



Daikin Industries, Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2025

August 6, 2024

Event Summary

[Company Name]	Daikin Industries, Ltd.	
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[Venue]	Webcast	
[Number of Speakers]	2	
	Kota Miyazumi	Senior Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Department Manager of Corporate IR Group, Corporate Communication Dept.
[Analyst Names]*	Tomohiko Sano	JPMorgan Securities
	Yuichiro Isayama	Goldman Sachs
	Kentaro Maekawa	Nomura Securities
	Yoshinao Ibara	Morgan Stanley MUFG Securities
	Graeme McDonald	Citigroup Global Markets
	Kenjin Hotta	BofA Securities
	Sho Fukuhara	Jefferies
	Hirosuke Tai	Daiwa Securities

*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.

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Presentation

Sakamoto: We will now begin the Daikin Industries, Ltd. financial results briefing for Q1 of the fiscal year ending March 31, 2025. 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 as informed via email, so please refer to it as necessary.

I would like to introduce two of today's speakers.

Kota Miyazumi, Senior Executive Officer, responsible for Corporate Communication. Kazuhiro Matoba, Department Manager of Corporate IR Group, Corporate Communication Dept.

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

Mr. Miyazumi will begin today's session with a 15-minute overview of the financial results, followed by a question-and-answer session. The end time is scheduled for 17:00.

Now, Senior Executive Officer Miyazumi, please.

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Summary of Financial Results

Despite the severe business environment, results showed an increase in net sales and a decline in profits.

- ✓ **Air Conditioning business:**
Affected by a slow recovery in demand for Residential and a greater-than-expected decline in demand for Heat Pump Heating in Europe, we expanded our business by leveraging strong demand in such segments as Applied and Commercial while implementing strategic selling price measures and total cost reductions to minimize the negative impact of lower demand. Capitalizing on the advantageous foreign exchange rates, both net sales and profits showed an increase.
- ✓ **Chemicals business:**
While efforts were made to expand sales in Fine Chemicals, sales increased but profit decreased due to the slow recovery in demand for semiconductor manufacturing processes and the automotive sector.

Although the current business environment remains challenging, we will accelerate efforts for key themes while strengthening and expanding measures in response to changes in the business environment to ensure an increase in net sales and profits for the first half of the year (April to September).

(billion yen)	Q1 Results		
	FY2023	FY2024	YoY
Net Sales	1,094.7	1,251.0	114%
Operating Profit	117.9	115.4	98%
(%)	(10.8%)	(9.2%)	
Ordinary Profit	114.8	105.2	92%
(%)	(10.5%)	(8.4%)	
Profit Attributable to Owners of Parent	80.3	63.1	79%
(%)	(7.3%)	(5.0%)	
USD/JPY	¥137	¥156	
EUR/JPY	¥149	¥168	
RMB/JPY	¥19.6	¥21.5	

FX Effect (YoY)

Net Sales	+103.0 billion yen
Operating Profit	+7.0 billion yen

2

Miyazumi: My name is Miyazumi. Thank you for taking time out of your busy schedule to attend today's financial results briefing. I will explain Q1 financial results in accordance with the material.

See page two.

The business environment in Q1 was challenging for both the air conditioning and refrigeration equipment business and the chemical business. Although net sales increased and operating profit decreased, we exceeded the internal plan due to the implementation of measures to identify favorable regions and businesses.

Actual exchange rates were JPY156 against the US dollar, JPY168 against the euro, and JPY21.5 against the Chinese yuan. The foreign exchange impact versus the previous year was a JPY103 billion increase in net sales and a JPY7 billion increase in operating profit.

Although the current business environment remains challenging, we hope to secure an increase in sales and profit in H1 by accelerating efforts on priority themes and strengthening and expanding measures to respond to changes in the business environment.

The annual plan has not been revised at the end of Q1.

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Financial Results by Segment

(billion yen)		Q1 Results		
		FY2023	FY2024	YoY
Total	Net Sales	1,094.7	1,251.0	114%
	Operating Profit (%)	117.9 (10.8%)	115.4 (9.2%)	98%
Air Conditioning and Refrigeration Equipment	Net Sales	1,011.8	1,168.9	116%
	Operating Profit (%)	103.7 (10.2%)	104.4 (8.9%)	101%
Chemicals	Net Sales	60.9	62.3	102%
	Operating Profit (%)	12.8 (21.0%)	11.2 (18.0%)	88%
Others	Net Sales	22.0	19.9	90%
	Operating Profit (%)	1.4 (6.4%)	▲ 0.1 —	—

*Air Conditioning and Refrigeration Equipment business includes filter business.

3

Page three shows results by business segment.

The air conditioning and refrigeration equipment business was affected by a delayed recovery in the residential air conditioning business and a greater-than-expected decline in demand for heat pump heating in Europe. Nevertheless, the Company was able to minimize the negative impact of demand by expanding businesses with strong demand, such as applied and commercial air conditioning, and by thoroughly implementing strategic sales price measures and total cost reductions while also incorporating foreign exchange effects. The air conditioning and refrigeration equipment business segment achieved its best performance ever.

