DAIHATSU

Briefing on Mid- to Long-Term Vision

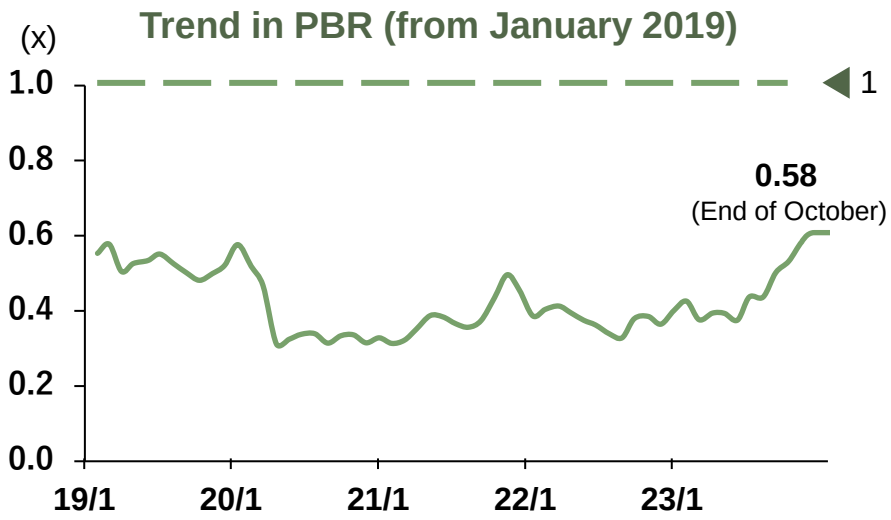
POWER ! FOR ALL beyond 2030

November 9, 2023

Summary of Mid- to Long-Term Vision

We have formulated a new mid- to long-term vision that meets the business cycle in order to address the situation where the Company has been undervalued by the market for a long time.
We will conduct regular reporting and reviewing through the new system and engage in ROE improvement and investment for growth aimed at realizing the Mid- to Long-Term Vision.

Recognition of market valuation



- PBR has remained below 1 for a long time. The situation in which there has been insufficient costs of capital to meet market expectations
- Under the system built on the new organization CVIC,*we will strive to raise market valuation through (1) enhancing corporate value based on mid- to long-term strategy, (2) regularly reporting and reviewing and (3) promoting constructive dialogue with investors.

* Corporate Value Improvement Committee

The Mid- to Long-Term Vision

2030 → 2050

We aim to expand business domains through efforts such as M&A for sustainable growth while driving the two initiatives of **R&D to respond to next-generation fuels** and **establishing a system for the servitization business**.

We **aim to contribute to net zero emissions and become a core company in the marine equipment industry**. We will do this by offering new solutions including servitization and expanding business domains while striving to increase sales of engines compatible with next-generation fuels.

We have started considering a company name change in light of the Mid- to Long-Term Vision.

Financial Objectives and Capital Allocation

*Figures excluding gain on sale of stocks

Million yen	FY2024 (forecast)	By FY2028	FY2031 targets
Net sales	78,000	80,000	100,000
Operating income	3,600	5,000	7,000
ROE	7.6% (5.2%*)	6.5% or more	9.5% or more

- We plan to make investments in R&D to respond to next-generation fuels and reinforcement of systems such as for servitization in the years to 2030.
- Although we have set **a payout ratio of 30% as the standard** currently, we will consider aiming to **"avoid a dividend decrease and ensure an upward trend of dividends**."

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Company Profile

We provide engines and a maintenance service along with high fuel efficiency, environmental performance and safety as a “power supply company” that leads to the future.

For marine-use

Supply engines with high fuel efficiency, environmental performance and others that generate electricity and propulsion power for vessels.

For land-use

Provide highly reliable engines for driving lift and drain water pumps for cities and as a backup in times of emergency.

A power supply company that leads to the future

Parts sales and maintenance

Provide a maintenance service and sell repair parts to maintain the performance and safety of already sold finished goods, globally and in a timely manner.

Move

Protect

History

We have been supplying power and related services to various industries since our founding in 1907.

Released a variety of products and services to meet customer needs such as changes to environmental regulations since the division was carved out and became a new company in 1966.

2023 Our business infrastructure enhancement plan based on the Act on Strengthening Maritime Industries was approved by the Ministry of Land, Infrastructure, Transport and Tourism.

2021 Completed a lineup of duel-fuel engines (two-source internal combustion engines that use LNG in addition to heavy oil).

2018 Started operating the Himeji Factory, the first new production base in about 50 years since the Moriyama Factory commenced operation in 1969.

2017 Won the first order for a maintenance support service that used C-MAXS LC-A, a next-generation system for monitoring the conditions of engines for marine auxiliary engines.

2016 Shipped the first commercial-use unit of the environmentally friendly new diesel engines DE-33.

2013 Became the first in the world to obtain SOC certification for IMO NOx Tier III requirements.

2011 Shipped the first units of the environmentally friendly new diesel engines 6DE-18 and 6DE-23.

1969 Moriyama Plant started operation.

1966 Split the Osaka Division of Daihatsu Diesel Mfg. Co., Ltd., which had produced marine-use and general-purpose diesel engines.
Established DAIHATSU DIESEL MFG. CO., LTD. anew.

1907 Founded an engine manufacturing stock company against the background where engines were expected to be domestically produced with the aim of modernizing the industry.

Business Overview

We engage in the manufacture and sale of marine-use internal combustion engines, especially auxiliary engines for power generation, as the main business.

Internal combustion engines

Net sales: 67.9 billion yen. Segment profit: 5.4 billion yen (FY2023)

Marine-use

Segment net sales: 56.8 billion yen

Manufacture and sales of marine-use engines with high reliability and environmental performance that have been broadly employed in all the seas of the world.

Auxiliary power generators (91%)

Engines that supply electric power to drive the engines of vessels

Main propulsion systems (9%)

Engines that supply electric power to move vessels

*% in parentheses indicates the ratio of products to marine-use sales.

