

An abstract background featuring vibrant red and blue streaks that create a sense of motion and energy, flowing from the left towards the right.

A **NEW** DYNAMIC

DEUTZ Investor Presentation

August 2018

The engine company.



AGENDA

About DEUTZ

Strategy & market positioning

Financials

Outlook

Our roots and our future – pioneers in engineering

- Founded in 1864 in Cologne, **DEUTZ** is the world's oldest engine company and one of the world's leading independent engine manufacturers
- Otto, Langen, Daimler, Bugatti, Maybach – these pioneers of engine technology all worked for **DEUTZ**
- **DEUTZ** is synonymous with engineering spirit, passion and a culture of innovation
- From the world's first engines, to the world's cleanest diesel engines, to introducing hybrid and electric solutions for off-highway applications: we are developing the technologies today for the demands of tomorrow

➔ **DEUTZ** has always driven change. Now, we are ready for the next step.

What we do – our markets

DEUTZ is the leading independent manufacturer of diesel and gas engines in the power range from 19 to 620 kW for off-highway applications – we are developing the technologies today for the demands of tomorrow.



New trends – paradigm shift

- Public perception of diesel engines is undergoing a paradigm shift: There is a need, and demand, for energy savings and cleaner motorisation
- There are calls from the media and politicians for diesel engines to be taken off the market and replaced with electrified drive systems
- **DEUTZ** is taking action: We will make our engines more efficient and more environmentally friendly
- **DEUTZ** is the first manufacturer in the world with a Stage V certified engine portfolio
- **DEUTZ** firmly believes that diesel technology will remain a leading drive system for heavy-duty, off-highway applications such as agricultural equipment for a long time to come

➔ **DEUTZ** will offer innovative drive systems that meet customers' needs

Leading in innovative drive systems

- **DEUTZ** is on track to become a leading provider of INNOVATIVE DRIVE SYSTEMS, playing its part in reducing emissions such as pollution, noise and CO₂.
The **DEUTZ** road map for achieving this vision:



- **DIESEL** is here to stay, its future secured by its high energy density that allows for autonomous operation
- Use of **ALTERNATIVE FUELS**, leading to CO₂ neutral approaches, through renewable energies
- Use of **GAS** or bi-fuel engines that offer the same levels of efficiency but are less complex and more economical
- **ELECTRIC** and **HYBRID** drives that offer savings in emissions, energy and cost
- **HYDROGEN** as fuel cells or fuel for internal combustion engines

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Strategy & market positioning

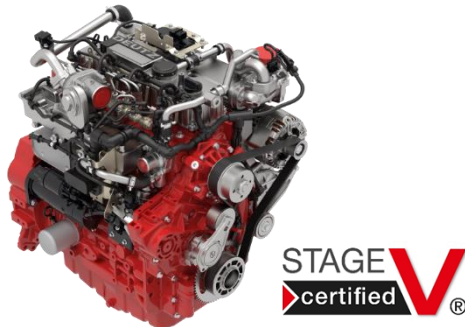
Financials

Outlook

INNOVATIVE DRIVE SYSTEMS

High-tech Diesel Engines

- Long term future for many off-highway applications
- Pioneering role of DEUTZ in reducing emissions
- Additional market opportunities

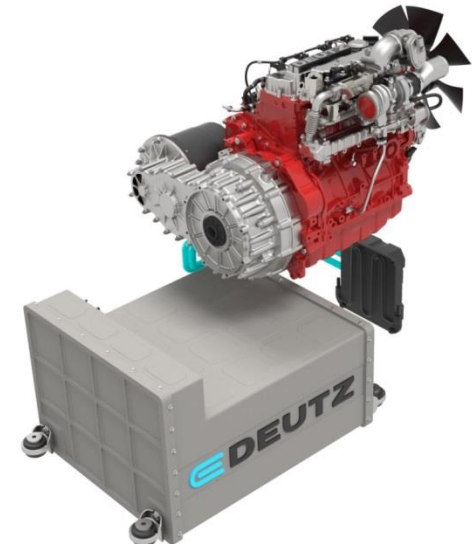


Alternative Fuels

- Liquid gas (LPG)
- Compressed natural gas (CNG)
- Hydrogen (H₂)
- Synthetic fuels, Biofuels



DEUTZ

- Hybrid systems
- Electric systems
- Fully integrated solutions for OEMs




High-tech diesel engines – current engine portfolio

- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- DEUTZ is the 1st engine manufacturer to obtain certification for the EU Stage V emissions standard
- This delivers on the promise that the current engine portfolio will meet the standards that will apply from 2019




TCD 2.9 L4

- 75 kW | 100 hp
at 2600 min⁻¹/rpm
- EU Stage V | US EPA Tier 4




TCD 3.6 L4

- 105 kW | 141 hp
at 2300 min⁻¹/rpm
- EU Stage V | US EPA Tier 4




STAGE V CERTIFIED®

DEUTZ AG is the first engine manufacturer worldwide to be awarded the official certificate for meeting the latest exhaust emission standard. EU Stage V.




TCD 4.1 L4 | TCD 6.1 L6

- 80–180 kW | 108–241 hp
at 1800–2300 min⁻¹/rpm
- EU Stage V | US EPA Tier 4






TCD 7.8 L6

- 250 kW | 335 hp
at 2600 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



TCD 12.0 V6 | TCD 16.0 V8

- 240–520 kW | 322–697 hp
at 2100 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



Extended range of products

- Enlarged product offering in the lower output range
- New gas and bi-fuel engines
- Extended product range in the upper output range (200 to 620 kW)

G 2.2 L3 | G 2.9 L4

- 26–54 kW | 35–72 hp
at 2800 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



TCD 2.2 L3

- 55,4 kW | 75 hp
at 2600 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



Start of series production in 2019

TCD 2.9 L4

- 75 kW | 100 hp
at 2600 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



TCD 3.6 L4

- 105 kW | 141 hp
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TCD 12.0 V6 | TCD 16.0 V8

- 240–520 kW | 322–697 hp
at 2100 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



