

Chapter 2

# Growth Strategy

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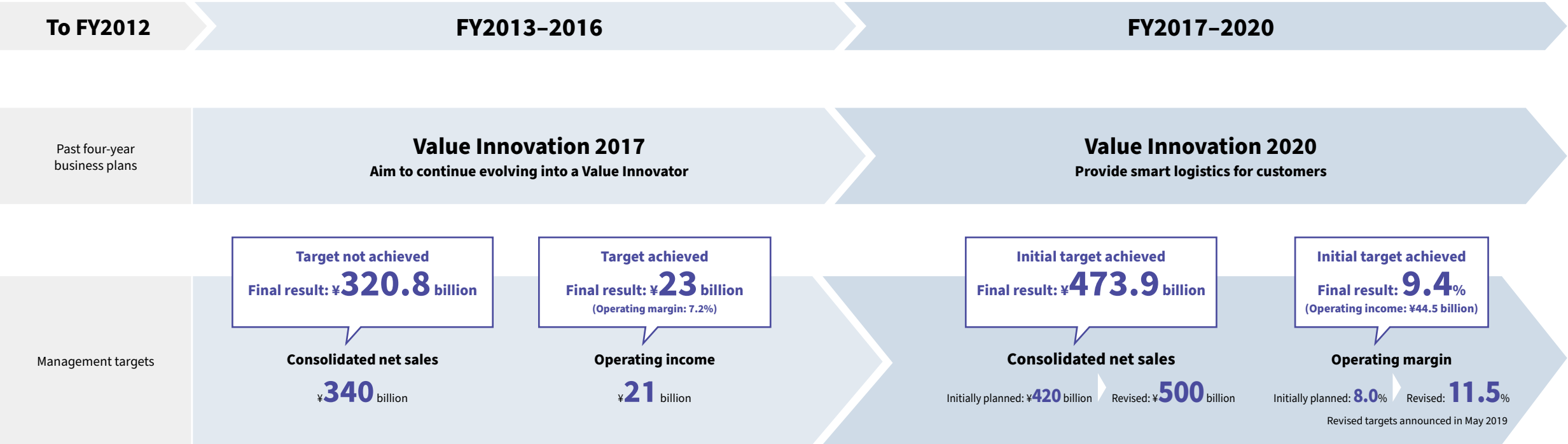


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Historical Challenges of Growth Strategy



Measures	Business Domains	<ul style="list-style-type: none"><li>Conducted M&amp;A to strengthen Intralogistics business in North America and Airport business in Oceania</li><li>Strengthened device products and complemented plant products</li><li>Globally responded to e-commerce demand</li><li>Business globalization Non-Japan sales ratio: 52% → 65%</li></ul>	<ul style="list-style-type: none"><li>Established Airport business as the fourth core business Doubled the volume of orders, underpinned by well-equipped to handle large-scale projects, incorporating device products (Picture 1), and adding software products</li><li>Secured advantages at cutting-edge semiconductor factories</li><li>Developed optimization support services for automobile production lines</li></ul>
	Profitability	<ul style="list-style-type: none"><li>Provided high value-added e-commerce solutions</li><li>Boosted cost competitiveness Streamlined the production framework in Japan Expanded local production outside Japan Used information and communications technology (ICT)</li></ul>	<ul style="list-style-type: none"><li>Improved remote monitoring function for equipment we deliver</li><li>Significantly reduced on-site adjustments by using 3D software acquired through M&amp;A across the board</li><li>Constructed a new factory in the U.S. to secure nearly twice the production capacity of conventional products (Picture 2)</li><li>Invested in factories in Japan, South Korea, China, and Thailand to promote localization</li></ul>
	Operational Framework	<ul style="list-style-type: none"><li>Building a strong financial base Paid-in capital: ¥8 billion → ¥15 billion</li><li>Optimized business operations at Group companies in North America and China</li><li>Strengthened business management computer systems across the Group</li></ul>	<ul style="list-style-type: none"><li>Further strengthened financial base Paid-in capital: ¥15 billion → ¥31.8 billion</li><li>Revamped management structure in North America</li><li>Established a training system in Japan for global staff</li></ul>
	Brand	<ul style="list-style-type: none"><li>Transforming internal perceptions Understood employee awareness and enhanced training system</li><li>Established “Always an Edge Ahead” as our new brand message Provided customers with a “competitive edge”</li><li>Shifted from physical-visit-based to information-based model of customer acquisition, making effective use of websites and exhibitions</li></ul>	<ul style="list-style-type: none"><li>Value Transformation Provided a system that never stops and that resumes its operation immediately even if it stops</li><li>Raised employees’ ethical awareness by establishing the Group Code of Conduct</li><li>Established the Sustainability Committee and developed the Sustainability Action Plan</li><li>Disclosed information on climate changes based on TCFD* recommendations and developed Daifuku Environmental Vision 2050 <small>* TCFD: Task Force on Climate-related Financial Disclosures</small></li></ul>

Challenges

**Consistent challenges**

- Globalization
- Strengthen Group governance against the backdrop of expansion of non-Japan subsidiaries
- Increase profitability
- Respond to technological innovation
- Respond to the market environment
- Boost competitiveness

