

Investor presentation

March 2015

The engine company.



Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

DEUTZ at a glance

Profile

- More than 150 years DEUTZ – a tradition of achievement
- Independent manufacturer of diesel engines with product range from 25 to 520 kw
- Engineering and manufacturing company with strong expertise as system integrator
- Worldwide sales channels and service network
- Strong brand – synonym for leading technology and high-quality products
- Blue chip customer base

Financials 2014

- Revenue €1,530.2 million
- Net income €19.5 million
- Free Cash Flow €52.0 million

Board

- Dr. Helmut Leube (CEO)
- Dr. Margarete Haase (CFO)
- Michael Wellenzohn (CSO)

DEUTZ Group

Revenue 2014 €1,530.2 million

DEUTZ Compact Engines

Revenue 2014 €1,279.9 million



- Liquid-cooled engines of up to 8 litres cubic capacity for on- and off-road applications
- Large number of modular approaches
- Joint Venture DEUTZ Dalian (China)

DEUTZ Customised Solutions

Revenue 2014 €250.3 million



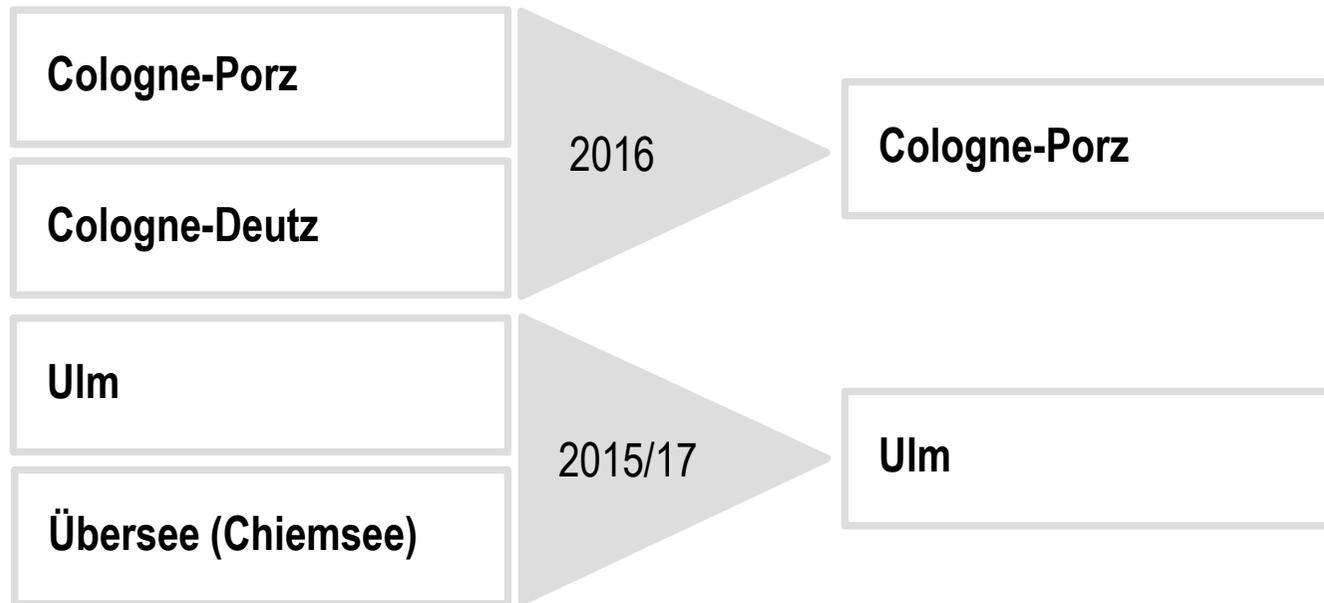
- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines over 8 litres for all applications
- Remanufactured (Xchange) engines for all DEUTZ engine series

DEUTZ Services (common to both segments)

- Substantial service business based on existing population of approx. 1.6 million engines in the market
- Product portfolio mainly comprises genuine DEUTZ spare parts, remanufactured engines & parts as well as oils and lubricants



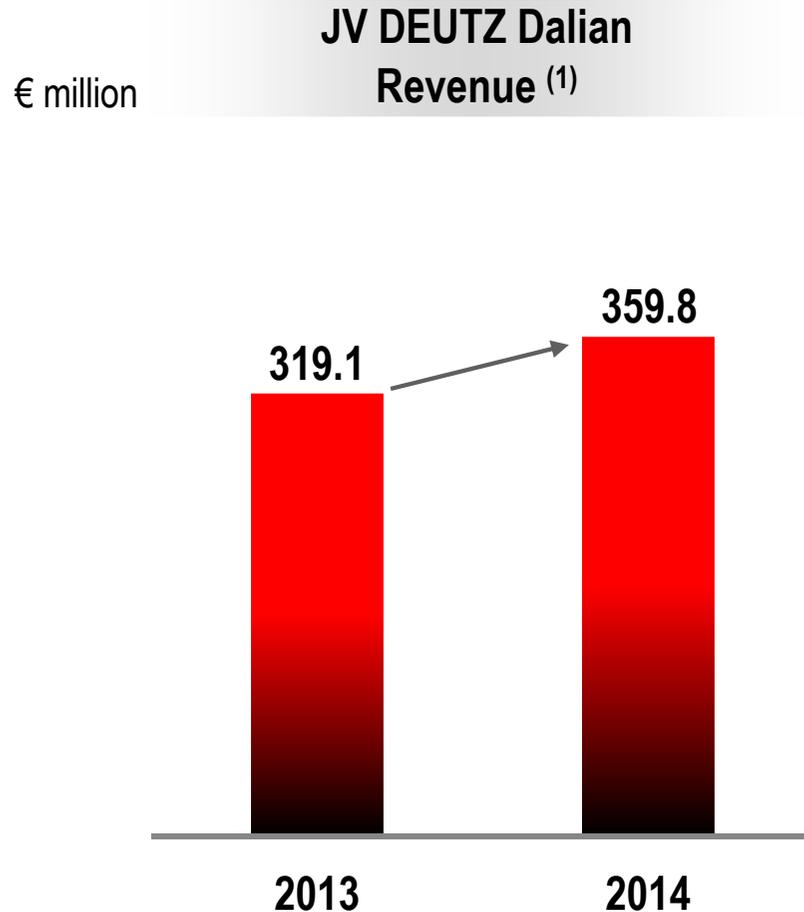
Site optimisation



- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Capex overcompensated by proceeds from property sales in subsequent years

