

# DEUTZ Investor Presentation

May 2017

The engine company.



# Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

# DEUTZ at a glance

<b>Company profile</b>	<ul style="list-style-type: none"><li>■ Founded in 1864 by N.A. Otto, the developer of the four stroke engine</li><li>■ Independent manufacturer of diesel and gas engines in the 25 to 520 kw power range</li><li>■ Worldwide sales channels and service network</li><li>■ Leading technology and high-quality products</li><li>■ Blue chip customer base</li></ul>		
<b>Segments</b>	<ul style="list-style-type: none"><li>■ DEUTZ Compact Engines: liquid cooled engines &lt; 8 litres cubic capacity</li><li>■ DEUTZ Customised Solutions: liquid-cooled engines &gt; 8 litres cubic capacity and air-cooled engines</li></ul>		
<b>Financials 2016</b>	<ul style="list-style-type: none"><li>■ Revenue €1,260.2 million</li><li>■ EBIT €23.4 million</li><li>■ Equity ratio 46.3%</li></ul>	<b>Management board</b>	<ul style="list-style-type: none"><li>■ Dr Frank Hiller (CEO)</li><li>■ Dr Margarete Haase (CFO)</li><li>■ Michael Wellenzohn (CSO)</li></ul>

# Customer base

## Long standing customer relationships (not exhaustive)



## New clients & greater share of wallet (not exhaustive)



- DEUTZ has a lot of long standing relationships with key customers
- Customer base extended and diversified with new emissions engines
- New customers attracted by the compact design and smart exhaust aftertreatment of the Stage IV / Tier 4 engines

→ Successful extension of customer base

# 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 EU Stage V emissions standard in 2019:
  - New 3-cylinder TCD 2.2 on same platform with 4-cylinder TCD 2.9; both also in a gas version (LPG)
  - Engine project TCD 5.0 to gain market share in the 100 to 150kW output range
  - DEUTZ intends to expand its product portfolio in the 200 to 700 kW power output range with engines supplied by Liebherr that will be sold under its own brand











# Application expertise



- Example: DEUTZ 2.9 litre engine meets technical requirements of different applications and customers
- Same base engine applied for a wide range of equipment classes

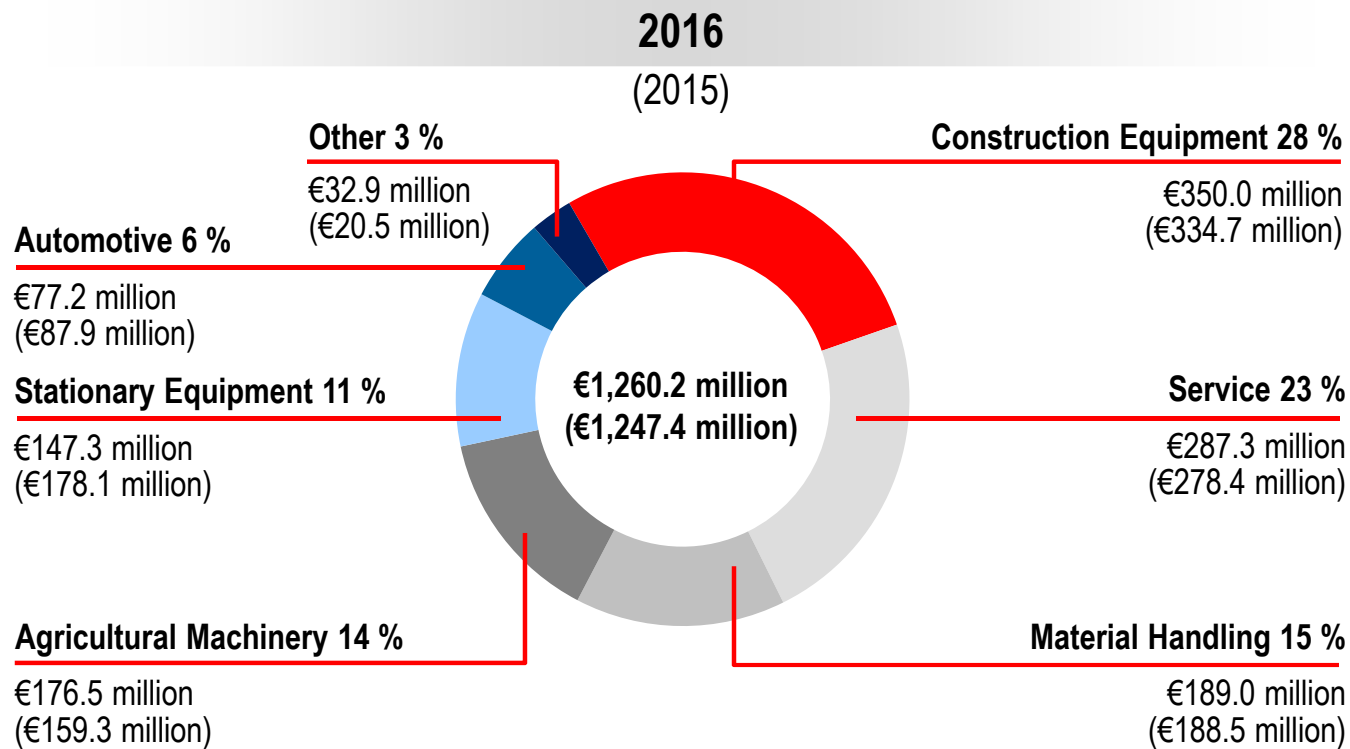
**→ DEUTZ application expertise to serve different customer needs**

# Key applications

	Typical application	Markets benefit from macro trends
Construction equipment	Excavator, Wheel loader, Paver Underground mining	 → 
Material handling	Forklift truck, Telehandler Aerial work platform Ground support	 → 
Agricultural machinery	Tractor Harvester	 → 
Stationary equipment	Genset Pump Compressor	 → 
Automotive	Rolling stock Special vehicle Truck & Bus	 → 

