DMG MORI CO., LTD.
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May 12th, 2021

DMG MORI Co., Ltd.

29.5% growth of orders in the first quarter/ Upward revision of full year forecasts

Key figures

(JPY bn)		FY2021.Q1	YoY	FY2020.Q1	
Consolidated Order Intake	:	101.4 bn	+29.5%	78.3 bn	
Machine Order Backlog	:	124.0 bn	-	96.0 bn	(End of Dec. 2020)
Sales Revenue	:	81.1 bn	-7.0%	87.3 bn	
Operating Profit	:	4.0 bn	+21.8%	3.3 bn	
Operating Profit Margin	:	4.9%		3.8%	
Net profit attributable to the owners of the parent	:	1.8 bn		0.1 bn	
Net profit attributable to ordinary shareholders	:	1.3 bn		-0.1 bn	

[Summary]

Consolidated order intake for the first quarter of 2021 (January-March 2021) increased by 29.5% year-on-year to JPY101.4 bn, and, since the second quarter (April-June) of 2019, we have been able to surpass the JPY100 bn mark for the first time in seven quarters. The order backlog for machinery at the end of March 2021 went up by JPY28 bn to JPY124 bn from JPY96 bn at the end of December 2020.

While sales declined by 7% year-on-year due to order backlog being at a low level at the beginning of the term, we could nevertheless achieve an operating income growth with JPY4 bn, up 21.8% from JPY3.3 bn of the same period of the last year due to the following factors: maintaining tight control over personnel expenses, SG&A cost reduction by transforming of marketing strategy from real exhibitions to digital exhibitions, improvement of sales gross profit margin through further shift towards higher added value models such as high-speed and high accuracy 5-axis machines and mill-turn centers, automation and full-turnkey systems, and foreign currency gains of receivables derived from the weak yen at the end of financial term. The operating profit margin improved to 4.9% from 3.8% of the same period of the last year. The net non-operating results were still negative JPY900 mil but improved by JPY1.2 bn, mainly because of lower annual compensation amount to non-controlling shareholders of DMG MORI AG (hereinafter referred to as AG) caused by an acquisition of additional shares of AG in April 2020. In addition, we were able to secure a significant increase in net income attributable to owners of the parent to JPY1.8 bn, since

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the profit of some group companies improved, whose deficits in the last year had pushed up the effective tax rate.

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

The first quarter of 2021 got off to a very good start. Orders have clearly recovered in the EMEA region, which is one of our strengths, and China has hit a quarterly order peak. In the US, demand in the semiconductor, medical and space industries remained strong, and Japan, which had been sluggish, has finally turned positive year-on-year. In Japan, small-group in-person customer events called "Technology Fridays" have taken root, and at the same time interactive business talks have increased. In Europe, the digital exhibition "DMG MORI Digital Event Pfronten" held in February successfully attracted about 8,000 customers. The number of inquiries increased 1.5 times compared to 2019 at the real exhibition held in Beijing, China in April.

Given such situation, we are now confident of customers' strong appetite for capital spending for machine tools in the global market. In addition, we believe that the significant increase in order backlog at the end of the first quarter to JPY124 bn (end of December 2020: 96 billion yen) should lead to stable business expansion in the future.

In terms of financial performance, sales declined due to remaining lower order backlog at the beginning of the term. However, thorough cost control measures from last year, improvement of sales gross margin by providing higher value under direct sales and services channel and foreign currency exchange gains led to the year-on-year positive growth in operating income. The decline of annual compensation to non-controlling shareholders in AG and a lower effective tax rate by improving the profits of group companies contributed to the significant improvement in net income attributable to the parent, which was a great achievement for DMG MORI.

Based on the better than expected order growth and the continued solid cost structure, we have revised the business outlook for FY2021. In this revision, we are also incorporating the return of the average salary level of employees in Japan this year to JPY7.1 mil (previous year: JPY6.43 mil).

As global awareness of responding to climate change continues to grow, we have achieved CO2 neutrality in the operational process from Scope 1 to upstream Scope 3, that is, procurement of components to delivery of machinery manufactured globally from January 2021. We have shipped these machines with our "GREENMACHINE" logo. The CO2 neutrality was assessed and given assurance by the third-party evaluator, PricewaterhouseCoopers GmbH for AG in October 2020 and for CO in March 2021. Our group will further accelerate the reduction of CO2 emissions, setting a reduction target of about 30% by 2030 compared to 2019.

