Briefing on Financial Results of the 2nd Quarter Ending March 31, 2018
Q&A Session
(November 7, 2018)

Q With regard to the air conditioning business in China, have sales of the mainstay residential-use multi-split air conditioners been affected by restrictions on real estate speculation? Will you be able to maintain high profits?

A Demand for residential-use multi-split air conditioners has decreased mainly in Shanghai due to government restrictions on new home construction and promotion of low-cost housing. However, we are establishing PROSHOPs (our-owned specialty dealers) at a rapid pace and expanding the sales network in the inland and midwestern regions where demand is expected to expand due to rising incomes. Furthermore, while new construction projects have decreased in large urban cities, replacement demand and demand for renovation of existing houses have grown, and we will respond to these changes with development and launch of products based on market needs. In commercial use, we will provide after sales services such as centralized control, remote monitoring, and failure detection from equipment connected to the Internet, utilize the data collected by customer link, and develop new services. With these measures, we plan to maintain high profits in the future as well.

Q Are there any plans to improve profitability in the U.S. business?

A The new Goodman factory Daikin Texas Technology Park is operating smoothly, and we will accelerate profit improvement by cost reductions, improved productivity, and profit from increased production. In February 2019, consolidation of all factories will be complete. In the Applied Systems business, together with shifting to direct sales system that includes acquisition of contractors and service companies having their own networks, we will hurry to develop solution products and raise the sales ratio of service solutions.

Q Could you describe the impact of the additional U.S. tariffs?

A The impact to the Daikin Group by Section 232 and Section 301 of the U.S. Trade Act is projected to have a negative impact of about 7 billion yen (on operating profit basis). However, we have selling price measures and cost reductions measures to cover the entire amount. A major initiative for controlling costs will be changing suppliers of the affected products and materials (compressors, motors, electronic components) being imported from China.

Q What specific measures are you considering concerning cost reductions?

A Cost reductions will be maximized from the aspects of procurement, development, and productivity. Especially from the development side, we will proceed with drastic measures and strive for material replacement and standardization of key components. For material replacement, we will work to convert from copper, which is highly susceptible to market conditions, to aluminum and stainless steel, which have fewer price fluctuations. In standardization of key components, we will promote cost reductions by taking advantage of volume from model consolidation and unified specifications.

Q Have there been any changes in the R&D and investment policies?

A In the latter-half three-year plan for Fusion 20, our strategic management plan, we established a budget to invest a total of approximately 600 billion yen. Technological progress and global changes occur rapidly, and R&D expenses continue to increase even further. Also, we would like to take advantage of opportunities to execute capital investments such as those for increasing production capacity. Acquisitions have been excluded from the investment plan, but we will actively investigate them in the future.