DMG MORI CO., LTD.
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・Achieved 10% OP margin for full year. Dividend per share to be increased to JPY 90 (vs 2022: JPY 70). Fiscal year 2023 results signify a promising start of the Medium-term Business Plan 2025.
・Fiscal year 2024 forecast: Profits planned to reach another consecutive peak. Dividend per share planned to be increased to JPY 100.

Financial Summary (JPY bn.)	FY2022	FY2023	(Y/Y)	FY2024E	(Y/Y)	FY2025E
Consolidated orders	542.4	520.0	-4.1%	520.0	0%	600.0
Order backlog for machine tools	254.0	247.0		-		-
Sales revenue	474.8	539.5	+13.6%	540.0	+0.1%	600.0
Operating profit	41.2	54.2	+31.4%	57.0	+5.3%	72.0
Operating profit margin (%)	*8.7%*	*10.0%*		*10.6%*		*12.0%*
Net profit attributable to owners of parent	25.4	33.9	+33.6%	35.0	+3.1%	48.0
Net profit margin (%)	*5.4%*	*6.3%*		*6.5%*		*8.0%*

[Summary of Financial Results for Full-year from January to December, 2023]

Reaching consecutive peaks in both sales revenue and profits, we were able to achieve an operating profit margin of 10% for the full fiscal year 2023. We plan to increase the dividend per share from JPY 70 in fiscal year 2022 to JPY 90 per share (Interim: JPY 40 per share, End-of-term: JPY 50 per share). The first year of the Medium-term Business Plan 2025 kicked off on a positive note.

Although 2023 was a difficult year for the machine tool industry as orders declined in the global market, we were able to achieve consolidated orders of JPY 520 bn., down only by 4.1% from the previous year. The success of our Machining Transformation (MX) strategy led to a significant increase in the average order price per unit to JPY 62 mil. (2022 average: JPY 50 mil.), which absorbed the decline in unit volume. The service and spare parts business, which accounts for 22% of consolidated orders, contributed by a 16% y-o-y increase in orders. By region, orders were strong in Europe and the Americas showed a positive turnaround from the fourth quarter. Orders by industry were strong in the aerospace, medical, and EV-related sectors. Machine order backlog at the end of December remained high at JPY 247 bn. (End of Dec. 2022: JPY 254 bn.).

Sales revenue increased significantly to JPY 539.5 bn. (+14%, Y-o-Y), operating profit to JPY 54.2 bn. (+31%, Y-o-Y), and net profit to JPY 33.9 bn. (+34%, Y-o-Y). Operating profit margin and net profit margin improved to 10.0% (8.7% in FY 2022) and 6.3% (5.4% in FY 2022), respectively. Lower discount rates due to the provision of high value-added solutions contributed to the improved profit margins.

Operating free cash flow was positive JPY 14.9 bn. Our ability to generate cash has increased due to profit growth. On the other hand, our inventories of components and materials temporarily increased to resolve supply chain disruptions and our upfront investment increased as well. Since the major capital investments have been completed and inventories have started to decline since the fourth quarter, free cash flow is expected to improve significantly from 2024 onward.

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[Forecast for Full Fiscal Year 2024 (January to December)]

At the beginning of the fiscal year 2024, we cautiously plan consolidated orders to be JPY 520 bn., about the same level as 2023. Sales revenue is planned at JPY 540 bn., a slight increase from the previous fiscal year, based on an abundant machine order backlog of JPY 247 bn. Operating profit and net profit are projected at JPY 57 bn., up 5%, and at JPY35 bn, up 3% from the previous year, respectively, due to an improvement in the gross profit margin of the order backlog and improved profitability of in-house parts and engineering divisions. We forecast an operating profit margin of 10.6%. Based on the assumption of higher profit and planned cash flow improvement, we plan to increase the dividend per share consecutively to JPY 100 (Interim: JPY 50, End-of-term: JPY 50). We expect to achieve our annual dividend per share target of JPY 100 one year earlier than the original plan in the Medium-term Business Plan 2025.

Financial Results in Fiscal Year 2023

Order Intake and Machine Order Backlog

Orders for the machine tool industry in 2023 were challenging throughout the year worldwide. Against this backdrop, our consolidated orders totaled JPY 520 bn., down only 4.1% from FY2022. In addition, our consolidated orders for the fourth quarter (October-December 2023) turned positive, up 9.1% from the same period last year. Our proposals for streamlining machining processes through process integration, automation, GX (Green Transformation), and DX (Digital Transformation) have been well received by our customers. As a result, the order price per unit increased from JPY 50 mil. in FY 2022 to JPY 62 mil., compensating for the decrease in the number of orders. The service and spare parts business, which accounts for 22% of consolidated orders, increased 16% from FY2022, compensating the decline in demand for machine tools.

