



# Transforming to a Resilient Supply Chain at Daikin

April 24, 2025

**Alan Harrah**



**>\$30 Billion**  
Net Sales



**98,000+**  
Employees Worldwide



**\$3.7 Billion**  
Invested in R&D



**Comfort & IAQ**  
Residential, Commercial & Industrial



**110+**  
Production Bases



**20,000**  
Active Patents



**170+ Countries**  
Business development  
across the Globe



**Publicly Traded**  
Since 1949 on Tokyo  
Stock Exchange

**8 Brands**



#1 Global HVAC Company - Celebrated Our 100-Year Anniversary in 2024

# Daikin Applied Americas (DAA)



**2006**  
DAA established by  
Daikin Industries, Ltd.



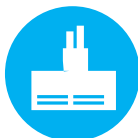
**>\$4.0 Billion**  
Net Sales



**>8,000**  
Employees



**\$56 Million**  
Invested in Test Labs and  
R&D from 2017-2019



**\$350 Million**  
Manufacturing Facilities  
Opening in SLP in 2024/25



**60+**  
Independent Sales Reps  
with over 100 Locations



**Solutions Provider**  
Commercial & Industrial

## Applied HVAC Chillers

Magnetic bearing  
centrifugal chiller



Water-cooled  
centrifugal chiller



Air-cooled  
(screw & scroll) chiller



Water-cooled screw  
chiller



## Airside Solutions

Fan coils



VAV



Unit  
ventilators



## Water Source Heat Pumps



## Rooftop Systems

Premium with inverter  
compressor technology



Light  
Commercial



## Air Handler Systems

Custom,  
semi-custom &  
commercial



## Modular Central Plants



Data Centers



Batteries



Electric Vehicles



Growth Centers



Stadiums



Manufacturing



Education



Lodging



Retail



Government



Healthcare



Airports

DAA is a High Growth, Engineer To Order (ETO) Business Serving Many Industries





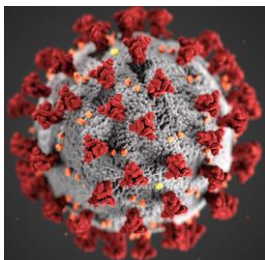
# Daikin... Getting Our Name Out There!



# Global Supply Chain Challenges Since 2020 – The Need for Change...

## Global Factors

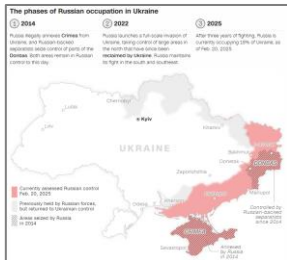
2020



2021



2022



2023



2024



2025



Global Shortage



## Daikin Business Factors



Manual Disparate Processes

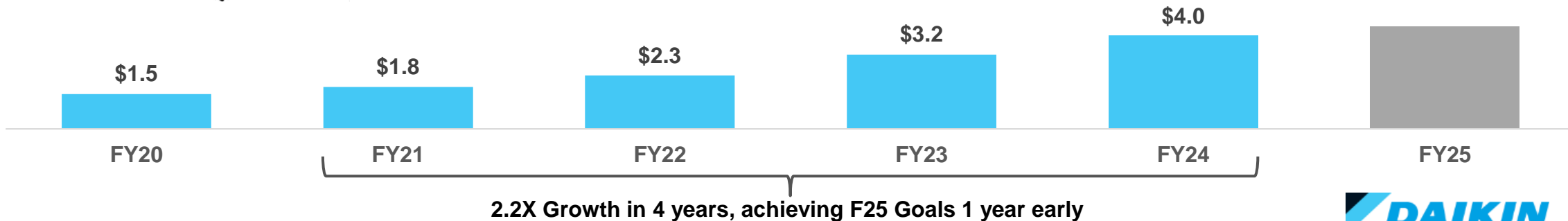


Supplier Payments



Supplier Capacity Constraints

## DAA Revenue (\$M)



# RESILIENCY

The ability to manage challenges,  
recover from them,  
and grow as a result.



# Direct Material FY25 Category Overview

## Category Strategy Pillars

- 1 Improve Supplier Performance (Delivery, Quality, Lead-Times) to Regain Customer Confidence
- 2 Assess Supplier Capacities to Support DAA Business Growth
- 3 In Region, For Region Supply Chain - Localize Supply in Mexico, Reduce Dependency on China
- 4 Build Supply Chain Redundancy to Mitigate Disruption Risk
- 5 Drive Total Cost Productivity with a Robust CIP Project Funnel (Direct & VAVE) and PPV Management
- 6 Improve Supplier Relationship Management



## Categories Managed



34

Direct  
Material  
Spend  
Categories

*6 Core Strategies across 34 Direct Categories, supported by 14 Key Processes & Tools*

# Processes & Tool Implemented

## TALENT

Shadowing, Mentoring, Process Maturity Leadership, Development Assignments, Competency Assessment, Training Plan, Peer Reviews, Intern Feeder Program

