DMG MORI

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Steady progress in the MX strategy. Order unit prices rose, and order gross profit margins continued to improve.
Orders have been stagnant since August, and the Company has revised its FY 2024 forecasts downward. The annual dividend plan per share of 100 yen remains unchanged. The Company has reviewed its forecasts FY 2025 (the final year of its “Medium Term Business Plan 2025”).

Financial Summary (JPY bn.)	FY2023 Jan-Sep	FY2024 Jan-Sep	(Y/Y)	FY2023	FY2024E new plan	(Y/Y)	FY2024E Plan (Announced on July 31)	FY2025E	(Y/Y)
Consolidated orders	399.5	381.5	-4.5%	520.0	500.0	-3.8%	530.0	540.0	+8%
Machine order backlog	280.0	249.0		247.0			-	-	
Sales revenue	380.2	388.0	2.1%	539.5	550.0	+2.0%	550.0	540.0	-2%
Operating profit	35.7	30.0	-15.9%	55.4	44.0	-20.5%	58.5	49.0	+11%
Operating profit margin (%)	*9.4%*	*7.7%*		*10.3%*	*8.0%*		*10.6%*	*9.1%*	
Net profit from continuing operations	23.0	15.9	-31.0%		25.0				
Loss resulting from the deconsolidation of Russian factory (UMT)	-0	-15.1			-15.0				
Net profit attributable to owners of the parent	23.0	0.6	-97.4%	33.9	10.0	-70.5%	36.0	30.0	three times

In the first quarter (January-March), a loss of 91.8 million EUR was recorded for the deconsolidation of the Russian manufacturing subsidiary Ulyanovsk Machine Tools ooo (UMT).

[Summary of Financial Results for FY2024 3Q (Jan-Sep) Accumulated]

Accumulated consolidated order intake up to the third quarter totaled 381.5 billion yen, down 4.5% from the same period last year (January-September 2023). Monthly orders had been positive year-on-year since May and gained momentum in recovery until July, but have stagnated again since August. The Company has been promoting process integration, automation, GX, and DX, and the average unit order price grew to 71.5 million yen (61.9 million yen in the previous year). Demand for medical, aerospace, aviation, mold, energy, and defense-related applications remained strong. By region, demand was solid in Japan, Asia, and China. In Europe and the Americas, the number of inquiries remains at a high level as customers have been willing to invest in process-integration machines and automation. However, they are taking longer time to make final investment decisions. Orders for spare parts, service, and engineering totaled 92.4 billion yen, up 7.4% from the same period last year, and its share of consolidated orders rose to 24% (22% in FY2023). Machine order backlog at the end of September was 249 billion yen, almost the same level as the end of the previous fiscal year at 247 billion yen.

Sales revenue was 388.0 billion yen, up 2% y/y, operating profit was 30.0 billion yen, down 16% y/y, operating profit margin was 7.7% (9.4% last year), net profit from continuing operations was 15.9 billion yen, down 31% y/y, and net profit was 600 million yen. Shipments were slower than planned due to prolonged export review process by the German government and production disruptions caused by the start of SAP S/4 HANA to the Bielefeld and Pfronten factories in Germany. The Company is on track with improvement in gross profit by providing high value- added machining systems and realizing cost efficiency of in-house manufactured components through process integration. However, operating profit decreased due to delayed shipments, additional SAP S/4 HANA costs, and an increase in service and design engineers. Since the Russian manufacturing subsidiary (UMT) was seized by the Russian government, and the Company excluded it from consolidation and recorded a loss of 91.8 million euros (about 15 billion yen) in the first quarter, net profit resulted in 600 million yen.

