Dear Investors

We announced our financial results for the second quarter of 2017 on August 8.
This document is a summary of Q & A to our results.

Agenda

・Management analysis
・Questions (including expected ones) and Answers

Management analysis

＜**Key messages**＞

・Development of solution business accelerated YoY growth of order intake and improved gross profit margin of order in 2017 Q2

・Stronger presence of DMG MORI as automation systems provider at Open House in Chicago (May) and Iga (June)

・Backed by improved profitability, increasing investment in additive manufacturing, IoT, and AI for building competitive advantage in the near future

・Upward revision of full year business forecast

＜**Expansion of solution business**＞

DMG MORI recognizes itself as the world’s largest manufacturer, installation partner, and solution provider of machine tools. In the first half of 2017, this basic business direction consolidated. At Open House events in Chicago, US, in May, and in Iga, Japan, in June, DMG MORI presented automation solutions consisting of its ultra-high-accuracy, high-performance machine tools and peripheral equipment offered by its partners, by connecting all of them through the operation system CELOS and the application software Technology Cycles. Customers very much welcomed such automation solutions as shown in the order intake results of both events; the order intake growth rate was 24% in Chicago and 10% in Iga, respectively year on year. DMG MORI’s solution business is not only strong in Europe, but also growing in China. As a result, order intake in the first half (Jan-Jun) grew by 16% yoy. In a quarterly basis, the growth rate is accelerating from 9% in Q1 (Jan-Mar) to 24% in Q2 (Apr-Jun). Moreover, thanks to our continued efforts to provide higher added value to customers, average price and gross profit margin of order has been improving. Clearly, DMG MORI has advanced to a higher stage with new competitive advantages, after leaving the price competition of machine tools body behind.

＜**R&D investment for future technologies**＞

Based on improved confidence in increased order intake and profitability, DMG MORI invests pro-actively in R&D of future technologies such as additive manufacturing, IoT/Industry 4.0 and AI. In Q1, DMG MORI acquired Realizer, a German company with powder bed type additive manufacturing technology, and exhibited LASERTEC30SLM for the first time at Pfronten Open House in Germany. In addition, DMG MORI established the “Emerging Technologies Laboratory,” a corporate graduate school to nurture technology experts for the next 10 years to come. Such investment in R&D will contribute to strengthening DMG MORI’s mid- to long-term technological competitiveness.

＜Upward revision of full-year forecast＞

Business results in the first half (Jan-Jun) is recovering, with growth of turnover by 7% and operating profit by 2.6 times year on year. Especially positive was the fact that the free cash flow, which is the difference between operating cash flow and investment cash flow, turned positive in Q2 (Apr-Jun). Improved profitability as well as tight control of working capital and optimization of capital expenditure contributed to positive free cash flow. Ever since DMG MORI (AG) was consolidated in April 2015, the group has been generating free cash flow only in Q4 (Oct-Dec) due to seasonality. However, cash generation is now becoming better balanced between each quarter.

In light of stronger order intake in the first half, accumulated order backlog, and improved gross profit margin of orders, DMG MORI made an upward revision of its full year business forecast 2017; increase of turnover from JPY 380bn to 403bn, operating profit from JPY 22bn to 26bn, net profit attributable to the owners of the parent company from 11bn to 14bn. The revised numbers are minimum targets in 2017, and we will further work on going beyond them. In the second half, DMG MORI will continue its efforts to increase not only profit, but also free cash flow by strictly controlling working capital and capital expenditure. We are aiming to reduce the net debt balance from JPY 130.8bn at EoY 2016 to less than 115bn at EoY 2017.

＜The 70th anniversary of DMG MORI CO in 2018＞

In 2018, DMG MORI CO will celebrate its 70 years of foundation anniversary. In this memorial year, DMG MORI will establish child care centers at all of its major locations in Japan to encourage women to pursue their career. AI and IoT are changing our society very quickly. With a view to the society of the next 10 to 20 years, DMG MORI will continue to invest proactively in human resources development and R&D to deliver higher added value to customers by applying new technologies.

As the world’s largest manufacturer, installation partner, and solution provider of machine tools, DMG MORI is committed to create customers’ values in the area of machining technology. At the same time, as the leading company in the industry, DMG MORI will maintain dialogues with its wide range of stakeholders including shareholders, employees, suppliers, and local communities to meet their expectations.

Selected questions & answers

【Table of contents】

＜Market environment＞

Q：How was the order intake of machine tools by region and industry?