## Category Strategy Planning

Annual Standard Work, Mid-Year Reviews, Market Analysis, Strategic Sourcing

## Supplier Relationship Management

QBRs, MSAs, Monthly Supplier Scorecards

## Supplier Performance Management

YoY QCD & LT Improvements, Operational Disruption Mitigation, Supplier AP, EDI

## Supplier Segmentation

● Strategic ● Preferred ● Conditional ● Exit

## Supplier Risk Management

Redundancy (5 Source Conditions), RPN (Reactive), Resilinc (Proactive), China De-Risk, Mexico Localization, Tariff Countermeasures, D&B

## Cost Improvement Program (CIP)

5 Pillars - Direct, VAVE, Indirect, Operations, Footprint

## Market Intelligence and PPV Management

S&P Global, Monthly Finance Reviews, Financial Hedging, Steel Pricing Programs, Should Cost Models

## Supplier Quality

Supplier Qualification, Assessments, PPAP, SCARs / RCCA, DPPM Improvement, Escapes, Warranty Recovery, Change Control

## Compliance

CSR, ESG, COO, Green Procurement, Small Business Development

## Transition Standard Work

DP Process to support: Buy to Buy, Make or Buy, Make to Make, VAVE, NPI

## NPI Sourcing

Dedicated BU Resources, SSM & Category Strategy Alignment, Speed to Market, Achieving Product Cost Targets, Supports Risk Mitigation, Innovation

## Digital Transformation

EDI, Supplier Payments, Oracle/SAP, Lean DNA (SIOP)

## Supplier Development

Focused long-term improvement efforts on our critical strategic suppliers

## Bullet Train Blitzes

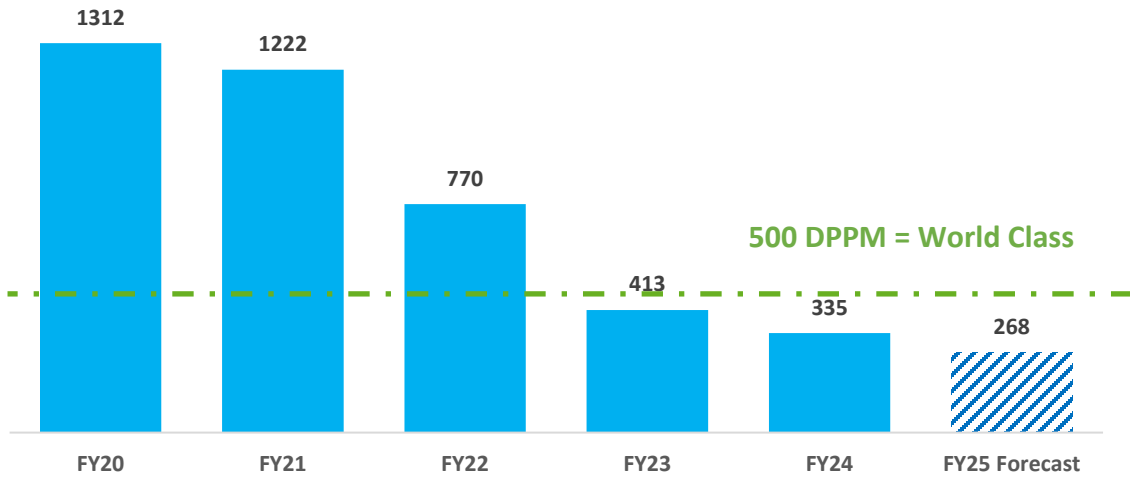
Kaizens, Project Pipeline Brainstorming

*15 Key Processes & Tools developed & matured over the last 4 years to drive Transformation*

