Zeon Corporation

FY2022

Meeting Minutes from Results Briefing for Analysts

(April 26, 2023)

[Briefing Materials]

https://www.zeon.co.jp/en/ir/financial/bs/pdf/230426.pdf

[Explanations]

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The yen was down YoY versus the US dollar and the euro but up QoQ.

As for prices of main raw materials, the fourth quarter saw different movements for Naphtha and Asian butadiene due to a drop in crude oil prices and Naphtha cracker production cuts resulting from financial instability, putting Naphtha at 66,500 JPY/kL and Asian butadiene at 1,089 USD/MT.

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For the quarter, net sales came to 94.4B JPY, and operating income came to minus 700M JPY.

YoY: Net sales up 1.4B JPY, operating income down 8.7B JPY.

QoQ: Net sales down 2.4B JPY, operating income down 8.3B JPY.

The large decrease in net income was due to an impairment loss of 11.6B JPY on production facilities and other assets at the Tokuyama Plant associated with declining profitability of synthetic rubbers and synthetic latexes.

For the full fiscal year, net sales came in at 388.6B JPY, up 26.9B JPY YoY, while operating income came in at 27.2B JPY, down 17.3B JPY.

The 388.6B JPY in net sales was a record high for the Company.

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Net sales in the Elastomer Business were 54.9B JPY, an increase of 2.3B JPY YoY but a 1.0B JPY decrease QoQ. Net sales in the Specialty Materials Business were 23.9 B JPY, down 2.6B JPY YoY and 1.1B JPY QoQ.

Operating income came in at minus 2.0B JPY in the Elastomer Business and 1.8B JPY in the Specialty Materials Business, both down YoY and QoQ.

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These are the cumulative results for FY2022 by segment.

Net sales were up, but profits were down YoY in the Elastomer Business, while both net sales and profits were down in the Specialty Materials Business.

Net sales and operating income did not deviate significantly from the forecasts, but net income fluctuated significantly due to an impairment loss on manufacturing facilities and other assets at the Tokuyama Plant.

The FY2022 forecasts were revised on April 19 in response, so there is no disparity between the latest forecasts and the results.

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The graph on the left shows Naphtha price vs. elastomer sales.

Net sales decreased as a result of adjusting selling prices to reflect the drop in Naphtha prices.

The graph on the right shows the synthetic rubber sales volume when that of the fourth quarter of FY2021 is 100. Sales volume decreased YoY due to regular repairs at the main plants, but increased QoQ due to the recovery of production volume after the completion of those repairs.

Operations were expected to be suspended at the Tokuyama Plant for about 30 days starting on January 15, but they resumed on February 1. I would like once again to thank all those involved for your cooperation and express my apologies to everyone for the concern that was caused.

We will continue to put safety first in our operations. Thank you for your understanding.

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This is the status of each business in the Elastomer segment.

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

The rubbers situation is as described on the previous page.

There continues to be excess latex distribution inventory for gloves.

Although the chemicals sales volume has recovered QoQ, shipments for adhesive tapes, the main use, are sluggish.

As a result of the above, the overall sales volume in the Elastomer Business decreased YoY but increased QoQ.

Meanwhile, net sales were up both YoY and compared to the previous full year, but down QoQ due to selling price adjustments corresponding to raw material prices.

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Although the sales volume was up QoQ, the sales QTY deteriorated by 300M JPY as a result of a 1.0B JPY decline due to adjusting for the Accounting Standard for Revenue Recognition.

This adjustment for the Accounting Standard for Revenue Recognition is a matter of cut-off and has nothing to do with business factors.

Meanwhile, the sales price declined by 3.7B JPY due to a downward revision of selling prices linked to the drop in raw material prices. Furthermore, the exchange rate resulted in a 900M JPY decline due to appreciation of the yen.

COGS deteriorated by 500M JPY due to the impact of the regular repairs and temporary suspension of operations at the Tokuyama Plant, while SG&A improved by 500M JPY due to ocean freight charges coming down.

Totaling the above, operating income was down 4.9B JPY.

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The sales QTY declined by 5.5B JPY due to the lower sales volume.

The sales price improved by 25.0B JPY with selling price adjustments reflecting soaring raw material prices, and the exchange rate improved by 11.2B JPY with depreciation of the yen.

At the same time, COGS deteriorated by 35.7B JPY due to soaring raw material and energy prices, and SG&A deteriorated by 3.5B JPY due primarily to higher ocean freight charges.

Totaling the above, operating income was down 8.4B JPY.

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This is an overview of the Specialty Materials segment.

In specialty plastics, although demand for large size film has begun to bounce back, it still has not fully recovered, and small- and medium-sized films have entered the in-between season. Although net sales of optical plastics increased in line with the higher sales volume, many adjustments had to be made as the recording of sales was moved to the next fiscal year or later based on the Accounting Standard for Revenue Recognition.

