



**Daikin Industries, Ltd.**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2022

November 5, 2021

## Event Summary

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<b>[Company Name]</b>	Daikin Industries, Ltd.	
<b>[Company ID]</b>	6367-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending March 2022	
<b>[Fiscal Period]</b>	FY2021 Q2	
<b>[Date]</b>	November 5, 2021	
<b>[Number of Pages]</b>	41	
<b>[Time]</b>	10:30 – 12:05 (Total: 95 minutes, Presentation: 42 minutes, Q&A: 53 minutes)	
<b>[Venue]</b>	Conference call and webcast	
<b>[Number of Speakers]</b>	5	
	Masanori Togawa	President, CEO, Member of the Board
	Yoshihiro Mineno	Member of the Board, Senior Executive Officer, Responsible for Global Operations Division
	Katsuya Miura	Executive Officer, General Manager of Chemicals Division
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
	Masaru Yoda	Associate Officer, Deputy General Manager of Japanese AC Sales Division
<b>[Analyst Names]*</b>	Tomohiko Sano	JPMorgan Securities Japan Co., Ltd.
	Yuichiro Isayama	Goldman Sachs Japan Co., Ltd.
	Graeme McDonald	Citigroup Global Markets Japan Inc.
	Kentaro Maekawa	Nomura Securities Co., Ltd.
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Moderator:** I would now like to begin the briefing on the financial results of Daikin Industries, Ltd. for the second quarter of the fiscal year ending March 31, 2022.

In attendance today is Masanori Togawa, President and CEO; Yoshihiro Mineno, Senior Executive Officer, Responsible for Global Operations Division; Masaru Yoda, Associate Officer, Deputy General Manager of Japanese AC Sales Division; Katsuya Miura, Executive Officer, General Manager of Chemicals Division; and Kota Miyazumi, Executive Officer, Responsible for Corporate Communications.

First, Togawa, the President, will speak, and then Miyazumi, Executive Officer, will provide an overview of the financial results according to the materials. This will be followed by a question-and-answer session. The session is scheduled to end at 12:00 PM.

The materials are posted on the Company's website, investor relations, as well as distributed via e-mail today. Please make sure you have it with you.

Now, Mr. Togawa, please go ahead.

**Togawa:** Good morning, everyone. I'm Togawa from Daikin Industries. Thank you very much for joining us today for the briefing on the financial results for the second quarter of the fiscal year ending March 31, 2022.

As announced yesterday, we achieved record-high sales and operating income in the first half of the fiscal year. As for the annual plan, we have revised it upward for the second time this fiscal year and expect to further break the record high.

In this fiscal year, it is still difficult to predict how the situation will change, as it is difficult to predict whether the spread of COVID-19 will converge. In such a situation, we started out our policy thinking that it is very important to have a flexible management style that can respond quickly to both ups and downs in the business environment.

While the use of the vaccine has allowed some countries to resume economic activities, in other areas, the infection has spread again, and severe restrictions on activities have been imposed. In addition, the global shortage of semiconductors and soaring raw material prices have had a major impact on business activities.

Despite these circumstances, we have set 7 key themes for this fiscal year, including strategic selling price measures, measures to expand sales and increase market share, and measures to reduce variable costs, and we have been thoroughly working on the implementation of these themes since April. By doing so, we have been able to absorb cost increase factors and improve profitability, and I believe that we have been able to achieve these results.

For the first half of the fiscal year, we were able to achieve record highs in both sales and operating income, exceeding the announced figures that were revised upward in August.

Miyazumi will explain the details of the first half results later. As I mentioned earlier, both net sales and operating income greatly exceeded the plan that was revised upward in August, and on an operating income basis, the result was JPY192.7 billion.

Since the second quarter, Japan has experienced long rains and the extension of the emergency declaration. COVID-19 has reemerged in Asia and China, which had been under control in previously. In the midst of the

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shortage of semiconductors and electronic components, we were able to expand our sales and increase our market share in each region without running out of supplies by responding quickly.

In addition, the negative impact of soaring raw material prices and logistics costs, which had a negative impact of JPY47 billion on an operating income basis in the first half. The annual negative impact will be JPY112 billion. The negative impact for the full year is even more widespread than the figures I mentioned in August.

I think we were able to counteract this by creating outputs in the 7 key themes I mentioned earlier: strategic selling price measures through the introduction of differentiated products, measures to expand sales and increase market share, global variable cost reduction, and fixed cost reduction.

Thanks to the effects of the 7 key themes, we were able to bounce back by JPY42.4 billion in the first half. The current plan is forecasted to create JPY118.1 billion of results in a year.

The annual plan is for net sales of JPY2,930 billion, a record high, based on the results of the first half. This is an increase of JPY120 billion from the previous announcement. Operating income will be JPY300 billion, an upward revision of JPY10 billion from the previous forecast.

For your information, the record high performance was JPY2,550.3 billion in sales for the fiscal year ending March 2020 and JPY276.3 billion in operating income for the fiscal year ending March 2019, which means that the annual performance was also a record high.

From the second half of the year onward, there have been signs of a recovery in demand for commercial-use products, and we are feeling a positive response, but we believe that a full-fledged recovery will take some time.

The residential market was also very strong, but the market in China and other Asian countries is becoming increasingly severe, and the outlook for demand is still uncertain.

In addition, the supply of semiconductors and electronic components continues to be tight. There is a shortage of electricity in China and a shortage of workers in the United States. There are also concerns about disruptions in the supply chain, such as the risk of parts procurement due to restrictions on movement caused by the reemergence of COVID-19 in Asia.

In this sense, it is necessary to take a cautious view of the concerns, but the changes and risks I just mentioned are not limited to our company. I think our competitors are in the same situation.

Therefore, it is important to be able to make 2 moves or 3 moves quickly in response to the changes that are going to occur one after another. I see this as an opportunity for us to get ahead of our competitors and win the share, and we are currently implementing various measures.

From the second half of the fiscal year onward, as I mentioned, the business environment will become increasingly severe, but we believe that the annual operating income of JPY300 billion announced this time is the minimum line to be achieved. We would like to take on the challenge of setting JPY300 billion as the minimum line and work toward achieving more than that, and we have already made a start on that.

Strategic selling price measures, acceleration of digital utilization and strengthening of direct sales, and enhancement of solution proposals by market and application will be the key to achieve this goal. By doing so, we will expand our sales and increase our market share, maximize variable cost reductions, and formulate a long-term strategy for procuring semiconductors and electronic components. Currently, we are working to further increase our performance by taking additional measures and linking them to quantitative and numerical targets.

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I think it is very important to be able to execute faster than our competitors and to be able to respond flexibly to rapid and drastic changes in the environment. With speedy execution and flexibility, we will achieve our goal of more than JPY300 billion, and we will further strengthen our business structure for the next fiscal year.

To elaborate a little, first of all, with regard to the strategic selling price measure, we have been aiming to increase the selling price by enhancing our overall strength in sales, products, quality, and services, while keeping an eye on the trends of our competitors in each region and business globally, and at the same time, to expand sales and increase market share. From the second half of the year onward, I believe it is important to accelerate such efforts to increase additional selling prices and introduce new products to support them.

I believe that the ability to develop and introduce differentiated products at a rapid pace is becoming much stronger. We are also working on bringing forward the new products that we plan to launch in the first quarter of FY2022.

Next, as for cost reduction, we are working on the replacement of materials from copper, standardization and in-house production of key components, et cetera. In addition, we are working to optimize costs by, for example, strengthening cooperation among production bases in Asia and standardizing elemental components.

To cope with soaring logistics costs, we must first secure a stable logistics network, then automate logistics operations and DX-shifting logistics operations. In addition, we have been able to reduce costs by reviewing the specifications of the product itself in cooperation with sales and design. We are currently working on measures to reduce logistics costs and improve efficiency on a global basis through business process reforms.

In addition, we are promoting drastic SCM reforms, and by doing so, we are currently building a strong supply chain.

Also, I believe that securing semiconductors and electronic components is the lifeline of production and sales. It is extremely important to secure these. In order to respond to inquiries and orders for commercial use in Japan and Europe, where demand is on a recovery trend, and to increase production, we are strengthening our follow-up with suppliers to ensure the full availability of parts, searching for and changing alternative suppliers, and flexibly changing our production plan to match the arrival of parts.

There are many ways to look at semiconductors and electronic components, but I believe that the impact will be prolonged next year. For the second half of this fiscal year, we have already secured the necessary volume to meet the current plan and the challenge of achieving operating income of JPY300 billion or more.

For the next fiscal year, we are currently taking measures, such as long-term contracts and further alternative development.

As I mentioned earlier, we are making Company-wide efforts to thoroughly strengthen our management structure. By doing so, we will not only increase profits in the second half of the fiscal year but will also lead to further growth and development in the next fiscal year.

We are currently finalizing the plan for the next fiscal year, but we would like to try to achieve the quantitative target of JPY325 billion in operating income for FY2023, which was set in the strategic management plan FUSION 25, 1 year ahead of schedule.

As I mentioned now about the next fiscal year, the speed and flow of change is extremely fast. Looking ahead to the next fiscal year, I think it is very important how to take the initiative to materialize and implement measures ahead of time.

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As I have mentioned before, we have FUSION management and our unique budget management system, 18-month budget, which were created by us as a kind of proactive budget management. Such items are also being considered in the planning for the next fiscal year.

Lastly, I would like to say a few words about the air conditioning business in North America and China, which is of great interest to many of you.

First, the North American air conditioning business. First of all, the performance of Goodman exceeded the plan, partly due to the strong housing market. Sales in the first half were JPY317.9 billion, up 38% from the previous year. The operating income ratio was approximately 9%.

We will continue to accelerate measures to secure manufacturing personnel or improve productivity to stabilize production and recover inventory levels, and by doing so, we will expand sales and increase the market share of our mainstay residential unitary products. We are currently working on such initiatives.

Looking ahead to the next fiscal year, I believe that the tightening of environmental and energy conservation regulations will provide us with an opportunity to develop our specialty, inverters and heat pumps. To this end, we plan to expand sales of our strategic product FIT and accelerate our environmental premium business at a stroke.

In the applied business, we are rapidly acquiring contractors and service companies, and through these efforts, we are promoting the self-sustainability of our sales and service network. With market recovery a tailwind for us, we expanded sales in the after-sales service business.

In addition to increasing the market stock, we will also provide low-cost solution products, such as simple instrumentation and cloud computing products, in the mid-market where the penetration rate of instrumentation and maintenance is low. We are planning to expand our business by promoting the creation of connections through the provision of such products, and by strengthening our specialized human resources to support solution proposals and technical support.

North America is still the largest market for air conditioners, but in addition to that, the market environment is changing due to the new Biden administration's review of environmental policies. With such a green policy, or rather an environment-first policy, I see this as a market with great opportunities for us.

With the tightening of energy conservation and environmental regulations, this is an opportunity for us to lead the market revolution with our strengths in inverters, heat pumps, and low GWP refrigerants. We also plan to lead the North American air conditioning business as a leader in market transformation.

We have been investing aggressively to increase the competitiveness of our business in terms of sales, production, products, et cetera. On the other hand, as many of you have pointed out several times, we are still in the process of improvement on our investment recovery.

