

H1 2017 results

3 August 2017

Dr Frank Hiller, CEO

Dr Margarete Haase, CFO

The engine company.



Agenda

- **Review H1 2017**

- **Outlook**

- **Annex**

Key figures

€ million	H1 2017	yoy	Q2 2017	yoy
New orders	803.0	+18.6%	399.8	+14.3%
Revenue	734.5	+14.0%	382.0	+11.0%
EBITDA (before exceptional items)	64.7	-3.3%	36.0	+1.1%
EBIT (before exceptional items)	22.8	+10.1%	15.2	+13.4%
Net income	19.8	-1.0%	4.4	-61.1%
Free cash flow	53.8	+€71.0 million	14.1	+€2.4 million

→ Double-digit revenue growth and strong free cash flow

Highlights

- Successful first half 2017
 - Improved market environment
 - Ongoing high level of new orders
 - Strong free cash flow generation
 - Guidance for FY 2017 confirmed

- Site optimisation completed
 - Sites Cologne-Deutz and Übersee (Chiemsee) moved to Cologne-Porz and Ulm, respectively
 - Former site in Cologne-Deutz sold in May 2017

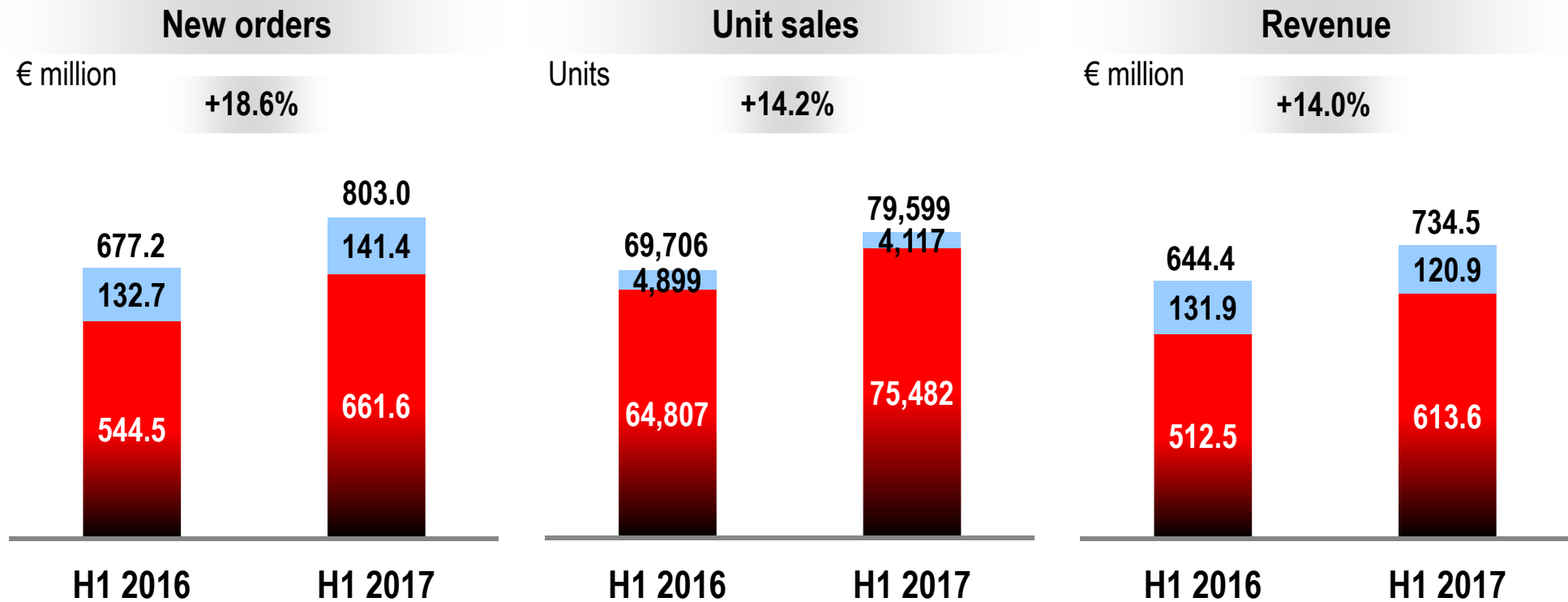
- AB Volvo sold its investment in DEUTZ
 - Long-standing business relationship to continue
 - DEUTZ focus on raising profile as an independent manufacturer of innovative drive systems

Former site in Cologne sold



- Former industrial site in Cologne-Deutz (160,000 m²) sold to real estate developer
- Area close to the river Rhine will be developed to a new city district with a high proportion of housing
- Purchase price of around €125 million expected in 2017. Sale anticipated to result in a positive earnings contribution in the high double-digit million euros (after taxes) in Q4 2017, which will be shown as an exceptional item
- Final instalment of the purchase price expected in the coming years, depending on completion of the ongoing planning process. If successful, the final instalment might reach into the mid double-digit million euros.

