



**Daikin Industries,Ltd.**

Briefing on the Latter-Half 3-Year Plan for the Strategic Management Plan "Fusion25"

May 31, 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>	Medium-term Management Plan Announcement	
<b>[Event Name]</b>	Briefing on the Latter-Half 3-Year Plan for the Strategic Management Plan "Fusion 25"	
<b>[Date]</b>	May 31, 2023	
<b>[Number of Pages]</b>	47	
<b>[Time]</b>	16:00 – 17:47 (Total: 107 minutes, Presentation: 46 minutes, Q&A: 61 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Number of Speakers]</b>	5	
	Masanori Togawa	President and CEO, Member of the Board
	Katsuyuki Sawai	Executive Officer, Responsible for CSR
	Toshio Ashida	Executive Officer, Responsible for Corporate Planning
	Hiroaki Ueda	Executive Officer, General Manager of Corporate Planning
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
<b>[Analyst Names]*</b>	Yuichiro Isayama	Goldman Sachs
	Tomohiko Sano	JPMorgan Securities
	Hikaru Mizuno	UBS Securities
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities
	Kentaro Maekawa	Nomura Securities
	Graeme McDonald	Citigroup Global Markets
	Masahiko Ishino	Tokai Tokyo Research Institute
	Yoichiro Watanabe	Mito 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 would now like to begin the briefing on the Latter-Half 3-Year Plan for the Strategic Management Plan “Fusion 25” of Daikin Industries, Ltd. Thank you very much for taking time out of your busy schedule to join us today.

The explanatory material is available on our website under Investor Relations, as announced in the email distributed today. If you need one, please download it from the website.

I would like to introduce today's speakers. Masanori Togawa, President and CEO, Member of the Board.

**Togawa:** I am Togawa. Thank you.

**Sakamoto:** Toshio Ashida, Executive Officer, Responsible for Corporate Planning.

**Ashida:** Thank you.

**Sakamoto:** Hiroaki Ueda, Executive Officer, General Manager of Corporate Planning.

**Ueda:** Thank you.

**Sakamoto:** Katsuyuki Sawai, Executive Officer, Responsible for CSR.

**Sawai:** Thank you very much.

**Sakamoto:** Kota Miyazumi, Executive Officer, Responsible for Corporate Communication.

**Miyazumi:** Thank you for joining us.

**Sakamoto:** I, Sakamoto of Investor Relations Management Group, will serve as moderator. Thank you.

Today, after an introductory talk by President Togawa, Mr. Ueda, General Manager of Corporate Planning, will give a detailed explanation of the contents of the second half three-year plan of Fusion 25. The combined presentation will last approximately 40 minutes, followed by a Q&A session. This meeting is scheduled to end around 17:30.

Now, President Togawa, please.

**Togawa:** More than 100 people are joining us today. Thank you very much. Mr. Ueda will explain the details of the latter half three-year plan of Fusion 25 later. I would like to first discuss the thoughts and ideas of the top management and our management team in formulating and implementing this plan.

First, let me talk about Fusion 25. There have been a lot of changes, including the spread of COVID-19, supply chain issues, the accelerating movement toward a decarbonized society, the emergence of geopolitical risks such as the Ukrainian crisis, and rising inflation. On the other hand, we have our own strengths that we have cultivated over the years, such as the localization of our business based on local production for local consumption and the establishment of a strong sales and service network on a global scale. Above all, we believe in our ability to execute.

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I believe that the organization as a whole has been able to achieve results by taking advantage of the strengths it has cultivated over the years and taking measures one step ahead in response to changes in the environment.

As a result, I believe we have achieved earnings growth much faster than originally planned in the first two years of Fusion 25. As I have mentioned several times before, FUSION aims to balance short-term profitability with medium- and long-term growth potential.

It is an execution-oriented management system that can be used differently depending on changing circumstances, sometimes emphasizing short-term profitability and sometimes medium- to long-term growth potential even if short-term profitability is ignored. At the same time, this is a unique system that allows us to anticipate changes in the world, and by working on action themes in advance, we can quickly take the next step toward growth.

We believe that the reason we have been able to continue to grow is because we have been thoroughly committed to and practiced this execution-oriented FUSION management.

In the latter half three-year plan of Fusion 25, the quantitative targets for FY2025 were set at JPY4,550 billion in net sales, JPY500 billion in operating profit, and 11% in operating profit ratio. We intend to further accelerate the speed of business expansion and aim for even greater heights by leveraging the business foundation we have built over the first two years.

In the latter three years, we expect to invest a cumulative total of JPY1.2 trillion over the three-year period to expand our heat pump heating business to achieve carbon neutrality, accelerate the shift to inverters globally, promote our solutions business, and further expand our business in India in addition to our North American air conditioning business.

Our initial vision was to contribute to a sustainable society and realize the growth of our group. We will continue to do so, even in the midst of worsening global business confidence due to accelerating inflation and other factors. We will be steadily implementing management reforms and aggressive investments with an eye to future growth while simultaneously enhancing our environmental and social value by solving social issues.

First, I would like to review the first two years. In the first two fiscal years, we set quantitative targets for FY2023 of JPY3,100 billion in net sales and JPY325 billion in operating profit, which we achieved one year ahead of schedule and greatly exceeded.

By expanding sales of heat pump heating and hot water supply in Europe, expanding sales of environmentally conscious premium products in North America, and expanding business by strengthening our sales network, we were able to respond to changes in the environment, accelerate the implementation of key strategic themes, and generate results. In addition, we have been able to strengthen our management structure by thoroughly implementing a strategic selling price policy and drastic cost reductions.

On the other hand, we have steadily implemented aggressive investments for future growth, including digital, R&D investments, and capital expenditures to increase production capacity in each region. In addition, we strengthened our sales and service network in North America and conducted M&A aimed at expanding our service solutions business, and we were able to build a foundation that will lead to the creation of results in the latter half three-year plan.

Next, I would like to talk about how we created the latter half three-year plan.

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It has been two years since Fusion 25 started. Looking ahead to the future economy and society 10 to 20 years from now, we believe that the demand for decarbonization and a circular economy will become even more pressing.

I also feel that we have an excellent opportunity to make further progress by enhancing not only the group's economic value but also its environmental and social value, as I mentioned earlier, by steadily completing the priority themes set forth in the latter-half plan.

In the latter half three-year plan of Fusion 25, we aim to achieve record-high sales by strengthening our growth strategy themes, such as the challenge of becoming carbon neutral and promoting the solutions business, and by expanding our business in regions where we are strengthening, such as by establishing a major base in India in addition to our North American air-conditioning business. We are also aiming to renew our record-high sales by growing at an annual rate of about 7%, exceeding the growth of the market.

The business environment in which we operate is changing at a dizzying pace, with the accelerating trend toward carbon neutrality, rising inflation, economic security issues, digitalization, and the advancement of AI technology, to name a few.

What is important in these times of uncertainty is to respond flexibly to these changes and to insist on completing the priority tasks that we have set ourselves to accomplish even in the midst of change. By further accelerating upfront investment for sustainable growth in the future, we will strengthen our management structure to take advantage of the opportunities presented by the various changes I have just mentioned.

As I mentioned earlier, we will invest a total of JPY1.2 trillion in R&D during the latter half three-year period of Fusion 25, including capital investment to increase production capacity in various regions and to automate production. While making such investments, we hope to maintain a double-digit operating profit level of 11%.

M&A is not factored into the quantitative target at this time. However, we believe that M&A is a very important strategy, and we intend to continue to be proactive and strengthen functions that are lacking.

Next, I would like to discuss the key strategic themes of the latter half three-year plan.

The latter half three-year plan of Fusion 25 sets three themes as growth strategies: the challenge to achieve carbon neutrality, the promotion of solution businesses that connect with customers, and creating value with air. The focus region/business is the air conditioning (AC) business in North America. Although these remain unchanged from the original plan, we have added two new themes, such as the establishment of a major base in India, with a view to mid- to long-term trends for FY2025 and beyond and FY2030.

We will discuss the details later. I would like to make a few points regarding the achievement of the latter half three-year plan of Fusion 25.

First, I would like to discuss the challenge of achieving carbon neutrality. Sales in the heat pump heating and hot water supply business are currently growing much faster than originally planned, and we would like to further expand this growth. In Europe, we aim to achieve the dominant number-one position. Not only that, but we would like to work on the promotion of heat pump conversion projects in the US, China, and other countries around the world as we see the potential for growth in this area.

In addition, we have incorporated a plan to achieve virtually zero greenhouse gas emissions by FY2030 at all of our global air conditioning-related plants, in order to thoroughly implement not only Scope 3, but also Scope 1 and 2.

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Furthermore, we will work to establish a refrigerant eco-cycle for the recovery and recycling of refrigerants. We believe this is our social responsibility toward the realization of a recycling-oriented economy. As you all know, the economic structure of mass production and mass consumption has almost reached its limits.

What will be important in the future is a circular economy. We see this as an opportunity for us to take a leap forward and commercialize our efforts toward a circular economy.

Next, I would like to say a few words about the promotion of the solutions business. In the first two years, we have been building a system to connect directly with customers, strengthening our ability to make proposals by market and by application, and creating a platform for data utilization and analysis.

For example, we established a solutions hub in Asia, made acquisitions in the US to strengthen our data centers, and actively pursued mergers and acquisitions to strengthen instrumentation engineering, energy management, and other areas.

We plan to use these foundations, which have been strengthened in each region for solution development, including M&A, to create results at once in the latter half three-year period. In addition, we have been focusing on commercial solutions, but in the latter half three-year plan, we would like to take on the challenge of new residential solutions.

Next, I will discuss value creation with air. In the first two years, we have greatly expanded sales by expanding our product lineup, starting with air purifiers and total heat exchangers. In the latter half three-year period, we will not only sell the equipment I have just mentioned, but also air, ventilation, and air purification systems to achieve a shift in our business. In addition, we would like to further differentiate ourselves from our competitors and take on the challenge of expanding our business through air diagnostics and maintenance motive proposals.

Furthermore, we would like to challenge new themes such as infection prevention, allergens, oxygen, the autonomic nervous system, etc., and work on commercializing these themes.

It is difficult for us to create products and services that enrich people's lives in the healthcare area alone. Therefore, we would like to turn the value of air into a business by promoting co-creation with industry, academia, industry-government, and industry-industry.

Next, I would like to talk about the North American air-conditioning market, which we have designated as a region to be strengthened, and India, which we are now aiming to make a major base for our business.

I think the biggest challenge for the North American HVAC business is profitability. I think this profitability is of great interest to everyone.

In the first two fiscal years, we have expanded sales of energy-saving equipment, centered on FIT inverter machines, in response to growing environmental awareness and the trend toward stricter energy conservation regulations. Furthermore, we were able to make progress in building our business foundation by acquiring leading sales companies, expanding our service solutions, and building our own sales model. On the other hand, we believe that the return on investment is not yet sufficient.

In the latter half three-year plan, we aim to achieve a double-digit 10% operating margin in addition to becoming the number one air conditioner manufacturer in North America in terms of sales in FY2025 by expanding sales of environmental premium products and promoting solutions in the commercial market.

As you all know, according to the International Energy Agency (IEA), global demand for air conditioners will expand to three times its current size by 2050. India, in particular, has a huge market with a population of 1.4

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billion and is also a leader in the developing countries, especially in the southern hemisphere, known as the Global South. Here, air conditioning demand is growing more now than at any other time in the world, and the market stock of air conditioning equipment is expected to quadruple by 2030 compared to 2020.

