

DAIKIN



Acquisition of Goodman

August 30, 2012

DAIKIN INDUSTRIES, LTD.

Outline of the Acquisition and its Strategic Significance

Outline of the acquisition

Daikin Industries Ltd. purchases 100% of Goodman's stock.

Target company	Goodman Global Group, Inc. (hereinafter "Goodman")
Acquisition amount	Total acquisition amount is USD3.7 billion (¥296 billion *¥80/USD) (Including refinancing of Goodman's loans)
Payback period	According to initial estimate at this point, the payback period of this acquisition is expected to be about 8 years.
Fund raising	Funds for acquisition are a combination of partial use of cash reserves together with policy finance, straight bonds, and bank loans to ensure a stable long-term fund with a low interest rate. A capital increase will not be implemented.
Schedule	Upon going through due formalities such as procedures related to antimonopoly laws in each country, the acquisition is expected to be completed during the third quarter of FY2012.

Goodman's Corporate profile

Leading residential unitary AC manufacturer in the US

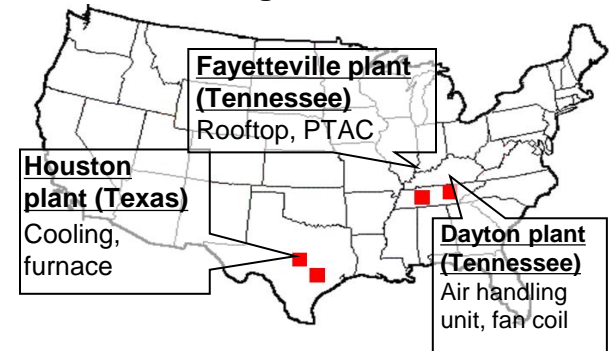
Basic Information

Name	Goodman Global Group, Inc
Head Office	Houston, Texas, United States
Major Shareholder	Hellman & Friedman LLC (hereinafter 'H&F')
Employees	4,765 (as of the end of 2011)
Representative	David Swift, President & CEO
Line of business	Manufacture and sale of HVAC equipment for the residential and light commercial markets (over 95% of business is in North America)
Plants/ Sales Sites	Two plants in Texas, two in Tennessee Products sold to dealers throughout the U.S., mainly through 192 own wholesalers

- Founded in 1975 as a duct manufacturer. Started manufacture and sales of HVAC equipments in 1982. Later, the company acquired a gas furnace manufacturer to fully enter the residential unitary AC market.
- In 2004, the company was acquired by Apollo Management, an American private equity fund. H&F, the present owner, acquired Goodman in 2008.
- The company has two major brands, Goodman® and Amana®. Goodman holds a dominant share in the volume zone market by providing high-quality and low-cost products.



Manufacturing bases



Change in Goodman's sales

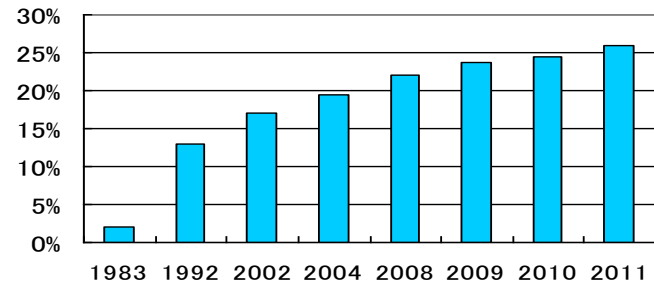
(\$M)	2009	2010	2011
Sales	1,851	1,944	2,050

Goodman's strengths

Goodman's strengths are its solid nationwide distribution network, low cost production, and lean management. The company has expanded its share every year and achieved No.1 share (approx. 25%) in the North American residential AC market in 2011.

- More than 30% share in the volume market
- 5 % share in the premium market

<Goodman's share in the North American residential AC market>

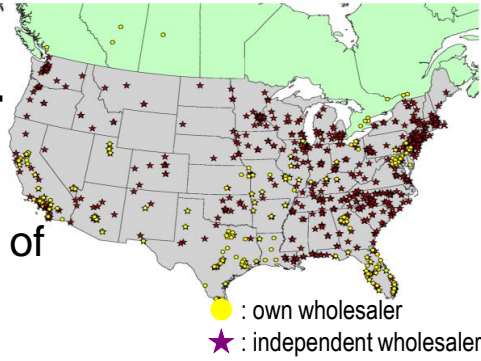


(1) The No. 1 sales network in the U.S.

