



DMG MORI Co., Ltd. CY 2017(Jan-Dec) Q3 Consolidated Financial Results Q&A

Dear Investors

We announced our financial results for the third quarter of FY2017 on November 7.
This document is a summary of Q&A to our results.

Agenda

- Management Analysis
- Selected questions (including anticipated ones) and answers

Management Analysis

< Key messages >

- Breakthrough in 5-axis machines and mill-turn centers at EMO, the world largest machine tool exhibition
- ADAMOS launched to lead easily accessible MES (Manufacturing Execution System)
- In-house spindles and SmartSCALE for the next-level machine accuracy
- Catching up with the market transition to secure topline growth
- Upward revision of full-year order intake and business forecast, significant improvement in free cash flow
- Corporate social responsibility as an industry-leading company

< Breakthrough in 5-axis machines and mill-turn centers at EMO, the world largest machine tool exhibition >

DMG MORI is being acknowledged to as an industry-leading solution provider. At EMO held in Hannover, Germany in September, we presented various solutions with a focus on 5-axis Machines and Mill-turn Centers, successfully offering new value to visitors from Europe and around the world. More than half of the 75 exhibited machines, including 8 world premieres, were connected to automation systems, which served to highlight the improved productivity by peripheral equipment and Technology Cycles. Our machining solutions accumulated through rich engineering experience also appeared at Technology Excellence booth, along with machined workpieces for the aerospace, automotive, die & mold and medical industry. As it was greatly appreciated by customers, the order intake was up by 11% from the last EMO at Hannover in 2013.

< ADAMOS (Adaptive Manufacturing Open Solutions) launched to lead MES (Manufacturing Execution System) >

As a milestone for IIoT (Industrial Internet of Things), DMG MORI has founded the IIoT platform ADAMOS for machine engineering industries, jointly with Software AG, Durr AG, Carl Zeiss AG and ASM Pacific Technology Ltd, and started its operation on October 1st. Leading companies from the machine tool, software, engineering and measuring industry have joined ADAMOS, an open and user-friendly platform with flexible protocols and software languages. Especially, the simplicity and safety serve SMEs well, who take up 60% of our business. Now that we have a full-fledged infrastructure for IIoT, we will lead MES (Manufacturing Execution System) in the industry by connecting all our customers' machines and equipment via in-house Human Machine Interface CELOS.

< In-house spindles and SmartSCALE for the next-level machine accuracy >

DMG MORI believes that machine quality, including precision, is becoming more important as the

digitalization era arrives, for the better use of digital information. We increased the cutting capability by in-house spindles MASTER series and will extend the charge-free warranty period from 2 years to 3 years from 2018, as we are well convinced of our superior quality. Additionally, all axes on DMG MORI models will be gradually equipped with SmartSCALE, a dust- and water-proof magnetic measuring device developed by our group company Magnescale Co., Ltd. It will boost the positioning accuracy by applying full-closed loop control, where the scales mounted on each axis measure the workpiece's travel distance and feedback the data for error compensation, instead of semi-closed loop control which uses only the number of servo motor's rotation to determine the accuracy.

< Catching up with the market transition to secure topline growth >

Movement toward Electric Vehicles (EV), an aging population and Artificial Intelligence (AI) will be key drivers of market changes, which would have material impact on industrial structure. EV transition will significantly reduce the number of automobile parts and would shrink the demand for machine tools. However, it can also bring about die & mold market increase for the components such as motors and batteries, or infrastructure like battery stations. Diversifying materials and shortened model change cycles will also support the trend. Aging society will increase the need for medical parts, such as implant and artificial knee joints. Those tailor-made products require hard-to-cut materials, thus cutting-edge machining solutions will be necessary. The semiconductor and the next-generation production equipment EUV will be hot markets as the AI trend prevails, so as ultra-precision machined parts. All these business opportunities will help us secure mid-long term growth by promoting 5-axis Machines, Mill-turn Centers, Laser Machines and Ultrasonic Machines, where we have an advantage over our competitors.

< Upward revision of full-year order intake and business forecast, significant improvement in Free Cash Flow >

The cumulative result for January-September period increased by 13% in sales revenue and by 5.7 times in operating profit on a year-on-year basis, surpassing the forecast. Given the favorable momentum in order intake and weaker yen against euro, we revised upward the business forecast once again; sales revenue up from JPY 403bn to JPY 415bn, operating profit from JPY 26bn to JPY 28bn, and net profit attributable to the owners of the parent company from JPY 14bn to JPY 15bn, respectively.

Free cash flow, which is calculated by deducting investment cash flow from operating cash flow, turned to be positive in Q2, and Q3 resulted in remarkable JPY 12.3bn in the black (improved from JPY 6bn in the red of the same period last year). This successful result can be attributed to earlier collection of accounts receivable, tight inventory control, and increased amount of down payments. We will continue to generate positive free cash flow to secure dividend payment and to reduce interest-bearing debt.

