

DEUTZ Investor Presentation

May 2016

The engine company.



Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

DEUTZ at a glance

Profile

- World's first engine factory founded in 1864 by N.A. Otto, the developer of the four the stroke engine
- Independent manufacturer of diesel and gas engines up 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 2015

- Revenue €1,247.4 million
- Free Cash Flow €35.0 million
- Equity ratio 45.5%

Board

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

DEUTZ Group

DEUTZ Compact Engines



- 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



- 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 and parts as well as oils and lubricants



DEUTZ engines for EU Stage IV / US Tier 4 emissions 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
- DEUTZ engine portfolio will satisfy the next EU emissions standard announced for 2019 “Stage V ready”
- Expanding product range for Stage V: New three-cylinder TCD 2.2 engine will create a family platform with four-cylinder TCD 2.9 engine. Both engines will be also available in a gas version (LPG). Engine project TCD 5.0 scheduled to go into production in 2019 to gain market share in the 100-150kW output range

DEUTZ customer base

Long standing customer relationships (not exhaustive)



New clients & greater share of wallet (not exhaustive)



→ Successful extension of customer base

- 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 Stage IV / Tier 4 engines









Successful business development

Examples of new applications



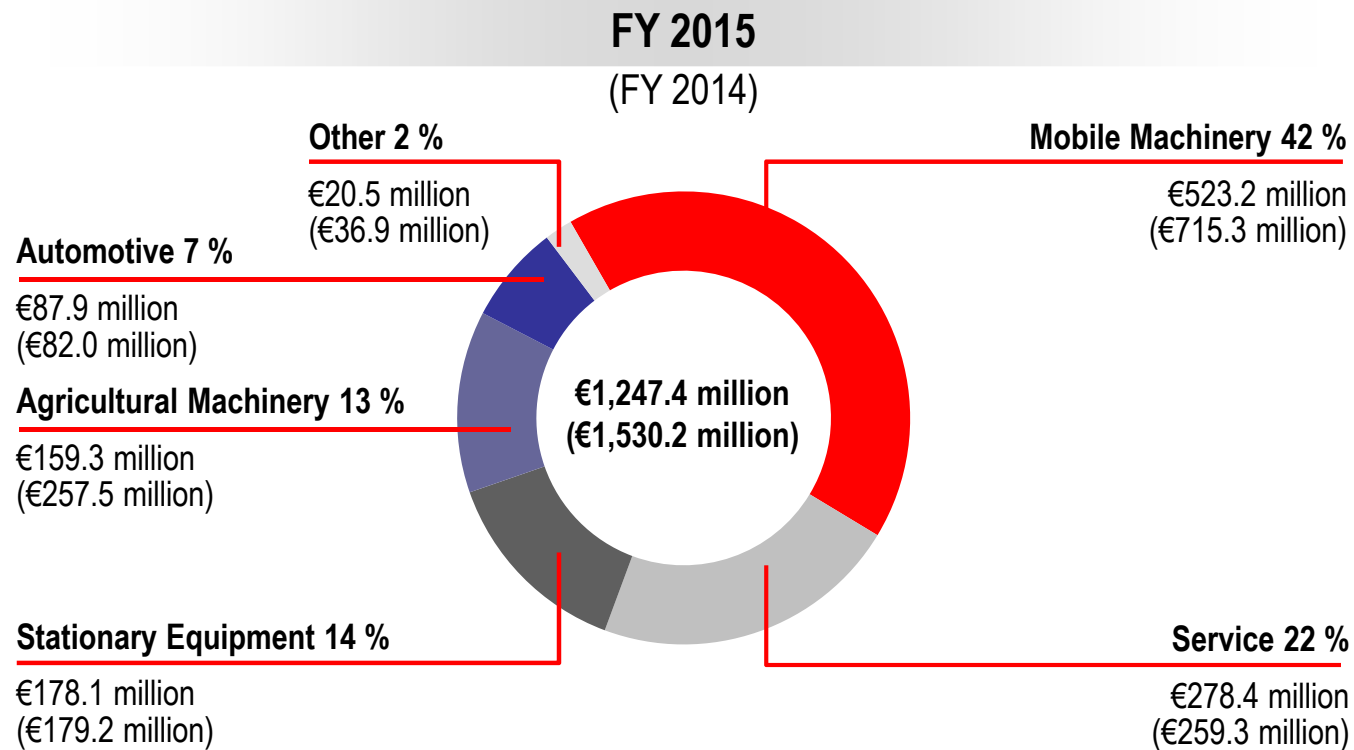
- New customers gained in all regions
- Greater share of wallet at existing clients
- New business related to different applications

Key applications

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

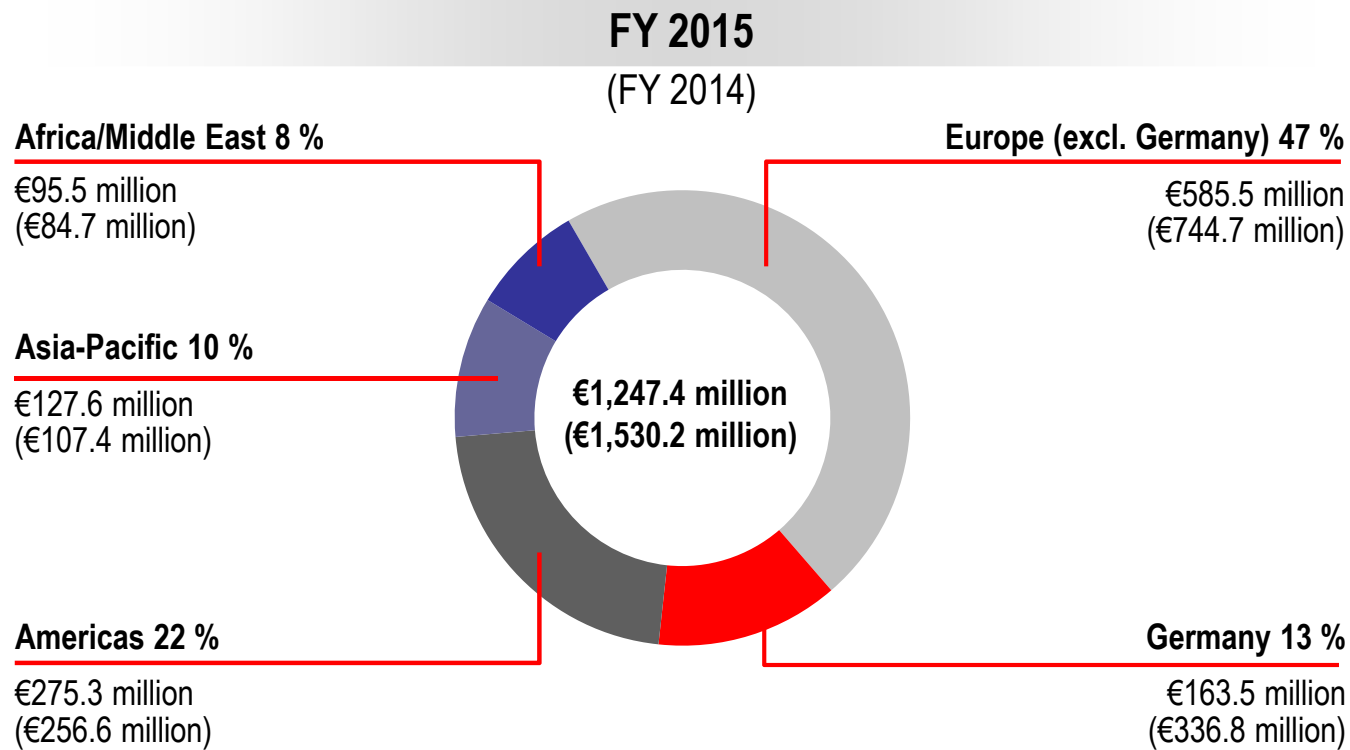
→ Wide application range for DEUTZ engines

