

**DAIKIN**



# Acquisition of Flanders

February 9, 2016

***DAIKIN INDUSTRIES, LTD.***

# Main Points of This Announcement

- **American Air Filter Company Inc. (AAF), a Daikin subsidiary that has developed a global filter business, is acquiring and integrating Flanders, the air filter manufacturer with the top share in the United States, for 50.7 billion JPY.**
- **From this, AAF will become the overwhelming top manufacturer in the U.S. air filter market, the world's largest, and gain the position of the leading company in the global market.**
- **With this acquisition, the Daikin Group filter business will exceed 100 billion JPY and focus on becoming the third pillar behind the air conditioning and chemicals business.**
  - Sustainable growth is anticipated for the filter business in supporting such expanding markets as pharmaceuticals, biotechnology, and food processing. Not only will the filter business contribute to a stable profit structure of the Group, it will also strongly complement our air conditioning business, a mainstay business of the Daikin Group, and future synergies are expected.
  - In addition to indoor environments, filters are also actively involved in such areas as mitigating air pollution, including PM2.5. and VOC, which is increasing worldwide. In acquiring Flanders, Daikin intends to further intensify its efforts in solving all issues related to “air and space.”

<Sales of Filter Manufacturers >  
**2014 Results** (including P&I business)  
 at 110JPY/1USD ※Daikin survey

(unit: 1billion JPY)	
<b>Daikin Group + Flanders</b>	<b>104.0</b>
Competitor C	87.0
<b>Daikin Group (AAF+Nippon Muki)</b>	<b>72.0</b>
<b>Flanders</b>	<b>32.0</b>

# Summary of Acquisition

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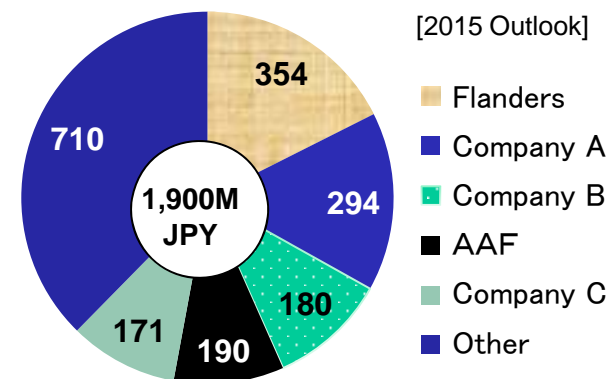
<b>Company</b>	<b>Flanders Holdings LLC (hereinafter, Flanders)</b>
<b>Acquisition Price</b>	Total acquisition price is <b>430 million dollars.</b> (50.7 billion JPY ※ at 118 JPY/ 1 USD ) (includes debt refinancing for Flanders)
<b>Payback Period</b>	Approximately 9 years is anticipated for payback period of this acquisition.
<b>Financing</b>	Financing will be performed by combination of cash on hand and bank loans.
<b>Schedule</b>	<b>The acquisition is expected to be concluded in April 2016 after completion of the necessary procedures such as those for antitrust laws in the United States.</b>

# Summary of Flanders

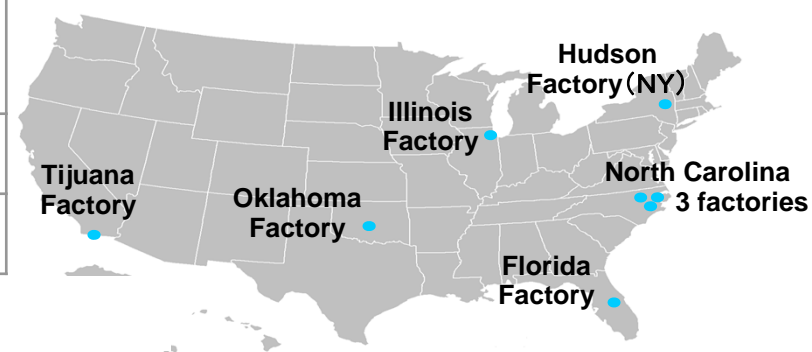
○ Top manufacturer for sales in the U.S. air filter business

Basic Information	
Name	Flanders Holdings LLC
Headquarters	Washington, North Carolina, United States
Equity Investor	Insight Equity Management Company LLC (hereinafter, Insight Equity)
Employees	Approximately 2,700 people (as of December 2015)
Representative	Peter Jones, CEO
Areas of Business	Manufacture and sale of filters for the residential and commercial use markets and filter related equipment
Sales	2014 Results: 32.0 billion JPY *at 110 JPY/ 1 USD
Mfg. Bases	7 factories in U.S., 1 factory in Mexico