TCD 9.0 L4 | 12.0 L6 | 13.5 L6

- 300–450 kW | 400–600 hp
at 2100 min⁻¹/rpm
- EU Stage V | US EPA Tier 4




Start of serial supply in 2019

TCD 18.0 L6

- 620 kW | 831 hp
at 1900 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



Example applications	Electrification	DEUTZ position
	<ul style="list-style-type: none"> ■ Competitive solutions for selected applications <ul style="list-style-type: none"> – Reduced TCO – Lower noise emissions – Performance / torque advantages ■ Reduced CO₂ emissions 	<ul style="list-style-type: none"> ■ Electric and hybrid solutions have not yet made inroads into off-highway markets ■ DEUTZ has established expertise in all relevant technological fields (e-motors, power electronics, battery technology, system integration etc.) ■ Marketable hybrid and full-electric products end of 2019 / early 2020 ■ High interest of OEMs

- ▶ Initial capital expenditure of approx. €100 million (incl. acquisition of Torqeedo)
- ▶ 5-10% revenue share in 2022 / 2023
- ▶ Target EBIT margin in the high single-digit / low double-digit percentage range

Torqeedo acquisition

Torqeedo

TORQEEEDO

- DEUTZ acquired the global market leader in electric drive systems for boats and a specialist in integrated electric drive systems

Strategic reason

- Torqeedo is an innovative catalyst for the E-DEUTZ strategy
- Bringing hybrid and full-electric drive systems to market more quickly than would be possible for DEUTZ alone
- DEUTZ is aiming to be the market leader in innovative drive systems in its core markets

Know-how transfer

- System architecture for electric drives
- Know-how in steering technology
- 48 and 400 volt systems
- Power electronics
- Battery management systems expertise – lithium-ion technology

Revenue by region

H1 2018

(H1 2017)

Africa/Middle East 3 %

€21.5 million
(€25.2 million)

Asia-Pacific 9 %

€79.6 million
(€70.9 million)

Americas 19 %

€169.3 million
(€141.0 million)

Europe (excl. Germany) 50 %

€443.7 million
(€354.1 million)

Germany 19 %

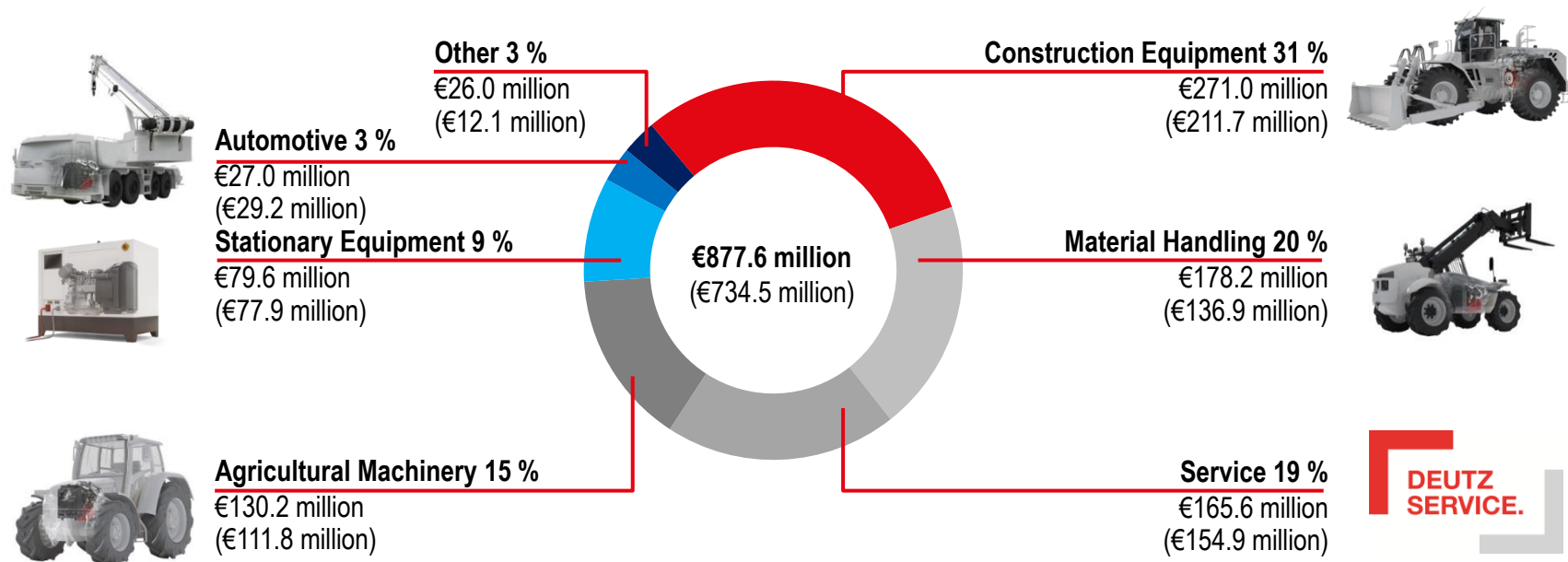
€163.5 million
(€143.3 million)

€877.6 million
(€734.5 million)

Revenue by application

H1 2018

(H1 2017)



Customer base extended successfully

Long-standing customer relationships
(not exhaustive)

New clients & greater share of wallet
(not exhaustive)

