DMG MORI

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February 8, 2023

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▪Consolidated orders of 542.4 bn yen, operating profit of 41.2 bn yen, and net profit of 25.4 bn yen in FY2022 marked a record high*.
▪We plan another record high in FY2023 with an operating profit of 50 bn yen (margin: 10%) and net profit of 32 bn yen.
*excluding the irregular accounting period at the time of AG consolidation in 2015

Financial Summary (Jan-Dec) JPY bn.	FY2019	FY2020	FY2021	FY2022	(Y/Y change)
Consolidated orders	409.4	279.7	456.0	542.4	+19%
Order backlog for machine tools	146	96	164	254	-
Sales revenue	485.8	328.3	396.0	474.8	+20%
Operating profit	37.3	10.7	23.1	41.2	+79%
(Operating profit margin %)	7.7%	3.3%	5.8%	8.7%	
Net profit attributable to owners of parent	18.0	1.7	13.5	25.4	+89%

［**Summary of FY2022 Financial Results (January-December, 2022)**］

Consolidated orders in FY2022 reached a record high of 542.4 billion yen, up 19% from the previous fiscal year. The average machine tool order price per unit jumped to 49.8 million yen (39.4 million yen in the previous fiscal year) due to value proposition to customers by providing process integration, automation, DX (Digital Transformation), and GX (Green Transformation). By industry, increased demand from industries less affected by the economic environment, such as space, passenger aircraft, medical, EV (electric vehicle), and energy-related industries, contributed to the growth. By region, orders in the Americas and China reached record highs, while those in Europe and Asia were almost in line with the previous peak levels. The order backlog for machinery totaled 254 billion yen at the end of December 2022, a significant increase from 164 billion yen at the end of December 2021. We receive 20-30% of the order amount as down-payment at the time of order receipt, leading to almost no cancellations, and this order backlog will translate into sales in 2023.

In FY2022, sales were 474.8 billion yen, up 20% from the previous year, operating profit was 41.2 billion yen, up 79%, and net profit was 25.4 billion yen, up 89%. Each of profits hit record highs (excluding the irregular accounting period at the time of AG consolidation in 2015). Personnel expenses increased by 11.8 billion yen due to salary revisions for employees globally, as well as increases in prices of purchased parts, materials and logistics costs. However, such costs increase were far outweighed by the profit improvement through reduction of discount rates by improving value propositions such as process integration, automation, DX, and GX, as well as by significant cost reduction through profit/loss management per machine and the functional divisionalization, which was implemented from the beginning of the year. As a result, operating and profit margin improved significantly to 8.7% (5.8% in the previous year) and 5.4% (3.4% in the previous year), respectively.

Free cash flow (operating cash flow less investing cash flow) was positive 24.9 billion yen. Operating cash flow increased significantly to 69.7 billion yen, up 20.0 billion yen from the previous year, due to improved profitability and an increase in down-payments. On the other hand, investments of 44.9 billion yen were made for reorganization of Iga and Nara plants to meet the growing demand for automation, productivity improvements at

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Pfronten factory in Germany, dedicated 5-axis machines, completion of Nara PDC (Nara Product Development Center), CO_2 emission reduction measures, and ongoing introduction of new ERP (Enterprise Resource Planning). Through these investments, we aim to achieve sustainable growth over the medium to long term, while at the same time responding to social demands such as environmental protection measures.

［**Summary of Financial Results for the fourth quarter (October-December, 2022)**］

Consolidated orders for the fourth quarter totaled 110.4 billion yen, down 5% from the same period last year. The number of business inquiries remained at a high level in each country and industry. However, the lead time to make capital investment decisions has been slightly lengthening, resulting in a slight decrease in orders. Sales increased 16% year-on-year to 141.7 billion yen, and operating and net profits jumped 2.3 times to 14.5 billion yen and 2.5 times to 8.8 billion yen, respectively. Both operating profit margin of 10.2% and net profit margin of 6.2% were the highest ever recorded on a quarterly basis (excluding factors such as gain on sales of securities). In the fourth quarter, we recorded a partial impairment loss of 1.5 billion yen on sales and production facilities in Russia.