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[FY2021 Q1 financial summary]

(Order trends)

Consolidated orders for the first quarter significantly exceeded our initial plan of JPY85 bn, increasing 29.5% year-on-year to JPY101.4 bn. After peaking in the first quarter of 2018, it had adjusted for 12 quarters until the fourth quarter of 2020 mainly due to the influence of the US-China trade conflict from the latter half of 2018 and the COVID-19 pandemic in 2020. Order development finally turned positive year-on-year exceeding the JPY100 bn mark for the first time in seven quarters since the second quarter of 2019. Orders for service and spare parts also turned positive, up 6% year-on-year, reflecting improvements in customers' machine utilization rate. In addition, the order price per machine began to rise in this quarter after declining due to sluggish demand for high value-added machinery for the passenger aircraft industry since the second quarter last year.

The share of domestic orders dropped to 10% (14% last fiscal year), while that of overseas climbed to 90%. With regard to the share of overseas orders by region, Europe recovered to more than 50% with 52% (45%) and China expanded its share to 14% (10%), exceeding the Japanese position. Although the Americas maintained stable orders, its share declined to 18% (24%). Asian countries remained almost unchanged at 6% (7%).

By industry, demand recovered in all industries except passenger aircraft and energy industries, with strong orders related to semiconductor production equipment, clean diesel for trucks, construction machinery and agricultural machinery, wind power generation, and medical care. EV (electric vehicle) related drive train and battery components was on the rise in Europe and China. The automobile industry has also started to recover after around two years of adjustments.

(Order backlog)

The order backlog for machinery rose to JPY124 bn at the end of March with an increase of JPY28 bn from JPY96 bn at the end of December 2020. The order backlog is equivalent to about 6-month-worth of machine sales. We expect orders to continue to outpace sales in the second quarter and beyond, and we therefore anticipate further increases in order backlog. Based on our fiscal year's upward revised forecast of JPY400 bn in orders and JPY345 bn in sales, the order backlog at the end of December 2021 is expected to be JPY140-150 bn.

(Profit and loss situation)

Sales revenue was at JPY81.1 bn, down 7% from the same period of the last year. The main reason for this was that the order backlog at the beginning of the term started from a low level of JPY96 bn, and that business travel of sales and service personnel was restricted, which brought delays in shipments or acceptance tests.

Operating income was JPY4 bn, an increase of JPY700 mil from JPY3.3 bn in the same period of the last year. Operating income decreased by JPY3.7 bn due to a drop in sales volume. On the other hand, the following positive factors absorbed the decline in profit derived from the sales drop: personnel cost reduction of JPY1.7 bn due to continued restraint since last year, SG&A expense reduction of JPY900 mil by transformation of marketing strategy, sales gross profit improvement of JPY500 mil connected with value proposition to customers, and revaluation gains of JPY1.3 bn on foreign currency denominated receivables derived from the weak yen at the end of March. The positive factors totaled JPY4.4 bn, which brought net increase of JPY700 mil in operating income from the same period last year. As a result, the operating profit margin improved from 3.8% to 4.9%.

The net non-operating results improved by JPY1.2 bn from the same period of the last year mainly due to a decrease in the annual compensation to non-controlling shareholders in AG of JPY1.2 bn resulting from the acquisition of additional AG shares at the request of AG shareholders in April 2020. As a result, income before income taxes for the period increased 2.5 times year-on-year.

The effective tax rate was still high at 42% from an appropriate tax rate of around 32%. However, it has dropped significantly from 93% in the same period of the last year and 67% for the full last year. Some group companies that pushed up the effective tax rate by recording a deficit last year were also working to improve their business performance, leading to a decline in the effective tax rate. As a result, quarterly income attributable to owners of the parent was JPY1.8 bn. Interest payments on perpetual subordinated loans and corporate bonds (hereinafter referred to as hybrid capital), in the amount of about JPY500 mil, were deducted from income attributable to owners of the parent, resulting in quarterly income attributable to ordinary shareholders of JPY1.3 bn.

(Cash flow)

Despite a positive effect of advance payments of JPY6.3bn, an increase of trade receivables of JPY3.9bn, an increase of inventories of JPY2.7 bn and a decline of trade payables of JPY3.2 bn, combined effects resulted in negative working capital of JPY3.5 bn.

