DMG MORI

DMG MORI CO., LTD.
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Operating profit margin improved significantly due to the promotion of MX. Operating profit margin for the first half (Jan-Jun) was 9.0% (vs. 8.1% in the same period last year) and 10.2% for the second quarter.
We have revised upward our full fiscal business forecast: sales to JPY 525 billion (previous forecast: JPY 500 billion) and operating profit to JPY 52.5 billion (previous forecast: JPY 50 billion).

Financial Summary (JPY bn.)	FY2022 H1	FY2023 H1	(Y/Y)	FY2022	(Y/Y)	FY2023 （NEW）	(Y/Y)	FY2023 (Previous)
Consolidated orders	299.3	275.8	-7.9%	542.4	+18.9%	520	-4.1%	500
Order backlog for machine tools	244.0	282.0		254.0		around 255		250-260
Sales revenue	218.2	249.5	+14.4%	474.8	+19.9%	525	+10.6%	500
Operating profit	17.7	22.6	+27.5%	41.2	+78.7%	52.5	+27.4%	50
Operating profit margin %	*8.1%*	*9.0%*		*8.7 %*		*10.0 %*		*10.0 %*
Net profit attributable to owners of parent	11.3	14.9	+32.0%	25.4	+88.7%	33.5	+31.9%	32
Net profit margin %	*5.2%*	*6.0%*		*5.4%*		*6.4%*		*6.4%*

［Summary for the first half of FY2023 (Jan.-Jun.)]

- Consolidated orders totaled JPY 275.8 billion, down only 8% from the same period last year. The order unit price increased significantly to JPY 56.8 million (JPY 49.8 million in the previous fiscal year), compensating for the decline in the number of orders, and the spare parts and service division contributed to with 15% year-on-year increase in orders. Due to the promotion of MX (Machining Transformation), demand for automation and turnkey systems combined with process integration machines such as 5-axis machines and mill-turn centers increased. By region, demand in the European market was stronger than expected. Demand in the Americas and Asia remained flat. On the other hand, demand in Japan was weak. Demand in China decreased significantly from the second quarter after marking its peak in the first quarter. By industry, demand from the aerospace, medical, energy, die and mold, and EV (electric vehicle) industries remained strong. Order backlog at the end of June increased significantly to JPY 282 billion (end of December 2022: JPY 254 billion).

- Compared with the same period last year, sales revenue went up 14% to JPY 249.5 billion, operating profit and net profit grew 28% to JPY 22.6 billion and 32% to JPY 14.9 billion, respectively. Operating profit margin improved to 9.0% (8.1% in the same period last year). Investment in human resources, with salary revisions globally increased by JPY 10.6 billion. However, such increased costs were more than compensated by a gross profit increase of JPY 6.2 billion and the effect of yen depreciation of JPY 6.3 billion, sales increase and cost structure optimization.

- Free cash flow was a deficit of JPY 6.8 billion. Profit before income taxes increased to JPY 19.7 billion due to improved profitability. On the other hand, cash-out from increase in working capital amounted to JPY 11.9 billion and from investments to JPY 21.2 billion respectively, resulting in a deficit in free cash flow. Increase in inventory and investments hit peak in the first half, and free cash flow is expected to turn positive from the third quarter onwards. Free cash flow for the fiscal year is expected to be positive at JPY 30 billion, as planned at the beginning of the fiscal year.

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[2Q FY2023 (Apr.-Jun.) Summary]

・ Sales revenues in the April-June period increased 14% year-on-year to JPY 126.3 billion, operating profit increased 56% to JPY 12.9 billion with an operating profit margin of 10.2% (vs. 7.4% in the same period last year). This is the first time since the integration of the German AG-group in 2015 (excluding extraordinary factors associated with the consolidation)that we have achieved an operating profit margin above 10% in the second quarter. We are increasingly confident in the sustained improvement in profitability and corporate value associated with our MX strategy.

[Forecast for FY2023 (Jan.-Dec.)]

・ We have revised upward our fiscal year forecast, reflecting the better-than-planned consolidated orders in the first half of the year and an improved profitability. We have raised our consolidated orders to JPY 520 billion (previous forecast: JPY 500 billion), sales revenue to JPY 525 billion (previous forecast: JPY 500 billion), and operating profit to JPY 52.5 billion (previous forecast: JPY 50 billion). In September, EMO, the world's largest machine tool show, will be held in Germany. At the show, we will be able to present our differentiated MX strategy, which consists of process integration, automation, DX, and GX, to increase orders. We have secured JPY 282 billion in machinery order backlog at the end of June, which would fulfill almost all of our machine sales in the second half of the year.

