



# **Acquisition of AHT Cooling Systems GmbH**

**November 26, 2018**

***DAIKIN INDUSTRIES, LTD.***

# Summary of Today's Announcement

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- ❑ Daikin will acquire AHT Cooling Systems GmbH of Austria, a leading European manufacturer of refrigerated display cases, for €881M (¥114.5B). This acquisition is part of Daikin's efforts to strengthen its commercial refrigeration business under the "Fusion 20" strategic plan.
- ❑ The world's food freezer/cooler market is worth about ¥4T and is expected to grow steadily by 5% annually. The commercial segment, mainly retail stores, accounts for about 50% of the market. Especially, the refrigerated display cases are strategic to the expansion of the commercial refrigeration business because they are a key product for supermarket chains, which are major customers for this business.
- ❑ Market expansion is expected in Europe, with an increase of small and mid-size supermarkets and convenience stores and e-commerce companies entering the food retail market. A global increase in food demand and an expansion of food supply chains worldwide will also lead to the increased importance of cold chains, which are essential for preservation of food freshness.
- ❑ The acquisition adds display cases, the end point of the cold chain, to Daikin's product lineup. Daikin is now a one-stop provider of a wide range of refrigerating and air-conditioning products.
- ❑ The company offers tremendous business opportunities for companies with strengths in environmental technologies. Daikin will first consolidate its position in Europe, where energy-saving regulations are strict and environmental awareness is high. Then we will embark on full-fledged expansion of our refrigeration business to North America and the fast-growing Asian market.
- ❑ In the future, we will pursue synergy with the Daikin Group as a whole to fully realize Daikin's unique contribution to the market and society.

# Outline of Acquisition

## Target company

**AHT Cooling Systems GmbH (hereinafter “AHT”)**

## Acquisition price

The total acquisition price is **€881M (¥114.5B \* At ¥130/euro)** (including refinancing of AHT’s outstanding debt)

## Payback period

The payback period of this acquisition is expected to be **approximately nine years.**

*\*The payback period of 9 years is based on synergy with high certainty. We expect to create further synergies, which can shorten the investment recovery period*

## Financing

The acquisition will be financed by funds in hand and bank financing. Capital increase will not be implemented.

## Schedule

The acquisition is expected to be completed in January 2019 after completion of regulatory review, such as antimonopoly laws, in relevant countries.

# Profile of AHT Cooling Systems GmbH

**AHT has introduced innovative products to the display case market and has grown rapidly.**

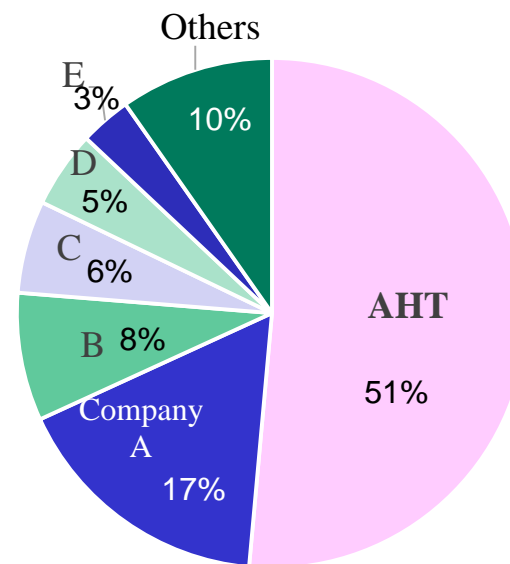
- Established in 1983, AHT is a manufacturer of refrigerated display cases and has the largest share in the plug-in display case market of Europe.
- With store design knowhow and advanced technological capabilities, AHT has many prominent customers such as major supermarket chains. Based in Europe, the company also has business operations in North America and Asia.
- While the retail business in Europe is diversifying, AHT has led the market by successively launching industry-first products to respond to market demand, such as display cases that can flexibly meet store layout changes.

## Company Overview

Company name	AHT Cooling Systems GmbH
Headquartered in	Rottenmann, Austria
Owned by	Bridgepoint
Number of employees	1,600 (as of December 2017)
Representative	Michael Davy, Chairman
Line of business	Manufacture and sale of refrigerated display cases
Sales	¥62.5B in 2017 * At ¥130/euro
Production bases	Austria, US, Brazil, China

## ■ Plug-in display case market of Europe

[FY2017]



Source: IGD Retail Analysis 2017, etc.

