DMG MORI

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DMG MORI Co., Ltd.

- Consolidated orders in 1Q grew to 150 bn yen which represents a new record (Previous peak: 148.5 bn yen in 1Q 2018)
- Break with "low-price and short-delivery" business, process integration, automation and DX led to a peak in operating profit margin (Note: excluding periods recorded extraordinary gain after DMG MORI AG was consolidated in 2015)
- Upward revision in full-year forecast with 10% of operating profit margin. Dividend/share to be increased to 70 yen from 60 yen

First quarter（January-March）

(Billion Yen)		FY2019	FY2020	FY2021	FY2022	(Y/Y chg %)
Consolidated order intake	:	119.1	78.3	101.4	150.0	+47.9%
Machine order backlog (end March)	:	209.0	137.0	124.0	203.0	-
Sales revenue	:	120.6	87.3	81.1	107.3	+32.2%
Operating profit	:	10.4	3.3	4.0	9.5	2.4x
Operating profit margin	:	8.6 %	3.8 %	4.9 %	8.8 %	+3.9points
Net profit attributable to owners of the parent	:	6.2	0.1	1.8	6.3	3.5x
Net profit attributable to common shareholders	:	5.9	-0.1	1.3	5.8	4.5x

Summary of FY2022 1Q (January-March, 2022) Financial Results

Consolidated orders in the first quarter increased 48% year-on-year to 150.0 billion yen, reaching a record level on a quarterly basis (148.5 billion yen in the first quarter of FY2018). Orders continued to increase from all regions and all industries. By region, the Americas, China, and Asia each broke their previous peaks. By industry, demand from space-related, medical, electric vehicle (EV), molds, and semiconductor production equipment-related industries was particularly strong.

The average unit price of ordered machine tools increased significantly to 47.2 million yen (average unit price in FY2021: 39.4 million yen). In addition to process integration, automation, and DX (digital transformation), growing number of large projects from global brand companies pushed up the average price. The order backlog at the end of March climbed to 203.0 billion yen (164.0 billion yen at the end of December 2021).

Sales revenue increased 32% year-on-year to 107.3 billion yen, almost in line with the initial plan. Operating profit increased 2.4 times to 9.5 billion yen, and operating profit margin improved significantly to 8.8% (4.9% in the same period of the previous year), the highest level since the merger (excluding periods recorded extraordinary gain) with DMG MORI AKTIENGESELLSCHAFT of Germany in 2015. The improvement in profitability has become more pronounced as a result of accelerated demand for automation and DX combined with 5-axis machines and mill-turn centers, a break-up with low-cost and short lead-time orders, and the ability to purchase and produce as planned on the back of a large order backlog. Due to the reduction of finance cost

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and the optimization of the effective tax rate, profit before income taxes and profit attributable to owners of the parent increased significantly by 2.8 times to 8.9 billion yen and by 3.5 times to 6.3 billion yen, respectively.

Free cash flow (operating cash flow - capital expenditures) was a positive 2.4 billion yen, compared to a negative 1.8 billion yen in the first quarter of FY2021. The increase in profits and increased down-payments derived from an increase in orders made a significant positive contribution. On the other hand, trade receivables and inventories increased in line with sales and order growth. As a result, net interest-bearing debt (excluding perpetual subordinated bonds and loans) at the end of March was 43.2 billion yen, almost unchanged from 42.5 billion yen at the end of December 2021.

Results in the first quarter (January-March 2022)

Consolidated order result

Consolidated orders in the first quarter were up 48% year on year to 150.0 billion yen, far exceeding the initial plan of 120.0 billion yen and breaking the peak order of 148.5 billion yen in the first quarter of 2018 (January-March 2018). Our focus business such as automation, turnkey, and DX combined with 5-axis machines and mill-turn centers accelerated. In addition, large-scale projects from global brand companies made a great contribution. Order growth also peaked at Magnescale Co., Ltd., a group company that manufactures and sells ultra-precision measuring components for semiconductor production equipment companies. The increase in the average unit price of machine orders to 47.2 million yen (FY2021 average: 39.4 million yen) also contributed significantly to the increase in consolidated order intakes. As customers' business activities normalized, service and repair parts business also expanded steadily, up 25% from the same period last year.

Consolidated orders by region grew in all regions, with Japan up 82% (12% of total), the Americas up 81% (22%), Europe up 44% (50%), China up 1% (10%), and Asia and other regions up 41% (6%). Among them, orders in the Americas, China, and Asia and Others exceeded their peak levels. By industry, demand was in particular driven by the space, medical, electric vehicle, molds, and semiconductor production equipment sectors. Orders for energy-related and commercial aircraft applications also began to increase.