→ Sustainable efficiency improvement by merging facilities

Consolidation of activities in China



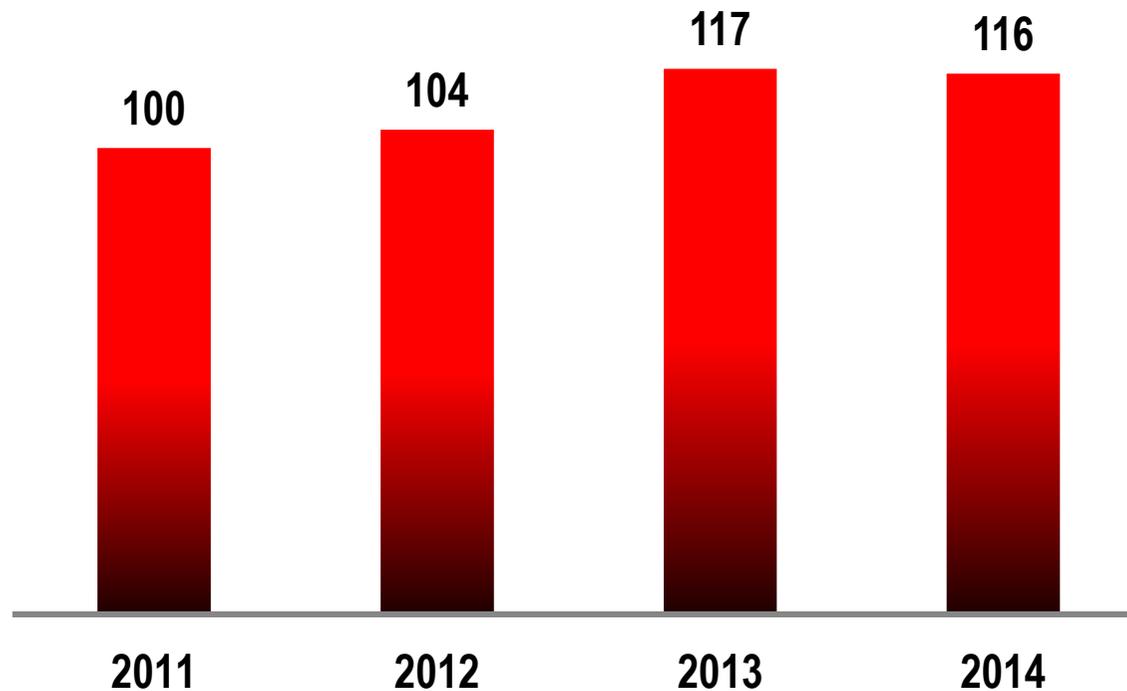
(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Consolidation of our Chinese activities and focus on our successful JV DEUTZ Dalian, which has sufficient capacities
- DEUTZ Dalian (at-equity consolidated) increased its revenue by 12.8% yoy and outperformed the Chinese market
- Joint decision with our partner AB Volvo to wind up JV DEUTZ Engine China due to challenging market conditions. JV has not yet made any substantial investments
- Implementation works at JV DEUTZ Engine Shandong put on hold. Impairment of fixed assets (€1.8 million) accounted as one-off in FY 2014
- Strategic talks with Weichai about the future of the JV Weifang

→ Focus on DEUTZ Dalian to meet our customer demands for the Chinese market

Emission standards drive DEUTZ revenue growth

Average sales price per engine
(indexed; FY 2011 = 100)



- Tier 4 systems require exhaust aftertreatment devices
- Growing share of new emission engines drives revenue growth
- Effect was diluted by strong demand for smaller engine series in 2014
- Positive structural price mix effects are expected to continue in the next years

→ Structural growth due to tighter emission standards

DEUTZ engines for Tier 4 emission standard

TCD 2.9

TCD 3.6

TCD 4.1
TCD 6.1

TCD 7.8

TCD 12.0
TCD 16.0



- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- Successful combination of platform strategy with DEUTZ application expertise
- Full range offering with focus on engines for Mobile Machinery and Agricultural Machinery

➔ New customers gained with Tier 4 engines

Stage V ready

TCD 12.0 / 16.0

240 – 520 kW

TCD 7.8



160 – 291 kW

TCD 6.1



130 – 206 kW

TCD 4.1



85 – 115 kW

TCD 3.6



56 – 100 kW

TCD 2.9



37 – 56 kW

- TCD 2.9 to 7.8 litre engines with DPF already meet the next EU emission standard announced for 2019
- DEUTZ technology platform offers our customers long-term planning certainty as they do not have to invest in adapting their equipment to upcoming emission change

→ DEUTZ compact engines compliant to next emission standard

DEUTZ customer base

Long standing customer relationships (not exhaustive)



New clients (not exhaustive)



- DEUTZ has a lot of long standing relationships with key customers
- Customer base extended and diversified with new emission engines
- New customers attracted by the compact design and smart exhaust aftertreatment of the Tier 4 engines
- “Stage V Ready”-campaign will stimulate the continued marketing activities

→ Successful extension of the customer base

Successful business development

Examples of new applications



- New customers gained in all regions, in particular with new engines 2.9 and 3.6
- Greater share of wallet at existing clients
- New business related to different applications, e.g. tractors, fork lifts, telehandler, dumpers, rollers, wheel loaders, trencher, drills and special vehicles
- More business development projects in the pipeline

