



Daikin Industries, Ltd.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2022

August 3, 2021

Event Summary

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[Number of Speakers]	2	
	Kota Miyazumi	Executive Officer, Responsible for Corporate Communication
	Kazuhiro Matoba	Department Manager of Corporate IR Group, Corporate Communication Dept.
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	Yuichiro Isayama	Goldman Sachs Japan Co., Ltd.
	Sho Fukuhara	Jefferies Japan Limited
	Graeme McDonald	Citigroup Global Markets Japan Inc.
	Kentaro Maekawa	Nomura Securities Co., Ltd.
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Yoichiro Watanabe	Mito Securities Co., Ltd.
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Presentation

Moderator: We would like to begin the presentation of Daikin Industries, Ltd.'s financial results briefing for the first quarter of the fiscal year ending March 2022. Today's presenters are Kota Miyazumi, Executive Officer in charge of Corporate Communication; and Kazuhiro Matoba, Department Manager of Corporate IR Group, Corporate Communication Dept.

Executive Officer Miyazumi will give an overview of the financial results for about 15 minutes, and then we will enter a question-and-answer session. The meeting is scheduled to end at 6:00 PM. The presentation materials are posted on the Investor Relations page of the Company's website as distributed via email today. Please make sure you have them on your hand.

Now we will begin the presentation.

■ Summary of Financial Results

Achieving Record High Financial Results on a Quarterly Basis

- ✓ Facing the effects of soaring market prices for raw materials and the spread of the novel coronavirus (COVID-19) in Asia, Daikin thoroughly implemented seven key themes for fiscal year 2021 (including strategic selling price measures, expansion of sales and market share, and cost reductions) to absorb these negative effects.
- ✓ In the Air Conditioning business, demand exceeded expectations for residential air conditioning, mainly in developed countries. In addition to launching new products and strengthening sales and marketing capabilities, we increased market share by flexibly responding to concerns for shortages, such as for electronic components, and supplying what was needed. We also expanded sales by capturing strong demand in Europe for heat pump type hot water heating systems.
- ✓ In the Chemicals business, a recovery in demand in the semiconductor and automotive markets led to the expansion of sales.

(billion yen)	Q1 Result		
	FY2020	FY2021	Y/Y
Sales	581.7	799.0	137%
Operating Profit	54.5	109.3	200%
(Percentage of profit to net sales)	(9.4%)	(13.7%)	
Ordinary Profit	55.1	111.9	203%
(Percentage of profit to net sales)	(9.5%)	(14.0%)	
Profit Attributable to Owners of Parent	33.1	78.6	238%
(Percentage of profit to net sales)	(5.7%)	(9.8%)	
USD/JPY	¥108	¥110	
EUR/JPY	¥118	¥132	
RMB/JPY	¥15.2	¥17.0	

FX Effect (Y/Y)

Sales +29.5 billion yen
Operating Profit +4.0 billion yen

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Miyazumi: Hello, everyone, this is Kota Miyazumi. Thank you very much for participating in today's financial results briefing. I will explain the outline of the first quarter financial results according to the materials.

Please see page 2.

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Facing the effects of soaring market prices for raw materials and the spread of the novel coronavirus in Asia, Daikin thoroughly implemented 7 key themes for FY2021, including strategic selling price measures, expansion of sales and market share, and cost reductions, and we posted record-high quarterly figures.

Actual exchange rates were JPY110 to the US dollar, JPY132 to the euro, and JPY17 to the Chinese yuan. The YoY impact of the foreign exchange rates on net sales and operating profit was a positive JPY29.5 billion and JPY4 billion, respectively.

(Reference) Key Themes for FY2021

1. Strategic selling price measures that absorbs cost increases of market conditions, etc., with the aim of maintaining profitability
2. Outperforming rivals and increasing market share
 - Further sales expansion of residential-use air conditioners, capturing replacement demand for commercial air conditioners, and acceleration of digital sales
 - Global sales expansion of air quality and ventilation products, development of differentiated products, and development of solution proposal options
3. Reinforcement and maximization of variable cost reductions
 - Replacement of materials from copper to aluminum, standardization of core parts, and expansion of in-house production
4. Measures to control soaring logistics costs and further streamlining of logistics
5. Drastic reduction of fixed costs and as improving efficiency of indirect operations
6. Building of a flexible position that is prepared for the highs and lows of the management environment
7. Start dash of key themes for “Fusion 25” that include heating, air quality, and solutions

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Page 3 shows an overview of the 7 key themes for FY2021.

This is a re-statement of the announcement we made in May, so I will skip the explanation.

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■ Financial Results by Segments

(billion yen)		Q1 Result		
		FY2020	FY2021	Y/Y
Total	Sales	581.7	799.0	137%
	Operating Profit (Percentage of profit to net sales)	54.5 (9.4%)	109.3 (13.7%)	200%
Air-Conditioning	Sales	536.7	735.6	137%
	Operating Profit (Percentage of profit to net sales)	51.6 (9.6%)	100.0 (13.6%)	194%
Chemicals	Sales	35.6	50.4	142%
	Operating Profit (Percentage of profit to net sales)	2.7 (7.5%)	7.9 (15.7%)	298%
Others	Sales	9.4	12.9	137%
	Operating Profit (Percentage of profit to net sales)	0.2 (2.6%)	1.4 (10.8%)	559%

※Air-Conditioning business includes filter, refrigerator and freezer businesses.

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Please see page 4. These are the financial results by business segments.

In the Air-Conditioning business, while demand for residential air conditioners exceeded our expectations, mainly in industrialized countries, we expanded our market share by introducing new products, strengthening sales and marketing capabilities, as well as flexibly responding to concerns about shortages of electronic components and other products and continuing to supply them.

In the Chemicals business, sales expanded significantly, reflecting a recovery in demand in the semiconductor and automobile markets.

In the Others segment, sales in the Oil Hydraulics business increased for industrial machinery and construction machinery vehicles.

For the Air-Conditioning business, we enjoyed positive foreign exchange rate effects of JPY27 billion on sales and JPY3.5 billion on operating profit.

In the Chemicals business, the foreign exchange rate effects boosted sales by JPY2.5 billion and operating profit by JPY500 million.

The status of each business and the status of the Air-Conditioning business by region will be explained later.

