DMG MORI CO., LTD.
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DMG MORI CO., LTD.

FY2024: Orders slowed down. Operating profit down 21% due to increased investment in human resources and one-off expenses. Planned dividend of 100 yen per share for the fiscal year (50 yen per share at the end of the fiscal year).

FY2025: Sales revenue and operating profit expected to decline due to a decrease in the order backlog at the beginning of the fiscal year and a delay in the recovery of order intake. Free cash flow is expected to improve due to the completion of large-scale investments. Dividend per share is expected to increase to 105 yen.

FY2030: Time for accelerated growth and profits driven by MX. Target of 15% operating profit margin. Capex will be kept within the range of depreciation & amortization to maximize free cash flow. Dividend is targeted at 200 yen per share.

Financial Summary (JPY bn.)	FY2023	FY2024	(Y/Y)	FY2025E	(Y/Y)	FY2030 Target
Consolidated order intake	520.0	496.0	-4.6%	530.0	6.9%	800.0
Machine order backlog	247.0	218.0		-		-
Sales revenue	539.5	540.9	0.3%	510.0	-5.7%	800.0
Operating profit	55.4	43.7	-21.0%	38.0	-13.1%	120.0
Operating profit margin (%)	*10.3%*	*8.1%*		*7.5%*		*15.0%*
Net profit attributable to owners of the parent	33.9	7.7	-77.3%	20.0	2.6x	80.0
Net profit margin (%)	*6.3%*	*1.4%*		*3.9%*		*10.0%*
Earnings per share (yen)	256.66	43.60		129.40		563
Dividend per share (yen)	90	100		105		200

EUR 91.8 mil. (JPY 15.1 bn.) loss from discontinued operations in the Russian manufacturing company (Ulyanovsk Machine Tools ooo) was recognized in 1Q (Jan – Mar) 2024.

[Summary of Financial Results for FY2024 (Jan.-Dec.)]

Consolidated orders totaled 496.0 billion yen, down 4.6% from FY2023. The Company expects that consolidated orders in the third (Jul.-Sep.) and the fourth (Oct.-Dec.) quarters were at the bottom. The number of machine orders decreased by 20%, yet the average unit price climbed to 71 million yen or 433 thousand euros (62 million yen or 407 thousand euros in FY2023). MX, which manages and improves the efficiency of process integration, automation, and GX (Green Transformation) through digital solutions, combined with less price discounts, has been contributing to higher unit prices. Spare parts, maintenance, repair, overhaul, and engineering businesses grew by 7%, and their share of consolidated orders rose to 25% (22% in FY2023). By region, demand grew in Asia and India, remained flat in the Americas, and decreased in Japan, Europe, and China. By industry, demand from aircraft, space, medical, die and mold, and energy-related industries remained robust. Machine order backlog at the end of December 2024 decreased to 218.0 billion yen (December 2023: 247.0 billion yen).

Sales revenue was 540.9 billion yen, the same level as FY2023. There was an approximately 34.0 billion yen impact on sales revenue due to yen depreciation. Operating profit decreased by 21% to 43.7 billion yen (operating profit margin: 8.1%). Lower discounts through the provision of high value-added products and systems and improved internal productivity contributed to the improvement of gross profit. However, operating profit decreased due to lower sales, investment in human resources (increase in maintenance, repair, overhaul and application engineers and salary revision), and one-off expenses (additional costs for SAP S4/HANA implementation, sales promotion expenses for inventory backlogged for over one year, and loss on disposal of components procured during the Covid-19 pandemic). Net profit sank by 77% year-on-year to 7.7 billion yen. In the first quarter (January-March), the Company recognized a loss of 91.8 million euros (15.1 billion yen) due to the seizure of its Russian factory (Ulyanovsk Machine Tools ooo, UMT) by the Russian government. DMG MORI Group has foreign direct investment insurance provided by the government of the Federal Republic of Germany, and has filed an insurance claim for 90.4 million euros (14.5 billion yen) for the losses at UMT. Free cash flow was a positive 6.4 billion yen. Free cash flow for the three months during the fourth quarter (Oct.-Dec.) was a large positive of 21.9 billion yen. Using this as a source of capital, the Company plans to pay a year-end dividend of 50 yen per share. Dividends per share for the entire fiscal year are expected to be 100 yen, as planned at the beginning of the fiscal year.