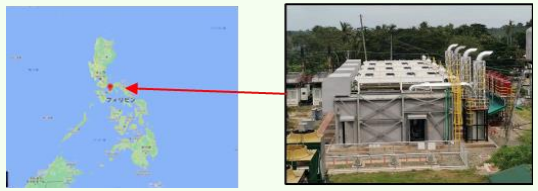
Land-use

Segment net sales: 10.9 billion yen

A group of products with a simple structure and high maintainability that are widely employed in fields that demand reliability, such as a backup power source in times of emergency.

Examples of customers and products

Power generation engines for remote islands



Electric power generator for backup power source

Other divisions

Sales: 4.2 billion yen

Industrial machinery-related

Real estate leasing-related

Electricity sales-related

Precision parts-related

Marine-Use Business Model

Maintenance is a long-term and stable revenue source since the business cycle from the sale of an engine itself to its maintenance will last 30 years.

A highly long-term model in which a business plan, including a trend of how revenue of the maintenance business will be generated, requires a perspective of over 10 years.

Engine sales

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Engine delivery

Demands concerning performance and prices

Shipyard

Vessel delivery

Instructions on performance and parts to be used

Shipowner (shipping companies, etc.)

Sales activities (appeals of and proposals for performance, price, etc.)

Maintenance

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Parts sales and repair work

Vessel management company*

Shipowner

* A business operator who is contracted by a shipowner to conduct maintenance and management of vessels, operation management and crew management including employment and assignments to vessels

A long-term business cycle that lasts 30 years from sale to maintenance

Trends in Maintenance Business

Maintenance and parts sales tend to grow 10 to 20 years after the sale of an engine.

Business plans need to include a perspective of over 10 years.

Land-Use Business Model

Provide Engines for Power Generation and Pumping to Keep Critical Infrastructure Operating Even in Times of Emergency
Expand long-term business through piling up maintenance revenue in a similar manner to marine-use.

Engine sales

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Maintenance

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	Direct customer	End customer
For pump stations	Pump makers Heavy electric machinery manufacturer	Local government
For airports, remote islands and broadcasting stations		Airports and remote islands Broadcasting stations, etc.
For data centers	Subcontractors → General contractors	Clients (Business companies, etc.)
Maintenance	Direct transactions with end customers in the case of maintenance	

<Examples of products>

Gas turbine for emergency power generation

Diesel engine for constant power generation

Diesel engines for emergency pumps

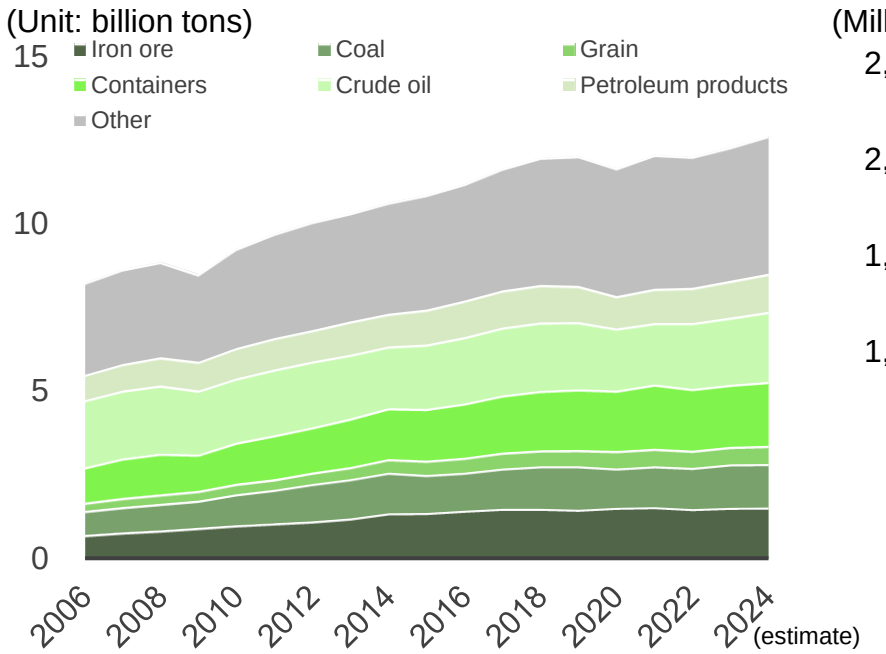
Gas turbine for emergency pumps

Marine Equipment Market - Market Trends

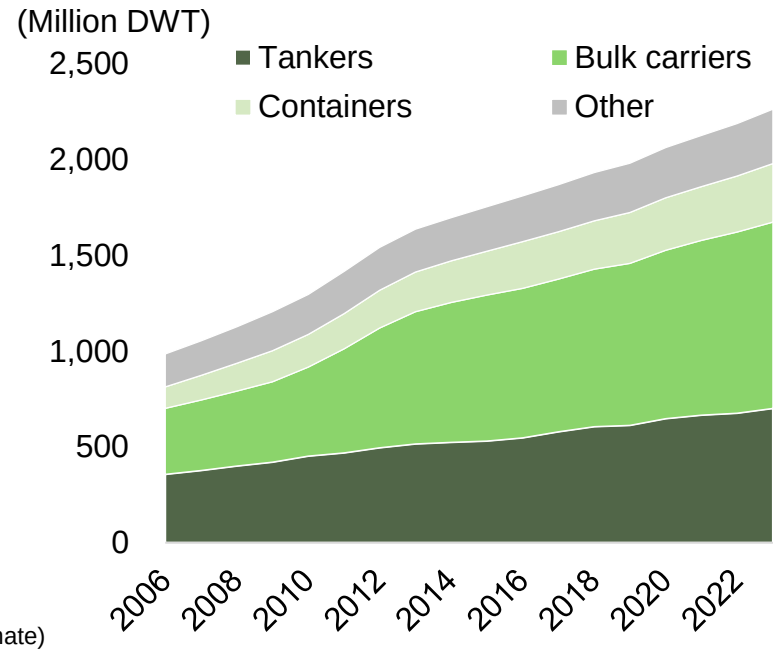
Maritime logistics is significantly advantageous in terms of transportation volume and costs, and ocean cargo volumes have expanded as the global economy grows.

