Zeon Corporation
First Quarter of FY2024
Meeting Minutes from Results Briefing for Analysts
(July 29, 2024)

[Briefing Materials]
https://www.zeon.co.jp/en/ir/financial/bs/pdf/240729.pdf

[Explanations]

p.1
As of this year (FY2024), optical plastics are referred to as Cyclo-Olefin Polymers. Cyclo-Olefin Polymer is abbreviated as "COP."

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The yen was down versus the US dollar and the euro both YoY and QoQ.
As for the prices of the main raw materials, Naphtha and Asian butadiene rose in price both QoQ and YoY.

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Quarterly results were as shown in the materials.
As noted, the results from our overseas subsidiaries are reported with a three-month delay. Therefore, the Q1 results for this fiscal year reflect the Q4 results of the previous fiscal year (January to March 2024).
Additionally, starting this fiscal year, Tokyo Zairyo (Guangzhou) Co., Ltd. has been included in the scope of consolidation.

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Sales and profits of specialty plastics were up both YoY and QoQ, driven by higher shipments of COP and small to medium size films due to recovering demand for mobile devices and increased shipments of optical films for large-screen TVs following the resumption of production after the 2024 Noto Peninsula Earthquake.
Specialty chemicals results were as follows.
Both sales and profits were up for battery materials YoY and QoQ on a non-consolidated basis. However, on a consolidated basis, sales were up and profits were down YoY, while both sales and profits were down QoQ. This is attributed to the impact of changes in the EV subsidy policy and the subsequent slowdown in the growth of the EV market during the period from January to March 2024, which is the consolidation period for our overseas subsidiaries.
On the other hand, the QoQ increase in profits for specialty chemicals was driven by higher shipments of specialty solvents for chemical products, due to the absence of regular maintenance at the Mizushima Plant this year, as well as an increase in toner shipments.

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The shipment figures I will discuss here are non-consolidated. Please note that the purpose is to provide an overview of the major trends in Q1.

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Overall, shipments for medical use, etc. were down both YoY and QoQ due to it being the in-between season. However, demand for semiconductor containers remained strong.
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Demand for large size was strong in Q1, partly driven by the impact of the Olympic Games. Additionally, the sales volume was up both YoY and QoQ due to the recovery from the partial production suspension caused by the 2024 Noto Peninsula Earthquake.

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This table shows the sales volume when that of Q1 FY2023 is 100.
Although demand for synthetic rubber remains strong, the QoQ sales volume decreased due to pre-maintenance shipment adjustments at the Tokuyama Plant.
Demand for latexes and chemicals is slowly recovering.
Overall, both sales and profits were up YoY and QoQ in the Elastomer Business, with both sales and operating profit driven by synthetic rubber.

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As for sales QTY, the 1B JPY improvement was driven by higher shipments of not only specialty rubbers but also S-SBR, a general-purpose rubber.
SG&A worsened by 1.5B JPY due to higher sales expenses stemming from increased sales volumes and the transfer of costs for the repair period at Zeon Chemicals Singapore (ZCS) to SG&A.

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Current assets were up 26.7B JPY, owing primarily to an increase in the price of inventories caused by the rise in the price of raw materials and receivables. Non-current assets increased by 1.3B JPY, mainly due to acquisition of property, plant and equipment.
As a result, total assets came to 560.2B JPY, up 28.0B JPY YoY.
On the other hand, because commercial paper was issued to adjust cash on hand, current liabilities increased by 23.2B JPY, and non-current liabilities decreased by 2.1B JPY. As a result, net assets increased by 6.9B JPY.

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Non-operating income increased YoY, primarily due to higher foreign exchange gains resulting from the depreciation of the yen.
Extraordinary income decreased YoY, mainly due to a loss on the valuation of investment securities.

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As of today, H1 sales have been revised upward by 12.0B JPY to 210.0B JPY, and H1 operating income has been revised upward by 4.0B JPY to 15.0B JPY. As for the exchange rate, the yen is expected to be lower than the initial forecast.

In the Specialty Materials Business, both net sales and operating profit are expected to exceed initial forecasts. This is due to recovery of the semiconductor market and ahead-of-schedule shipments of optical plastics to meet customer requests as well as strong demand for large size films and ahead-of-schedule shipments of optical films. At the same time, while the Battery Materials Business had already accounted for the impact of the sluggish EV market in its initial forecasts, the market was even weaker than anticipated, so we expect both net sales and operating profit to fall short of initial forecasts.

In the Elastomer Business, sales of synthetic rubber and latexes are expected to exceed initial forecasts due to revisions to selling prices in line with rising raw material prices. In the Chemicals Business, demand for adhesive tape is gradually recovering, and sales are expected to surpass initial forecasts. However, operating profit is expected to decrease, as it has been challenging to fully pass on the increased raw material costs to selling prices.

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As for the annual forecasts, after a careful review of the H2 projections, the net sales and operating profit forecasts remain unchanged at 397.0B JPY and 26.5B JPY, respectively.

Both specialty materials and elastomers are expected to experience a decline in sales and profits from H1 to H2.

For specialty materials, shipments of COP and optical films, initially scheduled for H2 based on customer requests, were moved up to H1. In the Elastomer Business, we anticipate a decline in Naphtha and Asian butadiene prices in H2, which is expected to lead to a decrease in selling prices.

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The dividend for FY2024 will remain unchanged, with an interim dividend of 23 JPY and a year-end dividend of 24 JPY, resulting in a total annual dividend of 47 JPY.

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The dividend payout ratio for FY2024 is 55.9%, and the total return ratio is expected to exceed this due to ongoing purchasing of treasury shares.

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On June 11, we announced the progress of the second phase of our medium-term management plan.

However, since then, our share price has been weak, and the PBR has remained below 1. We recognize this as an important management issue for our management team.

After the announcement, we received various feedback through discussions with our stakeholders, including our shareholders. Our management team takes feedback seriously and actively discusses how best to respond. Our current understanding is as outlined in the materials, but we will also be implementing specific measures moving forward.

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