Revenue split by application



- Pro-forma revenue in Automotive incl. equity-accounted JV DEUTZ Dalian: €383.3 million (corresponding revenue share amounts to 24%)

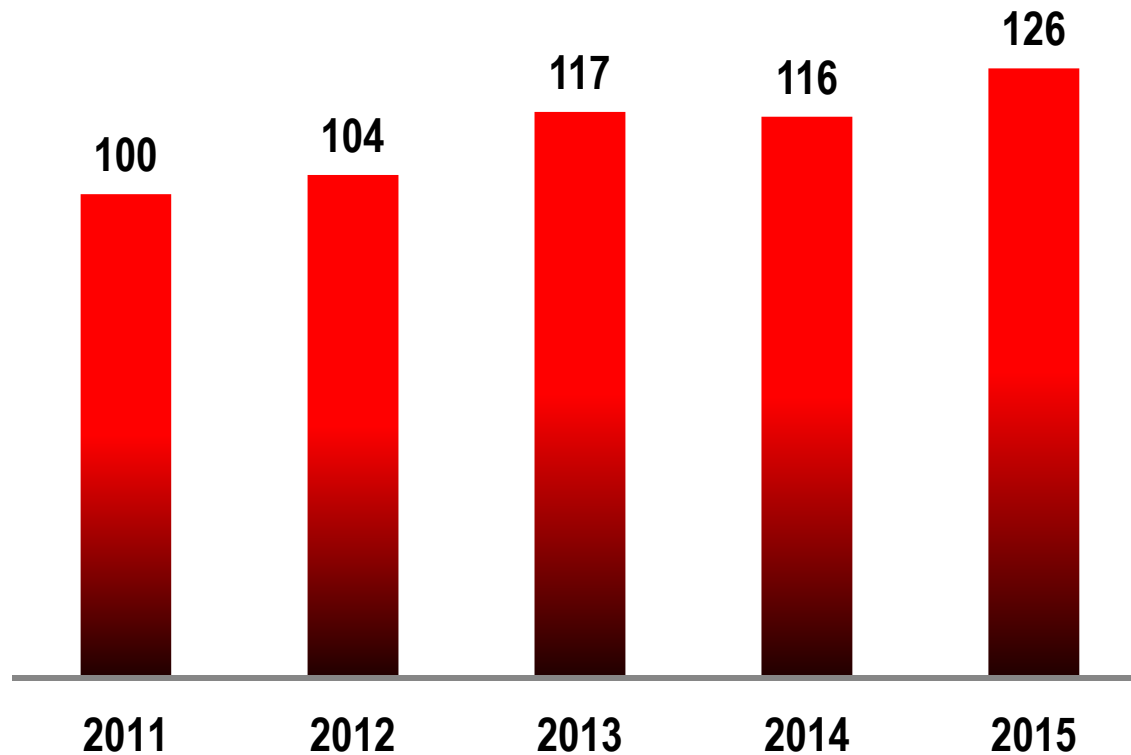
Revenue split by region



- Pro-forma revenue including equity-accounted Chinese JV DEUTZ Dalian: €1,586.9 million (-16.0%); corresponding revenue share of Asia-Pacific amounts to 29%

Emissions standards drive revenue growth

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

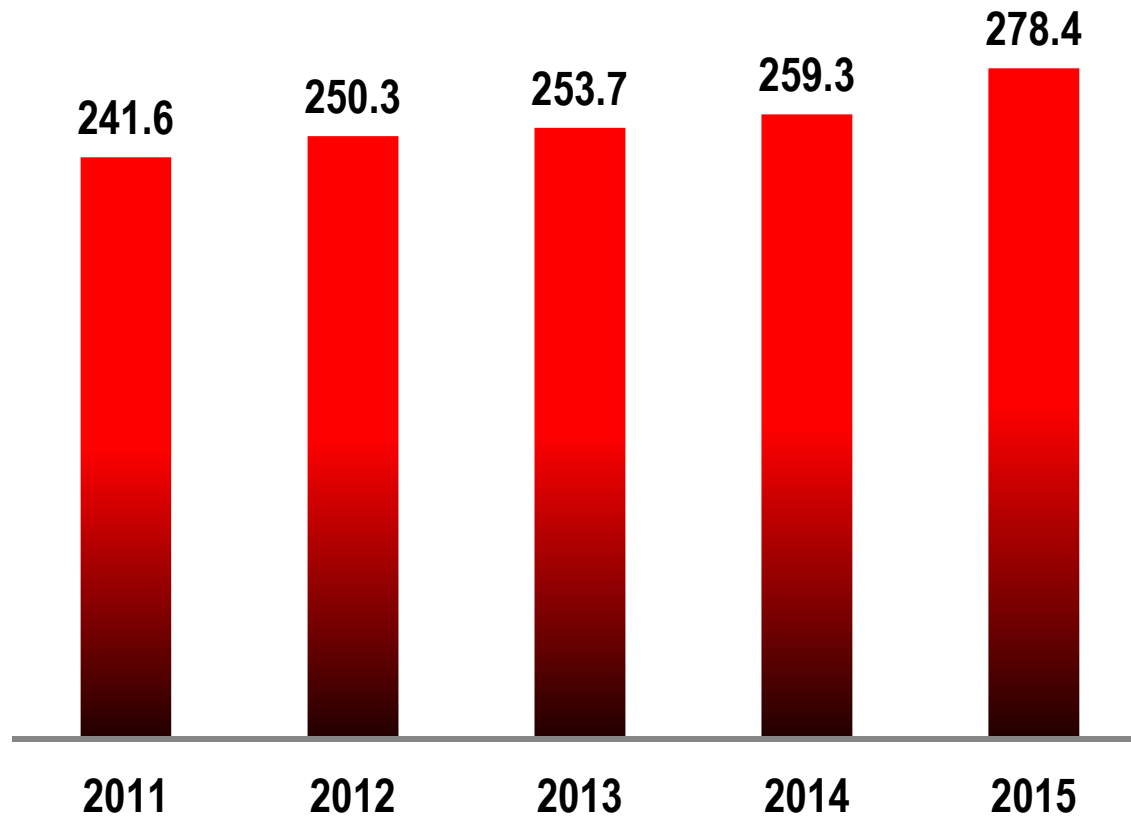


- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emission engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

