



**Daikin Industries,Ltd.**

Financial Results Briefing for the Fiscal Year Ended March 2023

May 10, 2023

## Event Summary

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<b>[Company Name]</b>	Daikin Industries,Ltd.	
<b>[Company ID]</b>	6367-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ended March 2023	
<b>[Fiscal Period]</b>	FY2023 Annual	
<b>[Date]</b>	May 10, 2023	
<b>[Number of Pages]</b>	44	
<b>[Time]</b>	10:30 – 12:17 (Total: 107 minutes, Presentation: 37 minutes, Q&A: 70 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Number of Speakers]</b>	5	
	Masanori Togawa	President and CEO, Member of the Board
	Satoshi Funada	Senior Executive Officer, General Manager of Japanese AC Sales Division
	Yoshiyuki Hiraga	Executive Officer, Responsible for Chemical Division
	Shoji Uehara	Executive Officer, General Manager of Global Operations Division
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
<b>[Analyst Names]*</b>	Yuichiro Isayama	Goldman Sachs
	Tomohiko Sano	JPMorgan Securities
	Hirokazu Miyagi	Mizuho Securities
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities
	Kentaro Maekawa	Nomura Securities
	Graeme McDonald	Citigroup Global Markets
	Hikaru Mizuno	UBS Securities
	Toshiharu Morota	Okasan Securities

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Yoshinao Ibara

Morgan Stanley MUFG Securities

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Sakamoto:** We will now begin the financial results briefing for Daikin Industries, Ltd. for the fiscal year ended March 31, 2023. Thank you for taking time out of your busy schedule to join us today.

The presentation materials are available on the investor relations section of the Company's website, as announced yesterday by e-mail. Please have them on hand if you need them.

Let me now introduce today's speakers.

Masanori Togawa, President and CEO, Member of the Board. Satoshi Funada, Senior Executive Officer, General Manager of Japanese AC Sales Division. Yoshiyuki Hiraga, Executive Officer, Responsible for Chemical Division. Shoji Uehara, Executive Officer, General Manager of Global Operations Division. Kota Miyazumi, Executive Officer, Responsible for Corporate Communication. These are the five members who will give a presentation.

I, Sakamoto of the Investor Relations Management Group, will be facilitating the meeting. Thank you for your cooperation.

Today, I would like to begin with a brief talk by Mr. Togawa, President, and then Mr. Miyazumi, Executive Officer, will give an overview of the financial results.

The presentation is scheduled for 40 minutes in total, followed by a question-and-answer session. The end time is scheduled at 12:00 PM.

Now, President Togawa, please.

**Togawa:** Good morning, everyone. Thank you for taking time out of your busy schedule to participate in this event.

Last fiscal year, even if our business environment was worse than expected, with the Shanghai lockdown, soaring logistics costs for raw materials, rising inflation, and economic slowdown, we thoroughly implemented the eight priority themes and one additional theme that we set at the beginning of the fiscal year. By taking proactive and flexible measures to cope with the changing conditions, we were able to improve our results and largely reverse the negative impact.

As a result, both net sales and operating profit reached record highs, surpassing the upwardly revised figures announced in February on an actual basis excluding the effect of exchange rates. In the deteriorating business environment, we have faced up to the challenges and have speedily formulated a series of measures. We, from the top management team to the front lines, have worked together to thoroughly implement the measures.

I believe that this ability to execute is one of our company's strengths. We have always emphasized flat and speed and have managed our organization with a sense of unity and close proximity between management and the front lines.

I believe that not only our top management is able to make speedy decisions by receiving information on changes in the business environment immediately from the front lines, but also the entire organization is able to share the top management's recognition of issues in a timely manner, which leads to the ability to implement strategies and respond to changes in the field.

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I believe that through the accumulation of these actions, we were not only able to counteract the negative effects I mentioned earlier, but also to further strengthen our management structure for future growth and development.

Mr. Miyazumi will explain the details of the financial results for FY2022 later. I would like to talk a little about the outlook for the current fiscal year, FY2023, and how we are planning about the management of the Company.

The annual plan for FY2023 calls for net sales of JPY4,100 billion, exceeding JPY4 trillion for the first time, and an operating profit of JPY400 billion, a significant increase in both sales and profit even in real terms, excluding exchange rates.

This fiscal year, the global economic recovery has been delayed, and the business environment has become more difficult, but we have been able to achieve the good results in the previous year. We will take up a challenge of achieving an operating profit of JPY400 billion by further accelerating the development of measures and generating results, with a view to further expanding our business performance, using our ability to execute as a springboard to achieve the strong performance of the previous fiscal year.

While the business environment is becoming increasingly severe, the acceleration of the movement toward carbon neutrality and the growth of emerging markets, such as India, offer great opportunities for us.

We would like to make a dash for the start of the second half of the Second Half Plan for FUSION25 by further refining the strengths we have cultivated through the implementation of our priority themes, accelerating investment in growth for the future, and strengthening our management structure. In addition, FY2024 will mark the 100th anniversary of our company's founding. Despite the difficult business environment, we hope to mark this milestone by achieving record performance..

This year, we have set two key themes to be addressed by the entire company from two perspectives: business expansion and market share increase by taking advantage of the changes in the business environment, and strengthening profitability.

We will also accelerate investment in growth for the future. In order to expand production capacity to meet increasing demand, we will launch five new plants by FY2024 in Poland, Mexico, Indonesia, Huizhou in China, and India, which will help to strengthen our product supply and cost competitiveness.

I would like to talk a few specific initiatives regarding our priority themes.

First, regarding the fundamental reinforcement of our ability to increase market share, or in other words, to strengthen our sales capabilities, last year we continued to supply products despite the impact of parts procurement due to the Shanghai lockdown, leading to sales expansion and market share increase in each region.

In Japan, we have been strengthening energy-saving proposals with a focus on ZEB, and in Asia, we have been expanding the introduction of online sales management systems. In Europe, we have been strengthening our sales and service network for heat pump heating systems.

Against the backdrop of carbon neutrality and rising energy costs, competition among rivals is intensifying for demand for heat pump heating and hot water supply equipment and energy-efficient air conditioning equipment. In this context, we will strengthen our ability to make proposals that are more closely tailored to the market and customers, strengthen our dealers and service outlets, and accelerate sales innovation in each region through the use of digital technology.

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In particular, speaking about China, excluding foreign exchange effects last year, sales for the year were below the previous year's level. The YoY sales ratio is 101% including exchange rates, but 90% on a local currency basis. By focusing on aggressive online sales activities even before the spread of the COVID-19 infection calmed down after the lifting of the zero-coronavirus policy, and by moving to acquire inquiries ahead of the market recovery, sales recovered to 111% YoY in March of this year.

As the market moves toward reopening in FY2023, this fiscal year, offline sales, which have been one of our strengths, will be key. We intend to focus on sales by integrating online and offline operations, such as increasing the number of New Life Stations, strengthening live commerce using showrooms nationwide, and capturing renewal demand through the use of data.

Then, I would like to talk a little bit about the expansion of the solutions business.

In addition to strengthening our own service infrastructure in North America, Europe, Asia, and Oceania, we have been strengthening our Owner Direct sales network, service network, and instrumentation engineering capabilities through M&A.

This year, in addition to continuing to strengthen our sales network in each region, we intend to further enhance our solutions personnel and solutions technology. In particular, in the solutions business in commercial air conditioning, we will accelerate the development of solutions for data centers, for which demand is strong globally, and propose solutions to address rising energy costs worldwide and labor shortages. By strengthening these efforts, we will strive to expand demand.

Next, I would like to say a few words about the North American HVAC business.

In the North American HVAC business, we were able to significantly increase sales last year by expanding sales of environmental premium products and by cooperating with our product supply capabilities. In local currency terms, DNA's sales were 124% of the previous year's level, with an operating margin of 9%. Although there is a risk of a slowdown in demand this year due to rising interest rates, the growing interest in inverters and heat pumps against the backdrop of carbon neutrality and the tightening of environmental regulations are opportunities for us to expand sales of environmental premium products, which is our specialty.

We will work to expand sales of Fit for residential use and VRV for commercial use by developing a dealer network and enhancing support for dealers. Daikin Applied will promote the expansion of its service solutions business by leveraging the know-how of the local representatives and system integrators it acquired last year. They will also work to strengthen cost competitiveness by utilizing a new plant in Mexico.

Next, a few words about the heat pump heating business.

Last year, amid a rapid increase in demand against the backdrop of soaring fuel costs and carbon neutrality measures, we made efforts to achieve major sales expansion in Europe, where production, sales, and supply are integrated. While we expect this demand to remain strong this year, our competitors are also trying to shift their business from combustion heating to heat pump heating.

We have been selling heat pump heating and hot water units in Europe since the 2000s and have local production and development capabilities. In response to strong demand, we are expanding the production capacity of existing plants in Belgium, Czech Republic, and Germany, and will start operation of a new plant in Poland in FY2024. We are also in the process of establishing a new R&D center specializing in heating in Belgium.

Next, I would like to talk a little bit about India, becoming a major hub.

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In India, demand for air conditioning is expected to grow significantly due to the increase in the middle-income class households and the development of the power grid. With the operation of the new plant under construction in the south, we are not only doubling our production capacity and expanding sales in India, but are also considering supplying products globally by realizing high cost competitiveness by taking advantage of this economy of scale.

We also intend to make India a major global center for production, research, development, and parts supply by taking advantage of the abundant local human resources, such as the more than 1.5 million new IT graduates produced every year.

Next, I would like to talk a little bit about the supply chain.

In terms of building a robust supply chain, last fiscal year, global production, procurement, and logistics worked together and continued to meet on a weekly basis to discuss measures for the Shanghai lockdown, parts allocation, and alternative procurement of semiconductors and electronic parts that are under pressure. We continued to supply products with almost no interruption of supply and kept sending them to the front lines without running out of parts.

In this fiscal year, in addition to optimizing procurement and production in each region, we will build this double engine of procurement and production, as well as a backup system, to strengthen our supply capacity and at the same time promote efficiency in logistics and other areas.

In addition to accelerating the expansion of our global business, we will also focus on power semiconductors, magnets, and electromagnetic steel sheets. We would like to clarify these so-called strategic priority components and create a system to ensure stable procurement.

And finally, I would like to talk a little about cost reduction.

Regarding the re-enforcement of cost reduction capabilities, in response to the impact of cost increases in the past two years, including raw material market conditions, soaring logistics costs, and rising energy costs, we will increase selling prices and sales volume, and reduce costs. These efforts have covered the negative impact.

This year, we will share cost reduction themes on a global horizontal basis, promote implementation, and take on the challenge of reducing costs by JPY50 billion, the largest ever. In terms of cost reduction, we have been working on material replacement from copper to aluminum, the standardization of key components such as compression and printed circuit boards, and the optimization of internal and external measures such as four-way integrated activities involving development, procurement, manufacturing, and even suppliers.

In addition to the promotion of these activities, this year, we will furthermore conduct a comprehensive review of the cost of base model products to be deployed globally. By thoroughly reviewing the cost structure, we will further reduce costs.

Currently, 80% of our residential air conditioners are developed globally based on models developed in Japan. We intend to increase profitability in everything from high value-added models to volume zones by promoting the integration of parts, downsizing, and standardization of specifications.

At our new plants, which are being launched simultaneously in various regions around the world, we are also working to reduce labor and improve productivity through the automation of assembly lines.

As I have said in various ways, we will strive to achieve our business plan and expand our business performance by maximizing and further refining the strengths we have cultivated so far.

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That concludes my explanation.

Mr. Miyazumi will give a summary of the financial results for the fiscal year ended March 31, 2023 and a detailed explanation of the financial outlook for the fiscal year ending March 31, 2024. After that, I would like to answer your questions, including those of the board members present today.

That is all from me.

