



A **NEW** DYNAMIC

China Growth Strategy

18th December 2018

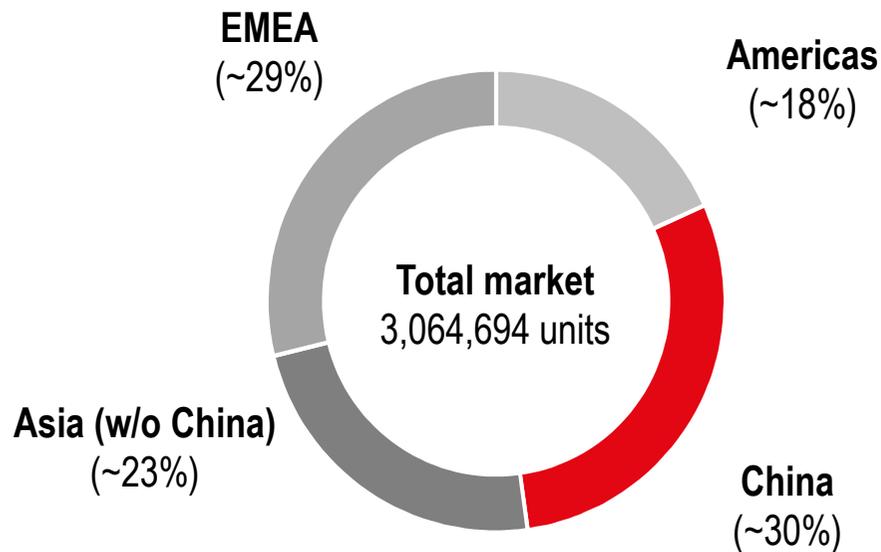
The engine company.



