



**Hiroshi Geshiro**  
President and CEO

## CEO Message

### Be a Leader Who Provides Clear Guidelines and Goals

#### **The Daifuku Group—a Group that offers material handling systems to support both corporate activities and people’s daily lives**

Cars on the road, food items picked up at the supermarket, and products delivered to homes through e-commerce—all these things that we see and touch in our daily lives have a connection to the material handling systems that the Daifuku Group provides to its customers. In a sense, our systems are an indirect part of the lives of most people, and perhaps one could say that we play a supporting role in society as a behind-the-scenes player in the industrial world.

Our technological capabilities are geared toward building logistics systems rooted in optimizing labor and automation, which facilitate operations with the minimum amount of personnel. With these capabilities, we have been able to help distribution centers that provide groceries and daily necessities continue their operations during the COVID-19 pandemic.

Material handling originates from the desire to free people from the burden of heavy labor and simple repetitive tasks so that they can focus on more creative work. From this starting point, material handling has evolved through the continued development of next-generation logistics systems to become a support structure for society. I believe that the Group’s purpose is to continue working to evolve these systems and use them to support corporate activities and to help people in their everyday lives, and by doing so, help create a better society.

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Key Performance Indicators

## COVID-19 pandemic—an unclear situation calling for clear goals

Fiscal 2020 was the final year of four-year business plan Value Innovation 2020. Net sales totaled 473.9 billion yen, with an operating margin of 9.4%. Although these results fell short of our updated targets of 500 billion yen in net sales and an operating margin of 11.5%, set in May 2019, we did reach the plan’s initial targets of 420 billion yen in net sales and an operating margin of 8.0%. Moreover, our non-Japan sales ratio reached 65%.

At the beginning of fiscal 2020, we set a net sales target of 460 billion yen, which we met, thanks to the ingenuity of each of our employees working around the world. Even though the spread of COVID-19 has made it difficult to dispatch Japanese engineers to sites overseas, they were able to provide technical guidance, conduct active opinion exchanges, and perform other actions remotely. I believe our achievement is a result of their hard work and the efforts of all employees working on-site.

When we were formulating the performance targets for fiscal 2020, there were some within the Company with the opinion that it would be better to postpone announcing them in light of COVID-19 and the lack of clarity in regard to its potential impact on business going forward. However, we believe that management has a duty to interact with stakeholders in good faith, even in difficult situations, and we announced our targets based on the best assumptions possible. As leaders, we must be ready to provide clear guidelines and goals—particularly when times are difficult—and we will therefore continue our efforts to communicate with stakeholders going forward.

## Growth of the Intralogistics business into a Group pillar

In terms of medium-term growth, each measure implemented under Value Innovation 2020 performed above expectations. In particular, the Intralogistics business has become a growth driver for the Group, developing a structure that ensures stable returns and a high profit margin. In addition to new product development, this success is attributed to ongoing efforts toward product standardization. Standardization allows us to ensure consistent quality, increase productivity, and lower costs, which greatly increases competitiveness. This has earned our solutions high praise, particularly from our customers in Japan.

In the Cleanroom business, we have established a strong position, with the Group’s systems installed in many of the most advanced

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Three-Year Business Plan  
Value Transformation 2023

semiconductor factories. We were able to prove the Group’s technological capabilities when it came to keeping up with the technological innovations demanded by our customers, but there remained issues regarding profitability.

In the Automotive business, we went forward with large installation in North America in the midst of the COVID-19 pandemic for orders received in fiscal 2019, and achieved record-high net sales in fiscal 2020, the final year of Value Innovation 2020.

The Airport business has become a fourth core business, on par with the Automotive business.

The success of the Intralogistics business under Value Innovation 2020 has clarified the direction of future growth for the Group. Product standardization brings with it more growth and greater productivity. We are sharing this understanding throughout the Group, and are working to speed up dissemination of the required know-how to other business units.

## The three concepts of Value Transformation 2023 business plan

Our new three-year business plan, Value Transformation 2023, is built around three concepts: “Transformation of the value provided through DX<sup>2</sup>,” “Creation of new value in the new normal,” and “Towards realizing a sustainable society.”

