DMG MORI

**DMG MORI CO., LTD.**
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# DMG MORI Co., Ltd.
## 65% growth of orders in the first nine month (January-September)/ Further upward revision of full year forecast

**Key figures**

| (JPY) | | FY2021 Jan-Sep | (YoY) | FY2020 Jan-Sep | |
|---|---|---|---|---|---|
| Consolidated order Intake | : | 340.3 bn | (+64.8%) | 206.5 bn | |
| Machine order backlog | : | 168.0 bn | - | 96.0 bn | (End of Dec. 2020) |
| Sales revenue | : | 274.3 bn | (+17.0%) | 234.4 bn | |
| Operating profit | : | 16.7 bn | (2.7x) | 6.2 bn | |
| Operating profit margin | : | 6.1% | | 2.7% | |
| Net profit attributable to the owners of the parent | : | 9.9 bn | | 0 bn | |
| Net profit attributable to ordinary shareholders | : | 8.3 bn | | -0.8 bn | |

**[Third quarter (January-September) financial results summary]**

DMG MORI's consolidated orders have been expanding across almost all industries in developed countries such as Japan, Europe and the Americas, which account for around 80% of total orders. Although the early demand recovery in China, which account for about 10% of total orders, has moved into a state of pause, this effect is being fully absorbed by strong order influx in the developed countries. As a result, our consolidated orders are in a solid recovery.

Consolidated orders in the first nine month (January-September) grew to JPY340.3 billion (+65% year on year), driven by businesses areas where our strengths lie, such as automation, full-turnkey systems and digitization with process-integrated machine tools such as 5-axis machines and mill-turn centers as their basis. Order backlog for machinery at the end of September climbed to JPY168 billion (JPY142 billion at the end of June).

Sales revenue for the first nine months grew to JPY274.3 billion (+17% year on year), operating profit increased to JPY16.7 billion (+2.7 times year on year) with an operating profit margin of 6.1% (2.7% in the same period last year). Although logistics costs rose, we were able to significantly improve our profit margin by controlling other costs, increased sales volume, improved gross profit margin by providing value to customers, and benefitting from the yen's depreciation.

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Net finance costs declined by JPY1.4 billion mainly because of lower amount of annual recurring compensation owed to non-controlling shareholders of DMG MORI AG (hereinafter referred to as AG). In addition, the effective tax rate normalized to an appropriate level of about 30%, leading to net profit attributable to owners of the parent (herein after referred to as net profit) of JPY9.9 billion (zero of the same period last year).

**[Third quarter cumulative business overview]**

**(Order trends)**

Consolidated orders for the first nine months grew to JPY304.3 billion (+65% year on year) reflecting continued favorable demand environment in Japan, Europe and the Americas. We are expanding our small-scale business meeting events worldwide, which we started in Japan last year. Most recently, we held the "pre-EMO show" at the Pfronten factory in Germany. We also invited customers who visited the exhibition "EMO MILANO 2021" held in Italy to explore our Milan showroom. Such measures lead to order growth in Europe.

The average unit price per machine body order is on an upward trend with JPY39.2 million in the third quarter (July-September 2021) compared to JPY37.1 million in the last fiscal year. An increase in demand for automation and full-turnkey systems as well as integrated machines has contributed to higher prices. Orders for after-sales-services and repair parts, which account for 18% of consolidated orders, also increased 26% year on year. In addition, Magnescale, one of our group companies, is also increasing contribution due to strong demand for precision measuring components for cutting-edge semiconductor production equipment.

The share of domestic and overseas order intake was 13% (14% in the last fiscal year) and 87% (86% in the last fiscal year), respectively. The overseas order composition by region was 52% in Europe (45% in the last fiscal year), 19% in the Americas (24%) and 10% in China (10%), and 6% in Asia (7%). Demand for semiconductor production equipment, space-related components, EVs, molds and decarbonization-related products remained strong. Inquires for commercial aircraft and energy industries began to take off.