Accordingly, the global shipping capacity is in a stable upward trend.

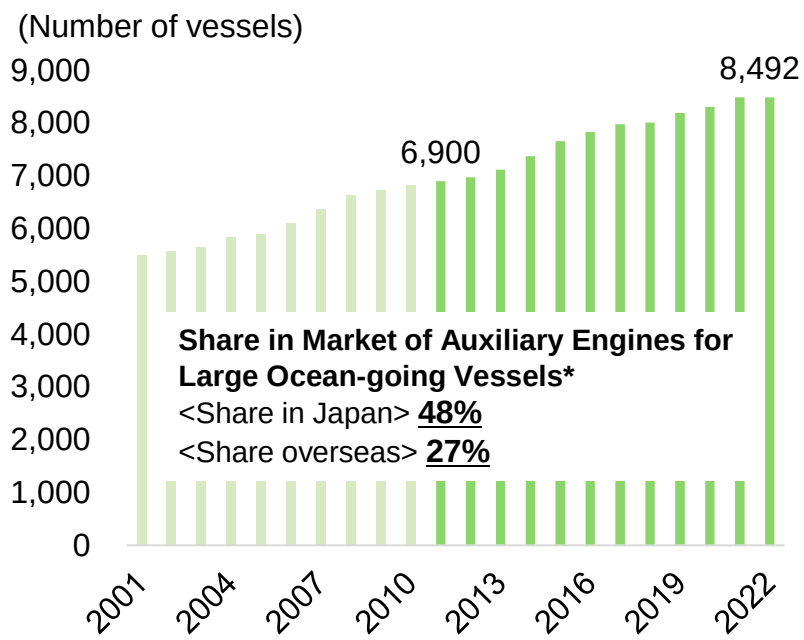
Global ocean cargo volumes, by product



Global shipping capacity



Number of vessels with engines from DAIHATSU DIESEL (estimates in some parts)



*Number of vessels put into service from January to December 2022
*Estimates before 2011

<Market Structure of Shipping, Shipbuilding and Marine Equipment >

Maritime transport

The need for maritime transportation is expected to **increase steadily** due to low transportation costs, transportation volumes, and low environmental impact although the need contracted temporarily due to the COVID-19 pandemic.

Demand for shipbuilding

Vessels have increased steadily as demand for ocean transportation rose. (Average increase of 3.2% per year since 2015)
Stable demand for shipbuilding was generated.

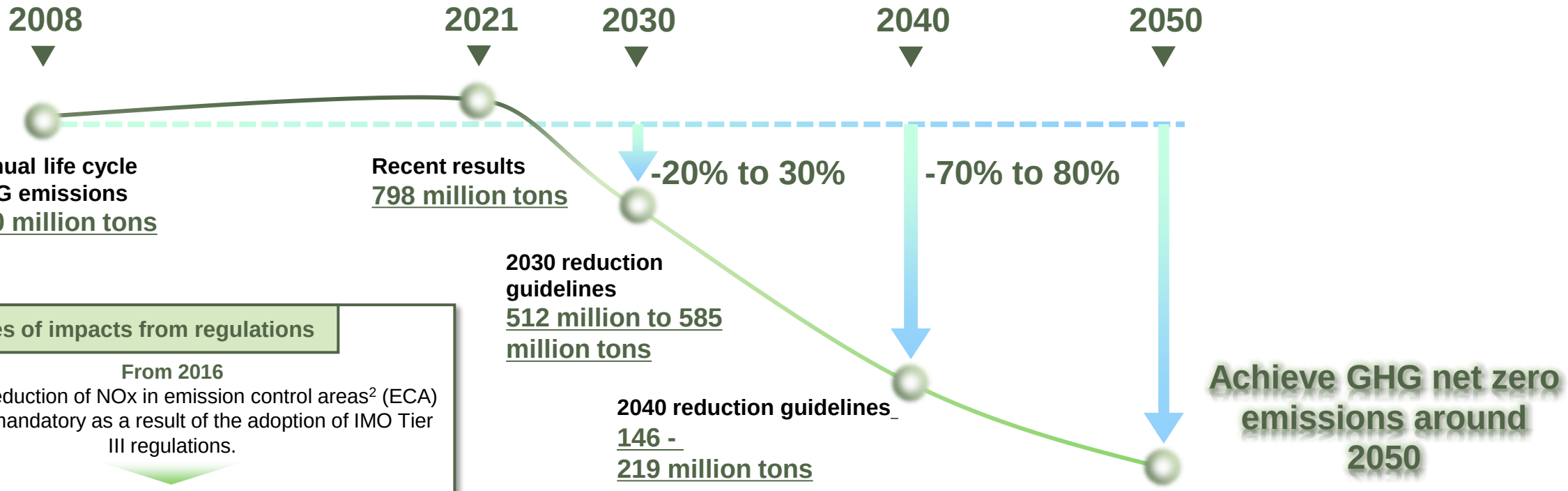
Demand for marine equipment

Demand for marine equipment is also generated in line with demand for shipbuilding.
An increase in the number of vessels already in service in addition to new ones is a reason for the expansion of the market.

Marine Equipment Market - Environmental Regulations

The industry is one that is largely influenced by global environmental regulations.
In the next 30 years, regulations and incentives are expected to be stepped up with the aim of reducing total GHG emissions by 2050.

Targets of Reducing Total GHG Emissions at IMO[1] Marine Environment Protection Committee (MEPC) 80



Examples of impacts from regulations

From 2016
An 80% reduction of NOx in emission control areas[2] (ECA) became mandatory as a result of the adoption of IMO Tier III regulations.

Dual-fuel engines (DF) that can use natural gas in addition to diesel will become popular.