VOLVO

Atlas Copco



**WACKER
NEUSON**

HITACHI

TAKEUCHI

TM

BOMAG
FAYAT GROUP



WIRTGEN



SKYJACK

KION
GROUP

JLG

AGCO
FENDT

SAME

DEUTZ  **FAHR**

 **TEREX**

 **MANITOU**

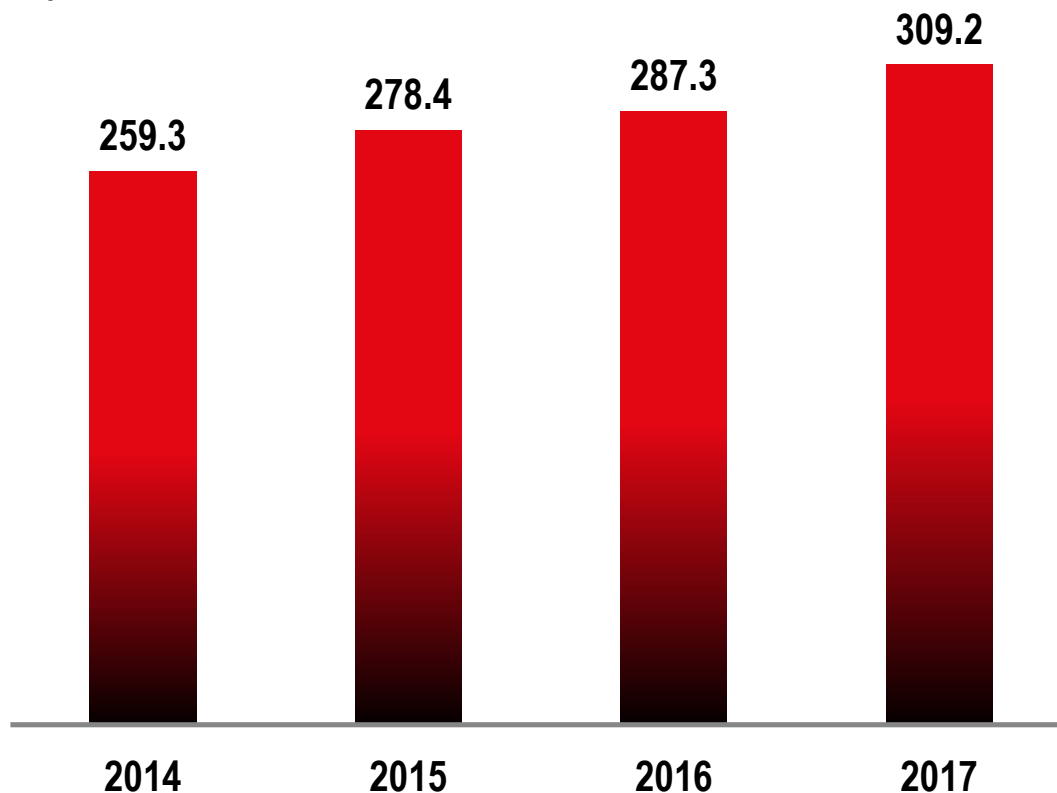
Fetor


ARGO TRACTORS



Service business

€ million



- Profitable service business showing resilience throughout the economic cycle
- Expansion of service business
 - New products
 - Digitalization
 - Investment in own service centers & acquisition of selected dealers



→ Continuous growth of service revenue

Investment in sales & service network

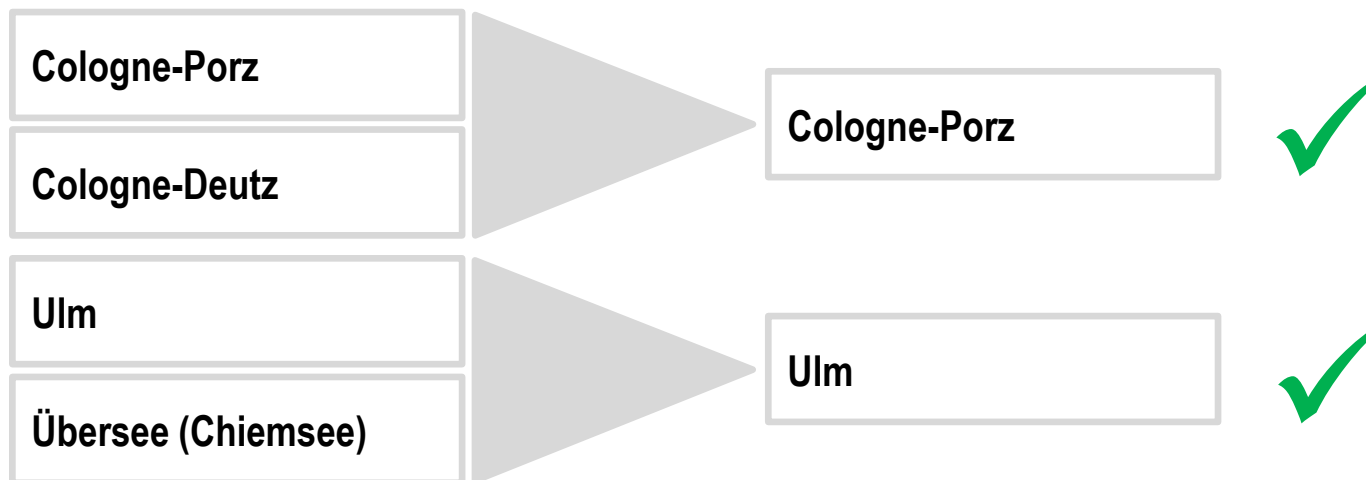
- Acquisition of Italian dealer IML Motori including its Romanian subsidiary
- Italian sales and service network now trading under the name DEUTZ Italy
- The acquisition strengthens our profitable service business



➔ Investing in service network

Site optimisation completed

- Efficiency gains of approx. €10 million p.a. (will be higher with improved capacity utilisation)



- Substantial proceeds from property sale of former Cologne-Deutz site:
 - Purchase price of around €125 million in 2017. Contribution to earnings shown as an exceptional item
 - Final instalment might reach in the mid double-digit million euros in the coming years, depending on completion of the ongoing planning process

➔ **Sustainable efficiency gains and substantial proceeds from sale of property**

Cash deployment & dividend policy

Internal funding

- Investment focus on innovation, service and internationalization
- Electrification strategy – E-DEUTZ
- Service – acquisition of selected dealers

Financial strength

- Keep equity ratio above 40 %
- Robust financial framework in volatile markets

Dividend policy

- Payout ~30% of recurring profit over multi-year period
- Proposed dividend for 2017 reflects positive exceptional items

→ Objective to participate shareholders in sustained commercial success

Key investment highlights

Leading manufacturer of drive-systems for off-highway applications

E-DEUTZ – electrification strategy with M&A accelerator

Diesel engines with growing potential for outsourcing

Resilient and expanding service business

Financial strength for organic and inorganic growth

Further improvement of financial performance



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Key messages

■ Successful first half of 2018

- Substantial revenue increase (+19.5% yoy)
- Measures introduced to improve earnings are showing effect