[Business results for the first half of FY2023 (Jan.-Jun.)]

Consolidated orders and order backlog

・ Consolidated orders in the first half of the year totaled JPY 275.8 billion, down only 7.9% from the peak level of the same period last year. Machine orders by units was down 27% year-on-year. On the other hand, the average unit price for machines ordered in the first half climbed to JPY 56.8 million (previous year average: JPY 49.8 million) due to further progress in automation and DX with process integration machines such as 5-axis machines and mill-turn centers. In addition, the spare parts and service division, which accounts for about 20% of consolidated orders, increased by 15% year-on-year, contributing to the stabilization of our entire business.

・ Consolidated orders by region went down 5% in Europe (53% of total), 13% in the Americas (18%), 15% in Japan (12%) and 22% in Asia and others (6%). Orders in China (12% of total) were up 3% year-on-year. Demand in Europe has greatly exceeded our initial forecast. Demand in the Americas was supported by continued investments by medium- and large- sized manufacturers aiming for their long-term growth and improvement in their facilities. In addition, small- and medium- sized enterprises were also considering investments in automation and DX against the backdrop of a shortage of engineers. We believe that latent demand for machine tools remains strong and expect that demand for machine tools related to process integration, automation, and DX will materialize once the economic environment, including interest rates, stabilizes. Demand in Asia was also flat. Demand in Japan stayed in a down trend. Demand in China increased by 52% year-on-year in the first quarter, but in the second quarter, it turned around and decreased by 29% year-on-year. The slowdown in the economy and the tightening of export control due to technological friction between the United States and China have been the main factors. We believe it will take some time for orders to recover in China. Demand for machine tools by industry was strong in passenger aircraft, space, medical, die and mold, EVs, and energy-related industries. In addition, we recognize that demand for semiconductor production equipment, which

had been declining since the middle of last year, is starting to increase.

・The order backlog for machine tools at the end of June stood at a record high level of JPY 282 billion, a significant increase from JPY 254 billion at the end of December 2022. This level is almost enough to fulfill our machine sales plan of JPY 199.3 billion for the second half of the fiscal year. The orders we are currently receiving will contribute to sales in 2024 and beyond. We expect the order backlog at the end of December 2023 to be approximately JPY 255 billion, slightly higher than the end of the previous year. We aim to achieve continuous growth in sales and profits toward the goal of the "Medium-Term Business Plan 2025".

Profit or loss trends

・Sales revenue increased 14% year-on-year to JPY 249.5 billion. The impact of yen depreciation was JPY 18 billion. Parts and materials procurement was almost back to normal, and production and sales were progressing almost as planned. By division, sales in the machine division increased 14%, sales in the spare parts and service division increased 17%, and sales in group companies such as Magnescale Co., Ltd., rose 8%, respectively year-on-year.

・Operating profit was JPY 22.6 billion, an increase of JPY 4.9 billion or up 28% from the same period last year. The positive factors totaled JPY 17.5 billion, including JPY 6.2 billion in gross profit improvement due to MX promotion, JPY 6.3 billion from yen depreciation, JPY 3 billion from sales increase, and JPY 2 billion from cost structure optimizations such as expansion of in-house parts production. On the other hand, the negative factors amounted to JPY 12.6 billion such as salary revision of JPY 10.6 billion for employees around the globe (a major salary revision for domestic employees was implemented from July 2022) and increase in depreciation and other expenses of JPY 2 billion. The increase in purchased parts and materials prices has been absorbed by passing on to customers since last year. As a result, the operating profit margin improved significantly to 9.0% from 8.1% in the same period of the previous year.

・Net finance cost deteriorated by JPY 1.4 billion. Around JPY 0.5 billion was due to increase in interest payment on 3 million EUR-denominated loans affected by increasing interest rate. Another JPY 0.8 billion was due to increase in recurring annual cash compensation based on DPLTA (Domination Profit and Loss Transfer Agreement) to non-controlling shareholders in AG. As mentioned in the 1Q financial release, there was no change in the amount of annual economic compensation per share paid to non-controlling shareholders in AG. Due to the change of scheduled trial end date of the DPLTA litigation to the end of 2024 from the previous projection of the end of 2022 and a rising interest rate in Germany, we recorded additional interest expenses for the extended period. Since we have already refinanced abovementioned euro-denominated interest-bearing debt with yen-denominated interest-bearing debt, which had lower interest rates, the interest expense is expected to decrease in the second half of the year. The effective tax rate in the first half fell to 24.3%, due to the application of tax loss carry forward, as group companies' profits improved, leading to net profit attributable to owners of the parent rising 32% year-on-year to JPY 14.9 billion. With reduction of approximately JPY 0.9 billion in payments to hybrid capital owners, net profit attributable to common shareholders of the parent company increased 35% year-on-year to JPY 14.0 billion.

