Zeon Corporation

Third Quarter of FY2023

Meeting Minutes from Results Briefing for Analysts

(January 31, 2024)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/financial/bs/pdf/240131.pdf

[Explanations]

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As for the ZEON Group, all employees are safe, but some of their houses were damaged, so we will continue to provide support.

Workplaces in the Hokuriku area are now gradually resuming operations, putting the health and safety of their employees first.

I would like to once again express my deep gratitude to everyone for your cooperation.

We believe that providing a stable supply of our products to our customers all over the world is the way to support the affected areas and to meet the expectations of our stakeholders.

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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, both Naphtha and Asian butadiene rose in price.

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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 Q3 FY2022 is 100.

Net sales in the Elastomer Business were up QoQ in all businesses, but they were down YoY due to sluggish performance of latexes for gloves and chemicals for the adhesives market.

The graph on the right shows synthetic rubber sales volume. Overall, synthetic rubber shipments were strong.

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This table shows the sales volume when that of Q3 of FY2022 is 100.

There continues to be a surplus in distribution inventory of latexes for gloves, so the sales volume was subdued.

The sales volume of chemicals was up QoQ and YoY, but the adhesives market lacks vigor, so the market is dull.

Operating income was down YoY in the Elastomer Business due to the inability to pass on COGS increases for chemicals to prices, but it was up QoQ owing to steady performance of synthetic rubber.

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The sales QTY improved by 0.5B JPY owing to an increase in sales volume, the sales price deteriorated by 1B JPY due to a drop in selling prices, the exchange rate improved by 1B JPY owing to the weaker yen, COGS improved by 0.9B JPY owing to a drop in raw material prices, and SG&A was flat. Totaling the above, operating income was up 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.

The chemical sales volume in particular declined significantly, so the sales QTY deteriorated by 0.8B JPY. Meanwhile, the sales price declined by 12.5B JPY due to the price policy to recapture volume in chemicals and the drop in synthetic rubber selling prices associated with the drop in raw material prices.

The exchange rate improved by 2.9B JPY, COGS improved by more than 3.0B JPY owing to lower raw material prices, and fixed expenses deteriorated by more than 3.0B JPY. On top of that, the loss on disposal inventories, etc. improved by 1.3B JPY, for a total improvement of 1.0B JPY.

SG&A improved by 3.3B JPY, mainly as a result of ocean freight coming down.

Totaling the above, operating income was down 6.0B JPY.

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In specialty plastics, sales and profits were up QoQ owing to increases in optical plastic and optical film sales volumes. Sales were also up YoY with the increased sales volume, but profits were down due to increases in variable and fixed expenses arising from the three months' worth of depreciation and amortization of the new large size film production line launched in September and the time required to improve yield after the launch of operations.

In specialty chemicals, sales and profits were up QoQ owing to the increase in battery material sales volume.

Sales were also up YoY with the increased sales volume, but profits were down due to deterioration of market conditions for chemicals arising from easing of the supply and demand balance in the aroma chemical and semiconductor markets.

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The sales QTY improved by 1.5B JPY owing to higher sales volumes of optical plastics for medical use, etc. and battery materials for EVs.

The sales price deteriorated by 0.6B JPY, mainly due to falling chemical selling prices, the exchange rate improved by 0.4B JPY with yen depreciation, and COGS deteriorated by 1.1B JPY due to increased fixed expenses associated with the launch of a new optical film production line.

SG&A improved by 0.8B JPY owing to the postponement of experimental production and prioritizing of actual products in order to address the strong inquiries for optical films. At this time, this is not expected to impact the Medium-Term Business Plan.

Totaling the above, operating income was up 1.0B JPY.

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The sales QTY deteriorated by 2.9B JPY due to the sales mix of optical plastics and battery materials.

The sales price improved by 2.0B JPY owing to price revisions for chemicals. The exchange rate improved by 1.2B JPY due to yen depreciation.
COGS deteriorated by 4.2B JPY due to an increase in fixed expenses associated with the launch of the new optical film production line and sharp increases in energy and repair costs.
SG&A deteriorated by 2.4B JPY due to an increase in new development costs and indirect department cost allocation.
Totaling the above, operating income was down 6.3B JPY.

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For EV, sales were up 20% YoY and 15% QoQ owing to ahead-of-schedule shipments for the Chinese New Year and recovery of customer operations.
For consumer use, etc., sales were down 40% YoY and 21% QoQ due to a lack of vigor despite a mild recovery for mobile devices.

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For optical use, sales were down 7% YoY and 8% QoQ in numerical terms due to the in-between season despite signs of a recovery for smartphones and security cameras.
For medical use, etc., sales were up 33% both YoY and QoQ with increased demand from some customers despite ongoing inventory adjustments by others.

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The sales volume of films for small-to-medium size was down 27% YoY and 14% QoQ. Tablet and laptop production was sluggish, but it was due to peak shipments of smartphones being delayed from Q2 to Q3.
The sales volume of films for large size was up 177% YoY and 4% QoQ owing to a recovery from production adjustments by TV manufacturers that had continued from Q2 FY2002.

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Current assets were up 10.4B JPY owing to an increase in cash and deposits from the sale of cross-shareholdings. Note that the cash and deposits will be used for growth investments, so the increase is temporary.
Non-current assets increased by 14.2B 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 547.4B JPY, up 24.5B JPY YoY.
On the other hand, current liabilities were up 3.0B JPY, and non-current liabilities were up 1.1B JPY.
As a result of the above, net assets increased by 20.3B JPY.

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Overall, sales and profits in the Elastomer Business are expected to be higher than the October 27 forecasts. The main factor behind this is the expectation of continued robust demand for synthetic rubber.
As for latexes and chemicals, we had initially anticipated a gradual change in the environment, but we now expect conditions to remain sluggish.

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Overall, sales and profits in the Specialty Materials Business are expected to be lower than the October 27 forecasts.
The main factors behind this are the decline in optical film production due to the 2024 Noto Peninsula Earthquake, and the decline in battery material shipments due to inventory adjustments, mainly by Chinese battery manufacturers.

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This is a summary of the impact of the 2024 Noto Peninsula Earthquake as of today (January 31).
Operations are back to normal except at the Himi Futagami Plant.
The production lines at the Himi Futagami Plant are gradually coming back online, but at this time, there are still some that are stopped.
Today, we revised the performance forecast based on the above.

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As for the annual forecasts, we revised net sales to 374.0B JPY and operating income to 18.5B JPY.
Sales in other businesses were also revised downward. This was due to lackluster sales in the trading company division as a result of the sluggish global economy, especially in China.

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