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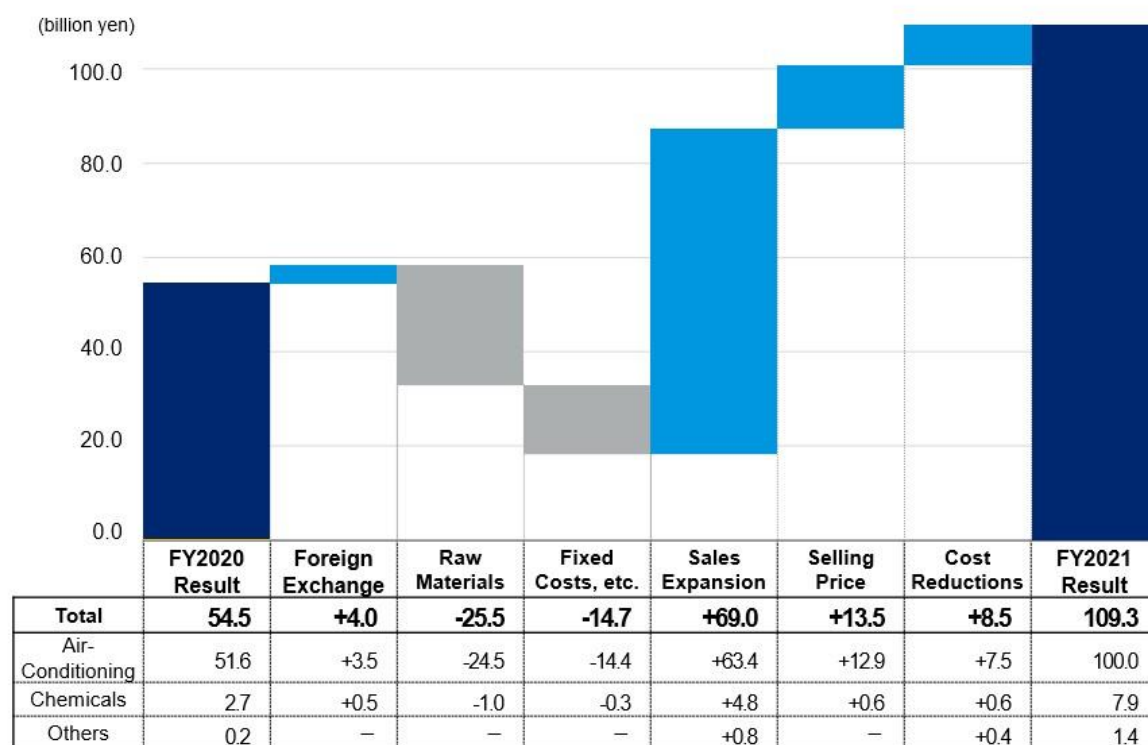
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■ Breakdown of Changes in Operating Profit

[Year-on-Year Comparison of Q1]



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Please see page 5. This is an analysis of YoY changes in operating profit for the first quarter.

Although there was a greater-than-expected negative impact from soaring raw materials prices and logistics costs, we were able to achieve a sharp increase in profit by expanding sales and adding selling price measures.

The breakdown by segments is as described here.

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■ Companywide Business Forecast

Reflecting Strong Q1 with Upward Revision of the Full-Year Plan

- ✓ Adding to the delayed recovery in demand for commercial air conditioning and the prolonged impact of the spread of the COVID-19 pandemic in Asia, the effects of soaring market prices for raw materials and greater logistics costs are expected to further worsen from the second quarter.
- ✓ In response, we will launch new products for the strong demand in residential air conditioning, expand sales and increase market share for indoor air quality (IAQ) and ventilation products, and strengthen solutions by market and application in commercial air conditioning. At the same time, we intend to expand sales of heat pump type heaters, implement comprehensive selling price measures, prepare to supply for an anticipated upsurge in sales, and promote cost reductions.
- ✓ By continuing to produce results for the seven key themes and covering the negative effects, we aim to set a new record high in financial results for the full year.

(billion yen)	FY2021 Forecast							
	(Previously announced)				(Currently announced)			
	H1	Y/Y	Total	Y/Y	H1	Y/Y	Total	Y/Y
Sales	1,450.0	118%	2,750.0	110%	1,510.0	123%	2,810.0	113%
Operating Profit (Percentage of profit to net sales)	163.0 (11.2%)	124%	270.0 (9.8%)	113%	183.0 (12.1%)	139%	290.0 (10.3%)	122%
Ordinary Profit (Percentage of profit to net sales)	163.0 (11.2%)	124%	270.0 (9.8%)	112%	183.0 (12.1%)	139%	290.0 (10.3%)	121%
Profit Attributable to Owners of Parent (Percentage of profit to net sales)	107.0 (7.4%)	126%	177.0 (6.4%)	113%	120.0 (7.9%)	142%	190.0 (6.8%)	122%

USD/JPY
EUR/JPY
RMB/JPY

¥105
¥125
¥16.0

※ There have been no changes in the exchange rate assumptions from Q2 of
1 USD: 105 yen; 1 EUR: 125 yen; and 1 RMB: 16.0 yen.

FX Effect (Y/Y)

Sales +18.0 billion yen
Operating Profit -0.2 billion yen

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Please see page 6.

We revised up the full-year operating profit plan to JPY290 billion, reflecting the better-than-expected results in the first quarter. As for the plan for the second quarter and beyond, we have left the initial estimates unchanged due to the continued uncertainty of the business environment.

While COVID-19 vaccinations make progress, there are continuing concerns about the prolonged effects of the spread of COVID-19 in Asia and other emerging countries, and about the rekindled spread of infections in Japan, the US, and Europe.

In addition to a delay in the recovery of demand for commercial air-conditioning systems, the impact of soaring raw materials prices and distribution costs is expected to expand further in the second quarter and beyond.

We will strive to sustain the momentum of the first quarter and take on the challenge of further increasing profits in the second quarter and the second half, by taking thorough measures to deal with the growing impact of those factors, and by continuing to produce results for the 7 key themes. By doing so, we hope to replace our record-high performance for the full year by a significant margin.

Specifically, the Company will expand sales of residential air-conditioning systems by introducing new products, expand sales of indoor air quality, or IAQ, and ventilation products and heat pump type heaters, and strengthen the Solutions business in commercial air-conditioning systems. At the same time, we will

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further strengthen our efforts to implement selling price measures and cost reductions, and to build a production and supply system to prepare for supply chain risks.

There was no change in the dividend payment forecast from the previous announcement. We will reconsider our dividend payment plan based on the first-half results.

■ Business Forecast by Segments

(billion yen)		FY2021 Forecast			
		(Previously announced)	Y/Y	(Currently announced)	Y/Y
Total	Sales	2,750.0	110%	2,810.0	113%
	Operating Profit (Percentage of profit to net sales)	270.0 (9.8%)	113%	290.0 (10.3%)	122%
Air-Conditioning	Sales	2,506.5	110%	2,563.0	113%
	Operating Profit (Percentage of profit to net sales)	244.5 (9.8%)	110%	262.5 (10.2%)	118%
Chemicals	Sales	186.5	114%	188.0	115%
	Operating Profit (Percentage of profit to net sales)	21.0 (11.3%)	185%	22.5 (12.0%)	198%
Others	Sales	57.0	103%	59.0	107%
	Operating Profit (Percentage of profit to net sales)	4.5 (7.9%)	109%	5.0 (8.5%)	121%

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Please see page 7. This is our business forecast by segments.

In the Air-Conditioning business, the sales estimate was increased by JPY56.5 billion and the operating profit estimate was raised by JPY18 billion from the previous forecast.

In the Chemicals business, the estimate for sales increased by JPY1.5 billion and that for operating profit also increased by JPY1.5 billion from the previous announcement.

In the Others segment, we raised the sales estimate by JPY2 billion and the operating profit estimate by JPY500 million from the previous announcement.

As for the Air-Conditioning business, although progress in Asia was lower than expected in the first quarter, the Air-Conditioning business in the Americas, Europe, and China exceeded the initial plans.

For the Air-Conditioning business, we forecast that foreign exchange rates will have a positive impact of JPY16.3 billion on sales and a negative impact of JPY700 million on operating profit. For the Chemicals business, we expect a positive foreign exchange impact of JPY1.7 billion on sales and that of JPY500 million on operating profit.