**Sakamoto:** Next, please welcome Mr. Miyazumi, Executive Officer.

**Miyazumi:** My name is Miyazumi. I will be presenting an overview of the financial results for the fiscal year ended March 31, 2023, and the outlook for the fiscal year ending March 31, 2024, along with the presentation materials.

## I . Financial Results for FY2022 Companywide Results

**Exceeding our plan, we achieved record highs in financial results.**

**This was despite the challenging business environment that we faced of soaring market prices for raw materials, high logistics costs, and rising energy costs. To overcome these, we systematically executed measures for our key themes in fiscal year 2022. By quickly responding to changes in the management environment, including the COVID-19 lockdown in China, we worked to offset negative impacts to achieve results of higher revenue and profits.**

- ✓ In the Air Conditioning business, both revenue and profits increased. In addition to sales expansion in the Americas and Asia, we also focused on sales activities in China following the subsiding of the COVID-19 pandemic. In Europe, sales of heat pump water heaters, which are in strong demand, also increased.
- ✓ In the Chemicals business, we captured steady demand in the semiconductor and automotive markets to increase both revenue and profits.

(billion yen)	FY2021	FY2022		Y/Y
	Results	Forecast	Results	
Sales	3,109.1	3,910.0	3,981.6	128%
Operating Profit	316.4	372.0	377.0	119%
(Percentage of Profit to net sales)	(10.2%)	(9.5%)	(9.5%)	
Ordinary Profit	327.5	358.0	366.2	112%
(Percentage of Profit to net sales)	(10.5%)	(9.2%)	(9.2%)	
Profit Attributable to Owners of Parent	217.7	235.0	257.8	118%
(Percentage of income to net sales)	(7.0%)	(6.0%)	(6.5%)	

USD/JPY	¥112	¥135
EUR/JPY	¥131	¥141
RMB/JPY	¥17.5	¥19.8

FX Effect (Y/Y)

Sales	+344 billion yen
Operating Profit	+34 billion yen

Y/Y Results Excluding FX Effect

Sales	117%
Operating Profit	108%

3

See page three.

The financial results for the fiscal year ended March 31, 2023 exceeded the plan and reached a record high.

We believe that we were able to achieve a significant increase in sales and profit by thoroughly implementing the strategic sales price measures and strengthening sales capabilities set forth in the eight priority themes plus one, as well as by flexibly responding to changes in the business environment, such as the spread of the new coronavirus in China.

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Actual exchange rates were JPY135 to USD1, JPY141 to EUR1, and JPY19.8 to CNY1. Foreign exchange effects versus the previous year were positive JPY344 billion for net sales and JPY34 billion for operating profit.

## Financial Results by Segments

(billion yen)		FY2021	FY2022		
		Results	Forecast	Results	Y/Y
Total	Sales	3,109.1	3,910.0	3,981.6	128%
	Operating Profit	316.4	372.0	377.0	119%
	(Percentage of Profit to net sales)	(10.2%)	(9.5%)	(9.5%)	
Air Conditioning	Sales	2,828.5	3,567.0	3,629.8	128%
	Operating Profit	282.4	322.5	324.5	115%
	(Percentage of Profit to net sales)	(10.0%)	(9.0%)	(8.9%)	
Chemicals	Sales	212.4	260.0	263.4	124%
	Operating Profit	27.3	43.0	45.4	166%
	(Percentage of Profit to net sales)	(12.9%)	(16.5%)	(17.2%)	
Others	Sales	68.2	83.0	88.4	130%
	Operating Profit	6.6	6.5	7.2	108%
	(Percentage of Profit to net sales)	(9.8%)	(7.8%)	(8.1%)	

4

See page four. Results by business segment.

Both sales and income increased in the air conditioning business. In addition to expanded sales in the Americas and Asia, the Company focused on sales activities in China after the spread of the new coronavirus was under control. We also captured strong demand for the heat pump heating system in Europe.

In addition, the chemicals business posted increases in both sales and profit, reflecting solid demand in the semiconductor and automobile markets.

As for the amount of foreign exchange impact, the air conditioning business posted sales of JPY319.4 billion and an operating profit of JPY28.1 billion.

Sales and operating profit in the chemicals business were positive JPY23.6 billion and JPY5.5 billion, respectively.

The status of each business and the regional status of the air conditioning business will be explained later.

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## Profit and Loss Statement

(billion yen)	FY2021	FY2022	Impact on profitability
	125	128	
<b>Net sales</b>	3,109.1	<b>3,981.6</b>	+872.5
<b>Cost of sales</b>	2,051.8 (66.0%)	<b>2,650.1</b> <b>(66.6%)</b>	-598.3
<b>Gross profit</b>	1,057.3 (34.0%)	<b>1,331.5</b> <b>(33.4%)</b>	+274.1
<b>Selling general and administrative expenses</b>	741.0 (23.8%)	<b>954.4</b> <b>(24.0%)</b>	*1 -213.5
<b>Operating profit</b>	316.4 (10.2%)	<b>377.0</b> <b>(9.5%)</b>	+60.7
<b>Non-operating gains or losses</b>	11.1	<b>-10.8</b>	*2 -21.9
<b>Ordinary profit</b>	327.5 (10.5%)	<b>366.2</b> <b>(9.2%)</b>	+38.7
<b>Extraordinary gains or losses</b>	0.6	<b>7.1</b>	*3 +6.6
<b>Profit before income taxes</b>	328.1 (10.6%)	<b>373.4</b> <b>(9.4%)</b>	+45.3
<b>Corporate taxes, etc.</b>	102.8	<b>107.9</b>	-5.2
Tax burden ratio	31.3%	<b>28.9%</b>	
<b>Profit attributable to non-controlling interests</b>	7.6	<b>7.7</b>	-0.1
<b>Profit attributable to owners of parent</b>	217.7 (7.0%)	<b>257.8</b> <b>(6.5%)</b>	+40.0

( ) parentheses indicate percentage to net sales

### ※1 Changes in selling, general and administrative expense

Product shipping costs	-183
R&D expense	-185
Sales promotion / advertising expenses	-115

### ※2 Changes in non-operating gains or losses

Inflation accounting adjustments	-85
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( Adjustments due to the application of inflation accounting in Turkey. )

### ※3 Changes in extraordinary gains or losses

Loss (gain) on valuation of investment securities	+103 (57 → 161)
Impairment loss	-49 (-37 → -86)

( Impairment loss: There was an impairment loss on some intangible fixed assets for the AHT Group, a subsidiary that manufactures and sells refrigerating and freezing showcases. The business fell short of the business plan formulated at the time of the acquisition. )

5

Page five. Profit and loss in major items in the consolidated statements of income are shown.

Although the cost of sales ratio worsened due to soaring raw material market prices, the SG&A-to-sales ratio remained at the same level as the previous year due to the efficient management of expenses while executing up-front investments.

AHT, a subsidiary that manufactures and sells commercial refrigerated showcases, has recorded an impairment loss on a portion of its intangible assets due to the fact they have been performing below the business plan that was originally envisioned at the time of acquisition.

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## Balance Sheet

(billion yen)	2022/3E	2023/3E	Y/Y		2022/3E	2023/3E	Y/Y
Cash and cash equivalents	817.6	<b>617.7</b>	-200.0	Trade payables	302.6	<b>352.6</b>	+50.0
Receivables	70 days 595.1	65 days <b>706.3</b>	+111.2	Interest bearing	824.8	<b>887.6</b>	+62.8
Inventories	79 days 671.5	91 days <b>993.4</b>	+321.9	(Interest-bearing ratio)	(21.6%)	<b>(20.6%)</b>	
Fixed assets	1,320.4	<b>1,559.4</b>	+239.0	Others	688.5	<b>784.3</b>	+95.9
Investment and others	200.2	<b>169.6</b>	-30.6	<b>Total liabilities</b>	<b>1,815.9</b>	<b>2,024.6</b>	+208.7
Others	218.3	<b>257.3</b>	+39.0	Total equity	1,968.7	<b>2,235.0</b>	+266.3
				(Equity ratio)	(51.5%)	<b>(51.9%)</b>	
				Share Warrant	2.5	<b>3.1</b>	+0.6
				Non-controlling interests	35.9	<b>40.9</b>	+5.1
<b>Total Assets</b>	<b>3,823.0</b>	<b>4,303.7</b>	+480.6	<b>Total net assets</b>	<b>2,007.1</b>	<b>2,279.1</b>	+271.9
				Total liabilities and net assets	3,823.0	<b>4,303.7</b>	+480.6

### Breakdown of interest-bearing debt

	2022/3E	2023/3E	Y/Y
Short-term borrowings	97.4	<b>293.5</b>	+196.2
CP	0.0	<b>79</b>	+79.0
Bonds	150.0	<b>160.0</b>	+10.0
Long-term borrowings	475.1	<b>228.0</b>	-247.0
Lease debt	102.4	<b>127.0</b>	+24.7
Total	824.8	<b>887.6</b>	+62.8

6

See page six.

The following tables show the major items on the consolidated balance sheets and the details of interest-bearing liabilities.

The longer inventory holding period is due to the strategic product and parts inventories being held in preparation for future sales expansion.

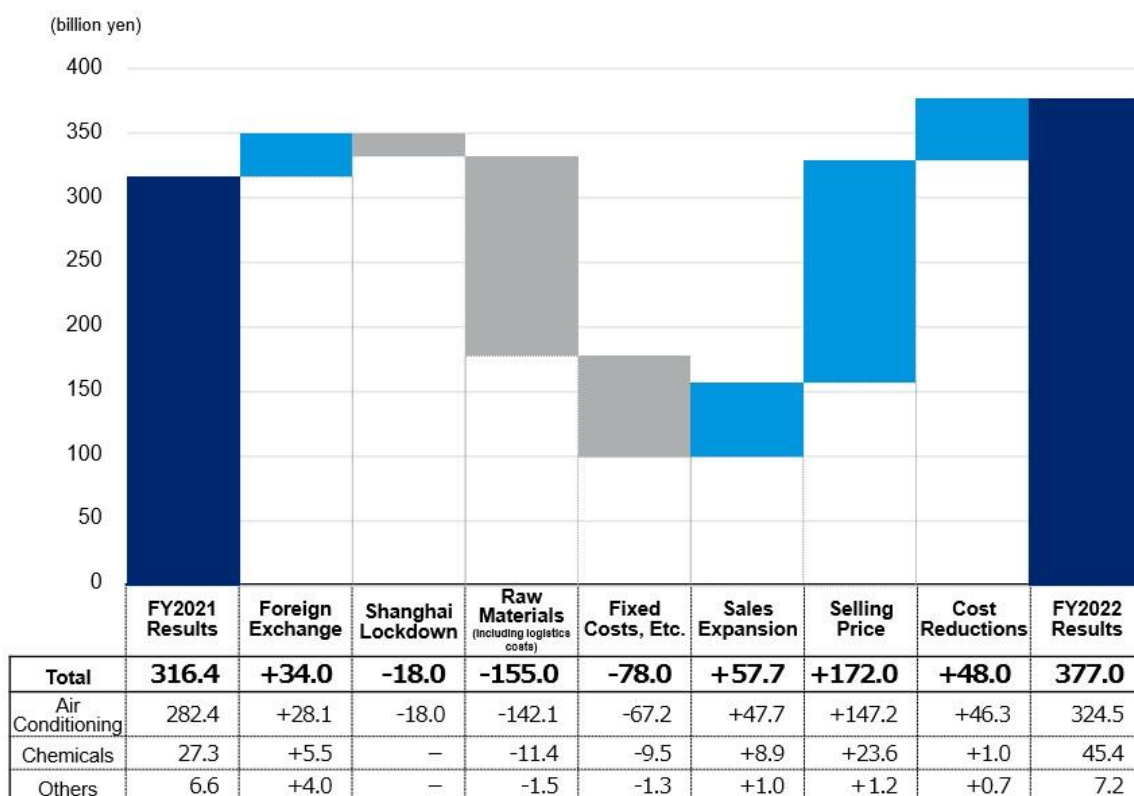
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## Breakdown of Changes in Operating Profit



7

See page seven. This is an analysis of YoY changes in operating profit.