[Downward revision for FY2024 (Jan-Dec 2024). Profits to recover for FY2025 (Jan-Dec 2025)]

We have reduced our forecast for orders for the fiscal year to 500 billion yen (previous forecast: 530 billion yen). Orders have been stagnant since August and are expected to remain flat for the remainder of the year. According to a report by VDW (German Machine Tool Builders' Association)/OXFORD ECONOICS, machine tool orders are expected to start increasing from 2025. Sales are planned at 550 billion yen as before. On the other hand, operating profit and net profit were revised downward to 44.0 billion yen (previous plan: 58.5 billion yen) and 10.0 billion yen (previous plan: 36.0 billion yen), respectively. The downward revision to operating profit includes factors such as decrease in

production and additional costs from SAP S/4 HANA, sales promotion of long-standing inventory, disposal of excess parts procured during the supply chain disruption period, and increased hiring of service and design engineers. We have filed an insurance claim (90.4 million euro, 14.5 billion yen) over our Russian plant. But, we have excluded it from our business plan for this fiscal year, since we do not expect to receive the proceeds until 2025 onwards.

We have revised our business targets for the final year of the current "Medium Term Business Plan 2025". We project order intake of 540.0 billion yen (up 8% from the current year's forecast), sales revenue of 540 billion yen (down 2%), operating profit of 49.0 billion yen (up 11%), operating profit margin of 9.1%, and net profit of 30.0 billion yen (triple the forecast). Gross profit improvement through the provision of process integration and automation systems are expected to continue. Profits are expected to improve significantly due to the elimination of expenses such as additional SAP S/4 HANA costs, sales promotion of long-standing inventory, and disposal of excess parts, to be recorded this fiscal year. The causes of production disruptions by the start of SAP S/4 HANA and their solutions have been verified at the German factories. It is expected that production will proceed smoothly for the roll-out at the Iga and Nara factories in the first quarter of 2025.

[Result of FY2024 3Q (Jan-Sep) Accumulated]

Order intake and machine order backlog

Consolidated order intake (January-September) totaled 381.5 billion yen, down 4.5% from the same period last year (January-September 2023). Order intake in the first quarter (January-March) declined 6% y/y, the second quarter (April-June) declined 1% y/y, and the third quarter (July-September) declined 7% y/y. Order intake, which had been positive y/y since May, have stagnated again since August. Our MX strategy continues to attract attention from customers, which leaves inquiries for process integration and automation at a high level. However, customers are taking a lot of time to make investment decisions, which is delaying the recovery of our orders. The average order value per machine was 71.5 million yen (435 thousand euros), up 16% from the previous year's average of 61.9 million yen (407 thousand euros) (in euro terms: up 7%). The average price rise has been driven by an increase in the share of process integration machines such as 5-axis machines, mill-turn centers and machines with advanced technologies. Orders for spare parts, service, and engineering rose 7% y/y, and the share of consolidated orders rose to 24% (22% in the previous year), contributing to the stabilization of the consolidated order.

Consolidated orders (January-September) by region were up 7% in the Americas (21% of total consolidated orders) and 9% in Asia (6% of total consolidated orders) compared with the same period last year. Orders in other areas declined: Japan by 10% (11% of total consolidated orders), Europe by 4% (55% of total consolidated orders), and China by 32% (7% of total consolidated orders). Orders in the 3rd quarter (July-September) differed from the trend for accumulated order results for the first nine months of the year. Orders were up 6% in Japan, 57% in Asia and 56% in China compared with the same period last year. In Japan and Asia, some projects from the semiconductor production equipment industry contributed to the increase. The change in China is based on the fact that orders have currently normalized after a decline from the second quarter of FY2023 due to the further tightening of export regulations and the beginning of the installation of relocation detection devices on European products. In the Chinese market, demand for process integration and automation systems for customers engaged in high-precision parts processing products has been stable. Sales in Europe and the Americas, which had been strong through the second quarter, were down 19% and 10%, respectively, from the same period last year.

Demand by industry remains strong for the medical, aerospace, aviation, mold, power, and defense industries. The aviation industry maintains solid demand in Europe. In the third quarter (July-September), while demand for semiconductor production equipment showed some recovery in Japan and Asia, no increase was seen in Europe and Americas.