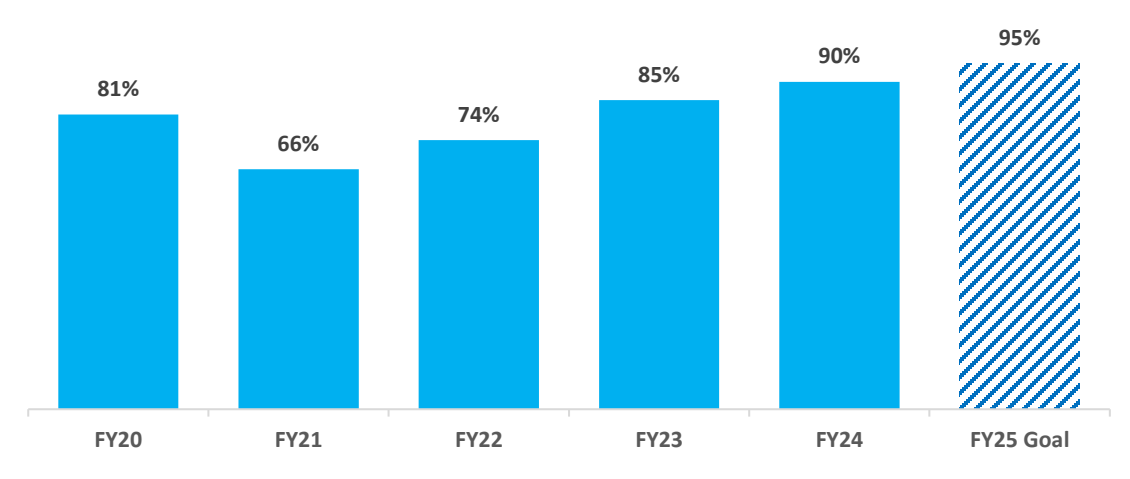


# Results Thus Far...

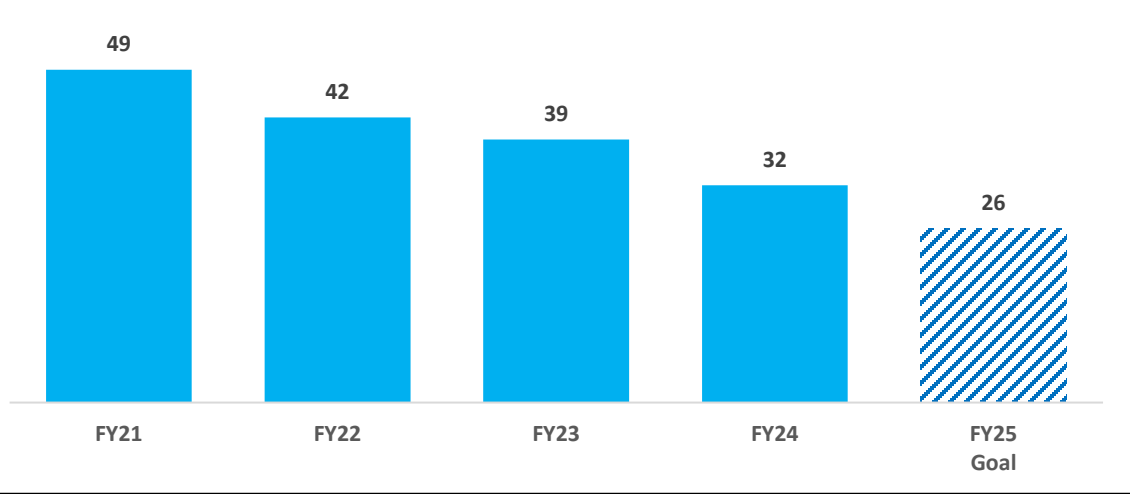
## 74% reduction in Quality Issues (DPPM)



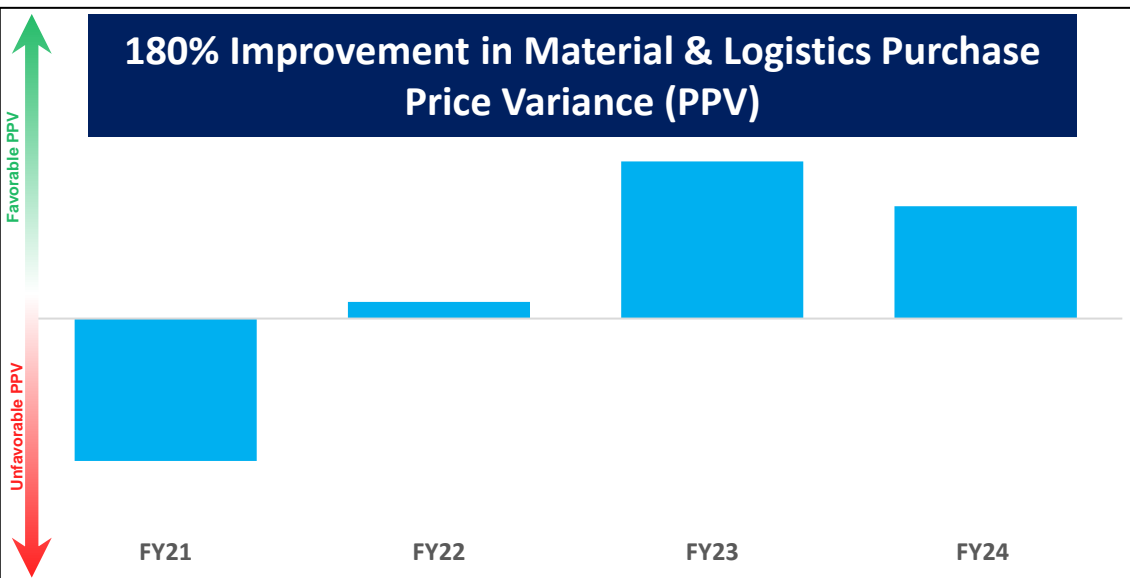
## 24% Delivery (OTD) Improvement since COVID