Under FUSION 25, we are aiming to achieve an operating margin of 10% or more by FY2025 while making further investments for growth to become the number 1 air conditioning company in North America.

As for the air-conditioning business in China, we have continued to maintain high profitability despite the impact of soaring raw material prices. The operating profit margin for air-conditioning business in China as a whole is 26%, and for residential multi-split air conditioners alone, the operating profit margin is 34%.

In the midst of a market underpinned by strong consumer spending, we have strengthened our product lineup of air conditioning and ventilation products and built a unique business model that combines offline activities utilizing our strengths in PROSHOP and digital technology. Based on this business model, we have achieved

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significant sales growth in the first half of the year, mainly in residential multi-split air conditioners. Sales of residential multi-split air conditioners were 121% of the previous year's level.

As for how to view the Chinese market, we expect economic growth to spread from major cities to regional cities in the medium- to long-term, and we believe that the air-conditioning market will remain a large market with solid demand for retail and direct sales and maintain stable growth.

In the residential market in particular, we believe that we will be able to continue to maintain high profitability by building a new business model that combines online sales with sales through PROSHOP, our own exclusive sales outlet for residential multi-split air conditioners, which is our specialty, and by working to expand sales.

In the IAQ and ventilation business, we are promoting global development from China. China, as the mother of the IAQ, is working to create new products and services.

We are expanding the number of devices, such as heat reclamation ventilators, air purification systems and sensors, interlocking systems with air conditioning, and developing air diagnosis tools using AI analysis.

As for the risks in the real estate market due to the worsening business conditions of major developers, I am sure you are all very interested in this issue, but our air conditioning business is based on transactions through dealers, and we have very few direct transactions with developers. Therefore, the impact will be very limited.

This ends my explanation. Miyazumi would now like to explain a few details, and then we would like to answer your questions.

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# I . Financial Results ■ Companywide Results

## Achieving Record High Financial Results in First Half

- ✓ Daikin Industries faced headwinds, including soaring prices for raw materials and logistics costs and the spread of the novel coronavirus (COVID-19) pandemic in Asia, but we were able to absorb the negative impact of these by generating results from our seven key themes for FY2021 (strategic selling prices measures, sales expansion/market share increase, cost reductions, etc.).
- ✓ In the Air-Conditioning business, we boosted market share by launching new products related to indoor air quality (IAQ) and ventilation, strengthening sales and marketing capabilities, and flexibly responding with supplies to avert shortages, such as for electronic components. While expanding sales in Americas, China, and Europe centering on Residential Air Conditioning, we also increased sales in Europe on strong demand for heat-pump type space and hot water heaters.
- ✓ In the Chemicals business, we improved sales by capitalizing on a recovery in demand in the semiconductor and automotive markets.

(billion yen)	FY2020	FY2021 H1		Y/Y
	H1 Results	Forecast (Aug.)	Results	
<b>Net sales</b>	1,229.2	1,510.0	<b>1,558.9</b>	127%
<b>Operating profit</b>	131.6	183.0	<b>192.7</b>	146%
(Percentage of profit to net sales)	(10.7%)	(12.1%)	<b>(12.4%)</b>	
<b>Ordinary profit</b>	131.9	183.0	<b>196.8</b>	149%
(Percentage of profit to net sales)	(10.7%)	(12.1%)	<b>(12.6%)</b>	
<b>Profit attributable to owners of parent</b>	84.6	120.0	<b>139.1</b>	164%
(Percentage of profit to net sales)	(6.9%)	(7.9%)	<b>(8.9%)</b>	
	USD/JPY	¥107	¥110	
	EUR/JPY	¥121	¥131	
	RMB/JPY	¥15.3	¥17.0	

FX Effect (Y/Y)  
 Sales +55.5 billion yen  
 Operating Profit +7.5 billion yen

3

**Miyazumi:** I am Miyazumi. I would like to explain the summary of the financial results for the second quarter in accordance with the materials.

First, please see page 3.

Despite the impact of soaring raw material prices and logistics costs, and the spread of COVID-19 in Asia, we were able to achieve record results in the first half of the fiscal year by thoroughly implementing measures under each of the 7 key themes for FY2021, including strategic selling price measures, sales expansion, market share increase, and cost reduction, and by linking these measures to the creation of results.

The actual exchange rates were JPY110 to the US dollar, JPY131 to the euro, and JPY17 to the Chinese renminbi. The impact of foreign exchange rates on net sales and operating income was positive JPY55.5 billion and JPY7.5 billion, respectively.

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## (Reference) Key Themes for FY2021

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1. Strategic selling price measures that absorbs cost increases of market conditions, etc., with the aim of maintaining profitability
2. Outperforming rivals and increasing market share
  - Further sales expansion of residential-use air conditioners, capturing replacement demand for commercial air conditioners, and acceleration of digital sales
  - Global sales expansion of air quality and ventilation products, development of differentiated products, and development of solution proposal options
3. Reinforcement and maximization of variable cost reductions
  - Replacement of materials from copper to aluminum, standardization of core parts, and expansion of in-house production
4. Measures to control soaring logistics costs and further streamlining of logistics
5. Drastic reduction of fixed costs and as improving efficiency of indirect operations
6. Building of a flexible position that is prepared for the highs and lows of the management environment
7. Start dash of key themes for “Fusion 25” that include heating, air quality, and solutions

4

Page 4 outlines the 7 key themes that we will focus on in FY2021.

This is a restatement of the announcement we made in May, so I will spare you the explanation.

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## ■ Financial Results by Segments

(billion yen)		H1 Results		
		FY2020	FY2021	Y/Y
<b>Total</b>	<b>Sales</b>	1,229.2	<b>1,558.9</b>	127%
	<b>Operating profit</b> (Percentage of profit to net sales)	131.6 (10.7%)	<b>192.7</b> <b>(12.4%)</b>	146%
<b>Air Conditioning</b>	<b>Sales</b>	1,131.7	<b>1,427.9</b>	126%
	<b>Operating profit</b> (Percentage of profit to net sales)	124.5 (11.0%)	<b>174.1</b> <b>(12.2%)</b>	140%
<b>Chemicals</b>	<b>Sales</b>	74.6	<b>101.9</b>	136%
	<b>Operating profit</b> (Percentage of profit to net sales)	5.9 (8.0%)	<b>15.5</b> <b>(15.2%)</b>	261%
<b>Others</b>	<b>Sales</b>	22.9	<b>29.1</b>	127%
	<b>Operating profit</b> (Percentage of profit to net sales)	1.2 (5.3%)	<b>3.1</b> <b>(10.7%)</b>	255%

※Air-Conditioning business includes filter, refrigerator and freezer businesses.

5

Please see page 5. Results by business segment.

In the air-conditioning business, we expanded our market share by introducing new product related to IAQ and ventilation, strengthening our sales and marketing capabilities, and flexibly responding to concerns about shortages of electronic components and other products and supplying them.

In the chemicals business, sales expanded significantly, reflecting a recovery in demand in the semiconductor and automobile markets.

In other businesses, sales in the oil machinery business increased for industrial machinery and construction machinery vehicles.

As for the impact of foreign exchange rates, sales in the air conditioning business increased by JPY50.7 billion and operating income by JPY6.6 billion. The Chemicals business reported net sales of JPY4.8 billion and positive operating income of JPY0.9 billion.

The status of each business and the status of the air-conditioning business by region will be explained later.

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## ■ Profit and Loss Statement

(billion yen)	FY2020 H1	FY2021 H1	Impact on profitability
	91	127	
<b>Net sales</b>	1,229.2	<b>1,558.9</b>	+329.6
<b>Cost of sales</b>	798.1 (64.9%)	<b>1,010.4</b> (64.8%)	-212.3
<b>Gross profit</b>	431.1 (35.1%)	<b>548.4</b> (35.2%)	+117.3
<b>Selling general and administrative expenses</b>	299.5 (24.4%)	<b>355.7</b> (22.8%)	-56.2
<b>Operating profit</b>	131.6 (10.7%)	<b>192.7</b> (12.4%)	+61.1
<b>Non-operating gain or losses</b>	0.2	<b>4.1</b> ※	+3.9
<b>Ordinary profit</b>	131.9 (10.7%)	<b>196.8</b> (12.6%)	+65.0
<b>Extraordinary gains or losses</b>	-0.3	<b>0.3</b>	+0.5
<b>Profit before income taxes</b>	131.6 (10.7%)	<b>197.1</b> (12.6%)	+65.5
<b>Corporate taxes, etc.</b>	43.5	<b>53.7</b>	-10.2
Tax burden ratio	33.1%	27.2%	
<b>Profit attributable to non-controlling interests</b>	3.5	<b>4.3</b>	-0.9
<b>Profit attributable to owners of parent</b>	84.6 (6.9%)	<b>139.1</b> (8.9%)	+54.5

( ) parentheses indicate percentage to net sales

### ※ Changes in non-operating gains or losses

Exchange gain or loss	+2.0 (-1.5→+0.5)
Interest income	+0.8 (+2.9→+3.7)

6

Page 6 shows the changes in major items in the consolidated statement of income.

The cost to sales ratio was maintained at the same level as the previous fiscal year, as cost reduction and selling price measures covered the sharp rise in raw material prices.

In addition, the SG&A ratio was lowered YoY due to efficient management of general expenses while implementing forward-looking investments.

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10

## ■ Balance Sheet

(billion yen)		2020/9E	2021/9E	Y/Y		2020/9E	2021/9E	Y/Y
Cash and cash equivalents		730.0	807.3	+77.3	Trade payables	187.3	254.4	+67.2
Receivables	64 days	430.6	510.3	+79.7	Interest bearing (Interest-bearing ratio)	784.2 (26.2%)	730.8 (21.4%)	-53.3
Inventories	60 days	402.1	518.0	+115.9	Others	479.0	601.3	+122.3
Fixed assets		1,111.5	1,187.9	+76.4	<b>Total liabilities</b>	1,450.5	1,586.6	+136.1
Investment and others		177.0	220.2	+43.1	Total equity (Equity ratio)	1,511.2 (50.5%)	1,794.6 (52.5%)	+283.3
Others		140.9	174.5	+33.6	Share Warrant	2.1	2.7	+0.5
					Non-controlling interests	28.3	34.4	+6.1
<b>Total Assets</b>		2,992.2	3,418.2	+426.1	<b>Total net assets</b>	1,541.7	1,831.7	+289.9
					<b>Total liabilities and net assets</b>	2,992.2	3,418.2	+426.1

### ※Breakdown of interest-bearing debt

	2020/9E	2021/9E	Y/Y
Short-term borrowings	56.7	46.3	-10.4
Bonds	140.0	130.0	-10.0
Long-term borrowings	511.1	468.7	-42.4
Lease debt	76.4	85.9	+9.5
<b>Total</b>	784.2	730.8	-53.3

7

Page 7 shows the main items on the consolidated balance sheet and the details of interest-bearing liabilities.

We are making provisions for electronic components and preparing inventory for future sales expansion.