[FY2022 (Jan.-Dec. 2022) Results]

Order intake and order backlog development

Consolidated orders reached a record high of 542.4 billion yen, up 19% from the previous fiscal year. Consolidated orders were extremely high at approximately 150 billion yen each in the first and second quarter, but have settled down to a cruising speed since the third quarter. Orders for machine tools increased 20% from the previous year to 406 billion yen due to strong demand for process integration machines such as 5-axis machines and mill-turn centers combined with automation and DX. In addition, the increase in order unit price to 49.8 million yen (39.4 million yen in FY2021) contributed significantly by providing customers with high-value added manufacturing systems through direct sales and services channels. Orders in the spare parts and service divisions, which account for about 20% of total orders and provide stable business, were also strong, up 19% year-on-year. Orders in group companies such as Magnescale Co., Ltd., and other companies also remain stable.

Consolidated orders by region were up 17% in Japan (14% of total), 17% in the Americas (20%), 20% in Europe (50%), 15% in China (10%), and 33% in Asia and other regions (6%), each compared to the previous year. Orders in the Americas and China reached their all-time highs, while orders in Europe and Asia were almost in line with their all-time peak levels. On the other hand, orders in Japan remained at 80% of the previous peak level due to sluggish demand for automobiles and related products. By industry, expansion in new market sectors such as space, passenger aircraft, medical, EVs (electric vehicles), and new energy related to reduction of greenhouse gas emissions contributed to the growth. Orders for semiconductor production equipment were very strong in the global market in the first half of the year. In the second half, the situation has calmed down a little, but it has been still very stable.

The order backlog for machine tools at the end of December was 254 billion yen, a 55% increase from 164 billion yen at the end of December 2021. This order backlog fulfils the production and sales plan through the third quarter of FY2023. The machine tool industry has experienced repeated cycles of boom and bust demand, and sales and earnings have fluctuated widely. We have been striving to ensure stable sales and earnings growth even during economic downturn periods, backed by abundant order backlog combined with our ability to propose process integration, automation, DX and GX solutions, and by increasing the contribution of the spare parts and service divisions and group companies, which contribute to stable earnings.

Profit and Loss Situation

Sales increased 20% from the previous year to 474.8 billion yen. The weaker yen pushed this up by about 30 billion yen. The breakdown of sales for FY2022 was 164 billion yen (35%) from order backlog, 140.3 billion yen (30%) from spare parts and service divisions and group companies, and 170.5 billion (35%) yen from sales translated from orders during the same period.

Operating profit increased by 18.1 billion yen from 23.1 billion yen in FY2021 to 41.2 billion yen (up 79%). Positive factors included a 15 billion yen contribution from sales growth, an 11.5 billion yen improvement in gross profit due to a lower discount rate by offering high value-added products to customers, a 4 billion yen cost improvement effect from the divisionalization implemented at the beginning of the year, and a 3.9 billion yen effect from yen depreciation, for a total of 34.4 billion yen. On the other hand, an increase in salary revision of 11.8 billion yen for employees globally as part of human resource investment, logistics and depreciation charges of 3 billion yen, and an impairment losses on assets in Russia of 1.5 billion yen resulted in a total cost rise of 16.3 billion yen. The increase in procurement costs was passed on to customers. As a result, the operating profit margin improved significantly to 8.7% from 5.8% in the previous year.

The net financial loss was 4.7 billion yen, a 1.2 billion yen deterioration from 3.5 billion yen in the previous year, due to a 1.0 billion yen increase in the recurring annual cash compensation to non-controlling shareholders in AG under the DPLTA (Domination and Profit and Loss Transfer Agreement). There is no change in the amount of recurring annual cash compensation per share. On the other hand, the additional interest expense during the period was recorded due to an update in the expected trial end date of the DPLTA litigation from the end of 2022 to the end of 2024. The effective tax rate was 29%, which was at the appropriate level we assumed, and net profit (attributable to owners of the parent company) increased 89% from the previous year to 25.4 billion yen. From the net profit, after deducting 1.8 billion yen in payments to owners of hybrid capital, net profit attributable to common shareholders of the parent company was 23.6 billion yen.

