



Regarding Second Quarter Financial Results  
for the Fiscal Year Ending March 2021

November 6, 2020

***DAIKIN INDUSTRIES, LTD.***

# Business Forecast Trends

- ✓ In light of the uncertainty for the FY2020 outlook, Daikin started with 150 billion yen for its annual operating profit (announced in May) as part of its “action plan,” which was based on the current conditions at the time for each business and region.
- ✓ Responding flexibly to the ever-changing conditions, we revised annual operating profit to 170 billion yen in August when we announced the financial results for the first quarter.
- ✓ Finalization of the budget in October led to our commitment to 198 billion yen for annual operating profit. With an “aggressive” and “challenging” mindset, we announced that we would thoroughly implement measures toward achieving annual operating profit exceeding 200 billion yen.

(billion yen)	in May		in Aug.		in Oct.	
	H1	Total	H1	Total	H1	Total
Sales	1,070.0	2,330.0	1,180.0	2,350.0	1,205.0	2,400.0
Operating Profit	40.0	150.0	100.0	170.0	121.0	198.0
Ordinary Profit	40.0	150.0	100.0	170.0	121.0	198.0
Profit Attributable to Owners of Parent	23.0	100.0	63.0	114.0	75.0	130.0

# Second Quarter Financial Results

- ✓ Both sales and operating profit achieved results that exceeded the October announcement.

With the continued impact of the COVID-19 pandemic and an increasingly more severe demand environment for commercial-use air conditioners, we will tighten the budget toward a high target exceeding 200 billion yen for annual operating profit and rapidly implement measures by having each division and region fully incorporate the action plan.

- ✓ Operating profit for the first half exceeded 10 billion yen from the October announcement.

[Main factors of upturn] Sales expansion: over 6 billion yen; Fixed cost and cost reductions: over 3 billion yen

- In Japan, we strengthened appeal with a ventilation function for residential-use air conditioners. Sales trends for high value-added products such as **Urusara X** were strong.
- In Japan, Europe, and Asia, air purifier sales grew, and in Europe heat pump type heaters sales increased. Sales, procurement, and manufacturing were integrated to quickly respond to increased production and strong demand.
- In the Chemicals business, sales expanded by recognizing the start of production in the fields of automobiles and household appliances in China.

(billion yen)	FY2019 H1 Result	FY2020 H1		Y/Y
		in Oct.	Result	
<b>Net sales</b>	1,354.2	1,205.0	<b>1,229.2</b>	91%
<b>Operating profit</b>	168.3	121.0	<b>131.6</b>	78%
(Percentage of profit to net sales)	(12.4%)	(10.0%)	<b>(10.7%)</b>	
<b>Ordinary profit</b>	170.1	121.0	<b>131.9</b>	78%
(Percentage of profit to net sales)	(12.6%)	(10.0%)	<b>(10.7%)</b>	
<b>Profit attributable to owners of parent</b>	118.5	75.0	<b>84.6</b>	71%
(Percentage of profit to net sales)	(8.8%)	(6.2%)	<b>(6.9%)</b>	
	USD/JPY	¥109	¥108	¥107
	EUR/JPY	¥121	¥120	¥121
	RMB/JPY	¥15.7	¥15.7	¥15.3

# Business Forecast for Full Year

- ✓ The annual plan was upwardly revised for the third time based on first half results.
- ✓ As outlook uncertainty further increases from the reemergence of COVID-19 infections in Europe, movement restrictions in Asia are further prolonged, and the business environment, especially for commercial-use air conditioning, becomes more difficult, we intend to quickly respond to changes in the environment and maximize results of measures while continuing to challenge even higher targets.