○ The largest sales network in the US in the industry with over 900 sales bases nationwide, including 192 company-owned wholesaler locations, and 60,000 dealers under its affiliation

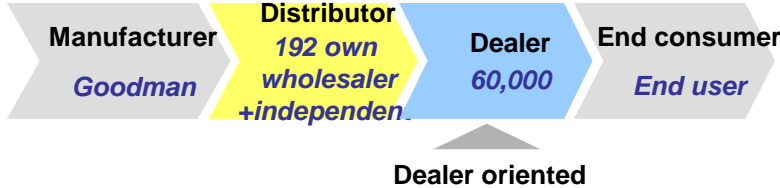
- A strong sales network for its own 192 wholesalers through the will of the manufacturer

<Goodman's North American sales network>



○ Extensive dealer-oriented marketing

- Database with detailed customer and sales information
- Dissatisfaction with competitor products gathered by dealers handling both products are quickly reflected in improvements of Goodman products
- Dealers are provided with mobile terminals featuring latest IT



Goodman's strengths

(2) Significant cost competitiveness by large volume and high-speed production

○ Thorough standardization that does not increase the number of models

⇒ Enhances cost competitiveness by volume

- Terminates one existing model when developing one new product.

○ Thorough in-house parts production and maximum utilization of existing facilities

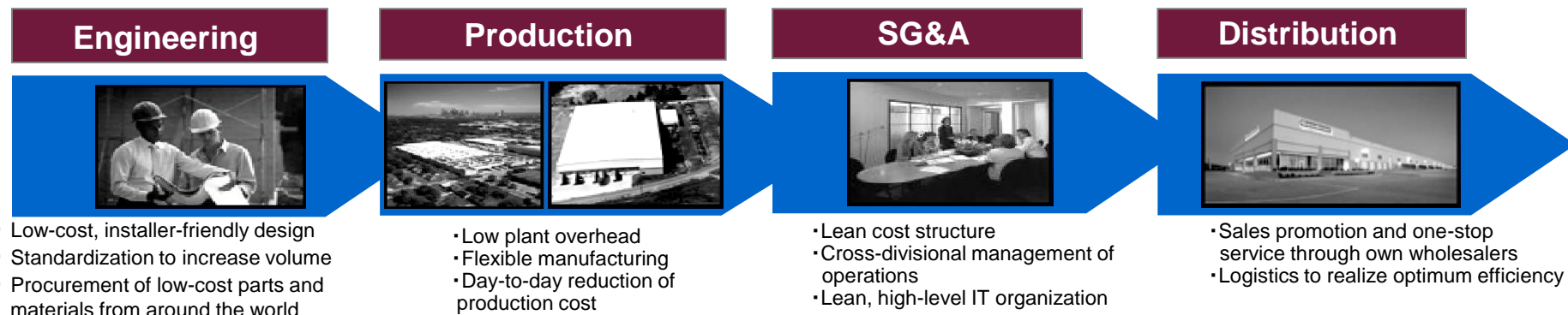
○ Consideration for easy installation at the design stage to reduce installation costs

(3) Lean management exemplified by the cost-cutting SCM structure from procurement to development to manufacturing to distribution consistency

○ Management of production schedule by direct communication between dealers and Goodman plants to ensure no shortage of quick selling products

○ Lean management structure

- Efficient logistics
- All operational divisions are managed cross-divisionally to avoid overlap among regions
- High-level IT organization to streamline operations



Strategic significance of the acquisition

- Under ongoing Fusion 15, the four new growth strategy themes are executed aiming to become a truly global and excellent company that achieves both scale and profitability.

4 New Growth Strategy Themes of Fusion 15

1. Fully Enter Emerging Markets and the Volume Zone
2. Develop Solutions Business that Meets Customer Needs
3. Expand Environment-related Innovation business
4. Accelerate Growth Through Alliance, Partnerships, and M&A

- Acquisition of Goodman, a manufacturer having the top share in the residential AC market in North America

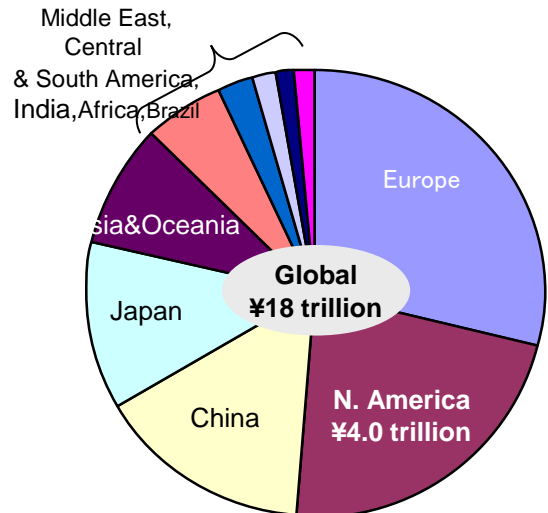
- ① Aim to achieve the No. 1 position in the North American AC market by strengthening our presence in the residential and commercial AC market in North America
- ② Contribute to mitigation of environmental issues and expand business by creating new trends of energy-saving and electric power conservation in the North American AC market
- ③ Enhance Daikin Group's cost competitiveness and lean management to strengthen profitability in the emerging markets and the volume zone as well as around the world including the developed markets