As a result, net sales were down both YoY and QoQ.

Net sales of specialty chemicals were down YoY due to a lower toner sales volume caused by a lull in remote work-related demand. Sales of battery materials were down due to inventory adjustments by customers. However, consolidation adjustments, or the inclusion of favorable October-December overseas subsidiary sales in consolidated accounting, and a decrease in adjustments for inter-company eliminations, boosted net sales so that they remained flat QoQ.

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Of the 2.1B JPY decline in sales QTY, 1.3B JPY was from an increase in optical plastics in the fourth quarter adjusting for the Accounting Standard for Revenue Recognition. This number is unrelated to the business situation.

The remaining 800M JPY was from the decreased sales volume of battery materials and small- and medium-sized films.

The sales price improved by 600M JPY owing to price adjustments for optical plastics and chemicals. The exchange rate deteriorated by 400M JPY due to yen appreciation, and COGS deteriorated by 100M JPY mainly for toner.

SG&A deteriorated by 1.1B JPY due mainly to the concentration of new development expenses associated with year-end acceptance inspections, including experimental production costs.

Totaling the above, operating income was down 3.1B JPY.

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A decrease in the optical film and battery materials sales volume pushed the sales QTY down 6.6B JPY, but the sales price from selling price adjustments and the exchange rate pushed it up 3.3B JPY and 2.7B JPY, respectively.

COGS deteriorated by 6.5B JPY, including the 1.3B JPY increase in loss on disposal of inventories. SG&A deteriorated by 900M JPY due to rising ocean freight charges.

Totaling the above, operating income was down 8.1B JPY.

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As for the EV sales volume, our shipments were sluggish due to customer inventory adjustments, especially in China. As a result, the sales volume was down 69% YoY and 68% QoQ, but it was up 110% in the full-year comparison, boosted by growth of the EV and battery markets.

In regard to consumer use, etc., there were ahead-of-schedule shipments in the third quarter in preparation for the Chinese New Year, creating a reactionary decline in the fourth quarter. In addition, the market, especially for mobile devices, did not perform well, resulting in decreased sales volume both YoY and QoQ.

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In regard to optical use, demand for mobile devices remained sluggish due to the economic recession, and shipments struggled both YoY and QoQ.

For that reason, we are promoting expansion into medical use, etc. where demand is stronger.

Shipments for medical use, etc. increased 142% QoQ and 122% versus the previous full year with combined shipments taking place in the fourth quarter after the third quarter in-between season.

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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 and the mobile devices market remaining sluggish as a result of the economic recession.

For large size, shipments recovered to 83% YoY and 160% QoQ in the fourth quarter from the large-scale suspension of parts procurement by television manufacturers that happened in the second quarter.

We are currently working on preparing supply for when demand fully recovers in FY2023.

Our perspective on market trends by use is provided in the reference material.

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Current assets increased by 21.7B JPY with the buildup of inventories in preparation for regular repairs, mainly for specialty materials, and non-current assets increased by 16.5B JPY, primarily as a result of market valuation gains on investment securities.

As a result, total assets increased 38.2B JPY YoY to 522.9B JPY.

After subtracting a 21.9B JPY increase in current liabilities, including 19.0B JPY in short-term borrowings, net assets were up 17.5B JPY.

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The key point is the increase in inventories, but this is due to the buildup of inventories, primarily specialty materials, in preparation for regular repairs at the Mizushima Plant set to begin in the middle of the first quarter.

As a result, free CF was minus 14.5B JPY, and total CF was minus 17.4B JPY.

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As for the environment in the Elastomer Business in FY2023, we expect first half demand to be on par with what it was in the second half of FY2022 and to recover in the second half of FY2023. We also expect sales and profits to be down YoY.

Overall, demand is assumed to have peaked in FY2022, with chemicals in particular expected to take time to recover.

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Overall, we expect a steady recovery in demand and sales expansion in the Specialty Materials Business, but we plan to adjust shipments of optical plastics in the first half of the year due to regular repairs at the Mizushima Plant.

In optical films, depreciation and amortization are expected to increase due to expansion of the large size film line scheduled for completion in October 2023. This will result in a YoY decrease in profit, but we do not expect any problems with investment recovery over the medium to long term.

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Based on the above, the performance forecasts for FY2023 are net sales of 399.0B JPY and operating income of 24.0B JPY.

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As for the dividend forecast, we plan an interim dividend of 20 JPY per share and a year-end dividend of 20 JPY for an annual dividend of 40 JPY, the 14th consecutive increase since FY2010.

The business environment in FY2023 remains uncertain, and we expect increased sales but decreased profits compared to FY2022. Nevertheless, we have decided to again increase the dividend forecast this fiscal year, taking into account our expected medium- to long-term growth and financial situation along with our desire to increase returns to shareholders, even if gradually, in accordance with our policy of providing stable and continuous dividends.

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