→ DEUTZ engines serve a broad range of applications

# Revenue split by application

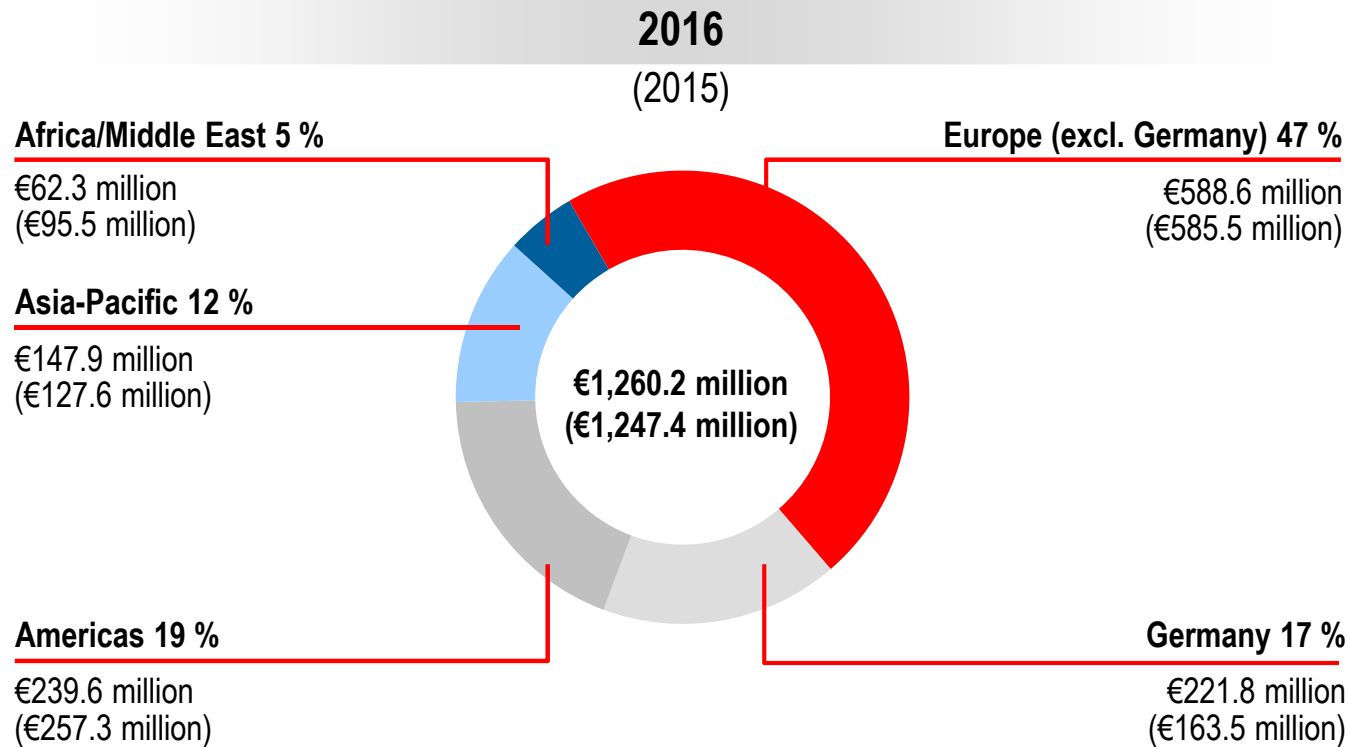


- Former Mobile Machinery application reported as Construction Equipment and Material Handling in the future
- Pro-forma Automotive revenue<sup>(1)</sup> incl. equity-accounted JV DEUTZ Dalian: €340.2 million (corresponding revenue share amounts to 22 %)

(1) Considering 100% of JV revenue



# Revenue split by region

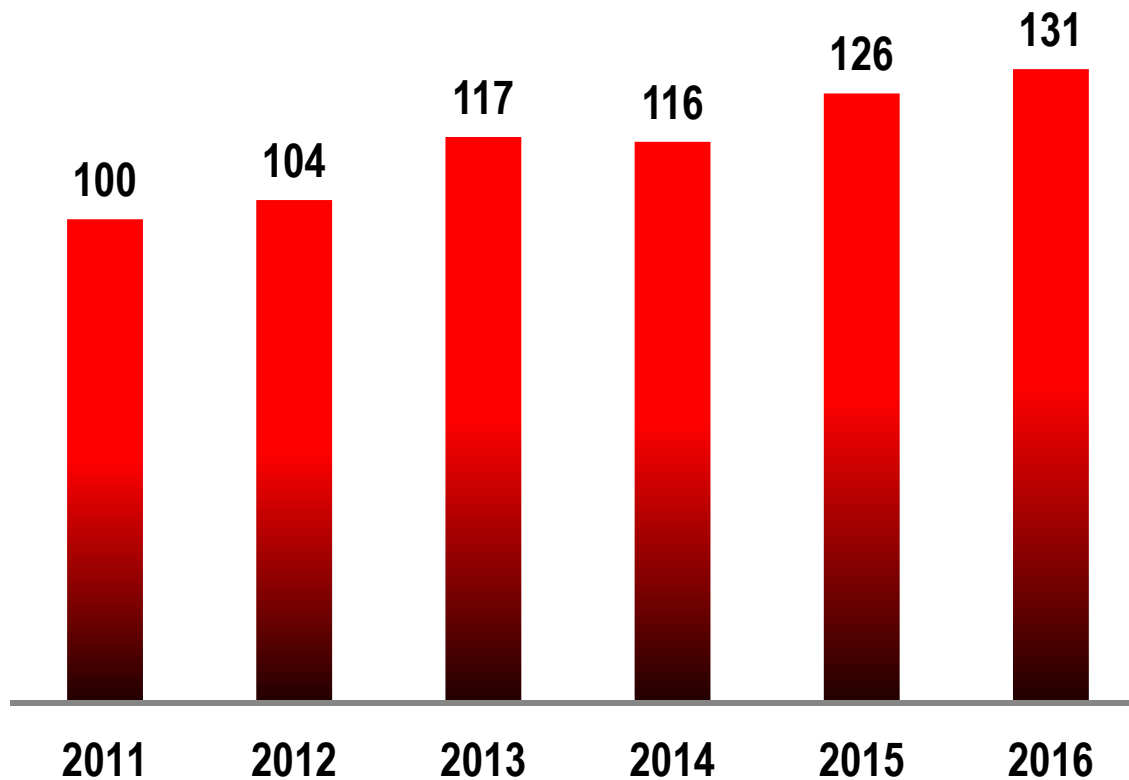


- Increase in Asia-Pacific (+15.9 %) driven by new customer business; EMEA increased by 3.3 %
- Revenue decline in Americas (-13.0 %) mainly due to lower investment spending of rental companies
- Pro-forma revenue<sup>(1)</sup> including equity-accounted Chinese JV DEUTZ Dalian: €1,563.2 million (-1.5 %); corresponding revenue share of Asia-Pacific amounts to 29 %

