

# DEUTZ AG

## FY 2018 Results

Frankfurt am Main | 14 March 2019

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# Disclaimer

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This presentation contains forward-looking statements that are subject to various risks and uncertainties. Future results could differ materially from those described in these forward-looking statements due to certain factors, e.g. changes in business, economic and competitive conditions, regulatory reforms, foreign exchange rate fluctuations, uncertainties in litigation or investigative proceedings, and the availability of financing. DEUTZ does not undertake any responsibility to update the forward-looking statements in this presentation.

# Agenda



## Strategy & operational highlights



Dr Frank Hiller | CEO

# Highlights

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## **Revenue target for 2018 significantly exceeded – marked increase in profitability**

- Strong rise in new orders (+25.4% yoy)
- Revenue increased by +20.3% yoy, supported by growth in all regions and all off-highway applications
- Substantial growth in operating profit (+106.5% yoy) and EBIT-margin (before exceptional items) improvement

## **Positive outlook for 2019**

- High level of orders on hand ensures good capacity utilization
- Further growth and improvement of profitability expected for 2019

## **Good progress on strategic targets**

- Performance program clearly bearing fruit
- New three-pillar Chinese growth strategy initiated
- E-DEUTZ strategy well on track – marketable products expected 2020

# New Chinese growth strategy

## Three-pillar strategy



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



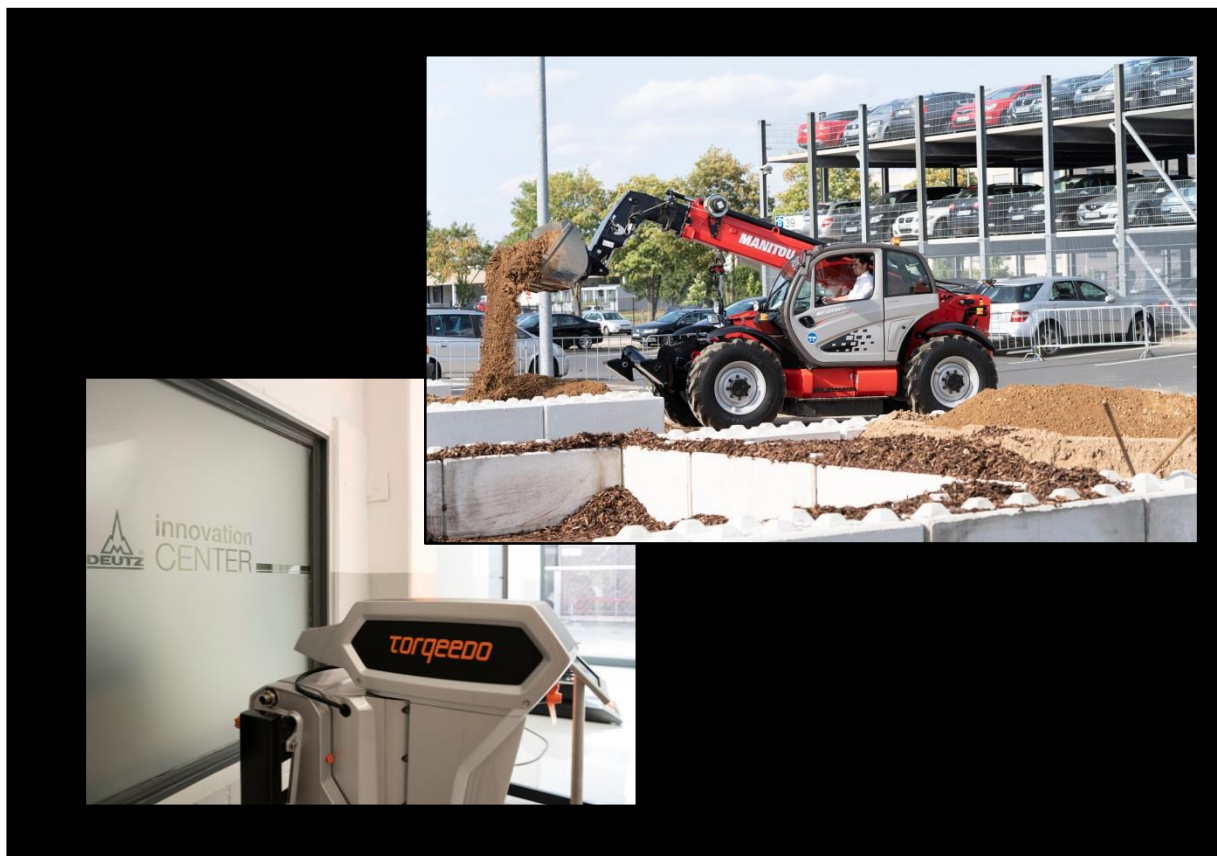
- HORIZON is the largest rental company for material handling in China
- Service partner
- Partner for digitalisation



