Daikin Industries, Ltd.

Financial Results Briefing for the Fiscal Year Ended March 2024

May 10, 2024

Event Summary

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[Number of Speakers]	6	
	Masanori Togawa	President and CEO, Member of the Board
	Satoshi Funada	Senior Executive Officer, General Manager of Japanese AC Sales Division
	Yoshiyuki Hiraga	Senior Executive Officer, Responsible for Chemical Division
	Shoji Uehara	Executive Officer, General Manager of Global Operations Division
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Department Manager of Corporate IR Group, Corporate Communication Dept.
[Analyst Names]*	Yuichiro Isayama	Goldman Sachs
	Tomohiko Sano	JPMorgan Securities
	Kentaro Maekawa	Nomura Securities
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities
	Graeme McDonald	Citigroup Global Markets
	Hirosuke Tai	Daiwa Securities
	Sho Fukuhara	Jefferies

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Sakamoto: We will now begin the Daikin Industries, Ltd. financial results briefing for the fiscal year ended March 31, 2024. Thank you for taking time out of your busy schedule to join us today.

The explanatory material is available on the Company's website under Investor Relations and can be downloaded as necessary.

Today's speakers are Masanori Togawa, President and CEO, Member of the Board; Satoshi Funada, Senior Executive Officer, General Manager of Japanese AC Sales Division; Yoshiyuki Hiraga, Senior Executive Officer, Responsible for Chemical Division; Shoji Uehara, Executive Officer, General Manager of Global Operations Division; and Kota Miyazumi, Executive Officer, Responsible for Corporate Communication.

I, Sakamoto of Corporate IR Group, will be the facilitator. Thank you for your cooperation.

Today, after President Togawa will speak first, and then Executive Officer Miyazumi will give an overview of the financial results. The presentation will last approximately 40 minutes, followed by a Q&A session. The end time is scheduled at 12:00.

Now, President Togawa, could you please?

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

Last fiscal year, many regions and businesses faced a difficult business environment in which demand fell more than expected. However, by strengthening proposals for products and services that lead to carbon neutrality and energy savings, implementing priority measures such as thorough implementation of selling price measures and total cost reduction, expanding sales in India and other regions where Applied is performing well, and expanding sales through high value-added products, as a result, net sales and operating profit both exceeded the previous year's levels, and the Company was able to achieve record-high business results.

The decline in demand for heat pump heating in Europe and ducted unitary for houses in the US led to a decrease in operating profit for the 3 months of the third quarter. However, in Europe, we worked to strengthen order acquisition by promoting the handling of heating systems at existing air-conditioning stores, developing new channels, and stepping up visits to dealers. In the US, we have taken steps such as launching the FIT system in the volume zone in the ducted unitary for houses market and fostering proposal-based dealers.

At the time of the third quarter results, we had not yet fully reaped the results of our measures. However, in the fourth quarter, we took the various measures I mentioned, and these measures produced maximum results, and we were able to increase sales and profits. And we believe this is what led to our record annual sales of JPY4,395.3 billion and operating profit of JPY392.1 billion.

Mr. Miyazumi will explain the details of the financial results for FY2023 later. I would like to take a few moments to elaborate on our financial outlook for FY2024 and our management posture.

The annual plan for FY2024 is JPY4,540 billion in net sales and JPY425 billion in operating profit. We will achieve double-digit or more profit growth on a real basis excluding foreign exchange, and restore the operating profit margin to the 9% level.

Next year will be the final year of FUSION25. We will respond to changes in the business environment with a focus on promoting carbon neutrality and energy service solutions, which is the growth strategy of the FUSION25 second half plan. We will not only secure short-term profits, but also implement themes that will strengthen profitability with a view to medium- to long-term growth.

However, with regard to the business environment surrounding the Company in the current fiscal year, residential air conditioning demand is expected to remain low-growth in all locations due to sluggish consumption caused by inflation and high interest rates, and the heat pump heating market in Europe remains difficult to see a recovery. The impact of inflation is expected to be severe, with soaring prices for procured parts and higher labor cost, as well as continued cost increases.

In this environment, we will work on priority themes such as strengthening sales and marketing capabilities to balance sales expansion and market share growth with selling price measures to absorb cost increases, reducing variable costs on a global basis, and improving fixed cost efficiency.

In addition, global demand for Applied air conditioning is growing, especially in North America, Asia, and Europe. In addition to expanding sales by strengthening product development and sales networks in each region, we plan to enhance profitability by strengthening the solutions business for commercial use.

By maximizing the results of these measures, we hope to achieve a strong increase in profits and, with the 100th anniversary of our founding as a milestone, make a start toward new growth and development of the Daikin Group in the next 100 years.

I would like to discuss in detail some of the measures we will be taking in FY2024 to improve profitability.

First, let me talk about North American air conditioning, which is of great interest to you. In the North American air conditioning business, our goal for the current fiscal year is to become number 1 in North America in FY2025. Despite the slow recovery of the housing market, DNA will continue to develop and nurture premium dealers in ducted unitary for houses to expand sales of FIT and other high value-added products.

The new plant in Mexico started operation in April, and the Company will work to improve profitability by increasing selling prices through the switch to R32 and by capturing cost reduction effects. In the robust commercial market, we will also work to expand sales of VRV systems and rooftops.

DAA, which sells Applied, will continue to expand its sales in the market for applications such as data centers, EV batteries, and semiconductor manufacturing, which remain strong.

As for chillers, we will work on cost reduction effects from the full-scale operation of the new plant in Mexico. We will promote a structural shift to a cyclical solutions business by leveraging the commercial products, engineering capabilities, and proposal capabilities of the companies we have acquired so far.

The solution sales ratio in North America is planned to be 40% in FY2024. We would like to challenge even higher levels to achieve the 50% goal set forth in FUSION25.

In North America, we have already expanded our own locations to 13 cities in order to establish an owner-direct sales network in 18 priority cities. For the remaining 5 cities, we will complete the establishment of our own sales channels by the end of FY2024 through the acquisition of reps. By the end of FY2025, we will strengthen to a level where we can offer value-added energy service solutions in all 18 cities.

Next is Europe. In the European air conditioning business, the market recovery for heat pump heating has been slow, and we expect it will probably take 2 or 3 years before the market returns to the previous demand assumption. However, we believe that the market is certain to expand in the medium term.

On the other hand, rival manufacturers have also been aggressively investing in the past few years, and competition is intensifying. In order for our company to generate high profits in such an environment, we believe it is necessary to further strengthen our business foundation and outperform rival manufacturers.

In Europe, the introduction of natural refrigerants is being actively promoted, and we will be introducing R290 heat pump heating this November. Furthermore, we are actively involved in the development of unified European guidelines for the safe handling of R290, and we will continue our efforts to promote the use of heat pump heating in the industry as a whole.

Regarding sales capabilities, we have the largest dealer network in the European air conditioning business, and we will strengthen our sales network by expanding the handling of heating systems at these existing air conditioning stores.

We will also take steps to reduce construction costs, which have been an obstacle to the widespread use of heat pump heating. Last December, we acquired a residential heating service company in the United Kingdom. By pursuing these acquisitions in various European countries, we hope to strengthen our own service system and construction capabilities by combining our existing sales and service capabilities.

The new Poland plant will start operation in October as scheduled, and will produce R290 to expand sales. For residential commercial air conditioning, we will support wholesale affiliated stores and actively develop and nurture dealers to re-strengthen our sales force and expand sales for heating purposes.

Next is China. In the China air conditioning business, we will continue to focus on securing sales of residential multi-split air conditioners amid a slow recovery in real estate investment. In addition to selling unique solutions and expanding our service menu, we will differentiate ourselves by strengthening R&D and speedily roll out new products.

In commercial use, we will also maintain a highly profitable business by accelerating the solution business in commercial markets such as factory and data center applications, which are robust in response to carbon neutrality.

The domestic air conditioning business is facing a difficult business environment in which significant market growth is not expected and the weak yen is leading to higher costs. We believe it is important to capture market changes, such as carbon neutrality, that will lead to increased earnings.

In the residential sector, we will focus on system proposals for housing equipment and the development and proposal of specialized energy-saving equipment. In the commercial market, we will strive to increase market share and sales price by strengthening solution proposals and owner-direct sales to the factory and building stock market.

In the Asian air conditioning business, we will expand sales in all product groups by promoting the shift to inverter by strengthening proposal capabilities in each country, developing and launching differentiated products specialized for each region, and increasing selling prices by expanding sales of high value-added products.

In particular, for India, among other Asian countries, we will further expand sales by accelerating the building of a dominant sales network from Tier 2 to Tier 4 regional cities. We are also raising our sales target from the JPY170 billion initially set in the second half of FUSION25 to JPY200 billion.

Furthermore, we will further strengthen our function as a production and development base with a global perspective, not only to expand domestic sales in India, but also to expand exports to Africa and other regions.

Last August, we started mass production of air conditioner at our new plant in the south of the country as planned. We are also in the process of enhancing the facilities of our R&D center for product development and strengthening the hiring of local engineers.

Next, I would like to discuss the Chemical business. As for the Chemical business, we will promote the development of applications in so-called essential markets such as semiconductors, automobiles, information and telecommunications, and medical, as well as product development of high-functional materials that meet environmental needs.

In the strong semiconductor market, PFA continues to be in full production. We plan to expand sales and improve profitability at the same time by increasing production without investment.

Next, I would like to discuss investment. As for investment, the theme of strengthening for the future has not changed, and we do not intend to loosen the hand of forward-looking investment.

In FY2024, we plan to make 5 major investments in air conditioning plants in Poland, Mexico, India, and other countries to increase production capacity, as well as to complete construction and start operations of a second plant in China for chemicals. For investment projects that have already started construction, we are considering flexibly reviewing the timing of start-up and scale while monitoring demand trends. By strengthening the reaping of investments, we will steadily improve profitability.

In addition, we intend to further create synergies from the acquired companies that we have implemented to date, such as strengthening the sales network and service solutions business of the North American air conditioning business and the refrigeration business in Europe.

In order to achieve the second half of the FUSION25 plan, we believe that the operating profit of JPY425 billion in this fiscal year's plan is a must-achieve target. We will strive to achieve and even exceed this goal.

To this end, we believe it is essential to further strengthen and improve our earning power. To that end, I would like to mention some of the initiatives we are currently pursuing.

By business and region, for example, we are further expanding our service solutions business for Applied Air Conditioning and Commercial Air Conditioning globally, further expanding sales of environmental premium products such as FIT in North America, and further expanding sales by strengthening our dealer network and improving service quality in India, where growth is remarkable.