On the other hand, in the chemicals business, despite efforts to expand sales of chemical products such as repellent agents, net sales increased, but operating profit decreased due to the delayed recovery of demand for semiconductor manufacturing processes and in the automotive sector.

The other businesses also posted declines in both net sales and operating profit due to the impact of sluggish demand in Europe in the oil hydraulics business.

The amount of foreign exchange impact for the air conditioning and refrigeration equipment business was positive JPY99.3 billion in net sales and positive JPY5.3 billion in operating profit, while for the chemical business, it was positive JPY3 billion in net sales and JPY1.8 billion in operating profit.

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

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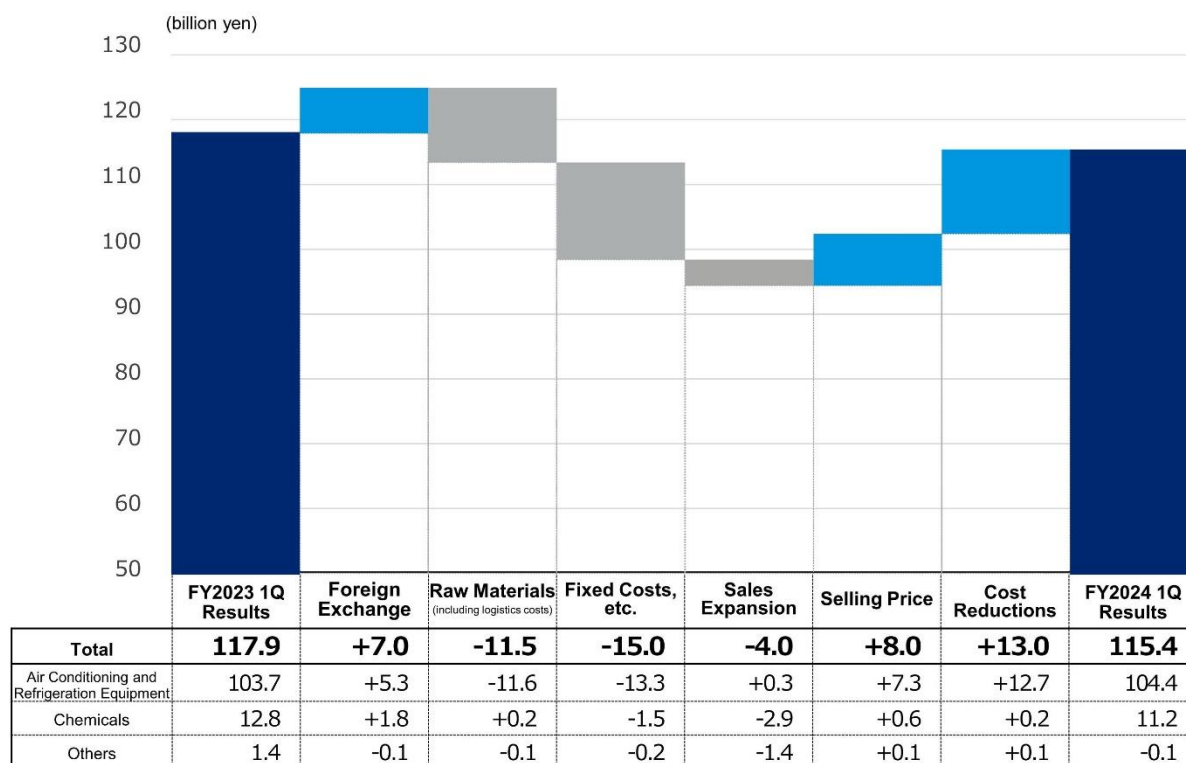
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Analysis of Changes in Operating Profit - YoY

*Air Conditioning and Refrigeration Equipment business includes filter business.



4

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

While we were severely affected by sluggish demand, we worked to minimize the negative impact by expanding sales, implementing thorough sales price measures and cost reductions, and efficiently managing fixed costs.

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Net Sales by Region – Air Conditioning and Refrigeration Equipment

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

(billion yen)	FY2020 Q1		FY2021 Q1		FY2022 Q1		FY2023 Q1		FY2024 Q1	
Japan	91%	116.3	117%	136.4	97%	132.3	106%	139.8	107%	149.9
Europe	93%	87.4	157%	137.0	112%	153.8	114%	174.9	100%	174.3
China	79%	89.1	146%	130.0	95%	123.3	118%	146.0	100%	146.6
Americas	92%	166.1	133%	221.6	147%	325.1	116%	378.1	128%	483.6
Asia	64%	53.2	138%	73.5	143%	105.0	112%	117.4	126%	148.4
Oceania	97%	16.3	138%	22.5	129%	29.1	100%	29.0	117%	34.0
Middle East	75%	7.2	186%	13.4	136%	18.2	130%	23.6	123%	29.1
Africa	71%	1.1	115%	1.3	194%	2.5	117%	2.9	101%	3.0
Total	86%	536.7	137%	735.6	121%	889.3	114%	1,011.8	116%	1,168.9
Overseas Net Sales ratio	78%		81%		85%		86%		87%	
USD/JPY	¥108		¥110		¥130		¥137		¥156	
EUR/JPY	¥118		¥132		¥138		¥149		¥168	
RMB/JPY	¥15.2		¥17.0		¥19.6		¥19.6		¥21.5	

5

Page five shows sales by region for the air conditioning and refrigeration equipment business.

