DMG MORI CO., LTD.
FY 2019 Q1 (Jan-Mar) Results
IR Announcement
May 8, 2019

Dear investors,

We announced our financial results of FY2018 on May 8, 2019.
This document is a summary of Q&A to our results.

Q&A

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Q: Describe your forecast on FY2019 full-year order intake.
A: FY2019 Q1 consolidated order intake resulted in JPY 119.1 bn., dropped by 20% year-on-year. However, the order volume remained almost flat with a limited decline of 1.5% from the last quarter(FY2018 Q4). While Japan and the Americas are in the correction phase, Europe shows decent results and China is recovering from the sharp drop in the last quarter. Despite some uncertainties, such as the protectionism trend in the U.S. and the Brexit, we doubt major decrease in the order volume in Q2 and ahead. We intend to keep Q1 level and aim for JPY 460 bn. to JPY 500 bn. for the full fiscal year.

Q: Describe the current production status.
A: We produced 2,850 units in FY2019 Q1 (FY2018 Q1: 2,820 units) in line with the commitment. Last year, significant increase in production volume confused our supply chain and pushed up sales cost. The supply chain is stabilized and the sales cost ratio stays in a reasonable range since early FY2019.

Q. Describe the current order backlog status.
A: Order backlog as of March 2019 was JPY 209 bn., a slight decrease from JPY 219 bn. of March 2018 and JPY 221.5 bn. of December 2018. Improved production efficiency led to quick turnover of order backlog. To our regret, longer production lead time caused troubles to customers last year. We are committed to making lead time even shorter and to properly controlling order backlog.

Q: What are the major factors of increased operating profit in Q1?
A: FY2019 Q1 operating profit resulted in JPY 10.4 bn., JPY 4.3 bn. up from JPY 6.1 bn. in FY2018 Q1. We have promoted automation systems and other technical solutions and successfully raised the average unit price and gross margin upon order intake since last fiscal year. The efforts bore fruits this term, creating operating profit of JPY 4 bn combined with increased business volume and gross margin. The production is on track since early this year, which shrunk such supply chain costs as material and logistics by JPY 400 mil. Unlike FY2018 Q1, we no longer suffered from foreign exchange loss; it added JPY 900 mil. to the profit, together with other cost reduction activities. In total, the positive factors amounted to JPY 5.3 bn. The sole negative factor was personnel cost increase of JPY 1 bn. As a result, the operating profit improved by JPY 4.3 bn. from FY2018 Q1.

Q: What are the major factors for the significant increase in operating profit margin (8.6% in

FY2019 Q1 against 5.4% in FY2018 Q1)?

A: DMG MORI has been committed to increasing customer value and promoted process integration with 5-axis machines or mill-turn machines, as well as automation systems with peripheral equipment and software. This initiative led to a higher unit price and better profit margin. Another positive factor is lower cost ratio, thanks to a smaller burden from upfront investment, better management of the once underperforming factors in the supply chain and strict control of system order cases.

Q: Describe the current free cash flows.

A: The free cash flows (operating cash flows minus investment cash flows) in FY2019 Q1 was JPY 9.4 bn., up by JPY 4.7 bn. from JPY 4.7 bn. in FY2018 Q1. The major drivers were the improved profit and working capital. The target for the full fiscal year free cash flows is JPY 30 bn. or higher, unchanged from the commitment.

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 increase. In PL, depreciation increases and interest payment is added, while rent payment decreases. In BS of FY2019 Q1, right-of-use assets were JPY 19.3 bn, together with the existing financial lease assets of JPY 2.6 bn. The actual impact of changes in lease accounting standard on total assets amounted to JPY 16.7 bn.

In PL, depreciation and interest payment increased by JPY 1.21 bn. and JPY 70 mil, respectively. However, the impact on profit before tax remained negligible due to a decrease in rent payment by JPY 1.25. bn. In the full year 2019, we expect increases in depreciation by JPY 4.8 bn. and interest payment by JPY 300 mil., as well as a decrease in rent payment by JPY 5.0 bn.

Q: Based on FY2019 Q1 results, describe your forecast on FY 2019.

A: We had a good start with 8.6% operating profit margin in FY2019 Q1. This positive result comes from a combination of our continued efforts in sales and production; we continued suggesting added values to customers and streamlined the supply chain network. Currently, our orders are at good level, although the market is facing an adjustment phase to some degree. At this point after closing Q1, it is too early to revise the annual targets set at the beginning of this year. We will continue working hard to achieve current goals of JPY 500 bn. turnover and JPY 36 bn. operating profit, or 7.2% operating profit margin, and will aim for even better results.

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.