



CAREL

CAREL INDUSTRIES S.p.A. 1H Results 2018

7th September 2018

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Overview

Leading provider of advanced control solutions for HVAC/R

Growing key markets

- **HVAC:** Industrial, Residential, Commercial
- **Refrigeration:** Food Retail and Food Service

Leadership in premium niches

- **Control solutions**
- **High Efficiency** applications

Innovation focus

- **3 R&D centers** (Italy, China and US)
- **c. 6%¹ of Revenues** invested in R&D

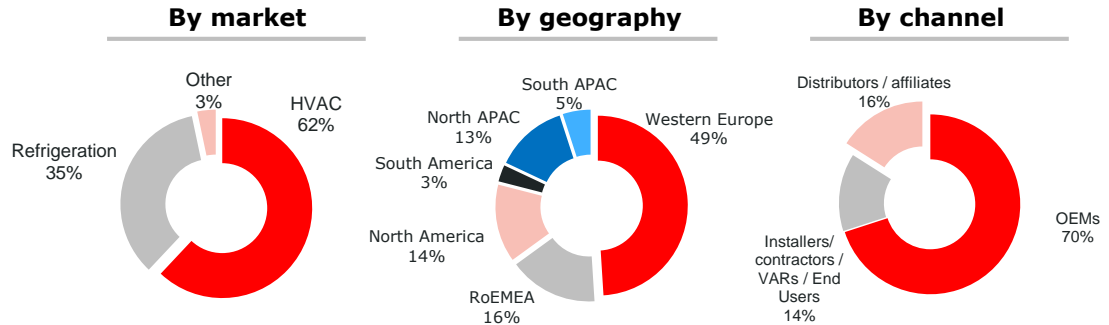
Global footprint

- **7 production plants** (3x Italy, Croatia, China, US and Brazil)

Key financials – 2017A

Revenue	Adj. EBITDA	EBITDA margin	Net income
€255m	€51m	20%	€31m
+12% CAGR 2015A-17A	+16% CAGR 2015-17A	~150bps Margin expansion 2015A-17A	+21% CAGR 2015A-17A

Revenue breakdown - 2017A



Source: Company information as of Mar-18
 Note: 1) avg. 2015A-17A; 2) Value Added Resellers

Note: financial data refer to consolidated accounts of CAREL Industries S.p.a. 2015-2017 IFRS. Comparability might be affected by change in consolidation perimeter

We operate in attractive niches across a wide range of end-markets...

HVAC

Industrial

Data Centers



Industry and Process

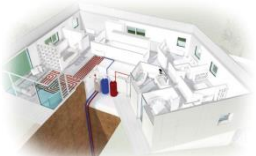


Pharma and Food



Residential

Residential



Commercial

Shopping Centers



Office Space



Recreational



Refrigeration

Food Retail

Convenience Stores



Hypermarkets



Food Service

Restaurant Chains



Refrigerated Merchandisers



...through a one-stop-shop portfolio of components and platforms

Programmable controls



Electronic controls easily programmable and customizable

HMI and unit terminals



User interfaces for units and systems

Parametric controls



Entry level electronic controllers

Isothermal humidifiers



Steam production systems

Adiabatic humidifiers and evaporative coolers



Pressure water atomizers

Power solutions



Electrical panels

Sensors and protection devices



Temperature/humidity and air quality sensors

Electronic expansion valves & drivers



Electronic valves for the modulation of refrigerant flow

Speed controllers & inverters



Speed control devices for BLDC compressors

Compressors¹



BLDC compressors

Remote management & monitoring systems



Solution for local / remote management monitoring and optimization

Services



Innovative services based on the IoT capabilities

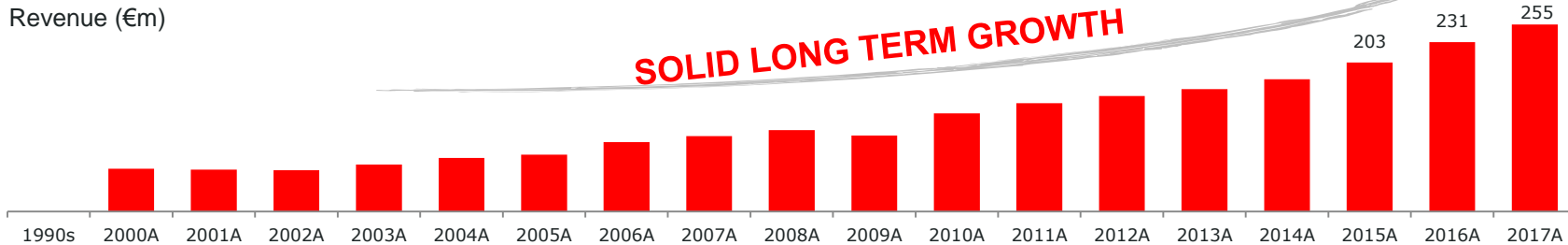
Distinctive ability to meet customers' demand for tailored integrated solutions using standard platforms

Source: Company information as of Mar-18

Note: 1) developed with partners

Long track record of profitable organic growth

Revenue (€m)



Adj. EBITDA (€m)