Excluding the effect of foreign exchange rates, sales in real terms were 89% in Europe compared to the same period of the previous fiscal year, 92% in China, 113% in the Americas, and 117% in Asia.

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Net Sales by Region – Chemicals

*Percentage expresses year on year comparison

*Others: Oceania, Middle East, Africa etc.

(billion yen)	FY2020 Q1		FY2021 Q1		FY2022 Q1		FY2023 Q1		FY2024 Q1	
Japan	71%	9.0	147%	13.2	128%	17.0	94%	15.9	95%	15.1
Americas	71%	7.7	135%	10.3	131%	13.6	78%	10.7	98%	10.4
China	105%	9.3	133%	12.3	123%	15.1	86%	13.0	131%	17.0
Asia	88%	4.7	127%	6.0	132%	7.8	99%	7.7	84%	6.5
Europe	76%	4.8	173%	8.4	121%	10.1	132%	13.4	96%	12.9
Others	40%	0.1	179%	0.2	139%	0.3	55%	0.2	208%	0.4
Total	80%	35.6	142%	50.4	127%	63.9	95%	60.9	102%	62.3
Overseas Net Sales ratio	75%		74%		73%		74%		76%	
USD/JPY	¥108		¥110		¥130		¥137		¥156	
EUR/JPY	¥118		¥132		¥138		¥149		¥168	
RMB/JPY	¥15.2		¥17.0		¥19.6		¥19.6		¥21.5	

6

See page six. This chart shows sales by region for the chemicals business.

Excluding the effect of foreign exchange rates, sales in real terms were 86% in the Americas YoY, 119% in China, and 86% in Europe.

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Business / Regional Overview – Air Conditioning and Refrigeration Equipment

Japan

Industry demand for Residential grew year-on-year because of higher average temperatures nationwide and an upturn in consumer confidence due to higher wages.

Industry demand for Commercial also exceeded the previous fiscal year due to improved capital investment and higher demand for shops from inbound tourism.

Daikin expanded sales of high value-added products and benefitted from the selling price effect as net sales exceeded the previous fiscal year.

- ✓ Residential:
In response to rising electricity prices and the growing need for energy savings, we improved user proposals for **Urusara X**.
- ✓ Commercial:
User proposals were further enhanced to focus on high value-added products such as **FIVE STAR ZEAS**, which combines high energy efficiency and ease of installation; **machi Multi**, which meets the needs for small-capacity individual air conditioning; and the **VRV Q series**, which uses existing refrigerant piping for smooth replacement of air conditioning equipment.

YoY change (Volume basis)		Q1 Results
Residential	Market	110%
	Daikin	104%
Commercial	Market	108%
	Daikin	108%
Applied	Market	99%
	Daikin	116%

*Applied is based on total net sales.

7

See page seven. From here, we will provide an overview of the air conditioning and refrigeration equipment business by region.

In Japan, demand for both residential and commercial applications exceeded the previous year's levels due to a recovery in consumer confidence resulting from high temperatures nationwide and improved wages, as well as an improving trend in capital investment.

Against a backdrop of rising electricity prices and growing energy-saving needs, we expanded sales of high value-added products and implemented thorough sales price measures, resulting in higher sales than in the previous year. As for residential, sales of high-end products were strong, but the emphasis on profitability resulted in a decline in market share in the volume zone, where price competition is intensifying.

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Business / Regional Overview – Air Conditioning and Refrigeration Equipment

Americas

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. Daikin expanded sales not only for Residential in the southern part of the United States, where the weather was favorable, but also for Applied sales. A beneficial effect was seen from selling prices, and net sales exceeded the previous fiscal year.

- ✓ Ducted Unitary for Houses:
The impact of adjustments in inventory distribution showed signs of easing. Sales for our environment premium product **FIT** system have increased significantly through our company-operated distribution system (COD).
- ✓ Ductless:
Sales for **RA/SKY** at reps were steady, and sales grew for online products launched last year. For **VRV systems**, project postponements caused sales to fall short of the previous fiscal year.
- ✓ Applied:
With the start of a new factory in Mexico and increased production capacity at existing factories, we expanded equipment sales to manufacturing and data centers where demand is strong. Even in the Solutions business, sales also increased by leveraging the instrumentation and engineering company that we acquired, and net sales significantly exceeded those of the previous fiscal year.

YoY change (Volume basis)		Q1 Results
Ducted unitary for houses		101%
Ductless	RA/SKY	110%
	VRV	82%
Applied		143%

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

8

See page eight.

The air conditioning and refrigeration equipment business in the Americas posted higher sales than the previous year amid a difficult business environment in which industry demand for residential remained sluggish due to prolonged inflation and high mortgage interest rates, thanks to expanded sales of residential products in the southern United States, where the weather was favorable, and sales expansion of applied, as well as the effect of selling prices.