The order backlog for machines at the end of September was 249.0 billion yen, almost unchanged from the 247.0 billion yen at the end of December 2023. Due to production disruptions caused by the start of SAP S/4 HANA at the Bielefeld (Q1 2022) and Pfronten (Q1 2024) factories in Germany, which delayed shipments, the order backlog remained high at the end of September. The order backlog as of end of December 2024 is expected to be around 200.0 billion yen, as shipments are scheduled to be made as planned in the fourth quarter.
The transition to SAP S/4 HANA started at Bielefeld plant in 1Q 2022 and at Pfronten plant in 1Q 2024. The production disruptions caused

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by the introduction of SAP S/4 HANA at the Bielefeld factory were largely settled in the first quarter of 2024, but shipping delays at the Pfronten factory are not expected to end until the first quarter of 2025. We are scheduled to begin introducing the solution to our Iga and Nara factories in Japan from the first quarter of 2025. We have already identified the causes of the production disruptions at our German factories and verified solutions. We believe that we will be able to avoid production disruptions due to the start of the introduction of SAP S/4 HANA in the future.

Profit or Loss and Cash Flow

Sales revenue increased 2% y/y to 388.0 billion yen, operating profit decreased 16% y/y to 30.0 billion yen, net profit from continuing operations decreased 31% y/y to 15.9 billion yen, and net profit was 600 million yen. The impact of foreign exchange rates on sales was just over 30 billion yen. Sales fell short of the plan due to a prolonged export review process driven by increased global geopolitical risks and delayed shipments caused by the production disruption related to the introduction of SAP S/4 HANA at factories in Germany. Operating profit decreased by 5.7 billion yen from the same period last year. Positive factors included a 9.0 billion yen increase in gross profit due to a lower discount rate and a 3.8 billion yen surplus thanks to improved production efficiency for in-house components, a total of 12.8 billion yen. Negative factors included 7.4 billion yen in sales decline, 3.0 billion yen in production disruptions and additional costs due to SAP S/4 HANA, 5.1 billion yen in increased service and design engineers, and 3.0 billion yen in increased depreciation and amortization, as well as other expenses, a total of 18.5 billion yen. Net profit decreased to 600 million yen. In February, the Russian government confiscated our Russian manufacturing subsidiary, UMT, and we have excluded this subsidiary from the consolidation. As a result, DMG MORI has recorded a loss of 91.8 million euros (approximately 15 billion yen). The loss is to be covered by foreign direct investment insurance provided by the Federal Republic of Germany, and DMG MORI has filed an insurance claim for 90.4 million euros (approximately 14.5 billion yen).

Sales revenue during the three months of the third quarter (July-September) declined 4.9% from the same period last year to 124.2 billion yen, operating profit fell 48.1% to 6.8 billion yen, net profit was 1.5 billion yen. The production disruptions from the launch of SAP S/4 HANA and additional expenses had a significant impact in the third quarter.

Free cash flow (cash flow from operating activities minus cash flow from investing activities) was a negative 15.5 billion yen for the first nine months. This was mainly due to the fact that inventory reduction did not progress as planned until the second quarter. Free cash flow for the three months during the third quarter (July-September) turned to a positive 1.4 billion yen. Inventory decreased by 16.9 billion yen from 221.6 billion yen at the end of June to 204.7 billion yen at the end of September, leading to a significant improvement in working capital. Investment cashflows for nine months through September totaled 26.5 billion yen (30.8 billion yen for the same period last year). We continue to invest in our automation system capabilities, which are in response to growing demand, and in IT, for medium- to long-term growth and management resource efficiency.