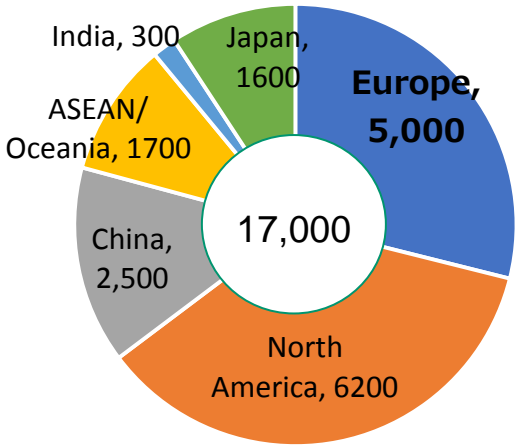
# Overview of Refrigeration Market

The world's food freezer/cooler market is worth about ¥4T. It is a promising market expected to grow steadily by 5% annually.

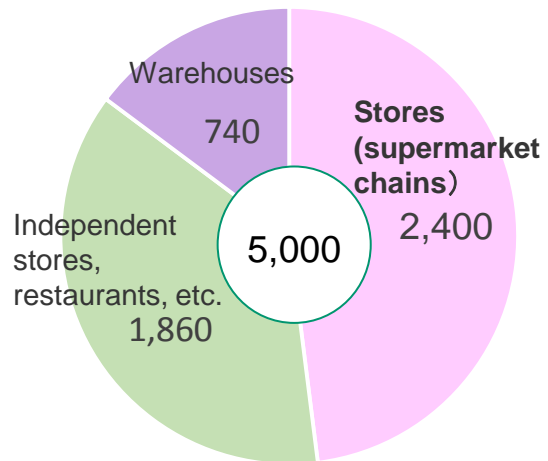
Further market expansion is expected with an increase of supermarkets and convenience stores and e-commerce companies entering the food retail market.

- The world's food freezer/cooler market is worth ¥4T and is expected to grow by 5% annually. The commercial segment accounts for about ¥1.7T of the market.
- In the ¥1.7T commercial refrigeration market, Europe accounts for ¥500B and is the second largest market after the US.
- Supermarket chains account for about half (¥240B) of the European commercial refrigeration market.
- In recent years, growth of small and mid-size neighborhood stores and convenience stores has been strong.

**Fig. 1: Commercial refrigeration market by region (unit: ¥100M)**



**Fig. 2: European commercial refrigeration market (unit: ¥100M)**



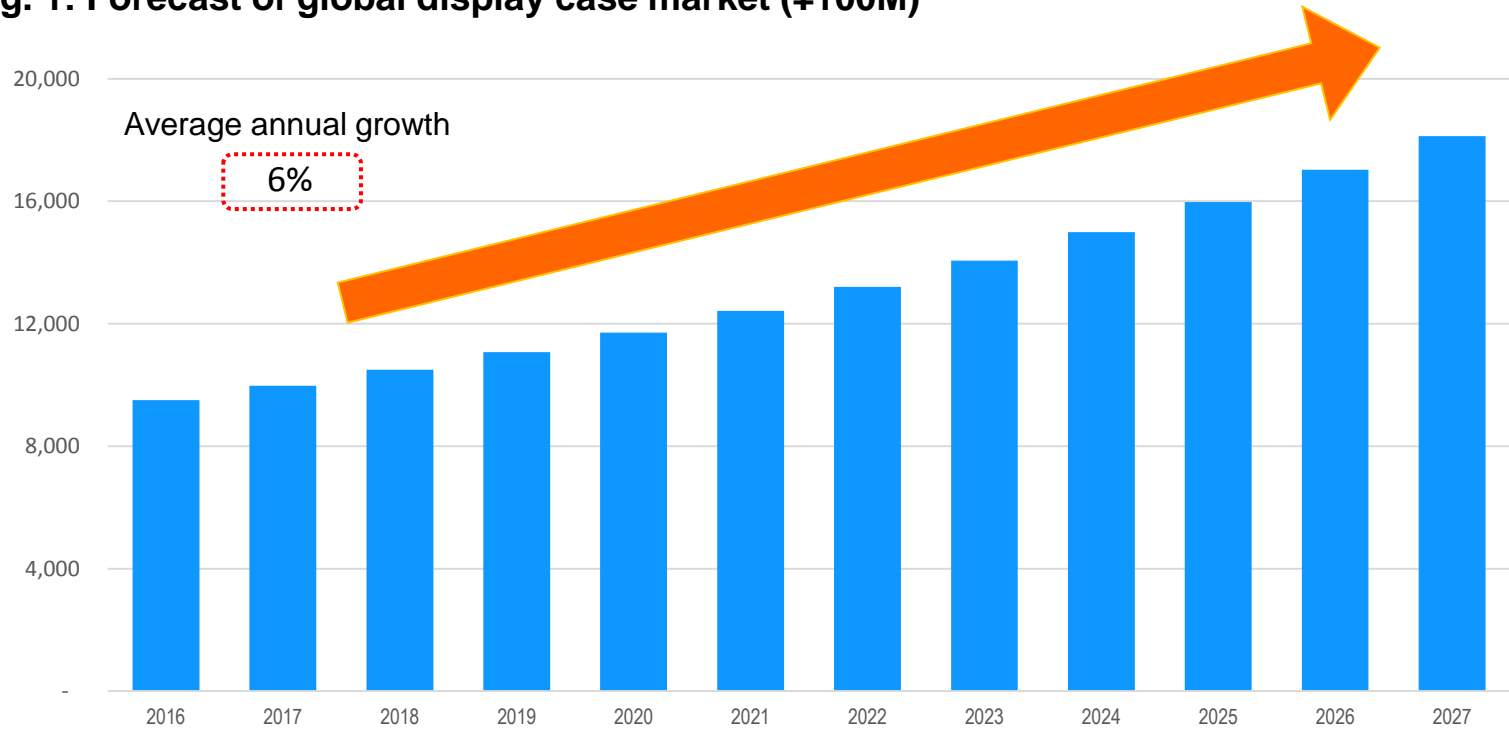
Source: Original Daikin research with reference to Freedonia 2017 study