### Support

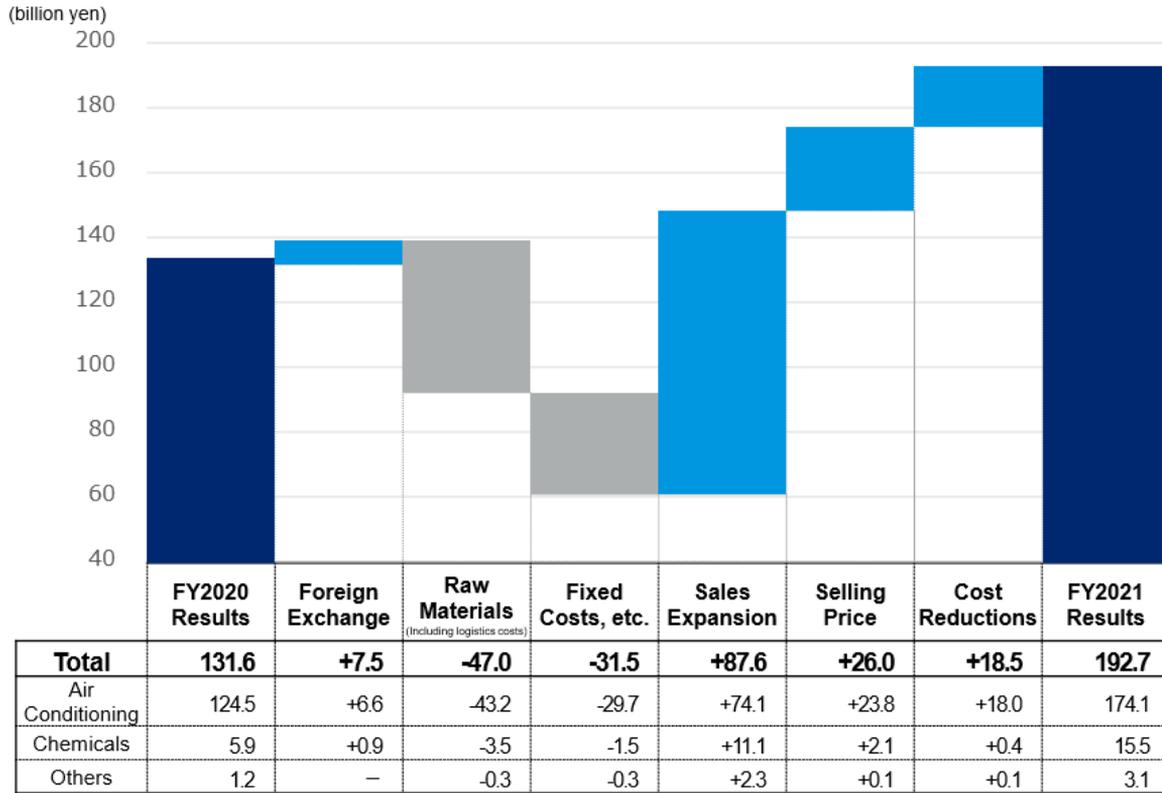
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## ■ Breakdown of Changes in Operating Profit

### [Year-on-Year Comparison of First Half Results]



8

Please see page 8. The following is an analysis of YoY changes in operating income for the first half.

Although there was a large negative impact due to a sharp rise in raw material prices and logistics costs, we were able to achieve a large increase in profit through sales expansion, selling price measures, and cost reductions.

The breakdown by segment is as described.

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## II . Business Forecast for FY2021 ■ Companywide Business Forecast

### Aiming for Record Highs after Second Upward Revision for This Term

- ✓ By further generating results for our seven key themes, we will absorb the negative impact of soaring prices for raw materials and logistics costs, a delay in recovery of demand in Commercial Air Conditioning, and the continued spread of the COVID-19 pandemic in Asia.
- ✓ We intend to achieve the business forecast by responding flexibly to the assumed risks (manufacturing personnel shortage in the United States, power shortages in China, and SCM confusion from regulations on behavior in Asia, etc.).
- ✓ Profit structure reform will be implemented according to the cumulative results of the seven key themes while aiming for results in operating profit exceeding 300 billion yen.

	FY2020 Results			FY2021 Forecast (Aug.)	FY2021			
	H1	H2	Total	Total	H1 Results	H2 Forecast	Total Forecast	Y/Y
(billion yen)								
<b>Net sales</b>	1,229.2	1,264.1	2,493.4	2,810.0	<b>1,558.9</b>	<b>1,371.1</b>	<b>2,930.0</b>	<b>118%</b>
<b>Operating profit</b> (Percentage of profit to net sales)	131.6 (10.7%)	107.0 (8.5%)	238.6 (9.6%)	290.0 (10.3%)	<b>192.7</b> (12.4%)	<b>107.3</b> (7.8%)	<b>300.0</b> (10.2%)	<b>126%</b>
<b>Ordinary profit</b> (Percentage of profit to net sales)	131.9 (10.7%)	108.4 (8.6%)	240.2 (9.6%)	290.0 (10.3%)	<b>196.8</b> (12.6%)	<b>105.2</b> (7.7%)	<b>302.0</b> (10.3%)	<b>126%</b>
<b>Profit attributable to owners of parent</b> (Percentage of profit to net sales)	84.6 (6.9%)	71.6 (5.7%)	156.2 (6.3%)	190.0 (6.8%)	<b>139.1</b> (8.9%)	<b>63.9</b> (4.7%)	<b>203.0</b> (6.9%)	<b>130%</b>
USD/JPY	¥107	¥105	¥106		¥110	¥105	¥107	
EUR/JPY	¥121	¥126	¥124		¥131	¥125	¥128	
RMB/JPY	¥15.3	¥16.1	¥15.7		¥17.0	¥16.5	¥16.7	

#### FX Effect (Y/Y)

Sales	+57.0 billion yen	
Operating Profit	+5.5 billion yen	9

Please see page 9. For the second time this fiscal year, we have made an upward revision to our annual operating income plan to a record high of JPY300 billion.

Various risks are expected in the second half of the fiscal year, including power shortages in China, shortage of manufacturing personnel in the US, and disruptions in SCM due to behavioral regulations in Asia.

By responding flexibly to these issues, we will not only achieve our business plan, but also aim to exceed JPY300 billion in operating income by further increasing the results of the 7 key themes.

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## ■ Business Forecast by Segments

(billion yen)		FY2020 Results	FY2021			
			H1 Results	H2 Forecast	Total Forecast	Y/Y
<b>Total</b>	<b>Sales</b>	2,493.4	<b>1,558.9</b>	<b>1,371.1</b>	<b>2,930.0</b>	<b>118%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	238.6 (9.6%)	<b>192.7</b> (12.4%)	<b>107.3</b> (7.8%)	<b>300.0</b> (10.2%)	<b>126%</b>
<b>Air Conditioning</b>	<b>Sales</b>	2,273.8	<b>1,427.9</b>	<b>1,237.6</b>	<b>2,665.5</b>	<b>117%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	223.1 (9.8%)	<b>174.1</b> (12.2%)	<b>95.9</b> (7.7%)	<b>270.0</b> (10.1%)	<b>121%</b>
<b>Chemicals</b>	<b>Sales</b>	164.2	<b>101.9</b>	<b>99.6</b>	<b>201.5</b>	<b>123%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	11.4 (6.9%)	<b>15.5</b> (15.2%)	<b>8.5</b> (8.5%)	<b>24.0</b> (11.9%)	<b>211%</b>
<b>Others</b>	<b>Sales</b>	55.4	<b>29.1</b>	<b>33.9</b>	<b>63.0</b>	<b>114%</b>
	<b>Operating profit</b> (Percentage of profit to net sales)	4.1 (7.5%)	<b>3.1</b> (10.7%)	<b>2.9</b> (8.5%)	<b>6.0</b> (9.5%)	<b>145%</b>

10

Please see page 10. This is a forecast of business results by segment.

In the air-conditioning business, net sales increased by JPY102.5 billion from the previous announcement, and operating income increased by JPY7.5 billion. In the chemicals business, net sales increased by JPY13.5 billion from the previous announcement, and operating income increased by JPY1.5 billion. In other businesses, we have increased net sales by JPY4 billion and operating income by JPY1 billion from the previous announcement.

As for the impact of foreign exchange rates, in the air-conditioning business, we expect a positive effect of JPY52.5 billion in sales, and JPY4.8 billion in operating income. In the chemicals business, we expect a positive effect of JPY4.5 billion in sales, and JPY0.8 billion in operating income.

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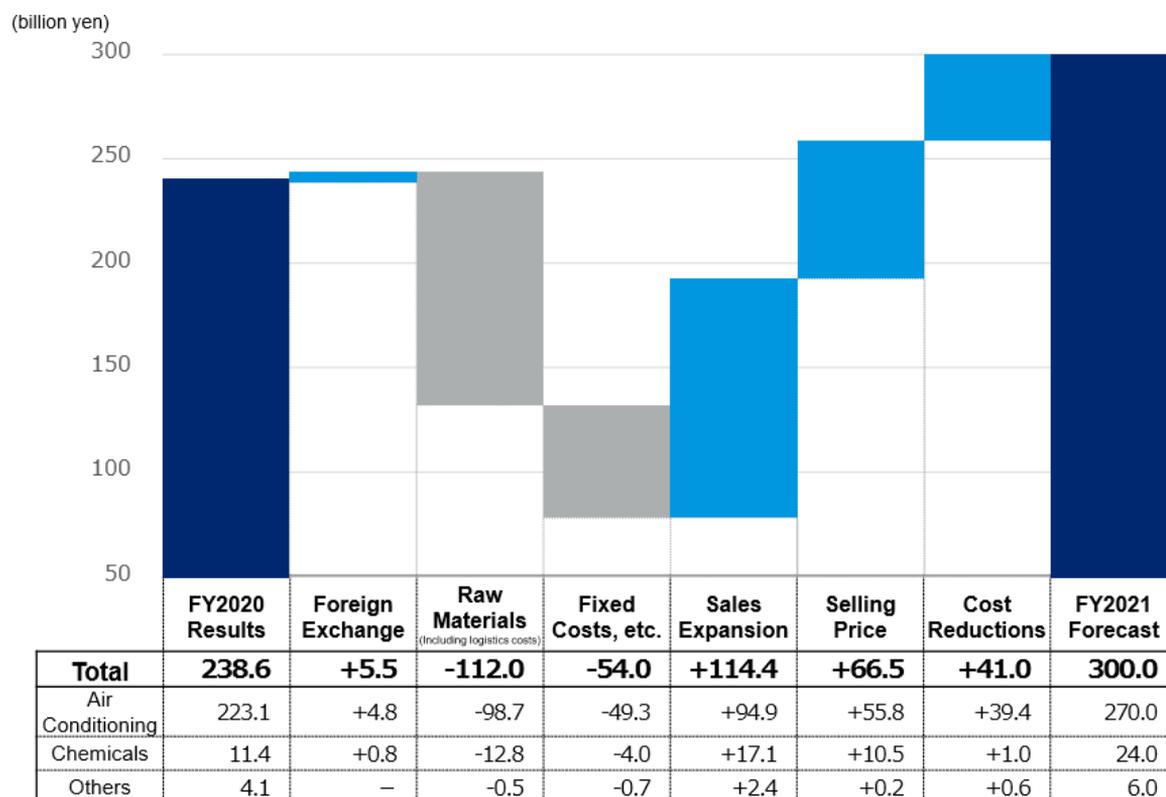
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## ■ Breakdown of Changes in Operating Profit

### [Full-Year Forecast Comparison with Previous Fiscal Year]



11

Please move on to page 11. This is an analysis of the YoY increase/decrease in operating income for the annual plan for FY2021.