Build a solid position as a global AC leader

Overview of the North American market

1) Market size

- The global HVAC&R market is approx. ¥18 trillion
- North American market is approx. ¥4 trillion (2010, calculated at ¥100/\$)
- Of which, equipment market accounts for approx. ¥1.9 trillion, and construction, service, and maintenance for approx. ¥2.1 trillion



[Size of N. American Market] Unit: ¥100B

Equipment		AC	8.5	19
Equipment	Heating/hot-water supply		7.4	
	Refrigeration		3.2	
Installation/Service/Maintenance		AC	15.5	21
Installation/Service/Maintenance	Heating/hot-water supply		1.3	
	Refrigeration		4.2	
Total				40

○ The North American market consists of three major categories

- Residential unitary: Mainly for houses (approx. ¥800B)
 - Light commercial: Mid-size buildings of up to 3 stories (approx. ¥200B)
 - Applied systems: Large and high-rise buildings (approx. ¥300B)
- } ¥1.9 trillion
- * Approx. ¥300B for others, e.g., window type, hot-water supply boilers
¥300B for refrigeration/low temperature equipment

* Market size in 2010, estimated by Daikin. Exchange rate: ¥100/USD

Overview of the AC market

(Reference) Overview of the North American market

○ North American AC equipment market (¥1.6 trillion) consists of 4 product segments

- (1) Residential = ducted unitary for houses (approx. ¥800B)
- (2) Light commercial = mid-size buildings (approx. ¥200B)
- (3) Applied = Large and high-rise buildings (approx. ¥300B)
- (4) Others such as window type (approx. ¥300B)

Words in red indicate Goodman's product line

Market	Residential	Light commercial	Applied
Application	Mainly residential homes (average 400m ² , <u>AC for entire house</u>)	Mid-size buildings of up to 3 stories (accounting for 80% of office space in N. America)	Large and high-rise buildings (urban areas, corporations, factories)
Product image	<p>Residential ducted unitary, VRV-S, RA/QA</p>	<p>Rooftop, VRV</p>	<p>Centrifugal chillers, chillers, air handling units</p>

* Market size in 2010, estimated by Daikin. Exchange rate: ¥100/USD

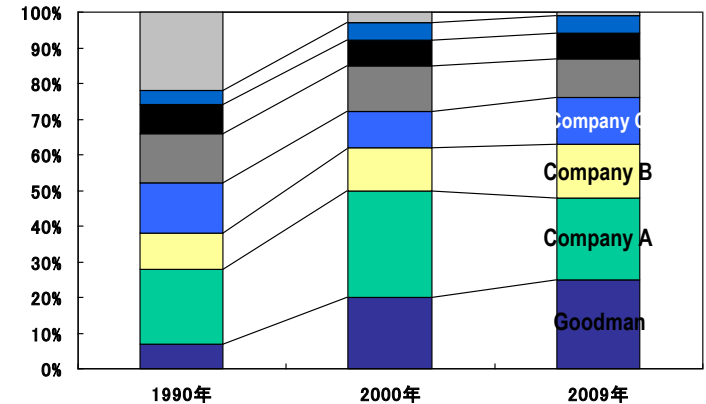
Overview of the AC market

2) Characteristics of residential/commercial (light commercial)

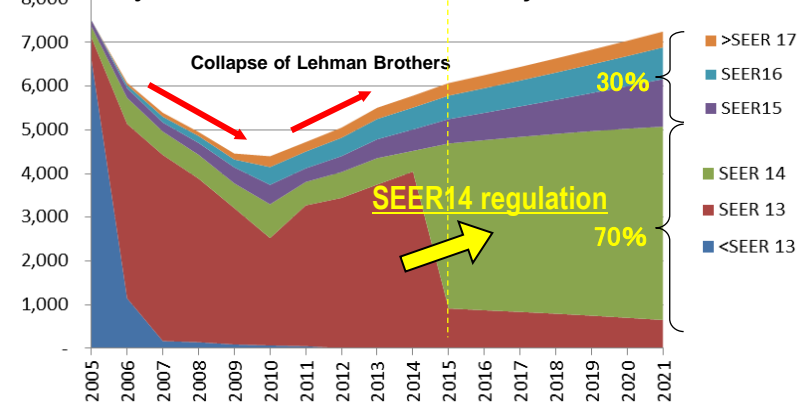
(1) Residential market

- A mature market lead by 7 major companies
- Although the market was dampened by the collapse of the Lehman Brothers, it hit bottom in 2010 and has been gradually recovering
 - The market is expected to recover to about 60,000 units in 2015 with replacement of about 20,000 units, postponed due to the economic recession.
- Ducted system are the mainstream and the market is divided into a price-oriented volume market (about 70%) and brand-oriented premium market (about 30%)
 - Mainly a replacement market. Cost competitiveness is important.
- New federal energy regulations will take effect in 2015. Then SEER14 will be shifted to the volume zone.
 - Demand for high-end models with high energy efficiency, ventilation, and zoning will also emerge.

