DMG MORI

**DMG MORI CO., LTD.**
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Tel.: 03-6758-5900

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# DMG MORI CO., LTD.

Consolidated orders for 9 months declined only 7.5% YoY, backed by an increase in order unit price due to our MX strategy.
OP margin remained at 10% in the 3rd quarter (Jul-Sep), leading to high probability of 10% OP margin for full fiscal year.

| **Financial Summary (JPY bn.)** | FY2022Q3 | FY2023Q3 | (Y/Y) | FY2022 | (Y/Y) | FY2023 | (Y/Y) |
|---|---|---|---|---|---|---|---|
| Consolidated orders | 432.0 | 399.5 | -7.5% | 542.4 | +18.9% | 520.0 | -4.1% |
| Order backlog for machine tools | 274.0 | 280.0 | | 254.0 | | around 255.0 | |
| Sales revenue | 333.0 | 380.2 | +14.2% | 474.8 | +19.9% | 525.0 | +10.6% |
| Operating profit | 26.8 | 35.6 | +33.1% | 41.2 | +78.7% | 52.5 | +27.4% |
| Operating profit margin % | *8.0%* | *9.4%* | | *8.7%* | | *10.0%* | |
| Net profit attributable to owners of parent | 16.6 | 23.0 | +38.9% | 25.4 | +88.7% | 33.5 | +31.9% |
| Net profit margin % | *5.0%* | *6.1%* | | *5.4%* | | *6.4%* | |

［**Summary of financial results for the nine months from January to September, 2023)**］

・ Consolidated orders in the January-September period decreased only 7.5% year-on-year to JPY399.5 billion. Average order price per unit grew significantly to JPY 59.5 million (JPY 49.8 million in FY2022) due to increased demand in advanced machining systems and smaller discount rates. The spare parts and service division grew 14% year-on-year, contributing to stabilizing the consolidated orders. At the world's largest machine tool show “EMO” held in Hannover, Germany in September, we exhibited further advanced machining process systems that we name MX (Machining Transformation). We are convinced that our customers are becoming more interested in process-integration, automation, digitization and green transformation. By region, demand for machine tools in the European market was stronger than expected. Demand in the Americas was very stable. On the other hand, China experienced a significant decline, and Japan and Asia remained weak. By industry, demand from aircraft, space, medical, energy, die & mold, and EV-related industries was stable. The machinery order backlog at the end of September maintained a high level of JPY 280.0 billion (JPY 254.0 billion at the end of 2022).

・ Sales revenue went up 14% year-on-year to JPY 380.2 billion, operating profit and net profit increased 33% to JPY 35.6 billion and 39% to JPY 23.0 billion, respectively. The operating profit margin climbed to 9.4% (8.0% in the same period last year). The operating profit margin for the three months from July to September stood at 10.0%, following the second quarter. The major factors contributing to the better operating profit margin include improved gross profit margin driven by promotion of MX, the weak yen, and improved productivity in in-house manufacturing of key components.

・ Operating free cash flow (operating cash flow - investments) was a deficit of JPY 10.7 billion. The ability to generate cash has been improving along with higher profitability. On the other hand, ambitious investment continued such as an expansion of supply capacity for automation and in-house key components, and environmental protection. In addition, we managed inventories to meet abundant order backlog. These activities led to the deficit in operating free cash flow. In the fourth quarter, with a projected increase in sales and reduction in inventories, we aim to generate a free cash flow that will ensure we reach an operating free cash flow of JPY 10 billion for the entire fiscal year.

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**[Summary of financial results for the three months, from July to September, 2023]**

・ Consolidated orders in the three-months' period (July-September) totaled JPY 123.7 billion, down 7% from the same period last year, compared to a 13% decline in the second quarter (April-June). Orders in the European market were strong, up 15% year-on-year, due in part to the effects of EMO. On the other hand, orders in China fell sharply 49% year-on-year, and its share to total orders shrunk to 5%. Sales revenue grew 14% year-on-year to JPY 130.6 billion, operating profit and net profit increased 44% to JPY 13.1 billion and 54% JPY 8.1 billion, respectively. For the fiscal year, we are increasingly confident of achieving our forecasts which we revised at the second quarter announcement; sales revenue of JPY 525.0 billion, operating profit of JPY 52.5 billion, and net profit of JPY 33.5 billion. An operating profit margin of 10% is also in sight.