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

Revenue target in China: ~ €500 million in 2022<sup>1)</sup>

# DEUTZ electrification strategy well on track



- Acquisition of Torqeedo (Sep 2017) is paying off
- Successful know-how transfer – DEUTZ saved 5 years' development time
- First prototypes in September 2018
- E-DEUTZ is a door-opener for new customers
- Marketable hybrid and all-electric products expected 2020

# Key figures<sup>1)</sup>

€ million	<b>FY 2018</b>	<b>Δ yoy</b>	<b>Q4 2018</b>	<b>Δ yoy</b>
New orders	<b>1,952.6</b>	+25.4%	<b>403.9</b>	+5.5%
Revenue	<b>1,778.8</b>	+20.3%	<b>481.5</b>	+24.8%
EBITDA (before exceptional items)	<b>161.4</b>	+21.2%	<b>56.5</b>	+29.0%
EBIT (before exceptional items)	<b>82.0</b>	+106.5%	<b>36.1</b>	+177.7%
Net income (before exceptional items)	<b>69.9</b>	+111.8%	<b>34.3</b>	+203.5%

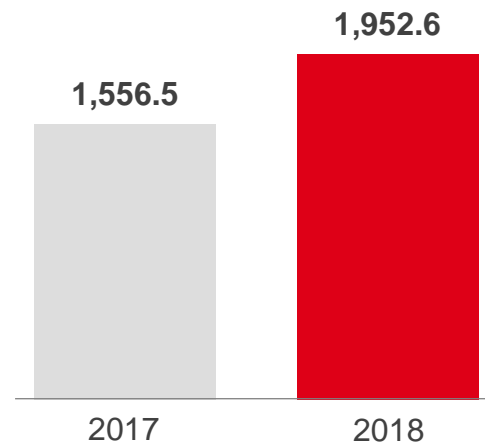
Substantial improvement of operating profit