Earlier, I mentioned that we planned the solution ratio of 40% in the North American Applied business in order to achieve the operating profit target of JPY425 billion for FY2024. As a further challenge, we are considering raising the solution ratio from 40% to 45%.

In FY2024, we intend to expand the creation of results from these priority measures in order to expand business performance, improve profitability, and strengthen our business structure, leading to the achievement of our goals for the second half of FUSION25.

Finally, at the Board of Directors meeting held yesterday, the Board informally approved the appointment of officers, including a review of the top management structure. We celebrate the 100th anniversary of our founding with the highest performance and start the next 100 years of further growth and development. By transitioning to a new management structure in such a milestone year, we hope to confront this era of change that cannot be answered by an extension of the past.

Companies of the future are expected not only to create economic value, but also to pursue environmental and social value and solve social issues. With our new structure, we will make a concerted effort to contribute to a sustainable society and to achieve growth for the Group.

Regarding the change in top management, Noriyuki Inoue will step down as Chairman of the Board and assume the role of Chairman Emeritus, but will remain as Chief Global Group Officer of the Company. I will succeed Chairman Inoue as the candidate for Chairman and CEO, and Naofumi Takenaka, Senior Executive Officer, will be the new candidate for President and COO.

There are 3 main points in this review of executive appointments. The first is a review of the composition of the Board of Directors in order to strengthen the foundation for further growth.

Second, with respect to the increasing demand for companies to ensure diversity, we have increased the number of female board members in order to promote further advancement of diversity management.

Third, while steadily promoting the FUSION25 themes and achieving their targets, we also strengthened our executive structure to thoroughly address structural reform themes, and new value creation themes with a view to further growth and development in the future.

The new structure must not result in a decline in performance. We will work for further growth and development after first achieving the required results for this fiscal year.

That concludes my explanation, and I, along with the board members present today, would like to answer your questions later.

Next, Mr. Miyazumi explains.

Ⅰ. FY2023 Financial Results

Both net sales and operating profit exceeded the previous fiscal year for new record highs.

Demand fell lower than expected due to stagnant demand for durable consumer goods caused by inflation, a slowdown in Heat Pump Heating demand in Europe, and the impact of distribution inventory adjustments resulting from a decline in housing investment in the United States.

To minimize the negative impact on demand, Daikin enhanced its proposals for products and services promoting carbon neutrality and energy solutions while thoroughly implementing strategic selling price measures and total cost reductions.

This flexible response to changes in the business environment, including the bolstering of sales capabilities in Europe and the United States, led to a year-on-year increase in Q4 (January-March) profits and reversed a decline seen in Q3 (October-December).

- ✓ Air Conditioning business: Sales expanded in China and Asia despite sluggish demand in each region. In Japan, the Americas, and Europe, focus was on proposal-based sales in markets identified as strong.
- ✓ Chemicals business: Despite the significant impact of sluggish demand, the trend toward rising profits was maintained by expanding sales and implementing selling price measures for high-performance materials for semiconductor manufacturing equipment where demand remains strong.

	FY2022	FY2023		YoY
(billion yen)	Results	Forecast	Results	
Net sales	3,981.6	4,240.0	4,395.3	110%
Operating Profit	377.0	400.0	392.1	104%
(%)	(9.5%)	(9.4%)	(8.9%)	
Ordinary Profit	366.2	380.0	354.5	97%
(%)	(9.2%)	(9.0%)	(8.1%)	
Profit Attributable to Owners of Parent	257.8	264.0	260.3	101%
(%)	(6.5%)	(6.2%)	(5.9%)	
USD/JPY	¥135		¥145	
EUR/JPY	¥141		¥157	
RMB/JPY	¥19.8		¥20.1	

FX Effect (YoY)

Net Sales	+208.5 billion yen
Operating Profit	+19.0 billion yen

YoY Results Excluding FX Effect

Net Sales	105%
Operating Profit	99%

3

Miyazumi: My name is Miyazumi. I will now present an overview of the financial results for the fiscal year ended March 31, 2024, in accordance with the material provided.

For the fiscal year ended March 31, 2024, both net sales and operating profit exceeded the previous year's levels, setting a new record for the Company.

Demand was lower than expected due to sluggish demand for consumer durables caused by inflation, a slowdown in demand for heat pump heating in Europe, and the impact of inventory adjustments in distribution due to a decline in US housing investment.

Under such circumstances, we were able to minimize the negative impact of demand by thoroughly implementing key measures such as strengthening proposals for products and services with a focus on carbon neutrality and energy solutions, strategic selling price measures, and total cost reductions, which are key themes for this fiscal year.

In the 3 months of the third quarter, operating profit declined YoY, but the Company flexibly responded to changes in the business environment by strengthening its sales capabilities in Europe and the United States, resulting in a turnaround to higher profit in the fourth quarter.

Actual exchange rates were JPY145 to the dollar, JPY157 to the euro, and JPY20.1 to the Chinese yuan. The foreign exchange impact versus the previous year was a JPY208.5 billion increase in net sales and a JPY19.0 billion increase in operating profit.

Financial Results by Segment

(billion yen)		FY2022	FY2023		
		Results	Forecast	Results	YoY
Total	Net sales	3,981.6	4,240.0	4,395.3	110%
	Operating Profit	377.0	400.0	392.1	104%
	(%)	(9.5%)	(9.4%)	(8.9%)	
Air Conditioning	Net sales	3,629.8	3,886.0	4,028.8	111%
	Operating Profit	324.5	345.5	333.3	103%
	(%)	(8.9%)	(8.9%)	(8.3%)	
Chemicals	Net sales	263.4	260.0	263.9	100%
	Operating Profit	45.4	47.5	51.5	113%
	(%)	(17.2%)	(18.3%)	(19.5%)	
Others	Net sales	88.4	94.0	102.6	116%
	Operating Profit	7.2	7.0	7.3	102%
	(%)	(8.1%)	(7.4%)	(7.2%)	

*Air-Conditioning business includes filter, refrigerator and freezer businesses.

4

Results by business segment. In the Air Conditioning business, net sales in real terms excluding the effect of exchange rates were 106% of the previous year's level, and operating profit was 98% of the previous year's level. In the midst of a difficult business environment where demand is declining in all regions, we believe we were able to identify solid markets and make maximum efforts to differentiate ourselves and expand sales of our products and services.

In the Chemicals business, despite being significantly affected by the slowdown in demand, the segment maintained profit growth in real terms excluding the effect of foreign exchange rates, thanks to sales expansion in high-performance materials for semiconductor production equipment, for which demand is strong, and the inclusion of selling price effects.

The amount of foreign exchange impact was, in the Air-Conditioning business, an increase of JPY195.0 billion for net sales and an increase of JPY15.0 billion for operating profit; in the Chemical business, it was an increase of JPY10.0 billion for net sales and an increase of JPY4.2 billion for operating profit; and in the Others business, it was an increase of JPY3.5 billion for net sales and a decrease of JPY0.2 billion for operating profit.

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

Profit and Loss Statement

(billion yen)	FY2022	FY2023		vs PY
	128	110		
Net sales	3,981.6	**4,395.3**		+413.7
Cost of sales	2,650.1	**2,885.6**		-235.5
	(66.6%)	**(65.7%)**		
Gross profit	1,331.5	**1,509.7**		+178.2
	(33.4%)	**(34.3%)**		
Selling general and administrative expenses	954.4	**1,117.5**	*1	-163.1
	(24.0%)	**(25.4%)**		
Operating profit	377.0	**392.1**		+15.1
	(9.5%)	**(8.9%)**		
Non-operating income and expenses	-10.8	**-37.6**	*2	-26.9
Ordinary profit	366.2	**354.5**		-11.8
	(9.2%)	**(8.1%)**		
Extraordinary income and losses	7.1	**30.8**	*3	+23.7
Profit before income taxes	373.4	**385.3**		+11.9
	(9.4%)	**(8.8%)**		
Income taxes	107.9	**115.5**		-7.5
Tax burden ratio	28.9%	**30.0%**		
Profit attributable to non-controlling interests	7.7	**9.5**		-1.8
Profit attributable to owners of parent	257.8	**260.3**		+2.6
	(6.5%)	**(5.9%)**		

*The parentheses above indicate percentages to net sales.

***1 Changes in selling, general and administrative expense**

R&D expense	-19.4
Sales promotion / advertising expenses	-9.0
Product shipping costs	-6.0

***2 Changes in non-operating gains or losses**

Foreign exchange gains	-4.9 (3.8 → -1.1)
Interest income	+4.5 (11.6 → 16.1)
Interest expenses	-24.6 (20.3 → 44.9)
Inflation accounting adjustment	-4.0 (8.5 → 12.5)

(Adjustments due to the application of inflation accounting in Turkey.)

***3 Changes in extraordinary gains or losses**

Loss (gain) on sale of investment securities	+30.2 (16.1 → 46.3)
Impairment loss	-3.7 (8.6 → 12.2)

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

5

Changes in major items in the consolidated statements of income are shown. Despite efforts to lower the cost of sales ratio by promoting cost reductions, the SG&A-to-sales ratio increased. This was due to an increase in labor costs, in addition to upfront investments in R&D and depreciation and amortization.

Ordinary profit decreased due to an increase in interest expenses and the impact of continued inflation in Turkey.

As an extraordinary loss, an impairment loss on intangible assets was recorded at the AHT Group, a subsidiary manufacturing and selling commercial refrigerated showcases in Europe. In the previous fiscal year, the Company impaired a portion of its intangible assets, including goodwill, due to the fact that it no longer expects to generate the revenue originally planned at the time of acquisition. In the period under review, the Company recognized impairment losses on a portion of its intangible assets as of the end of the period under review due to higher-than-expected investment restraints by major customers and the impact of rising interest rates.

Policy stockholdings were substantially reduced during this period and gains on sales were recorded. We intend to continue our policy of downsizing in the current fiscal year.

