Zeon Corporation

Meeting Minutes from Medium-Term Business Plan Briefing for Analysts

(June 07, 2023)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/financial/bs/pdf/230607.pdf

[Explanations]

p.0 (Cover)

The “STAGE30” logo in the upper left is the new name for our Medium-Term Business Plan. Employees invited from across the Group decided on this name as being appropriate for the Medium-Term Business Plan after much discussion.

p.3

This is the overview of the Medium-Term Business Plan.

To realize our corporate philosophy of “Contributing to the preservation of the Earth and the prosperity of the human race,” we will continue to work toward our vision for 2030, “A company that lives up to societal expectations and aspirations of employees,” which we set forth in FY2021.

Moreover, based on the Sustainability Policy we established in FY2022, we will contribute to solving social issues related to the SDGs seen in the center of the page.

p.4

These are the performance targets for each phase of the Medium-Term Business Plan.

The two-year period from FY2021 to FY2022 was the first phase, and the four-year period from FY2023 to FY2026 is the second phase.

It’s a two-year rolling plan for steadily achieving the targets for FY2030.

The business environment was weak in FY2022 due to the economic recession and other factors, but we will work to expand sales and improve profitability to take advantage of the upcoming market recovery and achieve medium- to long-term growth.

The performance targets for FY2026 are net sales of 510 billion yen, operating income of 58 billion yen, a 9% ROIC in existing businesses, and a 16 billion yen increase in net sales of new businesses.

After achieving these targets for FY2026, we will aim for the FY2030 targets of a 9% ROIC in existing businesses and a 60 billion yen increase in net sales of new businesses.

p.6

Because we considered the period from FY2021 to FY2022 to be a preparatory phase, we did not set specific targets for that period. However, we implemented various initiatives while examining specific measures to achieve the targets for FY2030. As a result, we achieved a reduction in CO_2 emissions of approximately 11%, an ROIC of 6.6% for existing businesses, a 2.1 billion yen increase in net sales of new businesses compared to FY2019, an employee engagement rate of 48%, and a foreign national/female director ratio of 7%.

p.7

Regarding Corporate Strategy 1, which is to "Promote a Transformation of 'monozukuri' to Realize Carbon Neutrality and a Circular Economy," we have first focused on energy conversion at domestic plants, as shown in (1) in the summary.

Furthermore, we have established the 1st Carbon Neutrality Master Plan as shown in (2) in the summary, setting the target for FY2030 as a "50% reduction in CO2 emissions compared to FY2019."

We also launched various initiatives to achieve carbon neutrality and a circular economy, including (3) introduction of internal carbon pricing (ICP) scheme and (4) three of our development themes being selected by NEDO as businesses for the Green Innovation Fund Project.

p.8

Regarding Corporate Strategy 2, which is to "'Polish up' existing businesses," we promoted proactive investments to increase capacity and enhance both Cyclo-Olefin-Polymers (COP) and battery materials.

As for COP, the Mizushima Plant has increased its capacity by 4,600 tonnes, and a plant with an annual production capacity of 6,000 tonnes is under construction at the Takaoka Plant using our proprietary recycling technology. Resins produced by the recycling facility have the same level of quality as resins produced by existing manufacturing methods and will allow us to reduce the amount of CO2 emissions during manufacturing by around 12,000 tonnes.

As for battery materials, we are constructing production facilities at Zeon Chemicals Asia in Thailand and plan to launch production in 2024.

p.9

We also made other capital investments to concentrate on our differentiated products to beat the competition in existing SBUs. We will continue to work on improving our competitiveness.

p.10

Next up is exploring new businesses, which is part of Corporate Strategy 2.

Among the four key areas, namely CASE and MaaS, Healthcare and Life Science, Telecommunications, and Energy Conservation, it was Telecommunications that drove the sales of our new businesses.

We also promoted external collaboration in each area, including the acquisition of two companies in the Healthcare and Life Science area to achieve further growth.

p.11

Next is Corporate Strategy 3, which is to "work together to create 'stages' to be active on."

From FY2021 to FY2022, we worked on various programs and environmental improvements as shown on the left.

With these measures, we sought to become "a company that provides all employees with well-being and freedom" as shown in the illustration at the bottom right.

This concludes the report on the progress made through Phase 1.

p.13

This is the overview of Phase 2.

No changes have been made to Corporate Strategies 1, 2, or 3, but we have newly established Corporate Strategy 4, "'Polish up' the management base," in order to meet society's expectations and further strengthen the relationship of trust with our stakeholders.

The concept of Phase 2 is enhancing corporate governance. We will strengthen the governance of the Board of Directors and disclose our financial strategy as well.

In addition, we are committed to quantifying the target values and will manage future progress to improve the feasibility of the FY2030 target values.

The following few pages provide an explanation of the measures to achieve each of the target values.

p.14

First is Corporate Strategy 1, which is to "Promote a Transformation of 'monozukuri' to Realize Carbon Neutrality and a Circular Economy."

On a non-consolidated basis, we aim to reduce Scope 1 and Scope 2 CO2 emissions by 29.0% compared to FY2019. We will steadily promote energy savings, reform processes, and convert energy sources to achieve this target.

In addition, looking ahead to 2050, in order to address Scope 3 emissions and contribute to their reduction, we will prepare for the conversion of raw materials such as bio-based materials and build a foundation for creating a recycling-oriented business model leveraging recycling technology.