[FY2024 (Jan-Dec) Forecast, Review of business performance for the final year of the current "Medium Term Business Plan 2025”]

FY2024(Jan-Dec) Forecast

We have reviewed our business forecasts for FY2024 due to slower-than-expected recovery in orders and shipping delay caused by production disruptions regarding the launch of SAP S/4 HANA at our German factories. In addition, we have decided to promote sales of long-term inventory that has been in storage for more than a year and dispose excess parts purchased during the period of supply chain disruption. We aim for a healthy recovery from FY2025 onwards. We have reduced our order forecast from 530.0 billion yen to 500.0 billion yen. We expect demand in Japan, Asia, and China to remain stable. We will strive to win orders at the Japan Machine Tool Show (JIMTOF2024) to be held in early November, by presenting our advanced MX strategy to customers. Demand in Europe and the Americas has been in an adjustment phase since August, and we expect this situation to continue through the end of this year. By industry, demand for medical, aviation, aerospace, molds, power generation, and defense-related applications appears to be solid.

Sales revenue is projected to be 550.0 billion yen as before, based on order backlogs and sales promotion of inventory. Operating profit and net profit have been revised downward from 58.5 billion yen to 44.0 billion yen and from 36.0 billion yen to 10.0 billion yen, respectively.

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Operating profit is expected to be 14.5 billion yen lower than the original plan. This is accounted for by 5.0 billion yen for production disruption and additional expenses due to the start of SAP S/4 HANA, 4.0 billion yen for increased personnel expenses due to hiring of additional service and design engineers, 3.5 billion yen for sales promotion expenses for long-standing inventory, and 2.0 billion yen for loss on disposal of excess ordered components. Operating profit margin is expected to be 8.0% (10.3% in the previous year). Receipt of the proceeds regarding our insurance claim (90.4 million euro, 14.5 billion yen) is predicted to be in 2025 and beyond. Therefore, the amount of expected proceeds was excluded from this year's business forecast.

Free cash flow is expected to be 5.0 billion yen. Free cash flow turned positive to 1.4 billion yen in the third quarter and expected to climb to 20.5 billion yen in the fourth quarter (25.6 billion yen in the same period last year). For the whole fiscal year, we expect cash flow from operating activities of 50.0 billion yen and cash flow from investing activities of 45.0 billion yen. Investments for sustainable growth in the medium to long term have been at a high level for three years, including the enhancement of supply capacity for automation systems, the opening of DMG MORI ACADEMY for operators' training, and IT investments to improve management efficiency and speed up management decision making. We will strive to keep investments within the depreciation and amortization expenses from 2025 onwards and increase free cash flow.

Regarding shareholder return, the Company plans to maintain a dividend of 100 yen per share for the fiscal year (interim: 50 yen, year-end: 50 yen). Our basic policy for returning profits to shareholders is to "strive for stable dividends while maintaining a dividend payout ratio of approximately 30%." The dividend payout ratio for the fiscal year will be about 140%. However, the decrease in net profit for the current fiscal year is largely due to a one-time loss, and we plan to maintain the dividend as planned at the beginning of the fiscal year.

FY2025 Business Forecast

Fiscal year 2025 is the final year of the current “Medium Term Business Plan 2025”. The fundamental strategy of the current medium term business plan was to propose increasing customer value through the MX strategy (process integration→ automation → optimization of the machining process with GX as DX) and to strengthen mechanisms to propose such value through direct sales, direct service, engineers, etc.. The results of these efforts have been reflected in higher unit prices for machine orders, improved gross profit margins due to lower discount rates, and an increase in excellent human resources combined with wage hikes around the world. Although the fundamental strategy is yielding results, we have revised our performance targets for FY2025 due to the delayed recovery of orders in the short term. At this stage, we are forecasting sales revenue of 540.0 billion yen (original Medium Term Business Plan: 600.0 billion yen), operating profit of 49.0 billion yen (72.0 billion yen), operating profit margin of 9.1% (12.0%), and net profit of 30.0 billion yen (48.0 billion yen). We plan to see a decline in sales, but a recovery in profits. We expect operating profit to increase due to an increase in gross profit as a result of a lower discount rate from the MX offering, the continued effect of improved production efficiency of in-house components, and the elimination of expenses to be recorded in FY2024 Free cash flow is expected to rise to more than 30.0 billion yen due to improved profits.