Change in residential unitary market share (units)



Projected demand of outdoor units by SEER level



* SEER: seasonal energy efficiency ratio. Cooling output during a typical cooling-season divided by the total electric energy input.

Overview of the AC market

(2) Commercial (light commercial) market

○ The top three companies comprise more than 70% of the market share

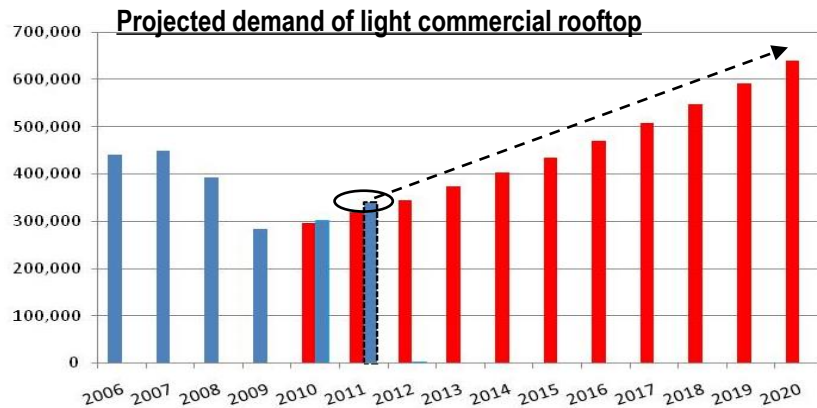
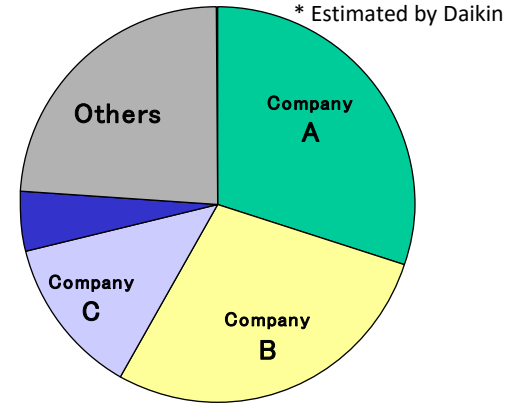
○ The major market is low-rise buildings of two or three stories. Ducted rooftop type is the main product

- The market synchronizes with construction demand for buildings (schools, offices, stores, etc.) and has been recovering by 5-8% per year since 2010.

- Main demand is low-priced rooftop (about 80%)

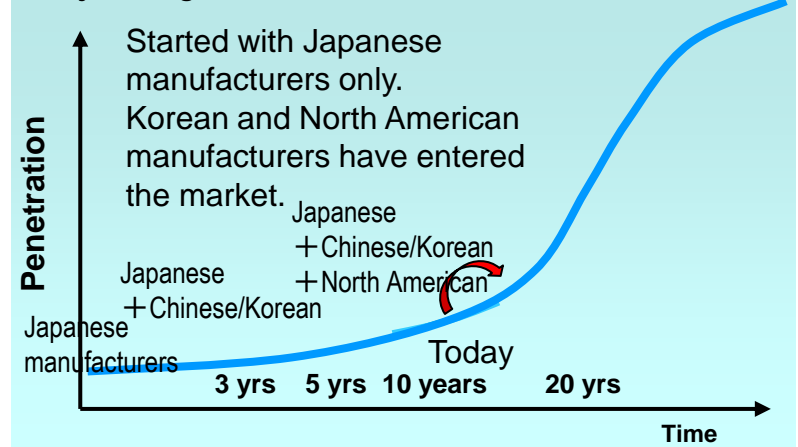
○ Ductless VRV is more recognized in the market and has reached 20,000 units

Commercial rooftop (share in 2009)



Source: AHR shipment data, projection by Daikin

Projected growth of the North American VRV market



Overview of the AC market

3) Recent trends

Energy efficiency and environmental regulations in North America, so far lagging behind other regions of the world, are expected to advance rapidly

⇒ Excellent opportunity to leverage Japanese technology

○ About 40% of U.S. energy consumption is used in buildings

• AC (cooling, heating, hot water supply) occupies more than half of the energy consumption

⇒ High potential to reduce energy consumption by penetrating energy-saving equipment

