DMG MORI CO., LTD.

FY 2018 Q3 (Jan-Sep) Results

IR Announcement

November 7, 2018

IR ANNOUNCEMENT 2018/11/7

Dear investors,

We announced our financial results for the third quarter of FY2018 on November 7, 2018.
This document is a summary of Q&A to our results.

Agenda

・Management analysis

・Selected questions (including anticipated ones) and answers

Management Analysis

＜Key message＞

1．Focused on multi-axis, automation, and connected solutions at IMTS in the United States and AMB in Germany
2．Increased average order price by 8% through value-creating proposals
3．Expanded and renovated FAMOT to a cutting-edge digitized factory
4．Increased accumulated sales cash flows of FY2018 Q3 to JPY 22.5 bn (JPY 3.6 bn year-on-year)
5．Revised annual order intake and turnover forecasts upwards
6．Normalization of supply chain network as a challenge in FY2018 Q4 and onwards
7．Continued efforts to increase turnover, profit, and dividends in FY2019

We successfully concluded two major exhibitions in September 2018, IMTS in the United States and AMB in Germany. We have already upgraded our exhibition contents by helping our customers to first-hand experience the benefits of multi-axis, automation, digitization and connected solutions. This approach resulted in an increased number of orders with automation from 17% in FY2017 to 24% in FY2018（Jan-Sep）. Accordingly, average order price increased by 8% to JPY 35.1 mil in FY2018（Jan-Sep） from JPY 32.6 mil in FY2017（Jan-Sep）. Our continued efforts to strengthen direct sales (except for Japan), in-house engineering and direct service led to gaining trust from customers and capturing market demand. Once again, we made an upward revision of our full-year order forecast from JPY 480 bn to JPY 490 bn.

In production, FAMOT factory has been expanded and renovated with the most advanced digitization. It is now an experimental facility of Industry4.0/Connected Industries, where CELOS, operating software for machining developed by DMG MORI, collaborates with 3 group companies: ISTOS, a company designing software for production planning; WERKBRiQ, a software designer for preventive and conventional maintenance; DMG MORI Software Solutions, a designer of Technology Cycles. With the significantly-increased productivity, FAMOT is now capable of meeting market demands for CMX and CLX series in shorter lead time. It has also enhanced production capacity of key components equipped on DMG MORI machines, such as large-sized casting parts and spindles, which will lead to higher production efficiency and cost reduction for the whole group.

While capturing market demand successfully, normalization of supply chain network remains as a challenge to production. DMG MORI produces key mechanical components such as spindle units, ball screws and turrets in-house, because they define machine tools' accuracy, performance and durability. At the same time, in-house production of such components gave us a competitive advantage to shorten production lead time. However, procurement from external suppliers, including that of linear guides, sheet metal, and machined parts, is still delayed in Q3 (July-September). This resulted in higher cost in production and logistics. We intend to solve the remaining challenges in supply chain by Q4, and recover the integrated strength in sales, production and services.

With the above-mentioned background, FY2018 full-year turnover forecast is revised upward from JPY 470 bn to JPY 480 bn. However, the operating profit remains at JPY 38 bn., carefully considering the cost increase due to a challenging situation in the supply chain. Free cash flow, which is equivalent to sales cash flow minus investment cash flow, is successfully accumulated to JPY 22.5 bn by Q3 (JPY 3.6 bn year-on-year), and the net interest-bearing debt has been reduced as planned.

FY2019 business plan is under development, and the details will be announced at the full-year financial report on February 2019. Current targets are approximately JPY 500 bn in turnover, JPY 40 bn or more in operating profit, and continuously higher dividend than during the current term. The focus area in FY2019 includes: 1) Adapting ourselves to the biggest industrial transition in a decade with multi-axis machines, digitization, diversified material and additive manufacturing, 2) Efficient management of Global Parts Centers in Iga, Munich and the United States using AI technology, 3) Seeking new investment opportunities, thanks to the increasingly stable synergy effect with AG, well-managed cash flow and the net debt equity ratio of 0.5 times in the foreseeable future, 4) Continuous efforts in better working environment and investments to develop employees' skills. By implementing the four initiatives, we will ensure the business growth by 2020 and beyond.

Q&A

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Q: Describe the order intake development of machine tools in FY2018 (Jan-Dec).

A: We have revised FY2018 full-year order forecast upwards from JPY 480 bn to JPY 490 bn and expect year-on-year increase of 9%. Order intake of machine tools hit the bottom in the 2nd half of FY2016 but has recovered ever since. The year-on-year growth rate is rather moderate, as the industry went through significant growth in the 2nd half of FY2017, but the order intake remains at a high standard. The orders to DMG MORI show solid development in Japan and Europe, while they started to adjust in the United States and China recently. The general machinery, aircraft and medical industries as well as SMEs (Small Medium Enterprises) have supported stable orders.

Q: Which is the major factor for the order intake increase: higher order price or higher volume?