Outline of FY2030

Our long-term sales revenue targets are 800.0 billion yen in sales, 120.0 billion yen in operating profit and 15% in operating profit margin through expansion of our current business model. There is an increasing demand for machining parts with complex shapes and high precision from the medical, aviation, aerospace, mold, energy, and defense-related industries. As the shortage of operators becomes more serious in the global market, we are confident that our MX strategy, which allows customers to meet the demands of complex shapes and precision machining, will be increasingly highly regarded in the market. We will strengthen our financial position by reducing interest-bearing debt and increasing shareholders' equity, including voluntary redemption of our hybrid capital. After strengthening our financial structure, we aim to expand our business, taking acquisitions into account, and aim to reach 1 trillion yen in sales by around FY2030.

[DMG MORI’s Initiatives]

・**Tender Offer for Common Shares of TAIYO KOKI CO., LTD.**

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At the Board of Directors' Meeting held on November 1, DMG MORI resolved to acquire the common shares of TAIYO KOKI CO., LTD, a consolidated group company (current shareholding ratio of 50.8%) listed on the Standard Market of the Tokyo Stock Exchange, through a tender offer. Subject to the completion of the tender offer, DMG MORI intends to make TAIYO KOKI a wholly-owned subsidiary. TAIYO KOKI is engaged in the manufacture and sale of grinding machines. While the company is highly regarded by customers in Japan for its high quality and prompt after-sales service, we recognize that there is significant potential to expand sales overseas. By becoming a wholly-owned subsidiary, TAIYO KOKI will be able to utilize DMG MORI's overseas network and accelerate its overseas development, which is expected to lead to further growth of TAIYO KOKI and the entire DMG MORI Group. In January 2024, DMG MORI Precision Boring (formerly KURAKI CO., LTD.) became a consolidated group company. The company manufactures and sells horizontal boring and milling machines and is also headquartered in Nagaoka, Niigata Prefecture. We aim to expand the business from the area by strengthening the collaboration between DMG MORI Precision Boring and TAIYO KOKI through resource sharing and enhanced coordination in procurement and logistics and so on.

・Marketing

We will be exhibiting at JIMTOF2024, held at Tokyo Big Sight from November 5-10, 2024. At the same time, we will connect our Tokyo GHQ and the JIMTOF venue via shuttle bus service and host our in-house exhibition "Tokyo Technology Week". At JIMTOF2024, we will showcase 12 machine models and 8 automation systems, highlighting our focus on process integration, automation, GX, and DX initiatives. For the first time, our group companies TAIYO KOKI and DMG MORI Precision Boring will join us at the booth, exhibiting together in a unified group area. The booth will also feature a dedicated section for DMQP (DMG MORI Qualified Products) partners, displaying peripheral equipment, coolants, and other consumables to provide comprehensive, one-stop machining solutions.

・Release of 5th Generation Turning Center: NLX 2500 | 700 2nd Generation

In September, we launched the NLX 2500 | 700 2nd Generation, a 5th generation turning center with high accuracy and milling capabilities equivalent to a 40 taper machining center. The machine's mechanical structure has been optimized from the early design stage by predicting performance and conducting thermal analysis through FEM analysis and digital twin simulation. The NLX 2500 | 700 2nd Generation is also capable of integrating gear machining processes that were previously performed by dedicated machines. It is also possible to integrate complex processes such as hobbing and internal tooth machining by using DMG MORI's Technology Cycles "Gear Hobbing" and "Gear Skiving". In addition, the NLX 2500 | 700 2nd Generation is equipped with the new touch-panel operation panel "ERGOline X with CELOS X", offering enhanced usability, operability, and a variety of application to further boost productivity. The machine also supports automation. When paired with the MATRIS robot system, it can efficiently handle variable-mix and variable-volume production, increasing machine utilization.

