

# Speech

for the virtual Annual General Meeting of DEUTZ AG

on June 25, 2020

## Dr. Ing. Frank Hiller

Chairman of the Board of Management of DEUTZ AG

Check against delivery



Ladies and gentlemen,  
shareholders,  
DEUTZ employees,

Good morning – and welcome to this year’s virtual Annual General Meeting of DEUTZ AG.

I would very much have liked to have welcomed you in person here in Cologne, as usual, and to have had the opportunity to talk to you face to face. However, everything is very different in these coronavirus times, and we are also forced to conduct the dialog with our shareholders in a different way. Nonetheless, we are confident that today’s virtual meeting will be a success.

Your health and the health of our almost 5,000 employees and their families is our top priority. Our employees are the engine of our business and continue to work with passion and pioneering spirit, despite the currently challenging conditions. On behalf of the whole Board of Management, I would like to pay tribute to them and express our most heartfelt thanks for their exemplary commitment and tireless efforts.

Ladies and gentlemen,

Many people believe that the effect of coronavirus has been to bring everything to a complete standstill. But I can assure you that the engine of innovation at DEUTZ never stands still. This is illustrated by the film we showed at the start of the meeting, which clearly shows what we stand for, what makes us who we are, and what drives us, day in, day out.

**We always keep moving forward – innovative, future-oriented, and responsible.**

In the context of the challenges posed by the coronavirus pandemic, we understand ‘responsible’ to mean making every possible effort to lead DEUTZ safely and successfully through these unusual times.

To help us do this, we have defined our 'Vision of Success 2020', a set of guidelines whose primary objective is to ensure that when full production resumes, we emerge from this crisis stronger than before. All stakeholders of the DEUTZ Group – employees, customers, dealers, and suppliers – are involved in this.

Part of our vision of success is to continue the capital expenditure necessary to secure the long-term future of our business. Because one thing is clear: In order to maintain our Company's forward momentum, it is essential that we continue the growth projects we have already begun and keep DEUTZ on the road to success.

**Ladies and gentlemen,**

'Shaping the future' is more than just the title of this year's annual report. It is also the roadmap for our day-to-day work.

**At DEUTZ, we want to actively help to shape the future and be pioneers of a carbon-neutral future for off-highway applications. That is our primary objective and we must not lose sight of it in these challenging times.**

We therefore believe it is essential to challenge ourselves every single day. And this requires a solid foundation of workable corporate values that will keep us on the right track in an ever more complex world and constantly changing environment. We defined five new corporate values last year for precisely this reason. They will guide our actions as we seek to transform ourselves into an agile company with modern working methods and new forms of collaboration.

**Actively shaping the future means being not only willing to change but also ready to shoulder responsibility. And we are!**

That is why we adopted a new sustainability strategy last year. The name of the strategy, Taking Responsibility, describes our objective of striving for commercial success while fulfilling our corporate, social, and environmental responsibilities – because this is what good corporate governance is.

In order to translate these words into action, we have set ourselves various quantitative targets for 2023 – such as increasing the percentage of revenue generated by electric drive systems, reducing emissions at our production sites, auditing key suppliers to ensure compliance with human rights, and encouraging more women into management positions. All these targets are brought together in our ‘DEUTZ Sustainability Vision for 2023’.

When I last stood before you, climate change was the all-consuming topic of the day. Today, just over one year later, the world is preoccupied with containing the coronavirus pandemic and dealing with its impact on the economy.

However, here at DEUTZ we strongly believe that sustainability and environmental protection should not be put on the back burner, even in these difficult times. Climate change is still happening, and will be with us long after the pandemic is over.

That is why we have joined forces with 67 other major German companies to call on the German Federal Government to build on what it has already achieved in climate policy and to continue to create and implement rigorous climate policy measures. At the same time, we are also sending an important signal to the Petersberg Climate Dialog by calling for an ambitious green deal and for all countries to submit challenging climate targets in accordance with the Paris Agreement.

**As you can see, DEUTZ is not letting up in this area and is prepared to contribute to the debate with innovative products and its decades of expertise.**

Our E-DEUTZ program, which was launched in 2017 with the aim of making an important contribution to zero-carbon off-highway mobility, shows that we are prepared for change and for the upheaval this will necessarily entail. I will outline the success we have already achieved over the past year later in my speech.

Electric drive systems will play a key role in the carbon-neutral solutions of the future, that much is certain. Nevertheless – and I would like to stress this – we intend to keep an open mind toward new technologies as we develop our product portfolio. That means that we will continue to focus on offering a combination of diesel, gas, hydrogen, petroleum, hybrid, and electric drives. Because we know that different requirements demand different solutions. Maximum value for our customers is the guiding principle behind our activities.

## Ladies and gentlemen,

Let us now take a look back in time and talk about the figures for the past financial year.