Balance Sheet

(billion yen)		2023/3E		2024/3E	vs PY
Cash and deposits		617.7		**738.0**	+120.3
Notes and accounts receivable – trade, and contract assets	65 days	706.3	68 days	**815.3**	+109.0
Inventories	91 days	993.4	87 days	**1,047.7**	+54.4
Fixed assets		1,559.4		**1,818.7**	+259.3
Investment securities		169.6		**171.9**	+2.3
Others		257.3		**288.7**	+31.3
Total Assets		4,303.7		**4,880.2**	+576.5

	2023/3E	2024/3E	vs PY
Notes and accounts payable – trade	352.6	**326.0**	-26.6
Interest bearing debt	887.6	**968.2**	+80.6
(Interest bearing debt ratio)	(20.6%)	**(19.8%)**	
Others	784.3	**898.7**	+114.4
Total liabilities	2,024.6	**2,192.9**	+168.3
Total equity	2,235.0	**2,637.5**	+402.5
(Equity ratio)	(51.9%)	**(54.0%)**	
Share acquisition rights	3.1	**3.8**	+0.7
Non-controlling interests	40.9	**46.0**	+5.0
Total net assets	2,279.1	**2,687.3**	+408.2
Total liabilities and net assets	4,303.7	**4,880.2**	+576.5

Breakdown of interest bearing debt

	2023/3E	2024/3E	vs PY
Short-term borrowings	293.5	**363.2**	+69.7
Commercial papers	79.0	**50.4**	-28.6
Bonds	160.0	**140.0**	-20.0
Long-term borrowings	228.0	**258.4**	+30.3
Lease debt	127.0	**156.2**	+29.2
Total	887.6	**968.2**	+80.6

6

This section describes the major items on the consolidated balance sheets and the details of interest-bearing liabilities. Interest-bearing debt has increased due to aggressive capital investments, including the construction of new plants.

With regard to inventory, we had indicated a policy of reducing inventory by JPY100 billion at the time of the announcement of the second quarter financial results last November, but the improvement was limited to about 4 days in terms of the number of days held.

This was due to a thick strategic inventory position in response to the supply chain disruption caused by the COVID-19 pandemic. On the other hand, inventory reduction has been delayed, and we will continue our efforts to reduce it to an appropriate level.

Analysis of Changes in Operating Profit - YoY

*Air-Conditioning business includes filter, refrigerator and freezer businesses.

	FY2022 Results	Foreign Exchange	Raw Materials (including logistics costs)	Fixed Costs, etc.	Sales Expansion	Selling Price	Cost Reductions	FY2023 Results
Total	**377.0**	**+19.0**	**-18.0**	**-66.0**	**-54.9**	**+85.0**	**+50.0**	**392.1**
Air Conditioning	324.5	+15.0	-25.7	-55.5	-35.8	+62.7	+48.2	333.3
Chemicals	45.4	+4.2	+7.2	-9.1	-18.3	+20.9	+1.2	51.5
Others	7.2	-0.2	+0.5	-1.4	-0.7	+1.4	+0.6	7.4

7

This is an analysis of YoY changes in operating profit. We estimate that the impact of the decline in demand was approximately JPY100 billion on an operating profit basis. In response, the Company worked to expand sales, increase market share, implement selling price measures, reduce costs, efficiently manage fixed costs such as cut expenses and curtail hiring to offset the negative impact.

The breakdown of the impact of raw material market conditions and soaring logistics costs, on the Air Conditioning business is as follows: copper: positive JPY7 billion, aluminum: positive JPY7 billion, steel: positive JPY3 billion, resins and others: negative JPY54.5 billion, and logistics costs: positive JPY12 billion.

Ⅱ. FY2024 Business Forecast

In aiming to achieve new record highs in financial results for FY2024, we foresee a significant increase in operating profit on a real basis, excluding the foreign exchange effect. We are looking to surpass current targets by challenging even further to increase profitability.

Together with the ongoing severe business environment, including a slow recovery in demand for Residential and the sluggish demand for Heat Pump Heating in Europe, Daikin anticipates a negative impact from increased costs (rising parts procurement costs, rising labor costs, etc.).

To combat these, we will refine our strengths of a strong sales network, product development that meets local needs, and a robust supply chain. Also, we will expand businesses with strong demand, such as Applied and Commercial air conditioning, and work to sustain the trend toward rising profits through strategic selling price measures and drastic total cost reductions.

Likewise, we will promote measures including carbon neutrality and energy service solutions that are growth strategies for the latter half of FUSION25.

	FY2023 Results			FY2024 Forecast					
(billion yen)	H1	H2	Total	H1	YoY	H2	YoY	Total	YoY
Net sales	2,225.2	2,170.2	4,395.3	2,300.0	103%	2,240.0	103%	4,540.0	103%
Operating Profit	235.7	156.4	392.1	243.0	103%	182.0	116%	425.0	108%
(%)	(10.6%)	(7.2%)	(8.9%)	(10.6%)		(8.1%)		(9.4%)	
Ordinary Profit	221.1	133.4	354.5	222.0	100%	168.0	126%	390.0	110%
(%)	(9.9%)	(6.1%)	(8.1%)	(9.7%)		(7.5%)		(8.6%)	
Profit Attributable to Owners of Parent	153.0	107.3	260.3	153.0	100%	114.0	106%	267.0	103%
(%)	(6.9%)	(4.9%)	(5.9%)	(6.7%)		(5.1%)		(5.9%)	
USD/JPY	¥141	¥148	¥145					¥138	
EUR/JPY	¥153	¥161	¥157					¥150	
RMB/JPY	¥19.8	¥20.5	¥20.1					¥20.0	

FX Effect (YoY)
Net Sales -160.0 billion yen
Operating Profit -23.0 billion yen

YoY Comparison Excluding FX Effect
Net Sales 107%
Operating Profit 114%

8

The plan for the fiscal year ending March 31, 2025 is as explained earlier by Mr. Togawa.

Exchange rates are assumed to be JPY138 to the dollar, JPY150 to the euro, and JPY20 to the Chinese yuan. The foreign exchange impact on the previous year is expected to be negative JPY160.0 billion in net sales and negative JPY23.0 billion in operating profit.

Business Forecast by Segments

(billion yen)		FY2023 Results	FY2024 Forecast	FY2024 YoY
Total	Net sales	4,395.3	4,540.0	103%
	Operating Profit	392.1	425.0	108%
	(%)	(8.9%)	(9.4%)	
Air Conditioning	Net sales	4,028.8	4,165.0	103%
	Operating Profit	333.3	365.5	110%
	(%)	(8.3%)	(8.8%)	
Chemicals	Net sales	263.9	270.0	102%
	Operating Profit	51.5	52.0	101%
	(%)	(19.5%)	(19.3%)	
Others	Net sales	102.6	105.0	102%
	Operating Profit	7.3	7.5	102%
	(%)	(7.2%)	(7.1%)	

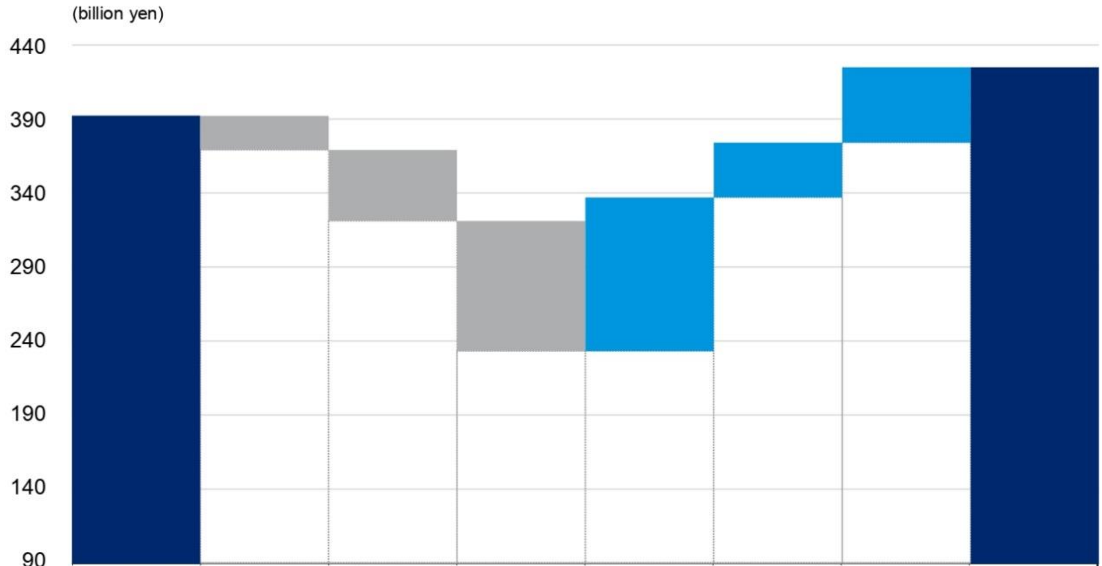
9

The performance plan by business segment is as stated.

As for the amount of foreign exchange impact, we expect a negative JPY148.5 billion in net sales and a negative JPY20.5 billion in operating profit in the Air-Conditioning business. In the Chemicals business, we expect foreign exchange impact on net sales to be negative JPY10.0 billion and on operating profit to be negative JPY2.5 billion, and in the Others business, we expect the impact on net sales to be negative JPY1.5 billion and no impact on operating profit.

Analysis of Changes in Operating Profit - Forecast

*Air-Conditioning business includes filter, refrigerator and freezer businesses.



	FY2023 Results	Foreign Exchange	Raw Materials (including logistics costs)	Fixed Costs, Etc.	Sales Expansion	Selling Price	Cost Reductions	FY2024 Forecast
Total	**392.1**	**-23.0**	**-48.0**	**-88.0**	**+103.9**	**+37.0**	**+51.0**	**425.0**
Air Conditioning	333.3	-20.5	-45.3	-79.4	+91.3	+36.9	+49.2	365.5
Chemicals	51.5	-2.5	-1.7	-7.0	+11.6	-0.9	+1.0	52.0
Others	7.3	-	-1.0	-1.6	+0.9	+1.0	+0.8	7.5

10

This is an analysis of the YoY change in operating profit plan for FY2024. We expect to be affected by cost increases, such as price hikes of parts from suppliers and higher labor costs. In addition to sales expansion, we will cover the negative impact by thorough implementation of selling price measures and cost reductions.

The breakdown of the impact on the Air-Conditioning business due to soaring raw material and logistics costs is estimated to be a negative JPY4 billion for copper, a negative JPY2 billion for aluminum, a negative JPY6 billion for steel, a negative JPY23 billion for resins and others, and a negative JPY10 billion for logistics costs.

