DMG MORI

DMG MORI CO., LTD.
2-3-23, Shiomi, Kotoku, Tokyo, 135-0052, Japan
Tel.: +81 (0)3-6758-5900

August 4, 2022

DMG MORI CO., LTD.

- Consolidated order forecast for full fiscal year 2022 has been revised up to more than 530 bn yen. (previous forecast: 500+ α bn yen)
- Based on a forecasted order backlog of 240-250 bn yen at the year end, we expect a stable growth in fiscal year 2023.

Financial Summary (Jan-Jun) JPY bn.		FY2019	FY2020	FY2021	FY2022	(Y/Y chg %)
Consolidated order intake	:	223.4	135.5	218.4	299.3	+37%
Machine order backlog (end June)	:	192.0	124.0	142.0	244.0	
Sales revenue	:	238.6	154.3	178.2	218.2	+22%
Operating profit	:	20.0	2.4	10.2	17.7	+73%
Operating profit margin	:	8.4%	1.6%	5.7%	8.1%	
Net profit attributable to owners of the parent	:	10.7	-2.2	6.1	11.3	+85%
Quarterly profit ratio	:	4.5%	-	3.4%	5.2%	

[Summary of Financial Results for the First Half of Fiscal Year 2022 (January - June, 2022)]

Consolidated orders in the first half remained strong, rising 37% year on year to 299.3 billion yen. Increased demand for process integration, automation, and Digital Transformation (hereinafter DX), and a significant rise in the order price per unit to 49.6 million yen (average unit price in FY2021: 39.4 million yen) contributed to the increase in order value. By region, orders in Germany, China, and Southeast Asia grew significantly, while orders in Japan, the Americas, and EMEA were stable. By industry, demand for medical, aircraft, space, die & mold, electric vehicle (EV)-related and semiconductor production equipment went up strongly. The order backlog for machine tools at the end of June rose to 244 billion yen (164 billion yen at the end of December 2021), which will contribute to the continued sales growth from the second half onwards.

In the first half, sales revenue increased 22% year-on-year to 218.2 billion yen and operating profit rose 73% to 17.7 billion yen. We were able to avoid major disruptions in the supply chain and proceed with purchasing and production largely as planned, against a backdrop of an abundant order backlog, as well as steering free of low-cost, short lead-time orders. The gross profit margin improved as we have reduced the discount rate by improving our ability to offer higher value to customers, and improved productivity as a result of strengthened internal management system by divisionalization, which has been implemented since the beginning of the year. Net profit increased 85% to 11.3 billion yen due to improvements in the finance costs by reducing interest-bearing debts and the appropriate effective corporate tax rate.

Free cash flow in the first half was positive at 14.5 billion yen. Although we invested 21.6 billion yen to meet strong demand and develop future technology, we realized a significant free cash flow due to increases in profits and down payments. As a result, net debt (excluding hybrid capital) decreased to 28.5 billion yen at the end of June (42.5 billion yen at the end of December 2021), and the net debt-to-equity ratio declined to 0.12 (0.20 at the end of December 2021).

[Summary of Financial Results for the Second Quarter of Fiscal Year 2022 (April - June)]

Consolidated orders in the second quarter (April-June) grew to 149.2 billion yen, up 28% from the same period last year, and remained at a high level on a quarterly basis. Revenue rose 14% year-on-year to 110.9 billion yen, operating profit 32% to 8.2 billion yen, and net profit 17% to 5.0 billion yen. Although we recorded one-time expenses resulting from logistics disruptions and increased inventories, the operating profit margin grew to 7.4% in the second quarter compared to 6.4% in the same period last year. The operating profit margin is expected to improve from the third quarter onwards as one-time charges are eliminated and inventories with higher profitability are converted to sales, leading to 10% of operating profit margin for full fiscal year.