■ Sales for U.S. Filter Manufacturers



■ Manufacturing Bases



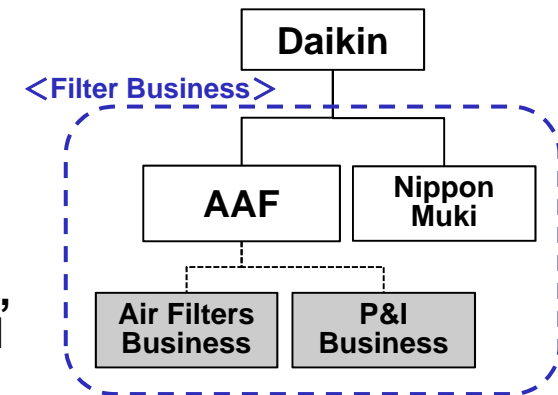
- Founded in 1950.
- Has top share in the U.S. for filter companies when combining residential and commercial use.
- Has a wholesale and retail sales network that supplies the U.S. nationwide; and is particularly adept in high-end products related to pharmaceuticals and nuclear power.
- Has 8 manufacturing bases located near major markets in the U.S., and has advanced manufacturing technology and cost competitiveness.

# Filter Business in Terms of the Daikin Group

- The Daikin Group has within in it **AAF and Nippon Muki, which are involved in the filter business**, and has been **expanding its business globally** in such regions and countries as Japan, the United States, Europe, China, Asia, the Middle East, and Oceania.
- The Daikin filter business began in earnest in 2006, which was the year Daikin **obtained AAF as part of the acquisition of the OYL Group**. After that, **Nippon Muki was acquired** for its high technology development capabilities and **product appeal was enhanced**.

(Differentiated products such as **heat-resistant filters and PTFE filters** are sold globally.)

- Within the wide-ranging filter business, AAF has narrowed its focus and management resources to the **2 business domains of “Air Filter” and “P&I (Power and Industry).”**
- The **“Air Filter” domain plays a role with improving the air environment by removing fine particles and mold from the air and maintaining human safety, along with raising product quality and yield**. From general air conditioning, air filters are **widely employed at factories for pharmaceuticals, food processing, and semiconductors** where precise control of the air environment is necessary.



The **“P&I” domain provides a dust collection system surrounding gas turbines**. Furthermore, these systems help **control air pollution including dust and gas generated from such environments cement factories and steel mills and contributes to solving environmental problems**.

- The Daikin filter business (2014 Results) is approximately 72 billion JPY. Of that, the Air Filter business accounts for 36 billion JPY; P&I 27 billion JPY; and Nippon Muki 9 billion JPY.

# Summary of AAF

## Air Filter Manufacturer Founded in the U.S. That Has Expanded Globally

Basic Information	
Name	AAF International
Headquarters	Louisville, Kentucky, United States
Parent Company	Daikin Industries, Ltd.
Employees	Approximately 3,000 people (as of December 2015)
Areas of Business	<p><b><u>Air Filter Business</u></b>            Manufacture and sale of filters and filter-related equipment for commercial use markets</p> <p><b><u>P&amp;I Business</u></b>            Manufacture and sale of muffler systems for gas turbines and dust collection systems for large-scale factories</p>
Sales	<p><b>2014 Results 63.0 billion JPY</b> (exchange rate of 110 JPY / 1 USD)</p> <p><b>[Breakdown] -Air Filter business: 36 billion JPY</b></p> <p><b>-P&amp;I business: 27 billion JPY</b></p>
Mfg. Bases	<p>5 factories in North America, 3 factories in Europe,            8 factories in Asia, the Middle East, and China            5 P&amp;I factories</p>

- Founded in 1921 (long-established as a filter business for 90 years).
- Expanded share in the commercial-use filter business in 1930's and later established the brand strength of AAF.
- Expanded in North America, Europe, the Middle East, and China, and has a global sales network and 21 manufacturing bases. It was one of only a few global filter manufacturers

# Summary of the Filter Business

## ■ Summary of the Air Filter Business

○ Sale of equipment and filter for electronics, pharmaceuticals, food processing, buildings, and nuclear power

> Cleanroom equipment  
- Fan filter unit  
- Air shower

> Filters for cleanrooms used for semiconductors and liquid crystals

> Filters for industrial AC, pharmaceuticals, food processing, medical facilities, and buildings



