments by customers in battery materials and shipment adjustments in chemicals caused by Mizushima Plant regular maintenance; sales volume of battery materials showing moderate recovery since Q1.

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Sales QTY improved by 1.7B JPY owing to higher optical film and battery material sales volumes in addition to 600M JPY from adjustments under Accounting Standard for Revenue.

Sales price deteriorated by 600M JPY due to sales mix of optical films and others.

Exchange rate improved by 100M JPY with yen depreciation.

COGS improved by 400M JPY from impact of reversal of loss on disposal and valuation for inventories.

SG&A improved by 500M JPY owing to ocean freight charge softening and lower new product development costs in Q1.

Totaling the above, operating income improved by 2.2B JPY.

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Sales QTY deteriorated by 3.4B JPY due to decreased sales volume of battery materials and optical films.

Sales price improved by 1.1B JPY with selling price revisions for chemicals and optical plastics.

Exchange rate improved by 300M JPY with yen depreciation.

COGS deteriorated by 800M JPY due to soaring energy costs and increase in FME due to

decreased production for regular maintenance at Mizushima Plant.

SG&A deteriorated by 100M JPY due to increase in R&D expenses for optical plastics and battery materials, which are key areas within Medium-Term Business Plan.

Totaling the above, operating income was -3.0B JPY.

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EV sales were weak in China due to customer inventory adjustments, but customer operating rates recovering, albeit slowly. As a result, sales volume was down 25% YoY but up 14% QoQ.
Further recovery expected in Q2, but will carefully monitor demand trends.
Customer operating rates slowly recovered in consumer use, etc., especially for mobile devices, so sales volume was up 103% QoQ despite being flat YoY.

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Demand for optical use was sluggish due to economic slowdown in China, and shipments struggled both YoY and QoQ.
Among medical use, etc., although demand for medical use was firm, sales volume was down 16% QoQ due to stagnation in market for semiconductors used in other applications.

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Sales volume for small-to-medium size was down 27% YoY due to economic slowdown in China, but increased 59% QoQ due to launch of production of new smartphone models.
For large size, shipments gradually recovered following the large-scale suspension of parts procurement by television manufacturers in Q2 FY2022, recovering in Q1 FY2023 to 95% of where they were in Q1 FY2022, up 12% QoQ.

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Current assets decreased by 24.6B JPY due to decrease in receivables from selling price revisions in response to falling raw material prices, etc. and discharge of accumulated inventories, mainly of specialty materials as Mizushima Plant underwent regular maintenance.
Non-current assets increased by 16.5B JPY, mainly due to acquisition of property, plant and equipment and market valuation gains on investment securities. Primary factor behind increase in property, plant and equipment was new inclusion of Zeon Chemicals Asia in scope of consolidation.
As a result, total assets came to 514.8B JPY, down 8.1B JPY YoY.
Meanwhile, current liabilities decreased by 20.7B JPY due to raw material prices coming down.
Non-current liabilities increased by 3.7B JPY.
As a result, net assets increased by 8.9B JPY.

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In Q1, CF from operating act. was minus 5.6B JPY, and CF from investing act. was minus 7.6B JPY, resulting in free CF of minus 13.2B JPY.
Negative CF from operating act. and free CF are due to temporary working capital deterioration caused by Mizushima Plant regular maintenance and expected to recover in Q2, becoming positive for full year.
CF from financing act. improved by 7.1B JPY. Main factor behind this was issuance of commercial paper to secure short-term operating capital.

As a result, total CF was minus 6.1B JPY.

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This is where we are as of today with respect to H1 forecasts announced on April 26.

As of today (July 27), H1 sales have been revised downward by 5.0B JPY to 185.0B JPY, and H1 operating income has been revised upward by 3.5B JPY to 11.0B JPY.

In the Elastomer Business, the main factors are that firm demand is expected mainly for specialty rubbers despite lower-than-expected raw material prices and that an earlier-than-expected recovery of chemical product sales volume has been factored in.

In the Specialty Materials Business, the market for semiconductors, one of the uses for optical plastics, is stagnant, and battery material production after inventory adjustments by customers has been delayed more than initially expected. On the other hand, inquiries for optical films for large-size TVs and synthetic flavors and fragrances have recently been strong. As a result, we expect to maintain the initially expected operating income despite the decrease in sales.

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Based on the above revisions to the H1 forecasts, the full-year net sales forecast has been revised to 394.0B JPY and the full-year operating income forecast to 27.5B JPY. We are currently carefully reviewing the H2 forecasts, so the initial forecasts have been left as-is.

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There is no change to the dividend forecast.

In accordance with the Shareholder Return Policy presented in the Medium-Term Business Plan, we plan an interim dividend of 20 JPY and a year-end dividend of 20 JPY, for an annual dividend of 40 JPY, which makes 14 consecutive years of increases since FY2010.

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