In the ducted unitary for houses, sales of FIT, an environmental premium product, increased significantly, but sales of other unitary products were at the same level as the previous year. While the effects of distribution inventory adjustments were dissipating, competitors stepped up their sales offensive for models using R410A. As a result, we struggled to switch to models using R32, resulting in a decline in market share. Sales of Daikin Comfort Technologies North America, Inc. (DNA) were 101% of the previous year's level on a local currency basis. Although sales volume was at the same level as the previous year, we were able to capture the effects of selling price measures and secure an increase in sales.

As for applied, we have increased equipment sales to manufacturers and data centers, and the solutions business is also steadily expanding.

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Business / Regional Overview – Air Conditioning and Refrigeration Equipment

China

Despite a slow recovery in the real estate market, we improved direct sales to customers. When taking in account the effect of foreign exchange rates, we maintained net sales on par with the previous fiscal year. Operating profit remained at a high level due to the sales expansion of high value-added products and cost reduction efforts.

✓ Residential:

For residential multi-split air conditioners, we focused on our own unique sales activities that combine user-direct offline retail sales with online activities such as live broadcasting using showrooms, web advertising, and SNS. We also introduced a new series of system products that integrate air conditioning, ventilation, and heat pump floor heating with solutions services featuring energy-saving and air quality proposals to meet a wide range of customer needs.

✓ Commercial:

Leveraging the strong demand resulting from the promotion of carbon neutrality policies, we enhanced our solutions proposals by focusing on energy savings in government projects, factories, green buildings, and other areas.

✓ Applied:

We focused on selling equipment for infrastructure, semiconductors, and medical-related fields. While efforts were made to strengthen maintenance and servicing, net sales fell below the previous fiscal year due to a deteriorating business environment.

YoY change (Local currency basis)	Q1 Results
Residential	93%
Commercial	94%
Applied	81%

9

See page nine.

In the air conditioning and refrigeration equipment business in China, sales remained at the same level as the previous year due to strengthened customer-direct sales activities and the effect of foreign exchange despite the slow recovery of the real estate market and the more obvious slowdown of the economy. Operating profit remained at a high level due to efforts to expand sales of high value-added products, reduce costs, and cut fixed costs.

Sales of residential multi-split air conditioners were 94% of the previous year's level. Although sales have declined in the current fiscal year due to the significant growth in the same period of the previous year, we were able to secure sales in a difficult business environment by promoting unique sales activities that combine offline and online sales and by introducing a new series of system products to capture a wide range of customer needs.

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Business / Regional Overview – Air Conditioning and Refrigeration Equipment

Europe, Middle East, and Africa

Net Sales for the overall region exceeded the previous fiscal year.

In Europe, inflation is receding, and the economy is on a moderate recovery track, but the business environment remains challenging with a significant slowing in demand for heat pump heating. Our net sales remained at the same level as the previous fiscal year due to a sales expansion in Applied and the effect of foreign exchange rates.

In the Middle East, net sales exceeded the previous fiscal year, capitalizing on the extreme heat in Turkey.

- ✓ Residential:
Sales fell in France and Spain, where temperatures in early spring were cooler than normal. However, sales expanded in Italy, where we promoted dealer development.
- ✓ Commercial:
Sales focused on segments with strong demand, such as hotels and restaurants.
- ✓ H/P Heating:
Even though we worked to strengthen sales capabilities through dealer development and assisted with subsidy applications, apprehensions about the outlook for subsidy systems extended to major countries such as Italy, Germany, and France, and customers continued to hold off on making purchases.
- ✓ Applied:
Sales expanded for medium and large chillers for data centers and also in the After Sales Service business.
- ✓ Freezer and Refrigerator:
We were able to capitalize on a recovery in food retail chain demand by strengthening sales capabilities.

YoY change (Volume basis)		Q1 Results
Residential		92%
Commercial	SKY	89%
	VRV	106%
Heat Pump Heaters		53%
Applied		118%
Refrigerator and Freezer		138%

*Residential, Commercial, and Heat-Pump Heaters are only for Europe.

*Applied, Refrigerator and Freezer are based on total net sales in local currency.

10

See page 10.

In Europe, we were significantly affected by the decline in demand for heat pump heating, but sales remained at the same level as the previous year due to sales expansion in applied, as well as the effect of foreign exchange rates. In the Middle East, sales were higher than the previous year, capturing the effect of a heat wave in Turkey.

In residential, while demand declined significantly due to unfavorable weather conditions, we were able to increase our market share by strengthening our support for dealers.

Heat pump heating demand continues to be sluggish and shows no signs of recovery yet. However, in preparation for future growth, we will continue to strive to strengthen the competitiveness of our business, including sales capabilities, product development, and service systems.

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Business / Regional Overview – Air Conditioning and Refrigeration Equipment

Asia and Oceania

Unrelentingly high inflation led to sluggish demand and a challenging business environment. Nevertheless, strong sales continued in India, and we made efforts to develop and support dealers, leading to net sales for the overall region that significantly exceeded the previous fiscal year.

- ✓ Residential:
In India, we expanded sales by capitalizing on improvements in our sales network and supply capacity to capture growing demand against the backdrop of economic growth. In Thailand and Vietnam, the company also increased sales by strengthening promotional activities using the sales network that has been established to this point.
- ✓ Commercial:
Although large construction projects continued to be delayed or canceled, we were able to steadily convert small-scale projects into orders and expand sales by developing and supporting dealers.
- ✓ Applied:
Equipment sales expanded by capturing growing demand for factories and data centers together with a focus on the After Sales Service business including maintenance and servicing.

