DMG MORI
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February 12th, 2021

DMG MORI Co. Ltd.,
Operating profit and net profit hit our target range for fiscal year 2020

Key figures

	2020	**2019**
	JPY bn	JPY bn
Consolidated Orders	279.7	409.4
Machine Order Backlog	96.0	146.0
Sales Revenues	328.3	485.8
Operating Profit	10.7	37.3
Operating Profit Margin	3.3%	7.7%
Net Profit attributable to the owners of the parent	1.7	18.0

In addition to the continued effects from the US-China trade conflict since the second half of 2018, the spread of COVID-19 had a significant impact on the demand for machine tools in 2020. Consolidated order intake dropped by 31.7% year-on-year to JPY 279.7 bn. The machine order backlog at the end of the fiscal year 2020 dropped to JPY 96 bn., down JPY 50 bn. and 34.2% year-on-year. The decline in order intake led to lower sales revenues in 2020 with JPY 328.3 bn., down JPY 157.5 bn and 32.4% year-on-year.
Our strategy focusing on 5-axis and mill turn technologies and full turnkey projects contributed to an improvement of sales gross profit margin. We reduced personnel costs and exhibition costs by shifting to digital marketing. Such efforts led to the operating profit of JPY 10.7 bn., which was within our target range of JPY 10 to 11 bn. and represents a consolidated operating profit margin of 3.3%. The acquisition of additional shares in AG reduced the net financial costs by JPY 0.4 bn. from the previous year, as the amount of the recurring compensation to minority shareholders of DMG MORI AKTIENGESELLSCHAFT, Germany (hereinafter "AG"), decreased. On the other hand, the net profit attributable to the owners of the parent dropped by 90.3% to JPY 1.7 bn. from the previous year (target range: JPY 1.5 to 3.0 bn.). This is because the effective tax rate surged to 66.8% due to net loss of some group companies.
As for expenses associated with consolidation of AG in 2015, the consolidated amortization relating to PPA (Purchase Price Allocation), will be halved to JPY 1 bn. from 2021. Furthermore, the recurring compensation amount to AG's minority shareholders based on DPLTA (Domination Profit and Loss Transfer Agreement) will be reduced by JPY 1 bn. from JPY 3 bn. in 2020 due to an additional

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acquisition of AG shares throughout 2020.

Management Analysis: President and Group CEO, Dr. Eng. Masahiko Mori

Due to the spread of COVID-19 from early spring 2020 was a year in which we were exposed to rapid changes in the economic environment, and our ability to respond to the crisis had been tested. In the financial crisis of 2008, 12 years ago, we recorded operating losses of JPY 26.9 bn. and net losses of JPY 34.6 bn. due to delays in responding to a changing economic environment. In 2020, however, we could continue to offer direct support to our customers despite all the travel and other restrictions. This was made possible by our direct sales and service network covering 137 locations in 43 countries, and by our continued efforts for digitization.

In 2020, we opened new ways of marketing. The Digital Twin Showroom provides convenient access for our customers to information on our cutting-edge products and technology such as our high-speed & high-accuracy 5-axis machining centers, mill turn centers, and full turnkey projects. In addition, our in-person open house event series, "Technology Fridays.", was born, where we invited a number of small groups of customers every Friday. Also, by early actions for cost reductions we could significantly lower the break-even point. These measures bore fruit and resulted in operating profit of JPY 10.7 bn. as well as net profit of JPY 1.7 bn.

Our mission is to help our 150,000 existing and further 150,000 potential customers, who are the foundation of the manufacturing industry, maintain and improve their production worldwide. I am proud that we could achieve our mission despite all the challenges. I am also convinced that this new environment will encourage our customers to shift even more to process integration, automation, and digitization, and lead to higher recognition of our efforts in these fields.

In line with the worldwide efforts to cope with climate change, DMG MORI started to deliver CO2-neutral products from January 2021 for the first time in the machine tool industry. I believe that in 2020 we could once again strengthen the foundation for sustainable growth by demonstrating our competence in dealing with changing economic circumstances, customers' demand, and societal expectations.

