Dear Investors

We disclosed financial results of FY2018 H1 (January-June) on August 8, 2018.
Please find below additional information as Q&A.

Agenda

- Management analysis
- Q&A

Management Analysis

＜Key Messages＞

1. Continued strong growth of automation in both 5-axis and advanced technologies
2. Steady increase of order average price and gross profit margin
3. Established “Digital Innovation Center” to accelerate IoT and digitization
4. Sales +19%, operating profit +75%. Significant improvement of free cash flows in H1: JPY 15 bn
5. Upward revision of order, sales, and operating profit forecasts for FY2018

Manufacturing industry continues to invest in productivity improvement initiatives through process integration by multi-axis machines and millturn, as well as automation systems with robots, peripheral equipment, and Technology Cycles, etc. Orders with automation systems increased from 17% in 2017 to 23% in 2018 H1. DMG MORI’s sales value composition is changing dramatically, with machine, peripheral equipment and software options, and service and spare parts representing 50%, 31%, and 19% of orders respectively. This has contributed to increased stability in our business.

We showcased our state-of-the-art machine tools and automation solutions at the Innovation Days 2018 (private shows) in Iga and Chicago, both in Q2 (Apr-Jun). We received positive customer feedback for our existing and new automation solutions “MATRIS” and “MATRIS mini”. “MATRIS mini” makes automation more efficient with less footprint, shorter lead time, and improved cost-efficiency. Customers from in and outside of Japan entrusted us with large-scale automation and system orders consisting of machine tools, multi-joint robots, Messenger to monitor the operation, and other products. DMG MORI has aspired to become an engineering company with capabilities in design, development and production of machine tools, providing a total solution and installing systems. As we are now at a stage to realize and implement this transformation, our competitiveness is improving even further.

In June 2018, we established the “Digital Innovation Center” to facilitate IoT and digitization. At the Digital Innovation Center, DMG MORI’s group companies with expertise in IoT and digitization work closely together. Advanced Technology Research Center was established in 2017 to develop cutting-edge technologies for the next 20 years to come; Magnescale develops and manufactures ultra-high-precision sensors; BUG drives the group’s software development; Saki Corporation excels in measurement and image processing technologies; TECHNIUM supports production through IT. Their common goal is to provide customers solutions to overcome challenges and make manufacturing more efficient.

Following the management strategies described above, FY2018 H1 orders remained strong with JPY266.1bn, increasing by 24% y-o-y. Sales increased by 19% y-o-y, and operating profit increased by 75% y-o-y to JPY15.8 bn backed by an improvement in average sales price. We also achieved a significant improvement in free cash-in-flows of JPY15 bn in H1, compared to JPY 8.7 bn cash-out y-o-y. As a result, the net debt balance was reduced from JPY 105.7 bn in December 2017 to JPY 93.9 bn in June 2018. Asset efficiency has been improving by diligent control of inventory and increased down payments.

While the US-Chinese trade war is concerning, currently, DMG MORI is not affected by this conflict. Following the first upward revision at the closing of Q1 to JPY 470 bn, we once again revised our annual order forecasts upwards to more than JPY480 bn, up by7% y-o-y. Revised forecast for annual sales is JPY470 bn (initial forecast: JPY 450 bn) and operating profit JPY38 bn (initial forecast: JPY 35 bn). We will continue our efforts to exceed these revised targets.

Q&A

Agenda

Q：What led to the positive revision for the annual machine tool order forecast?

A : We revised our machine tool order forecast for FY2018 from JPY 470 bn (+4.8% y-o-y) to JPY480 bn (+7.1% y-o-y). One of the reasons for this positive revision is stronger order growth in Japan, US, and China than initially anticipated. Orders from Europe, Asia (excluding China), and Oceania remain high as expected. Overall, orders for automation systems including peripheral equipment (DMQP) and application software such as Technology Cycles have increased, and average order price continues to increase accordingly.

Q：What is the current order backlog and its outlook?

A : Machine order backlog (including peripheral equipment, software, etc.) at the end of June reached JPY 225.4bn, which exceeded the backlog of JPY 189.0 bn at end of December 2017, as well as JPY 219.4 bn at end of March 2018. Current order backlog is equivalent to 6 months' sales. Order backlog should remain elevated for the foreseeable future, as we continue to expect high levels of order volume.

Q：What led to lower than expected production volume in Q2?