**Challenges of increasing importance**

- Use IT (Digital Transformation)
- Sociality



Picture 1: Self-service baggage check-in system



Picture 2: Wynright's new manufacturing complex

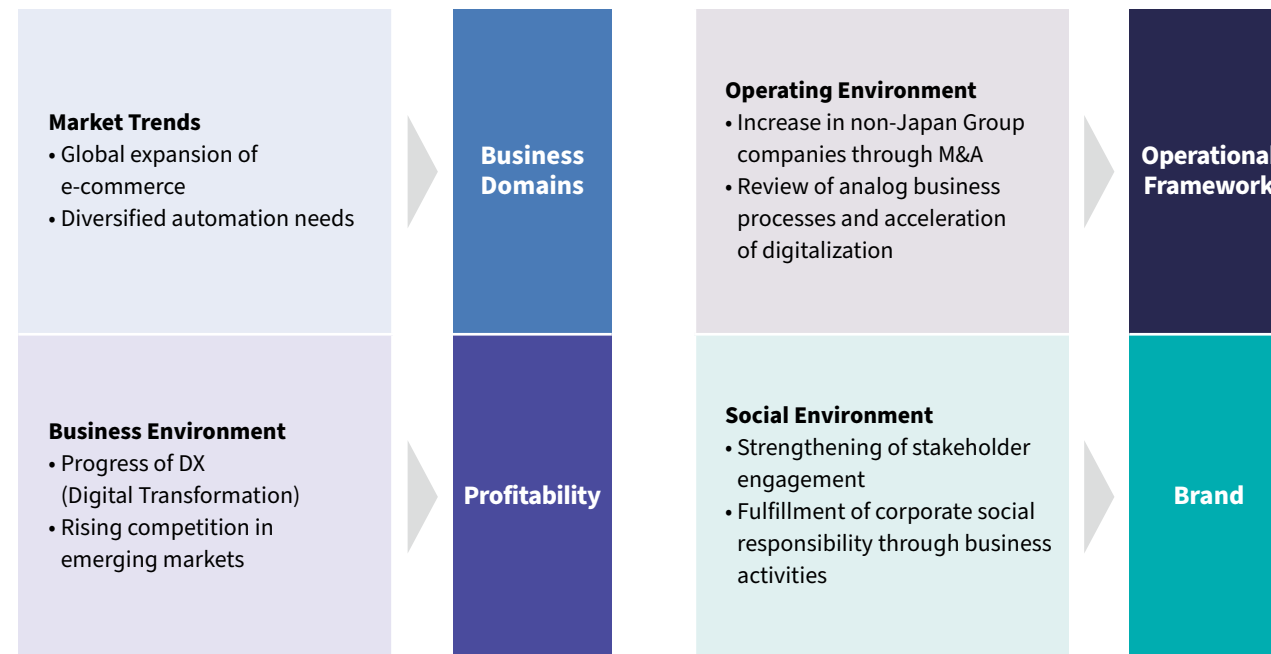
## Three-Year Business Plan Value Transformation 2023

Given the drastic changes in the environment surrounding the Daifuku Group, in the new business plan the Group will promote  $DX^2$  ( $DX$  Squared) = Digital Transformation  $\times$  Daifuku Transformation with the goal of contributing to the realization of a sustainable society and the enhancement of corporate value through solutions that solve the challenges faced by customers and society.

### I Management targets

<b>Consolidated net sales</b>	<b>Operating margin</b>	<b>ROE</b>	<b>Dividend payout ratio</b>
¥540 billion	10.5 %	Secure 10 % or higher (each fiscal year)	30 % or more (on a three-year average)

### I Current and future business challenges



### I Concept

#### 1 Transformation of the value provided through $DX^2$

$DX^2$  ( $DX$  Squared) = Digital Transformation  $\times$  Daifuku Transformation

The Group will transform the value provided to its customers and other stakeholders through the promotion of Digital Transformation (DX) and of the transformation of the Daifuku Group itself (Daifuku Transformation).

#### 2 Creation of new value in the new normal

The goal of the Group is to continue to stride forward in a society that demands the creation of new value, leveraging its flexible, creative ability to create ideas free from precedent and its power to execute its plans to transform existing frameworks.

#### 3 Towards realizing a sustainable society

The Group positions its three-year business plan and Sustainability Action Plan (▶ Page 56) as the two wheels of its business strategy. The Group will implement these plans to contribute to the achievement of the Sustainable Development Goals (SDGs) of the United Nations.