Currently measures are being studied, such as the adoption of charging for GHG emissions and other financial methods and of mandatory zero emission operations for newly built vessels while the establishment and spread of zero emission technology and fuels is advanced by giving support for first movers.

Notes) 1: International Maritime Organization 2: Areas where stricter regulations have been adopted, such as the North American and Canadian coasts, the Caribbean Sea, and the Baltic Sea, the North Sea, and the Mediterranean Sea in Europe

Reference) International Maritime Organization, the Ministry of Land, Infrastructure, Transport and Tourism, and Nippon Kaiji Kyokai (ClassNK, Japan Maritime Association)

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POWER ! FOR ALL beyond 2030

We create customer value through engines and service as a power supply company.

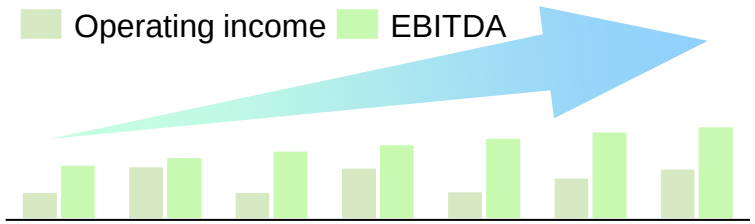
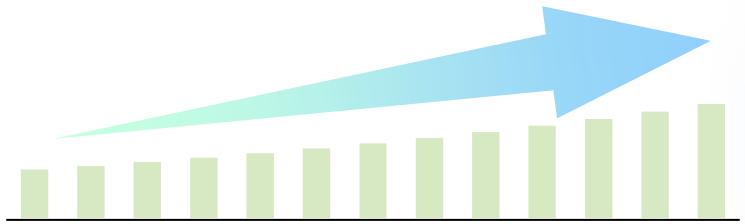
Facing various social issues head-on, such as climate change and the depletion of energy resources,

we support the safety and security of people's lives and protect the rich natural environment

We will strive to fulfill these two missions.

The Mid- to Long-Term Vision

We aim to contribute to net-zero emissions in the shipping and marine equipment industries and to expand our business scale. We will do this by servitization and providing broader new solutions primarily in response to next-generation fuels.

	From the present to 2030	From 2030 to 2050	2050
Strategic policies	**Build systems for long-term growth and enhance profitability.**	**Accelerate growth to realize the vision based on the new system.**	**Contribute to net zero emissions.**
Individual strategies	1. Commercialize engines compatible with next-generation fuels. 2. Reinforce the servitization business. 3. Extend business domains through M&A and alliances.	1. Increase sales of engines compatible with next-generation fuels. 2. Expand the servitization business. 3. Provide broader solutions.	
Rough idea of earnings			**Develop into one of the core companies in the marine equipment industry.**
	Depreciation squeezes profits due to the implementation of investment for growth. We strive to enhance ROE through initiatives including the establishment of the servitization businesses and disciplined M&As.	**Initiatives from the present to 2030 will start making a full-scale contribution.**	

Mid- to Long-Term Business Plan

We aim to be involved in the electric power planning of an entire vessel by expanding the domain through business tie-ups, etc.

Conceptual presentation of the systems of a vessel that start from main and auxiliary engines

Living environment system

Air conditioning

Labor-saving

Remote vessel operation

Communication system

Remote monitoring

Environmental response

Motor-driven

Cargo handling system

Cargo handling equipment

Safety system

Prevention of major failure

Cargo monitoring

Safety

We will become a player that is able to make proposals for optimizing the electric power and reducing the environmental burden of vessels through expanding business domains via alliances, etc.

Started Discussing Company Name Change

We have started looking into a company name change, based on the transformation that we aim for in the Mid- to Long-Term Vision and businesses that we will drive.

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DAIHATSU DIESEL MFG. CO., LTD.

Started considering a new company name.

We plan to announce an upcoming schedule as appropriate.

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Medium-term financial targets

We commit to achieving an operating income of 5 billion yen and an ROE of 6.5% or more by the fiscal year ending March 2028 and aim to achieve an operating income of 7 billion yen and an ROE of 9.5% or more in the fiscal year ending March 2031.

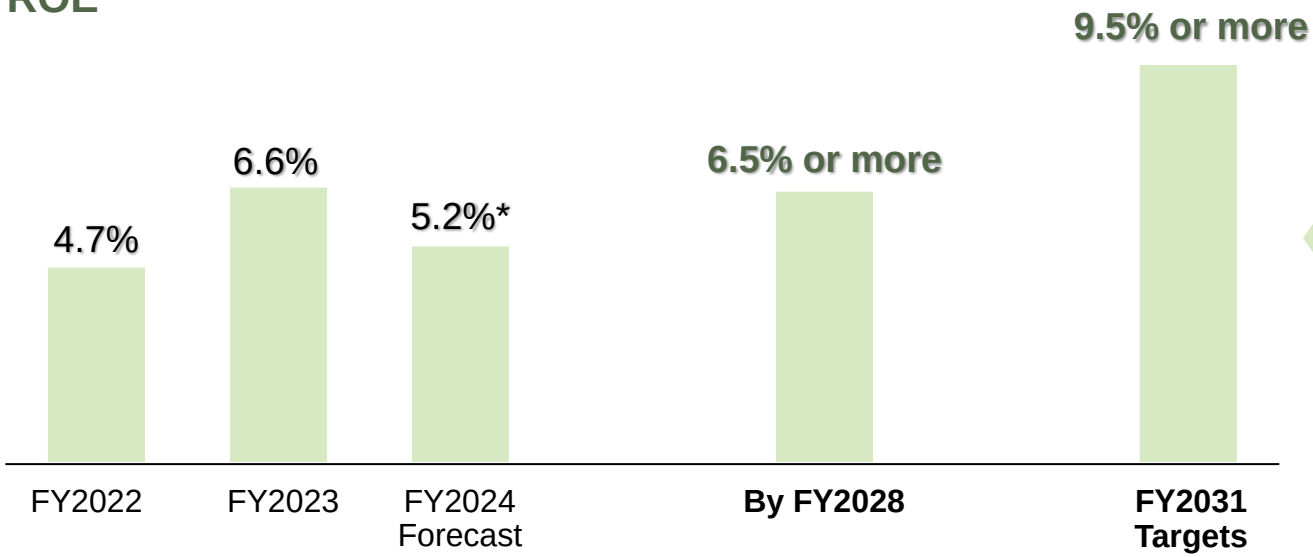
(Million yen)	FY2022 (result)	FY2023 (result)	FY2024 (forecast)	By FY2028	FY2031 Targets
Net sales	57,599	72,113	78,000	80,000	100,000
Operating income	2,092	3,601	3,600	5,000	7,000
Operating margin	3.6%	5.0%	4.6%	6.3%	7.0%
EBITDA	4,901	6,355	6,189	8,700	—
EBITDA margin	8.5%	8.8%	7.9%	11%	—
Net income	1,968	2,948	3,500 (2,400*)	3,500	5,000
ROIC	2.6%	4.3%	4.1%	5.1% or more	6.5% or more
ROE	4.7%	6.6%	7.6% (5.2%*)	6.5% or more	9.5% or more