・Iga Campus Received the Deming Prize 2024

DMG MORI's Iga Campus (Iga City, Mie Prefecture), the Group's largest production site, has received the Deming Prize for 2024. The Deming Prize, established in 1951, is the world's most prestigious award for total quality management (TQM). It honors the work of the late Dr. William Edwards Deming, who pioneered statistical quality control in postwar Japan, elevating the quality of Japanese products to world-class standards. We have long established a globally unified quality management system, implementing initiatives like providing feedback to manufacturing sites on machine defects and an employee-driven improvement proposal system. With the introduction of TQM in 2017, we reinforced the importance of a customer-first approach and have actively promoted TQM to realize MX (Machining Transformation), the focus of our Medium-term Business Plan 2025. Moving forward, we remain committed to advancing TQM and enhancing quality across the organization to support sustained growth.

・Relocation of Spare Parts Center in China

In order to expand spare parts for the Chinese market and deliver them quickly to customers, the existing spare parts center was relocated from Shanghai to Pinghu factory and started operation in October. The new spare parts center spans 1,850 m2 and has the capacity to store more than 15,000 spare parts. Through this, DMG MORI now has four spare parts centers around the world: in Japan (Iga), Germany (Geretsried), the United States (Dallas), and China. As a company-wide KPI for our service business, we have set a target of achieving a

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"95% or higher spare parts shipment rate within 24 hours" and are working diligently toward this goal in every region. We believe that minimizing machine downtime for our customers enhances their value and strengthens their trust in DMG MORI.

・Groundbreaking Ceremony for European Headquarters in Munich

On September 10, 2024, we held a groundbreaking ceremony for our European headquarters in northern Munich, the capital of the state of Bavaria. Set to open in 2026 or later, the new headquarters will be located close to our largest development and production site in Europe, the Pfronten plant in Germany. With convenient access to various European locations and international flights, it will serve as a center for international exchange. The showroom on the first floor will be equipped with the latest products and technologies and will be used for customer meetings, trainings, and showroom tours. The Munich European headquarters will serve as a base for further expanding DMG MORI's presence in Europe and strengthening group governance.

[ESG/CSR Initiatives]

・Operator Training

DMG MORI supported the 47th International WorldSkills Competition held in Lyon, France, from September 10 to 15, 2024. We provided a total of 29 machines, including 14 CTX 350 turning centers and 15 DMU 40 Plus 5-axis machines. The competition brought together 1,400 young technicians from around the world to compete in technical skills. The WorldSkills Competition aims to promote vocational training, international exchange, and collaboration among young technicians from participating countries. Since 2007, DMG MORI has consistently supported the competition each year by providing machines, on-site technical support, and training courses for competitors. We believe that developing young talent and enhancing their expertise are essential to advancing the technical capabilities of the manufacturing industry as a whole. Through our support of the WorldSkills Competition and its selection process, we remain committed to nurturing the future leaders of the manufacturing industry.

・Sustainability: Measures to Reduce CO_2 emissions

DMG MORI has been actively working to reduce Scope 1 and 2 CO_2 emissions by installing self-consumption solar power systems at major manufacturing sites, procuring CO_2-free electricity, and implementing circular economy initiatives. To address upstream Scope 3 emissions, a workshop was held at Iga Campus in October 2024 with 15 key suppliers of castings and sheet metals, which are significant sources of carbon footprint. The workshop covered the calculation and reduction of CO_2 emissions for machine tool components, introducing a shared emissions calculation tool, Cozero. We plan to gradually increase the number of participating companies, develop and implement reduction strategies, and collaborate with suppliers to reduce upstream Scope 3 CO_2 emissions. This initiative supports our 2030 emissions reduction target, which was certified by the SBTi (Science Based Targets initiative) in June 2024.

(Disclaimer)

This document contains forward-looking statements about the Company's goals, plans and other matters.
These forward-looking statements are based on judgements 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 Antimonopoly Act and export control regulations, or changes in their operation by the competent authorities