**(Order backlog)**

The order backlog for machinery at the end of September climbed to JPY168 billion (JPY96 billion at the end of December 2020). Machine orders in the fourth quarter (October-December) are expected to exceed sales, leading to an order backlog of JPY170-180 billion at the end of this year. At the beginning of this fiscal year, we got off to a very tough start with the low order backlog of JPY96 billion. However, given the expected relatively large order backlog, we will be able to see a favorable performance from the beginning of next fiscal year.

**(Profit and loss situation)**

Sales revenue for the first nine months was JPY274.3 billion (+17% year on year). With the easing of travel

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restrictions in a few regions, business activities in orders, sales and services have been normalizing.

Operating profit came to JPY16.7 billion (+2.7 times year on year), reflecting an increase in sales volume of JPY9.6 billion, the effect of the yen's depreciation of JPY2.2 billion, and an improvement in gross profit margin of JPY1.8 billion due to the provision of high value-added solutions to customers. On the other hand, an increase in personnel expenses of JPY1.7 billion and an increase in logistics costs of JPY1.4 billion had negative impacts, leading to combined total decrease of JPY3.1 billion. We continue to curb sales-related expenses by shifting towards small-scale business meeting events from larger scale setups and enhancing digital contents. As a result, the operating profit margin improved significantly to 6.1% (2.7% of the same period last year).

Net finance costs improved by JPY1.4 billion due to an additional acquisition of AG's shares in April 2020. In addition, the effective tax rate normalized to about 30%. As a result, net profit stood at JPY9.9 billion (zero in the same period last year). Interest payments of JPY1.6 billion on the hybrid capital was deducted from the net profit, leading to JPY8.3 billion of profit attributable to ordinary shareholders (JPY800 million deficit in the same period last year).

**(Cash Flow)**

Free cash flow for the first nine months was in the black at JPY15.8 billion. Profit before income taxes of JPY14.2 billion and net working capital of JPY4 billion derived from an increase of down payments contributed to a healthy free cash flow. We proceeded with sale of strategic-cross-holding shares in the third quarter.

**(Financial position)**

Total assets at the end of September 2021 increased by JPY65.2 billion from the end of December 2020. While operating assets increased by JPY29.1 billion due to growth in orders and sales, operating liabilities climbed to JPY30.4 billion. We raised JPY40 billion through issuing convertible bonds in July and JPY30 billion through perpetual subordinated bonds in August. Net interest-bearing debt was reduced by JPY9.7 billion to JPY54.7 billion by using free cash flow for repayment. The balance of hybrid capital remained unchanged at JPY118.7 billion from the end of December 2020 due to refinancing with new instruments. Shareholders' equity increased by JPY22.2 billion. However, total assets expanded mainly due to the increase of operating assets and liabilities, which resulted in a stable shareholders' equity ratio at 35.1%, the same level as at the end of the previous fiscal year.

**(Funding through convertible bonds and perpetual subordinated bonds)**

On July 16, 2021, we raised JPY40 billion through zero-coupon convertible bonds with due date of July 16, 2024 and a conversion price of JPY2,593 (30.04% up from the closing price on the date of the decision to issue the bonds). The funds will be used for the projects such as reduction of $CO_2$ emissions, medium-to long-term business growth in China and an introduction of ERP system.

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In addition, we raised JPY30 billion through issuing perpetual subordinated bonds at the end of August. The funds were used for voluntary redemption of subordinated bonds. Since the interest rate on the newly issued hybrid capital is lower than before, the weighted average annual interest costs on the amount of hybrid capital lowered to 1.47% (previously 1.77%).

**(Number of employees)**

The number of consolidated employees (including contract employees, part-time employees) at the end of September 2021 was 12,184, which was almost the same as at the end of December 2020 when the headcount was 12,160. By enhancing digital tools and contents such as digital twin test cut technology, digital sales manual, *my* DMG MORI and TULIP, we increase productivity and curb an increase in number of employees.

**(Research and Development)**

We launched the NZ-PLATFORM, the first machine jointly developed between Japan and Italy. This product is a turning center that can amount up to for turrets. Provided with a B-axis function (swivel function), the machine can process parts with complicated shapes in a short time with flexibility and high productivity by process integration. It is suitable for machining complex parts such as shafts with complicated shapes for vacuum pumps and hydraulic equipment.