Although the market price of raw materials and the high cost of logistics had a significant negative impact, the Company achieved a significant increase in profit through sales expansion, sales price measures, and cost reductions.

This is a breakdown of the negative impact on the air conditioning business from surging raw material and logistics costs: JPY15 billion for copper, JPY10 billion for aluminum, JPY30 billion for steel, and JPY53 billion for resins and others, JPY340 billion for logistics costs.

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## II . Business Forecast for FY2023 Companywide Business Forecast

On a real basis that excludes the foreign exchange effect, we will aim to substantially increase revenue and profits and achieve new record highs in financial results.

In addition to growing uncertainty in the management environment, such as stagnant consumption from high global inflation and rising concerns about a recession in the United States, we anticipate a negative impact from increased costs (rising parts procurement costs, rising labor costs, etc.).

Daikin will further refine its strengths cultivated until now that include solid sales network, product development that meets local needs, and a robust supply chain. Together with expanding business by capitalizing on changes in the management environment, such as carbon neutrality and rapid economic growth in India, we will strengthen profitability through strategic selling price measures and drastic total cost reductions.

To achieve the Fusion 25 Latter-Half 3-Year Plan, we will accelerate growth investments, such as for new factories and expanding capacity.

(billion yen)	FY2022 Results			FY2023 Forecast					
	H1	H2	Total	H1	Y/Y	H2	Y/Y	Total	Y/Y
Net sales	2,019.8	1,961.8	3,981.6	2,090.0	103%	2,010.0	102%	4,100.0	103%
Operating Profit	221.7	155.4	377.0	227.0	102%	173.0	111%	400.0	106%
(Percentage of Profit to net sales)	(11.0%)	(7.9%)	(9.5%)	(10.9%)		(8.6%)		(9.8%)	
Ordinary Profit	222.7	143.6	366.2	218.0	98%	162.0	113%	380.0	104%
(Percentage of Profit to net sales)	(11.0%)	(7.3%)	(9.2%)	(10.4%)		(8.1%)		(9.3%)	
Profit Attributable to Owners of Parent	156.4	101.4	257.8	150.0	96%	114.0	112%	264.0	102%
(Percentage of Profit to net sales)	(7.7%)	(5.2%)	(6.5%)	(7.2%)		(5.7%)		(6.4%)	
USD/JPY	¥134	¥137	¥135					¥126	
EUR/JPY	¥139	¥143	¥141					¥133	
RMB/JPY	¥19.9	¥19.6	¥19.8					¥19.0	

#### FX Effect (Y/Y)

Sales	-210 billion yen
Operating Profit	-30 billion yen

#### Y/Y Comparison Excluding FX Effect

Sales	108%
Operating Profit	114%

8

See page eight. The plan for the fiscal year ending March 31, 2024 was explained earlier by Mr. Togawa.

Exchange rates are assumed to be JPY126 to USD1, JPY133 to EUR1, and JPY19 to CNY1. The foreign exchange impact compared to the previous year is expected to be negative JPY210 billion for net sales and JPY30 billion for operating profit.

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## Business Forecast by Segments

(billion yen)		FY2022 Results	FY2023	
			Forecast	Y/Y
Total	Sales	3,981.6	4,100.0	103%
	Operating Profit	377.0	400.0	106%
	(Percentage of Profit to net sales)	(9.5%)	(9.8%)	
Air Conditioning	Sales	3,629.8	3,732.0	103%
	Operating Profit	324.5	347.0	107%
	(Percentage of Profit to net sales)	(8.9%)	(9.3%)	
Chemicals	Sales	263.4	275.5	105%
	Operating Profit	45.4	46.0	101%
	(Percentage of Profit to net sales)	(17.2%)	(16.7%)	
Others	Sales	88.4	92.5	105%
	Operating Profit	7.2	7.0	97%
	(Percentage of Profit to net sales)	(8.1%)	(7.6%)	

9

Page nine. The performance plan by business segment is as shown in the table.

As for the amount of foreign exchange impact, we expect net sales of negative JPY197 billion and an operating profit of negative JPY26.7 billion in the air conditioning business.

In the chemicals business, net sales of negative JPY12 billion and an operating profit of negative JPY3 billion are expected.

### Support

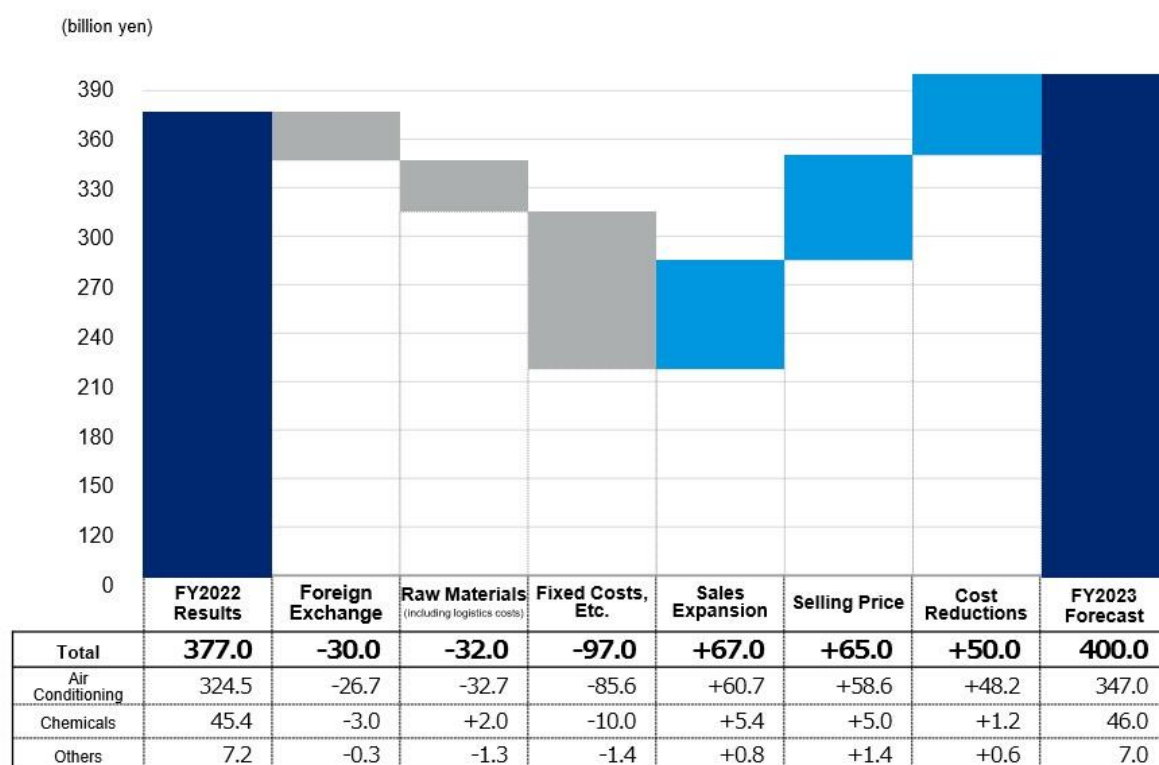
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13

## Breakdown of Changes in Operating Profit



10

See page 10. This is an analysis of the YoY change in operating profit in the FY2023 annual plan.

Although market prices for copper and aluminum are softening, negative impacts are expected to remain, such as price hikes of parts by suppliers reflecting high resource and energy prices and high land transportation costs. In addition to sales expansion, we will cover the negative impact by the thorough implementation of selling price measures and cost reductions.

This is a breakdown of the impact on the air conditioning business from surging raw material and logistics costs. We estimate that copper will be positive JPY5 billion, aluminum will be positive JPY7 billion, steel will have no impact, resins and others will be negative JPY57 billion, and logistics costs will be positive JPY12 billion.

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## Sales by Region - AC Business

\* Includes refrigerator, freezer and filter businesses

※Percentage expresses year on year comparison

(billion yen)	FY2018		FY2019		FY2020		FY2021		FY2022		FY2023 Forecast	
<b>Japan</b>	107%	481.7	103%	494.4	100%	496.0	106%	523.9	<b>106%</b>	<b>553.0</b>	<b>107%</b>	<b>590.0</b>
<b>Europe</b>	110%	332.2	114%	379.9	104%	394.5	131%	518.7	<b>127%</b>	<b>657.4</b>	<b>105%</b>	<b>690.0</b>
<b>China</b>	100%	342.2	89%	306.1	107%	327.7	130%	424.7	<b>101%</b>	<b>430.1</b>	<b>98%</b>	<b>420.0</b>
<b>Americas</b>	113%	645.6	109%	704.0	96%	674.8	132%	889.8	<b>150%</b>	<b>1,334.6</b>	<b>103%</b>	<b>1,380.0</b>
<b>Asia</b>	111%	280.2	105%	294.9	84%	247.8	118%	293.5	<b>141%</b>	<b>414.7</b>	<b>104%</b>	<b>430.0</b>
<b>Oceania</b>	106%	78.2	94%	73.6	108%	79.5	131%	104.5	<b>123%</b>	<b>128.6</b>	<b>93%</b>	<b>120.0</b>
<b>Middle East</b>	93%	53.1	90%	47.8	94%	44.8	135%	60.7	<b>160%</b>	<b>97.0</b>	<b>93%</b>	<b>90.0</b>
<b>Africa</b>	99%	9.0	93%	8.3	105%	8.7	145%	12.6	<b>113%</b>	<b>14.3</b>	<b>84%</b>	<b>12.0</b>
<b>Total</b>	<b>108%</b>	<b>2,222.2</b>	<b>104%</b>	<b>2,309.1</b>	<b>98%</b>	<b>2,273.8</b>	<b>124%</b>	<b>2,828.5</b>	<b>128%</b>	<b>3,629.8</b>	<b>103%</b>	<b>3,732.0</b>
Overseas Sales ratio	78%		79%		78%		81%		85%		84%	
USD/JPY	¥111		¥109		¥106		¥112		¥135		¥126	
EUR/JPY	¥128		¥121		¥124		¥131		¥141		¥133	
RMB/JPY	¥16.5		¥15.6		¥15.7		¥17.5		¥19.8		¥19.0	

11

Please see page 11. This chart shows sales by region for the air conditioning business.

Excluding the effect of foreign exchange rate fluctuations, YoY sales in real terms were 117% in Europe, 90% in China, 124% in the Americas, and 127% in Asia.

The annual plan for FY2023 is as described.

Excluding the effect of foreign exchange rate fluctuations, we plan YoY real sales growth of 111% in Europe, 102% in China, 111% in the Americas, and 107% in Asia.

As for an idea of the operating profit ratio for each region, the FY2022 results were 6% for Japan, 10% for Europe, 23% for China, 6% for the Americas, 11% for Asia, 2% for Oceania, and 2% for the Middle East.

In FY2023, we plan to improve profit margins by about 1% in the Americas and China.