Sales by Region - AC Business

*Percentage expresses year on year comparison
*Includes refrigerator, freezer and filter businesses

(billion yen)	FY2019		FY2020		FY2021		FY2022		FY2023		FY2024 Forecast	
Japan	103%	494.4	100%	496.0	106%	523.9	106%	553.0	106%	588.7	102%	600.0
Europe	114%	379.9	104%	394.5	131%	518.7	127%	657.4	101%	666.6	105%	700.0
China	89%	306.1	107%	327.7	130%	424.7	101%	430.1	107%	458.8	100%	460.0
Americas	109%	704.0	96%	674.8	132%	889.8	150%	1,334.6	118%	1,575.9	105%	1,650.0
Asia	105%	294.9	84%	247.8	118%	293.5	141%	414.7	110%	455.2	105%	480.0
Oceania	94%	73.6	108%	79.5	131%	104.5	123%	128.6	105%	134.8	96%	130.0
Middle East	90%	47.8	94%	44.8	135%	60.7	160%	97.0	138%	133.9	97%	130.0
Africa	93%	8.3	105%	8.7	145%	12.6	113%	14.3	105%	15.0	100%	15.0
Total	104%	2,309.1	98%	2,273.8	124%	2,828.5	128%	3,629.8	111%	4,028.8	103%	4,165.0
Overseas Net Sales ratio		79%		78%		81%		85%		85%		86%
USD/JPY		¥109		¥106		¥112		¥135		¥145		¥138
EUR/JPY		¥121		¥124		¥131		¥141		¥157		¥150
RMB/JPY		¥15.6		¥15.7		¥17.5		¥19.8		¥20.1		¥20.0

11

This chart shows sales by region for the Air-Conditioning business. Compared to the previous fiscal year, real sales excluding the effect of foreign exchange rates were 91% in Europe, 105% in China, 111% in the Americas, and 105% in Asia.

The annual plan for FY2024 is as stated. Excluding the effect of foreign exchange rates, real YoY sales in Europe, China, the Americas, and Asia are projected to be 110%, 101%, 110%, and 112% of the previous year's sales, respectively.

Operating margin in each region for FY2023 was 6% in Japan, 7% in Europe, 23% in China, 7% in the Americas, 11% in Asia, 2% in Oceania, and 2% in the Middle East. In FY2024, we plan to improve the profit margin by about 1% in the Americas.

Sales by Region - Chemicals Business

*Percentage expresses year on year comparison
*Others: Oceania, Middle East, Africa etc.

(billion yen)	FY2019		FY2020		FY2021		FY2022		FY2023		FY2024 Forecast	
Japan	91%	50.2	84%	42.3	138%	58.4	120%	70.1	104%	72.6	103%	75.0
Americas	94%	44.1	81%	35.6	116%	41.2	144%	59.3	82%	48.4	99%	48.0
China	93%	33.7	120%	40.5	126%	51.2	109%	55.8	99%	55.4	110%	61.0
Asia	95%	25.6	90%	23.0	118%	27.0	128%	34.6	105%	36.4	104%	38.0
Europe	74%	25.0	88%	22.0	152%	33.5	126%	42.4	118%	49.9	96%	48.0
Others	75%	1.3	66%	0.8	130%	1.1	118%	1.3	88%	1.1	-	-
Total	90%	179.9	91%	164.2	129%	212.4	124%	263.4	100%	263.9	102%	270.0
Overseas Net Sales ratio		72%		74%		72%		73%		72%		72%
USD/JPY		¥109		¥106		¥112		¥135		¥145		¥138
EUR/JPY		¥121		¥124		¥131		¥141		¥157		¥150
RMB/JPY		¥15.6		¥15.7		¥17.5		¥19.8		¥20.1		¥20.0

12

This chart shows sales by region for the Chemicals business. Excluding the effect of foreign exchange rates, YoY sales in real terms were 106% in Europe, 97% in China, and 76% in the Americas.

The annual plan for FY2024 is as stated. Excluding the effect of foreign exchange rate fluctuations, we plan YoY real sales of 102% in Europe, 110% in China, and 102% in the Americas.

Ⅲ. Business and Regional Overview AC Business - Japan

FY2023 Results

Industry demand for Residential experienced a year-on-year decline due to consumer reluctance to purchase durable goods.
Industry demand for Commercial also declined over the previous fiscal year amid slow recovery in demand for stores and offices where market scale is large. Despite the sharp decline in demand, the company strengthened user proposals centered on high value-added products. Due in part to the effects of selling price measures, net sales exceeded the previous fiscal year.

- ✓ Residential: With rising electricity rates and the growing need for energy savings, we strengthened user proposals centered on **Urusara X**. Also, cold regions saw steady sales, and market share increased.
- ✓ Commercial: User proposals were enhanced to focus on high value-added products, including **FIVE STAR ZEAS** and **machi Multi** because of their high energy savings and ease of workability.

FY2024 Forecast

Residential: To capture the growing demand from energy-saving regulations enacted for newly built homes, Daikin will focus on spec-in activities for home equipment systems. Also, we will aim to further increase market share by enhancing sales activities in cold regions where steady demand is anticipated.

Commercial: With electricity costs soaring, Daikin aims to expand sales and increase market share of high value-added products with excellent energy-saving performance, such as **FIVE STAR ZEAS**. Also, in advance of stricter regulations under the revision of the Act on the Rational Use and Appropriate Management of Fluorocarbons, **VRV system** models with refrigerant R32 will be launched Sequentially.

YoY change (Volume basis)	FY2023		FY2024	
	Market	Daikin	Market	Daikin
Residential	96%	99%	97%	101%
Commercial	98%	98%	101%	105%
Applied	110%	135%	105%	116%

*Applied is based on total net sales.

13

The following section provides an overview of the AC business by region.

First, Japan. While industry demand was lower than the previous year, we achieved higher sales than the previous year by thoroughly implementing strategic selling price measures and strengthening our high value-added product user proposals to meet energy-saving needs.

In FY2024, against the backdrop of soaring electricity costs and stricter regulations, we will strive to strengthen sales of differentiated products with energy-saving and environmental features, aiming to expand sales and increase market share in both residential and commercial applications.

AC Business - Americas

FY2023 Results

Industry demand for Residential continued to slump due to prolonged inflation and high interest rates for home loans, and this created a challenging market environment. For this reason, Daikin worked to expand sales in Commercial and Applied products, where demand is strong, and improved sales by leveraging the capabilities of its acquired sales companies. Net sales exceeded the previous fiscal year.

- ✓ Ducted Unitary for Houses: While sales were lower than the previous year due to distribution inventory suppression, sales of our environment premium product「**FIT**」system increased significantly as we moved forward with dealer development.
- ✓ Ductless: We captured steady demand for **VRV systems** by strengthening our sales network, expanding sales, and increasing market share. However, sales of **RA/SKY** were lower than the previous year due to sluggish demand for Residential.
- ✓ Applied: Equipment sales expanded for the steady market of the manufacturing industry and for data centers, where demand is strong. Solutions business also increased, utilizing the capabilities of acquired instrumentation and engineering companies. Net sales increased significantly from the previous fiscal year.

FY2024 Forecast

Ducted Unitary for Houses: We will aim to further expand sales of the environmental premium product「**FIT**」by launching multiple brands and by developing and training dealers that can handle products equipped with inverters. In advance of stricter refrigerant regulations, we will introduce R32 equipment.

Ductless: We aim to increase market share by developing and strengthening the sales network. For **RA/SKY**, we will strengthen sales in response to greater demand for online purchases. Sales of **VRV systems** will be expanded to schools, offices, and apartment complexes.

Applied: We will strengthen supply capacity and expand equipment sales for the manufacturing industry and data centers. Growth for our Solutions business will be achieved by expanding our after sales service network and service menu.

YoY change (Volume basis)		FY2023	FY2024	
		Daikin	Market	Daikin
Ducted unitary for houses		83%	101%	104%
Ductless	RA/SKY	89%	114%	142%
	VRV	103%	106%	112%
Applied		134%	104%	111%

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

14

The AC business in the Americas faced a difficult business environment with sluggish industry demand for residential applications due to prolonged inflation and high inflationary mortgage rates. In this environment, sales increased YoY due to efforts to expand sales in the commercial and applied sectors, where demand is strong, and to strengthen sales through the use of acquired sales companies.

Ducted unitary for houses was impacted by restraints on distribution inventories. However, we have made progress in developing dealers who can handle inverter-equipped products and have greatly increased sales of FIT, an environmental premium product.

Sales of Daikin Comfort Technologies North America, Inc. were 102% of the previous year's level on a local currency basis. Although sales of mainstay ducted unitary for houses products declined, the Company focused on sales through profitable sales channels, improved the sales mix by expanding sales of FIT, an environmental premium product, and thoroughly implemented selling price measures, as well as the effect of new consolidation through acquisitions, to secure an increase in sales.

In FY2024, we will focus on developing and training dealers and expanding our product lineup to accelerate the shift to inverters and R32 in the market. Furthermore, the Company aims to further expand the Applied business by expanding its service network and service products.

AC Business - China

FY2023 Results

With the lifting of the zero-COVID policy, manufacturing and sales activities returned to full-scale operation for the first time in three years. Despite the severe business environment caused by the slow recovery in the real estate market and reduced consumption, Daikin increased sales, mainly in Residential, and net sales exceeded the previous fiscal year. Operating profit maintained a high level from an increase in sales of high value-added products and efforts to reduce costs.

- ✓ Residential: Sales expanded through our unique sales activities that combine the user-direct offline retail sales with online activities, such as live broadcasting using showrooms, web advertising, and SNS. Daikin Care responded to customer needs and expanded sales with the **Daikin Care Central Air System**, a new series for residential multi-split air conditioners integrating air conditioning, ventilation, and heat pump floor heating with Solutions services featuring energy-saving and air quality proposals.
- ✓ Commercial: In the background of steady demand from the promotion of a carbon neutrality policy, we strengthened Solutions proposals and for government properties, factories, green buildings, etc.
- ✓ Applied: In addition to investing resources in growth sectors related to areas of infrastructure and semiconductors, we strengthened our maintenance and servicing business.

FY2024 Forecast

The harsh business environment continues because of the slow recovery in the real estate market and the cooling of consumer confidence. To offset this, resources will be focused on direct sales to users with an aim to expand sales by aggressively launching new products, differentiating ourselves from competitors with Solutions proposals that are unique to Daikin, and performing detailed sales activities for each customer.

- ✓ Residential: Resources will shift from the new housing market to the home renovation and resale markets as we aim to further strengthen sales activities that combine online and offline sales.
- ✓ Commercial: Focus will be on markets where demand is increasing in the background of carbon neutrality, such as for buildings and factories.

YoY change (Local currency basis)	FY2023	FY2024	
	Daikin	Market	Daikin
Residential	**109%**	96%	100%
Commercial	**100%**	97%	101%
Applied	**97%**	98%	102%

15

For the Air Conditioning business in China, the business environment remains challenging due to a delayed recovery in the real estate market and cooling consumption. However, as a result of our efforts to expand sales of residential multi-split air conditioners, reduce costs, and cut fixed costs, net sales increased from the previous year and operating profit remained at a high level.

Sales of residential multi-split air conditioners were 110% of the previous year's level. We have secured the same level of performance compared to FY2021, which was a strong year. The impact of the Shanghai lockdown was significant in FY2022.

