

**DEUTZ AG**

Investor Presentation – powering success

May 2012



# Agenda

- DEUTZ at a glance
- Strategy & investment rationale
- Financials
- Outlook

# DEUTZ – at a glance

## Innovations since over 145 years



- Independent manufacturer of diesel engines, product range from 25 to 520 kW
- Founded in 1864 and since then synonymous for leading technology and high-quality products
- Headquarters in Cologne, Germany, with 4 Engine Joint Ventures, thereof 3 in China
- €1.5 billion sales in 2011
- About 4,100 employees as of 31 Dec 2011

## Global player in non-captive market



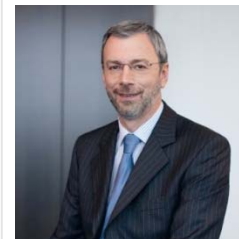
- Engineering and manufacturing company with strong expertise as system integrator
- Production capacity of 300,000 engines p.a. (JVs with additional capacity of 250,000 engines p.a.)
- Worldwide sales channel:
  - 10 sales companies, 9 sales offices, 16 service centres and 2 Xchange centres
  - 800 sales- and service partners in more than 130 countries

## Blue Chip Customer Base

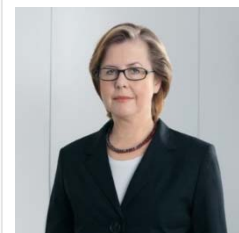


➔ DEUTZ market share in non-captive engine market around 18%

## Experienced Management Team



- Dr. Helmut Leube, CEO (58)**
- Joined DEUTZ as CEO in 2008
  - Responsible for Market, Technical and Central Functions
  - Former leading positions at BMW and Webasto AG



- Dr. Margarete Haase, CFO (59)**
- Joined DEUTZ as CFO in 2009
  - Responsible for Finance, Human Resources and Investor Relations
  - Former leading positions at Daimler AG

## DEUTZ Group

### DEUTZ Compact Engines



- Liquid-cooled engines of up to 8 litre cubic capacity for on- and off-road applications
- Large number of modular approaches to design
- Emission after-treatment systems

### DEUTZ Customised Solutions



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






### DEUTZ Services

- Part of both Compact Engines and DEUTZ Customised Solutions
- Substantial service business based on existing population of approx. 1.6m diesel engines in the market, generating sales of approx. €240 million in 2011
- Product portfolio mainly comprises genuine DEUTZ spare parts, Xchange engines and parts as well as oils and lubricants
- In addition, DEUTZ provides after-sales services such as commissioning, maintenance and other onsite services as well as documentation and training



# Product portfolio: ready for the next emissions level

## Engines for Tier 4 emissions standards









<b>(TC)D 2.9</b> 25 – 56 kW		<ul style="list-style-type: none"> <li>■ Award winning new engine</li> <li>■ Very compact engine minimizes installation efforts</li> <li>■ Simple EAT (catalyst only)</li> </ul>
<b>(TC)D 3.6</b> 50 – 90 kW		<ul style="list-style-type: none"> <li>■ New engine focussing on industrial and agricultural applications</li> <li>■ Highest output and torque in its class with best power-to-space ratio</li> <li>■ Simple EAT</li> </ul>
<b>TCD 4.1 / 6.1</b> 70 – 180 kW		<ul style="list-style-type: none"> <li>■ Better power density and improved life-cycle costs compared to its predecessor</li> <li>■ Optimized EAT concepts for industrial and agricultural applications (DEVERT)</li> </ul>
<b>TCD 7.8</b> 160 – 270 kW		<ul style="list-style-type: none"> <li>■ Better power density and improved life-cycle costs compared to its predecessor</li> <li>■ Optimized EAT concepts for industrial and agricultural engines (DEVERT)</li> </ul>
<b>TCD 12.0 / 16.0</b> 300 – 520 kW		<ul style="list-style-type: none"> <li>■ Most compact power source in its class</li> <li>■ Improved life-cycle costs</li> <li>■ No DPF - no regeneration nor maintenance compared to its rivals</li> </ul>

