



Regarding Second Quarter Financial Results  
for the Fiscal Year Ending March 2021

November 6, 2020

**DAIKIN INDUSTRIES, LTD.**

I would like to express my deep appreciation to you for taking time out of your busy schedule to participate today and for your continued support of Daikin business activities.

## Business Forecast Trends

- ✓ 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.
- ✓ Finalization of the budget in October led to our commitment to 198 billion yen for annual operating profit. With an “aggressive” and “challenging” mindset, we announced that we would thoroughly implement measures toward achieving annual operating profit exceeding 200 billion yen.

(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

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To overcome the unprecedented situation this fiscal year of a virus spreading the entire globe, we took the management position that we would immediately confront the COVID-19 crisis by establishing themes for "defensive and proactive purposes" and "constitutional reform" and by enacting six emergency projects. With the close involvement and attention of top management, the entire global Daikin Group undertook these measures as important issues, and these efforts have led to the creation of results by the entire company.

In April, Daikin started with 150 billion yen for operating profit as part of its action plan. By responding flexibly to ever-changing conditions, we were able to upwardly revise annual operating profit to 170 billion yen in August when we announced the financial results for the first quarter. Moreover, in finalizing the budget on October 5, we committed to annual operating profit of 198 billion yen. As I explained on that day, our aim is to thoroughly implement measures with an “aggressive” and “challenging” mindset and work toward achieving annual operating profit exceeding 200 billion yen.

## Second Quarter Financial Results

- ✓ Both sales and operating profit achieved results that exceeded the October announcement.  
With the continued impact of the COVID-19 pandemic and an increasingly more severe demand environment for commercial-use air conditioners, we will tighten the budget toward a high target exceeding 200 billion yen for annual operating profit and rapidly implement measures by having each division and region fully incorporate the action plan.

- ✓ Operating profit for the first half exceeded 10 billion yen from the October announcement.

[Main factors of upturn] Sales expansion: over 6 billion yen; Fixed cost and cost reductions: over 3 billion yen

- In Japan, we strengthened appeal with a ventilation function for residential-use air conditioners. Sales trends for high value-added products such as **Urusara X** were strong.
- In Japan, Europe, and Asia, air purifier sales grew, and in Europe heat pump type heaters sales increased. Sales, procurement, and manufacturing were integrated to quickly respond to increased production and strong demand.
- In the Chemicals business, sales expanded by recognizing the start of production in the fields of automobiles and household appliances in China.

(billion yen)	FY2019 H1 Result	FY2020 H1		Y/Y
		in Oct.	Result	
<b>Net sales</b>	1,354.2	1,205.0	<b>1,229.2</b>	91%
<b>Operating profit</b> (Percentage of profit to net sales)	168.3 (12.4%)	121.0 (10.0%)	<b>131.6</b> (10.7%)	78%
<b>Ordinary profit</b> (Percentage of profit to net sales)	170.1 (12.6%)	121.0 (10.0%)	<b>131.9</b> (10.7%)	78%
<b>Profit attributable to owners of parent</b> (Percentage of profit to net sales)	118.5 (8.8%)	75.0 (6.2%)	<b>84.6</b> (6.9%)	71%
USD/JPY	¥109	¥108	¥107	
EUR/JPY	¥121	¥120	¥121	
RMB/JPY	¥15.7	¥15.7	¥15.3	

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In the financial results for the first half of the fiscal year, both sales and operating profit exceeded the plan announced on October 5 (sales: 1 trillion 205 billion yen; operating profit 121 billion yen), and 131.6 billion yen was achieved for operating profit.

In formulating the annual budget for this term, each division and region devised measures toward achieving higher targets. At the same time, these measures were incorporated into the action plan, and we did our best to thoroughly execute them with speed. Partly because of that response, I believed that we could exceed the announced targets for the first half financial results, but because of the greater-than-expected recovery in demand, mainly in residential-use air conditioning, we were able to achieve results that significantly surpassed the plan.

First half results performed significantly higher than expected in a short period of time with the breakdown seen in sales expansion of more than 6 billion yen and reductions in fixed costs and other costs of more than 3 billion yen. To begin with, we actively expanded sales activities promoting a ventilation function in residential-use air conditioners, and together with strong sales of high value-added products, such as customers singling out **Urusara X**, these efforts led to additional shipments to dealers. Furthermore, by integrating sales, procurement, and manufacturing while responding rapidly with increased production, we were able to expand sales without losing out on any opportunities during the strong demand for sales of air purifiers in Japan, Europe, and Asia and sales of heat pump type heaters in Europe. In the Chemicals business, sales increased by recognizing that production was starting up earlier than expected in China in the fields of automobiles and household appliances.

## Business Forecast for Full Year

- ✓ The annual plan was upwardly revised for the third time based on first half results.
- ✓ As outlook uncertainty further increases from the reemergence of COVID-19 infections in Europe, movement restrictions in Asia are further prolonged, and the business environment, especially for commercial-use air conditioning, becomes more difficult, we intend to quickly respond to changes in the environment and maximize results of measures while continuing to challenge even higher targets.