# Sales figures

## New orders

€ million

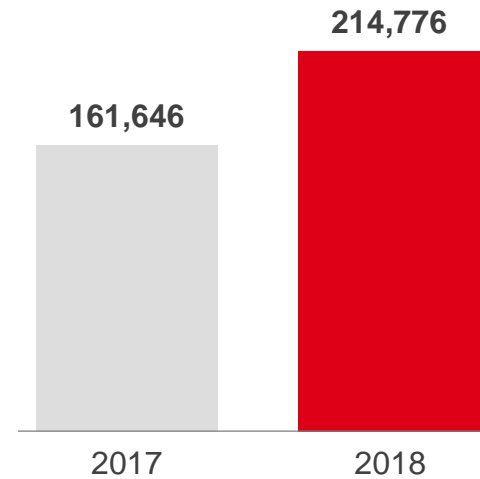
▲ +25.4%



## Unit sales

Units

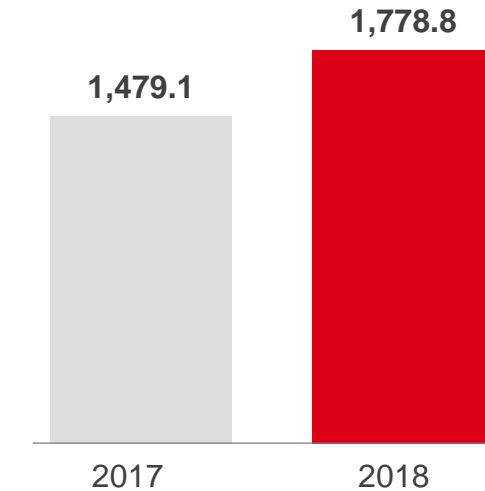
▲ +32.9%



## Revenue

€ million

▲ +20.3%



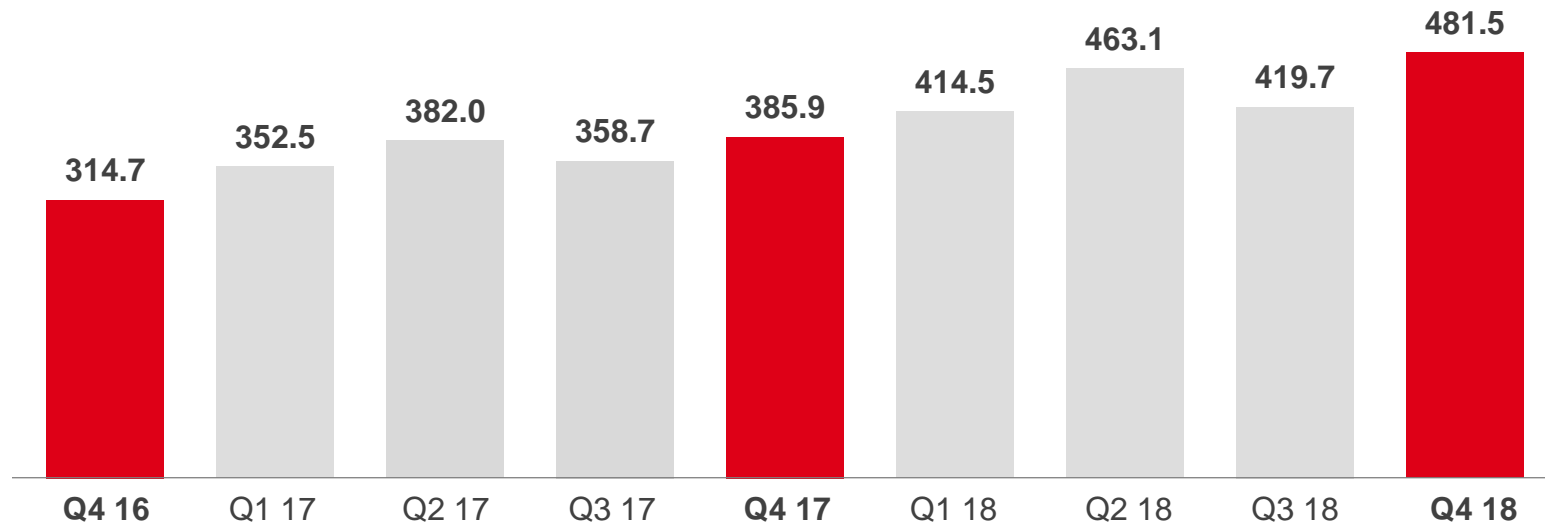
- Book-to-bill ratio amounts to 1.10x. High level of orders on hand ensures good capacity utilization
- Torqeedo sold 10,258 electric drive systems in 2018
- Unit sales grew faster than revenue due to strong demand for smaller engine series



# Revenue by quarter

## Revenue

€ million



- Strong revenue growth in 2018
- Q3 2018 was clouded by strike at a supplier

# Revenue by region

2018 (2017)

**Africa/Middle East 3%**

€52.5 million  
(€53.7 million)

**Asia-Pacific 9%**

€163.6 million  
(€147.5 million)

**Americas 19 %**

€337.8 million  
(€268.1 million)

**Europe (excl. Germany) 50%**

€884.4 million  
(€725.5 million)

