Zeon Corporation
Third Quarter of FY2022
Meeting Minutes from Results Briefing for Analysts
(January 31, 2023)

[Briefing Materials]
https://www.zeon.co.jp/en/ir/financial/bs/pdf/230131.pdf

[Explanations]
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The yen continued to depreciate against both the dollar and the euro YoY and QoQ.
As for prices of the main raw materials, both Naphtha prices and Asian butadiene prices were down due to the global economic slowdown and concerns about a decrease in demand resulting from the increase in the number of people infected COVID-19 in China.

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For the quarter, net sales came to 96.8B JPY, and operating income came to 7.7B JPY.
YoY: Net sales up 7.1B JPY, operating income down 3.8B JPY.
QoQ: Net sales down 3.1B JPY, operating income down 1.8B JPY.
The significant decrease in net income in the third quarter was from the 5.5B JPY impairment loss on carbon nanotube equipment.

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Net sales in the Elastomer Business came in at 55.9B JPY, up YoY but down QoQ, while net sales in the Specialty Materials Business came in at 24.9B JPY, down both YoY and QoQ.
Operating income in the Elastomer Business came in at 2.9B JPY, down both YoY and QoQ, while operating income in the Specialty Materials Business came in at 4.9B JPY, down YoY but up QoQ.

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These are the results for the nine months from the first quarter to the third quarter by segment.
YoY, all segments saw increased sales but decreased income.
As of the end of the third quarter, 71% progress had been made toward the net sales forecast for FY2022 announced on October 31, 2022, and 70% progress had been made toward the operating income forecast.
We revised our earnings forecasts again today based on the latest market trends and demand environment in each business. An explanation is provided below.

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The graph on the left shows Naphtha price vs. elastomer sales.
Net sales decreased due to a decrease in the product sales volume and the impact of price adjustments carried out in conjunction with the decline in Naphtha prices after peaking in the first quarter.

The graph on the right shows the synthetic rubber sales volume when that of the third quarter of FY2021 is 100.

This quarter, the sales volume declined both YoY and QoQ due to regular repairs at main plants and the moves to secure inventory taken throughout the supply chain since the COVID-19 pandemic starting to draw to a close.

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This table shows the sales volume when that of the third quarter of FY2021 is 100.

The synthetic rubbers situation is as described on page 9. As for latexes, there remained excess distribution inventory for gloves, and the chemical sales volume declined in response to selling price adjustments, while in the Elastomer Business overall, the sales volume was down both YoY and QoQ.

Net sales increased YoY owing to yen depreciation and selling price adjustments, but decreased QoQ due to lackluster shipments.

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The sales QTY declined by 1.3B JPY due to the lower sales volume.

Meanwhile, the sales price declined by 1.0B JPY due to a drop in selling prices linked to raw material prices, but the exchange rate improved by 1.7B JPY with depreciation of the yen.

COGS deteriorated by 2.5B JPY as a result of soaring energy prices on top of the roughly 800M JPY increase in loss on disposal of inventories.

SG&A improved by 700M JPY primarily as a result of ocean freight coming down.

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

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The sales QTY declined by 3.3B JPY due to the lower sales volume.

The sales price improved by 22.2B JPY with selling price adjustments reflecting soaring raw material prices, and the exchange rate improved by 9.4B JPY with depreciation of the yen.

COGS deteriorated by 27.0B JPY due to raw material prices and soaring energy prices, and SG&A deteriorated by 5.1B JPY due primarily to higher ocean freight charges. However, these were mostly offset by sales price and the exchange rate.

Totaling the above, operating income was down 3.7B JPY.

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Net sales of specialty plastics were down both YoY and QoQ due to demand having yet to fully recover and small- and medium-sized films entering the in-between season despite large size film shipments recovering to an extent.

Net sales of specialty chemicals were up YoY with the higher sales volume of battery materials but down QoQ due to toner demand related to small printers used in remote work drying up.

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The sales QTY improved by 100M JPY owing to higher optical film and battery material sales volumes.

The sales price increased by 200M JPY with chemical and optical plastic price adjustments, but COGS declined by 700M JPY due to higher fixed unit costs resulting from production adjustments associated with a decrease in the large size film sales volume.

SG&A improved by 400M JPY owing to lower experimental production costs.

Totaling the above, operating income was up 200M JPY.

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A decrease in the optical film sales volume pushed the sales QTY down 2.4B JPY, but selling price adjustments and the exchange rate pushed it up 2.4B JPY and 2.3B JPY, respectively.

COGS deteriorated by 5.0B JPY, including the 700M JPY increase in loss on disposal of inventories. SG&A deteriorated by 1.1B JPY due to rising ocean freight charges.

Totaling the above, operating income was down 3.9B JPY.

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For EV, sales were strong, up 120% YoY and 118% QoQ.

Battery manufacturers' utilization rates, which had dropped due to the sharp rise in LIB raw material prices in the second quarter, recovered in the third quarter as we had expected, resulting in a cumulative roughly 30% shipment increase YoY.

For consumer use, sales were up 120% YoY and 197% QoQ owing to ahead-of-schedule shipments for the Chinese New Year.

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As for optical use, shipments were up slightly QoQ but sluggish YoY due to lower demand in the end markets.

For that reason, we are promoting expansion into medical and other uses where demand is strong. Demand for medical and other uses was firm overall, despite a QoQ decline in the third quarter due to the combined shipments to Europe and the United States in the second quarter.

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The sales volume for small-to-medium size was down both YoY and QoQ due to it being the in-between season.

For large size, shipments are gradually recovering from the large-scale suspension of parts procurement by television manufacturers that happened in the second quarter. We will work on preparing supply for when demand fully recovers in FY2023.

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As for total assets, current assets increased by 38.0B JPY due to inventory buildup mainly of elastomer products ahead of regular repairs. In addition, non-current assets increased by 15.5B JPY mainly due to investments in the Specialty Materials Business. As a result, total assets increased 53.6B JPY QoQ to 538.2B JPY.

Subtracting the 17.1B JPY in trade payables resulting from soaring raw material prices, the 15.1B JPY increase in short-term borrowings, and the -10.0B JPY for redemption of corporate bonds, current liabilities increased 30.9B JPY. Net assets ultimately increased by 22.0B JPY.

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CF from operating activities decreased significantly, but the main factor was the 28.7B JPY increase in inventories associated with regular repairs and depreciation of the yen. This inventory will be discharged starting in the fourth quarter or later, so we expect an improvement.

As a result, free CF was minus 13.7B JPY, and total CF was minus 19.8B JPY.

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In the Elastomer Business, the overall business environment is deteriorating in addition to the drop in raw material prices and appreciation of the yen.

Details on each business are provided in the comments of the document, but the main factors were the downward adjustment of selling prices and the delay in the recovery of demand.

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The Specialty Materials Business and the Elastomer Business are facing similar circumstances.

Details on each business are provided in the comments of the document, but the main factor was the decline in market conditions.

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

The FY2022 forecasts were revised to reflect the 25.0B JPY decrease in net sales and the 11.5B JPY decrease in operating income since they were announced on October 31. For the full year, the net sales forecast was revised to 387.0B JPY, and the operating income forecast was revised to 28.0B JPY.

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The original dividend forecasts are being left as-is: a year-end dividend of 18 JPY per share and an annual dividend of 36 JPY, the 13th consecutive increase since FY2010. This is based on the Company's policy of maintaining stable and continuous dividends for our shareholders.

(Note) Zeon's plans, forecasts, and other data appearing in this meeting minutes were calculated based on information which was available as of January 31th, 2023 and therefore includes risks and uncertainties. Actual results may differ depending on various factors.

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