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## Sales by Region - Chemicals Business

※Percentage expresses year on year comparison

(billion yen)	FY2018		FY2019		FY2020		FY2021		FY2022		FY2023 Forecast	
<b>Japan</b>	118%	55.2	91%	50.2	84%	42.3	138%	58.4	<b>120%</b>	<b>70.1</b>	<b>104%</b>	<b>73.0</b>
<b>Americas</b>	110%	46.9	94%	44.1	81%	35.6	116%	41.2	<b>144%</b>	<b>59.3</b>	<b>110%</b>	<b>65.0</b>
<b>China</b>	94%	36.3	93%	33.7	120%	40.5	126%	51.2	<b>109%</b>	<b>55.8</b>	<b>102%</b>	<b>57.0</b>
<b>Asia</b>	119%	27.0	95%	25.6	90%	23.0	118%	27.0	<b>128%</b>	<b>34.6</b>	<b>109%</b>	<b>37.5</b>
<b>Europe</b>	108%	33.7	74%	25.0	88%	22.0	152%	33.5	<b>126%</b>	<b>42.4</b>	<b>102%</b>	<b>43.0</b>
<b>Others</b>	124%	1.7	75%	1.3	66%	0.8	130%	1.1	<b>118%</b>	<b>1.3</b>	-	-
<b>Total</b>	110%	200.8	90%	179.9	91%	164.2	129%	212.4	<b>124%</b>	<b>263.4</b>	<b>105%</b>	<b>275.5</b>
Overseas Sales ratio	72%		72%		74%		72%		73%		74%	
USD/JPY	¥111		¥109		¥106		¥112		¥135		¥126	
EUR/JPY	¥128		¥121		¥124		¥131		¥141		¥133	
RMB/JPY	¥16.5		¥15.6		¥15.7		¥17.5		¥19.8		¥19.0	

12

Page 12. This chart shows sales by region for the chemicals business.

Excluding the effect of foreign exchange rate fluctuations, real YoY sales in Europe were 117%, in China, 97%, and in the Americas, 120%.

The annual plan for FY2023 is as described.

Excluding the effect of foreign exchange rate fluctuations, we plan real YoY sales growth of 108% in Europe, 106% in China, and 118% in the Americas.

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### III. Business and Regional Overview AC Business - Japan

#### FY2022 Results

Industry demand for Residential Air Conditioning declined against the previous year due to supply shortages from the Shanghai lockdown and consumer restraint from the soaring prices. Daikin strengthened sales of differentiated products, including **Urusara X**, which switches between supply and exhaust air ventilation. With electricity rates skyrocketing, we capitalized on the growing need for energy savings to expand sales and increase market share. Demand for air purifiers has abated from their peak during the COVID-19 pandemic.

Industry demand for Commercial Air Conditioning experienced an upturn in capital investment with signs of a recovery, and sales exceeded the previous fiscal year. For this reason, we focused on system proposals that combined SKY/VRV, which excel in energy savings and ease of installation, with ventilation and disinfection products, including heat reclamation ventilators and **UV Streamer** units.

In Applied, sales expanded for environmentally-conscious equipment such as R32 chillers.

#### FY2023 Forecast

With energy prices soaring, we will promote proposals to reduce electricity costs for all product groups.

In Residential, we will promote sales of high value-added products with ventilation and air purification functions, high energy savings, and stylish design. Our aim will be to further increase market share by strengthening sales activities in cold regions where strong demand is expected.

In Commercial, we will accelerate new dealer development as we aim to increase market share by enhancing energy-saving and ventilation proposal sales and expanding our product lineup for cold climates.

We will also focus on a subscription business that provides air conditioners at flat rates.

Y/Y change (Volume basis)	FY2022		FY2023	
	Market	Daikin	Market	Daikin
Residential	98%	103%	98%	101%
Commercial	101%	97%	102%	107%
Applied	103%	111%	110%	120%

\*Applied is based on total sales.

13

See page 13. From here, I would like to provide a regional overview of our air conditioning business.

First, Japan.

For residential use, we strengthened sales of differentiated products, expanding sales and increasing market share by capturing growing air quality needs due to the increased time spent in a room and interest in energy-saving features due to soaring electricity rates.

For commercial use, we focused on sales proposals that combine air conditioners with ventilation products that excel in energy efficiency and ease of installation.

In FY2023, we will continue to strengthen sales of differentiated products that pursue energy-saving features and ventilation functions, aiming to expand sales and market share in both residential and commercial applications.

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## AC Business - Americas

### FY2022 Results

With the significant changes in the business environment, such as stagnant demand from inflation and higher interest rates, and supply issues from parts shortages, Daikin worked to ensure a stable supply of products, and sales trended favorably. Besides the steady implementation of selling price measures, acquisition of sales companies had a positive effect, and sales greatly exceeded the previous fiscal year.

- ✓ In Ducted Unitary for Houses, industry demand declined, whereas Daikin increased market share by bolstering supply and enhancing the sales network. Sales also grew for our environmental premium product **FIT**, for which local production has begun.
- ✓ In Ductless, we worked to boost supply capacity for RA/SKY and increase market share. Sales for VRV systems greatly expanded by utilizing a sales network enhanced by the acquisition of sales companies.
- ✓ In Applied, in addition to expanding equipment sales including air handling units and chillers, sales also increased in the After Sales Service business, resulting in sales exceeding the previous fiscal year.

### FY2023 Forecast

In Ducted Unitary for Houses, we aim to increase market share by developing and training dealers. In response to the needs for electrification for heaters and energy savings, we are enhancing our lineup of **FIT** system products and promoting inverter use in the market.

In Ductless, we will promote mainstream use of RA/SKY units equipped with R32 refrigerant. For VRV systems, we aim to increase market share by improving supply capabilities and expanding sales channels.

In Applied, we will strive for sales expansion of equipment for data centers and factories, where demand is expected to grow, and expand our Solutions business.

Y/Y change (Volume basis)		FY2022	FY2023	
		Daikin	Market	Daikin
Ducted unitary for houses		102%	96%	104%
Ductless	RA/SKY	92%	98%	124%
	VRV	111%	104%	125%
Applied		131%	116%	128%

\*Applied is based on total sales in local currency.

14

See page 14.

In the air conditioning business in the Americas, amidst a drastically changing business environment that included stagnant demand due to prolonged inflation and rising housing interest rates, as well as supply problems caused by parts shortages, the Company made efforts to ensure a stable supply of its products, and sales remained favorable. The profitability of the Company has been improving from the steady implementation of sales price measures.

Sales of Daikin North America were 125% of the previous year's level on a local currency basis.

In FY2023, we will respond to the needs for electrification of heating and energy saving by expanding the Fit lineup.

In the ductless lineup, we will promote R32 machines.

We promote to inverter and R32 in the market.

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## AC Business - China

### FY2022 Results

Product supply delays due to the Shanghai lockdown in April and May shrank sales, but production and sales quickly recovered once the lockdown was lifted, and first half sales were on par with the previous fiscal year. In the second half, the strict movement restrictions to prevent virus spread caused a sales decline, but sales activities resumed aggressively even before the outbreak was under control. Consequently, full-year sales exceeded the previous fiscal year, partly due to the positive effect of exchange rates. Operating profit remained high from the sales expansion of high-value-added products, cost reductions, and lowering of fixed costs.

- ✓ In the Residential market, despite the restrictions on customer contact, we strengthened sales utilizing online activities such as developing new sales routes using live commerce, web advertising, and SNS that centered on our **PROSHOP** specialty stores. We also used customer data to obtain replacement demand. Capitalizing on growing customer interest in air quality and regulations on energy savings and combustion heating due to carbon neutrality policies, we enhanced Solutions proposals through sales of our unique system products that combine air conditioning, IAQ, heat reclamation ventilators, and heat pump floor heating.
- ✓ In the Commercial market, we focused on infrastructure-related, government projects, and capital investment projects of major companies where there is strong demand due to economic stimulus measures. In response to the promotion of carbon neutrality policies, we strengthened sales from the perspective of power reduction through energy solutions and air visualization for large buildings along with energy-saving equipment for factories.
- ✓ In the Applied market, we shifted resources to growth fields that include infrastructure and semiconductors and strengthened our maintenance and servicing business.

### FY2023 Forecast

With the lifting of the zero-corona policy, the market is moving towards reopening. For this reason, we will actively develop offline sales such as direct proposals to customers and large-scale events that have been our strengths as we aim to expand sales by boosting our offline sales activities and focusing on identifying new customers.

- ✓ In the Residential market, we will quickly launch new products at an early stage to quickly respond to the changing market. In this way, we will look to expand our unique Housing Solutions business that combines such areas as air conditioning, ventilation, heating, and controls.
- ✓ In the Commercial market, not only will we launch new products exhibiting the industry's highest level of energy-saving performance, but we will also focus on developing systems and controllers to realize optimal energy management. Both hardware and software will be strengthened in the development of energy solutions.

Y/Y change (Local currency basis)	FY2022		FY2023	
	Daikin	Market	Daikin	Market
Residential	91%	106%	110%	
Commercial	89%	107%	113%	
Applied	97%	103%	105%	

15

See page 15.

The air conditioning business in China was severely affected in H2 by severe restrictions on activities due to infection control measures and the increase of infected patients due to the sudden change in the zero-coronavirus policy in early December. We quickly resumed sales activities even before the spread of new coronavirus was under control to recover to the maximum extent possible.

As a result, full-year sales were higher than in the previous year, partly with the positive effect of foreign exchange rates. Operating profit remained at a high level due to efforts to expand sales of high value-added products, reduce costs, and cut fixed costs.

In the residential market, we promoted online-based sales activities and proposal-based marketing of system products, but the impact of sales activity restrictions from H2 was significant, and full-year residential mulch sales were 91% of the previous year's level.

In the commercial market, we captured the growing renewal demand backed by the promotion of carbon neutral policies.

The zero-coronavirus policy has been lifted, and the market is now ready to reopen. In addition to the offline sales activities that we have cultivated to date, such as direct proposals to customers, we will further strengthen our online sales activities to expand sales.

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## AC Business - Europe, Middle East, and Africa

### FY2022 Results

The business environment continued to be difficult due to the tight supply from the Shanghai lockdown, disruptions in logistics networks, and soaring energy costs. Nevertheless, we achieved a significant year-on-year increase for the overall region by maintaining supply through the integration of manufacturing and sales, focusing on sales expansion of heat pump hot water heaters, and implementing selling price measures.

- ✓ In the Residential market, sales not only grew in Italy and Spain because of the favorable summer weather, but also in Germany and France, where we capitalized on heating needs, resulting in the expansion of sales.
- ✓ In the Commercial market, 'spec-in' activities were thoroughly implemented, and we capitalized on pent-up demand to expand sales to stores and offices.
- ✓ In the Heating business, green deal policies of governments around the world resulted in a steady demand for heat pump water heaters, leading to substantial growth in each country, particularly in Italy, France, and Germany.
- ✓ In the Applied market, sales grew for environmentally-conscious products such as R32 chillers.
- ✓ In the Freezer and Refrigerator business, the business environment saw weak supermarket investment.

### FY2023 Forecast

In Residential, we will work to expand sales of high value-added products in response to greater interest in energy efficiency due to rising energy costs.

In Commercial, we will bolster proposal sales to offices and hotels by emphasizing environmental protection and energy conservation to capitalize on the recovery in demand.

In the Heating business, we will accelerate system improvement for manufacturing, sales, and after sales service as we continue to capture strong demand and aim for increased market share.

In Applied, we will capitalize on the need to replace gas boilers with heat pump chillers.

In the Freezer and Refrigerator business, we will accelerate one-stop solution proposals to stores by expanding the product lineup and strengthening the sales system.

Y/Y change (Volume basis)	FY2022		FY2023	
	Daikin	Market	Daikin	
Residential	107%	101%	105%	
Commercial	SKY	106%	101%	104%
	VRV	103%	103%	106%
Heat Pump Heating	153%	134%	160%	
Applied	123%	105%	112%	
Refrigerator and Freezer	88%	102%	115%	

\*Residential, commercial, and heat-pump heaters are only for Europe.  
\*Applied is based on total sales in local currency.

16

See page 16.

As for the air conditioning business in Europe, the Middle East, and Africa, overall sales in the region were significantly higher than in the previous year due to efforts to strengthen supply capabilities through integrated production and sales efforts, as well as the effect of selling prices.