A：The main reason for production delay was delivery delay of linear guide and sheet metal (for machine cover) from suppliers. We could not eliminate the delay completely in Q2 as we initially expected. We observe remarkable delays in delivery of components for large machines. We will further strengthen communication with our suppliers to eliminate delivery delay in Q3 to increase production.

Q：What is the annual production plan for FY2018?

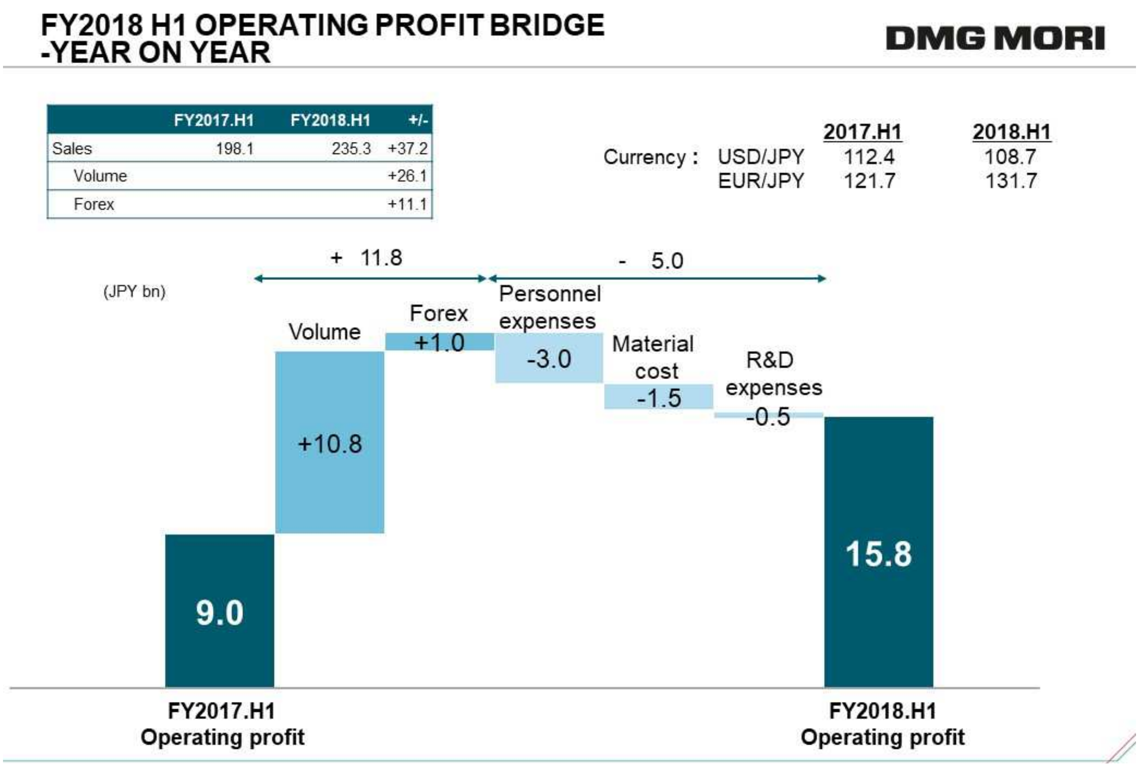
A : The production volume of H1 (Jan-Jun) increased by 19% y-o-y to 5,720 units. In H2 (Jul-Dec) we expect delivery of components will gradually improve, leading to an increase in production volume. We plan to produce 12,000 units of machines in FY2018, which implies an increase by 14% vs. FY 2017.

Q： How much is your production capacity?

A : We announced that our annual production capacity is approximately 15,000 units on floor space basis. Due to increasing orders of large machines and automation, the per unit production capacity is declining. Currently, we are expanding our production sites in FAMOT, Poland and in Pfronten, Germany. We are planning to establish dedicated assembly areas for automation in Iga, Japan and Chicago, US. By doing so, we will maintain the announced production capacity of 15,000 units in the mid- to long-term. These initiatives will contribute to increasing sales to about JPY 800 bn per year.

Q： What led to changes in operating profit for FY2018 H1?