Order intake

The consolidated order intake has been declining continuously since its peak in the 1st quarter 2018 (Jan.-Mar.). Due to the US-China trade conflict in 2019 and the worldwide spread of COVID-19 since early spring 2020, the consolidated order intake fell to JPY 279.7 bn. in 2020, down by 31.7% from the previous year. The order composition between the Japanese and overseas markets remained unchanged from 2019 at 14% and 86%, respectively. However, the regional breakdown of orders from overseas saw some changes in 2020. While Europe accounted for still 45 % (54% in 2019), orders

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from Americas increased to 24% (18% in 2019) and from China and Asia to 17% (14% in 2019). We observe a growing demand for production of EV-related products including batteries, chemical processing equipment and drive components, renewable energy, clean engine, agricultural machinery, 5G communication devices, as well as medical and semiconductor production equipment.

Sales revenues

Sales revenues decreased by 32.4% to JPY 328.3 bn. In particular, the 2nd quarter 2020 (Apr.-Jun.) saw the largest drop in sales due to delays in shipment and final acceptance. Our sales and service engineers had to postpone customer visits by respecting lockdown regulations and travel restrictions that came into effect worldwide. Given this background, DMG MORI introduced digital inspections, remotely connecting our factories with customers via high-resolution video imaging. The acceleration of digitization is another example of our novel efforts to cope with the new environment. The travel restrictions have been gradually relaxed since then, but not to fully lifted yet, so that some acceptance inspections are still pending.

Order backlog

Machine order backlog decreased by JPY 50 bn. from JPY 146 bn. at the fiscal year-end of 2019 to JPY 96 bn. at the end of December 2020. This order backlog corresponds to approximately 5 months' worth of sales. We expect that our order backlog has hit the bottom at 2020 year-end, and anticipate a recovery in line with an increase in order intake from the second half of 2021.

Reduction of break-even point

The decrease in sales revenue had a negative impact of JPY51 bn. on the operating profit. Taking into account the impacts of COVID-19, we started to substantially reduce the break-even point from the 2nd quarter (Apr.-Jun.), not least by cutting personnel expenses by JPY 17.1 bn. for the full fiscal year. In addition, we cancelled real exhibitions including industry-sponsored exhibitions and DMG MORI's own private shows. Instead, we invited our customers to visit us at digital exhibitions and in our Digital Twin Showroom, which saved JPY 3.7 bn. in costs. Furthermore, by strengthening our ability to provide added value systems and services to our customers, we continued to improve the gross profit margin on orders, which resulted in a cumulative effect of JPY 3.6 bn. As a result, operating profit for 2020 declined to JPY 10.7 bn., down by JPY 26.6 bn. from JPY 37.3 bn in the previous year. Break-even point for 2020 improved by JPY 83 bn. to JPY 302 bn. from JPY 385 bn. The consolidated amortization associated with PPA was recorded at JPY 2 billion. Assets relating to technology and customer-related intangible assets which were valued at market value had already been fully amortized by the end of 2020, and the consolidated amortization expenses will be reduced to JPY 1

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bn. from fiscal year 2021.

Financial costs

Net financial costs including those from using equity method were reduced by JPY 0.3 bn. to JPY 5.6 bn. from JPY 5.9 bn in the previous year. Net financial costs excluding those from using equity method were improved by JPY 0.9 bn. to JPY 5.0 bn. from JPY 5.9 bn in the previous year. Interest expenses were decreased by JPY 0.4 bn. from the previous year, while the recurring compensation to minority shareholders of AG was reduced by JPY 0.5 bn to JPY 3.0 bn. from JPY 3.5 bn in the previous year due to additional acquisitions of AG-shares throughout 2020. A loss of JPY 0.5 bn from share of profits of associates and joint ventures accounted for using equity method was due to a revaluation and was one-off loss.

Effective tax rate, Net profit attributable to common shareholders

Earnings before income taxes were JPY 5.1 bn. However, corporate income tax expenses amounted to JPY 3.4 bn. and an effective tax rate rose to 66.8%. As a result, net profit attributable to the owners of the parent came in at JPY 1.7 bn. Total hybrid capital including newly raised capital of JPY 70 bn in August and October amounted to JPY 118.7 bn. Interest expenses of JPY 1.3 bn. on hybrid capital was deducted from net profit attributable to the owners of the parent, which resulted in net profit attributable to common shareholders of JPY 0.4 bn.