The contraction of demand due to the weak economy and to customers building up inventories of engines in 2018 ahead of new emissions standards coming into force meant that new orders received in 2019 fell by 15 per cent year on year to just under €1.7 billion.

While unit sales remained roughly at the same level as in the prior year, with a total of around 212,000 engines sold, consolidated revenue increased by 3.5 percent to more than €1.8 billion.

We thus achieved our forecast revenue of more than €1.8 billion – despite the increasingly gloomy economic climate and a challenging final quarter.

EBIT margin before exceptional items stood at 4.3 percent, which was within the forecast range of 4 to 5 percent. Operating profit (EBIT before exceptional items) fell by just under 4 percent to €79 million. The reasons for the drop include, in particular, negative effects in connection with the opening of insolvency proceedings at various suppliers, and demand-related impairment losses recognized on capitalized development expenditure in connection with two engine series. Effects related to the deconsolidation of Argentinian joint venture DEUTZ AGCO Motores S.A. also depressed earnings, as did the recognition of provisions due to a product recall involving Torqeedo companies.

Accordingly, net income fell by just under €18 million to €52 million. Earnings per share therefore amounted to €0.43 (2018: €0.58). Adjusted for exceptional items, net income stood at €44 million, which led to adjusted earnings per share of €0.37.

We remain in a strong financial position. The DEUTZ Group's equity rose by 5 percent to €652 million because of the net income generated. The equity ratio stood at more than 50 percent. This means our financial position remains solid.

### Ladies and gentlemen,

What you cannot necessarily see from these hard figures is what we have achieved in strategic terms since we last met.

I would like to return to the E-DEUTZ strategy I mentioned earlier. Last year, we significantly boosted our inhouse competence in the critical area of battery technology with the acquisition of battery specialist Futavis. The company's expertise in high-voltage battery management systems will add to the expertise that Torqeedo already provides in the field of electric drives. Going forward, we will be able to offer our customers an attractive product portfolio for their individual needs, including the required battery management system, all from a single source. As the DEUTZ-Futavis-Torqeedo group of companies, we have already developed and manufactured high-voltage batteries and supplied them for use in some specific applications to a big-name customer from the on-road industry. Something we can be proud of!

We also achieved further progress in the marine sector, the original specialism of our Torqeedo subsidiary. At the beginning of the year, Torqeedo entered into a partnership with the technology group ZF Friedrichshafen in the area of high-tech electric boat drives. The supply of the innovative, steerable propulsion system from ZF and its integration into Torqeedo's Deep Blue drive system will enable Torqeedo to build on its existing competitive advantage and give it a strong technological USP in the sub-100 kW power output range. Sailing yachts, urban ferries, and water taxis will thus benefit from carbon-neutral drive solutions in the future.

**We aim to become the world's leading manufacturer of innovative drive systems and a pioneer in eliminating carbon emissions in the off-highway segment. And as you see, we are getting ever closer to this goal.**

**Ladies and gentlemen,**

In addition to the rigorous implementation of our E-DEUTZ strategy, we have also made great progress with the expansion of our high-margin service business – both operationally and strategically. The service business grew significantly in 2019 with a 7 percent rise in revenue to €352 million and now accounts for 19 percent of consolidated revenue.

Following the expansion of our dealership and service network in the Middle East, we have also been able to substantially increase our presence in the Benelux states. The acquisition of the DPS Power Group with bases in Belgium and the Netherlands has enabled us to greatly increase our proximity to our customers in western Europe.

We aim to provide our customers with solutions to their individual problems quickly and efficiently, and digitalization has therefore been a further focus of our activities. Here too, we have kept abreast of developments and are permanently working on new services that create maximum customer value. New digital services in the field of predictive maintenance, for example, are currently undergoing final tests. They should help to reduce unscheduled downtimes and thereby reduce operating costs.

**Ladies and gentlemen,**

As you know, in addition to continuously expanding our portfolio with new drive solutions and digital services, we also aim to steadily increase our international presence.

Our primary focus in this regard is the Chinese market, which is already the biggest in the world for off-highway applications and is continuing to grow. I will go into more detail on the repositioning of our business there later on. But at this point I would just like to say that the implementation of our China strategy is still progressing according to plan, despite the coronavirus pandemic.

In addition to China, we have long had a regional focus on the USA. We laid down important markers here last year, for example by entering into a long-term agreement with Kukje Machinery. The objective is to expand the engines portfolio in the sub-19 KW power range in the US market. Two new engines are now ready to go on sale throughout the whole of North America. The D1.2 and D1.7 are powerful and cost-effective engines that meet the latest emissions standards both in North America and in the EU.

## Ladies and gentlemen,

Having outlined the most important strategic milestones of the past year, I would now like to turn to more recent developments.