A： Operating profit for FY2018 H1 increased by JPY6.8 bn from JPY 9.0 bn y-o-y to JPY15.8 bn. The following factors amounting to JPY11.8 bn contributed to an increase in operating profit: volume increase JPY9.8 bn, price increase JPY1.0 bn, and currency JPY1.0 bn. On the other hand, the following factors amounting to JPY5.0 bn offset this increase: personnel cost increase JPY3.0 bn, increase in variable cost including material cost JPY1.5 bn, upfront investment including R&D JPY0.5 bn.



Q：What led to changes in operating profit from Q1 to Q2 for FY2018?

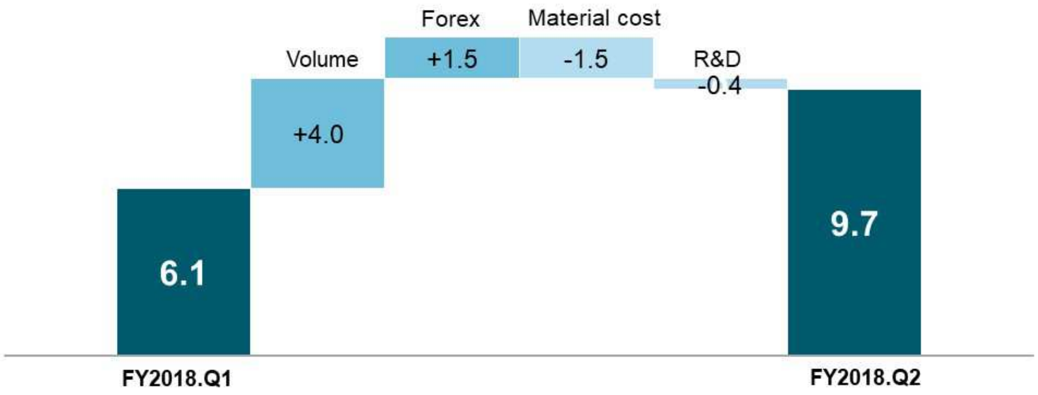
A：Operating profit for FY2018 Q2 increased by JPY3.6 bn from JPY 6.1 bn in Q1 to JPY9.7 bn. The following factors amounting to JPY5.5 bn contributed to an increase in operating profit: volume increase JPY3.2 bn, price increase JPY0.8 bn, and currency JPY1.5 bn. On the other hand, the following factors amounting to JPY1.9 bn offset this increase: increase in variable cost including material cost JPY1.5 bn, upfront investment including R&D JPY0.4 bn.

FY2018 OPERATING PROFIT BRIDGE - 1 Q VS 2Q

	FY2017.Q1	FY2018.Q2	+/-
Sales	113.8	121.4	+7.6
Volume			+8.3
Forex			-0.7

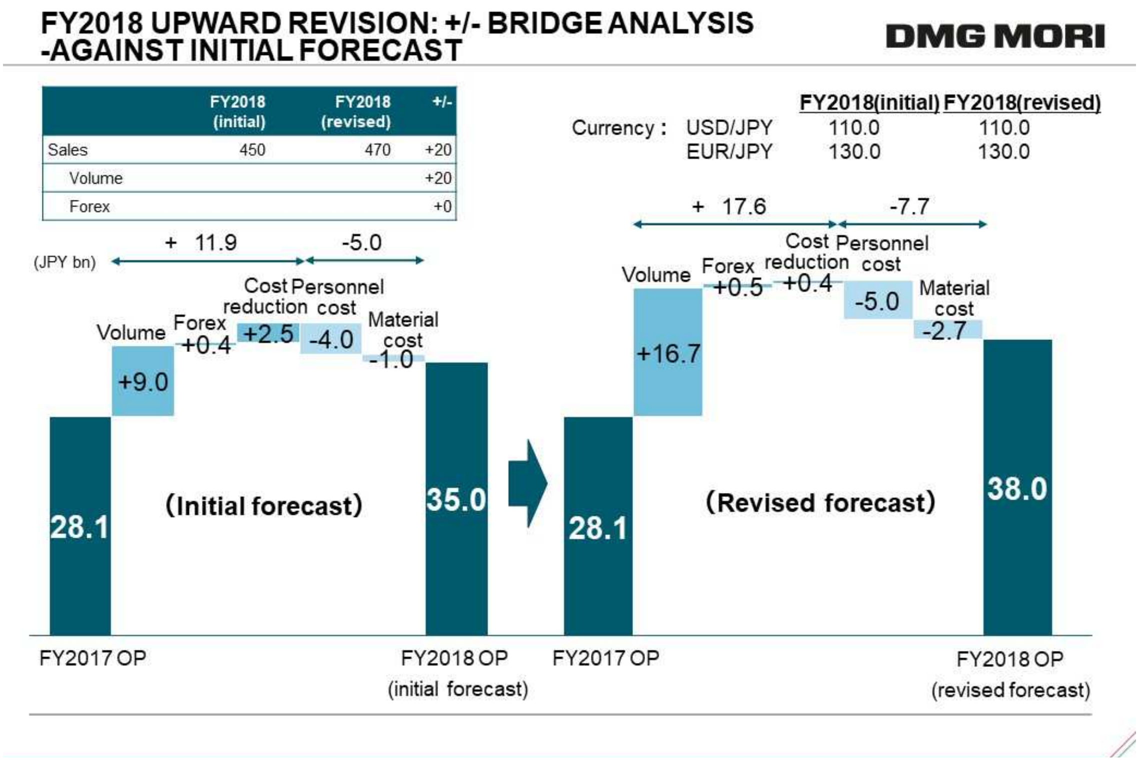
(JPY bn)