We will absorb the negative impact of soaring raw material prices and logistics costs by expanding sales, implementing selling price measures, and increasing cost reductions.

The breakdown by segment is as described below.

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## ■ Sales by Region - AC Business

※Percentage expresses year on year comparison

(billion yen)	FY2017 H1		FY2018 H1		FY2019 H1		FY2020 H1		FY2021 H1		FY2021 Forecast (Currently announced)		FY2021 Forecast (May)	
	Japan	105%	232.9	108%	250.7	107%	268.7	93%	250.8	109%	272.8	107%	530.0	105%
Europe	115%	145.6	114%	166.6	113%	188.7	98%	185.7	139%	258.4	123%	485.0	112%	440.0
China	117%	195.2	107%	207.9	96%	199.4	91%	181.4	134%	243.2	121%	395.0	105%	345.0
Americas	112%	304.4	112%	341.4	108%	369.4	93%	343.9	129%	443.9	122%	820.0	114%	770.0
Asia	107%	126.0	111%	140.3	106%	148.7	76%	112.5	117%	131.3	111%	275.0	117%	290.0
Oceania	142%	32.9	113%	37.3	90%	33.7	106%	35.8	130%	46.7	120%	95.5	104%	82.5
Middle East	113%	25.1	95%	23.9	92%	22.0	84%	18.5	144%	26.6	123%	55.0	112%	50.0
Africa	101%	3.6	122%	4.3	86%	3.7	84%	3.2	157%	5.0	115%	10.0	103%	9.0
<b>Total</b>	<b>112%</b>	<b>1,065.5</b>	<b>110%</b>	<b>1,172.4</b>	<b>105%</b>	<b>1,234.4</b>	<b>92%</b>	<b>1,131.7</b>	<b>126%</b>	<b>1,427.9</b>	<b>117%</b>	<b>2,665.5</b>	<b>110%</b>	<b>2,506.5</b>
Overseas Sales ratio		78%		79%		78%		78%		81%		80%		79%
USD/JPY		¥111		¥110		¥109		¥107		¥110		¥107		¥105
EUR/JPY		¥128		¥130		¥121		¥121		¥131		¥128		¥125
RMB/JPY		¥16.4		¥16.8		¥15.7		¥15.3		¥17.0		¥16.7		¥16.0

12

Please see page 12. First-half sales by region in the air-conditioning business were up significantly from the previous year in all regions.

Excluding the effect of foreign exchange rates, the YoY change in actual sales was 129% in Europe, 120% in China, 126% in the Americas, and 112% in Asia.

The annual plan is as described. Excluding the impact of foreign exchange rates, we are forecasting a 119% YoY increase in actual sales in Europe, 113% in China, and 120% in the Americas.

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## ■ Sales by Region - Chemicals Business

※Percentage expresses year on year comparison

(billion yen)	FY2017 H1		FY2018 H1		FY2019 H1		FY2020 H1		FY2021 H1		FY2021 Forecast (Currently announced)		FY2021 Forecast (May)	
	<b>Japan</b>	119%	23.2	115%	26.6	98%	26.2	72%	18.8	<b>145%</b>	<b>27.2</b>	<b>129%</b>	<b>54.5</b>	119%
<b>Americas</b>	112%	20.5	114%	23.4	91%	21.3	76%	16.1	<b>124%</b>	<b>20.0</b>	<b>119%</b>	<b>42.5</b>	117%	41.5
<b>China</b>	119%	18.3	107%	19.6	92%	17.9	109%	19.6	<b>128%</b>	<b>25.0</b>	<b>111%</b>	<b>45.0</b>	106%	43.0
<b>Asia</b>	135%	10.5	120%	12.6	91%	11.4	88%	10.0	<b>126%</b>	<b>12.6</b>	<b>118%</b>	<b>27.0</b>	111%	25.5
<b>Europe</b>	120%	13.5	135%	18.2	68%	12.3	79%	9.7	<b>170%</b>	<b>16.6</b>	<b>143%</b>	<b>31.5</b>	114%	25.0
<b>Others</b>	170%	0.6	135%	0.9	93%	0.8	49%	0.4	<b>143%</b>	<b>0.6</b>	<b>118%</b>	<b>1.0</b>	118%	1.0
<b>Total</b>	119%	86.6	117%	101.2	89%	90.0	83%	74.6	<b>136%</b>	<b>101.9</b>	<b>123%</b>	<b>201.5</b>	114%	186.5
<b>Overseas sales ratio</b>		73%		74%		71%		75%		73%		73%		72%
USD/JPY		¥111		¥110		¥109		¥107		¥110		¥107		¥105
EUR/JPY		¥126		¥130		¥121		¥121		¥131		¥128		¥125
RMB/JPY		¥16.4		¥16.8		¥15.7		¥15.3		¥17.0		¥16.7		¥16.0

13

Please see page 13. Sales in the first half of the fiscal year by region in the chemicals business also increased significantly from the previous year in all regions. Excluding the impact of foreign exchange rates, actual sales in the Americas were 121%, in China 115%, and in Europe 158% of the previous year's level.

The annual plan is as described. Excluding the impact of foreign exchange rates, we are forecasting a 118% YoY increase in actual sales in the Americas, 104% in China, and 141% in Europe.

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17

### III. Business and Regional Overview ■ AC Business - Japan

#### First Half Overall

Industry demand for Residential Air Conditioning declined from the previous year due to the impact of unseasonable weather in August. Daikin strengthened sales for high value-added products such as **Urusara X**, which is equipped with a ventilation function. With more time being spent indoors, interest has grown for energy savings and increased the need for IAQ. For air purifiers, Daikin suffered a reversal of the increased demand in the previous fiscal year from the special cash payment for COVID-19 in the second quarter.

Industry demand for Commercial Air Conditioning exceeded the previous year in a gradual renewal of economic activities. Daikin enhanced system proposals that combine air conditioners and ventilation products. Sales for ventilation equipment, such as heat reclamation ventilators, substantially increased. For Applied, sales of R32 chillers grew.

#### Second Half Measures

For Residential, we will launch differentiated products that can switch between air supply and air exhaust ventilation and increase sales activities of products for cold regions where demand is expected to be strong as we aim to further increase market share.

For Commercial, we will enhance the lineup for ventilation products, such as heat reclaim ventilators, and strengthen proposal sales as we strive to expand sales based on a recovery in demand accompanying the renewal of economic activities.

For Air Purifiers, we will widen the lineup equipped with UV Streamer, which significantly inhibits viruses and bacteria.

Y/Y change (Volume basis)		H1 Results	Full-Year Forecast
Residential	Market	92%	93%
	Daikin	104%	104%
Commercial	Market	103%	104%
	Daikin	113%	110%
Applied	Market	94%	96%
	Daikin	85%	92%
Air purifiers	Market	96%	88%
	Daikin	96%	133%

※Applied is based on total sales.

Please see page 14. I will now explain the status of the air conditioning business by region.

First, Japan. In the residential air conditioning, industry demand was lower than the previous year due to unseasonable weather in August. We have strengthened our sales activities to promote the ventilation function of Urusara X. We have expanded our market share by capturing the growing interest in energy conservation and air quality needs due to the increase in time spent at home.

Air purifiers, on the other hand, experienced a rebound in the second quarter from the previous year's demand increase due to the special cash payment.

In the commercial air conditioning, industry demand exceeded that of the previous year due to the gradual resumption of economic activities. We increased its market share by strengthening proposal-based sales activities that combine air conditioners and ventilation products.

In the second half of the fiscal year, we aim to expand sales and increase market share in both residential and commercial applications by expanding the lineup of differentiated products equipped with ventilation and air purification functions and strengthening proposal-based marketing.

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## ■ AC Business - Americas

### First Half Overall

The economy gradually recovered with the renewal of economic activities, and Daikin expanded sales mainly in the Residential Air Conditioning market where demand is strong. In addition, the selling price effect, sales greatly exceeded the previous fiscal year.

- In Ducted Unitary for Houses, we accelerated initiatives to increase manufacturing personnel and reduce employee turnover as we stabilized production. Sales increased due to the launch of new products equipped with inverters.
- For Ductless, we captured the rising demand for **RA/SKY** in the Residential market and expanded sales. In addition to strong sales for Residential, sales of **VRV systems** also increased for Commercial with the resumption of projects. Sales company acquisitions also contributed to the substantial increase in sales over the previous fiscal year.
- In Applied, we capitalized on the market recovery by responding specifically to diverse needs according to application. Sales expanded for the After Sales Service business.

### Second Half Measures

Accelerated initiatives for acquiring and retaining manufacturing personnel and improving productivity will continue. Amid rising labor costs and soaring prices for raw materials and higher logistics costs, we will implement further selling price measures and work to secure profits.

- In Ducted Unitary for Houses, we will focus on sales that utilize online tools while aiming to increase market share and sales by promoting our strengths of inverter and heat pump functions.
- In Ductless, we will reinforce our supply system for **RA/SKY** where demand is expanding. In **VRV systems**, new products with even higher energy savings will be launched.
- In Applied, we will strengthen solutions proposals by leveraging the appeal of ventilation and IAQ products.

Y/Y change (Volume basis)	H1 Results	Full-Year Forecast	
		Market	Daikin
Ducted Unitary for houses	<b>122%</b>	102%	114%
Ductless	RA/SKY	<b>140%</b>	133%
	VRV	<b>136%</b>	118%
Applied	<b>108%</b>	102%	113%

※Applied is based on total sales in local currency.

15

Please see page 15.

In the air-conditioning business in the Americas, sales were significantly higher than in the previous year due to expanded sales in the residential market where demand is strong, as well as the effect of selling prices.

In Ducted unitary for Houses, we accelerated our efforts to strengthen the production capacity of Goodman's plant, including increasing the number of manufacturing personnel, and focused on sales of products equipped with inverters.

Ductless systems saw a significant increase in sales over the previous year, thanks to strong sales for residential use in response to the customer needs for improved living spaces, as well as the effect of the acquisition of a sales company.

Goodman's overall sales in terms of local currency were 135% of the previous year's level.

Applied expanded sales in the after-sales service business, capturing the recovery in the market.

In the second half of the fiscal year, we will expand our product lineup, strengthen our solution proposals based on ventilation and IAQ, and promote initiatives to improve productivity. At the same time, we will work to secure profits by further increasing selling prices in response to rising labor costs, raw material market prices, and distribution costs.

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## ■ AC Business - China

### First Half Overall

In the steady personal consumption in China, Daikin strengthened the product lineup, including IAQ and ventilation products, and enhanced sales activities combining offline and online. Consequently, sales saw a significant increase over the previous year. Operating profit was impacted by soaring prices for raw materials and semiconductor shortages, but we maintained high profitability by expanding sales of high value-added products, reducing costs, and curtailing fixed costs.

- In the Residential market, we boosted sales activities combining online sales with conventional sales at our **PROSHOP** specialty stores. By focusing on identifying new customers and capturing replacement demand, we greatly expanded sales of residential multi-split air conditioners.
- In the Commercial market, customer contact points were expanded by leveraging interest in ventilation and cleaning in the retail market such as at stores and offices. We incorporated demand for equipment replacements and additional purchases. For large projects, we reinforced sales through solutions proposals.
- In the Applied market, in addition to a shift in resources to growth fields, such as infrastructure, data centers, and semiconductors, we strengthened our maintenance and servicing business.