Targets will be updated as necessary to achieve the ultimate goal of carbon neutrality by 2050.

p.15

We have set targets of zero lost time injuries, a 40% sales ratio of products that contribute to the SDGs, and a labor productivity indicator of 11 million yen in consolidated operating income per person for both Corporate Strategy 1 and Corporate Strategy 2. This is because we consider achieving safe and stable production and promoting sustainable monozukuri (manufacturing) our most important missions as a manufacturing company.

To further increase the feasibility of stable and safe production, we will invest a cumulative total of 18 billion yen in human resources in Phase 2 to reform work styles, secure time for training and improvement, and innovate production.

At the same time, we will work to increase the ratio of sales of products that contribute to the SDGs to promote sustainable monozukuri (manufacturing) and work to ensure profitability by "polishing up" existing businesses. We will also increase labor productivity.

P.16

In "polishing up" existing businesses under Corporate Strategy 2, we set net sales indicators for COP and battery materials, which are our key businesses, as target values.

Specifically, with FY2019 as 100, the targets are 210 for COP and 590 for battery materials.

COP will grow steadily in medical and other applications, and battery materials will steadily capture the growth of the EV market.

p.17

We will promote business expansion investment plans for COP and battery materials.

In battery materials, we will establish a production system based on local production for local consumption in the major markets of Europe and North America.

In addition, we are engaged in studies to further enhance COP resilience, including capacity expansion.

p.18

The existing businesses are the Elastomer Business and the Specialty Materials Business, and the target for overall ROIC is 9%.

In the Elastomer Business, we will steadily improve profitability to “polish it up” into a strong business.

As described on the previous page, the expansion of COP and battery material sales in the Specialty Materials Business will help improve overall ROIC.

p.19

Next, I will explain the reorganization of our overall portfolio.

Our basic approach will be to increase the sales ratio of the Specialty Materials segment by expanding sales of differentiated products such as COP and battery materials.

In the Elastomer Business, we will look into structural reform while putting greater emphasis on capital efficiency and focusing on a strong business.

p.20

Next up is exploring new businesses, which is part of Corporate Strategy 2.

The targets for FY2026 are net sales in new businesses of 16 billion yen and 10 external collaboration/customer themes.

We will strengthen our resources and mechanisms to spread CVC and M&A and bring manufacturing, sales, and technology together to introduce new products to new markets.

Specifically, in Healthcare and Life Science, one of our four key areas, we aim to achieve net sales of 16 billion yen in new businesses by expanding the life science molded products business of Aurora and Edge, acquired in Phase 1, and by further expanding semiconductor containers and Thermal Interface Material (TIM) in the Telecommunications area.

We will continue to increase external collaboration through CVC and other means to effectively utilize external knowledge and technologies in our search for new businesses.

p.21

Next is Corporate Strategy 3, which is to “work together to create ‘stages’ to be active on.”

We have set FY2026 targets of 56% employee engagement, 55% environments maximizing employee potential, 65% ZEON Healthy Behavior Indicator, and 70% annual paid leave utilization rate.

The “stages” we aim to create are companies where all employees can realize freedom and well-being and where diverse individuals can demonstrate their strengths. We consider our employees' mental and physical well-being a crucial management resource for bringing this about and believe that creating an environment where they can engage in fulfilling work is essential. In Phase 2, we will promote the various initiatives shown here and make them a significant driving force for our growth.

p.22

Lastly, let's turn our attention to the new Corporate Strategy 4, which is to "'polish up' the management base."

The FY2026 targets are a ratio of foreign national & female directors of 25%, a majority of outside directors & officers, a ratio of female managers of 12%, and cross-shareholdings as a ratio of net assets of less than 15%.

Through the various measures presented here, we will promote the enhancement of corporate governance, training of management human resources, and "polishing up" of capital efficiency.

Based on the proposal at the June 29, 2023 General Meeting of Shareholders, the ratio of foreign national & female directors is expected to be 19%, the ratio of outside directors will be 50%, and performance-linked stock remuneration will be introduced.

p.24

Now we get to the financial strategy.

The performance targets for FY2026 are net sales of 510 billion yen, operating income of 58 billion yen, an overall ROIC of 8%, and an overall ROE of 10%.

The breakdowns for each business are shown in the table in the middle and the graph at the bottom.

p.25

As for our approach to cash flow allocation over the next four years, with cash inflows, we will focus on acquiring operating cash flows, selling cross-shareholdings, and leveraging interest-bearing debt. Regarding cash outflows, we will allocate funds towards proactive investments, R&D, and shareholder returns.

p.26

Regarding our investment plan, we will make new investments of 170 billion yen over the four years of Phase 2.

The breakdown is as shown in the graph. We will focus our investments on M&A and CVC aimed at the four key areas of new businesses and on differentiated products, including COP and battery materials.

p.27

We aim to expand shareholder return according to profit growth.

The specific policy on shareholder return is to maintain stable and continuous dividend payments as we always have while at the same time maintaining a dividend payout ratio of at least 30%.

p.28

The D/E ratio will rise with the use of interest bearing debt to engage in active investment and enhanced shareholder returns, but we will maintain it at 0.3 or lower as the optimal capital structure.

We also aim to improve corporate value over the medium to long term while preserving our single A rating by maintaining a sound capital structure.

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