Plants & R&D



Branches

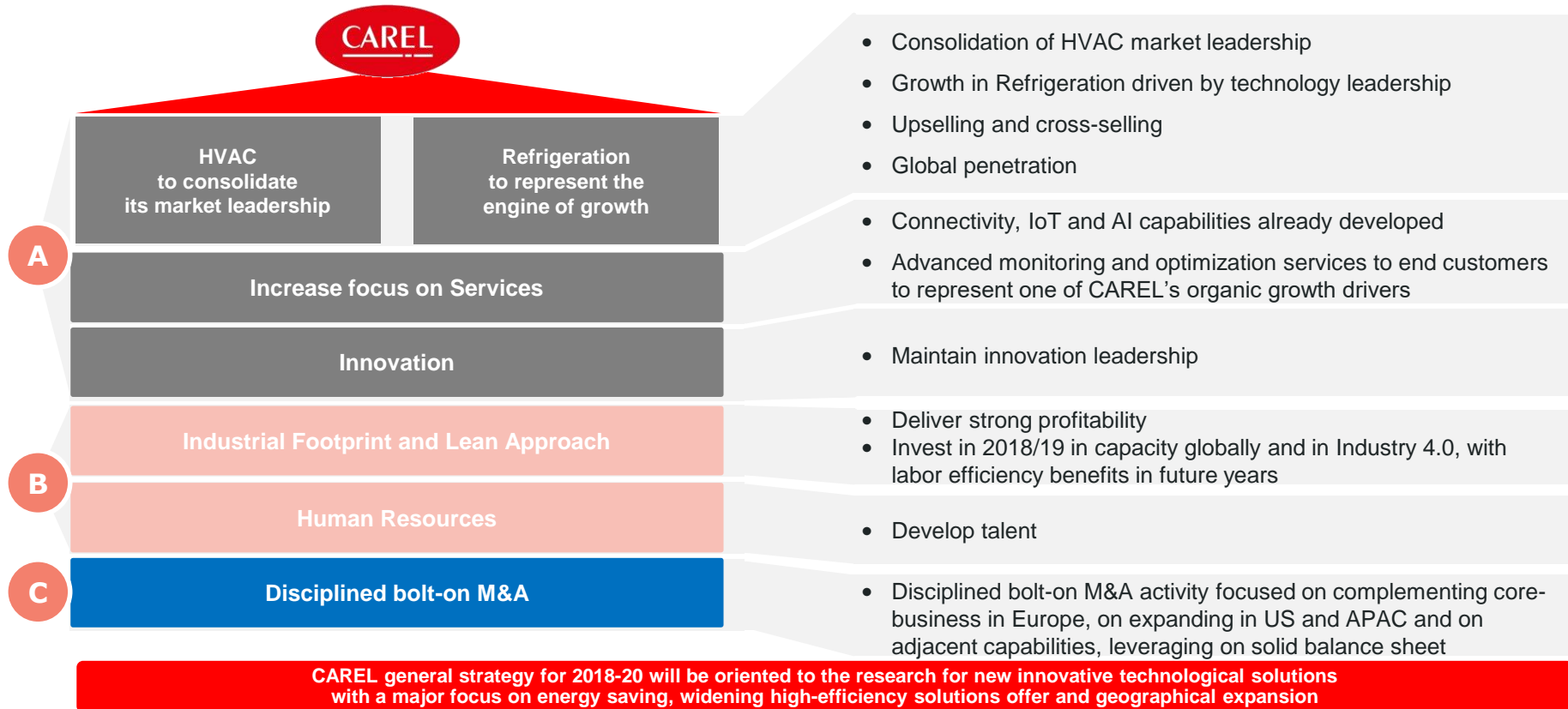


Source: Company information as of Mar-18
 Note: financial data refer to consolidated accounts of CAREL Industries S.p.a. for the period 2011A-2017A (IFRS 2015A- 2017A; ITA GAAP 2011A-2014A) and CAREL S.p.a. for the period 2000A-2010A (ITA GAAP). Comparability might be affected by change in reporting standard and in consolidation perimeter.

Legend: R&D centre Plants Acquisitions of local distributors



Well-articulated strategies to continue the growth track record



Source: Company information as of Mar-18

1H 2018 Results

Main achievements



May “**Heez**”, an innovative CAREL’s solution for refrigerated merchandisers, won, in the US, the “**Top of the year product**” award given by the “Environmental leader”.

Jun **IPO** – the only IPO in the main segment of Borsa Italiana in 2018.

Jun Acquisition of a residual 51% stake in **Carel Japan** which is now fully owned by Carel industries S.p.A.

Jun First full line of **programmable controls** implemented in USA.

Jul-Aug Further implementation of the **Carel global expansion strategy** through the opening of two additional branches, one in **Singapore** and one in **Casablanca**.

Aug The building of the new production **plant in China**, which will be **three times larger** than the current one, started in August. The coming on stream of the plant is expected by 1Q 2019.

1H 2018 - Overview



The **positive trend in revenue +9.1% (+12.1% net of FX impact)**, together with an **increased adjusted profitability**, already reported in the first quarter of the year, continues, consolidating the leadership of the Group in HVAC sector and strengthening its role in refrigeration market.



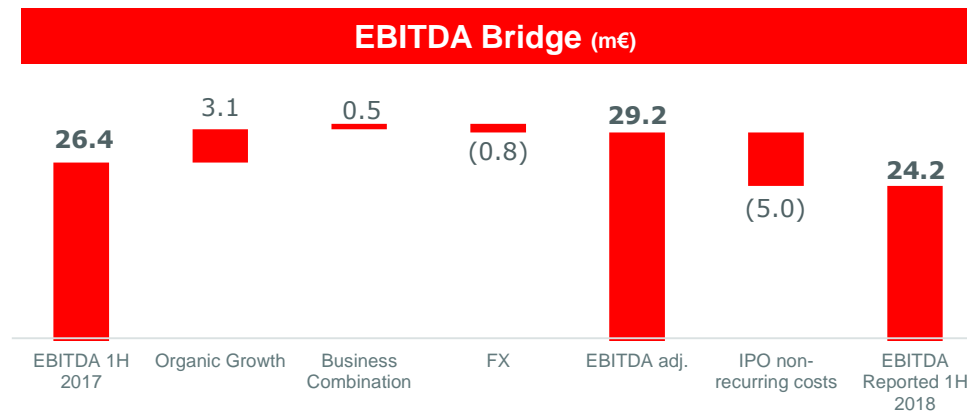
Carel's footprint expansion project is on track: strong increase in capex (+100%) will continue in the next 18 months. The Group expects to cumulatively invest additional ~20m€ (compared to the historical average) in 2018-2019.



The Group is strengthening its presence in **new markets** (between June and August Carel opened two new branches in Maghreb and Singapore and acquired 100% of Carel Japan).

1H 2018 - Continuous growth in performance and efficiency

KPIs			
m€	1H 2017	1H 2018	Δ%
Revenue	127.3	138.8	9.1%
Revenue FX Adj. ⁽¹⁾	127.3	142.7	12.1%
EBITDA	26.4	24.2	-8.4%
EBITDA Adj. ⁽²⁾	26.4	29.2	10.6%
<i>EBITDA adj./Revenue</i>	20.7%	21.0%	
Net Profit	16.9	15.6	-7.6%
Net Profit Adj. ⁽²⁾	16.9	19.3	14.3%
Capex	3.6	7.2	100.0%



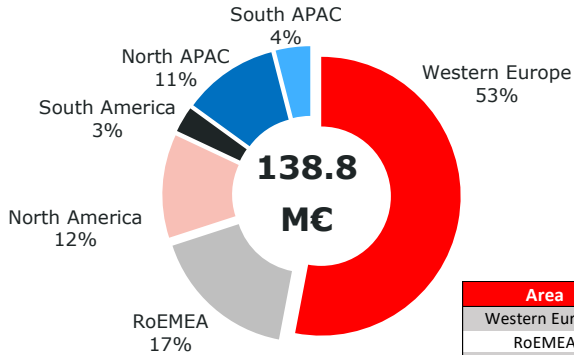
- **Revenue +9.1% (+12.1% Adj):** The growth in revenue (which would have been +12.1% net of FX impact) derived from both the HVAC and Refrigeration markets, confirming the good balance of Carel's business portfolio.
- **EBITDA adj +10.6%:** The significant performance reported at EBITDA level (net of IPO Costs/FX) stemmed mainly from organic growth and benefitted also from the consolidation of Alfaco (from June 2017).
- **Net Profit adj. +14.3%:** The bottom line is positively impacted by the operating results together with a lower tax-rate
- **Capex +100%:** Strong increase in Capex linked mainly to further plant development in Italy, Croatia, US and China.

⁽¹⁾Net of FX impact

⁽²⁾Net of IPO non-recurring costs

1H 2018 – Revenue breakdowns

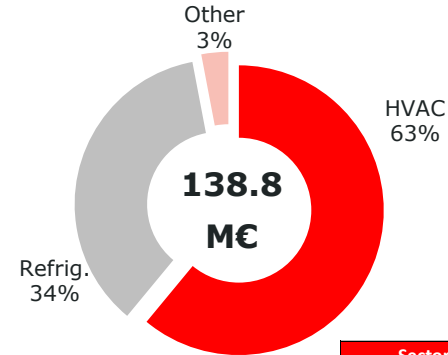
Breakdown by region



Area	m€		m€	
	1H 2018	1H 2017	Δ%	Δ% fx
Western Europe	73.0	64.8	12.6%	12.9%
RoEMEA	23.8	18.3	30.3%	30.7%
North America	17.2	18.6	-7.6%	3.3%
South America	3.7	4.2	-11.0%	0.8%
South APAC	5.8	6.4	-10.0%	-2.9%
North APAC	15.3	15.0	2.1%	6.8%
Totale Revenue	138.8	127.3	9.1%	12.1%

- Net of FX impact, revenue grew in all the geographic areas, excluding South APAC, thanks mainly to cross-selling and up-selling for the pursuit of energy efficiency and sustainability.

