

**Briefing to Analysts and Investors
on Business Forecasts Ending March 31, 2021
Q&A Session
(October 5, 2020)**

Q: While you were able to anticipate the impact on supply chains from the movement restriction and lockdowns occurring in every country in the first half and had sufficient inventory to prevent disruptions in product supply, what is the current status of inventory levels? Also, how do you see sales trending from the second half onward?

A: In residential-use air conditioning equipment, inventory levels are mainly high in Asia and Oceania, and inventory adjustments are underway as planned. Conversely, the temporary suspension of operations at our Houston factory caused low inventory levels in North America. For this reason, increasing the production rate to accumulate inventory has become an important issue for sales expansion next year. No other region has any problems. In commercial-use air conditioning equipment, the conditions for demand and sales have become severe, and we will have to carefully adjust inventories. Ventilation needs have grown at hospitals, restaurants, and retail stores, and we see an opportunity to expand sales by determining demand and conducting proposal sales in which a ventilation function is packaged as part of a set.

Q: Despite both sales plans being established at the same level, why is the operating profit margin for the second half significantly lower than that for the first half? Have you excluded the effect of initiatives to reduce fixed costs to maintain profit?

A: The main factors include changes in the sales mix and unbalanced fixed costs. In the sales mix, demand is extremely weak for the commercial-use market where profit margins are high, and the decline in sales volume has had a considerable impact. For fixed costs, efforts have been made to restrict ordinary expenses and these are incorporated in the plan, but the amount compared to the first half is smaller. Unlike the lockdowns in the first quarter, no natural reductions in expenses are anticipated in the second half, and we have adopted a policy to make aggressive upfront investments for future growth. This will result in an increase in the absolute amount for fixed costs over the previous year.

Q: What is the outlook for financial results by segment for the full fiscal year?

A: The Air Conditioning business projects annual sales of 2 trillion 190 billion yen with operating profit of 188 billion yen, whereas the Chemicals business anticipates annual sales of 160 billion yen with operating profit of 8 billion yen. The aggregate for other businesses is annual sales of 50 billion yen with operating profit of 2 billion yen.

Q: In challenging yourselves to achieve 200 billion yen or more for operating profit, which points do you see room to increase profit from the outlook of 198 billion yen for the full fiscal year?

A: In Europe, we would like to expand sales of air purifiers and heat pump type heating systems. Annual sales for air purifiers in Europe are usually around 10,000 units, but Daikin plans to sell 50,000 units for this term. Investigation is underway for a system to boost production capacity so that it leads to further sales expansion. Also, concerning heat pump type heating systems, a subsidy system for replacing combustion type heaters with heat pump type heating systems, which began in France, is spreading due to the tightening of environmental regulations. There is also a movement toward a green recovery from the COVID-19 pandemic, and we would like to aim for even higher sales expansion.

Q: Has the COVID-19 pandemic changed your thinking concerning future M&A?

A: This is viewed as an excellent opportunity to strengthen our business, and we will be diverting funds toward alliances, partnerships, and M&A. Main themes include new business domains, such as commercial refrigeration and heating, and structural conversion to a Solutions business. For example, in the Commercial Refrigeration business, we would like to solidify the business foundation in Europe and have a need for remote-type products that account for 70% of the showcase market. Also, in the Heating business, we would like to enhance the customer base and strengthen our sales and after sales service networks in Europe, where sales of heat pump type heating systems are strong. In the Applied business, we acquired a service contractor in the Americas and are looking to increase the ratio of the highly profitable After Sales Service business.

Q: How will initiatives for the emergency projects and constitution reform affect the level of fixed costs from the next fiscal year and beyond?

A: Currently, we recognize that the fixed cost ratio to sales is about 1% higher than that of other manufacturing companies. Investigation is underway with the aim of lowering the ratio 2% to 3% in the medium term. As short-term measures, we are utilizing remote work and online activities and curtailing ordinary expenses such as reductions in promotional expenses. Moreover, Daikin is working from a variety of perspectives, including the reallocating of personnel, review of unprofitable products, and expansion of centralized purchasing.

Q: What is the target for operating profit margin in the next strategic management plan Fusion 25? In what scenario would there be a target of 15%-20%?

A: Having had 12% as the target for operating profit margin in Fusion 20, one line of reasoning would expect the next target to be 15%, but in order to overcome the impact of COVID-19, we must first devise a range of measures targeting a quick recovery in sales and a new record high in financial results. Currently, we are steadily formulating the next strategic management plan, but there are too many uncertainties and variables in deciding specific numerical targets, so we would like to take more time to give each theme careful consideration.

Q: What are your thoughts on the global trend toward tighter environmental regulations?

A: For Daikin, environmental regulations have been perceived as a tailwind. Recognizing the high environmental impact of our businesses, we would like to be a company that provides a significant contribution to the resolution of environmental problems including climate change. At the same time, stricter environmental regulations present an excellent opportunity for business expansion, which is why Fusion 20 was promoted from the perspective of achieving both. Understanding that the importance of solving environmental issues will only continue to increase in the future, we have positioned the environment as a core theme in Fusion 25 and are proceeding with its examination. For example, in addition to strengthening product development to promote replacement of combustion type heating with heat pump type heating systems, we would like to expand sales of energy-saving products and accelerate the Energy Solutions business.