## AVG Supplier LTs reduced 35%

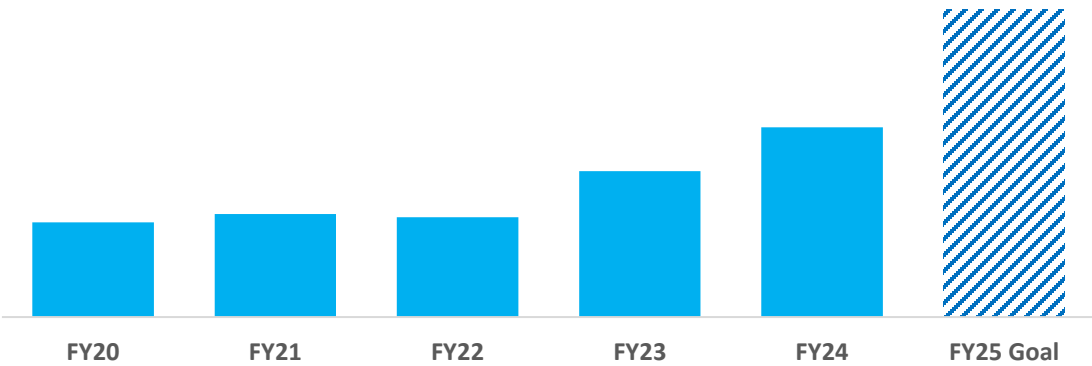


## 180% Improvement in Material & Logistics Purchase Price Variance (PPV)

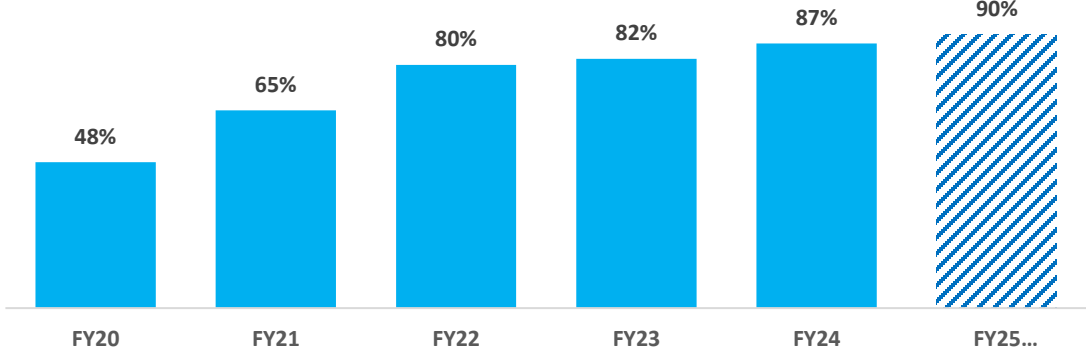


# Results Thus Far...

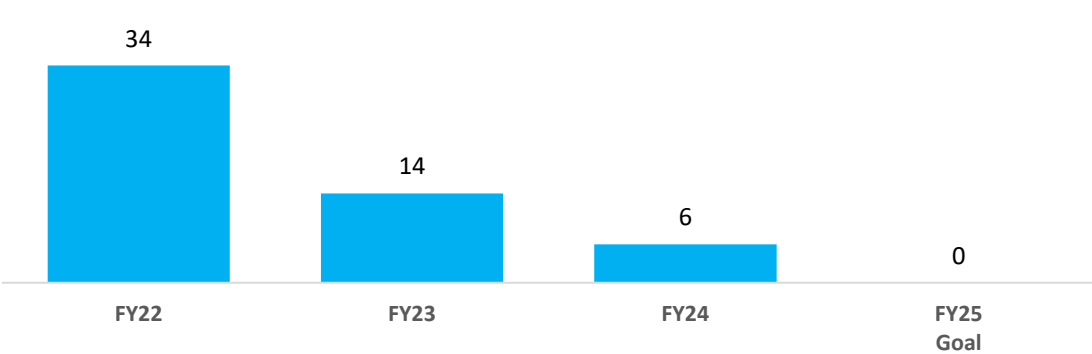
## 2X Cost Productivity, with FY25 Challenge