## Focus on mobile machinery and agricultural segment

		Mobile Machinery	Agricultural Machinery	Stationary Equipment	Automotive	
2011	22 – 77 kW	■		■		↑ Stage IIIA / Tier 3 and below ↓ Euro 5 and below
2012 2V	60 – 155 kW	■	■	■		
1013 / 2013 2V	72 – 200 kW	■	■	■	■	
2013 4V	118 – 243 kW	■	■	■	■	
912 / 914	24 – 176 kW	■	■	■		
413 / 513	77 – 441 kW	■				↑ Stage IIIB / IV ↓ Tier 4 interim / final
1015 / 2015	195 – 520 kW	■	■	■	■	
(TC)D 2.9	25 – 56 kW	■	■	■		
(TC)D 3.6	50 – 90 kW	■	■	■		
TCD 4.1 / TCD 6.1	70 – 180 kW	■	■			
TCD 7.8	160 – 270 kW	■	■			
TCD 12.0 / TCD 16.0	300 – 520 kW	■	■			



# DEUTZ market share by application

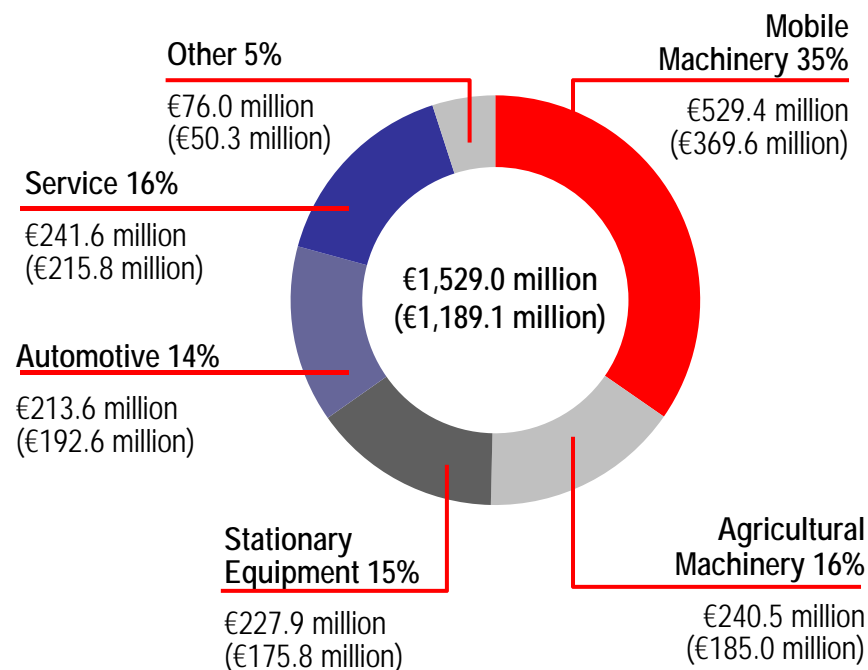
Segment	Typical Application	Markets will benefit from macro trends	DEUTZ Market Share	DEUTZ Market Pos.	Main Competitor
<b>Mobile Machinery</b>	Construction Equipment, Ground Support Equipment, Material Handling Equipment, Mining Equipment	 → 	<b>21%</b>	<b>1</b>	Cummins, Kubota, Perkins, Yanmar
<b>Agricultural Machinery</b>	Tractors, Agricultural Equipment	 → 	<b>16%</b>	<b>2</b>	Kubota, Lombardini, Perkins, Yanmar
<b>Stationary Equipment</b>	Gensets, Pumps, Compressors	 → 	<b>15%</b>	<b>2</b>	Deere, Kubota, Perkins, Yanmar
<b>Automotive</b>	Trucks, Buses, Rail, Vehicles	 → 	<b>25%</b>	<b>2</b>	Caterpillar, Cummins, Fiat Powertrain, Mercedes
<b>Total</b>			<b>18%</b>	<b>1</b>	Cummins, Kubota, Perkins, Yanmar