Order backlog

Orders backlog at the end of March climbed to 203 billion yen, a significant increase from 164 billion yen at the end of December 2021. Orders are expected to continue to exceed sales after the second quarter onwards, and the order backlog at the end of December 2022 is expected to be around 220 billion yen. We will build up the order backlog toward the end of the fiscal year and increase the certainty of sales and profit growth in the coming fiscal year 2023, starting from January 2023.

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Profit or loss and Financial position

Sales revenue increased 32% year-on-year to 107.3 billion yen, which was almost in line with the plan. Against the backdrop of an abundant order backlog, we were able to execute procurement, production and delivery as planned.

Operating profit increased by 5.5 billion yen from 4.0 billion yen to 9.5 billion yen. Positive factors included 7.8 billion yen from sales growth, 2.0 billion yen from lower discount rates by providing more productive products and services to customers, 0.7 billion yen from cost structure reforms, and 0.2 billion yen from weak yen, for a total of 10.7 billion yen. On the other hand, 4.3 billion yen was spent to improve employee compensation, and 0.9 billion yen was charged on depreciation & amortization and others, for a total increase of 5.2 billion yen. The impact of higher material and logistics costs was negligible due to the progress in purchasing and production as planned, as a result of the breakaway from low-cost, short lead-time orders, and the improvement in cost structure including the expansion of in-house production of components. As a result, the operating profit margin improved significantly to 8.8% from 4.9% in the same period last year and exceeded the historical peak profit margin of 8.6% recorded in the fourth quarter of 2018 and the first quarter of 2019 (excluding periods recorded extraordinary gain).

Finance cost reduced by 400 million yen from 900 million yen in the same period last year to 500 million yen. In addition to the reduction of interest-bearing debt, the weighted average interest rate decreased due to the issuance of zero-coupon convertible bonds in July 2021. The effective tax rate stood at 29%, which is an appropriate level assumed by the Company. As a result, profit attributable to owners of the parent was 6.3 billion yen, 3.5 times higher than the same period last year. In addition, the interest costs paid on hybrid capital fell to 400 million yen from 500 million yen in the same period last year, largely due to the refinancing in August 2021 to lower interest rate hybrid-capital, which reduced the weighted average interest rate to 1.47% from previous 1.77%.

The total balance sheet at the end of March 2022 increased by 39.1 billion yen from 597.1 billion yen at the end of December 2021 to 636.2 billion yen. Approximately 20 billion yen of this increase was attributable to translation from foreign currency denominated assets in Europe and the Americas to yen due to weak yen. Net interest-bearing debt, which is interest-bearing debt minus short-term financial assets, was 43.2 billion yen, almost same level as 42.5 billion yen at the end of December 2021. The ratio of net debt to shareholders' equity remained low at 20% (December 31, 2021: 20%). Shareholders' equity amount increased to 220.7 billion yen (December 31, 2021: 213.1 billion yen) due to an increase in quarterly profit, but the shareholders' equity ratio declined 1.0 percentage point to 34.7% from 35.7% at December 31, 2021, due to an increase in total balance sheet amount.

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The number of consolidated employees (including contract and part-time employees) as of March 31, 2022 was 12,124, down 135 from 12,259 as of December 31, 2021. This is due to natural attrition. In addition to the improvement of individual skills and productivity through training for employees, we are promoting operational efficiency through the use of digital tools such as *my* DMG MORI and TULIP, as well as the enhancement of digital content such as sales and service manuals.

Full-year forecast for FY2022

(January - December)

(Billion Yen)		FY2019A	FY2020A	FY2021A	FY2022E	(YoY)	(Previous)
Consolidated order intake	:	409.4	279.7	456.0	500.0+α	Over +9.6%	480.0
Machine order backlog (end Dec.)		146.0	96.0	164.0	220.0	+34.0%	190.0
Sales revenue	:	485.8	328.3	396.0	450.0	+13.6%	430.0
Operating profit	:	37.3	10.7	23.1	45.0	+95.1%	40.0
Operating profit margin	:	7.7 %	3.3 %	5.8 %	10.0 %		9.3 %
Profit before income taxes	:	31.5	5.1	19.6	41.5	2.1x	36.5
Net profit attributable to owners of the parent	:	18.0	1.7	13.5	28.0	2.1x	25.0
Net profit attributable to common shareholders	:	16.9	0.4	11.4	26.2	2.3x	23.2

Forecast for FY2022 (January-December 2022)