YoY net sales of main countries (local currency basis)

Australia: 105% India: 144% Vietnam: 104%
Malaysia: 106% Indonesia: 96% Thailand: 106%

YoY change (Volume basis)		Q1 Results
Residential		120%
Commercial	SKY	116%
	VRV	109%
Applied		137%

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

11

See page 11.

In the air conditioning and refrigeration equipment business in Asia and Oceania, overall sales in the region exceeded the previous year due to efforts to develop and support dealers in each country and to maintain strong sales in India despite a difficult business environment where demand remained stagnant due to high inflation rates.

In residential, sales in India grew significantly as we took advantage of our strengthened sales network and supply capabilities to capture growing demand on the back of economic growth. Sales also grew in Thailand and Vietnam by utilizing the sales networks we have established.

In commercial, construction of large properties continued to be delayed or canceled. However, through the development and support of dealers, we steadily increased sales by winning orders for small-lot projects.

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Business / Regional Overview – Chemicals

Sales were impacted by the slow recovery in demand for semiconductor manufacturing processes and the automotive sector and the subsequent adjustments in distribution inventory. Nevertheless, net sales were on par with the previous fiscal year due to the sales expansion for repellent agents and the effect of foreign exchange rates.

- ✓ Fluorocarbon Gas:
Was affected by falling demand and market softening.
- ✓ Polymers and Fluoroelastomers
 - Fluoropolymers:
The slow recovery in demand for LAN cables and decline in demand for semiconductor manufacturing equipment affected results.
 - Fluoroelastomers:
Sales decreased due to adjustments in distribution inventory in the automotive segment.
- ✓ Fine Chemicals, etc.:
Sales of antifouling surface coating agents along with water and oil repellents expanded as distribution inventory decreased.

YoY change (Net sales basis)	Q1 Results
Total	101%
Fluorocarbon Gas	97%
Fluoropolymers & Fluoroelastomers	102%
Fine Chemicals, etc.	101%

12

Page 12 is the chemical business.

The chemical business was affected by delayed recovery in demand for semiconductor manufacturing processes and automotive applications and the resulting adjustments in distribution inventories. However, sales remained at the same level as the previous year due to expanded sales of repellent agents, as well as foreign exchange effects.

Fluoropolymers were affected by a delayed recovery in demand for LAN cables and a decline in demand for semiconductor manufacturing equipment. Sales of fluoroelastomers declined due to distribution inventory adjustments in the automotive sector.

In fine chemicals, sales of surface antifouling coatings and oil and water repellants increased.

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Business / Regional Overview – Filters

Although the slow recovery of the semiconductor market had an impact, overall demand remained strong, and when taking in account the effect of foreign exchange rates, net sales exceeded the previous fiscal year.

- ✓ Air Filter:
In the United States, sales grew due to increased demand for filter replacements caused by the heat wave. In Japan, sales of high-performance filters for the semiconductor market decreased due to the impact of inventory adjustments.
- ✓ 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

13

Page 13 is the filter business.

Despite the impact of a delayed recovery in the semiconductor market, sales exceeded the previous year due to generally strong demand and the effect of foreign exchange rates.

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Capex, Depreciation and R&D Cost

(billion yen)	FY2023		FY2024	
	Q1 Results	Full-year Forecast	Q1 Results	Full-year Forecast
Capex	79.0	315.0	95.4	290.0
Depreciation	39.2	170.0	48.3	190.0
R&D Cost	30.2	115.0	34.8	135.0

14

Page 14 shows capital expenditures, depreciation, and R&D expenses.

Q1 results are as stated. We are executing investments in production capacity expansion, R&D, and digital investments for future growth and development as planned, and none of the annual plans have been changed.

That is all for the explanation.

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Question & Answer

Sakamoto [M]: We will now have time for questions and answers. Mr. Sano of JPMorgan Securities, please ask your question.

Sano [Q]: My first question is about the air conditioning and refrigeration equipment business in Q1. Please let me know the areas where actual results exceeded and fell short of the plan. I understand that results in Europe and the US were weak. What kind of business environment and strategies do you envision in order to recover in Q2 and beyond?

Miyazumi [A]: To be honest, the situation in Q1 was quite tough. Regions that performed well were, for example, Asia. Within Asia, performance in ASEAN was virtually flat, but Indian operations posted strong figures due to very strong demand and a very hot summer.

In Europe, demand for heat pumps has not returned, and demand for room air conditioners has been quite sluggish due to the cool summer this year.

In the Americas, especially DNA, ducted unitary for houses business has been struggling a bit this year. Distribution inventory has not reduced much. In addition, there was a considerable so-called rush demand for models using R410A, but our supply capacity was insufficient, and our rivals ate into our market share.

In Q2 and beyond, the room air conditioner and heat pump businesses in Europe continue to face difficult conditions. On the other hand, demand is strong for SKY and other commercial applications, i.e., for stores and offices, restaurants, and hotels, and we will cover the weak business by focusing on these areas and expanding our applied sales.