(billion yen)	in Oct.		Current Announcement	
	H1 Plan	Total Forecast	H1 Result	Total Forecast
Sales	1,205.0	2,400.0	1,229.2	2,425.0
Operating Profit	121.0	198.0	131.6	210.0
Ordinary Profit	121.0	198.0	131.9	210.0
Profit Attributable to Owners of Parent	75.0	130.0	84.6	140.0

# Approach to Second Half and Beyond

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- ✓ In the October announcement, we established operating profit of 77 billion yen for the second half after carefully reviewing demand in commercial-use air conditioning.
- ✓ With concerns increasing for a reemergence of COVID-19 infections leading to a second lockdown for Europe and the prolonging of movement restrictions in Asia, the business environment centered on commercial-use air conditioning has worsened.
- ✓ The negative impact for commercial use will be covered by expanding sales in the strong residential-use segment, ventilation and air purifying products that are in high demand because of the COVID-19 pandemic, and heat pump type heaters in Europe. Operating profit for the second half was revised to 78.4 billion yen.
- ✓ We aim to achieve annual operating profit exceeding 210 billion yen in anticipation of definite achievement of the plan announced this time by thorough implementation of measures.

# Main Measures after the Second Half

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## **Initiatives for commercial-use air conditioners**

- ✓ Maintain direct contact with customers and propose various solutions despite the difficult demand outlook.
- ✓ Utilize customer database that links Sales with After Sales Service and Sales with dealers to promote updated proposals.
- ✓ Promote system proposals incorporating various products, including air quality and ventilation products, filters, and refrigeration products, by market and application such as retail stores, buildings, and data centers.

## **Establishing a brand for an air quality and ventilation business**

- ✓ Capture the robust demand for residential-use air purifiers as we aim to further expand sales mainly in Japan, Asia, and Europe.
- ✓ Launch differentiated products corresponding to regional needs and work to expand the Solutions business by market and application such as system proposals that combine air conditioners as well as proposals for hospitals, schools, and retail stores.

# Main Measures after the Second Half (By Region and Business)

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## [Air-Conditioning Business]

### **Americas: Increasing profits in the North America business**

- ✓ Anticipate expansion in the next fiscal year and after with a strong housing market.
- ✓ Improve inventory situation with recovery of Goodman manufacturing capabilities from October; improve productivity while increasing production in response to demand and increase profits by strengthening cost competitiveness.

### **Asia/Oceania: Strengthening of marketing capabilities in anticipation of market recovery**

- ✓ Expect full-scale recovery of overall air conditioning demand to take 2 to 3 years.
- ✓ Strengthen marketing capabilities by enlarging the sales networks for commercial use and providing dealer support utilizing online activities.
- ✓ Strengthen the Solutions business that includes parts and controls in Applied where demand is expected to grow due to government infrastructure investments.

### **Europe: Major commercializing of heat pump type heaters**

- ✓ Promote conversion from combustion type heating to heat pump type heating using incentives from the Green Deal policy.
- ✓ Expect increase in demand for not only new construction but also replacement with new incentives announced in Italy, the UK, and other countries.
- ✓ Expand sales by expanding the sales and after sales service networks and launching new products.

# Main Measures after the Second Half (By Region and Business)

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## **Japan: Introducing new products related to air quality and ventilation**

- ✓ Expand the product lineup in residential use with built-in ventilation function; expand standard models and housing air conditioners of floor-standing/ceiling-mounted cassette type models in addition to the flagship product **Urusara X**.
- ✓ Focus on system proposals in commercial use that combine retrofitted heat reclaim ventilators and air conditioners.

## **China: Strengthening sales competitiveness for residential-use multi-split air conditioners**

- ✓ Economic activities recovered early as COVID-19 infections subsided.
- ✓ Strengthen relationships with sales and management support to dealers and PROSHOPS, even during COVID-19.
- ✓ Utilize our strong sales networks and promote sales activities combining online and offline approaches.

## **[Chemicals Business]**

### **Strengthening sales to semiconductor and automotive markets**

- ✓ Capitalize on the recovery in the semiconductor market and strengthen sales to major end-users.
- ✓ Promote application development such as in lithium-ion battery materials for next-generation automobiles during the accelerating shift to EVs and HVs; strengthen 'spec-in' activities for battery manufacturers.

# Reference: Management Approach for the COVID-19 Crisis (in May)

## 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 Being Addressed by Top Management as 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



### **Notes on forecast**

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