# Overview of Display Case Market

## Display cases are the key component of store equipment

- Display cases are a **promising market** expected to **grow by an average of 6% annually**.
- For supermarkets, **display cases are key equipment** because they are the most important element of store design. Also, refrigerated and frozen foods in display cases generate about half of the profit of supermarkets.

Fig. 1: Forecast of global display case market (¥100M)



Source: Reports of Mizuho Bank, Fuji Keizai, etc. as reference.

# 2 Display Case Classifications

## ■ Display case system configuration

There are two types, **plug-in** (with built-in refrigeration unit) and **remote** (with separate refrigeration unit). The remote type is the mainstream of the market now, but the plug-in type is growing in share.

### Plug-in type (with built-in refrigeration unit)



- : No need for refrigerant pipe or outdoor unit, so layout change is easy
- : Easy replacement (A single unit can be replaced)
- : Refrigerant leakage is less likely
- △ : Shelf space is smaller
- △ : Wasted heat is exhausted indoor (larger load on AC)

### Remote type (with separate refrigeration unit)



- △ : Refrigerant piping is required
- △ : Indoor and outdoor units must be designed, installed, repaired and replaced as a package
- △ : Need a larger amount of refrigerant
- : No indoor heat exhaust
- : Less sound and vibration because there is no compressor. Shelf space is larger

## ■ Shape of display case

There are three types, **vertical type** installed against a wall, **horizontal type** placed in the middle of the floor, and a hybrid type having both aspects. **The vertical type accounts for 72% of the market and is expected to grow most rapidly.**

Vertical type



Horizontal type



Hybrid type



# Significance of Acquisition of AHT

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- ❑ **AHT's display cases are added to Daikin's products, paving the way to becoming a one-stop solution provider covering the entire food cold chain from food processing and storage sites to ocean and land transport to display cases at stores. Daikin's commercial refrigeration business in Europe will advance significantly.**
- ❑ **In addition to refrigeration equipment, synergy with air-conditioning equipment can be expected. Daikin will be able to offer total energy solutions for the entire store space. Capitalizing on its energy-saving and environmental technologies, Daikin can be a one-stop provider of optimum energy-saving systems combining air-conditioning and stable refrigeration systems to keep food fresh.**
- ❑ **After consolidating the business foundation in Europe, Daikin will be able to embark on full-fledged expansion to North America, the world's largest refrigeration market, and the fast-growing Asian market, using its global network of business for continued growth.**



# Complementary Relationship of AHT and Daikin Group

**AHT and Daikin are complementary to each other in sales, production, and development. For Daikin, AHT is an attractive partner with whom we can increase our presence in the commercial refrigeration market.**

## AHT

### Strengths

- [1] **A dominant market share in Europe in plug-in display cases** with built-in refrigeration units
- [2] **Trusting relationship with major supermarket chains**
- [3] Expertise in creating comfortable retail spaces
- [4] **Product development capabilities** to meet diversification of small stores
- [5] **Cost competitiveness** backed by high internal production rate and economy of scale

### Weaknesses

- [1] Air conditioning equipment is **procured from outside**
- [2] **Product competitiveness of remote type display cases**
- [3] Weakness in **global business expansion capacity**

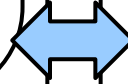
## Daikin

### Strengths

- [1] **Full product lineup** of commercial AC, heating, and refrigeration products
- [2] **Core environmental and energy-saving technologies** such as inverter and refrigerant control
- [3] **Global business foundation (especially in North America and Asia)**

### Weaknesses

- [1] **No display cases**
- [2] **Low presence** in refrigeration market



# Synergy Expected from Acquisition

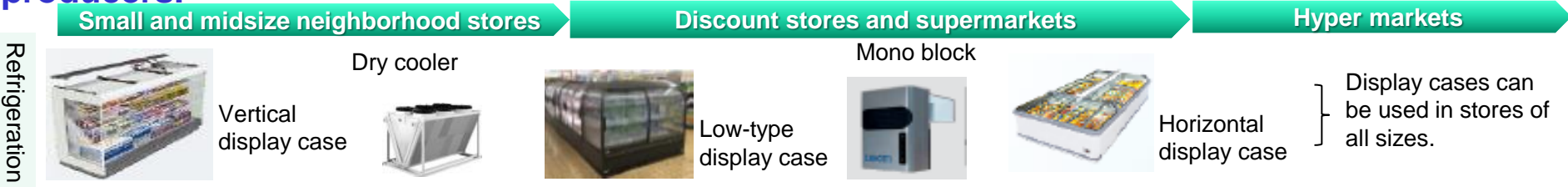
The acquisition will add display cases to Daikin's refrigeration products and make it possible for Daikin to become a one-stop provider of optimum energy-saving systems for the entire store (refrigeration and air-conditioning).

- ❑ **Sell** products of AHT and the Daikin Group through each other's **existing customer channels**
  - Sell AHT's plug-in display cases to customers of Zanotti and Daikin
  - Sell Zanotti's commercial refrigeration units and control products and Daikin's AC products and heat pump hot water supply/water heater products to AHT's customers (major supermarket chains, etc.).
- ❑ **Expansion of sales expected in service business** such as installation, test operation, maintenance, and remote monitoring
- ❑ **Development of new environmental and energy-saving products** by combining Daikin and AHT's technological and product development capabilities.
- ❑ Share production bases, warehouses, and logistic networks; improvement of productivity by introduction of the Daikin production system. **Cost reduction** by switching outsourced products to internal production or to group products.
- ❑ **Offer total energy solutions** by combining air conditioner and refrigeration equipment for the entire store space.

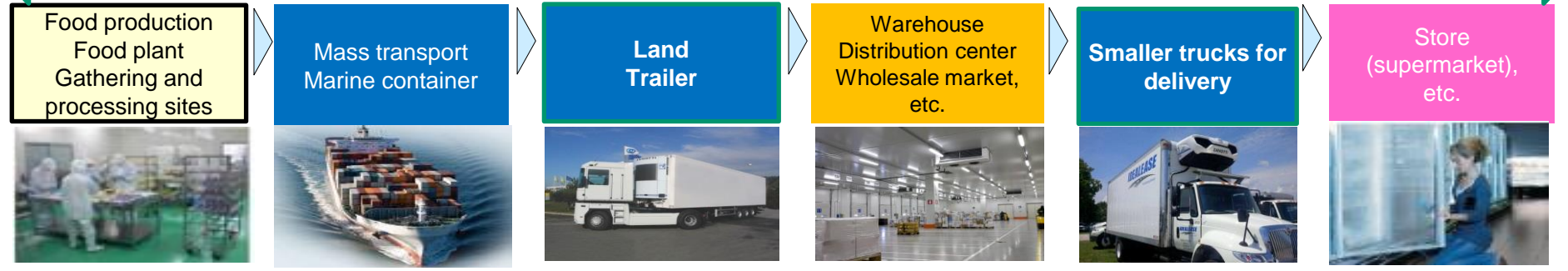
# Daikin's Future Vision for the Development of the Refrigeration Business

Provide one-stop solution of refrigeration and AC equipment, service, monitoring and control for supermarkets and stores of all types and sizes.

Daikin will aim at creation of added value by establishing a cold chain IoT cloud system to connect production, retail, and consumers, thereby offering [1] food safety/security to consumers, [2] advanced direct marketing by supermarket chains targeting each individual, and [3] higher overall efficiency of food supply by sharing POS data with producers.



Develop an IoT cloud system to monitor the entire cold chain and ensure food safety/security





### **Cautionary Statement**

**This document is for informational purposes only and is not intended to solicit investment in the stock of Daikin Industries, Ltd. Any investor cannot make an investment decision on the basis of this document. An investor considering investment in the stock of Daikin Industries, Ltd. should make a decision after carefully considering the risk information and other information included in its securities report.**

**This document contains some forward-looking statements that contain many risks and uncertainties. As a result of many things that affect Daikin's performance or the industry to which it belongs, Daikin's performance indicated either explicitly or implicitly in the forward-looking statements may differ significantly from actual figures in the future.**