■ DEUTZ sets a course for further growth in China

- Withdrawal from the 50%-JV with FAW which was focused on automotive applications
- Valuation adjustments at DEUTZ Dalian have been finalised – largely prior years' affected
- Disposal proceeds and positive FX difference will compensate negative effect on earnings from DDE in H1
- Emissions standard China 4 creates market opportunities in the Chinese off-highway market
- Talks on new alliances with major local partners in the construction equipment and agricultural machinery industries in advanced stage

■ Positive business development clouded by the strike at supplier Halberg in Q3

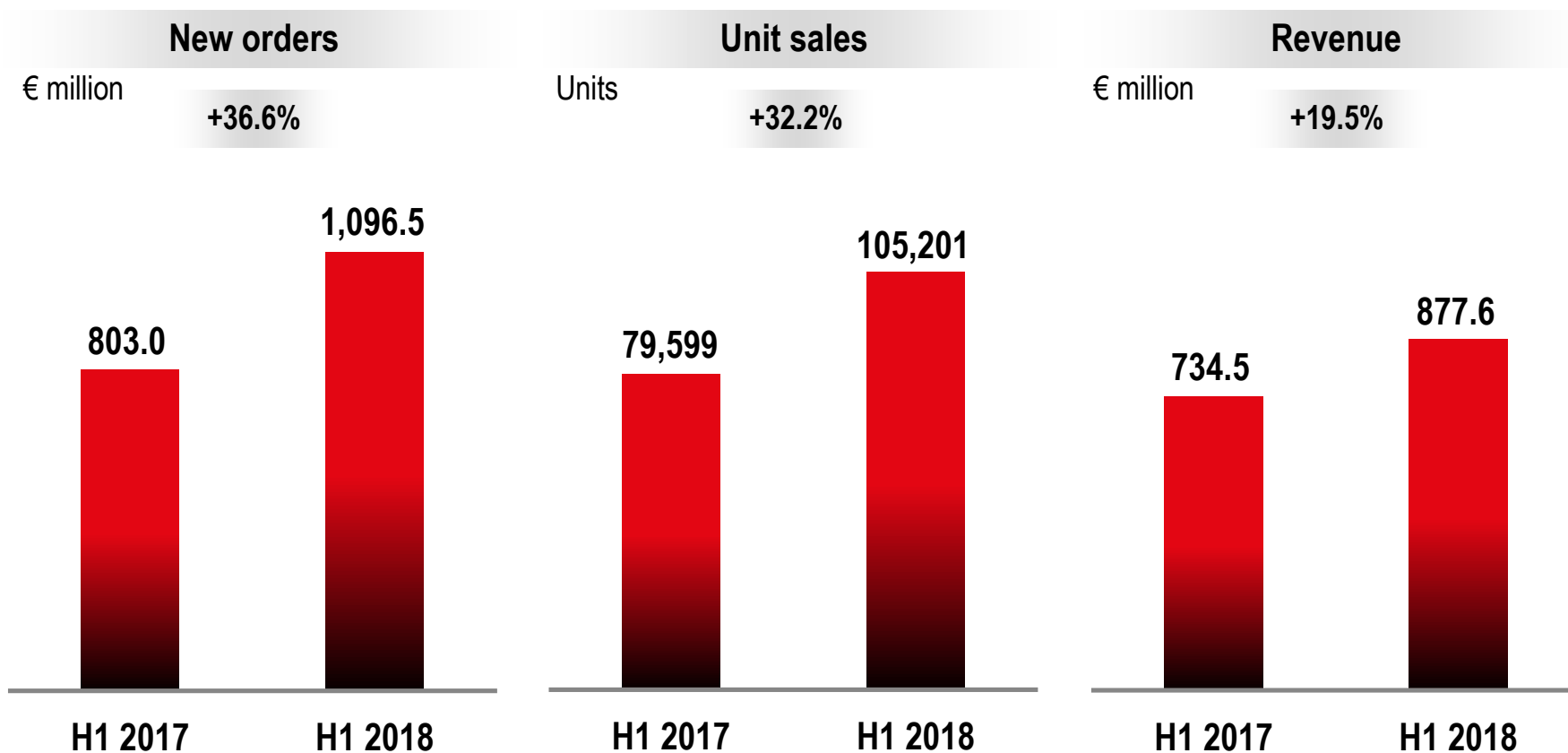
Key figures⁽¹⁾

€ million	H1 2018	yoy	Q2 2018	yoy
New orders	1,096.5	+36.6%	521.6	+30.5%
Revenue	877.6	+19.5%	463.1	+21.2%
Adjusted EBIT⁽²⁾	47.5	+108.3%	25.8	+83.0%
EBIT (before exceptional items)	33.4	+53.9%	11.7	-17.0%
Net income	25.3	+35.3%	7.1	+115.2%
Free cash flow	-12.1	-€65.9 million	-3.0	-€17.1 million

(1) 2017 figures restated

(2) EBIT (before exceptional items) adjusted by DDE effects in 2018 (i.e. operating profit, adjustment of carrying amount and impairment)