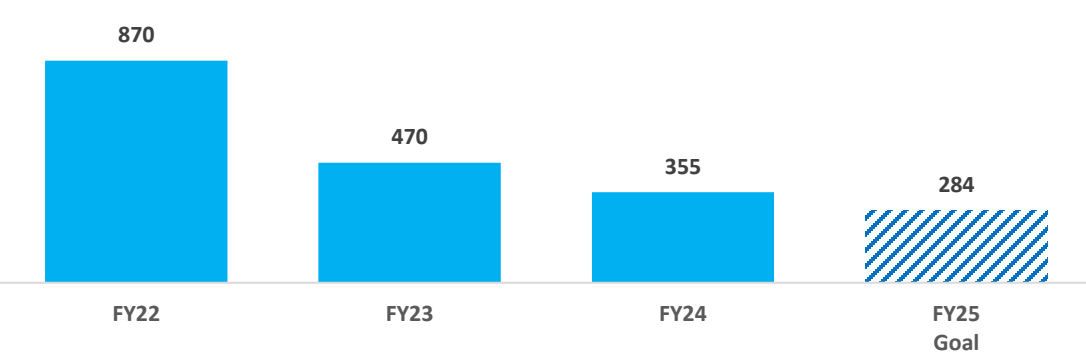
## 87% Spend on MSAs



## High Risk Suppliers have decreased by 82%



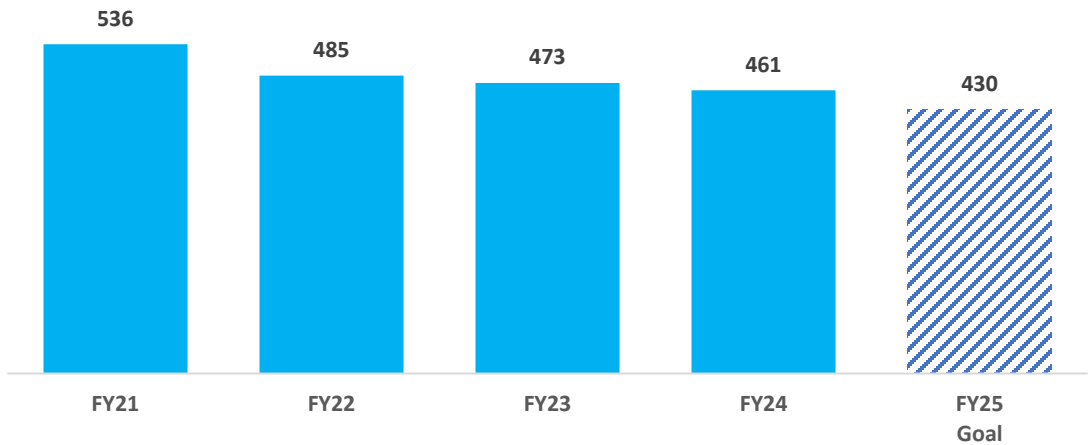
## Avg Risk score has been reduced by 59%



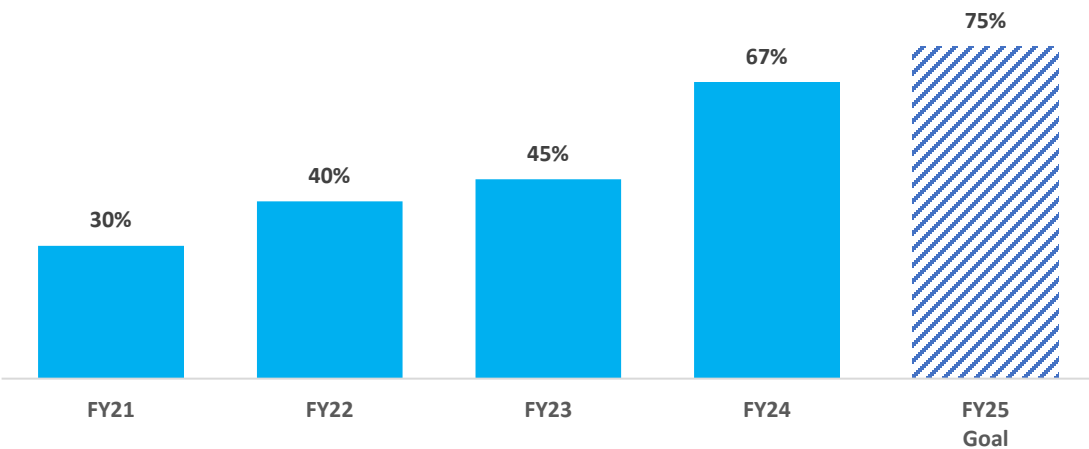
Score	MSA	Source Condition	Annual Spend	Quality (DPPM)	Delivery (OTD)	Lead Time	# BU's Affected	Productivity / Business Risk
1	Signed DAA MSA	5 - Multi-Source	<500K	<500	>90%	<4 weeks	1-2	<\$25k
2	Targeted DAA MSA	4 - Dual Source	500K-1M	500-1,499	80%-90%	5-12 weeks	3-4	\$25k-\$50k
3	Supplier MSA	3 - Single Source - Multi-MFG	1M-3M	1,500-2,999	60%-80%	13-26 weeks	5	\$50k-\$100k
4	Commercial Agreement	2 - Single Source	3M-6M	3,000-5,000	40%-60%	26-40 weeks	6	\$100k-\$500k
5	No MSA	1 - Sole Source	>6M	>5,000	<40%	>40 weeks	7	>\$500k