In the Americas business, demand for applied is strong, and we will further expand this business. In ducted unitary for houses, models using R410A will continue to be the main source of income during the year, and we will focus on capturing sales by increasing production of models using R410A.

We honestly feel that the future of the housing market is difficult to predict. As you are aware, stock prices have recently plunged, and the possibility of a Fed rate cut is increasing, but I am aware that experts are divided in their views as to whether this will lead to an upturn in the housing market. We believe that demand for housing will probably not return in earnest until next year or later. For the time being, we will increase production of models using R410A to capture the demand that is now in front of us.

Sano [Q]: Second, I would like you to update the strategy for heat pumps in Europe. At the beginning of the year, demand was expected to increase 1% and your sales to increase 48%, but now you told us that the environment is difficult. Will the Polish plant be operational in October as planned? What is the status of inventory in Europe? Also, there will be new products, but is there any change in the outlook for the impact of the environment on your selling price strategy?

Miyazumi [A]: As for the Poland plant, we are currently planning to operate it as scheduled. However, it is also true that supply and demand are quite loose, and there is an oversupply, which we assume could lead to price competition.

So far, there are not many signs of improvement in the demand environment for heat pump heating in Europe. Comparing natural gas and electricity costs, electricity costs are still higher, and for heat pumps, that is a headwind. Also, there is currently no strong movement to resume subsidies for the installations, so we believe that there is a need to rethink our approach to heat pump heating a bit.

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Sakamoto [M]: Next, Mr. Isayama from Goldman Sachs, please ask your question.

Isayama [Q]: The first is the growth rate of the Americas business, which you always explain quantitatively. In the Americas as a whole, the growth rate was 13% in local currency terms, which of that was DNA's growth rate? I would also appreciate figures that break this down into selling price, sales volume, M&A effects, etc. In addition, I would like to ask the profitability of DNA.

In addition, what percentage do the models using R410A account for in your total sales? We have received your explanation about the models using R410A and R32. I am very curious as to what percentages they have now because your topline is much weaker than competitors.

Miyazumi [A]: DNA's sales were 101% of the previous year's on a local currency basis. As for the breakdown, volume remained flat, and selling price contributed to an increase of 1%, which resulted in 101%.

As for the ratios in refrigerants, models using R410A still account for the majority. We have just started the switch to models using R32 in August of this year.

Isayama [Q]: I understood that you explained that your company is shifting to models using R32 and that this quarter has lost the sale to competitors. If so, did your company lose the sale because you had a large inventory of R410A models?

Miyazumi [A]: To begin with, we planned to switch to R32 models in August, so we did not have enough R410A models in stock as a result. In this situation, other companies sold R410A models to distributors, but we lost the opportunities. We believe we misread the rush demand for models using R410A a bit.

Isayama [Q]: How profitable is DNA?

Miyazumi [A]: About 9%.

Isayama [Q]: Second, I would like to ask about the selling price. In the quarter under review, a positive effect of JPY8 billion due to selling price measures was seen. Please provide a breakdown of JPY7.3 billion by region in the air conditioning and refrigeration equipment business. I would also be happy to hear additionally what impact the R32 models is expected to have.

Miyazumi [A]: Basically, the region that can be expected for the selling price effect is Japan. We assume that it will be tough in the US.

Isayama [Q]: Your comments are surprising since your competitors in the US were talking positively, including about selling price trends. If you say it will be tough in the US, what does it mean?

Miyazumi [A]: Price competition is taking place. In addition, even if we increase production of R410A models, they cannot be shipped immediately. It is also related to the fact that the market share has gone down.

Isayama [Q]: Let me check. With R410A models, there is price competition as you just mentioned, and you may not be able to respond in time even if you increase production. I thought that was why you were shifting to R32 models. Is it still going to be some time before we can expect to see an increase in selling price due to the shift to R32 models?

Miyazumi [A]: The selling price will naturally increase with the shift to R32 models, but more than that, there is a strong tendency to sell R410A models at low prices in the US market.

Sakamoto [M]: Mr. Maekawa of Nomura Securities, please ask your question.

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Maekawa [Q]: First, I would like to ask about the progress of the increase/decrease factors of operating profit in Q1. Compared to the annual plan, the positive effect of selling prices appears slightly smaller, and the negative effect of raw materials appears slightly larger. I would be interested to hear your view of prices and raw materials in light of the full-year plans.

Matoba [A]: Regarding the comparison with the plan in the analysis of increase/decrease, the negative impact of JPY11.5 billion from raw material and logistics costs is almost as planned. Although the impact of selling prices varies by region, the positive effect of JPY8 billion is slightly higher than expected, especially in the air conditioning business. We are successfully capturing the selling price effect, especially in Japan.

Maekawa [Q]: I believe the full-year plan for the sales price effect in the air conditioning segment is positive JPY36.9 billion. Had you planned from the beginning that the effect would gradually increase each quarter, from Q2 to Q3 and Q4, and is it progressing as planned?

Matoba [A]: Yes. That is correct.

Maekawa [Q]: What is the reason for planning it that way? Are additional price increases planned in the future?