→ Structural growth due to tighter emissions standards

Service business

€ million

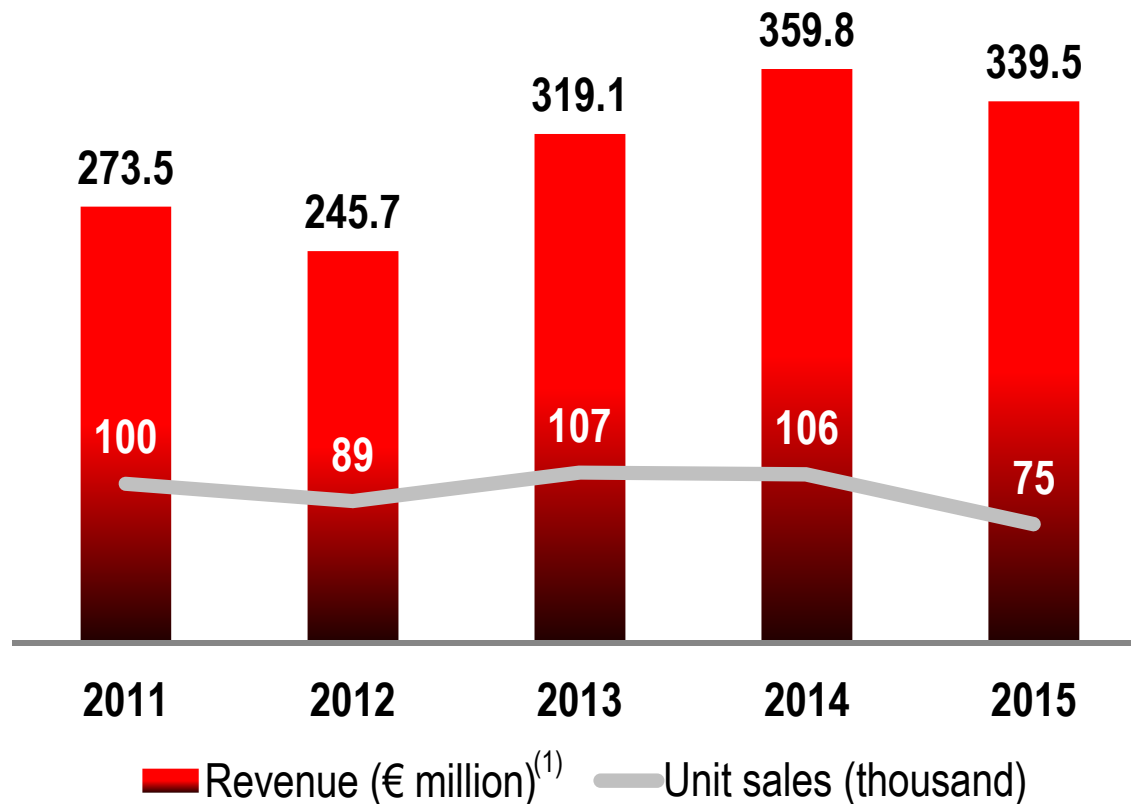


- Further solid service revenue growth
- Strong resilience of profitable service business through different economic cycles

→ Continued growth of service revenue

DEUTZ activities in China

JV DEUTZ Dalian

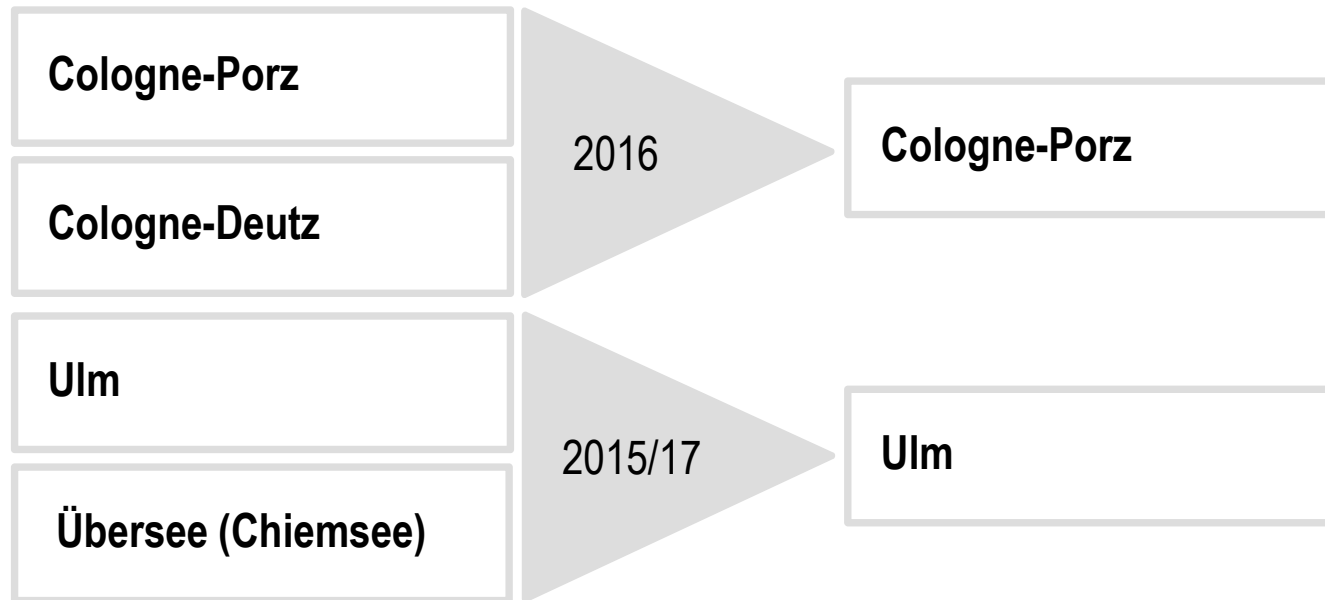


(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Challenging capital goods market conditions in China
- Strategic decision to focus our production in China on our JV DEUTZ Dalian (DDE) which has sufficient capacities
- DDE is a 50:50 JV with FAW producing diesel engines for local customer demand
- Countrywide sales and service network