In order to respond to the rapid growth in demand in the future that I just mentioned, we would like to strengthen our sales and service network, expand our R&A function, and develop human resources in India, including engineering. In addition, we will promote the expansion of production capacity and further local procurement of parts, as in the new plant we are now constructing in the south of the country.

We are also considering a new plant in the west in preparation for further expansion of the Indian market. In India, the government has positioned air conditioning as an important industry, and we hope to develop it not only for the domestic market but also as an export base to the Middle East and Africa.

We are looking at India as the next growth frontier after China. By establishing an integrated system from parts procurement to production in India, we intend to make India the cornerstone of our global strategy and accelerate our business development.

Finally, I would like to talk about what we should focus on as we begin the latter half three-year plan.

Change is a risk for corporate management on the one hand, but on the other hand, it is also a great opportunity.

Change is rather an opportunity, and it is important to think about and know how to develop it. Taking the air conditioning market as an example, we believe we have a great opportunity for growth due to very significant changes, such as carbon neutrality.

However, in market areas where significant growth is expected, a great number of competitors will also enter the market. It is only natural that there will be fierce competition. So, how do we win in such a situation? I think it is very important to continue to challenge new ideas through creative destruction without being bound by past successes.

The first two years were truly a time of great growth. I think it is important not to get caught up in the successes of those two years, but to continue to take on the new challenges that we have included in the second half of Fusion 25 this time.

I believe that one very important key in the battle for manufacturers is to differentiate themselves from their competitors through advanced technology and product development. In addition to strengthening our own technologies, we intend to accelerate alliances and collaborations with other companies to accelerate new technological innovations and product development based on these innovations.

At the beginning, I talked about our strengths. Our strengths lie in local production for local consumption and global manufacturing, the sales network we have built in each region, and our strong service network.

Furthermore, I believe that we have a corporate culture that emphasizes action above all else, the strength to face challenges head-on, people-centered management, a high sense of belonging among employees, high retention, and teamwork. We would like to use such a corporate culture as a base of strength for further battles.

Again, in times of uncertainty, I believe that what is required of us in corporate management is the ability to anticipate the future, to answer the unanswerable, and to move forward with decisive execution of our decisions.

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We have repeatedly stated that strategy without execution is nothing and that FUSION management is execution-oriented management. We have always said that "A first-rate strategy with second-rate execution is better than a second-rate strategy with first-rate execution." Based on what I have just said, we would like to fulfill your expectations by working through the latter half three-year plan of Fusion 25.

This concludes my remarks. Mr. Ueda, responsible for corporate planning, will explain the details of the plan.

**Sakamoto:** Next, Mr. Ueda will make a presentation.

## Contents

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- I. Review of First-Half of Fusion 25
- II. Latter-Half Approach and Quantitative Targets
- III. Key Strategies

**Ueda:** This is Ueda. Thank you. Let me explain a little more about the latter half three-year plan of Fusion 25.

The document is divided into three parts. I will summarize the first two years and explain the concept, quantitative targets, and key strategic themes of the latter half three-year plan.

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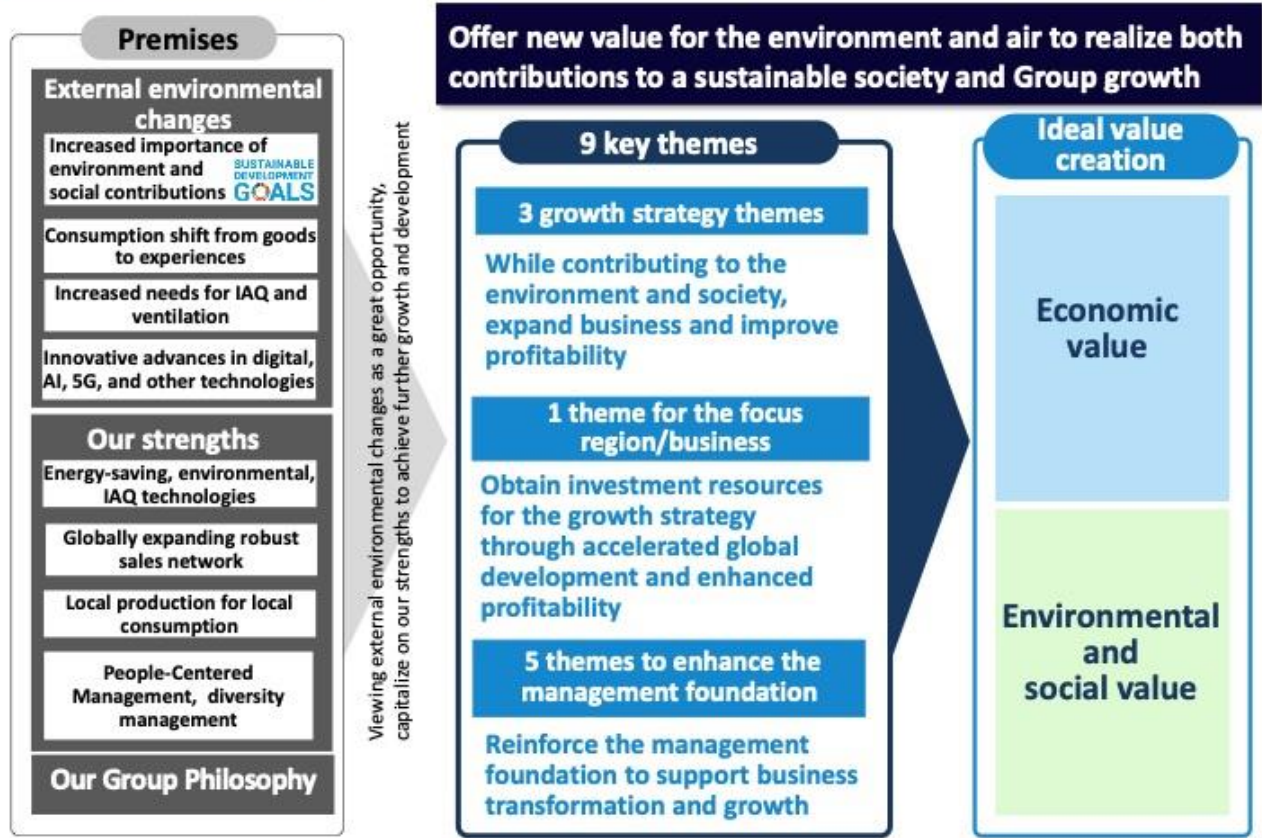
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# Fusion 25 Overview



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First, a summary of the first two years. Here is the overall picture shown in Fusion 25. Based on the external environment and our unique strengths, we have established the following key strategic themes: growth strategy themes, a theme for the focus region/business, and themes to enhance the management foundation.

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## Fusion 25 First Half Achievements      Quantitative Targets

### Achieving targets in FY 2022 (for FY 2023 targets) one year ahead of schedule of the original plan for both net sales and operating profit

- ✓ Confronted with headwinds unforeseen when the original plan was formulated, such as the prolonged impact of COVID-19, the growing tension in Ukraine, tight supply of semiconductors and electronic components, and soaring raw material prices and high logistics costs, Daikin responded with measures that included the following:
  - Systematic implementation of strategic selling price measures and maximization of cost reductions
  - Alternative procurement of product supply for semiconductors and difficult-to-obtain electronic components    Etc.
- ✓ Business expanded by capitalizing on market growth that exceeded projections
  - Heat pump (H/P) space and water heating business in Europe
  - Chemicals business capitalizes on growth in the semiconductor, automotive, and ICT markets    Etc.

(¥100M)	FY 2020 Results	FY 2021 Results	FY 2022 Results	FY 2023 F25 Original Plan
Net sales	24,934	31,091	39,816	31,000
Operating profit	2,386	3,164	3,770	3,250
Operating profit ratio	9.6%	10.2%	9.5%	10.5%
R O E	10.1%	12.0%	12.2%	11%
F C F	1,234	-134	-2,027	3,400
Exchange rate	1 USD= ¥106 1 EUR= ¥124 1RMB=¥15.7	1 USD= ¥112 1 EUR= ¥131 1RMB=¥17.5	1 USD= ¥135 1 EUR= ¥141 1RMB=¥19.7	1 USD=¥105 1 EUR=¥125 1 RMB=¥16.0

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Next, I would like to review the first half. Please look at the bottom table. As shown in the red box, the initial plan for FY2023 shown on the right side of the table was realized one year ahead of schedule. Free cash flow was negative due to investments to increase production capacity, aggressive M&A activities mainly in North America, and strategic inventory setup.

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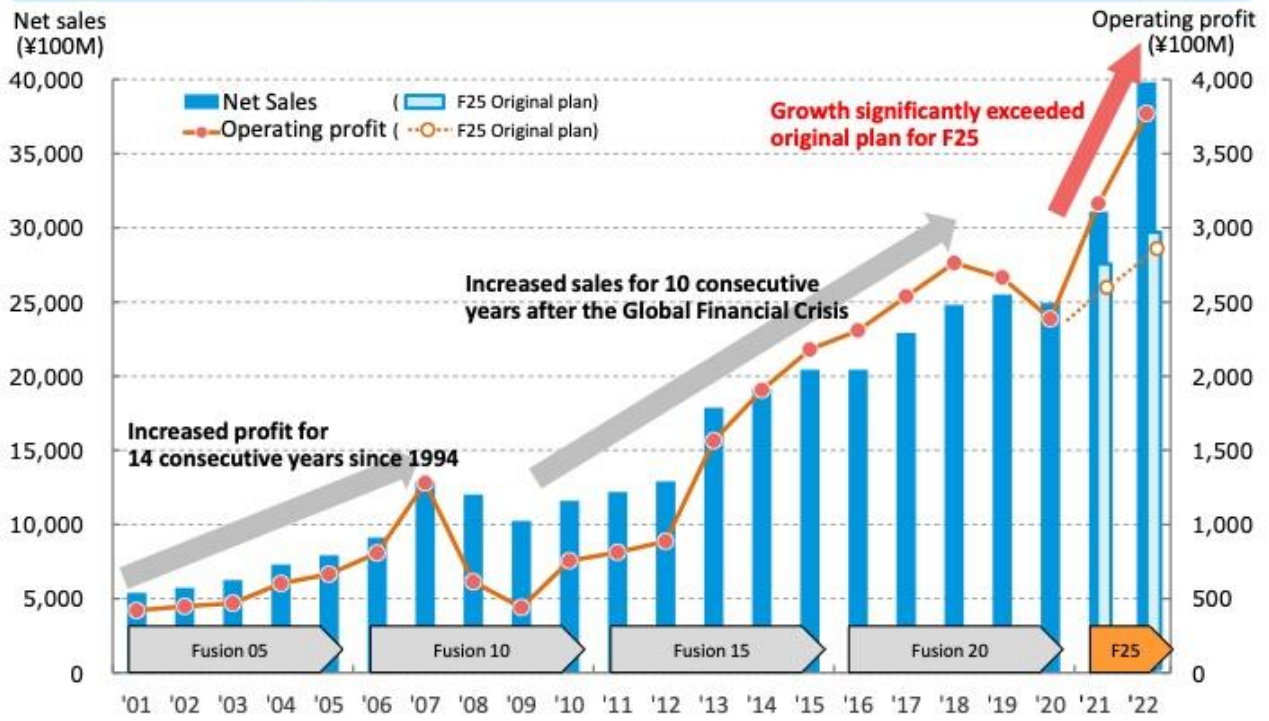
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## <Reference> Change in Performance

Compared to the start of FUSION management in 2001, sales have increased 8 times the 2001 amount, while operating profit has expanded 6 times. Daikin has become a corporate group with business operations in more than 170 countries and more than 95,000 employees.