Breakdown by sector



Sector	m€		m€	
	1H 2018	1H 2017	Δ%	Δ% fx
HVAC	85.3	79.5	7.4%	10.6%
Refrig.	49.9	43.1	15.7%	18.7%
No core	3.6	4.7	-23.8%	-22.6%
Totale Revenue	138.8	127.3	9.1%	12.1%

- HVAC sector +10.6%*: Confirming Carel's leading role in its reference business niches;
- Refrigeration market +18.7%*: Pushing on innovation and focusing on end customers to exploit a fast growing market.

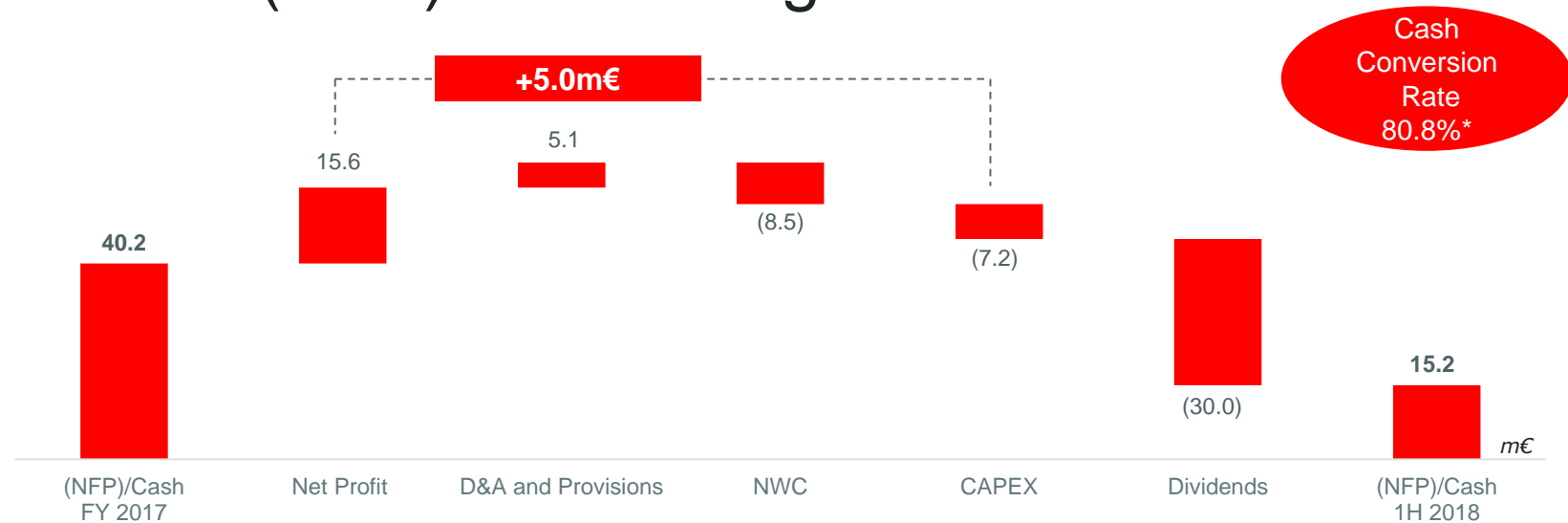
*Net of FX impact

From EBITDA to Net Profit

	K€	1H '17	1H '18	Δ%
EBITDA		26,377	24,165	-8.4%
	<i>D&A</i>	-3,894	-4,080	
	<i>Impairment</i>	-9	-96	
EBIT		22,475	19,990	-11.1%
	<i>Financial (charges)/income</i>	227	66	
	<i>FX gains/losses</i>	-185	-418	
	<i>Companies cons with e.m.</i>	-117	15	
EBT		22,400	19,653	-12.3%
	<i>Taxes</i>	-5,484	-4,030	
	<i>Minorities</i>	-26	-27	
Group net profit		16,889	15,596	-7.7%

- Higher D&A mainly linked to the **Carel's footprint expansion project** (Croatia, Italy, US)
- Financial income affected by the **disinvestment in life insurance** for approximately **35m€**.
- Increase in value of an equity stake held by Alfaco
- **Lower tax-rate (approx. 20%)** due to lower US tax-rate, Italian tax incentive effects and absence of dividend paid by Chinese subsidiary.

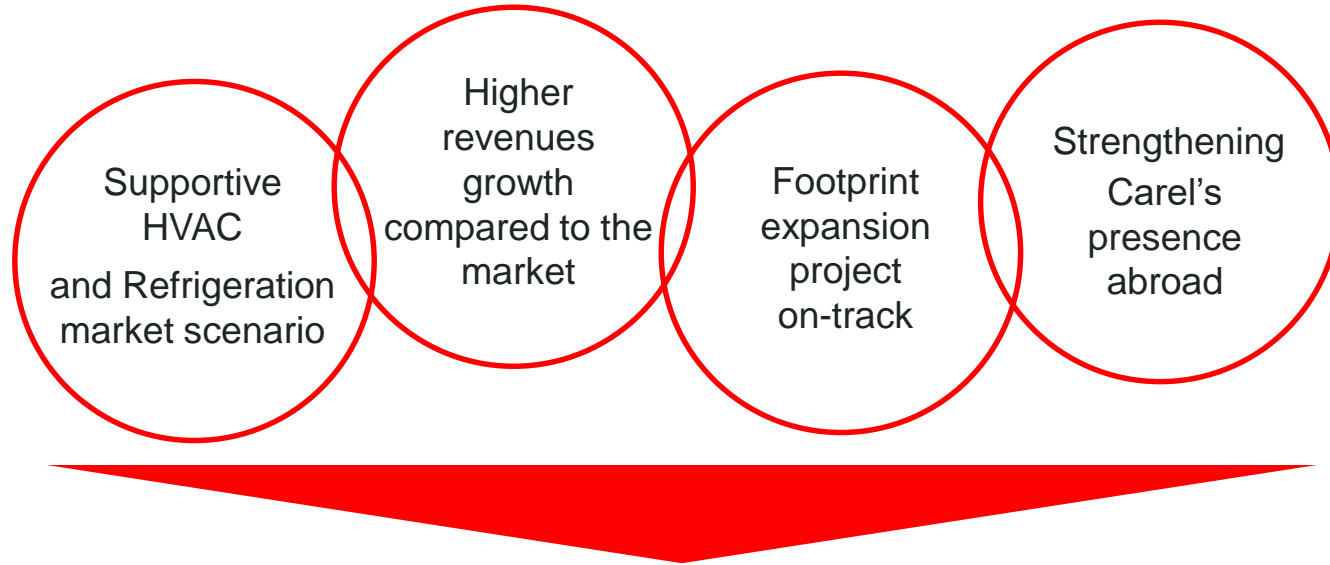
1H 2018 – (NFP)/Cash Bridge



- **Positive FCF generation:** thanks to operating results, easily covering NWC increase and a significant growth in capex.
- **NWC +8.5m€** due to higher inventory level, linked mainly to Carel's purchase policy (aiming at coping with current global shortage in electronic material) and to footprint expansion project.
- **Strong increase in Capex (+100%)** compared to last year, devoted to footprint expansion project.
- **30m€ extraordinary dividend.**

(*Rolling last 12 months)