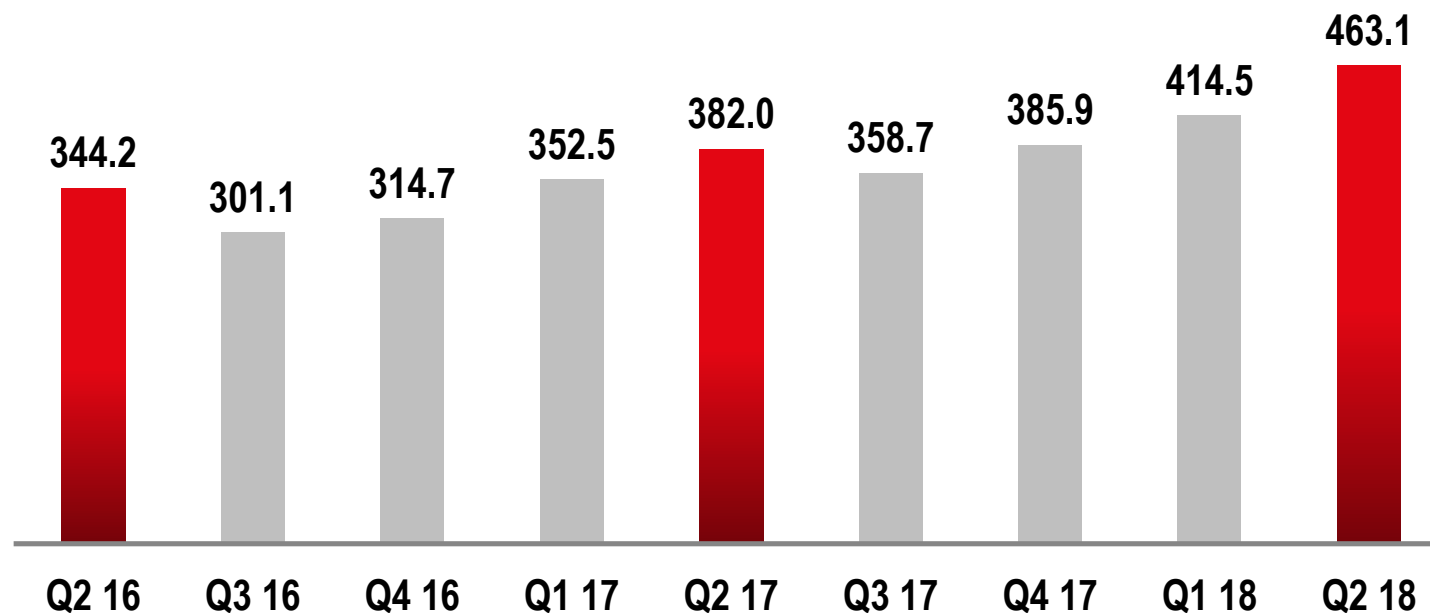
Sales figures



- Organic revenue growth amounts to 14.4%
- Torquedo sold 6.345 electric drive system in H1 2018

Revenue by quarter

€ million



■ Dynamic revenue growth

■ Q2 2018 revenue improved 21.2% yoy and 11.7% qoq

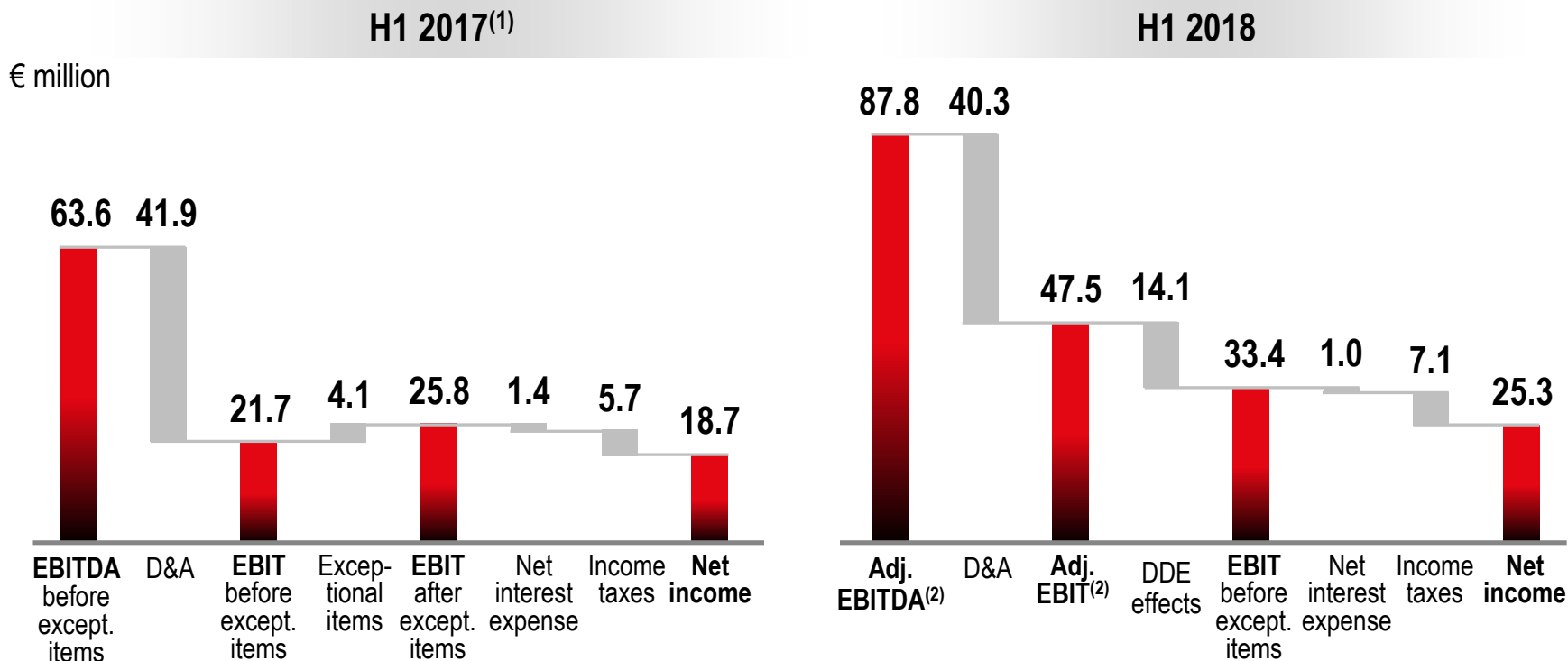
DEUTZ Dalian – adjustment of carrying amounts

€ million

Book value 31 Dec 2017	38.4
Correction prior years	-14.9
Book value 1 Jan 2018	23.5
At-equity result H1 2018	-2.8
FX translation differences	0.3
Book value 30 Jun 2018 (before impairment)	21.0
Impairment	-11.3
Book value 30 Jun 2018	9.7

- Review of carrying amounts of joint venture DEUTZ Dalian (DDE) finalised
- DDE' prior years carrying amounts reduced by €14.9 million
- H1 at-equity result of -€ 2.8 million includes additional valuation adjustment of €8.2 million. Thus, the total valuation adjustment amounts to €23.1 million
- In addition, the book value was written down by €11.3 million to €9.7 million (= expected proceeds from JV disposal)
- In total, H1 2018 earnings impacted by DDE in the amount of €14.1 million
- After divestment in H2 2018 positive currency translation differences of €15.8 million (OCI) will be reclassified to the income statement
- In FY 2018, no negative P&L impact by DDE expected