## ■ Summary of the P&I Business

○ MFAS (Dust collection for gas turbines)

> Engineering for gas turbine intake and sound muffling systems



○ APCP (Small dust collector)

> Dust collection equipment that improves production environment such as at metal processing factory



○ APCS (Large dust collection system)

> Dust collection system for large-scale plants (such as power generation, cement, steel, trash incineration)



○ Air Diagnosis Validation

① **Validation**

• Air environment diagnosis for pharmaceuticals

② **Air quality analysis**

• Component analysis using air quality analysis kit

③ **Chemical life assessment**

• Air quality analysis and life assessment

④ **Energy-saving diagnosis**

• Energy-saving proposals that measures energy consumption

⑤ **PM 2.5 environmental analysis**

• PM2.5 is measured and countermeasures are proposed.

⑥ **Measurement of airborne bacteria for food processing plant**



# Summary of Air Filter Market

## ■ Global Air Filter Market

○ The scale of the global filter market is approximately 450 billion JPY.

In 2020, the world market will grow to 570 billion JPY. (global average: 5% annual growth)

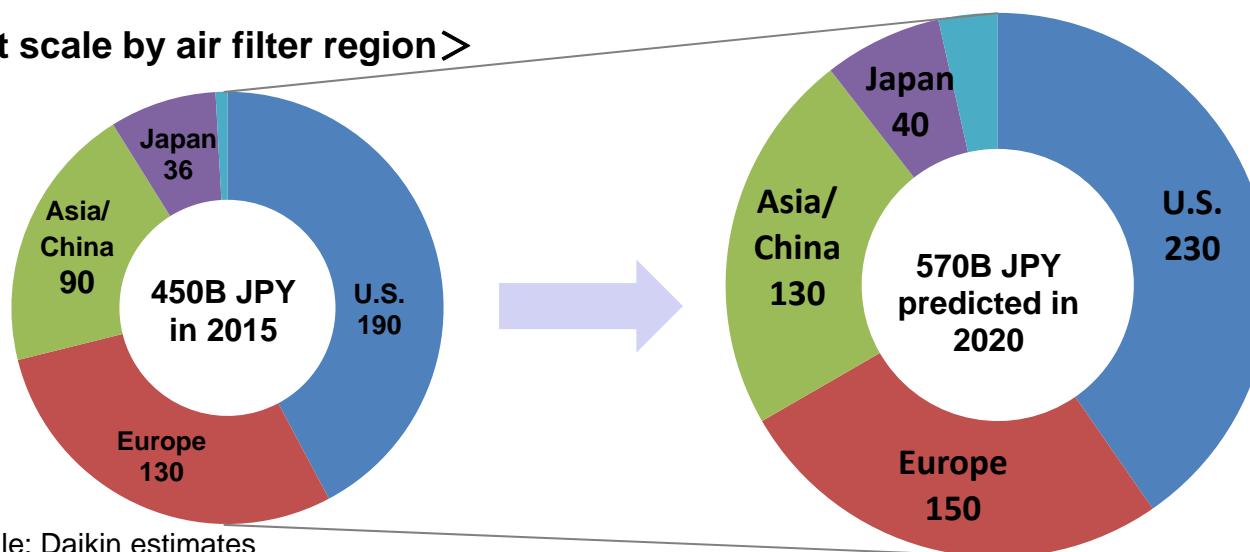
○ The scale of the U.S. market is approximately 190 billion JPY and occupies more than 40% of the world's share. In 2020, the market is predicted to grow to 230 billion JPY.

○ Even in China and Asia, there has been an increase in environmental awareness.

From this awareness, it is a promising market that is expected to expand greatly from 87 billion JPY in 2015 to 130 billion JPY in 2020. (8% annual growth)

※ In the P&I business, market scale is on the level of 600 billion JPY and when combined with the Air Filter business the market scale exceeds 1 trillion JPY.

<Market scale by air filter region>



※2015 Market scale: Daikin estimates

Market growth rates: Source: TechNavio "Global Air Market 2014 -2018"



# Summary of Air Filter Market

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## ■ Market Characteristics by Region

### <U.S. market>

It is the **largest filter market** and the **market expecting sustained growth in the future.**

(5% annual growth)

**Residential-use filter:** Stable growth is seen from concern for air quality and increased energy-saving awareness.

**Commercial-use filter:** Stable growth is seen from an increase in use at healthcare facilities, pharmaceutical manufacturers, and food processing factories.

