Zeon Corporation

Meeting Minutes from Medium-Term Business Plan – Phase 2 Current States Briefing for Analysts

(June 11, 2024)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/library/midtermplan/pdf/240611.pdf

[Explanations]

p.0 (Cover)

Toyoshima will report on the progress made on Phase 2 of the Zeon Corporation Medium-Term Business Plan.

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This is the overall picture of the Medium-Term Business Plan.

The table shows the results for FY2023, the original targets for FY2026, and the revised targets for FY2026 in relation to the four company-wide strategies in the left column.

The lines highlighted in pale yellow are the items that have been revised, and the red numbers are the revised values.

We believe that the targets for FY2030 in the far right column of the table are achievable at this point in time, so no changes have been made.

Due to time constraints, today, I would like to explain company-wide strategies 2 and 4, which are outlined in red.

Explanatory materials for the entire Medium-Term Business Plan are available on our website, so please refer to them for details.

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This slide shows the highlights of today's presentation.

The first is portfolio restructuring.

The second is polishing up existing businesses.

The third is exploring new businesses.

The aim of these three measures is to improve profitability and growth, as well as to increase the PER.

The fourth is our financial strategy.

We aim to improve ROE by further increasing efficiency through revisions to the financial strategy.

By implementing all of the above measures, we hope to achieve a PBR of at least 1 as quickly as possible.

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The main theater for the portfolio restructuring is the Tokuyama Plant.

The graph (bubble chart) on the left shows the portfolio of elastomers produced at the Tokuyama Plant, with business profitability on the horizontal axis and added value on the vertical axis.

We plan to shut down the plant according to the schedule shown in the table on the right for the elastomers enclosed in the red dotted line. Specifically, the NBR latex and E-SBR-1 plants will be shut down in FY2026. We are also making arrangements to shut down the BR plant in FY2028 or later.

As a result of these steps, we expect to shut down 60% of the elastomer production facilities at the Tokuyama Plant in terms of production volume.

We will promote carbon neutrality and make the remaining 40% of highly profitable rubbers even more profitable SBUs.

In addition, we plan to utilize the human resources gained through discontinuing these manufacturing facilities in the project shown on the next page.

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The second part of the portfolio restructuring is the construction of a new COP production plant in the Tokuyama area.

Cyclo olefin polymer (COP) is a strategic product for Zeon, and we expect demand to grow. As such, we have decided to build a plant outside the Mizushima Plant to improve resilience.

The new plant is about 10 minutes by car from the existing Tokuyama Plant and has a production capacity of around 12,000 tons per year.

Construction will commence in the second half of FY2025 and is scheduled for completion in the first half of FY2028.

The investment amount is 70 billion yen, including purchasing the land and utility equipment investments.

We are also looking into building new high-profit plants for products other than COP at this location, and we will be able to utilize the utility equipment investment from this time.

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This portfolio restructuring will generate more profit than if we continued with the Elastomer business as-is.

Operating profit will temporarily decrease due to a decrease in profit resulting from the shutdown of the elastomer plants in question and an increase in depreciation due to the construction of the new COP plant. However, we expect a V-shaped recovery starting in FY2028.

The three messages I want to communicate regarding portfolio restructuring are as follows:

1. We can restructure the portfolio without letting go of highly loyal and skilled human resources.
2. We can improve company-wide profits and also increase resilience by increasing the production of COP.
3. Zeon aims to achieve higher profitability as the best owner without giving up on being a rubber manufacturer.

We will strive to realize these messages.

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I will now explain the situation in the Chemicals business.

There are concerns that profitability in this business may decline due to the entry of overseas competitors.

However, as you can see from the flowchart below, monomers such as isoprene and piperylene are always produced as by-products to obtain the raw materials for high-profit products such as COP. By polymerizing these by-product monomers to make SIS (a thermoplastic elastomer) and PDR (petroleum resin), the value of the resulting products is higher than that of the monomers alone. As such, at this time, we believe that it is crucial that we continue with the Chemicals business that handles SIS and PDR.

Accordingly, we will focus our business on the Japanese and North American markets, where we have an advantage over overseas competitors in terms of tariffs and the closeness of our relationships with customers so that we can avoid going up against overseas competitors.

We believe this will ensure sufficient profitability for the Chemicals business.

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I will now explain the situation in the battery materials business.

This graph has the fiscal year on the horizontal axis and net sales on the vertical axis. It shows the sales index when FY2019 is set at 100.

The dark blue bars from FY2019 to FY2023 are actual results, but I want to focus on FY2026.

When the current Medium-Term Business Plan was announced a year ago, the target value, including the portion in the dotted lines, was 590.

However, there have been several changes in the environment, including the following:

- Slowing growth in the EV market
- Changes in technological trends, specifically the rapid shift to LFP batteries
- Delay in new product development

As a significant disparity from the original plan has arisen, we have decided to revise the target value and lower the index to 240.