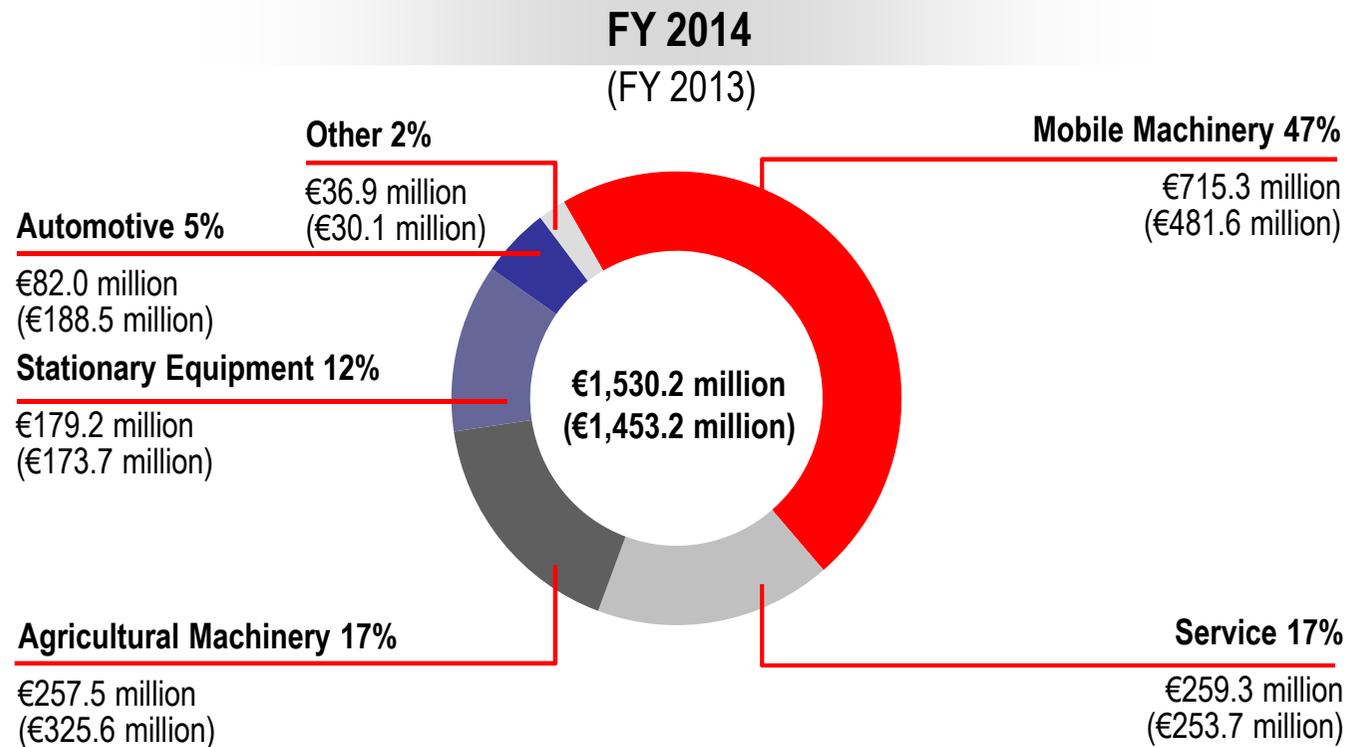
→ Product offensive is paying off

Key applications

	Typical application	Markets benefit from macro trends
Mobile Machinery	Construction Material handling Ground support Mining equipment	 → 
Agricultural Machinery	Tractors Agricultural equipment	 → 
Stationary Equipment	Gensets Pumps Compressors	 → 
Automotive	Trucks Buses Rail vehicles	 → 

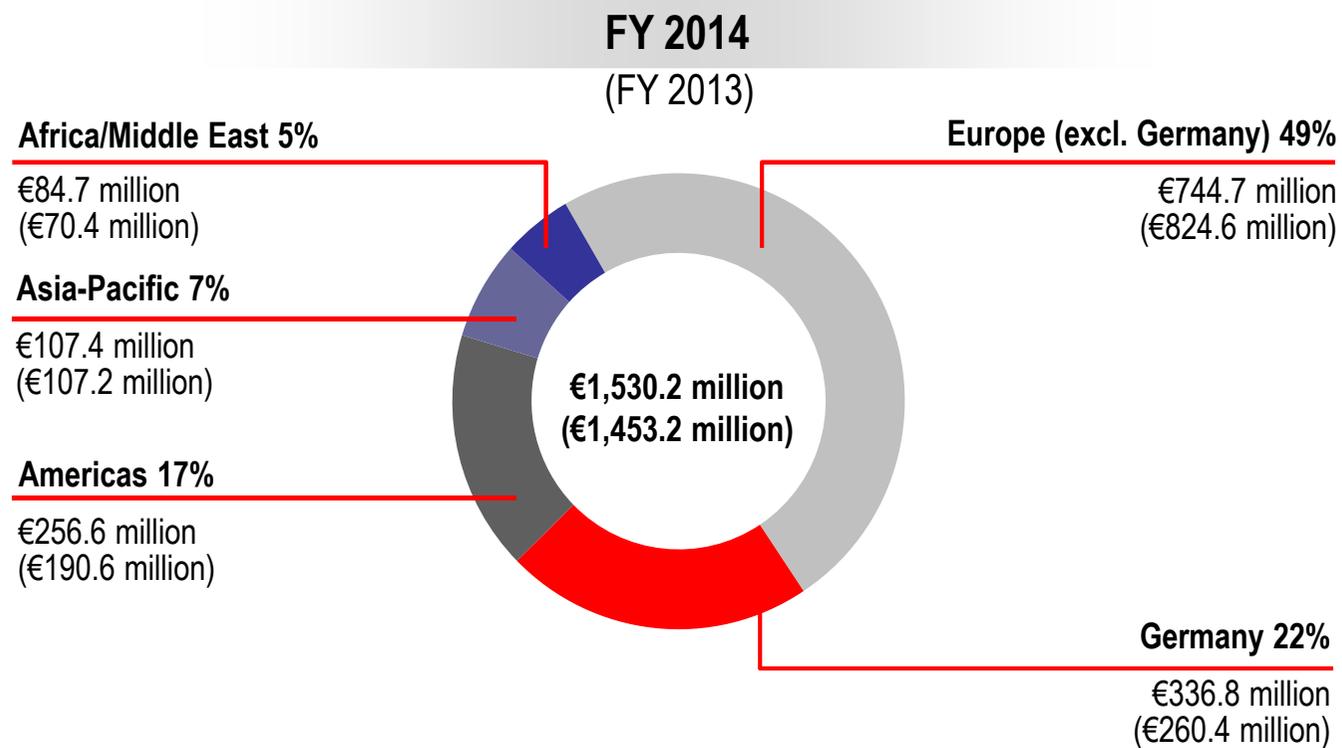
→ Wide application range for DEUTZ engines

Revenue split by application



- Automotive business moving towards Asia; fully consolidated Automotive sales decreased as expected due to decision not to develop Euro 6 (on-highway emission); pro-forma revenue incl. at-equity consolidated JV DEUTZ Dalian in Automotive: €380.1 million (corresponding revenue share amounts to 20.1%)