Closing Remarks

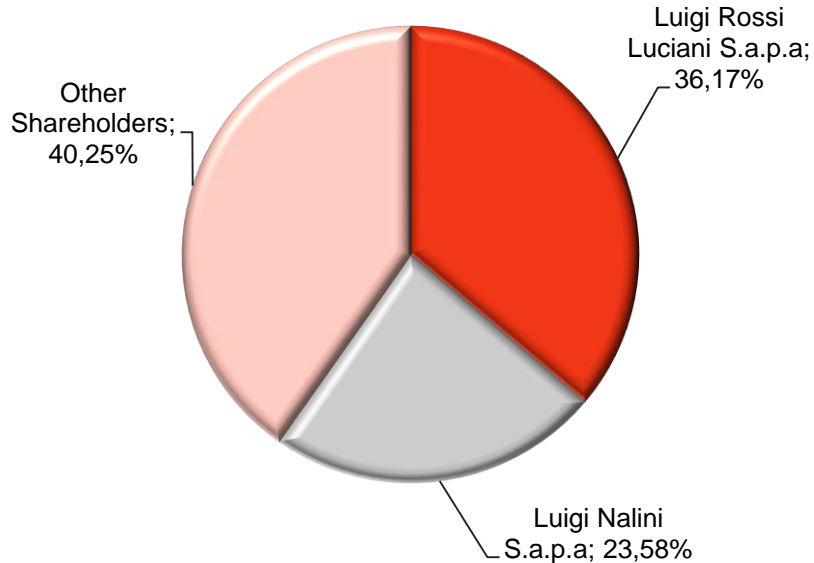


We expect the growth experienced in revenue in the first half of the year to be maintained also in the second half.

Annexes

Shareholding structure and Corporate Governance

CAREL INDUSTRIES S.p.A. Shareholding structure



~40%

Free float

The controlling Shareholders own approximately 60% of Carel Share Capital (36,17% Luigi Rossi Luciani S.p.a and 23,58% Luigni Nalini S.p.a.) with a lock-up period of 180 days from the IPO.

40.25% of Carel Share Capital is owned by other Shareholders.

2

Shareholders'
Agreement

Two Shareholders' agreements exists:

- One among the Shareholders of Luigi Rossi Luciani S.p.a
- One between Luigi Rossi Luciani S.p.a and Luigni Nalini S.p.a., expiring June 2021, governing the appointment of Carel's BoDs and Board of statutory auditors.

LSS

Loyalty Shares
Scheme

A loyalty Shareholders scheme were introduced concomitantly with the IPO.

Following this scheme, the controlling Shareholders already owns double-voting shares.

Income statement and Balance Sheet

Income statement

	K€	1H_2017	1H_2018	var %
Revenues		127,267	138,793	9.1%
Other Revenues		637	766	20.3%
Opex		(101,528)	(115,395)	13.7%
Opex Adj		(101,528)	(110,375)	8.7%
EBITDA		26,377	24,165	-8.4%
EBITDA ADJ		26,377	29,185	10.6%
D&A		(3,902)	(4,175)	7.0%
EBIT		22,475	19,990	-11.1%
EBT		22,400	19,653	-12.3%
Taxes		(5,485)	(4,030)	-26.5%
Net Profit		16,915	15,623	-7.6%

Balance sheet

	K€	FY_2017	1H_2018	var %
FIXED ASSETS		37,411	40,646	8.6%
WORKING CAPITAL		46,353	53,471	15.4%
TFR		(5,687)	(5,610)	-1.4%
NET CAPITAL INVESTED		78,077	88,507	13.4%
EQUITY		118,316	103,737	-12.3%
NET FINANCIAL POSITION		(40,239)	(15,229)	-62.2%
TOTAL		78,077	88,507	13.4%

“Performance shares” plan

On the 7th of September the CAREL’s Shareholders meeting approved an incentive plan called “Performance shares” plan

Objectives

- Aligning the interest of the beneficiaries of the plan with CAREL’s interests;
 - Supporting and rewarding the achievement of medium/long-term objectives;
 - Supporting attraction, retention and engagement of CAREL’s key human resources.
-

Beneficiaries

- Executive members of CAREL’s Board of Directors;
 - CAREL’s top management;
 - Other CAREL’s key employees.
-

Mechanism

- A certain amount of CAREL’s shares will be distributed to the beneficiaries upon the achievement of pre-set targets (EBITDA Adjusted and Cash Conversion Rate)
- Three vesting period 2018-2020, 2019-2021, 2020-2022.

Company profile

Leading provider of advanced energy efficient control solutions



1 High-tech leader in attractive niches of the HVAC/R industry

Focus on attractive niches...

...resulting in leadership positioning

High value applications

...CONSOLIDATED
IN **HVAC** PREMIUM NICHES

...INNOVATION-ORIENTED
IN **REFRIGERATION**

Deep knowledge of final applications is key

33%¹
European market share
in *Chillers*



In Europe

SIGNIFICANT ROOM FOR
FURTHER EXPANSION

Energy efficiency and high performance are critical

46%¹
European market share
in *Roof-tops*



In Europe

BREAK-THROUGH
INNOVATIONS

-50% kWh³
HEEZ energy consumption

Requirement for tailored and customizable solutions

41%¹
market share
in *CCU for Data Centers²*



Higher efficiency⁴
Rotary DC technology

GROWING PRESENCE
Globally

Source: Company information as of Mar-18, BSRIA (Mar-17)

Note: 1) 2016 market shares calculated on # of units based on BSRIA market data and management elaborations; 2) close control units for data centers in US, UK and Italy; 3) tested by third-party laboratory compared to Top-ten EU benchmarks; 4) compared to average semi-hermetic

2 Attractive market growth supported by secular trends

Secular trends...



GROWING POPULATION

- Improvement in **LIVING STANDARDS** increasing demand for HVAC/R



CHANGE IN CONSUMER HABITS

- Focus on **WASTE REDUCTION** in food sector
- Increase in number of convenience stores/**FRESH FOOD**



