Dear investors,

We announced our financial results of FY2018 on February 12, 2019.
This document is a summary of Q&A to our results.

Q&A

Table of contents

Q: Describe your forecast on FY2019 order intake?
A: We are expecting FY2019 orders to remain almost flat year-on-year. Although order units are likely to decline by 10% from the previous fiscal year, this is likely to be offset by about 10% increase of selling prices thanks to an added value like automation systems. By region, we will see some adjustment in China, because of ongoing negative effect from a trade friction between the USA and China. Orders in the rest of world would see stable demand.

Q: What are the major factors for the profit growth in FY2018?
A: The operating profit in FY2018 was JPY 36.3 bn., up by 8.2 bn. from FY2017. The positive drivers were the increase in business volume and additional value by automation systems, etc. (JPY 23.5 bn.) and cheaper JPY against EUR (JPY 500 mil.), which added JPY 24 bn. to the profit in total. The negative factors included: unit price increase in procured parts, logistics adjustment following delivery delay from suppliers, and machining outsourcing (JPY 6.8 bn.); higher personnel expenses, partly due to the slow parts delivery and the entailing extra work in production and sales departments (JPY 5.6 bn.); R&D expenses, including the establishment of Digital Innovation Center, and impairment and abandonment loss (JPY 3.4 bn.), totaling JPY 15.8 bn.

Q: Describe your forecast on factors for FY2019 profit.
A: We expect the operating profit of FY2019 to be JPY 36 bn., around the same level as FY2018. Positive factors include JPY 4 bn reduction of mainly delivery cost which surged due to supply chain confusion last year and JPY 3 bn derived from narrowing sales discount rate, totaling JPY 7bn. On the other hand, the potential negative factors are disadvantageous exchange rate of JPY2.0 bn,, personnel cost increase of JPY 3.6 bn., and higher expenses in R&D and other departments of JPY 1.5 bn., totaling JPY 7.3 bn.

Q: Why is the corporate tax ratio higher in FY2018? What is the assumed corporate tax ratio for FY2019?
A: To avoid the additional tax imposed from transfer pricing to the U.S. group company, DMG MORI is proceeding to renew APA (Advanced Pricing Agreement) with the tax authority. The agreement covers the term from March 2014 to December 2020. Due to temporary deficit after launching direct sales in the United States and our concern for not reaching the estimated profit, Japan has allocated a reserve for transfer pricing adjustment to its group company in the United States in FY ended December 2016. Now that we reached a temporary agreement on APA with the tax authority in FY ended December 2018, the U.S. group company allocated USD 2.2 mil. as the tax amount for transfer pricing adjustment, which eventually pushed up the corporate tax ratio as a group. The impact is merely temporary and the corporate tax ratio for FY2019 is planned around 32%.

Q: Describe your forecast on FY2019 free cash flow.
A: Our target operating free cash flow at the operating level in FY2019 is JPY 30 bn or more. We expect the total cash-in-flow of JPY 50 bn or more, including net profit, depreciation charges and improved working capital. With JPY 19 bn spent on investment, the operating free cash flow is planned JPY 30 bn. The dividend per share for this fiscal year is scheduled at JPY 60, totaling JPY 6.8 bn. in dividend payout.

Q: Describe the impact from IFRS changes in the accounting for lease.
A: For the fiscal term starting in January 2019 or later, IFRS 16 “Leases” will be applied. Previously, operating leases and real-estate rents were off-balanced in BS but listed as rent payment in PL. Under the new regulation, operating leases and real-estate rents are on-balanced in BS, and “right-of-use assets” under assets as well as “lease liabilities” under liabilities will increase. In PL, we expect increases in depreciation and interest expenses and a decrease in rent payment, but the total effect on EBIT and EBT will be limited.