DMG MORI CO., LTD.
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November 7, 2022

DMG MORI CO., LTD.

- Orders remained at a high level. Improvement in OP margin due to price revisions began to take effect from the latter half of 3Q.
- DMG MORI expects growth in sales and OP in FY2023 against the backdrop of abundant order backlog of around 260 billion yen at the beginning of the next fiscal year.

Financial Summary (Jan-Sep) JPY bn.	FY2019	FY2020	FY2021	FY2022	(Y/Y chg %)
Consolidated order intake	321.1	206.5	340.3	432.0	+27%
Machine order backlog (end Sep)	174.0	117.0	168.0	274.0	–
Sales revenue	349.3	234.4	274.3	333.0	+21%
Operating profit	28.6	6.2	16.7	26.8	+60%
Operating profit margin	8.2%	2.7%	6.1%	8.0%	
Net profit attributable to owners of the parent	15.3	0.0	9.9	16.6	+68%

［**Summary of Financial Results for the Nine Months Ended September 30, 2022**］

- Consolidated order intake for the first nine months through September, 2022 increased 27% from the same period last year to 432.0 billion yen. The AMB 2022 held in Stuttgart, Germany and the Technology Days held at our Chicago sales office in the U.S. in September were very active, confirming our customers' high level of investment motivation to solve medium- to long-term issues. The average machine tool order price per unit climbed to 49.3 million yen (from 39.4 million yen in the previous fiscal year) due to process integration, automation, digital transformation (hereinafter referred to as DX), improved value proposition to customers as well as the weaker yen, which contributed to an increase in total order intake. By industry, demand from new markets such as space, aerospace, medical, and electric vehicles (EVs) remained strong. By region, Japan, the Americas, and Germany maintained high order-intake levels. On the other hand, in the third quarter (July-September), EMEA excluding Germany and China entered into an adjustment phase due to prolonged lead times before order contracts, despite a stable number of inquiries. The order backlog of machinery at the end of September was 274.0 billion yen (164.0 billion yen at the end of December 2021), which could contribute to sustained sales and profits growth in the coming fiscal year 2023.

- Sales revenue for the first nine month increased 21% year on year to 333.0 billion yen, and operating profit grew 60% to 26.8 billion yen. The operating profit margin improved significantly to 8.0% from 6.1% in the same period last year. Although there was a cost increase in global employee compensation, procurement material and logistics, this was more than offset by improved value propositions, such as process integration, automation and DX, and thorough cost management by each machine. Net profit increased 68% to 16.6 billion yen, reflecting an improvement in the net financing costs due to a continued reduction in interest-bearing debt and measures towards achieving a more appropriate effective tax rate.

- Free cash flow (operating cash flow less investment) for the first nine months was positive 12.8 billion yen. In addition to profit growth, an increase in received down payments contributed to this result. For future competitive advantage and sustainable growth, we have been aggressively investing in production capacity expansion and R&D such as the establishment of the Nara Product Development Center, reorganization of production at Iga and Nara factories, and productivity improvement at the Pfronten Plant in Germany and FAMOT in Poland.

［**Summary of Financial Results for the Third Quarter (July-September) 2022**］

- Consolidated order intake in the third quarter (July-September) were firm and increased 9% from the same period last year to 132.6 billion yen. Sales revenue increased 20% to 114.8 billion yen, operating profit went up 39% to 9.1 billion yen (compared with 6.5 billion yen in the same period last year), operating profit margin stood at 7.9% (6.8% in the same period last year), and net profit grew 40% to 5.3 billion yen. In the third quarter, some shipments were moved backwards to the fourth quarter due to delays in procurement of some components such as control panels. We expect to make up for these shipping delays in the fourth quarter and achieve our previous target of 45 billion yen in operating profit for the full fiscal year ending December 2022.

[Results for the First Nine Months (January-September) 2022]

Order intake and order backlog developments

- Consolidated order intake bottomed out in the second quarter of 2020 and remained at a high level in the third quarter of 2022. Consolidated order intake for the first nine months of 2022 totaled 432.0 billion yen, up 27% from the same period last year. Average machine tool order price per unit rose sharply to 49.3 million yen (39.4 million yen in fiscal year 2021) due to significant progress in automation and DX combined with process integration machines such as 5-axis machines and mill-turn centers, and the weak yen. Order intake in the service and spare parts divisions, which accounts for about 20% of total orders and generates stable profits, was also strong, up 23% year-on-year. Order intake in Magnescale Co., Ltd., and other Group companies also grew 17% year-on-year.