A : Order intake of the first half (Jan-Jun) 2017 was favorable with the growth of 16% yoy. On a quarterly basis, the growth rate improved from 9% in Q1 (Jan-Mar) to 24% in Q2 (Apr-Jun) on yoy, respectively. Order intake grew by 5% in Japan, 16% in the US, 19% in Europe, 59% in China, and 82% in Asia except Japan and China. We have recognized strong demand from SPE (semiconductor production equipment), aerospace, general machinery, and SMEs (Small and Medium-sized Enterprises). We also find stable demand in the automotive industry. The demand from construction machinery is gradually recovering.

Q：Revised annual order intake forecast is more than JPY 410bn. Do you expect less order intake in the second half with JPY 194.5bn than that in the first half of JPY 215.5bn?

A : We expect the business environment of machine tools will remain almost unchanged from the first to the second half of the year. Orders from Europe, China, and Asia (except Japan and China) will remain positive. Japan and Americas will be robust, too. We expect that SPE, aerospace, medical, general machinery, and SMEs will continue to be strong, and construction machinery and energy will recover gradually. The difference in order intake between the first and the second half comes from seasonality; we expect positive impact on our orders at EMO, the world's largest machine tool exhibition in Germany in the second half; on the other hand, in the first half of the year, we had a series of exhibitions that contributed to orders including Open House in Pfronten (Germany), Chicago (US), and Iga (Japan), as well as CIMT in Beijing (China).

Q: How is the order intake of CMV V series?

A : Order intake of CMX V series in the first half was about 580 units, including more than 300 units orders in Q2 (Apr-Jun). Order of CMX V series is increasing from one quarter to another, and the CMX V series are now even better accepted in the market than the ECOLINE that was discontinued in 2016. The exhibition of automation by combining CMX V Series with robot attracted a lot of attention from visitors at CIMT in China (Beijing), and Open House in Chicago (US) in May and in Iga (Japan) in June. Order intake of CMX V series by region is very well balanced between highly industrialized countries and emerging markets; Europe including Germany accounts for the highest portion in order volume with more than 30%, followed by Japan, US, and China. Many customers select CMX V series as entry machines. In this way, DMG MORI will further work on acquiring new customers.

Q：Tell me what kind of value Open Innovations can provide to 5-axis machines.

A : Open Innovations not only consist of peripheral equipment offered by partner companies, but also of CELOS, the Human Machine Interface developed by DMG MORI, and software such as Technology Cycles, which are applications that operate on CELOS, as well as operation training to users. Open Innovations enable high-value-added machining and contribute to improve customers' productivity. The benefits of Open Innovations become visible, only if a close linkage between peripheral equipment, software, and capable engineers exists. Requests from customers are getting more demanding and sophisticated. In order to meet ever-sophisticated requirements from customers, Open Innovations are becoming more important than ever. DMG MORI will continue to offer integrated solutions between its high-performance hardware and Open Innovations.

Q：What is the regional breakdown of upward revision of order intake plan from JPY 385bn to more than JPY 410bn?

A : We revised our order intake forecast by adding another JPY 25bn to our original plan. The composition of additional JPY 25bn by region is: JPY 4bn in Japan, JPY 12bn in Europe, JPY 5bn in China, and JPY 4bn in Asia except Japan and China. US order intake forecast remains almost unchanged.

＜Financial Performance＞

Q: What are the major factors for year-on-year change of operating profit in the first half?

A: Operating profit in the first half increased by JPY 5.6bn to JPY 9.0bn, from JPY 3.4bn in the same period last year. Positive factors are as follows: sales volume increase (JPY 6.6bn), cost-saving effect from clean-up of non-core businesses etc. last year (JPY 2.4bn), the synergies with AG(JPY 0.5bn). On the other hand, negative factors are as follows: JPY appreciation (JPY 0.4bn), fixed costs increase associated with the direct sales of US subsidiary (JPY 1.5bn), research & development expenses increase such as acquisition of additive manufacturing technology (JPY 2bn). All in all, operating profit improved by JPY5.6bn.

Q: What made free cash flow in Q2 (Apr-Jun) positive?

A: We think free cash flow, which is the balance between operating cash flow and investment cash flow, as one of the most important indicators. We achieved positive free cash flow in the second quarter because of improved profitability and cost-saving efforts, such as clean-up of non-core businesses in 2016, tight management of working capital and optimization of capital expenditure, in combination with increased sales. We will further work on enhancing profitability and thorough management of working capital and capital expenditure to continuously generate free cash flow, backed by abundant order backlog.