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The following page is for reference. Compared to 2001, when we started FUSION management, net sales have increased eightfold and operating profit sixfold.

The Company has developed into a corporate group with operations in 170 countries and more than 95,000 employees. Especially through FY2021 and FY2022, we have achieved growth far exceeding our initial plan.

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## Fusion 25 First Half Achievements R&D/Investment

### Identifying opportunities and investing for growth amid the unprecedented changes in the management environment

- ✓ R&D investments increased for growth strategy themes such as carbon neutrality, (low GWP, H/P space and water heaters) and Solutions
- ✓ Additional capital investments, such as establishment of new production bases, were decided and implemented in response to an unexpected increase in demand
  - A new factory was established in Poland to capture the European H/P space and water heater market Etc.
- ✓ Regarding digital investments, we aimed for business innovation to expand the Solutions business and process innovation, including transformation of the business process, and will proceed with system construction as planned

### FY2021-23 Investment Plan and Status (3-year cumulative)

(¥100M)	FY 2021 - FY 2023 F25 Original Plan	FY 2021 & FY 2022 Results + FY 2023 Plan
<b>R&amp;D</b>	<b>2,260</b>	<b>2,987</b>
<b>Capital investment</b>	<b>4,460</b>	<b>7,216</b>
<b>Digital investment</b>	<b>1,370</b>	<b>1,500</b>

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Here are the investments for the first three years, including FY2023.

The table on the left shows the initial plan for 2021-2023, and the table on the right shows the three-year cumulative total for the actual results for 2021 and 2022 and the 2023 plan. R&D, capital expenditures, and digital investments are all progressing well above plan.

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## Fusion 25 First Half Achievements    Key Strategies

### Growth Strategy

#### ■ Challenge to Achieve Carbon Neutrality

- Europe: Sales of H/P space and water heater expanded with the soaring fuel costs and environment policies
- North America: Incentives were utilized in environmentally advanced states to expand sales of premium environmental products

#### ■ Promotion of Solutions business

- North America: A sales channel was built through acquisitions in major cities allowing owner-direct proposals  
Self sufficiency in 11 out of 18 most important cities
- In Europe, Asia, and Oceania, we strengthened owner-direct sales networks, service networks, and instrumentation engineering capabilities using M&A in addition to strengthening our own after sales service infrastructure

#### ■ Creating Value with Air

- Sales expansion by expanding IAQ and ventilation products such as air purifiers, heat exchangers, and air handling units

(¥100M)		FY 2020 Results	FY 2021 Results	FY 2022 Results	FY 2023 F25 Original Plan
Challenge to achieve carbon neutrality	H/P Space/Water Heater	1,300	1,900	3,150	2,040
Promotion of Solutions business	AC Solutions	4,320	5,000	6,840	5,600
	Refrigeration Solutions	1,110	1,500	1,510	1,600
Creating value with air		1,980	2,300	2,940	2,900

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Here are the main results of the first half of each growth strategy theme. On the right is the initial plan for FY2023 and on the left is the actual results through FY2022.

The performance of refrigeration solutions is in line with the original plan for Fusion 25, and for the other themes, growth is well above the plan for FY2023.

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## Fusion 25 First Half Achievements Key Strategies

### Focus Region/Business

#### ■ AC Business in North America

- Financial results greatly increased by expanding sales and market share for Residential unitary products
- With stricter environmental regulations as a tailwind, we entered the market environmental premium products at the right time utilizing the technologies that are the strength of our company, such as inverters (Inv), H/P, and low GWP refrigerants, and transformed the market
- Implementation of strategic investments such as capital investment and M&A
  - Enhanced business foundation by acquiring Rep\*, wholesale, and service companies
    - \*Industry specific to North America in which a contract is concluded between an agency and manufacturer and the agency carries out sales activities
  - Strengthened solutions for data centers by acquiring a custom air handler manufacturer
  - Established training facilities and showrooms for development of environmental premium product

(¥100M)	FY2020 Results	FY 2021 Results	FY 2022 Results	FY 2023 F25 Original Plan
AC Business in North America	5,985	7,940	12,100	8,000

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In particular, the North American air-conditioning business, a region in which we are strengthening our business, has greatly increased its performance by expanding sales and increasing market share of residential unitary products, resulting in actual sales of JPY1,210 billion in FY2022. With environmental regulations as a tailwind, we have been reforming the market by introducing environmental premium products in a timely manner that take advantage of our strengths in technologies such as inverters, heat pumps, and low-GWP refrigerants.

In addition, we invested aggressively in capital expenditures and M&A. We have acquired Rep, wholesale, and service companies that conduct sales activities through distributorship agreements in industries unique to the US, as well as a custom air handler manufacturer to strengthen solutions for data centers.

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## Points of the Fusion 25 Latter-Half 3-Year Plan

Based on changes in the external environment after the original plan was formulated, we will add and strengthen key strategy themes and review the quantitative targets for FY 2025

External environmental changes/ mid- to long-term trends	Point of adding and strengthening key strategy themes
<p><b>Actions for carbon neutrality have accelerated</b></p> <ul style="list-style-type: none"> <li>Increasing regulations to move away from fossil fuels mainly in Western countries</li> <li>Moves to achieve zero GHG emissions from factories by environmentally advanced companies</li> </ul> <p><b>Moves to realize a circular economy have been accelerated</b></p>	<ul style="list-style-type: none"> <li>Significantly enhance H/P space and water heating business in Europe, etc.</li> <li>Create a market in North America with environmental premium products</li> <li><b>Added initiatives to make all factories, excluding Chemicals, zero GHG emissions factories</b></li> <li>Add "Initiatives for a Circular Economy"</li> </ul>
<p><b>Competitors and other companies have accelerated developing solutions</b></p> <ul style="list-style-type: none"> <li>Competitors' enhancement of solutions proposal by vertical market leveraging decarbonization and IAQ</li> <li>Standardization of smart home communications by leading IT companies</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of Solution products and strengthen proposal capabilities</li> <li><b>"Residential Solutions" will be added as a new theme for establishment as a viable business as the original plan was mainly focusing on commercial "AC Solutions"</b></li> </ul>
<p><b>Remarkable growth in India</b></p> <ul style="list-style-type: none"> <li>Third largest economy in the world by 2030 (Market stock of air conditioners quadrupled compared to 2020)</li> </ul>	<p><b>Add "Establishment of a major base in India"</b></p>
<p><b>The semiconductor, automotive, and information/communication fields have been growing</b></p> <ul style="list-style-type: none"> <li>Growing needs for the high-performance/ environmentally conscious materials businesses</li> </ul>	<p><b>Add "Challenge to become a leading company in high-performance and environmental materials"</b></p>

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Next, I will explain the concept and quantitative targets of the latter half three-year plan.

In calculating the three-year plan, we have added and strengthened key strategic themes by backcasting in light of changes in the external environment since the initial plan was formulated, and we have also revised the quantitative targets for 2025.

As for external environmental changes, the movement toward carbon neutrality has accelerated significantly, the movement toward a circular economy has accelerated, and the deployment of solutions by competitors and other companies has accelerated. In addition, India's remarkable future economic growth and the

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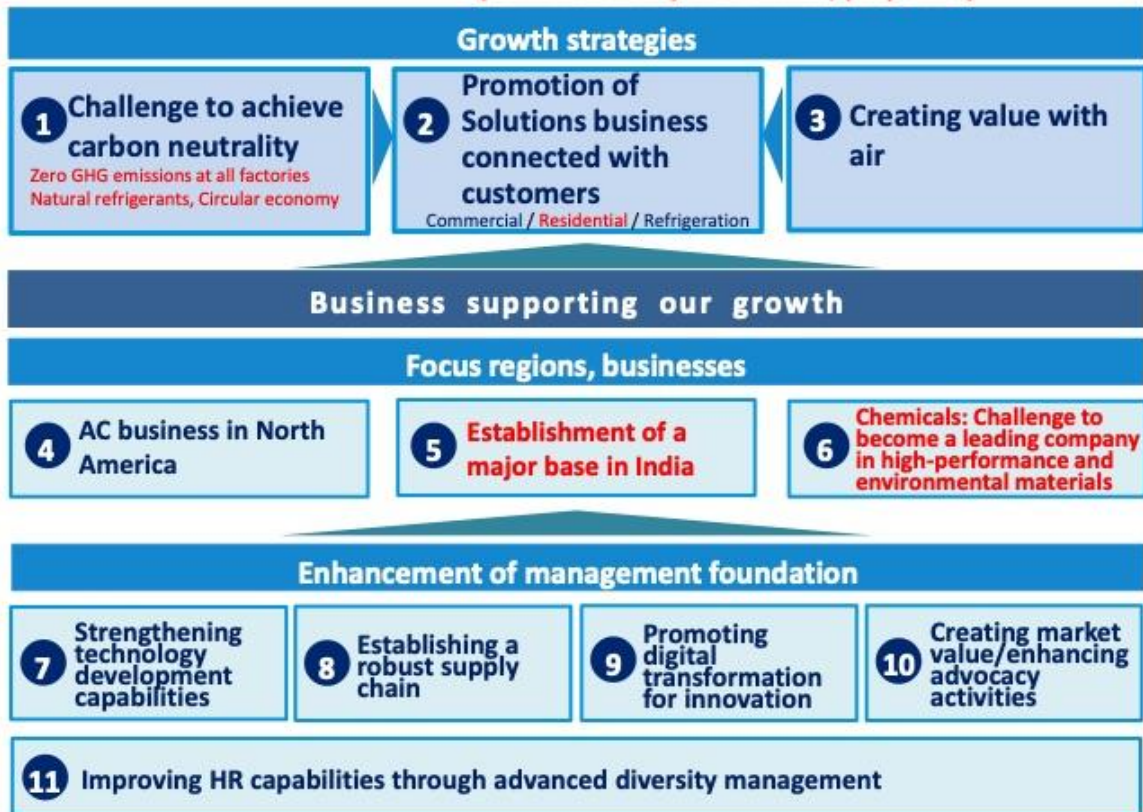


growing need for high-performance materials and environmental materials in the chemical field.

## Key Strategy themes

The three growth strategy themes unchanged, but a new enhancement perspective has been added individually. For the key themes overall, two themes have been added as regional/business strengthening themes that should be addressed now with an eye to the future

[Red indicates newly added themes / perspectives]



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In response to these major changes in the environment, we will promote 11 themes in total, including establishing a major base in India and becoming a leading company in the chemical, high-performance materials, and environmental materials fields in the second half plan.

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## Quantitative Targets

### Aiming to continue new record highs in financial with net sales of ¥4,550 billion yen and operating profit of ¥500 billion yen

- ✓ In the latter-half 3-year plan, we strive to achieve growth that exceeds GDP and market growth
- ✓ Profitability will increase by expanding high value-added and environmental products such as Inv and H/P equipment.
- ✓ In the rapidly changing environment, upfront R&D investment and capital investment for future sustainable growth is accelerating

### Quantitative Targets

(¥100M)	FY 2022 Results	FY 2023 Plan	FY 2025 Plan
Net sales	39,816	41,000	45,500
Operating profit	3,770	4,000	5,000
Operating profit margin	9.5%	9.8%	11%
FCF	-2,027	5,000 (FY 2023-FY 2025 3-year cumulative)	
ROE	12.2%	-	12%

Exchange rate	FY 2022 Results	FY 2023 Plan	FY 2025 Plan
	1 USD= ¥135	1 USD= ¥126	1 USD= ¥125
	1 EUR= ¥141	1 EUR= ¥133	1 EUR= ¥130
	1 RMB=¥19.7	1 RMB=¥19.0	1 RMB=¥19.0

### Investment Plan

(¥100M)	3-year cumulative (FY 2023 - FY 2025)
R&D	3,900
Capital Investment	8,000
Digital Investment	1,800

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Our quantitative targets are to achieve sales of JPY4,550 billion and operating profit of JPY500 billion by FY2025. In addition, based on the inventory review due to the termination of the COVID-19 pandemic, we will generate a level of free cash flow in excess of JPY500 billion to prepare for M&A and further capital investment.