### I Business strategy

Business Domains			Operational Framework		
1 Accelerating globalization	<b>Strategically invest in the global market</b> <ul style="list-style-type: none"> <li>Achieve global business expansion through M&amp;A and alliances</li> <li>Actively expand sales reach in markets with growth potential</li> </ul>		1 Rebuilding Group management	<b>Strengthen Group governance</b> <ul style="list-style-type: none"> <li>Conduct business operations from a portfolio management perspective</li> <li>Optimize Group resources, including consolidation and integration</li> </ul>	
2 Strengthening existing businesses	<b>Create next-generation business models</b> <ul style="list-style-type: none"> <li>Conduct active marketing of ready-designed solutions</li> <li>Propose new business models such as recurring revenue business</li> </ul>		2 Transforming business operations	<b>Increase efficiency and add value from a customer-oriented perspective</b> <ul style="list-style-type: none"> <li>Implement a fundamental review of business processes to increase customer satisfaction</li> <li>Reconfigure existing work processes through DX</li> </ul>	
3 Developing new business	<b>Invest in promising new domains</b> <ul style="list-style-type: none"> <li>Further promote open innovation including collaboration with the private sector, universities, and emerging companies</li> <li>Develop new businesses, including considering businesses outside the framework of existing business domains</li> </ul>		3 Reforming personnel systems	<b>Adopt diverse human capital management systems</b> <ul style="list-style-type: none"> <li>Develop and appoint human resources through global talent management</li> <li>Introduce a competitive employment system for hiring specialists</li> </ul>	
Profitability			Brand		
1 Enhancing product value	<b>Transform value provided through cutting-edge technologies</b> <ul style="list-style-type: none"> <li>Provide smart logistics using advanced ICT and AI technologies</li> <li>Develop products that meet increasingly diverse customer needs and drive next-generation logistics</li> </ul>		1 Innovating value provided	<b>Provide smart logistics through TOP* innovation</b> <ul style="list-style-type: none"> <li>Provide logistics systems that support the DX sought by customers</li> <li>Provide new value transcending the barriers of TOP through digital space technology</li> </ul> <p>* TOP: Time, Occasion, Place</p>	
2 Increasing productivity	<b>Strengthen international price competitiveness</b> <ul style="list-style-type: none"> <li>Rebuild production and procurement framework to become an industry leader in cost reduction and quality</li> <li>Establish a highly accurate digitalized project management system</li> </ul>		2 Creating social value	<b>Strengthen framework consistent with our role as a company responsible for social infrastructure</b> <ul style="list-style-type: none"> <li>Cement the safety, stability, and reliability of logistics in its role as an element of social infrastructure</li> <li>Carry out initiatives that help realize a sustainable society</li> </ul>	
3 Reinforcing production framework	<b>Promote innovation in monozukuri (manufacturing) through digitalization</b> <ul style="list-style-type: none"> <li>Standardize all processes including design, production, installation, and after-sales service</li> <li>Optimize engineering efficiency through digital technology</li> </ul>		3 Transforming internal perceptions	<b>Create a global corporate culture</b> <ul style="list-style-type: none"> <li>Encourage work-style awareness toward embracing telework</li> <li>Improve employee engagement across the Group</li> </ul>	

Message from the Corporate Officer Responsible for Finance

Increasing corporate value  
through a stronger  
management foundation and  
proactive investment

Tetsuya Hibi

Corporate Officer  
Corporate Functions  
Finance and Accounting



Looking back on year one since becoming  
the corporate officer responsible for finance

In our current stage, we are focused on growth. In recognition of this fact, we have been expanding our business to this point using management indicators focused on the statements of income, including net sales and operating income. Now that our business scale has expanded to the point where we are now a global company, with non-Japan sales accounting for 70% of total sales, we are shifting our mindset from emphasizing the statements of income toward emphasizing the balance sheet and cash flows. At the same time, we are trying to instill this shift in our employees. We are also in the process of developing a system that will quickly generate management indicators based on the balance sheet and cash flows.

Cash flows in particular become an issue as projects grow in scale, since this lengthens the time it takes to complete a project. This means that the amount of advance payments we are required to provide on behalf of a third party increases. As a result, we are redoubling our efforts to speed up the collection of funds. In our industry, sales are recorded based on construction progress, but when it comes to business practices, the actual payment contracts are not linked to construction progress. What happens, then, is that cash conversion cycle (CCC) tends to be longer as net sales increase. We are in the process of setting up a system that will allow for us to carefully track and collect funds globally, which includes following up with customers on a monthly basis, with an emphasis on customers outside Japan. These efforts have resulted in a decrease in long-term receivables in arrears. We will continue to focus on improving CCC, including negotiating payment terms with customers when determining contracts.

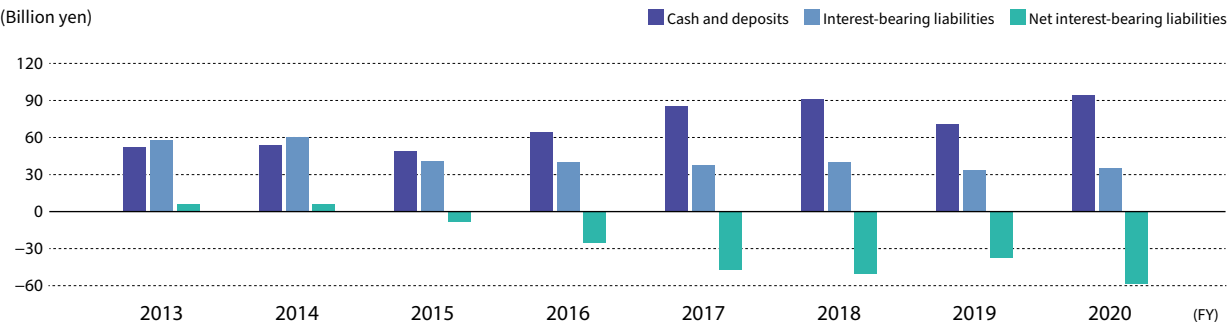
Daifuku has a well-established system to handle financial management for non-Japan subsidiaries, but we may still have issues with companies that joined the Daifuku Group through M&A. We will work on this system with the intent of adding goals within the time frame of our new three-year business plan.

Review of the capital and financial strategy of  
the Value Innovation 2020 business plan

The Company made a public offering in December 2017. Our equity ratio increased from 45.8% in fiscal 2016 to 57.7% in fiscal 2020, as the Company grew in scale while increasing its financial soundness. Judging by voting rights, the number of shareholders also increased considerably, from about 12,000 in fiscal 2016 to 21,000 in fiscal 2020, increasing stock liquidity and leading us to believe that both our capital structure and shareholder composition match the size of the Company.