(1) Considering 100% of JV revenue

# Emissions standards drive revenue growth

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

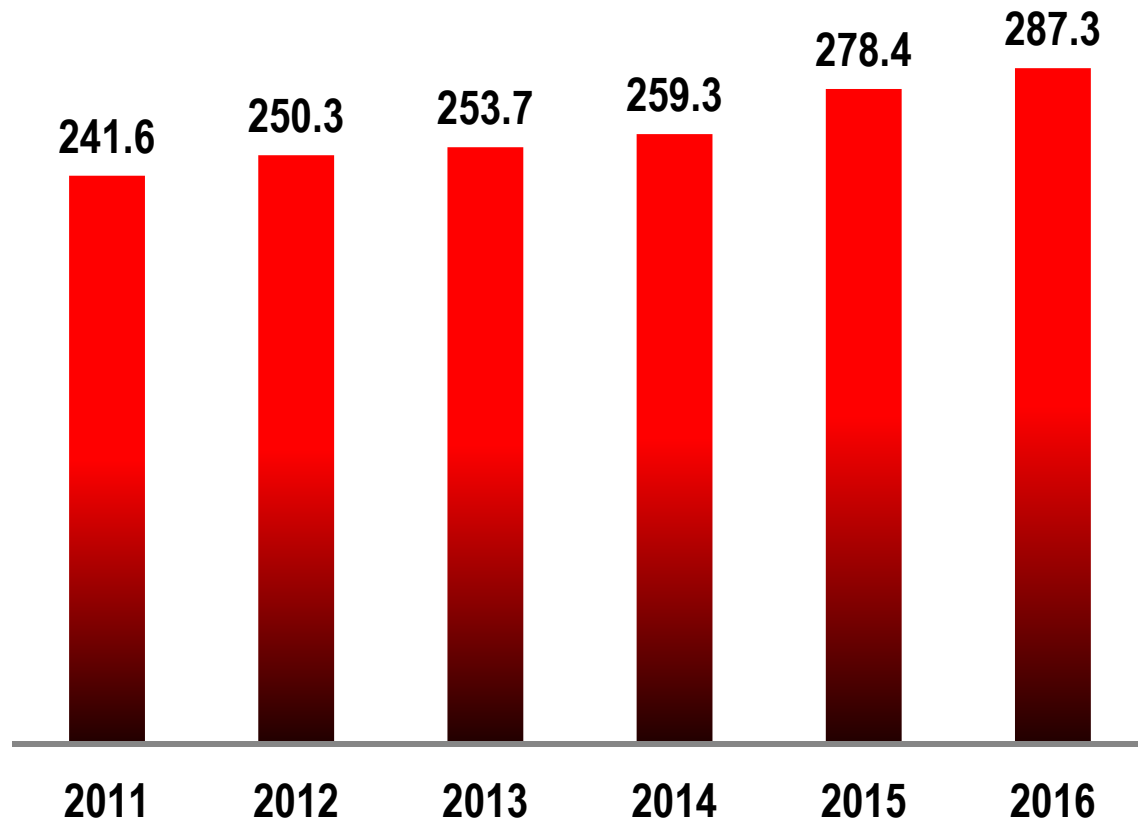


- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emissions engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

→ Structural growth due to tighter emissions standards

# Service business

€ million

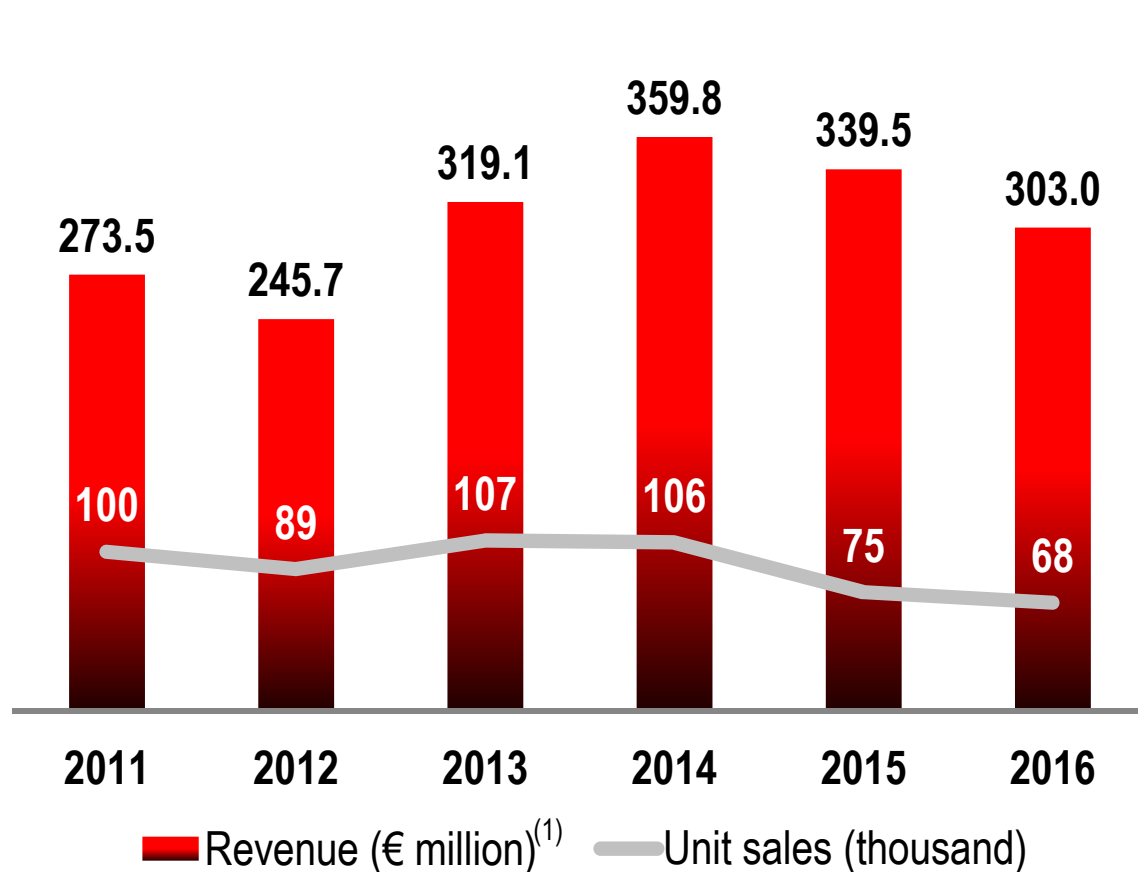


- Strong resilience of profitable service business through different economic cycles
- Future growth driven by investments in the service network and multiple service initiatives