*Figures excluding gain on sale of stocks

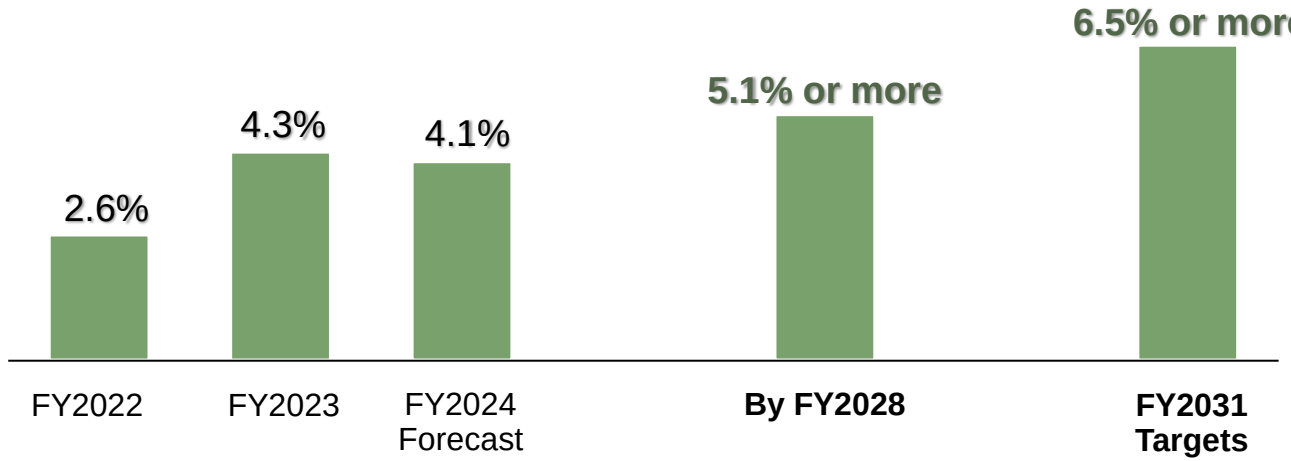
Recognition of Capital Costs and Target ROE and ROIC

Coming to grips with the current market valuation, we aim to realize an ROE that exceeds the cost of shareholders' equity and an ROIC that surpasses WACC.

ROE



ROIC



Premises of the capital costs that we assume

Cost of shareholders' equity	**About 9.5%**	**Risk-free rate**	0.5%~
		Beta	1.2~1.3
		Market risk premium	About 6.5%

A formula based on CAPM is used as the calculation method.
Risk-free rates from information of government bond (JGB) yields by the Ministry of Finance Japan
Beta is calculated by Daihatsu Diesel, based on comparable companies.
Market risk premiums were calculated, based on information from the Japan Securities Research Institute.

*Figures excluding gain on sale of stocks

WACC	**About 6.5%**	**Cost of shareholders' equity**	9.5%
		Cost of liabilities before taxes	0.8~1.5%

Weighted Average Cost of Capital (WACC) was calculated through applying the weighted average method to the cost of shareholders' equity and liabilities after taxes, based on total market value and interest-bearing debt.

Reinforce and Expand the Servitization Business.

We define Triple C Fusion as the concept of the servitization business.

We will realize Connect and Collaborate by 2030 and connect them to Co-Create from 2030 onwards.

Phase 1

Connect

Support operations in a way that realizes customers' peace of mind.

Offer smooth communication and service based on the understanding of information.

Phase 2

Collaborate

Reduce administrative work done by customers.

Level out the sudden maintenance cost of customers.

Phase 3

Co-create

Optimize and maximize customers' operation.

Create new value with customers.

Realize these things by 2030.

Start a full-scale expansion from 2030 onwards.

Reinforce and Expand the Servitization Business.

We strive to step up the servitization business and enhance LTV per engine by adding the opportunity to provide value to customers through reinforcing data-based sales activity and shifting to comprehensive maintenance contracts.

Vessels with DAIHATSU DIESEL's engine mounted 8,500 vessels

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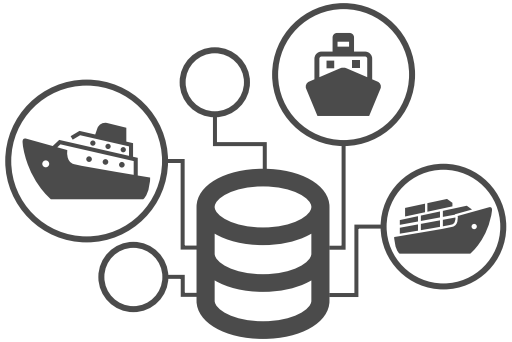


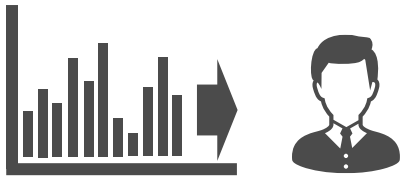
Build a customer database and step up its use.