The business environment is expected to remain challenging in FY2024. However, in addition to aggressive introduction of new products, we will expand sales by concentrate our resources on direct sales to users, such as strengthening our unique solution proposals.

AC Business - Europe, Middle East, and Africa

FY2023 Results

The ongoing monetary tightening policies established to fight inflation have put downward pressure on the economy and created a difficult business environment. With a decline in demand for Residential and Heat Pump Heating, we endeavored to sell high value-added products and implement thorough selling price measures. Sales for Applied expanded, and net sales for the entire regions exceeded the previous fiscal year by incorporating the foreign exchange rate effect.

- ✓ Residential: A summer heat wave helped boost sales in Spain to surpass those of the previous fiscal year, but a decline in demand resulting from lower consumer confidence significantly affected results, leading to a year-on-year decline in sales.
- ✓ Commercial: Sales focused on markets with strong demand such as hotels, restaurants, and warehouses.
- ✓ H/P Heating: In addition to falling gas prices and changes in subsidy systems, the ban on the installation of combustion-type heaters was postponed in major countries, causing the H/P heating market to decline more than expected.
- ✓ Applied: Sales of medium and large chillers expanded to data centers.
- ✓ Freezer and Refrigerator: Sales remained stagnant due to the slow recovery in demand by food retail chains.

FY2024 Forecast

Residential: Sales capabilities will be strengthened by dealer development and training. Focus will also be on expanding sales for heating applications.

Commercial: The **VRV system** lineup using R32 will be expanded. Spec-in activities will be enhanced from the perspective of the environment and energy savings.

H/P Heating: As demand is expected to remain sluggish, we will aim to increase market share by strengthening the sales and after sales service systems. In addition, the new R290 model will be launched and produced at a new factory in Poland.

Applied: Sales will be expanded for strong segments such as data centers and pharmaceuticals.

Freezer and Refrigerator: Solution proposals will be enhanced for environmentally conscious products such as showcases using CO_2 refrigerant.

YoY change (Volume basis)		FY2023	FY2024	
		Daikin	Market	Daikin
Residential		86%	99%	115%
Commercial	SKY	97%	98%	110%
	VRV	98%	101%	120%
Heat Pump Heating		63%	101%	148%
Applied		125%	105%	106%
Refrigerator and Freezer		78%	110%	141%

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

16

In Europe, the business environment is severe with a sluggish economy due to the continuation of monetary tightening policies. Although the Company was affected by declining demand for residential and heat pump heating, it expanded sales of Applied, in addition to selling high value-added products and thoroughly implementing selling price measures. As a result, overall sales in the region, including the effect of foreign exchange, were higher than in the previous year.

Residential sales were strong in some countries, such as in Spain, where sales were up from the previous year due to the effects of a summer heat wave. Overall, however, the market was significantly affected by the decline in demand due to a drop in consumer confidence.

In the commercial market, we focused on sales in markets where demand is strong, such as hotels and restaurants. For heat pump heating, the market fell more than expected due to lower gas prices and changes in subsidy programs, as well as the postponement of bans on installation of combustion-type heaters in major countries. Applied increased sales of medium- and large-size chillers for data centers.

In FY2024, amid a challenging business environment in which demand is expected to remain stagnant in residential and heat pump heating, we will maximize sales expansion and increase market share by strengthening our sales and service systems and introducing new products that meet customer needs.

AC Business - Asia and Oceania

FY2023 Results

In a difficult business environment of low demand due to persistently high inflation rates, overall net sales for the regions increased year over year due to efforts to develop and support dealers and strong sales in India.

- ✓ Residential: We experienced a slowdown in demand and improved the sales for the region overall compared with the previous year. In India, we leveraged the sales network that we have built, reinforced supply capabilities, and expanded sales. Sales also increased in Indonesia and Thailand by enhancing dealer promotional activities.
- ✓ Commercial: As construction starts for projects continue to be postponed or cancelled, we have been steadily converting demand into orders and expanding sales through the development and support of dealers.
- ✓ Applied: Equipment sales increased by capturing growing demand for factories and data centers.

Year-on-year net sales of main countries (local currency basis)
Australia: 103%, India: 120%, Vietnam:99%,
Malaysia: 105%, Indonesia: 119%, Thailand: 120%

FY2024 Forecast

Residential: In India, we will expand sales by accelerating the expansion of our sales network in regional cities and focusing on e-commerce sales. In the ASEAN and Oceania regions, we intend to develop and sell products that meet the needs of young people. Local production of Residential products will begin in Indonesia this year. (December 2024)

Commercial: In addition to strengthening our technological and proposal capabilities through development and support for dealers, we aim to expand sales by expanding our lineup of high value-added Solutions products such as for energy savings, IAQ, and maintenance and servicing.

Applied: Sales will expand by focusing on the after sales provision business such as maintenance and servicing.

YoY change (Volume basis)		FY2023	FY2024	
		Daikin	Market	Daikin
Residential		108%	111%	115%
Commercial	SKY	107%	111%	113%
	VRV	114%	114%	118%
Applied		134%	114%	115%

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

17

In the Asia and Oceania Air-Conditioning business, overall sales in the region exceeded the previous year's level due to efforts to develop and support dealers in each country and to maintain strong sales in India, despite a difficult business environment in which demand slowed due to sluggish consumption caused by inflation.

In FY2024, we will focus on developing dealers in regional cities in India and expanding sales through e-commerce, as well as expanding our business by strengthening solution proposals in commercial Applied products and expanding sales by taking advantage of the supply capacity of our new plant in Indonesia.

Chemicals Business

FY2023 Results

Net sales remained at the same level as in the previous year due to declines in demand for products in the semiconductor manufacturing processes, the automotive sector, and fine chemicals, along with the impact accompanying distribution inventory adjustments. Nevertheless, operating profit saw substantial growth due to the sales expansion of high-performance materials, selling price measures, and the effect of foreign exchange.

- ✓ Fluorocarbon Gas: Along with relatively strong demand, our selling price measures led to results that significantly exceeded the previous fiscal year.
- ✓ Polymers and Fluoroelastomers
  - Fluoropolymers: Sales declined due to a slow recovery in demand in the LAN electric wire sector and to distribution inventory adjustments in the automobile sector, but sales expanded by strengthening the supply capacity of materials for semiconductor manufacturing equipment. Results exceeded the previous fiscal year.
  - Fluoroelastomers: Sales fell year on year due to a sales drop in the automotive sector
- ✓ Fine Chemicals, Etc.: Sales were lower than the previous year due to lower demand for anti-smudge surface coating agents, water and oil repellents, and etching agents for semiconductor manufacturing processes.

FY2024 Forecast

In the semiconductor sector, we will capitalize on the recovery in demand for manufacturing processes and focus on spec-in activities while expanding sales of materials for manufacturing equipment in strong demand.

In the automotive sector, we will strengthen sales for positive electrode binders for lithium-ion batteries and sealing materials in response to the rising demand for EVs.

For repellent materials, we will expand sales in the textile market for environmentally advanced products.

YoY change (Net sales basis)	FY2023	FY2024	
	Daikin	Market	Daikin
Total	100%	101%	103%
Fluorocarbon Gas	125%	97%	98%
Fluoropolymers & Fluoroelastomers	102%	101%	105%
Fine Chemicals, etc.	86%	99%	100%

18

The Chemical business was affected by delayed recovery in demand for semiconductor manufacturing processes, automobiles, and chemical products, and the resulting adjustments in distribution inventories. However, due to sales expansion and selling price measures in markets with strong demand, as well as foreign exchange effects, sales were on par with the previous year and operating profit was much higher than the previous year.

Sales of fluoropolymers increased from the previous year due to strong sales of high-performance materials used in semiconductor manufacturing equipment, although sales of fluoropolymers for automobiles, LAN cables, and other information and telecommunications applications declined. Fluoroelastomers were significantly affected by the slowdown in the automobile market. As for fine chemicals, sales of surface antifouling coatings, water and oil repellents, and etching gas declined.

In FY2024, we will focus on spec-in activities in the semiconductor field to capture the recovery in demand for manufacturing process applications, and also expand sales for manufacturing equipment, where demand remains strong.

In addition, to meet the growing demand for environmentally friendly products, we will accelerate the development of applications for binders and sealing materials, for EV lithium-ion batteries and repellents for textiles.

Filter Business

FY2023 Results

Despite efforts to boost sales of high-performance filters, net sales decreased compared with the previous fiscal year due to the significant impact of a sales drop following the withdrawal by the company from low profit businesses in the United States.

- ✓ Air Filter: In the United States, sales of high-performance filters for the hospital, pharmaceutical, and data center sectors were strengthened. In Japan, sales for the electronics, semiconductor, and pharmaceutical sectors remained strong.
- ✓ P&I* : Sales of special filters used at oil fields were strong. Efforts including shifting resources to the After Sales Service business were made to improve the business structure.

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

FY2024 Forecast

Air Filter: In the United States, we will operate our own sales outlets in areas with large markets. Additionally, we will work to increase profitability by expanding sales in high-end markets such as semiconductors, pharmaceuticals, and data centers in Asia, Japan, and Europe while also focusing on improving productivity and reducing costs.

P&I: We will focus on strong businesses such as dust collection systems and after sales service as we aim to expand sales by capitalizing on our enhanced product lineup.

19

In the Filter business, sales of high-performance filters increased in each region. However, sales fell below the previous year's level due to the impact of lower sales resulting from the Company's withdrawal from low-profit businesses in the US.

In FY2024, we will continue to aim to expand sales in high-end markets such as semiconductor plants, pharmaceutical plants and data centers.

Other Businesses

FY2023 Results

Oil Hydraulics: Sales for construction machinery and vehicles in Japan and the United States decreased. Although demand in the Japanese market decreased for industrial machinery, sales to Europe and the United States grew, and net sales exceeded the previous fiscal year.

Defense Systems: Sales of both oxygen concentrators and pulse oximeters decreased due to a rebound from the higher demand caused by the COVID-19 pandemic. Orders from the Japan Ministry of Defense increased, and net sales exceeded the previous fiscal year.

Electronics: In addition to increased sales of data systems for the product design and development sector that meet customer needs including resolving quality issues, shortening of the design and development period, and supporting cost reductions, there was an increase in sales of data science software, and net sales exceeded the previous fiscal year.

FY2024 Forecast

Oil Hydraulics: Within the stagnant demand for both construction and industrial machines, we will aim to expand hybrid equipment featuring high energy savings in response to environmental changes such as tightening environment regulations and carbon neutrality.

Defense Systems: We will aim to expand sales of oxygen concentrators by launching new products and expanding sales channels.

Electronics: We will strengthen R&D support for the manufacturing industry and offer Solutions proposals for the construction industry.