### Second Half Measures

With the delay in the economic recovery, we will utilize our strength of direct sales to users to promote meticulous sales activities for each customer as we aim for sales exceeding the strong sales of the previous year.

- In the Residential market, we will continue to increase sales activities that combine offline and online.
- In the Commercial market, we will accelerate the development of the Solutions business for each market and customer based on themes including IAQ, energy management, and energy savings.

Y/Y change (Local currency basis)	H1	Full-Year Forecast	
	Results	Market	Daikin
Residential	122%	107%	114%
Commercial	111%	105%	108%
Applied	105%	103%	102%

16

Page 16.

In the air-conditioning business in China, we strengthened its product lineup of IAQ and ventilation products and accelerated sales activities combining offline and online, resulting in a significant increase in sales over the previous year.

In the residential market, sales of multi-split air conditioners for residential use grew significantly, up 121% YoY, thanks to the success of the search for new customers through online events and sales activities utilizing live broadcasting.

In the commercial market, we focused on sales activities that promote ventilation and cleaning for stores and offices, capturing demand for equipment upgrades and additional purchases. In addition, we strengthened sales by proposing solutions for large properties, where demand is recovering.

In the applied market, we are shifting our resources to growth areas such as infrastructure-related and data center applications.

In the second half of the fiscal year, we will continue to focus on expanding sales of residential multi-split air conditioners, and by expanding our lineup of products and services that respond to the growing interest in IAQ and energy management, we will provide optimal solutions for each market and customer, aiming to achieve higher sales than the previous year, which was a strong year.

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# ■ AC Business - Europe, Middle East, and Africa

## First Half Overall

In Europe, sales expanded by capitalizing on a recovery in demand by ensuring stable supply through localized production. In the Middle East, a heat wave in Turkey helped to increase sales along with improved sales capabilities in each country. Regional sales overall were substantially higher than the previous fiscal year.

- In Residential, unseasonable weather impacted the second quarter in countries including France and Spain, sales grew by capitalizing on pent-up demand in each country.
- In Commercial, the renewal of economic activities from the lifting of the lockdown led to a sales expansion as we capitalized on customer needs with proposals for IAQ improvement.
- In the Heating business, we utilized a wide product lineup of heat-pump heaters to substantially increase sales in each country, especially in France and Germany.
- In Applied, sales grew for environmentally conscious products such as R32 chillers used in small projects. Sales also increased for industrial applications, including hospitals and factories, as we achieved growth that exceeded demand.
- In the Refrigerator and Freezer business, we accelerated development of one-stop solutions, mainly in Germany and Central Europe, and sales to food retailers increased due to strong demand.

## Second Half Measures

In Residential, sales activities will be fortified in each country for future uncertainty in demand with sales growth seen mainly in Italy, Greece, and Turkey where demand is strong.

In Commercial, sales will be strengthened to hospitals and for IT infrastructure where demand is strong.

In the Heating business, market share will increase on strong demand in heat-pump heaters to achieve decarbonization.

In Applied, we will widen the R32 chiller lineup.

In the Refrigerator and Freezer business, spec-in activities will be accelerated for one-stop solution development in each European company.

Y/Y change (Volume basis)		H1 Results	Full-Year Forecast	
			Market	Daikin
Residential		110%	105%	106%
Commercial	SKY	121%	102%	105%
	VRV	122%	105%	111%
Heat-pump Heaters		184%	151%	160%
Applied		122%	103%	118%
Refrigerator and Freezer		141%	118%	135%

※Residential, commercial, and heat-pump heaters are only for Europe.

※Applied is based on total sales in local currency.

17

Please see page 17. Air-conditioning business in Europe, Middle East, and Africa.

In Europe, we achieved a significant increase in sales by the stable supply of products through market-optimized production, and in the Middle East, we worked to strengthen our sales capabilities in each country, resulting in a significant increase in overall regional sales over the previous year.

Sales of residential-use products were affected by unseasonable weather in France, Spain, and other countries in the second quarter, but sales increased in each country as a result of demand coming from people staying at home.

For commercial use, as economic activity resumed, we captured customer needs by proposing improvements in IAQ.

In the heating business, we took advantage of our lineup of heat pump heaters to achieve a significant increase in sales in each country.

In the refrigerator and freezer business, we accelerated the development of one-stop solutions and expanded sales to the food retail industry.

In the second half of the fiscal year, we will aim to further expand sales and increase market share by increasing sales in markets where demand is strong, both for residential and commercial use, and by capturing the growing demand for decarbonization in heat pump heating.

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## ■ AC Business - Asia and Oceania

### First Half Overall

The reemergence of COVID-19 has significantly impacted every country in Asia with a decline in demand and restrictions placed on activities. To combat this, we have worked to expand our sales network and promote dealer support with the use of online tools. In Oceania, where demand is relatively strong, sales expanded, and a selling price effect was seen as overall regional sales exceeded the previous fiscal year.

- In Residential, restrictions on activities in Thailand, Malaysia, and Vietnam adversely impacted sales, whereas sales in Indonesia and Australia increased. In India, where restrictions on activities have been relaxed, demand is seeing a recovery, and sales have significantly grown by enlarging the sales network and strengthening relationships with dealers.
- In Commercial, we focused on sales to public facilities where demand is relatively stable and expanded sales despite sluggish capital investment from the economic downturn, delays in start of construction work due to insufficient workers at the building sites, and construction postponements.
- In Applied, we concentrated on the After Sales Service business such as maintenance and servicing.

### Second Half Measures

In the challenging external environment that continues due to the reemergence of COVID-19, we will promote dealer development and strengthen sales activities utilizing online tools.

- In Residential, we will expand sales of high value-added products that promote the appeal of ventilation and IAQ along with new products equipped with inverters that improve cost competitiveness.
- In Commercial, we will focus on sales to public facilities where demand is expected from government economic policies.
- In Applied, we will aim for sales expansion by expanding the service network and strengthening product appeal.

■ Year-on-year sales of main countries (local currency basis)  
 Australia: 113% India: 173% Vietnam: 84%  
 Malaysia: 89% Thailand: 86% Indonesia: 113%

YYY change (Volume basis)	H1 Results	Full-Year Forecast	
		Market	Daikin
Residential	<b>110%</b>	106%	112%
Commercial	SKY	104%	111%
	VRV	110%	113%
Applied	<b>100%</b>	105%	124%

※Applied is based on total sales in local currency.

18

Please see page 18. Air-conditioning business in Asia and Oceania.

In Asia, despite being greatly affected by the decline in demand and restrictions on activities due to the spread of COVID-19, overall sales in the region increased from the previous year due to the focus on sales activities using online tools, sales expansion in Oceania where demand is relatively strong, and the effect of selling prices.

In the residential market, we expanded sales through our own distributor channels, and sales in Indonesia and Australia increased YoY. In India, we also increased our sales by strengthening our relationship with dealers through online training and other initiatives.

Sales of commercial-use products increased for public facilities, where demand is relatively strong. This was despite the slowdown in capital investment due to the economic downturn and the continued delay in start of construction work due to the shortage of workers at building sites, and construction postponements.

In the second half of the year, the business environment is expected to remain severe due to the re-emergence of COVID-19, but we will aim to expand sales of high value-added products by identifying markets where demand is expected to recover.

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# ■ Chemicals Business

## First Half Overall

Sales expanded in all product groups mainly in the semiconductor and automotive markets where demand is strong. There was also a selling price effect, and sales substantially exceeded the previous fiscal year.

- In Fluorocarbon Gas, applications expanded to medical fields in Europe, and sales exceeded the previous fiscal year.
- Polymers and elastomers
  - Fluoropolymers showed a sales increase from a recovery in demand in the semiconductor market and the information and communication field, including LAN cables. Sales in all regions bested the previous fiscal year.
  - Fluoroelastomers saw sales expand in the automotive market for Japan, Europe, and Asia. Sales in all regions surpassed the previous fiscal year.
- In Fine Chemicals, sales for anti-smudge surface coating agents decreased due to lower demand from a reversal of the strong sales in the previous fiscal year for table PCs and smartphones. Sales for water and oil repellent agents grew mainly in Europe, China, and Asia in textile and paper applications. By capitalizing on a recovery in demand in the semiconductor market, we increased sales of etching gas.

## Second Half Measures

We will aim to substantially expand sales and increase market share centered on the semiconductor and automotive markets where demand is strong. New repellent products that use non-fluorine materials will be launched for paper applications.

Application development will be strengthened mainly for next-generation vehicles and the information and communication field where demand is increasing.

Y/Y change (Sales basis)	Q1 Results
Total	<b>142%</b>
Fluorocarbon Gas	<b>121%</b>
Polymers & Elastomers	<b>154%</b>
Fine Chemicals, etc.	<b>128%</b>

19

Please see page 19.

In the chemicals business, we strengthened sales mainly in the semiconductor and automobile markets, where demand is strong, and expanded sales in all product groups, including gas, polymers and elastomers, and fine chemical products.

Gas applications for the medical field expanded in Europe.

Sales of fluoropolymers expanded due to the recovery of demand in the semiconductor market and for LAN cables. Sales of fluoroelastomers for the automotive market also increased, and sales in all regions increased YoY.

In fine chemical products, sales of anti-smudge surface coating agents decreased due to a lull in demand for tablets and smartphones, but sales of etching gas and water and oil repellents for textile and paper applications increased.

In the second half of the fiscal year, we will continue to expand sales for the semiconductor and automotive markets and will also launch new products using non-fluorine materials for paper applications in the area of repellents. In addition, we will accelerate the development of applications for next-generation automobiles and information and communications fields, where demand is growing.

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## ■ Filter Business

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### First Half Overall

As demand began to recover mainly in Japan, Europe, and the United States, we promoted building a stable supply system, reducing total costs, and sales activities for high value-added products that seek to mitigate the spread of infectious diseases and improve air quality. Sales exceeded the previous fiscal year.

- In the Air Filter segment, we responded to the growing needs for ventilation and strengthened sales activities for high value-added products that mitigate the spread of infectious diseases such as high-performance filters and negative pressure units. Sales for hospitals, cleanrooms, and residences expanded in each region.
- In P&I\*, although demand in the gas turbine market is improving in the recovering economy, efforts were made to improve the business structure by shifting resources to the After Sales Service business.

### Second Half Measures

In the Air Filter segment, we will improve productivity and reduce costs while expanding sales product that mitigate the spread of infectious diseases to markets in each region with strong demand including hospitals, pharmaceutical factories, and offices.

P&I aims to improve profitability by strengthening the After Sales Service business and reducing fixed costs in order to build a stable business foundation.

\*Commercial use dust collection systems such as for gas turbines and large-scale plants

20

See page 20.

In the filter business, we are accelerating the improvement of our business structure, and are working to build a stable supply system, reduce total costs, and strengthen our sales structure.

In the air filter business, sales of anti-infection products, such as high-performance filters and negative pressure machines, increased in each region in response to growing ventilation needs.

In the second half of the fiscal year, we aim to expand sales to the hospital, pharmaceutical, and office markets, where demand remains strong.