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[Summary of Outlook for FY2025 (Jan.-Dec.)]

Consolidated orders are expected to increase by 7% to 530.0 billion yen. Machine orders are expected to bottom out at the current level and recover in the second half of the fiscal year. Machine orders from the space, aircraft, medical, and energy industries are expected to remain strong. Orders from the semiconductor production equipment industry are expected to increase in the second half of the fiscal year. As the order backlog at the beginning of the fiscal year is lower than last year and order recovery is delayed, sales revenue is forecasted to drop by 6% to 510.0 billion yen. Operating profit is planned to decrease by 13% to 38.0 billion yen (operating profit margin 7.5%) due to the decrease in sales. Net profit is forecasted to increase 2.6 times to 20.0 billion yen as the loss due to the seizure of the Russian factory recognized in FY2024 disappears. The Company plans to generate free cash flow of approximately 20.0 billion yen by keeping capital investment within the range of depreciation & amortization. Dividends are planned to be increased to 105 yen per share (100 yen in FY2024). The amount and timing of receipt for the insurance claim for the Russian factory (14.5 billion yen) has not yet been determined and has not been factored into the published business forecasts.

[Financial Results for FY2024 (Jan.-Dec., 2024)]

Sales revenue was 540.9 billion yen, generally unchanged from FY2023. There was an approximately 34.0 billion yen impact from the depreciation of yen against euro and US dollar. Operating profit decreased by 21% to 43.7 billion yen, down 11.7 billion yen from FY2023. The reduction in discount rate and improved productivity in the manufacturing division resulted in a 11.5 billion yen improvement in gross profit, together with a 2.4 billion yen reduction in SG&A expenses, and a 4.0 billion yen impact from foreign exchange rates, accounted for a positive factor of 17.9 billion yen. The effect of sales decline was 12.6 billion yen, combined with investment in human resources of 8.0 billion yen (increased maintenance, repair, overhaul and application engineer: 2.5 billion yen; increased R&D employees: 1.0 billion yen; salary rise: 4.5 billion yen), increase in depreciation and amortization charges of 3.0 billion yen and one-off expenses of 6.0 billion yen (additional SAP S4/HANA expenses at an European plant: 2.5 billion yen; sales promotion for vintage inventory: 2.0 billion yen; loss due to disposal of procured parts during the Covid-19 pandemic: 1.5 billion yen), resulted in a negative factor of 29.6 billion yen. A loss of 91.8 million euros (15.1 billion yen) was recognized due to the seizure of the Russian manufacturing subsidiary (UMT) by the Russian government in the first quarter (January-March). As a result, net profit attributable to owners of the parent company declined by 77% to 7.7 billion yen. DMG MORI Group has foreign direct investment insurance provided by the Federal Republic of Germany, and has filed an insurance claim for UMT-related losses of 90.4 million euros (14.5 billion yen).

Free cash flow (operating cash flow - investing cash flow) was 6.4 billion yen in black. Capital expenditures were 43.8 billion yen, a high level following 42.5 billion yen in FY2023. Investments for medium- to long-term growth and productivity improvement continued, including expansion of automation and in-house parts supply capacity, opening of DMG MORI ACADEMY sites for customers' operator training, and introduction of ERP (SAP S/4HANA) system for faster management decision making. Capital expenditures from 2025 onwards will be limited within the range of depreciation and amortization charges. Inventory decreased due to normalization of the supply chain and sales promotion for vintage inventory. Cumulative free cash flow through the third quarter was negative at 15.5 billion yen, but free cash flow improved significantly to a surplus of 21.9 billion yen in the fourth quarter (Oct.-Dec.) due to profit improvement and inventory reduction.