Interest-bearing liabilities remain low, and as of March 31, 2021, the balance of net interest-bearing liabilities decreased 59 billion yen with no substantial interest-bearing liabilities. This puts us in a good financial position.

Trends in interest-bearing liabilities



Over the course of Value Innovation 2020, we were able to maintain our target of ROE of 10% or higher. The Cleanroom business performed well in fiscal 2017 and 2018, and ROE rose more sharply than usual as a result, but if we exclude this exception to the norm, ROE has been showing steady improvement over the medium to long term, and we will continue to increase ROE by improving profitability.

	Value Innovation 2017					Value Innovation 2020			
FY	2013	2014	2015	2016	2017	2018	2019	2020	
ROE*(%)	8.6	9.6	11.6	12.6	17.7	19.5	12.4	13.2	
1 Net income / Net sales (%)	3.20	3.67	4.06	5.22	7.16	8.61	6.32	6.83	
2 Total asset turnover (Times)	1.06	1.03	1.19	1.07	1.20	1.17	1.08	1.11	
3 Financial leverage (Times)	2.58	2.51	2.33	2.18	1.99	1.87	1.76	1.73	

\* ROE= 1 × 2 × 3

Moving to the use of funds, we continued to make proactive capital investments both within and outside Japan. In particular, we invested in building a new factory that began full operation in 2020, focusing on the Intralogistics business in North America. We believe that this was a timely investment, as it coincided with an increase in orders stemming from the growing demand for e-commerce.

Capital and financial strategy of the Value Transformation 2023 business plan

We are focused on increasing our global financial management capabilities, and to do so we will leverage digital transformation (DX) and establish a solid business management foundation, enabling us to quickly provide a variety of management indicators, based primarily on the balance sheet and cash flows. With this tactic, we intend put in place a management system and methodology befitting a company with net sales of 500 billion yen or higher.

Regarding shareholder returns, our goal is to maintain a dividend payout ratio of 30% or more. Funds other than those allocated to dividends will be used to invest in growth that will further enhance corporate value going forward. For fiscal 2021, we have committed record amounts toward capital investment—13.6 billion yen, or 40% of our projected net income, with a focus on investment outside Japan—and toward R&D expenditures—10.8 billion yen, or 32% of our projected net income. We will look for the best solution to balancing shareholder returns, growth investment, and retained earnings.

The groundwork for our transition to the International Financial Reporting Standards (IFRS), the adoption of which we have been studying for several years, has been laid, and we plan on using the new three-year business plan Value Transformation 2023 as a preparation period for the switch. The move to IFRS will place more emphasis on the balance sheet and cash flows, so we will need to shift employee focus in this direction as well.

The Group positions the execution of the Value Transformation 2023 business plan and its Sustainability Action Plan as the two wheels of its business strategy. Moreover, we see ESG (environment, society, and governance) expenditures and expenditures aimed at achieving the SDGs as crucial investments rather than costs, and are committed to helping achieve a sustainable society and increasing corporate value.



Message from the Production Officer

Pushing ahead with visualization  
of manufacturing to  
increase productivity and reform  
the value we offer

**Yasuhisa Mishina**  
Managing Officer  
Production Officer  
DX Division Manager  
Intralogistics Production



Visualization for heightening profitability and job satisfaction

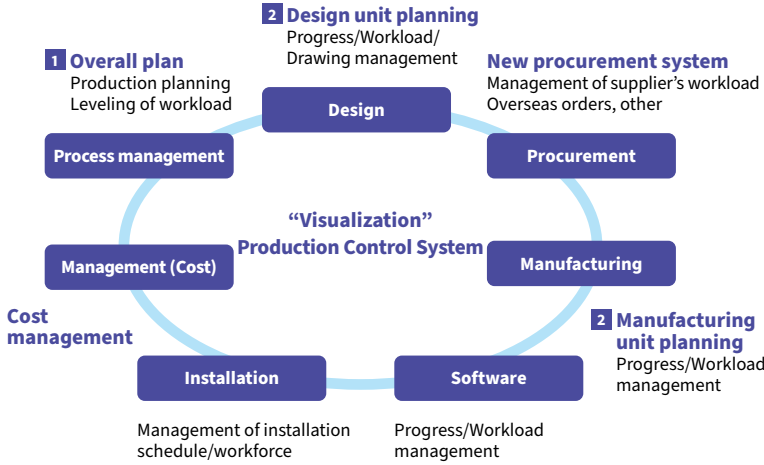
Digital transformation (DX) is a vehicle for accelerating the Daifuku Group's innovation. I believe it is important to make effective use of digital technologies and to visualize manufacturing in the context of implementing DX. This visualization will pave the way for reviewing processes and approaches, for standardizing and automating operations, and for reducing work hours (and costs), improving quality and shifting from a dependency on personal skills on the basis of accumulated data. We will remove limitations to specific persons, times, opportunities, and locations with the use of digital technologies to ensure openness irrespective of items, times, locations, and persons. We will then use the time gained by this action to create extra value and increase employees' fulfillment.

Online shift for making things visible anytime and anywhere

Daifuku has been working on DX since the period of the previous medium-term business plan. With an integrated system ranging from consulting to after-sales services, we offer systems. In the past, individual departments managed the processes separately. That resulted in a division of information, obscurity of progress and workloads, delays of processes, and surpluses or shortages of resources. There was no system for identifying any of these problems at an early stage. It meant that any problem that occurred in an upstream process affected downstream processes.



