Zeon Corporation

First Half of FY2022

Meeting Minutes from Results Briefing for Analysts

(October 31, 2022)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/financial/bs/pdf/221031.pdf

[Explanations]

p.3 Exchange Rates and Prices of Raw Materials

The yen continued to depreciate against both the dollar and the euro YoY and QoQ.

Due to global inflation, Naphtha prices remained high at 1.5 times higher YoY, but QoQ, they were down 7%, coinciding with crude oil prices.

Asian butadiene prices were down YoY and QoQ due to easing of the supply balance associated with new cracker equipment being put into operation in Asia.

p.5 Performance Summary for Second Quarter of FY2022

Quarterly and half-year net sales came in at record highs at 99.8B JPY and 197.4B JPY, respectively.

Compared to the same period of the previous year, net sales were up 7.9B JPY, while operating income was down 1.6B JPY. Compared to the previous quarter, net sales were up 2.3B JPY, while operating income was down 1.3B JPY.

p.6 Performance Summary for Second Quarter of FY2022 by Segment

Net sales in the Elastomer Business came in at 57.9B JPY, up both YoY and QoQ, while net sales in the Specialty Materials Business came in at 26.5B JPY, down both YoY and QoQ.

Operating income in the Elastomer Business came in at 5.3B JPY, up both YoY and QoQ, while operating income in the Specialty Materials Business came in at 4.7B JPY, down both YoY and QoQ.

p.7 Performance Summary for First Half of FY2022 by Segment

The figures in the green box are first half forecasts as of April 27. They do not reflect the assumptions that were uncertain at this time, such as the lockdowns in China and inventory adjustments in the display market.

In the Elastomer Business, net sales and operating income were up 3.4B JPY and 1.7B JPY, respectively, compared to this initial forecast, while in the Specialty Materials Business, net sales and operating income were down 5.1B JPY and 2.6B JPY, respectively.

p.9 Elastomer Business Overview

Naphtha prices dropped in the second quarter, but net sales increased, mainly of synthetic rubbers, as we made selling price adjustments to reflect the raw materials prices in the first quarter.

Demand for synthetic rubbers was strong in the second quarter, but we have adjusted the sales volume to perform regular repairs at main plants, so it was down YoY and flat QoQ.

p.10 Status of Each Segment in Elastomer Business

This table shows the sales volume when that of the second quarter is 100.

Synthetic rubber sales volume adjustments continue due to regular repairs at main plants. There was also a reactionary decline from price adjustments of chemicals. As a result, the sales volume in the Elastomer Business was down both YoY and QoQ.

The latex sales volume is up QoQ, but there is still excess market inventory. We expect demand to recover starting in the next fiscal year.

p.11 Elastomer Business Profit and Loss (QoQ)

The minus 700M JPY associated with sales QTY is due to the decreased sales volume of chemicals.

The plus 2.5B JPY associated with sales price is from price adjustments, and the plus 1.3B JPY associated with the exchange rate is from depreciation of the yen.

The minus 1.3B JPY associated with COGS is from totaling the plus 700M JPY from improved loss on disposal of inventories and the minus 2.0B JPY from inventory prices and soaring energy prices.

The minus 600M JPY associated with SG&A is from rising logistics costs and increased allocation of indirect department costs.

Totaling the above, operating income was up 1.2B JPY QoQ.

p.12 Elastomer Business Profit and Loss (YoY)

The trend was the same YoY and QoQ.

p.14 Summary of Specialty Materials Business

Net sales of specialty plastics were down both YoY and QoQ due to decreased demand for optical film.

Net sales of specialty chemicals were up YoY with the sales volume of EV battery materials but down QoQ.

p.15 Specialty Materials Business Profit and Loss (QoQ)

The minus 2.6B JPY associated with sales QTY is due to decreased sales volumes of optical films, battery materials and chemicals.

The plus 300M JPY associated with sales price is from an increase in the percentage of small-to-medium-sized films for smartphones, which have higher unit prices, out of optical films.

The minus 500M JPY associated with COGS is from high-cost inventory manufactured in the first quarter, mainly optical films.