**€1,778.8  
million  
(€1,479.1  
million)**

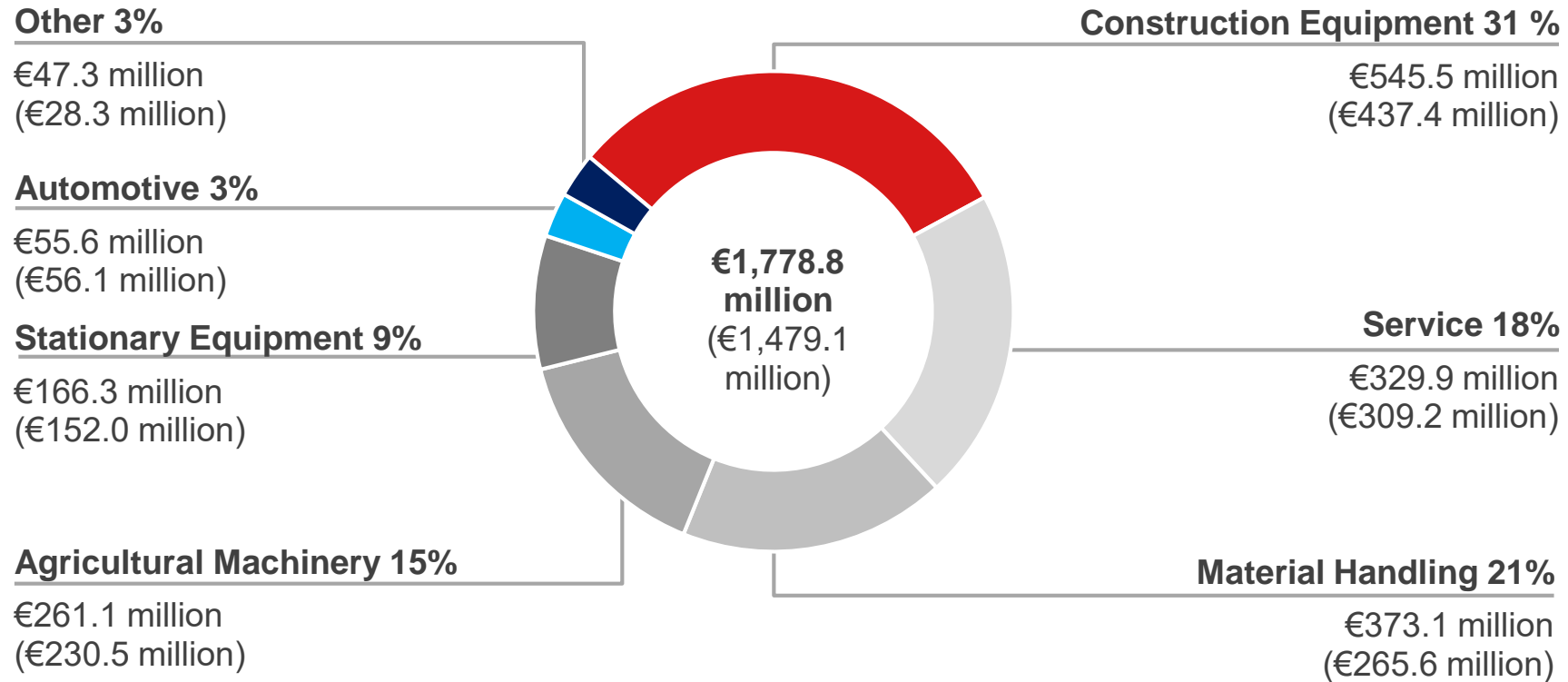
**Germany 19%**

€340.5 million  
(€284.3 million)

Double-digit growth in all key regions

# Revenue by application

2018 (2017)

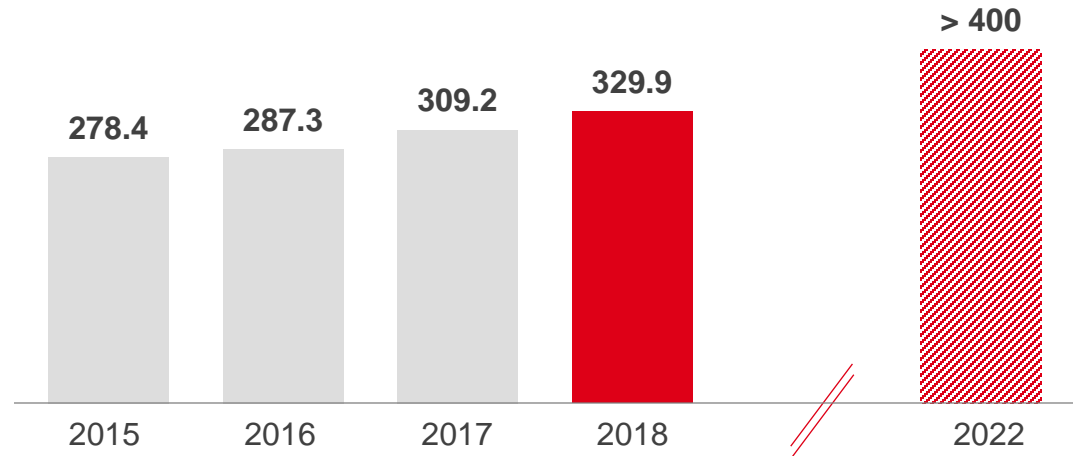


Strong growth in all off-highway applications

# Expansion of service business

## Service revenue

€ million



- Service revenue increased by 6.7% in 2018
- Drivers for expansion of service business
  - New products and digitalization
  - Best-in-class availability of spare parts
  - Optimized repair concepts (e.g. Xchange engines)
  - Direct connection to end customers via digital channels
  - Investment in own service centers & acquisition of selected dealers



