



# About Our Management Policy

October 5, 2020  
Masanori Togawa  
President & CEO

I would like to express my deep appreciation to you for taking time out today to participate in this teleconference and respectfully ask for your kind understanding and support for the management of Daikin.

## Details of Today's Announcement

### ■ Business Forecast for First Half and Full Year

(billion yen)	Revised in Aug.		Revised in Oct.			
	H1	Total	H1	vs Plan in Aug.	Total	vs Plan in Aug.
Sales	1,180.0	2,350.0	1,205.0	+25.0	2,400.0	+50.0
Operating Profit	100.0	170.0	121.0	+21.0	198.0	+28.0
Ordinary Profit	100.0	170.0	121.0	+21.0	198.0	+28.0
Profit Attributable to Owners of Parent	63.0	114.0	75.0	+12.0	130.0	+16.0

### ■ Dividend

Because of the extreme uncertainty surrounding the business environment, the dividend forecast for the current fiscal year had been "undecided." However, based on budget finalization, we plan to pay an annual dividend of 160 yen per share (interim of 80 yen and year-end dividend of 80 yen), which is the same amount as the previous year. This amount is in accordance with our basic principle that strives to maintain a ratio of dividend to shareholder equity (DOE) of 3.0% and always provide stable dividends to shareholders.

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The budget for fiscal year 2020 has been finalized as follows:

Sales	2.4 trillion yen
Operating profit	198 billion yen
Ordinary profit	198 billion yen
Net income	130 billion yen

I would now like to explain the basic approach that management took in finalizing the budget, and it is this:

Rather than giving everything over to chance because of the great uncertainty that lies before us, what we believe is needed to overcome the unprecedented conditions worldwide in fiscal year 2020 due to the COVID-19 pandemic is for management to boldly confront the existing reality, establish targets, specify what needs to be done, and implement it.

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

### Measures Based on the Impact of the Sudden COVID-19 Outbreak

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

### Six Emergency Projects Being Addressed by Top Management as Important Management Issues

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

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Specifically, we established 43 themes for defensive measures, which included suppressing fixed costs; 31 themes for proactive measures, which included expanding sales to keep rivals in check during extremely weak demand, and providing products and services that anticipate the social changes generated by the COVID-19 pandemic; and 17 themes for measures strengthening and reforming the corporate constitution.

Also, we launched six emergency projects as important issues that received the close involvement and attention of top management and had the entire global Group confront together by making decisions quickly and increasing speed and dynamic energy.

When the economy slows, new demand shrinks, but after sales services, which include repairs, servicing, and maintenance, plays a significant role in terms of supporting lifelines, and we have been working to expand them.

Results have significantly emerged in a definitive manner from the initiatives enacted for "defensive and proactive purposes," "constitutional reform," and "emergency projects."

## Budget Finalization

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- ✓ In light of the uncertainty for the FY2020 outlook, Daikin started with 150 billion yen for its annual operating profit (announced in May) as part of its “action plan,” which was based on the current conditions at the time for each business and region. Responding flexibly to the ever-changing conditions, we revised annual operating profit to 170 billion yen in August when we announced the financial results for the first quarter.
- ✓ While the uncertainty in the outlook remains unchanged, it is the intention of management to establish definitive targets as a part of the budget and have the entire Daikin Group once again achieve targets as it makes further progress in strengthening a corporate constitution that leads to further growth and development.
- ✓ Finalization of the budget this time led to the announcement of a commitment to 198 billion yen for operating profit. Concerning the dividend forecast, the annual dividend will remain unchanged at 160 yen. This is in accordance with our dividend policy and its principle to always provide a stable dividend.
- ✓ We intend to thoroughly implement measures with an “aggressive” and “challenging” mindset as we challenge ourselves toward achieving an annual operating profit that exceeds 200 billion yen.

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In April, operating profit started out at 150 billion yen as part of our action plan. Responding flexibly to the ever-changing conditions, we upwardly revised that number in August to 170 billion yen when we announced first quarter results.