→ Continuous growth of service revenue

# Activities in China

## JV DEUTZ Dalian

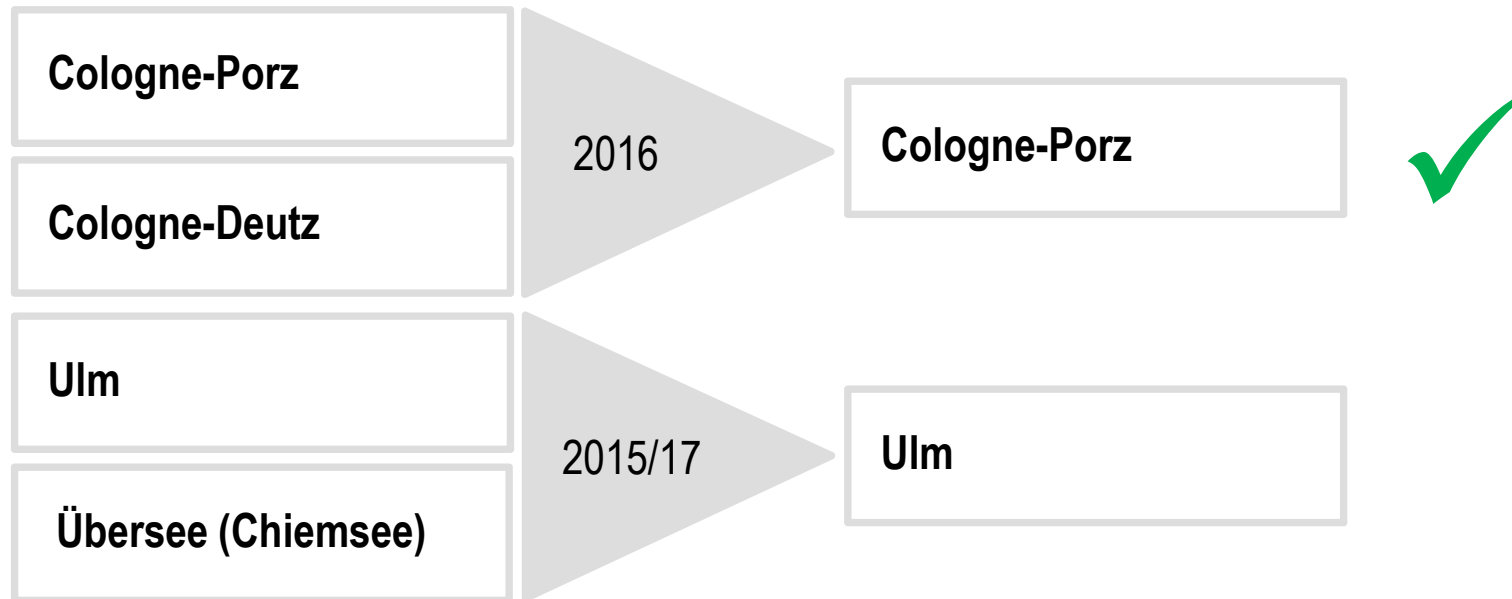


- Countrywide sales and service network
- DEUTZ Dalian manufactures diesel engines compliant to Chinese emissions standards
- First Automotive Works is our Joint Venture partner and key account for light & medium duty truck engines
- Objective to increase penetration in the Chinese off-road market by customer proximity

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

**→ Well positioned to capture growth opportunities in China**

# Site optimisation



- Site optimization in Cologne completed and far advanced at the sites in southern Germany (Ulm / Übersee)
- Efficiency gains of approx. €10 million p.a. from 2017 onwards (higher with better capacity utilisation)
- Former site in Cologne-Deutz sold at attractive terms since no longer required after the site's relocation

**→ Sustainable efficiency improvement by merging facilities**

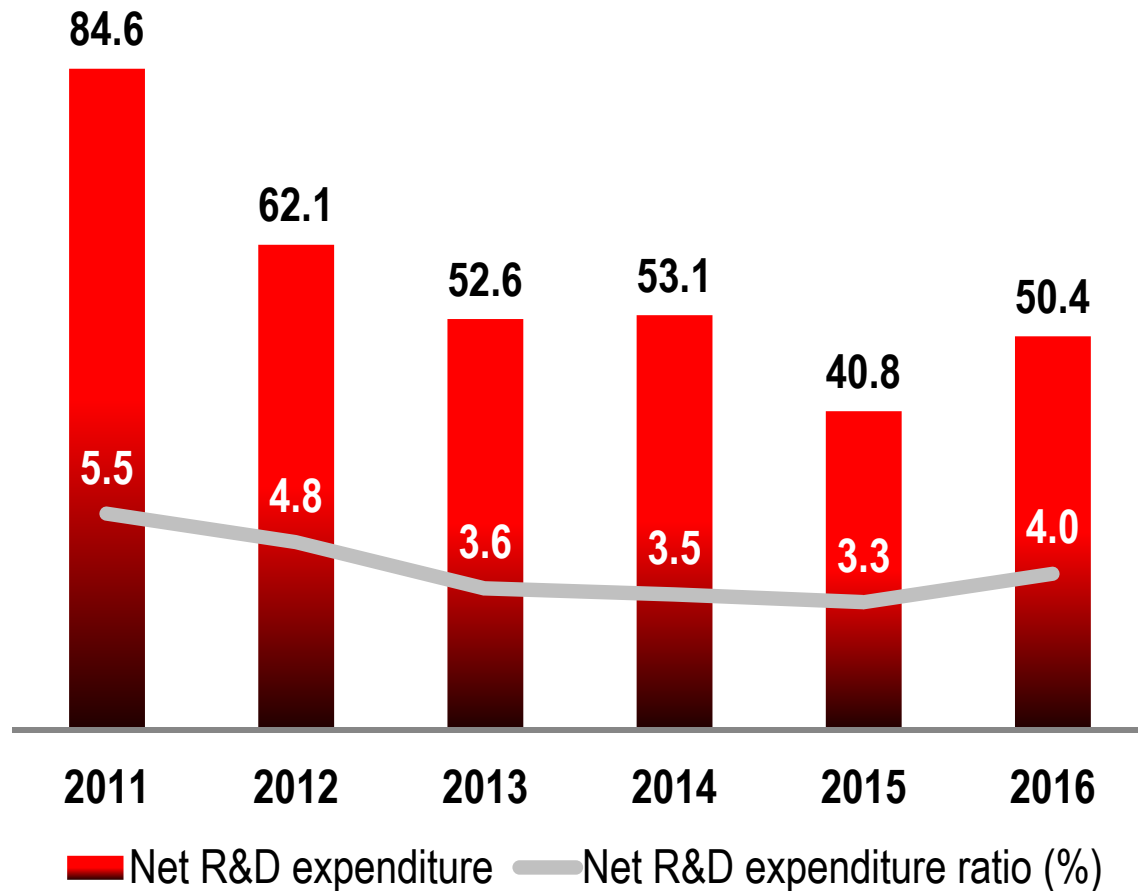
## Former site in Cologne sold



- Former industrial site in Cologne-Deutz (160,000 m<sup>2</sup>) 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 will lead to positive contribution to earnings in the high double-digit million euros (after taxes) in the current year, 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.