➔ Consolidation of Chinese production activities at DEUTZ Dalian

Site optimisation

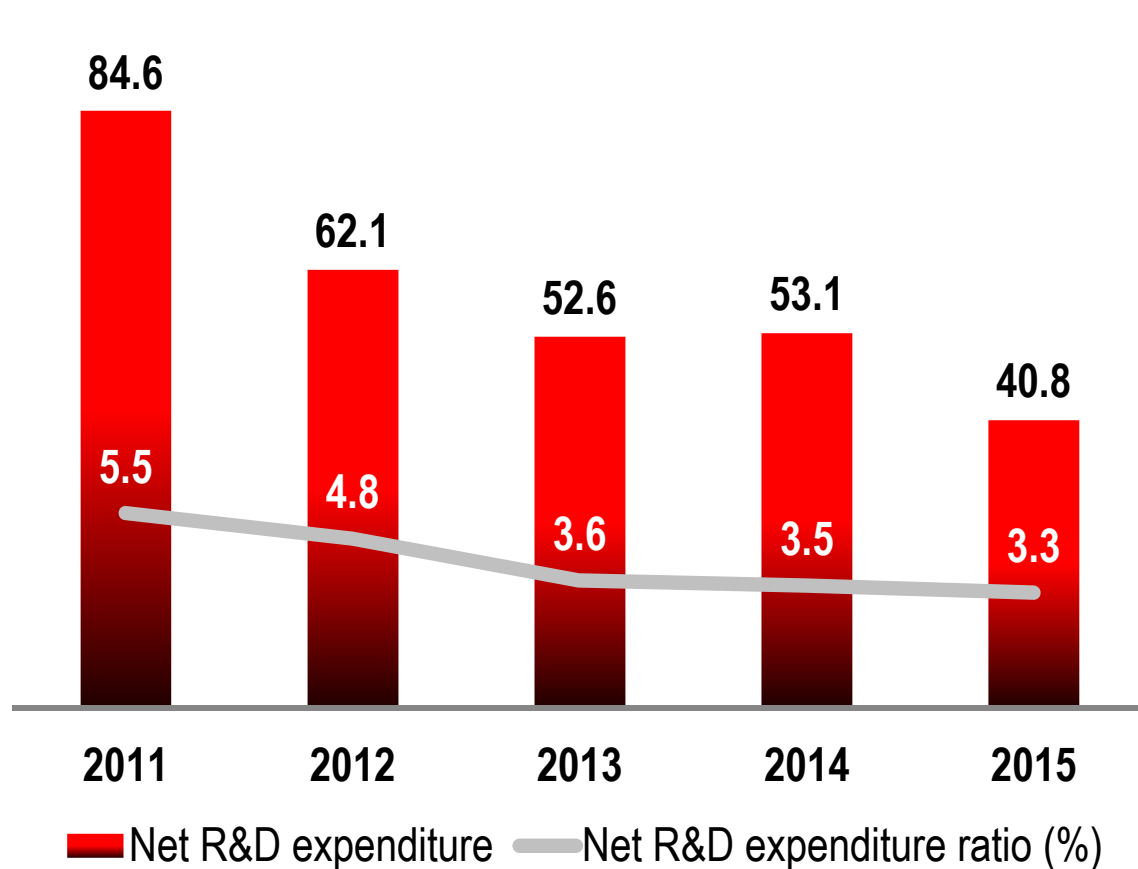


- Site optimisation measures fully on schedule; first relocation stage to Ulm completed
- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Substantial proceeds from sale of property in Cologne-Deutz in the years to come

→ Sustainable efficiency improvement by merging facilities

R&D expenditure

€ million

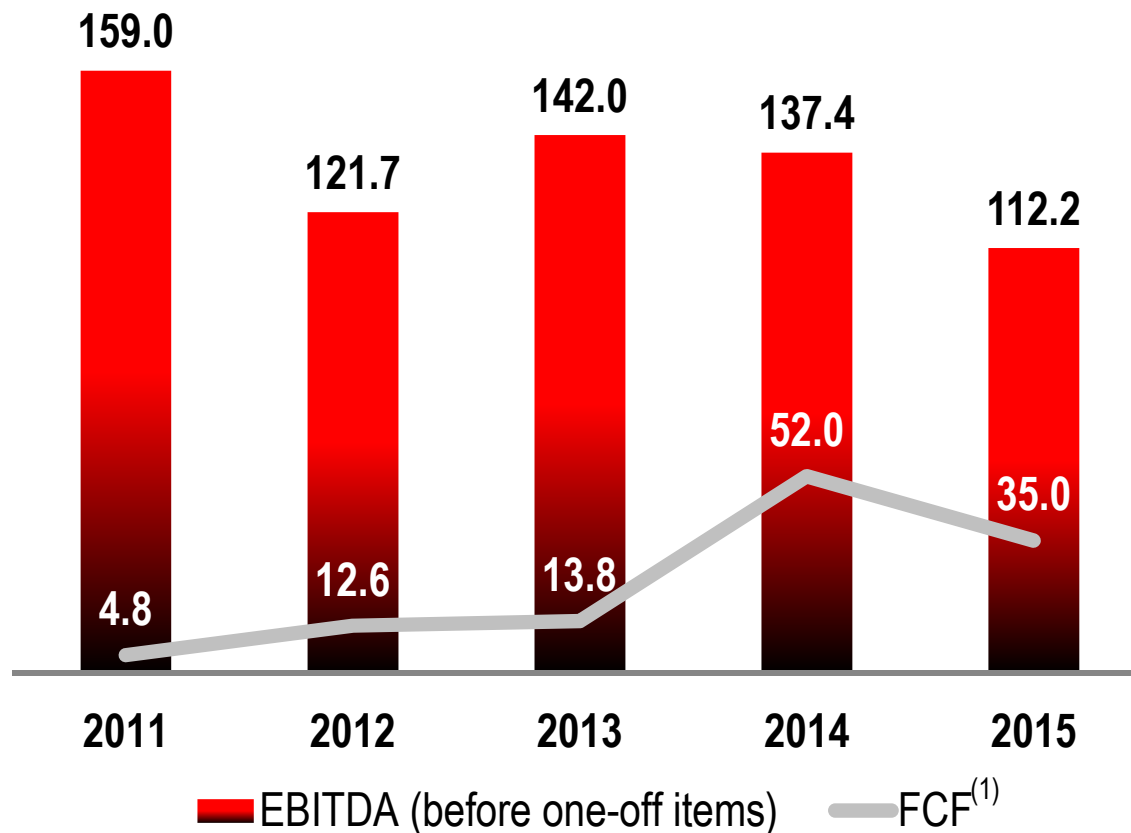


- Spending on R&D has been scaled back due to successful market launch of new engine generation
- Ongoing R&D spending in continuous product innovation

→ R&D expenditure will remain on a moderate level

EBITDA & free cash flow

€ million



- Volatile market environment requires flexible production
- Successful reduction of break even level in recent years
- Strong free cash flow generation attributable to successful market launch of new engine generation
- Higher capacity utilisation most important driver for profitability enhancement

(1) FCF (Free cash flow): cash flow from operating and investing activities less net interest expense

→ Robust numbers in down cycle & high upside potential at market recovery

Cash deployment & dividend policy

Financial strength

- Keep equity ratio above 40%
- Robust financial framework in volatile markets

Internal funding

- Invest in profitable organic growth projects and service
- Continuous product innovation

Dividend policy

- Stable or growing dividend per share
- Dividend payout ~30% of earnings over multi year period