To ensure visualization of all processes, we have constructed a new production system and created a database of overall plans and design, procurement, and manufacturing processes in an effort to achieve centralized management of information.



- 1 Overall plan:**  
**Production planning based on data on inquiries and orders received, and visualization of workloads**  
This enables efficient allocation of personnel, material, and other resources to meet demand.
- 2 Design/Manufacturing unit planning:**  
**Making clear the progress of design and manufacturing and the workload based on the overall plan**  
This helps us understand the workloads in advance in the form of specific numerical figures to enable early management such as workload distribution and moving up of plans.

We began constructing a system based on the visualization of sales, design, and manufacturing processes to swiftly identify any issues in an upstream process and to take response action. At the same time, we are working to visualize on-site installation, system verification and other aspects. In the period of the new medium-term business plan, we will advance these areas, and also move ahead with prior quality completion in an upstream process with the use of digital technologies.

Outside Japan, we have started our action towards visualization in the ASEAN region, mainly in Thailand, where we built a new plant, in India, and elsewhere.

DX Division in charge of inter-business linkage

As mentioned, we have been working on digitalization that leads to productivity improvement. However, we have failed to share mechanisms that proved effective. To enhance efficiency throughout the Company with the use of good systems, we launched the DX Division. It is in charge of constructing internal digital infrastructure, of developing digital engineers and data analyzers, and of creating an environment for building up employees' digital skills.

In manufacturing, individual businesses have their own characteristics. No single system can be applicable to all of them. For introducing new actions smoothly to separate businesses, we set up a project with key members from individual departments to help increase their productivity.

Continuing innovation of value to offer

When I joined Daifuku in 1983, the Company worked to shift to higher value-added products with electronic programming and computer technologies. I was assigned to the software design section, which is associated with today's Intralogistics business. Later, I was appointed to develop and design technologies for controlling entire systems. In addition, I served as manager of the design department, which also dealt with hardware. Around 2015, I began to be involved in the manufacturing unit. That gave me plenty of good experience for the manufacturing reform in the Intralogistics business.

Just a short while after the start of the manufacturing reform, I was surprised that the reform was advanced by the visualization of processes and work hours. We started shifting from experience to digital values for data accumulation and analysis. Nowadays, we can use more digital technologies, including AI, IoT, and ICT. We will establish a project management system featuring digitalization in higher accuracy to help achieve further business expansion.

Material handling systems are becoming part of the social infrastructure. Customers need systems that do not stop or that can immediately be restored from stoppage in addition to featuring higher speed and accuracy than conventional models. We will incorporate sensors and other cutting-edge digital technologies into systems delivered to customers to advance visualization and optimization of logistics so as to provide customers with a competitive edge as well as the logistics value they seek, such as lower costs, shorter lead times and enhanced quality, and environmental features of logistics operations.

Strategies by Business

Transforming into a business that can continue to grow globally

Intralogistics

Introduction

The Intralogistics business combines automated warehouses with storage, transport, sorting, and picking functions to offer optimal systems to an extensive range of customers, including food, pharmaceuticals, and machinery factories; and to distributors for their delivery centers, such as retailers, wholesalers, transport operators, and warehouse operators. In recent years, large systems for e-commerce have been a driver of our business performance.

Director  
Managing Officer  
Intralogistics Global Business Head

Hiroshi Nobuta



Building a solid global network while focusing on the customer's perspective

Cleanroom

Introduction

The Cleanroom business offers storage and transport systems designed exclusively for clean rooms to the semiconductor and flat-panel display (FPD) factories. With cutting-edge technologies suited to miniaturization of semiconductors and production of larger FPDs and OLEDs, we maintain a large market share. Non-Japan sales hold a share of at least 95% mainly in East Asia.

Director  
Managing Officer  
Cleanroom Global Business Head

Seiji Sato



Review of the Value Innovation 2020 business plan

Sales from commerce and retailers, centering on e-commerce, have more than doubled from 53.5 billion yen before the plan to 115.5 billion yen. While the Japanese market grew slowly, we carried out measures using ICT for increasing integrated productivity covering sales, engineering, production and installation, and R&D efforts to offer the best solutions. These efforts helped rapidly increase sales and earnings strength as e-commerce demand grew rapidly.

Outside Japan, we strengthened our production frameworks in North America, China, Thailand, and elsewhere. In addition, we established a subsidiary in Vietnam and acquired a material handling system manufacturer in India. Having almost completed construction of a framework for quantitative expansion, we will next be required to work on quality enhancement.

Actions under the Value Transformation 2023 business plan

As e-commerce markets are expanding not only in Japan but across the globe, we will continue to seek growth. Our non-Japan operations need to be improved since they are less profitable than those in Japan. To attain global growth and higher profitability, it is essential that we have lineups of competitive products in markets in separate countries. At present, many of our products are tailored for the Japanese market. Personnel within the Daifuku Group worldwide will work together to accelerate the development of products for local markets to bolster our competitiveness.

Customers' innovation and their subsequent needs for industry reorganization have been among the growth drivers for our business. For example, when capital investment in one industry comes to an end, new needs emerge in another industry. Going forward, we will take swift action to avoid missing opportunities and to increase opportunities for growth.