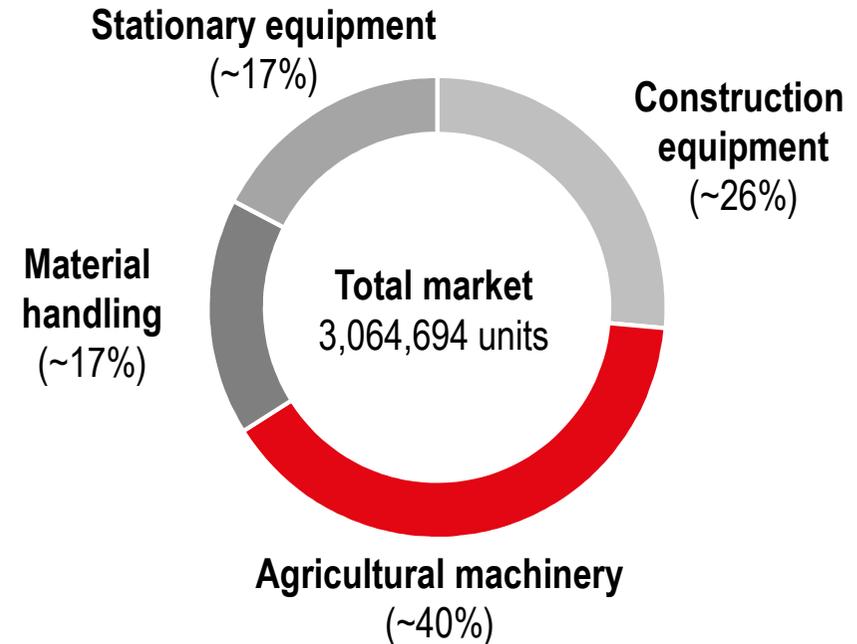
DEUTZ China Growth Strategy

Addressable global off-highway market, by application & region

Split by region 2017⁽¹⁾



Split by application 2017⁽¹⁾



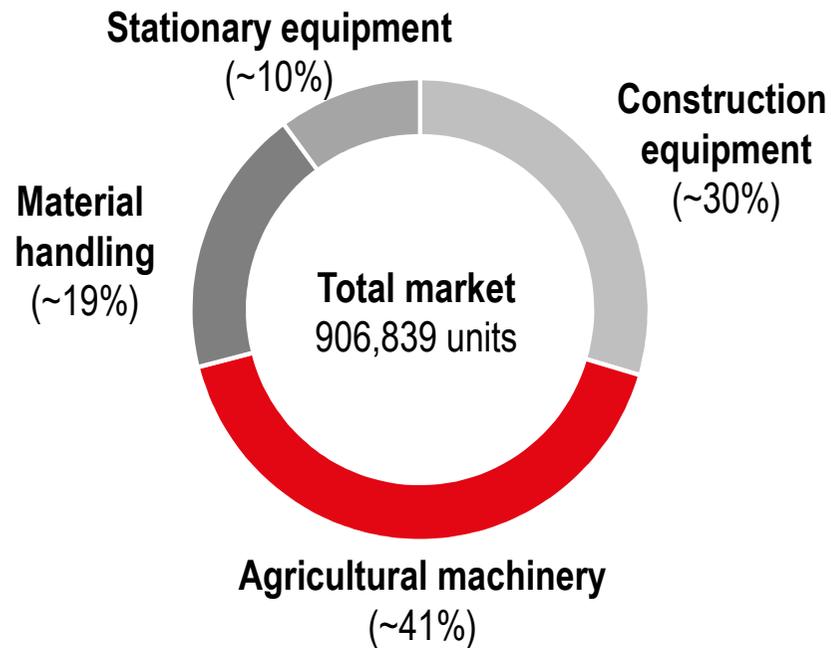
→ China is the largest individual market in the world with ~30% market share

(1) Captive & non-captive engine supply, 37-630 kW, all emission levels; source PSR; data August 2018

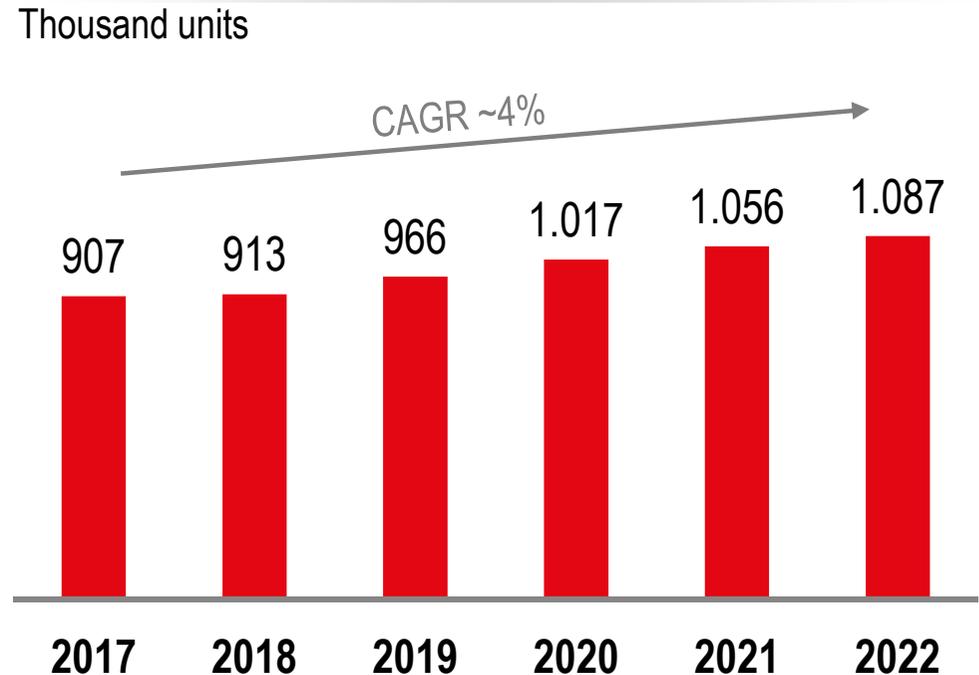
DEUTZ China Growth Strategy

Addressable Chinese off-highway market – large and fast-growing

Split by application 2017⁽¹⁾



Market growth⁽¹⁾



- China is the largest individual market in the world with approx. 30% market share worldwide⁽¹⁾
- Off-highway market growth: ~4% (CAGR 2017-2022)⁽¹⁾
- Tractors, fork-lifts, excavators and combine harvesters are major application areas in China
- Current market share of DEUTZ in China: 1.3%⁽¹⁾ (export business)
- Key competitors: Weichai Power, Cummins, Yanmar and Isuzu

(1) Captive & non-captive engine supply, 37-630 kW, all emission levels; source PSR; data August 2018

DEUTZ IN CHINA

Current situation

- China is the largest individual market in the world with growth rates of about ~4%⁽¹⁾
- Currently, DEUTZ generates ~9% of its revenue in Asia, exclusively export business
- In 2018, DEUTZ sold its 50% stake in the DEUTZ Dalian (DDE) joint venture with Automotive Works (FAW) in China to FAW

New set-up

- DEUTZ Growth Strategy: three-pillar strategy
- Joint venture + contract manufacturing + expansion of service business
- New local management with excellent track record and long-standing experience
- Asian headquarters to be established in Shanghai
- New set-up of purchasing, supply management, logistics, application engineering, services and sales

➔ **Three-pillar strategy on solid ground and with attractive growth opportunities**

➔ **Target revenue in China: ~ €500 million in 2022⁽²⁾**

(1) Captive & non-captive engine supply, 37-630 kW, all emission levels; source PSR; data August 2018.