○ Minimum requirement for residential unitary equipment

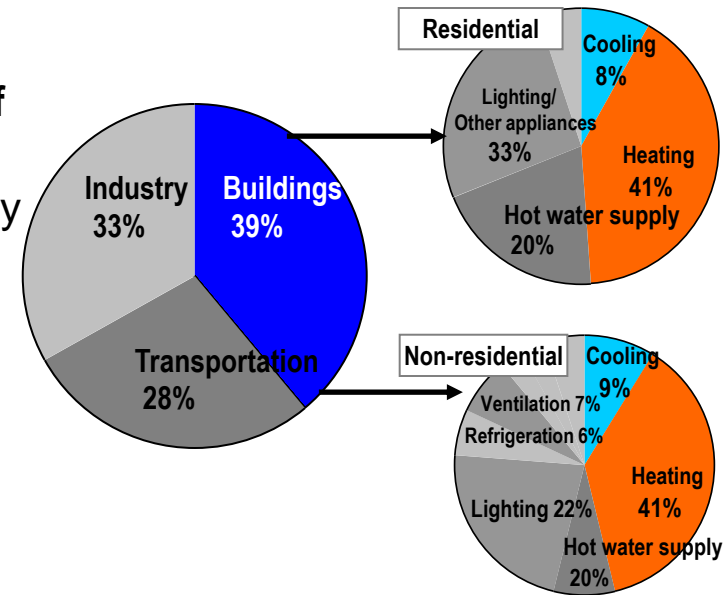
SEER10 (1992) ⇒ SEER13 (2006) ⇒ SEER14 (scheduled for 2015)

⇒ Opportunity to increase penetration of inverter units (currently about 1%)

• States with high environmental awareness are introducing incentives and other programs to save energy
(Example) California: Aims for at least half of new houses to be net zero energy by 2016

○ In the light commercial market as well, efficiency improvement for equipment will be promoted mainly by the federal government

[Breakdown of U.S. energy consumption by use]



Ref) SEER equivalent value of energy efficiency standard

Japan	18.5
Europe	18
China	17 *
U.S.	13

* Standard for inverter units only

Daikin's AC business in North America

- Daikin AC (Americas), Inc. (DACA) was established in 2005 to sell ductless products for market penetration of energy-saving equipment
- Acquisition of OYL and thus McQuay US in 2006 to be the foundation of applied business in North America
The business has grown to about ¥70B

Daikin's recent business in North America (\$M)

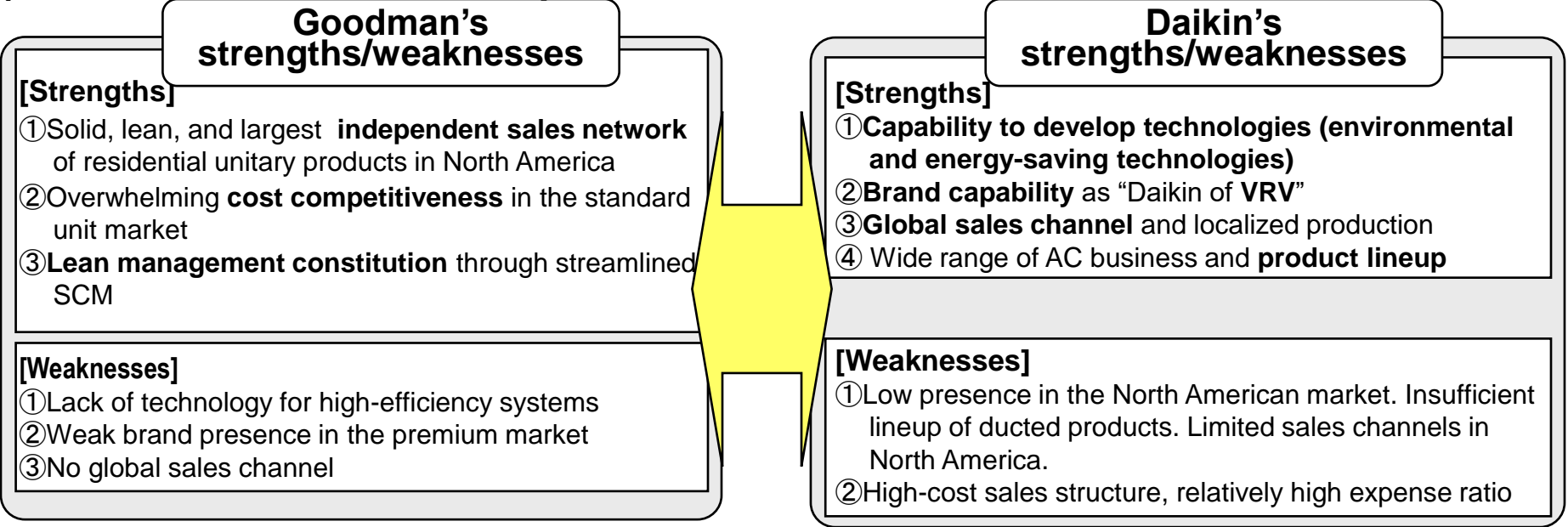
	2009	2010	2011
Sales of DACA	94	134	153
Sales of McQuay US	561	644	755

