



Daikin Management Policy

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Masanori Togawa
President & CEO

- ✓ Daikin achieved sales of 2 trillion 550.3 billion yen (up 2.8% year on year) and operating profit of 265.5 billion yen (down 3.9% year on year) by minimizing the adverse impact of COVID-19 in China and Europe. At the time, we made every effort to increase profits until March-end in regions and businesses where the effect of the disease was still relatively small such as in the United States.
- ✓ Without the impact of COVID-19, Daikin would have achieved its tenth consecutive year of increased revenue and profits and seventh consecutive year of record highs with sales of 2 trillion 595.3 billion yen and operating profit of 287.5 billion yen.

	Forecast	Result	COVID-19 Effect
Sales	2,610.0B JPY (+5% year on year)	2,550.3B JPY (+2.8% year on year)	-45.0B JPY
Operating Profit	285.0B JPY (+3% year on year) 10.9% profit margin	265.5B JPY (-3.9% year on year) 10.4% profit margin	-22.0B JPY

- ✓ Regulations enacted in each country to contain COVID-19 significantly affected sales and manufacturing, especially in China and Europe.
- ✓ In China, we quickly determined the operating status of suppliers and parts inventory, implemented inventory adjustments between Daikin Group factories, and flexibly changed production plans.
- ✓ These actions enabled us to minimize the impact of COVID-19 by rapidly implementing various measures that included exporting to other regions, such as Asia, Japan, and the United States where the impact of COVID-19 was relatively small from China, expanding sales in these regions, and promoting cost reductions even further.

- ✓ The current action plan is based on the different situations of each region and business.

	FY2019 Result	FY2020 Action Plan
Sales	2,550.3B JPY (+2.8% year on year)	2,330.0B JPY (-9% year on year)
Operating Profit	265.5B JPY (-3.9% year on year) 10.4% profit margin	150.0B JPY (-44% year on year) 6.4% profit margin

- ✓ Specific measures are taken for four patterns assumed for the COVID-19 impact.
 - <Four Assumed Patterns for Impact>
 - (1): Contained in the 1Q (April-June)
 - (2): Continuation to the 2Q (until September)
 - (3): Continuation to the 3Q (until end of 2020)
 - (4): Continuation for one year (uncontained for entire fiscal year)
- ✓ Conditions such as the depth in demand drop and length of protracted period differ depending on each region and business.
- ✓ Plans are formulated based on current prospects as determined by the local conditions and realities for each region and business. As a result, the action plan closely resembles pattern (2) Continuation to 2Q. The plan will be reviewed every one or two months as needed to respond flexibly to an ever-changing situation.

In April, steady progress was made in line with the action plan, and efforts are being made to exceed it even further.

- ✓ Japan AC: April progressed according to the action plan.
In the Commercial-Use market, operations began to restart at construction sites, while in the Residential-Use market, mass retailers began reopening.
Construction is underway for installation and logistics for the rapid increase in volume expected when COVID-19 has been contained.
- ✓ China: **Factory production resumed in March and all sales offices reopened in April.**
In April, results were in line with the action plan.
Steady demand, including demand for government projects is gradually recovering. Inquiries are increasing from **new sales measures combining the Internet and actual experience at the Daikin Solution Plaza.**
- ✓ Europe: In April, as lockdowns continued in each country, results exceeded the action plan by **maximizing sales and operating at zero-based fixed costs.**
In May, France, Germany, Italy, and Spain relaxed restrictions on leaving the house as construction work and retail stores resumed. In conjunction with this trend, we will **strengthen our marketing capabilities and go forward with initiatives that exceed the action plan.**

- ✓ Asia: In April, activities were forcibly suspended in each country, while **sales in Australia, Indonesia, and Thailand remained at the same level as the previous year.**
The region overall achieved targets as planned.
In India, strict restrictions were placed on leaving the house, while measures were taken in Malaysia to suspend business activities. Although sales fell temporarily, even in these countries, **factory operations are also being permitted to resume.**

- ✓ U.S.: Goodman Inc. exceeded the action plan in April due to sales efforts. After voluntarily suspending factory operations for nearly 3 weeks, **production started from the 4th week of April, and as many states have begun to relax restrictions on conduct since May, we are accelerating initiatives to exceed the action plan.**

< 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 Addressing 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



< Strategic Themes for Fusion 20 >

- ✓ 176 themes by business division Sales 2,800B JPY
 - ✓ 10 Group-wide follow-up themes Operating Profit 325B JPY
- (Excluding the effect of foreign currency and decreased demand, the standard for the final year of Fusion 20 aims for sales of 2,900B JPY and operating profit of 348B JPY.)

Key themes for future growth and development among the “Six Emergency Projects Addressing Important Management Issues” by the entire global Group making decisions quickly and increasing its speed and dynamic energy

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

- ✓ Rapidly implement measures corresponding to changing circumstances from both defensive and proactive perspectives such as visualizing and strengthening SCM in cross-divisional development throughout the company, expanding sales of priority products, increasing procurement capabilities, and reducing inventories.

- Build a system that can bring forth and implement speedy measures from the perspective of total optimization
- Prepare to make global production adjustments that will not generate excess inventory even when demand declines

(2) Strengthening sales and marketing capabilities to increase market share in response to global changes and declining demand while maintaining selling price

- ✓ Outperform rivals, increase market share, and strengthen sales and marketing capabilities for close contact with customers throughout the Group.

- Further strengthen support for sales networks.
- Determine the trends of the market and rivals in each region along with the situation of the sales network through close contact with customers and implement measures that exceed competitors.
- Expand sales through new sales measures such as utilizing telework, e-commerce, and other means that have been rapidly adopted with the increase in telecommuting.

(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

- ✓ Promote development of products and solutions not only for established needs such as air quality, ventilation, air purification, disinfection, and cleaning, but also promote development for the potential markets and customer needs that we have identified.

【Examples of Solution Development Utilizing Daikin Products and Technology】

- Japan: Products that can be retrofitted to commercial air conditioners, including store ventilation air cleaning units and active plasma units that have a disinfecting effect
- United States: Proposals of air purifiers and ventilation options for Ducted Unitary for Houses
- China: Residential multi-split air conditioner with an active ion generator with disinfecting effect
- Europe: Expansion of “Daikin on Site” remote service for Commercial Use, remote monitoring via the Internet to solve equipment troubles, implementation of services that identify damaged parts without needing to contact people
- Asia: Sales expansion of air purifiers in Southeast Asia
- Filter: Capture of new expanding demand including antibacterial products for pharmaceutical factories and hospitals

Developing a global After Sales Service business supporting lifelines

- ✓ Air conditioning is essential for daily life, and the After Sales Service business has social significant in the support of lifelines.

Not only does it respond to breakdowns, it creates new businesses in solving daily life problems such as in the cleaning and disinfecting of air conditioners.

【Example of Development of After Sales Services Business Supporting Lifelines】

- Japan: Expansion of maintenance and overhaul businesses
- China: Strengthening of centers for general customers
- Europe: Services including monitoring of indoor and outdoor environments
- Asia: Development of service engineers by strengthening training centers



Notes on forecast

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