20

In the Oil Hydraulics business, sales increased due to expanded sales for industrial machinery in Europe and the United States.

In the Defense Systems business, sales of oxygen concentrators and pulse oximeters declined in reaction to increased demand caused by the COVID-19 pandemic, but orders from the Ministry of Defense increased, resulting in higher sales.

In the Electronic business, sales increased due to higher sales of database systems for the design and development fields that meet the needs of the market.

In FY2024, we will continue to expand sales in markets where demand is strong by capturing customer needs in each of our businesses.

Ⅳ. Shareholder Return

- Daikin plans an annual dividend per share for this fiscal year of 250 yen (interim of 120 yen; term-end of 130 yen), marking a 10-yen increase from the currently announced amount in recognition of record highs in net sales and operating profit.
- The dividend for the next fiscal year is planned for 320 yen (interim of 185 yen; term-end of 135 yen), which represents an annual dividend of 270 yen combined with a 100th anniversary commemorative dividend of 50 yen.

【Daikin Dividend Policy】

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

		FY2019	FY2020	FY2021	FY2022	FY2023 (Proposed)	FY2024 (Forecast)
Dividend per share	Interim	¥80	¥80	¥90	¥100	¥120	¥185
	Annual	¥160	¥160	¥200	¥240	¥250	¥320
Earnings per share	H1	¥405.1	¥289.2	¥475.3	¥534.3	¥522.7	¥522.6
	Annual	¥583.6	¥534.0	¥743.9	¥880.6	¥889.2	¥912.0
(Reference) DOE Trend		3.3%	3.0%	3.2%	3.3%	3.0%	

21

Due to the record-high sales and operating profit for the fiscal year ended March 31, 2024, we propose a year-end dividend of JPY130, an increase of JPY10 from the currently announced amount. Together with the interim dividend already paid, we plan to pay an annual dividend of JPY250 per share.

For the next fiscal year, we plan to increase the ordinary dividend by JPY20 to JPY270 per share for the full year. Although the business environment remains challenging, we are determined to achieve our performance plan and reward our shareholders. In addition, as Daikin Industries celebrates its 100th anniversary this year, the Company plans to pay a commemorative dividend of JPY50 for the interim period.

《Reference》 Foreign Exchange

Exchange Rate

	FY2022 Results			**FY2023 Results**			FY2024 Forecast
	H1	H2	Total	**H1**	**H2**	**Total**	
USD	¥134	¥137	¥135	**¥141**	**¥148**	**¥145**	¥138
EUR	¥139	¥143	¥141	**¥153**	**¥161**	**¥157**	¥150
RMB	¥19.9	¥19.6	¥19.8	**¥19.8**	**¥20.5**	**¥20.1**	¥20.0
THB	¥3.8	¥3.9	¥3.9	**¥4.1**	**¥4.2**	**¥4.1**	¥4.0
AUD	¥94	¥92	¥93	**¥93**	**¥97**	**¥95**	¥93

Sensitivity of Foreign Exchange
(Impact of change by 1 yen to operating profit)

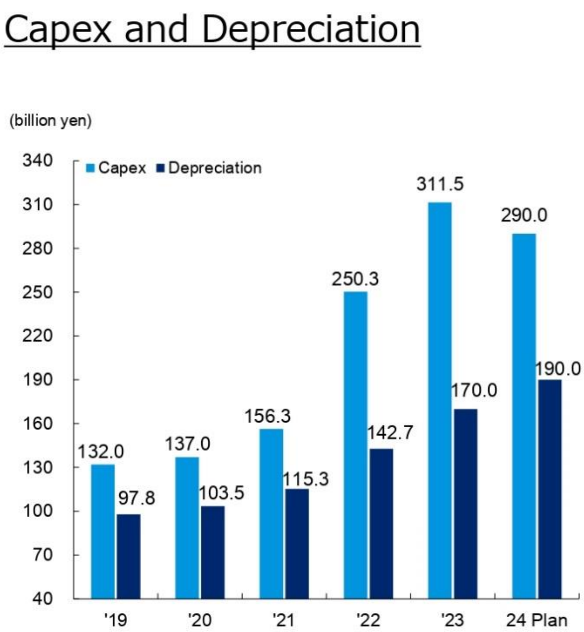
	FY2024 Forecast
USD	1.9 billion yen
EUR	0.8 billion yen

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

22

Assumed foreign exchange rates for FY2023 actuals and FY2024 are as stated. We estimate that a JPY1 change in the value of the US dollar has a JPY1.9 billion impact on operating profit, and a JPY1 change in the value of the euro has a JPY0.8 billion impact.

Capex, Depreciation and R&D Cost



23

The FY2023 results and FY2024 plan for capital expenditures, depreciation, and R&D expenses are shown in the table. Even in the current difficult business environment, we intend to steadily implement production capacity increase investment, R&D investment, and digital investment for future growth and development.

That is all for my explanation.

Question & Answer

Sakamoto [M]: We will now have time for questions and answers. Mr. Isayama of Goldman Sachs, please ask your question.

Isayama [Q]: My name is Isayama from Goldman Sachs. Thank you very much.

First, I would like to ask you about North America. I think this will be a question for Mr. Miyazumi. You mentioned that the growth rate of DNA sales is 2%. Can you please break this down into the impact of volume and the impact of selling price? This quarter, sales volume for applied was also up 34% from the previous year, which I believe is largely due to the data center. I would also appreciate it if you could tell me how much the data center sales have grown.

Also, how much do you expect DNA and DAA sales to grow this fiscal year? Also, what is your operating margin? You mentioned that the operating margin is 7% overall and 8% planned. What are the actual and planned profit margins for DNA? Also, I believe DAA's profit margin is improving, so please tell us your results and plans.

Miyazumi [A]: First of all, I would like to mention the 102% breakdown for DNA year-over-year sales. The breakdown of the increase in sales and profit is calculated as follows: The impact of volume is negative 18 points, while the impact of selling price is positive 4 points, the product mix and other factors are positive 13 points, and the impact of M&A is positive 3 points.

Regarding the second point about DNA, as I mentioned earlier, sales were 102% on an LC basis, and the profit margin was roughly 9% before amortization of goodwill. In FY2024, we hope to achieve about 107% of LC-based sales and roughly 10% of OPM.

As for DAA's profit margin, the FY2023 results were approximately 5%. The profit margin before amortization of goodwill for FY2024 is planned to be roughly 6%.

We apologize that we do not have figures on hand for the volume.

Isayama [Q]: Regarding DAA, is it correct that the major improvement is for data centers?

Miyazumi [A]: Yes, that's right. Figures for data centers and factories grew.

Isayama [Q]: You said the assumption for DNA volume and sales was 4% here and 7% earlier. In the January–March period, American air conditioner manufacturers and several Japanese-affiliated manufacturers talked about the end of inventory adjustments and future inventory buildup. Also, US manufacturers are talking about a mix-up of R454B-related price increases, R410A inventory build-up, volume, etc.

Frankly speaking, I am hoping that there is a little more upside potential in the R32 volume, mix, and selling price, and that this is a year when you can be quite aggressive. Can we expect more?

Miyazumi [A]: I think that other companies are starting to replace R454B with R410A, as you mentioned, because the GWP regulation will start in 2025 in the US. In our case, we will proceed with R32. We are planning a model change of all residential and commercial models to R32 products by the end of FY2024, and we believe that this, along with price increases, will probably contribute to improved profitability.

Togawa [A]: I am Togawa. As for the R32, one thing that happened was a cost reduction effect. We expect the cost reduction effect to be about JPY10 billion, including the development cost reduction by conversion to R32 and the cost of the new plant in Mexico. We also expect the R32 and 410A to have a positive impact of nearly JPY1 billion YoY through the increase in selling prices.

Isayama [Q]: Second, I would like to ask President Togawa. Since assuming office, you have accomplished a number of mid-term plans, acquired Goodman (now DNA), overcame the pandemic and various other difficulties, and achieved a tremendous expansion of business performance.

Since you will still be the Chairman and CEO, I am sure you will still play a major role in the next stage of the company's development. What measures did you wish you had done more of, what are your regrets, and what do you hope to see in the next generation?

Togawa [A]: During my 13 years as president, I tried to carry on the visionary management that Chairman Inoue had developed. I have gained insight into changes in the world, rival trends, and market trends and have considered what moves we should make to stay ahead of the curve. I have considered not only the concept but also how to incorporate it into concrete measures, implement them, and link them to business performance.

Looking back, what has left the strongest impression on me is that when I became president, Chairman Inoue told me that it is the job of the top management to provide answers where there are no answers.

In that sense, I think the biggest ordeal was the COVID-19 pandemic. It was difficult to see the way forward during the pandemic, and there were really no answers. I think it was important to create the answer, challenge it, and execute it in the absence of answers. In my own way, I had to judge the situation at the time and make a decision to do things.

At that time, most companies did not make business plans. Even though the situation was uncertain, I found my own answers to what to do, took on the challenge, and although our performance declined for a while, we recovered in a few years and have made it to where we are today.

I will now become Chairman and CEO, and as CEO, I will have to make many decisions. My role is to achieve the second half of FUSION25, of course, and to create the next FUSION30.

FUSION30 is currently under consideration. For further growth, we would like to develop a higher value-added solution business, such as business solutions and residential solutions. Also, air valorization is not yet a business, to be honest. With FUSION 30, we want to commercialize this and create a structure that will allow us to make a great deal of money from it.

Furthermore, we are now doing some cold chain as well. This is only being developed now in areas close to consumption areas, with an emphasis on Europe. With FUSION30, we want to develop the entire cold chain from the point of production to the point of consumption. My current desire is to create a company that can take another leap forward by creating strategic management plans.

Isayama [M]: Thank you very much for your valuable talk. That's all from me.

Sakamoto [M]: Thank you very much. Mr. Sano of JPMorgan Securities, please ask your question.

Sano [Q]: Thanks for your help. My name is Sano from JPMorgan.

First, I would like to know your interpretation of heat pumps in Europe for the current period and your forecast for FY2025. With regard to the volume of demand in FY2025, you have recently revised your forecast to 1.6 million units, down by half from the previous level of 3.5 million units.

Also, I believe you have mentioned that you are planning to increase production to 5 million units; I would like to know at what speed you do this. Also, you are projecting a 48% increase in volume this year; has the selling price declined as a result of the softening market? Also, how will the introduction of the R290 affect your sales? I would appreciate your explanation on these matters.

Miyazumi [A]: As you have just mentioned, heat pump heating demand in Europe is rapidly declining. We had initially assumed that there would be approximately 3 million to 3.5 million units in FY2025. This will probably be halved to about 1.6 million units.