Sales figures

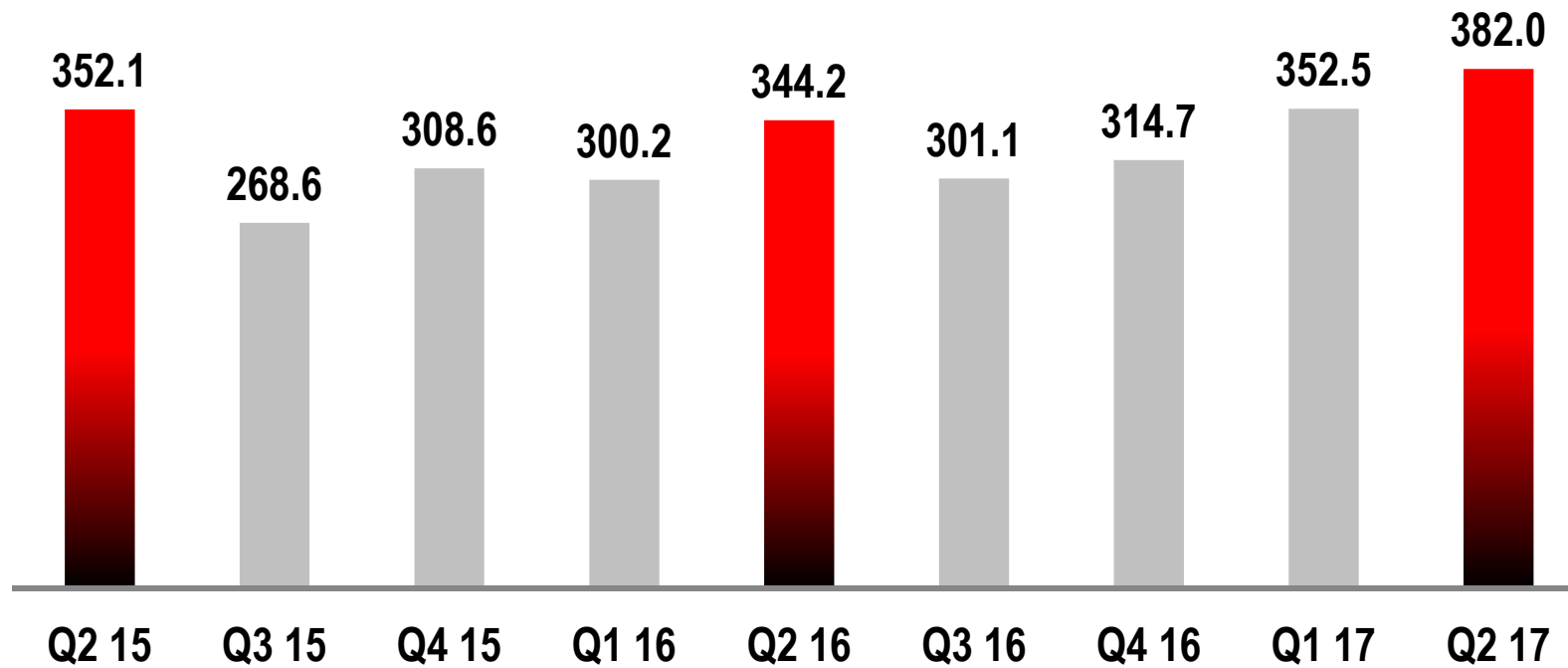


- Double-digit growth of sales figures driven by DEUTZ Compact Engines
- Book-to-bill ratio amounts to 1.09x