Sales of residential products increased in Italy and Spain, where summer weather was warm, and in Germany, France, and other countries, where heating needs were met.

In the heating business, sales of heat pump hot water heaters increased significantly against the backdrop of green deal policies by various governments.

In FY2023, we will continue to expand sales of both residential and commercial use of heat pump hot water heaters with a focus on the environment and energy saving by strengthening our production, sales, and service systems.

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## AC Business - Asia and Oceania

### FY2022 Results

Steady sales returned to Commercial Air Conditioning with the easing of restrictions on movement from COVID-19. In India, sales greatly expanded in tandem with economic growth. Sales for the region overall exceeded the previous fiscal year and were partially boosted by selling price measures in each country.

- ✓ In the Residential market, sales declined in countries including Thailand, Vietnam, and Indonesia from stagnant consumption due to higher inflation and unseasonable weather. In India, we worked to strengthen relationships with dealers, and sales expanded.
- ✓ In the Commercial market, as delays and postponements improved for construction starts, we ensured that the strong demand led to received orders through meticulous support for dealers, resulting in a significant sales expansion.
- ✓ In the Applied market, in addition to expanding equipment sales, we focused on the After Sales Service business including maintenance and servicing.

Year-on-year sales of main countries (local currency basis)  
 Australia: 111%, India: 145%, Malaysia: 123%,  
 Vietnam: 109%, Indonesia: 106%, Thailand: 115%

### FY2023 Forecast

For Residential, we will promote the widespread use of inverters by launching extremely cost-competitive inverter units centering on Thailand, Vietnam, and Indonesia. In India, we are accelerating expansion of the sales network in regional cities and will strengthen our supply capabilities with a new factory (scheduled to start operations in August 2023).

For Commercial, we will focus on sales to the markets where growth is anticipated such as for hospitals and schools. To capture a recovery in demand, we will introduce new products with improved energy savings and ease of installation as we strengthen spec-in activities.

Y/Y change (Volume basis)		FY2022	2023年度	
		Daikin	Market	Daikin
	Residential	105%	116%	125%
Commercial	SKY	120%	109%	112%
	VRV	122%	116%	118%
	Applied	160%	109%	114%

\*Applied is based on total sales in local currency.

17

See page 17.

For the air conditioning business in Asia and Oceania, overall sales in the region were significantly higher than in the previous year due to strong commercial sales amid a recovery in demand as a result of the easing of restrictions from the new coronavirus.

Also, there were significant sales growth in India, with its remarkable economic growth, and the effects of selling price measures in each country.

In FY2023, we will continue to assess the favorable market and promote initiatives, such as introducing cost-competitive residential inverter units, strengthening of spec-in activities in the commercial sector, and the development of dealers in regional cities in India.

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## Chemicals Business

### FY2022 Results

Sales expanded mainly in the semiconductor and automotive markets. There was also an effect from selling price measures as sales significantly exceeded the previous year.

- ✓ For Fluorocarbon Gas, strong demand led to sales expansion mainly in Europe and Japan.
- ✓ Polymers and Fluoroelastomers
  - Fluoropolymers showed a sales increase in the information and communications technology market, including those for semiconductors, automobiles, and LAN cables. Sales in all regions bested the previous fiscal year.
  - Fluoroelastomers saw sales grow in the automotive market, where demand is strong as sales in all regions surpassed the previous fiscal year.
- ✓ Fine Chemicals, Etc.
  - Sales of etching gases expanded, mainly in Japan and Asia, as demand recovered in the semiconductor market.
  - Sales expanded for anti-smudge surface coating agents in the Americas and Asia.

### FY2023 Forecast

With slower growth expected for the semiconductor and automobile markets, we will work to expand sales and increase market share by bolstering supply of high-performance materials at our production bases in the United States and China.

In the automotive market, we are strengthening application development for positive electrode binders and sealing materials for lithium-ion batteries in response to the rising demand for EVs.

For repellent materials, we have introduced environmentally advanced products for the food and textile markets.

Y/Y change (Sales basis)	FY2022	FY2023	
	Daikin	Market	Daikin
For all fluorochemical products	124%	103%	105%
Fluorocarbon Gas	147%	101%	97%
Fluoropolymers & Fluoroelastomers	130%	105%	109%
Fine Chemicals, etc.	107%	101%	98%

18

See page 18.

In the chemical business, sales were significantly higher than the previous year due to sales expansion mainly in the semiconductor and automotive markets, as well as the effect of selling prices.

Sales of fluoropolymers expanded in the semiconductor, automobile, and IT markets. Sales of fluoroelastomers also increased for the automobile market, both of which exceeded the previous year's levels in each region.

In FY2023, amid slowing growth in the semiconductor and automotive markets, we will expand sales and increase market share by strengthening our ability to supply high-performance materials at our production bases in the US and China, where we have implemented large-scale investments.

We will also promote the introduction of advanced environmental products and development of applications to meet the growing demand for EVs.

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## Filter Business

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### FY2022 Results

As demand gradually recovered, sales significantly increased from the previous fiscal year due to the sales promotion of high value-added products that pursue measures for control of infectious diseases and air quality improvements and the steady implementation of selling price measures.

- ✓ Sales of air filters to industrial markets such as factories increased significantly in the United States. In Japan, in addition to the sales expansion for products that control and prevent the spread of infectious disease, we expanded sales to the thriving semiconductor market.
- ✓ In P&I\*, we focused on sales for commercial-use dust collectors, for which demand was strong, and worked to improve our business structure by shifting resources to the After Sales Service business.

### FY2023 Forecast

In the Air Filter segment, we will work to expand sales and increase market share of high value-added products for the semiconductor and pharmaceutical markets while also improving profitability by reducing costs and increasing selling prices.

In P&I, we will concentrate resources on strong businesses such as dust collection systems and the after sales service as we aim to expand sales by strengthening product appeal.

\*P&I: commercial-use dust collection systems such as for gas turbines and large-scale plants

19

See page 19.

In the filter business, amid a moderate recovery in demand, sales of anti-infection products, such as high-performance filters, increased as there is a growing need for energy conservation and air quality, resulting in a significant increase in sales over the previous year.

In FY2023, we will continue to expand sales to the semiconductor and pharmaceutical markets, where demand is strong, while also working to improve profitability through productivity improvements and cost reductions.

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## Other Businesses

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### FY2022 Results

In the Oil Hydraulics business, sales in Japan expanded mainly for industrial equipment. Sales for construction equipment in Japan and the United States also expanded. A new consolidation effect from an acquisition partially contributed to sales exceeding the previous fiscal year.

In the Defense Systems business, sales of oxygen concentrators expanded in China due to the spread of COVID-19, but in Japan sales for both pulse oximeters (medical devices that can easily measure blood oxygen saturation) and oxygen concentrators decreased in a reversal of higher demand due to the COVID-19 pandemic, and sales fell below the previous fiscal year.

In the Electronics business, sales of database systems for the design and development fields increased from greater corporate IT investment, but sales declined against the previous fiscal year due to reduced sales of CG production software.

### FY2023 Forecast

In the Oil Hydraulics business, we will aim to increase market share by strengthening 'spec-in' activities to machine equipment manufacturers. In the field of industrial equipment, we will work together with Duplomatic MS, which we acquired, to contribute to the environment and expand our business.

In the Defense Systems business, we will work to expand sales of oxygen concentrators and launch a new model of pulse oximeter for medical institutions in Japan as we aim to increase market share exhibiting products with enhanced functionality and cost competitiveness.

In the Electronics business, we will strive to expand sales of database systems for the design and development fields.

20

See page 20.

In the other business, sales were higher than the previous year due to expanded sales in the oil hydraulics business for both industrial machinery and construction machinery. The effect of newly consolidated Duplomatic, which we have acquired, also contributed to the sales.

In FY2023, we will continue to expand sales in markets where demand is strong in each business.

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## IV. Dividends Plan

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- ◆ Daikin plans an annual dividend per share amount of 240 yen (interim of 100 yen; term-end of 140 yen), marking a 40-yen increase over the previous fiscal year. This is an increase of 20 yen from the previously announced amount.
- ◆ The dividend for the next term is planned for annual dividend per share amount of 240 yen (interim of 120 yen; term-end of 120 yen).

### 【Daikin Dividend Policy】

Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

		FY2018	FY2019	FY2020	FY2021	FY2022 (Proposed)	FY2023 (Forecast)
Dividend per share	Interim	¥70	¥80	¥80	¥90	¥100	¥120
	Annual	¥160	¥160	¥160	¥200	¥240	¥240
Earning per share	H1	¥385.8	¥405.1	¥289.2	¥475.3	¥534.3	¥519.3
	Annual	¥646.4	¥583.6	¥534.0	¥743.9	¥880.6	¥901.9
(Reference) DOE Trend		3.5%	3.3%	3.0%	3.2%	3.3%	

21

See page 21.

The year-end dividend is proposed to be JPY140 per share, an increase of JPY20 from the current announcement. Together with the interim dividend already paid, we plan to pay an annual dividend of JPY240.

For the next fiscal year, we plan to pay an interim dividend of JPY120 and a year-end dividend of JPY120, for a total annual dividend of JPY240.

Although the Company has decided to leave the forecast unchanged due to the uncertain outlook for the business environment, we intend to reward shareholders by striving to expand our business performance.

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## 《Reference》 Foreign Exchange

### Exchange Rate

	FY2021 Results			FY2022 Results			FY2023 Forecast
	H1	H2	Total	H1	H2	Total	
USD	¥110	¥115	¥112	¥134	¥137	¥135	¥126
EUR	¥131	¥130	¥131	¥139	¥143	¥141	¥133
RMB	¥17.0	¥18.0	¥17.5	¥19.9	¥19.6	¥19.8	¥19.0
THB	¥3.4	¥3.5	¥3.4	¥3.8	¥3.9	¥3.9	¥3.6
AUD	¥83	¥83	¥83	¥94	¥92	¥93	¥87

### Sensitivity of Foreign Exchange

(Impact of change by 1 yen to operating profit)

	FY2023 Forecast
USD	2.2 billion yen
EUR	0.9 billion yen

\*Changes for the THB, RMB, AUD, etc., are assumed to be linked to the USD.

22

See page 22.

The actual exchange rates for FY2022 and the assumed rates for FY2023 are shown in the table.

We estimate a JPY1 change in the exchange rate against the US dollar, which will have a JPY2.2 billion impact on operating profit, and a JPY1 change in the exchange rate against the euro which will have a JPY0.9 billion impact.

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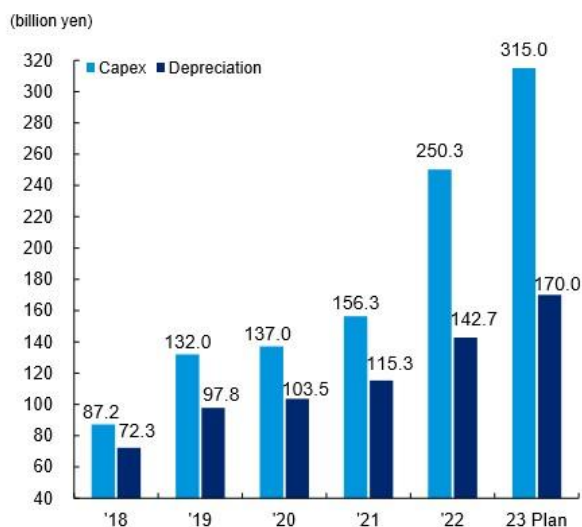
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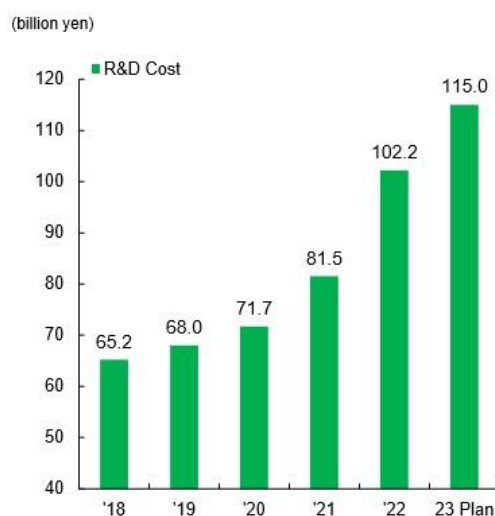
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## Capex, Depreciation and R&D Cost

### Capex and Depreciation



### R&D Cost



23

See page 23.