Cash flow, financial position

・Free cash flow (operating cash flow - investing cash flow) was a deficit of JPY 6.8 billion. Cash inflow from profit has

been rising due to improved profitability. On the other hand, working capital deteriorated by JPY 11.9 billion as inventories increased in response to supply chain disruptions. In addition, investments amounted to JPY 21.2 billion. We continue to actively invest in expanding automation capability, building facilities for training operators and installing solar power generation system for reducing CO_2 emissions in order to achieve sustainable growth over the medium to long term. Going forward, we plan to further improve profitability and move toward optimization of inventories, and free cash flow is expected to be positive from the third quarter onwards. We expect free cash flow of JPY 30.0 billion for the fiscal year, unchanged from the plan at the beginning of the year.

- The total balance sheet at the end of June was JPY 763.0 billion, an increase of JPY 82.7 billion from JPY 680.3 billion at the end of December 2022. Of this increase, approximately JPY 60 billion was attributable to the translation of foreign assets into yen due to the weaker yen. Inventories increased by JPY 39.1 billion to JPY 205.4 billion at the end of June from JPY 166.2 billion at the end of December 2022. Besides the impact of yen depreciation, other factors behind this were supply chain disruptions and the buildup of inventories in line with plans to increase sales in the second half of the year. However, inventories hit peak in the second quarter and are expected to decline toward the end of December 2023, as the supply chain disruption has already been resolved. Increase in tangible fixed assets was due to the expansion of production capacity in automation factories, the opening of DMG MORI ACADEMY for human resource development, continued investment in solar power generation systems to reduce CO_2 emissions, and investments to increase capacity and improve efficiency at group companies such as DMG MORI CASTECH. The increase in intangible assets was due to investments in information technology, mainly ERP. Down payments totaled JPY 103.8 billion, up JPY 10.8 billion from JPY 92.9 billion at the end of December 2022. This was due to an increase in order backlog and an increase in the ratio of down payment to orders received. Improved profits increased shareholders' equity to JPY 265.7 billion (December 31, 2022: JPY 245.9 billion), while the shareholders' equity ratio was 34.8% (December 31, 2022: 36.1%) resulting from an increase in the total balance sheet due to the weaker yen.

［Forecast for FY2023 (Jan.-Dec.) and Medium-Term Business Plan 2025]

Forecast for full-year (Jan.-Dec.)	FY2022	(Y/Y)	FY2023	(Y/Y)	FY2024	(Y/Y)	FY2025	(Y/Y)
(JPY billion)	Result		Forecast		Forecast		Forecast	
Sales revenue	474.8	+19.9%	525.0	+10.6%	560.0	+6.7%	600.0	+7.1%
Operating profit	41.2	+78.7%	52.5	+27.4%	60.0	+14.3%	72.0	+20.0%
Operating profit margin %	*8.7 %*		*10.0 %*		*10.7%*		*12.0%*	
Net profit attributable to owners of parent	25.4	＋88.7%	33.5	+31.9%	38.0	13.4%	48.0	+26.3%
Net profit margin	*5.4%*		*6.4%*		*6.8%*		*8.0%*	

［Forecast for FY2023 (Jan.-Dec.)]

- We have revised upward our consolidated orders for the fiscal year ending December 31, 2023, to JPY 520 billion (previous forecast: JPY 500 billion), down only 4% from the previous year, sales revenue to JPY 525 billion (previous forecast: JPY 500 billion), up 11%, operating profit to JPY 52.5 billion (previous forecast: JPY 50 billion), up 27% and net profit to JPY 33.5 billion (previous forecast: JPY 32 billion), up 32%, respectively. The reasons for the upward revision are as follows: consolidated orders in the first half of the year exceeded our initial plan, mainly in Europe, the MX strategy continues to improve gross profit; and the yen's depreciation is contributing to improve profitability in exports

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of products and systems.