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

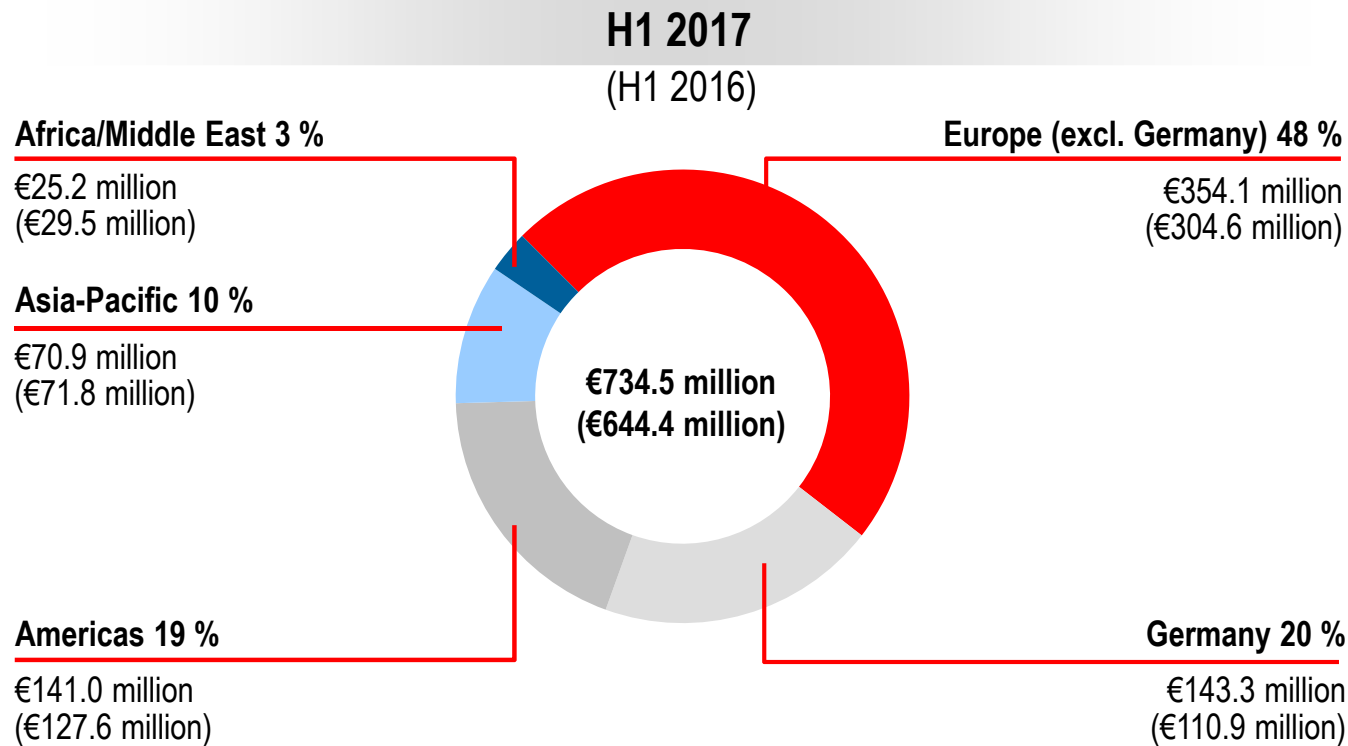
Revenue by quarter

€ million



■ Q2 2017 revenue increased 11.0% yoy and 8.4% qoq

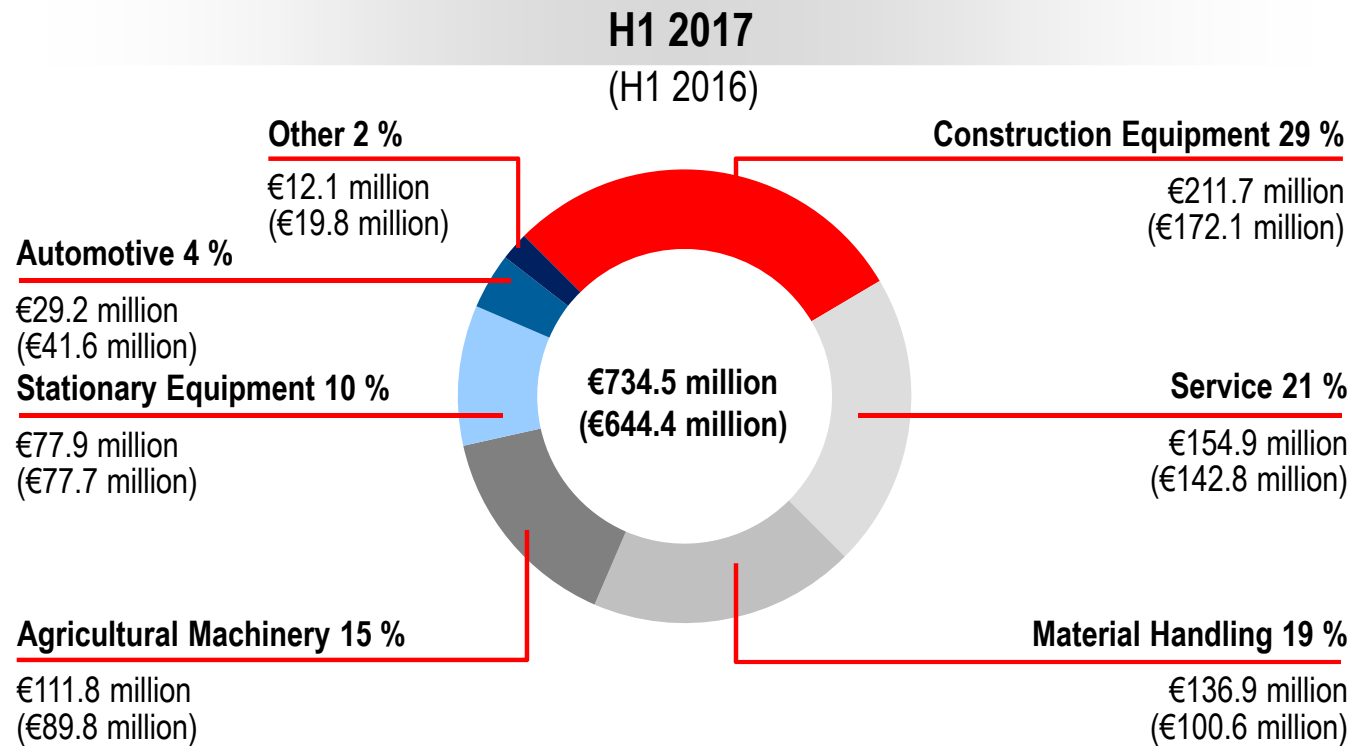
Revenue split by region



- Revenue increase in EMEA (+17.4%) and Americas (+10.5%). Asia-Pacific declined by 1.3%
- Pro-forma revenue⁽¹⁾ including equity-accounted Chinese JV DEUTZ Dalian: €881.4 million (+8.9%); corresponding revenue share of Asia-Pacific amounts to 25%