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## ■ Other Businesses

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### First Half Overall

In the Oil Hydraulics business, demand for hydraulic equipment recovered for both industrial and construction equipment, and revenue increased.

In the Defense Systems business, sales for pulse oximeters, which measure oxygen saturation in the blood, and oxygen concentrators grew, and revenue increased.

In the Electronics business, with the renewal and strengthening of corporate IT investments, revenue increased.

### Second Half Measures

In the Oil Hydraulics business, we will strengthen spec-in activities for manufacturers of machine tools and construction equipment to capitalize on strong demand.

In the Defense Systems business, we are building a stable supply system in the thriving field of home healthcare and are aiming for a further increase in market share.

In the Electronics business, we will work to expand sales of database systems for the design and development fields, and facilities CAD.

21

Page 21.

In the oil hydraulics business, sales increased due to a recovery in demand for hydraulic equipment for both industrial machinery and construction machinery.

In the Defense systems business, in the private sector, sales of pulse oximeters which can measure the oxygen saturation level in blood without drawing blood, and oxygen concentrators, increased.

In the electronics business, sales increased, reflecting the resumption of investment by the manufacturing industry.

In the second half of the fiscal year, we will continue to capture the recovery in demand in each business and expand sales in robust markets.

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## IV. Dividends Plan

- ◆ An annual dividend of 180 yen is planned. (interim 90 yen / year-end 90 yen)

### 【Daikin Dividend Policy】

Together with making every effort to maintain a ratio of dividends to shareholder equity (DOE) of 3.0% based on the principle of always providing stable dividends to shareholders, we will continue striving in our mission to provide shareholders with even greater return by aiming for an increasingly higher level of dividend payout ratio.

		FY2017	FY2018	FY2019	FY2020	FY2021 (Forecast)
<b>Dividend per share</b>	<b>Interim</b>	<b>¥65</b>	<b>¥70</b>	<b>¥80</b>	<b>¥80</b>	<b>¥90</b>
	<b>Annual</b>	<b>¥140</b>	<b>¥160</b>	<b>¥160</b>	<b>¥160</b>	<b>¥180</b>
<b>Earning per share</b>	<b>H1</b>	<b>¥347.1</b>	<b>¥385.8</b>	<b>¥405.1</b>	<b>¥289.2</b>	<b>¥475.3</b>
	<b>Annual</b>	<b>¥646.5</b>	<b>¥646.4</b>	<b>¥583.6</b>	<b>¥478.5</b>	<b>¥693.7</b>
(Reference) DOE Trends		3.4%	3.4%	3.3%	3.0%	3.0%

22

Please see page 22.

The Company plans to pay an annual dividend of JPY180 per share. As for the year-end dividend, we will consider it again at the time of the year-end closing of accounts, taking into account the full-year business performance and the plan for the next fiscal year.

There will be no change in the dividend policy. We will continue to make efforts to further enhance shareholder returns based on the principle of stable and continuous dividend payments.

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## «Reference» ■ Foreign Exchange

### ■ Exchange Rate

	FY2020 Results			FY2021		
	H1	H2	Total	H1 Results	H2 Forecast	Total Forecast
USD	¥107	¥105	¥106	¥110	¥105	¥107
EUR	¥121	¥126	¥124	¥131	¥125	¥128
RMB	¥15.3	¥16.1	¥15.7	¥17.0	¥16.5	¥16.7
THB	¥3.4	¥3.5	¥3.4	¥3.4	¥3.5	¥3.4
AUD	¥73	¥79	¥76	¥83	¥82	¥82

### ■ Sensitivity of Foreign Exchange (Impact of change by 1 yen to operating profit)

	FY2021 Forecast
USD	1.7 billion yen *
EUR	0.6 billion yen

\*Changes for the THB, RMB, AUD, etc., are assumed to be linked to the USD.

23

Please see page 23.

The actual results for the first half of FY2021 and the assumed exchange rate for the second half of FY2021 are shown in the table below.

We estimate that a JPY1 change in the exchange rate against the US dollar will have a JPY1.7 billion impact on operating income, and a JPY1 change in the exchange rate against the euro will have a JPY0.6 billion impact.

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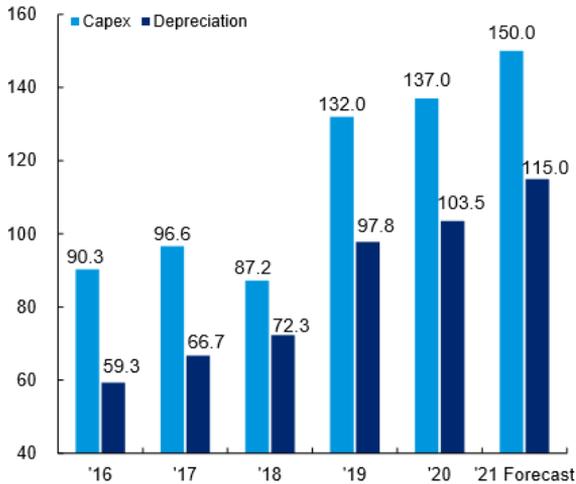
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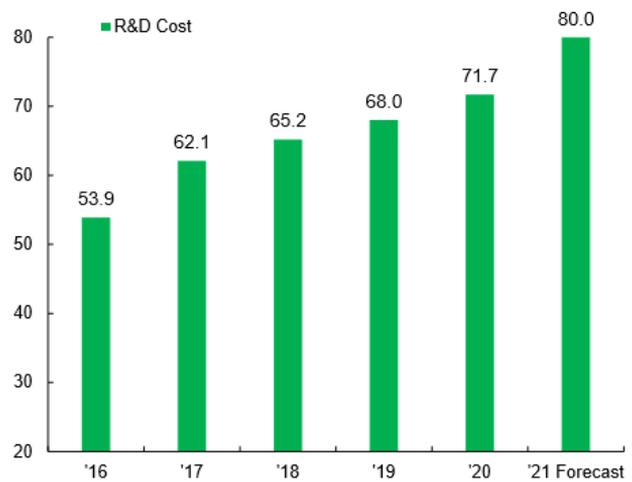
## ■ Capex, Depreciation and R&D Cost

### Capex and Depreciation

(billion yen)



### R&D Cost



<Reference> First Half Trends

(billion yen)	FY2017	FY2018	FY2019	FY2020	FY2021
Capex	40.4	39.8	54.0	63.3	64.8
Depreciation	32.5	35.7	46.1	50.3	55.7
R&D Cost	30.3	31.7	33.6	33.0	38.7

24

Please see page 24.

Actual results for the first half of the fiscal year for capital expenditures, depreciation and amortization, and R&D expenses are shown in the table below. There will be no change in the annual plan.

We will make careful decisions on the priority of projects and the timing of implementation, taking into account changes in the business environment, but we will actively invest for future business expansion.

That's all I have to say.

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## Question & Answer

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**Moderator:** We will now move on to the question-and-answer session.

First, I would like to explain how to ask questions. We will call your name in order, so please ask your question after you give your name and company name.

We will now begin the Q&A session. Mr. Isayama from Goldman Sachs Japan, please ask your question.

**Isayama:** Hello, everyone. This is Yuichiro Isayama from Goldman. There are so many questions that I would like to ask you, but I will ask just 2 questions.

The first 1 is about the Air-Conditioning business in North America. Compared to competitors, I think you have been doing very well in the top line and expanding your market share. I wonder if you could add a few things here.

First of all, you mentioned that Goodman's operating profit margin in Q1 was around 10%, so compared to this, I think it dropped a little in Q2. Was that due to the effect of the rise in raw materials prices or factors in production?

The competitors were unable to secure production personnel due to COVID-19. I think your company had such a problem last year but was able to secure labor force in the current year. Despite that, were you also affected by similar problems?

And the supply chain in North America, if I remember correctly, is a little different from the rest of the world. Have there been any supply chain problems at your company's North American facilities?

Finally, since you have come to clearly state your policy of acquiring distributors, how much of an effect did this have in H1?

There are several questions, but I would like to ask 1 question for additional information about the Air Conditioning business in North America. Thank you.

**Togawa:** I understand. As Senior Executive Officer Mineno is in charge of North America, he will answer this question.

**Mineno:** This is Mineno. Thank you for all your help and support. The North American business has been doing very well, and we have increased our market share, but our competitors were also doing relatively well. We recognize that the industry as a whole has been performing very well, especially for residential use.

You said that Goodman's operating profit margin, which had secured 10% in Q1, slowed in Q2. However, I am aware that it was at almost the same level as in Q1. It has been faring very well.

They are still struggling to secure personnel. They have been taking various measures over the past few years, and finally, the previous shortage of 1,000 employees has been reduced to about 400, representing a significant decrease.

However, in Q1 and Q2, they could not secure enough production personnel to meet demand. Compared to a few years ago, however, the situation has improved significantly. That is the situation.

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Regarding the supply chain, there is nothing special about it. Since we transported products like room air conditioners and SKY from Asia, they have enough inventories. We are aware that they were able to secure sufficient supply of other models on a local basis. We have also been acquiring distributors for the past several years. Our major theme is to have our own sales channels. In the previous year, we acquired ABCO, Stevens, and Robinson. Sales of these companies were approximately JPY20 billion in H1 of the current fiscal year. We have already targeted several companies in the current year, but I can't give you any specific names right now.

**Isayama:** Thank you very much. As for the supply chain, local American companies are having a lot of trouble right now. So, I was wondering if there were any difficulties in procurement compared to other regions, but am I right in thinking that there is nothing to worry about?

**Togawa:** I'll give you my answer. There is no major problem with the current US supply chain. We had some troubles in the past, but we have no major trouble at the moment. Rather, we are now working to strengthen our supply chain in the US. We are trying to increase the ratio of procurement within the region in order to curb the effects of changes in the supply chain caused by COVID-19, as well as the rising costs of logistics.

1 of the issues was that we had not made much progress in the ratio of procurement by multiple companies, so we are currently working on improving the ratio of procurement by multiple companies.

The term "in the region" includes Mexico, and we are currently trying to increase the percentage of procurement from Mexico. We have raised the percentage of procurement from Mexico from 16% in 2018 to 28% now. In order to raise this percentage further, we would like to further strengthen stable procurement and lead-time reduction.

**Isayama:** Thank you very much. I can see that you have become much more confident in your business.

The second question is about the Air-Conditioning business in China. I understand that residential multi-split air conditioners have been doing very well, but I would like to ask again, how many PROSHOP specialty stores are there now in China?

I also believe that the weight of sales in regional cities has surely risen. I remember you said a few years ago that the sales weight in regional cities, other than Tier 1 and Tier 2 cities, had increased to around 40%.

Is the regional composition the reason behind such a strong performance and increased profitability? Was there something that has changed the way PROSHOP stores are operated, and did their number increase and their performance get better and better? I'd like to measure the effect of the improved profit margin and its sustainability.

Since you have already mentioned the impact of China Evergrande Group, I would like to try to unravel a little more about why things are getting so much better. This is the second question. Thank you.

**Togawa:** First of all, the number of PROSHOP stores is now about 2,500. We are planning to further strengthen these stores.

The reason why China is so strong is, as I have already mentioned, that we have a strong sales network. While other companies have more non-exclusive distributors than exclusive ones, we have built our own sales network with exclusive dealers.