There is a possibility of a little more upside from there. However, the situation in Europe is still severe with inflation. Regarding the subsidy movement, the UK has some subsidies, and Germany is also starting to offer some subsidies this year. Therefore, we are aware that the worst is probably over, but since the cost of electricity remains high, we expect that the demand for heat pump heating will continue to face difficult conditions for the next 2 or 3 years.

We present our forecast for heat pump heating units in 2024 as 148% of the previous year's total. This is based, to some extent, on a rebound from the decline in FY2023. We believe that this part of our business needs to be monitored with regard to the actual on-site distribution inventory situation and other factors. Basically, we will develop our business based on the assumption that the severe situation will continue for the rest of this year.

Sano [Q]: Secondly, I would like to ask President Togawa. Regarding the new management structure, I believe that the decision regarding the promotion of the new President Takenaka was made by the Personnel Advisory Committee and others.

However, from your point of view, if you have any episodes in the business fields, areas, or scenes where Mr. Takenaka has demonstrated his strength as a leader, we would be very interested in hearing about them. I would be interested in hearing something about Daikin's thoughts on personnel matters.

Togawa [A]: He has always been involved in production for a long time. When he was in charge of production and I was the executive director of human resources at the time, the Daikin Declaration of Technology was a theme that I personally spearheaded. At that time, I gave various assignments to the production headquarters, product development, etc., and he deployed them with great enthusiasm.

He then moved to the Business Strategy Office of Domestic Air Conditioning, where he led the reform of the entire domestic air conditioning business with much leadership. As a matter of fact, I thought he could be one of the candidates to succeed me as president in the future.

Not only that, but in many other ways, I thought it would be a good idea to put him in charge of human resources once, so I put him in charge of human resources 4 years ago. I put him in charge of human resources because both Inoue and I have human resources backgrounds, and I believe that one of the key elements among the various elements necessary for top management is how to move people around. I have seen him in charge of human resources for 4 years, and he has been leading various HR reforms, so I thought he should be a candidate for president this time.

The second is that he must be able to carry on our philosophy and people-oriented management, which is one of our strengths. I believe that we will continue to face a very uncertain situation of rapid change and uncertainty. In such a situation, it is important to have the ability to change things not as an extension of the past but through creative destruction. We chose him because we expected him to have a lot of potential.

Sano [M]: Thank you for your response. That's all from me.

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

Maekawa [Q]: My name is Maekawa from Nomura Securities. Thank you very much for your explanation. I have 2 questions.

First, I would like to know your thoughts on European business. The figure of a 48% increase in heat pump heating sales over the market, as you explained, is a very challenging goal. Am I clear that you expect it to be increased by R290, sales expansion, and market share increase?

Or, with the start-up of the operation of the new plant in Poland, I think the contribution will be mainly to the second half of the year, but do you see these measures as close to achieving the goal? I would like to know if you could explain more about your thinking on the European business, including the timing of sales growth, especially for heat pumps.

Miyazumi [A]: I believe that demand for heat pump heating in Europe has bottomed out, but I am not yet able to predict how much the trend will turn up. Therefore, as you just mentioned, this is a somewhat challenging figure.

However, the factory in Poland is also starting up, and as Mr. Togawa mentioned earlier, we are currently working on training installers who can install the system properly. I believe that through steady efforts in both production and sales, we will be able to produce large numbers of products and be able to provide them to our customers at low prices.

On the other hand, we anticipate that the current heat pump heating market in Europe will now present a considerable element of price competition due to the entry of other companies. We will also offer R290, but we are currently focusing on cost reductions by determining how cheaply we can manufacture and install them.

We have set a rather challenging figure, but we are determined to do our best by working to strengthen our on-site capabilities.

Togawa [A]: In addition to what Mr. Miyazumi just answered, this year's budget base is set at 230,000 units in terms of number of units, but we think 230,000 units are a must-achieve base, and we are now working on the plan for the challenge to reach 270,000 units.

I mentioned earlier that the operating profit of JPY425 billion is a must-achieve target and that we will challenge even higher, and one of the challenges is this theme.

This was also a theme that we had started working on in the third quarter of FY2023 so that it would not drag on into the fourth quarter, since the third quarter was extremely difficult. To repeat what I said earlier, one thing is to strengthen our sales capabilities. We have a very strong air conditioning network. The question is how to turn this into heating or direct-sales stores that sell heating products.

Another is a heating wholesaler, and there are wholesale participating stores. Our wholesale stores handle a variety of products, and we will create various support programs, etc., so that people will want to deal in Daikin products, and we will cultivate loyal dealers who have loyalty to our company.

We also took a lot of other measures, such as ISS up, etc., and we felt a considerable response in the fourth quarter. If we can further strengthen these measures in FY2024, we believe that 230,000 units is not an unreasonable figure.

Furthermore, one of the factors that has prevented the spread of the sale of heat pump heating in Europe is the issue of subsidies. Perhaps the reason for the need for subsidies is that, as I have told you before, the installation cost of a heat pump heating system is rather much higher than the purchase price of the complete heat pump heating system itself.

So, as for construction savings, we are trying to keep construction costs low. This is something that competitors have yet to do. For example, we believe this can be further expanded by differentiating the product by simplifying the water piping work, shortening the construction period by enabling retrofitting to existing boilers with add-on construction kits, and significantly reducing costs.

Furthermore, as Mr. Miyazumi mentioned earlier, we will finally release the R290 in November. Our rivals have already launched such systems, but we are now in the process of obtaining subsidies for R290 by ensuring their safety and taking the lead in cooperation with the European Heat Pump Association.

Through these various developments, we are confident that we can reach 230,000 units, and our current idea is to further challenge that to 270,000 units.

Maekawa [Q]: The second point is about the situation of inventory. I would like to ask again about the inventory situation, not only in your company but in the entire chain. Specifically, I would like to know what the current status of air conditioner inventories in North America and heat pump inventories in Europe is, respectively, and whether there have been any changes over the past 3 months.

Miyazumi [A]: First, on a company-wide basis, we plan to improve the inventory day from approximately 87 days as of the end of March 2024 to about 75 days as of the end of March 2025.

By region, in the US, DNA unitary sales expanded, to some extent, in the fourth quarter, but production cuts have not kept pace, with inventory holding days at 98 days at the end of March 2024. Our current plan is to reduce this to about 78 days as of the end of March 2025.

In Europe, as we mentioned earlier, the distribution inventory of heat pumps has remained high, and our production reduction has been a little delayed. As of the end of March this year, the inventory holding day was 101 days. Our goal is to reduce that to 81 days by the end of this fiscal year, March 31, 2025.

Maekawa [Q]: Could you also share with us the figures for the end of the fiscal year ended March 2023, a year ago, if you have them?

Miyazumi [A]: The fiscal year ended in March 2023, right? On a company-wide basis, it was 91 days. By region, it was 111 days in DNA and 86 days in Europe.

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

Sakamoto [M]: Thank you very much. Next, Mr. Sasaki of Mitsubishi UFG Morgan Stanley Securities, please ask your question.

Sasaki [Q]: My name is Sasaki from Morgan Stanley. Let me ask you 2 questions.

First, please tell us about the the concept of the effect of air conditioning sales expansion on sales in the new plan. According to the figures you gave us in your presentation, air conditioning business is expected to grow by more than JPY280 billion in real terms this fiscal year, taking into account exchange rates.

In contrast, according to slide 10, operating profit in the air conditioning business is expected to increase by JPY90 billion due to the effect of sales expansion. I believe the plan is for a large increase in volume relative to the increase in sales.

While performance in China, where profit margins are high, is not growing, it is growing in other regions. What is the background for this volume effect compared to the increase in sales? Especially in the case of your company, mix and operation rates will also have an impact here. Could you please elaborate on how you arrived at the figure of JPY90 billion for the volume effect in relation to this sales increase?

Matoba [A]: Mr. Sasaki, this is Matoba. I will answer you.

The biggest factor in the JPY90 billion increase in profit from volume in this year's plan for the air conditioning business is the improvement and recovery in sales volume. As mentioned earlier, our policy is to reduce inventories a little, so we intend to produce at a slightly lower level than before.

The other factor is the mix. As explained earlier, we will promote systemization and servicing, and increase the proportion of sales of high value-added products, especially inverters. We plan to achieve this profit mainly through increased volume and improved mix.

Sasaki [Q]: Rather than the effects of the operation, I understand that you are projecting this JPY90 billion increase in profit due to the recovery of heat pumps in Europe and sales expansion in the US, as well as an improved mix due to systemization and expanded services such as Applied. Is my understanding correct?

Matoba [A]: I hope you understand it that way. As for factory operations, there is no significant loss on reduction of production, but on the other hand, there is also no significant recovery in the level of operations compared to the previous year. So, please understand that the impact of production will not be very large.

Togawa [A]: I would like to add a few words about Europe. In FY2023, if we include all European air conditioning, the profit margin was about just under 7%. We are trying to raise this by around 1% to 2% this fiscal year. The profit improvement here is significant, and we believe that this is possible through the measures I mentioned earlier regarding the profit improvement of heat pump heating.

Sasaki [Q]: Am I correct in understanding that your intention to focus on improving profitability this fiscal year is expressed here?

Togawa [A]: Yes. The biggest revenue drop we saw last year was from heat pump heating in Europe. We will recover that this year. I believe that this is one of the most significant contributing factors in the overall picture.

Sasaki [Q]: Second, please tell us your thoughts on the change in management structure. I think that Chairman Inoue's leadership has been excellent, considering Daikin's history. As President Togawa has mentioned in past briefings, I believe that one of the major reasons Daikin has been able to achieve such significant growth is that it has created a corporate structure in which it takes proactive steps in response to changes in the world and implements them very quickly. Under these circumstances, the management structure is being changed but how do you maintain Daikin's excellent corporate culture in the face of changes in management structure? How do you intend to further deepen this kind of corporate culture that Chairman Inoue has fostered? In the change of the management structure, how do you intend to further strengthen corporate structure? I would very much appreciate it if you could share your thoughts.

Togawa [A]: It has been 13 years since I became in the top management position, and I have also served in the position of CEO since 4 years after I became president. Under the tutelage of Chairman Inoue, I was trained in various aspects of management, and I got a firsthand understanding of what management is all about.

Although I still sometimes ask myself whether I am fully equipped with the various strengths that Mr. Inoue has cultivated, I think to myself that some things may have been acquired to some extent.

In particular, the foresighted business judgment you just mentioned. I myself am always thinking not only completing the current year's budget, but always looking beyond that. At the same time as achieving FUSION25, I am now considering how to envision FUSION30 and what steps we should take to achieve it. I repeatedly thinking about both of these. Then, as a decision, we put them into specific themes to try to do.

