

**Briefing to Analysts and Investors
on FY 2019 Financial Results Ended March 31, 2020
Q&A Session
(May 13, 2020)**

Q: What are your thoughts for business in fiscal year 2020? With the assumption that COVID-19 will have a negative 183-billion-yen impact to operating profit, will that impact extend throughout the entire first half or do you anticipate it to continue longer?

A: In formulating an action plan, we assumed four cases for how long the COVID-19 would continue to have an impact: 1) through the first quarter, 2) through the first half, 3) through the third quarter, and 4) through the entire fiscal year. However, because the outlook due to COVID-19 differs in market and customer trends for each business and region, the action plan makes projections for each based on the current outlook and uses figures that come close to the case in which COVID-19 continues through the first half. Since every case is possible, we have to be ready for all contingencies. For this reason, we think it will be important for us to be sensitive to changes this year and be prepared to quickly take both defensive and proactive measures as needed. We intend to manage operations by reviewing the action plan while responding to the situation on a monthly basis.

Q: Are there new needs emerging due to the spread of COVID-19?

A: Customer needs are significantly changing. While interest is extremely high in air conditioning, ventilation, purification, disinfection, safety and confidence level, and antibacterial, the need for IAQ is increasing. Daikin is not only selling many air purifiers but ventilation product sales are also brisk. In anticipation of greater demand for air conditioner cleaning, stricter standards for IAQ management, solutions proposals providing safety and confidence, and airflow visualization to prevent infection, we believe that strengthening of our Service Solutions business is crucial. As telecommuting from home increases, changes will occur in offices and residences, including the creation of small-scale shared offices in rural areas, while air conditioning in hospitals, grocery stores, and data centers will continue to diversify. Daikin intends to actively respond to these needs.

In addition, there is a growing need for materials that have antibacterial and disinfection properties, and I see opportunities evolving in the future not only in air conditioning but also in the fields of filters and fluorochemicals.

Q: In the fiscal year plan for 2020, what is the reason for the large decline in profit relative to the decline in revenue?

A: When sales fall, fixed costs at factories remain unchanged, and this causes the cost ratio to increase. Because of the nature of the air conditioning business, the first quarter has the highest volume for both production and sales along with high profit margin, and COVID-19 affects profit the most.

Q: With the cost reduction plan of 33 billion yen for fiscal year 2020 being the highest level in recent years, was that figure established because of the crisis situation?

A: In a typical year, cost reductions are 27-30 billion yen, but we have raised the level higher this current fiscal year centering on development, procurement, and productivity. Because we plan a model change for all air conditioner models in Japan, we are incorporating more cost reductions for development. Also, consolidation of the new Goodman factory was completed in November 2019, and we will incorporate the resulting productivity improvements in the future.

Q: For capital investments and R&D expenses for fiscal year 2020, the level is on par with previous years. Do you plan to continue actively making upfront investments?

A: Currently, we would like to continue making upfront investments on the same level as in previous years. Although not yet incorporated into the planned values, we would like to actively perform needed M&A. We intend to prioritize investments and believe that R&D, HR, and capital investments are necessary for future growth, even under these circumstances. We consider these investments as an opportunity to further enhance company competitiveness and generate innovation.

Q: Regarding sales measures, you intend to use telework and e-commerce, but you have a strong sales network with a forte for face-to-face sales. Will it be possible to utilize both?

A: I think both are possible. To give you an example, replacement demand occupies a substantial part of the air conditioning market in Japan, but it is difficult to obtain. We can use our company website and SNS to widely publicize information directly to consumers, identify customer needs, and follow up from the store. Installation work for air conditioners is also required in this case, and we have a complete system with after sales service for all contingencies. In this way, we are aiming for e-commerce in an integrated manner with retailers. I would like for us to enhance communication with customers by positioning our company contact center at the forefront of activities.