Source: Power Systems Research, OE-Link 01/2011; non-captive market, 19-560 kW, 1.500-3.000 m<sup>3</sup>, Euro 3 / Tier 2 and above, without automotive USA

# Revenue split

## Revenue Split by Application, 2011<sup>(1)</sup>

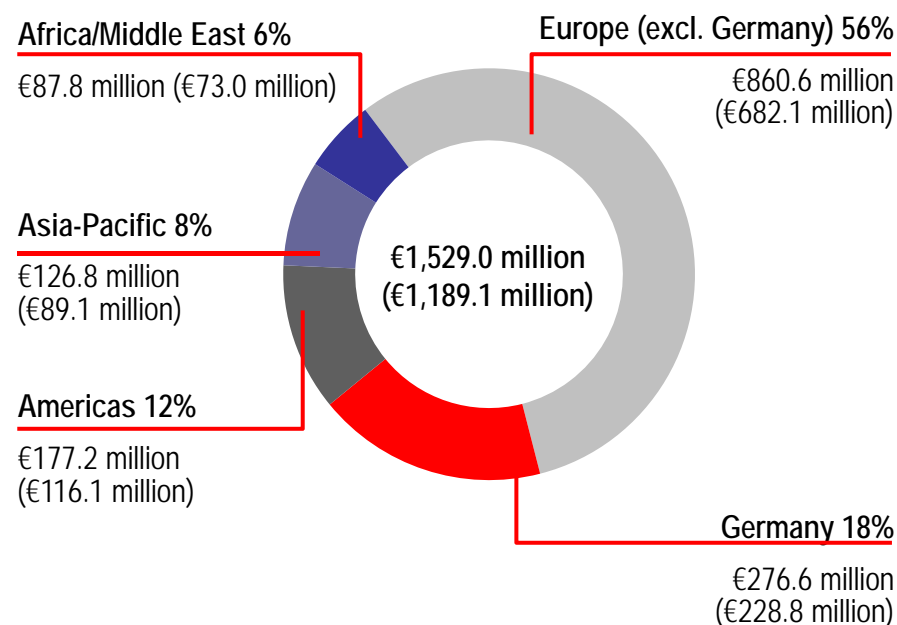
(2010)



- Double digit revenue increase in all application segments
- Highest growth rates in Mobile Machinery (+43%), followed by Agricultural Machinery (+30%) and Stationary Equipment (+30%)
- Service business with continued growth (+12%)

## Revenue Split by Region, 2011<sup>(2)</sup>

(2010)



- High growth rates across all regions: EMEA (+25%), Americas (+52%) and Asia-Pacific (+42%)

(1) Figures may not add up due to rounding differences

(2) Revenue split by region does not include JVs that are not fully consolidated. Regions assigned by place of business of our OEM customer, which may differ from location of end-customer

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# Cost Reduction & Margin Increase

## DEUTZ Investment Attractions

### Significant Cost Reduction

- Permanent cost reduction of €85 million realized (MOVE)
- Breakeven volume reduced significantly
- Complete restructuring of business processes towards smart SME

### Ongoing Top Line & Efficiency Projects

- Top line project will lead to additional €35 million profit increase (MOVE Fast), thereof about 50% realised
- Kaizen techniques to achieve above average efficiency enhancements in production
- Corporate goals cascaded downwards through KPI and aligned incentive system