Matoba [A]: We are not planning any additional price increase at this time, but we will launch new products in H2. We expect a selling price effect from the increased functionality.

Maekawa [Q]: My second question is about the strategic aspect. Regarding the expansion of sales of R410A models in the Americas, this is a product that will not be sold in the near future due to regulations. I believe there is already price competition, so I question whether it is appropriate to focus on this. Also, Mr. Miyazumi mentioned earlier that you need to fundamentally rethink your strategy for the heat pump heating business. I would appreciate it if you could explain this concept a little more.

Miyazumi [A]: First of all, regarding the business in the Americas, it has been decided that we will no longer be able to manufacture R410A models starting next January. Until then, we will focus on selling R32 models while selling R410A models to some extent.

As for heat pump heating business in Europe, we still recognize that this is a market that will grow over the medium to long term. However, the current market has shrunk significantly, and higher-priced items are no longer selling. Chinese manufacturers and others are also entering the market, so it will be necessary to provide high value-added products affordably. In other words, we have to secure profits by reducing costs. We recognize that the penetration of heat pump heating in Europe is still very low and that now is probably the time to hold out for a while, considering future growth.

The heat pump heating business accounts for about 20% of total sales in Europe. Until demand for heat pump heating recovers, the basic idea is to cover it with other product lines such as room air conditioners, applied, and SKY for commercial use.

Maekawa [Q]: I understand that the launch of the new plant in Poland is going according to plan, but is there anything that requires a drastic change in your thinking? For example, will you change your product strategy in terms of product design or cost, or do you start up the production line a little more carefully?

Miyazumi [A]: Naturally, we decide when and to what extent to begin operation of the production lines based on current demand trends.

In terms of products, as you mentioned, design is a fairly important factor, especially in Europe, so we will also focus on introducing well-designed merchandise to the market.

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Sakamoto [M]: Mr. Ibara of Morgan Stanley MUFG Securities, please ask your question.

Ibara [Q]: First, how do you see the JPY115.4 billion in operating profit for Q1? You explained at the beginning that this was better than the internal plan, but by how much did it exceed the plan? Is the impact of the yen's depreciation large, and excluding it, did the results not exceed the plan by much?

I understand that your company sometimes revises its full-year plan upward when Q1 results exceed the plan. What is the reason for not revising the plan this time? For example, is it because the current performance is not good?

Matoba [A]: Sales volume of Europe and unitary in the US was lower than our internal expectation. The decline was compensated for by reductions in general expenses and the effect of selling prices. Since the yen was weaker than planned, this had a positive effect of about JPY5 billion on operating profit. We did not make any changes to our earnings forecast, but this was not due to the July situation. Originally, we had a plan in place that requires sales to recover over Q2. Despite the current business environment, we did not revise our plan partly because we are determined to take on the challenge of recovering sales.

Ibara [Q]: Am I correct in understanding that the decline in sales volume was offset by fixed cost reductions and selling price effects, leaving a positive JPY5 billion impact of foreign exchange rate?

Matoba [A]: Yes, that is correct.

Ibara [Q]: Excluding foreign exchange, would you say that the results were roughly in line with your plan?

Matoba [A]: Yes.

Ibara [Q]: Second, what is the inventory situation in the US and Europe? Is there an excess in distribution inventory? Also, is there an excess in Daikin's inventory? In addition, please let us know if there are other areas where you have a large inventory.

Matoba [A]: Explaining a bit qualitatively, Daikin's inventory levels have been declining. This is due to production adjustments in the air conditioning business.

By region, inventory conditions in the US and Europe are very tight right now, while there are no significant changes in other regions during the quarter.

Distribution inventories of ducted unitary for houses in the US are at about normalized or slightly higher levels. Inventory at Daikin is at an appropriate level partly due to very strong inquiries for R410A models. R410A models are in rather short supply.

Inventory levels in Europe were very high at the end of March and have not changed significantly from that point. As for heat pump heating, end-user demand has not yet recovered, distribution inventories remain high, and the inventories held by Daikin are also at high levels. We are making production adjustments, but it will take some more time for Daikin's inventories to decrease.

Ibara [Q]: I don't think the demand for heat pump heating in Europe will return anytime soon, but do you expect the inventory level of residential air conditioners to normalize around the end of the fiscal year?

Matoba [A]: Well, Q1 results for room air conditioners in Europe were negative compared to the previous year and below our plan, but sales are recovering to some extent and will recover in Q2. We are also continuing to adjust production of room air conditioners. As you just mentioned, we hope to bring inventories

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down to a level slightly higher than standard, a level that can be called normalization, by the end of the fiscal year.

Sakamoto [M]: Mr. McDonald from Citigroup Global Markets, please ask your question.

McDonald [Q]: I would like to ask about the applied business in North America on page eight. Applied sales were up 43% YoY on a local currency basis, which is pretty good, but how did it compare to your plan? Second, please tell us about that growth, if you have data on the breakdown by volume, selling price, mix, and M&A factors.

Miyazumi [A]: Applied in the Americas is performing considerably better than planned. We believe the strong figures are due to solid sales of the equipment so-called chiller. We have had weak sales on the chiller of McQuay, which has been a drag, but we are finally starting to sell that. Our stock base is growing, and our applied business in North America is getting stronger.