GLOBAL GROWTH

- **ECONOMIC ACTIVITY** driving demand for HVAC/R



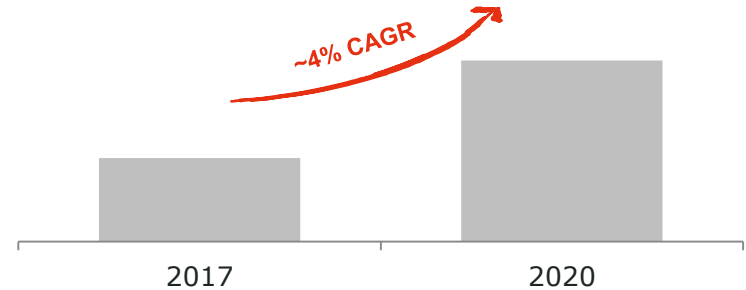
INTERNET OF THINGS

- Increasing adoption of **AUTOMATION TECHNOLOGIES** and **CONNECTED SOLUTIONS**

...supporting attractive market growth

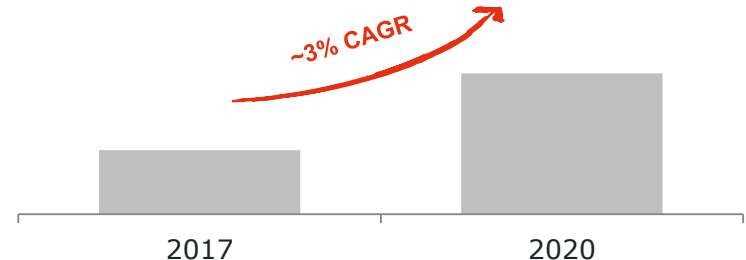
Reference HVAC Market

Market value (€m)¹



Reference Refrigeration Market

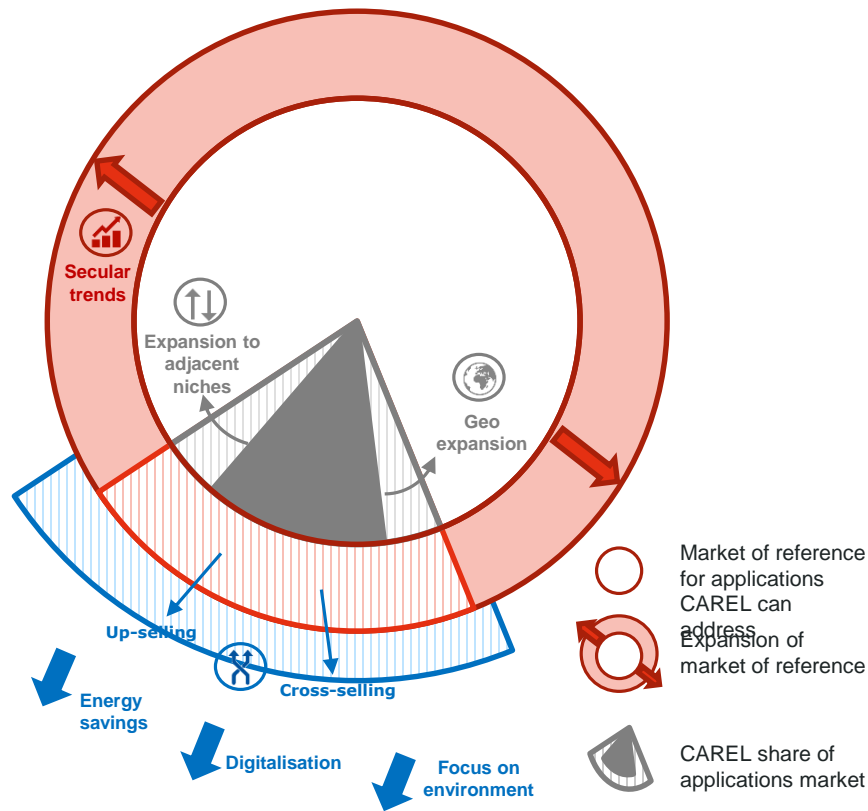
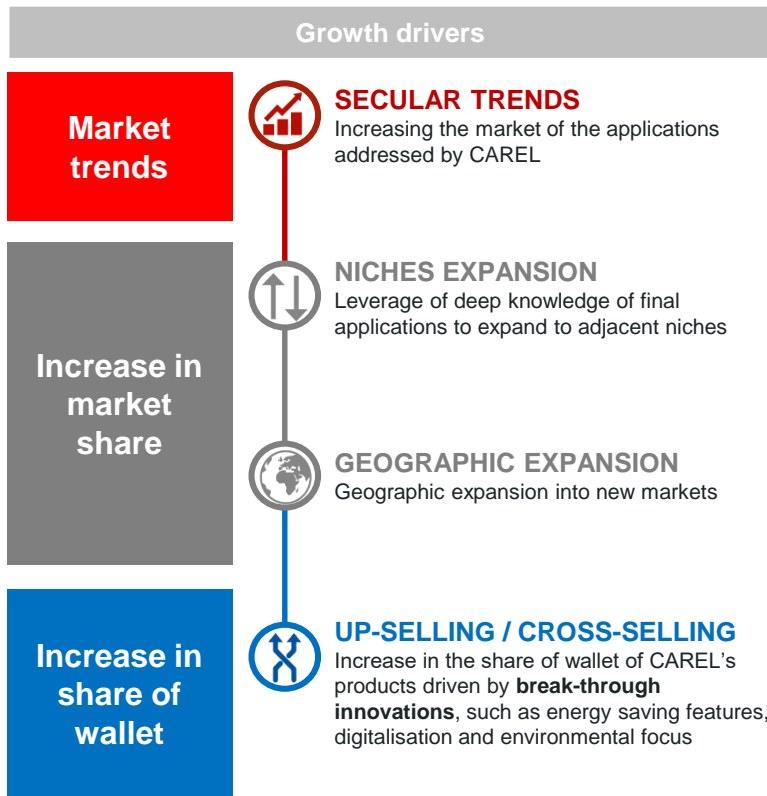
Number of outlets (#)²



Source: Company information as of May-18, BSRIA (Mar-18), PlanetRetail (Dec-17)

Note: 1) Based on management elaboration on BSRIA data on Rooftop, Chillers, AHU and Datacenters applications, based on report dated Mar-2018; 2) Based on management elaboration on PlanetRetail data on Food Retail and Food Service segments

2 Growth is driven by market trends and focused strategic actions...



2 ...and favoured by up-selling and cross-selling...

FROM PRODUCT PLATFORMS TO INTEGRATED ELECTRONIC SOLUTIONS...

PRODUCT PLATFORMS



From a **COMBINATION OF PRODUCTS**
FROM DIFFERENT PLATFORMS



To an **ECOSYSTEM TO QUICKLY**
ADOPT NEW TECHNOLOGIES

SYSTEMS



...IN THE HVAC AND REFRIGERATION MARKETS

HVAC

Example of a **CHILLER UNIT**

Before



Refrigeration

Example of a **BEVERAGE COOLER**

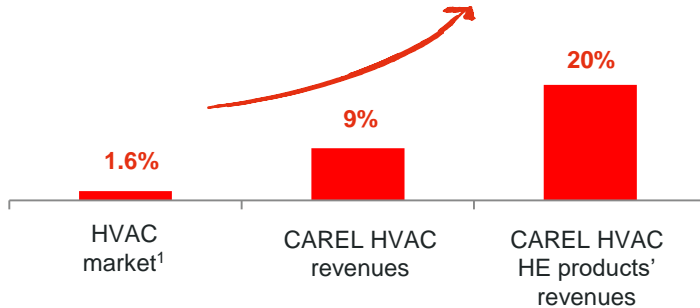
Before



2 ...with High Efficiency applications driving demand

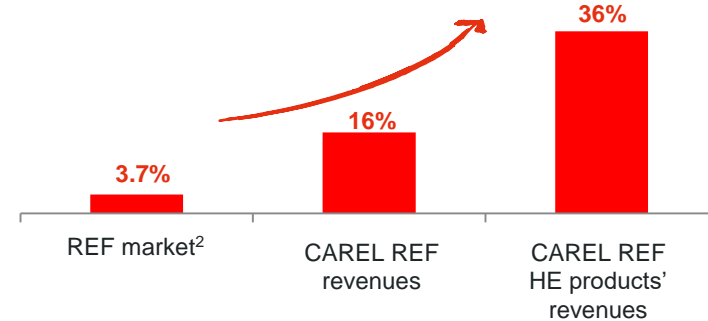
HVAC

CAGR 2015-17



Refrigeration

CAGR 2015-17



KIGALI AMENDMENT

"... keeping global warming within 2 °C means **HALVING EMISSIONS BY 2050**, yet energy consumption is expected to grow 50% over the same period, meaning **ENERGY EFFICIENCY MUST TRIPLE**³



ENERGY COST SAVINGS

Refrigeration and lighting account **FOR OVER 50 PERCENT OF TOTAL ENERGY USE** in the average supermarket⁵



ENERGY COSTS SAVINGS IN DATACENTERS

C.40%⁴ OF DATACENTER TCO operating expense component is **REPRESENTED BY ELECTRICITY**