**[Business results for the third quarter (January – September), 2023]**

**Consolidated orders and order backlog**

・ Consolidated orders totaled JPY 399.5 billion, down only 7.5% from the same period last year. Consolidated orders in the three-months' period (July-September) were JPY 123.7 billion, down 6.8% from the same period last year. Business resources are maximized through integrating machining process and then automating them, leading to environmental protection. In addition, by managing the entire manufacturing process with digital technology, productivity is continuously improved. This kind of machining process management system, MX, has been attracting customers' interest. As a result, average order price per unit jumped significantly to JPY59.5 million (FY 2022 average: JPY 49.8 million), compensating for decline in volume to some extent. The spare parts and service division (21% of total orders) with a 14% increase also contributed to stabilize the total orders.

・ By region, orders in Europe (55% of total orders) were up 1% from the same period last year. Orders in the rest of the region declined year-on-year, with Japan (11%) down 26%, the Americas (19%) down 9%, China (10%) down 11%, and Asia (5%) down 24%. In China, orders in the second quarter (April-June) and the third quarter (July-September) plunged 23% and 49%, respectively, after hitting a historical peak in the first quarter (January-March). The share of China to total orders dropped to 5%. The Chinese market was affected by the economic slowdown and stricter restrictions on exports of high-value-added machine tools caused by the technological friction between the U.S. and China. By industry, demand from aircraft, space, medical, die & mold, EVs, and energy industries remains stable. In Europe, demand from semiconductor production equipment industry is recovering.

・ The order backlog for machine tools at the end of September was JPY 280.0 billion, an increase from JPY 254.0 billion at the end of December 2022. Machine tool sales in the fourth quarter will be fulfilled with our abundant order backlog, securing our full year financial targets. The order backlog at the end of December 2023 is expected to be around JPY 255.0 billion, almost the same level as JPY 254.0 billion at the end of December 2022. With such order backlog, we aim to achieve a stable growth in sales and profit for the next fiscal year ending December 2024.

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**Financial results**

- Sales revenue amounted to JPY 380.2 billion, up 14% from the same period last year. The impact of yen depreciation on sales was JPY 29.0 billion. The lead time of materials and parts procurement was back to normal, and production and sales were progressing as planned. By division, machinery went up 14% as planned. Spare parts and service, which accounts for 23% of total, grew 18%.

- Operating profit was JPY 35.6 billion, up JPY 8.8 billion or 33% from the same period last year. The positive impacts include JPY 9.4 billion due to improved gross profit margin from our MX strategy, JPY 9.4 billion from yen depreciation, JPY 3.5 billion from sales increase, and JPY 3.5 billion from improved productivity in in-house key components manufacturing, for a total of JPY 25.8 billion. On the other hand, the negative impacts amounted to JPY 17 billion such as salary revision of JPY 13.5 billion for employees globally (a major salary revision for domestic employees was implemented from July 2022), and an increase of JPY 3.5 billion in depreciation and other expenses. Operating profit margin was 9.4%, a significant improvement from 8.0% in the same period last year. The operating profit margin on a quarterly (three-month) basis was 10.0% in the third quarter, following 10.2% in the second quarter.

- Net financial payments totaled JPY 4.2 billion, JPY 1.8 billion worse than the same period last year. JPY 0.5 billion was due to a rise in interest payment. The remaining JPY 1.3 billion was due to an increase in recurring annual compensation to non-controlling shareholders in AG under the DPLTA (Domination Profit and Loss Transfer Agreement). As mentioned in the last financial release, there was no change in the economic compensation per share to non-controlling shareholders in AG. Due to the rescheduling of the DPLTA litigation trial end date from the previously projected end of 2022 to the end of 2024, there has been a rise in the interest payment. Net income attributable to owners of the parent company was JPY 23.0 billion, up 39% from the same period last year. With the reduction of JPY 1.3 billion in payments to owners of hybrid capital, net profit attributable to common shareholders in the parent company was JPY21.7 billion, up 42% from the same period last year.