[First half of FY2022 (Jan-Jun 2022) Financial Results]

[Orders, Order backlog]

Consolidated orders in the first half totaled 299.3 billion yen, up 37% from the same period last year. Demand for DMG MORI's focus businesses has remained strong, such as automation and full turnkey systems connected with process integrated-machines including 5-axis machines and mill-turn centers. Large and medium-sized customers (by number of employees) have been installing automation and full turnkey systems to improve their machining productivity. Together with the effects from price increases and the weaker yen, the average unit price per order was 49.6 million yen, a significant increase from the average price of 39.4 million yen in the previous fiscal year of 2021. In addition, as economic activities normalized, the service and repair parts business also increased 24% year-on-year. Magnescale Co., Ltd., one of group companies and engaged in manufacturing ultra-precision measuring components for the semiconductor production industry, continues to see record orders.

Consolidated orders by region were up 54% (13% of total) in Japan, 49% (19%) in the Americas, 32% (50%) in Europe, 20% (11%) in China, and 51% (6%) in Asia and other regions, compared to the same period last year. By industry, orders increased mainly in the medical, aircraft, space, die & mold, EV(electric vehicle)-related, and semiconductor production equipment industries.

The order backlog for machine tools at the end of June significantly rose from 164 billion yen at the end of December 2021 and 203 billion yen at the end of March 2022 to 244 billion yen. Machine tool orders are expected to remain firm for the time being, and the backlog of machine tools at the end of December 2022 is likely to range between 240 and 250 billion yen. On the back of securing sufficient order backlog for machine tools and stable demand for repair parts and services, DMG MORI aims to achieve sustainable sales and profit growth over the medium to long term.

[Profit and Loss]

Sales revenue for the first half increased 22% year-on-year to 218.2 billion yen. Although we suffered disruptions in our logistics and supply chain, we executed sales as scheduled with appropriate procurement and productions on the back of the abundant order backlog at the beginning of the year. The depreciation of the yen pushed up sales revenue by approximately 10 billion yen.

Operating profit grew by 7.5 billion yen from 10.2 billion yen in the same period last year to 17.7 billion yen. The positive factors included 9.8 billion yen in sales increase, 3.8 billion yen driven by lower discount rate due to providing more productive products and services to customers, 1.8 billion yen in improvement of our own productivity due to divisionalization, and 1.2 billion yen brought about by the depreciation of the yen, for a total of 16.6 billion yen. On the other hand, negative factors included 7.1 billion yen in increase in employee compensation and 2.0 billion yen in increase in logistics expenses and so on, for a total of 9.1 billion yen. The increase in parts and materials costs was largely offset by corporate efforts to expand in-house parts production and passing on price increases to customers. As a result, the operating margin improved significantly from 5.7% in the same period last year to 8.1%.

Net finance costs were reduced by 300 million yen from 1.7 billion yen in the same period last year to 1.4 billion yen. The weighted average interest rate lowered due to the issuance of zero-coupon convertible bonds in July 2021. The effective corporate tax rate stood at 30%, considered by the Company to be an appropriate level. As a result, net profit jumped 85% year-on-year to 11.3 billion yen. Interest expenses on hybrid capital lowered to 880 million yen (1.05 billion yen in the same period last year) as the weighted average interest rate decreased from 1.77% to 1.47% due to refinancing to lower interest rate hybrid capital in August 2021.

[Financial position]

The total balance sheet increased by 96.8 billion yen from 597.1 billion yen as of December 31, 2021 to 693.9 billion yen as of June 30, 2022. The translation of foreign currency-denominated assets into yen resulting from the weak yen pushed up total assets by approximately 45 billion yen. The amount of net interest-bearing debt, which is interest-bearing debt less short-term financial assets, was 28.5 billion yen, a decrease of 14 billion yen from 42.5 billion yen at the end of December 2021. The ratio of net interest-bearing debt to shareholders' equity remained low at 0.12. Shareholders' equity increased 31.1 billion yen from December 31, 2021 to 244.2 billion yen due to a significant contribution in net profit and an increase in other equities due to the yen's depreciation. However, the shareholders' equity ratio almost remained at the same level from 35.7% as of December 31, 2021 to 35.2%, due to the increase in balance sheet total driven by the weak yen.