While the uncertainty in the outlook remains unchanged, after reviewing the action plan thus far, it is the strong intention of management to establish definitive targets as part of the budget, and have the entire Daikin Group once again achieve targets with every member, from management on down, striving to further strengthen our corporate constitution and having those efforts lead to future growth and development.

Finalization of the annual budget this time led to a commitment to 198 billion yen for operating profit, and we decided to announce the details of the budget as soon as possible.

Similarly, we decided on an annual dividend of 160 yen, which is the same as the previous year, according to the details finalized in the budget.

With this budget, we increased operating profit by 48 billion yen from the original target in the action plan formulated in April, and we will continue to work toward the achievement of an operating profit exceeding 200 billion yen by thoroughly implementing measures with an aggressive and challenging mindset.

## [Reference] Business Forecast

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

### ■ Comparison with Action Plan Announced in May

Operating Profit	+48.0
COVID-19	-7.0
Foreign Exchange	-3.0
Sales Expansion	+39.5
(Strengthening of marketing and sales capabilities, and preparation for manufacturing	+37.0)
(Sales expansion of air quality and ventilation products	+2.5)
Fixed Costs, etc.	+17.0
Cost Reductions, Raw Materials	+1.5

## Progress in Emergency Projects

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

- ✓ We have responded to changes such as demand fluctuations and regulations on logistics and production by understanding information on procurement, production, and sales of the five global regions. This has enabled us to avoid opportunity loss and expand sales.
- ✓ To promote medium- to long-term development, we are built a strong, flexible SCM that extends globally.

### **(2) Outperforming rivals in response to global changes and declining demand; and strengthening sales and marketing capabilities to increase market share while maintaining selling price**

- ✓ As demand declines, we are working closely with customers to meticulously capture demand and expand sales.
- ✓ All five main air conditioning divisions are expected to achieve higher sales than the previous year in the second half.  
(Japan 101%, Europe 107%, China 118%, Asia / Oceania 100%, and the United States 100%)  
Japan: We are aiming to further increase market share for commercial use and gain the No. 1 share for residential use.  
Europe: Expand sales for residential and commercial use utilizing environmental technology as we work to achieve a large sales expansion of heat pump type heating systems.  
China: In addition to offline sales utilizing our unique sales network, we will promote online and e-commerce sales. Annual sales are expected to exceed the previous year as we develop best practices in China to other regions.

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As an unprecedented initiative, I would like to elaborate on the emergency projects that are producing results during the COVID-19 pandemic.

In “Strengthening procurement, manufacturing, inventory, and logistics globally,” we have worked to build a system in which we instantly understand information on procurement, manufacturing, and sales for the five global regions (Asia/Oceania, Europe, North America, China and Japan) ; respond to changes in conditions including demand fluctuation and regulations for logistics and manufacturing; determine speedy measures to execute from the viewpoint of overall optimization, such as avoiding opportunity loss and preventing excess inventory; and execute those measures.

By responding as quickly as possible to the disruption in the supply chain caused by the COVID-19 pandemic, we secured and produced the necessary parts. And while rivals were running out of parts and supplies, Daikin was able to send products to the sales frontlines and expand sales over rival companies.

In addition to these short-term initiatives, we have begun to implement drastic measures in this project to build a flexible and robust SCM globally for medium- to long-term development.

## Progress in Emergency Projects

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In "Outperforming rivals in response to global changes and declining demand; and strengthening sales and marketing capabilities to increase market share while maintaining selling price," the key for expanding financial results is to outperform rivals by increasing market share within a period of declining demand.

To this end, Daikin has worked to expand sales ahead of its rivals by developing a business that maintains close contact with customers to systematically capture demand.

As a result, I feel that our sales and marketing capabilities have steadily improved in response.