The world is currently experiencing a crisis on an unprecedented scale with tangible consequences – both social and economic – for each and every one of us. DEUTZ is no exception.

In what was already a challenging market environment due to the weak economy, the detrimental effects of the coronavirus crisis are creating a further drag on our engines business. This is reflected in the figures for the first quarter of 2020:

The volume of new orders fell by 31 per cent year on year, to €357 million.

In the same period, unit sales declined by 16 percent to 40,069 engines and revenue contracted by around a quarter to €340 million.

The breakdown by application segment reveals that only the high-margin service business performed strongly.

The decline in revenue impacted on our operating profit (EBIT before exceptional items), which came to minus €12 million in the first quarter of 2020. The EBIT margin before exceptional items was minus 3.5 percent. Payments made under continuation agreements with suppliers that are going through insolvency proceedings also had a severe negative impact.

The prospects for the second and third quarters are also gloomy. As you are probably aware, we had to temporarily shut down large parts of our production in April, after many of our customers had already shut down theirs. Following consultation with employee representatives, we also applied for short-time working.

Our production is now gradually starting up again, although the rate at which it returns to normal will be heavily dependent on demand, which is currently still in decline due to the impact of the coronavirus pandemic on the economy.

As it is not currently possible to predict either the specific consequences of the ongoing coronavirus crisis or its duration, we will not be publishing full-year guidance for 2020 at the present time.

### Ladies and gentlemen,

The coronavirus pandemic will not prevent us from rigorously pursuing our medium-term targets for 2022.

One especially positive aspect in this context has been the implementation of our regional growth initiatives and, in particular, the expansion of our presence in the world's largest market for engines, China.

As you know, our joint venture with China's largest construction equipment manufacturer SANY is the most important pillar in this strategy.

The first few months of the current financial year were profitable and we actually expect the volume of unit sales to double or triple for 2020 as a whole.

When we repositioned our China business two years ago, our target for this market was around €500 million in revenue in 2022.

Now, in view of the successful implementation, our target for 2022 is revenue of around €800 million!

However, we should bear in mind that our stake in the joint venture with SANY is consolidated using the equity method, which means that it will not increase consolidated revenue, but is expected to make a positive contribution to EBIT.

The significant increase in our revenue target is due in no small part to the fact that the planned volume for the joint venture already meets existing market demand and we intend to gain further market share from our competitors as a result of our China strategy. But this is not enough – our success story in China continues. Our current plans assume that by 2024 we will be producing more than 50 percent of our engines in China.

This shows that DEUTZ is on the right path to successfully position itself as the ideal technology partner in the world's largest engine market.

As you know, our medium-term strategy is not solely about regional growth initiatives. We are also striving to further develop our innovative drive portfolio in a way that embraces new technologies and proves over and over again that we are pioneers of a carbon-neutral future for off-highway applications.

As electric drives will play a key role in this, we are pressing ahead with the implementation of the E-DEUTZ strategy we initiated in 2017 and intend to go to market with the first products in early 2021.

Although we are currently finding that projects are tending to be put on the back burner because of coronavirus, and this may cause delays to some projects, we expect the demand for electric drives to accelerate once the pandemic is over.

Government financial support packages may also stimulate additional demand. Incentives are being provided with the intention of strengthening the economy as a whole, but in particular to increase willingness to invest in new, climate-friendly technologies. The German government has expressed a clear interest in supporting alternative drive solutions – whether that be in respect of electrification or other alternative technologies such as hydrogen. It is still crucial that the climate targets are met, despite the outbreak of the coronavirus pandemic.

With our innovative product portfolio, we are ideally placed to position ourselves on the market as an experienced supplier of carbon-neutral drive solutions. As I have already mentioned, we can offer tailored solutions, including the necessary battery management system, all from a single source!

We have completed the prototype development phase and are already at the first stage of entering specific implementation projects with selected customers with our 360V high-voltage drive train. That will clearly set us apart from other competitors in the market. We are on the right track at the right time and there is a large range of potential applications for our alternative drive systems – whether fully electric or hybrid. Think, for example, of all the city-center construction sites or of ground support at our airports. The demand is huge and we see extremely promising growth potential in the coming years.

**But it is not enough simply to have an innovative product portfolio. Our customers also expect a comprehensive service offering. Which we have, and the demand for it is strong.**

We originally said the target for our lucrative service business was revenue of more than €400 million by 2022. But our activities have grown so rapidly and so strongly that we now aim to achieve this goal a year earlier, in 2021. Key drivers here will be:

- the accelerated expansion of the Xchange business,
- the scaling up of the maintenance and repair service for DEUTZ and non-DEUTZ engines,
- the securing of new customers,
- the opening up of new distribution channels for parts, and the integration of external platforms into our service concept.
- We will also achieve global coverage for our service network by investing in our own service centers and making selected acquisitions.