[Number of employees]

The number of consolidated employees (including contract employees and part-time employees) at the end of June 2022 was 12,195, a decrease of 64 from 12,259 at the end of December 2021. DMG MORI has introduced TQM (Total Quality Management) and tried to establish standardization in daily operations through SDCA (Standardize→Do→Check→Action), resulting in improvement in business quality and productivity. In addition to the improvement of individual capabilities and productivity through employee training, the use of digital tools such as *my* DMG MORI and TULIP, and the enhancement of digital contents including sales and service manuals have also contributed to the improvement of operational efficiency.

Full-year forecast for FY2022

(January - December)		FY2020	FY2021	FY2022		
(JPY bn.)		actual	actual	plan	(Y/Y changes)	（Previous）
Consolidated order intake	:	279.7	456.0	over 530	over +16%	500.0+α
Machine order backlog (end Dec.)		96.0	164.0	240-250		220.0
Sales revenue	:	328.3	396.0	450.0	+13.6%	450.0
Operating profit	:	10.7	23.1	45.0	+95.1%	45.0
Operating profit margin	:	3.3 %	5.8 %	10.0 %		10.0 %
Net profit attributable to owners of the parent	:	1.7	13.5	28.0	2.1x	28.0
Dividend per share（Yen）	:	20	40	70		70

［**Forecast for Fiscal Year 2022 (January-December, 2022)**］

In response to strong orders in the first half, we have revised up our consolidated order forecast for full fiscal year from 500+α billion yen announced in May to over 530 billion yen. Orders for industrial applications such as medical-related, aircraft, space, die & mold, and semiconductor production equipment have remained firm, not being affected much by changes in the macroeconomic environment. In addition, investments in new markets such as EVs as well as decarbonization-related products have been in good momentum. These industries have been moving toward process integration, automation, full turnkey and DX, which is in line with DMG MORI's strategy.

For full fiscal year 2022 (January-December), we have maintained our previous forecast on sales revenue and profits. We expect sales revenue to increase 14% year-on-year to 450 billion yen and operating profit to jump 95% to 45 billion yen, with an operating profit margin of 10%. The operating profit margin is planned to be improved from the third quarter onwards due to an increase in sales and an effect of passing on price increases. The continued improvement in the finance costs and the appropriate effective corporate tax rate are forecast to continue in the second half and beyond, and net profit is planned to be 28 billion yen, 2.1 times higher than the previous year.

We plan to generate free cash flow of over 30 billion yen for full fiscal year 2022. We plan to invest about 35 billion yen for full fiscal year in response to continued strong demand for automation and full turnkey systems, an increase in in-house part production, a development of future technology and decarbonization. On another front, further improvement in profits, high levels of down payments, early collection of receivables and reduction in inventories will contribute to increased cash flow for full fiscal year. Based on this business outlook, we plan to

DMG MORI CO., LTD.
2-3-23, Shiomi, Kotoku, Tokyo, 135-0052, Japan
Tel.: +81 (0)3-6758-5900

pay an annual dividend of 70 yen per share (interim: 30 yen, year-end: 40 yen), up 30 yen from the previous fiscal year.

[Forecast for next fiscal year ending December 31, 2023]

DMG MORI expects to start business with an abundant order backlog of 240-250 billion yen at the beginning of the next fiscal year, which is a great advantage. We believe that we will be able to continue to secure increases in sales and profits, given that demand for process integration, automation, and DX as well as the repair and service business, which we have been focusing on, is expected to remain stable. We will continue to be able to absorb the rise in procurement material and component costs by expanding in-house production of parts and passing on higher prices to customers. As a result, we forecast sales revenue of 500 billion yen, up 11% year-on-year, operating profit of 52.5 billion yen, up 17% with an operating profit margin of 10.5%, and net profit of 33 billion yen, up 18%.

We plan to continue to generate about 30 billion yen of operating free cash flow. The expansion of profit will be the largest source of cash generation. We are continuing to collect receivables early, optimize inventories and increase down payments, leading to improvement in working capital. Based on the above, we plan to increase the dividend per share for full fiscal year from 70 yen in fiscal year 2022 to 80 yen (interim: 40 yen, year-end: 40 yen).