Financial position

Free cash flow was in deficit at JPY 5.2 bn. mainly due to lower down-payment driven from sluggish order intake and continued capital expenditures for an expansion of production capacity and productivity at the Pfronten factory in Germany. We acquired additional 8.9 million AG-shares in 2020 and our shareholding ratio increased to 87.4%. As a result, the share purchase obligation in connection with the DPLTA with AG was reduced to JPY 52 bn. from JPY 92.3 bn. at the end of 2019. In order to cover necessary funds, we raised hybrid capital of JPY 70 bn. Our equity ratio rose to 35.2% from 23.6% at the end of 2019, net debt amount declined by JPY 11.1 bn. to JPY 64.4 bn., and net debt equity ratio improved to 35% from 61% at the end of 2019.

Employee

The number of employees at the end of 2020 (including contract employees and part-time workers) was 12,160, a decline of 677 from 12,837 at the end of 2019. This is due to a natural decrease combined with a hiring freeze for replacements in 2020.

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Capital expenditure

Capital expenditure was JPY 20.1 bn. Although demand for machine tools significantly declined in the short-term, customers have strong intentions to integrate their production processes, and we are expecting a higher growth potential for 5-axis machines in the long-run. At the same time as expanding the production capacity at Pfronten factory in Germany, we were able to increase productivity by more than 30% by introducing automated guided vehicles (AGVs), other automation systems and digital technology. As a result, the production capacity of monoBLOCK in the factory was expanded to 1,000 units per year (previously: 600 units). The new factory has been in operation since September 2020. In marketing, we opened our Digital Twin Showroom, offering an excellent system that allows customers to access our cutting-edge products, automation technology, etc. remotely through the internet.

Research and Development

R&D expenses are strictly measured for effectiveness, but development of advanced technologies including integrated machines and additive manufacturing, automation and digitization are the drivers of our future growth, and we have continued to strengthen corresponding R&D activities. In 2020, we launched new products in our additive manufacturing range: LASERTEC 30 DUAL *SLM* which increases productivity by 70% and LASERTEC 6600 *DED hybrid* for large workpieces.

In the automation field, we added automated guided vehicles using 5G technology to our existing portfolio of 52 standardized systems. In practical use, the new AGV allows for increased flexibility of equipment placement combined with safe and accurate material conveyance. In addition, we have introduced an automatic chip removal system with AI (artificial intelligence) and on-machine no-contact automatic measurement system using the latest sensing devices with an alliance of Nikon Corporation. These technologies would contribute to improvement of cutting accuracy and productivity for customers. In digitization, the number of registrations on our portal site, “*my* DMG MORI”, steadily increased to around 40,000 by the end of 2020, which enables closer and more detailed communication between customers and DMG MORI. This improves operational efficiency for both customers and DMG MORI. We are convinced that acceptance of the portal will further grow, allowing customers to conveniently request services as well as replacement parts. In order to very quickly respond to machine troubles in the future, it will be important to connect as many customer machines as possible. Therefore, our machine tools will be equipped with an IoT *connector* as a standard which enables machine tools to connect also with machines manufactured by competitors.

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Outlook for fiscal year 2021

	JPY bn	%of change from same period in the previous year
Consolidated Orders	380.0	+ 35.9%
Sales Revenues	330.0	+ 0.5%
Operating Profit	11.0	+ 2.8%
Operating Profit Margin	3.3%	
Earnings Before Income Taxes	6.5	+ 27.5%
Net Profit attributable to the owners of the parent	4.0	+135.3%

Demand for machine tools has moderately recovered since the economic bottom in the 2nd quarter of 2020 (Apr.-Jun.). DMG MORI's consolidated order intake also marked the lowest point in the 2nd quarter (JPY 57.2 bn.) and recovered to JPY 73.3. bn. in the 4th quarter. Our customers are increasingly interested in our focal fields, process integration, automation, and digitization, and related inquiries show a significant increase in number. However, due to the resurgence of COVID-19 since the end of 2020, the lead time from inquiries to order intake tends to be longer than usual. We believe that the ongoing vaccination campaigns will bring a positive turn in the economic climate and in our order intake, both in the 2nd half of 2021. We expect an annual consolidated order intake of JPY 380 bn. in 2021 (36% up year-on-year).
On the other hand, the sales and operating profit should remain stable at JPY 330 bn. and 11 bn. respectively. Because of the modest order backlog at the end of 2020 (JPY 96 bn.), we will strive to secure more orders and receive payments by year-end. However, with an average order intake-to-shipment lead time of 5 months, the order intake recovery in the 2nd half will not translate into sales revenues until 2022. We intend to continuously and strictly exercise cost control and maintain the break-even point at JPY 302 bn., the same level as the previous year.
Net financial costs are planned at JPY 4.5 bn. Amount of the recurring compensation to AG's minority shareholders will be reduced by JPY 1 bn. to JPY2 bn. As a result, earnings before income taxes are expected to be JPY 6.5 bn. We plan to minimize deficit in some group companies, leading to a more moderate corporate income tax expenses of JPY 2.5 bn. with an effective tax rate of 38%. Net profit is planned at JPY 4 bn. and net profit attributable to common shareholders is planned at JPY 1.8 bn. after a deduction of interest expenses of JPY 2.2 bn. on hybrid capital.