**Cash flow and financial position**

- Operating free cash flow (operating cash flow - investment) was a deficit of JPY 10.7 billion. The ability to generate cash has been strengthened by increase in sales revenue and improvement in profitability. On the other hand, working capital deteriorated by JPY 19.0 billion due to an increase in inventories in response to higher sales in the fourth quarter. In addition, we continue to actively invest in expanding supply capacity for automation, building facilities for training operators and installing equipment for environment protection, resulting in an investment amount of JPY30.8 billion. In the fourth quarter, we expect operating free cash flow to surge substantially due to an increase in sales from inventories. Given such expectation, we plan to generate about JPY 10.0 billion in operating free cash flow for full fiscal year.

- The total balance sheet at the end of September was JPY 783.0 billion, an increase of JPY 102.7 billion from JPY 680.3 billion at the end of December 2022. Of this increase, approximately JPY 60.0 billion was affected by the conversion of foreign assets into yen due to the weak yen. Inventories amounted to JPY 216.5 billion, up JPY 50.3 billion from JPY 166.2 billion at the end of December 2022. Apart from the weak yen, the increase in inventories correlates with higher sales in the fourth quarter. Inventories at the end of December 2023 are expected to decrease as the supply chain has normalized and inventories turn into sales. An increase in tangible fixed assets was due to investment such as the

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expansion of automation supply capacity, the opening of DMG MORI ACADEMY for human resource development and installation of solar power generation systems to reduce $CO_2$ emissions. An increase in intangible assets was due to continued investments in information technology, mainly ERP. Meanwhile, down payments totaled JPY 103.5 billion, up JPY 10.6 billion from JPY 92.9 billion at the end of December 2022. This was due to a rise in order backlog and a rise in a ratio of down payment. Given the significant increase in profits, shareholders' equity increased JPY 16.2 billion to JPY 262.1 billion (JPY 245.9 billion at the end of December 2022). However, the shareholders' equity ratio fell to 33.5% (36.1% at the end of December 2022) due to the expansion of the total balance sheet caused by the weaker yen and the optional redemption plan of JPY 8.0 billion of hybrid capital.

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

| | | | | | | (Final year of the Medium-term Business Plan) |
|---|---|---|---|---|---|---|
| **Forecast for full-year (Jan.-Dec.)** | FY2022 | (Y/Y) | FY2023 | (Y/Y) | | FY2025 |
| (JPY billion) | Actual | | Plan | | | Plan |
| Sales revenue | 474.8 | +19.9% | 525.0 | +10.6% | | 600.0 |
| Operating profit | 41.2 | +78.7% | 52.5 | +27.4% | | 72.0 |
| Operating profit margin % | *8.7%* | | *10.0%* | | | *12.0%* |
| Net profit attributable to owners of parent | 25.4 | +88.7% | 33.5 | +31.9% | | 48.0 |
| Net profit margin | *5.4%* | | *6.4%* | | | *8.0%* |

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

・ We maintain our business forecasts that we revised at the second quarter result announcement. We expect consolidated orders of JPY 520.0 billion. Demand in the European and the Americas’ markets looks stable. Demand in other markets appears to be nearly in the bottom levels, but recovery is not expected until next year. We forecast sales revenue of JPY 525.0 billion (up 11% year-on-year), operating profit of JPY 52.5 billion (up 27%), and net profit of JPY 33.5 billion (up 32%). Since almost all machine sales revenue in the fourth quarter will come from order backlog, we have a high probability of achieving our sales revenue target for the full fiscal year. The gross profit margin on order backlog has been improving against the backdrop of our MX strategy, leading to our confidence in achieving an operating profit margin of 10%. Based on our business forecasts, we plan to pay a full year dividend per share of 80 (interim: JPY 40, year-end: JPY 40), as planned at the beginning of the fiscal year.