Review of the Value Innovation 2020 business plan

This business has long been susceptible to dramatic market changes. Net sales from the electronics sector in fiscal 2018 rose at least 30% year on year, to reach a record level of about 190 billion yen. The following fiscal year, sales fell to just over 140 billion yen. During the period of the plan, single-year sales grew to a rough range of between 120 billion and 130 billion yen.

Each year, we secure a market share of around 50%, mainly among existing large customers. I believe that this is a result of our delivery of highly reliable systems for producing leading-edge products with short lead times. Meanwhile, the emphasis on cost cutting priority became lower. This is a significant issue that we need to address in the future, alongside the emergence of competitors. The growth of the Chinese market is also a major issue. We stepped up marketing activities, including the launch of a show space and a promotional website.

Actions under the Value Transformation 2023 business plan

Amid progress in IoT, 5G, DX, and other technologies, demand for semiconductors and FPDs is rising sharply around the world. There is no doubt as to the medium- and long-term growth potential of this business. On the other hand, we face challenges of responding to radical market changes and of improving profitability without impairing our response. We have thus defined our segment's slogan as *Value Transformation by "Excellent Quality, Best Price, Quick Delivery."* This embodies our resolution to go back to the basics of manufacturing.

Operating close to customers, non-Japan subsidiaries will play newly central roles. Not only manufacturing and installation work but also engineering and design services will be locally provided for local customers. What is significant here is to develop engineers outside Japan. Our efforts will not be confined to business. We will work on further enhancing systems' energy efficiency to reduce environmental impact and to foster new thinking.

Strategies by Business

Provide stronger proposals and the value that exceeds expectations

Automotive

Introduction

The Automotive business offers conveyor systems for all automobile production processes, including press, weld, paint, and assembly. In addition to these systems, we also provide solutions that include automation of automobile production lines. Centered on Japanese companies, we provide automakers with various systems worldwide, including in Japan, Asia, and the Americas. It also features remodeling, maintenance, and other services accounting for around 40% of segment sales.

Director  
Managing Officer  
Automotive and Airport Global Business Head  
Automotive Division Manager

Toshiaki Hayashi



Producing a collaboration effect throughout the business with strict project management

Airport

Introduction

The Airport business provides airports around the world with an extensive array of systems, centering on baggage handling systems and including self-service baggage check-in systems, security systems, and airport facility monitoring systems. Affiliates based in North America, Europe, and Asia Pacific, and Japan's business unit are working together to operate the business.

Managing Officer  
Deputy Automotive and Airport Global Business Head  
Airport Division Manager

Takaya Uemoto



Review of the Value Innovation 2020 business plan

The biggest topic is that we received an order for and completed delivery of our largest-ever project in North America. We completed the large project, which accounts for around 50% of annual sales of the business units, thanks to the cooperation from subsidiaries in North America and other Group companies during the COVID-19 pandemic.

We renewed and expanded our own plants that had aged in China, which is now the world's biggest automobile producer. In addition, we concluded a business alliance with AFT Industries AG in Germany to make a strategic move to respond to European automakers' demands for global capital investment.

Meanwhile, global price competition has intensified with the rise of Chinese competitors. Though we have reduced costs by expanding in-house production and improving profitability, we believe that we are only halfway to improving profitability.

Actions under the Value Transformation 2023 business plan

Demand for carbon offsets is increasing globally. We must meet customer needs for carbon neutral, not only through zero greenhouse gas emissions while driving but also from the perspective of Life Cycle Assessment from materials/production to disposal. We view this major transformation as a business opportunity and will strive to achieve continuous growth.

One thing we are doing is leveraging our strength, namely our service capabilities. By enhancing services such as centralized management of facility statuses and other data through DX and predictive maintenance using IoT tools, we will change the value we provide to customers.

Another initiative is to strengthen our global collaboration framework. Across the Group, we will seek to improve profitability by employing modular designs while leveraging our conventional strength in on-demand design.

Review of the Value Innovation 2020 business plan

This business achieved a goal of becoming a fourth core business after the volume of orders received doubled compared to the level before the plan. We won orders for large airport baggage handling systems chiefly in Japan and North America. Meanwhile, self-service baggage check-in systems and security systems broadened the range of our business in airports. In view of the smart airport project, we merged and acquired two software-related companies.

We faced an unprecedented situation when the number of air passengers fell sharply due to the COVID-19 pandemic. However, this business was strong, winning large projects. This was based on the facts that airports are social infrastructure and long-term public projects and that they had urgent needs for replacing aged facilities and for upgrading security.

With regard to profitability, it has become clear that there is still room to improve project management.

Actions under the Value Transformation 2023 business plan

At the start of this plan, we merged with the Automotive business into one global business unit. This move is aimed at effectively deploying the Automotive business' staff, who have extensive experience in project management, and at sharing use of non-Japan facilities. It is also intended to introduce our good traditional values, such as emphasis on hands-on experience with the customer-first principle that Daifuku has been based on, to new Group companies. Formerly, individual companies tended to expand their businesses in their own ways. With the aim of operating the Airport business in a united manner, we will step up information exchange through monthly meetings of leaders in businesses and subsidiaries' management members and strictly implement Japan-led project management. We will seek a collaboration effect by transferring key personnel between subsidiaries and by restructuring the organization.

In North America, we will integrate three dispersed factories into one new plant and shift to an independent production system that covers all processes from manufacturing to trial runs to increase productivity. We are determined to make effective use of our assets to heighten the efficiency and profitability of the overall business.