Currency：		FY2018.1Q	FY2018.2Q
	USD/JPY	108.3	109.1
	EUR/JPY	133.2	130.1



Q：What led to the positive revision in operating profit for FY2018?

A：While we initially forecasted JPY35.0 bn for FY2018, we revised our operating profit forecast JPY3.0 bn to JPY38.0 bn. Volume increase will contribute to an increase in operating profit by JPY 7.7bn. On the other hand, the following factors amounting to JPY4.7 bn will offset this increase: increase in variable cost including material cost JPY1.7 bn, personnel cost increase JPY1.0 bn, increase in upfront investment cost JPY2.0 bn including the cost for the launch of Digital Innovation Center.



Q： What is the reasoning for significant operating profit margin expansion, despite sales in FY2018 H2 remaining stable h-o-h?

A： Sales for FY2018 H1 was JPY 235.2 bn, and the forecast for H2 remains flat at JPY234.8 bn. On the other hand, operating profit margin will grow from 6.7% in H1 to 9.5% in H2 for the following reasons: 1) like every year, large 5-axis machines' sales with higher profitability will be concentrated in H2, resulting in higher gross profit margin; 2) expected improvement of productivity in H2 reflecting an elimination of supply chain issues in H1; 3) less R&D cost expected in H2, following an increased investment in the launch of Digital Innovation Center, etc. in H1.

Q：Will dividend payment be increased following the positive revisions in earnings?

A：Dividend per share in FY2018 will be JPY 50. We have no intention to change this amount. Dividend payout ratio for FY2018 was 31.9% based on initial forecast and 28.9% after this quarter's upward revision. Our shareholder return policy is approximately 30% in dividend payout ratio. This year's dividend payout ratio is within the scope of our shareholder return target.

Q：What is the expected free cash flow for FY2018?

A：Free cash flows for FY2018 H1 amounted to JPY15.0 bn, up by JPY23.7 bn y-o-y. All indications are positive – increase in sales and profit margin, improvement in working capital, and increased return on investment. In H2, we expect additional growth in free cash flows through increased profit and improvement of cash efficiency. Annual free cash flows for FY2018 are expected to be around JPY35 bn.

Q：Will the US-China trade war affect business outlook?

A：Orders from US and China are growing as planned, or even beyond our expectations. We do not foresee any major impact to business, except for a limited number of Chines customers who are highly dependent on exports to the US, which may decrease capital investment expenditures. A large majority of our customers have made no revision to their investment plans. Our customer base in China consists of large transportation equipment, infrastructure including energy supply, aerospace, and automation equipment industries. We estimate that the impact of US-China trade conflict will be limited at this moment.

Q：Please describe business outlook for FY2019.

A：We will continue our efforts to increase both sales and profit even further in FY2019, although it is too early to talk about the next year's business plan. Despite the increasing uncertainty in our business environment, we observe many positive factors: 1) strong and stable orders as of today, 2) sufficient and promising order backlog to guarantee another increase in sales at least to the end of FY 2019 H1, 3) expected impact of price increase in FY2019, reflecting profit margin increase of both order and order backlog after a price hike from January 2018, 4) production and productivity improvement after eliminating delays of components supply in FY2018.

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.