DMG MORI CO., LTD.
FY 2020 Q3 (Jan-Sep) Results
Q&As
November 6, 2020

Dear investors,

We announced our financial results of 3rd quarter (Jan-Sep) FY2020 on November 6, 2020.
This document is a summary of Q&A to our results.

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Q: What is the trend in demand by region and industry?

A: Company-wide orders for the third quarter (July-September) decreased by 27% year on year, but recovered by 24% from the previous quarter. Compared to the second quarter (April-June), orders in Japan dropped by 10%, while orders in other regions grew, up 23% in the Americas, up 44% in Europe and up 10% in Asia including China. By industry, demand for medical equipment, semiconductor manufacturing equipment, molds, and infrastructure-related equipment was stable. Demand in the automotive sector, which has been in an adjustment phase since the beginning of 2019, has finally ceased to fall and showed a bit of movement. On the other hand, the aircraft and oil / gas related industries remained sluggish.

Q: What is the status of economic activity in Europe?

A: In Europe, some restrictions on the activities of civilians have been reintroduced, but there are no major restrictions on business activities. At DMG MORI, our factories in Europe are operating normally, and our sales, engineering, and service employees remained at an 80-90% attendance rate since June this year as we disclosed in the second quarter announcement.

Q: What is the situation of the service and spare parts business?

A: Cumulatively for the period from January to September 2020, orders in the service and spare parts business account for 23% of company-wide orders. Although orders declined by 20% during the period year on year, they remained stable except for the second quarter when severe activity restrictions were imposed. Orders received in the third quarter (July-September) fell by 11% year on year, and the rate of decline narrowed to only 4% year on year in September.

Q: What is the status of order backlog of machine tools?

A: The order backlog of machine tools at the end of September was JPY117 billion, a decrease of about 6% from that of JPY124 billion at the end of June. In the fourth quarter, sales are expected to further exceed orders, and the order backlog is estimated to be at around JPY100 billion at the end of December 2020.

Q: What is the reason for the upward revision of EBIT for the full year of December 2020?

A: In the second quarter financial results, we announced our plan to reduce the break-even point sales to JPY320 billion for the full fiscal year by virtue of the following measures: a JPY3 billion improvement in gross profit margin by providing customers with high value added service, a JPY13 billion reduction in personnel costs, and a JPY 3 billion cost cut by shifting from real exhibitions to digitalized exhibitions and other measures. We have made progress in our cost cutting measures beyond the initial schedule, which will lead to a break-even point sales at around JPY305 billion for the fiscal year. Full fiscal year sales are planned to be around JPY330 billion, which is at the lower limit of our forecast reported in August, while EBIT is expected to exceed the higher limit of JPY10 billion.

Q: What is the use of perpetual subordinated loans and bonds? And how much are the related interest payments?

A: On August 31, we raised JPY37 billion through perpetual subordinated loans and JPY33 billion through perpetual subordinated bonds on October 29, respectively, for a total of JPY 70 billion. Newly raised funds will be used for additional AG shares which we had to purchase upon request of AG's shareholders for about JPY40 billion in April, and remaining funds will be allocated to repurchase of preferred stocks and repayment of existing loans. All funds have been categorized as equity under IFRS, so we have already secured a shareholders' equity ratio of 35% or more at the end of October. Although the interest burden will be pushed to about JPY1.2 billion annually, there will be no change in the overall interest burden, as the annual recurring compensation to minority shareholders of AG ("guaranteed dividend") is reduced by approximately the same amount due to the purchase of additional shares in AG.

Q: What is your outlook for cash flow for the full fiscal year?

A: Cumulative free cash flow (cash flow from operation minus cash flow from investments) for the first nine months (January-September) showed a deficit of JPY18.5 billion. This decrease was primarily due to lower order volume and associated advances, a decline in payables on purchasing, and an increase in inventories for a growth in coming sales. We aim to balance free cash flow in the fiscal year by early collection of receivables, optimization of inventories, and an increase of payables in connection with an anticipated increase in sales and production in near future.

Q: What is your dividend policy?

A: We have already paid an interim dividend of JPY10 per share. Although the year-end dividend was planned to be flexible at between JPY10 and JPY20 per share, it has now been set at JPY10 per share. We recognize that demand for machine tools has bottomed out and is on a recovery track. However, as we commented in the previous question, free cash flow for the full fiscal year is planned to be balanced, which required us to put the focus on our financial soundness this time. As for our dividend policy, we are aiming for a stable dividend and a dividend payout ratio of about 30%, and we will aim to increase the dividend in proportion to recovering business performance in the future.

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.