< Corporate social responsibility as an industry-leading company >

DMG MORI continues to fulfill the social responsibility as a leading machine tool company. The long-term goal for annual working hours per employee in Japan is 1,800 hours, the same level as our German group company DMG MORI AG, although we set a realistic 2,000-hours target as a first step towards altering working style. As part of the efforts, we make sure that our employees in Japan take 20 paid holidays annually. This will also be applied to newly-employed staff from FY2018. The retirement age will be extended from 60 to 65 years of age, as another measure to improve work-life balance. We will establish internal day-care centers at 4 main locations in Japan to support our employee's childcare, among other systems to promote diversified working styles, such as family care leave or shorter working hours. As for environmental protection, we have expanded product lines applying GREENmode, a self-developed feature to lessen the burden on the environment, and intend to reinforce the function. DMG MORI will continuously contribute to sustainable social development as a responsible leader in the industry.

Selected questions & answers

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< Market environment >

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

A : Demand for machine tools continues to grow in the global market. DMG MORI's cumulative order intake for January-September was increased by 25% compared with the same period last year. On the quarterly basis, Q3's year-on-year growth rate was boosted to 37% from Q1's 9% and Q2's 24%. By industry, orders from the semiconductor production equipment industry have been very strong, while those from aerospace, medical equipment, automation equipment like robots, general machinery, automotive and SMEs (Small-and-Medium-Sized Enterprises) remain on a favorable trend. Demand from the construction machinery started to pick up since the beginning of this year, and is now becoming stable. On the other hand, the performance in the energy industry struggles due to the unexpectedly slow demand. Cumulative order intake for January-September rose by 28% on year-on-year in Japan, 19% in the Americas, 27% in Europe and 57% in Asia including China.

Q : How was the result of EMO?

A : Order amount received at EMO 2017, the world largest machine tool exhibition held in Hanover, Germany this September, increased by 11% compared with the last EMO held in the city (EMO 2013). DMG MORI booth occupied a whole exhibition hall (10,000m²) and presented 75 machines and some 1,000 workpieces by themes; automotive, aerospace, die and mold, medical, etc. Each machine was combined with automation solutions including loaders, pallet pools and robots, in order to show how our products can solve our customers' issues. In the additive manufacturing (AM) section, our customers observed and touched the workpieces produced by AM, and saw vast possibilities of our cutting-edge technology. We are convinced that the visitors fully appreciated our capabilities as a total solution provider.

Q : What are the main drivers for upward revision of annual order intake forecast from JPY 410bn to JPY 430bn?

A : We increased our FY2017 order intake forecast by JPY 20bn, from JPY 410bn to JPY 430bn. JPY 8bn of the total increase is derived from weaker JPY against EUR. The remaining is contributed by higher-than-expected sales volume and unit price, particularly in Europe, Japan and China.

Q : What are the major factors for average unit price increase?

A : There are a couple reasons for the boosted average unit price; one is greater contribution of value-added machines, and the other is the fruitful promotion of solution providing service, such as CELOS, Technology Cycles and peripheral products. Many of our customers install new machines to facilitate process integration, and the trend leads to a higher demand for our industry-leading and value-adding 5-axis Machines and Mill-turn Centers; the two types of machine take up 62% of the FY2017 order intake, up from

58% in FY2016. These machines are likely to be installed with peripheral equipment like robots and loaders, and Technology Cycles for further productivity, thus the average selling price tends to go up.

< Financial Performance >

Q : Describe FY2018 order intake forecast.

A : Based on the FY2018 business plan currently being drafted, FY2018 order volume would remain as high as that of FY2017. Our customers have strong appetite for high-functional machines, automation, process integration and IoT, which could continuously drive high demand for machine tools for the time being. We are expecting stable demand in Japan, the U.S. and in China. The robust trend in Europe should not significantly change, but adjusting backlash may occur after the remarkably strong orders at EMO this year. By industry, automotive, semiconductor, aircraft, medical equipment, general machinery and SMEs will keep the favorable momentum.

Q : What are the positive and negative factors for the cumulative operating profit?

A : The operating profit in the first 9 months grew by JPY 11.6bn to JPY 14.9bn, from adjusted operating profit of JPY 3.3bn in the same period last year (actual operating profit for the first 9 months of FY2016 was JPY 2.6bn, and adjusted JPY 0.7bn came from one-off expenses for asset restructuring). Total positive amount was JPY 16.4bn, including JPY 11.1bn from sales volume increase, JPY 1.0bn from weaker yen, JPY 3.7bn from cost-saving effect after the asset restructuring and JPY 600mil from lower material costs. Total negative amount was JPY 4.8bn, such as JPY 1.5bn by fixed cost increase particularly in the US subsidiary, JPY 2.5bn by R&D investment on high-potential technology including additive manufacturing and JPY 800mil by elimination of unrealized profit in inventories.

Although the US subsidiary saw cost increase as it launched direct sales channel, its order inflow has jumped substantially together with an expansion of market share, and the operating profit has been in the black since the 4th quarter (October-December term) last year.

Q : What are the major factors for the improved free cash flow in Q3?

A : Free cash flow in Q3 improved significantly with a cash inflow of JPY 12.3bn. In addition to recovery of profit, management efforts, such as adequate capital expenditure (below that of depreciation charges), working capital management, including tight inventory control, earlier collection of accounts receivable and increased amount of down payments, contributed to the improvement of cash flow.