END-USERS INCREASINGLY AWARE BUT ROOM TO TAP THE MARKET

Global corporates, such as Coca-Cola and Carrefour, made **CLIMATE PROTECTION A KEY COMPONENT OF THEIR BUSINESS STRATEGY**, but **56% OF STORAGE REFRIGERATION MODELS NOT COMPLIANT** yet⁶

High efficiency products are growing faster in CAREL product portfolio

Source: Company information, audited IFRS consolidated financial statements as of Dec-2017

Note: 1) Based on management elaboration on BSRIA data on Rooftop, Chillers, AHU and Datacenters applications, based on report dated Mar-2018; 2) Based on management elaboration on PlanetRetail data on Food Retail and Food Service segments; 3) Public academic research paper, 2017; 4) Public Industry White Papers, 2011; 5) Energy Star; 6) Public research from topten.eu, data as of 2017

3 Positioning and innovation capability hard to replicate

~6% OF REVENUE¹

Invested annually in R&D

PROPRIETARY SOFTWARE

Vast library of proprietary software modules developed over the past 10 years: **maximizing customizations and reducing time-to-market**

RESEARCH COLLABORATION

With Tier-1 Universities and Research Institutions



13% OF TOTAL WORKFORCE

dedicated to R&D

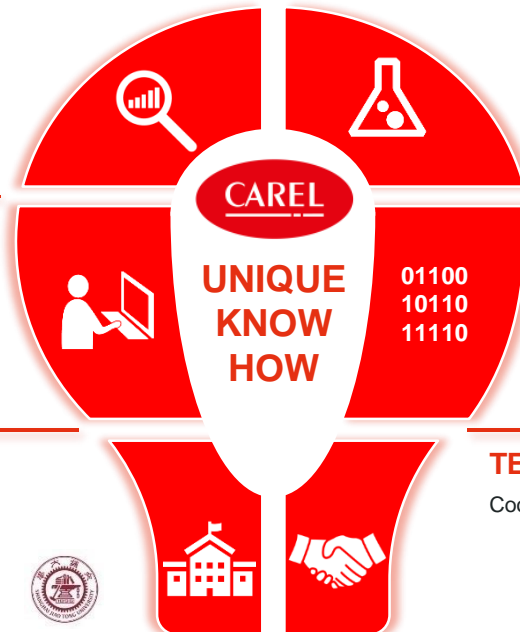
3 R&D CENTRES

COMBINING 5 DOMAINS

- Hardware & Firmware
- Software
- Mechanics
- Thermodynamics
- IoT

TECHNOLOGICAL PARTNERS

Cooperation with technology leaders



AWARD WINNING BUSINESS

Timeline of awards:

- Nov-13**: Electrolux Supplier Award
- Jan-16**: AHR Expo Innovation Award
- Apr-17**: China Refrigeration Innovation Award

Timeline of awards:

- Sep-17**: World Beverage Innovation Award
- Oct-17**: RAC Cooling Industry Award
- Apr-18**: China Refrigeration Award

Source: Company information as of Mar-18
Note: 1) avg. 2015A-17A

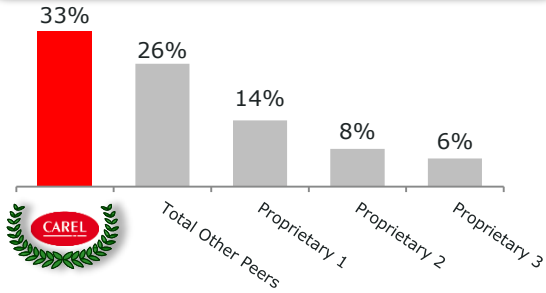


3 Leadership position in HVAC OEM premium niches...

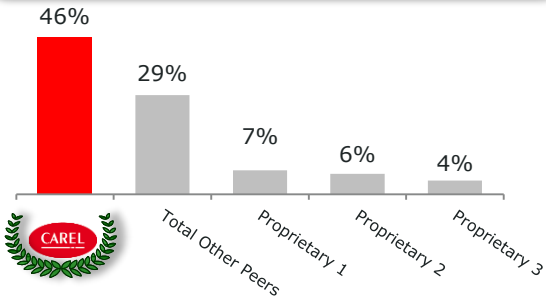
Leadership positioning in premium niches...

...with no perfect comparable

Chiller European Market Share¹



Rooftop European Market Share²



	CAREL	OEM proprietary solutions	Large diversified competitors	EM / Low cost competitors
Vertical niche approach	✓✓✓	✓✓	✓	✓✓✓
Innovation pace & knowledge of final applications	✓✓✓	✓	✓✓	✓✓
Integrated solutions	✓✓✓	✓	✓✓	✓
Global operations	✓✓✓	✓✓	✓✓✓	✓
Flexibility for tailored solutions	✓✓✓	✓✓	✓	✓✓✓
Economies of scale	✓✓✓	✓	✓✓	✓

Source: Management elaborations based on BSRIA data for the year 2016 (based on report dated Mar-17)
 Note: 1) Total other minor proprietary c.13%; 2) Total other minor proprietary c.8%








3

...and leading in innovation in the refrigeration market

Leveraging on HVAC experience...

...CAREL is a leader in innovation

			Large diversified competitors	EM / Low cost competitors
 HEOS SISTEMA Waterloo system with DC tech for refrigeration	2014			
 HECU SISTEMA High efficiency condensing unit control for multi-split refrigeration system	2015			
 HEEZ Control solution for refrigerated merchandiser with rotary DC tech	2017			
 EMJ Winner at China Refrigeration award 2018	2018			
Vertical niche approach		✓✓✓	✓✓	✓✓✓
Innovation pace & knowledge of final applications		✓✓✓	✓✓	✓
Integrated solutions		✓✓✓	✓✓	✓
Global operations		✓✓✓	✓✓✓	✓
Flexibility for tailored solutions		✓✓✓	✓✓	✓✓✓
Economies of scale		✓✓✓	✓✓	✓

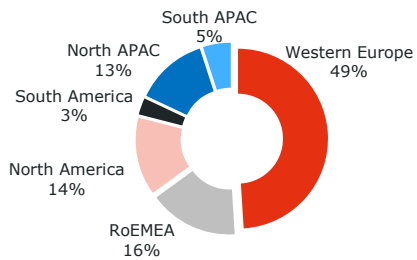
Source: Company info; Management elaborations

