

**Briefing to Analysts and Investors
on Q2 Financial Results Ending March 31, 2021
Q&A Session
(November 6, 2020)**

Q: With demand showing a decline worldwide in the commercial-use air conditioning market, what measures do you think will be necessary in each region to increase market share?

A: In Japan, because sales are divided into regions, sales activities will be developed according to each region. Utilizing our strength as a manufacturer specializing in air conditioning, we will propose air quality and ventilation products to create market opportunities. Not only will this type of detailed approach lead to resolving customer issues, but it will also help us to grow our business while creating a market.

In China, the impact of COVID-19 has been most greatly felt in sales for stores and general offices where the market is large. For this reason, Daikin has been identifying demand by increasing customer contact through ventilation, cleaning, and disinfection, and this has resulted in increased sales. Because the market for developers, such as those of large commercial buildings, is the most active, we are giving it our highest priority. With an approach that no other company can match, Daikin is providing air environment improvement, which is of high interest to tenants, making sales proposals that leverage air visualization, and lessening the financial burden of developers by utilizing the sales financing subsidiary that Daikin established two years ago. Moreover, with the market also expanding for public investment projects such as for government-related, hospitals, and schools, we are working toward differentiated proposals that correspond to each project by quickly determining the trends of advance orders for large-scale projects.

In Europe, we believe that we can outperform other companies in sales expansion by analyzing the market and customers in detail, uncovering comparably strong markets such as those for medical-related and data centers, and strengthening online and offline sales activities. Also, we will accelerate environmentally conscious products that are our company's forte and provide proposal sales for products that meet the needs for air quality improvement and ventilation.

In Asia, Daikin maintains an overwhelming market share in both residential- and commercial-use air conditioning. Although, non-inverter air conditioners remain mainstream in commercial-use air conditioning, we are promoting conversion to inverters through proposals to retail stores that incorporate ventilation products. In Singapore, we have decided to participate in a smart city project. For this type of project, we believe that Daikin is the only company in Asia capable of proposing solutions incorporating such a high level of energy-saving equipment and systems.

Q: What is the demand outlook for air conditioning in North America for the second half and onward and what measures will you take?

A : In ducted unitary for houses, we lost market share, despite strong demand, due to the impact of a temporary shutdown of factory operations. Using this as an opportunity to reinforce our sales network, we are striving to improve our relationship with wholesalers whose businesses were disrupted, and current sales are strong. In the second half, we would like to recover the 70% to 80% of market share that we lost. In ductless, demand is brisk due to the ease of installation. Especially in the metropolitan areas, we estimate two-digit growth from the second half and onward, and we would like to expand our sales network in areas of large growth such as in the Northeast and Northwest.

Currently, there are two changes about to occur in the North American air conditioning market. The first change involves the tightening of environmental regulations in 2023. Since starting operations in North America, we have been aiming to create a market in which we can utilize the environmental technologies that we have cultivated until now such as the inverter, heat pump, and refrigerant control technologies. With the tightening of regulations, the perfect opening has come. The second change is the integration and reorganization of wholesalers. Because of the increasing number of small- to medium-sized wholesalers who are unable to make large-scale investments for E-commerce and IT technologies due to COVID-19, a trend has emerged in which these businesses are being bought up by major wholesalers. Capitalizing on this change to strengthen our sales network, we are now planning and developing specific measures for next year and the year after next.

Q: What initiatives do you plan for the future to expand sales of air purifiers and ventilation products?

A: Currently, air purifiers are being manufactured in China, and our sales target for this fiscal year is 800,000 units. However, annual production capacity in China is only 700,000 units. Because of the necessity to increase supply, we plan to start new manufacturing in December in Malaysia. In the next fiscal year, we will aim for sales of over 1 million units worldwide, and we are investigating the optimal production system to manage it.

Regarding residential-use air conditioners, there has been an increase in Japan in the number of people singling out and purchasing our top model **Urusara X** because of its built-in ventilation feature, and the sales volume was higher than planned. Growth is also expected in the future for middle and volume zone products through expansion of the lineup of residential-use air conditioners featuring a built-in ventilation function.

Q: What are the details for the support policies in each country for replacement of combustion type heaters with heat pump type heaters? Understanding that the heating business is enjoying strong sales, what is the situation for the market and market share?

A: In Europe, there is a subsidy system for replacing combustion type heaters with heat pump type heaters. Besides France, a system has started in Italy, the U.K., Finland, Portugal, and some other countries from this year. Because removing existing combustion heaters and installing new heat pump type heaters incur costs, little headway had been made toward widespread use in replacement projects thus far. However, the subsidy system is expected to accelerate replacement to heat pump type heaters with market size estimated to triple by 2025 and increase five times the current level in 2030. In the European heat pump type heater market, Daikin has the top share for sales volume, but in the future, we think it will be important to develop differentiated products and strengthen the sales and after sales service networks in order to expand sales. In the next strategic management plan that starts from fiscal year 2021, I think we will see major commercialization that will drive growth and development of this company.

Q: In a year-on-year comparative analysis of gains and losses for the full year plan, why are fixed costs increasing in the second half despite implementation of management measures to reduce fixed costs?

A: In a typical year, the absolute amount for fixed costs is largely constant between the first half and the second half, but for this term we started by working to control costs in the COVID-19 pandemic. In particular, costs significantly decreased in the first quarter for product shipping along with travel and transportation due to restrictions on business activities, and costs overall decreased for the first half compared to the previous fiscal year. However, in the second half, we are planning an expense level akin to a typical year on the premise that we will aggressively pursue sales activities. Also, we would like to strengthen upfront investments such as development of air quality and ventilation related products, improve online and offline sales, and invest in AI/IoT and human resource development.

Q: How will you be able to maintain gross profit margin with a decline in earnings from the previous fiscal year? Is it because of the sales expansion for air purifiers and air ventilation products?

A: Sales of air purifiers and ventilation products alone are not expected to increase profitability, but how they develop as a solutions business will be important. To present a few examples from the Chinese market, we have in the residential-use market, for example, multi-split air conditioners with a built-in function that discharges active plasma ions, and this feature has led to extremely strong sales. We also have heat exchangers equipped with a disinfecting feature. In addition, we have improved peripheral equipment, such as air sensors, room dryers, and high-performance filters. For the commercial-use market, we believe there is a good possibility that further improvement in profitability can be made by proposing combinations of air conditioners and peripheral systems for stores and offices.

Q: What is the target for operating profit margin for the next fiscal year and onward?

A: First, We would like to return to pre-COVID levels in the next two-year period by fiscal year 2022. In fiscal year 2023, we look to bring the operating profit margin up to about 12%, which was the original target in the strategic management plan Fusion 20. In fiscal year 2024, which is the 100th anniversary of our founding, we would like to achieve new record highs in financial results as a way of welcoming our 100th anniversary. In the targets for the next strategic plan Fusion 25, there are still many uncertainties, and we will carefully investigate them.