- Consolidated orders declined to JPY 145.3 billion in the first quarter (down 3% year-on-year) and JPY 130.5 billion in the second quarter (down 13%). However, compared to past periods of declining demand, the year-on-year decline was relatively small. The increase in unit price due to the MX strategy has considerably offset the decline in the number of order unit. In the European market, which accounts for more than 50% of consolidated orders, the business becomes stabilized due to diversification by country and by industry. The spare parts and service division, which accounts for 20% of consolidated orders, continues to show a double-digit growth. Magnescale, with its strength in ultra-precision measuring components, continues to enjoy stable growth for next-generation semiconductor production equipment. In addition to the above structural changes, we expect that EMO HANNOVER 2023, the largest global machine tool show, which will be held in Hannover, Germany in September, will contribute to increase orders in the second half. There, we plan to present our latest process-integration machines, groundbreaking software, and peripheral equipment for greater productivity, providing an excellent opportunity for customers to experience the depth of our MX.

- We forecast a 27% year-on-year increase in operating profit to JPY 52.5 billion for the fiscal year. With the achievement of an operating profit margin of over 10% in the second quarter, we believe that the probability of achieving an operating profit margin of 10% or more for the full fiscal year has increased. We expect an increase of JPY 11.3 billion from the previous year's operating profit of JPY 41.2 billion. We plan to increase gross profit by JPY 13.5 billion by providing high value-added products to customers, JPY 5.0 billion by sales increase, JPY 5.5 billion by structural optimization and JPY 4.5 billion by yen depreciation, for the total of JPY 28.5 billion. On the other hand, total expenses are planned to increase JPY 17.2 billion in order to achieve sustainable growth over the medium to long term, including personnel expenses of JPY 13.5 billion and depreciation and other charges of JPY 3.7 billion. The effective tax rate is assumed to be around 30%, which we consider appropriate, and net profit (net profit attributable to owners of the parent) is expected to increase 32% from the previous fiscal year, to JPY 33.5 billion. After deducting JPY 1.8 billion of expenses allocated to hybrid capital, we expect net profit attributable to common shareholders of the parent company to be JPY 31.7 billion. Dividends per share are expected to be JPY 40 for each of the interim and year-end periods, and JPY 80 for the fiscal year (JPY 70 for the previous year), as planned at the beginning of the fiscal year.

［Forecasts for FY2024 (January-December, 2024) and FY2025 (January-December, 2025), the final year of the Medium-Term Business Plan]

- The first half of the first year of the "Medium-term Business Plan 2025" got off to a good start. In particular, the fact that we were able to secure an operating profit margin of 10% or more from the second quarter was a major achievement. In addition, despite the difficult environment for demand for machine tools, the fact that the unit price of orders rose by the MX strategy and that the growth of the spare parts and service division and group companies' is supporting stable consolidated orders gives us confidence in our ability to achieve the medium- to long-term business plan.

- For FY2024, we currently forecast a 6.7% increase in sales to JPY 560 billion, a 14.3% increase in operating profit to JPY 60 billion, and a 13.4% increase in net profit to JPY 38 billion, compared to the current year's forecast. Despite the unfavorable demand environment for machine tools, we have been concentrating on providing customers with process integration, automation, DX, and GXtransformation without getting caught up in the price/short delivery competition as

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in the past, and our order backlog and gross profit margin on orders have been improving. The earnings structure is expected to improve further in FY2024. As a result, the operating profit margin is expected to improve to 10.7%.

・ We are now more certain of achieving our business targets for FY2025, the final year of our medium-term business plan: sales revenue of JPY 600 billion, operating profit of JPY 72 billion, and net profit of JPY 48 billion. We believe that achieving an operating margin of 12% and a net profit margin of 8% are also feasible, and we are well-positioned for sustainable growth, as evidenced by the fact that we were able to revise our FY2023 forecast upward and the high level of expected order backlog at the beginning of FY2024, which is to sustain increased sales revenue and profits. One of the goals of the current medium-term business plan is to build a management structure that can achieve sustainable earnings growth in the machine tool industry, where business volatility is high. We believe that we are on track to overcome this challenge.

[DMG MORI's main initiatives]

・ **Organizational Optimization to Strengthen Integrated Management Globally**

Mr. Alfred Geißler has been appointed CEO of the German group company DMG MORI AKTIENGESELLSCHAFT. As DMG MORI has been focusing on process integration, automation, DX, and GX, it is becoming increasingly important to develop high-precision, high-quality machine tools, strengthen procurement of materials and peripheral equipment, and improve manufacturing efficiency. Mr. Geißler has been with the DMG MORI Group for about 40 years. In particular, since 2005, he has managed production and developed technology at Pfronten Factory, our largest production site in Europe specializing in 5-axis machines which have been growing faster globally. In the future, Mr. Geißler will continue to develop further differentiated products, strengthen the supply chain including in-house production, and improve productivity.