Revenue of > €400 million expected in 2022

# Agenda



## Key financials in more detail



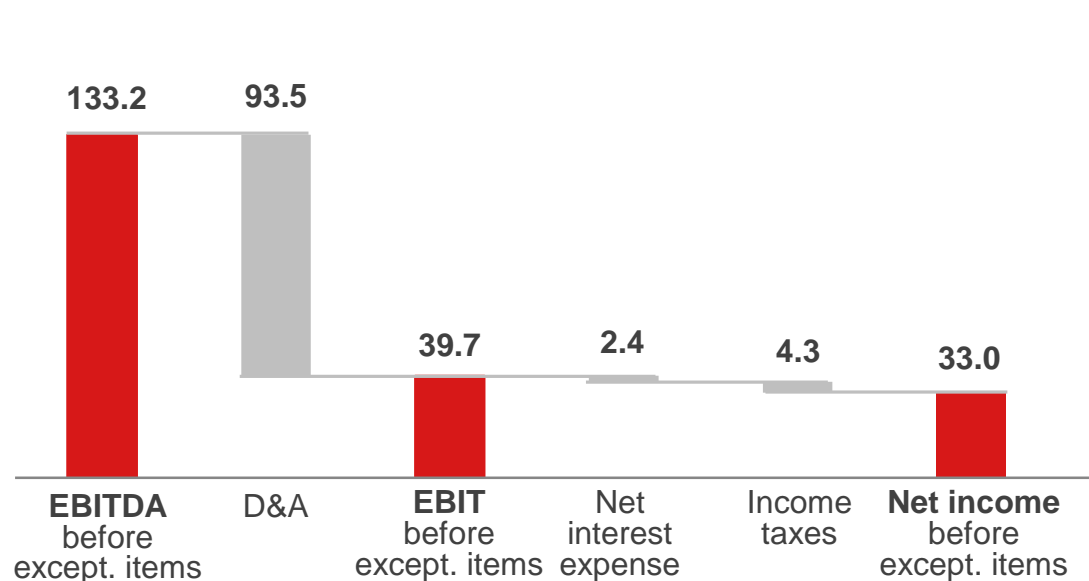
Dr Andreas Strecker | CFO



# Operating profit & net income

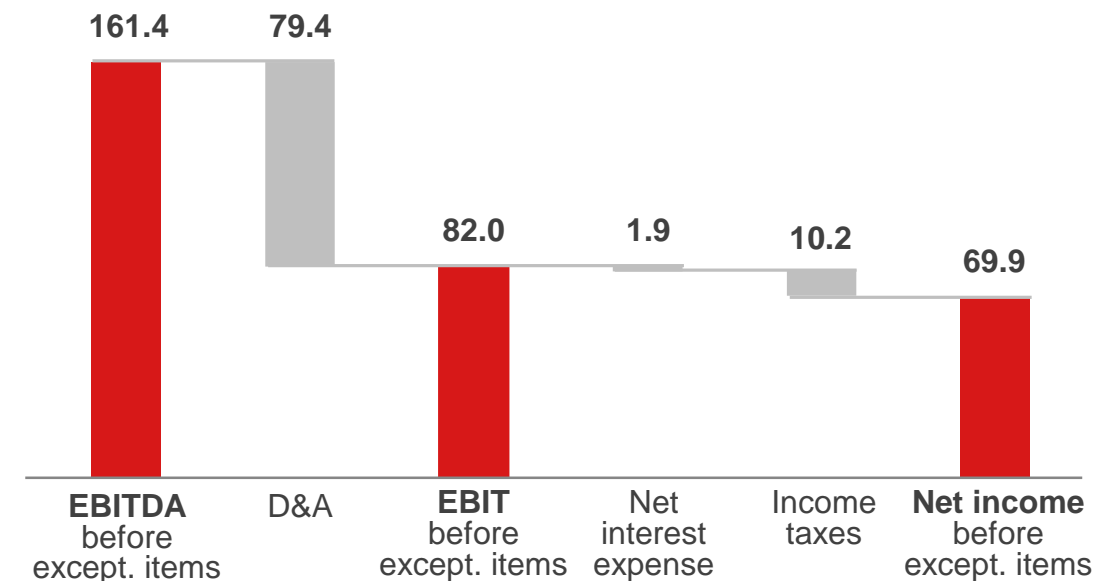
2017<sup>1)</sup>

€ million



2018

€ million

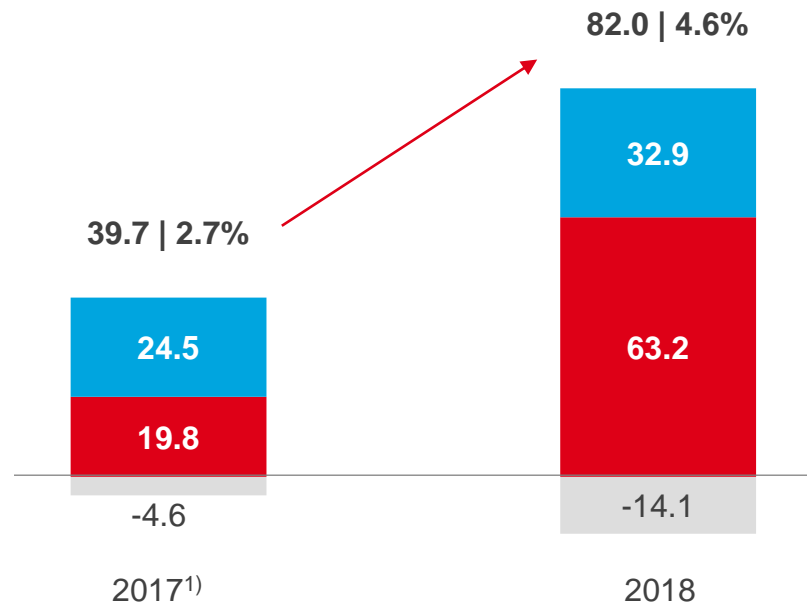


- Prior year result was inflated by exceptional items (€104.1 million before taxes) mainly attributable to property sale proceeds
- EBITDA (before exceptional items) increased by 21.2% and EBIT (before exceptional items) more than doubled
- Low interest expenses and tax rate

# EBIT (before exceptional items)

## EBIT & EBIT margin (before except. items)

€ million



■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

- Substantial improvement of profitability in DEUTZ Compact Engines segment driven by positive scale effects and efficiency gains
- EBIT increase in DEUTZ Customised Solutions segment due to higher business volume and service business with positive impact on margin
- Negative profit contribution from Other attributable to consolidation of Torqeedo

# DEUTZ Compact Engines<sup>1)</sup>

€ million	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