Orders by region were up 3% in Europe (55% of total orders) and 3% in the Americas (21% of total orders) compared to FY 2022. Orders in other regions decreased from the previous fiscal year. Orders in Japan (11%) were down 25%, Asia (5%) down 17%, and China (8%) down 20%. In the Americas, automation projects began to contribute to an increase in orders in the fourth quarter, mainly from medium-sized and large companies. In China, orders decreased significantly, but this was due to stricter export control policies that led to a cancellation of order backlog and more targeted selection of new orders. Orders by industry were strong for aerospace, medical, and die & mold applications. For the semiconductor industry, demand for next-generation cutting-edge applications was solid, but recovery in other semiconductor areas has been somewhat delayed. We expect demand from the overall semiconductor production equipment sector to increase from the second half of 2024.

The machine order backlog at the end of December 2023 was JPY 247 bn., down from JPY 254 bn. at the end of December 2022, but remaining at a high level. This abundant order backlog with improved margin is expected to contribute to growth in profits in FY2024.

Profit or Loss Trends

Sales revenue was JPY 539.5 bn., up 14% from FY2022. The impact of yen depreciation on sales revenue was approximately JPY 40 bn. Parts procurement has been normalized since the second half of 2023, and production and shipments progressed steadily. Sales of the service and spare parts business, which accounts for 21% of total sales, was also strong with a y-o-y increase of 16%.

Operating profit increased 31% from FY2022 to JPY 54.2 bn., with an increase amount of JPY 13 bn. Gross profit increased by

JPY 15.6 bn. due to a lower discount rate resulting from the provision of value-added solutions, sales increased by JPY 4.0 bn., the in-house parts division and the engineering division related to automation improved efficiency by JPY 5.5 bn., and foreign exchange factors added JPY 11.3 bn. for a total positive factor of JPY 36.4 bn. On the other hand, personnel expenses increased JPY 20.1 bn. due to global salary revisions and an increase in the number of service engineers, and depreciation and other expenses increased JPY 3.3 bn., resulting in a total negative factor of JPY 23.4 bn. The operating profit margin improved from 8.7% in FY 2022 to 10.0% in FY 2023, largely due to an improvement in the gross profit margin resulting from the company's strategic advantage.

The finance cost was a loss of JPY 6.2 bn., JPY 1.5 bn. worse than FY2022. The breakdown was approximately JPY 0.9 bn. in increased financial expenses and approximately JPY 0.6 bn. in increased cost on non-controlling shareholders of AG due to the DPLTA (Domination Profit and Loss Transfer Agreement). The increase in financial payment was due to higher interest rates on euro-denominated borrowings. We have already switched from euro-denominated loans to lower-interest yen-denominated loans from the third quarter. The increase in the cost related to the DPLTA is due to interest expenses during the period, based on the assumption of the settlement date of the lawsuit by AG's minority shareholders at the end of 2024. The amount of the per-share recurring annual cash compensation to AG's non-controlling shareholders remains unchanged on a euro basis. Net profit attributable to owners of the parent increased by 34% from FY2022 to JPY 33.9 bn. After deducting an over JPY 1.7 bn. charge for hybrid capital, net profit attributable to common shareholders of the parent for the period amounted to JPY 32.2 bn., up 36% from FY2022.

Cash Flow and Financial Position

Operating free cash flow (operating cash flow - investing cash flow) was positive JPY 14.9 bn. While the ability to generate cash increased due to the substantial increase in profit, expenditures also expanded due to an increase in inventories and increased investment for medium- and long-term growth. In the fourth quarter (October-December 2023) inventories declined significantly as a result of optimized procurement of parts and materials, and operating free cash flow was positive at JPY 25.6 bn. Net debt, including hybrid capital, increased to JPY 179.5 bn. at the end of December 2023 (JPY 166.4 bn. at the end of December 2022) due to increased upfront investments and higher dividends. However, free cash flow is expected to improve significantly from FY2024 onward, as large upfront investments have already been completed and inventories are being optimized.

[Forecast for FY 2024 (January - December 2024)]

At the beginning of the fiscal year, we are cautiously projecting consolidated orders for FY 2024 at JPY 520 bn., the same level as FY2023. We believe that orders on a quarterly basis almost bottomed out in the third and fourth quarters of the previous fiscal year. By region, we expect that the North American market will drive demand for the time being. By industry, we expect demand from the aerospace, medical, die & mold, and new energy-related industries. In the semiconductor-related market, demand for next-generation cutting-edge applications remains solid, but recovery in other semiconductor areas has been somewhat delayed. We expect demand from a wide range of semiconductor-related sectors to increase from the second half of the fiscal year.