### Platform Strategy

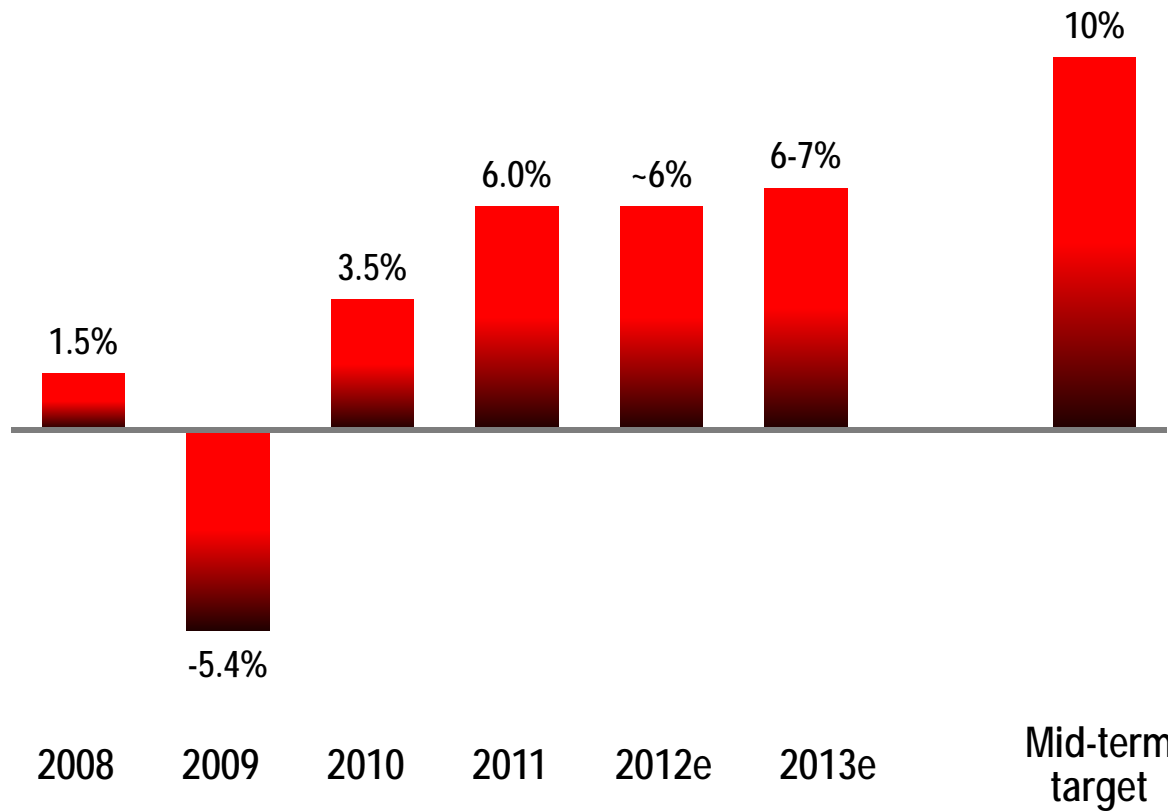
- Platform strategy will lead to significantly reduced parts variance in Tier 4
- R&D organization adjusted accordingly

### Finance

- Credit line of €240 million from banking syndicate leaving sufficient funding flexibility (net debt of about €70 million as of 31 Dec 2011)
- Ongoing tight working capital management (ratio of 9.3% on 31 Dec 2011)

**→ On track to reach 10% EBIT-Target in the mid-term**

# EBIT margin (before one-offs) DEUTZ Investment Attractions (cont'd)



- Meaningful reduction of fixed costs and breakeven level
- Focus on profitable growth
- Strategic growth projects burdening the EBIT margin in 2012 and 2013
- Additional potential for efficiency enhancement

➔ Further EBIT margin improvement expected

# Multiple Growth Opportunities – Leading to Economies of Scale

## DEUTZ Investment Attractions (cont'd)



### Macro Trend

- Urbanization driving infrastructure investments
- Growing world population and living standards requiring more efficient agriculture
- Globalization and mobility leading to more transportation and logistics

### Emission Standards & EAT JV

- New emission standards require more complex engines with higher inherent value
- DEUTZ participating in the value chain through its EAT JV with Bosch and Eberspächer

