

Daikin Industries, Ltd. Strategic Management Plan
FUSION20 Latter-Half Three-Year Plan
Briefing to Analysts and Investors Q&A Session
(Tokyo, June 7, 2018)

Q: Could you explain the business model for the Energy Service Solutions business?

A: As we work on a solutions business that uses data, we are investigating a cyclical business model. Rather than only performing air conditioner installation, servicing, maintenance, and replacement, we also propose model selection from the design stage of buildings along with various solutions incorporating instrumentation into equipment. Moreover, we would like to have a business model that creates value by connecting a network to HEMS (Home Energy Management System), collecting meteorological data from sensors inside buildings, and using AI technology to analyze the data.

Q: What is the outlook for the Heating and Water Heater business?

A: In Europe, there is a trend merging toward heat pump type heaters, and we believe that an opportunity exists for change from combustion heating. While growth in the heating market is expected to be just under 7% by 2020, we see 10% growth for Daikin by fiscal year 2020. Consequently, we intend to further expand sales of heat pump heaters by not only capitalizing on air conditioning dealers but also by utilizing the networks of combustion heater dealers and after sales services.

Q: Please describe your efforts for new refrigerant.

A: Daikin is promoting the widespread use of refrigerants with low global warming potential (GWP), and we currently see R32 as the optimal solution. However, R32 is a mildly flammable refrigerant and is not free of GWP. For the future, we are continuing to search for non-flammable refrigerants with low GWP.

Q: To what extent will the growth potential in India contribute to the Asian region?

A: The exceptional growth seen in India substantially contributes to increasing profit ratio in Asia where profit ratio is also improving. Currently, expansion is being promoted in Myanmar and the Philippines, which are emerging countries, but we see these countries as a long-term investment since profitability is still low. In the meantime, profit from India is expected to offset this.

Q: In view of the 360 billion investment yen plan, what is the outlook for fixed costs in the future?

A: In addition to capital investments to increase production capacity of factories, the plan will also include investment in IoT and AI technologies, response to stricter environmental regulations, and expansion of the solutions business. While fixed costs are expected to increase as investment increases, causing changes in operating income, we think the range of investment increase will be about the same as in previous years.

Q: What are your plans for introducing IFRS?

A: We have prepared a system for introducing it but would like to determine its timing while taking into account all factors.

Q: What is your approach to return to shareholders?

A: There is no change in our dividend policy of maintaining a DOE ratio of 3.0%. We intend to provide shareholders stable dividends by steadily improving financial results to increase dividends to the greatest extent possible. Also, we are not thinking about a company buyback of stock.

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