Operating profit & net income



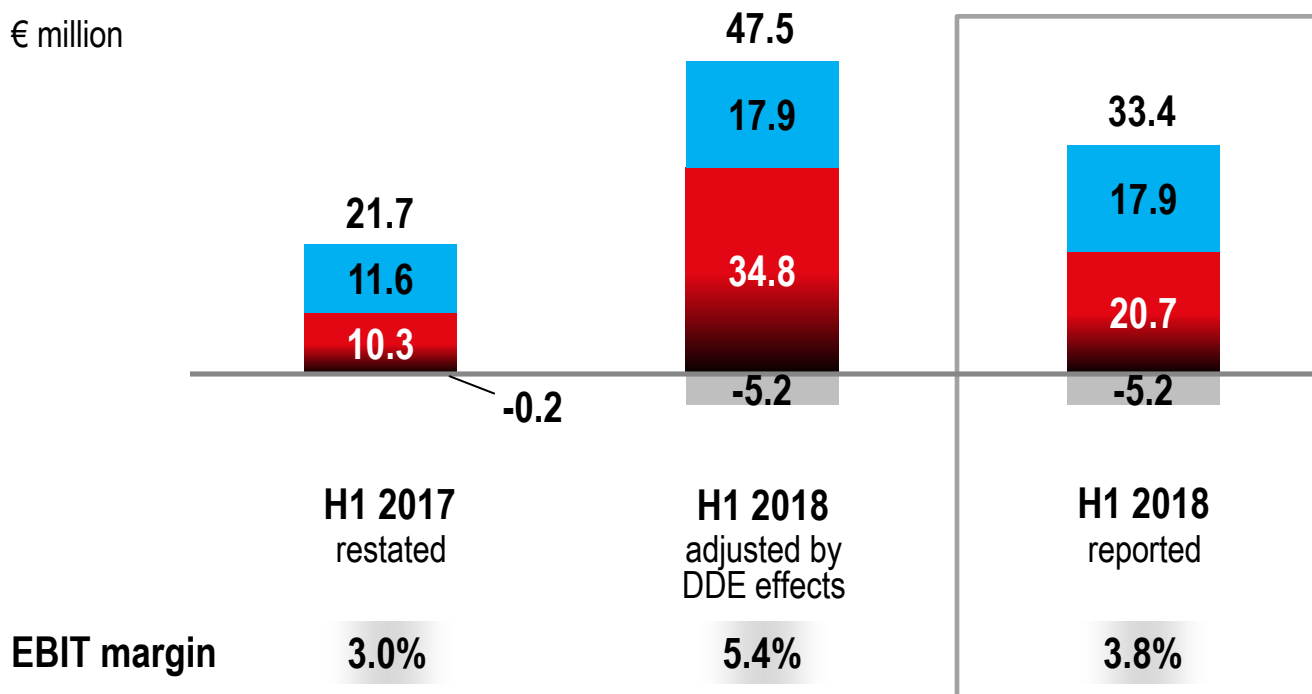
- Adj. EBITDA increased by 38.1% and adj. EBIT more than doubled
- H1 2018 EBIT dampened by DDE (€14.1 million)
- Negative DDE effects will be compensated in H2
- Net income increased by 35.3%

(1) Restated

(2) EBIT and EBITDA (before exceptional items) adjusted by DDE effects in 2018 (i.e. operating profit, adjustment of carrying amount and impairment)

EBIT (before exceptional items)

€ million



- Both operating segments contributed to the significant increase in operating profit
- Adjusted EBIT-margin improved by 2.4%-points
- Reported EBIT of Segment Compact Engines burdened by DDE – will be compensated in H2

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

DEUTZ Compact Engines⁽¹⁾

€ million	H1 2018	H1 2017	Change in %
New orders	930.4	661.6	40.6
Unit sales (units)	94,463	75,482	25.1
Revenue	737.7	613.6	20.2
Adjusted EBIT ⁽²⁾	34.8	10.3	237.9
EBIT (before except. items)	20.7	10.3	101.0

€ million	Q2 2018	Q2 2017	Change in %
New orders	437.5	335.3	30.5
Unit sales (units)	49,900	40,161	24.2
Revenue	385.7	319.5	20.7
Adjusted EBIT ⁽²⁾	17.8	8.8	102.3
EBIT (before except. items)	3.7	8.8	-58.0

- Double-digit revenue growth in key applications: Material Handling (+31.6% yoy), Construction Equipment (+30.5% yoy) and Agricultural Equipment (+16.3% yoy)
- Service revenues increased by 7.9% yoy
- Substantial improvement of underlying profitability
- Reported Q2 2018 EBIT affected by JV valuation which will be compensated in H2

(1) 2017 figures restated

(2) EBIT (before exceptional items) adjusted by DDE effects in 2018 (i.e. operating profit, adjustment of carrying amount and impairment)