The amount of capital expenditures for 2021 is planned to be JPY 15 bn. At Watanabe Steel Works (Japan), a group company manufacturing castings, will start investments aimed at capacity expansion for high-quality castings, productivity improvements, and CO2 emission reductions. Depreciation and amortization charges will go down to JPY 23.5 bn, a decline of JPY 0.6 bn from JPY24.1 bn in 2020. On the other hand, depreciation from capital expenditure in 2020 shows some increase.

Shareholders' return policy

We plan a full year dividend per share of JPY 20, with each JPY 10 at the end of the first half and second half, which is the same as in 2020. Our dividend policy is to pay stable dividends even in economic down-cycles in combination with about 30% of payout ratio during up-cycles after consideration of free cash flow and the repayment of interest-bearing debt. We believe that we are in the early stages of demand recovery and we will assess the pace of such recovery in order intake and profits. At this early stage, we plan to maintain the same level of dividend per share for 2021.

Sustainable management

DMG MORI values its relationships with society and strives to satisfy all stakeholders' interests. As a measure against global climate change and for decarbonization, DMG MORI achieved carbon neutrality in the process of raw material to delivery (upstream scope 3). It is a milestone, which no competitor has achieved yet. Starting January 2021, all machines are delivered carbon-neutral, bearing our "CO2 Neutral" Logo. We believe these initiatives will help our customers to achieve CO2 neutrality within their own supply chain, thereby providing us with a strategic advantage. Our consolidated CO2 emissions in 2019 were approximately 780,000 tons, or about 78 tons per machine. We are targeting a reduction of CO2 emissions to 55 tons per machine until 2030, a reduction of about 30% compared to fiscal year 2019. In addition, Tokyo Global Headquarters of DMG MORI began to purchase carbon-free electricity, and other factories/offices will follow the lead soon. We will also start generating our own carbon-free electricity through biomass power generators. Changes in procurement routes for parts and materials will also contribute greatly to reducing CO2 emissions. We will expand production capacity at our domestic casting production subsidiary, Watanabe Steel Works (Izumo City, Shimane Prefecture), by introducing state-of-the-art facilities that take environmentally friendliness into account and reduce imports of casting from overseas. In addition, we will reduce CO2 emissions by introducing energy-saving equipment such as LEDs. The remaining CO2 emission will be offset with internationally accepted certificates, already purchased within our group for this purpose. For the sake of continuous business growth, talent development is crucial. By the end of this year, DMG MORI will have granted scholarships to a total of 16 doctoral students through the Mori Manufacturing Research and Technology Foundation. In addition to investing in academic talent development, we actively participate in global academic conferences and accumulate knowledge on cutting-edge technology.

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DMG MORI has also strived to enhance employees' quality-of-life. We have adopted the "DMG MORI Health Management Policy" as part of our commitment to health management under the corporate philosophy of "play hard, learn hard, and work hard". In 2020, the number of annually used paid holidays rose by 4 days year-on-year to 25.9 days per employee in average. The average annual working hours have been strictly controlled as well and reduced by 204 hours year-on-year to 1,806 hours per person.

In terms of corporate governance, we appreciate diversity and focus to diversify career backgrounds, nationality, and gender of our directors. With the approval from shareholders on March 29th, we will increase the ratios of external directors to 40%, non-Japanese directors to 20%, and female directors to 10%, respectively.

With the abovementioned measures, DMG MORI is committed to continuously enhance our corporate value and satisfy all stakeholders.

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.