We plan a slight year-on-year increase in sales revenue to JPY 540 bn., a 5% increase in operating profit to JPY 57 bn., a 3% increase in net profit attributable to owners of the parent to JPY 35 bn., and net profit attributable to common shareholders of the parent to JPY 33.3 bn. With an abundant machine order backlog of JPY 247 bn. at the beginning of the period and the outlook for solid sales from the service and spare parts business, we expect to absorb the near-term slowdown in demand for machine tools and ensure a slight increase in sales revenue. While the large increase in expenses due to the global salary revision has leveled off, the operating profit margin is expected to improve further due to an improvement in gross profit from a reduced discount rate and more efficient use of internal resources. Operating profit is expected to increase by JPY 2.8 bn. from JPY 54.2 bn. in FY2023 to JPY 57 bn. We plan to achieve a total of JPY 14.5 bn. in positive factors, including JPY 11 bn. from gross profit improvement through high value propositions to customers and JPY 3.5 bn. from cost structure reforms. On the other hand, we plan JPY 11.7 bn. in negative factors, including JPY 6 bn. in salary revisions for global employees to cope with inflation, JPY 3.2 bn. in increased expenses such as depreciation and amortization, and JPY 2.5 bn. in the impact of foreign exchange rate fluctuations.

Free cash flow is projected to be positive at more than JPY 40 bn. Higher profits and reduction in inventories will contribute to the cash generation. Significant capital investment has been completed, and we plan capital investment for the current fiscal year to be approximately JPY 30 bn., almost the same level as depreciation and amortization. Of the free cash flow, around JPY 13.5 bn. (dividend per share: JPY 100 per share for the fiscal year) will be allocated for dividend payments, and the remainder will be used to reduce interest-bearing debt. Assuming that the convertible bond will be converted into our equity by July, net debt at the end of December 2024, including hybrid capital, is expected to be less than JPY 120 bn.

[Forecasts for FY 2025 (January-December 2025), the final year of the Medium-term Business Plan 2025]

In FY 2025, we aim to achieve sales revenue of JPY 600 bn., operating profit of JPY 72 bn. (operating profit margin: 12%), and net profit of JPY 48 bn. (net profit margin: 8%), as initially planned in the Medium-term Business Plan 2025. Customers are expected to continue their pursuit of more efficient production systems through process integration, automation, GX and DX, which will lead to an increase in order intake through higher unit prices.

We will also continue to improve profitability by lowering the discount rate through the provision of value-added solutions to customers and by improving the efficiency of internal management resources. We believe that our operating profit margin target of 12% is achievable. By expanding profitability and optimizing working capital, we will increase our ability to generate cash and reduce interest-bearing debt. By the end of December 2025, we plan to reduce our net debt, including hybrid capital, to around JPY 80 bn.

[DMG MORI's Initiatives]

Investment in Human Capital

Revision of Global Employee Salaries

We have been revising the salaries of our global employees since 2022 to appropriately reflect their job responsibilities, skills, and qualifications. We are making efforts to attract and retain top talent by offering salaries that surpass industry standards, aligning with our commitment to delivering the highest quality solutions. The average annual salary of Japanese employees increased from JPY 8.35 mil. in 2022 to JPY 8.92 mil. in 2023. The effects of these significant salary level revisions have leveled off in 2023. We plan to continue revising salaries in line with global inflation rates from FY2024 onwards.

Acquisition of White 500 Certification

At DMG MORI, we make it our mission to “Play Hard + Be Dynamic,” “Study Continuously + Be Open,” and “Work Together + Be Innovative.” It is only through “playing hard” that we can take proper care of our physical and mental health. We promote this through initiatives such as providing in-house fitness gyms and nutritionally balanced meals. In March 2023, our efforts have been honored with the "White 500" certification in the "Excellent Health and Productivity Outstanding Organization" category.

Opening of New DMG MORI ACADEMY

DMG MORI offers programs on machine operation and processing methods with the aim of training customers' operators and promoting process integration machines such as 5-axis machines and mill-turn centers. In addition to our existing training facilities in Iga, Tokyo, and Nagoya, we are opening academies around the country so that our customers can participate in training using our actual machines at locations close to them. We have already opened three academies in Kanazawa, Sendai and Hamamatsu in 2023, and plan to open other two in Okayama and Fukuoka in the future. The curriculums are provided in collaboration with our group company Technium Co., Ltd. Through our years of dedicated collaboration, we have developed valuable content that covers fundamentals of machine operation, maintenance, and process design. These efforts contribute to our philosophy of “working together,” enabling the entire company to deliver greater value.