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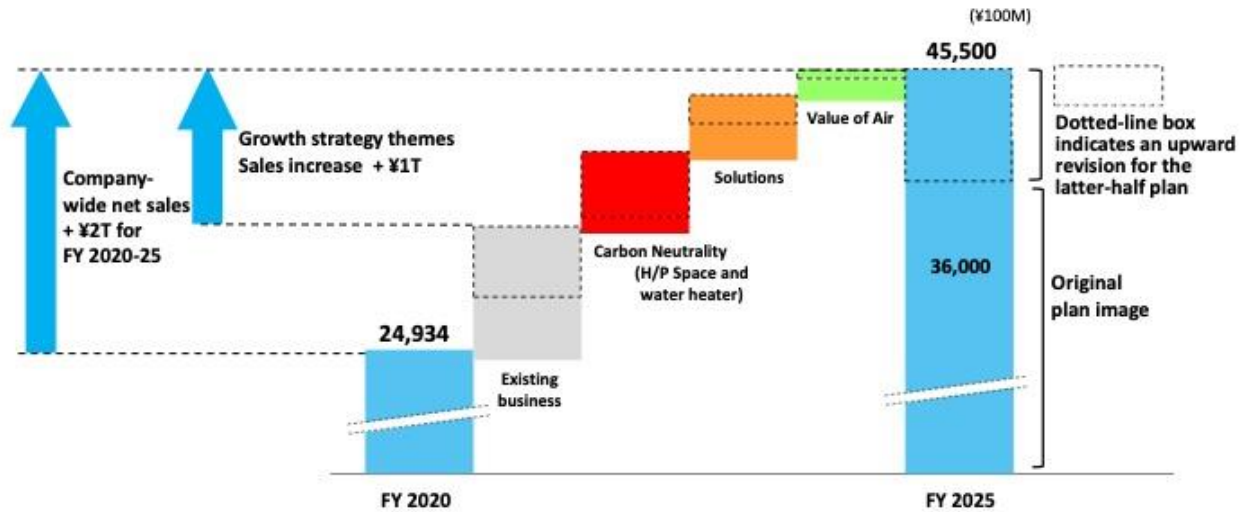
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## Business Expansion Structure through Growth Strategy

Expansion by having the growth strategy themes account for more than 50% of the net sales increase amid the upward revisions to plan

- ✓ In the first two years, sales growth from growth strategy themes remained at about 30% due to the rapid expansion of existing businesses
- ✓ The implementation of growth strategy themes in the latter 3-year plan will focus especially on the H/P space and water heating business as we aim to expand sales by more than 50% of the approximately 2 trillion yen increase in sales

### ■ Composition of business expansion by existing/growth strategy theme



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This is the business expansion structure through growth strategy. We have three major growth strategy themes: carbon neutrality, solutions, and value with air. From 2020 to 2025, sales will grow by about JPY2 trillion. We would like to grow JPY1 trillion of that amount through those growth strategy themes.

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## 1 Challenge to Achieve Carbon Neutrality

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- ✓ We will strive even further to reduce GHG throughout the product life cycle in order to “achieve carbon neutrality by 2050.”
- ✓ In 2021, the net GHG emissions were reduced by 10% (compared with 2019 base year BAU) and progress was made as planned. To achieve **the 30% reduction in 2025 and over 50% in 2030**, we will **reinforce our efforts**.
- ✓ Due to the rapid changes in the world, the environment and energy savings are current themes, and the market is being revitalized. Consequently, **our company will make upfront investments for environmental products** such as our **H/P space and water heaters and INV air conditioners**.
- ✓ Our company will accelerate efforts relating to refrigerants, one of our environmental core technologies, as we work to reduce the **global warming potential (GWP)** of refrigerants and **build a network for refrigerant recovery and reclamation** that achieves both business growth and social contribution.

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Next, I will explain the six key strategic themes: growth strategies and focus regions/businesses.

First is the challenge to achieve carbon neutrality.

We are now steadily working toward the goals set in our initial plan to reduce real GHG emissions by 30% by 2025 and by 50% or more by 2030.

This is an unprecedented opportunity for environmental products such as heat pump heating and hot water supply and inverter air conditioners, and we will aggressively make upfront investments as well. As part of our efforts to deal with refrigerants, we will not only reduce GWP but also establish a network to recover and recycle refrigerants.

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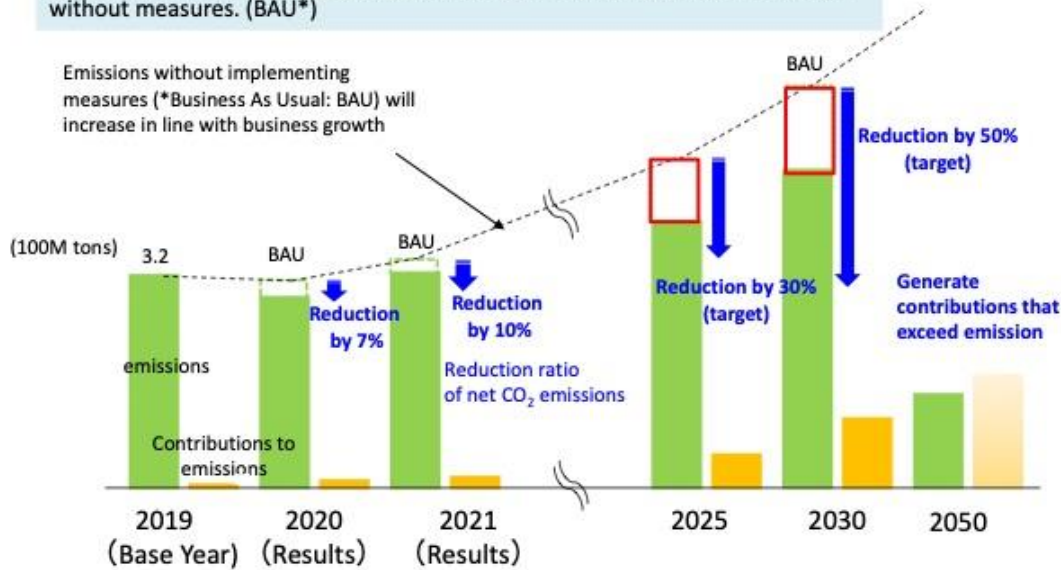
# 1 Challenge to Achieve Carbon Neutrality

**Achieve a 30% or more reduction in net GHG emissions by 2025 and 50% or more by 2030**

## ■ Net GHG emissions\* reduction targets and actual results throughout the life cycle

\* GHG emissions minus contributions to GHG reduction

Using 2019 as the base year, we will reduce **emissions by 30% or more by 2025 and by 50% or more by 2030** compared to the emissions if the business grows without measures. (BAU\*)



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Here are the net GHG emissions reduction targets and actual results throughout the life cycle. We are making progress systematically, implementing a 10% reduction in 2021, compared to a 30% reduction target by 2025.

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# 1 Challenge to Achieve Carbon Neutrality

## 1) Reduced power consumption during product use

**Work to accelerate the global conversion to inverters and lead the industry in environmentally conscious products (energy-saving equipment)**

- Conversion of RA to inverters 75% in 2019 → 79% in 2021 → 93% in 2025 (target)
- Development and sales expansion of energy-saving systems

## 2) Expansion of the H/P Space and Water Heating business

(Net sales of FY 2023 ¥420.0B → FY 2025 ¥830.0B)

**Significantly expand business in the residential market by launching differentiated products and strengthening sales and after sales service networks**

Europe	North America	China	Japan
<ul style="list-style-type: none"> <li>• Aim to expand our No. 1 market share in major countries</li> <li>• Launch new products adopting R290</li> </ul>	Accelerate sales of INV and H/P unitary product <i>Fit</i>	Expand sales of H/P floor heating	Expand the sales of Eco-Cute and H/P air conditioners for cold climate



H/P space and water heater for Europe "Daikin Altherma"

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As specific initiatives in our challenge to become carbon neutral, we will continue to reduce power consumption during the use of products and expand sales of inverter products throughout the global market. We will also work to develop energy-saving systems based on VRVs and total heat exchangers, and to develop and expand sales of energy-saving products.

The second is to expand the business of heat pump heating and hot water supply. In Europe, the Americas, China, and Japan, we will strengthen our sales and service network mainly in the residential market, aiming to achieve sales of JPY830 billion in 2025.

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# 1 Challenge to Achieve Carbon Neutrality

## 3) Refrigerant initiatives to support the AC business

Select the optimum refrigerant for each region and challenge activities to make natural refrigerants mainstream along with mass production

- Global promotion of R32 conversion - VRV conversion to R32 in Japan and Europe
- Equipment development and risk assessment for using natural refrigerants
- Development of next-generation refrigerants (for automobiles and air conditioning)

## 4) GHG emissions reductions during manufacturing (development and production processes), office activities, etc.

Aim to achieve net zero GHG emissions by 2030 at all factories excluding Chemicals

- Sakai Plant and Rinkai Plant lead the way in net zero emissions in FY 2023 at factories
- Net zero for offices of the main bases in Japan in FY 2025 with FY 2030 the target year for net zero of global offices

## 5) Challenge in new business taking a carbon neutral society into account

Reinforce initiatives for negative emissions and electric power

- Examine potentials of the electric power business in addition to expanding sales of micro-hydroelectric power generation
- Take on the challenge of acquiring technology for CO<sub>2</sub> recovery and utilization (DAC\*1, CCU\*2)

\*1 DAC: Direct capture of atmospheric CO<sub>2</sub> \*2 CCU: Separation, recovery and effective use of CO<sub>2</sub>

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In the number three initiative regarding refrigerants, we will select the most appropriate refrigerant for each region. Globally, we will continue our efforts to convert to R32. In particular, since the GWP regulation will start in 2025 in the US, we will launch R32 commercial products ahead of our competitors. We will work on R32 conversion in VRV.

On the other hand, since further tightening of refrigerant regulations is under consideration in Europe, we will also develop equipment using natural refrigerants such as R290 propane or CO<sub>2</sub>. We will continue to develop next-generation refrigerants for air conditioning and automotive applications.

Fourth, GHG emission reductions in manufacturing, offices, etc. First, we will work toward the goal of virtually zero GHG emissions by 2030 for all plants, excluding chemical plants. First, in FY2023, we will achieve virtually zero emissions at the Sakai Works' waterfront plant.

Fifth, we will also continue to promote initiatives related to negative emissions and electric power, including the capture and utilization of CO<sub>2</sub>.

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# 1 Challenge to Achieve Carbon Neutrality

## 6) Initiatives for realizing a circular economy

**Accelerate the global establishment of a refrigerant eco-cycle (recovery, reclamation). For other materials that we use, we will make environmentally-conscious efforts such as using recycled material with improved durability**

- Building of refrigerant recovery and reclamation networks in advanced countries (Europe, Japan, North America) where regulations are progressing
- Initiatives for materials other than refrigerants (resins, metals, etc.)
  - Use of recycled plastics, horizontal recycling\* of aluminum, reduction of rare earths, etc.