A: The accumulated order intake of machines (excluding parts and service) by FY2018 Q3 (Jan-Sep) was increased by 14% on year-on-year basis. The number of machines has been increased up by 6% and the average order price by 8%, therefore the latter was the main growth factor. Higher share of high-end machines, such as multi-axis and mill-turn machines and more packaged solutions with peripheral equipment and software resulted in higher average order price.

Q: Describe the order intake forecast of FY2019 (Jan-Dec).

A: According to VDW/Oxford Economics' announcement in October, global demand for machine tools in FY2019 will rise by 4% from FY2018. DMG MORI currently targets 2% order increase from this year to JPY 500 bn. Despite our less optimistic view over the market, we believe that the value-creating solutions we are offering, such as multi-axis machines, automation, and cutting-edge machines like Additive Manufacturing, have been gradually appreciated via direct sales in overseas and first-hand engineering and service around the world, and will hopefully lead to higher average order price and order intake next year.

Q: How is the order intake in Chinese market?

A: Our order inflow rose by 28% y/y in 9-month (Jan-Sep) and by 12% y/y in 3-month (Jul-Sep), the figure of which was better than that of JMTBA (Japan Machine Tool Builders Association). A couple of factors contributed to our healthy order growth; the government encourages the sophistication of manufacturing industry, and our Chinese customers such as truck, buses and energy related builders accelerated the introduction of high valued added machines like 5-axis, multi-axis and horizontal machines with automation system including peripheral equipment and software technology. Inquiries in China looks stable. However, some of our Chinese customers begun to suffer from tighten regulation of Chinese government regarding foreign currency. As a result, we cannot receive advanced payment from some of our customers. This leads to decline in order inflow because the receivable of advanced payment is an essential condition of order inflow. We need to take a cautious stance over Chinese business for the time being.

Q: Describe the outcome of IMTS and AMB.

A: We have a consistent theme for exhibitions; multi-axis and mill-turn machines, automation, digitization and connectivity. The customers' interest in capital investment are shifting from performance of stand-alone machines to the efficient operation of the entire machining process. Our exhibitions demonstrate unmanned operation with advanced automated system and visualize the importance and roles of connected solutions in unmanned operation to further penetrate machining innovation in the market. This resulted in higher average order price than in the previous exhibition each.

Q: Why is the production volume lower than planned?

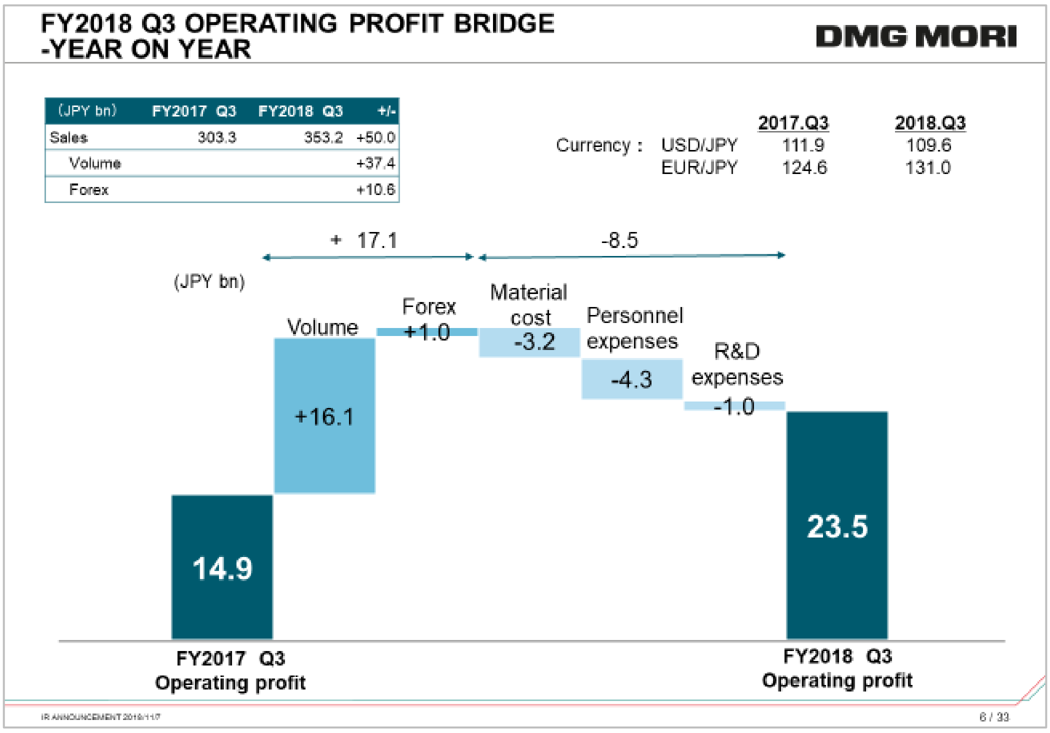
A: We produced 2,817 units in Q1 (Jan-Mar, FY2018), 2,889 in Q2 (Apr-Jun) and 2,864 in Q3 (Jul-Sep), therefore the production volume has remained at the same level. As repeatedly mentioned, supplies of linear guides, sheet metal (machine cover), and machined parts are still delayed and affect the assembly plan negatively. We aim to normalize the situation by the end of FY2018.