### New Products

- New product developments 2.9 and 3.6 with very good market response based on their USPs: Unbeaten power density, most compact size, simple EAT
- New products fit to downsizing trend
- Extending the agriculture segment with < 4 litre engines

### Outsourcing

- Outsourcing of OEM's engine production – breaking into former captive position and enlarging the available market (proven track record with Volvo and SDF)

### Service

- Installed base of about 1.6 million engines
- More active management of the service network with improved training and tools
- Increased complexity of engines in the next emissions level leading to higher barriers of entry for third party competitors in after-sales

➔ Structural growth drivers enable high revenue growth

# DEUTZ Engine (Shandong) Co., Ltd. DEUTZ Investment Attractions (cont'd)



	Partner	DEUTZ participation	Product range	Start of operations	Status
DEUTZ Engine (Shandong) Co., Ltd.	Shandong Changlin Machinery Group (China)	70 %	Engines < 4 litre for mobile machinery and agricultural applications	2013	<ul style="list-style-type: none"> <li>▪ Founding documents signed January 2012</li> <li>▪ Break even expected in 2014</li> </ul>

- New production company in Linyi (China) complementary to existing JVs which build larger engines
- Our partner and new customer is a dynamic and fast growing producer of construction equipment and tractors in China
- Full consolidation of the 70% participation
- Capacity of around 65,000 engines

**➔ DEUTZ is well positioned to take advantage of the huge growth opportunities in China**

# Long-term cooperation with Volvo

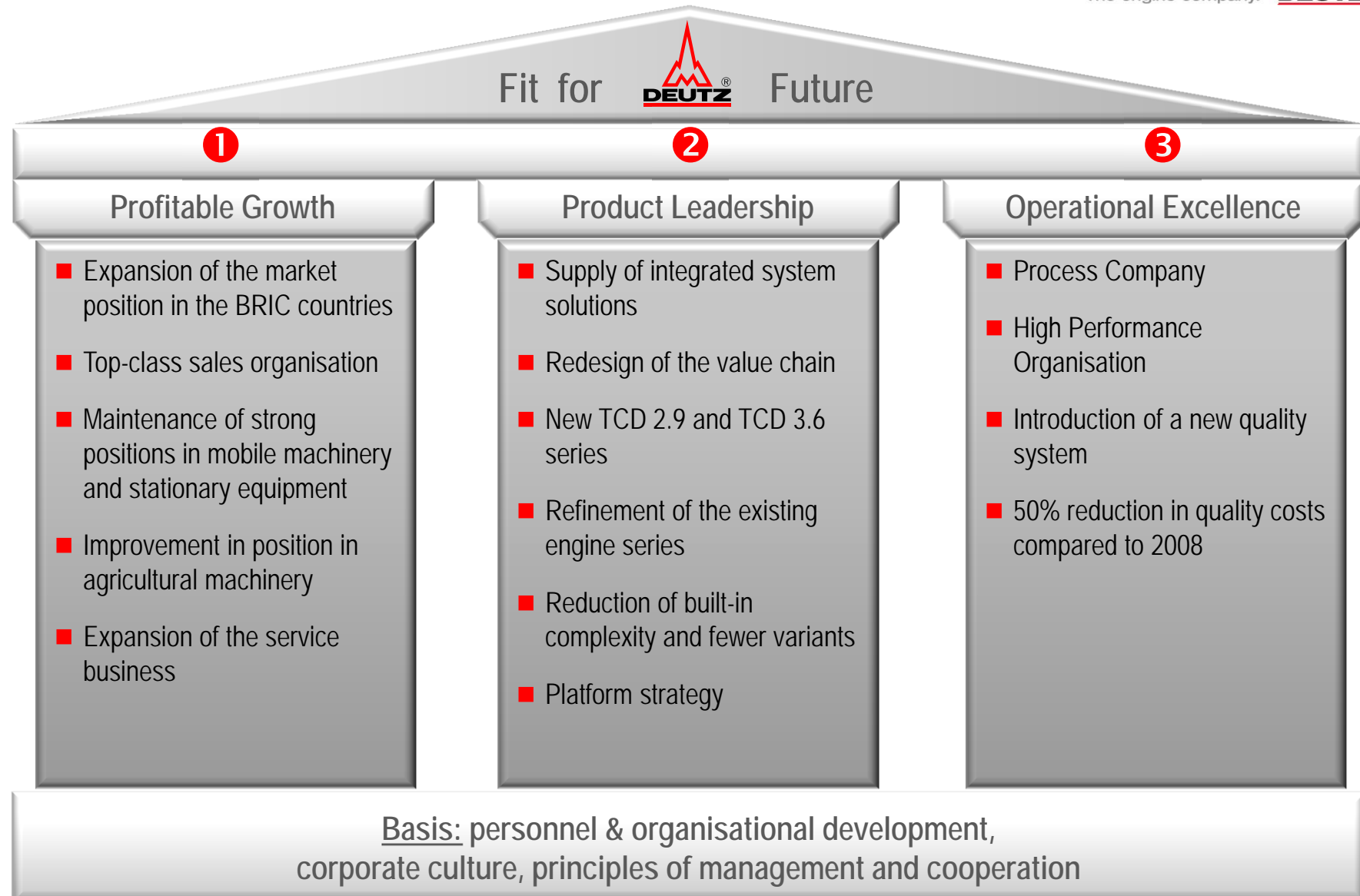
## DEUTZ Investment Attractions (cont'd)

