Zeon Corporation
FY2023
Q&A from Results Briefing for Analysts
Date and time: April 25, 2024 (Thursday) 17:00-18:00

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[Overview]

Q: Zeon Corporation has announced a 10 billion yen share buyback, revised its dividend for FY 2023 upward, and set its dividend payout ratio for FY 2024 at 56%. Please explain the background to changes in shareholder returns.

A: Our shareholder return policy is to maintain stable and continuous dividends, maintain a dividend payout ratio of at least 30%, and purchase treasury stocks in a flexible manner, considering market conditions, capital requirement. We intend to achieve a high level of balance between growth and return, considering strengthening capital efficiency and capital needs, and have been accelerating the reduction of cross-shareholdings. In addition, the management considers the current stock price, with a PBR of less than 1, to be problematic, and is considering further polishing up the financial strategy announced last year.

[Elastomer business]

Q: Please explain the background that business performance is expected to recover in FY 2024.

A: Synthetic rubbers are not only for new cars, but also for replacement parts, and demand has been recovering mainly in the United States and Europe. In addition, tire demand in China has also been increasing and steady. Demand for fuel-efficient tires has been particularly firm, and we expect general-purpose rubbers, mainly S-SBR, to be steady in the first half of FY 2024. The demand of HNBR remains steady for specialty rubbers, and shipments of ACM, which has begun production in Thailand, are up, mainly to India and Korea. Although we need to keep an eye on the trend of Asian butadiene prices, we expect synthetic rubbers to drive the performance of the Elastomer business in FY 2024.

Latex had been in a state of excess distribution inventory for disposal gloves since the COVID-19 pandemic, but we have been starting to see movement and our shipments was up. Although the demand lacks strength, we expect shipments of latex to improve from FY 2023 to FY 2024. However, we expect it is difficult to return to the profitability it was before the COVID-19 pandemic.

In the Chemicals business, inventory adjustments for adhesives have been getting calm down, and demand have been recovering, particularly in Europe and the United States, so we have been working to expand shipments. We expect performance in FY 2024 to be better than in FY 2023. On the other hand, although naphtha prices are relatively stable, we expect them to rise due to the weak yen because they are denominated in foreign currency, and there would be one issue whether we can properly pass on the raw material price to the market price.

Q: Please explain the change in thinking regarding the portfolio restructuring of general-purpose rubbers.
A: Although the market for general-purpose rubbers has been recovering, our basic policy of restructuring products in which it is unable to achieve cost leadership and changing its portfolio remains unchanged.

Q: Please explain the main factor in the decline in the operating profit from FY 2022 to FY 2023.
A: The operating profit for the Elastomer business decreased by 3.5 billion yen year on year, mainly chemical products. There were two factors behind the deterioration in performance of the chemicals business in FY 2023. The first was that fixed costs increased year on year due to regular maintenance at Mizushima plant. The second was that demand around the world was weak due to a backlash from the increased demand for adhesives for e-commerce caused by the COVID-19 pandemic.

Q: Please explain the change in thinking regarding chemical products.
A: The Chemicals business is the core business that controls the monomer balance of our entire C5 business, and we don’t have the option of withdrawing it at present. We have launched a company-wide project, and have been reconsidering some reforms, including cost reductions that we can do through our own efforts, as well as the nature of our business and organization.

[Specialty Materials business]
Q: Please explain the impact of the Noto Peninsula Earthquake on business performance and the reason why the operating profit for the 4th quarter of FY 2023 exceeded the performance forecast.
A: The increase in sales of Cyclo Olefin Polymer（COP）boosted overall the operating profit of Specialty Materials business. The earthquake impact was approximately 0.4 billion yen on the operating profit and approximately 1.8 billion yen on the profit before income taxes, mainly in optical films.
On the other hand, for battery materials, the impact of the termination of subsidies for EVs has been felt not only in China but also in Europe, and shipments have slowed. We have plans to grow battery materials in our medium-term business plan, but in light of the current situation, we started to examine the future growth of battery materials. Competition for anode binders related to LFP batteries has been becoming fiercer, especially in China. However, cathode binders, which are leverage of our strengths, has been steadily growing on a shipment volume basis, as is the case with binders for functional layers. As global demand for EVs slows somewhat, we will also examine the direction of development and investments and report them to stakeholders in our medium-term business plan.

Q: Please explain the trend for the Specialty Materials business in FY 2024.
A: Demand of COP for semiconductor containers is recovering, and we expect this situation to continue in FY2024. After the earthquake, production adjustments had made at the Himi Futagami Plant for optical films, but production fully recovered by the end of March. We understand that the TV market is generally sluggish, but our optical films

have excellent dimensional stability, and we expect the market for large-sized TVs of 55 inches or more to expand on an area basis. Thus, we expect optical film performance in FY 2024 to recover compared to FY 2023. In comparison with the fourth quarter of FY 2022, a shipment volume of small-to-medium sized films usually toned down in the 4th quarter due to a seasonal trend, but FY 2023, a shipment volume increased compared to previous years due to a factor such as a delay in the start of production of new models. In addition, accounting procedures that are not used in normal periods were carried out regarding the impact of the earthquake, such as transferring expenses that were recorded above operating profit to extraordinary losses.

We have prepared a performance forecast for battery materials based on the current situation, but we have not expect a significant decrease compared to FY 2023.

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