(2) Whether this revenue will be fully consolidated is still to be reviewed.

DEUTZ China Growth Strategy

Management team



Christian Zürnstein
CEO Asia

Mr Zürnstein has many years' experience as a regional CEO and CFO, including responsibility for financial accounting and control, business development and electromobility at international companies in Asia. He has been living and working in China for 14 years.



Xuejun Li
CEO China

Mr Li has more than 25 years' experience as a Vice President and General Manager, including responsibility for logistics, technology and purchasing in the automotive industry in China.



Jürgen Gerzmann
CFO Asia

Mr Gerzmann has many years' experience as a regional CFO, including responsibility for purchasing, IT and business development at various international companies in Asia (automotive and medical technology). He has been living and working in China for 13 years.

→ New local management with excellent track record and many years of experience

DEUTZ China Growth Strategy

Three-pillar strategy

DEUTZ in Asia / China

Organisation

Three-pillar strategy



- China's biggest construction equipment group
- Large customer
- Joint venture partner



- Largest rental company for material handling in China
- Service partner
- Partner for digitalisation



- First diesel engine company in China
- Contract manufacturing cooperation
- Ability to satisfy additional demand throughout Asia

→ Operational control of production at “DEUTZ SANY JV” and “BEINEI” by DEUTZ China

→ DEUTZ service network in China supplemented by strong partner HORIZON

DEUTZ China Growth Strategy

Joint venture with SANY



Pillar No. 1

Joint venture with SANY for production of on- and off-highway engines

- MoU signed with SANY – leading provider of construction equipment in China
- DEUTZ to enter JV with a 51% stake in SANY Kunshan Power Unit
- DEUTZ to control operations (incl. production site)
- Joint introduction of successful China IV engines for SANY construction equipment
- Industrialisation of on-highway engines for SANY's China 6 trucks
- DEUTZ engines as premium product for selected applications (e.g. excavators); other standard applications for lower-cost markets to be equipped with SANY engines
- Medium-term: sale of localised DEUTZ engines throughout Asia
- First step: 75,000 engines planned for 2022

- ➔ Fits with overall group strategy of fostering internationalisation and electrification
- ➔ DEUTZ is contributing its technology and SANY its off-highway business
- ➔ SANY & DEUTZ to explore cooperation on development of e-motors



Pillar No. 2

Service and digitalisation partnership with HORIZON

- HORIZON and DEUTZ agree on service cooperation
- HORIZON and DEUTZ agree to cooperate on digital service solutions
- DEUTZ online spare parts distribution platform
- HORIZON is the largest rental company for material handling in China and has attractive growth rates.
Expected market growth for aerial work platforms: ~7% (CAGR 2017-2022)⁽¹⁾
- HORIZON is contributing its service network in China for aftermarket and field services

→ Fits well with overall group strategy of expanding profitable service business

(1) Captive & non-captive engine supply, 37-630 kW, all emission levels; source PSR; data August 2018

DEUTZ China Growth Strategy

Cooperation with BEINEI



Pillar No. 3

Contract manufacturing cooperation with BEINEI

- Cooperation with BEINEI on assembly of DEUTZ engines in China
- BEINEI's 30-year track record will support the industrialisation of DEUTZ engines in China
- Production hub with new modern production site in Tianjin controlled by DEUTZ
- First step: approx. 20,000 off-highway engines for Asian market in 2022

- ➔ Fits with overall group strategy of expanding business in China with local production
- ➔ DEUTZ production hub in Asia

DEUTZ China Growth Strategy

Overall objectives

1. Cooperate with strong partners to grow our business in China
2. New local management with excellent track record and many years of experience
3. Offer advanced technology that is ready for upcoming emissions standards
4. Expansion of attractive service business
5. Promote the DEUTZ brand in China
6. China as a production hub for overall Asian market

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