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■ Sales by Region – Air-Conditioning Business

※Percentage expresses year on year comparison

(billion yen)	FY2017 Q1		FY2018 Q1		FY2019 Q1		FY2020 Q1		FY2021 Q1	
	Japan	106%	105.1	108%	113.6	112%	127.4	91%	116.3	117%
Europe	103%	71.7	122%	87.4	107%	93.8	93%	87.4	157%	137.0
China	115%	105.7	110%	116.7	96%	112.4	79%	89.1	146%	130.0
Americas	115%	154.0	110%	169.0	107%	180.7	92%	166.1	133%	221.6
Asia	100%	71.1	109%	77.5	107%	82.8	64%	53.2	138%	73.5
Oceania	122%	14.7	125%	18.3	92%	16.9	97%	16.3	138%	22.5
Middle East	94%	11.5	92%	10.6	91%	9.7	75%	7.2	186%	13.4
Africa	103%	1.7	116%	1.9	82%	1.6	71%	1.1	115%	1.3
Total	109%	535.4	111%	595.1	105%	625.3	86%	536.7	137%	735.6
Overseas Sales ratio		80%		81%		80%		78%		81%
USD/JPY		¥111		¥109		¥110		¥108		¥110
EUR/JPY		¥122		¥130		¥123		¥118		¥132
RMB/JPY		¥16.2		¥17.1		¥16.1		¥15.2		¥17.0

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Please see page 8.

Sales by region in the Air-Conditioning business were up significantly YoY in all regions. Excluding the impact of foreign exchange rates, the real YoY change in sales was 141% of the year-before level in Europe. The figures for China, the Americas, and Asia were 131%, 131%, and 133%, respectively.

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■ Sales by Region – Chemicals Business

※Percentage expresses year on year comparison

(billion yen)	FY2017 Q1		FY2018 Q1		FY2019 Q1		FY2020 Q1		FY2021.Q1	
	Japan	119%	10.7	115%	12.3	103%	12.6	71%	9.0	147%
Americas	129%	10.7	106%	11.3	95%	10.8	71%	7.7	135%	10.3
China	110%	8.8	111%	9.8	90%	8.8	105%	9.3	133%	12.3
Asia	140%	5.0	123%	6.1	87%	5.3	88%	4.7	127%	6.0
Europe	100%	5.9	171%	10.2	63%	6.4	76%	4.8	173%	8.4
Others	132%	0.3	152%	0.4	81%	0.3	40%	0.1	179%	0.2
Total	118%	41.4	121%	50.1	88%	44.3	80%	35.6	142%	50.4
Overseas Sales ratio		74%		75%		71%		75%		74%
USD/JPY		¥111		¥109		¥110		¥108		¥110
EUR/JPY		¥122		¥130		¥123		¥118		¥132
RMB/JPY		¥16.2		¥17.1		¥16.1		¥15.2		¥17.0

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Please see page 9.

Sales by region in the Chemicals business also increased significantly YoY in all regions. Real-term sales excluding the foreign exchange effects were 133% of the year-before level in the Americas, 120% in China, and 156% in Europe.

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■ Business and Regional Overview – Air-Conditioning

Japan

Industry demand for Residential Air Conditioning continued to show strong pent-up demand. Daikin reinforced sales of high value-added products such as **Urusara X**, which is equipped with a ventilation function. With more time being spent indoors, interest has grown for energy savings and increased the need for IAQ. Taking advantage of this, we expanded market share. For air purifiers, we launched the **UV Streamer Air Purifier** with a function that significantly inhibits viruses and bacteria, and captured the strong demand.

Industry demand for Commercial Air Conditioning improved over the previous fiscal year as economic activities gradually recovered. Daikin enhanced system proposals that combine air conditioners and ventilation products. Sales for ventilation equipment, such as heat reclaim ventilators, grew substantially. For Applied, we improved sales of R32 chillers.

Y/Y change (Volume basis)		Q1 Result
Residential	Market	101%
	Daikin	115%
Commercial	Market	107%
	Daikin	112%
Applied	Market	89%
	Daikin	79%
Air purifiers	Market	130%
	Daikin	164%

※Applied is based on total sales.

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Please see page 10.

I will now explain the status of the Air-Conditioning business by region.

First is the Air-Conditioning business in Japan.

Demand for residential air-conditioning systems continued to show strong stay-at-home demand. We strengthened our sales activities focusing on the ventilation function of Urusara X. With more time being spent indoors, we caught the growing interest in energy saving and the need for air quality and expanded our market share. In air purifiers, we sharply expanded sales by launching a new product with a function that significantly inhibits viruses and bacteria.

In commercial air conditioning, industry demand exceeded the year-before level due to a gradual recovery in economic activities. By enhancing system proposals in response to a change in demand, we expanded sales of ventilation products, such as heat reclaim ventilators, and expanded our market share. For applied systems, we improved sales of R32 chillers.

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■ Business and Regional Overview – Air Conditioning

Americas

Accompanying the resumption of economic activities, pent-up demand drove personal consumption, and the economy steadily recovered. Daikin expanded sales mainly in the residential market where demand is strong. Partly from the effect of selling prices and the tailwind of a heat wave, sales substantially exceeded the previous fiscal year.

- In Ducted Unitary for Houses, we accelerated initiatives to increase manufacturing personnel and reduce employee turnover while strengthening productivity. Sales increased due to the launch of new products equipped with inverters.
- In Ductless, we captured the rising demand for **RA/SKY** in the housing market and expanded sales. In addition to strong sales for the residential segment, sales of **VRV systems** also increased for Commercial Air Conditioning with the resumption of projects. Sales company acquisitions also contributed to a substantial increase in sales over the previous fiscal year.
- In Applied, in addition to increasing sales of chillers and fan coils, we strengthened our After Sales Service business, and sales expanded.

(Y/Y change)		Q1 Result
Ducted unitary for houses		123%
Ductless	RA/SKY	181%
	VRV	162%
Applied		113%

※Applied is based on total sales in local currency.

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Please see page 11. It shows the Air-Conditioning business in the Americas.

Pent-up demand drove personal consumption, and the economy steadily recovered. Daikin expanded sales mainly in the residential market where demand is strong. Partly from the effect of selling prices and the tailwind of a heat wave, sales substantially increased YoY.

In ducted unitary for houses, we accelerated initiatives to strengthen the output capacity at Goodman, such as an increase in manufacturing personnel, and increased sales new products equipped with inverters.

Ductless systems saw a significant YoY increase in sales, thanks to strong sales for residential use in response to the need for improved living space. Sales company acquisitions also contributed to the sharp YoY increase in sales. Goodman's overall sales were 141% of the year-before level on a local currency basis.

In the Applied Business, or DAA, in addition to increasing sales of chillers and fan coils, we strengthened our After-Sales Service business.

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■ Business and Regional Overview – Air Conditioning

China

The market recovered with the support of solid personal consumption and increased exports. Together with strengthening the lineup of IAQ and ventilation products, we accelerated sales activities utilizing online tools. Sales substantially exceeded the previous fiscal year. Despite the impact of soaring raw material prices, we thoroughly expanded sales of high value-added products, cost reductions, and reduced fixed costs to maintain high profits.