Based on this, all five main air conditioning divisions (Japan, Europe, China, Asia/Oceania, and the United States) are expected to achieve higher sales in this budget than in the second half of the previous year.

At this time, I would like to speak briefly by region.

In Japan, Daikin aims to become the overwhelming No. 1 for PA by further increasing market share and obtain the No. 1 for RA in market share.

In Europe, we are aiming to ride the tailwind of increased environmental awareness by utilizing our strength in environmental technology to expand sales in residential and commercial use and substantially expand heat pump type heating sales where demand is rapidly expanding.

In China, the market has been the quickest to achieve a recovery among the five major air conditioning divisions, and sales will exceed the previous year, even for the entire fiscal year.

In addition to offline sales activities that utilize our strong sales network, sales have grown through development of online and e-commerce activities that correspond to the times.

We are endeavoring to horizontally develop the best practices achieved in China as a means to expand sales in other regions.

## Progress in Emergency Projects

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

- ✓ In response to the growing interest in air quality worldwide, we were the first to introduce air quality and ventilation products. Sales of air quality and ventilation related products this year will be 160% year over year.
- ✓ Sales for residential air purifiers are expected to grow significantly by 205% year-on-year. Production will start in Malaysia by the end of 2020, and we will also manufacture these products in Japan.
- ✓ As the leading air-conditioning manufacturer, we have developed globally by determining the future customer needs, quickly developing products, and proposing solutions in becoming a large-scale business.
  - Japan: Expand the RA lineup with built-in air ventilation function, launch a new air purifier product, and introduce a new heat exchanger that can be retrofitted.
  - Americas: Launch a UV light that disinfect heat exchangers and construct a system to detect air quality in air ducts.
  - China: Introduce a residential use heat exchanger and an air purification system.
  - Europe: Introduce a high efficiency heat exchanger.
  - Asia: Equip RA with a high-performance filter, strengthen sales of air purifiers.

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In “Expanding sales of air and ventilation products; developing and launching new differentiated products; and creating solutions on a global level to thoroughly capture the growing demand resulting from greater awareness for air quality and ventilation,” Daikin has quickly capitalized on the demand and need for air quality, ventilation, air purification, disinfection, and cleaning that are increasing worldwide. Overall sales during this year for air quality and ventilation products are expected to grow 160% year on year, whereas sales of residential air purifiers are expected to reach 205% year on year.

To achieve these projections, we are taking measures to significantly increase production of air purifiers.

Production in Malaysia will start by the end of 2020, and we have decided to also manufacture these products in Japan.

As the leading air-conditioning manufacturer, Daikin will create a market and rapidly build an air quality and ventilation brand. Not only do we intend to capitalize on needs that are already apparent, but we will also identify potential markets and customer needs, promote speedy product development, promote solution development globally, and have these areas grow into a major business.



## Progress in Emergency Projects

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### **(4) Drastically cutting fixed costs**

- ✓ The structure for fixed costs will be reviewed from a medium- to long-term perspective with the aim of achieving a lean, robust constitution.

### **(5) Prioritizing large-scale investments (capital investments and investments / loans) in the unprecedented uncertainty for the future of the business environment**

- ✓ Based on the business environment and market trends, upfront investments will be performed aggressively as an opportunity to become stronger.

### **(6) Raising funds by having a detailed knowledge of the capital demand for the entire Group**

- ✓ We have already secured funds to respond to the spread of COVID-19. We will also be flexible to the demand for funds for alliances, partnerships, and M&A.

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In "Drastically cutting fixed costs," we will take this opportunity to review the structure from a medium- to long-term perspective and aim to achieve a lean, robust constitution.

In "Prioritizing large-scale investments (capital investments and investments / loans) in the unprecedented uncertainty for the future of the business environment," the circumstances surrounding the COVID-19 pandemic are indeed challenging. Nevertheless, strong companies must look to the future and make investments accordingly. Seeing the current situation as an opportunity to become stronger, we plan to aggressively make investments after carefully examining the details of each while observing the business environment and market trends.