・ The full year operating profit of JPY 52.5 billion is expected to increase by JPY 11.3 billion from JPY 41.2 billion in the last year. The positive factors come from JPY 13.5 billion from improvement in gross profit due to the provision of high value-added systems mainly driven by MX strategy, JPY 8.5 billion from the weak yen, JPY 4.0 billion from growth in sales and JPY 5.5 billion from cost reduction, for a total of JPY 31.5 billion. On the other hand, total expenses are expected to increase JPY 20.2 billion, including an increase in personnel costs of JPY 15.5 billion and JPY 4.7 billion in depreciation charges and others.

**[Forecast for FY2025, the final year of the Medium-term Business Plan]**

- The original forecast for FY2023 was JPY 500.0 billion in sales revenue, JPY 50.0 billion in operating profit, and JPY 32.0 billion in net profit. However, DMG MORI is likely to kick off the first year of our Medium-term Business Plan with better-than-expected financial figures, which was backed by our differentiated MX strategy. Although the demand for machine tools is currently in an adjustment phase, we will not fall into the trap of competition over price and short delivery times as we did in the past. We are focusing on increasing order price per unit and improving gross profit margin through our MX strategy. We believe that we have been able to overcome the high volatility in machine tool orders and put our profit structure on a stable growth trajectory over the medium to long term. We will continue to strive to secure stable increase in sales revenue and profits in FY2024, supported by an abundant machine order backlog of JPY 255.0 billion, the same level of the end of last year. Furthermore, the spare parts and service division and group companies will contribute to stable growth. For FY 2025, the final year of our Medium-term Business Plan, we are even more certain of achieving our initial targets of JPY 600 billion in sales revenue, JPY 72 billion in operating profit (operating profit margin of 12%), and JPY 48 billion in net profit (net profit margin of 8%). On the assumption of achieving our business target, we will increase dividend per share as our shareholders' return to JPY 90 for FY2024 and JPY 100 for FY 2025. DMG MORI also aims to reduce interest bearing debt, leading to a healthier balance sheet structure. Assuming that the convertible bonds of JPY 40.0 billion, which become due in July 2024, will be fully converted, we plan to reduce the net debt by half to JPY 90 billion by the end of 2025 from JPY 185 billion at the end of 2023.

**[Our investigation & response to alleged sales of machines made in Russia]**

We have complied with the export control regulations of both the German Federal Office for Economic Affairs and Export Control (BAFA) and the Japanese Ministry of Economy, Trade and Industry (METI), and there have been no legal violations. (Details below)

- After Russia started the invasion of Ukraine on February 24, 2022, DMG MORI Group immediately stopped its regular business operation.
- On March 3, 2022, we announced the planned closure of the production (Ulyanovsk Machine Tools) and sales bases (DMG MORI Russia) in Russia. At the same time, we started business backlog processing.
- Approx. 120 units of order backlog remained at the time of the closure.
  To avoid litigation in Russia and the possibility of the machines coming to the attention and control of the Russian government, we delivered some of our products to customers used only for civilian purposes, also in compliance with Japanese and German export control regulations. We had received the payment in the first half of 2023.
  Some orders had to be cancelled and we have refunded the down payment to the customers.
- 18 units shipped before the war from Japan or Germany are still in stock at the Ulyanovsk Machine Tools.
- Of the around 200 Russian employees, 190 have been laid off and the remaining 9 are in charge of inventory and asset protection in Moscow and Ulyanovsk.