We made the LASERTEC 3000 *DED hybrid* available to the market, ad Directed Energy Deposition Metal Additive Manufacturing machine based on a 5-axis Mill Turn Center. With the hybrid functionalities of metal deposition welding and metal cutting, this machine is highly suited for applications like surface coating, repairing worn parts and finishing them in single-chucking.

In the area of automation, we have developed a robot system “MATRIS Light”. It is a system in which a human collaborative robot is mounted on push-cart and can be freely moved by one operator. In addition, it is easy to operate without specialized knowledge of robots, thereby lowering the barrier for introduction. The automatic travelling robot system “WH-AGV 5” has already introduced by multiple customers. The AGV (Automated Guided Vehicle) is a trackless unmanned transport system that achieves a positioning of ±1 mm or less by using vision sensors to correct the position and orientation. It can transport workpieces and attach / detach them to / from machines.

We introduced a couple of peripheral devices such as “AI Chip Removal”, “Zero Sludge Coolant” and “*zero*FOG”. Chips, coolant and mist (fine-grained cutting oil suspended in the air) generated during machining are called the three machining troublemakers, which adversely affect the machining accuracy of workpieces and can also cause machine failure. These devices not only solve these three machining troublemakers, but also contribute to longer-

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term operation times, improvement of the working environment and reduction of $CO_2$ emissions.

We started “Digital Twin Test Cut” in February this year, which can reproduce the dynamic operating state of machine tools in actual machining on a computer and calculates the machining results. Compared to real test-cutting, we can significantly reduce time and cost of materials, tools and coolant, thereby reducing environmental impact. In case that the analysis time tends to be longer for molds with complicated curved surfaces, the supercomputer “Fugaku” provided by RIKEN can shorten the time drastically.

In the area of sales field, we have introduced Sales Manual 2.0 for approx. 600 Area Sales Managers (ASMs) worldwide. It enables efficient and effective communication with customers by providing detailed explanation of products and systems, and instant quotations. In addition, it eradicates misunderstanding between customers and DMG MORI when confirming order conditions.

Within the customer portal site “*my* DMG MORI”, introduced in the third quarter of 2019, we kept adding content to enhance customer convenience. Including a new function “Service Request” that allows customers to request repairs and recovery and place orders for repair parts online. The number of registration is gradually increasing.
As mentioned above, we are actively investing in process integration, automation, full turnkey, which we have been focusing on, and digitization to manage and operate these processes in the most efficient manner. We are confident that such activities enable DMG MORI to maintain and strengthen our competitive advantage in the industry.

**Outlook for fiscal year 2021 (January - December)**

| (JPY) | | FY2021 Plan (Revised) | (YoY) | FY2020 Actual | FY2021 Plan (Aug.5th, 2021) |
|---|---|---|---|---|---|
| Consolidated order intake | : | 450.0 bn | (+60.9%) | 279.7 bn | 420.0 bn |
| Sales revenue | : | 380.0 bn | (+15.8%) | 328.3 bn | 365.0 bn |
| Operating profit | : | 23.0 bn | (2.2x) | 10.7 bn | 20.0 bn |
| Operating profit margin | : | 6.1 % | | 3.3 % | 5.5 % |
| Profit before income taxes | : | 19.5 bn | (3.8x) | 5.1 bn | 16.5 bn |
| Net profit attributable to the owners of the parent | : | 13.0 bn | (7.4x) | 1.7 bn | 11.0 bn |
| Net profit attributable to ordinary shareholders | : | 11.0 bn | | 0.4 bn | 8.9 bn |

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**[Full year business outlook]**

**(We raised full year order, sales revenue and profit forecasts again)**

We raised our full year consolidated order forecast to around JPY450 billion (+61% year on year, JPY420 billon in the previous plan). We expect favorable order environment to continue on the back of strong demand for automation and full-turnkey systems as well as integrated machines for semiconductor production equipment, EVs, medical, space and decarbonization-related products as well as shortage of machine operators worldwide.