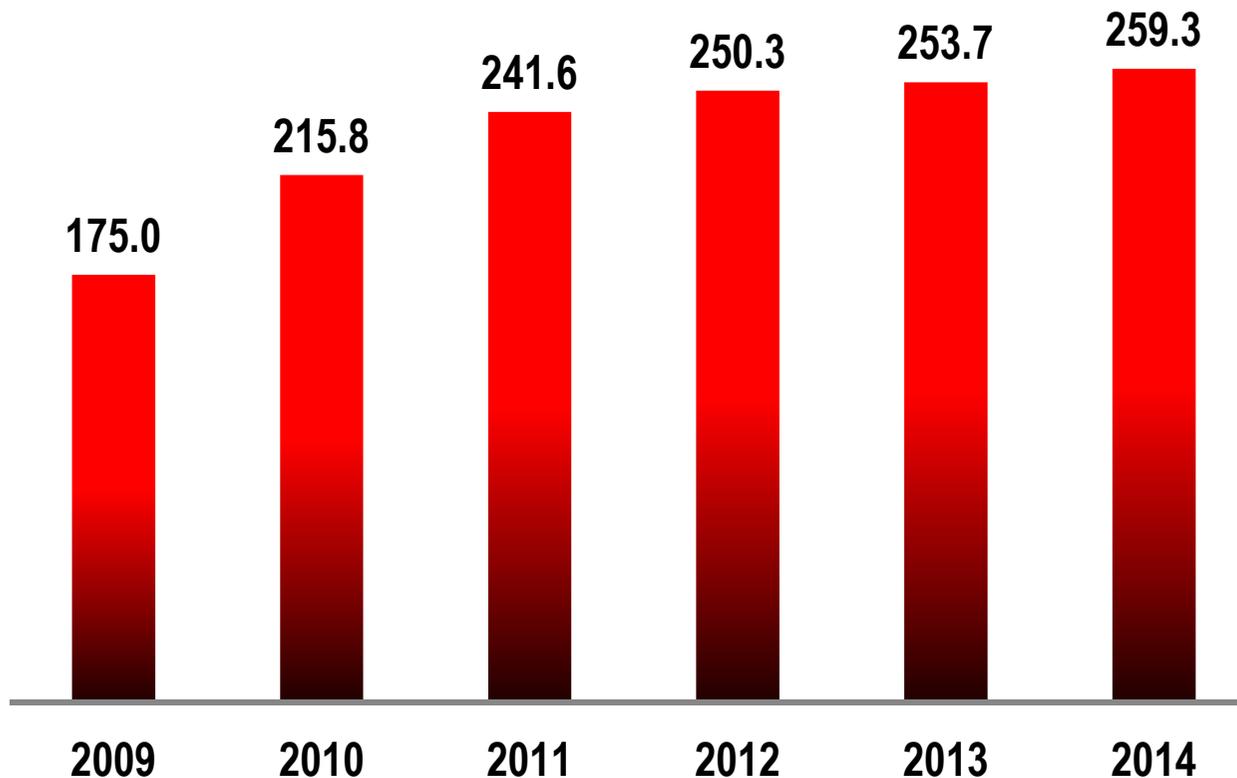
Revenue split by region



- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,890.0 million (+6.6%); corresponding revenue share of Asia-Pacific amounts to 24.7%

Service business

€ million



- Strong resilience of profitable service business through different economic cycles
- Higher complexity of new emission engines provides opportunity to increase penetration of service business
- Active management of service network with training and tools

→ Continued growth of service revenues

Agenda

- DEUTZ strategy & positioning

- **Financials**

- Outlook

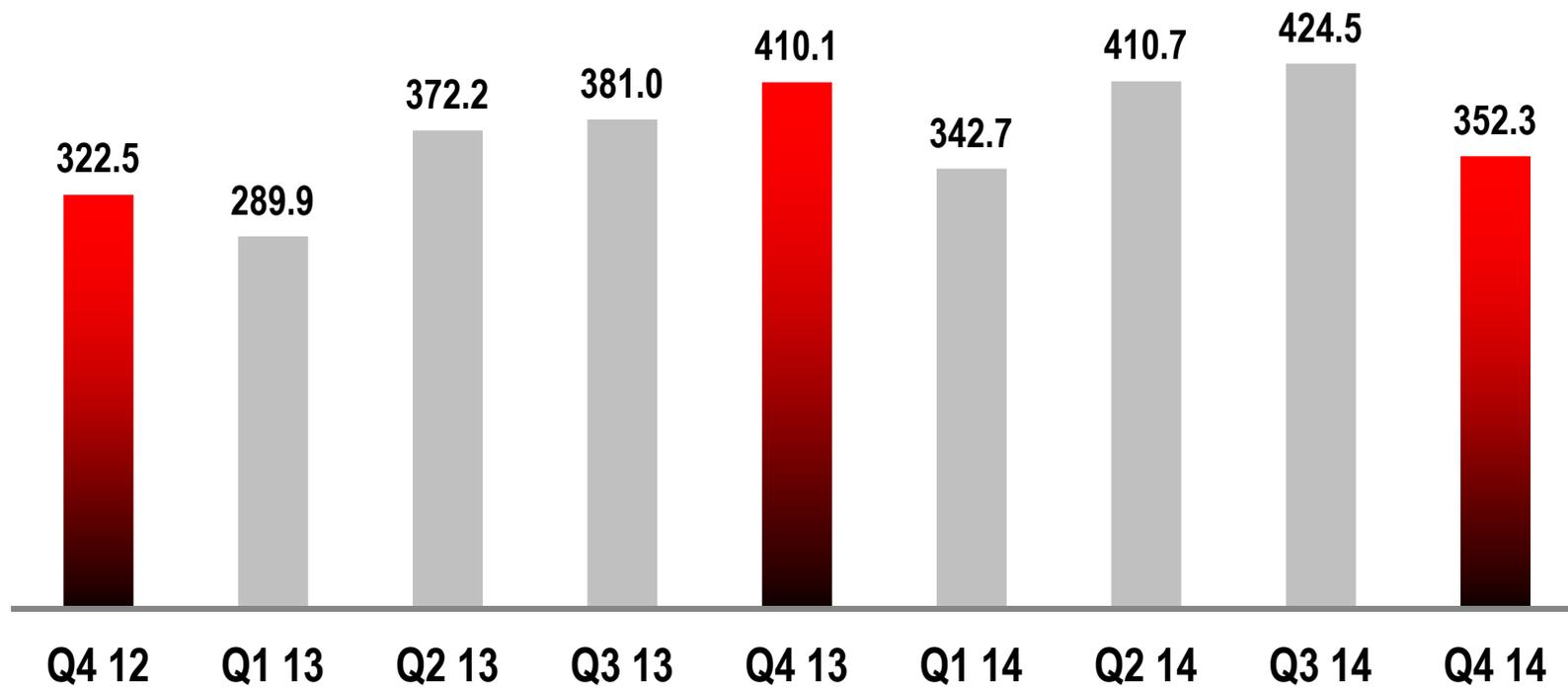
Key figures

€ million	FY 2014	yoy
Order intake	1,379.0	-16.4%
Revenue	1,530.2	+5.3%
EBIT (before one-offs)	31.7	-33.3%
Adjusted EBIT⁽¹⁾	51.6	+8.6%
Free cash flow	52.0	+€38.2 million
Net financial position	13.7	+€45.4 million

(1) EBIT (before one-offs) adjusted by exceptional items (net effect €19.9 million)