4 Highly efficient global operations serving locally...

GLOBAL PRODUCTION FOOTPRINT

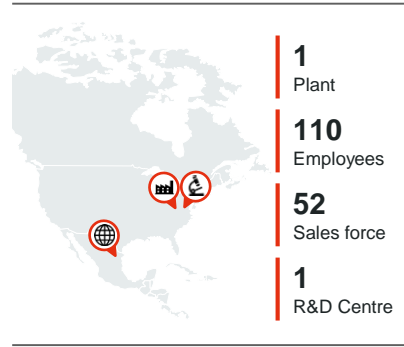
DIRECT AND HIGHLY SKILLED SALES NETWORK

BEST POSITIONED TO CAPTURE GLOBAL GROWTH OPPORTUNITIES

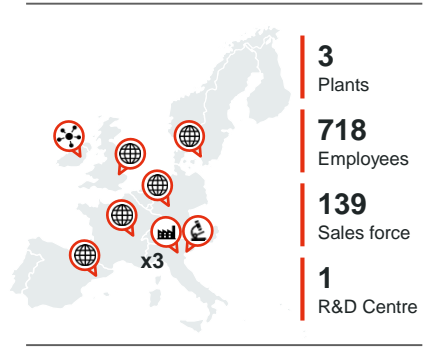


Revenue 2017A breakdown by geography

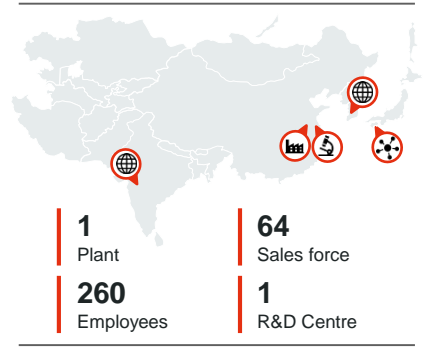
NORTH AMERICA



WESTERN EUROPE



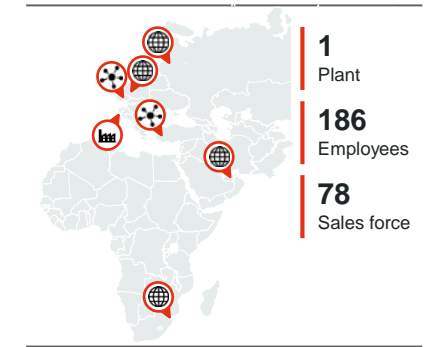
NORTH APAC



SOUTH AMERICA



RoEMEA



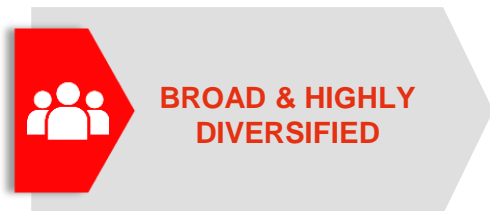
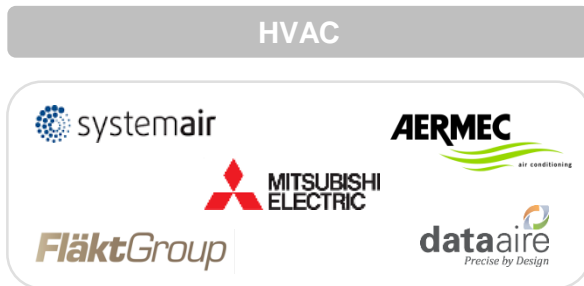
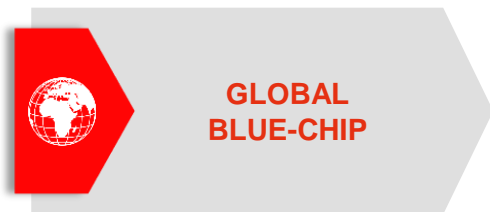
SOUTH APAC



Legend: R&D centres Plants Commercial subsidiaries Affiliates

Source: Company information as of Mar-18; audited IFRS consolidated financials as of Dec-17

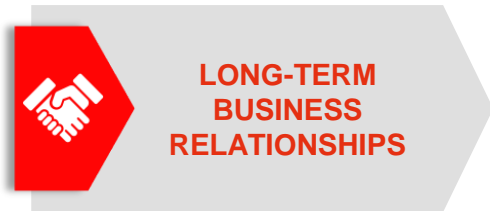
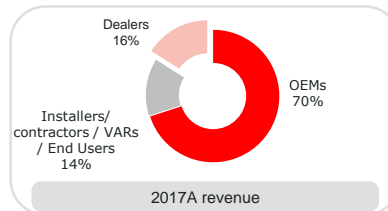
4 ...diversified blue-chip customers



>6,300
Customers

In **c. 100**
countries worldwide

c. 5%
from first customer¹
c. 25%
from top-15 customers²



>80%
of Top Customers³
with CAREL for >10y

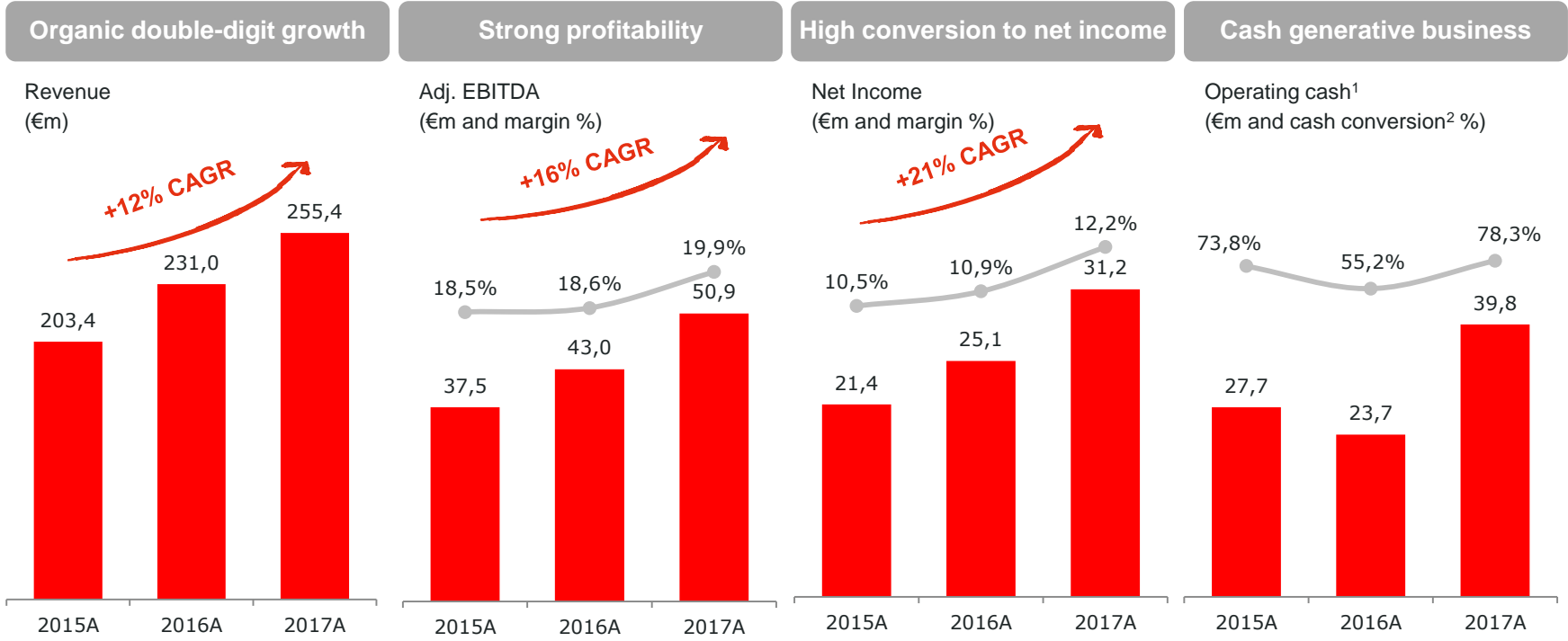
>67%
of Top Customers³
with CAREL for >10y

Well-established relationships oriented to preserve and enhance the CUSTOMER LIFE-TIME VALUE

Source: Company information as of Mar-18; audited IFRS consolidated financials as of Dec-17
Note: 1) as % of 2017 revenue; 2) as % of 2017 revenue for each market; 3) Top 60 customers accounting for approx. 50% of total revenue for each market