- For the Residential Air Conditioning market, we enhanced sales activities that combine online sales with conventional sales at our **PROSHOP** specialty stores. By focusing on identifying new customers and capturing replacement demand, we significantly expanded sales of residential multi-split air conditioners.
- For the Commercial Air Conditioning market, we expanded sales by promoting collaboration with major developers in large-scale projects. To stores and offices where recovery in demand has been slow, we strengthened proposal sales that promoted ventilation and cleaning and captured replacement demand.
- For the Applied market, together with a shift in sales resources to growth markets, such as infrastructure and data centers, we strengthened our maintenance and servicing business.

Y/Y change (Local currency basis)	Q1 Result
Residential	136%
Commercial	120%
Applied	109%

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Please see page 12.

In the Air-Conditioning business in China, together with strengthening the lineup of IAQ and ventilation products, we accelerated sales activities utilizing online tools. Sales substantially exceeded the year-before level.

In the residential air-conditioning market, the search for new customers through online events and sales activities using live broadcasts were successful, resulting in a significant increase in residential multi-split air conditioners to 135% of the year-before level.

In the commercial air-conditioning market, where demand has been recovering, we expanded sales by promoting collaboration with major developers in large-scale projects. To stores and offices, we strengthened proposal sales that promoted ventilation and cleaning.

In the applied market, we have shifted our sales resources to growth markets, such as infrastructure and data centers.

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■ Business and Regional Overview – Air Conditioning

Europe, Middle East, and Africa

In Europe, sales expanded by capitalizing on the quick recovery in demand with stable supply through localized production. In the Middle East, capital investment resumed with the recovery of crude oil prices. Sales for the region overall substantially exceeded the previous fiscal year.

- In Residential Air Conditioning, we expanded sales by obtaining pent-up demand in countries such as France and Spain. Widespread sales were also seen in Germany, the Netherlands, and Belgium.
- In Commercial Air Conditioning, sales expanded for models such as refrigerant-saving **VRV systems** with the resumption of economic activities accompanying the lifting of lockdowns.
- In the Heating business, sales expanded by utilizing a lineup of wide-ranging products for heat pump type heaters. Market share expanded by capitalizing on strong demand from high environmental awareness and incentives.
- In Applied, sales of environmentally conscious products such as R32 chillers increased.
- In the Refrigerator and Freezer business, we accelerated development of one-stop solutions. Sales expanded to food retailers where demand is strong.

Y/Y change (Volume basis)		Q1 Result
Residential		119%
Commercial	SKY	141%
	VRV	140%
Heat Pump Heaters		211%
Applied		144%

※Residential, commercial, and heating are only for Europe.

※Applied is based on total sales in local currency.

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Please see page 13.

In Europe, we expanded sales by capitalizing on the quick recovery in demand with stable supply through localized production.

In the Middle East, capital investment resumed with the recovery of crude oil prices. Overall sales for the region increased substantially YoY.

In residential air conditioning, we expanded sales by obtaining stay-at-home demand in countries like France and Spain.

In commercial air conditioning, sales expanded for models such as refrigerant saving VRV systems with the resumption of economic activities.

In the Heating business, sales of heat pump type heaters increased, driven by rising environmental awareness and incentives to promote replacement of combustion heating.

In the Refrigerator and Freezer business, we accelerated development of one-stop solutions. Sales expanded to food retailers.

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■ Business and Regional Overview – Air Conditioning

Asia and Oceania

Accompanying the resurgence of the COVID-19 pandemic, business activities have become restricted in all Asian countries. Nevertheless, we have worked to enlarge our own dealer networks and strengthen sales activities utilizing online tools. Because of sales expansion in Oceania where demand is strong and selling price measures, sales for the region overall greatly exceeded the previous fiscal year.

- In Residential Air Conditioning, Indonesia, Vietnam, and Australia expanded sales, whereas countries such as Malaysia and Thailand were impacted by restrictions on activities. Even in India, initiatives were implemented that included online training to strengthen relationships with dealers, and sales significantly increased.
- In Commercial Air Conditioning, we focused on sales for public facilities where demand is relatively stable and expanded sales despite sluggish capital investment resulting from the economic downturn, delays in start of construction work due to insufficient workers at the construction sites, and postponements of construction.
- In Applied, we concentrated on the After Sales Service business such as maintenance and servicing.

■ Year-on-year sales of main countries (local currency basis)

Australia: 112% India: 221% Vietnam: 104%
 Malaysia: 124% Thailand: 92% Indonesia: 126%

Y/Y change (Volume basis)		Q1 Result
Residential		125%
Commercial	SKY	133%
	VRV	121%
Applied		126%

※Applied is based on total sales in local currency.

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Please see page 14, which shows the Air-Conditioning business in Asia and Oceania.

Accompanying the resurgence of the COVID-19 pandemic, business activities have become restricted in all Asian countries. Nevertheless, we strengthened sales activities utilizing online tools. Partly due to sales expansion in Oceania, where demand has been strong, as well as selling price measures, sales for the region overall greatly exceeded the year-before level.

In the residential air-conditioning market, we expanded sales through our own distributor channels, and sales in Indonesia, Vietnam, and Australia increased YoY. Even in India, initiatives were implemented that included online training to strengthen relationships with dealers, and sales increased YoY.

In commercial air conditioning, we focused on sales for public facilities where demand is relatively stable and expanded sales despite sluggish capital investments resulting from the economic downturn, delays in starts of construction work due to insufficient workers at construction sites, and postponements of construction.

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■ Business and Regional Overview – Chemicals

Sales activities were strengthened with a focus on the semiconductor and automotive markets where demand has largely recovered, and sales for all product groups expanded. Sales substantially exceeded the previous fiscal year.

- In Fluorocarbon Gas, sales expanded in Europe, and selling price was increased against the backdrop of soaring market prices accompanying environmental restrictions. Sales greatly exceeded the previous fiscal year.
- Polymers and Elastomers
 - Fluoropolymers sales expanded by capitalizing on recovery in demand for the semiconductor market and LAN cables. Results exceeded the previous fiscal year in each region.
 - Fluoroelastomers sales expanded for the automotive market where demand is favorable. Results exceeded the previous fiscal year in each region.
- In Fine Chemicals, sales for anti-smudge surface antifouling agents decreased due to lower demand from a reversal of the strong sales in the previous fiscal year for table PCs and smartphones. Sales for water and oil repellent agents grew mainly on paper applications where demand was strong due to an increase in food takeout. Sales of etching gas expanded in China and Japan in response to the recovery in demand in the semiconductor market.

Y/Y change (Sales basis)	Q1 Result
For all fluorochemical products	142%
Fluorocarbon Gas	121%
Polymers & Elastomers	154%
Fine Chemicals, etc.	128%

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Please see page 15.

In the Chemicals business, sales activities were strengthened with a focus on the semiconductor and automotive markets where demand has largely recovered, and sales increased YoY in all product groups, including fluorocarbon gas, polymers & elastomers, and fine chemicals.

In fluorocarbon gas, sales expanded in Europe, and the selling price was increased against the backdrop of soaring market prices accompanying environmental restrictions.