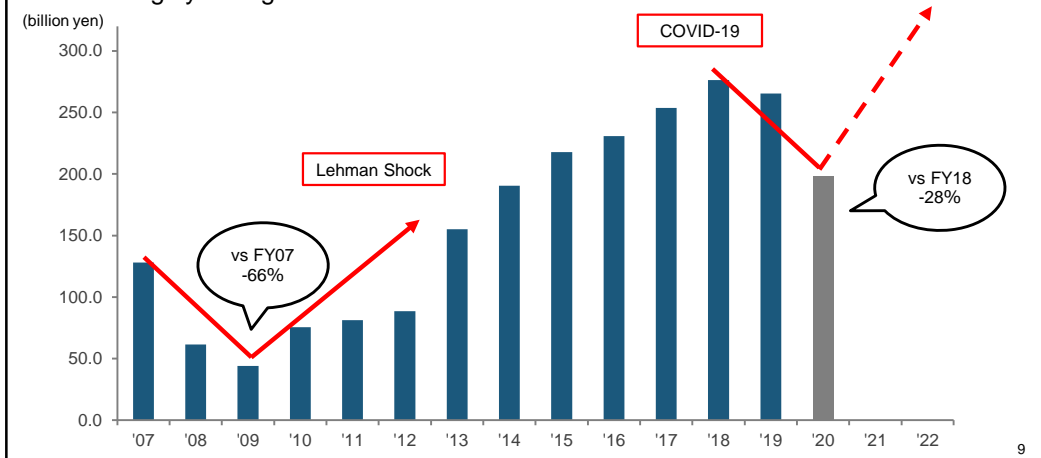
In "Raising funds by having a detailed knowledge of the capital demand for the entire Group," we have already secured approximately 600 billion yen through new loans and setting of borrowing limits to raise funds in response to the impact of COVID-19.

Daikin is fully prepared for any immediate demand for funds as well as for a lengthy impact of the COVID-19. For this reason, we consider this type environment as a great opportunity to strengthen our business, and we will actively allocate funds to alliances, partnerships, and M&A.

In addition to these six emergency projects, we are focusing on "Expanding our After Sales Service business globally and strengthening profitability." While the environment surrounding after sales service is challenging due to the COVID-19 pandemic, overall sales in the After Sales Service business for this year are expected to grow 102% year on year.

## Management Stance beyond FY2021

- ✓ Profitability is expected to quickly recover by thoroughly implementing aggressive and challenging measures.  
In 2022, we foresee a return to profits at a pre-COVID-19 level.
- ✓ The year 2024 will be the 100th anniversary of our founding, and we would like to welcome it with record high financial results and significant growth and development.
- ✓ We will open up the future through our strengths of challenging ourselves and thoroughly taking action.



In 2024, Daikin will celebrate the 100th anniversary of its founding.

In the past during the Lehman shock, operating profit fell to one-third (negative 66%), and recovery of operating profit to the pre-Lehman shock level (FY2007) took four years.

In addition to limiting the negative margin of operating profit to about 30%, we have quickly recovered profitability this time by thoroughly implementing aggressive and challenging measures, and we foresee a return to a pre-COVID-19 level for operating profit two years later in fiscal year 2022.

Along with the recovery of business performance in 2021 and 2022, we would like to welcome the 100th anniversary of our founding in 2024 with record high financial results and significant growth and development.



**Notes on forecast**

○This data is compiled for informational purposes and is not to be construed as a solicitation of any action. This data (includes management plan) was compiled by Daikin Industries, Ltd. (the Company) based on reliable information available at the time of compilation. It may include some risks and uncertainties. The Company is not responsible for its accuracy or completeness.

○The Company asks for your own discretion in using this data. The Company accepts no liability for any loss or damage of any kind arising out of judgment for investment made solely relying on the business forecast or target figures described in the data.

This concludes my explanation.  
Thank you for your kind attention.