We will more effectively provide value to existing customers.

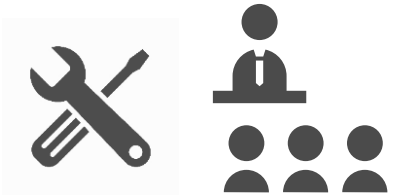
We will expand revenue for each vessel that is equipped with our engine.

<Examples of provided services>

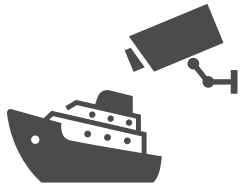
Demand forecast by AI analysis of operational data, and proposal-based sales activity



Comprehensive maintenance contracts, including maintenance support and crew training



Strengthening support for the monitoring of conditions and support for prevention of problems



Investment in Factories that Produce Engines Compatible with Next-Generation Fuels

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We will make additional investments in the Himeji Factory to develop it into a key base for assembling and commissioning engines compatible with next-generation fuels as well as producing more existing engines.

We plan to make investments in a new factory at a level of 10 billion yen in total and aim to put it in operation in 2026.

Total investments: A level of 10 billion yen

(1) Next-generation fuels (methanol, ammonia, and hydrogen) Engine assembly and commissioning factory

(2) Engines compatible with next-generation fuels (methanol) Addition of facility

(3) Plan for factories that ramp up production of existing engines Production capacity forecast at 1.5 times (when converted to existing models)

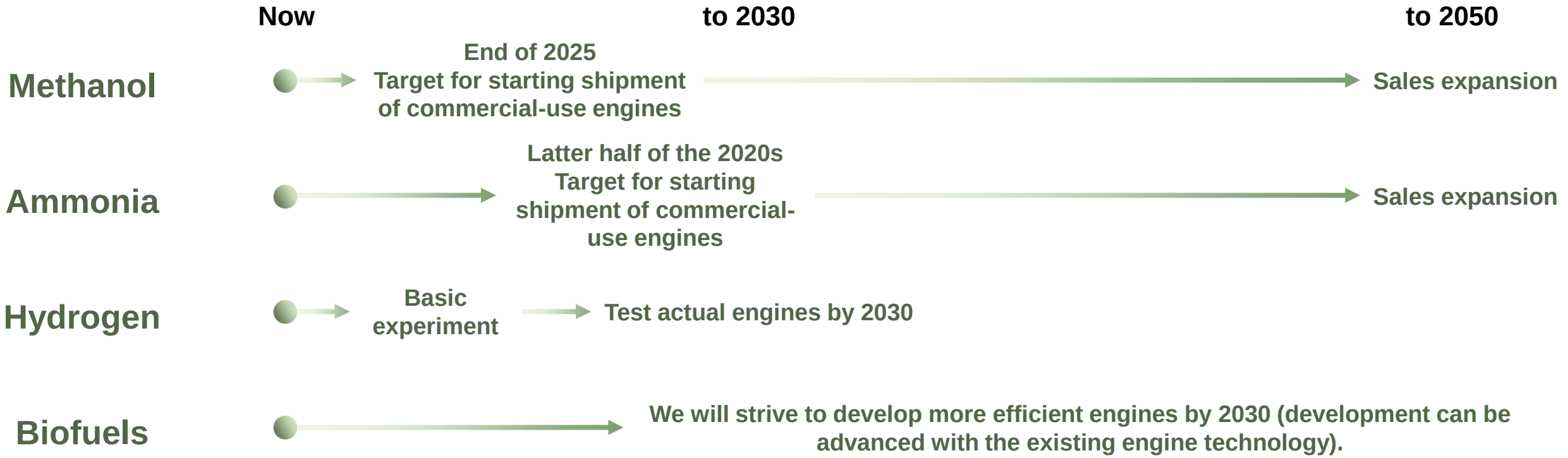
Move up the operation start target from 2027 to 2026.

Investment in Development of Engines Compatible with Next-Generation Fuels

We will proceed with the development of engines compatible with next-generation fuels, which are an essential factor in achieving GHG zero in 2050, with all candidates for such engines put under development simultaneously.

Commercial-use engines for methanol and ammonia are scheduled to be shipped out at the end of 2025 and during the latter half of the 2020s, respectively.