# R&D expenditure

€ million

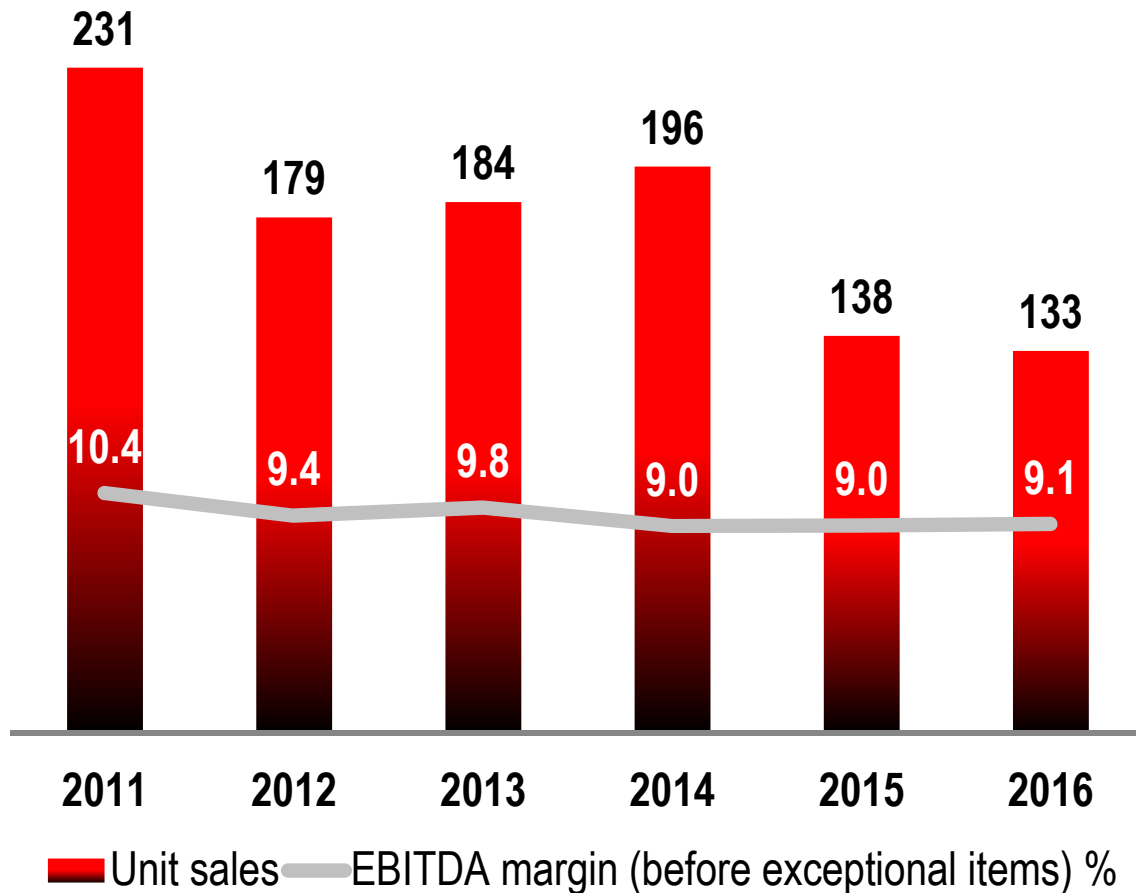


- Strong commitment to continuous product innovation
- Our customers and the environment benefit from lower fuel consumption and emissions
- Expansion of product range results in temporary R&D increase
- Net R&D expenditure budget for 2017: €60-70 million

→ Targeted R&D increase due to product expansion

# Unit sales & profitability

Thousand units



- Volatile market environment requires flexible production
- Stable EBITDA margin at lower unit sales
- Ramp-up phase of new engine generation terminated
- Higher capacity utilisation most important driver for profitability enhancement

➔ 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

Continuous growth of service revenue

Expanding product range for Stage V emissions standard

Well positioned for market recovery

Significant improvement of profitability

Sound balance sheet

Stable or growing dividend



# Agenda

- DEUTZ strategy & positioning

- **Financials**

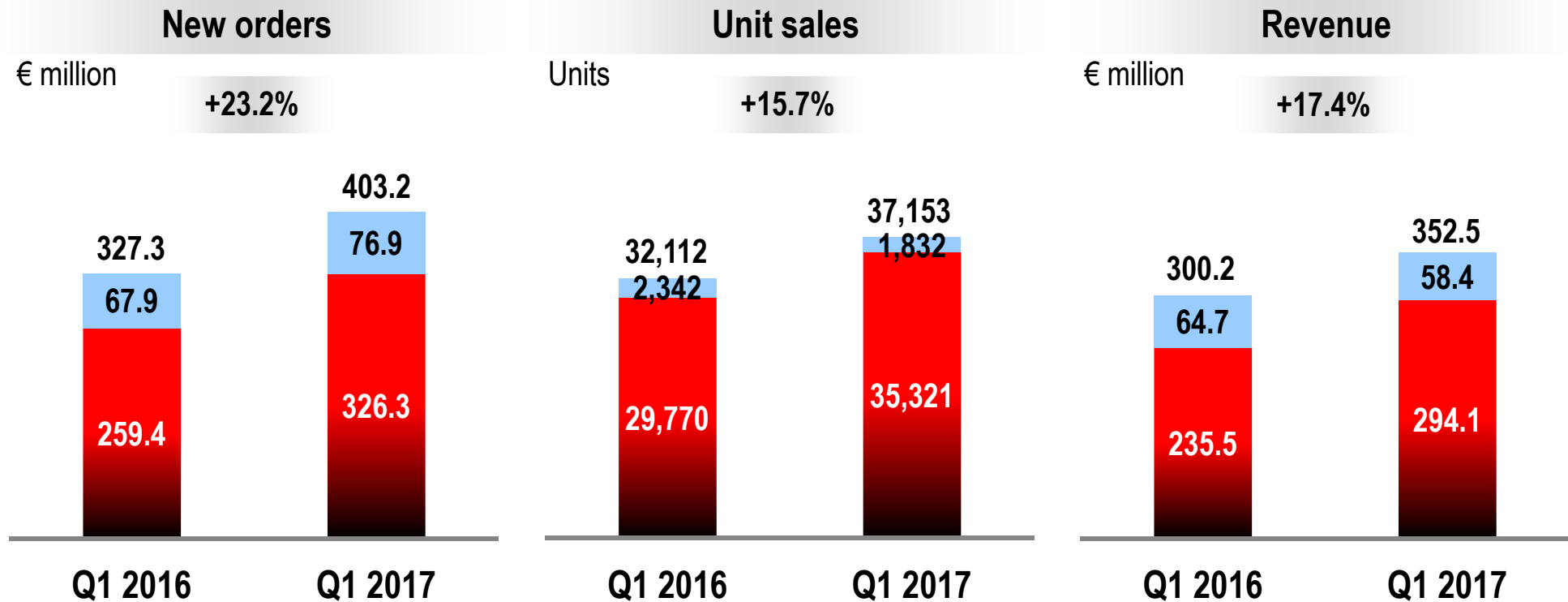
- Outlook

# Key figures

€ million	Q1 2017	yoy	qoq
<b>New orders</b>	403.2	+23.2 %	+23.6 %
<b>Revenue</b>	352.5	+17.4 %	+12.0 %
<b>EBITDA</b> (before exceptional items)	28.7	-€2.6 million	+€2.4 million
<b>EBIT</b> (before exceptional items)	7.6	+€0.3 million	+€3.9 million
<b>Net income</b>	15.4	+€6.7 million	+€18.2 million
<b>Free cash flow</b>	39.7	+€68.6 million	+€7.0 million

→ Improvement of most relevant key figures

# Sales figures



- Double digit growth of sales figures driven by DEUTZ Compact engines
- Revenue increase ahead of unit sales growth due to positive mix effects