Fluoropolymers sales expanded by capitalizing on recovery in demand for the semiconductor market and LAN cables.

Fluoroelastomers sales expanded for the automotive market. Sales of both polymers and elastomers increased YoY in each region.

In fine chemicals, sales for anti-smudge surface antifouling agents decreased due to lower demand from a reversal of strong sales in the previous fiscal year for tablet PCs and smartphones. Sales of etching gas and those of water and oil repellent agents mainly for paper applications increased YoY.

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■ Business and Regional Overview – Filters

As demand recovered, mainly in Europe, Japan, and the United States, we promoted the construction of a stable supply system, total cost reductions, and sales of high value-added products seeking virus prevention measures and air quality improvements. Sales exceeded the previous fiscal year.

- In the Air Filter segment, we responded to the growing needs for ventilation and strengthened sales activities for products that mitigate the spread of infectious diseases, such as high-performance filters and negative pressure units. Sales for hospitals, cleanrooms, and residences expanded in each region.
- In P&I*, demand in the gas turbine market is improving in the recovering economy. We made efforts to improve the business structure by shifting resources to the After Sales Service business.

*P&I: commercial-use dust collection systems such as for gas turbines and large-scale plants

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Please see page 16.

In Filters, we have been accelerating the improvement of our business structure, and promoted the construction of a stable supply system, total cost reductions, and strengthening of sales capabilities.

In the Air-Filter segment, we responded to the growing needs for ventilation and expanded sales of products that mitigate the spread of infectious diseases, such as high-performance filters and negative pressure units.

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■ Capex, Depreciation and R&D Cost

(billion yen)	FY2020		FY2021	
	Q1 Result	Full-year Result	Q1 Result	Full-year Forecast
Capex	31.4	137.0	29.1	150.0
Depreciation	25.0	103.5	27.9	115.0
R&D Cost	15.8	71.7	19.0	80.0

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Please see page 17.

Capital investments in the first quarter totaled JPY29.1 billion, depreciation was JPY27.9 billion, and R&D expenses were JPY19 billion.

We have made no change to any of the full-year plans.

That is all for my explanation. Thank you very much.

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Question & Answer

Moderator: We will now begin the question-and-answer session. When it is your turn to ask a question and the moderator calls your name, please give your name and company name and ask your question.

Mr. Isayama from Goldman Sachs Japan, please ask your question.

Isayama: Hello, everyone. This is Yuichiro Isayama from Goldman Sachs Japan. I would like to ask 2 general questions.

The first is about selling prices. It is evident that your sales volume performed extremely well, if I look at the figures. I think that Mr. Miyazumi talked a little too much about selling prices and sales mix in the explanation.

According to President Togawa's previous explanation, I expected that the effect of selling prices were likely to be larger in the second half than in the first half, but I see that the first quarter results were far higher than the full-year figures in the initial forecast. Was the progress of the selling price measures due to good results of additional price hikes or better performance of the product mix?

I wonder if we can expect a further positive effect due to the selling price measures in the future. What is your impression on the results of the selling price measures? Such as better than the plans? And please include the perspective of the product mix. This is the first question.

Miyazumi: Thank you for the question, Mr. Isayama. As you just said, the selling prices. First of all, operating profit in the first quarter reached a record high of JPY109.3 billion. This represents a progress rate of 38% against the annual target, which was quite a high level. Generally speaking, about the hikes in selling prices, particularly in residential air conditioners, it was generally easy to raise selling prices in an external environment where materials prices were surging.

Against this backdrop, we vigorously raised selling prices in almost all regions. For example, let's talk about the US. Our subsidiary, Goodman, has increased selling prices there. It already raised prices twice, in March and June. It plans another hike in August, 1 month ahead of an original price hike scheduled for September. As the price hikes have spread to a certain extent, Goodman's performance has been very good.

In terms of the sales mix, as each manufacturer faces it, there is a bottleneck on the supply side. So, some companies have shifted the price ranges in which they can sell large quantities. At Daikin, we have taken a stance of selling products with high value-added. We recognize that profit has been accumulated to a certain extent since we have changed our sales mix, including the measures for selling prices.

Isayama: Thank you very much, Mr. Miyazumi. Regarding the additional price hike in North America, you mentioned the plan in August. At the beginning of the year, you said that you may raise the effect of the selling price measures from the initial plan of JPY44 billion because materials prices kept rising that much. Is it correct to say that you are working to increase the amount further? Will there be an additional hike later than August?

Miyazumi: Let's see. In May, we expected that selling prices will boost operating profit by JPY44 billion in our initial full-year operating profit forecast of JPY270 billion. Now we have revised this up to JPY290 billion. However, we have just added the upswing in the first quarter to the previous forecast. We have to consider the course of our business for the second quarter and beyond in more detail.

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On top of the positive effect of selling prices worth JPY44.4 billion, we expected in May that sales expansion will boost operating profit by JPY76.4 billion. We consider that we will be able to raise the amounts much further. Unless we cannot raise them, we will not be able to absorb the surge in materials prices. Accordingly, we will try to take the selling price measures actively.

We cannot disclose how we raise selling prices in detail. However, for example, there may be an option that we raise the prices of our equipment while we will extend the free-service period for the products in question.

Isayama: Thank you very much. The second question is about the business in North America. I would like to ask Goodman's sales on a local currency basis. On page 11, ducted unitary for houses in North America rose 23% YoY in terms of volume in the first quarter. As each of competitors, such as Lennox and Carrier, saw a sales increase of around 30%, including the price hike effects, I guess that the level of increase was similar.

The question is: Can Goodman's production keep up with rising demand now that it has solved all production problems? Has the Company recovered its share and restored confidence from distributors? Further speaking, I would like to expect that it will stay competitive with its competitors if it is able to accumulate its inventory and recover its market share.

After I learn Goodman's growth rate on a local currency basis, I would like to know the situation of production of ducted unitary for houses products. You said the performance has recovered significantly. Please tell us about the current situation and future outlook.

Miyazumi: Sure. On a local currency basis, Goodman's net sales were 141% of the prior-year level. Last year, it closed its factory for 3 weeks, which resulted in lost opportunities. After that, as it made efforts to increase manufacturing personnel, the plant has finally started full-fledged operation. As a result, it is able to build up its inventory to some extent.

As the US economy is very strong, and the housing industry is firm there, in a sense, we expect that there will still be another upswing in Goodman's performance. So, we recognize an output increase at Goodman as an issue yet to be considered more.

In the US, Goodman is not the only case, but as a more general problem there is a high degree of labor turnover among workers. 1 major factor is ample unemployment benefits, which will expire on September 7 this year. I believe that it is difficult to retain workers since there are plenty of unemployment benefits available. We believe that this will be resolved in and after September. Securing manufacturing personnel, the North American business is expected to get back on track for stable operation to a certain extent.

The biggest issue, which is not limited to North America, is to secure parts and components. To ensure that there will be no bottleneck in the supply system for them would be the key to Daikin's Global Air-Conditioning business. Perhaps this will be also true for the overall air-conditioning industry. On the demand side, though there is some uncertainty due to the rekindled spread of COVID-19 after the emergence of the delta variant, we expect that residential use demand will remain firm.

Therefore, I think the most important thing is to avoid a bottleneck on the supply side. In the first quarter, the fact that we managed to sell our products globally without running out of inventory has led to the favorable results.