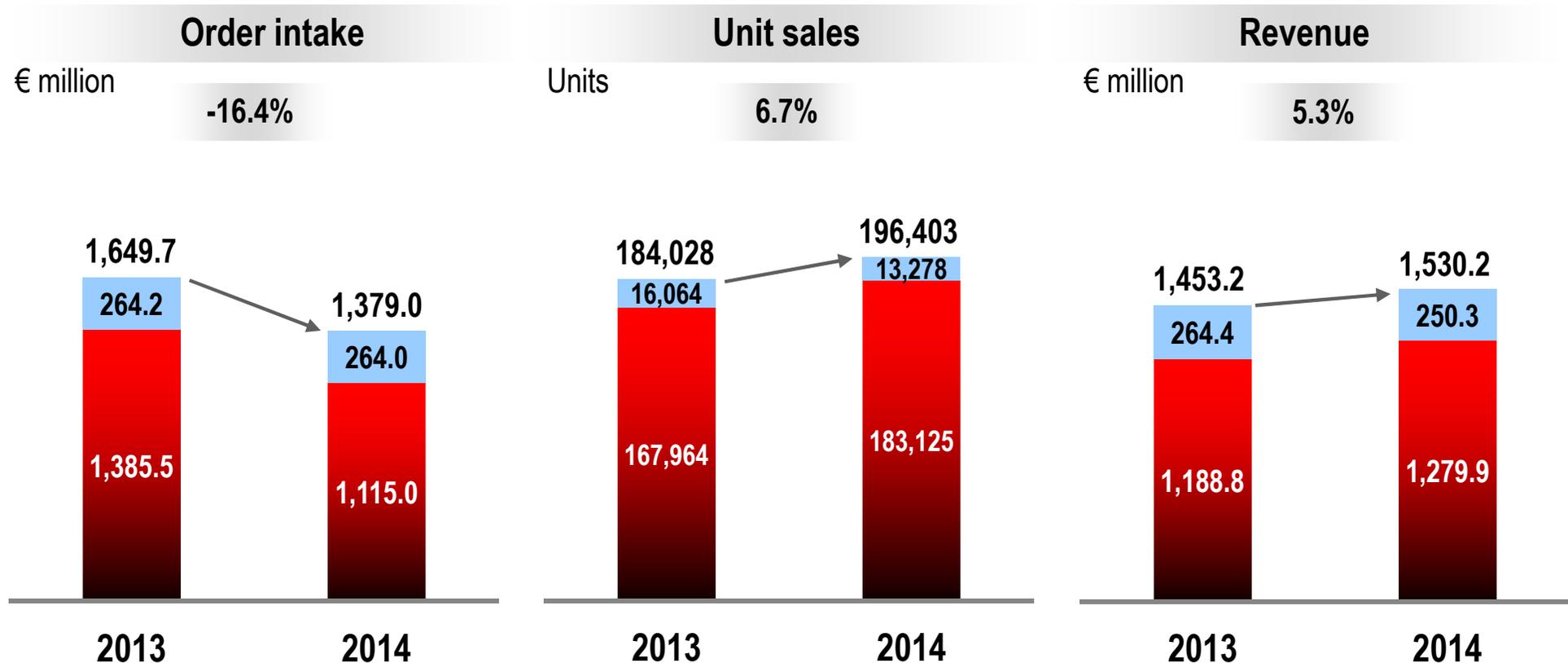
Revenue development

€ million



- Q4-2014 revenue below Q2 and Q3 level after emission level change in October 2014

Sales figures

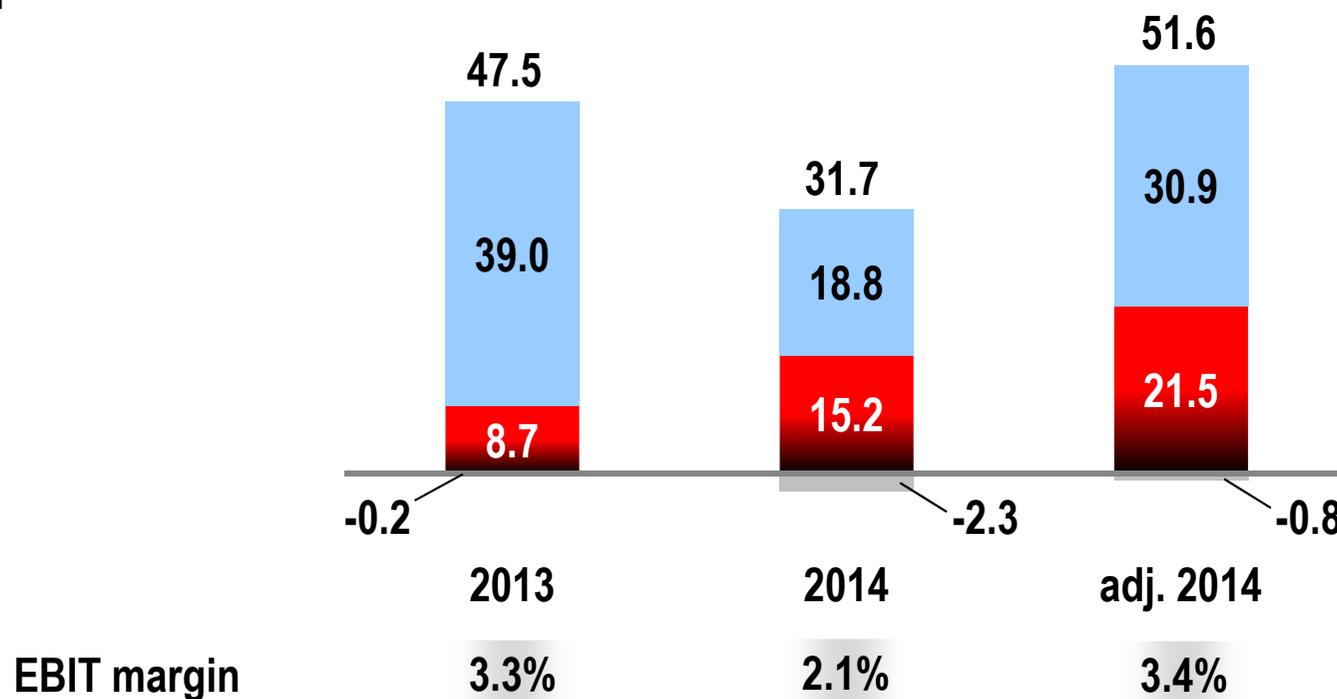


- Pre-buy effects related to changes of European emission standards for engines < 130 kW in October 2014 with significant influence on sales figures
- Order backlog at €219.7 million at year-end 2014 (31 Dec 2013: €366.1 million)

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

EBIT (before one-offs)