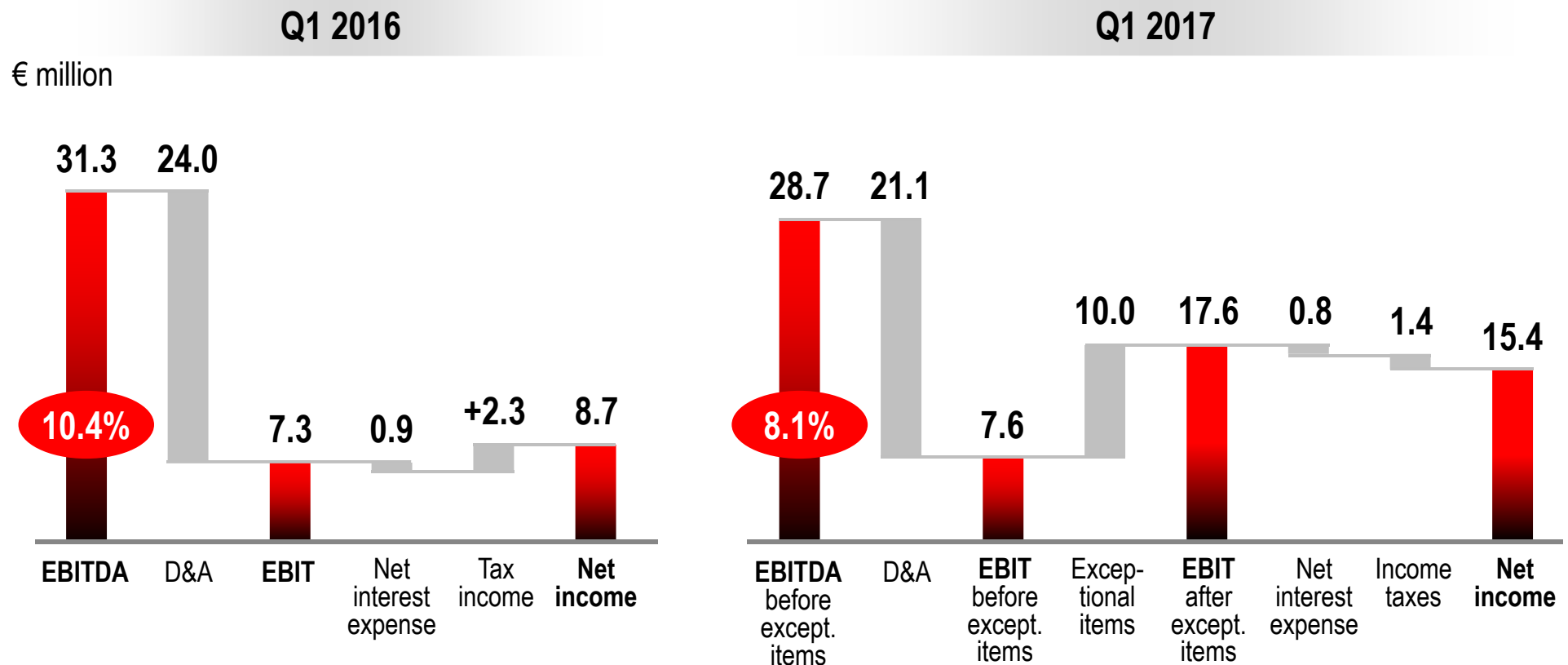
■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

## Book-to-bill ratio

€ million	<b>Q1 2017</b>	Q4 2016	Q3 2016	Q2 2016	Q1 2016
New orders	<b>403.2</b>	326.1	258.1	349.9	327.3
Revenue	<b>352.5</b>	314.7	301.1	344.2	300.2
Book-to-bill ratio	<b>1.14x</b>	1.04x	0.86x	1.02x	1.09x
Orders on hand	<b>238.8</b>	191.0	178.6	222.0	215.3

- Sharp increase in order intake across all regions and applications
- New orders exceed revenue
- Increased order backlog

# Operating profit & net income

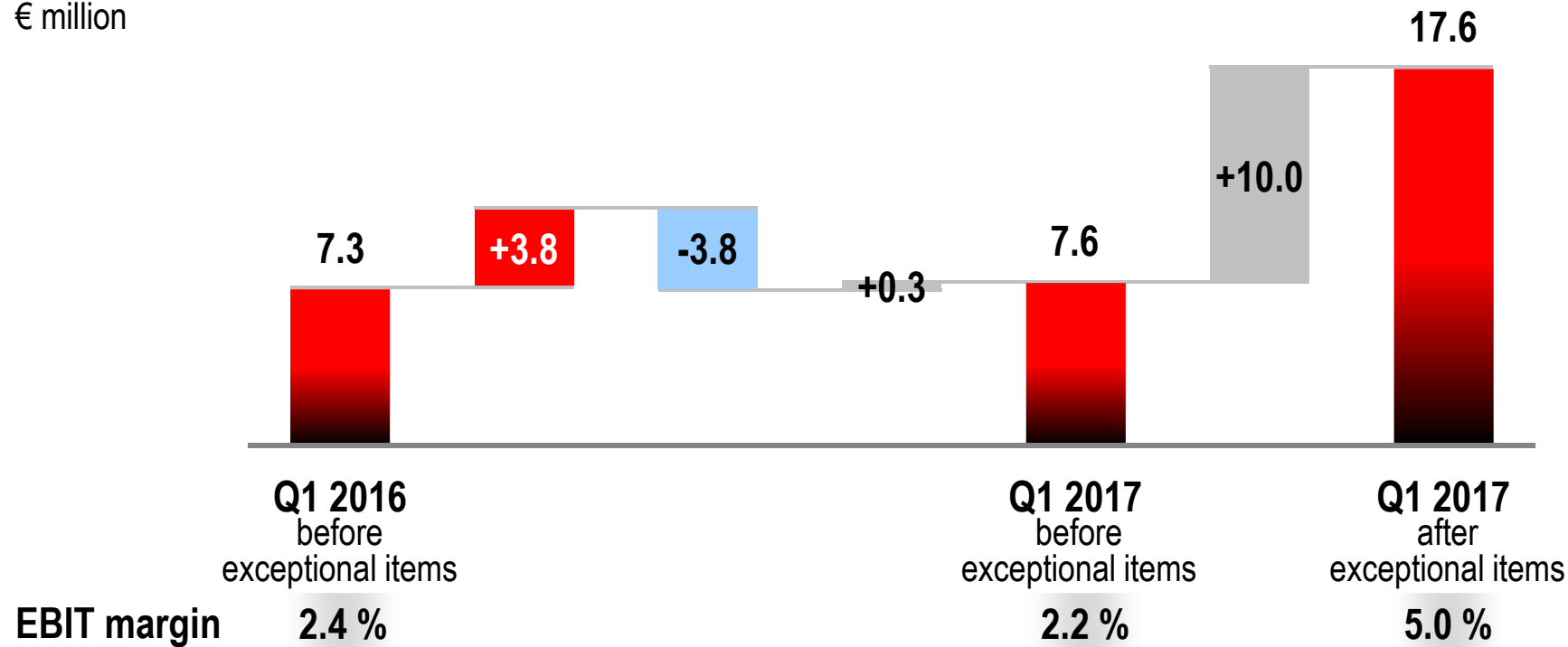


- EBIT (before exceptional items) on prior year's level although Q1 2016 results benefitted from licence proceeds of €5.5 million
- Positive exceptional item in Q1 2017 due to proceeds from disposal of building lease
- Interest expense and tax rate remain on low level
- Net income increased by €6.7 million

**x.x %** EBITDA margin

# EBIT

€ million



- EBIT improvement at DEUTZ Compact Engines on the back of higher business volume
- Prior year result at DEUTZ Customised Solutions included licence proceeds (€5.5 million)
- Positive exceptional item at Segment Other related to gain from disposal of building lease

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other



## Segment: DEUTZ Compact Engines

€ million	<b>Q1 2017</b>	Q1 2016	Change in %
New orders	<b>326.3</b>	259.4	25.8
Unit sales	<b>35,321</b>	29,770	18.6
Revenue	<b>294.1</b>	235.5	24.9
EBIT (before exceptional items)	<b>1.5</b>	-2.3	--