In addition to this, the Chinese market is shifting towards ecommerce. Our company does not sell our products simply through ecommerce, but we have established a sales method that integrates offline and online, making use of the strong sales network that utilizes the PROSHOP stores. We get prospective customers online, and then we approach them in reality. By approaching them, we will reap their orders from these prospective

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customers at the strong PROSHOP stores I mentioned earlier. We were the first to create such a new business model in China. In my view, the strength of our China business today is that we anticipated such changes in the times and have taken measures like implementing sales reforms.

In a way, I believe that China is the fastest changing market. In addition, the local top management and other executives share this kind of awareness, and this has permeated down to each and every salesperson, and they are doing their best. In my opinion, the strength of the China business today lies in the ability to anticipate the changes of the times and to implement those measures speedily.

**Isayama:** Thank you very much, President Togawa. I was wondering if it was because you increased the sales portions of middle-end products in regional cities with lower tiers, so the economies of scale were working, and profitability was increasing. This is not the case at all. Even in regional cities, the unit selling prices are high, and the range of product prices has not been lowered, since you use your sales power. Is it better to think that the selling prices or their range is rather going up? I wonder if you could answer the question in terms of regional cities and product mix.

**Togawa:** We have been working on this for a long time, but we were the first to expand our sales network from large cities to regional cities, and we have also built up the PROSHOP stores, so I think this is having an effect.

**Mineno:** The effect of maintaining selling prices is very strong. The PROSHOP stores are very serious in maintaining selling prices as they have to earn their own profits, and in the current year, they have been raising selling prices even more. The production volume has been increasing along with the sales amount, so we think that cost reduction made progress and profits could be secured.

**Isayama:** I understand very well. Thank you very much.

**Togawa:** I also think that our strength is our ability to make careful proposals to each store. Considering efficiency, it would be better to receive orders for 100 or 200 units at a time. Instead, we are focusing on approaching each prospective customer 1 by 1, making proposals, and reaping the benefits, as well as maintaining selling prices. I think this has had a positive effect.

**Isayama:** Thank you very much.

**Moderator:** Thank you. Next, Mr. Maekawa from Nomura Securities.

**Maekawa:** I am Kentaro Maekawa from Nomura Securities. Thank you very much for your explanation. I would like to ask 3 general questions to ask for some hints on how you see profit growth in H2 of the current fiscal year and into the next fiscal year.

First of all, I would like to ask you about your selling price policy, which showed its effect in H1 of the current fiscal year. Is that largely due to the influence of ventilation products in Japan?

You mentioned earlier that you are going to launch products with a ventilation function globally, starting with China. With this expansion of the selling price policy taking effect globally, is the policy going to spread further in H2 of the current year or in the next year?

You may be competing with rising raw materials prices, but I think that in the next fiscal year, your selling price policy will have more of an effect on profit growth. Is there any difference in regional developments at present? Is there still room for improvement there? Including that, please provide additional information about the way how you look at the selling price policy.

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**Togawa:** To get a general idea of how effective the selling price measures are, please refer to page 8 for H1 and page 11 for H2 and the full year.

Our selling policy had a profit-boosting effect of JPY26 billion in H1 on a global basis, including JPY23.8 billion in Air Conditioning, JPY2.1 billion in Chemicals, and JPY100 million in Others. To this extent, we were able to increase operating profit with our selling price policy. The annual total projection is on page 11, with the effect of the selling price policy to total JPY66.5 billion.

As a way of looking at the figures, I would like to explain that there is a part called Sales Expansion, which I guess you may ask about later. This means measures to expand sales and increase the market share. This was a positive JPY87.6 billion in H1 on page 8, and a positively estimated JPY114.4 billion for the full year on page 11.

These include the figures for the increase in demand, in addition to our sales efforts. So, excluding the increase in demand, I would like to give you some figures for your reference on how much we earned by expanding sales and increasing our market share.

In H1 of the current fiscal year, of the sales expansion effect of JPY87.6 billion, what we call qualitative enhancement measures contributed JPY33.5 billion to operating profit. For H2 and the full fiscal year, we estimated the effects of these measures at JPY31.1 billion and JPY64.6 billion, respectively.

Therefore, though these figures include various sorts of things, we have been trying to raise selling prices, cost reductions, and expand sales and raise the market share in a bid to reduce fixed costs, as qualitative enhancement measures. The surge in raw materials prices and logistics costs had a negative effect of JPY47 billion in H1 and will be a negative JPY65 billion in H2, for a total of JPY112 billion for the year. Against this negative factor, we plan to achieve the qualitative improvement of JPY118.1 billion, including JPY42.4 billion in H1 and JPY75.7 billion in H2. I hope you understand that.

**Maekawa:** I understand. I understand that it is not good to only look at the selling price policy, since the qualitative effects are divided between the sales expansion and selling price measures.

**Togawa:** Also, the problem of soaring raw materials prices is not just a problem for the current fiscal year, but we expect it will continue in the next fiscal year. In particular, as I mentioned before, the copper market is surging.

The US Fed will start tapering, and people will take a more cautious approach to interest rates. Including this, factors like the economic trends in China will move copper prices in various ways.

Judging from the current situation, we don't see much prospect of a significant drop. In the medium- to long-term, copper demand will continue to increase as the shift to EVs continues, so copper prices will probably remain high.

Considering this, we feel that the strategic selling price measures we have taken in the current year have been quite successful, as well as the measures to expand sales and increase the market share, the measures to maximize the reduction in variable costs, and fixed cost reduction. We will need to continue to strengthen these measures in the next fiscal year.

Also, there is a limit to the size of selling price hikes of existing products in accordance with the rises in their costs, so it is very important to create new differentiated products and services.

As I mentioned at the beginning of this meeting, our company has been introducing differentiated products at a furious pace. For example, room air conditioners with the ventilation function in Japan, which were

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originally available only for flagship models, but we spread the function to the middle and volume price zones for only 6 months. In the past, such addition took more than a year, so we have been conducting that kind of initiative more speedily, and we are now preparing more and more differentiated products for the next fiscal year. I think this kind of development would be necessary. That's how I see the situation.

**Maekawa:** According to your plan, such effects are likely to emerge more clearly in H2. Is it correct to say that the effect of such acceleration of your measures has become gradually larger?

**Togawa:** The possible rise in the effect of the selling price policy in H2 depends on the timings of the price hikes. The project started in April, but in some areas, the selling prices were actually raised in June, and for others, in July or August. With the side effects of the timings of launching new products and the likes, the ratio in H2 is slightly higher than that in H1.

**Maekawa:** Thank you very much. The second question is about the air-conditioning market in China. Even for H2 of the current fiscal year, I think your company is looking at a YoY increase in sales, but I wonder how you see the market as a whole.

For example, on page 16 of the material you gave us, if you only take out demand for H2 alone, I think you will see a negative figure here. On the other hand, your company plans to increase its sales possibly by a little less than 5% as a whole.

I don't think there are any direct transactions with real estate developers, but I think that the stock market is concerned about the risk of a downturn in the overall housing market under such circumstances. I would also like to know how you see the market in H2.

**Miyazumi:** This is Miyazumi. For H2 of the year, we see a great deal of uncertainty in how we will look at the Chinese market. Although the issue of China Evergrande Group has a limited direct impact on our earnings, the real estate market is likely to slow down to some extent.

But of course, depending on the market trend, it is very difficult to predict what will happen to demand. However, if demand shrinks on the macroeconomic side and the pie shrinks, our basic idea is to secure sales by gaining the market share.

In particular, our strength lies in residential multi-split air conditioners. Even if demand shrinks to some extent, we would like to make up for it by increasing our market share.

**Togawa:** To add to this, China has been tightening restrictions on home purchases since June. The government restricted credit lines on mortgage loans, imposed taxes on sales of housing properties with less than 5 years of residence, limited selling prices for furnishings including air conditioners, or increased interest rates for housing. There is no doubt that these have led to a slight slowdown in the market since July.

As Miyazumi mentioned, we need to be more cautious about the market as a whole, but in this environment, we are looking at how we can increase our market share with our strong sales network and differentiated products.

**Maekawa:** Thank you very much. Just 1 more question.

Sales of residential multi-split air conditioners will increase, and their profit margin is higher in that area. As the market is slowing down, investors often referred to the risk of a decline in profit margins. On the other hand, by increasing sales of residential multi-split air conditioners, the profit margin will not decrease, not saying it will increase, and such effects have already been seen and will continue to be seen. Is that the right way to look at it?

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**Togawa:** Overall, I think that the residential market will slow down a bit, and I think that the key is how to create valuable proposals that no other company can offer.

The need for air, especially ventilation, as well as air purification, sterilization, and disinfection, has increased tremendously recently. I think it's a matter of how to combine such things. So, in addition to air conditioning, other air-related products, and even floor heaters, are important. Since they move by heat pumps, they are environmentally friendly. In addition, as an intelligent function, our products can be connected to the Internet, and we will be able to make use of the data to provide valuable proposals to customers.

We believe that we can continue to increase sales and maintain high profitability in the field of residential multi-split air conditioning systems by proposing solutions for these systems and promoting the proposals. That's what we're trying to do.

**Maekawa:** Thank you very much. Sorry for being a bit lengthy, but the third and final point is about the Asian market.

In the July to September period, I think the impact of COVID-19 was very large. Under the current business environment, and over the next fiscal year, do you expect relatively high sales growth in Asia simply because sales in the current fiscal year are expected to be low?

**Togawa:** Mineno will answer the question.

**Mineno:** As you know, Asia has seen the prolonged lockdowns due to the COVID-19 pandemic. In the previous year, too, the situation was prolonged in H1 and eased in H2. The pattern is similar in the current year, but the lockdowns are more severe than in the previous year.

Especially since April, the lockdowns remained in effect in India, Vietnam, Malaysia, Indonesia, and Thailand. Recently, Malaysia has eased the restriction, followed by Indonesia, but Thailand and Vietnam are only slowly easing the lockdowns, and they are working very hard to control the number of infected people. Therefore, I am feeling that the business is not able to move easily there. I feel that we cannot engage in free business activities.

The market recovery is a couple of months behind in following the trend of last year, so I think that the situation in September last year appeared in November this year, so I expect that the restrictions on activities will be loosened a bit. In Vietnam, the air-conditioning season starts in February and March. So, I think we will be able to resume business activities in a timely manner.

Moreover, demand was so depressed in the past 2 years that I think we will see tight pent-up demand. I am looking forward to the results in February, March, and April.

I don't know if the infection will subside in the next fiscal year, but remote selling has become routine, and we have been getting used to it. I am very much looking forward to the next fiscal year when the infection settles down and the pent-up demand comes back strong.

**Maekawa:** I understand. Thank you very much.

**Moderator:** Thank you. The next question is from Mr. Sano of JPMorgan Securities Japan.

**Sano:** This is Tomohiko Sano from JP Morgan Securities Japan. I have 2 questions.

First of all, please tell us about your Air-Conditioning Business in Europe. I believe that you have been expanding sales of mainly products using heat pumps or the R32, but I would like to know if you have any

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plans to further increase sales or profits in H2 of the year or in the next fiscal year or beyond, for example, due to the tightening of regulations or measures taken against competitors. This is the first question.