“Transformation of the value provided through DX<sup>2</sup>” refers to promoting Digital Transformation (DX) to transform both the Group itself (Daifuku Transformation) and the value we provide to stakeholders. In other words, this is Digital Transformation x Daifuku Transformation, or “DX Squared.” By transforming the Group itself, we mean promoting DX throughout the Company and advancing initiatives that reach outward, beyond our organizational framework, to improve productivity and operational efficiency. We will also use artificial intelligence (AI) and the Internet of Things (IoT) technologies to develop products and services that are even more cutting-edge. We believe that the new value created by combining DX that transforms the Company with the development of products and services will lead to greater contributions to our customers and to further Group growth.

“Creation of new value in the new normal” is aimed at meeting new demands born out of a rapidly changing society with unprecedented flexibility and creativity and the ability to reshape existing frameworks. As one example, new normal conditions call for systems that can operate stably without having to call a technician for on-site maintenance or inspections. We intend to make full use of technology that allows us to convert our pool of experience to data as well as IoT to create never-before-seen solutions and services that, among other things, will allow

for remote responses when trouble occurs or when system failure is predicted.

“Toward realizing a sustainable society” encompasses our efforts to help achieve the Sustainable Development Goals (SDGs) of the United Nations. To do this, we have positioned our three-year business plan alongside our Sustainability Action Plan as the two wheels of our business strategy, working from the perspective of promoting efforts in ESG (environment, society, and governance), sustainability, and related endeavors. The Group has been manufacturing products that reduce the impact on the environment since 2012, and has been ramping up the development of products that help save energy. We will contribute to the realization of a sustainable society by providing customers with products and services that not only give them a greater competitive edge but that are also environmentally friendly.

### Cultivating the Group’s sustainability since the 1970s

Before we delve into our business strategy, I would like to explain our sustainability initiatives a little further.

Sustainability management at the Group has its origins in 1970 with the acquisition of the land where the Shiga Works is currently located, when the idea of an “industrial park” was conceived. Working amid such a rich natural environment has instilled in us a sense of coexistence with nature that manifested itself in Daifuku Environmental Vision 2020, which was formulated in 2011 and blazed a trail for several domestic companies to follow, and in the careful consideration we give to environmental impact when conducting any business activity.

In February 2021, we unveiled Daifuku Environmental Vision 2050, which aims for a world where material handling systems have zero environmental impact in 2050, and bears the slogan “One-Daifuku Zero.” In addition to further enhancing the efforts we have made to date and offering Eco-Products or other environmentally friendly products, we are also committed to producing zero CO<sub>2</sub> emissions at all Group locations.

In keeping with Daifuku Environmental Vision 2050, we have also established five themes for sustainability management: Contribute to a smart society, Maintain and improve the quality of products and services, Enhance operational framework, Respect human dignity, and Contribute to the environment through our business. In addition, we have identified 18 material issues (materiality) connected to these themes. We intend to specify goals and key performance indicators (KPIs) for these material issues under our three-year Sustainability Action Plan and keep watch over progress over the course of the plan.

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Sustainability Management

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Daifuku Environmental Vision 2050

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Materiality

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Sustainability Action Plan

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Global Presence

### Improve cost competitiveness and quality worldwide

As for our business strategy, which means to actualize the concepts within Value Transformation 2023, we intend to take action related to our business domains, profitability, operational framework, and brand.

Our global strategy ties in heavily with measures related to business domains. One of the goals in this strategy is for non-Japan sales to account for 50% or more of net sales in the Intralogistics business. While the Intralogistics business has received a great deal of praise from customers in Japan, we need to improve our competitiveness in non-Japan markets and increase the proportion of our business conducted outside Japan.

As it stands, the Japanese market is shifting from retail toward e-commerce, and our customers are making active investments in distribution centers. That said, we expect this demand to ease in the future. If we look from a longer-term perspective, it seems unlikely that overall consumption will increase in Japan as the population continues to decline. We will continue to provide cutting-edge technology in Japan and maintain our top share position. Meanwhile, we will continue to ramp up the efforts already undertaken to increase production capacity and cost competitiveness in North America, China, India, and other regions to expand our market share in each of these markets.