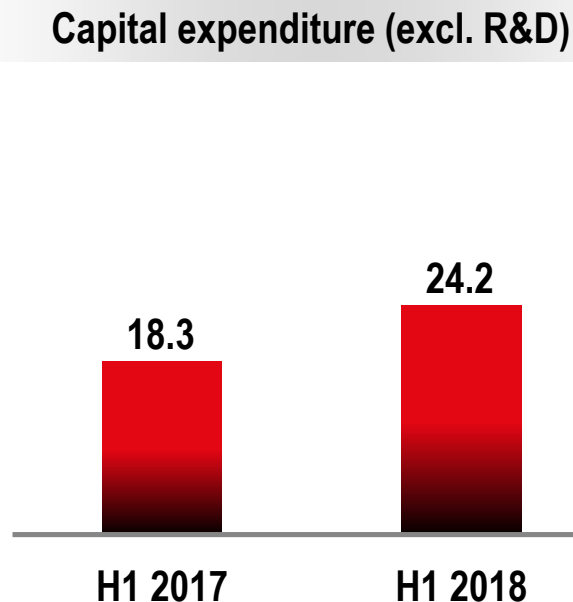
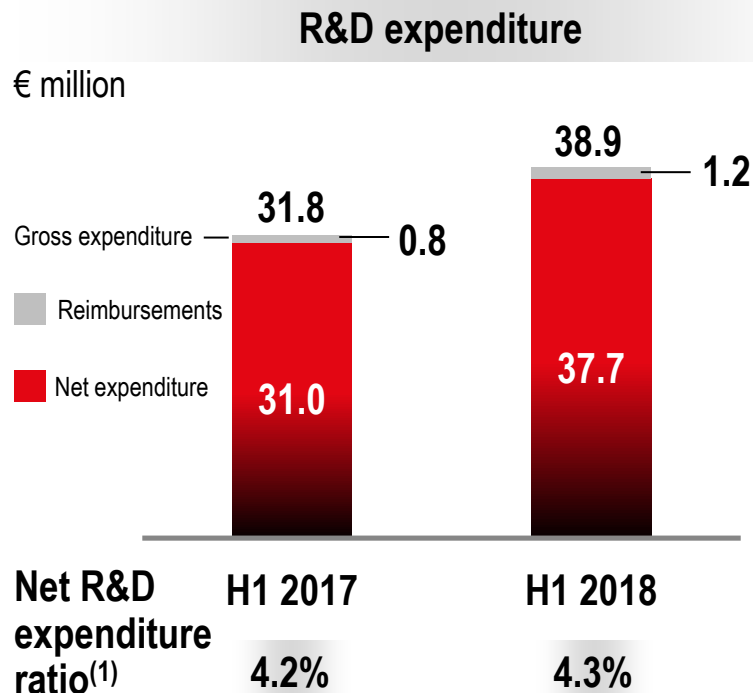
DEUTZ Customised Solutions

€ million	H1 2018	H1 2017	Change in %
New orders	151.1	141.4	6.9
Unit sales (units)	4,393	4,117	6.7
Revenue	125.5	120.9	3.8
EBIT (before except. items)	17.9	11.6	54.3

€ million	Q2 2018	Q2 2017	Change in %
New orders	74.4	64.5	15.3
Unit sales (units)	2,631	2,285	15.1
Revenue	67.8	62.5	8.5
EBIT (before except. items)	10.2	5.2	96.2

- New orders increased by 6.9% yoy
- Book-to-bill ratio amounts to 1.20x
- Profitable service revenue advanced by 5.3% yoy
- EBIT improvement (+54.3% yoy) attributable to higher business volume and better product mix

R&D spending & capital expenditure



- Planned increase of R&D due to expansion of product range
- Proportion of capitalised net R&D expenditure: €8.2 million (H1 2017: €7.1 million)

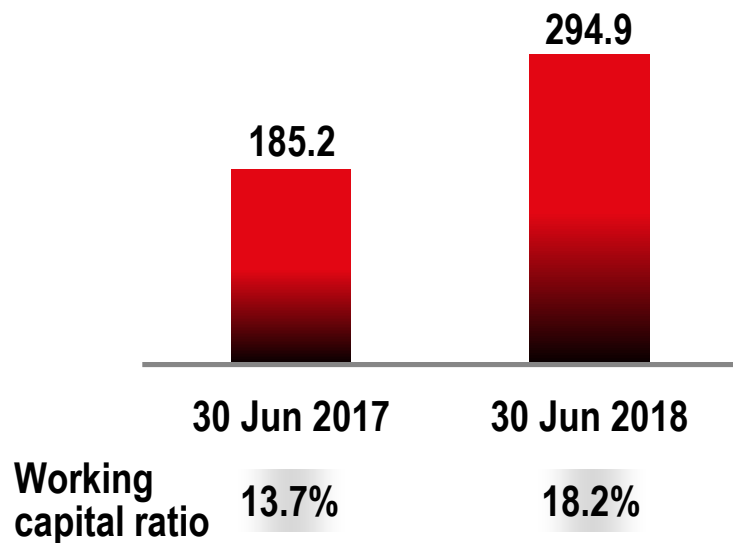
- Capex increase in-line with budget

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

Working capital & operating cash flow

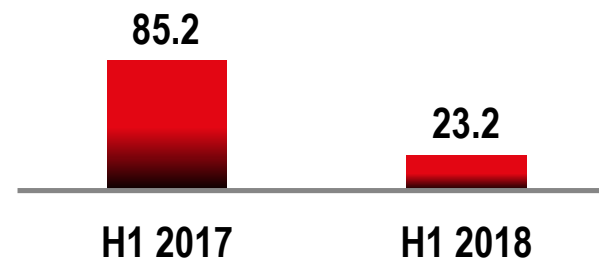
Working capital

€ million



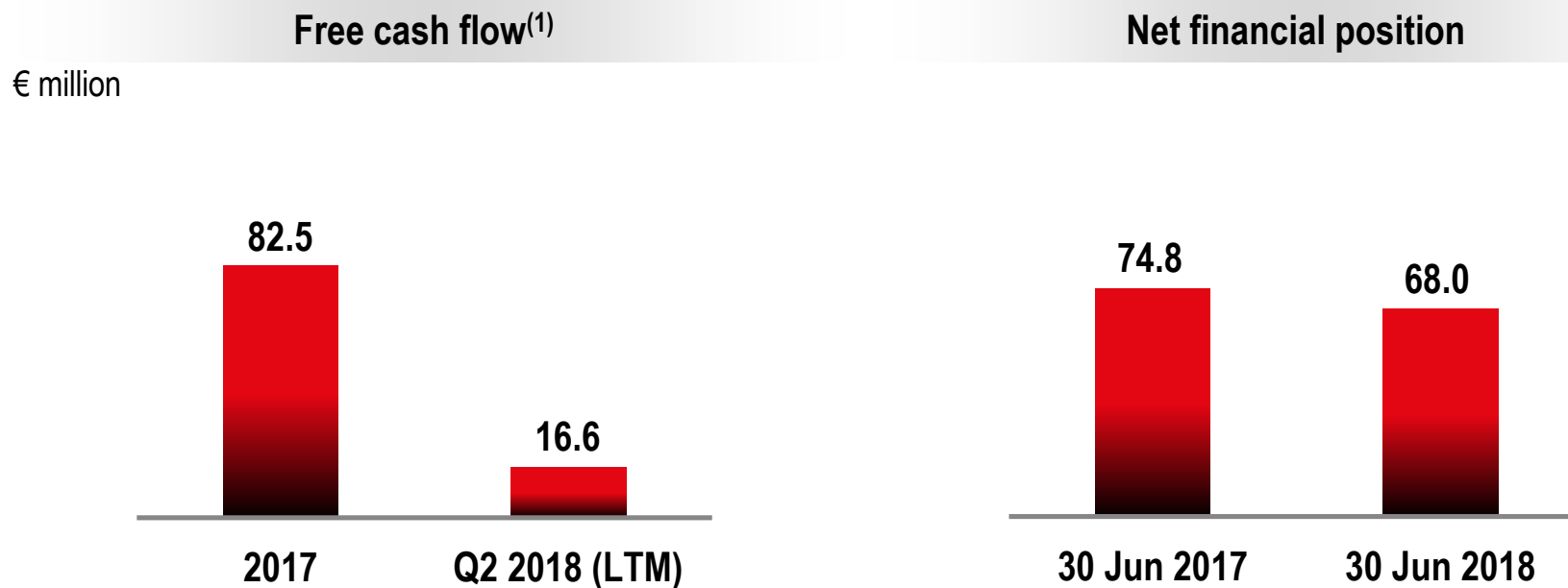
- Working capital increase driven by higher business volume