In addition, investments in tangible and intangible assets amounted to JPY 4.4 bn, which could not be covered by cash inflow due to profit improvement effects and depreciation & amortization, and free cash flow was negative JPY1.8 bn.

(Capital expenditure)

In the first quarter, we invested JPY4.4 bn, out of which JPY2.1 bn and JPY2.3 bn were invested in tangible and intangible assets, respectively. Investment in tangible assets was mainly for the Nara Product Development Center which will play an important future role as technological development hub, and for an

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improvement of production process efficiency of mechanical components at our Iga factory. Investment in intangible assets was mainly for ERP (Enterprise Resource Planning) system for more accurate and quick management decision making.

(Financial position)

Total assets increased by JPY17.4 bn from the end of December 2020. The reasons included increases in trade receivables by JPY5.4 bn, of inventories by JPY5.8 bn in preparation of an expected growth in sales from the second quarter onwards and of intangible assets by JPY2.4 bn such as ERP. As for liabilities, contract liabilities (or advance payments) increased by JPY7.8 bn due to an increase in orders, and borrowings increased by JPY3.8 bn to compensate for a rise in working capital. Retained earnings remained almost flat with contribution of quarterly income attributable to owners of the parent of JPY1.8 bn being offset by dividends paid for the second half of fiscal 2020 and interest payments on hybrid capital. On the other hand, shareholders' equity increased by JPY4 bn to JPY189.4 bn, mainly due to an improvement of JPY3.7 bn in the foreign exchange translation adjustment account due to the depreciation of the yen against the EURO at the end of March. As a result of the above, the shareholders' equity ratio stayed at 34.8% (end of December 2020: 35.2%), net interest-bearing debt was JPY68.5 bn (JPY64.4 bn), and net debt/equity ratio was 36.3% (34.7%).

(Number of employees)

The consolidated number of employees (including contract employees and part-time workers) at the end of March was 12,081, a decrease of 79 from 12,160 at the end of December 2020. The decrease in the number of employees was due to a natural decrease.

(Research and Development)

We have been focusing our development efforts on sources of future growth such as high-precision and high-speed machines, 5-axis and mill-turn centers that contribute to machining process integration, automation and digitization. In the first quarter, we launched the large-sized turning center DMF 300|8, the universal turning center CLX 450 TC, and the additive manufacturing machine LASERTEC 3000 *DED hybrid*. The DMF 300|8 is suitable for molds as well as processing structural components for semiconductor production equipment, which is currently in high demand. The CLX 450 TC supports customers' high precision and complex machining, and small lots. The LASERTEC 3000 *DED hybrid* can be applied not only to parts processing, but also to quenching, welding, coating, etc., expanding its scope of application. We have also been progressing with development for the introduction of differentiated and advanced machine models in the second half of this fiscal year.

In digitization, our portal site "*my* DMG MORI" steadily increased the number of registrations, reaching

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50,000 at the end of March (about 40,000 at the end of December 2020). We have launched "Service Request" as a new function. This is a system in which the customer informs our repair and recovery center of the customer's situation using various digital data such as images, videos, and programs. This makes it possible to visualize the machine tool status from the customer’s perspective and to support requests on the digital platform, enabling accurate and prompt responses. It is possible to respond not only to requests for repair and restoration, but also to do consultations regarding customers' programs and requests for selection of peripheral devices, making the overall cooperation more convenient.

In addition, we started the digital twin test cut in February. This is a technology that virtually realizes a test cut by utilizing the simulation technology accumulated in the development of a new model. Such test cuts are an important process when a customer selects a machine tool. The technology also reproduces the cutting process by digitally constructing not only the tools, processing materials, and jigs, but also the physical characteristics of the machine tool body. By using this technology, the time required for test cuts can be significantly reduced, and it will be possible to respond to customer requests in as little as two business days. The virtual technology also reduces consumption of tools, materials, coolant, and power, thus making it an environmentally friendly solution.

In February, DMG MORI won the "Intelligent Manufacturing Award 2020" from Microsoft, for "CELOS Next" as an excellent Edge/Cloud hybrid platform, which enables customers to connect their existing software and digitized supply chains as they are.