The coronavirus crisis may even strengthen our service business. Investment in new machinery tends to be postponed in times of crisis, so the need for repair and maintenance services is extended and prolonged. We expect positive effects to flow from this, which will be conducive to our plans to achieve the revenue target of €400 million ahead of time.

Ladies and gentlemen,

We now come to the price of your shares and the subject of dividends.

During 2019, DEUTZ shares suffered marked price volatility which, in our view, was predominantly attributable to the slowdown in market growth and associated uncertainties. Even so, DEUTZ shares ended the year at €5.57 – 8 percent higher than at the end of 2018. The increase in the indices of relevance to us was even stronger: the SDAX rose by 31 percent and the DAX Industrial by 33 percent.

On June 15, 2020, the price of your shares was €3.79. This is not very satisfying, but reflects the general performance of the global equity markets.

However, like the majority of our analysts, we firmly believe that we are on the right course to steer DEUTZ to a successful future and it is likely that this will be reflected in the share price trend in the medium term.

As you know, the Board of Management and Supervisory Board originally proposed a dividend of €0.15 per share for the 2019 financial year, thereby continuing the Company's intended dividend policy. But at the time this resolution was adopted, none of us could have imagined the scale of the coronavirus pandemic. The results of the first quarter of 2020 have shown just how much of a drag coronavirus has been on the DEUTZ engines business.

In addition to the impact currently being felt on our business, the ongoing coronavirus crisis will continue to create long-lasting challenges that cannot yet be predicted. It is therefore imperative that we protect the Group's liquidity and take measures to further strength our financial stability. Not least in order to ensure that we are able to implement our promising growth projects as planned and within the envisaged timeframe. Against this background, the Board of Management and Supervisory Board propose that the dividend payment for the 2019 financial year be suspended.

We are aware of the sacrifice this means for you, our shareholders. At the same time, we – like many other German stock corporations that have also decided to

suspend dividend payments – strongly believe that it is our corporate responsibility to take all measures necessary in order to protect the long-term success of our Company. Both in our interest and in yours.

At this point I would like to mention that the Board of Management, the Supervisory Board, and our senior management team have agreed that we also want to play our part. The Board of Management will therefore waive its one-year variable remuneration for 2020, the Supervisory Board will waive part of its fixed remuneration for 2020, and our senior management team have volunteered to forgo the majority of their variable remuneration.

We hope that you, the owners of DEUTZ AG, are also willing to play your part in securing the long-term success of the Company, and we are relying on your understanding and your agreement to our proposal.

We have also increased our credit facility by €150 million, which means we now have firmly committed credit lines and loans totaling more than €340 million.

### Ladies and gentlemen,

As I have already explained, we do not intend to lose sight of our medium-term objectives even in the midst of the coronavirus crisis. In fact we will tackle the resulting challenges by taking additional measures. In addition to our Vision of Success, we also launched our Transform for Growth efficiency program at the start of the year. The aim of the program is to achieve a permanent and substantial reduction in costs and to make our processes and the organization as a whole fit for the future. Measures include a reduction in operating costs, the introduction of shared services, automation of the order management process, digitalization of value creation processes in production, and optimization of the global production network. This will increase our competitiveness, reduce complexity along the whole value chain, and achieve further increases in profitability, with the ultimate aim of attaining the target we have set for 2022: revenue of more than €2 billion and an EBIT margin before exceptional items of 7-8 percent.

Ladies and gentlemen,

I have explained how DEUTZ is dealing with the exceptional situation in which we find ourselves, and the actions we have taken to achieve our medium-term goals and successfully continue our growth course.

Coronavirus is creating huge uncertainty for all of us – but one thing remains certain:

- We keep moving forward and tackling the global challenges of today and tomorrow.
- We accept responsibility for our Company, our environment, and the society we live in.
- We work with passion and pioneering spirit on a carbon-neutral future and never lose sight of our primary goal.

Because that's what DEUTZ stands for – that's what makes us who we are!

Ladies and gentlemen,

we would like to thank you for your ongoing confidence in us – especially in these troubled times. We hope you will stay with DEUTZ on its journey to becoming the world's leading manufacturer of innovative drive systems

Thank you very much.

Stay healthy.

#### Disclaimer

This speech for the Annual General Meeting includes certain statements about future events and developments, together with disclosures and estimates provided by the Company. Such forward-looking statements include known and unknown risks, uncertainties, and other factors that may mean that the actual performances, developments, and results in the Company or those in sectors important to the Company are significantly different (especially from a negative point of view) from those expressly or implicitly assumed in these statements. The Board of Management cannot therefore make any warranty with regard to the statements made in this speech for the Annual General Meeting. The Company gives no undertaking that it will update forward-looking statements to bring them into line with future developments.

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