EV market growth has slowed down currently, but we expect it to recover in the long term, so we believe it is entirely possible to expand sales as we look ahead to FY2030.

As shown by the forecasts on the right half of the graph, the breakdown of the sales expansion consists of the following:

- Increased sales to existing customers shown in light blue
- Sales to new battery plants in Europe and the United States, shown in orange
- Turnaround in new product development shown in pale yellow

We revised the plan so that it is entirely possible to achieve.

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I will now explain the situation in the optical films business.

The production lines that had been suspended due to the Noto Peninsula Earthquake that occurred on January 1 of this year have been restored. Full-scale operations have begun on all lines, so we expect a significant improvement in revenue.

In addition, as we expect continued expansion of large LCD panels in line with the increasing size of displays, we are looking into further expanding our new line of products for large displays, which is our specialty.

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As for exploring new businesses, we achieved sales of 1.2 billion yen in FY2023 and aim to achieve 16 billion yen in FY2026, and 60 billion yen in FY2030 by introducing new products into new markets and achieving inorganic growth through M&A.

This page shows examples of new products being launched in new markets.

Products written in black have already recorded sales, and products written in blue are currently under development.

Today, we will be looking at micro-well plates, microfluidic devices, and dry formation methods for electrodes for lithium-ion batteries in the life sciences field.

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Micro-well plates and microfluidic devices are made through precision formation using COP as the material. They are used in such applications as genome analysis and drug discovery support, and we expect significant growth in demand.

Zeon Corporation has acquired two U.S. manufacturers to accelerate business development.

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The dry formation method of battery materials is an innovative electrode manufacturing method. We are working on its development in collaboration with our battery manufacturer customers.

With conventional manufacturing methods, a slurry of active material dispersed in water or organic solvents is applied to a metal foil, and the electrode is made by drying it with heat. In the dry formation method, however, the active material mixture is made into a powder, which is then deposited directly on the metal foil and pressed together to form the electrode in one step.

This innovative manufacturing method is a low-cost solution with low environmental impact. Although not mentioned in the material, it is also a revolutionary PFAS-free manufacturing method, and we are working diligently to ensure that our customers can introduce this process as soon as possible.

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We will build a co-creation innovation facility in the Kawasaki area to find and nurture new business seeds like the ones we have introduced here more efficiently in the future. Construction is scheduled to be completed in FY2026.

The facility is right next to Haneda Airport, making it very convenient for overseas visitors.

After completion of the facility, we plan to boldly promote the following:

・Co-creation of functional polymers

・Operation of dry formation method pilot equipment

・Co-creation with companies in the area (there is an area called Tonomachi, which is a cluster of life science companies, about five minutes away by car)

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Lastly, I will explain our financial strategy.

If the various measures explained so far are implemented, we expect our ROIC to temporarily decline due to the partial shutdown of the Tokuyama Elastomer business and the COP investment.

However, the plan is for a V-shaped recovery starting in FY2028, when the COP plant's depreciation will have progressed.

We also expect the ROIC-WACC spread to turn positive in FY2030 or later.

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I will explain our cash flow allocation through FY2026.

Cash flow from operating activities is expected to be 30 billion yen less than the initial plan.

To cover this decrease, we will implement the following:

As the first measure, we will accelerate the sale of cross-shareholdings, aiming to bring them down to less than 5% of net assets by the end of FY2026, which is below the initial target value.

As the second measure, we will reduce cash used in investing activities by 20 billion yen from the initial plan. We touch on this on the next page, but we plan to decrease the investment amount planned for M&A.

With regard to shareholder returns, as the third measure, we plan to implement progressive dividends and purchase treasury stock.

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I will explain our investment plan.

In the second phase of the Medium-Term Business Plan, 170 billion yen was planned for new investment, but this has been reduced by 20 billion yen to 150 billion yen.

Specifically, 20 billion yen will be cut from the 58 billion yen that was planned for M&A and CVC.

The overall breakdown of the revised plan is as shown in the pie chart on the right. We will focus on investments that fall under the categories of expanding high-profit businesses and expanding new businesses.

As for investment in business expansion and M&A, we will set a hurdle rate that sufficiently exceeds WACC when making decisions.

In addition, if it is determined that there will be a surplus of funds after taking into account the expected use of the new investment budget at the end of FY2025, it will be flexibly returned to the shareholders.

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As for shareholder return, we have increased dividends every year from FY2010 to FY2024 (15 consecutive years).

We plan to maintain progressive dividends while keeping the dividend payout ratio at 30% or higher.

With regard to the purchase of treasury stock a decision has already been made to acquire 10 billion yen in FY2024. We also plan to acquire an additional 20 billion yen between FY2025 and FY2026, for a total of 30 billion yen over the three years from FY2024 to FY2026.

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The above is a summary of the key points regarding the progress of Phase 2 of the Medium-Term Business Plan STAGE 30.

We will implement these measures to achieve a PBR of at least 1 as quickly as possible, and we will continue to work hard to meet the expectations of all our stakeholders.

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