McDonald [Q]: Do you have a breakdown such as the breakdown of increase in DNA revenue in terms of selling price, volume, product mix, M&A, etc.? A breakdown of 43% increase in applied.

Miyazumi [A]: We do not have such figures.

McDonald [Q]: How about continuity?

Miyazumi [A]: Regarding applied, we assume that this situation will continue.

McDonald [Q]: I remember hearing a few months ago that 10% of DAIKIN APPLIED AMERICAS INC.'s (DAA) sales are to data centers, and that accounts for about 30% on an order basis. How have DAA's data center-related mix, sales, and orders changed?

Matoba [A]: Regarding the applied business of DAA, the growth rate of chillers and indoor units which is air side equipment, for data centers, it is more than 150% for both. As for the composition of sales, it currently accounts for around 10% of the total US business.

McDonald [Q]: So, not much has changed.

Matoba [A]: That's right. However, the figure is growing.

McDonald [Q]: On a local currency basis in China, the chemical business has grown considerably. Could you tell us the background?

Matoba [A]: This was due to the large orders we received for our water and oil repellents for clothing and carpets, which were highly valued for their functionality. Therefore, we believe that this is due to a temporary factor.

McDonald [Q]: Until now, we have heard a lot about water and oil repellents in the US and not so much in China.

Matoba [A]: This is due to the competitiveness of the product. Our company's functionality was highly evaluated in comparison to local manufacturers, and we received a large order.

Sakamoto [M]: Mr. Hotta of BofA Securities, please ask your question.

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Hotta [Q]: First, let me ask you about China. Based on Chinese market talk and data, it appears that demand was strong in April, slowed down in May, and then dropped off through June. From your company's point of view, did you feel that demand seemed to drop off through April, May, and June?

Miyazumi [A]: Regarding China, as you mentioned, we have heard from local people that the figures for June and July have been quite severe. Currently, market conditions are quite challenging.

Hotta [Q]: The second point is about the Americas. Earlier, you mentioned that you are going to increase production and sales of R410A models in the future. North American demand is seasonal, and if you don't sell now, you probably won't make it. Will you make it in time? Also, on a related note, I believe you have been hoarding R32 models with plans to sell them starting in August. Could you tell us if there is a risk that the change in strategy will result in a surplus of R32 model inventory?

Matoba [A]: With regard to the unitary business, you are correct in that demand for these products is skewed to H1 through September. However, for this year, we have decided to increase production because we expect the rush demand to continue through the end of the year since the refrigerant regulation will start in January next year and older refrigerant equipment can only be produced until the end of the year.

The annual plan has not been revised, and the switch to R32 will proceed as originally planned, starting in August in anticipation of the next fiscal year. However, we plan to keep the total unitary sales plan for R410A and R32 models unchanged for this fiscal year, so the volume of R32 models will probably be lower than initially planned.

Hotta [Q]: Is there any risk of having excess inventory of R32 models to accommodate the increased production of R410A models?

Matoba [A]: We have already introduced the R32 models, but we had originally planned to switch the mainstay model in earnest from August, so we had not yet started production in earnest.

Sakamoto [M]: Mr. Fukuhara of Jefferies Securities, please ask your question.

Fukuhara [Q]: First, regarding the US business, you mentioned the term "market share reduction." What do you think is the risk of replacement demand for new refrigerant equipment due to a decrease in market share?

Miyazumi [A]: We do not anticipate any particular risk with respect to replacement demand. Our supply of R410A models was a little weak, which was the reason for the decline in market share.

Fukuhara [Q]: Can we expect to see an ongoing trend of consumers buying your products because they appreciate the high performance of your products by switching to a new refrigerant?

Miyazumi [A]: Yes. We assume that we can capture demand by replacing the R32 models.

Fukuhara [Q]: Secondly, three months ago, you had set your annual plan for operating profit at JPY425 billion. Now, three months later, even with the positive impact of the exchange rate in Q1, has there been any change in your view of the internal plan?

Miyazumi [A]: No. The annual plan of JPY425 billion was left unchanged. Given the market environment, demand trends, and macroeconomic trends in the US, there is honestly a strong sense of uncertainty, and we are discussing internally that we will look at the situation a little more closely.

Sakamoto [M]: Mr. Tai from Daiwa Securities, please ask your question.

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Tai [Q]: Regarding the R410A regulation, I believe the import regulation is from January of next year, but I thought the regulation for local production is from 2026. In other words, I thought the situation of selling both R410A and R32 models would continue for another year and a half. I would like to know about the schedule for refrigerant regulation.

Matoba [A]: The regulation for refrigerants with GWP below 700 starts in 2025, and the refrigerant regulation for large equipment starts in 2026. For ductless, the regulation for products with large refrigerant fills, such as VRV, starts in 2026.

Tai [Q]: Regarding small equipment, I thought that import restrictions would begin in 2025 and local production would be possible until 2026. Is that a misconception, and will small equipment be banned from 2025, including locally produced equipment?

Matoba [A]: That's right. The regulation allows production of small equipment only until the end of the year.

Sakamoto [M]: That concludes the session.

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

[END]

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