\* Horizontal recycling: Recycling in the form of products after use becomes resources and is regenerated as the same product

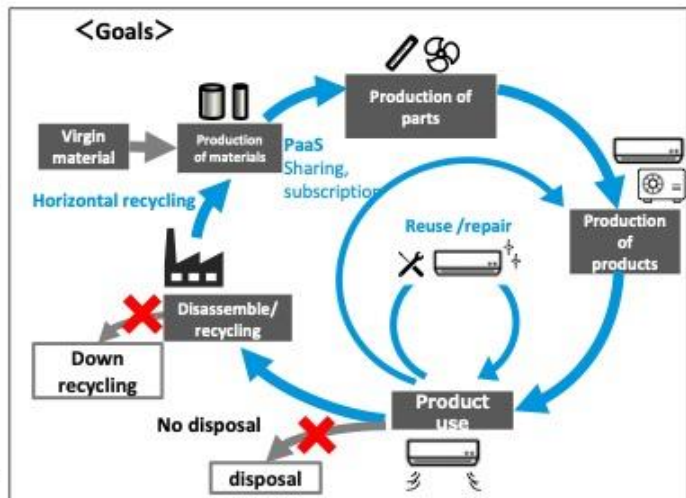
### Concept of a circular economy

CE is a system of a circular society that generates economic value on the premise that products and raw materials are not disposed

#### [ Efforts necessary for realization ]

- Offer **product design and services based on circularity**
- Establish **recovery network for circularity**
- Enhancing technology for **horizontal recycling**

Source: Japanese Ministry of the Environment: "Environment, Recycling Society, Biodiversity White Paper (2021)"  
Keldanren: "Proposals for Realizing a Circular Economy" (2023)



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The sixth point is a new circular economy initiative. As a responsibility of air conditioning manufacturers, we will first work to establish a refrigerant eco-cycle, or refrigerant recovery and recycling network, mainly in developed countries.

In addition to refrigerants, we will also work to utilize recycled materials and improve the durability of resin, metal, and other materials used in our products. Specifically, we will work on the use of recycled plastic and horizontal recycling of aluminum without compromising its quality.

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## 2 Promotion of Solutions Businesses Connected with Customers

- ✓ In **Commercial Solutions**, we will enhance **our sales network and business structure to facilitate owner-direct sales proposals** and promote a Solutions business that offers different proposals for each market, customer, and project. We will work to **expand products and proposal menus for each vertical market** that meet DX, carbon neutrality, and labor-saving needs
- ✓ To help accelerate the standardization of residential energy-saving regulations and wireless communication standards for residential equipment, **Residential Solutions will be added as a new theme for establishment as a viable business**
- ✓ In **Refrigeration Solutions**, we will work on **business development in Asia and expansion of business areas**

■ **Commercial AC Solutions: Examples of Needs by vertical markets**

Offices	Schools	Hospitals	Hotels	Factories
				
Improved comfort through features like airflow, uneven temperature distribution, ventilation, and sound insulation	Equipment management and technical support when there is no full-time facility caretaker	Reduction of cluster infection risk by preventing infiltration and spread of viruses and bacteria	Advanced operability, including separate temperature control and multilingual support for each guestroom	High reliability for non-stop operation, and energy savings to help achieve zero carbon emissions

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Next, we will promote solutions that connect with customers.

In commercial solutions, we will strengthen our sales network and sales structure to enable owners to make proposals directly to customers in order to promote the solutions business, which offers different proposals for each market, each customer, and each property.

The Company will work to expand its menu of proposals and products by application market to meet needs such as DX, carbon neutrality, and labor saving. In light of residential energy-saving regulations and the accelerated standardization of wireless communication standards for residential equipment, we will also add a new residential solution as a theme and take on the challenge of commercializing it.

In refrigerant solutions, we will also work to develop our business in Asia and expand our business domain.

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## 2 Promotion of Solutions Businesses Connected with Customers

### 1) Commercial Solutions (Net sales of FY 2023 ¥726.0B → FY 2025 ¥870.0B)

**Focus on strengthening proposal-based sales capabilities, expanding menus for each vertical market, and strengthening business promotion functions along with building an owner-direct sales network**

#### Enhancement of Solutions Proposals Capabilities

Strengthening sales and after sales capabilities to propose tailored-made solutions to address user concerns that include DX, carbon neutrality, and rising electrical bills

#### Expansion of Solutions Products

##### • Building of a global platform

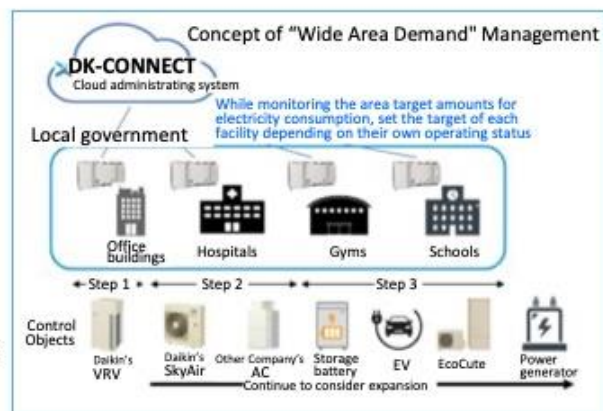
DK-CONNECT, semi-customized BMS:  
Subsequent expansion to other regions

##### • Enhancement of value-added applications

- Remote AC monitoring in multiple buildings: “Wide Area Demand” management for control
- Optimal control linking VRV and applied equipment

#### Improving Solutions Technologies

- Further improvement of platforms and applications
- Energy-saving AI control, sensor technologies for IAQ diagnosis, etc.



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We have set a sales target of JPY870 billion for 2025 for commercial solutions. In addition to the owner-direct sales network, the Company will focus on strengthening its proposal-based sales force, expanding its menu by application market, and enhancing its business promotion function.

In the area of solution proposals, the Company will strengthen its sales and service capabilities to propose individual solutions to the concerns of building owners and municipalities, such as DX, carbon neutrality compliance, and rising electricity costs.

In the expansion of solution products, we have established a platform to connect air conditioning systems, such as DK-CONNECT and semi-custom BM. From FY2023 onward, we will expand this business to each global regions.

In addition, we will enhance the value-added applications that can be placed on this platform. For example, we will work to expand applications such as wide-area demand management for remote monitoring and control of air conditioning units in multiple buildings, and optimal control by linking VRV and applied equipment.

We will further enhance our solution technologies, including further sophistication of platforms and applications, AI energy saving, and sensor technologies for IAQ diagnostics.

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## 2 Promotion of Solutions Businesses Connected with Customers

○ Establish themes for enhancing by vertical markets in each region as we develop for global product marketing by sharing proposal know-how and success stories from each region



### <Major Regional Initiatives and Improvement Themes by Vertical Market>

North America	<ul style="list-style-type: none"> <li>• <b>Acquisitions in major cities and sales channel construction for owner-direct proposals</b> <ul style="list-style-type: none"> <li>– Aim for being completely self-sufficient in the 18 most important cities</li> </ul> </li> <li>• <b>Theme enhancements by vertical markets</b> <ul style="list-style-type: none"> <li>– Hospitals/Offices: Low-cost and easy-to-install equipment monitoring and control system</li> <li>– Schools: Energy savings through coordinated control of VRV and applied ventilation (DOAS)</li> </ul> </li> </ul>
Japan	<ul style="list-style-type: none"> <li>• <b>Enhancement of specialized Solutions sales capabilities for each vertical market, such as local governments, buildings, and factories</b> <ul style="list-style-type: none"> <li>– Conclusion of a partnership in local government market through agreement with Kitakyushu City that currently implements energy management for the entire region</li> <li>Promote deployment and diversion to other local governments and vertical markets</li> </ul> </li> <li>• <b>Theme enhancements by vertical markets</b> <ul style="list-style-type: none"> <li>– Local governments: Visualization of power consumption, energy savings by energy-saving AI control, remote monitoring and control of air conditioners in multiple buildings</li> <li>– Offices: Operational efficiency improvements through failure prediction, equipment management support, etc.</li> </ul> </li> </ul>

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In addition, we will set specific themes by application market in each region, and horizontally deploy the commercial materials, proposal know-how, and successful case studies developed there on a global basis. As shown in the figure, two themes will be specifically promoted in Japan, three in Europe, two in North America, and two in Asia and Oceania, and know-how will be horizontally deployed.

For example, in North America, we are working on a facility monitoring and control system that can be easily and inexpensively installed in hospitals and offices, and energy conservation through coordinated control of VRV and applied ventilation for schools.

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## 2 Promotion of Solutions Businesses Connected with Customers

### 2) Residential Solutions (Net sales of FY 2023 ¥114.0B → FY 2025 ¥200.0B)

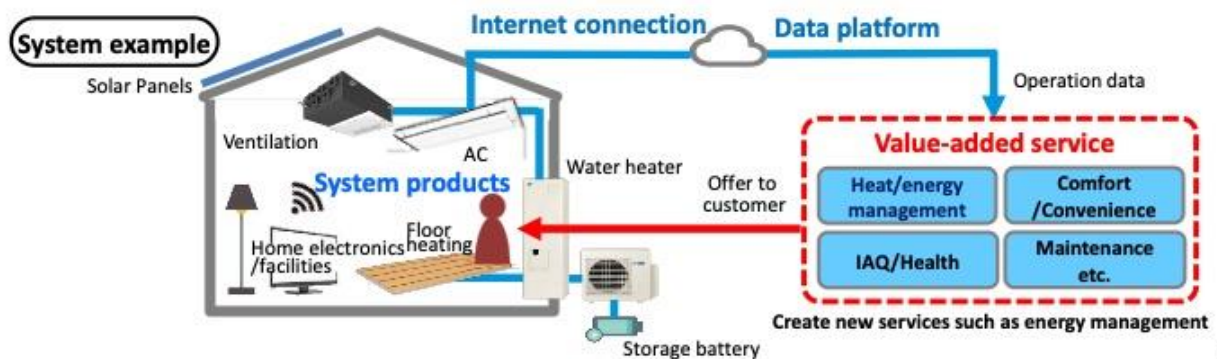
**Challenge creating our own Solutions model which combines energy efficiency and comfort by controlling the balance between heat and electric power of HVAC products, which account for most the energy used in a home**

○ Introduce HVAC system products that connect to the Internet in each region

<b>Europe</b>	PV-linked <i>Altherma</i>	<b>China</b>	Residential multi with IoT and smart functions
<b>Japan</b>	Net-connectable floor heating etc.	<b>North America</b>	<i>Daikin-One</i> and <i>Fit</i> system

○ Improve added value in products by enhancing services through connectivity and realizing comfort

○ Challenge building an energy-saving system such as energy management



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In residential solutions, we would like to take on the challenge of creating solution models that combine energy efficiency and comfort, such as heat and power balance control for HVAC products. We will first create and launch HVAC system products that connect to the Internet according to local conditions.

We would like to create new value-added services such as energy management, comfort, and maintenance by utilizing operational data obtained through internet connection. We aim for JPY200 billion in net-connectable HVAC sales in 2025.

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## 2 Promotion of Solutions Businesses Connected with Customers

### 3) Refrigeration Solutions (Net sales of FY 2023 ¥161.0B → FY 2025 ¥210.0B)

Strengthen business development in Asia, where market growth is expected, in addition to expansion of existing business, while challenging the creation of new business models such as "realization of decarbonization" and "reduction of food loss/waste" in the cold chain from areas of production to consumption

#### Promote store solutions business in Europe

Expansion of product lineup

- Deploy water circulation/heat recovery systems
- Expand lineup of CO<sub>2</sub> refrigerant remote showcases

Enhance the sales/engineering/ service organizations

#### Reinforcement of the Refrigeration business in Asia/Oceania

Business expansion in India, Indonesia, etc.