€ million	<b>Q1 2017</b>	Q4 2016	Change in %
New orders	<b>326.3</b>	267.9	21.8
Unit sales	<b>35,321</b>	29,869	18.3
Revenue	<b>294.1</b>	251.1	17.1
EBIT (before exceptional items)	<b>1.5</b>	-0.2	--

- New orders improved 25.8 % yoy and 21.8 % qoq
- Substantial revenue increase at Construction Equipment (+39.8 % yoy) and Material Handling (+38.2 % yoy)
- Operating profit improved by €3.8 million yoy due to higher business volume

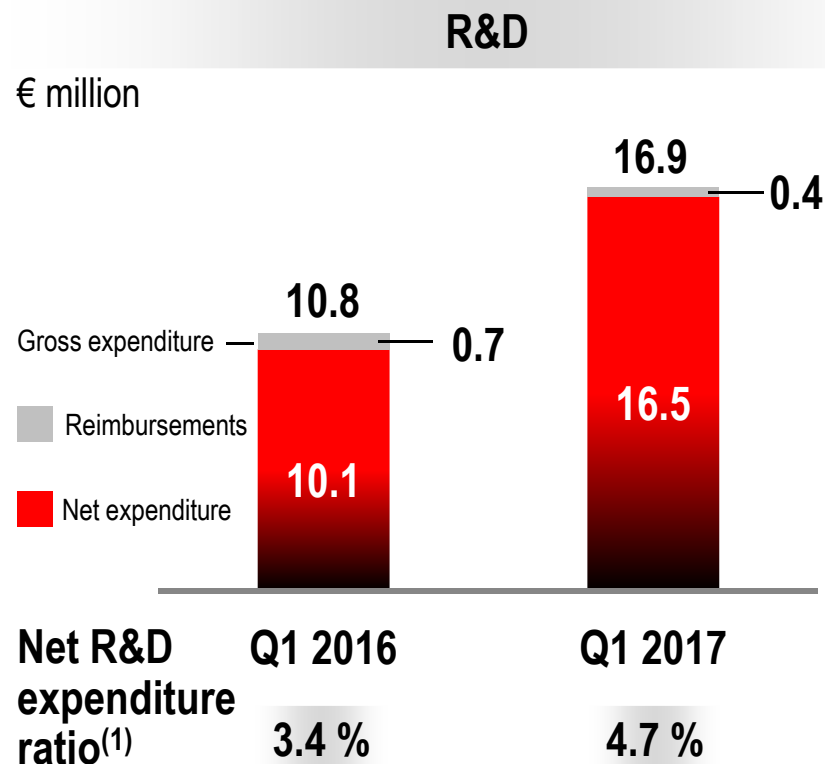
## Segment: DEUTZ Customised Solutions

€ million	<b>Q1 2017</b>	Q1 2016	Change in %
New orders	<b>76.9</b>	67.9	13.3
Unit sales	<b>1,832</b>	2,342	-21.8
Revenue	<b>58.4</b>	64.7	-9.7
EBIT (before exceptional items)	<b>6.4</b>	10.2	-37.3

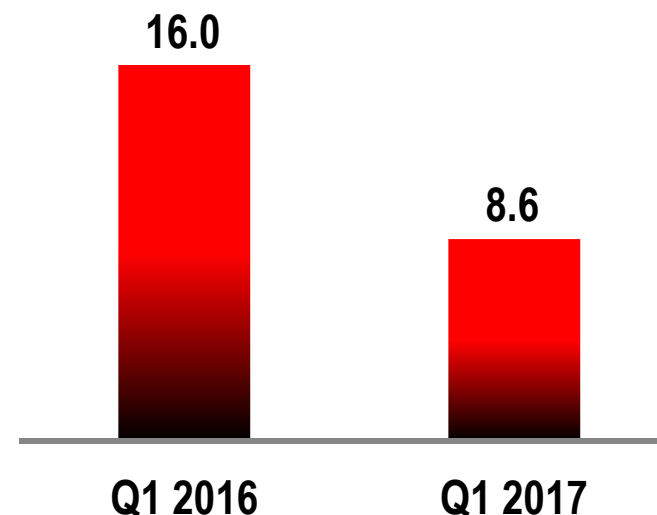
€ million	<b>Q1 2017</b>	Q4 2016	Change in %
New orders	<b>76.9</b>	58.2	32.1
Unit sales	<b>1,832</b>	2,231	-17.9
Revenue	<b>58.4</b>	63.6	-8.2
EBIT (before exceptional items)	<b>6.4</b>	5.1	25.5

- Unit sales declined mainly due Stationary Equipment applications
- Prior year result benefitted from licence proceeds (€5.5 million)
- Operating profit improved by €1.3 million qoq
- Encouraging order increase (+32.1 % qoq)

# R&D spending & capital expenditure



## Capital expenditure (excl. R&D)



- Higher R&D expenditure in line with guidance
- Proportion of capitalised net R&D expenditure: €3.6 million (Q1 2016: €0.9 million)

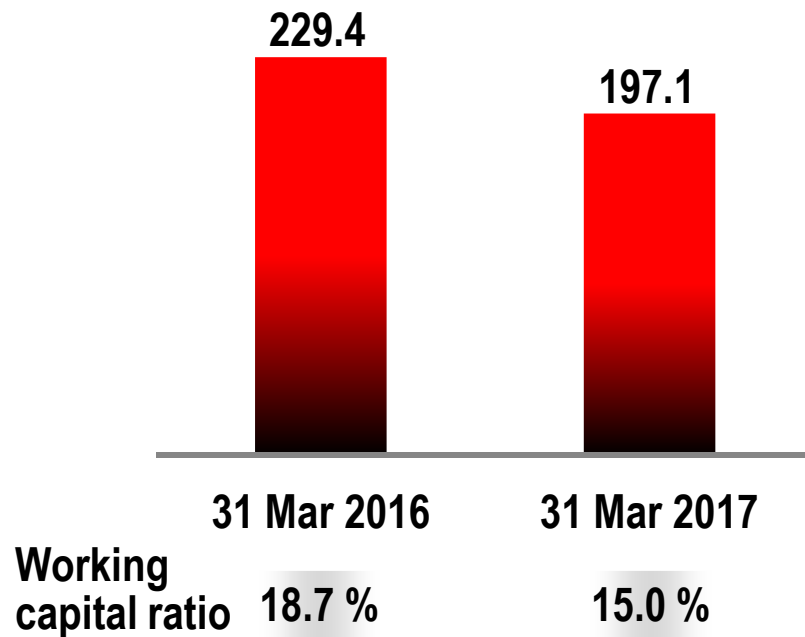
- Guidance for FY 2017 remains unchanged despite low CAPEX in Q1 2017