	Partner	DEUTZ participation	Product range	Start of operations	Status
Production JV in China	AB Volvo	>50 %	Medium-duty engines for non-road applications	[end of 2013 / early 2014]	<ul style="list-style-type: none"> <li>Memorandum of understanding</li> <li>Any implementation requires agreement of both partners</li> </ul>

- Analysis for DEUTZ majority-owned production joint-venture in China
- Production company is intended to provide support for Volvo's anticipated growth in non-road applications in the Asian market
- Details expected to be published in 2012
- In addition, the joint development of non-road application medium-duty engines for the emission level Tier 5 is under study

**→ We are currently exploring the extension of our cooperation with Volvo**

# Strategic Programme for 2011–2020

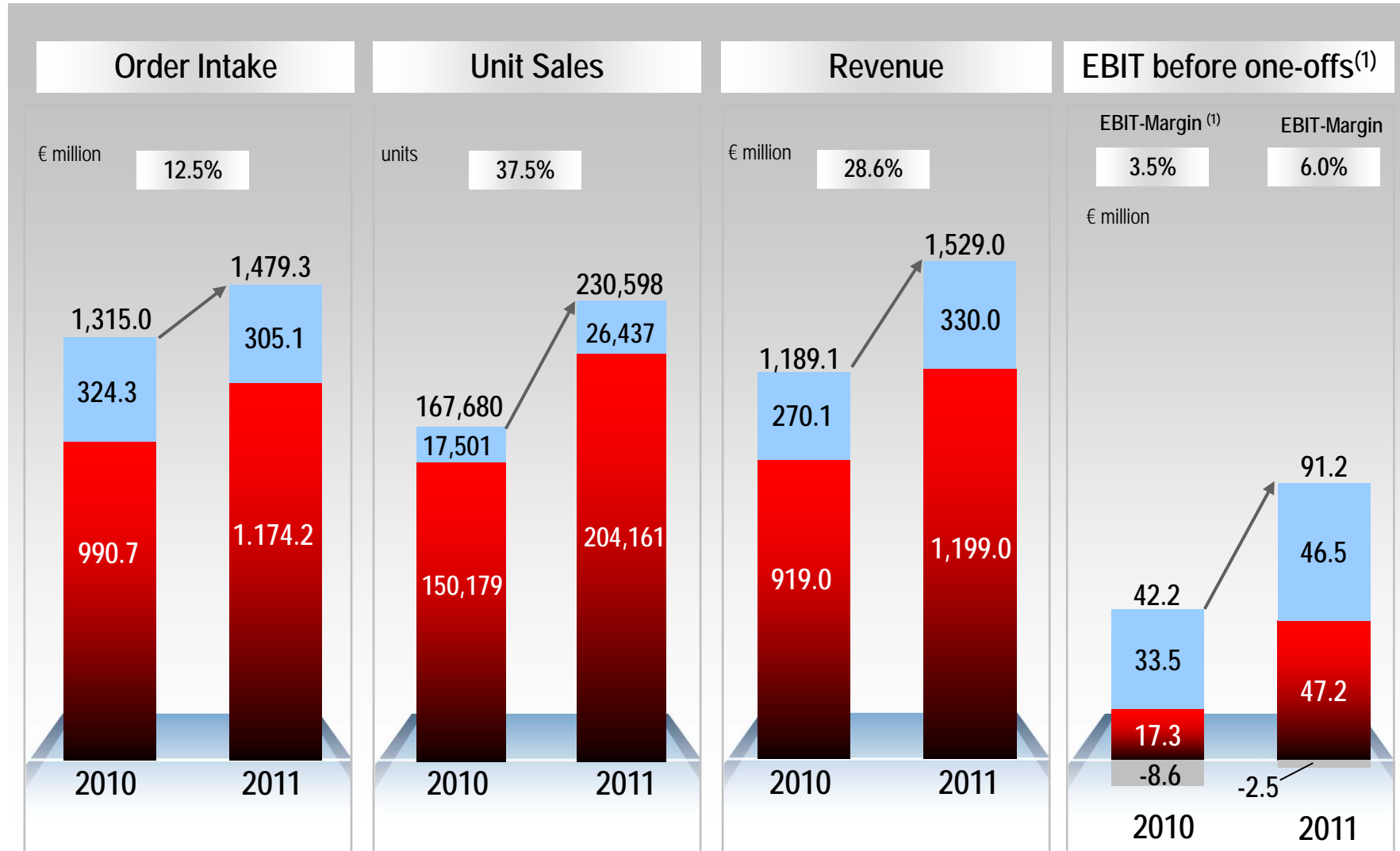


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# Sales Figures and EBIT of 2011



(1) In 2011 there were no one-off items while 2010 was adjusted for one-off items

■ Compact Engines   
 ■ DEUTZ Customised Solutions   
 ■ Other

# Overview Key Financials 2011

€ million	2011	2010	Change (%)
Revenue	1,529.0	1,189.1	28.6