One measure to bolster existing businesses is to conduct active marketing of ready-designed solutions to increase active sales; that is to say that the solutions and systems we provide will be customizable. Since we independently develop and produce the individual products that make up the system, we are confident and take pride in not only the quality of the entire system but also the quality of each product

contained within. To increase sales of these products, we are planning to provide a selection of individual products to supply to engineering companies and other customers, even if they are for projects that do not primarily involve the Group’s systems.

Competition is increasing in Japan for relatively simple systems used in distribution centers with the entry of emerging manufacturers from China. Similar to other domains, we will promote a lineup focused on product development tailored to customer needs.

We are exploring next-generation logistics systems as a long-term measure. The key is open innovation. To date, the Group has focused on in-house production with an emphasis on delivery time and quality control. However, if we are to take advantage



of the various technologies being tested around the world—automation, predictive AI, drones, delivery robots, and more—we must have open innovation such as industry and academic collaboration and the ability to hear venture pitches. With this in mind, we have already begun work on advanced robotics technology research with Osaka University.

### Build effective systems beyond business units

Risk management is becoming increasingly important as projects in each business increase in scale. We believe that the knowledge we have accumulated in the Intralogistics business can be used in other fields as well. As mentioned earlier, we have succeeded in increasing cost competitiveness in the Intralogistics business, especially in the Japanese market, and one of the keys to this has been the “visualization” of risks. Building a system capable of overseeing processes, from design to system operation, in real time and also capable of providing advance detection of risks that could cause construction delays has helped ensure accurate management.

In recent years, there have been cases where business units with a majority of non-Japan projects have experienced installation delays for various reasons. This requires these units to invest in a great number of additional human resources and ultimately causes costs to swell. To mitigate this problem, we intend to export the Japanese structure of the Intralogistics business to other business units and use this structure to visualize development, production, and delivery processes in real time for global projects, to ensure the early detection of any potential issues.

In fiscal 2019, we reorganized our global business structure by business unit, clarifying the scope of authority and responsibilities of each unit. This has allowed each business unit to cultivate and allocate human resources flexibly and in line with the Group’s business strategy. Even though it has only been about a year since this reorganization, we are seeing steady results, particularly in the Intralogistics business.

We also integrated the Automotive business unit and the Airport business unit, starting in fiscal 2021. Since it was established, the Automotive business has expanded into the world alongside its customers, as shown by the fact that around 80% of net sales come from outside Japan. Accordingly, the business unit has several non-Japan locations and human resources that move forward with local projects. On the other hand, the Airport business comprises non-Japan companies that joined the Group via M&A and so we have an urgent need to strengthen the human resources capability we need to promote the projects of this business. We expect that integrating these two businesses—particularly in terms of their business outside Japan—will make it possible to mobilize human resources, share locations, and generate a collaboration effect.

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Message from  
the Production Officer

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Strategies by Business

### The Group’s excellent traditional values —the bedrock of value creation

The Group is infused with an excellent traditional culture, developed over years of on-site experience and imprinted with the promise to deliver systems on time, and to protect the operations of customer lines. This culture became a part of me when I was a new employee and was involved in a project to replace a system for an automobile factory while its production line was shut down during the summer holidays. We were under heavy pressure, knowing that if we did not meet our deadline that it might affect production after the holidays, and I will never forget the experience of working together with my seniors and colleagues to get the system ready without any problems. The Group’s excellent traditional values have evolved as employees in Japan share these types of experiences over time.

Currently about 12,000 employees are working for the Group, with about 8,000 of them working outside Japan. Given the different cultures that exist in each country and region, it is difficult to instill these traditional values and sense of purpose Groupwide. Sometimes people are bound to ask, “Why are we pushing ourselves so hard?” However, I truly believe it leads customers to say, “Best leave it to Daifuku.” What I have learned through my experience is that the first step to gaining this trust from our customers outside Japan, and securing M&A and alliance opportunities worldwide, is to build support for these values and to develop a shared set of values among our employees. Because of this, I will remain resolute in my effort to make sure that the Group’s culture and values are truly conveyed and instilled Groupwide.

Going forward, I ask you to bring your expectations, as we continue to take on challenges and move forward, charged with the “Hini Arata” spirit.



President and CEO