→ Stable or growing dividend

Summary: DEUTZ key investment highlights

Successful extension of customer base

Structural growth due to tighter emissions standards

Continued growth of service revenue

Sustainable efficiency improvement by merging facilities

Robust numbers in down cycle

High upside potential at market recovery

Stable or growing dividend



Agenda

- DEUTZ strategy & positioning

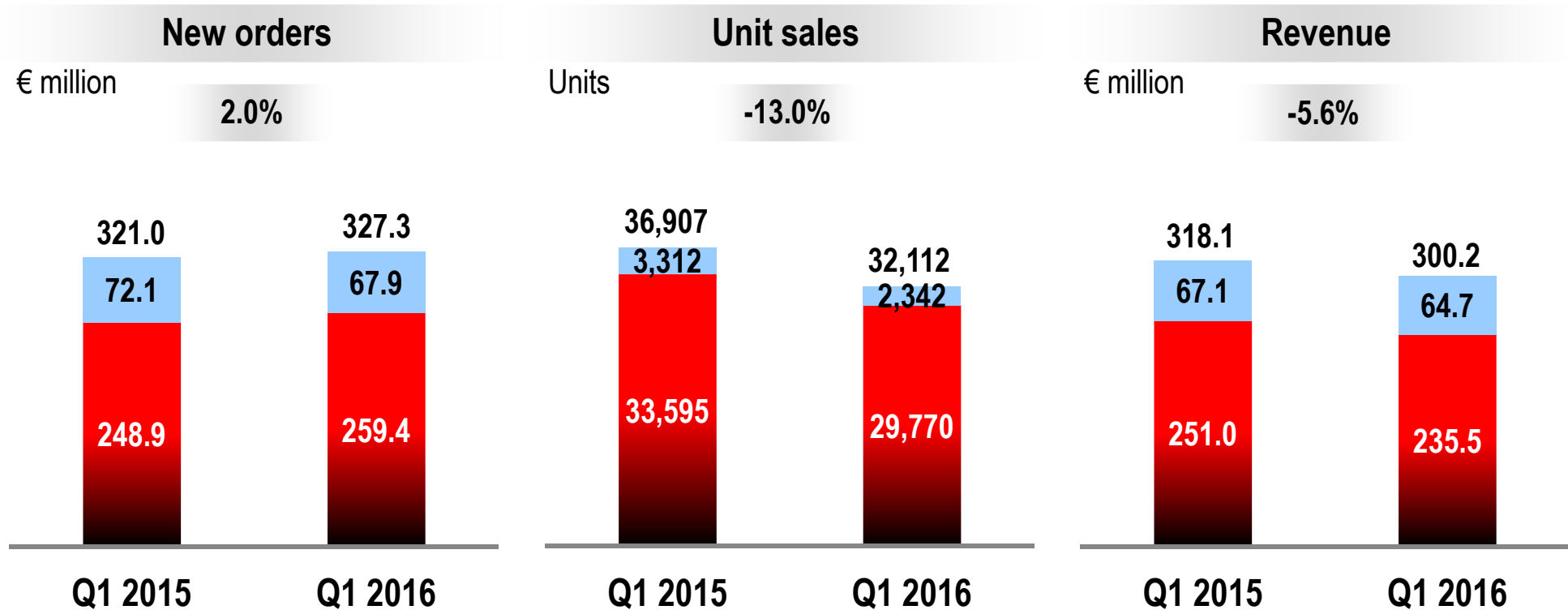
- **Financials**

- Outlook

Key figures

€ million	Q1 2016	yoy	qoq
New orders	327.3	2.0%	11.7%
Revenue	300.2	-5.6%	-2.7%
EBITDA	31.3	-7.7%	+17.7%
EBIT	7.3	-€2.8 million	+€13.0 million
Net income	8.7	+€1.0 million	+€12.5 million

Sales figures

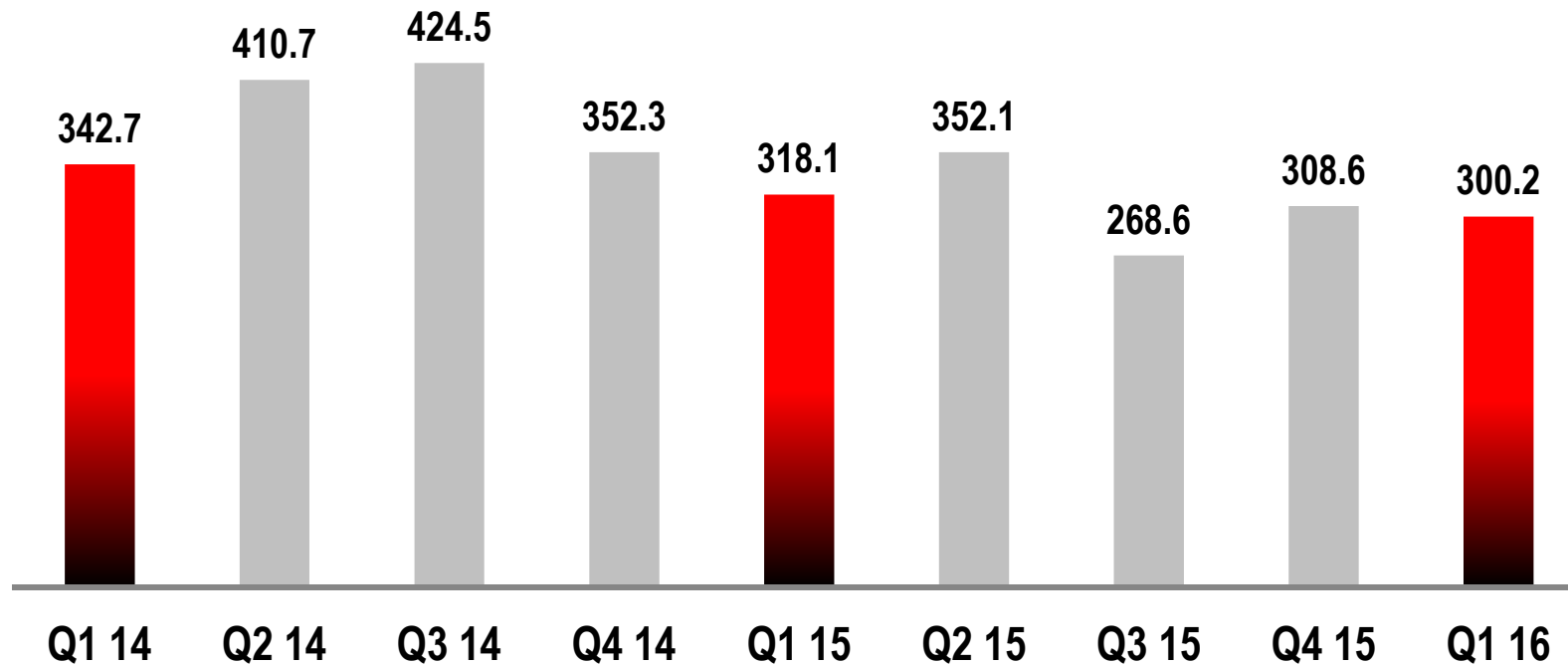


- Revenue decreased to a lesser extent than unit sales due to positive price mix effects and license proceeds
- Improving order intake at DEUTZ Compact Engines
- Book-to-bill ratio at 1.09x