(1) Considering 100% of JV revenue

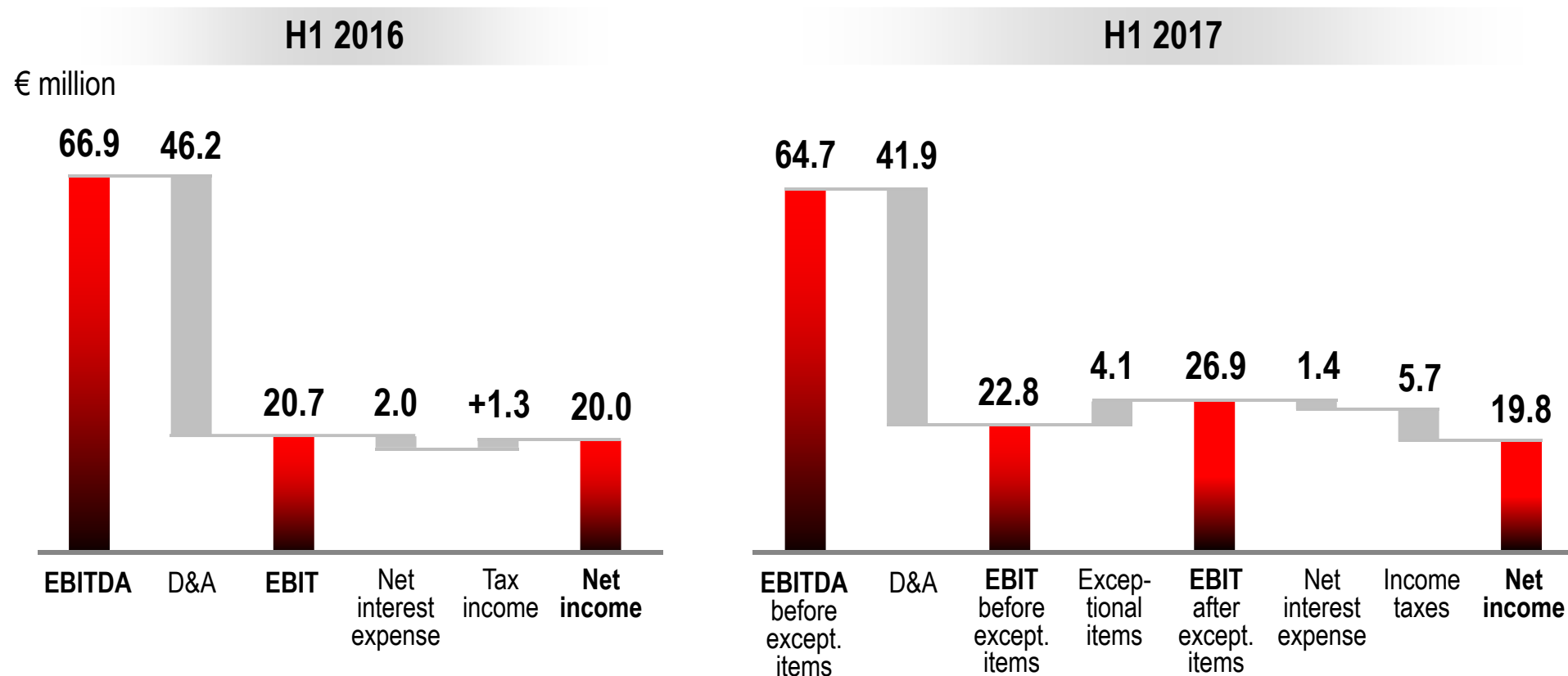
Revenue split by application



- Highest growth contribution from Material Handling (+36.1%), Agricultural Machinery (+24.5%) and Construction equipment (+23.0%). Service business advanced by 8.5% yoy
- Pro-forma Automotive revenue⁽¹⁾ incl. equity-accounted JV DEUTZ Dalian: €157.6 million (corresponding revenue share amounts to 18%)