EBITDA before one-off items <sup>(1)</sup>	160.3	112.6	42.4
EBIT before one-off items <sup>(1)</sup>	91.2	42.2	>100.0
EBIT margin before one-off items (%) <sup>(1)</sup>	6.0	3.5	--
Net income	75.5	-15.9	--
Total assets	1,099.0	1,041.7	5.5
Equity	453.5	374.3	21.2
Equity ratio (%)	41.3	35.9	--
Cash flow from operating activities	120.5	78.2	54.1
Free cash flow	4.8	-55.9	--
Net financial position	-69.7	-73.6	5.3

(1) In 2011 there were no one-off items while 2010 was adjusted for one-off items

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# Financial outlook

## Outlook for 2012

Revenue	Approx. €1.5 billion
EBIT margin	Approx. 6.0 %
Research and Development (R&D)	Decline by about 25 % vs. 2011
Capex (excl. R&D)	Approx. €60 million
Free cash flow	Positive territory
Working capital ratio	Sustainable below 13 %
Equity ratio	Above 40 %

## Outlook for 2013

Revenue	Double digit growth
EBIT margin	6.0 – 7.0 %

➔ Cautious optimism for 2012

## Financial calendar

10 May 2012 Q1 results  
9 Aug 2012 H1 results  
8 Nov 2012 Q3 results  
19 Mar 2013 FY 2012 results  
30 Apr 2013 AGM

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