

Zeon Corporation
Second Quarter of FY2023
Q&A from Results Briefing for Analysts
Date and time: October 27, 2023 (Friday) 17:00-18:00

Participant: Director & Senior Corporate Officer
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[Overview]

Q: Please explain the point for the business regarding the reason for the downward revision to the full-year forecast.

A: The current outlook is that the market environment for both Elastomer Business and Specialty Materials Business will be more severe than initially expected due to the effect of the economic slowdown in China. For Elastomer Business, we have factored in delays in the consumption of distribution inventory, mainly in Chemicals. In Specialty Materials Business, we have factored in the fact that it is taking time to clear customer inventories, especially for optical plastics for medical use, etc. and a decrease in the production volume of tablets and laptops for small to medium sized films.

[Elastomer Business]

Q: Please explain the status of Elastomer Business in the 2Q and the 2nd half.

A: Especially in Chemicals, business performance has been sluggish due to the weakness in the market for adhesives, which are the main uses for us, and the packaging tape market, which is the end product that uses them, due to the easing of consumer demand. Initially, we expected that distribution inventories would be cleared from around the end of the 2Q, but although there are signs of recovery in some applications, we expect that it will still take time for distribution inventories to be cleared. Regarding specialty rubbers, both demand and factory operations have remained steady since the 1Q.

Q: Regarding synthetic rubbers, please explain the impact of the economic slowdown in China and the strike in US.

A: Trends in China's economic slowdown will affect raw material prices. In the 2Q, inquiries for end products including ABS were weak, causing a decline in raw material prices. As a result, selling price of our products, mainly for rubbers for tire, fell down. On the other hand, sales of specialty rubber to China continue to be steady.

The strike in US has lasted longer than expected, but it has just been reported that it is on the verge of coming to an end, so we need to carefully monitor the impact. Automobile manufacturing has a long supply chain. There is no major impact on current shipments, but if there is a reduction in automobile production, it may cause an impact at some point.

[Specialty Materials Business]

Q: Please explain the factors behind 2Q profit decline in Specialty Materials Business and the market situation in the

2nd half.

A: Regarding optical films, a new line for large sized film was scheduled to start operating in October, but this was brought forward by one month, resulting in an unplanned depreciation. The deterioration in yield occurred by early start up resulted in cost loss and deterioration in unit fixed costs, pushing down profits in the 2Q. The reason for bringing it forward is based on strong requests from customers. Additionally, optical plastics were affected by a decline in shipments, mainly for semiconductor containers, due to the sluggish semiconductor market.

In the 2nd half, customer demand for large sized films will remain steady, and shipments are expected to increase in the 2nd half due to increased capacity as the operating rate of the new line improves. Furthermore, regarding optical plastics for optical use, although the recovery in smartphone production is slow, shipments are expected to improve as interim inventories are cleared. On the other hand, improvements in optical plastics for medical use, etc. are likely to take place after FY2024.

Q: Please explain the market situation for battery materials.

A: Although shipments are a little weak compared to our initial forecast, inventories of battery are being cleared, and shipments from us are steadily recovering. Although we are concerned about the future economic situation in China, we plan to grow as the market expands.

Q: Please explain the recovery status of shipments by region for battery materials.

A: All regions showed signs of recovery in the 2Q, with a focus on China. We expect this trend to continue in the 2nd half.

Q: Please explain the reason behind the increase in new development costs in the 2Q in Specialty Materials Business.

A: In order to achieve the medium-term business plan, we are strengthening research and sales activities related to the development of new products and applications.