Q: Describe the potential impact of FAMOT factory renovation.

A: FAMOT factory is a production base of vertical machining center CMX series and turning center CLX series, as well as an in-house supplier of large-sized casting parts and other main components of machine tools, which makes it one of the most important bases in Europe. We invested approximately JPY 8 bn into the facility and expanded the floor space from 20,000 ㎡ to 50,000 ㎡. Production and assembly area occupy the vast area of 21,000 ㎡, in order to ramp up assembly and machining capacity of CMX and CLX series in response to the rising demand. The production capacity will be improved by 40% from previous 1,200 units per year, and the spindle production volume will be doubled from 1,500 units per year. It is now an experimental facility of Industry4.0/Connected Industries, where CELOS, operating software for machining developed by

DMG MORI, collaborates with 3 group companies: ISTOS, a company designing software for production planning; WERKBRiQ, a software designer for preventive and conventional maintenance; DMG MORI Software Solutions, a designer of Technology Cycles and other application software. We will proactively introduce latest technology to continuously update FAMOT as a cutting-edge assembly and machining factory.

Q: Describe positive and negative factors against accumulated operating profit by Q3 (Jan-Sep).
A: The accumulated operating profit by Q3 was JPY 23.5 bn, JPY 8.6 bn up from JPY 14.9 bn year-on-year. The positive factors include 1) increased business volume and continued efforts to secure reasonable profit from last year (JPY 16.1 bn) and 2) weaker yen against euro (JPY 1 bn), totaling to JPY 17.1 bn. The negative factors are 1) hiked material and supplied parts' prices and logistics cost due to temporary irregularities in the supply chain (JPY 3.2 bn), 2) personnel cost increased due to increased demand induced long overtime (JPY 4.3 bn), and 3) boosted R&D and other expenditure (JPY 1 bn), totaling to JPY 8.5 bn.



Q: Why does the full-year operating profit forecast remain the same, while the turnover forecast is revised upwards?
A: We expect contribution of additional marginal profit because of upward revision in sales.

However, there might be unplanned expenditure from continuously high material costs and workload in assembly department due to temporary irregularities in the supply chain or from logistics cost increase to meet committed delivery time. Carefully deliberating these factors, we decided to keep JPY 38 bn as the annual operating profit forecast.

Q: As for FY2019 full-year business forecast, describe the background for JPY 500 bn in turnover and JPY 40 bn or more in operating profit.

A: As mentioned earlier, FY2019 order intake will seemingly remain at the current high level. Given the expected JPY 220 bn order backlog at the term-end, which accounts for almost half of the full-year turnover, we believe that JPY 500 bn in turnover is fairly achievable. The continued increase in material and logistics cost need to be considered when planning profitability, but our ongoing efforts to raise list prices and secure reasonable profit will bear fruits in FY2019. This year's unplanned hike in production cost, which came from the temporary irregularities in the supply chain, is likely to be resolved in FY2019. For the abovementioned reasons, we aim for higher turnover and profit in FY2019.

Q: Based on the guidance of FY2019, what is the expected outcome in the cash flow?

A: Based on the operating profit forecast of JPY 40 bn, the net profit will be around JPY 23-24 bn. We are planning to increase capital expenditure into new technologies like additive manufacturing, CAD/CAM system and educational system for operators. On the other hand, we continue to make efforts to reduce inventories, which should improve working capital. For the abovementioned reasons, our target is to generate JPY20 bn -JPY 30 bn in free cash flow in FY2019.

Q: Describe your dividend payout policy for FY2019.

A: We set the dividend payout ratio at around 30%. No decision has been made for the dividend in FY2019, but the annual dividend per share raised from JPY 40 in FY2017 to JPY 50 in FY2018, and we aim for further dividend increase in FY2019 by achieving the aforementioned business targets. We also continue to make efforts to continuously increase the dividend in the medium to long term.

Q: How does the dumping of vertical machining centers in China affect DMG MORI?
A: On October 16th, China's Ministry of Commerce decided to launch an investigation over dumping of vertical machining centers imported from Japanese and Taiwanese machine tool manufacturers, in response to the request from the local machine tool-related companies. The local industries requested dumping investigation of 5 companies, in which DMG MORI is not included. In Chinese market, vertical machining centers take up 8% of our order intake, and most of them are CMX V series produced in Tianjin. For the reference, the relevant machines in DMG MORI accounts for about 3% in China's order intake and 0.3% in the consolidated order intake, which is very small. Despite such small risk exposure, DMG MORI is already in contact with the respective authority and has proactively offered its cooperation.

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.