

Briefing on Financial Results of the 2nd Quarter Ending March 31, 2020
“Management Situation and Policy for the Future”
President & CEO Masanori Togawa

I would like to express my deep appreciation to you for taking time out today to attend this briefing and respectfully ask for your kind consideration and understanding for the operations and management of Daikin.

At the briefing on financial results in May, I stated that despite the great uncertainty in the business environment for this current term, we would formulate and thoroughly implement an action plan for fiscal year 2019 that internally sets a challenging target of 295 billion yen in operating profit as part of our efforts for achieving operating profit in fiscal year 2020 of 348 billion yen, which is the final target of the strategic management plan Fusion 20. Since then, the business environment has become increasingly more demanding, including prolonged stagnation in the semiconductor market together with even greater adversity from foreign exchange due to yuan depreciation. Nevertheless, owing to all regions and divisions working together in taking pre-emptive measures in response to changes, we achieved a record high in operating profit for the first half of the fiscal year for the seventh consecutive year.

Amid projections of continued severity in the management environment, we intend to strengthen our business constitution and take concrete measures toward challenging targets to increase profits as we endeavor to achieve financial results for the full year plan that exceed our current publicly-announced targets.

To achieve Fusion 20, we have reviewed the key measures extending over the next two fiscal years of 2019 and 2020 and have created an action plan incorporating 10 Group-wide strategic themes and 176 themes by business division. From this, we hope to compensate for the impact of foreign exchange and realize the final targets of our strategic management plan.

With investments serving as the foundation of our growth, forward-looking investments are one pillar of Fusion 20. Pursuit of both short-term financial results and medium- to long-term growth is the strength of our company, and we have no intention of limiting investments to maintain short-term profits. In preparing for the digital revolution, we are making investments with a focus on collaborations with external parties centered on the IoT/AI fields,

together with alliances, partnerships, and M&A, while continuing to promote total cost reductions and maintain profits that become the source of capital.

Next, I would like to discuss some topics that may be of interest to you.

First, concerning China, we established a comprehensive customer center in Shanghai in March that not only has the conventional function of an inbound-type call center that mainly handles repairs, but we also added a function as a profit center by strengthening outbound-type proposal activities. Together with strengthening the Service business that utilizes the intelligent functions of equipment, we are expanding the Solutions business with initiatives such as our newly-established financial subsidiary that helps reduce the financial burden on users and dealers. Moreover, in China, a multitude of new businesses are being born centering on the gigantic Internet companies (Baidu, Alibaba, Tencent). Internet sales are accelerating in all fields, and the same is true for the home appliance market with Internet sales already accounting for approximately 40% of residential-use air conditioner sales. Daikin is also building its own company e-commerce site and opening a store on major e-commerce sites as a response to these types of changes. Also, we are promoting initiatives to mutually utilize both online and offline channels by integrating the Internet and SNS with PROSHOPs and showrooms.

Next, in the United States, we aim to continue double-digit sales growth and incorporate productivity improvements with the completion of the transfer to the new Goodman factory while executing investments for the future such as construction of sales networks and product development. However, there is no change in our policy to improve operating profit margin by one point each year toward fiscal year 2020. To improve the operating profit margin, I think it is also important to strengthen the Service business. We will continue to reinforce direct sales channels, which are the foundation of recurring revenue streams, and develop differentiated after sales service and solutions products utilizing IoT/AI technologies.

In Europe, environmental regulations have become extremely strict, but I think that there is an opportunity for Daikin, whose forte lies in environmental technologies. While promoting sales of equipment using low GWP refrigerant R32, we are also tackling development of new refrigerant since R32 cannot be used in large type VRV systems. Moreover, the After Sales Service and Solutions businesses is being strengthened. By connecting heat pump type hot water heating systems to the Internet to utilize IoT and monitor operating status, we can improve service response capabilities by preventing breakdowns before they occur

and quickly responding to them when they do. Currently, 100,000 units are connected to heat pump type hot water heating systems, and we are investigating development to air conditioners in the future.

Finally, I wish to present our efforts for open innovation. In the future, we believe that *kyoso* (collaborative creation) will be the keyword for understanding the changing times and creating opportunities. With the Technology and Innovation Center as the core base for open innovation, Daikin promotes collaboration with top-level universities and research institutes in Japan as well as overseas institutions including Tsinghua University in China and Stanford University and Maryland University in the United States. Last year industry-academia collaboration began between Daikin and the University of Tokyo. In addition to the faculty of the University of Tokyo and its outstanding knowledge and technologies, we have gained access to researchers and students that have an entrepreneurial spirit and over 370 related venture companies to enable us to quickly put creative ideas to practical use. We are also working on establishing a new system in which human resources can freely come and go between our company, the University of Tokyo, and overseas universities. Additionally, on November 1, Daikin announced the new establishment of an investment fund allocating 11 billion yen over a five-year period until 2024 targeting global startup companies and the establishment of the CVC Office, which promotes collaborations. The CVC Office will be responsible for all corporate venture capital activities including searching for startup companies that are candidates for investments, executing investments, monitoring them, and acting as a bridge between startup companies and company divisions and departments. Centered on the CVC Office, we will accelerate open innovation that fuses together technologies and knowledge from inside and outside the company.

This concludes my remarks concerning the management policy for the future. Today we will have directors come from all business divisions, and afterwards we would like to take your questions.