DMG MORI CO., LTD.
FY 2019 H1 (Jan-Jun) Results
IR Announcement
August 6, 2019

Dear investors,

We announced our financial results of the first half of FY2019 (Jan-Jun) on August 6, 2019.
This document is a summary of Q&A to our results.

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Q&A

Q：Describe your forecast on FY2019 full-year order intake.
FY2019 first half (Jan-Jun) order intake resulted in JPY 223.4 bn., dropped by 21.7% year-on-year. Nevertheless, the number of visitors and inquiries at the Iga Innovation Days in July gives us a positive indication for the potential demand in the market. Still, uncertainties in the global economy due to US-China trade war, Brexit, and other factors continue to affect customer's decision-making and slow down the order process. EMO – one of the largest trade shows in the metalworking industry in September 2019 in Germany – is an optimal opportunity to increase orders by suggesting advantage that generate higher added-value to customers, such as Advanced Technologies including Additive Manufacturing, automation, and digitization solutions. We aim for around JPY 450 bn. in FY2019 full-year consolidated order intake.

Q：Is it sustainable to keep your focus on achieving higher gross profit despite increasingly difficult order environment?
A：Our goal remains unchanged; we are going to become a company that can help customers generate higher added-value. In fact, almost two-thirds of our orders make up 5-axis and mill-turn machines. In combination with peripheral equipment and software, our machine tools can provide customers with higher accuracy and process integration which lead to shorter production lead time as well as other added-value. Higher customers' satisfaction would help the company secure decent profit.

Q：Describe the results of the Iga Innovation Days 2019.
A：The number of visitors and inquiries at the Iga Innovation Days in July 2019 increased by 2% and 6%, respectively, while order volume decreased year-on-year. This is an indication for the underlying demand potential in the market. Machine tool users increasingly recognize DMG MORI as a "must-see" machine tool builders to know its next move, because we maintain competitive advantage in technology integration by 5-axis and mill-turn machines, as well as in automation and digitization solutions.

Q：Describe the current Additive Manufacturing order status.
A：Additive Manufacturing orders are growing steadily. The order intake in units in Jan-Jun 2019 reached 70% of the full-year result of 2018. We aim to achieve 2020's annual order intake of Additive Manufacturing as around JPY 10 bn. Our new business unit of powder-bed type Additive Manufacturing machines that joined the group in 2017 has been contributing to order increase by

launching new models. As of now, although majority of customers purchase Additive Manufacturing for prototyping and R&D purposes, some customers started to apply Additive Manufacturing for high-mix & low-volume production and parts manufacturing in the fields of medical and fluid.

Q: Describe your R&D activities in AI technology (as well as the outcome of Emerging Technologies Laboratory's activities).
A: DMG MORI offers an AI-based chip disposal solution. AI estimates location and volume of chips accumulated in a machine, and identifies the optimal coolant-flushing route. This technology will replace manual chip cleaning and thus can prolong unmanned operation. Additionally, Emerging Technologies Laboratory, our new R&D organization founded in January 1st, 2017, took initiative in developing an AI-based internal system to search past orders with special specification. The system has allowed an easy access to wider range of information and shortens quotation, design, and service lead time, dramatically enhancing response speed to customers (see today's Press Release).

Q: Describe the current order backlog status.
A: At the end of June, order backlog amounted to JPY 192.0 bn. This is a 13% decrease from JPY 221.5 bn. at the end of FY2018. About 50% of order backlog is coming from Europe, which has declined in value caused by reevaluation based on the stronger Yen; it means the currency adjusted year-on-year decline in order backlog is 9%. Current order backlog covers almost the entire planned machine turnover of the second half of FY2019.

Q: Describe the current production status.
A: The number of produced machines from January to June 2019 totaled 5,560 units, a 2.7% decrease from 5,715 units produced during the same period in FY2018. Last fiscal year, the production volume increase confused the supply chain, raising material and logistics costs and thus shrunk profit. However, production is according to schedule in FY2019, which allows us appropriate management of material and logistics cost.