## Strategies by Business

### Enhance product competitiveness by reinforcing production/sales business structures

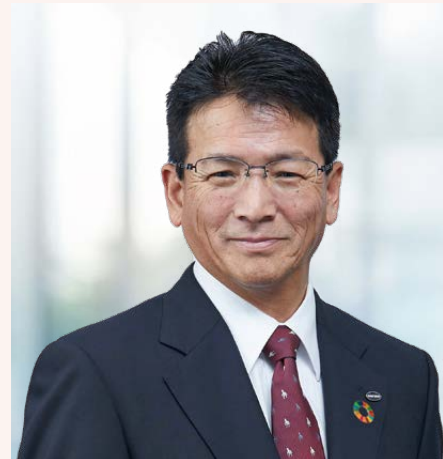
#### Auto Wash

##### Introduction

The Auto Wash business provides service stations, car dealers, garages, and self-service car washes with car wash machines and related products, mainly in Japan and South Korea. We are expanding our sales channels to new markets other than existing customers and are working to differentiate our products by strengthening environmental measures.

Corporate Officer  
Auto Wash Global Business Head  
President of Daifuku Plusmore Co., Ltd.

**Akihiko Nishimura**



#### Review of the Value Innovation 2020 business plan

Unlike the plant-led material handling systems, the Auto Wash business offers production, sales, and after-sales services for car wash machines and related products. In addition to the fact that it can leverage the control technologies at which Daifuku excels, it has allowed us to retain the top share in Japan, also thanks to the effects of M&A conducted in 2011.

During the period of the plan, we increased sales of large-vehicle wash machines in addition to sales in existing stable markets that are based on a large number of automobiles in Japan. This is because of demand to reduce the car wash workload of transport drivers, who are in increasingly short supply given the rise of e-commerce, and inbound demand. Although the business was sluggish in quantitative terms in the final fiscal year due to the COVID-19 pandemic, our profitability increased through product improvement and the introduction of new services including smartphone apps.

#### Actions under the Value Transformation 2023 business plan

We will continue to identify new markets and differentiate our products. As an immediate initiative, we will introduce IoT machines that support cashless payment, which help capture the trend toward the introduction of car wash machines at laundromats and large commercial facilities. Because they are seen firsthand by consumers and use water and chemicals such as shampoo, we will also focus our efforts on introducing devices that reuse water resources and environmentally friendly chemicals, etc.

In addition, efforts for DX are essential to realize operational reforms such as improvements in production costs. We will focus on developing new products that use our car wash technologies as well as improving service businesses through online-sales systems for consumables and remote operation/monitoring.

### Addressing reform and value creation by capitalizing on the Group's strength

#### Electronics

##### Introduction

Contec Co., Ltd., a subsidiary of Daifuku, was established as an in-house business venture spun off from Daifuku's control and software departments for automated warehouse systems. It manufactures and sells electronic devices incorporated into systems to Daifuku and many other customers. Its principal products include electronics products consisting of industrial computers, IoT devices, and solution products, as well as control panels and control modules. Our products are commonly used in applications where durability under different operating conditions such as 24-hour uninterrupted operation or high-temperature environments is required.

President and CEO  
Contec Co., Ltd.

**Akira Ikari**



#### Review of the Value Innovation 2020 business plan

Contec's sales target was initially set at 30 billion yen. Its actual sales stood at 27.4 billion yen, affected by the U.S.-China trade dispute and the COVID-19 pandemic.

We fell short of the initial target. Even so, we stepped up global sales to achieve brisk sales of industrial computers for the medical device sector in the U.S. market. During the period, U.S. sales grew around 30%.

For the rapidly growing IoT market, we have expanded the lineup of CONPROSYS IoT solutions featuring technologies cultivated in the areas of industrial computers, measurement control, and networks. Going forward, it will be a challenge to secure a position in the market where we are able to display a competitive edge.

#### Actions under the Value Transformation 2023 business plan

Our management goals for the final fiscal year include sales of 30 billion yen and an operating margin of 9.3%, in comparison to sales of 27.4 billion yen and an operating margin of 6.0% recorded for fiscal 2020. We will shift to fields where market growth is anticipated in a bid to increase both sales and profitability. In the DX market, we will seek to win extra orders from target industries, namely those of semiconductors, medical care, and security. We will also offer more solutions to the environment and energy-related markets to boost sales.

To enhance our global structure, we will work to achieve centralization of information at development locations in Japan, the U.S., and Taiwan to increase development efficiency. We will introduce joint procurement in the Contec Group to slash costs and to boost our competitiveness.

Apart from that, we will work to create new markets through initiatives in labor saving with the use of our AI technologies, the cultivation of robotics markets, and the provision of new solutions incorporating next-generation communication technologies, such as 5G and Wi-Fi 6, and remote monitoring technologies.



# Risk Management

## I Risk management framework

The Daifuku Group has built a Groupwide risk management framework with the CEO assuming ultimate responsibility. Based on the Risk Management Rules, we have established a risk management promotion framework consisting of the heads of business units. Daifuku conducts risk assessments on a regular basis (generally once a year) for the entire Group to understand the risks that affect the Group's business. For each risk, the department in charge is working to mitigate the risk and minimize impact from the occurring risks according to the level of criticality. The Sustainability Promotion Department manages the risk management promotion framework and reports high-priority risks to the Board of Directors.

For details of risks and opportunities relating to climate change, see ▶ Pages 60–61.