### <Europe market>

**Despite the continuing slumping economy, growth is expected at automotive and chemical factories**

(3% annual growth)

### <Asia>

**China market:** Growth is expected, including replacement demand, beginning with electronics, pharmaceuticals, and biotechnology markets. (8% annual growth)

**Asia/Oceania market:** **Stable growth is seen from increased environmental awareness such as in Indonesia and India.** (8% annual growth)

### <Japan market>

It is a mature market, and there is intense competition on selling price in commercial buildings. Consequently, large market growth is not expected.

However, **stable growth exists for pharmaceutical and healthcare facilities applications.**

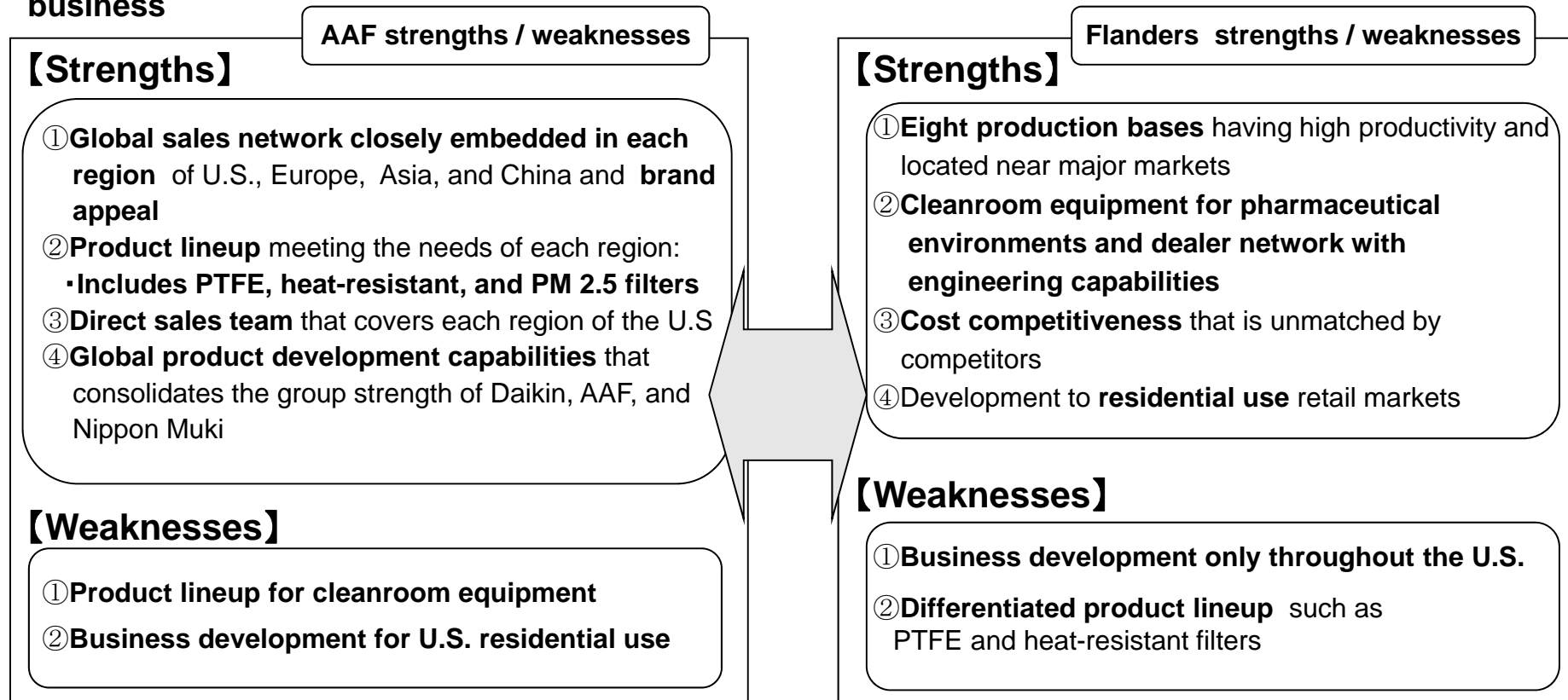
# Significance of the Flanders Acquisition

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- From this, AAF becomes the top manufacturer in the U.S., the world's largest filter market, and gains the position of the leading company, even in the global market.
  - **Gain of all sales outlets**—direct sales, distributors, and mass retailers—in the U.S. market.
  - **Complete lineup ranging from residential- and commercial-use low-end products to high-end products.**
  - **Full-fledged market entry to the pharmaceutical market by obtaining cleanroom equipment having competitiveness** such as isolators and Bag In/Bag Out system.
  - Will have 13 manufacturing bases in the U.S. when combined with AAF that are in close proximity to markets, and **strengthens cost competitiveness by volume that overwhelms other competing companies.**
  