Financial position and cash flow situation

The balance sheet totaled 680.3 billion yen at the end of December 2022, an increase of 83.2 billion yen from 597.1 billion yen at the end of December 2021. The depreciation of the yen increased the yen equivalent value of foreign assets by about 45 billion yen. Inventories at the end of December amounted to 166.2 billion yen, up 36.7 billion yen from 129.5 billion yen at the end of December 2021. Inventories increased as a result of the advance procurement of parts and materials to fulfill the abundant order backlog on time. The lead time for procurement of parts and materials has been improving, and accordingly, inventory levels will be optimized in the near future. Tangible fixed assets and lease assets totaled 182.8 billion yen, a 22.7 billion yen increase from the end of December 2021. The main factors were reorganization of Iga and Nara plants to meet increased demand for automation, investment in productivity improvement at the Pfronten plant in Germany dedicated to 5-axis machines, and completion of the Nara Product Development Center (Nara PDC) to strengthen research and development. The 11.7 billion yen increase in intangible assets was mainly due to the introduction of a new ERP (Enterprise Resource Planning) to speed up decision making and improve management efficiency of all group companies. Meanwhile, contract liabilities (down-payment) totaled 92.9 billion yen, up 27.2 billion yen from the end of December 2021, contributing significantly to the increase in free cash flow.

Free cash flow (operating cash flow less investing cash flow) was positive 24.9 billion yen. We made investments of 44.9 billion yen, but we were able to absorb it and realize a large surplus. From this free cash flow, we increased dividends and repurchased preferred shares of DMG MORI SALES AND SERVICE CO., LTD. Net debt outstanding was 47.7 billion yen, a 5.2 billion yen increase from 42.5 billion yen at the end of December 2021. However, the net debt-to-equity ratio remained low at 0.19 (0.20 at the end of December 2021), as shareholders' equity was enhanced in line with earnings growth. The shareholders' equity ratio improved to 36.1% (vs. 35.7% on December 31, 2021).

Investment in human resources and employee engagement

As a global leader in the machine tool industry, DMG MORI faces an urgent need to secure and retain talented human resources in order to pursue cutting-edge technologies and achieve sustainable growth. To address this issue, we have revised the salaries of our employees globally. As for DMG MORI CO., Ltd,'s Japanese employees, we revised the salaries in July 2022, aiming for a wage level on par with Europe and the United States. The salary revision in FY2022 was only effective for six months, but the average annual income climbed to 8.35 million yen nonetheless, a 15% increase from 7.23 million yen in FY2021. In FY2023, the full contribution will emerge, and the average annual salary is expected to reach approximately 9 million yen, which represents a 24% increase in real annual salary compared to FY2021. In addition, a substantial revision of starting wages for new domestic graduates will be implemented from April 2023, but retroactively applied to new graduates from April 2022. The Medium-Term Business Plan announced on December 14, 2022 (fiscal 2023 as the first year and fiscal 2025 as the final year) reflects this significant wage revision.

DMG MORI's management philosophy of "play hard, lean continuously, and work together" continues to be integrated in our operations. The average annual working hours for domestic employees in 2022 was 1,980 hours, which was below our target of 2,000 hours. Yet, the average number of paid vacations taken per year was 18.8 days, below the target of 20 days, due to record-high consolidated orders and increased workloads in the design, production, and service departments. DMG MORI has been promoting Total Quality Management (TQM) to improve the quality and productivity of its operations through the deployment of visualization and standardization (SDCA: Standardize→Do→Check→Action). We have also been striving for operational efficiency through the use of digital contents, such as the expansion of services offered on our customer portal site, *my* DMG MORI, the upgrading of sales manuals, and productivity improvement through TULIP. Through these efforts, we will

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further increase productivity and achieve our employee working environment goals.