The other is our people-based management which is our corporate culture. The same goes for flat and speedy organizational management, and the same goes for diversity management, where we will maximize the individuality of each employee and make the most of their strengths to turn them into the strength of the Company. We are truly fortunate that our employees have a strong sense of belonging and a high retention rate. I genuinely believe that the Company’s strength lies in the fact that its employees are extremely strong.

In addition, the distance between our top management and the front lines is extremely close. Various information and suggestions from the field are constantly coming in. On the contrary, the policies and ideas we are trying to develop also spread to the very end. The front lines receive the policies and ideas from top management, embody them, and develop them.

It is a matter of course to inherit such various good elements, but I believe that our next task is our further evolvement amidst the changes of the times. For this reason, we have asked Inoue to remain on the Executive Officer this time.

I think the Company will continue to expand globally in the future. We are now in about 170 countries around the world, and I think it will spread further to the Global South, including Africa. The number of affiliated companies is now 374, and I expect this number to increase further through acquisitions and other means. The number of employees is close to 100,000, and I believe this will be far exceeded.

Therefore the centrifugal force will spread more and more. Centrifugal force is important to get people to work independently in the field, but if done poorly, the organization will fall apart. To unify them, centripetal force is crucial. In that sense, we are asking Inoue to remain and continue to play a key role as a centripetal force.

Even though he has stepped down as Chairman of the Board, he is still with us, and we can naturally consult with him on management decisions. While consulting with him on such matters, we would like to make every effort to improve the Company's performance, and then to make it grow and develop even further.

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

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

McDonald's [Q]: I am McDonald. Thank you for your explanation today.

First of all, today I got the impression that Daikin is trying to increase its top line more than anything else, more than profitability. In the past, especially in the 5 years before COVID, the operating margin was always around double digits. However, as a result of spending so much money on investments, R&D, capital expenditures, and M&A over the past few years, profit margins, especially for air conditioning, have not quite reached 10%.

As I recall, FUSION25 is aiming for a profit margin in the Americas of about double digits. Earlier you mentioned that DAA's profit margin is 6% and DNA's profit margin is barely 10% before goodwill amortization, which I felt was a bit underwhelming in terms of profitability.

I have heard from foreign investors, other US-based companies are receiving strong orders and inquiries for data centers in similar applied markets. Their profitability is 15% or 16%. I understand that Daikin is growing its top line, but profitability is not keeping up. That's how I see. When will DNA's profit margin reach about double digits?

What are your views on improving profitability in the US?

Miyazumi [A]: The difference in profit/loss compared to other US companies in the Daikin Group is due to the business model. Daikin's business model is to increase the top line to generate economies of scale and raise margins.

Since we are vertically integrated and do all of our own development, production, sales, and services, costs are naturally heavy. Therefore, the business structure is such that margins fall if we do not sell a large number of products.

On the other hand, other US companies do not pay much money for all development, production, sales, and service. For example, they outsource part of the work. I believe that by lowering costs in such a way, they are raising their overall margins.

we are having some discussions within the Company about what direction Daikin should take next. In essence, we are also talking about what to do with a vertically integrated business model. Generally speaking, the manufacturing industry is going to increase its profit margin through servicing, in essence, by investing resources downstream.

In our case, we are also providing the service and solutions, but on the other hand, we also do the midstream part of assembly on our own. Because of this, we believe that in some ways, it is a difficult structure to achieve double-digit OP margins.

Naturally, we have to do solutions business, but on the other hand, there are markets where we have to sell a large number of products.

In the case of air conditioners, there is still a significant amount of emerging market share that can be profitably by selling numbers. Therefore, we have to raise the volume and use the cash we get from that for the next place. We need to consider how to position each region in the overall business portfolio and turn resources around.

And, as I mentioned, how do we go about a vertically integrated business model? There are several variables, so it is difficult to give you a specific answer as to how we would like to do this. However, that is probably one of the major issues that will be discussed in the next mid-term plan.

Togawa [A]: I would like to add my own explanation.

Simply put, Mr. McDonald's awareness of the problem is also our awareness of the problem. We believe, first of all, that the difference between our profit margin and that of our rivals is due to a low solution ratio.

The solution ratios of other US-based companies are in the 60% range, whereas that of DAA is still just under 40%.

What is needed to achieve this is to accelerate M&A of reps and instrumentation engineering companies in North America, which I believe is the first and most important priority. To date, we have completed the establishment of sales channels in 13 of the 18 priority cities. We are also in the process of rolling out the expertise of reps and instrumentation engineering companies owned by the acquiring firms internally, rather than just acquiring those companies.

We are now looking at acquiring reps in the remaining 5 cities. We have already begun due diligence in several cases and expect to complete all of them by the end of this fiscal year, including further integration with our own service locations. There are some delays in some areas, but I believe we will be able to fully deploy the channels by FY2025. By doing so, together with DAA and DNA, we currently believe that we can bring the operating margin to two digits in FUSION25.

McDonald [Q]: Finally, one question. There are many changes this time, including a change of directors. One issue that is often pointed out by foreign investors is that your company does not have a CFO.

What is the discussion about this within the Company and among the board members?

Togawa [A]: We do not have a title of CFO, but Koichi Takahashi, Senior Executive Officer, is currently doing the CFO-like work. In this appointment, I am going to make him a member of the Board and Senior Executive Officer and have him serve as CFO.

McDonald [Q]: So that's not a big problem.

Togawa [A]: No. We had only 1 female director and an outside director, but this time, the new board composition will include 1 female director from within the Company. I think the CFO role you mentioned is important, so we have strengthened the function by having Mr. Takahashi, who has been playing this role up to now promoted to a member of the Board and Senior Executive Officer.

McDonald [M]: Thank you very much.

Sakamoto [M]: Thank you very much. Mr. Tai of Daiwa Securities, please ask your question.

Tai [Q]: My name is Tai. I have 2 questions I would like to ask.

First, I personally feel that if the profit margin is around 10%, then it is better to extend the top line more. With regard to that, please tell us about any changes in the potential of the African business, which will probably be one of the pillars in the next medium-term plan.

I believe there is also talk of starting production in Algeria and Nigeria. Also, please let me know if you have any updates, especially since there is a lot of interest and concern from European investors.

Can you also give us any updates related to PFAS, if any? Rather than the status of the lawsuit, can you please give us any update on the regulations, the stance of customers on purchasing, whether or not your company is getting orders, and the development of alternative products?

Togawa [M]: Okay. Mr. Hiraga of the Chemical division, who is in charge of the PFAS issue, is here today, so he will answer about that first.

Hiraga [A]: Thank you. I am Hiraga and I am in charge of Chemical division. First of all, regarding the regulation of PFAS, it was said that in Europe, lump-sum regulation is being declared and that the legislation would actually start to appear around 2025 or 2026.

In fact, by last year there was a call for public comment. Traditionally, ECHA usually receives only a few hundred comments on proposed legislation, but this time it received a very large number of comments, 5,600. In other words, so many people are interested. The Europeans will have to string together those 5,600 public comments one by one and respond to them, and at the moment, it is expected that there will be a significant delay in the issuance of the proposed regulations.

As for our company's stance, first of all, in product development, we are promoting the development of more sustainable polymers using those with less environmental concerns. With regard to fluoroelastomers, our policy is to switch to products based on new technology by 2025. We are also planning to switch all other polymers to products based on new technology by around 2030 and now working on this.

On the other hand, for PFOA, we have already stopped the production and use of these products by 2015, and we will continue to promote environmental measures at our plants. As a company that has manufactured and used PFOA in the past, we will continue to pay attention to trends regarding PFOA, and we will continue to respond to them through repeated consultations with the government.

Togawa [A]: I would like to explain the Africa strategy.

With the appointment of directors at the end of June, we are about to start an organizational structure for a full-scale expansion into Africa. Until now, Africa has been under European jurisdiction, but Africa is not easily embarked on from Europe.

Also, Daikin Europe is now focusing more on how to expand its heat pump heating and other products than on focusing on Africa. That is also why it is not a good idea to put the European division in charge of Africa.

To sum up, we are trying to put it under the jurisdiction of the Global Operations Division and have the Indian division take charge of the African market and develop it. Jawa, Member of the Board, Senior Associate Officer, has grown the India business considerably as the regional manager in India. I am going to put him on a dual assignment with the regional employee in charge of Africa and let him expand the business into Africa via the India route.

Now the African market is almost entirely dominated by Chinese and Korean manufacturers, and it is a market for cheap non-inverter products. In India, we currently have a production capacity of 3 million room air conditioners, and we are planning to increase this number to 5 million sooner or later. We are trying to make cost-competitive products in India that can compete with Chinese and Korean manufacturers and bring them to Africa.

In addition to non-inverter ACs, in the future we intend to sell inverter ACs as differentiated products, and to build a sales and service network for them. Furthermore, we believe that the African market may require a unique sales approach. For example, power outages occur frequently. Then, not only air conditioners, but also bundled sales with solar power storage, etc. could be considered. It is also necessary to establish such unique sales methods that are unique to Africa.

Furthermore, as I mentioned earlier for residential use, we are also good at commercial use, such as VRV and Applied. Chinese and Korean manufacturers have yet to do much of this. The full-scale development of this market and strengthening of the sales network and building services for this purpose are intended to be rolled out from the end of June this year.

Tai [M]: Thank you very much.

Sakamoto [M]: Thank you very much. Finally, Mr. Fukuhara of Jefferies, please ask your question.

Fukuhara [Q]: I am Fukuhara from Jefferies. I have only 1 question.

You have 1 year left toward the mid-term plan. This year, you are planning JPY425 billion. Is this a figure that can be confidently achieved? Or do you now consider it a somewhat challenging figure? Could you give us your final thoughts on the achievement of this medium-term goal?

Togawa [A]: What is now very different from when we formulated the second half of FUSION25 is the decline in demand, especially for residential use, on an all-global basis. This decrease in demand, including heat pump heating, is a major departure from our original assumptions.

On the other hand, we will increase operating profit in the current fiscal year by expanding sales, increasing market share, and implementing sales price measures, even under such severe conditions of declining demand. Our operating profit target for this fiscal year is JPY425 billion, and we are determined to achieve it, and at the same time, we would like to take on further challenges this year.

I have just talked about what measures will be taken to achieve it, so I will not go into the details of that. If we are able to do this to some extent, we believe that we will be possible to challenge the very tough figure of JPY500 billion in the latter half of the FUSION25.

Fukuhara [M]: I understand. Thank you very much.

Sakamoto [M]: Thank you very much. This concludes the financial results briefing.

Thank you very much for your participation to the end.

[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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