# Results Thus Far...

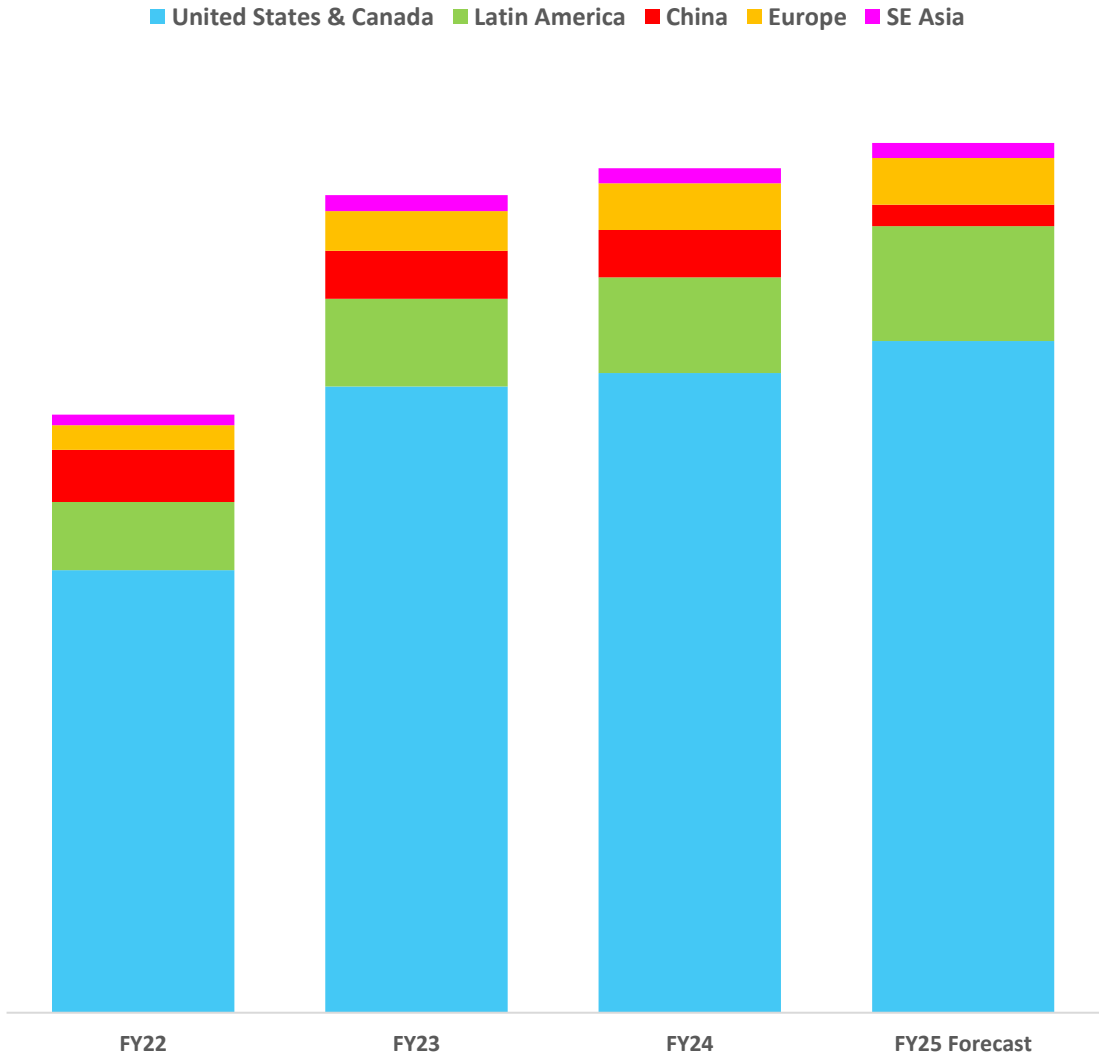
## Consolidated suppliers by 14%



## Increased supply chain redundancy by 37%

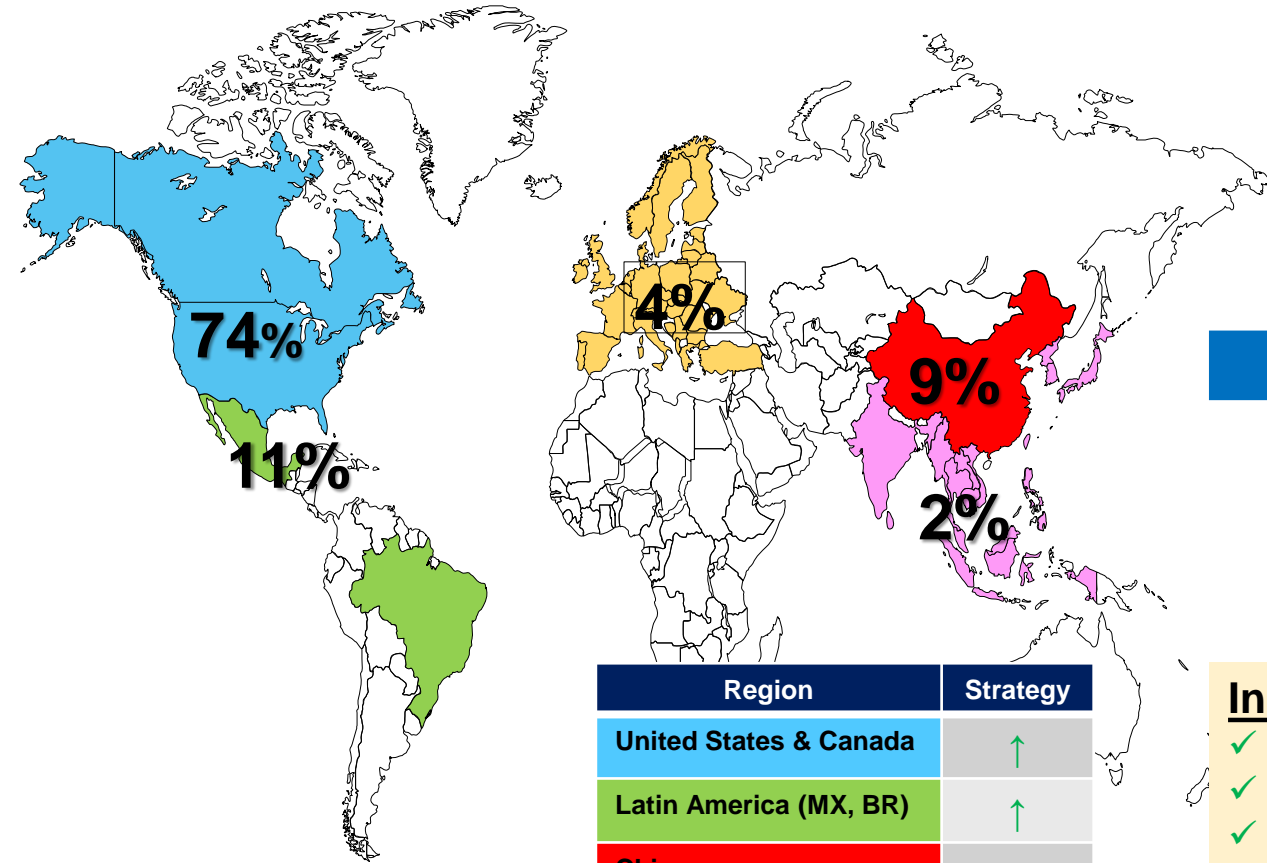


## Direct Material Spend by Region



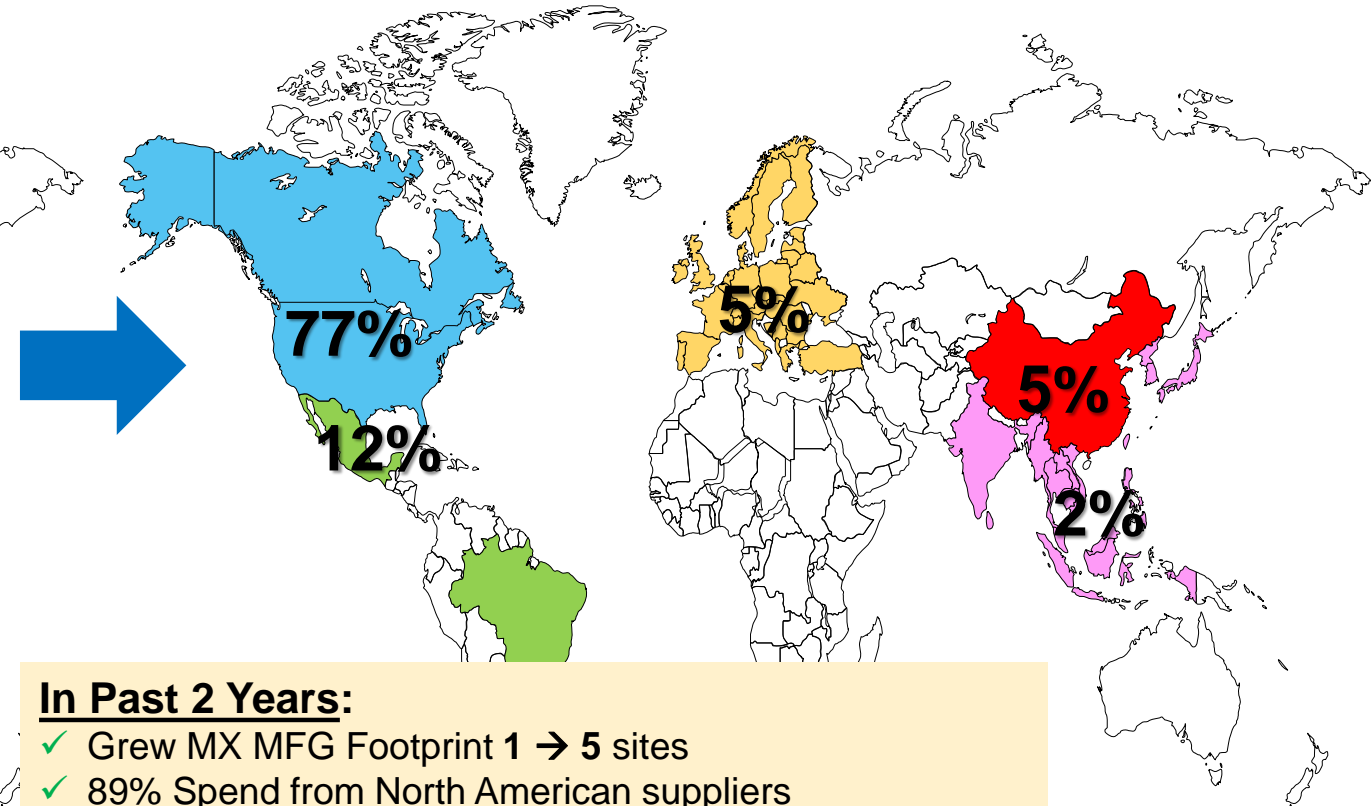
# Supply Chain Regionality Shift

## FY2022



Region	Strategy
United States & Canada	↑
Latin America (MX, BR)	↑
China	↓
Europe	↔
SE Asia (No China)	↑

## FY2024



### In Past 2 Years:

- ✓ Grew MX MFG Footprint 1 → 5 sites
- ✓ 89% Spend from North American suppliers
- ✓ De-Risked **60%** of China spend, 70% → MX
- ✓ Localized **59%** MX spend for MX plants
- ✓ Grew supply chain redundancy **30% → 67%**