Sales revenue forecast was revised up to JPY380 billion (+16% year on year, JPY365 billion in the previous plan) reflecting continued strong orders and the weak yen. Operating profit forecast was increased to JPY23 billion (+2.2 times year on year, JPY20 billion in the previous plan). We plan to increase operating profit to a total of JPY17.8 billion, based on positive contributions from a volume increase of JPY12.4 billion, an improvement of gross profit of JPY2.8 billion and the weak yen of JPY2.6 billion. Negative factors consist of JPY4 billion from an increase in personnel expenses and JPY1.5 billion from logistics and other costs, which add up to JPY5.5 billion. Net finance cost is lowered to JPY3.5 billion (JPY5.6 billion in the last fiscal year) mainly due to decreased payments of annual recurring compensation to non-controlling shareholders in AG. The effective tax rate is planned to be managed at an appropriate level of around 32%. Thereby, we estimate net profit and profit attributable to ordinary shareholders to be JPY13 billion (JPY11 billion in the previous plan) and JPY11 billion (JPY8.9 billion in the previous plan), respectively.

We paid dividend per share of JPY10 for the first half, and plan to pay JPY20 at year end, which was revised up from JPY10 at the second quarter result announcement. The dividend payout ratio for the fiscal year will be 34%. We continue to strive to increase dividends based on our shareholders return policy, which calls for a stable dividend even during periods of earnings deterioration and a payout ratio of approximately 30% during period of earnings recovery, taking into account the order environment, earnings and free cash flow.

**(Capital expenditure)**

We raised full fiscal year capital expenditure projection (payment basis) to JPY20 billion (JPY15 billion in the previous plan), In response to rising demand, we accelerate productivity improvement in assembly at the Iga Plant, capacity expansion for automation and full-turnkey systems at the Nara Plant, and construction of a 5-axis machine assembly plant in Pinghu, China. Nara Product Development Center and the introduction of new ERP (Enterprise Resource Planning) systems are proceeding in line with our original schedule.

**(Effect of rising material and logistics costs, shortage of components, and power restriction in China)**

Although we will strive to absorb rising material and logistics cost as much as possible through internal productivity improvement and rationalization along the value chain, we are also passing some of the cost pressure to customers.

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We continue to make efforts to improve productivity at our customers by providing advanced technology such as automation, full-turnkey and digitization in the integrated machines as the centers, and satisfactory after-sales-services, which relieves customers' burden throughout the life-cycle of our products.

Delivery lead time of components such as control panels, plastic parts and some of driving parts is getting longer. In addition to our strong, long-term relationships with suppliers, we have been improving efficiency in our machining and assembly lines, and, as a result, we have been able to avoid major disruptions. Furthermore, we try to place orders after factoring in delayed delivery lead time of components. Given such continued efforts, we believe we will be able to deliver our products to customers in most cases as scheduled.

With regard to the power supply shortage in China, there is little impact on the production plan at our Tianjin factory, since it is a cutting-edge, extremely clean and energy efficient plant. As concerns for tight electricity supply in the approaching winter season is rising, the factory produces ahead of schedule as much as possible. As a result, we will be able to ship products manufactured in Tianjin to meet customers' delivery times.

**[Business outlook for 2022 and 2023]**

On the back of continued strong orders and solid order backlog, we are projecting sales revenue of JPY420 billion (up 11% from the current fiscal year), operating profit of JPY39 billion (up 70%), an operating profit margin of 9.3% and net profit of JPY24 billion (up 85%) for the fiscal year ending December 31, 2022. We are aiming for the highest operating profit and net profit (excluding special factor associated with the consolidation with AG in the fiscal year ending December 2015) since our stock listing in 1979. The break-even point has been well managed, e.g. by controlling the increase in expenses other than personal expenses. In addition, we will strive to increase customer satisfaction and improve gross profit margin by proposing our advanced technology and value-added solutions, such as automation and full-turnkey systems centered on process-integration machines, to our customers.

For fiscal year ending December 2023, we aim to achieve sales revenue of JPY440 billion, operating profit of JPY44 billion, an operating profit margin of 10% or more and net profit of JPY27.5 billion, which would represent consecutive historical peak profits.

With regard to our financial structure, we aim to see zero net interest-bearing debt and a shareholders' equity ratio of over 50% by the end of 2023, assuming the conversion of JPY40 billion convertible bonds issued on July 16, 2021. Net interest-bearing debt including perpetual subordinated bonds and loans is to be reduced to below JPY100 billion by the same time.