The total assets increased by 31.8 billion yen to 797.6 billion yen (End of December, 2023: 765.8 billion yen). There was a foreign exchange impact of approximately 30.0 billion yen, and after eliminating this impact, the total amount was virtually unchanged from the previous year end. The shareholders' equity ratio improved to 39.4% (vs. 35.0% in December 2023) due to the conversion of all convertible bonds into common stock in April. Net interest-bearing debt, including hybrid capital, decreased to 172.8 billion yen (179.5 billion at the end of December 2023), and the net debt-to-equity ratio (ratio of interest-

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bearing debt to shareholders' equity) declined to 0.55 (0.67 in the previous year).

[Business Outlook for FY2025 (Jan.-Dec.)]

The Company expects consolidated orders to recover for the first time in three years to 530.0 billion yen, up 7% from FY2024. Demand for machine tools from the space, aerospace, medical, energy, and die and mold industries is expected to continue to grow. Demand from the semiconductor production equipment industry is increasing in Asia. In the second half of the fiscal year, the Company expects a recovery in demand also from semiconductor-related industries in Europe, the Americas, and Japan. The Company forecasts a 6% decrease in sales revenue to 510.0 billion yen. The main reason is a decrease in the order backlog at the beginning of the fiscal year. Increased orders from the second half of the fiscal year will contribute to the sales revenue in FY2026. The Company forecasts a 13% decrease in operating profit to 38.0 billion yen (operating profit margin of 7.5%). The Company plans a total positive effect of 19.0 billion yen: 11.0 billion yen from gross profit improvement mainly through lower discount, 2.0 billion yen from SG&A expenses reduction, and 6.0 billion yen from elimination of one-off expenses recognized in FY2024. The Company plans a total negative effect of 24.7 billion yen: 12.6 billion yen from sales decrease, 8.5 billion yen from increased investment in human resources (increase of number in maintenance, repair, overhaul and application engineers: 3.0 billion yen, increase of headcount in R&D: 1.5 billion yen, salary increase: 4.0 billion yen), and 3.6 billion yen from increased depreciation and amortization charges. Net profit attributable to owners of the parent company is expected to increase significantly to 20.0 billion yen due to the elimination of losses from the Russian plant (UMT) recognized in FY2024.

From FY2025 onward, capital expenditures are planned to be kept within the scope of depreciation and amortization. Higher net profit, further reduction of inventories, and an increase in down payments due to recovery in orders will contribute to an increase in free cash flow. The Company expects free cash flow for the fiscal year to climb to 20.0 billion yen. Using this free cash flow as a source of funds, the Company plans to raise a fiscal year dividend to 105 yen per share. The Company intends to continue to increase dividends.

[Transition from "Medium-Term Business Plan 2025" to "2030 Target"].
Progress evaluation of the "Medium-term Business Plan 2025"

The main financial targets for the final year of the Medium-term Business Plan 2025, with 2023 as the starting year, are sales revenue of 600.0 billion yen, operating profit of 72.0 billion yen (operating income margin: 12%), net profit of 48.0 billion yen (net profit margin: 8%), zero interest-bearing debt excluding hybrid capital, and a shareholders' equity ratio of over 50%. However, achieving these goals has become difficult. The impact of the withdrawal from the Russian business following Russia's invasion of Ukraine and the cancellation of the Egyptian project amounted to approximately 10.0 billion yen in sales revenue. The impact of the reduction in customers in China and the strengthening of export control regulations due to the intensifying tension between the United States and China is a little over 10.0 billion yen per year on sales revenue. Furthermore, prices in energy and procurement have increased. The business environment surrounding DMG MORI has deviated significantly from the initial assumptions in the Plan. Changes in the business environment in Europe, DMG MORI's main market, have had a particularly large impact on the Company's business.