We have revised our order forecast for the fiscal year ending December 2022 from 480 billion yen at the beginning of the period to 500 billion yen + α. This is because orders in the first quarter were much higher than planned, and orders in the second quarter and beyond are also expected to be remain stable. The global shortage of operators, rising labor costs, and movement restrictions experienced during the COVID-19 pandemic are accelerating process integration, automation, and DX. In addition, strong demand for such industries, as space-related, medical, EV, molds, offshore/onshore wind power generation and other decarbonization-related applications, and semiconductor production equipment, is expected to contribute order growth. A recovery in demand for energy-related and commercial aircraft industries is also becoming a driving force. Orders by region are expected to be strong in the Americas and Europe, as they are responding to changes in the economic and business environment as quickly as possible. In China, although there are some issues of movement restrictions due to regional lockdowns, inquiries from general machinery such as pumps and hydraulic equipment, EV, energy, and semiconductor-related industries are very stable, and we do not see any change in latent demand. Orders are also expected to remain stable in Japan, as manufacturers are finally beginning to consider capital investments that contribute to CO_2 emissions reduction as well as process integration, automation, and DX.

The forecast for fiscal year 2022 (January-December) has also been revised upward. Revenue was revised upward from 430 billion yen to 450 billion yen, and operating profit from 40 billion yen to 45 billion yen. Operating profit margin is expected to be 10%. The main reason for the upward revision is that orders in the first quarter were much higher than planned, and we expect stable orders in the second quarter and beyond. In addition, we have been able to successfully absorb rising material prices and logistics costs through systematic purchasing and production against the backdrop of an abundant order backlog, which is expected to help achieve an operating profit margin of 10%. Operating profit has been revised up by 5 billion yen from the initial plan. Positive factors include an increase in sales volume of 6.5 billion yen and a rise in gross profit of 2.5 billion yen due to lower discount rate, for a total of 9 billion yen. On the other hand, we reflect an increase in personnel expenses of 4 billion yen.

Free cash flow for the fiscal year is planned to be more than 30 billion yen as planned at the beginning of the fiscal year. In the first quarter, free cash flow was only 2.4 billion yen due to an increase in receivables and inventories. From the second quarter onwards, we will strive to increase free cash flow through further improvement in profits, faster collection of receivables, and optimization of inventories. Based on this business plan, we have increased our annual dividend forecast to 70 yen per share (interim: 30 yen, year-end: 40 yen) from the previous plan of 60 yen.

Introduction of a two-headquarters system

The Nara Product Development Center (PDC) is scheduled to open in July 2022, and will be the group's largest cutting-edge R&D center, where we will develop next-generation communication technology, AI (artificial intelligence), DX technology utilizing such as digital twin and other technologies including next-generation integrated machines tools, peripheral equipment and software products. It will also serve as a venue for the exchange of technological information and training of related engineers, including those involved in industry-academia collaboration. In addition, it will serve as a headquarters alongside the Tokyo Global Headquarters. This dual headquarters system will help diversify risks and strengthen business continuity over the medium to long term. At the same time, we will revise our business continuity planning (BCP) by the end of 2022 to prepare for huge earthquakes, infectious diseases, and new cyber- attacks.

Reinforcement of customer support

Start of contract processing service using metal additive manufacturing

In March, we opened the Additive Manufacturing Laboratory & Fabrication (AM Lab & Fab) at the Iga Global Solution Center and started full-scale operation of contract fabrication services to support the use of metal additive manufacturing. We have a lineup of two types of metal additive manufacturing technologies, the DED

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(Directed Energy Deposition) method and SLM (Selective Laser Melting) method, as well as the ability to handle many different materials and shapes, contributing to solving a variety of customer needs. A similar facility is scheduled to open in the Tokyo Global Headquarters by the end of 2022.

Opening of the world's fourth Medical Excellence Center

On April 6, we opened a Medical Excellence Center in Stuttgart, Germany. This is the fourth center following those in Seebach (Germany) Chicago (the U.S.A.) and Shanghai (China). The center will exhibit machines specialized for medical processing, provide processing knowhow and test cuts, and hold seminars.

Grand Opening of Technology Center in Boston, the U.S.A.

On April 12, we opened our Technology Center in Boston, USA. The area is home to a concentration of medical, aerospace, and high-tech companies, and the center will not only provide customers with the latest machinery and automation, but will also serve as a training center for operators and our own employees. In addition, there are many technical universities nearby, making the center a place for industry-academia collaboration. The building will also house the headquarters of Tulip Interfaces Inc. DMG MORI participated in with a 14.6% stake in Tulip Interfaces in 2019, and has been introducing TULIP (a low-code platform, developed by the company) to improve its own production efficiency and promoting its use among its customers. Tulip Interfaces' value is estimated at approximately 800 million US dollars (around 100 billion yen).

New training facilities to open in Japan

The DMG MORI Academy will open new training facilities throughout Japan, equipped with state-of-the-art machines and equipment such as 5-axis machining centers, mill-turn centers, and 3-dimension measuring equipment, providing customers with the opportunity to experience the machines at their nearest location. We will also offer TULIP and other schools to improve productivity on the customer's floor-shop and contribute to the skill development of their operators. We have already decided to open training facilities in Kanazawa, Hamamatsu and Sendai, and will finalize site selection in Okayama and Fukuoka by the end of this year.

