



Daikin Management Policy

May 13, 2020

Masanori Togawa
President & CEO

I would like to express my deep appreciation to you for your kind interest in the operations and management of Daikin.

Under ordinary circumstances, I would be speaking to you in person; however, due to the outbreak of the coronavirus disease known as COVID-19 and the current state of emergency declaration, this briefing will be conducted via teleconference.

As CEO, I established the Emergency Response Headquarters at the end of January in response to COVID-19 and serve as its head. With the health and safety of our employees as our first priority, we began by carefully implementing strong preventive measures against the spread of infection. At the same time, we considered the effect COVID-19 would have on our business. Since then, we have been constantly at work gathering the latest information updates and rapidly implementing actions that needed to be taken.

Later I will discuss the results of those actions in greater detail but allow me to say that I believe we were successful in minimizing the impact of COVID-19 on this fiscal year's financial results.

As evidenced by our recent responses to the crises of the Japanese bubble economy and later from the Lehman shock, Daikin has always been a company in which its employees rally as a team and overcome all obstacles with a desire to challenge and the ability to execute. In times of crisis, we demonstrate strong resiliency and fortitude. By fully utilizing this Daikin strength, I firmly believe that we will also overcome the COVID-19 pandemic, which is a totally different type of crisis than any other we have encountered in the past.

- ✓ Daikin achieved sales of 2 trillion 550.3 billion yen (up 2.8% year on year) and operating profit of 265.5 billion yen (down 3.9% year on year) by minimizing the adverse impact of COVID-19 in China and Europe. At the time, we made every effort to increase profits until March-end in regions and businesses where the effect of the disease was still relatively small such as in the United States.
- ✓ Without the impact of COVID-19, Daikin would have achieved its tenth consecutive year of increased revenue and profits and seventh consecutive year of record highs with sales of 2 trillion 595.3 billion yen and operating profit of 287.5 billion yen.

	Forecast	Result	COVID-19 Effect
Sales	2,610.0B JPY (+5% year on year)	2,550.3B JPY (+2.8% year on year)	-45.0B JPY
Operating Profit	285.0B JPY (+3% year on year) 10.9% profit margin	265.5B JPY (-3.9% year on year) 10.4% profit margin	-22.0B JPY

To begin with, sales were 2 trillion 550.3 billion yen (up 2.8% year on year) and operating profit was 265.5 billion yen (down 3.9% year on year) in the financial results for the fiscal year ending March 31, 2020.

The impact of COVID-19 is estimated to be a negative 45 billion yen in sales and a negative 22 billion yen in operating profit. Had COVID-19 not been a factor, sales were estimated to have been 2 trillion 595.3 billion yen with an operating profit of 287.5 billion yen. These results would have undoubtedly exceeded our company forecast and led to the achievement of Daikin's tenth consecutive year of increased revenue and profits and seventh consecutive year of record highs.

- ✓ Regulations enacted in each country to contain COVID-19 significantly affected sales and manufacturing, especially in China and Europe.
- ✓ In China, we quickly determined the operating status of suppliers and parts inventory, implemented inventory adjustments between Daikin Group factories, and flexibly changed production plans.
- ✓ These actions enabled us to minimize the impact of COVID-19 by rapidly implementing various measures that included exporting to other regions, such as Asia, Japan, and the United States where the impact of COVID-19 was relatively small from China, expanding sales in these regions, and promoting cost reductions even further.

Until the end of the third quarter, Daikin had achieved an increase in both revenue and profits, despite a challenging business environment, by expanding sales of high value-added products in each global region and promoting total cost reductions.

In February, COVID-19 caused economic activities in China to stop, including the suspension of production and markets, and this greatly affected sales. Meanwhile, in Europe, measures such as border closures and lockdowns escalated from Italy to every European country, causing economic activities to be restricted.

There was also the prospect for a significant temporary decline in profits from the rapid spread of COVID-19.

Despite the disruption of the supply chain in China, Daikin worked with suppliers to quickly resume manufacturing and reduced the loss of sales opportunities by carefully formulating plans for parts supply and sales for each model. Furthermore, by quickly mobilizing all possible measures such as promoting sales in the Americas, Asia, and Japan where the impact was relatively small and reducing costs even further, I believe that we were successful in minimizing the effect of COVID-19.

- ✓ The current action plan is based on the different situations of each region and business.

	FY2019 Result	FY2020 Action Plan
Sales	2,550.3B JPY (+2.8% year on year)	2,330.0B JPY (-9% year on year)
Operating Profit	265.5B JPY (-3.9% year on year) 10.4% profit margin	150.0B JPY (-44% year on year) 6.4% profit margin

- ✓ Specific measures are taken for four patterns assumed for the COVID-19 impact.
 - <Four Assumed Patterns for Impact>
 - (1): Contained in the 1Q (April-June)
 - (2): Continuation to the 2Q (until September)
 - (3): Continuation to the 3Q (until end of 2020)
 - (4): Continuation for one year (uncontained for entire fiscal year)
- ✓ Conditions such as the depth in demand drop and length of protracted period differ depending on each region and business.
- ✓ Plans are formulated based on current prospects as determined by the local conditions and realities for each region and business. As a result, the action plan closely resembles pattern (2) Continuation to 2Q. The plan will be reviewed every one or two months as needed to respond flexibly to an ever-changing situation.

From now, I would like to explain the management position for combating the COVID-19 crisis, a topic that I wish to explain to you in some detail.

First, contrary to our forecast, sales were 2 trillion 330 billion yen for a year-on-year decrease of 9% and operating profit was 150 billion yen for a year-on-year decrease of 44%.

Because of the uncertainty for containing COVID-19, the forecast going forward is unclear. Nevertheless, management is not a pursuit that is best given over to chance simply because the future is difficult to predict. Even when there is uncertainty, management must boldly confront the existing reality, establish targets, specify what needs to be done, and implement it.

Daikin has compiled countermeasures for the degree of impact from COVID-19 by assuming these four case patterns: impact contained in the first quarter, impact continuing until the end of the first half, impact continuing to the end of the third quarter, and the worst-case scenario in which the impact continues for the entire fiscal year.

The impact and outlook for each business and region are not uniform, and factors including government policy measures, economic policies, and market trends also differ. We have drafted a plan that considers the current prospects as determined by the local conditions and realities for each respective business and region and have made an action plan that closely resembles the pattern assuming the impact to remain until the end of the first half of the fiscal year.

While we have already started the action plan and hope that it will lead rapidly to a V-shaped recovery for financial results depending on the degree of impact of the COVID-19 and market trends. However, we are also prepared for dealing with cases in which the impact either continues through the third quarter or becomes the worst-case scenario impacting entire year. In the future, we will review this plan every one or two months as needed to respond flexibly to an ever-changing situation.

In April, steady progress was made in line with the action plan, and efforts are being made to exceed it even further.

- ✓ Japan AC: April progressed according to the action plan. In the Commercial-Use market, operations began to restart at construction sites, while in the Residential-Use market, mass retailers began reopening. **Construction is underway for installation and logistics** for the rapid increase in volume expected when COVID-19 has been contained.
- ✓ China: **Factory production resumed in March and all sales offices reopened in April.** In April, results were in line with the action plan. Steady demand, including demand for government projects is gradually recovering. Inquiries are increasing from **new sales measures combining the Internet and actual experience at the Daikin Solution Plaza.**
- ✓ Europe: In April, as lockdowns continued in each country, results exceeded the action plan by **maximizing sales and operating at zero-based fixed costs.** In May, France, Germany, Italy, and Spain relaxed restrictions on leaving the house as construction work and retail stores resumed. In conjunction with this trend, we will **strengthen our marketing capabilities and go forward with initiatives that exceed the action plan.**

The action plan presupposes first quarter demand to be -19% in China, -48% in Europe, -50% in Asia/Oceania, -26% in the United States, and -21% in Japan.

In April, we got off to a solid start that exceeded the action plan. Now I would like to speak about the situation in the major regions. In Japan, equipment sales progressed according to the action plan. In the Commercial Use market, construction sites where construction had stopped are showing signs of resuming, whereas mass retailers in the Residential Use market are beginning to resume operations. Seeing these economic activities resume, we are working to strengthen the installation and logistics systems and prepare for the rapid increase in volume after COVID-19 is contained.

Next, in China, factory production had already resumed in March with all business offices reopened from April. Sales for April went according to the action plan (72% year on year). Despite a situation in which direct contact with customers was restricted and sales activities impaired, we were able to maximize sales. As demand steadily recovers, including that of government projects, we are increasing new inquiries by developing new sales measures that combine the Internet and actual experience at the Daikin Solution Plaza, and we think it is possible to exceed the action plan.

In Europe, lockdowns continued in each major country in April, and both sales and operating profit exceeded the action plan due to maximization of sales and operation by zero-based fixed costs. Beginning in May, government in major countries such as France, Germany, Italy, and Spain eased restrictions on leaving the house, leading to the resumption of construction work and retail stores. In conjunction with this trend, we will strengthen our business structure and go forward with initiatives that exceed the action plan.

- ✓ Asia: In April, activities were forcibly suspended in each country, while **sales in Australia, Indonesia, and Thailand remained at the same level as the previous year.**
The region overall achieved targets as planned.
In India, strict restrictions were placed on leaving the house, while measures were taken in Malaysia to suspend business activities. Although sales fell temporarily, even in these countries, **factory operations are also being permitted to resume.**

- ✓ U.S.: Goodman Inc. exceeded the action plan in April due to sales efforts.
After voluntarily suspending factory operations for nearly 3 weeks, **production started from the 4th week of April, and as many states have begun to relax restrictions on conduct since May, we are accelerating initiatives to exceed the action plan.**

In Asia, despite operations being forcibly suspended in each country, Australia, Indonesia, and Thailand were able to maintain sales on par with the previous fiscal year, and results for the region overall were achieved according to the action plan. In India, strict restrictions were placed on leaving the house, while measures were taken in Malaysia to suspend business activities. Although sales fell temporarily, even in these countries, factory operations are also being permitted to resume and economic activities are expected to restart.

In the United States, the strong efforts of frontline sales led Goodman to sales and operating profit for April that exceeded the action plan. In April, factory operations were suspended voluntarily for about three weeks to protect employees from the outbreak of COVID-19, but in the fourth week of April production started and many states have begun to relax restrictions on conduct since May. Now we are accelerating initiatives to exceed the action plan.

< Measures Based on the Impact of the Sudden COVID-19 Outbreak >

- ✓ **Defensive measures: 43 themes**
(Thorough suppression of fixed costs, rapid support to dealers and business partners, etc.)
- ✓ **Proactive measures: 31 themes**
(Strengthening of sales via the Internet, development of measures focused on changes in consumer mood and behavior)
- ✓ **Constitution strengthening and reform: 17 themes**
(Establishment of a lean, robust fixed cost structure, increased operational efficiency by utilizing AI and IoT in reform of business processes.)

< Six Emergency Projects Addressing Important Management Issues >

- (1) **Strengthening procurement, manufacturing, inventory, and logistics globally**
- (2) **Outperforming rivals in response to global changes and declining demand; and strengthening sales and marketing capabilities to increase market share while maintaining selling price**
- (3) **Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation**
- (4) **Drastically cutting fixed costs (breakeven point and dramatic reduction in ratio of fixed costs to sales)**
- (5) **Prioritizing large-scale investments (capital investments and investments / loans) in the unprecedented uncertainty for the future of the business environment**
- (6) **Raising funds by having a detailed knowledge of the capital demand for the entire Group**

< Strategic Themes for Fusion 20 >

- ✓ 176 themes by business division Sales 2,800B JPY
 - ✓ 10 Group-wide follow-up themes Operating Profit 325B JPY
- (Excluding the effect of foreign currency and decreased demand, the standard for the final year of Fusion 20 aims for sales of 2,900B JPY and operating profit of 348B JPY.)

Daikin is strongly committed to achieving the strategic management plan Fusion 20 and is currently implementing 176 priority themes by business division and 10 Group-wide follow-up themes begun last year based on the thinking for the 18-month budget. Even in January when COVID-19 impact became apparent, we proceeded with investigation of the FY2020 budget with sales of 2 trillion 800 billion yen and operating profit of 325 billion yen. Excluding foreign exchange and the impact of decline in demand, we aim for a level in the last fiscal year of Fusion 20 of sales at 2 trillion 900 billion yen and operating profit at 348 billion yen.

Based on this Fusion 20 theme regarding sales and profits, we have positioned measures to account for the impact of the rapid expansion of COVID-19. Although some examples are mentioned in the resource materials, we have established and have started initiatives for “Defensive measures: 43 themes,” which includes suppression of fixed costs, “Proactive measures: 31 themes,” which includes strengthening products and services focused on social changes in post-COVID-19 pandemic for quick start up once the problem is resolved, and “Constitution strengthening and reform: 17 themes.” First, we will thoroughly execute all measures for this theme to ensure that our efforts lead to results.

For the first quarter, I think it is important to overcome the harsh underlying conditions before us through defensive measures, such as cutting fixed costs, but as I just mentioned concerning the situation for April, we are accelerating initiatives to exceed the action plan and aiming for a quick V-shaped recovery for the time when demand recovers. In establishing what kind of proactive measures can be performed in the future, I think now is a critical period that will separate the strong and excellent companies from the field by their ability to initiate constitutional reforms and enhance their competitiveness as a means to turn adversity into opportunity.

The extent to which initiatives such as reducing fixed costs can further strengthen our lean, robust constitution remains to be seen. Likewise, we do not know the extent to which we can prioritize investments while actively implementing goals leading to the next innovation such as acquiring and developing human resources, performing research and development, and making capital investments. Nevertheless, this approach and the degree to which we are successful will provide us with a significant advantage over our rivals.

Although the future of the business environment is difficult to predict, we have launched six emergency projects at this time to further strengthen the collaborative innovation and partnerships of related departments and enable us to make decisions quickly while increasing speed and dynamic energy.

Specifically, they are

- (1) Strengthening procurement, manufacturing, inventory, and logistics globally
- (2) Outperforming rivals in response to global changes and declining demand; and strengthen sales and marketing capabilities to increase market share while maintaining selling price
- (3) Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation
- (4) Drastically cutting fixed costs (breakeven point and dramatic reduction in ratio of fixed costs to sales)
- (5) Prioritizing large-scale investments (capital investments and investments / loans) in the unprecedented uncertainty for the future of the business environment
- (6) Raising funds by having a detailed knowledge of the capital demand for the entire Group

Of these six projects, I would like to elaborate on three points that are important for our growth and development, including post-COVID-19 pandemic.

Key themes for future growth and development among the “Six Emergency Projects Addressing Important Management Issues” by the entire global Group making decisions quickly and increasing its speed and dynamic energy

(1) Strengthening procurement, manufacturing, inventory, and logistics globally

- ✓ Rapidly implement measures corresponding to changing circumstances from both defensive and proactive perspectives such as visualizing and strengthening SCM in cross-divisional development throughout the company, expanding sales of priority products, increasing procurement capabilities, and reducing inventories.

- Build a system that can bring forth and implement speedy measures from the perspective of total optimization
- Prepare to make global production adjustments that will not generate excess inventory even when demand declines

(2) Strengthening sales and marketing capabilities to increase market share in response to global changes and declining demand while maintaining selling price

- ✓ Outperform rivals, increase market share, and strengthen sales and marketing capabilities for close contact with customers throughout the Group.

- Further strengthen support for sales networks.
- Determine the trends of the market and rivals in each region along with the situation of the sales network through close contact with customers and implement measures that exceed competitors.
- Expand sales through new sales measures such as utilizing telework, e-commerce, and other means that have been rapidly adopted with the increase in telecommuting.

Concerning “Strengthening procurement, manufacturing, inventory, and logistics globally,” we will immediately determine information for procurement, manufacturing, logistics, and sales for the five global regions (Asia/Oceania, China, Europe, Japan, and North America) and build a system that can bring forth and implement speedy measures from the perspective of total optimization, which would include avoiding sales opportunity losses and preventing excess inventory by adjusting to changing circumstances such as fluctuations in demand and restrictions in logistics and production. Furthermore, even if measures such as a lockdown were taken in the future, we would be prepared with a global manufacturing system that would not generate excess inventory even if demand decreases.

In regards to “Strengthening sales and marketing capabilities...,” when demand declines and the market shrinks, knowing how to outperform rivals and increase market share will be the key to maintaining financial results. Daikin has a sales network with strong bonds. We will further strengthen support of the sales network, determine the trends of the market and rivals in each region along with the situation of the sales networks through close contact with customers, and expand sales by implementing new sales measures such as utilizing telework, e-commerce, and other means that have been readily adopted with the increase in telecommuting.

In the action plan as of April, we formulated a plan to increase market share for each local site and each product and are aiming to increase market share beyond targets in the current action plan by building up many concrete measures for this project.

(3) Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation

- ✓ Promote development of products and solutions not only for established needs such as air quality, ventilation, air purification, disinfection, and cleaning, but also promote development for the potential markets and customer needs that we have identified.

【Examples of Solution Development Utilizing Daikin Products and Technology】

- Japan: Products that can be retrofitted to commercial air conditioners, including store ventilation air cleaning units and active plasma units that have a disinfecting effect
- United States: Proposals of air purifiers and ventilation options for Ducted Unitary for Houses
- China: Residential multi-split air conditioner with an active ion generator with disinfecting effect
- Europe: Expansion of "Daikin on Site" remote service for Commercial Use, remote monitoring via the Internet to solve equipment troubles, implementation of services that identify damaged parts without needing to contact people
- Asia: Sales expansion of air purifiers in Southeast Asia
- Filter: Capture of new expanding demand including antibacterial products for pharmaceutical factories and hospitals

Moreover, we incorporate needs such as air quality, ventilation, air purification, and disinfection that are gaining interest worldwide due to COVID-19. In April, residential-use air purifiers in Japan showed a remarkable increase of 144% over the previous year, and products could not meet demand even in China, Asia, and Europe. Not only are we quickly moving forward with development of products and solutions for established needs, we are also promoting development for the potential markets and customer needs that we have identified.

Although demand for air conditioning products is expected to decline temporarily, demand for this type of air quality is increasing. In the action plan, we have started with a plan with a substantial increase of 122% in Japan, 147% in Europe, 106% in China, and 133% in Asia over the previous fiscal year. We will develop and execute with speed in the short-term and aim to build up even further by utilizing and combining the products and technologies that we have now and by asking ourselves: "What kind of solutions can we propose?" and "What business opportunities do we have?" From a medium- to long-term viewpoint, we will also work on the development of high-performance filters and air purification units that fundamentally improve air quality. These are not included in the current action plan, but we plan to add specific measures to the project and increase sales and profit targets in our action plan.

Developing a global After Sales Service business supporting lifelines

- ✓ Air conditioning is essential for daily life, and the After Sales Service business has social significance in the support of lifelines.

Not only does it respond to breakdowns, it creates new businesses in solving daily life problems such as in the cleaning and disinfecting of air conditioners.

[Example of Development of After Sales Services Business Supporting Lifelines]

- Japan: Expansion of maintenance and overhaul businesses
- China: Strengthening of centers for general customers
- Europe: Services including monitoring of indoor and outdoor environments
- Asia: Development of service engineers by strengthening training centers

Furthermore, as the economy slides into recession, new demand will shrink but I think there will be opportunities in the After Sales Service business, which includes repairs, maintenance, and servicing. Air conditioning is an essential for daily life, and these services support lifelines, making after sales service a business that has social significance. While serving this important role, the After Sales Service business will leverage its strength of having direct contact with customers and not only respond to breakdowns but will also create new businesses in solving daily life problems such as air conditioner cleaning and disinfecting.



Notes on forecast

- This data is compiled for informational purposes and is not to be construed as a solicitation of any action. This data (includes management plan) was compiled by Daikin Industries, Ltd. (the Company) based on reliable information available at the time of compilation. It may include some risks and uncertainties. The Company is not responsible for its accuracy or completeness.
- The Company asks for your own discretion in using this data. The Company accepts no liability for any loss or damage of any kind arising out of judgment for investment made solely relying on the business forecast or target figures described in the data.

This year is the year for formulating the next strategic management plan Fusion 25. For further growth and development of our company, it is important that we not only confront current issues but at the same time consider and undertake measures for the future.

When the timing is appropriate, I would like to talk with you concerning Fusion 25, but I can say here is that the Air Conditioning, Service Solutions, and Air Quality businesses are expected to be growth businesses post-COVID-19 pandemic and, at the same time, they are businesses that can also contribute to the needs of society by preserving human health and safety, maintaining living standards, and supporting work activities.