- As the environmental awareness rises, now is an **excellent opportunity to** open a crack in the static North American residential AC market and **increase our presence in the market** with environmentally-conscious products leveraging Daikin's state-of-the-art technologies
- Acquisition of an existing manufacturer enables us to quickly expand our sales channels and gain lineup of ducted products

Effect of the acquisition (Synergy generation)

Synergy generation

1) Goodman is Daikin's best partner



- Accelerate market penetration of environmental products such as VRV utilizing Goodman's network of 192 wholly-owned sales companies network in North America
- Develop low-cost, energy-saving products that overwhelm competitors combining Goodman's unrivaled cost competitive products and Daikin's technology (inverter compressors, devices, etc.)
- Strengthen the earning capability of the entire Group by introducing Goodman's know-how such as cost competitiveness, lean sales system, and SCM structure from procurement to development to manufacturing to distribution consistency, in our global business operations including emerging and high-volume markets

Synergy generation

2) Materialization of synergy themes

Only a few synergies have been quantified. While rapidly generating and materializing new themes after the acquisition, the two companies work together to quickly substantiate themes that are not quantified but show great potential

North American market (¥4T)

- (1) Synergies already quantified**
3 year cumulative: ¥24B
10 year cumulative: +¥250B
- ① **Theme to realize the No. 1 position in the North American residential AC market**
 - Introduce Goodman's ducted unitary products featuring Daikin's inverter technology and expand sales through its sales network, etc.
- ② **Full-scale entry to light commercial business with VRV and rooftop as the core products**
- ③ **Streamlining/production themes**

Global market (¥14T)

(2) Synergies to be quantified

- ① **Overseas sales of Goodman products**
 - Expand sales of Goodman products through Daikin's sales network
(Partly quantified for Latin America and the Middle East)
 - Launch gas furnace products in overseas heating markets

- ③ **Improve profitability capitalizing on Goodman's know-how**
 - Introduce Goodman's know-how including cost competitiveness, lean sales system, and SCM structure to our global business activities both in emerging and developed nations

② Change the North American AC market by launching environmental products

- Launch cost-competitive energy-saving products in the standard zone, which occupies 70% of the North American residential AC market.
- Develop low-cost and high-efficient AC equipment combining Daikin's inverter technology and new refrigerant
- Promote sales of ducted-ductless hybrid products, DESICA*, residential solutions, or energy generation products, packaged with environmental products

*DESICA: Outdoor-air processing unit for controlling humidity (individually control temperature and humidity through humidity-control and ventilation system to improve comfort and save energy)

Synergy generation

(1) Synergies already quantified

① Themes to realize the No. 1 position in the North American residential AC market

- **Develop and expand sales of inverter unitary units for the premium zone (SEER15-20 or higher), which are expected to be profitable**
 - Develop energy-saving and low-cost inverter products
 - Expand sales of Daikin brand products through Goodman's existing dealers (60,000)
- **Expand sales of ductless products (RA, QA) by Goodman and DACA**
- **Develop heating hybrid products (heat pump + gas furnace) that differentiate us from competitors in the North American cold region market**
 - Expand sales through Goodman's own wholesale channels with energy cost proposals that meet the situation of each area in the US

② Full-scale entry to light commercial business with VRV and rooftop as the core products

- **Expand VRV sales utilizing Goodman's sales channels**
- **Develop inverter rooftop units**
 - Apply Daikin's inverter technology to realize high-efficient, cost-reduced rooftop units
 - Enhance premium product lineup to expand sales through Goodman's sales network
- **Expand parts business by fully utilizing McQuay REPs and Goodman bases.**

Synergy generation

(1) Synergies already quantified

③ Streamlining/production themes

- Utilize Goodman factories to locally produce VRV
- Horizontally transfer Goodman's logistics know-how that enables simple supply/demand and delivery adjustment to Daikin bases
 - Shift DACA's logistics network within North America to Goodman's
- Integrate logistics and procurement functions in the North American area
 - Centralize information management of production parts and materials at each factory
- Jointly purchase parts and materials, share parts, and develop modules by 3 companies in North America (Goodman, McQuay US, Daikin).

Synergy generation

(2) Synergies to be quantified

① Overseas sales of Goodman products

○ Expand sales of Goodman's ducted rooftop products through Daikin's sales network (Latin America, the Middle East, etc.)

- Examine possibilities in detail for other global areas including cross-sales in part of Latin America and the Middle East

○ Launch gas furnace products in overseas heating markets

- Improve efficiency of gas furnace equipment by fusing the technology of Rotex Heating Systems GmbH*.
- Expand sales of Goodman's gas furnace products in overseas heating markets

*Rotex: A German manufacturer of combustion heating equipment acquired by Daikin in September 2008.

② Change the North American AC market by launching environmental products

○ Create new trends of energy-saving and electrical power conservation by launching environmental products leveraging Daikin's state-of-the-art technologies (inverter, heat pump, new refrigerant, etc.)

■ Launch cost-competitive, energy-saving products in the standard zone, which occupies 70% of the North American residential AC market.

- Develop and expand sales of INV products
- Fully create ductless market in North America
- Strengthen marketability of heating products

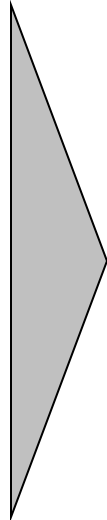
■ Implement new environmental strategy combining inverter technology and new refrigerant

■ Develop energy-saving residential solutions business and contribute to the realization of a sustainable society

Synergy generation

- ③ Horizontally develop Goodman’s know-how to improve profitability
 - Globally introduce Goodman’s strengths of lean management structure and know-how to capture emerging and volume zone markets as well as in the markets of developed nations
 - Reform the earning structure of the entire Daikin Group**
 - With support from Goodman, Daikin will analyze and systemize Goodman’s lean management. Points that should be developed for each region and country are clearly distinguished and expanded.

<Points to transfer from Goodman>
○ Lean cost structure
○ Supply of competitive low-cost products <ul style="list-style-type: none"> ▪ Rule to limit the number of models ▪ Supply management to sell out old models
○ Systemized method and know-how to develop dealers
○ Utilization of latest information in connection with own sales companies

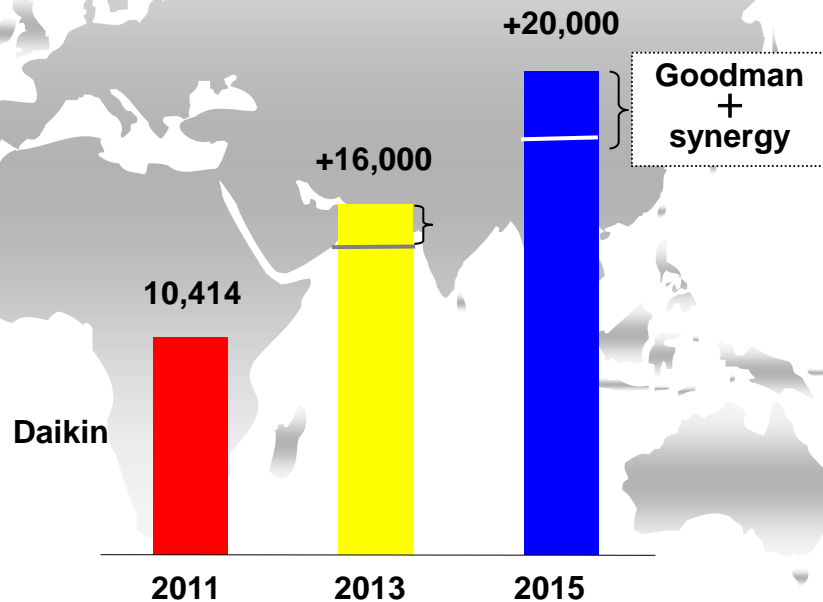


Targets
○ Develop emerging markets/volume zone <ul style="list-style-type: none"> ▪ Accelerate development and execution of business strategy in Brazil ▪ Transfer to Indonesia, etc.
○ Transfer to Daikin’s mature markets <ul style="list-style-type: none"> ▪ Enhancement of profitability is the issue. Develop in Japan, Europe, and China

Aiming to achieve the global No. 1 AC company

- Daikin's equipment business to be in the top share group in North America in 2013 with DACA, McQuay, and Goodman
- Ensure to achieve Fusion 15 themes and generate synergy results and consolidate our position as the global No. 1 AC player

■ Image of Daikin Group's global AC Sales (¥0.1B)

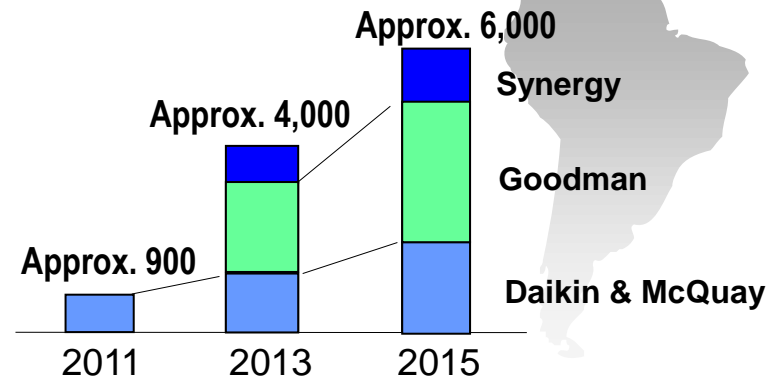


■ AC (equipment) sales in North America (\$1M)
(excluding refrigeration) 2011

Company A	3800
Company B	3600
Company C	2400
Goodman	1900
Company D	1800
Daikin/McQuay	700

* Estimated by Daikin

■ Image of Daikin Group's AC sales in North America (\$1M)

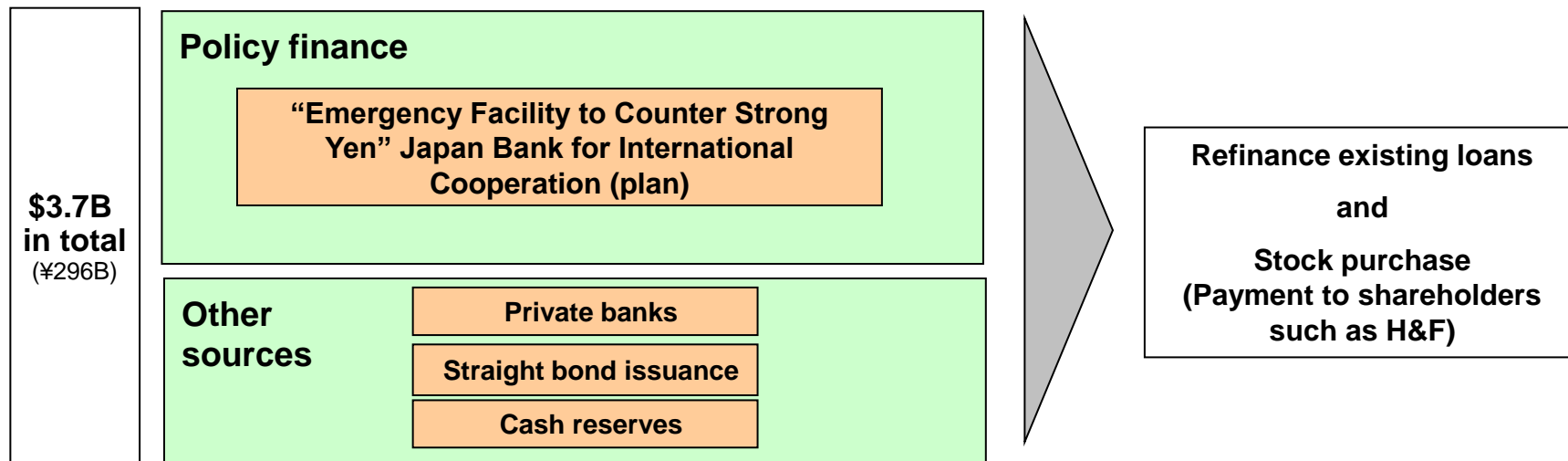


Fundraising and financial impact

Fundraising method

- Total acquisition amount is USD3.7 billion (¥296 billion *¥80/USD)
- Funds for acquisition are a combination of partial use of cash reserves together with policy finance, straight bonds, and bank loans to ensure a stable long-term fund with a low interest rate. A capital increase will not be implemented.
- In Japan where interest rates are most stable in the world, a combination of different procurement methods will be used to take advantage of low interest.
 - As for the policy finance, we plan to maximally utilize the “Emergency Facility to Counter Strong Yen” offered by the Japan Bank for International Cooperation through private banks, an initiative promoted by the “Emergency Package to Counter Strong Yen,” which was announced on Aug. 24, 2011, by the Ministry of Finance.

(Reference) Overall picture of fundraising



Financial impact on Daikin

Impact on profit and loss

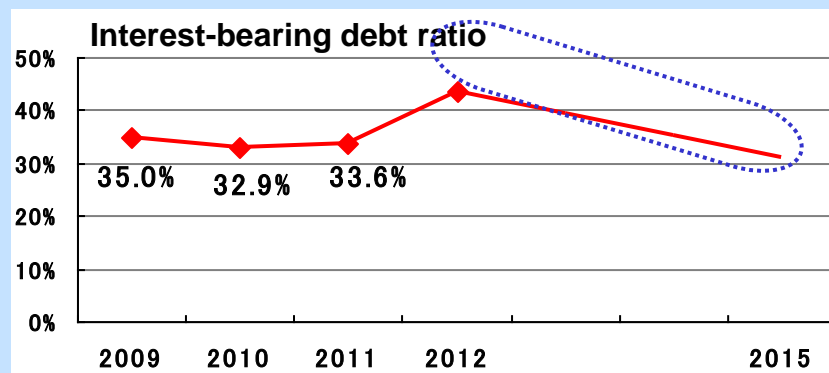
- According to the initial estimate at this point, the acquisition is expected to positively contribute to EPS from the first year.
- Impact on performance will be announced immediately after it is determined.

Payback period

- According to initial estimate at this point, the payback period of this acquisition is expected to be about 8 years (based on FCF) .
*About 5 years based on EBITDA

Financial constitution

- Although Daikin's financial constitution is expected to temporarily worsen due to the financial burden from the acquisition, recovery is expected in about 3 years through the accomplishment of Fusion 15 themes, Goodman's independent business, and synergy generation.





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