Two years have passed since the start of the Medium-Term Business Plan, and the following major achievements have also been confirmed:

- The MX has received a higher-than-expected appreciation from customers. Orders for automation (machine tools with robots, pallet changers or loaders) have expanded significantly to account for 37% of the machine tool business (25% in FY2022).
- The unit price of machine orders has increased significantly. Unit price per machine order jumped by 43% to 71 million yen (49.8 million yen in FY2022) due to higher unit price driven by offering higher value-added machines and automation systems and lower discount.

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- The spare parts, maintenance, repair, overhaul, and engineering businesses have expanded steadily, accounting for 25% (vs. 21% in FY2022) of consolidated orders. This business segment is contributing to the stability of the Company's entire business.
- The Company has enhanced its investment in human resources. The Company raised the average salary of employees in Japan to 9.03 million yen (8.35 million yen in FY2022). Including overseas, the Company has been striving to maintain its employees' annual salary at the top level in related industries. This is contributing in hiring excellent human resources.
- The Company has further increased its awareness of the need to improve quality management. Iga Campus, the Group's largest production site, received the Deming Prize (the world's highest-ranked award for TQM/ Total Quality Management) in October 2024. Since 2017, the Company has been strengthening quality management through TQM, and the award was the result of these activities. Customers expect machine tools to continue to operate at the same quality with which the machines were first purchased for more than 20 years. The award serves an opportunity for the Group's employees to foster even greater awareness of quality management.
- Health management has taken root. Since health is the building block of all employee activities, the Company has worked to promote health management. In 2023, the Company was recognized as "White 500" (top-ranking companies among the Ministry of Economy, Trade and Industry-led "Certified Health & Productivity Management Outstanding Organizations"), and in 2024, it was also selected for the "Health & Productivity Stock Selection" by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.
- The Company has made great progress in its environmental measures: its CO_2 emissions in 2024 were approximately 1.34 million tons, which was 23% lower compared to its 2019 base year emissions. The Company also obtained SBTi's "Net Zero Target" approval in response to climate change. Its initiatives to reduce CO_2 emissions in Scope 3 include cooperation with suppliers and the reuse of waste materials through DMG MORI CIRCULAR Co., Ltd.

Business Target for 2030

The machine tool industry is affected by demand cycles. Since the Company cannot avoid the effects of demand cycles in its conventional three-year business plans, the Company has decided to set its goals within a long-term timeframe of up to 2030 from the perspective of customers who use machine tools for more than 20 years. The current management team of the Company has weathered events which had a major impact on the economy, such as the collapse of Japan's economic bubble in the 1990s, Asian currency crisis in 1997, the Global Financial Crisis in 2007, and the COVID-19 pandemic in 2019, and the Company has grown steadily. The Company is confident that it will be able to grow sufficiently in the next 5 years or so. The products that will support the Company's growth in 3-5 years are the new machine models which are currently being developed or launched onto the market. The Company believes that it will take a considerable amount of time for its competitors to develop or produce 5-axis machines, mill-turn centers and machines with advanced technologies with equivalent levels of quality including accuracy and durability. Furthermore, to advance automation, one needs to make full use of a variety of NCs (numerical controller) and PLCs (programmable logic controllers). In addition, peripheral devices such as robots and loaders must be connected and integrated into the system. DMG MORI is already making full use of NC devices from Siemens, FANUC, Mitsubishi Electric, and HEIDENHAIN. Many suppliers' peripheral devices are recommended as DMQP (DMG MORI Qualified Products), which are optimal to perform with DMG MORI machine tools. DMG MORI promotes MX, which is a concept that optimizes machining processes by using digital technology along with the above-mentioned elements. Another major strength of DMG MORI is the direct sales, maintenance, repair and overhaul network that allows customers to understand this MX approach and use DMG MORI machines and automation systems with peace of mind. The Company is confident that these multiple advantages will remain unshakable even as it heads towards 2030. The Company plans to strengthen its internal structure to promote MX, which is at the core of its strategy, and to achieve the performance and financial structure it is aiming for. The Company has already completed its capital investment for MX promotion, and the Company has positioned the years leading up to 2030 as a period of investment payback and improvement in profitability.
Based on DMG MORI's organic resources (current management strategy and in-house management resources), the Company