Totaling the above, operating income was down 2.3B JPY QoQ.

p.16 Specialty Materials Business Profit and Loss (YoY)

The minus 1.2B JPY associated with sales QTY is due to decreased sales volume of optical films.

Price differences from price adjustments and exchange rate combined for a 3.4B JPY improvement.

The minus 3.6B JPY associated with COGS included 700M JPY in loss on disposal of inventories.

The minus 900M JPY associated with SG&A was from rising ocean freight charges.

Totaling the above, operating income was down 2.4B JPY YoY.

p.17 Second Quarter Battery Materials Sales Volume (QoQ, YoY)

For EV, the sales volume was up 130% YoY and 82% QoQ.

The utilization rate among battery manufacturers dropped amid soaring LIB raw material prices, causing sluggish sales.

For consumer use, demand peaked out for home appliances and mobile devices, and a lull in replacement demand led to continued weakness.

p.18 Second Quarter Optical Plastics Sales Volume (QoQ, YoY)

For optical use, customer operations declined due to COVID-19 and the semiconductor shortage, resulting in a decreased sales volume. However, we promoted expansion to prefilled syringes and other medical uses, pushing sales up both YoY and QoQ.

p.19 Second Quarter Optical Films Sales Volume (QoQ, YoY)

For small-to-medium size, demand for smartphones was steady, but sales were down for touch sensor film due to the shift to in-cell technology, primarily in China. In addition, the sales volume for tablets and laptops was flat QoQ, but it was sluggish YoY due to the end of special COVID-related demand.

For large size, the sales volume was down significantly due to large-scale suspension of material procurement by TV manufacturers starting in the second quarter. At this time, we expect demand to recover in the fourth quarter, but there are some risks of prolonged sluggishness, which we are monitoring.

p.21 Balance Sheet Overview

Total assets increased by 40.8B JPY YoY to 525.5B JPY, owing to a 23.0B JPY increase in current assets, mainly from an increase in inventory assets associated with an increase in product inventories in the Elastomer Business for regular repairs and an increase in trade receivables arising from price adjustments, on top of a 17.8B JPY increase in non-current assets.

Subtracting the increase in trade payables, provision for repairs, and short-term borrowings due to soaring raw material prices, as well as redemption of corporate bonds, net assets increased 24.0B JPY.

p.22 Cash Flow Overview

CF from operating activities decreased significantly, mainly because of the 21.0B JPY of an increase in product inventories for regular repairs, but this inventory will be discharged starting in the third quarter or later, so we expect an improvement.

CF from financing activities also decreased significantly. The main factors behind this were cash outflows of 10.0B JPY for redemptions of corporate bonds, 4.0B JPY for purchase of treasury shares, 3.2B JPY for dividends, and a cash inflow of 3.9B JPY for short-term borrowings in the first half of FY2022.

As a result, free CF was minus 7.9B JPY, and total CF was minus 21.6B JPY.

We expect free CF to turn positive in the third quarter or later with improvements in CF from operating activities.

p.24 Business Environment of Elastomer Business for FY2022

In the second half, raw material prices will drop for the Elastomer Business.

Meanwhile, energy prices such as electricity and steam are expected to soar. Although we will work on adjusting sales prices, we expect the spread to inevitably worsen.

p.25 Business Environment of Specialty Materials Business for FY2022

In the Specialty Materials Business, sales of optical film for smartphones will enter an off season in the second half, so we expect sales to be flat and operating income to decrease from the first half going into the second half.

For other segments, we expect a recovery from the first half going into the second half.

p.26 FY2022 Performance Forecast

Today, we announced a revision to the performance forecast based on the aforementioned business environment.

The revised forecasts for FY2022 are net sales of 412.0B JPY and operating income of 39.5B JPY.

Sales have been revised upward and income downward from the initial forecasts, but the future remains uncertain.

If we anticipate any significant changes, we will disclose them promptly.

p.27 Dividends

We are leaving the dividend forecast as-is.

We are expecting to increase dividends for the 13th consecutive year since FY2010 and will continue to provide stable and continuous shareholder returns.

(Note) Zeon's plans, forecasts, and other data appearing in this meeting minutes were calculated based on information which was available as of October 31th, 2022 and therefore includes risks and uncertainties. Actual results may differ depending on various factors.

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