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

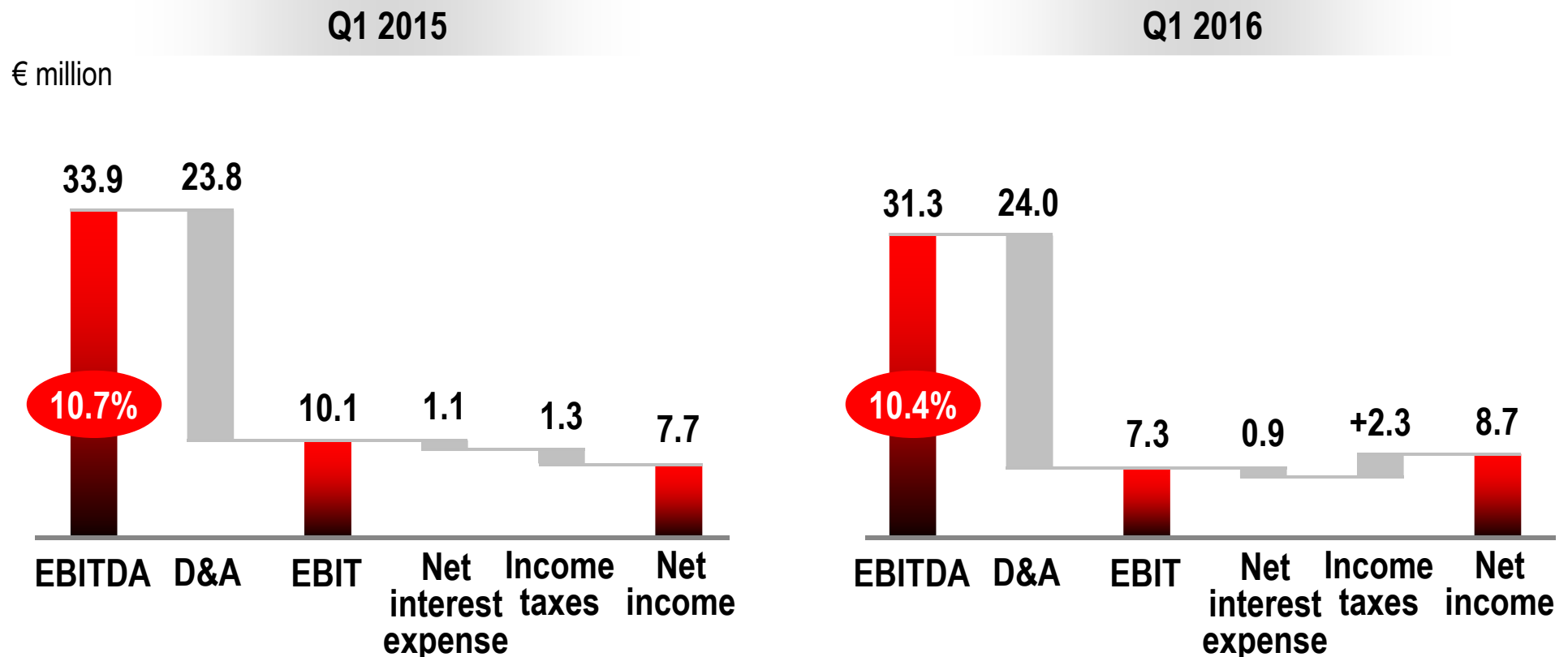
Revenue by quarter

€ million



- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- We anticipate revenue will be higher in the Q2 but then will decrease in the third quarter of 2016 due to holiday shutdowns

Operating profit & net income

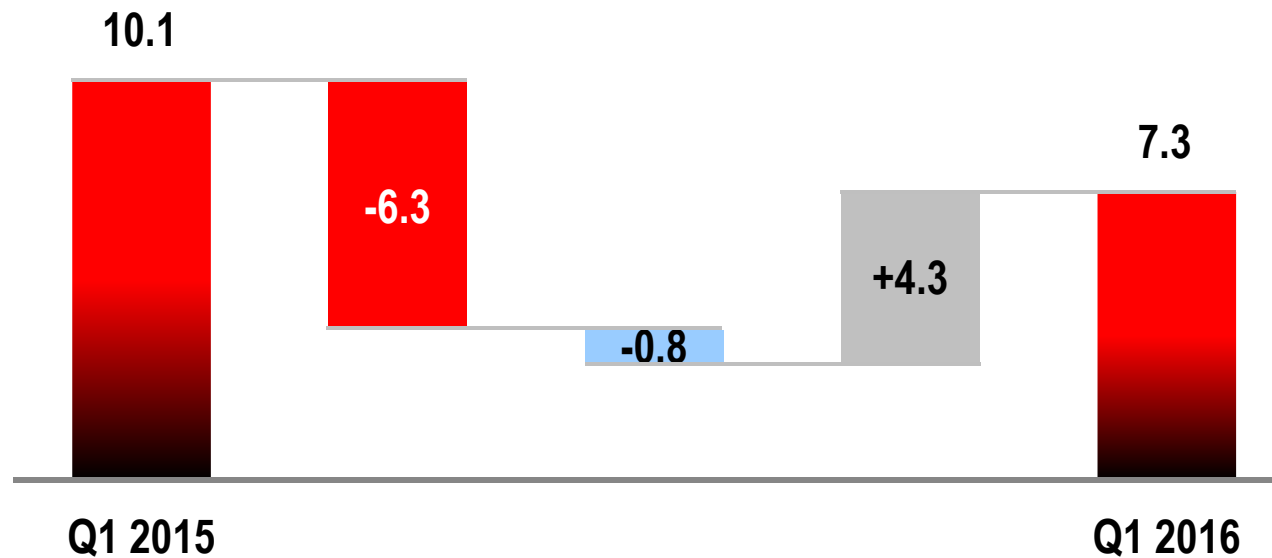


- Operating profit benefitted from licence proceeds by €5.5 million
- EBITDA decrease attributable to lower business volume and negative FX effects in contrast to positive FX effects in the previous year
- Current tax expense more than offset by deferred tax income
- Net income increased by €1.0 million

xx.x% EBITDA margin

EBIT

€ million



EBIT margin

3.2%

2.4%

- EBIT decline at DEUTZ Compact Engines mainly attributable to lower capacity utilisation and FX
- Licence proceeds at DEUTZ Customised Solutions largely compensated lower business volume
- Prior year result at segment Other was burdened by unrealised FX-effects

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

Segment: DEUTZ Compact Engines

€ million	Q1 2016	Q1 2015	Change in %
New orders	259.4	245.9	4.2
Unit sales	29,770	33,595	-11.4
Revenue	235.5	251.0	-6.2
EBIT	-2.3	4.0	--