Operating cash flow



- Operating cash flow decline attributable to increase of working capital

Free cash flow generation & net financial position



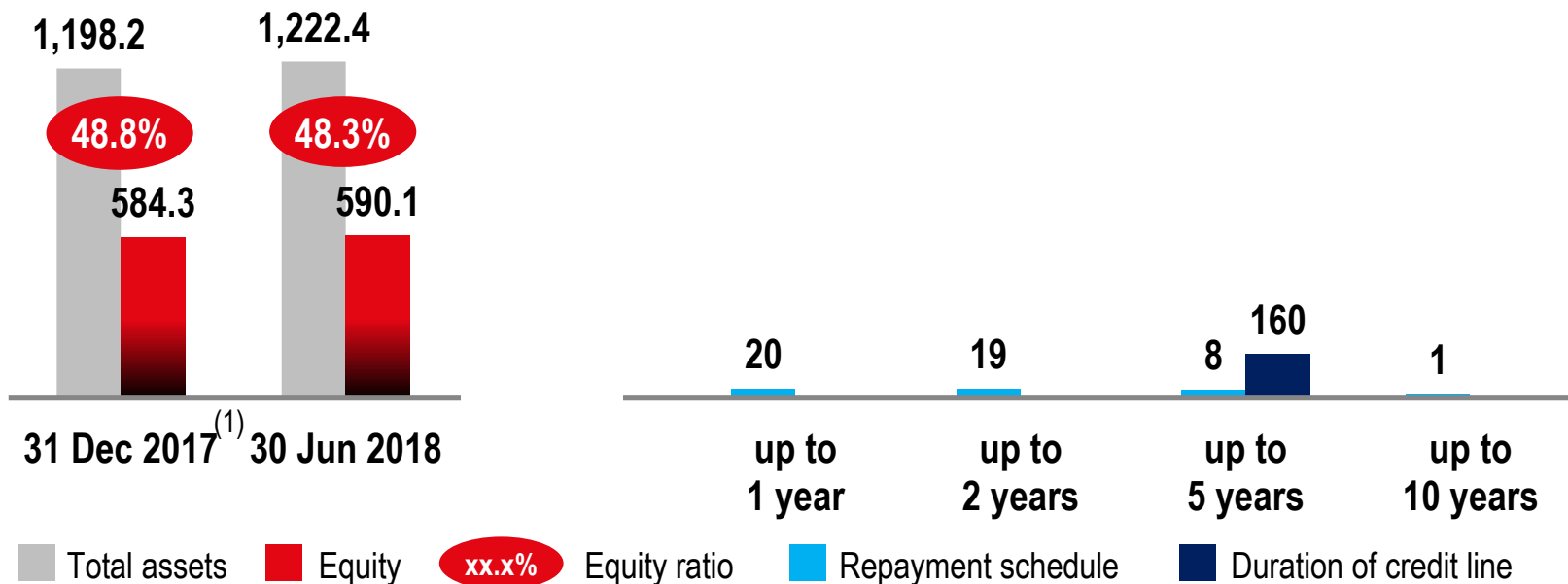
■ Decline of free cash flow due to working capital increase

■ Net financial position remains positive

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

Equity ratio & funding

€ million



- Strong balance sheet
- Medium- to long-term financing with undrawn facilities available:
 - Credit line of €160 million prolonged by one year until June 2023
 - Loan from European Investment Bank repayable by July 2020

(1) Restated

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Forecast for key end-customer markets, 2018

	Europe	North America	China
Unit sales (equipment)			
Construction Equipment	+5% to +10%	+5% to +10%	+15% to +20% (previous: +10% to +20%)
Material Handling	+5% to +10%	+5% to +10%	+10% to +20%
Agricultural Machinery	0% to +5%	0% to +5%	-10% to -5% (previous: -5% to 0%)
Medium & Light-Duty Trucks			0% to +5%

Financial outlook

€ million	FY 2017	Previous FY 2018 guidance	New FY 2018 guidance ⁽²⁾
Revenue	1,479.1	marked increase	> 1,600
EBIT margin (before exceptional items)	2.7 % ⁽³⁾	moderate increase	≥ 4.5 %
R&D expenditure⁽¹⁾	67.0	70 - 75	70 - 80
Capex (excl. R&D)⁽¹⁾	54.7	60 - 70	60 - 70

(1) Net of reimbursements

(2) Assuming no further supplier strike-related disruptions

(3) Restated

→ Revenue forecast specified and to profit estimate raised on July 27

Financial calendar & contact details

- Capital markets day 18 September 2018
- Q1-Q3 2018 results 8 November 2018
- FY 2018 results 14 March 2019

► Contact details

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The forward-looking statements made in this document will not be updated.

THANK YOU FOR YOUR ATTENTION

A **NEW** DYNAMIC