- By region, order intake in Japan went up 38% (representing 14% of total orders), the Americas up 34% (20%), Europe up 21% (50%), China up 21% (10%), and Asia and Others up 47% (6%), each compared to the same period last year. By industry, newly developing market segments such as space, aircraft, medical, EVs and new energy related to reduce greenhouse gas emissions have been performing well. Just in the third quarter (July-September), orders in Japan, the Americas, and Germany remained at a high level. On the other hand, order intake in EMEA excluding Germany and China saw an adjustment due to customers extending their lead time before making investment decisions, the number of inquiries from customers, however, did not change significantly and remained at a high level.

- The order backlog for machine tools at the end of September was 274 billion yen, up from 164 billion yen at the end of December 2021 and 244 billion yen at the end of June 2022. This order backlog could satisfy the production and sales plan until the third quarter 2023. Although the machine tool industry experiences cycles of boom and bust demand, we have an abundant order backlog backed by our ability to propose process integration, automation and DX technology, and we are working to ensure stable sales revenue and profits growth even during recessionary periods.

Profit and loss situation

- Sales revenues for the first nine months in 2022 were 333.0 billion yen, up 21% from the same period last year. The depreciation of the yen led to an increase in sales of approximately 18 billion yen. Based on the abundant order backlog, we have been proceeding with procurement and production as planned. However, during the July-September period, there were delays in procured parts such as control panels, and some sales planned in the third quarter had to be moved back to the fourth quarter.

- Operating profit increased by 10.1 billion yen from 16.7 billion yen in the same period last year to 26.8 billion yen. The driving factors behind this positive development were a 13.3 billion from the sales growth, a 5.4 billion yen from reduction in the discount rate by offering customers higher value-added products, a 3.0 billion yen in cost reduction from a strengthened internal management system by divisionalization implemented at the beginning of the year, and a 1.4 billion yen from the depreciation of the yen, for a total of 23.1 billion yen. On the other hand, personnel expenses increased by 10.0 billion yen caused by the global improvement of employee benefits, and the effect of higher logistics and other costs was 3.0 billion yen, for a total of 13.0 billion yen. The operating profit margin improved significantly to 8.0% from 6.1% in the same period last year, as we were able to overcompensate the increase in expenses.

- Net financing costs were reduced by 110 million yen from 2.55 billion yen in the same period last year to 2.45 billion yen. Ongoing efforts to reduce interest-bearing debt contributed to the lower net financing costs. Among long-term interest-bearing debts, there are euro-denominated borrowings of 300 million euro (equivalent to 41.3 billion yen as converted at the end of September). On the other hand, short-term financial assets including cash and cash equivalents denominated in euros amounted to 731 million euros (equivalent to 104.1 billion yen as converted at the end of September), which absorbed the impact of rising interest rates in Europe. Euro-denominated borrowings will be repaid in a substantial amount by the end of the fiscal year. All other interest-bearing debts are denominated in yen and financed at fixed interest rates. The effective tax rate of 30% is at the appropriate level we assume, and net profit attributable to owners of the parent increased 68% year-on-year to 16.6 billion yen. Payments for hybrid capital decreased to 1.3 billion yen (1.6 billion yen in the same period last year) due to refinancing to lower interest rate capital last August. As a result, net profit attributable to common shareholders amounted to 15.3 billion yen.

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Financial Trends

- The balance sheet total at the end of September was 703.1 billion yen, an increase of 106 billion yen from 597.1 billion yen at the end of December 2021. Of the increase of total assets, approximately 55 bn. yen was due to the yen depreciation. The balance of inventories was 171.0 billion yen, an increase of 41.5 billion yen from 129.5 billion yen at the end of December 2021, but this was an intentional build-up in preparation for sales in the fourth quarter and is expected to decrease by the end of December. On the other hand, the balance of down payments was 97.2 billion yen, an increase of 31.5 billion yen from 65.7 billion yen at the end of December 2021, contributing to the improvement in free cash flow. The improvement in cash flow enabled us to reduce net interest-bearing debt (interest-bearing debt less short-term financial assets) to 40.8 billion yen at the end of September, a reduction of 1.7 billion yen from 42.5 billion yen at the end of December 2021. As a result, the ratio of the net interest-bearing debt per shareholders' equity fell to 0.17 (December 31, 2021: 0.20). Shareholders' equity increased significantly to 246.9 billion yen at the end of September (213.1 billion yen at the end of December 2021) due to a significant increase in net profit and a rise in other equities due to the depreciation of the yen. However, the shareholders' equity ratio remained almost the same at 35.1% (35.7% as of December 31, 2021) due to the expansion of the balance sheet total due to the depreciation of the yen.