[Capital investment: Aggressive investment in response to strong demand]

We have reorganized the production functions of Iga and Nara plants to meet the growing demand for automation and full turnkey systems. The assembly of machine tools has been concentrated in the Iga plant, making it the largest plant for machine tool assembly in the world, while the Nara plant became the largest plant for automation and turn key systems.

The Nara Product Development Center (Nara PCD) has been completed, and an opening ceremony will be held on August. The center will be the Group’s largest cutting-edge R&D center, and will develop DX technology, next generation multitasking machines and peripheral equipment, and software products that utilize next-generation communication technology, artificial intelligence (AI), digital twin, and other technologies. The Nara PDC will also play a role of our dual headquarters approach with the Tokyo Global Headquarters to diversify risk.

In Europe, the Pfronten plant in Germany, which manufactures 5-axis machines such as DMUs and DMCs and now has a large amount of order backlog, has completed construction of a state-of-the-art automated and digital logistics center, contributing to significantly shorter lead time for material supply and reduction in packaging and distribution costs. At the FAMOT Plant in Poland, two new DMC 210 Us (large 5-axis machines), have been installed to increase casting machining capacity and reduce costs by raising the ratio of in-house production.

DMG MORI CO., LTD.
2-3-23, Shiomi, Kotoku, Tokyo, 135-0052, Japan
Tel.: +81 (0)3-6758-5900

In China, a factory dedicated to assembly of 5-axis machines is being build in Pinghu, about an hour's drive to south-west of Shanghai. As the country strives for industrial sophistication amid operator shortage and rising wages, demand for process integration together with automation and full turnkey systems has been accelerating. The share of 5-axis machines in our order intake in China accounts for more than 30%. Therefore, we will respond to medium-to long-term demand growth by establishing a local facility that can quickly respond to customer needs. Although the progress of construction has been somewhat delayed due to the lockdowns in and around Shanghai, we plan to start operation in the second quarter of 2023.

In terms of environmental response, we are continuing to invest in reducing CO_2 emissions. We plan to install solar power generation at the Iga and the Nara plants to cover up to around 50% of their total electric consumption per day. Both plants are scheduled to partially start operations from the second half of 2023 and expand capacity step by step. Besides solar power, a wood biomass thermal power generation system started operation at the Iga Plant in June.

Our group companies are also making significant investments. Watanabe Seikosho Co., Ltd., a manufacturer of casings, will shift to a green facility by switching its melting furnace from a cupola to an electric furnace with use of CO_2-free electricity. The company expects to double its casting supply capacity to 25,000 tons per year in 2024 from the current level. In addition, the company started CMX assembly. Magnescale Co., Ltd., which manufactures ultra-precision measuring components for semiconductor production equipment and machine tools, will also build a new plant to meet growing demand and to diversify risks to ensure a stable supply. Taiyo Koki, which manufactures high-precision grinding machines, acquired land for an increase of its production capacity.

DMG MORI's Initiatives

[Establishment of WALC.Inc]

WALC.Inc was established on April 1, 2022 in Shibuya ward, Tokyo. WALC has taken over the Advanced Technology Research Center established in 2017 and currently has 15 employees and 8 interns. The company promotes DX using advanced technologies such as AI (Artificial Intelligence), IoT, and cloud computing. It will also train talented people by hiring IT personnel and accepting interns. The company serves as a base for human resource development and future technology exploration with additional 30 employees hiring by 2025 and total investment of 10 billion yen by 2030.

[NTX 500 launch]

We have developed the NTX 500, a multitasking machine that realizes process integration. The NTX 500 is the smallest in size in the series of multitasking machines that can integrate lathe and milling processes into a single machine. The NTX 500 can be connected to a variety of automation systems such as traveling robot systems and bar feeders for high-mix low-volume production automation, to further improve machining productivity.