**[DMG MORI's main initiatives]**

- **EMO HANNOVER 2023**

At EMO HANNOVER 2023, the largest global machine tool show held in Hanover, Germany, in September, we showed DMG MORI's further evolved MX (machining transformation), which realizes process integration, automation, DX (digital transformation) and GX (green transformation). Under the concept of "DMG MORI CITY: The Home of Technology," the

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MX Square was placed in the center of the booth, and along the "streets" extending from the MX Square, exhibits were arranged by theme, such as 5-Axis District, Additive Quarter, Digital Twin Corner, etc. We are confident that we were able to give our customers more concrete ideas to introduce MX. We expect that this will further promote MX and lead to an increase in order intake.

**New process integration machine: INH 63 / INH 80**

We are pleased to announce the world premiere of the INH 63 / INH 80, a high-precision 5-axis horizontal machining center. The INH 63 / INH 80 are equipped with our proprietary technologies featuring Precision, Productivity, and Flexibility, and are designed to enable customers' MX. Thorough measures against thermal displacement suppress changes in machine orientation and in-house made SmartSCALE linear guides are standard on all axes to achieve high static accuracy. A large-capacity magazine that can hold up to 363 tools, a CTS automation system that can handle up to 4,000 tools, and the newly developed energy- and space-saving vertical high-capacity coolant tank, *zero-sludge*COOLANT pro enable long hours of continuous, unmanned operation. This 5-axis machining center, built on a horizontal platform, enhances productivity in medium-to-high volume parts machining by leveraging the strengths of horizontal machines.

**Automation**

At our booth, we exhibited 21 types of automation systems. Among them, the Autonomous Mobile Robot, AMR 2000, which was unveiled for the first time in the world, has a high degree of freedom in its application. It can transport workpieces, dispose of chips, and transfer tools weighing up to 2,000 kg in total, enabling customers to reduce manpower at their shopfloors. In the area of pallet handling, the new PH Cell 800, which can be combined with our 5-axis machines, is a new model in the already popular PH Cell series. 30 pallets can be loaded on the PH Cell 800, which can transport up to 800 kg in weight. Also on display were examples of solutions that are currently being handled mainly at the Nara System Solution Factory, such as a work handling system that combines the MATRIS and NLX 2500 | 700, and a tool handling system that combines the NTX 1000 and WH-AMR 10.

**Digital Technology and Connectivity**

In addition to ERGOline X, a new operation panel that enables intuitive operation, we exhibited CELOS X, an evolution of our CELOS operation software, as a concept study. CELOS X Factory showed a fully integrated machining process of a Robo2Go head, our work handling robot, using one of our Additive Manufacturing machines, a 5-axis machining center, and peripheral equipment from partner companies. In addition, we presented WALC CARE, an application software developed for CELOS X by WALC, a software development group company. It utilizes AI (artificial intelligence) to process collected data of machine condition and to minimize machine downtime through predictive maintenance. Moreover, an extensive 60 Technology Cycles were introduced, which enable complex machining operations to be accomplished in a short time with simple guidance input.

**・ Group Strategy**

**Magnescale Co., Ltd., expands its production capacity for ultra-high resolution Laserscale**

Magnescale Co., Ltd., a manufacturer and seller of ultra-precision measuring components for semiconductor production equipment and machine tools, has decided to build a new plant in Nara, Yamato-Koriyama City, Japan, with completion scheduled for May 2025. Laserscale, manufactured by Magnescale has achieved the world's highest level resolution of

2.1 picometers (1 picometer is one billionth of a millimeter), and has a global market share of about 50% in the high-precision measurement market for front-end process semiconductor production equipment (according to Magnescale estimates). The company is ready to respond to the growing demand for Laserscale in line with the miniaturization of semiconductors and to provide a stable supply. In addition to the current main manufacturing site, Isehara plant (Isehara City, Kanagawa Prefecture), Magnescale will construct a new Nara plant to establish a two-site production system, thereby strengthening the business continuity plan (BCP) as well as expanding production capacity. Magnescale aims to double its sales revenue from JPY 20.0 billion planned for this fiscal year to JPY 40.0 billion by FY2030.