(billion yen)	in Oct.		Current Announcement	
	H1 Plan	Total Forecast	H1 Result	Total Forecast
Sales	1,205.0	2,400.0	1,229.2	2,425.0
Operating Profit	121.0	198.0	131.6	210.0
Ordinary Profit	121.0	198.0	131.9	210.0
Profit Attributable to Owners of Parent	75.0	130.0	84.6	140.0

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Based on the financial results for the first half, the annual plan is being upwardly revised to sales of 2 trillion 425 billion yen and operating profit of 210 billion yen. With the increased uncertainty for the future in the second half from the reemergence of COVID-19 in Europe and growing difficulty in the business environment, we intend to maximize measures for the creation of results as we continue to challenge even higher targets with second and third efforts in quick response to changes in the environment.

## Approach to Second Half and Beyond

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- ✓ In the October announcement, we established operating profit of 77 billion yen for the second half after carefully reviewing demand in commercial-use air conditioning.
- ✓ With concerns increasing for a reemergence of COVID-19 infections leading to a second lockdown for Europe and the prolonging of movement restrictions in Asia, the business environment centered on commercial-use air conditioning has worsened.
- ✓ The negative impact for commercial use will be covered by expanding sales in the strong residential-use segment, ventilation and air purifying products that are in high demand because of the COVID-19 pandemic, and heat pump type heaters in Europe. Operating profit for the second half was revised to 78.4 billion yen.
- ✓ We aim to achieve annual operating profit exceeding 210 billion yen in anticipation of definite achievement of the plan announced this time by thorough implementation of measures.

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In announcing the budget in October, we established operating profit of 77 billion yen for the second half after carefully reviewing demand for commercial-use air conditioning in each region, and we will be striving toward that target with defensive and proactive measures, constitutional reform measures, and the six emergency projects.

Currently, the risk for a second wave of COVID-19 is increasing. In light of prolonged movement restrictions in Asian countries and lockdowns in Europe, including France, demand has become increasingly more severe compared to demand at the time of budget formulation, particularly in commercial-use air conditioning.

Under these conditions, the negative impact for commercial use will be covered by expanding sales in the strong residential-use segment, ventilation and air purifying products that are in high demand because of the COVID-19 pandemic, and heat pump type heaters in Europe. With this in mind, operating profit for the second half was revised to 78.4 billion yen.

Not only do we intend to achieve this plan, but we will continue to thoroughly implement measures for even higher results as we aim to achieve annual operating profit exceeding 210 billion yen. As for that driver, I will discuss the themes that we will focus on in the second half.

## Main Measures after the Second Half

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### **Initiatives for commercial-use air conditioners**

- ✓ Maintain direct contact with customers and propose various solutions despite the difficult demand outlook.
- ✓ Utilize customer database that links Sales with After Sales Service and Sales with dealers to promote updated proposals.
- ✓ Promote system proposals incorporating various products, including air quality and ventilation products, filters, and refrigeration products, by market and application such as retail stores, buildings, and data centers.

### **Establishing a brand for an air quality and ventilation business**

- ✓ Capture the robust demand for residential-use air purifiers as we aim to further expand sales mainly in Japan, Asia, and Europe.
- ✓ Launch differentiated products corresponding to regional needs and work to expand the Solutions business by market and application such as system proposals that combine air conditioners as well as proposals for hospitals, schools, and retail stores.

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There are two main points relating to the Air Conditioning business.

The first point involves the initiatives for commercial-use air conditioners, which remain in a difficult situation. In the commercial-use air conditioning market, the outlook for industry demand remains bleak, and this makes it important to maintain direct contact with customers and propose a variety of solutions. We will utilize a customer database that links Sales with After Sales Service and Sales with Dealers to promote updated proposals. Furthermore, we are promoting development of system proposals incorporating various products of the Daikin Group such as air quality and ventilation products, filters, and refrigeration products according to market and application such as retail stores, building, and data centers.

The second point is sales expansion of products related to air quality and ventilation and sales expansion of solutions according to market and application. The sales plan calls for approximately 800,000 residential-use air purifiers worldwide for this term, but because of robust demand we will aim to further expand sales mainly in Japan, Asia, and Europe. Moreover, we intend to establish a brand for an air quality and ventilation business and work toward major commercialization by not only launching differentiated products corresponding to regional needs but also by working to expand the Solutions business by market and application such as system proposals that combine air conditioners as well as proposals for hospitals, schools, and retail stores.

## Main Measures after the Second Half (By Region and Business)

### [Air-Conditioning Business]

#### **Americas: Increasing profits in the North America business**

- ✓ Anticipate expansion in the next fiscal year and after with a strong housing market.
- ✓ Improve inventory situation with recovery of Goodman manufacturing capabilities from October; improve productivity while increasing production in response to demand and increase profits by strengthening cost competitiveness.