The FY2022 results and FY2023 plan for capital investment, depreciation, and R&D expenses are shown in the table.

We will view changes in the environment as opportunities and accelerate investment in growth for the future development of our business.

In the air conditioning business, we intend to invest in the construction of a new plant in Mexico, increase production capacity of heat pump heating systems in Europe, and increase capacity and strengthen product development at plants in China and India.

In the chemicals business, we intend to invest in capacity expansion in China and the US to meet the growing demand for semiconductors and lithium-ion batteries used in EVs.

That is all I have to say.

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## Question & Answer

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**Sakamoto [M]:** Okay, we will now have time for questions and answers.

Currently, there are nine people who have raised hands. I will call names in order, but please limit to two questions at a time since the time is limited. Thank you for your cooperation.

Now, Mr. Isayama of Goldman Sachs, please begin.

**Isayama [Q]:** Thank you very much for the explanation. My name is Isayama of Goldman Sachs. Thank you for taking my questions.

Since we are limited to two questions, let me ask them in order. My first question is about profitability in the Americas, and the second one is about the top line in the Americas.

In the opening comments by President Togawa and Mr. Miyazumi, I believe they mentioned the profitability in the Americas and DNA. I am very encouraged to hear from Mr. Miyazumi that one point will go up for the Americas over the course of this year and the profitability of DNA has improved to 9%. I would like to know if DNA would finally reach double digits in FY2023 and if its profitability would increase.

You have been investing aggressively, and I am wondering if you have plans to introduce new products, or selling prices have been rising considerably, so it will reach double digits, which you have been aiming at, or even more. Where do you intend to focus your efforts this fiscal year, particularly in areas where you intend to increase profitability in the Americas? I could see a 10% figure for a moment, so I would love to hear this first.

**Togawa [A]:** We consider the improvement of profitability of our North Americans HVAC business to be one of our major challenges. Although our DNA for FY2022 was 9%, the total profitability of our US HVAC business, including DAA for Applied business, is not that high. The total profitability of US HVAC business is still 6% at this time. We would like to bring this to a total of 7% for both combined in FY2023, and we believe it is possible to do so.

Originally, under FUSION25, we set a goal of achieving an operating margin of 10% or more, and we have not changed that plan, and I believe that we are proceeding according to that plan.

In order to achieve this, I would like to explain how we view the North American market and what we intend to do from this fiscal year onward, focusing on key areas which are related to profitability.

Although there were various negative factors last year, we were able to achieve the results we mentioned earlier by strengthening our product supply and sales network, etc. However, there is no doubt that the current rising interest rates are having a negative impact on residential demand.

In particular, the period from January to March has been very difficult compared to the previous year. However, as we have mentioned before, the children of the baby boomer generation are now in the home-buying generation, and we believe that the bottom of demand is firm. In addition, since the pandemic, people have been moving to the suburbs to work remotely, which I believe is also supporting this trend.

In addition, the biggest issue is still the strengthening of energy conservation regulations and environmental policies. There is considerable new demand for environmentally friendly products. This is an area in which we excel, and we believe that we have an opportunity to lead the market revolution in inverters, heat pumps,

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and low-GWP refrigerants, which are our strength, and we believe that this will further increase our profitability.

This is an answer from me so far. Mr. Miyazumi will answer the question of operating margin of DNA.

**Miyazumi [A]:** The operating margin of DNA is 9% in FY2022.

**Isayama [Q]:** What are your plans?

**Togawa [A]:** Plan for the current year, 9%, I believe.

**Miyazumi [A]:** Plan for the current year is 9%, same line of last year.

**Togawa [A]:** I would like you to understand that the current 9% is due to various factors, such as amortization of goodwill, although we have been aggressively acquiring sales networks and such from last year.

**Isayama [Q]:** Yes. I see, I understand. May I confirm, President Togawa? To reconfirm the first question, is it correct that operating margin 10% you mentioned is not about DNA, but you aim to achieve 10% of the entire North American HVAC business to the end of FUSION25, which is where you want to proceed diligently?

**Togawa [A]:** Yes, that is correct. The key to this is the North American Applied business. We have been aggressively acquiring local representatives and system integrators in 18 priority cities, and the results of these acquisitions are expected. We are also in the process of constructing our plant in Mexico, which will further strengthen our cost competitiveness. Furthermore, the chiller business is the biggest issue we are facing right now, but I believe that we will be able to significantly improve this business.

**Isayama [Q]:** Thank you very much.

My second question is related to what you just said, but in the Americas top-line forecast, the document on page 14, it says that demand is minus 4%, but your company is looking at a 4% plus for unitary, and for room and ductless SKY, demand is minus 2%, but you are looking at 24% plus.

I think you mentioned that you are looking at an 11% increase in LC-based revenue. In relation to this physical quantity, is it the selling price that has a higher percentage of revenue increase, or the M&A effect?

How is the IRA in North America, which is often talked about, factored into your company's plan? Is this 11% increase in revenue based on such expectations, or can we expect a higher rate of increase? I would appreciate it if you could explain a little more about the breakdown, the concept of this top-line.

**Miyazumi [A]:** Yes. Regarding the top line, sales concept, let me break down the factors behind the increase in sales in FY2022 at first. The result of DNA was 125% on a local currency basis. Talking about the breakdown of the 25%, 3% was for volume effect, 9% was for selling price, 4% was for product mix, 9% was for M&A effect. IRAs are not specifically factored in for numbers.

**Isayama [Q]:** Mr. Miyazumi, can I get a breakdown for FY2023, too?

**Miyazumi [A]:** Yes. Forecast of DNA in current year is 114% on a local currency basis. This means 8% for volume effect including product mix, 3% for selling price, and 3% for M&A effect.

**Isayama [Q]:** Thank you very much. I'm sorry, I don't mean to be persistent, but you seem to be of the view that you will receive benefits of subsidies, policy support, etc., but the IRA-related things that are hot topics now are basically not included in the plan. Is it my understanding that this is not because you are not able to receive those benefits, but simply that they are not included in the plan? Is that correct?

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**Miyazumi [A]:** Yes. It is simply that it has not yet been factored into the plan.

**Isayama [Q]:** Can we expect it? Do you think this kind of policy support is something that would be available for your company? I just want to know if we can consider your company is a company that can benefit from such a huge amount of money, like USD3 trillion, in the next 10 years.

**Miyazumi [A]:** Well, naturally, we would like to move in various directions to benefit from them.

**Isayama [M]:** I understand very well. Thank you very much.

**Sakamoto [M]:** Thank you very much. Next, Mr. Sano of JPMorgan Securities, please begin.

**Sano [Q]:** Thanks for your explanation. My name is Sano from JPMorgan. I have two questions.

First, regarding your view of China for the current fiscal year, you mentioned a 2% increase in local currency basis, but what is your target for growth in multi-residential and how will you achieve this 2%, including the online and offline activities? You mentioned that the figures for March have returned to normal, but I would like to know more about the assumption of demand and your company's self-help efforts to increase the sales.

This is the first point.

**Togawa [A]:** First of all, let me explain our base idea about the market trend of the air conditioning business in China and how we are planning to develop our business there this fiscal year based on the market trend. Mr. Miyazumi will give you numbers.

There is no doubt that the market is moving in a big way this March. As the market has begun to move significantly, we have been working furiously since March to expand sales. Since April, life has returned to normal, with tourism and the food and beverage industry making a significant recovery.

However, consumer spending, which drives domestic demand, is still weak. In particular, the recovery in real estate and housing sales has not fully recovered yet. In a word, it has been a slow recovery. We expect a market full recovery will be in H2 or later. Our sales forecast plan for China for the current fiscal year is based on these assumption.

However, as I mentioned earlier, sales in China in March were 111% compared to the previous year, and sales in April were also strong. In FY2023, we expect a full-fledged recovery to begin in H2, but I think it is very significant that we are now able to fully deploy sales measures, such as full-fledged dealer activities and large-scale campaigns after three years. We will make maximum efforts to expand sales by doing so. I am feeling that response well enough in March and April.

I will let Mr. Miyazumi to explain the specific figures.

**Miyazumi [A]:** Yes, the FY2023 plan in China. In terms of demand in China, we estimate that the residential market is for 106%. In contrast, the Company is planning at 110%. In the commercial market, demand is projected to be at 107%, our company at 113%, and in Applied, demand is estimated to be at 103%, and our company at 105%.

**Sano [Q]:** Thank you very much.

The second question is regarding chemicals, or in general, I think PFOA is a bit concerning. I would like to know once again about the current situation, your company's PFOA initiatives, and whether or not we can consider the current situation as a risk. I would appreciate an explanation of this area, please.

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**Togawa [M]:** Okay, I understand. Since Mr. Hiraga, the Officer in Charge, is here today, I will have him explain this to you.

**Hiraga [A]:** My name is Hiraga, and I am in charge of the Chemical Division. Thank you for your question.

First, let me explain our current approach to PFOA. Since around 2003, we have been working to improve the work situation, reduce the amount of PFOA used and released into the environment, and develop alternative substances.

In addition, since the presence of PFOA was confirmed in the groundwater on Yodogawa Plant site, in consultation with the local governments such as Osaka Prefecture and Settsu City, the company has been pumping up and purifying groundwater since 2009 by installing and upgrading wastewater treatment facilities to purify PFOA.

As further measures, we plan to begin construction of a barrier wall to prevent groundwater leakage from the site, taking in to account the opinions of experts. We have also holding briefing sessions for local residents and we also set up a dedicated contact desk for neighborhood residents to take questions. We will continue to monitor the situation and take further measures.

**Sano [M]:** I understand. That's all from me. Thank you very much.

**Togawa [A]:** I was just wondering if I should explain in more detail about current Chinese situation this April. The April results show the sales of 176% compared to the previous year. This is partly due to the poor results of the previous year. FY2021 was good, but the sales were 106% over FY2021. April was growing steadily, which is a good start.

We will continue to work on various initiatives and preparations in May and June and beyond, when the market will be in full recovery in H2.

**Sano [M]:** Thank you very much. That is all.

**Sakamoto [M]:** Thank you very much. Next, Mr. Miyagi of Mizuho Securities, please ask your questions.

**Miyagi [Q]:** Thank you for taking my question. My name is Miyagi, Mizuho Securities. Thank you for your explanation.

Just one thing, please tell us about China once again.

As you explained earlier, on page 15 of the document, we see that your residential sales are expected to grow at 110%, commercial sales at 113%, and Applied sales at 105% in each category, while your sales plan on a local currency basis is 102%, which doesn't seem to match a bit.

Why is it that all of the categories are seeing 110% or so growth, but the overall finish for China is set at 102% of low growth rate? Are you assuming that the unit cost will go down or that the mix will worsen? Please explain this point once again, as I feel there is a bit of a mismatch.

That is all.

**Miyazumi [A]:** Yes. The LC-based sales forecast in China shows plus 2%. In contrast, sales plans for each product categories are 110% for residential, 113% for commercial, and 105% for Applied, so I think you are pointing out that there is discrepancy there.

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In the case of China, in particular, local site has provided strong sales plans. However, when we make company-wide forecast, we adjust them to some extent, taking into account risks and other factors based on their plans. We hope you will understand that the sales plans in regions reflect the strong will of the frontline.