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Outlook for fiscal year 2021

(JPY bn)		FY2021 Plan (Revised)	YoY	FY2020 Actual	FY2021 Plan (Previous)
Consolidated Order Intake	:	400 bn	+ 43.0%	279.7 bn	380 bn
Sales Revenue	:	345 bn	+ 5.1%	328.3 bn	330 bn
Operating Profit	:	14 bn	+ 31.2%	10.7 bn	11 bn
Operating Profit Margin	:	4.1 %		3.3 %	3.3 %
Earnings before Income Taxes	:	9.5 bn	+ 86.3%	5.1 bn	6.5 bn
Net Profit attributable to the owners of the parent	:	6.0 bn	3.5x	1.7 bn	4.0 bn
Net Profit attributable to ordinary shareholders	:	3.9 bn		0.4 bn	1.9 bn

[Full Year business forecasts]

(The shortage of semiconductor supply and price increases in steel materials, logistics, etc. should have a limited impact on fiscal year 2021.)

While there is a concern that the global shortage of semiconductor supply could affect the procurement of CNC (Computerized Numerical Control), we have diversified CNC procurement across four major global companies, and have already placed orders for units required this year. Given such preparation, we believe that we will have little impact on our production this fiscal year. Although there are some CNC price increase requests, increases are within the range that can be absorbed by internal cost improvement efforts. In addition, there are demands for raising steel prices in Europe and logistics prices both inside and outside Japan, and we believe that these cost increases can be compensated by efficient operation within the process of increasing production and sales volumes. Until fiscal year 2019, we had absorbed cost increases from inflation through cost reduction efforts within the group and revisions of list prices. In addition to strengthening our ability to offer higher value to customers through differentiated products such as 5-axis machines and mill-turn centers, automation, full turnkey, and digitization, our global direct sales and service channel has made list price revisions possible. Should inflation rise further in the future, we will consider revising the list prices again from next year onwards.

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(Upward revision of annual orders, sales, and profit forecasts)

Orders in the first quarter far exceeded the initial plan, and orders in April even exceeded the average monthly order amount in the first quarter, showing a strong start into the second quarter. On this basis, we revised our annual order projection upwards from the initial plan of JPY380 bn to JPY400 bn, which would represent a 43% increase from the previous fiscal year. We expect that the strong order trend in all regions of the world and all industries except the passenger aircraft and energy sectors, which we recognized since the beginning of the year, will continue for the foreseeable future. In addition, we anticipate that favorable condition will continue in our focus business area such as high-precision, high-speed machine tools for EV and decarbonization projects, 5-axis machines and mill-turn centers for machining high-mix and small-quantity products, automation and full turnkey to respond to operator shortages. We believe we will be able to confirm that our business strategy is well suited to respond to changes in market and customer demand.

Regarding sales revenues, the lead time from order receipt to shipment has been slightly longer due to complicated processing, an increase in automation projects, and continued travel restriction. However, orders in the first quarter far exceeded the initial plan, and most of them are expected to translate into sales within the current fiscal year. With the roll-out of COVID-19 vaccinations globally, travel restrictions should be gradually relaxed from the second half of the year. Based on these assumptions, we raised the full year sales forecast from JPY330 bn to JPY345 bn, up 5% from the previous fiscal year.

At the beginning of the fiscal year, there were many uncertainties regarding orders and sales forecasts, so we planned to increase salaries of domestic employees only partially. However, as the probability of recovery in orders and sales in this fiscal year has increased, we have decided to raise the average annual salary level of domestic employees to JPY7.1 mil from JPY6.43 mil of last fiscal year (JPY8.08 mil at the peak in FY2019). As a result, personnel expenses for the fiscal year will increase by about JPY3 bn compared to the initial plan. Compared to the initial plan, we expect an additional contribution of JPY5.8 bn in operating income derived from the increase in sales volume of JPY15 bn. Taking above factors into consideration, we revised our full fiscal year forecast in operating income from JPY11 bn upwards to JPY14 bn, up 31% from the previous fiscal year. We plan to keep break-even point of JPY310 bn for full fiscal 2021 after reflecting the additional personnel expenses, compared to our initial plan of JPY302 bn, which was unchanged from fiscal year 2020.

The non-operating balance has not changed from the initial plan. Accordingly, net income before income taxes is revised to increase 86% year-on-year to JPY9.5 bn. By improving the business performance of group companies and optimizing management resources between groups, the effective tax rate for the fiscal year is expected to be approximately 37%, which will lead to income attributable to owners of the parent company of JPY6 bn from the initial plan of JPY4 bn. Income attributable to ordinary shareholders of the parent company has been revised up from the previous forecast of JPY1.9 bn to JPY3.9 bn after deducting interest expense related to hybrid capital of JPY2.1 bn.