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**[Recent efforts for Sustainable Management (ESG/CSR)]**

DMG MORI has been placing great importance on coexistence with society and reduction of environmental impact and is working on sustainable management that satisfies all stakeholders.

Regarding climate change, we announced our support for TCFD (Task Force on Climate Financial Disclosure) in July. In September, we also committed to SBT (Science Based Targets) and applied for official validation. Our process integration machines, such as 5-axis machining centers and mill-turn centers, save electricity and various other management resources by replacing multiple machines with a single machine, and hence our machine tool business itself contributes to environmental protection. We launched carbon neutral machines manufactured globally in the range of Scope 1 to Scope 3 upstream combined with offsetting remaining $CO_2$ emissions by internationally accepted $CO_2$ emission certificates. We plan to reduce $CO_2$ emissions in the range of Scope 1 to Scope 2, where DMG MORI can reduce by our own efforts, by 60% by 2030 from the level in 2019. In the overall process from Scope 1 to Scope 3, around 30% of $CO_2$ emissions are coming from procurement, and approximately 50% are generated at our customers when they use our machines. Therefore, DMG MORI will cooperate with customers and suppliers to reduce $CO_2$ emissions by providing cutting-edge technology and process-knowhow.

DMG MORI has been working on building long-term relationships of trust with suppliers and have set up an award program to motivate our suppliers and improve technology, quality and delivery lead time. This year, we commended the “DMG MORI Partner Award 2021” at a pre-EMO show at the Pfronten factory in Germany. Amid a growing concern in social responsibility throughout the supply chain, we introduce a platform of INTEGRITY NEXT provided by German INTEGRITY NEXT GmbH to monitor our suppliers.

In September, we opened the “Repair and Restoration Technical Training Center” at the DMG Mori Seiki Academy in the Iga plant. As the central training facility of a global network of approximately 2,000 service people, this center aims to improve customer satisfaction by fostering highly skilled personnel capable of handling all-round repair of all types of machines, automation and digitization. In addition, the center comprises the “Safety Dojo”, a place to teach safety in order to eradicate industrial accidents and work-related injuries.

We hold the “Cutting Dream Contest” with the aim of improving skills and motivation for operators at customers. This year marked the 16th anniversary and the awards were given to a total of 20 companies and organizations.

We believe that the health of our employees is of utmost importance in achieving our management philosophy of “play hard, study continuously, work together” and we have therefore made the “DMG MORI Health Management Declaration”. Maximum individual working hours per day at 10 work hours, 12-hour rest intervals and annual 20-day paid leave have been well established. In October, we opened the “DMG MORI Clinic” at the Iga plant with an

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application for permission on the Medical Care Act and started outpatient consultations for medical check-up and classes for measures against lifestyle-related diseases. As a measure against COVID-19, we implemented occupational vaccinations, and the vaccination rate reached around 95% in Japan, Canada and China, and 70% or more in other regions. In addition, we have set up a PCR laboratory at Iga plant and issue a COVID-19 negative certificate to ensure the safety of our employees and other stakeholders.

As mentioned above, DMG MORI will continue to improve its corporate value and strive to satisfy all stakeholders.

(Disclaimer)
This material contains targets, plans, etc. concerning the future of DMG MORI CO., LTD..
All predictions concerning the future are judgments and assumptions based on information available to DMG MORI CO., LTD. at the time of writing. There is a possibility that the actual future results may differ significantly from these forecasts, due to changes in management policy or changes in external factors.
There are many factors which contain elements of uncertainty or the possibility of fluctuation including, but not limited to, the following:

- Changes in the demand environment within the markets in which DMG MORI group operates
- Fluctuations in exchange rates
- Changes to the laws, regulations and government policies in the markets where DMG MORI group conducts its business
- DMG MORI CO., LTD.'s ability to develop and sell new products in a timely fashion
- Instability of governments in the markets where DMG MORI group conducts its business
- Operational changes by the competent authorities or regulations related to anti-trust, export control, etc.
- Travel restrictions or stay-at-home requests for COVID-19 in Japan and other countries