**Miyagi [M]:** I understand. Thank you very much. I understood the situation in March and April very well. Thank you for the detailed explanation of the situation. That is all.

**Sakamoto [M]:** Thank you very much. Next, Mr. Sasaki of Mitsubishi UFJ Morgan Stanley Securities, please begin.

**Sasaki [Q]:** My name is Sasaki from Mitsubishi UFJ. Thank you very much for your explanation today. Two questions from me, please.

The first question is, what is your approach to capital expenditures and fixed costs in this fiscal year's plan? As Mr. Miyazumi explained at the presentation, I understand that the Company plans to make aggressive investments at record high level this fiscal year, with capital expenditures of JPY315 billion, R&D expenditures of JPY115 billion, and fixed costs increasing by JPY97 billion.

I would like you to provide more detailed information on the contents of this aggressive investments, as well as the background and objectives, when and how you can expect to see the effects of this investment and return phase. And I would very much appreciate your thoughts on when it will be collected.

Thank you.

**Togawa [A]:** First of all, regarding our approach to capital investment, we believe that the demand for air conditioning will continue to grow significantly in the future, although it will differ slightly from region to region. This is the reason why we are building a production base with an eye on FUSION25 and even beyond. A prime example of this is the five major investments in new air conditioning plants. It also incorporates the expansion of existing plants.

Regarding the five major investments in new air conditioning plants, we have the production of heat pump heating and hot water system in Poland and then India. as For the India, we intend to supply highly cost-competitive products not only domestically, but also to the Middle East and Africa.

Indonesia is expected to expand rapidly, and we are planning to further expand by making products with inverter in the area where needs are expected. In addition, we are currently manufacturing products in Shanghai and Suzhou, but there is not enough at all, so we plan to manufacture in Huizhou factory, then we build a strong product supply system in China.

The Mexico plant will support the overwhelming number one position for residential market, such as the RA and QA, and the manufacturing for chillers. We are considering these new plants are our five major investments, but we also need to further strengthen our existing plants in various ways.

We are also considering investments to expand plants in China and the US in the chemicals business to meet the growing demand for semiconductors.

**Sasaki [Q]:** Thank you very much. How about fixed costs? You assume that fixed costs will increase by JPY97 billion. Can you tell us what kind of items will be added and what the goal of this increase is?

**Miyazumi [A]:** Yes. We expect fixed costs to increase by JPY97 billion this fiscal year. We are planning for cost increases related to the various investment projects that are inevitably involved. As I said, there is a growing

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market for heat pump heating in Europe, which is expected to grow in the future. We see a considerable increase in particular the labor cost.

Naturally, and we will invest aggressively for the future business expansion. Also, since the volume of goods will naturally increase, fixed costs will grow accordingly. I hope you understand that this is associated with investments for growth.

**Sasaki [M]:** Thank you very much.

**Togawa [A]:** As Miyazumi just explained, the largest fixed cost is labor. The number of employees in our group is now about 96,500, and this number is expected to increase further especially with the construction of the new plants I mentioned earlier.

Although the number of employees will continue to increase, the fixed cost to sales ratio is currently around 28%, but this ratio will not increase significantly. We are doing this with the concept of maintaining the 28% level.

**Sasaki [Q]:** I understand very well. Thank you very much.

Secondly, can you tell me one thing about the chemicals business as well? Someone earlier asked a question about PFOA, but as you know, there has been a trend toward tighter global environmental regulations for fluorine compounds, known as PFAS. Against this backdrop, I believe that there have been some movements, such as an announcement by a competitor in the US that they are withdrawing from PFAS to be quite in line with environmental regulations.

I would like to ask you, in your fluorochemical business, what is your company's stance on the tightening of PFAS environmental regulations ?

Thank you.

**Togawa [M]:** I understand. Mr. Hiraga of the Chemicals Division, who is also in charge of this, will answer this question.

**Hiraga [A]:** Yes, thank you.

First of all, we are considering ways to upgrade our products to the fluorinated emulsifiers that are currently used to more sustainable technologies, , and we are also considering ways to not use fluorinated emulsifiers in new production facilities to be built in the future.

Also, you mentioned earlier that the other companies in the same industry have withdrawn from the use of fluorine compounds. Though high performance are required, such as chemical resistance, in the semiconductor field as well, we believe that fluorine compounds are best suited to such needs and that it is important for us to continue to supply products that meet customer needs.

Meanwhile, as for Europe, we are working together with the industry, customers, and the supply chain to emphasize the usefulness of our fluorine compounds products, and we are working to ensure that our business can continue in the future.

**Sasaki [M]:** I understand very well. Thank you very much.

**Sakamoto [M]:** Thank you very much. Next, Mr. Maekawa of Nomura Securities, please ask your questions.

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**Maekawa [Q]:** My name is Maekawa from Nomura Securities. Thank you very much for your explanation. I would also like to ask two questions.

First, I would like to ask about price effects, especially in terms of your plans for this fiscal year. I understand that it is difficult to maintain the same level of price increases as you gradually raise prices, but the price effect for this fiscal year was JPY58.6 billion for the air conditioning business alone. I think it is also getting smaller than last year as the increase is becoming more gradual.

However, I think the US is an area where it is easy to raise prices for example, but what you mentioned earlier is a price increase effect of about 3%, so this price effect part seems to be slowing down a bit compared to last year. Is my understanding correct? In reality, in the absence of any real cost increase, is this the level?

**Togawa [A]:** Yes, I understand. As you just mentioned, there are various regions where it is easy to raise prices and where it is difficult to raise prices. We have also been trying to find ways to beat the cost increase of raw materials by introducing new products at a faster pace, not only simply raising the selling prices of conventional products. As a result, we were able to reap a large sales price effect of JPY172 billion last year, but this year's plan is JPY65 billion in terms of number.

Today, we have a representative from domestic the air conditioning business, the region where the selling price situation is most difficult, so he will give you a supplemental explanation of the current situation, including the issue I just mentioned.

**Funada [A]:** My name is Funada, and I am in charge of the Japanese AC Sales Division.

As for the price increase in Japan, especially for commercial air conditioners, we raised the selling price by 10% in October last year. In the case of commercial products, the time from the receipt of orders is long, so the selling price will take effect in Q4 of last year. We expect that the price revisions will take effect throughout this fiscal year.

Regarding room air conditioners for residential, we have continued to increase the selling price every year, in addition to flagship products such as "Ururu Sarara," the company also offers a wide range of popular products. New models were introduced in the fall of last year and the beginning of this year, so the price range will have an effect in the form of higher sales prices for the full year.

We also revised the price of ECOCUTE, a hot-water unit, in March of this year.

In addition to this, we will naturally seek to add value to our products. In particular, in light of the recent sharp rise in electricity costs, we are proposing to our customers to reduce their electricity bills by using our highly energy-efficient FIVE STAR ZEAS commercial air conditioners.

We will try to increase the unit price by carefully and politely proposing a gap in electricity costs between the current machine and the newest machine, and in how many years customers can recover the cost, including distribution. By proposing this in combination with ZEB and ZEH for both commercial and residential use, we are working on measures to raise the total selling price and unit price.

That is all from me.

**Maekawa [Q]:** Thank you very much. In this way, the company-wide sales price effect has decreased compared to last year, which is a bit disconcerting, I would say. Perhaps the selling pricing is somewhat moderate? Since you are expecting volume will grow at great rate and increasing shares, so I wonder if you are changing your pricing strategy a little more than before in order to balance the volume. Am I overthinking?

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**Togawa [A]:** With regard to the sales price policy, last year's soaring raw material costs had a significant negative impact of JPY155 billion yen on operating income, and we had to do everything we could to bounce back from this. However, raw material prices have become more stable this year, and overall, it has become difficult to keep selling prices at the same level as last year.

Therefore, I hope you understand that this is a plan to achieve a balance between sales expansion and sales price and that we are trying to achieve these figures in terms of numbers.

**Maekawa [Q]:** I understand very well. Thank you very much.

Secondly, I would like to ask about demand in Europe. The local currency base here increased by 11%. According to the table on page 16, since heat pump heating is still growing by such a large amount that I think this will be the driving force.

It seems like you are not expecting much growth in air conditioner sales there. So, you are expecting increasing your share of the heat pump heating, including an increase in production capacity, and that you will be able to grow your sales to meet demand and you are projecting that sales will grow more than in FY2022. I would appreciate it if you could explain the background of the 11% increase in sales in Europe, including the demand and background.

That's all.

**Togawa [A]:** Regarding the heat pump heating business in Europe, the sales volume base for FY2022 is 153% compared to the previous year. We expect sales to continue to grow steadily in the future. We are now aiming for 160% in terms of the total number of units.

To achieve this goal, as I mentioned earlier, we will increase the production capacity of existing plants, start the operation of a new plant in Poland in 2024, strengthen our sales and service systems, and enhance our R&D system. I am thinking of setting up all of these things and taking advantage of the demand so as not to miss out on much of it. I myself believe that this market has the potential for even greater growth of sales in some cases.

Naturally, competition will intensify, but at the moment, I believe we are in a position of leading advantage. We are doing this with the belief that it is possible to take another step or half step ahead by offering more differentiated products and differentiated proposals, without losing our leading position.

**Maekawa [Q]:** Thank you very much. I think you have about 20% exposure to heat pumps in Europe, so a 60% increase here would be 12%, which is almost the same as the growth in Europe as a whole. I would appreciate it if you could add some additional information, such as how much of the price increase you are looking at for Europe as a whole. Also, about the assumption that the number of air conditioners will not grow much.

**Miyazumi [A]:** Yes. In terms of the demand for room air conditioners in Europe, there is a trend to use heat pump heating, which is the so-called normal room air conditioner used for cooling, for heating in winter. With that in mind, we would also like to raise the price of room air conditioners to some extent.

The market for heat pump heating is expanding rapidly. According to the figures from the European Heat Pump Association, 3 million heat pumps were sold in 2022, which I read last month as I recall. In our case, we have the largest market share for heat pumps in Europe, so we think it will be necessary in the future to demonstrate our leadership as a price leader by setting a higher price and transforming the European heat pump market into a so-called high-end market as the market is rapidly expanding. In this context, we would still like to make a price policy as well.

**Maekawa [M]:** I understand. Thank you very much.

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**Togawa [A]:** One more point to add, there has been a big growth in European heat pump heating, and we are seeing an opportunity in the area of direct expansion cooling units as well. We see this as an opportunity to expand sales of high value-added products, as interest in energy efficiency has increased significantly due to rising energy costs.

We have a lot energy-efficient products, technologies, and services including inverters and I think we can achieve the plan I mentioned today by taking advantage of them.

**Maekawa [M]:** Thank you very much. I understand very well.

**Sakamoto [M]:** Thank you very much. Next, Mr. McDonald of Citigroup Global Markets, please ask your questions.

**McDonald [Q]:** Thank you very much for today. Two brief questions due to time constraints.

One of the questions is about cash flow. The cash flow for the last fiscal year was not like usual Daikin, due in part to a strategic increase in inventories, higher capital investment, and various M&As. The cash flow was not very good at all. Please share any images you have of cash flow for the current year. Also, how do you see last year's results in your self-assessment?

**Miyazumi [A]:** Yes. Cash flow is, as you say, has deteriorated a bit. It is inventory. We have been trying to keep a thick inventory because the supply chain was disrupted by the pandemic last year, and as a result, we have accumulated a large amount of inventory in our distribution system. In response to this, we have begun to review our inventory.

We are aware that there is a considerable amount of the so-called sleeping inventory. The entire company is now working to identify these areas, and in this sense, we believe that cash flow will improve slightly.

**McDonald [Q]:** In which areas in distribution inventory increasing?

**Miyazumi [A]:** Yes, in the US. We have heard from those in the sites that there is a considerable accumulation of distribution inventory in the US.