Isayama: Excuse me, Mr. Miyazumi. On page 5 of the presentation materials, I think that the negative impact of fixed costs, etc. and raw materials were a little larger than planned. This may be a matter of course because of the higher top-line figure. In North America, for example, I guess that you may have raised salaries to secure personnel and managed to show the good results by incurring extra costs. Is Goodman's profitability in line with or ahead of schedule?

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Miyazumi: Last year, the operating profit margin was very low because we had to stop production for a while, but it has now improved to almost double digits. On the other hand, we have to offer various incentives to retain workers, such as raising wages a little more. It is a kind of trade-off. However, as we cannot increase output without securing personnel first, we will continue to do our measures steadily.

Isayama: I understand very well. Thank you very much.

Miyazumi: Thank you very much.

Moderator: Thank you. The next question is from Mr. Sano of JPMorgan Securities.

Sano: This is Tomohiko Sano from JPMorgan Securities Japan. I have 2 questions.

First of all, I would like to know how the JPY69-billion effect of sales expansion will appear. In particular, in Air-Conditioning business, if there is an improvement in the regional mix in addition to the normal increase in volume, I would like to hear more about that. In particular, the growth in China is very strong, and the growth of heat pump type heaters is also high in Europe, so I think the effect of the mix of these areas is significant. Would you please explain the pure-volume part and sales-mix part separately?

Miyazumi: Although we do not have necessary information on the sales mix at hand, in terms of sales expansion, industry demand, especially for residential use, has exceeded the year-before levels in almost all regions. In our company as well, sales have surpassed the prior-year levels.

In comparison with FY2019, all figures for residential use basically exceeded the levels in the year. The figures for commercial use were still lower than the levels in FY2019. We are aware that the structure of sales expansion in the residential market will probably remain unchanged from the second quarter onward.

Sano: I understand. Thank you very much. The next question is about the situation of procurement of semiconductors and other components. Please tell us a little more about your assessment of the first-quarter results compared to the initial plan, and what effects there will be in the second quarter and beyond.

Miyazumi: Yes. We are aware that semiconductor procurement is a difficult task for all companies. In the first quarter, we were able to secure enough semiconductors to meet the need for our production, although we did not have an abundant volume.

There was an article about our company in the Nikkei Newspaper last week. In the article, it was mentioned that we have been able to secure microcomputers to be used until August. At present, we have been able to secure microcomputers, mainly for residential air conditioners, until December this year, even if we assume that demand will rise by about 20%. Therefore, we are on track to secure semiconductors and parts for April–June and September–October, which are the peak seasons for air conditioners.

In addition, we have hedged copper for the current fiscal year, except for some parts of Asia. With the exception of Asia, roughly 80% of the full-year copper quota has been hedged, so the cost of that part is already fixed. After that, we will absorb the cost by steadily implementing measures such as sales expansion.

Sano: I understand. That is all. Thank you very much.

Moderator: Thank you. Next, Mr. Ibara from Morgan Stanley MUFG Securities.

Ibara: This is Yoshinao Ibara from Morgan Stanley. As you mentioned earlier, there was an upswing to the first quarter plan and also an upward revision to the full-year forecast. You explained that you just added the upswing of JPY20 billion in the first quarter directly to the total.

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Looking at it from the outside, I think the upside in the first quarter was much larger than JPY20 billion. So, although there was more than JPY20 billion in the upswing in the first quarter, I thought that you have raised the full-year plan by only JPY20 billion based on risks and other factors. Please explain this.

Miyazumi: In the first quarter, we were able to increase our net sales by about JPY60 billion and operating profit by about JPY20 billion compared to the original budget, so we have added the figure to our full-year operating profit plan that came to JPY290 billion. However, although this is an announced plan, we have not disclosed exactly how we will break down the operating profit figure and how we will analyze the increase and decrease.

The reason for this is that there are still a lot of uncertainties in the future, so we will be working on that. Since the sales expansion and selling price measures will change during the implementation phase, we would like to announce a revised plan at the time of the announcement of the second-quarter results. Although this JPY290 billion is part of the forecast, please understand that it will probably be reviewed.

Ibara: I see. So you were already expecting that you would report a record high for the first quarter at the beginning of the current fiscal year, right? And that you will post an upswing of JPY20 billion?

Miyazumi: The major point was that sales for residential use were better than we had expected. Also, we did not run out of stock. The increase in selling prices has also been widespread, and there were also some effects from foreign exchange rates. Because of these factors, we recognize that we achieved the very good numbers in the first quarter.

Ibara: I see. Actually, as the second question, I was wondering if you could give us the breakdown of gains and losses in profit, if any, or the breakdown by region based on the new plan. However, from what you've said, I think that you have nothing specific at present. If that's the case, I will change how to ask.

You probably added the upswing of JPY60 billion in sales in the first quarter directly to the full-year plan. I remember you mentioned earlier that the results by region were all good in the US, China, and Europe. What was the JPY60 billion broken down by region?

Miyazumi: To give you rough figures, around JPY25 billion came from the Americas, JPY20 billion from China, and JPY15 billion from Europe. In Asia, on the other hand, there was a negative impact of about JPY5 billion. That's the rough image.

Ibara: Do you see that the business in Japan was almost in line with the plan?

Miyazumi: Japan was neutral.

Ibara: I understand. 1 more question. You mentioned earlier that copper is mostly hedged. If you don't mind me asking, at what price are you likely to be able to procure copper in the current fiscal year? At the beginning of the year, I remember that you gave us guidance of about USD8,500 to USD9,000 per ton. I would be grateful if you could give us a rough estimate of where the copper price is likely to settle down at this or that level.

Miyazumi: For copper, we hedged the price at roughly USD10,000. In terms of the change from the announcement in May, for copper, we estimate that there will be a negative impact of about JPY10 billion for the full year.

Ibara: I see. I think aluminum and iron were also affected quite a bit, but compared to the beginning of the year, do you have any general picture, although there may be some things that you have not yet finished negotiation or have not yet bought?

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Miyazumi: In terms of aluminum, the price was about USD2,300 per ton when we announced the initial plan in May. The current price is about USD2,600 per ton. In terms of cost, that would mean a negative impact of about JPY3 billion. In terms of iron, there is a negative amount of JPY7 billion, and we expect that there will be an additional negative impact.

Ibara: I see. Then, if you add up all these things, the total negative impact will be about JPY17 billion, and if you add some other things, such as resin, I think that there will be a total negative impact of about JPY20 billion.

Miyazumi: In May, we were expecting a negative impact of about JPY65 billion due to soaring raw materials and logistics costs. At the moment, we are assuming that we will incur a negative impact of about JPY100 billion for the full year.

Ibara: I see. I understand very well. Thank you very much.

Moderator: Thank you very much. Next, Mr. Maekawa from Nomura Securities.

Maekawa: I am Kentaro Maekawa from Nomura Securities. Thank you very much for your explanation. I would like to ask 2 questions. I would like to ask you about the operating profit margin.

For the first quarter, the operating profit margin in the Air-Conditioning business was 13.6%, which I think is the second highest level, next to that in the fiscal year ended March 2017. At that time, the full-year profit margin was 11.4%, after hitting a record high, but I wonder if you can expect the profit margin to increase in this way for the full year.