[Mid-Term Business Plan Overview]

On December 14, 2022, we announced our Mid-term Business Plan 2023-2025. We have been on track to achieve our goal of a major transformation in machining (MX: Machining Transformation) through process integration, automation, DX, and GX. We promote realizing process integration through 5-axis machines, mill-tern centers and additive manufacturing and automation combined with peripheral equipment such as robots and in-house developed software products. The development of such lean machining processes leads to GX, which contributes to the reduction of CO_2 emissions. In order to realize MX, it is essential for DMG MORI to differentiate our machine tools in terms of quality, such as high precision, high speed, high rigidity, and long durability, as well as to further enhance our product range and internal resources, including the expansion of peripheral equipment for automation, development of software, direct sales and service, and engineers to install sophisticated products and systems. DMG MORI has been strengthening its trading and engineering functions to achieve unparalleled differentiation from other machine tool manufactures.

By further strengthening these measures, we plan to achieve sales revenue of 600 billion yen, operating profit of 72 billion yen (operating profit margin: 12%), and net profit of 48 billion yen (net profit margin: 8%) in the final 2025 fiscal year of our Mid-term Business Plan. The final year of our Mid-term Business Plan is only a transitional point for our MX strategy, and we plan to invest 100 billion yen in capital expenditures and 100 billion yen in R&D over the next three years in order to strengthen our value creation proposals to customers thereafter. Considering these investments, we will generate 100 billion yen in free cash flow during the three years. This free cash flow will be allocated to reducing interest-bearing debt and paying dividends as a shareholder return policy. We plan to reduce net interest bearing debt balance excluding hybrid capital to zero and net interest-bearing debt balance including hybrid capital to 80 billion yen by the end of FY2025. We project to improve the shareholders' equity ratio to over 50%, up from 36.1% in FY2022, through growing profitability, leading to a much stronger financial structure. At the same time, we will improve the return on equity to more than 12%, up from 11.1% in FY2022, by improving the profitability, thereby increasing shareholder value. We plan to consistently increase the dividend per share from 70 yen in FY2022 to 80 yen in FY2023, 90 yen in FY2024, and 100 yen in FY2025.

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［Outlook for FY2023, the first year of the Mid-term Business Plan］

Forecast for FY2023

	FY2022	FY2023	
(Billion yen)	Result	Forecast	(Y/Y change)
Consolidated orders	542.4	500	-7.8%
Order backlog for machine tools	254	254	
Sales revenue	474.8	500	+5.3%
Operating profit	41.2	50	+21.3%
(Operating profit margin %)	8.7 %	10.0 %	
Net profit attributable to owners of parent	25.4	32	+26.0%
Dividend per share (Yen)	70	80	+10 Yen
Exchange rate USD/JPY	131.5	130.0	
EUR/JPY	138.1	140.0	

[Outlook for FY2023]

We expect that orders for FY2023 will decrease by 8% year-on-year to 500 billion yen. Although orders began to decline from the third quarter of 2022, the number of inquiries from each country and each industry has remained relatively high. By region, we forecast a slight decline in China due to stricter export controls resulting from the U.S.-China technology frictions, but we anticipate steady order growth in Japan, the Americas, and Asia. By industry, markets that account for slightly less than 50% of orders, such as medical, space, passenger aircraft, EVs, and energy-related industries, are firm. In terms of customer size, orders from small companies are sluggish, but orders from medium-large sized companies look healthy. Although it is undeniable that the lead time from inquiry to order confirmation is lengthening, we expect that inquiries will start leading to orders from the middle of the fiscal year as energy prices and other commodity prices show some signs of stabilization and the supply chain is moving toward normalization. We will minimize the impact of the decline in order amount by raising unit prices through improved proposals, and by increasing orders in the stable spare parts and service divisions as well as at group companies.

We project to increase sales by 5% from the previous year to 500 billion yen. The sales plan consists of 254 billion yen (51% of total) from machine order backlog, 146 billion yen (29%) from spare parts and services divisions and group companies, and 100 billion yen (20%) from sales translated from orders within the same period. We believe that the 100 billion yen of contribution to sales from orders during the same period, which accounts for less than 30% of the 350 billion yen in planned orders for the machinery, is fully achievable.