Supporting Students as the Next Generation of Industry Leaders

Since 2019, the Mori Manufacturing Research and Technology Foundation has been providing three-year scholarships to graduate students in engineering. Starting in 2023, the Foundation also began offering scholarships to students in the humanities and social sciences. Including students who have already graduated and new students who will be eligible for scholarship from April 2024, the total number of students for support amounts to 48. After obtaining their doctoral degrees, they are active in their respective fields, either working in the private sector or continuing their research at universities. In April 2023, one graduate from this program joined DMG MORI.

We are also providing full-scale support for the new Faculty of Engineering of Nara Women's University since April 2022. We provide the students with opportunities to gain practical skills that are not taught in the academic fields, such as actual design, production, and application of the latest technology. Since October 2022, we have been supporting the mandatory course “Introduction to Advanced Design and Production Engineering”. Later in 2023, we also started offering hands-on training to the students on our latest NTX 500 mill-turn center and WH-AMR automation system at our Nara Product Development Center (Nara PDC). To further expand students' interest in engineering, we also have implemented the Women Engineers Program (WE Program), in which female junior and senior high school students from all over Japan visit our Nara PDC to experience engineering. In addition, we started offering classes at secondary schools affiliated with Nara Women's University as well.

Organizational Restructuring to Strengthen Group Management

Fifteen years have passed since we started a business and capital alliance with the former German company Gildemeister AG ("AG") in 2009. As mentioned above, DMG MORI has achieved consecutive records in profits on a consolidated basis and is performing well under the current group management. However, there is a growing need to further improve our global management practices in order to cope with rising economic security standards due to geopolitical risks, inventory increases due to supply chain and logistics disruptions, and exchange rate fluctuations. In response, we have made changes to our internal organizational structure. Since the full management integration with AG in 2016 via the Domination Agreement (DPLTA), the directors of the former Mori Seiki and AG had taken the lead in ensuring that our management policies were in line with each other. From 2023 onwards, as we see the need to respond quickly to the changes in the economic environment, we have changed to a system in which the same information and decisions is shared at the executive level throughout the world. In particular, the number of AG's executive officers has been increased, so that more than 40% of the 41 members of

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the Executive Officers Meeting are foreign nationals. The new organization proactively promotes young employees in their 40s or so, thereby contributing to the development of global management sense among young executive candidates.

Our European plants named Deckel, Maho, and Gildemeister share a long history and an established brand of products of the world's highest technology and quality. With respect to those products and brands, and to share a sense of global unity among our global stakeholders, including employees and customers, we will proceed with globally unifying the company names and logos of our European subsidiaries to "DMG MORI" in 2024.

Grouping of KURAKI Co., Ltd.

Negotiations to incorporate KURAKI Co., Ltd. ("KURAKI") into the DMG MORI group started in 2023 and were completed on January 5, 2024. By incorporating KURAKI's CNC horizontal boring and milling machines, we are able to expand our product lineup and gain new customers. KURAKI is also involved in sales of CAD/CAM systems and has a large number of talented developers and engineers, making this an ideal M&A transaction that will provide us with valuable management resources. KURAKI's main base in Nagaoka City, Niigata Prefecture, is a known city in the machine tool industry and is also home to the headquarters of our group company Taiyo Koki Co., Ltd. Moving forward, the two companies intend to mutually utilize their management resources to enhance the corporate value of both Taiyo Koki and KURAKI, while also contributing to the urban development of Nagaoka. KURAKI plans to change its well-established name to DMG MORI Precision Boring Co., Ltd. in April 2024 to foster a sense of unity within the DMG MORI Group.

Strengthening Export Control

Amid heightened geopolitical risks, it was reported in some media that machines manufactured at DMG MORI's Russian plant were sold after Russia's invasion of Ukraine and that machines manufactured by AG, which were exported to China, were resold. The former was an incident that occurred during wartime under circumstances beyond the head office’s control, and the latter was an incident where the product was resold without notifying the head office. Neither of these cases constituted a violation of laws and regulations. DMG MORI has always placed great importance on security (export control) and has been quick to strengthen its export control system. The two incidents made clear that we need to implement measures that go beyond the legal requirements to prevent unauthorized sales and resales. In addition, these incidents also served as an opportunity to raise public awareness of the importance of machine tools and the need for export control.

As a measure to strengthen export control, DMG MORI has been installing relocation detection devices since 2006. As a measure to strengthen export control, DMG MORI has been installing relocation detection devices since 2006.

If a machine tool equipped with this device is relocated without permission, the machine will automatically activate a lock mechanism, rendering it inoperable. This prevents the machine from being relocated without prior notification and permission. We have started to install the relocation detection devices in all AG machines in 2023. The construction of a relocation detection system requires a great deal of effort, manpower, and equipment. However, the DMG MORI Group considers this a necessary and natural responsibility, given our social responsibility as a manufacturer of ultra-precision machine tools. We will continue to build a more sophisticated export control system and strictly enforce it throughout the world.

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(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