Employees

- DMG MORI's management philosophy of "play hard, learn continuously, and work together" continues to be integrated in our operations, encouraging employees to work an average of 2,000 total hours per year and take 20 days of paid leave per year. As for this fiscal year, the annual average number of paid leave is expected to be around 18 days, due to increased orders and production. As a global leader in the machine tool industry, our company pursues cutting-edge technology, and securing excellent human resources is a pressing prerequisite in order to achieve sustainable growth. We have revised employee salaries with the aim of retaining excellent global human resources and hiring new talents on a global basis. In July, we increased the compensation of domestic employees aiming for the level of Europe and the United States, thereby the average annualized compensation goes up by around 23% compared to the amount in the fiscal year 2021. In addition, starting and annual salaries have been substantially revised for graduate students in April 2023, but the revisions were retroactively applied to employees who joined in April 2022.

- The consolidated number of employees (including contract and part-time employees) as of September 30, 2022 was 12,504, an increase of 245 from 12,259 as of December 31, 2021. As the demand for process integration, automation, and DX in the global market expands, the hiring of engineers and service personnel is becoming increasingly important. We foster the recruitment of excellent human resources by enhancing our global training programs and introducing an internship program. We are also actively investing in human resources for the development of cutting-edge technologies such as AI (Artificial Intelligence), IoT (Internet of Things), and cloud computing for sustainable growth. At the same time, we have been promoting Total Quality Management (TQM) to improve the quality and productivity of our operations through the deployment of visualization and standardization (SDCA: Standardize→Do→Check→Action). We have also been striving for operational efficiency through the use of digital contents, including the expansion of services provided by our customer portal site, *my* DMG MORI, the digital upgrading of sales and service manuals, and productivity improvement through TULIP.

Forecast for the Full Year Ending December 31, 2022 (January-December)

Full-year forecast for FY2022

(JPY bn.)		FY2020 actual	FY2021 actual	FY2022 Plan	(Y/Y)	(Previous)
Consolidated order intake	:	279.7	456.0	550.0	+20.6%	over 530
Machine order backlog (end Dec.)	:	96.0	164.0	260.0		240-250
Sales revenue	:	328.3	396.0	465.0	+17.4%	450.0
Operating profit	:	10.7	23.1	45.0	+95.1%	45.0
Operating profit margin	:	3.3 %	5.8 %	9.7 %		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

・DMG MORI has revised upward its forecast for orders for the full fiscal year from over 530 billion yen to around 550 billion yen (breakdown: machine 415 billion yen, service and parts 100 billion yen, and group companies and others 35 billion yen), due to solid inquiries from customers. We expect orders from the space, aerospace, medical, EVs, and energy-related sectors to remain strong, not being affected so much by changes in the macroeconomic environment. In addition, medium- and large-sized customers have healthy financial resources and continue to make medium- and long-term capital investments. We believe that demand for process integration, automation, and DX, in which we have advantages, will remain strong due to chronic labor shortages and rising labor costs in the global market, as well as increasing demand for ultra-precision machining and high-mix, low-volume production.

・Against the backdrop of a firm order environment, an abundant order backlog and the weak yen, we have revised upward our sales revenue forecast for the full fiscal year 2022 from 450 billion yen to 465 billion yen, up 17% from last fiscal year. Assuming average exchange rates of 131 yen to the U.S. dollar (109.8 yen to the U.S. dollar in the last fiscal year) and 137 yen to the euro (129.9 yen to the euro in the last fiscal year) for the full fiscal year, the depreciation of the yen is expected to push up sales revenue by approximately 30 billion yen.