We will promote integration within the DMG MORI Group in terms of sales, service and engineering. In the past, while pursuing Global One, the former Mori Seiki company mainly managed Japan, the Americas and Asia, and the former Gildemeister company mainly controlled Europe, China and India. Global information sharing has become even more important under the tightening of export controls and the rebuilding of customer supply chains due to increased geopolitical risks such as US-China technical friction and Russia's invasion of Ukraine. We hold SPI (Sales, Service, Parts and Inventory Meeting) meetings on a monthly basis to respond to changes in the business environment and customer needs in each region. In the future, in addition to taking actions for the individual circumstances of each region, we will promote centralized management at the Executive Officers’ meeting.

From these perspectives, we have strengthened the role of the Executive Officers' meeting, which is held monthly. At the meeting, we share information about global marketing, technology, sales/service, production, engineering and issues and risks as well as the progress of business and financial performance. Eleven new executive officers have been appointed as of August 1. As a result, the total number of executive officers is 37, of which 21 (57%) are Japanese and 16 (43%) are foreign nationals from seven countries, contributing to the diversity of the organization.

[Progress of MX (Machining Transformation)]

DMG MORI GATEWAY

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DMG MORI contributes to customers' productivity improvement and environmental response through process integration, automation, DX, and GX. In recent years, many customers have recognized the importance of DX, but due to the lack of expertise and human resources related to network construction, it is difficult to realize. For such customers, our connectivity service "DMG MORI GATEWAY" supports the construction of networks at the customer's factory. "DMG MORI GATEWAY" makes it possible to connect all machine tools, automation systems, 3D measuring instruments, and other peripheral equipment in the factory, including products provided by other companies, to the network. By connecting all devices to the network, it is possible to convert information such as equipment, resources, personnel, and measurement results into data, enabling operations and management based on that data. Achieving DX not only improves customer productivity, but also contributes to GX by reducing power consumption and greenhouse gas emissions.

EMO HANNOVER 2023

The world's largest machine tool show "EMO HANNOVER 2023" in September will be a place to present the progress of DMG MORI's MX. We plan to exhibit new models for process integration, automation systems and peripheral equipment that increase productivity, and next-generation CELOS to promote digital technology and connectivity. We will plan to explain the details at the financial results briefing for the third quarter (scheduled on October 25).

Human resource development

DMG MORI ACADEMY

As the customers are suffering from operator shortage globally, we have been establishing DMG MORI ACADEMY with an aim of supporting the operation of high-performance machines such as 5-axis machines, mill-turn centers and additive manufacturing, and machining of complex workpieces, and digital technology such as low-code program TULIP. We have already opened them in Kanazawa (April) and Hamamatsu (May). We continuously hold various practical trainings for customers that are completed in 2 to 5 days. These trainings are expected to be held about 150 times by the end of the year at current facilities and new facilities combined. By 2025, we plan to open additional facilities in Sendai, Okayama, and Fukuoka, and contribute to the training of operators and support for workpiece processing in places close to our customers.

Nara Women's University Faculty of Engineering Practical Class

Our partnership with Nara Women's University, aimed at educating female science and engineering researchers and helping them play an active role in society, has progressed to the practical training stage. After concluding the agreement in March 2022, we dispatched our employees to create a lecture program in May of the same year, and started classes for the first graders in October. From June 2023, we started practical training at our Nara Product Development Center (Nara PDC). We plan to have over 100 students every year to take courses by expanding programs for all grades.

Digital Monozukuri Practical Course for Colleges of Technology

From August 2023, we will partner with technical colleges throughout Japan and start offering "digital manufacturing practice course". It will be carried out with a subsidy from the Ministry of Economy, Trade and Industry. The aim is for technical college students to acquire the knowledge and operation of the latest machine tools. This program consists of three formats: lectures, self-study, and practical lessons. Technical college students deepen their understanding of the current state and future potential of the machine tool industry and learn tips for working safely. In addition, we aim to use

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VR (Virtual Reality) technology to help students reduce their psychological barriers. Through this course, we will support the development of human resources who will be responsible for the manufacturing industry in the future.

(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