5 Track record of profitable organic growth

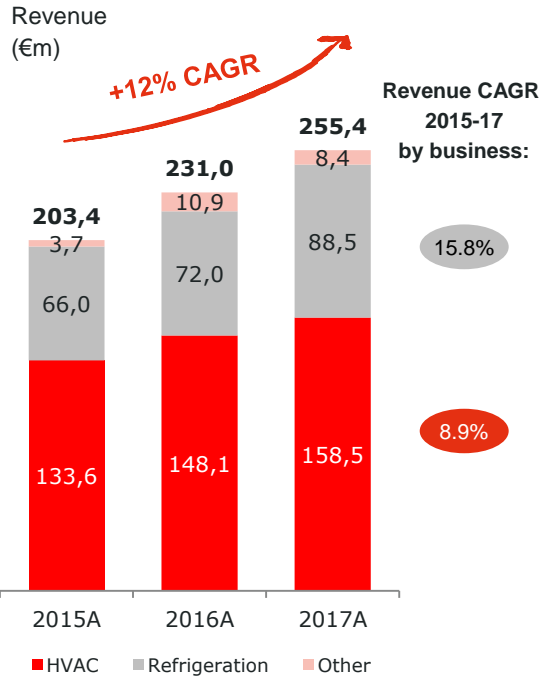


Resulting in a solid balance sheet and strong value creation to shareholders

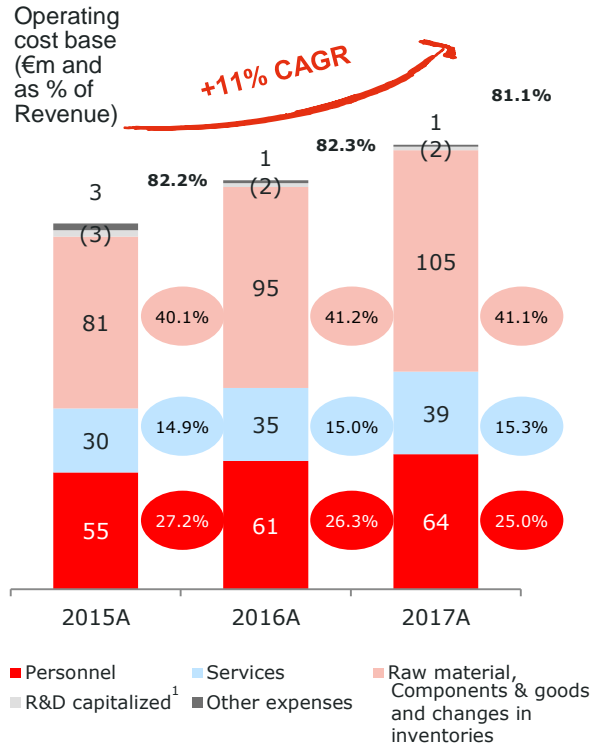
Source: Company information as of Mar-18
 Note: 2015-2017 IFRS
 Note: 1) Operating cash calculated as cash flow from operations - Capex; 2) Cash conversion calculated as operating cash/Adj. EBITDA

5 Organic growth with strong profitability

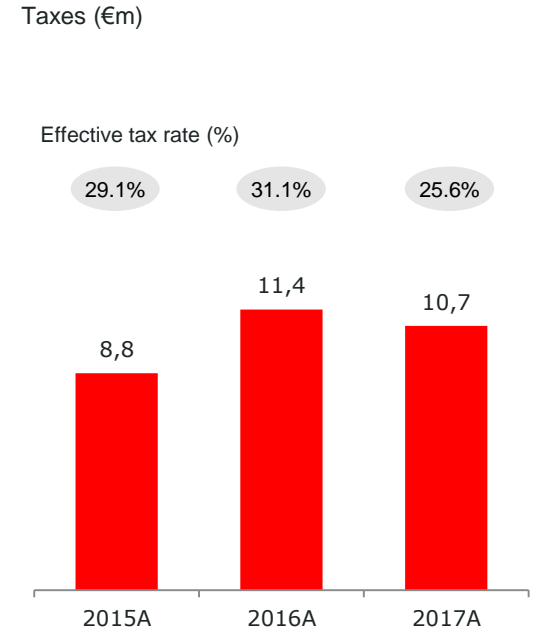
Strong growth both in HVAC and Refrigeration



Benefitting from operating leverage



With further positive impact from taxes



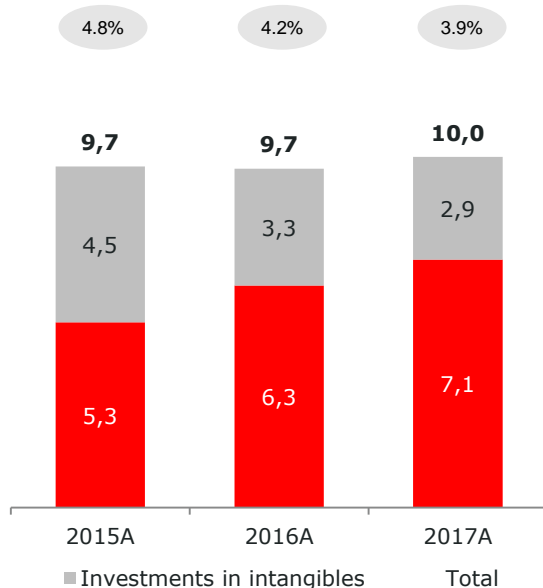
Source: Company information as of Mar-18

Note: 2015-2017 IFRS

Note: 1) R&D capitalized expenses have positive impact on Adjusted EBITDA and Operating Income calculations

5 Focus on cash generation

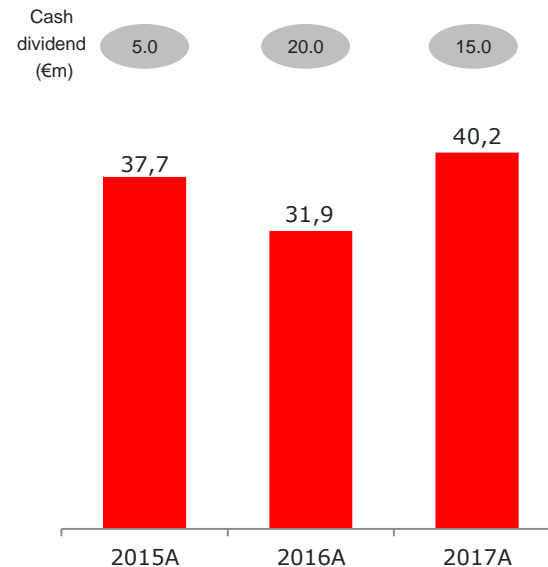
Capex (€m and as % of Revenue)



Net Working Capital ("NWC")

€m	2015A	2016A	2017A
Trade receivables	47.9	56.0	54.6
Inventories	28.6	31.5	37.8
Tax receivables	1.1	0.6	0.8
Other current receivables	3.7	2.9	4.6
Deferred tax assets	2.6	2.9	4.1
Trade payables	(27.2)	(28.0)	(35.0)
Tax payables	(1.4)	(1.8)	(2.3)
Other current payables	(14.4)	(15.3)	(15.0)
Deferred tax liabilities	(1.5)	(1.6)	(1.5)
Risks and charges provisions	(2.1)	(2.1)	(1.7)
Net Working Capital	37.3	45.2	46.5
<i>Trade WC as % of Revenue</i>	<i>18.3%</i>	<i>19.6%</i>	<i>18.2%</i>

Net Liquidity (€m)



In the coming years the Group foresees to double its investments in tangible assets to support its production footprint expansion, while investments in intangibles will be mainly related to R&D

Source: Company information as of Mar-18
 Note: 2015-2017 IFRS
 Note: 1) Related to the business growth

6 Global expansion, innovation and services

A



6 Pursuing external growth through disciplined bolt-on M&A



CAREL has performed **detailed analyses and scouting of potential targets**, thus promoting an **opportunistic approach** with a focus on **3 MAIN EXPANSION AREAS**:

