

Briefing to Analysts and Investors
on Q2 Financial Results Ending March 31, 2020
Q&A Session
(November 11, 2019)

Q What steps are you taking to achieve the Fusion 20 target of 348 billion yen in operating profit for fiscal year 2020?

A Investigation of measures for fiscal years 2019 and 2020 is complete with specifics added to action plans. Although the negative impact of foreign currency exchange is considerably larger than at the time the plan was formulated, if you exclude the foreign exchange impact, we are moving toward achievement of our goals. From the aspect of sales, for example, sales have expanded in Europe for air conditioning equipment using R32 refrigerant and heat pump type hot water heating systems. In Asia, the sales ratio has increased for highly-profitable commercial-use air conditioners, and in Japan, we have worked to increase the sales ratio of high value-added products including **Urusara 7**. Measures aimed at reducing the negative impact of foreign exchange are being developed in Group-wide strategic themes, and efforts are being made in substituting materials to minimize the impact of market fluctuations and lower procurement costs. In response to rising logistics costs, especially in Japan and the United States, Daikin is working on global logistics reforms that eliminate inefficiencies and waste in transportation over long distances.

Q What is your M&A strategy for the future?

A We are investigating M&A in the fields of commercial refrigeration and heating. In commercial refrigeration, we acquired AHT in Europe last year, but our main product of plug-in showcases account for only about 30% of the market. Having a remote-type product, which accounts for the remaining 70% of the market, would allow us to compete in a much larger market. The Commercial Refrigeration business was included in Fusion 20 as a strategic theme, and we believe that we have already established a foundation in Europe. However, from a global perspective, the United States has the largest market, and further acquisitions are also needed to expand there. Furthermore, in the Heating business, there is the growing trend, mainly in Europe, of switching from combustion type heating to heat pump type systems due to higher environmental awareness, and we are examining the possibility of acquiring a heating equipment manufacturer to strengthen our sales and after sales service networks.

Q In the Air Conditioning business in China, how do you plan to respond to changes in the market environment and maintain high profits?

A In China, digitalization is progressing rapidly, and we are responding to this in two major ways. The first is through Internet sales of residential-use split air conditioners (one outdoor unit paired with one indoor unit). In the split air conditioner market, Internet sales account for 40% of sales, and Daikin has started sales on its own website. Profitability can be maintained by the sales of differential products with high value added that can only be obtained on this website. In addition to using our own company website, we would like to team up with major IT companies in China. Another response is developing a business that connects directly with customers. For example, in our product of **Intelligent VRV systems**, we intend to expand value creation by enabling operation data collection, remote monitoring, centralized control, visualization of air quality, and breakdown prediction.

Q Has there been progress in efforts to improve profitability in the Air Conditioning business in the Americas?

A There is no change in our plan to increase operating profit margin by one point each year toward fiscal year 2020, but more investment is necessary to respond to environmental regulations and product development. Specifically, enthusiastic support for the environment can be seen in states including California and regulations are expected to become even stricter in the future such as in the use of refrigerant with low global warming potential. While our company intends to expand use of R32 refrigerant, a large investment is needed for product development. Consequently, we would like to proceed with an emphasis on both ensuring short-term financial results and seeking medium- to long-term growth.

Q What potential do you see in the Air Conditioning business for improving operating margin in Asia in the future?

A Seventy percent of the residential-use market is volume zone, and it is difficult to significantly improve profit margins in that market. Daikin will work to improve profit margin by increasing the sales ratio for commercial use where there is room for market creation. Our strength lies in building our own sales and after sales service networks, and we have high market share in commercial use. We will also focus on training for installers and expand sales. Furthermore, we are also strengthening the Applied Systems business. In Australia, we acquired Airmaster, a service engineering company, and we would like to promote similar acquisitions in five to six other countries, such as Malaysia, to strengthen the After Sales Service and Solutions businesses.

Q With the difficult conditions in the semiconductor market, which fields do you see growth in the second half of the year for the Chemicals business?

A In the first half, sales of fluoropolymers in the field of information and communication technology and sales of repellent materials in Asia were relatively solid. These are expected to continue growing in the second half as well. The company is also working on development of lithium battery materials for future EVs.

Q With the stagnant results and struggles of the Filter business, despite the efforts including restructuring of the manufacturing system, what are your thoughts on its future recovery?

A We think recovery will take a little more time. Although reorganizing factories takes time in the Americas where the ratio of sales is large, we are working to improve productivity such as through automation, and the company is making headway. The P&I business is undergoing restructuring corresponding to the weakening of the gas turbine market for our customers.