Commercial Refrigeration Equipment Market Size Forecast by Region



#### Expansion of Refrigeration business area to connect the cold chain

Business development for land transportation and industrial applications in Europe

Challenge new business that connects to cold chain by data  
• Establish freshness sensing technology, etc.



#### Full entry into the store market in Japan

Expand sales of plug-in showcases and selling equipment as a system including air conditioning, ventilation, and refrigeration



Plug-in showcase

25

The next theme is the refrigeration solutions. The refrigeration solution business is expanding now, especially in Europe and Japan, but significant market growth is expected in Asia in the future. We will also create new business models that lead to the realization of decarbonization, reduction of food loss, and solutions to social issues in the cold chain from production sites to the creation of consumption sites.

To this end, we will first connect the cold chain with data, in addition to expanding our business to include land transportation and industrial applications. For example, we would like to take on the challenge of developing a new business model that provides data connections for freshness and CO<sub>2</sub> emissions.

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### 3 Creating Value with Air

- ✓ Global IAQ and ventilation market is expected to grow from ¥1.8T in 2020 to ¥2.6T in 2025. In the latter-half plan, we will further expand our business by **shifting from the sale of stand-alone equipment to the sale of systems integrating air conditioners, ventilators, and air purifiers.**
- ✓ To create spaces that enrich people's lives, we will **challenge commercialization of four themes: infection prevention, allergens, oxygen, and autonomic nervous system**
- ✓ We will **explore new air value** through industry-academia collaboration, as well as providing value to future customers

#### 1) Establishment of large-scale IAQ/Ventilation business (Net sales of FY 2023 ¥313.0B → FY 2025 ¥380.0B)

**Expand sales by selling air conditioning, ventilation, and air purifying systems instead of standalone equipment sales while challenging air diagnosis and maintenance service proposals**

<b>Japan</b>	Propose systems that combine VRV and HRV
<b>Europe</b>	Using IAQ analysis data, make differentiated proposals leading to ventilation and filter cleaning
<b>China</b>	Propose Residential AC Solutions integrating air conditioners, ventilators, H/P floor heating, and controllers
<b>North America</b>	Develop next generation medium- and large-scale Applied rooftop air conditioners
<b>Asia/Oceania</b>	Energy-saving interlocking system of VRV + HRV for luxury housing and green buildings

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The next is creating value with air. The global air and ventilation market is expected to expand to JPY2.6 trillion by 2025. In the latter half three-year plan, we intend to further expand our business by shifting from the sale of stand-alone equipment to strengthen system sales of air conditioning, ventilation, and air purification systems.

We will take on the challenge of commercializing the four themes of infection prevention, allergens, oxygen, and autonomic nervous system, in order to realize air that enriches people's lives. We will also continue to explore new air value through industry-academia collaboration with universities.

In the major air and ventilation business, we aim to achieve sales of JPY380 billion in 2025 by making unique proposals for each region and strengthening system sales.

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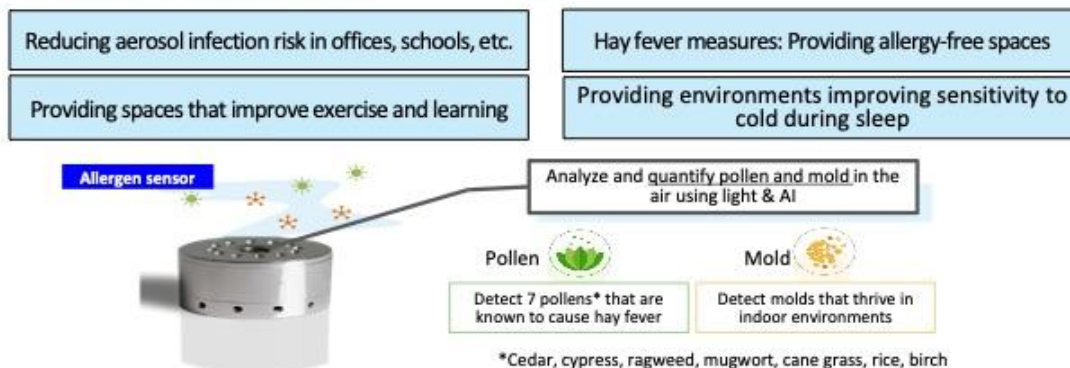
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### 3 Creating Value with Air

#### 2) Creation of IAQ/air environments that enrich people's lives

Challenge commercialization for the four themes of infection prevention, allergens, oxygen, and autonomic nerves



#### 3) Pursue new value with air

Create various types of future air value utilizing industry-academia collaborations

- Pursuing and Indexing Value for the “Future Air and Space” (The University of Tokyo)
- Realization of Air and Spaces Relating to Human Health and Comfort (Kyoto University)
- Air-conditioning Solutions and Healthcare Problem Solving in Arid Regions (Tottori University)



Daikin and The University of Tokyo Industry-Academia Co-Creation Forum (November 2022)

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In addition, to promote commercialization of these four areas that enrich people's lives, for example, we will materialize technologies such as allergen sensors as shown in the photo, and provide products.

In the third, we will also create air value by utilizing industry-academia collaboration with the University of Tokyo, Kyoto University, and Tottori University.

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## 4 AC Business in North America

- ✓ Capitalize on greater environmental awareness to lead the transformation of the North American market with environmental premium products that use our core technologies such as Inv, H/P, and R32
- ✓ Accelerate collaboration between Daikin Comfort Technologies North America, Inc. (DNA, formerly Goodman) and Daikin Applied Americas Inc. (DAA) to expand the Commercial and Applied Solutions businesses in addition to establishing Daikin as the overwhelming No. 1 position in the residential business as we aim to **become the No. 1 in the North American business**  
(Net Sales of FY 2023 ¥1,331.0B → FY 2025 ¥1,500.0B)



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In the North American business, we are trying to drive the North American market with environmental premium products that use our core technologies, such as inverter, heat pump, and R32.

In the residential market, we will establish the overwhelming number one position, while accelerating collaboration between two North American air conditioning companies, Daikin Comfort Technologies North America, Inc. (DNA) and Daikin Applied Americas Inc. (DAA). We have set a sales target of JPY1.5 trillion for FY2025 in order to be number one in North America by 2025.

We would also like to further expand this commercial business by accelerating the collaboration between DNA and DAA and proposing a system that combines both companies' commercial products, VRV and applied control.

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## 5 Establishment of a Major Base in India

- ✓ Establish an overwhelming No. 1 position for both Residential and Commercial by 2025 as the company reinforces its development functions and production capacity to improve competitiveness by taking advantage of economies of scale.  
(Net Sales of FY 2023 ¥138.0B → FY 2025 ¥175.0B)

<p><b>Equipment Business</b></p>	<p><b>Achieve overwhelming No. 1 market share by exceeding rivals in the residential and commercial markets</b> Strengthen dealer development in regional cities Expand VRV sales by proposing equipment and solutions corresponding to each application and developing residential VRV Enhance support for dealers and service shops using digital technology</p>	
<p><b>Solutions Business</b></p>	<p><b>Enhance proposals for equipment + control packages</b> Improve profitability by expanding maintenance contracts and menus</p>	
<p><b>Enhancement of business foundation as major development and manufacturing base</b></p>	<p><b>Establish a new factory in Southern Sri City (August 2023)</b> Improve local procurement rate and maintain multiple suppliers Reinforce HR and facilities at the R&amp;D center</p>	
<p><b>Launch of New Businesses</b></p>	<p><b>Enter the Refrigeration business</b> where there is high potential for growth</p>	 <p>Refrigeration equipment made in India</p>

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In the area of establishing a major base in India, we will establish an overwhelming number one position in both the residential and commercial markets by 2025. The Company will increase its development capabilities and production capacity to achieve a high level of competitiveness by taking advantage of economies of scale. We have set a sales target of JPY175 billion for 2025, but we also want to aim even higher.

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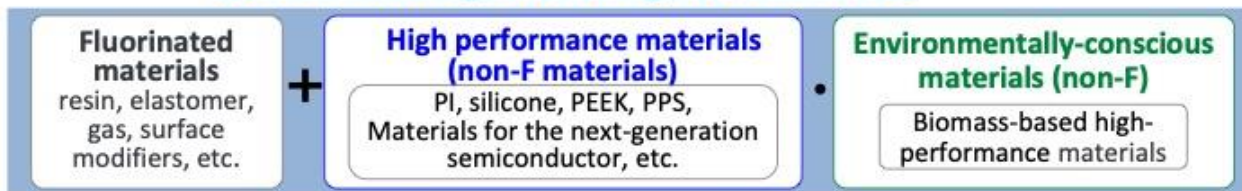
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## 6 Chemicals: Challenge to Become a Leading Company in High-performance and Environmental Materials

- ✓ Respond to the increasing demand for **materials with even higher performance and environmental consciousness**, mainly in the key chemicals markets (semiconductors, automobiles, ICT/terminal devices)
- ✓ Utilize alliances, partnerships, and M&A together along with the technology and customer base cultivated until now to **expand our lineup of high-performance and environmental materials without limiting ourselves to fluorine**

■ **Our goal:** To be a leading company in high-performance materials that is essential for the growth of high-tech industries



Further expansion of business by reinforcing proposal-making capabilities (augment product portfolio) focusing on key markets



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Here is another new addition, about our challenge to become a leading company in high-performance materials and environmental materials in the chemical business. We have cultivated quite difficult technologies and in addition to these technologies, we intend to make full use of alliances, collaborations, and M&A to expand our lineup of high-performance materials and environmental materials, without being limited to fluorine.

For example, we are considering high-performance materials such as polyimide with high heat resistance and low dielectric strength, silicon with high heat resistance and excellent water repellency, and PEEK with high heat resistance and high strength.

These high-performance materials do not use biomass-derived raw materials like ordinary resins. We are also looking to acquire biomass-derived generation technology for high-performance materials.

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## Ideal Value Creation

### Economic Value

#### FY 2025 Group targets

Net sales **¥4.55T**

Operating profit **¥500.0B**

Operating profit ratio  
**11%**

### Environmental/Social Value

GHG emissions reductions  
2025 target: **30%+** (from BAU\*)  
\*Business as usual



Contribute to cyclical use of resources (newly added)



Free humankind from heat and cold



Directly connect with customers and satisfy individual application needs



Offer safe, reliable, comfortable air/space



Contribute to reducing food loss/waste



Participate in international rule-making



Contribute to the growth of employees and local people



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In addition to our economic value of JPY4,550 billion and operating profit of JPY500 billion, we will also pursue environmental and social values. We also intend to make a major contribution to resource recycling, which we have newly added. This is the kind of value creation that Fusion 25 aims for.

That is all for the explanation.

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## Question & Answer

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**Sakamoto [M]:** We will now move on to the question-and-answer session.

Currently, there are six people who have raised their hands. Due to time limitations, please limit your questions to two at a time and keep them brief. Thank you for your understanding.

Mr. Isayama of Goldman Sachs, please.

**Isayama [Q]:** Thank you. I am Isayama of Goldman Sachs. Thank you very much today. Let me ask two questions about North America.

First, I would like to ask about the assumption of the numbers.

Please let me confirm whether the 10% OP margin that President Togawa mentioned refers to the JPY1.5 trillion on page 28 or 10% of DNA.

Also, the growth from JPY1,331 billion to JPY1,500 billion estimates an organic annual growth rate of 6% to 7% excluding foreign exchange rate effects. Though I think that is a reasonable figure, do you expect growth mainly in DNA, or do you see rather large growth in DAA in the future? I think this is an area where the environment is changing dramatically, so I would like to ask which you expect to lead the growth.

**Togawa [A]:** 10% target is for North America as a whole. We want to bring it to 10%, double digits by 2025. While operating margin for DAA, that is Applied AC, is just over 2% right now, we would like to increase this to about 8%. The most important point is how the solution business is brought to the structure to earn money.

And, DNA currently has an operating margin of about 9%. We believe that we can certainly achieve the 10% target by further expanding sales of high value-added products such as environmentally friendly products.

I personally believe that it is not that difficult to grow North American sales to JPY1.5 trillion by FY2025. As environmental awareness grows, the need for inverters and heat pumps is coming fast and very high in North America right now. I spent a week in North America recently, talking with government officials, environmental groups, and top management of dealers who actually handle our products. We have been talking about a very big opportunity is coming.

FIT is currently selling about 130,000 units, but we are now taking on the challenge of selling 500,000 units by FY2025. I believe we can generate an operating margin of 10% if we can achieve these numbers.

**Isayama [Q]:** Thank you very much. We are looking forward to achieving such a large number.

Second, what do you see as the key points for advocacy or lobbying activities in North America, especially with regard to the battle over R32 and GWP, over the next three years?

What are your current initiatives for R32 and the next. Could you please tell us what measures you are taking now and what measures you are planning to adopt for the medium term?

**Togawa [A]:** Refrigerants such as R32 are a very important factor, but I think another important point is how to accelerate the shift to inverter and heat pumps. There are now two types of regulations, EER which simply look at instantaneous energy savings, and SEER which look at overall energy efficiency on an annual basis.

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We would like to strengthen our response to the SEER regulations for inverters. The SEER regulation is now 15, but when this raised to about 17, non-inverters will not be able to respond it. I believe this situation will be our greatest strength with inverters.

As for heat pumps, there are now starting DOE regulations under the Inflation Control Act (IRA). We are lobbying to remove EER regulation and cover SEER regulation. If this works, we can expect to see growth in heat pumps more.

The problem is installation if we expand sales of the heat pump. The installation cost is about double the cost of the equipment in North America and Europe as well, though not in Japan. There are not enough people to install inverter products like FIT. So, not only the regulations, but also the network of contractors and the simplified, manpower-saving construction methods are very important factors.

**Isayama [Q]:** Thank you very much, President Togawa. In other words, although not mentioned in this medium-term plan, the intention to do M&A more as needed in the US has not changed over the past three years.

**Togawa [A]:** It hasn't changed, and we would like to strengthen it a little more. We have been acquiring Rep and instrumentation engineering companies for the past two years. DNA has acquired about three companies in the northeast including ABCO and ROBINSON, and we are trying to consolidate those three companies.

In the Northeast, we are trying to create overwhelmingly strong sales network what we call a holistic model. We are thinking of expanding that further to the Northwest and all of the United States. We believe that further acquisitions are necessary to build our unique sales model.

**Isayama [M]:** Very clear. Thank you very much.

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

**Sano [Q]:** Thank you. This is Sano from JPMorgan. I have two questions.

First, I would appreciate a detailed explanation of the reasons for DAA's current 2% profit margin and what will be changed to bring it to 8%.

**Togawa [A]:** In the first two years, we have been building a foundation to expand our solutions business and have spent quite a bit of money on acquisitions, such as the ones I mentioned earlier. As I explained at the beginning, we plan to reap the benefits of this in the next three years. If we reap this properly, I believe 8% is in sight.

For this, I think it is also important to have differentiated equipment. We are now considering a plan to launch differentiated product, with the ADC development center over there and the TIC development center in Japan working in unison to further strengthen the differentiation of our products. I believe that we were delayed in the introduction of differentiated products in the first half, which will finally be introduced.

To do a solutions business, we need to put in the equipment first. In addition, I think our customer base has been weak compared to our rivals. And it is the reps who have the customer base for the solution.

There are reps that only sell equipment, but there are also reps that have the expertise to not only sell equipment, but to respond in a proposal-based manner to the customer's needs. We have set up acquisitions of such companies until now. We are now at the stage where we can finally develop this as a full-fledged solution business.

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The current rate of just over 2% is due to such investments, various issues, etc. In the latter half three-year period, we expect to achieve 8% by reaping the benefits, etc., as I have just mentioned.

**Sano [Q]:** Thank you very much. Second, you mentioned creative destruction as a future change. I would like to ask about your company's efforts regarding generative AI.

There has been a lot of change on this theme in the last six months or so. As for your company, I believe that the way of sales and marketing will change in the future. President Togawa, please tell us how you plan to incorporate the changes in AI into Daikin's growth strategy and how you plan to develop it globally.

**Togawa [A]:** Okay. I will ask Executive Officer Ashida, who is in charge of corporate planning as well as TIC strategy, to explain about AI.

Regarding the use of AI, I believe that how to create algorithms is very important. In the value of air, I believe it is important to know what kind of algorithm to create in order to turn data into added value.

**Ashida [A]:** This is Ashida. We have not yet had such an in-depth discussion about generative AI. For example, in HVAC, we are discussing the possibility of an era in which construction drawings and proposal drawings for each construction site will be automatically generated by a generative AI.

Then there is the possibility that highly specialized people will no longer be needed in the future, which is, of course, a big risk. We must think about how to turn this into an opportunity. This is an example.

**Togawa [A]:**

In relation to air conditioning, I believe that sensor technology is also important. We have an idea to use algorithms to analyze the relationship between temperature and humidity and people's physical condition, and to make this into business.

Also, compressors are filled with oil, but the inside of the compressor is actually invisible. Deterioration due to oil leak and other factors, causing quality problems. The condition of the oil in the compressor is examined using sensing technology, AI will be linked to this for analysis. I believe that kind of utilization is possible. We have a lot of ideas now, but as Mr. Ashida said, I think there is still a long way to go.

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

**Sakamoto [M]:** Thank you. Now, Mr. Mizuno of UBS Securities.

**Mizuno [Q]:** Thank you for the opportunity to ask a question. I am Mizuno from UBS Securities.

The first is about the overall business. Sales are planned to increase by JPY450 billion from 2023 to 2025. According to page 18, sales from the heat pump category will increase JPY410 billion from 2023 to 2025. It appears to me that this product category accounts for a good portion of the total.

Of the four regions listed at the bottom of the slide, will Europe continue to be driver of growth? Will it expand to the area other than Air to Water?

Based on my calculation, I feel that this increase in sales can be explained only by the expansion of production capacity in Europe. However, some in the stock market are looking forward to a new expansion in North America and China. I would like to know more about that, including the figures.

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**Togawa [A]:** The person in charge will answer the detailed numbers. Currently, sales of air conditioners business in Europe for FY2022 are approximately JPY650 billion, and our plan for FY2025 is JPY800 billion, so we are projecting an increase of about JPY150 billion.

The figure of JPY420 billion to JPY830 billion for heat pumps is not only for Europe but for the whole world.

**Miyazumi[A]:** Sales of heat pump Altherma in Europe are planned to be JPY260 billion in 2023 and JPY600 billion in 2025.

Sales of FIT in the US are planned to be JPY40 billion in 2023 and JPY95 billion in 2025.

**Mizuno [Q]:** Understood. So, Europe is still the driving force?

**Miyazumi [A]:** Yes, that's right.

**Mizuno [Q]:** Understood. Thank you very much. Second, I would be happy to hear more about FIT.

Earlier you mentioned the figure of 500,000 units in FY2025. What is the overall impact of the residential unitary in the North American business?

I think the price is high, so I consider it to be a fairly large contribution to sales. Please explain the contribution to sales and the background to such rapid growth.

**Togawa [A]:** In the US, there are some differences among states, but in environmentally advanced states such as California and New York, environmental regulations are being strengthened at an accelerating pace.

Until now, in the US, heating has been non-inverter combustion gas heat. The move to inverters and heat pumps is, however, rapidly emerging. In that sense, the market is changing very much. We are trying to change the market of air conditioning in the US, and the opportunities are becoming even greater.

We were one of the first to introduce FIT, as a strategic product, which we are now rolling out. This is currently produced in the US, but the Company has also decided to invest in production in Mexico and is looking to increase FIT production to 500,000 units.

We are also trying to provide about three classes of FITs, from luxury FITs to popular FITs. We are also in the process of strengthening our efforts to create stores that can handle FIT.

In addition, we are strengthening our sales promotion support to sell FITs. It is more expensive than the non-inverter currently used. It is expensive, but the dealer has to know that it is worth it and sell it.

We are also working to make our construction projects construction-saving because of the high cost of construction in the US. We believe that if we combine all of our efforts, we can reach our goal of 500,000 units.

**Mizuno [Q]:** Thank you very much. What will happen to profit margins as FITs become more widespread? You mentioned earlier that DNA's profit margin is 10%, will it contribute to that? Can't we expect much in the way of profitability yet, since you are talking about the need to improve the system?

**Togawa [A]:** Of course, we see it as contributing to profitability. One of the reasons DNA was able to secure a high profit margin of 9% last year was its strategic selling price policy. We made various suggestions to the dealers and were able to increase the selling price.

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We also further increased the productivity of DNA's large plant in Houston and reduced costs, which also contributed to our profit margin.

Going forward, this growth in high value-added products from FIT will contribute to the operating margin. Also, right now we are delivering this from Asia, but if we produce it in the US or Mexico, we can further lower the cost even more. We believe this may allow us to aim for 10% or more.

**Mizuno [M]:** Understood. Thank you.

**Sakamoto [M]:** Thank you. Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities.

**Sasaki [Q]:** I'm Sasaki from Mitsubishi UFJ. Thank you.

First, let me confirm the concept of profit margin. This time, the OP margin target for FY2025 is set at 11%. I understand that one driver is the improvement of profit margins in the US.

I would very much appreciate it if you could tell us how we should consider the profit margin for markets outside of the US.

Should we consider that the profit margin will increase considerably in the US, so other regions will remain the same? Or is there room for profit margin improvement in other areas, but simply a conservative estimate?

**Togawa [A]:** As long as we are engaged in business, I believe that we must naturally pursue the expansion of scale and sales, and at the same time, how to increase profitability. At the beginning of Fusion 25, we were aiming for a profit margin of about 12% as our ideal. In considering future growth, we have determined that various investments will be necessary, and we plan to increase investments equivalent to 1% of the operating margin.

Regarding your question about the operating margin targets by region, Mr. Miyazumi will answer.

**Miyazumi [A]:** I would like to state our margin targets by region for FY2025.

In Japan, we are aiming for about 7% to 8%. In Europe, we are aiming for about 11% to 12%, in China 24% to 25%, and in the Americas (including all of Latin America) 8% to 9%.

In Asia, we are planning for about 11% to 12%, and in Oceania, about 2% to 3%.

**Sasaki [Q]:** Thank you very much. Looking at the figures you gave us, we see a considerable improvement in profit margin in the Americas, but a slight improvement in Europe and Asia, and not much change in China. 11%, as fixed costs increase quite a bit due to the global growth strategy. Is this understanding correct?

**Miyazumi [A]:** Yes. I think the drivers will be the Americas and Europe. In China, we will maintain profit margins.

**Sasaki [Q]:** Thank you very much. I understand very well. Second, please tell us about the chemical business.

I don't think there has been much talk of strengthening the chemical business in FUSION until now. What is the background behind why you are strengthening your chemical business at this time?

In addition, your chemical business has already earned nearly JPY50 billion in profit. How much profit do you plan to earn in the final year of FUSION25? Please tell us why the chemical business is becoming increasingly important and why you have chosen it as your theme.

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**Togawa [A]:** As you know, semiconductors and EVs are advancing rapidly, and one of the reasons is that we believe that various opportunities are opening up for our fluorine chemical business.

On the other hand, however, there are headwinds related to fluorine due to environmental and PFAS regulatory issues. We have both opportunities and risks in our fluorine business today.

Today we talked about high performance and non-fluorine, but the reality is that there is no easy substitute for fluorine's unique functions, especially in fields such as semiconductors and batteries. In this area, we are investing in a variety of ways to speedily develop differentiated products that cannot be found anywhere else, and to further expand the development of applications. At the same time, as I mentioned, environmental regulations such as the PFAS regulations pose a risks to our fluorine business.

In this sense, there is a need to consider non-fluoride at the same time. Considering Fusion 25 and beyond, we believe this is an important project and have made it our theme for this plan. As for the profit margin, we are aiming for about 18% in FY2025.

**Sasaki [Q]:** Can you disclose the amount of operating profit?

**Miyazumi [A]:** In monetary terms, it is JPY55 billion.

**Sasaki [Q]:** Thank you very much. Then, am I correct in understanding that in the midst of the recent PFAS regulations, you will continue to respond to it with Fusion 25?

**Togawa [A]:** You are right.

**Sasaki [M]:** This was very helpful. Thank you very much.

**Sakamoto [M]:** Thank you. Next, Mr. Maekawa of Nomura Securities, please.

**Maekawa [Q]:** I'm Maekawa from Nomura Securities. Thank you very much for your explanation.

I too would like to ask about DAA, or improving the profitability of both applied and filters. I believe you have continued to work on solutions.

In this context, the profit margin will improve significantly from 2% this time around. First of all, please tell us about that profit margin improvement curve. Are you already feeling a response to the improvement in profitability?

Also, regarding solutions, you mentioned earlier that you will see the effects of dealers and M&A in the future. On the other hand, I think the fact that you did not have much stock for applied was another reason why your service solutions were not yet as large as those of your US competitors. What should we think about it?

Also, perhaps you are also working on cost reduction with filters. In addition to solutions, there are probably other measures to improve profitability. I would be happy to learn that additionally.

**Togawa [A]:** The service solution ratio has not yet reached 40%, so in Fusion 25, we are working to further increase this. In order to raise the solution ratio, we have been working for the past two years to strengthen our solution proposal capabilities, including sales and service, and I believe that the foundation has been laid considerably.

We will also expand our solution products a little more. The large solutions offered in the US are tailor-made. We are finally launching a simplified platform called semi-customer EMS this year, which can be used anywhere.

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Also, we are now emphasizing value-added applications such as remote monitoring and various controls.

We are also in the process of enhancing our solution technologies, such as energy-saving control using AI and IAQ, a sensor technology that diagnoses air quality. Through such development, I believe that we can further increase the solution ratio.

The other is Reps. The US is a big country, but 18 cities account for about 60% of the US market.

In 11 of those cities, we have already laid a foundation in the first half of the plan with the acquisition of Reps and instrumentation engine companies. We are now negotiating acquisitions in the remaining seven cities. This brings the numbers I mentioned earlier into perspective. The plan is that if we increase the solution ratio in this way, we will surely be able to achieve a profit margin of 8%.

**Maekawa [Q]:** I understand. Thank you very much. Can the service solution from the rep acquisition be offered, for example, to another company's air conditioning stock? Or should we assume that the service solution will come out of your company's stock?

**Ueda [A]:** The service can be applied to any other company's chiller. Certainly the stock still needs to be increased more and more in the future. Until now, we have rather sold only equipment through bidding, but as Mr. Togawa mentioned, the fact that we are selling at a higher price by doing engineering is also contributing to higher profit margins.

**Togawa [A]:** I forgot to mention one thing. We are about to transfer chiller production to Mexico. Now they are manufactured in Staunton, USA, but at very high cost and with very low productivity. This is not good, so we have been planning this for several years. We are building a factory in Mexico this year and will begin full-scale operations next year. This will overwhelmingly lower costs.

Furthermore, we are also trying to reduce costs in procurement, which we believe will contribute significantly to profits.

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

**Sakamoto [M]:** Thank you. The time for closing is drawing near, but there are still some who have raised their hands. We will only take questions from the three people who raised their hands earlier.

Mr. McDonald from Citigroup Global Markets, please.

**McDonald [Q]:** Thank you very much for the opportunity today. One thing about heat pump heating, the plans in Europe are quite bullish.

Gas prices are plummeting. I think the economic attractiveness for heat pump heating will drop a bit as gas prices drop. I think there are a lot of questions about what will happen with Ukraine and Russia in the future, and competition will be tougher because of Carrier Corporation's purchase of Viessmann Group.

Earlier, Mr. Miyazumi mentioned that the sales target for heat pump heating in Europe for the fiscal year ending March 2026 is about JPY600 billion. Is this realistic? Have you factored in sufficient risk? Installation is said to be difficult or impossible, and some in the field have questioned whether heat pump heating will expand that easily, although demand may be high. What risks do you have in mind?

**Miyazumi [A]:** You are right about the European heat pump heating market, and there are many hurdles to concrete expansion. With regard to the acquisition of Viessmann by Carrier, which you just mentioned, we are naturally aware that it is a threat to our company.

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One of their unique features is their direct sales system. Because they are close to end users, they know their customers well. We recognize that this is their strength. Thus, it means that Carrier has acquired Viessmann's sales network. Carrier itself has heat pump technology, and a system was created to generate technological and sales channel synergies.

Compared to this, Daikin has an advantage in heat pump technology, but does not yet have a sales channel for heating combustion. We are aware that expanding sales channels will naturally be a challenge for Daikin.

**Togawa [A]:** The price of gas went up tremendously for a while, but it's coming down a little again. I think there is currently some influence of that. However, the combustion type cannot be used at all after 2030 due to regulations. In Europe, that regulatory trend has not changed.

The European heating companies that are now making combustion systems are trying to switch to heat pumps. Our rivals, see the greatest opportunity in this market and are investing more aggressively in production.

We were the first company to deploy heat pumps in Europe. We saw an opportunity here, so we strengthened our production and development systems faster than any other company. We are trying to further strengthen our sales and service network in order to increase our market share. The service network includes installation, as you mentioned.

I believe that by developing this, we can extend it further than the goals we are currently talking about. We will aim for the target value we have set for this project, but in some cases we expect to exceed it. It was against this background that we quickly decided to invest in a factory in Poland.

**McDonald [Q]:** Okay. I talk to my British acquaintances, I hear their doubts: no one has ever bought a heat pump, and they don't want to install one because they are too expensive and there are installation problems. I would like to see your company succeed, but I think the hurdles are still high.

**Togawa [A]:** You are certainly right. There is a tremendous opportunity for inverters and heat pumps, and the overall trend is to move to heat pumps. But in fact, from the customer's point of view, combustion systems are cheaper and heat pumps are much more expensive, so they are hesitant.

So, I think it is very important to what extent we can penetrate the market that it is different and more valuable than the combustion type. Especially for installation work, I think it is important to provide training on installation methods so that installers can lower their prices, which is what we are trying to do in Europe.

I think there is a need to promote the advantages of heat pumps to customers and make them more familiar with them.

**Miyazumi [A]:** Perhaps heat pump heating is at a stage in its product life cycle in Europe where it is going from an introduction phase to a growth phase. Thus, they see it as a growth market, just as Carrier acquired Viessmann.

Naturally, the result is a red ocean. Therefore, Daikin's future direction is to compete by multiplying its technological strength and sales channels.

**McDonald [M]:** Understood. Thank you very much. I wish you the best of luck.

**Sakamoto [M]:** Thank you. Mr. Ishino of Tokai Tokyo Research Institute, please.

**Ishino [Q]:** I am Ishino from Tokai Tokyo Research Institute. I would like to ask you about the Indian market.

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I have the impression that the speed of expansion of the Indian business is a little slow. I would appreciate it if you could talk again about the challenges or risks and opportunities for growth in the Indian market.

**Togawa [A]:** With a population of more than 1.4 billion, and with less than 100 million of the wealthy among them, and a fairly high rate of economic growth, the middle-income class is growing more and more. I believe that the penetration rate of air conditioners in India has not yet reached 10%, but I believe that the penetration rate will expand quickly beyond 10%. As such, I think room air conditioners for residential use are a market that will grow furiously.

In addition to the plant in Nimrana in the north, we have decided to invest in a new plant in Sri City in the south, which will be capable of producing 1.5 million room air conditioners. This is probably not enough, and we are considering whether we need another plant in the west.

Our current sales targets are JPY138 billion for FY2023 and JPY175 billion for FY2025, and we believe there is a possibility that we can exceed this JPY175 billion target for FY2025.

I believe we can still grow by further strengthening the development of dealers in regional cities, developing solutions that combine not only equipment but also everything else, expanding our business for residential customers, and expanding sales of VRV.

Commercial use is also growing steadily now. In India, the maintenance rate for commercial use is very high.

There is a possibility to further expand this maintenance contract and further increase profitability. In addition, India is facing major challenges in terms of food issues, so I believe that the refrigeration business could grow tremendously, depending on how it is done.

Thus, there are many possibilities that are not represented in the sales figures presented here. Once we set these goals, we hope to go beyond them.

**Ishino [M]:** Thank you.

**Ueda [A]:** Regarding the risk aspect, we will run out of people if we do not train personnel to handle installation, sales, and service in proportion to the growth of the market. There are such risks, but conversely, we would like to turn them into opportunities by making them self-supporting.

**Ishino [Q]:** What is the current profit margin in India and how much do you expect it to improve to in the future with the increase in maintenance contracts?

**Ueda [A]:** Right now, we are in a stage where equipment is growing rapidly, and sales are much higher. We want to deploy solutions as the equipment becomes more widespread, so this will not be an immediate benefit. As the market expands a bit more and we become more prepared, I think our profit margins will increase. We would like to aim for a profit margin in excess of 10%.

**Ishino [M]:** Thank you.

**Sakamoto [M]:** Thank you. Finally, Mr. Watanabe of Mito Securities, please.

**Watanabe [Q]:** My name is Watanabe from Mito Securities. I have one question.

You have set a target of JPY4.5 trillion and an operating margin of 11% for FY2025. I hope it go up to 12% or 13% through growth and improved profitability.

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I believe that you are now working on improvement activities to increase profit margins in various regions, such as North America, India, and Europe. If your company's sales rise to, say, JPY6 trillion or JPY7 trillion, and your market share increases more and more, will it be easier to increase your profit margin?

**Togawa [A]:** For example, no matter how many value-added products the third- and fourth-ranked companies offer, I think it is difficult for them to raise prices in the overall market.

In that sense, I think it is important to have a market size. In addition, in order to increase profit margins, it is necessary to speedily introduce products that are differentiated from rivals. I think the key is whether or not we can create products that customers recognize as valuable and want to buy, even if they are expensive.

Therefore, we have always considered both expansion of scale and profitability in our strategic development, and I believe there is a need to continue to do so in the future.

**Watanabe [M]:** Thank you.

**Sakamoto [M]:** Thank you. This concludes the briefing on the latter half three-year plan of Fusion 25. Thank you all for joining us today through the end.

**Togawa [M]:** Thank you very much, everyone. Thank you for your continued support.

[END]

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#### **Document Notes**

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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