€ million	Q1 2016	Q4 2015	Change in %
New orders	259.4	234.4	10.7
Unit sales	29,770	27,618	7.8
Revenue	235.5	237.1	-0.7
EBIT	-2.3	-15.0	--

- New orders increased 4.2% yoy and 10.7% qoq
- Book-to-bill ratio amounts to 1.10x
- Revenue remained on Q4 2015 level
- Operating profit improved by €12.7 million vs. Q4 2015 due to lower depreciation and cost improvements

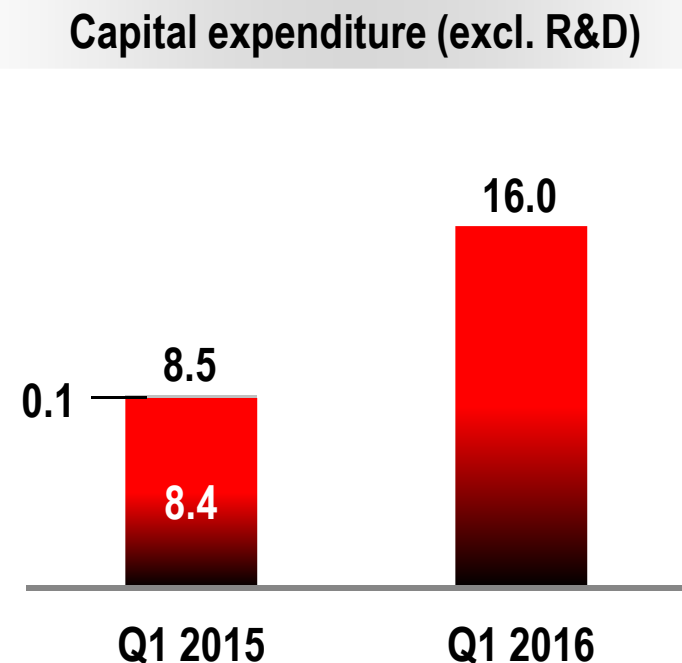
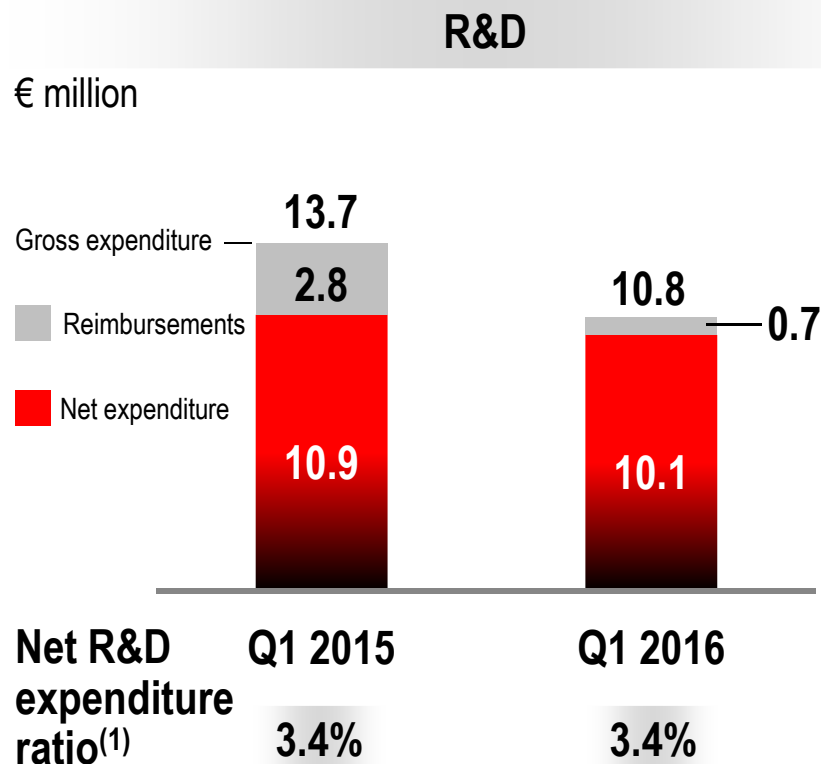
Segment: DEUTZ Customised Solutions

€ million	Q1 2016	Q1 2015	Change in %
New orders	67.9	72.1	-5.8
Unit sales	2,342	3,312	-29.3
Revenue	64.7	67.1	-3.6
EBIT	10.2	11.0	-7.3

€ million	Q1 2016	Q4 2015	Change in %
New orders	67.9	58.6	15.9
Unit sales	2,342	2,927	-20.0
Revenue	64.7	71.5	-9.5
EBIT	10.2	5.3	92.5

- Book-to-bill ratio at 1.05x
- Unit sales declined significantly due to Mobile Machinery and Stationary Equipment applications
- Service business accounted for 43.4% of total revenue
- Operating profit benefitted from licence proceeds by €5.5 million

R&D spending & capital expenditure



- R&D remain at moderate level
- Proportion of capitalised net R&D expenditure: €0.9 million (Q1 2015: €1.8 million)

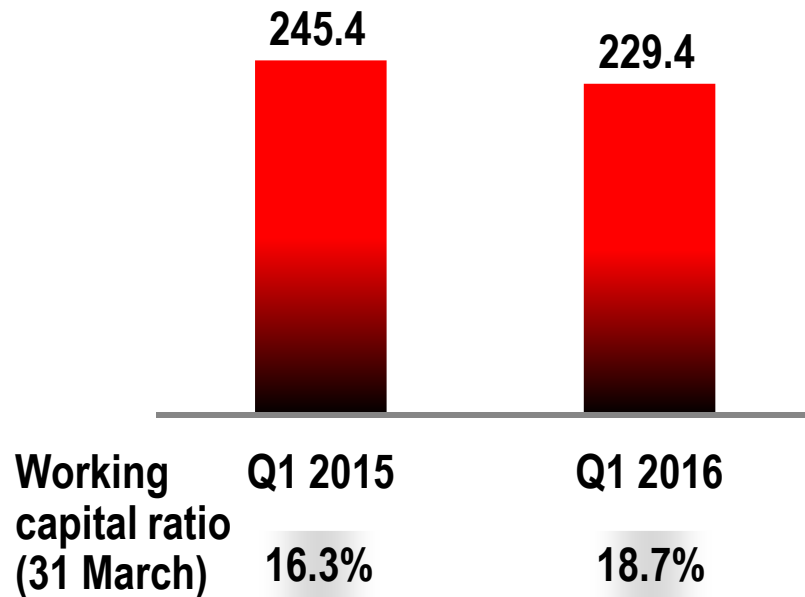
- Capital expenditure increase largely attributable to new shaft centre, which is an important element of our site optimisation