Q: What are major drivers to push up the annual sales forecast from JPY 380bn to JPY 403bn?

A: Out of JPY 23bn increase in the annual sales forecast, approximately JPY 8bn can be attributed to currency exchange rate. The initial plan was based on the exchange rate of JPY 110 per US dollar and JPY 120 per euro, but euro has turned out to be stronger than expected. Thus the assumed rate for the 2nd half is set at JPY 125 per euro. Consequently, the year average rates are JPY 111.2 per US dollar and JPY 123.3 per euro. Combination of the euro appreciation trend and strong order intakes in Japan, Europe, China and Asia leads to the increase in annual sales forecast, JPY 4bn in Japan, JPY 10bn in Europe, JPY 5bn in China, and JPY 4bn in the rest of Asia, respectively.

Q: Describe detailed analysis of the revised operating profit forecast to JPY 26bn from JPY 22bn?

A: We expect the operating profit increase by total JPY 7bn brought by the sales increase (JPY 6bn) and currency exchange rate (JPY 1bn). On the other hand, our prior investment in additive manufacturing technology, including acquisition of REALIZER(Germany) this February, as well as in IoT and AI technology in pursuit of mid- to long-term business opportunities, combined with the establishment of Emerging Technologies Laboratories, will boost research and development expenditure. Total JPY 2.6bn cost increase is expected, resulting in JPY 4bn increase in operating profit forecast.

Q: Why will the operating profit margin improve from 4.5% in the first half to 8.3% in the second half?

A: We expect 3.8% point improvement in operating profit margin. Economies of scale, that is, increase in production volume in the second half could contribute to lower fixed cost per unit for the period. In addition, profitability will be enhanced thanks to large and high value-adding machines produced in our factory in Pfronten, as well as the increased gross margin in order intake as a result of the growing solution providing strategy. In the first half we spent more in research and development than our original plan because of acquisition of REALIZER GmbH etc., but it will be leveled in the second half.

＜Others＞

Q: Describe the outlook of FY2018 financial performance.

A: It maybe too early to talk about next year’s performance, but the new-born trend for automation investment in pursuit of productivity boost is likely to continue in global market. Our solution providing strategy is in accord with the market transition, leading to a larger market share in the industry. With keeping the momentum, we would try to achieve around 5% sales growth. As of cost structure, research and development expenditure is expected to increase in order to gain supremacy in future IoT and AI market, but fixed cost, including labor cost and depreciation charges, will be tightly managed. On the other hand, as a favorable trend we see uplift in order intake gross margin, due to the value-adding sales activity. The target operating profit margin will be enhanced from this year’s 6.5% to around 8% in 2018.

Q: Describe FY2017 and future dividend payout policy.

A: Our target dividend payout ratio is around 30%. We announced increase of dividend from JPY26 to 30 in February, and this year’s payout ratio will be in the range of our dividend payout target, based on current financial forecast. We generally follow the planned dividend payout policy, and it remains unchanged for this year. The next year’s dividend needs further discussion to be fixed, but we intend to increase both sales revenue and profit in 2018, and the dividend in accordance with the higher performance. Commemorative dividend for our 70th anniversary is also being considered.

Q: How do you calculate earnings per share (EPS) in FY2017 forecast?

A: We expect the profit attributable to the owners of the company to be JPY14bn this year. the allocation of JPY1.07bn to hybrid capital owners has to be deducted from JPY 14bn to calculate EPS. The EPS of JPY105.6 is calculated by dividing the remaining JPY12.93bn by 122,948,769, which is the number of issued stocks excluding treasury stocks at the end of June.

Q: Describe the future share buyback.

A: In the Board of Director’s meeting on 13 January 2017, the board resolved the share buyback with maximum of either 3.5million shares or JPY5.25bn in value. In accordance with the resolution, we have purchased 569,900 shares worth JPY 999million in the first half of this year. The share buyback to the said limit is entrusted to an independent third-party organization and is carried out on its own judgment, in order avoid violation of the insider trading regulations.

(Disclaimer)

This material contains targets, plans, etc. concerning the future of DMG MORI CO., LTD. and the DMG MORI Group. All predictions concerning the future are judgments and assumptions based on information available to DMG MORI 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:

- Fluctuations in exchange rates
- Changes to the laws, regulations and government policies in the markets where DMG MORI CO., LTD. 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 CO., LTD. conducts its business
- Operational changes by the competent authorities or regulations related to anti-trust, etc.