Roadmap for next-generation fuel development



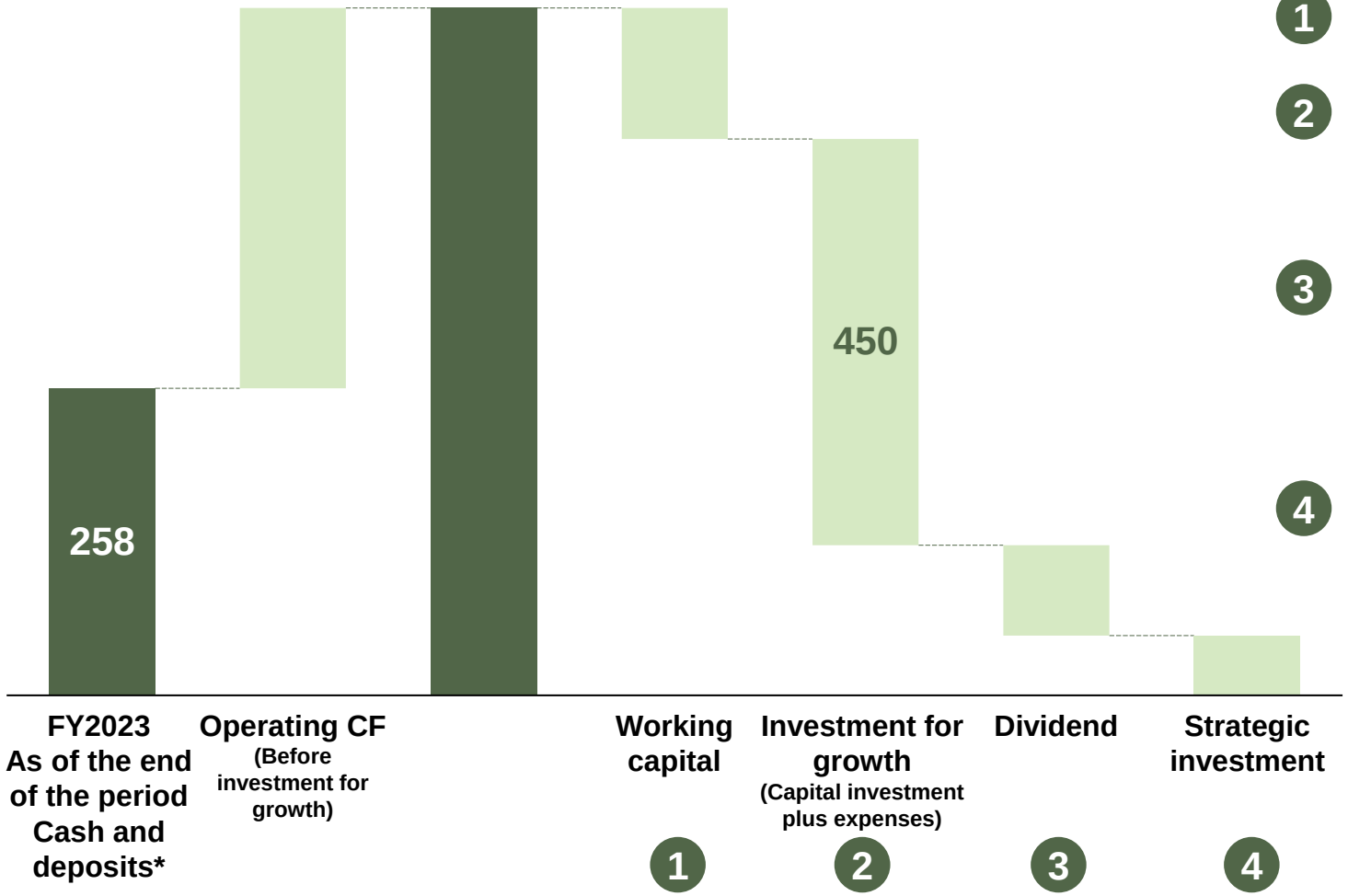
Simultaneously, we will continue building solutions such as fuel cells, carbon capture, and renewable energy in preparation for a future fuel source change.

Capital Allocation

Policy to allocate cash, deposits and cash flows in the order of (1) working capital, (2) investment for growth, and (3) dividends

Basic policy on capital allocation for the five years from FY2024 to FY2028

(100 million yen)



1. Secure working capital as necessary cash and deposits.
2. Our plan is focused on **R&D and capital investment in response to next-generation fuels** as investment for growth.
3. Regarding dividends, we aim to **"avoid a dividend decrease and ensure an upward trend of dividends**." Currently, the dividend payout ratio is set at 30%, but we **plan to consider reviewing it in the future.**
4. Basically, capital will be allocated to (1) to (3). In addition, however, we plan to flexibly **accelerate the response to next-generation fuels, conduct M&A to achieve the Mid- to Long-Term Vision** or ensure shareholder returns.

   We plan to **make strategic investment through methods including borrowing.**

* Consolidated Statements of Cash Flows Cash and cash equivalents at end of year

Plan for Investment for Growth

We plan to invest 45 billion yen for growth to achieve the Mid- to Long-Term Vision.
We will decide on making investment in each case while paying attention to the cost of capital.

Response to next-generation fuels
10 billion yen

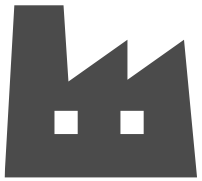
Development and production facilities of engines compatible with next-generation fuels, such as methanol and ammonia, aimed at expanding our presence in the market

We assume that the fruits will be borne from 2030 onwards.

Technological development and productivity improvement
15 billion yen

We plan to reduce costs of existing products and reorganize production facilities.
We will boost competitiveness by improving costs and production efficiency and
aim to increase sales and have the accompanying improvement of profitability.

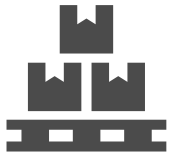
We assume that fruits will be borne from FY2025.



Strengthening production infrastructure
8 billion yen

We will make capital investment and enhance added value for the group and affiliated companies for the purpose of controlling production costs.

We assume that the fruits will be borne from 2026 onwards.



Logistics reform
5 billion yen

We will optimize logistics that accompanies the shift to multiple production centers and carry out DX.
We will reduce logistics loss and achieve zero loss of sales opportunities.

We assume that the fruits will be borne from 2028 onwards.

Digital technology
3 billion yen

We endeavor to improve productivity and LTV through the digital transformation (DX) of business models.

We assume that the fruits will be borne from 2026 onwards.

Other
4 billion yen

We strive to realize net zero emissions at an early stage and step up the initiative of corporate management of human capital.