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aims to achieve sales revenue of 800.0 billion yen, operating profit of 120.0 billion yen (operating profit margin of 15%), and net profit of 80.0 billion yen (net profit margin of 10%) in 2030. Growth in sales and profits is expected to be driven by higher unit prices of machines through MX promotion and expansion of spare parts, maintenance, repair, overhaul, and engineering businesses. By improving profitability, The Company intends to maximize free cash flow, which it plans to use to strengthen its financial position and continue to increase dividends as a return to shareholders. With regard to its financial structure, the Company aims at a total asset turnover of approximately 1 and a shareholders' equity ratio excluding hybrid capital of at least 50%. Management indicators for the use of external funds will be set at Net Debt/Equity ratio (ratio of interest-bearing debt to shareholders' equity) of about 0.3 and net interest-bearing debt balance of about 100.0 billion yen. Based on these earnings and financial structure, the Company plans to achieve a ROE (return on equity) of 15% or more. The Company will continue to focus on increasing dividends to shareholders. The dividend payout ratio, which has been set at around 30% as a guideline for dividend policy, will be set at around 30-40% in the future, taking into account the progress of the Net Debt/Equity situation. The target dividend per share for 2030 is 200 yen.

The following are priority measures to achieve the targeted profits and financial structure in 2030.

・The Company will promote the installation of MX to its customers, aiming to achieve a ratio of more than 60% (37% in FY2024) in its total machine orders. The machine unit price of orders is expected to rise to over 80 million yen (vs. 71 million yen in FY2024) due to an increase in the share of high value-added products and systems and a further decrease in discount. Customers are increasingly demanding machining of parts with complex shapes and high precision. In order to meet those demands, the management resources required per customer order and sales are increasing. Orders and sales volume are expected to commensurate with the Company's current supply capacity, rather than the Company pursuing an unreasonable expansion. The annual volume of machine tool orders is expected to be approximately 6,500 units (4,890 units in FY2024).

・The Company plans to increase sales revenue from spare parts, maintenance, repair, overhaul, and engineering businesses to around 180.0 billion yen (124.0 billion yen in FY2024). It is natural that customers intend to optimize their production efficiency when they install machine tools and machining systems. It is also important to keep the machine tools and systems running at their initial quality throughout their product life cycle. Therefore, DMG MORI's support system is essential. The Company has already enhanced its maintenance, repair, overhaul, and application engineers, but the Company believes that it needs to respond even more quickly to customer requirements. To enhance customer service, the Company is implementing new measures such as accepting repair requests through the "*my* DMG MORI" portal site and providing preventive maintenance plans based on past repair record. However, as machine tools and machining systems become more sophisticated and complex, it is becoming more and more important to deal directly with customers. The Company aims to increase the number of maintenance, repair, and overhaul engineers to 3,000 (2,200 in FY2024) and application engineers to 2,000 (1,100 in FY2024) by FY2030. The total number of employees is expected to reach 15,000 (13,500 in F2024).

・The Company will further strengthen its engagement with its employees and suppliers to achieve sustainable growth. The Company plans to increase both average annual salary of employees and purchasing costs from suppliers by about 3% per year. The Company intends to raise the average annual salary of our employees in Japan to about 12 million yen in 2030 (9.03 million yen in 2024).

・The amount of capital investment was 42.5 billion yen in 2023 and 43.8 billion yen in 2024. Large-scale investment to support sustainable growth based on organic business by 2030 has reached a plateau. Future capital investment will focus on IT investment and maintenance of existing facilities. The Company intends to keep the amount of capital investment within the range of depreciation and amortization charges, i.e., 30.0-35.0 billion yen. However, when new growth opportunities arise, the Company will carefully examine the return on investment and make investments beyond the range of depreciation and amortization charges to ensure that the Company does not miss out on such opportunities.

The Company will continue to pursue further technological innovation and productivity improvement and work together with its stakeholders to realize sustainable future growth. The Company looks forward to your continued support.

(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