**Togawa:** As you mentioned, the market is expanding very rapidly in Europe due to green policies and subsidies.

In this environment, we have seen a large increase in sales of heat pump heating systems in particular. At the moment, we are trying to bring forward the quantitative target for FY2023 announced in FUSION 25 by 1 year, or even by 2 years, depending on the situation.

We have been feeling the effects of this, and in H1 of the current year, we achieved sales of 184% compared to the year-before result. We are going to make the people in Europe try further, including a review of the plan for the current fiscal year.

I believe that the environmental regulations are more of an opportunity. We are a Company that has been striving to achieve a balance between contributing to society and the environment and expanding our business at the same time.

**Sano:** Incidentally, I think that your competitors are also accelerating their strategies due to the increase in demand. Could you tell us how you are accelerating measures to differentiate your products, including those for securing production capacity?

**Togawa:** As you mentioned, our rivals are also trying to expand heat pump heating systems in various ways, just as we are. To put it simply, the point is how we develop new differentiated products, which our competitors don't have, at a fast pace. The question is: What is the best way to deal with this movement, and what is the best way to prepare for production? We currently have production bases in Belgium, Germany, the Czech Republic, and Turkey, and we are working to optimize our production strategy for the future expansion of demand.

Also, in order to further differentiate our products, especially in terms of heating, we have started to build an R&D center to strengthen and expand R&D in Europe, toward 2023. I believe that by taking such steps, we will be able to expand our business ahead of our competitors.

**Sano:** Thank you very much. Secondly, I would like to know about your Chemicals business. The current performance trend seems to be solid, but are there any new materials emerging for the next fiscal year? Also, I think that in the medium-term, you will be strengthening the green refrigerant and EV applications, so please tell us about the latest updates in this area.

**Togawa:** Miura, General Manager of the Chemicals Division, will answer the question.

**Miura:** This is my first time participating in this event. I am Katsuya Miura. Thank you.

In the Chemicals business, demand is recovering in general, and that for semiconductors market is particularly strong. As the world faces the shortage of semiconductors, chip manufacturers are increasing production, and semiconductor manufacturing equipment, for which our materials are used, is growing significantly. We expect that this trend will continue in the next fiscal year, and we would like to supply products in line with customers' needs.

At that time, very clean materials are required in the semiconductor field, and there are only a limited number of companies that can supply them. In addition, customers are worried about the lack of ample supply, but we have been strengthening our production capacity much more than before. Against this backdrop, we are receiving a large number of inquiries for our materials.

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There are completely new materials that have never been used before. We are also proposing new products that meet the needs of our semiconductor customers, such as next generation products of dry etching gas and polymers with higher heat resistance and higher plasma resistance that meet the needs of our customers.

As Togawa mentioned, the green refrigerant is a refrigerant for EVs. The performance of the main refrigerant product used in Europe, the 1234yf, declines considerably in heating. However, our refrigerant does not lose its performance under the heating environment and helps EVs extend the cruising range. We are now focusing this appeal for customers.

The product continues under evaluation by automakers according to an industry standard in the US called SAE. Since an automobile has to be evaluated from a variety of perspectives, such as flammability and durability, it will still take time. The evaluation is still working on this.

We are currently studying the way of mass production and the production process to determine how to make the product at the lowest possible cost. That's all.

**Sano:** All right, that's all. Thank you very much.

**Moderator:** Thank you. Now, the next question is from Mr. McDonald of Citigroup Global Markets Japan.

**McDonald:** There are a couple of things I want to check on regarding the status of the Air-Conditioning business in the US. 1 thing I would like to confirm is how much Goodman's performance grew in H1 on a local currency basis.

**Togawa:** The growth was 138% on a Japanese yen basis and 135% on a local currency basis.

**McDonald:** Thank you very much. Can you divide this into sales volume effect and selling price effect?

**Togawa:** We are sorry. We do not have numbers to that extent at this time.

**McDonald:** I understand. 1 more thing is about profitability. You commented at the Q1 results briefing that Goodman's operating margin was close to 10%, but I think there is a gap between that and the overall profitability of the Americas.

I understand that you have set a 10% target for the Americas business as a whole, but what was the overall profitability of the Americas business in H1?

**Togawa:** We have not changed our goal in FUSION 25 of achieving an operating margin of 10% or more in the Americas as a whole. The total for the Americas is the sum of Goodman, Daikin Applied America, which is in the Applied business, and American Air Filter, which is in the filter business.

We referred only to Goodman when we cited an operating margin of 10% in our Q1 results presentation. As Miyazumi mentioned earlier, Goodman is aiming for an operating margin of roughly 9% for the current fiscal year.

In FUSION 25, we aim for 10% or more of the total US Air Conditioning business of Goodman, Daikin Applied America, and American Air Filter, but at present, I think you can expect about 6% for the year.

**McDonald:** I understand. I am aware that it is quite difficult to compare because there are various profitability issues, and the accounting standards of US competitors are different.

Your company bought Goodman almost 10 years ago, and at that time, for various reasons, it had a profit margin of roughly 15%. I understand that there are various reasons for the current fiscal year's margin being

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around 9%, such as goodwill amortization and investment in Daikin Texas Technology Park, or DTTP. When do you think Goodman can realistically achieve a profit margin in the 10% range on a continuous basis?

**Togawa:** First of all, I believe Goodman's operating profit margin before the acquisition was 14% to 15%, but as you know, the Company had been bought and operated by a fund, so there was almost no investment conducted. In order for us to become the number 1 Company in North America, we needed to enter the Ducted Unitary for Houses market. In that sense, Goodman was far from a bad purchase, but it was a strategically significant purchase. We need to keep investing in what we need to invest in. In that sense, we have invested in DTTP, and we are making a lot more investment further.

Now, they are trying to further increase their sales for houses. As I mentioned earlier, the US environmental policy has finally given us a chance to fully develop our specialties, i.e., inverters and heat pumps.

In order to achieve this, we are now furiously trying to strengthen our sales network. Although there are distributors on our own, the percentage of independent distributors are quite high in the US. The big distributors are now buying all the small- and medium-sized distributors and reorganizing them.

In the midst of this trend, we have acquired distributors and are now trying to strengthen our own sales network.

We are also planning to make acquisitions to further strengthen our sales network. In addition, DTTP, our production base, sold 25,000 units of FIT products, strategic environmental products, in H1, and is currently planning to sell 50,000 to 70,000 units for the year. However, we have them try to sell at least 300,000 units and preferably 500,000 units by the end of FUSION 25.

In that case, the question is where to manufacture them. We hope that DTTP will manufacture them as the strategic products. If we do this, DTTP alone will not have enough plants, so we are thinking of transferring all the production of volume zone products, which are currently made at DTTP, to Mexico. This will help us address the labor shortage in the US and will also help us respond to the environmental market changes, so we are planning to take such a strategy and invest in it.

It's a long story, but I believe that Goodman's operating profit margin, including such investment and goodwill amortization, will soon reach 10%. However, for the US as a whole, the challenge still remains in the filter and Applied businesses.

In Applied, they are advancing an acquisition plan to strengthen the sales network, as well as instrumentation and engineering. The current plan calls for a service solution ratio of at least 50% and preferably 60% by 2025, and I believe that further improvement in operating profit will not be easy until we see that this goal can be achieved. Therefore, our goal is to achieve 10% or more by 2025 for the Americas as a whole, including filters and Applied products.

**McDonald:** I understand. I learned a lot. Thank you very much.

**Moderator:** Thank you. We have received other questions, but as it is getting close to the scheduled time, we would like to conclude the session with the next person.

Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities, please ask your question.

**Sasaki:** I would like to ask you 2 questions. I would like to know some additional information about the supply chain disruptions.

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At the beginning, President Togawa said that the Company can cope with the shortage of semiconductors. Meanwhile, there are widely spread supply chain problems, such as an electricity shortage in China, which has emerged in a small scale, and the lockdowns in Asia. I also remember the labor shortage problem in the US.

I would like to know what the present problem for Daikin is in terms of the supply risks due to the supply chain disruptions and what measure you plan to take to solve it. Could you please tell me what you think about that? Thank you.

**Togawa:** I have talked about the supply chain problems several times. They started with the discontinuation of production and parts procurement in China last year due to COVID-19. This showed us that our supply chain was much more heavily weighted toward China than we had thought. In order to solve this problem, we are currently making strong efforts to promote local production for local consumption—that is, to procure locally what is produced locally, and we are striving to do this.

That is where our strength is. If you take this stance, we can replace production in 1 place, where a problem has occurred, with that in another place. I think this is the best defense against various problems in the supply chain. We are making steady progress on that front.

The biggest problem at the moment is the procurement of semiconductors and electronic components, but as I mentioned earlier, we have already secured all of them for H2 of the current fiscal year. For the next fiscal year, we are working to secure safety stock as quickly as possible, and we are taking steps to include long-term contracts.

There was a view that there would be a reactionary decline in semiconductors and electronic components next year, or that there would be excess inventories, but we do not think that this is actually the case. We are trying to get accurate information from various parties to see what they think. We also have them work on how we will respond to that.

Currently, the supply is not sufficient to meet the orders placed by each manufacturer. For this reason, there is a view that there may be a backlog of orders for semiconductors not to be cleared for about a year. We believe that supply and demand will probably settle down in H2 of the next fiscal year or at the end of the next fiscal year.

Based on this perspective, as I mentioned, we are already working to secure stable procurement, including long-term contracts, for the next fiscal year. How was the answer?

**Sasaki:** Changing the question, is there any disruption in the supply chain network other than that for semiconductors that might be a critical issue for Daikin?

What I'm afraid of is that, when I look at the financial results 3 months or 6 months later, I want to avoid seeing that there were such problems, and that they lingered longer than expected. Is it safe to assume that there are no particular issues to be addressed outside of semiconductors? I would appreciate it if you could tell me your thoughts on that.

**Togawa:** In a nutshell, I hope you can see that there are no major issues. The biggest challenge, as I mentioned earlier, is local production for local consumption. The question is how fast we can develop this.

For example, in Asia, we have positioned India as our second China, and we are preparing to expand our business in the Indian region under FUSION 25 by planning to build another factory. As for local production for local consumption, it is not so easy because there are various issues that need to be addressed before 100% of the suppliers can be localized.

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In particular, for some items, we should ask Japanese manufacturers to help us. I can't disclose the examples because we have the partners. We have to negotiate these things with each company 1 by 1. Then, local suppliers have to work out stable supply, quality, and costs 1 by 1 to make sure that they can be used locally. We are in the process of letting these developments take place steadily. Some of these things take time, and the challenge is how to speed up the process and move toward 100% local production for local consumption.

**Sasaki:** I understand very well. As for the issue of semiconductors, since you have been promoting local production for local consumption, this has helped you deal with the current situation, and you will continue to do so. Is this correct understanding?

**Togawa:** Yes, that's right. In Vietnam, for example, the lockdown has caused many problems in the automobile industry. We were similarly affected by the use of Vietnamese suppliers for components. However, we were able to address this by immediately shifting to suppliers in China and Indonesia.

I think that's 1 example of how we were able to cover problems.

**Sasaki:** Thank you very much for giving us a very clear and concrete example.

**Moderator:** Thank you. We conclude the question-and-answer session.

This concludes today's financial results briefing. Thank you very much for your participation until the end.

[END]

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1. *This document has been translated by SCRIPTS Asia.*

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