€ million

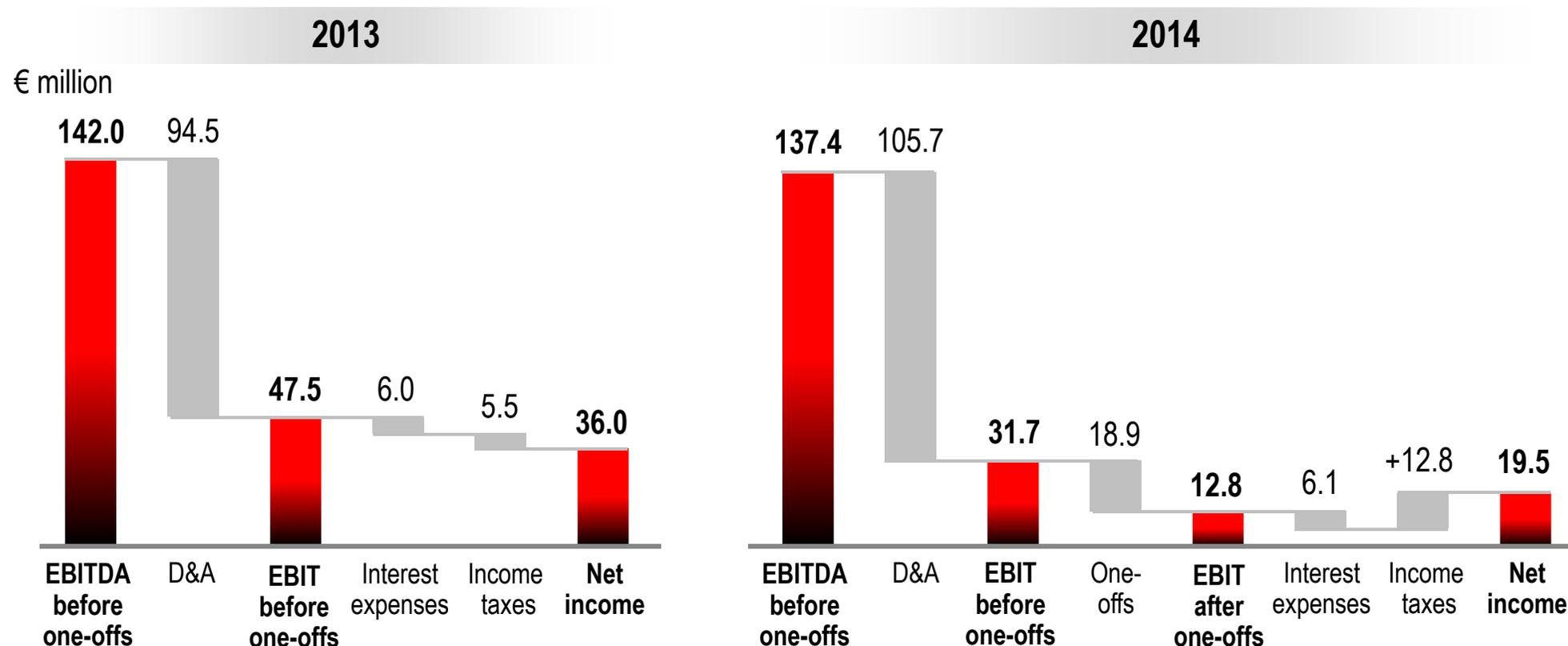


- EBIT (before one-offs) impacted by several exceptional items: unexpected provision for warranty costs (-€20.4 million)⁽¹⁾, impairments (-€13.8 million) and license revenues (+€14.3 million)
- EBIT run rate, adjusted for these exceptional items, was €51.6 million (3.4% adj. margin)
- DEUTZ Compact Engines with significant underlying profit improvement

(1) Net of insurance claims

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

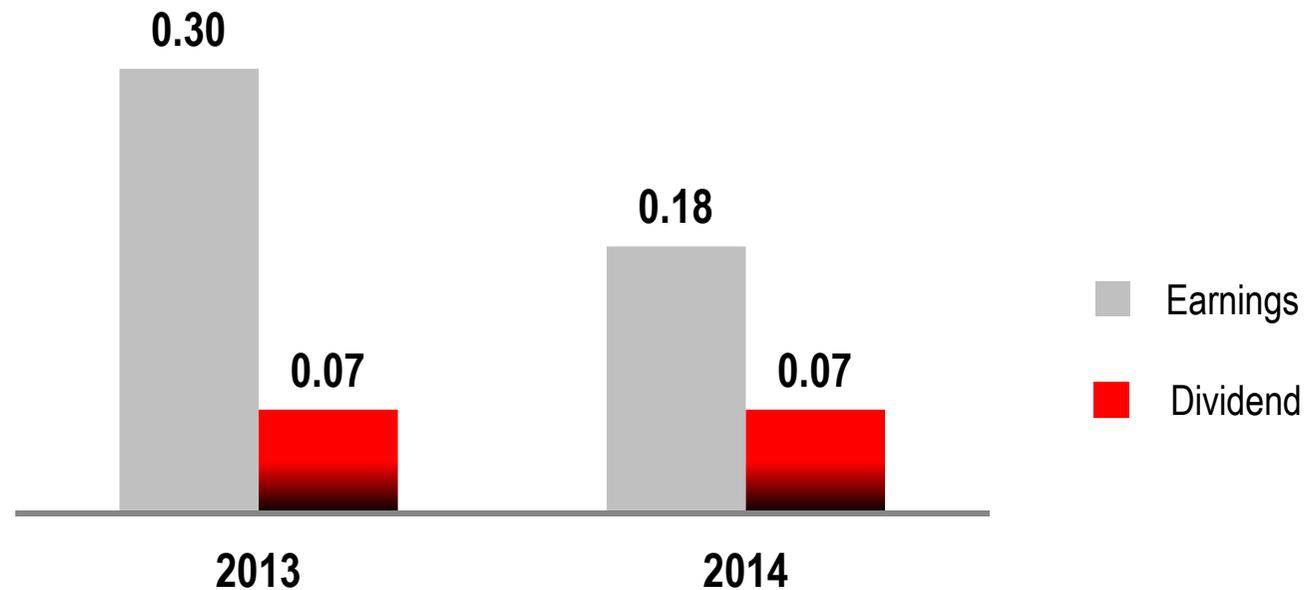
Operating profit & net income



- D&A before one-offs increased by €11.2 million to €105.7 million, thereof €9.5 million impairments
- Reported one-off effects related to restructuring costs for German site optimisation (€17.1 million) and impairment of JV DEUTZ Engine Shandong (€1.8 million)
- Positive income tax of €12.8 million due to revaluation of tax deferred tax assets subsequent to tax audit