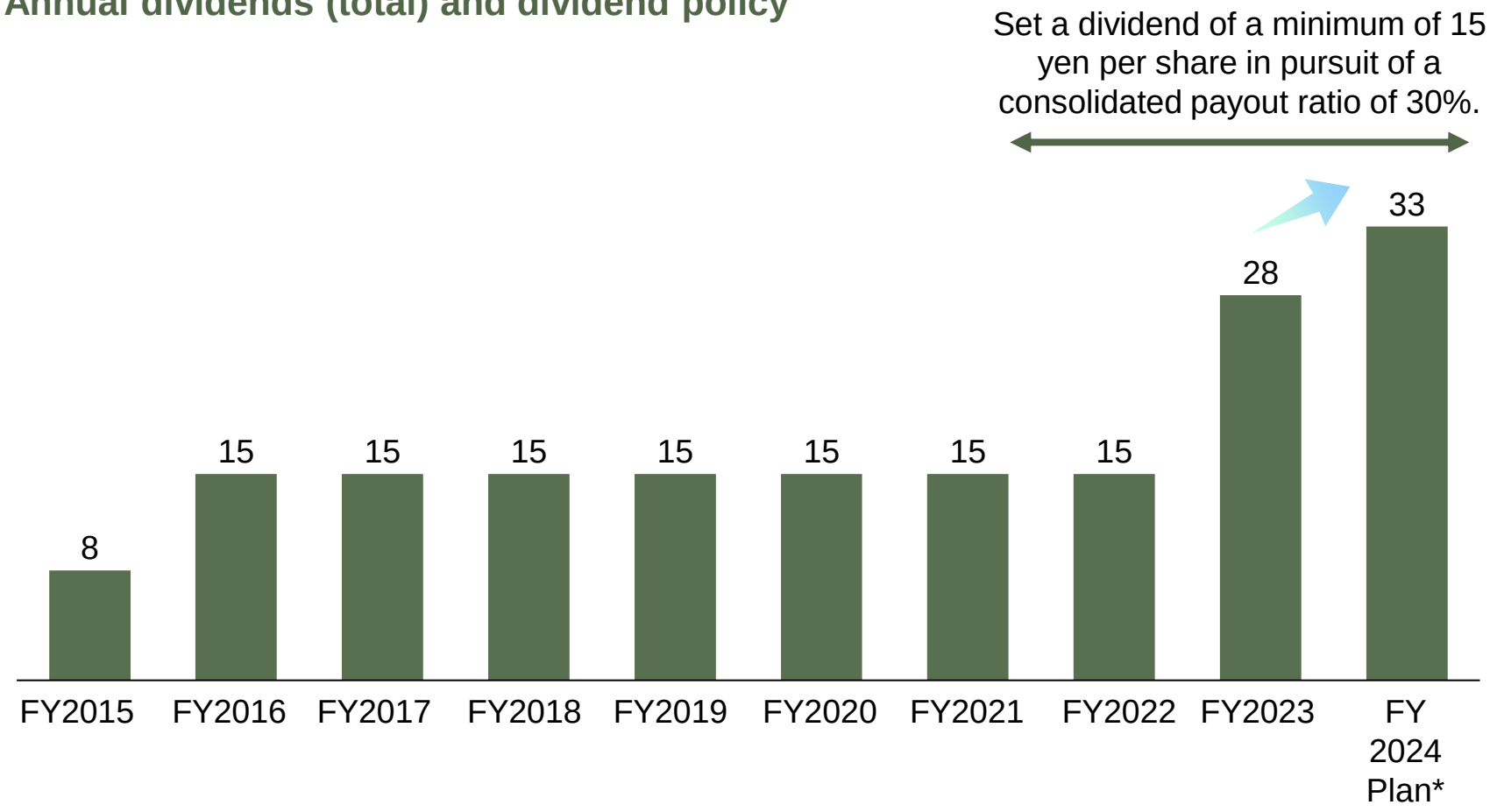
We assume that the fruits will be borne from 2030 onwards.

Dividend Policy

Currently, we set the dividend payout ratio at 30%.

Down the road, we will also look into aiming to “avoid a dividend decrease and ensure an upward trend of dividends.”

Annual dividends (total) and dividend policy



We will consider an appropriate dividend policy.

*Figures after reflecting an upward revision at the time that the financial results were announced on October 26

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Reference: Next-Generation Engines Compatible with Next-Generation Fuels

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The reality is that each fuel has advantages and disadvantages and issues to be solved, which makes the outlook uncertain.

DAIHATSU DIESEL too continues omnidirectional R&D.

Fuel	Advantages	Issues and countermeasures
Ammonia	◆ **A decarbonized fuel that does not emit CO_2 during combustion** ◆ Can utilize existing infrastructure (has been used as fertilizer historically). ◆ Lower energy cost for liquefaction and gasification, and cheaper than hydrogen.	◆ Toxicity and corrosion tendency ◆ The calorific value per volume is small, and its tank capacity is three times that of heavy oil. ➢ **Study of the materials and structure for storage and reduction of necessary space** ◆ Flame retardancy ◆ Aftertreatment of N_2O (the GHG effect is 265 times that of CO_2), unburnt NH_3 and NOx (regulated as a cause of acid rain, etc.) in the exhaust gas ◆ The injection system needs to be improved for liquid direct injection since ammonia is a gas at normal temperatures and pressures due to the effect of the evaporation of latent heat. ➢ **Upgrading combustion control technology and fuel injection technology**
Hydrogen	◆ **A decarbonized fuel that does not emit CO_2 during combustion** ◆ No toxicity	◆ High flammability and fast combustion speed ◆ An injection device that can inject the necessary volume in a short period of time is required because of its low energy density per volume. Additionally, hydrogen requires a tank capacity about 4.5 times that of heavy oil. ◆ Necessary to be stored at very low temperatures for storage in a liquid. ◆ Hydrogen lowers the tenacity of steel and makes it brittle (brittleness). ➢ **Study of the materials and structure for storage and reduction of necessary space** ➢ **Upgrading of combustion control technology and fuel injection technology** ◆ Expensive, and the infrastructure is not ready, compared to ammonia.
Methanol	◆ **Already applied to engines for practical use** ◆ Its application as an alternative fuel was started earlier.	◆ Toxicity and low ignition point ◆ Non-bio-derived methanol cannot reduce CO_2 sufficiently. (CO_2 reduction by non-bio-derived methanol is only 10% from that by heavy oil.) ◆ Bio-derived methanol is expensive, and there is the problem with scaling up the supply.
Biofuels	◆ Applicable to existing diesel engines	◆ IMO is studying carbon neutral effects when using biofuels. ◆ A wide variety of manufacturing methods of raw materials, mixing ratios and others ◆ Supply volumes and producing regions are limited.

Disclaimer

These materials contain statements relating to future earnings and business strategy, etc.
Inherent in these statements are risk and uncertainty; the statements give no guarantee of future performance.
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