Zeon Corporation

First Half of FY2023

Meeting Minutes from Results Briefing for Analysts

(October 27, 2023)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/financial/bs/pdf/231027.pdf

[Explanations]

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As for exchange rates, the yen continued to depreciate against both the dollar and the euro YoY and QoQ.

As for the prices of the main raw materials, Naphtha prices dropped due to the impact of reduced production of Naphtha crackers caused by a sluggish ethylene market. Asian butadiene prices also fell due to continued weak market conditions for derivatives.

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Fourth quarter net sales came in at 93.5B JPY, down 6.3B JPY YoY but up 1.6B JPY QoQ, while operating income came in at 3.3B JPY, down 6.1B JPY YoY and 2.8B JPY QoQ.

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By segment, net sales in the Elastomer Business came in at 52.5B JPY, down 5.4B JPY YoY but up 0.3B JPY QoQ, while net sales in the Specialty Materials Business came in at 26.2B JPY, down 0.3B JPY YoY but up 1.0B JPY QoQ.

Operating income in the Elastomer Business came in at 1.2B JPY, while operating income in the Specialty Materials Business came in at 2.6B JPY, both down YoY and QoQ.

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This shows the difference from the first half forecasts by segment.

In the Elastomer Business, net sales were up 1.2B JPY compared to the first half forecast, while operating income was down 0.2B JPY. In the Specialty Materials Business, net sales and operating income were down 0.1B JPY and 1.4B JPY, respectively.

The largest decline versus the forecast was in operating income in the Specialty Materials Business. This was mainly due to lower shipments of optical plastics and small to medium size films.

We will look at the details later.

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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 Q2 FY2022 is 100.

Net sales in the Elastomer Business were down 9% YoY due to the impact of a delayed recovery of demand in the adhesive tapes market, which is the main application of chemicals. On the other hand, the synthetic rubber sales volume increased 9% QoQ, driven by general-purpose rubber, resulting in nearly flat net sales QoQ.

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This table shows the sales volume when that of Q2 FY2022 is 100.

In terms of sales volume, synthetic rubber remained almost flat YoY, while latexes and chemicals continued to perform poorly due to the persistent issue of excessive distribution inventory. As a result, the overall sales volume in the Elastomer Business was down YoY and flat QoQ.

Net sales are omitted here as they have already been covered on the previous page.

Overall, operating income in the Elastomer Business was down both YoY and QoQ due mainly to declining market prices, increasing SG&A, and FME from regular repairs at the Mizushima Plant.

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The sales QTY declined by 0.2B JPY due to the decreased sales volume of chemicals and latexes.

Sales price declined by 1.8B JPY due to a drop in raw material prices and deteriorating market conditions. The exchange rate improved by 1.0B JPY with yen depreciation. COGS improved by 0.3B JPY due to the drop in raw material prices. Together, price, exchange rate, and COGS account for the negative 0.5B JPY. This is attributed to the poor performance of Chemicals, while synthetic rubber and latexes maintain a balance. COGS includes the additional 0.6B JPY in loss on disposal inventories, etc.

SG&A deteriorated by 0.6B JPY due to the inclusion of utility expenses at the time of the regular maintenance in Singapore and soaring personnel and outsourcing fees at overseas sites.

Totaling the above, operating income was down 1.3B JPY.

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Sales volumes declined for synthetic rubber, latexes, and chemicals, and the sales QTY declined by 2.4B JPY. Meanwhile, selling prices declined due to a drop in raw material prices and worsening market conditions, and the sales price deteriorated by 6.3B JPY.

The exchange rate improved by 2.1B JPY, while COGS deteriorated by 1.8B JPY due to higher energy and regular maintenance costs, despite lower raw material prices.

SG&A improved by 2.7B JPY as a result of ocean freight coming down.

Totaling the above, operating income was down 5.7B JPY.

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Sales of specialty plastics increased both YoY and QoQ owing to recovery in shipments of large size films and optical plastics for optical applications, while profits decreased both YoY and QoQ due to weak shipments of small to medium size films and optical plastics for medical and other applications.

In specialty chemicals, sales and profits declined YoY due to the consolidation of the previous quarter when shipments from overseas affiliates were weak in battery materials. However, sales and profits increased QoQ owing to a recovery in customer utilization rates of battery materials from July to September.