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

# Working capital & operating cash flow

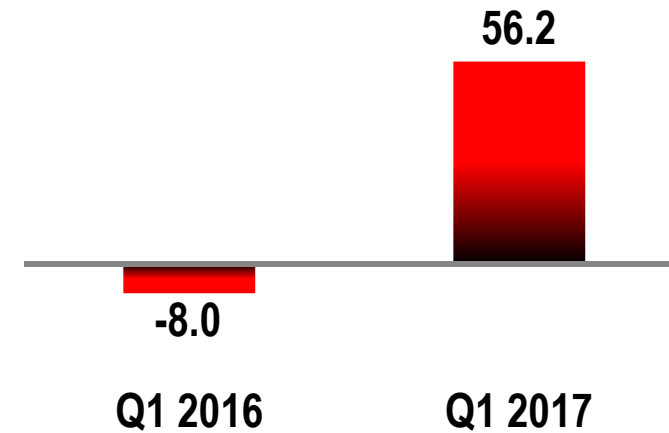
## Working capital

€ million



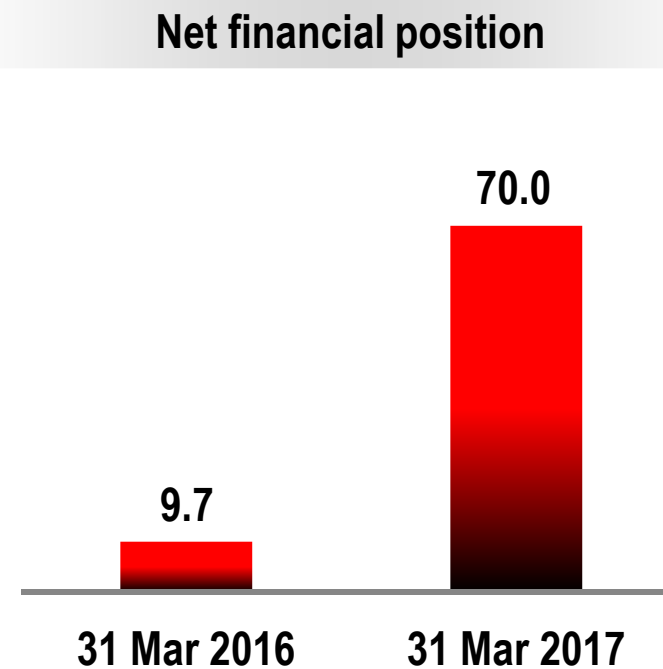
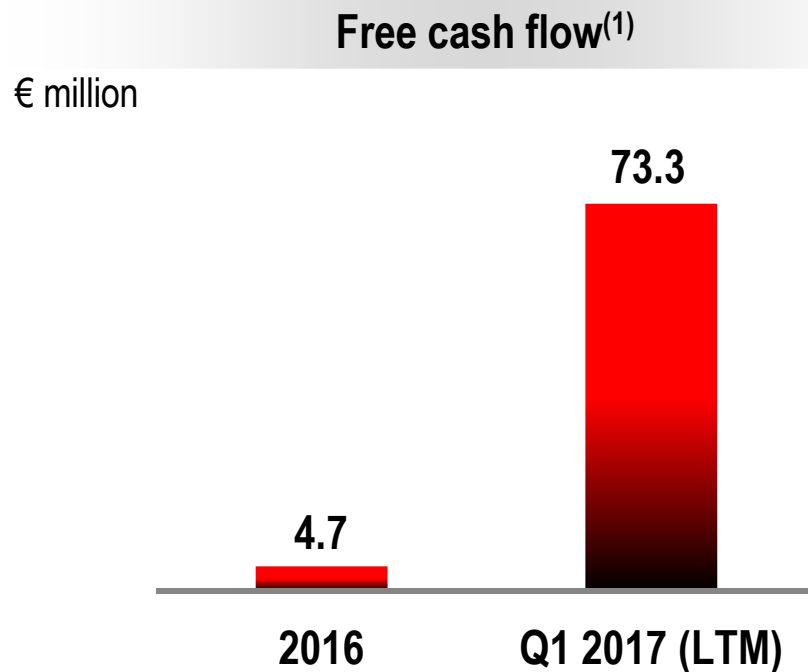
- Working capital ratio improved strongly

## Operating cash flow



- Significant improvement of operating cash flow due to lower working capital

# Free cash flow generation & net financial position



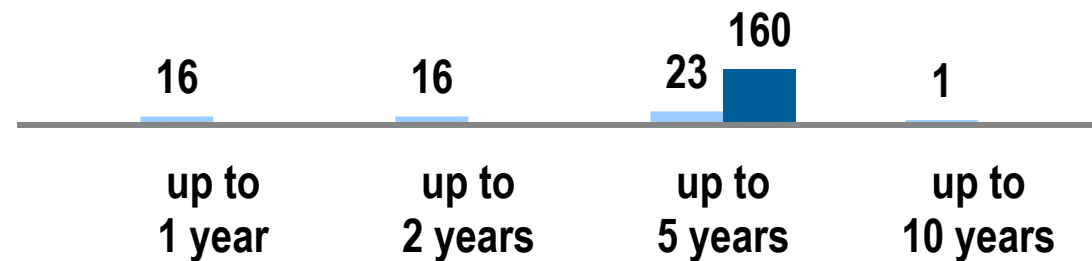
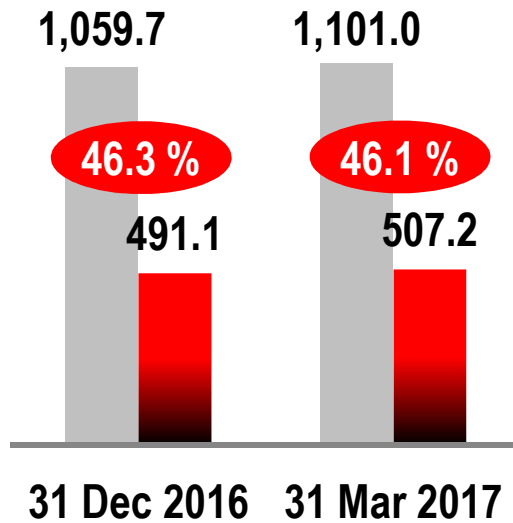
- Substantial increase of free cash flow attributable to good operating cash flow and sale of building lease

- Strong net financial position

(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

- Healthy balance sheet; equity ratio amounts to 46.1 %
- Financing with undrawn facilities available:
  - Credit line of €160 million until May 2020
  - Loan from European Investment Bank repayable until July 2020

# Agenda

- DEUTZ strategy & positioning

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- **Outlook**

# Assessment for key end markets, 2017

Unit sales (equipment)	Europe	North America	China
<b>Construction equipment</b>	+5% to +10% (previous: 0 % to +5 %)	-5 % to +5 %	+5 % to +10 %
<b>Material handling</b>	0 % to +10 %	-5 % to +5 %	0 % to +10 % (previous: -5 % to +5 %)
<b>Agricultural machinery</b>	-5 % to +5 %		
<b>Medium &amp; light duty trucks</b>			0 % to +5 %

- Demand for construction equipment and material handling in Europe is expected to grow
- Supportive market environment for automotive and construction equipment in China
- First signs of improvement in North America



# Financial outlook

€ million	FY 2016 reported	FY 2017 guidance
<b>Revenue</b>	1,260.2	marked increase
<b>EBIT margin</b> (before exceptional items)	1.9 %	moderate increase
<b>R&amp;D expenditure<sup>(1)</sup></b>	50.4	60 - 70
<b>Capex (excl. R&amp;D)<sup>(1)</sup></b>	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

# Financial calendar & contact details

■ H1 2017 result

3 August 2017

■ Q1-Q3 2017 result

7 November 2017

## ➤ Contact details

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