・Operating profit is expected to be 45 billion yen, 95% higher than that in the last fiscal year, with an operating profit margin of 9.7%, in line with our previous forecast. The effects of the price revisions introduced since October last year have started to contribute to gross profit margin improvement since September this year, and we expect a full contribution from the fourth quarter onwards. We expect a total of 31.9 billion yen contribution from positive factors, including a 15.2 billion yen from sales growth, a 8.0 billion yen from gross profit margin improvement due to lower discount rates, a 4.7 billion yen from the yen depreciation, and a 4.0 billion yen of cost reduction from divisionalization reforms. On the other hand, we have factored in a 10 billion yen increase in personnel expenses to improve employees' annual compensation. An increase in logistics and other costs will be covered by a positive effect from price revisions on a full fiscal year basis. The net financing costs and the effective tax rate remain unchanged from the previous plan, and net profit attributable to owners of the parent is projected to be 28 billion yen, 2.1 times higher compared to the level in the last fiscal year. We plan to make a payment of 1.8 billion yen for hybrid capital, resulting in a net profit attributable to common shareholders of 26.2 billion yen.

・We expect free cash flow for the full fiscal year to be around 30 billion yen, as previously planned. Demand for automation and DX along with process integration machines such as 5-axis machines, mill-turn centers and additive manufacturing is increasing more than planned, and we are accelerating our investments to meet this increasing demand. In full fiscal year 2022, we plan to invest about 40 billion yen. As our reputation for high-value delivery to customers grows, the amount of down payments is increasing and efforts to collect trade receivables as quickly as possible are expected to absorb the increase in investment and enable free cash flow to achieve our original plan. Given the planned profits and free cash flow, we are set to pay a dividend of 70 yen per share for the current fiscal year (interim: 30 yen, year-end: 40 yen) as previously announced. Dividend payout ratio is expected to be around 33%.

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

・At this stage, we expect orders for the fiscal year ending December 31, 2023 to be approximately 500 billion yen (breakdown: machine 358 billion yen, service and parts 105 billion yen, and group companies and others 37 billion yen), down 9% from the current fiscal year's forecast. Our current business situation is different from that in the global financial crisis in 2008 and COVID-19 pandemic in 2020, when the number of inquiries from customers plunged sharply. There are many factors that will support demand for process integration machines, automation and DX, including shortage of operators, expanding demand in new fields such as space, medical, EVs and new energy, response to the trend toward high-mix low-volume and high-precision products, and a review of supply chains due to heightened geopolitical risks. We believe that inquiries for orders for machine tools will remain at a relatively high level.

・Although we expect some decline in orders, we forecast both sales revenue and profits to see sustainable growth in the coming fiscal year 2023, based on our abundant order backlog. We forecast sales revenue of 500 billion yen, up 7.5% from the current fiscal year, operating profit of 50 billion, up 11%, operating profit margin of 10.0%, net profit attributable to owners of the parent of 32 billion yen, up 14%, and net profit attributable to common shareholders of 30.2 billion yen, up 15%, respectively. The 500 billion yen in sales revenue is expected

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to consist of sales from an order backlog of about 260 billion yen for machine bodies at the beginning of the next fiscal year, sales of 105 billion yen from the service and spare parts divisions, which are stable and profitable, sales of 35 billion yen from group companies, mainly Magnescale, and about 100 billion yen from sales transferred from orders during the same period. We will continue to strengthen our ability to propose process integration, automation, and DX to help customers improve their productivity, thereby reducing the price discount ratio, while at the same time improving the operating profit margin, as the effects of price revisions will continue to make their contribution.

・We plan to continue generating free cash flow of more than 30 billion yen. Although the contribution from down payments will decline due to an expected decrease in orders for the next fiscal year, we will generate more cash flows by increasing profits with improved margins, earlier collection of trade receivables, and reduction of inventory levels. Assuming that the aforementioned profit forecast and free cash flow plan are achieved, DMG MORI plans to pay a dividend of 80 yen per share for the full fiscal year, an increase of 10 yen per share compared to the current fiscal year's forecast of 70 yen.

[DMG MORI's initiatives (development of new products, investment in facilities and development, and measures to reduce CO_2 emissions)]

Development of new products

・We have developed the NTX 500 as one of process integration machines. The NTX 500 is a mill-turn center that integrates turning and milling functions into a single machine. Medical devices, watches, optical parts, injection nozzles, and robot parts are becoming increasingly complex, compact, and ultra-precise, and the NTX 500 meets the growing need for a compact mill-turn center that saves space and offers high production efficiency. The machine can be connected to various automation systems such as in-machine traveling robot systems and bar feeders that can also be used to automate high-mix low-volume production to achieve further productivity improvements.