Process Integration Support by Technology Cycles

While process integration has been achieved through automation and DX mainly combined with 5-axis machining centers, mill-turn centers, and additive manufacturing, Technology Cycles, software products developed in-house, also has been playing an important role. In the first quarter of this fiscal year, we introduced "Multi-threading 2.0," which enables worm gear machining. This allows for quick start-up and high quality with general-purpose machine tools and standard tools, without the need for specialized machines, dedicated programs, and special tools. As an example of worm gear machining, the machining process that

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previously required 40 minutes for three processes can now be completed in 15 minutes required single process by using Multi-threading 2.0, reducing the total machining time by 63%. Multi-threading 2.0 is suitable for reduction gears for robots and medical equipment parts, for which demand is currently growing. Currently, a total of 55 Technology Cycles have been developed: 14 for handling cycles, 24 for machining cycles, 10 for measuring cycles, and 7 for monitoring cycles.

ESG/CSR Initiatives

Health Management Initiatives

In January 2021, DMG Mori Co., Ltd. implemented the "DMG Mori Seiki Health Management Declaration" and is thoroughly managing individual employees. In fiscal year 2021, the average number of days of paid holiday per year taken was 19.2 days, almost reaching our target of 20 days. The average total working hours per year were 1,888 hours, compared to the target of 2,000 hours. The number of employees taking child-care leave was 71. In January 2022, we were certified as a Sports Yell Company by the Sports Agency in Japan. We plan to continue to enhance our activities centering on the Health Management Promotion Committee, which was established within the company and includes industrial physicians, and to obtain the "White 500" certification for excellent health management by the Ministry of Economy, Trade and Industry around 2023, which recognizes companies as particularly excellent Health Management.

Comprehensive Cooperation Agreement with Nara Women's University

On March 1, 2022, we signed a comprehensive agreement with Nara Women's University, the first women's university in Japan to establish a faculty of engineering, with the aim of promoting diversity in the engineering workforce. DMG MORI will support the university by dispatching lecturers, devising a curriculum that utilizes machining center technology, and providing practical training using our machines at the Nara Product Development Center.

Declaration of Partnership

On March 28, 2022, DMG MORI announced the "Declaration of Partnership Building" in support of the aims of the "Declaration of Partnership Building" created by the Cabinet Office, Ministry of Economy, Trade and Industry, The Small and Medium Enterprise Agency, and other organizations. As priority initiatives, we will support the formulation of BCPs, improve production and quality through a manufacturing site support platform "TULIP", establish and link monitoring systems for human rights and environmental due diligence, and support carbon neutral initiatives, with the aim of achieving coexistence and co-prosperity throughout the supply chain. In addition, we will strive to comply with promotion standards in pricing, cost sharing, payment terms, intellectual property management, and cooperation in work style reform.

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Progress in CO_2 emissions reduction

DMG MORI group's CO_2 emissions from Scope 1 to Scope 3 (including downstream) were 1,397,000 tons in FY2021, a 19% decrease from the base year of 1,733,000 tons in FY2019. We set a goal of 46% reduction in Scope 1 and 2 and a 13.5% reduction in Scope 3 based on SBT (Science Based Targets) by 2030 compared to the base year 2019, and our progress is proceeding better than the targets.

The Iga plant will generate solar power through a Power Purchase Agreement (PPA), in which DMG MORI leases the roof and other facilities and purchases the power under a long-term contract. The solar power generation capacity is planned to be 109 thousand kWh/day, which meets a maximum of more than 50% of the total power consumption of 198 thousand kWh/day at the Iga plant. The solar power generation will begin operation in 2023 and is expected to be fully operational by the end of 2024.

A wood-chip biomass power generation and supply system (CHP) with virtually zero CO_2 emissions has been installed at the Iga plant and will start operation in May this year. The system will also contribute to the preservation of local forests by utilizing thinned wood generated in the neighborhood.

Japan National Orchestra

Almost one year has passed since the establishment of Japan National Orchestra Co., Ltd. in May 2021, led by Japanese pianist Mr. Kyohei Sorita, as a consistent effort to support young artists. Although it is a rare attempt for an orchestra to take the form of a joint-stock company, it has grown into an orchestra for which it is difficult for audience to get a ticket.

(Disclaimer)

This material contains targets, plans, etc. concerning the future of DMG MORI CO., LTD..
All predictions concerning the future are judgments and assumptions based on information available to DMG MORI CO., LTD. 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:

- 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

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- 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.
- Travel restrictions or stay-at-home requests for COVID-19 in Japan and other countries