DMG MORI CO., LTD.
2-3-23, Shiomi, Kotoku, Tokyo, 135-0052, Japan
Tel.: +81 (0)3-6758-5900

[CELOS *DYNAMICpost* development]

As the shape of workpieces becomes more complex, the demand for 5-axis machines and mill-turn centers that enable machining with a single chucking is increasing. This has led to an increase in the use of CAM software for machining program generation, whereby the toolpaths generated by CAM need to be converted by a post processor into an NC program that is compatible with the machine tool controller. This is a PC software product, that integrates three functions into one. That is, CELOS DYNAMIC*post* combines the functionality of a post processor as well as the ability to simulate machining operations and optimize cutting forces. This enables customers to significantly reduce the time from program creation to the start of machining. It also contributes to the reduction of energy consumption because trial machining on the actual machine can be reduced to zero.

[Sales of "Process Design Advisor (Indexed 5-axis Machining)" started].

As the demand for 5-axis machines expands, it has become a major challenge for customers to devise the optimum clamping method and machining process for complex workpieces. Iriso Precision Co., Ltd. (Iruma-city, Saitama prefecture, Japan), which specializes in ultra-precision machining, has cooperated with DMG MORI to produce and launch the "Process Design Advisor" to solve these process design issues. The 3-dimension-computer-graphic videos explains everything from the clamping method of indexed 5-axis machining to the machining process in an easy-to-understand manner, taking about 5 minutes per workpiece. The videos can also be used when considering the introduction of 5-axis machines and for training engineers. Since July, Process Design Advisor has been offering 60 types of video contents as one of the educational services on *my* DMG MORI's customer portal site. We plan to release approximately 10 additional videos per month, bringing the total to 100 videos by the end of this fiscal year.

,

ESG/CSR Initiatives

[Employee benefits improved]

Based on DMG MORI's management philosophy "play hard, study continuously, and work together," and we encourage our employees to work up to 2,000 hours and take a full 20 days of paid leave per year, which has largely taken root. As a global leader in the machine tool industry, we are working on process integration, automation and DX as well as pursuing more advanced technologies for the future. Retaining excellent talent is an urgent issue in order to achieve sustainable growth. We are revising employees' annual compensation with the aim of retaining excellent human resources on a global basis. In this context, we will set wages for employees in Japan at international levels and implement a substantial revision of annual starting salaries from 2023. However, it has been applied retroactively for 2022.

[Progress in CO_2 emissions reduction]

Our machine tools themselves contribute to environmental protection: 5-axis machining centers, mill-turn centers, and other process-integration machines reduce various resources, including electricity consumption together with replacing multiple machine tools with a single machine. In addition, ultra-precision machining accuracy

DMG MORI CO., LTD.
2-3-23, Shiomi, Kotoku, Tokyo, 135-0052, Japan
Tel.: +81 (0)3-6758-5900

contributes to effective use of resources by reducing energy loss during product use and extending product life. In addition to the above, DMG MORI has already introduced CO_2-free electricity at its major global manufacturing sites to reduce CO_2 emissions. Since the beginning of 2021, our globally manufactured products have been CO_2-free products with the use of CO_2 emissions credits/certificates. Furthermore, we will switch from purchasing CO_2-free electricity to in-house power generation using solar power. We plan to replace about half of our total electricity consumption with in-house power generation by installing solar panels at the Iga and Nara plants, starting in the second half of 2023, and gradually expanding such activities to our group manufacturing companies. Besides solar power, wood biomass power generation has been in operation at the Iga Plant since June. Through the above measures, we will ensure that we will be able to achieve our CO_2 emissions reduction targets (compared to the fiscal 2019 level) based on the Science Based Targets (SBT) by 2030, which have already been disclosed, 46.2% reduction in Scope1 and Scope2, and 13.5% reduction in Scope3 emissions

(Disclaimer)
This document contains forward-looking statements about the Company's goals, plans and other matters. These forward-looking statements are based on judgments and assumptions made in light of information currently available to the Company.
Actual results may differ materially from these forecasts in the future due to changes in management policies and external factors.
There are a number of factors that could cause uncertainties and volatility, including the following

- Changes in the demand environment within the markets in which the Group operates
- Exchange rate fluctuations
- changes in laws, regulations and government policies within the markets in which the Group operates
- Our ability to develop new products in a timely manner and gain market acceptance
- political instability within the markets in which the Group operates
- Changes in related laws and regulations, such as the Antimonopoly Act and export control regulations, or changes in their operation by the competent authorities

The end