・Two new services, “Parts selector” and “Chat bots”, are now available on *my* DMG MORI, an exclusive portal site for our customers. Parts selector is a service that allows customers to select and order repair parts, consumables, and DMQP products (DMG MORI Qualified Products) online. Chat bots is a system in which an AI analyzes the content of customers' questions and requests about machine operation, defects, etc., and automatically answers them. The provision of these services will further contribute to improving productivity by saving the time for customers spend on inquiries and waiting for responses.

・Built-in mist collector "*zero*FOG" is now available for all models. Since its introduction in 2021, *zero*FOG has been highly acclaimed by customers as a solution for mist, one of the three main problems in machining (chips, coolant and mist). *zero*FOG collects 99.97% of fine particles and provides a clean factory environment even as automation progresses and machining times lengthen.

Capital and development investment

- We have reorganized the production system of Iga Plant (amongst the world's largest assembly and parts processing plants) and Nara Plant (amongst the world's largest plants for automation and turn-key systems). The demand for automation and full turnkey systems is increasing, and it has become an urgent need to respond to this demand. The Nara Plant's capacity to handle automation is set to be about three times greater than the current level.

- In Europe, we completed a state-of-the-art automated and digitized distribution center at our Pfronten plant in Germany to increase productivity. As a result, the production capacity in the factory has expanded by about 1.5 times compared with the conventional capacity. The plant produces medium- and large-sized 5-axis machines and now has an order backlog equivalent to about 20 months of production volume. The FAMOT Plant in Poland has installed two new DMC 210 U large 5-axis machining centers to expand its machining capacity of casting and increase the ratio of in-house production to reduce costs. The FAMOT Plant assembles CMX series (5-axis machines) and CLX series (lathes), and also produces spindles and castings, making it an important supply base for other plants in Europe.

- In China, we are building a dedicated 5-axis machine factory in Pinghu located about one hour drive from Shanghai. Orders for 5-axis machines now account for more than 30% of our order intakes in China. Local production will enable us to respond quickly to customer needs. Construction progress has been delayed due to the regional lockdowns as a measure to control the spread of COVID-19 infection, and the start of its operation will be delayed to the third quarter of 2023 (previously planned: the second quarter of 2023).

- The Nara Product Development Center (Nara PDC) was completed and an opening ceremony was held in August. The center will be the largest cutting-edge R&D center in DMG MORI, and will develop DX technology, next-generation integrated machines and peripheral equipment, and software utilizing next-generation communication technologies, AI, digital twin and others. The center will also serve as a place for industrial collaboration and the exchange and training of engineers. In addition, the Nara PDC will assume its role in a two-headquarters system with the Tokyo Global Headquarter from the viewpoint of risk diversification.

- WALC, established in April at Shibuya, Tokyo, will take over the Advanced Technology Research Center launched in 2017 and promote the DX of the manufacturing industry using advanced technologies such as AI, IoT and cloud computing. WALC plans to invest a cumulative total of approximately 10 billion yen by 2030, and will serve as a base for fostering human resources and exploring future technologies.

- Group companies are also making aggressive investments. Watanabe Steel Works, a manufacturer of castings, will shift to green casting by switching from cupola to electric furnace for melting as well as using CO_2-free electricity by 2024. It will see its casting supply capacity increase to 25,000 tons per year, 2.5 times the current

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capacity. Magnescale Co., Ltd., which manufactures ultra-precision measuring components for semiconductor production equipment and machine tools, plans to build a new factory in Nara to expand capacity to meet growing demand and diversify risk to ensure a stable supply system. Taiyo Koki Co., Ltd., which manufactures high-precision grinding machines, plans to double its production capacity with an introduction of new factory (as filled on October 26, 2022).

Efforts to reduce CO_2 emissions

・Since the beginning of 2021, the products we produce globally have been CO_2 neutral, including the use of CO_2 emission credits. The CO_2-free status of these products is certified by PricewaterhouseCoopers GmbH. In addition, based on the SBT (Science Based Targets) certification, we have set targets to reduce CO_2 emissions by 46.2% in Scope 1 and Scope 2, and 13.5% in Scope 3 by 2030 compared to the emissions in the base year of fiscal year 2019. To achieve these targets, we are promoting process integration, automation, and DX at in-house factories to reduce CO_2 emissions. In addition, we have switched to purchasing CO_2-free electricity and are also installing solar power generation facilities at our Iga and Nara factories. Solar power generation is expected to cover up to 50% of the plants' power consumption and 30% on average. In addition, wood chip biomass power generation has been in operation at the Iga Plant since June.

The end