We expect operating profit to hit a consecutive peak with 50 billion yen, up 21% from the previous year and a 10% of margin. Operating profit is expected to increase by 8.8 billion yen from 41.2 billion yen of the previous

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year. Positive factors include 8.5 billion yen from sales growth, 12 billion yen from gross profit improvement through reduction of discount rates, and 4.5 billion yen from cost savings from an increase of in-house production of key components, for a total of 25 billion yen. On the other hand, we expect an increase of total expenses of 16.2 billion yen, including a 10 billion yen rise in personnel expenses due to a full year contribution of the salary revision in July 2022, and 6.2 billion rise in depreciation and amortization charges, power costs and others. Price increases for procured parts and materials are expected to be absorbed by price revisions that have already been implemented. Non-operating profit and expenses and the effective tax rate will not change from the previous year, and net profit is planned to increase 26% from the previous year to 32 billion yen. Payments to hybrid capital holders are expected to be the same 1.8 billion yen as in FY2022, and net profit attributable to common shareholders of the parent company is expected to be 30.2 billion yen.

Free cash flow is planned at 30 billion yen. The main contribution will come from earnings with improved profitability. In addition, efforts will be made to generate cash flow through early collection of trade receivables and optimization of inventory levels. Capital expenditures are expected to continue to exceed depreciation and amortization expenses of 27 billion yen to 35 billion yen due to the continued expansion of the Nara Plant for automation and the completion of the Pinghu plant for 5-axis milling machines in China. However, we plan to absorb the increase in investment and continue to generate a high level of free cash flow. This free cash flow will be allocated to the increase in dividend of 80 yen per share (70 yen in FY2022), repayment of hybrid capital of 8 billion yen raised in October 2018 and reduction of other interest-bearing debt. As a result, we will further strengthen our financial position by reducing the net interest-bearing debt, excluding hybrid capital, to less than 40 billion yen in December 2023 (44.9 billion yen in December 2022).

[ESG/CSR initiatives]

Efforts to Reduce CO_2 Emissions

Under the third-party certification by PricewaterhouseCoopers GmbH of Germany, our machine tools manufactured globally have been carbon neutral since the beginning of 2021, by using globally certified CO_2 credits in the range of Scope 1 to Scope 3 upstream. Since January 2021, our machines shipped worldwide have been labeled with the "GREEN MACHINE" mark to indicate that they are carbon neutral products. In July of the same year, we also disclosed a report in compliance with TCFD recommendations. In November of the same year, we received an approval on our CO_2 emission reduction plan by the SBT (Science Based Targets) initiative. We target a CO_2 emission reduction of 25.2% by 2025 and 46.2% by 2030 for Scope 1 and 2, respectively, compared to the base year level of 2019. For Scope 3, we target a 7.4% reduction by 2025 and a 13.5% reduction by 2030.

In fiscal year 2022, our CO_2 emissions in all Scopes was 6% lower than the SBT target line. We will continue to strive reducing CO_2 emissions beyond the SBT plan by improving production efficiency through implementing process integration and automation within the company, introducing solar power generation systems at our main plants, and installing green technology into each machine.

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Strengthening Governance

We are strengthening the diversity of our Board of Directors, and at the General Meeting of Shareholders scheduled for March 28, 2023, we plan to nominate three new candidates: Ms. Irene Bader, currently Senior Executive Officer, from within the company; Mr. Mamoru Mitsuishi, Professor Emeritus of the University of Tokyo; and Ms. Eriko Kawai, Professor Emeritus of Kyoto University, from outside the company. Upon approval at the General Meeting of Shareholders, the Board of Directors will have five outside directors (42% of the total number of directors), three female directors (25%), and three non-Japanese directors (25%). We expect that the Board of Directors will reflect more diverse opinions, which will lead to an improvement in equity value.

(Disclaimer)

This document contains forward-looking statements about the Company's goals, plans and other matters.
These forward-looking statements are based on judgments and assumptions made in light of information currently available to the Company.
Actual results may differ materially from these forecasts in the future due to changes in management policies and external factors.
There are a number of factors that could cause uncertainties and volatility, including the following

- Changes in the demand environment within the markets in which the Group operates
- Exchange rate fluctuations
- Changes in laws, regulations and government policies within the markets in which the Group operates
- Our ability to develop new products in a timely manner and gain market acceptance
- Political instability within the markets in which the Group operates
- Changes in related laws and regulations, such as the Antimonopoly Act and export control regulations, or changes in their operation by the competent authorities

The end