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

Working capital & operating cash flow

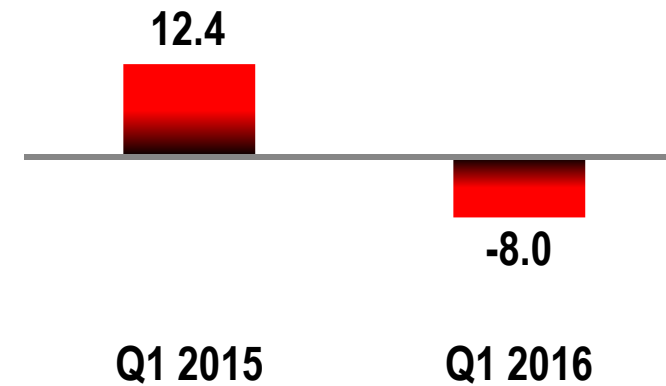
Working capital

€ million



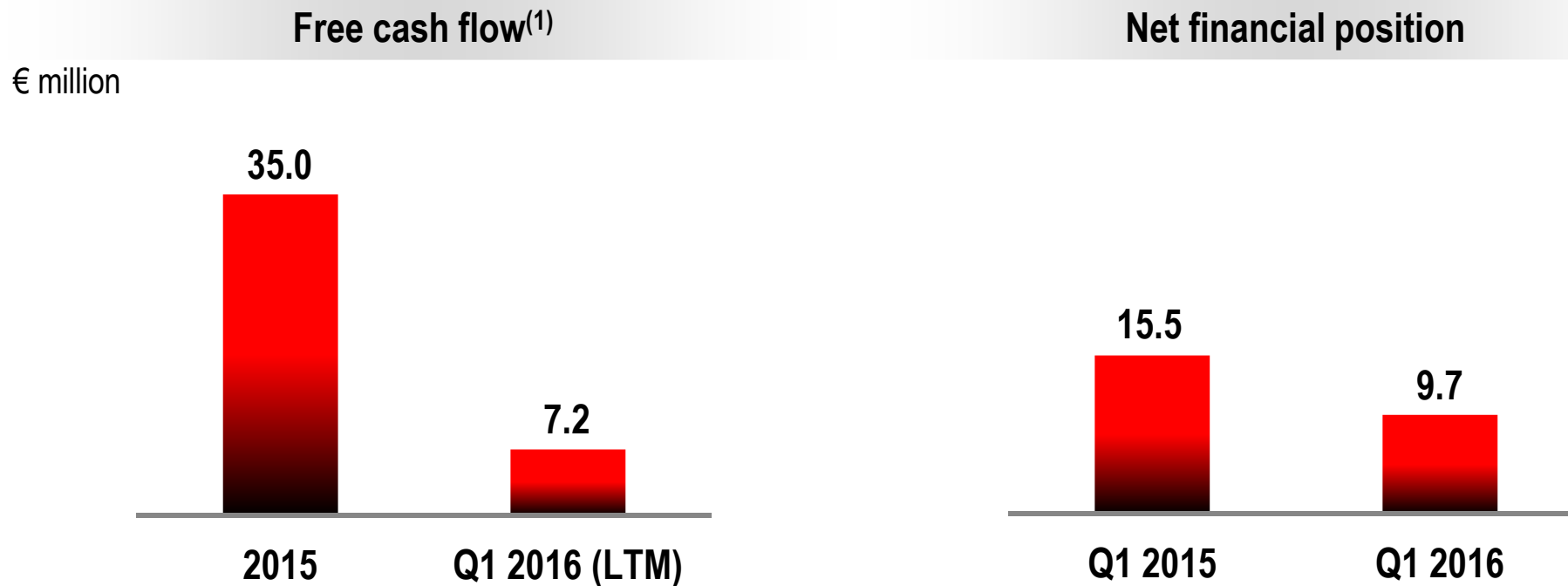
- Increase of working capital ratio related to revenue decline in the second half of FY 2015

Operating cash flow



- Operating cash flow decline mainly due to lower business volume

Free cash flow generation & net financial position



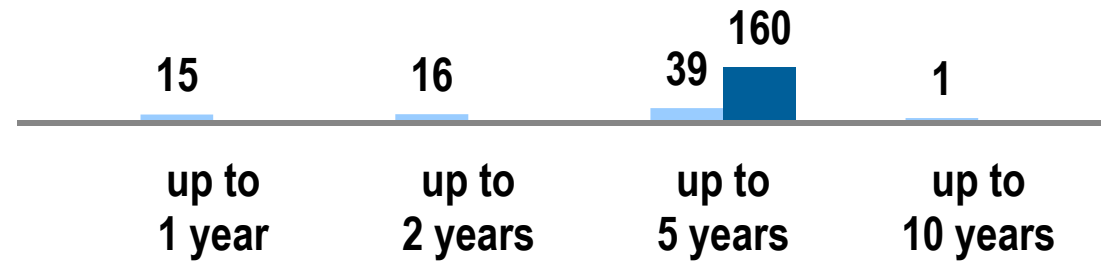
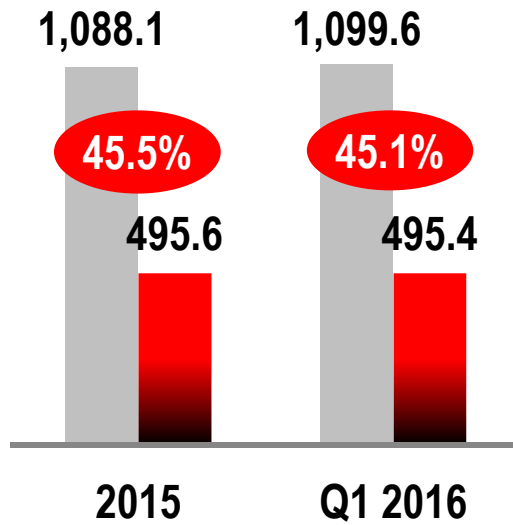
■ Free cash flow of last twelve months decreased by €27.8 million

■ Net financial position remains positive

(1) Free cash flow: cash flow from operating and investing activities less net interest expense

Equity ratio & funding

€ million



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

- Equity ratio remained strong
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line until May 2020
 - Loan from European Investment Bank repayable until July 2020

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- Financials

- **Outlook**

Market assessment

	2016
Unit sales (equipment) ⁽¹⁾	
Construction equipment Europe	-5% to +5%
Construction equipment North America	-5% to +5%
Construction equipment China	-20% to -10%
Agricultural Machinery Europe	-5% to 0%
Automotive China	-5% to +5%

- Recovery of key application markets not yet visible
- Chinese construction equipment market expected to remain challenging
- While DEUTZ will still suffer from the effect of advance production of engines in 2016, the burden will be less pronounced than in 2015

(1) Numbers refer to end markets. DEUTZ business may differ due advance production of engines

Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
Revenue	1,247.4	stagnant or slight increase
EBIT margin (before one-off items)	0.4%	moderate increase
R&D expenditure ⁽¹⁾	40.8	slightly above 50
Capex (excl. R&D) ⁽¹⁾	56.2	approx. 55

(1) Net of reimbursements

Financial calendar & contact details

■ Interim report 1st half 2016

4 August 2016

■ Interim management statement 1st to 3rd quarter 2016

8 November 2016

➤ Contact details

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