- With this acquisition, the Daikin Group filter business will exceed 100 billion JPY and focus on becoming the third pillar behind the air conditioning and chemicals business.
  - The Daikin Group has searched businesses in the past that are involved with finding solutions to global environmental issues and now take the opportunity of this acquisition to intensify our efforts to resolve all problems relating to “air and space” by being actively involved even in mitigating air pollution that is increasing worldwide such as PM2.5 and VOC.
  - As a business that answers the needs of air environments such as in markets of pharmaceuticals, biotechnology, and food processing that are expanding accompanying the strengthening of global regulations and standards sustainable growth is expected, and contributes to a stable profit structure of the Daikin Group.
  - The filter business strongly complements the air conditioning business, a mainstay of Daikin, and future synergies are expected from the increase in IAQ needs as a business that creates comfortable air environments such as in providing solutions for mildew prevention, deodorization, and elimination of PM 2.5.

# Complementary relationship between AAF and Flanders

■ There is a complementary relationship with AAF in manufacturing, sales, and products and is an attractive partner who will enable AAF to gain the position of leading company in the global air filter business



- Becomes the **only manufacturer with all products** from residential-use, low-end to high-end, cleanroom equipment
- **Completely capture the high-end market** by strengths of PTFE and equipment for pharmaceutical environments and **develop that know-how globally**
- Absorb fixed costs by **overwhelming volume**, scale back transportation costs by manufacturing near markets, and **establish cost competitiveness.**
- **Expand share by every route** including AAF's strength of direct sales and Flanders' dealer network for high-end.

# View of Synergy and Growth Expected by Acquisition

## ■ Sales Aspect

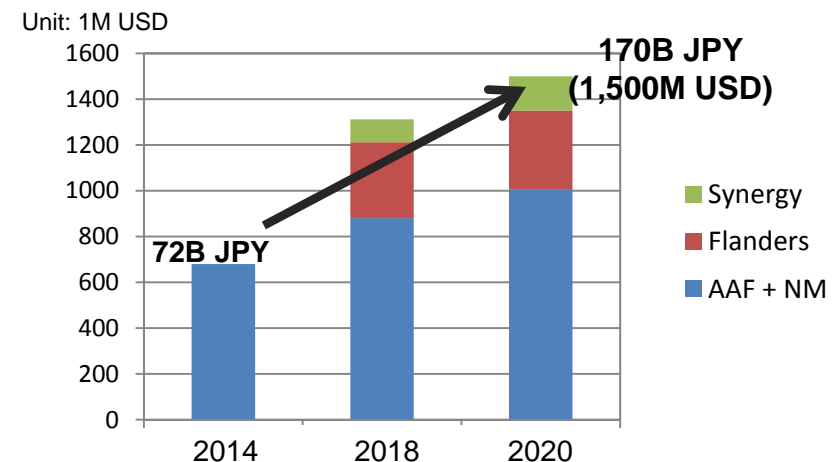
- Promote sales of AAF's high-end, differentiated products for high-end using the sales network of Flanders, which excels in the fields of pharmaceuticals and food processing.
- Promote sales of Flanders cost-competitive products by the strong AAF direct sales network.
- Globally develop the high-end products (cleanroom equipment) that Flanders possesses.

## ■ Product Aspect

- Launch products that combine the high performance filters of AAF with the cleanroom equipment of Flanders.
- Launch new products that incorporate the commercial-use know-how of AAF in the residential-use product lineup of Flanders.

## ■ Manufacturing Aspect

- Promote cost savings in purchasing by utilizing production volume combining the two companies.
- Reduce cost and raise productivity of filters by combining the manufacturing know-how of both companies.
- Reduce logistical costs and shorten lead time by manufacturing in close proximity to markets.



○ We intend to grow from a business with sales of approximately 72 billion JPY for FY2014 to a business scale exceeding 170 billion JPY in 2020 and establish a solidified position as the leading global company in the filter business.



### **Cautionary Notes**

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**A description has been included relating to some prospects that include many risks and uncertainties. Many items mentioned in this material refer to results of the Company or outcomes that impact the industry to which the Company belongs. Please be aware that in regards to outcomes for the future that there may be significant differences between the actual results in the future and projections made by the Company, either explicitly or implicitly, in regards to the future.**