As you mentioned earlier, there should be some risks such as increasing costs, but you have also been implementing the selling price measures. The best factor is that the sales conditions have been very good. As you mentioned earlier, Goodman's operating profit margin is about to reach double digits in the US.

When we look at the full year, the current plan is for an operating profit margin of 10.2%, but if we look at the first-quarter results as a cross section, the profit margin's base seems to have risen, so is it a right way to think about that? The first question is to ask if you could tell me about this point.

Miyazumi: The operating profit margin for the first quarter was 13.7% for the entire company, and I remember that the record high was probably around 14% just before the global financial crisis. The full-year plan is JPY290 billion in operating profit with an operating profit margin of 10.3%, but the management team is aiming for a little higher than the JPY290 billion.

However, on the other hand, since the Delta variant of COVID-19 is expanding considerably, demand for business use, especially for services, is expected to be severe. We would like to increase the profit margin by capturing the stay-at-home demand, mainly for residential use, and increasing selling prices as well.

At this point, we are not quite sure about details, but we would like to achieve a double-digit operating profit margin of at least 10.3%, or even higher, against operating profit of JPY290 billion. However, this may also be affected by the very uncertain factor of the Delta variant.

Another measure we would like to do is to increase our profit margin by making final products and delivering them to our customers without running out of stock on the supply side.

Maekawa: Thank you very much. Was there any factor that especially boosted the margin to 13.7% in the April–June period? I think that the result reflected your actual value to some extent, but what do you think about this?

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Miyazumi: Let's see. This should reflect our competence. Strong demand for residential use up until the previous year has been sustained. To some extent, reflecting the economic recovery in the US and China, we were able to capture pent-up demand.

In Japan, however, the situation was basically neutral, so I think there may be some reactionary decline from last year's special cash payments.

The overall industry demand varies by region. Asia had the toughest situation. As I mentioned earlier, the US and Europe were doing well, very strong there. China was also strong. As the situation is diversified by region, we are currently thinking about how to allocate resources to maintain our profit margin in each region.

Maekawa: I understand. Thank you very much. The second question is about commercial use, which you mentioned a little bit earlier. While residential air conditioners were very strong, commercial air-conditioning systems may seem to be behind.

However, looking at the situation in each region in the presentation materials, it seems that the Commercial Air-Conditioning business has also been recovering and increasing. Japan's domestic construction orders have also been strong since the beginning of this year.

I wonder if you were seeing a gradual recovery in the Commercial Air-Conditioning business as it basically started to recover from the impact caused by COVID-19. I would appreciate if you could give us supplementary information on this area.

Miyazumi: In terms of demand for commercial use, demand in Japan was about 80% of the FY2019 level. Our sales were about 90%, which means that we have not yet returned to the FY2019 level. As for applied, industry demand was about 72% of the FY 2019 level, while our sales were about 60%, so the situation here was still a bit difficult.

In the US, the situation has been returning to some extent. Demand for ducted unitary for houses has recovered. There was also growing add-on demand for residential air conditioners, which indicated growth in ventilation demand. With demand being very strong in the first quarter, we managed to increase sales to some extent.

Maekawa: I understand. For commercial use in Japan, industry demand was 80% and your sales were 90%. I was wondering if the commercial-use sector outside Japan has also returned to the same level as in FY2020. Could you have anything to add?

Miyazumi: In Japan, industry demand in the first quarter was 107% of the level in the same quarter of FY2020. Our sales were at 112%. Compared to FY2020, the figures were higher YoY due to the low levels in the previous year. However, the current situation is still somewhat behind the pre-COVID-19 levels.

Maekawa: Thank you very much. Just 1 more thing. In Europe, in addition to commercial use, there are a lot of new driver products, including heat pump type heaters, and I think that the overall business has been growing. I wonder if the business will grow at an accelerated pace. Would you please provide additional information?

Miyazumi: In Europe, sales were basically strong. Both residential air conditioners and heat pump type heaters exceeded the levels in FY2019. VRV systems have also been very strong in Europe.

Maekawa: I understand. Thank you very much.

Moderator: Thank you. Next, Mr. Mizuno from UBS Securities Japan.

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Mizuno: This is Hikaru Mizuno. First, please let me confirm the parts procurement and supply status. Basically, I would like to confirm that there is no delay at all in the supply system in all regions. Also, I know this is a very basic question, but can you tell me if there is any secret reason why your company's parts procurement is going so smoothly? I read in the newspaper article that you are looking for alternatives, but I think that is probably a small portion, so I would like to know if there is any reason why Daikin is able to move quickly.

Miyazumi: Since the start of the COVID-19 pandemic last year, we have been launching the emergency projects to procure parts and components ahead of schedule, so we had a certain amount of inventory built up, and we did not run out of stock. I think 1 major factor was that we have been doing those projects continuously.

In terms of semiconductors, we are aware that the relationships of trust that we have built with our suppliers over the years are working well at the moment.

Mizuno: I understand. Thank you very much. The other question is about profitability. At the beginning of the current fiscal year, you presented the forecast for the operating profit margin in the Air-Conditioning business by region. In the new forecast, the full-year operating profit margin for the entire company is to increase 0.5%. Could you please show us a breakdown by region for this?

If you don't have one, you originally said that the operating profit margin in the Air-Conditioning business for the current fiscal year was forecasted to be flat except for the US and Asia. Please explain the progress in the first quarter and your outlook by region, such that this region is likely to grow more than expected, and so on.

Matoba: This is Matoba. Although we have not yet established a new forecast for the operating margin by region, in the first quarter, with the exception of Asia, the operating margin in each region was up equally, and the level of the profit margin in each region was also progressing very well. Therefore, we believe that we are in a situation where we can sufficiently aim for the upper end of the operating profit margin for the full year, which was originally stated in a range.

Mizuno: I understand. Then, since the mix and the cost side of the business were running well, we should take it as a sign that all areas were improving in full.

Matoba: That's right.

Mizuno: I understand. That is all. Thank you very much.

Matoba: Thank you very much.

Moderator: Next, Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities. Please ask your question.

Sasaki: Thank you very much for today. This is Tsubasa Sasaki from Mitsubishi UFJ. Let me ask 2 questions.

The first question is about Goodman's profit margin. Someone asked earlier, and if I'm not mistaken, you noted that Goodman's profit margin has reached double digits. Is this really the case? If that's the case, can we assume that the consolidation of factories and the turmoil in last year are finally over, and the Company demonstrates that it can make a profit, as long as it can produce a solid volume of products? Could you please tell me what you think about that?

Miyazumi: It hasn't exactly reached the double-digit level, but it has come close to double digits, as I mentioned earlier.

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Naturally, we are working diligently to return Goodman's profit margin to a double-digit level as soon as possible. We would like to generate profits by achieving economies of scale, so we believe that profits will increase if the production and sales sides, especially the sales side, sell properly to a certain extent, and if the production and sales sides are properly synchronized. I think the current situation is that we are moving forward steadily toward the goal.

Sasaki: Naturally, there are factors such as soaring logistics costs, but if the end market for housing in the US continues to be strong, is it correct to assume that your company can expect Goodman to expand its business to some extent?

