DMG MORI CO., LTD.
FY 2020 Q1 (Jan-Mar) Results
Q&As
May 28, 2020

Dear investors,

We announced our financial results of Q1 (Jan-Mar) FY2020 on May 28, 2020.
This document is a summary of Q&A to our results.

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Q&A

Q: How will COVID-19 affect DMG MORI's business strategy?

A: DMG MORI has promoted close relationships with its customers, amongst other things by using its direct sales channels and IoT technologies including *my* DMG MORI. As a result we are able to maintain fruitful communication despite the difficulties to visit customers personally under the travel restrictions and stay-at-home orders issued in major markets worldwide. We believe that the need for minimizing the number of workers at customers' manufacturing sites will now further increase, which will accelerate process integration, automation and digitization; our current focus areas. We are convinced that the further advancement of our current management strategy will contribute to an increase of corporate value for both, our customers and DMG MORI.

Q: What is the demand /order environment by region?

A: In the first quarter (January-March), group-wide orders were JPY78.3 billion, down 35% y/y. Orders in January and February were as planned in all regions, but orders in March fell sharply as COVID-19 began to spread globally. Orders in April were even weaker than those in March. In May however, order intake is gradually improving as customers' and our own business activities have been gradually recovering. It looks like China, the US, and Europe are beginning to emerge from the bottom.

Q: What is the demand / order environment by industry?

A: Demand for machine tools in the medical equipment, semiconductor production equipment, and molds industries was stable. On the other hand, the aircraft-related industry, which had been strong until last year, has entered an adjustment phase. The automobile-related industry, which has been weak since the beginning of the previous fiscal year, has cooled down yet another notch. In China, there are signs of recovery in demand for machinery related to public sector projects, such as related parts for trains and buses, and hydraulic equipment. We are expecting a similar recovery in demand in the public sector outside China.

Q: What are the factors behind the rise in average order price per unit in this difficult business environment?

A: Even in an environment where customers' capital investment decisions takes more time, capital investment in some industries continues [to increase] to meet anticipated medium- to long-term demand-changes. This applies to industries such as medical, semiconductor production equipment, electric vehicles and molds which are preparing for high-mix low-volume production. These customers are promoting process integration, automation, and digitization more than ever, and such developments lead to a higher price per unit.

Q: What was the order backlog at the end of March?
A: Order backlog at the end of March 2020 for machine tools (excluding services, spare parts, and others) was JPY136.5 billion, down 6% from JPY 145.7 billion at the end of December 2019. The order backlog at the end of March is equivalent to 5 to 6 months of machine tool sales.

Q: What is the status of DMG MORI's business activities?
A: In the sales, engineering and service departments, actual activity hours declined in February in China and in mid-March to April also in other regions due to the use of paid leave and working from home. In May however, activities have almost returned to normal, including working from home. The attendance rate in the manufacturing sector has remained unchanged at around 100% in Japan. In Europe, the operation rate in April was only about 10%, but has recovered to 70-80%. The Davis plant in US and the Tianjin plant in China are now running at 90%, both up from 60% in April and in February, respectively.

Q: How will DMG MORI lower the break-even point?
A: At the beginning of the fiscal year, we were aiming for sales of JPY400 billion and an operating profit of JPY20 billion for the current fiscal year (ending December 2020). We had estimated to break-even at sales of around JPY350 billion. Compared to the original plan, we are planning to take three major actions to reduce fixed costs by a total of JPY17 billion. Personnel costs will be cut by JPY13 billion. By introducing more efficient digital technologies such as virtual showrooms instead of private shows and exhibitions of industrial associations and online inspections with visual information shifted from onsite inspections, JPY1 billion will be reduced in other fixed costs. In addition, we have been improving our gross profit margin or incremental margin by providing added value to customers., we plan to lower the break-even point to sales of JPY310 billion to JPY320 billion.

Q: What is the probability of achieving the company’s business forecast for the current fiscal year?
A: Although customers remain cautious about their capital investment due to COVID-19, monthly orders do not tend to deteriorate further. 5-6 months of machine order backlog at the end of March combined with sales from orders during the current year should meet our machine sales target. Machine repair service and spare parts business are stable and a strong semiconductor-related business at another group company should contribute. These are the factors on which our sales forecast is based. The cost structure is a result of our internal efforts, and we will continue to lower the break-even point as planned. Based on these assumptions, we will strive to achieve the

earnings forecast announced this time. However, since our business must physically provide machine installation and machine repair services at the customers' manufacturing sites, at least the business travel and movement restrictions in major countries must be lifted. Furthermore, it is a necessary condition for achieving the announced earnings forecast that the economic environment will not deteriorate further due to COVID-19.

Q: What is the cash flow forecast for the current fiscal year?

A: In addition to securing profitability, we will strive to improve cash flow by reducing capital investment from the initial plan of JPY19 billion yen to JPY15 billion yen against depreciation of JPY23 billion yen. Moreover, we plan to generate positive cash flow from working capital by earlier collection of accounts receivable, maximization of inventory efficiency and an increase in down payments from the expected recovery of orders in the second half of the year. Based on these factors, we plan to sustain a positive free cash flow for the current fiscal year.

Q: What about the dividend policy?

A: We have set a stable dividend as our basic policy. However, we decided to reduce the interim dividend per share to JPY10 (initial plan: JPY30), especially because the business in the first half of the year has become more challenging. Regarding the year-end dividend per share, we currently plan to pay between JPY10 and JPY20. Orders are gradually recovering, and if we can confirm an upward trend in performance towards the end of this year, we believe that it is possible to set the year-end dividend per share at the upper limit of the current plan.

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.