Earnings & dividend per share

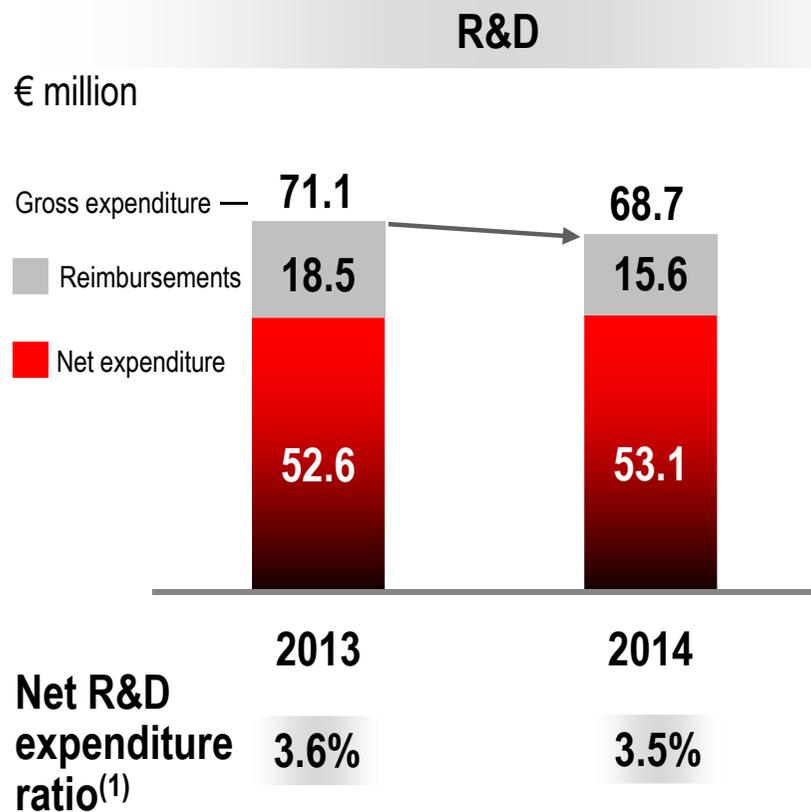
€ per share



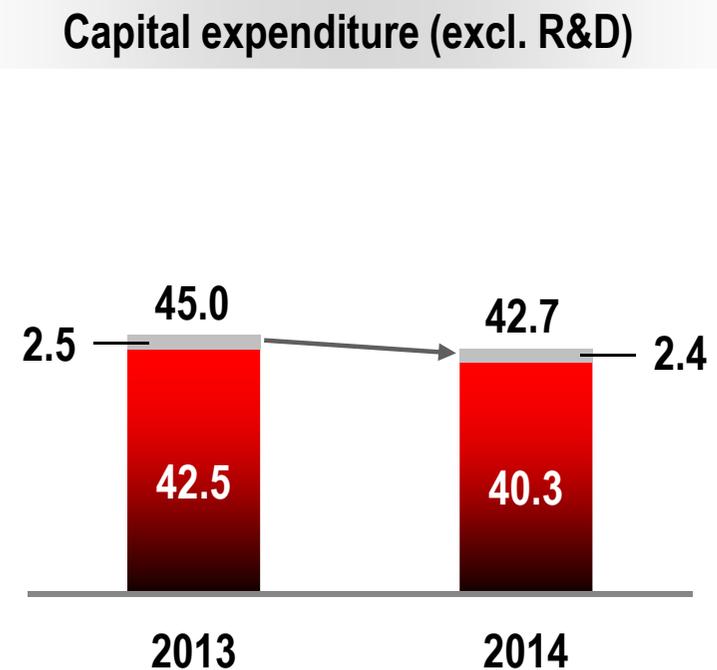
- Stable dividend payout of €0.07 per share ⁽¹⁾
- Dividend tax exempt for domestic investors and without German withholding tax

(1) Proposal to the AGM

R&D spending & capital expenditure



- Net R&D ratio declined slightly in line with our guidance
- Proportion of capitalised net R&D expenditure: €26.3 million (FY 2013: €33.8 million)



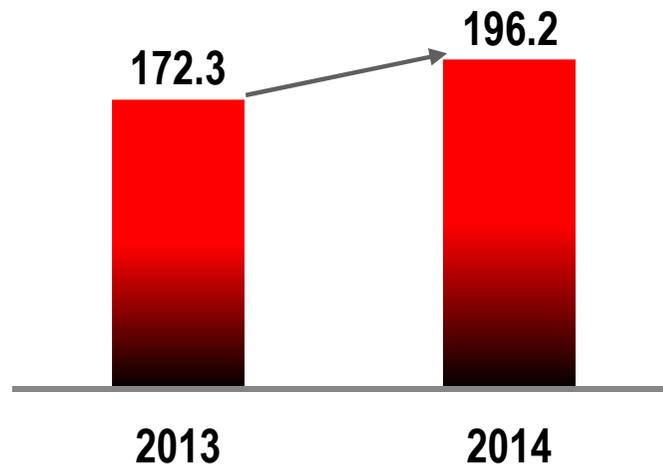
- Capital expenditure (excl. R&D and after reimbursements) decreased by €2.2 million

(1) Ratio of net R&D expenditure to consolidated revenue

Working capital & operating cash flow

Working capital

€ million

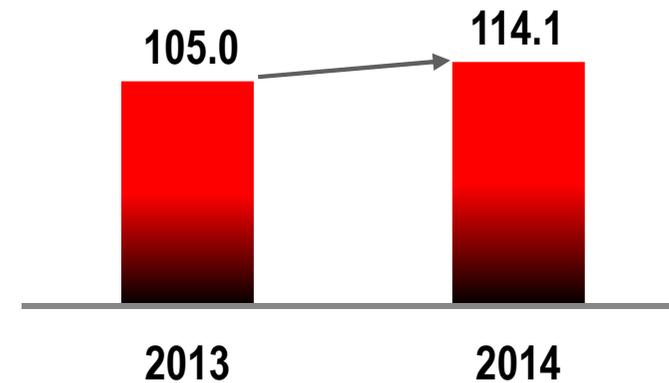


Working capital ratio (31 Dec)

11.9%

12.8%

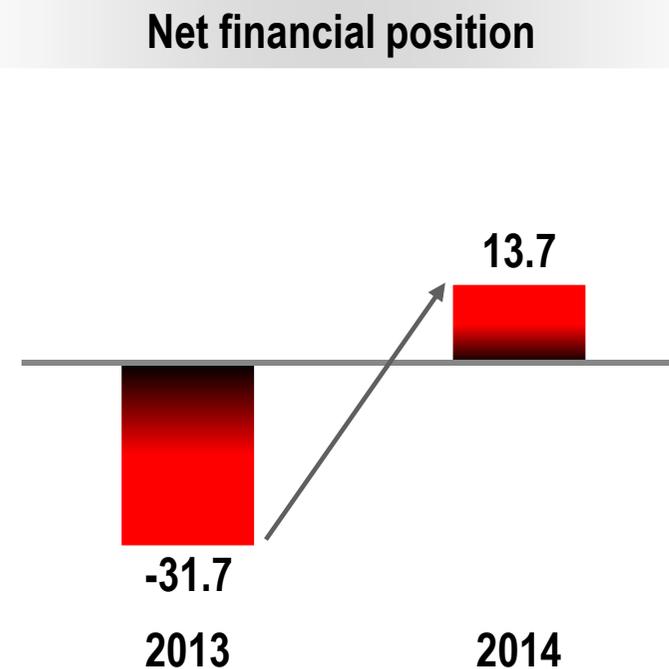
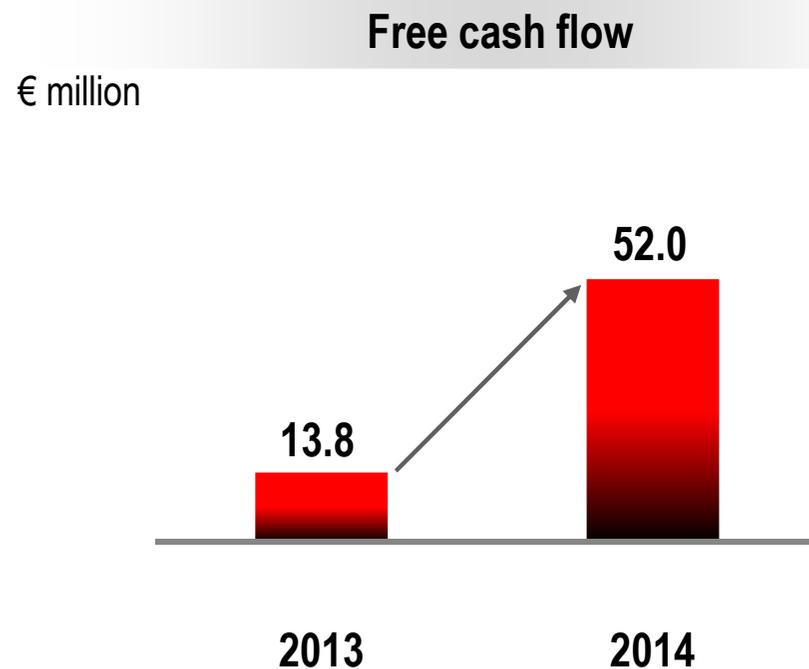
Operating cash flow