Miyazumi: That's right. If the housing market does not falter, we believe that we will be able to take advantage of economies of scale because our production and sales operations are on track to some extent. On the other hand, as you mentioned, the costs of land transportation are increasing, especially in the US, so we need to absorb those costs.

Sasaki: Thank you very much. The second point is about China. It is a simple question. There are concerns over the worsening of the Chinese economy. In particular, there are concerns about the tightening of the real-estate market.

On the other hand, looking at your sales, residential multi-split air conditioners and other products performed very well. While there is uncertainty of China's macroeconomic environment, what is the background for the very good results of Daikin's air conditioners? Would you please explain it?

Miyazumi: As you said, China is expected to decelerate in the second half and beyond from the macroeconomic standpoint. Since the Chinese authorities have conducted pump-priming measures focusing on real-estate development, leading to a surge in property prices, they have begun to tighten their regulations in the market. In that part, here will be a headwind, particularly for commercial air conditioners, namely VRV systems.

Meanwhile, we still see room for growth for residential multi-split air conditioners. According to today's news, there is sharp expansion of the COVID-19 Delta variant, and the Chinese government has apparently imposed restrictions of movement, or lockdowns, affecting millions of people. So, the commercial air-conditioning market may be afflicted with such moves. We expect that we will aim to gain our market share by putting our resources into the residential air-conditioning market, where we can expect the growth of stay-at-home demand.

Sasaki: In terms of the way of thinking, although macroeconomic conditions are not good, due to such changes in behavior, there is still room to expand sales of residential multi-split air conditioners, and you can compete in the same areas as before.

Miyazumi: That's right. Naturally, we would like to sell VRV systems for commercial use, and we will do so in partnership with major developers. However, since the macroscopic impact is inevitably large, I think our basic approach will be to earn money from residential multi-split air conditioners.

Sasaki: I understand very well. Thank you very much.

Miyazumi: Thank you very much.

Moderator: Thank you. Now, the next question is from Mr. McDonald of Citigroup Global Markets Japan.

McDonald: I have 2 simple questions. 1 is about cash flows. In the first quarter, cash flows were around JPY23 billion. Though the figure may have been low for the season, it was not so bad.

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Probably, the largest negative factor was an increase in trade receivables, which was due to the positive sales, so I thought it was a good start there. Looking into my notes, at the presentation about Fusion 25, President Togawa mentioned that free cash flows will be around JPY55 billion for the current fiscal year. From the current situation, I think that the estimate for cash flows may be considerably low. How about that?

Matoba: Compared to the situation when we announced Fusion 25, as you said, operating capital has somewhat swelled. However, I think we were doing well in terms of cash-flow bases. However, since this is only the first year of Fusion 25, we have not yet been able to properly analyze the differences that have occurred.

McDonald: I understand. 1 of the major issues in Fusion 25 was profitability in North America. For 2025, you said you aim at a profit margin of around 10% in the US. Since you have almost achieved the goal in 2 months, how should we think about Fusion 25?

Miyazumi: At Goodman alone, the margin is likely to show 2 digits. In the US, however, we also have the Applied business of Daikin Applied Americas. In addition, there is the Filter business and the Air-Conditioning business in Latin America, so I think it will take some more time considering those things.

McDonald: So you got off to a very good start in the first quarter, but you have no need to change the profit margin target of 10% for the Americas for FY2025, don't you?

Miyazumi: That's right. As Goodman's composition ratio is high, it will work substantially if its profit margin increases. Meanwhile, Applied business has to raise its margin by expanding its service solutions. As the Filter business is still poor in profitability, we have to strengthen it. So, in the end, we will improve the profit margin in a time frame up to 2025.

McDonald: Regarding the status of your business in Latin America, I see that the size of the business in the region was still small, totaling around JPY20 billion in the first quarter. In the future, how do you expect the business to expand in the future? Do you have any hints or images for this?

Miyazumi: In Latin America, Brazil is the largest market. Also, in Central America, there is Mexico, but to be honest, the impact of COVID-19 was very large, especially in Brazil, so there are many things we cannot foresee. Mexico also has a very strong correlation with the US from a macroscopic perspective, but in the case of Mexico, there is also a lingering issue of COVID-19, so I don't think that we can draw a picture of major transformation at present in Latin America.

McDonald: I understand. I expect that you will continue to show good results. Thank you very much.

Miyazumi: Thank you very much.

Moderator: Thank you. As it is the time to end the session, we will close it with the 2 of you, who have raised hands, asking their questions. Now, Mr. Fukuhara from Jefferies Japan, please go ahead.

Fukuhara: This is Sho Fukuhara from Jefferies Japan. I just want to confirm 1 point. First of all, is the full-year sales plan for China of 131% correct?

Matoba: In the first quarter, sales in the Air-Conditioning business in China was 131% of the year-before level on a local currency basis.

Fukuhara: What is your plan for the full year now?

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Matoba: We haven't made a plan for the full year yet. At the beginning, we planned to achieve a 3% YoY increase. We assume that we will target a YoY increase of 6% to 7%. We are now in the process of formulating a plan in that direction.

Fukuhara: Is it correct to assume that residential multi-split air conditioners are basically driving this upward swing? Or is there an increase in the market share? Let me reconfirm the concept of sales in China.

Matoba: Yes. In terms of products, there was an upswing in sales of residential multi-split air conditioners. For commercial use, though applied systems remained firm, products close to private demand, such as VRV and SKY, were delayed in recovery. They are yet to recover.

Fukuhara: I understand. Thank you very much. That is all.

Moderator: Thank you. Next, Mr. Watanabe from Mito Securities.

Watanabe: This is Yoichiro Watanabe from Mito Securities. I have 2 questions. The first is about fixed costs, et cetera, in the breakdown of changes in operating profit for the full year. In the initial forecast, you expected that fixed costs will lower operating profit by JPY53 billion for the full year. As you are able to control the costs on your side, unlike materials prices, won't these costs swell considerably?

Matoba: Fixed costs, etc. include depreciation and amortization, research and development, up-front investments, and ordinary expenses. Because of this, there are some areas that we are able to control by limiting ordinary expenses and decelerating upfront investments.

Watanabe: I understand. The second question is about the Chemicals business. By quadrupling the first-quarter results, sales will be around JPY200 billion and operating profit will exceed JPY30 billion. For the Air-Conditioning business, you cited such risks as a bigger impact of COVID-19 and higher materials prices. In the Chemicals business, are there any risks that we need to consider in the second quarter and beyond?

Matoba: The main risk will be a reaction from the first quarter results. Throughout the previous fiscal year, our customers did not prepare enough inventories of materials for automobiles and semiconductors and we could not ship materials. Those delayed shipments appeared at once during the first quarter of the current fiscal year. There may be a slight adjustment from the second quarter onward. However, actual demand from the semiconductor and automotive industries is basically strong, so we have a very bright outlook for demand.

Watanabe: I understand. So, there may be risks, if things go well, you may continue to go smoothly, right?

Matoba: That's right. It may be difficult to achieve the annual figures as a result of multiplying the first quarter ones by 4. However, we foresee a good chance of making progress at a considerably high pace.

Watanabe: I understand. That is all. Thank you very much.

Moderator: Thank you. This concludes today's briefing. Thank you very much for your participation until the end.

[END]

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