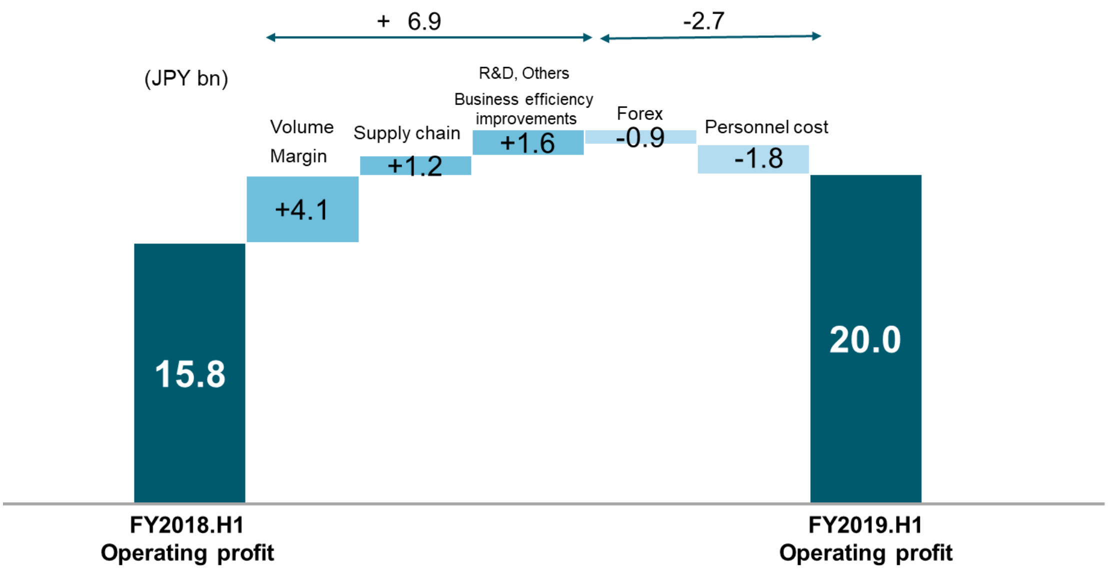
Q: What are the major factors of increased EBIT?
A: In the first half of FY2019 (January to June), EBIT resulted in JPY 20.0 bn., an increase by JPY 4.2 bn. from JPY 15.8 bn. of the first half of FY2018. The positive drivers are increased business volume (JPY 1.6 bn.), improved gross profit from sales of 5-axis machines, mill-turn centers and automation (JPY 2.5 bn.), better supply chain management (JPY 1.2 bn.), and higher productivity due to the company system launched in early FY2019 (JPY 1.6 bn.), which amount

to JPY 6.9 bn. As for the downside, the stronger Yen against the Euro caused JPY 0.9 bn. of foreign-exchange loss. Together with personnel cost increase by JPY 1.8 bn., negative factors totaled JPY 2.7 bn.

Figure: EBIT bridge chart <First half of FY2018 vs First half of FY2019>

(JPY bn)	FY2018.H1	FY2019.H1	+/-
Sales	235.3	238.6	+3.4

	FY2018.H1	FY2019.H1
USD/JPY	108.7	110.1
EUR/JPY	131.7	124.3



Q: Describe your forecast on FY2019 full-year cash flows.

A: The free cash flows (operating cash flows minus investment cash flows) in the first half of FY2019 (Jan-Jun) was JPY 11.6 bn. In the second half, we aim for higher free cash flows by generating the estimated profit, shrinking inventory, and reducing assets with the energy business sell-off, which was already announced by DMG MORI AG. The target full-year free cash flows remain unchanged since early this year at JPY 30 bn.

Q: How do you estimate FY2020 financial performance, given the shrinking order intake and order backlog?

A: It is extremely difficult to predict the development in demand and order volume in the machine tool industry, and we would like to refrain from making rough estimates over FY2020 performance at this point. However, DMG MORI will be focused on expanding the customer satisfaction and value with our 5-axis machines, process integration, Additive Manufacturing and other advanced technology, as well as automation and digitization. The global direct-sales network will also work favorably to this end. In terms of P/L, we try to gain decent gross margin by offering higher added-value to customers, and to manage better supply-chain and higher productivity.

Q: Describe the shareholders' return policy and forecast in FY2019 and FY2020.
FY2019 annual dividend will remain JPY 60 per share. The dividend payout ratio has long stayed at around 30%, but we aim for increasing dividend on a stable and continuous manner. No decision has been made for FY2020 dividend. As per today, the intension is to maintain FY2019's level of JPY60 for next fiscal year, always subject to changes in the business environment and financial performance.