(1) Considering 100% of JV revenue

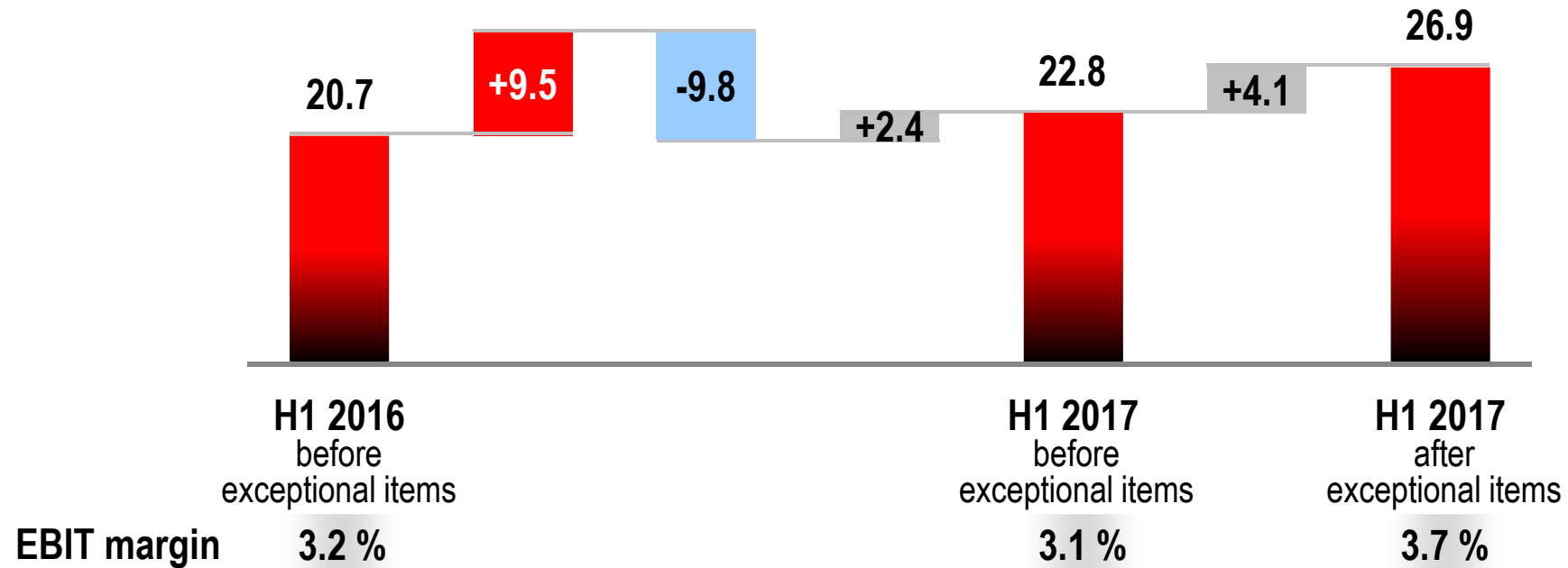
Operating profit & net income



- Prior year operating result benefitted from licence proceeds (€5.5 million)
- Lower depreciation and amortization
- Net positive exceptional items of €4.1 million realised in H1 2017
- Higher income taxes resulting from deferred taxes

EBIT

€ million



- EBIT improvement at DEUTZ Compact Engines due to higher business volume
- Prior year result at DEUTZ Customised Solutions was supported by licence proceeds of €5.5 million

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

Segment: DEUTZ Compact Engines

€ million	H1 2017	H1 2016	Change in %
New orders	661.6	544.5	21.5
Unit sales	75,482	64,807	16.5
Revenue	613.6	512.5	19.7
EBIT (before exceptional items)	11.4	1.9	>100

€ million	Q2 2017	Q2 2016	Change in %
New orders	335.3	285.1	17.6
Unit sales	40,161	35,037	14.6
Revenue	319.5	277.0	15.3
EBIT (before exceptional items)	9.9	4.2	>100

- Substantial increase of new orders
- Double-digit revenue growth at all major applications: Material Handling (+37.6%), Agricultural Equipment (+25.0%), Construction Equipment (+23.3%)
- Service revenue advanced by 10.8%
- Operating profit boosted by €9.5 million due to higher business volume. Negative FX-effects and higher R&D expenditures clearly overcompensated

Segment: DEUTZ Customised Solutions

€ million	H1 2017	H1 2016	Change in %
New orders	141.4	132.7	6.6
Unit sales	4,117	4,899	-16.0
Revenue	120.9	131.9	-8.3
EBIT (before exceptional items)	11.6	21.4	-45.8

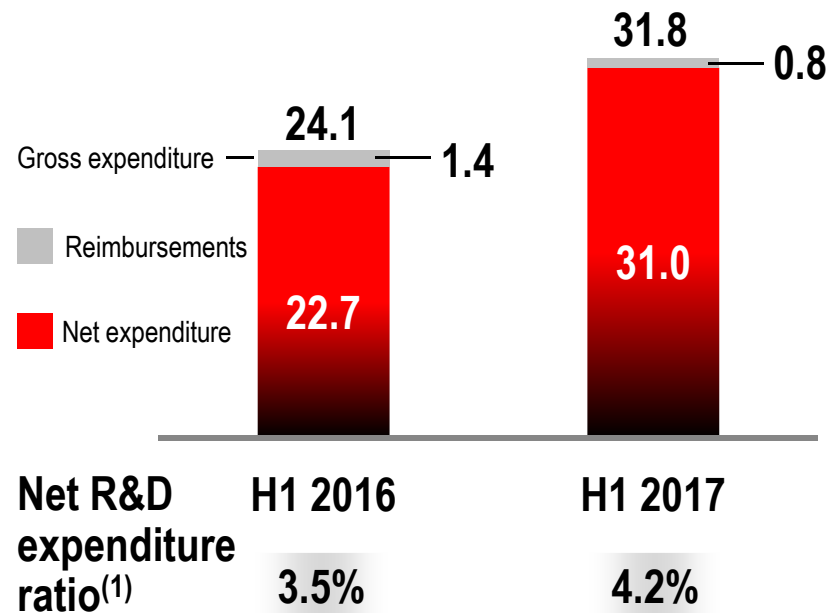
€ million	Q2 2017	Q2 2016	Change in %
New orders	64.5	64.8	-0.5
Unit sales	2,285	2,557	-10.6
Revenue	62.5	67.2	-7.0
EBIT (before exceptional items)	5.2	11.2	--

- New orders increased by 6.6% yoy
- Unit sales decline mainly attributable to Stationary Equipment
- Revenue share of service business amounts to 51.1%
- EBIT reduction due to licence proceeds of €5.5 million in the prior year (Q1 2016), lower business volume, mix and FX effects

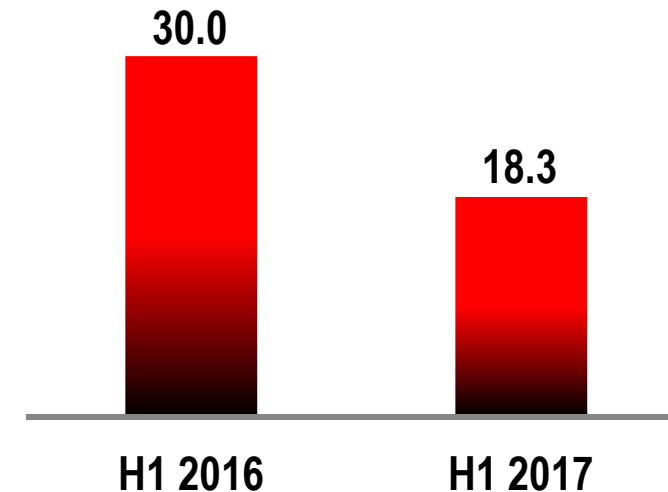
R&D & capital expenditure

R&D expenditure

€ million



Capital expenditure (excl. R&D)