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The sales QTY improved by 0.4B JPY owing to increased shipments of chemicals, large size films, and optical plastics, in addition to increased shipments of battery materials, despite the impact of reduced shipments of optical plastics for medical and other applications and small to medium size films.

Sales price deteriorated by 0.3B JPY due to the sales mix of optical films. The exchange rate improved by 0.3B JPY with yen depreciation. COGS deteriorated by 0.7B JPY due to the 0.6B JPY loss on disposal inventories, etc. in optical films.
SG&A deteriorated by 1.2B JPY due to new R&D and strengthening of new product sales.
Totaling the above, operating income was down 1.4B JPY.

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The sales QTY deteriorated by 3.5B JPY due to lackluster shipments, excluding battery materials and large size films.
Sales price improved by 1.4B JPY with selling price revisions for chemicals and optical plastics. The exchange rate improved by 0.7B JPY with yen depreciation. COGS deteriorated by 2.2B PY due to soaring energy costs and regular maintenance costs.
SG&A deteriorated by 1.5B JPY with new development costs as was the case QoQ.
Totaling the above, operating income was down 5.0B JPY.

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The sales volume for EVs increased 122% YoY and 134% QoQ as inventory adjustments by Chinese customers came to an end and utilization rates recovered moderately.
The sales volume for consumer use, etc. increased 150% YoY and 107% QoQ owing to a recovery from production adjustments for mobile device use by Chinese battery manufacturers.

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The sales volume for optical use increased 109% YoY and 134% QoQ as inventory adjustments by some customers came to an end and shipments recovered. Whether this recovery trend will continue into the second half of the year remains to be seen.
The sales volume for medical use, etc. decreased both YoY and QoQ due to shipment adjustments in conjunction with regular maintenance at the Mizushima Plant, a decline in shipments for semiconductor containers due to the stagnant semiconductor market, and inventory adjustments by some customers in medical applications.

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The sales volume of films for small-to-medium size was down 73% YoY and 86% QoQ due to lower production of tablets and laptops and a delay in the start of smartphone production.
The sales volume of films for large size was up 277% YoY and 104% QoQ owing to a recovery from production adjustments by TV manufacturers that had continued from Q2 FY2022.

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Current assets decreased by 9.0B JPY due to a decrease in receivables from selling price revisions and discharge of accumulated inventories, mainly of specialty materials, as regular maintenance was completed at the Mizushima Plant.
Non-current assets increased by 21.8B JPY, mainly due to acquisition of property, plant and equipment and market valuation gains on investment securities. The addition of Zeon Chemicals Asia to our consolidated subsidiaries and investments related to specialty plastics were the main factors.
As a result, total assets came to 535.7B JPY, up 12.8B JPY YoY.
Meanwhile, current liabilities decreased by 7.0B JPY owing to raw material prices and distribution costs coming down. In addition,

non-current liabilities increased by 2.6B JPY.
As a result, net assets increased by 17.3B JPY.

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In Q2, CF from operating act. was +22.8B JPY, and CF from investing act. was -17.6B JPY, resulting in free CF of +5.2B JPY.
CF from operating act. was negative in the first quarter but returned to positive as working capital improved after the completion of the regular maintenance at the Mizushima Plant.
CF from financing act. was -3.8B JPY, resulting in total CF of +1.4B JPY.

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The environment in the Elastomer Business was heavily impacted by the economic slump in China in the second half of the year, and the recovery in end-market demand is also sluggish. We expect performance to be sluggish compared to our initial forecast.

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In the second half, the environment for the Specialty Materials Business is expected to be affected by ongoing inventory adjustments by customers for optical plastics used in medical applications through the current fiscal year and a sluggish semiconductor market for other applications, resulting in slow growth in shipments.
In optical films, the initial forecast was for tablet and laptop production to be on par with FY2022, but customers have revised their production numbers downward.
Battery materials are expected to continue to recover in the second half, but more slowly than the initial forecast.

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Today, we announced a revision to the performance forecast based on the aforementioned harsh business environment.
The latest annual forecasts are net sales of 380.0B JPY and operating income of 20.5B JPY.

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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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