- Working capital increased by €23.9 million mainly due to higher inventories
- Working Capital ratio remains at a solid level

- Operating cash flow increased by 8.7%

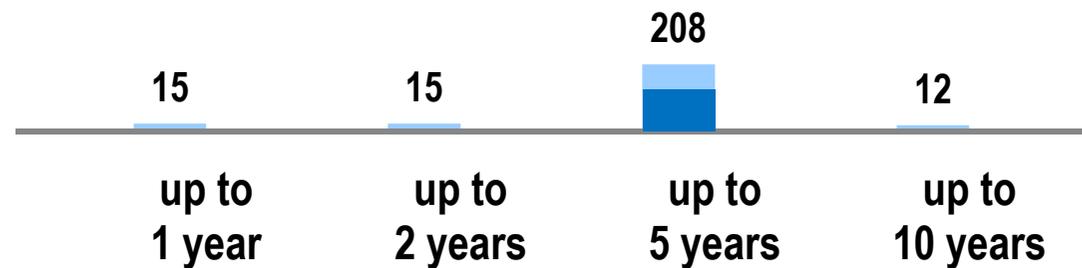
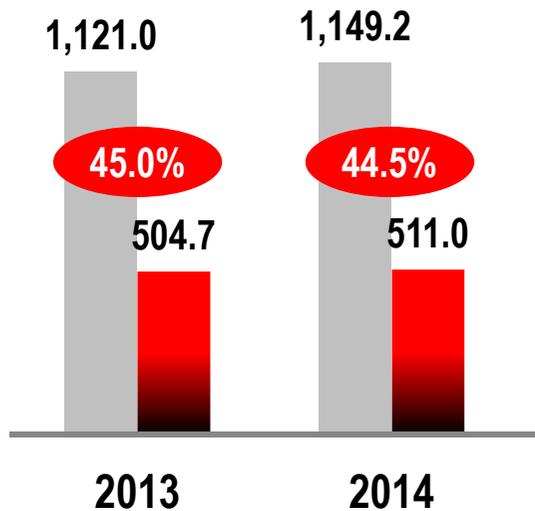
Free cash flow generation & net financial position



- Free cash flow virtually quadrupled
- After all T4 engines have been launched, capital expenditure (incl. capitalised R&D) will remain significantly below D&A in the next years, thus benefitting the free cash flow development
- Net financial position improved by €45.4 million
- Free cash flow used to pay a dividend of €8.5 million and to reduce net debt

Equity ratio & funding

€ million



■ Total assets
 ■ Equity
 xx.x% Equity ratio
 ■ Repayment schedule
 ■ Duration of credit lines

- Strong balance sheet; equity ratio >40%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line was extended during the last year by two years to 2019 at more favourable terms
 - Loan from EIB in the amount of €82.8 million outstanding and repayable until July 2020

Segments: DEUTZ Compact Engines

€ million	2014	2013	Change in %
New orders	1,115.0	1,385.5	-19.5
Unit sales	183,125	167,964	9.0
Revenue	1,279.9	1,188.8	7.7
EBIT (before one-offs)	15.2	8.7	74.7

€ million	Q4 2014	Q3 2014	Change in %
New orders	232.5	270.4	-14.0
Unit sales	36,601	53,589	-31.7
Revenue	277.1	368.2	-24.7
EBIT (before one-offs)	10.3	-0.7	--

- Substantial revenue growth in Mobile Machinery (€670.6 million; +54.0% yoy); Automotive revenue declined (€44.4 million; -70.2%) due to decision not to develop Euro 6; Agricultural Machinery revenue declined also (€253.1 million; -21.4%)
- EBIT (before one-offs) includes unexpected provision for warranty costs (Q3: -€20.4 million)⁽¹⁾ and license revenues (Q4: +€14.3 million)
- Higher profit contribution of Joint Venture DEUTZ Dalian (€3.5 million; +€2.2 million yoy)
- Order backlog at €141.5 million (-53.2% yoy) below strong prior year's level

(1) Net of insurance claims

Segments: DEUTZ Customised Solutions

€ million	2014	2013	Change in %
New orders	264.0	264.2	-0.1
Unit sales	13,278	16,064	-17.3
Revenue	250.3	264.4	-5.3
EBIT (before one-offs)	18.8	39.0	-51.8

€ million	Q4 2014	Q3 2014	Change in %
New orders	69.7	59.6	16.9
Unit sales	4,703	2,431	93.5
Revenue	75.2	56.3	33.6
EBIT (before one-offs)	0.3	4.2	-92.9

- DCS revenue declined by 5.3%; service business revenue increased by 6.1% yoy
- Strong revenue improvement in Q4
- EBIT (before one-offs) declined yoy due to lower capacity utilisation and impairment of €12.1 million, mainly on intangibles in Q4
- Order backlog (€78.2 million) increased 23.0% yoy

Summary: key financial development

DEUTZ Tier 4 engines attract new customers

EBIT burdened by exceptional items

Site optimisation measures implemented

Improvement of underlying operating profit in DCE

Strong free cash flow generation and balance sheet

Stable dividend payment



The engine company.

Agenda

- DEUTZ strategy & positioning

- Financials

- **Outlook**

Unit sales assumptions for DEUTZ key markets

		2015
Construction equipment		
	Europe	sidewards
	North America	0 – 10%
	China	sidewards
Agricultural Machinery		
	Europe	-10 – 0%
Automotive		
	China	sidewards

- Pre-buys in 2014 will lead to lower demand of European customers in the current year
- New clients partly compensate challenging market environment

Financial outlook

€ million	FY 2014 reported	Guidance FY 2015
Revenue	1,530.2	approx. -10 %
EBIT margin (before one-offs)	2.1 %	approx. 3 %
Net R&D expenditure⁽¹⁾	53.1	slight decline
Capex (excl. R&D)⁽¹⁾	40.3	~ 50

(1) Net of reimbursements

- Group revenue expected to decline in FY 2015; slight revenue growth at DEUTZ Customised Solutions
- Expectation for FY 2016: Group revenue growth >10% and significant EBIT margin improvement

Financial calendar & contact details

- Annual general meeting 29 April 2015
- Interim report 1st quarter 2015 5 May 2015
- Interim report 1st half 2015 6 August 2015
- Interim report 1st to 3rd quarter 2015 5 November 2015

➤ Contact details

Christian Krupp
Ottostrasse 1
51149 Cologne (Porz-Eil)
Germany

Tel:+49 (0) 221 822 5400
Fax:+49 (0) 221 822 15 5400
Email: krupp.c@deutz.com
www.deutz.com

Disclaimer

Unless stated otherwise, all the figures given in this presentation refer to continuing operations.

The details given in this document are based on the information available at the time it was prepared. This presents the risk that actual figures may differ from forward-looking statements. Such discrepancies may be caused by changes in political, economic or business conditions, a decrease in the technological lead of DEUTZ's products, changes in competition, the effects of movements in interest rates or exchange rates, the pricing of parts supplied and other risks and uncertainties not identified at the time this document was prepared.

The forward-looking statements made in this document will not be updated.