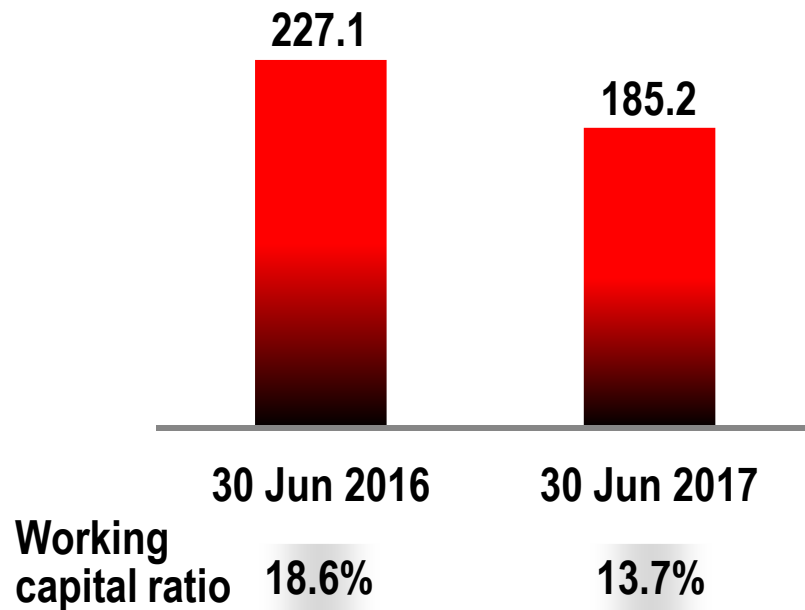
- Higher R&D expenditure in line with guidance due to expansion of product range
- Proportion of capitalised net R&D expenditure: €7.1 million (H1 2016: €2.5 million)
- CAPEX guidance for FY unchanged (approx. €70 million) despite low expenditures in H1 2017

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

Working capital & operating cash flow

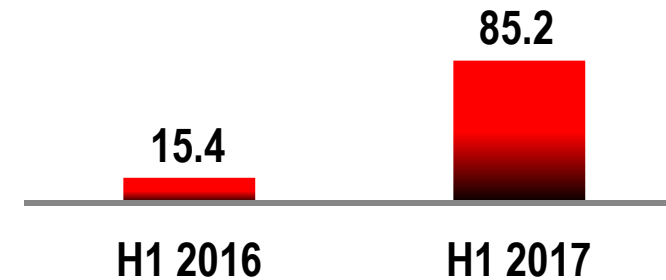
Working capital

€ million



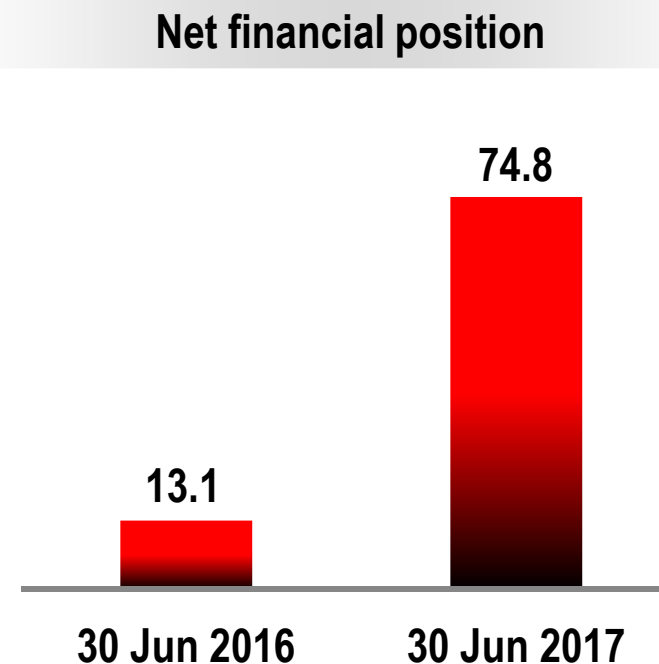
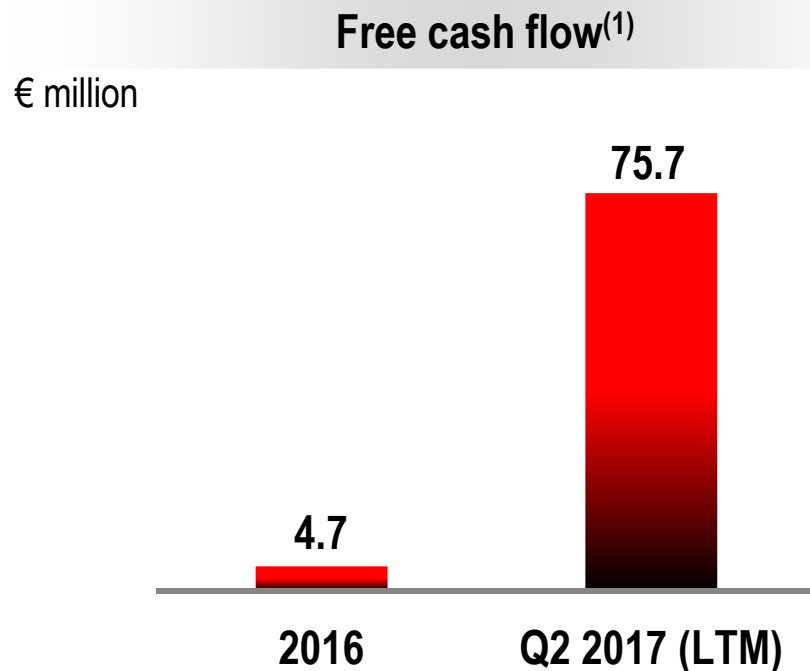
- Tight working capital management
- Significant improvement of working capital ratio