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The basic policy for shareholder returns is to pay stable dividends even when demand is declining, taking into account free cash flow and repayment of interest-bearing debt, and to realize a dividend payout ratio of 30% when profits are expanding. The dividend for this fiscal year has been set at 10 yen per share at the beginning of the fiscal year, both for the first half and the second half. However, we plan to review the dividend after monitoring orders and earnings trends in the second quarter.

(Capital expenditure)

Orders in China in the first quarter hit peak with order backlog at our Tianjin factory in China reaching 7-8-month worth, and a supply shortage became noticeable. Therefore, we have decided to expand the production capacity of the existing Tianjin factory in China and to build a second factory in China in Pinghu, which is about an hour's drive from Shanghai, China. The Pinghu plant (tentative name) will assemble 5-axis machines, and it will cost EUR50 mil in the first phase (about JPY6.3 bn, conversion rate of JPY125/EUR). The Pinghu factory is scheduled to be completed by the end of 2022 with an annual maximum production capacity of 1,000 units at the first phase.

The expansion of the capacity at the Tianjin plant in China is planned to be completed by the end of 2024 by investing about JPY3 bn, leading to an annual maximum capacity of 1,000 units, which is almost double the current level.

Although the consolidated capital expenditure plan for the current full fiscal year remains unchanged at JPY15 bn, there is a possibility of a slightly increase depending on future development.

(Sustainable management)

DMG Mori emphasizes coexistence with society and has been working on management that satisfies all stakeholders. In response to climate change, our machine tool business itself contributes to environmental protection. Process integration machines such as 5-axis machines and mill-turn centers can reduce consumption of various resources including electric power by replacing multiple machines with one. In addition, the ultra-precision technology provided by us including processing accuracy, geometric accuracy, and volumetric accuracy optimize bond between mechanical parts, which contributes to reduction of energy loss by lowering the coefficient of friction, and effective use of resources through prolonging product life-cycle. In addition to above advantage, we are working to reduce CO2 emissions in the range of Scope 1 (procurement) to upstream Scope 3 (delivery), and are off-setting remaining CO2 emission that we cannot reduce at this stage by investing in internationally sustainable climate protection projects such as hydropower in Brazil and solar power in India. Our CO2 emission calculation and offsetting processes at AG in Europe and at CO in Japan were assessed and given assurance in October 2020 and in March 2021, respectively, by the independent third-party evaluator, PricewaterhouseCoopers GmbH. We started to ship our products from the beginning of this year with "GREENMACHINE" logo, which indicates products

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manufactured under a carbon-neutral system. In the future, we will expand the purchase of CO2-free electricity, install a woody biomass thermoelectric supply system with virtually zero CO2 emissions, build a highly efficient casting factory with low CO2 emissions in Japan, build a new factory and expand production capacity at the existing factory in China to reduce CO2 emissions related to logistics through local production and providing implementation support for our suppliers to reduce their own CO2 emissions. Through these strategies, we are aiming for reduction of CO2 emission per machine unit by 30% by 2030 compared to the 2019 level.

We believe that the health of our employees is of the utmost importance in achieving our management philosophy of "Play hard, study continuously, work together", and we have therefore made the "DMG MORI Health Management Declaration." All employees in Japan are qualified or obliged to take a medical check including a gastroscopy and chest CT, and individual guidance is also provided. In addition, maximum individual working hours per day at 10 work hours and 12-hour intervals have been well established. Last year, due to a sharp decline in demand, the average number of paid holidays taken per person was 25.9 days and the average annual working hours were 1,806 hours. However, with the recovery of demand this year, both the number of paid holidays and average working hours will return to the standard levels of 20 days and 1,998 hours, respectively.

The diversification of the board of directors was approved at the annual general meeting of shareholders on March 29, 2021, with four outside directors (share: 40%), one female director (10%), and two foreign directors (20%). We continue our endeavor to improve corporate value by incorporating opinions from various perspectives into management.

As mentioned above, DMG MORI will continue to improve its corporate value and strive to satisfy all stakeholders.

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(Disclaimer)

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- Changes in the demand environment within the markets in which DMG MORI group operates
- Fluctuations in exchange rates
- Changes to the laws, regulations, and government policies in the markets where DMG MORI group 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 group conducts its business
- Operational changes by the competent authorities or regulations related to anti-trust, export control, etc.