**McDonald [M]:** I understand.

**Togawa [A]:** The biggest problem is still the problem of inventory, which is not generating this cash flow. I am now thinking about taking a drastic major here. Until then, we had been strategically setting up inventories to link them to sales, but now, under the name of strategic inventories, various inventories may be overstretched. To be honest, there is some ambiguity as to what strategic means, and we are now in the process of making fundamental changes in all departments.

Not yet confirmed, but the cash flow for FY2023 is about JPY130 billion to JPY140 billion. We are now moving forward with a plan to generate free cash flow of about JPY160 billion in 2024 and about JPY230 billion in 2025.

We are now in the process of finalizing the second half of FUSION25. I will be giving another presentation on this in the second half of FUSION25.

**McDonald [Q]:** Okay. The second point, although the amount is small, there was the announcement of the impairment at AHT this time, and there was the impairment at Zanotti last year, and there was the impairment at FLANDERS the year before that. It seems that impairment of acquired companies is a trend or a habit and is announced periodically.

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I am wondering if you are concerned about the risk of impairment in the future.

**Togawa [A]:** Due to various circumstances and situations, Flanders, Zanotti, AHT have not been able to generate the synergy effects that we initially expected. We are now taking drastic measures to address this problem, and we expect to see the results this year and next year in large part.

We are naturally aware that once we have purchased a company, we need to create synergy effects that will lead to growth and development. For now, we have taken impairments for various reasons, but we will do our best to avoid this kind of thing in the future.

Therefore, we are now in the process of making acquisitions in the US and other countries, and we are following up strictly on a monthly basis regarding specific actions to be taken after acquisitions, including such systems.

The reason why the European cold chain in the commercial low-temperature business suffered such a large impairment this time is due to the new coronavirus and the impact of inflation. It is true that the investment of major food supermarkets has been greatly restrained, and this has been a major factor in not generating the initially planned profits. On the other hand, that does not mean that we can blame it alone.

There are medium-size grocery supermarkets other than major supermarkets that are not affected by these investment restraints, and we are developing these areas. Furthermore, we have a total solution that includes freezer and refrigerator, air-conditioning, installation services, and we will expand our business by developing a one-stop solution. This area is also developing furiously right now. I hope you will look around here a little more.

**McDonald [M]:** I'm hoping for the best. Thank you very much.

**Sakamoto [M]:** Thank you very much. Next, Mr. Mizuno of UBS Securities, please ask your questions.

**Mizuno [Q]:** I am Mizuno from UBS Securities. Thank you for taking my questions. I would like to ask for your view of a slightly longer term.

One is China's profitability, which is still quite high, but it was once 25% to 26% and is now 23% to 24%. I think China is becoming a source of money for your company's growth investments in that sense, but is the current profit margin in China sustainable? What can you tell us about that? Or should we expect a slight drop in the future?

The reason I ask is because I think that the joint venture with Gree Electric will probably expire in 2029, which is still a long way off. However, when that happens, will you have to build your own supply chain to produce the product, or will you be able to extend the contract? Or it does not have any impact at all? I have been thinking about the profitability of China, so please tell me.

**Miyazumi [A]:** Yes. The current profit margin in China is roughly 23%, and in the past, it has been maintained in the 25% range. Although the macro-economic environment in China is basically very difficult, our management is determined to maintain this 23% to 25% level.

In the case of China, from a long-term perspective, the country itself is changing its growth stage, and the Chinese government is moving from a real estate investment-led economy to an economic system led by consumer spending. We have been discussing within the Company that we need to change our business model to some extent in line with this change.

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We believe that we will probably no longer be in a situation where the entire pie in China is glowing as large as it has been in the past. Under these circumstances, we will have to take market share, so we will probably steadily develop individual measures, especially those to guide customers from online to offline by making full use of digital technology. We need to develop a combination of offline and online measures.

As I mentioned a little earlier, we are approaching individual customers in the form of the so-called New Life Stations. I think the future direction will be to strengthen such efforts.

**Togawa [A]:** The major trend in China is that the Chinese government is vigorously promoting environmental regulations, and we need to be quicker than our rivals to introduce new environmentally friendly products in response to this trend.

Furthermore, as I explained today, our unique housing solution business combines not only air conditioning, but also ventilation, heat pump heating, and [remote] control. The key will be how we can develop such an environmentally friendly business.

In the commercial market, we can introduce products with the industry's highest level of energy-saving performance and energy management. We believe that it is possible to maintain and secure high profit margins by developing these activities. So, for now, I think it is important to see how much we can differ from our rivals and how much we can develop ahead of them and ahead of the competition.

As for your earlier question about Gree Electric, I would like you to know that it has absolutely no impact on our profit trends. We have been working with Gree in the area of cost-competitive manufacturing together, especially in the area of molds, while we handed over our inverter technology to them to quickly convert the Chinese market to inverters. At this point, we are doing very little in this area with them.

Currently, we are working on room air conditioners for the Japanese market with them, and an air purifier. They are doing some of the production in this area, and that is about it.

**Mizuno [Q]:** Yes, I understand. Thank you very much.

One more thing, in the North American market, I think the key will be whether your company can continue to win with R32. What percentage of your products using R32 are sold in North America? There are some who argue that the R32 may be at a disadvantage in the competition with the R454B in the market, but what is your thought on this area? Please tell me if this is not a problem since multiple refrigerants can coexist in the first place.

**Togawa [M]:** First of all, it's refrigerant, so you. Regarding the refrigerant issue, what is the situation in the US?

**Hiraga [A]:** There is a lot of discussion about refrigerants in North America. However, we believe that R32 is superior in terms of refrigerant cost, performance, and total energy saving, and this is the reason we are promoting R32.

**Togawa [A]:** We have established a policy to thoroughly implement the R32 in North America, and we are currently developing it. Currently, the GWP limit in the US is 750, so the R32 is 675, and that is sufficient for use. However, when considering the total environment in the future, when considering collection, recycling, and total cost of the refrigerant, we believe that R32 is the most suitable refrigerant.

Europe is now trying to limit to 150, but it is possible that eventually the regulatory standards will be even higher, as they are in Europe. So, how long this will continue is an extremely difficult question, we may have

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to consider the use of natural refrigerants, but at this point, we are considering promoting the use of R32 refrigerant in air conditioners.

**Mizuno [M]:** I understand. Sorry for being persistent and taking a long time. Thank you.

**Sakamoto [M]:** Thank you very much. It is now time for the briefing to end, but there are still two people who have raised hands for questions. We apologize for the inconvenience, but we would like to extend our time to accommodate you.

Now, Mr. Morota of Okasan Securities, please ask your questions.

**Morota [Q]:** So, just one question, please. It is about a way to maintain motivation. I think it is great that the Company was able to cover JPY155 billion in raw material costs and record its highest profit in the fiscal year just ended. I think that the significant growth is due to the efforts of your employees.

Is this kind of management or employee motivation maintained because of the charisma of Chairman Inoue or President Togawa, or is there some kind of compensation system? I would like to ask about this point.

This is all from me.

**Togawa [A]:** I think there are many factors, but I personally believe that one of our strengths is the people-oriented management that we have cultivated over the years. As I mentioned earlier today, we have been emphasizing flatness and speed and have been running our organization in one team as the management team and the front line in extremely close proximity. I believe that this is the reason why we have been able to survive in such a severe and changing environment.

Information on changes in the business environment comes quickly from the front lines, and not only we, the top management, make speedy decisions in response to such information. We also constantly present awareness of various issues, problems, and policies throughout the entire company. I believe that these are shared down to the bottom line in a timely manner, which leads to on-site implementation and the ability to respond to changes.

We have always valued the strength and dynamism to face challenges head-on. I have always said that put priority on execution than on a desk, saying like first-class execution is better than first-class strategy. This is the kind of culture that I have always advocated.

Another is the high degree of retention, we have always valued a sense of belonging, and I believe that such loyalty and a high sense of belonging are now alive and well.

In total, I still believe in the hard work of our employees and staff.

**Morota [Q]:** Is there some kind of compensation system?

**Togawa [A]:** We reward those who can achieve more results, and we have also placed importance on providing opportunities and chances fairly. Above all, the so-called power of our employees. Based on the philosophy that this is the source of a company's competitiveness, we have established various compensation systems and so-called rewarding systems, and I think this is one of the reasons.

**Morota [M]:** I understand. Thank you very much. That is all.

**Sakamoto [M]:** Thank you very much. Next, Mr. Ibara of Morgan Stanley MUFG Securities, please begin.

**Ibara [Q]:** Thank you very much. I would like to ask two questions.

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The first question is about fixed costs. They were originally expected to be JPY65 billion at the end of H1 of the fiscal year, but they have increased to JPY78 billion at the final landing. I remember that in the past, your company's fixed costs have never been this large compared to the plan. Was there something in the middle of the term that suddenly changed gears?

I am a little concerned that, fixed costs may have increased more than expected due to global inflation and rising labor costs, which you did not anticipate. Of course, I am sure that the majority of the increase is strategic, but could you confirm as a first point whether there was any unexpected increase in fixed costs?

**Miyazumi [A]:** Yes. Basically, it's labor costs. As we have been making acquisitions, the number of personnel has been increasing, and this has caused an upward swing in fixed costs.

**Ibara [Q]:** So, is it safe to understand that there was no special unexpected increase in labor costs?

**Miyazumi [A]:** Yes. It is not an unexpected factor.

**Ibara [Q]:** I understand.

Also, the second point is in India. I think that the sales grew very much during the last fiscal year ended and probably reached the JPY100 billion mark. I would like to ask you whether or not you were able to achieve the top market share, as you have mentioned before.

Also, I think your business was mainly for residential use, but how much has the business use increased? You mentioned before that the profit margin is still low due to up-front investment and volume. Now that the scale of your business is around JPY100 billion, profit margin improving in India?

I suppose there is also the exchange rate, but the plan for Asia in FY2023 is 4% on a yen basis, which seems quite modest compared to the previous fiscal year. Is this also being done so because of any specific concerns in particular, or is it actually a bit more doable? Could you please explain about the situation in India?

**Togawa [M]:** Mr. Uehara, who is in charge of the project, and he will tell more about the situation in India.

**Uehara [A]:** I am Uehara from the Global Operations Division. Thank you for your question.

First of all, in the commercial market, we have always held the top share, and we are also likely to be able to secure the number one share in the room air conditioner market, perhaps surpassing local company in FY2022. In terms of sales, we believe that we have exceeded the JPY100 billion mark and are now at around JPY110 billion on a yen basis, as you mentioned.

I believe that India's current situation is due in large part to the fact that we have built a solid business foundation over the past 10 years. We have developed our sales network to include tier 3 and tier 4 regional cities, and have more 10,000 dealers. Also we have a plant in Neemrana, in the northern part of the country. In addition, we are currently proceeding with the establishment of new factory, we will be in production for compressor in July and we will start production of room air conditioners in August. We are already anticipating full production. We are discussing further cost reductions to expand sales and improve profitability, which is a concern. We intend to strive for these areas. This is what I have to say about India.

**Ibara [Q]:** Your Asia's plans for this year are modest, but there are no particular concerns, and it seems safe to assume that growth will basically continue?

**Uehara [A]:** Naturally, the air conditioning business for asia will continue to expand, as I have indicated, and we are aiming to expand sales beyond the expansion of demand by taking advantage of the business

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foundation I have just described. The reason sales appear to be a little conservative is because of the impact of the exchange rate when converted to the yen.

As for the profit margin in India, the profit margin is still sluggish, including amortization of the up-front investments because we will be launching two large factories in July and August. We believe that this will eventually improve.

That is all.

**Ibara [M]:** Thank you very much for the detailed explanation.

**Sakamoto [M]:** Thank you very much.

With that, I would like to conclude the financial results briefing. Thank you very much for your participation to the end.

[END]

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