- ✓ Leveraged raw metals & common suppliers across DNA

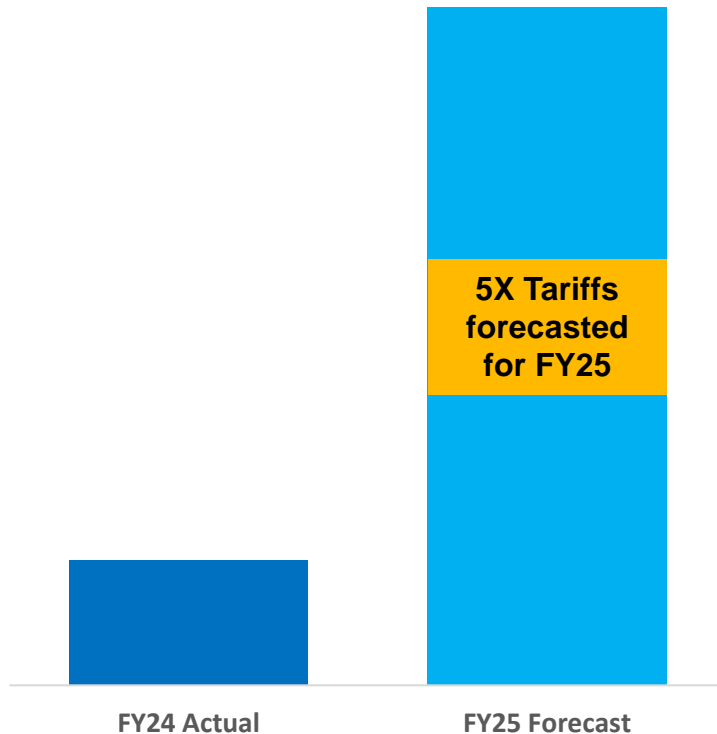
*FY25 Priority: Continue De-Risking China, Localizing to MX for MX Plants, Building Redundancy Locally in NA and in SE Asia*



# Tariff Risks & Countermeasures

## DAA Actual vs Forecasted Tariff Impact

■ FY24 Actual ■ FY25 Forecast



Country of Origin	Incremental Tariff	% of Impact
China	145%	79%
Mexico (Non-USMCA)	25%	12%
Italy	10%	6%
Thailand	10%	0%
Japan	10%	1%
Germany	10%	1%
India	10%	0%
Canada (Non-USMCA)	25%	0%
Denmark	10%	0%
Vietnam	10%	0%
South Korea	10%	0%
Poland	10%	0%
Taiwan	10%	0%
United Kingdom	10%	0%
Brazil	10%	0%
Malaysia	10%	0%
Total	119%	100%

## Key Strategies & Countermeasures

1. Protect our customers and minimize impact thru record offsetting productivity plan
2. Expect suppliers to mitigate some of tariff impact and negotiate shared 50/50 impact on balance
3. Shift MFG COO within same supplier
4. Shift MFG COO with dual sourced / alternate supplier
5. Extend advantageous pricing programs with key suppliers to support tariff offset / mitigation at Tier 2 level
6. Increase trade compliance strategies (bonded shipments, USMCA exemptions, etc.)
7. Pre-emptively bolster inventory levels or supplier stocking plans

US Tariff plan will impact DAA suppliers from 16 countries potentially resulting in significant incremental tariffs in FY25

# Q & A