Q : What are the major drivers to further push up the annual business forecast?

A : We have revised up our FY2017 business forecast reflecting better sales volume and the weaker yen; sales forecast by JPY 12bn, from JPY 403bn to JPY 415bn and operating profit forecast by JPY 2bn, from JPY 26bn to JPY 28bn. The breakdown of incremental sales is JPY 7.8bn from conversion factor of the

weak yen, and JPY 4.2bn from sales volume increase. Factors contributing to the operating profit's escalation are the favorable exchange rate (JPY 400mil) and the increased sales volume (JPY 1.6bn). Other expenses would remain as planned.

Q : Why is the increase in the sales revenue slower compared to the order intake growth?

A : We expect an order intake growth of 17% and a sales growth of 10% for FY2017. Our order intake growth rate has been accelerating quarter by quarter; Q1 up by 9%, Q2 up by 24% and Q3 up by 37%. Our usual average lead time from order to shipment is between 4 to 5 months, but recently it is extending to 6 to 7 months due to tight demand and increase of large-sized machines. As a result, this term's strong order intake helps raising sales of FY2018.

Q : Describe FY2018 business forecast (previously announced 5% increase in sales, 8% for operating profit margin).

A : We made a comment at Q2 result meeting on August 8th that we aimed for growth in sales of around 5% and an operating profit margin of about 8%. The business environment surrounding the machine tool industry remains unchanged. However, the sales target for FY2017, on which FY2018's forecast is developed, has been revised to JPY 415bn from JPY 403bn. We are reviewing FY2018 sales growth rate to be 3-5%, while keeping the 8% of operating profit margin.

< Others >

Q : What is ADAMOS?

A : ADAMOS (ADaptive Manufacturing Open Solutions) is a strategic alliance to provide an IIoT (Industrial Internet of Things) platform. The company has been founded by such unique technology companies as Durr AG (plant engineering), Software AG (software), Carl ZEISS AG (optical and electrical devices) and DMG MORI. ADAMOS offers an inter-enterprise network covering the whole production process, shares accumulated technical expertise among partners, and provides a database of ingenious applications and technical standards to facilitate joint R&D. Many SMEs among machine tool users might be willing to introduce IIoT, but feeling reluctant due to security concerns and apparent complexity; ADAMOS will be their solution.

Q : Describe the advantages of using ADAMOS platform and the differences from platforms provided by CNC manufacturers.

A : ADAMOS is an open IIoT platform and our customers can easily connect a variety of machines with different protocols and software languages. Other CNC (Computer Numerical Control) manufacturers provide their own platforms, but their systems seem to target mainly larger factories using their own CNC. Our company mounts CNCs produced by Fanuc, Siemens, Mitsubishi Electric and Heidenhain on our

machine tools, thus we can utilize our advantageous familiarity with these CNCs for developing an open system. With SMEs taking up 60% of our business, we are also capable of providing a suitable platform for such customers with a easy connectivity and virus-free environment.

Q : What are DMG MORI's advantages in the area of introducing AI?

A : One of the most important AI (Artificial Intelligence) applications in the machine tool industry should be predictive maintenance. Predictive maintenance requires accumulated data, as well as factor analysis of each error and development of according preventive measures. We are the biggest machine tool builder with the most comprehensive data through more than 300,000 installed machines in the global market, and we have been exploring causes of machine troubles and the solutions through PPR (Product Problem Report) system for more than 20 years. Therefore, we are capable of developing accurate preventive maintenance mechanism with AI as a pioneer in the machine tool industry. In particular, AG, our European group company, has an overwhelming advantage in 5-axis machine's market with its ample experience in the field.

Q : How will EV-shift affect the business? How long will it take to cause a potential negative impact?

A : The movement toward electric vehicle (EV) would bring a negative effect to the machine tool industry in the long run, since it would drastically reduce the number of parts for engines and transmissions. However, automotive and part manufactures have been investing to restructure their platform and to enhance efficiency of internal-combustion engines. Therefore, it would take another 10 years for the negative effect from the EV to break to the surface. On the other hand, EV-entailing business like semiconductors and its production equipment, electric parts, die and mold, battery-charging infrastructure, as well as higher demand for electricity and storage batteries, should create opportunities for machine tool manufacturers. We are going to keep a topline growth in mid- to long-term, with focus not only on new markets but also on promising industries like aerospace, medical equipment and die & mold.

Q : What is the impact of the share buyback?

A : We purchased 988,703 shares in FY2017 Q3, which led to 3,993,617 treasury stocks by the end of September. The average number of shares outstanding applied for calculating earnings per share (EPS) is 122,039,256.

Q: Is there any change in current or next term's dividend payout policy?

A: This term's dividend payout plan remains JPY 30 per share. The next term's dividend needs further discussion, but the target payout ratio of around 30% is unchanged from the last financial result Q&A released on August 8th. We are also considering additional dividend in accordance with the improved business performance or a commemorative dividend for our 70-year anniversary.

(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.

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- 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.