**Consolidation of KURAKI Co., Ltd. to DMG MORI group**

DMG MORI has resolved to acquire 100% of the shares in KURAKI Co., Ltd. (hereinafter, KURAKI) owned by Kurabo Industries Ltd. KURAKI's main product, CNC horizontal boring & milling machines, are not part of DMG MORI's product lineup, and the consolidation of the company will enhance the product lineup. Demand for CNC horizontal boring & milling machines is increasing in aerospace, new energy and heavy machinery industries, where high growth is expected over the medium- to long-term. KURAKI's CNC horizontal boring & milling machines have a high market share of 40% in Japan, and customers have given high marks to the quality of these products. On the other hand, the percentage of the company’s overseas sales remains low. DMG MORI has been selling the company's products in the U.S. since 2017, and after the consolidation, we will further strengthen sales in the U.S. and aim to expand sales in Europe and Asia through DMG MORI's strong sales network.

**Contribution to a Recycling-Oriented Society: DMG MORI CIRCULAR Co., Ltd.**

With the aim of further contributing to a recycling-oriented society, DMG MORI Used Machines Co., Ltd., which is engaged in the refurbishment and sale of used machines, will change its trade name to DMG MORI CIRCULAR Co., Ltd. (hereinafter, CIRCULAR). For the purpose of effective use of resources, CIRCULAR has been overhauling and reselling used machines, including used machines collected from customers and exhibited machines at our solution centers. DMG MORI group has sold about 300 units of used machines per year. In addition to the resale of used machines, CIRCULAR will start an initiative to reuse each part of unusable machine tools to the maximum extent possible. Castings recovered from used machines will be crushed and melted at DMG MORI CASTEC Corporation (Izumo City, Shimane Prefecture), a Group company that manufactures castings, for reuse as castings for machine tools. We have already conducted verification tests and confirmed that the process is economically viable while ensuring sufficient quality. In the future, we plan to use castings recycled through CIRCULAR and DMG MORI CASTEC to cover about 20-30% of the castings we use in the manufacture of machine tools. We also offer spindle rebuilds, and have already rebuilt about 1,000 spindles per year, which we will provide to customers worldwide through CIRCULAR. In addition to this, our maintenance and service business accounts for more than 20% of consolidated sales revenue, supporting the long-term use of machine tools. New technology through additive manufacturing is also introduced through our AM Lab & Fab at our Iga Plant and Tokyo GHQ, where we offer a service to share our technology. This service is significant in that it promotes the effective use of resources through sharing. In this way, with CIRCULAR at the core, we will promote the reuse of resources at the level of machine tool materials, parts, and products, thereby contributing to the realization of a recycling-oriented society

**・ Human Resource Development**

**DMG MORI ACADEMY**

DMG MORI ACADEMY Sendai (Sendai City, Japan) opened on September 7, 2023. This is the third ACADEMY in Japan, following Hamamatsu (April) and Kanazawa (May). During a global operator shortage, the Academy seeks to help customers' operators develop skills in handling advanced machines like 5-axis machines, mill-turn centers, and Additive Manufacturing machines, mastering complex workpiece machining, and understanding digital technologies including TULIP, a low-code programming software. The Academy will also offer private lessons by experienced DMG MORI experts to help customers' operators and students to improve their skills. Other academies are scheduled to open in Okayama and Fukuoka by the end of 2024, contributing to operator training and machining of workpieces in close proximity to customers.

**The "5-Axis Machining Technology Certifications" to be available**

We will start offering "5-Axis Machining Technology Certifications" from January 2024, a certification system designed to promote 5-axis machining technology and to improve the status of highly specialized operators. While demand for higher productivity and precision through process integration and automation is increasing, there is a shortage of operators who are proficient in the operation of 5-axis machines, which are typical process integration machines. Under this certification system, operators take a 4-level web-based examination that covers the fundamentals of 5-axis machining. The current target is to have 500 people take the examination by the end of 2024. Our goal is to make this certification system an official qualification in the future. With the introduction of this system, we will contribute to the development of 5-axis machine operators, the improvement of their status, and the enhancement of the technical capabilities of the industry as a whole.

(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