Operating cash flow



- Strong operating cash flow driven by business growth and lower working capital

Free cash flow generation & net financial position



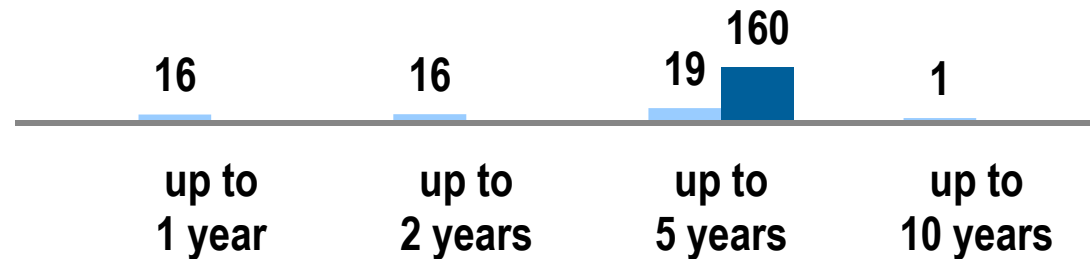
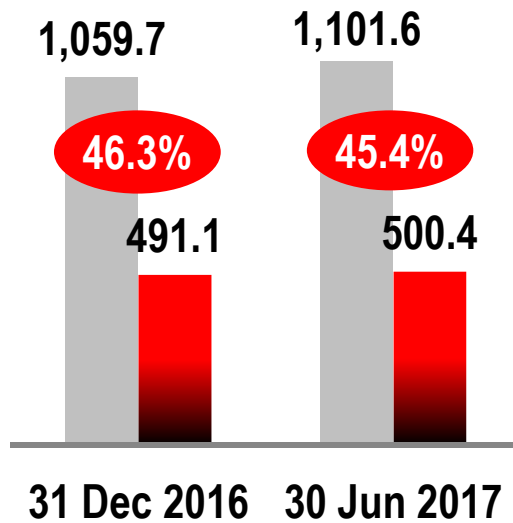
- Substantial increase of free cash flow
- Free cash flow in Q2 2017 amounted to +€14.1 million

- Net financial position improved by €61.7 million

(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

- Strong balance sheet; equity ratio amounts to 45.4%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line prolonged by two years until June 2022 at improved conditions
 - Loan from European Investment Bank repayable until July 2020

Summary

Improved market environment

Double-digit growth of sales figures

Strong free cash flow generation

Site optimisation completed

Substantial proceeds from sale of property

Investment in technology, innovation and internationalisation



Agenda

- Review H1 2017

- Outlook

- Annex

Assessment for key end markets, 2017

Unit sales (equipment)	Europe	North America	China
Construction equipment	+5 % to +10 %	0 % to +5 % (previous: -5 % to +5 %)	+20 % to +30 % (previous: +5 % to +10 %)
Material handling	+5 % to +10 % (previous: 0 % to +10 %)	+5 % to +10 % (previous: -5 % to +5 %)	+20 % to +30 % (previous: 0 % to +10 %)
Agricultural machinery	0 % to +5 % (previous: -5 % to +5 %)		
Medium & light duty trucks			0 % to +5 %

Financial outlook

€ million	FY 2016 reported	FY 2017 guidance
Revenue	1,260.2	marked increase
EBIT margin (before exceptional items)	1.9 %	moderate increase
R&D expenditure⁽¹⁾	50.4	60 - 70
Capex (excl. R&D)⁽¹⁾	52.9	approx. 70

(1) Net of reimbursements

- R&D expenditure and capex increase due to growth investments for expansion of product range
- Positive exceptional items:
 - Property sale in Cologne-Deutz with positive contribution to earnings in FY 2017 in the high double-digit million euros (after taxes)
 - Gain from disposal of building lease (€10.0 million) from Ad. Strüver in Hamburg realised in Q1 2017

Agenda

- Review H1 2017

- Outlook

- Annex

Summary of key financials (I)

€ million	H1 2017	H1 2016	Change (%)
Revenue	734.5	644.4	14.0
EBITDA (before exceptional items)	64.7	66.9	-3.3
EBIT (before exceptional items)	22.8	20.7	10.1
EBIT margin (before exceptional items), %	3.1	3.2	--
Net income	19.8	20.0	-1.0
Basic earnings per share (€)	0.16	0.17	-5.9
Number of employees (30 June)	3,774	3,708	1.8

Summary of key financials (II)