## I Prerequisites for risk analysis

The main prerequisites that the Group should consider in risk analysis are as follows:

- ① Our business is greatly affected by the capital investment trends of customers in specific industries.
- ② Our business generally involves long-term plant installation.
- ③ Nearly 70% of total sales are recorded outside Japan.
- ④ Business performance and the Group's size are growing rapidly, and sustainable growth is expected in the future.
- ⑤ Logistics systems are recognized as an important infrastructure, and are attracting growing attention from society.

## I Major risks

Based on the above risk assessment, we evaluate important risks that have a significant impact on the Group's business activities in terms of frequency with which they occur and the potential impact. Since it is unlikely that the impact and frequency will fluctuate markedly in a short period of time, in fiscal 2020 we conducted monitoring of the major risks identified with a third party in fiscal 2019. The major risks (summarized in the table on page 49) are expected in normal business operations, listed in order of importance. Although we are taking measures to reduce each of the risks listed, it is difficult to predict and deal with them completely.

## I Risks from the COVID-19 pandemic

We recognize the following major risks posed by the COVID-19 pandemic:

- Restrictions on movement, attendance, and activities of the Group and customers
- Delay or stagnation of business activities due to an outbreak of infections
- Deterioration of profitability due to the postponement, cancellation, or reduction of customers' capital investment due to recession.

The Group has set up a task force for the COVID-19 pandemic with the CEO as the chief executive, and each business unit scrutinizes the situation and reports to the Board of Directors each time. Our top priority is to ensure the life, health, and safety of our employees, their families, our customers, and our business partners. We carry out our business activities in accordance with the guidelines of Japan and foreign governments and government agencies, using teleworking to minimize the risk of spreading the infection.

The COVID-19 pandemic has had very little impact on the Shiga Works, which is the Group's main production site, and the supply chain is functioning soundly. Non-Japan factories, offices, and service sites of the Group operate following policies announced by local governments and authorities.

As for the impact on financial results for fiscal 2020, sales and income were favorable and increased, while orders were down 6.6% from a year earlier due to delays in business negotiations, restrictions on attendance, and movement. Going forward, orders are expected to expand over the medium to long term due to the further spread of e-commerce.

We recognize that the range of these risks may possibly expand, as the scale and period of impact from the COVID-19 pandemic on the global economy are uncertain for now.

### Summary of major risks

1 Economic crises, business fluctuations, and improper management of non-Japan subsidiaries	Impact level	<ul style="list-style-type: none"> <li>Decrease in capital investment due to economic fluctuations in the electronics industry</li> <li>Increased installation costs due to poor project management</li> </ul>
	Measures	<ul style="list-style-type: none"> <li>We pay close attention to trends in the electronics industry and strive to flexibly reflect them in our business plans.</li> <li>We strive to improve the accuracy of project management, including budgets and installation progress.</li> <li>The Group pays close attention to trends in customer industries and strives to flexibly reflect them in our business plan. However, capital investment trends in the semiconductor and flat-panel display industries change rapidly, making it difficult to forecast earnings completely.</li> </ul>
2 Risks related to compliance	Impact level	<ul style="list-style-type: none"> <li>A significant increase in management targets due to rapid growth of the Group. Increased compliance risk due to a lack of cooperation in Japan and overseas</li> </ul>
	Measures	<ul style="list-style-type: none"> <li>Strengthening the internal control system, improving the whistleblowing system, developing regulations on anti-bribery and preventing competition law violations, establishing an organization to enhance the effectiveness of audits by the Audit &amp; Supervisory Board members, establishing an organization to strengthen the system for checking non-Japan subsidiaries that joined the Group through M&amp;A, establishing an organization to strengthen Group governance</li> <li>Compliance risk may increase due to a significant increase in management targets and lack of cooperation in Japan and overseas.</li> </ul>
3 Risks related to human resources	Impact level	<ul style="list-style-type: none"> <li>Difficulty in acquiring and training excellent personnel</li> </ul>
	Measures	<ul style="list-style-type: none"> <li>Enhancement of training courses, cross-sectional use of human resources with a talent management system, promotion of work-style reforms</li> <li>We promote work-style reforms and improve treatment, but it will take some time before these measures begin to show an effect. In addition, engineers related to material handling systems are concerned about the lack of personnel globally due to advances in e-commerce and other factors.</li> </ul>
4 Risks from large-scale natural disasters	Impact level	<ul style="list-style-type: none"> <li>Suspension of business activities due to the occurrence of large-scale natural disasters such as earthquake and tsunami</li> </ul>
	Measures	<ul style="list-style-type: none"> <li>Natural disaster hazard surveys at each site, formulation of time order response plans for when they occur, training such as safety confirmation, expansion of stockpiles</li> <li>If the disaster is severe (Nankai Trough earthquake, super typhoon, etc.), the impact may be very large.</li> </ul>
5 Risk of cyberattacks	Impact level	<ul style="list-style-type: none"> <li>Information leakage due to cyberattacks and accidents related to computer security</li> </ul>
	Measures	<ul style="list-style-type: none"> <li>We establish an Information Security Committee chaired by a corporate officer. CSIRT* identifies the extent of impact and damage, takes initial action to prevent the spread of damage, examines measures to prevent recurrence, and regularly conducts employee education and training.</li> <li>* Computer Security Incident Response Team: An organization for dealing with computer security accidents such as information leaks caused by cyberattacks</li> <li>Since the threat of cyberattacks is increasing in both impact and frequency, it may lead to deterioration of the brand image and result in damage that cannot be covered by cyber risk insurance.</li> </ul>