#### **Asia/Oceania: Strengthening of marketing capabilities in anticipation of market recovery**

- ✓ Expect full-scale recovery of overall air conditioning demand to take 2 to 3 years.
- ✓ Strengthen marketing capabilities by enlarging the sales networks for commercial use and providing dealer support utilizing online activities.
- ✓ Strengthen the Solutions business that includes parts and controls in Applied where demand is expected to grow due to government infrastructure investments.

#### **Europe: Major commercializing of heat pump type heaters**

- ✓ Promote conversion from combustion type heating to heat pump type heating using incentives from the Green Deal policy.
- ✓ Expect increase in demand for not only new construction but also replacement with new incentives announced in Italy, the UK, and other countries.
- ✓ Expand sales by expanding the sales and after sales service networks and launching new products.

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Next, I would like to discuss regional efforts for air conditioning.

First, in North America, the U.S. housing market is trending strong and is expected to expand for the next fiscal year and beyond. Accompanying the COVID-19 pandemic, operations at the Goodman factory were temporarily suspended for employee safety in April for three weeks, resulting in the issue of inventory shortages. However, manufacturing has been returning to normal since October, and the tight inventory is improving. We plan to improve productivity by adopting a system to boost production capacity to meet demand and increase profits by further improving cost competitiveness.

In Asia/Oceania we will strive for further business expansion in each country.

In the first half, residential-use air conditioning trended relatively steady, but full-scale recovery for overall air conditioning demand, including commercial use, is expected to take two to three years. Looking ahead to second half business contribution and period of economic recovery, we will strive to strengthen business for commercial use and improve marketing capabilities in Asia overall by building even stronger stores that combine online and offline activities, such as developing dealer support utilizing online tools. This is expected to drive business expansion. Moreover, we will strengthen the Applied business where demand is expected to grow, even from now, by government infrastructure investments, and we will strive toward a Solutions business that includes not only equipment but also parts and controls.

Next, we will expand sales of environmental products in Europe and commercialize our main force of heat pump heaters. In Europe, incentives from the Green Deal policy will provide a tailwind, and progress is being made in replacement of combustion heaters, such as gas and oil heaters, with heat pump type heaters. Since August, new incentives were announced in each country, including Italy and the U.K., and demand is expected to grow not only for new homes but also for replacement demand. We will expand sales by strengthening our sales and after sales service networks and launching new products.

## Main Measures after the Second Half (By Region and Business)

### Japan: Introducing new products related to air quality and ventilation

- ✓ Expand the product lineup in residential use with built-in ventilation function; expand standard models and housing air conditioners of floor-standing/ceiling-mounted cassette type models in addition to the flagship product **Urusara X**.
- ✓ Focus on system proposals in commercial use that combine retrofitted heat reclaim ventilators and air conditioners.

### China: Strengthening sales competitiveness for residential-use multi-split air conditioners

- ✓ Economic activities recovered early as COVID-19 infections subsided.
- ✓ Strengthen relationships with sales and management support to dealers and PROSHOPs, even during COVID-19.
- ✓ Utilize our strong sales networks and promote sales activities combining online and offline approaches.

### [Chemicals Business]

#### Strengthening sales to semiconductor and automotive markets

- ✓ Capitalize on the recovery in the semiconductor market and strengthen sales to major end-users.
- ✓ Promote application development such as in lithium-ion battery materials for next-generation automobiles during the accelerating shift to EVs and HVs; strengthen 'spec-in' activities for battery manufacturers.

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Also, in the future, we plan to globally launch new products relating to air quality and ventilation, beginning with Japan. Utilizing the global product development resources of our company, we will quickly develop new products and have these new products spur an improvement in sales. Specifically, for residential-use air conditioners in Japan, we will launch products from the second half of the year that include not only our high-end **Urusara X** but also standard models, and housing air conditioners of floor-standing and ceiling-mounted cassette type models with a built-in ventilation function. In Commercial Use, we will focus on system proposals that combine retrofitted heat reclaim ventilators and commercial-use air conditioners.

In China, the COVID-19 situation subsided the earliest in the world, and economic activities have been recovering at an earlier period than other countries. Even during the COVID-19 pandemic, Daikin has had a strong connection with dealers and PROSHOPs through its sales promotion and management support to them and has strengthened sales capabilities. While utilizing the strength of our unique dealer network, we have further strengthened the sales competitiveness for residential-use multi-split air conditioners through a combination of online and offline sales.

Also, in the Chemicals business, we will capture the start of recovery and demand in the semiconductor market and promote sales expansion. For the next-generation automobile market where demand is expected to grow with acceleration in EVs and HVs, we will promote application development of lithium-ion battery materials and strengthen 'spec-in' activities for battery manufacturers.



## Reference: 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



**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.

When we announced a revision in the forecast of financial results on October 5, I said that even in the face of the COVID-19 pandemic I would like our company to adopt an aggressive and challenging mindset, recover to a pre-COVID-19 level for operating profit in fiscal year 2022, and welcome 2024, the 100th anniversary of our founding, with new record highs in financial results. Today in addition to the financial results announced for the first half, I would like us to take on the challenge of achieving new record highs ahead of time by expanding the measures for growth and development that we are working on now and have them lead to the definite achievement of results.