€ million	H1 2017	H1 2016	Change (%)
Total assets	1,101.6	1,103.8	-0.2
Equity	500.4	494.5	1.2
Equity ratio (%)	45.4	44.8	--
Cash flow from operating activities	85.2	15.4	>100
Free cash flow ⁽¹⁾	53.8	-17.2	--
Net financial position	74.8	13.1	>100
Working capital	185.2	227.1	-18.5

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

Income statement

€ million	H1 2017	H1 2016	Change (%)
Revenue	734.5	644.4	14.0
Cost of sales	-604.7	-522.5	15.7
Research and development costs	-45.1	-38.8	16.2
Selling expenses	-37.0	-35.0	5.7
General and administrative expenses	-20.5	-17.4	17.8
Other operating income	17.2	7.2	>100
Other operating expenses	-17.8	-14.2	25.4
Profit/loss on equity-accounted investments	0.3	-3.0	--
EBIT	26.9	20.7	30.0
Thereof: Exceptional items	4.1	0.0	--
Interest expense, net	-1.4	-2.0	-30.0
Net income before income taxes	25.5	18.7	36.4
Income taxes	-5.7	1.3	--
Net income	19.8	20.0	-1.0

Balance sheet: assets

€ million	30 June 2017	31 Dec 2016	Change (%)
Non-current assets (before deferred tax assets)	461.0	483.7	-4.7
Deferred tax assets	74.0	79.9	-7.4
Inventories	265.7	253.1	5.0
Trade receivables	136.8	113.5	20.5
Other receivables and assets	32.5	37.3	-12.9
Cash and cash equivalents	127.1	91.8	38.5
Non-current assets classified as held for sale	4.5	0.4	>100
Total assets	1,101.6	1,059.7	4.0

Balance sheet: equity and liabilities

€ million	30 June 2017	31 Dec 2016	Change (%)
Equity	500.4	491.1	1.9
Provisions for pensions and other post-retirement benefits	166.7	175.9	-5.2
Deferred tax liabilities	0.1	0.4	-75.0
Other provisions	38.0	38.4	-1.0
Financial liabilities	36.2	44.0	-17.7
Other liabilities	4.3	6.3	-31.7
Non-current liabilities	245.3	265.0	-7.4
Provisions for pensions and other post-retirement benefits	14.1	14.1	0.0
Other provisions / Provisions for income taxes	55.9	60.0	-6.8
Financial liabilities	16.1	16.2	-0.6
Trade payables	217.3	162.3	33.9
Other liabilities	52.5	51.0	2.9
Current liabilities	355.9	303.6	17.2
Total equity and liabilities	1,101.6	1,059.7	4.0

Cash flow statement (condensed)

€ million	H1 2017	H1 2016
EBIT	26.9	20.7
Cash flow from operating activities (total)	85.2	15.4
Capital expenditure on intangible assets, property, plant and equipment and investments	-30.1	-30.7
Proceeds from the sale of non-current assets	0.4	0.1
Cash flow from investing activities (total)	-29.7	-30.6
Cash flow from financing activities	-19.5	-17.8
Change in cash and cash equivalents	36.0	-33.0

Overview of segments, H1 2017

	H1 2017	H1 2016	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	661.6	544.5	21.5
DEUTZ Customised Solutions	141.4	132.7	6.6
Total for operating activities	803.0	677.2	18.6

	H1 2017	H1 2016	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	613.6	512.5	19.7
DEUTZ Customised Solutions	120.9	131.9	-8.3
Total for operating activities	734.5	644.4	14.0

	H1 2017	H1 2016	Change (%)
Unit sales			
DEUTZ Compact Engines	75,482	64,807	16.5
DEUTZ Customised Solutions	4,117	4,899	-16.0
Total for operating activities	79,599	69,706	14.2

	H1 2017	H1 2016	Change (%)
EBIT before exceptional items (€ million)			
DEUTZ Compact Engines	11.4	1.9	>100
DEUTZ Customised Solutions	11.6	21.4	-45.8
Other	-0.2	-2.6	92.3
Total for operating activities	22.8	20.7	10.1

Overview of segments, Q2 2017

	Q2 2017	Q2 2016	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	335.3	285.1	17.6
DEUTZ Customised Solutions	64.5	64.8	-0.5
Total for operating activities	399.8	349.9	14.3

	Q2 2017	Q2 2016	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	319.5	277.0	15.3
DEUTZ Customised Solutions	62.5	67.2	-7.0
Total for operating activities	382.0	344.2	11.0

	Q2 2017	Q2 2016	Change (%)
Unit sales			
DEUTZ Compact Engines	40,161	35,037	14.6
DEUTZ Customised Solutions	2,285	2,557	-10.6
Total for operating activities	42,446	37,594	12.9

	Q2 2017	Q2 2016	Change (%)
EBIT before exceptional items (€ million)			
DEUTZ Compact Engines	9.9	4.2	>100
DEUTZ Customised Solutions	5.2	11.2	-53.6
Other	0.1	-2.0	>100
Total for operating activities	15.2	13.4	13.4

Employees

	30 June 2017	30 June 2016	Change (%)
Cologne	2,210	2,203	0.3
Ulm	424	407	4.2
Other German operations	213	218	-2.3
Germany	2,847	2,828	0.7
Foreign operations	927	880	5.3
DEUTZ Group	3,774	3,708	1.8

Financial calendar & contact details

- Q1-Q3 2017 result 7 November 2017
- Annual report 2017 14 March 2018
- Annual general meeting 26 April 2018

➤ Contact details

Christian Krupp
SVP Finance, Public and Investor Relations
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.