New orders	<b>1,638.2</b>	1,290.4	27.0
Unit sales (units)	<b>195,259</b>	151,671	28.7
Revenue	<b>1,484.0</b>	1,227.5	20.9
EBIT (before except. items)	<b>63.2</b>	19.8	219.2

€ million	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>Δ yoy</b> in %
New orders	<b>326.0</b>	321.1	1.5
Unit sales (units)	<b>54,225</b>	39,724	36.5
Revenue	<b>398.8</b>	319.9	24.7
EBIT (before except. items)	<b>35.0</b>	14.2	146.5

- Significant rise in new orders; book-to-bill ratio amounts to 1.10x
- Double-digit revenue growth in key applications with Material Handling (+41.9% yoy) clearly standing out. Also increases for Construction Equipment (+25.8% yoy) and Agricultural Equipment (+12.9% yoy). Service revenue increased by 4.5% yoy
- Substantial EBIT margin improvement to 4.3% (2017: 1.6%) due to operating leverage and efficiency gains
- Negative impact from exit of JV DEUTZ Dalian in the first half 2018 slightly outweighed by gains in Q4 2018



# DEUTZ Customised Solutions

€ million	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
New orders	<b>286.0</b>	261.3	9.5
Unit sales (units)	<b>9,259</b>	8,740	5.9
Revenue	<b>271.2</b>	247.9	9.4
EBIT (before except. items)	<b>32.9</b>	24.5	34.3

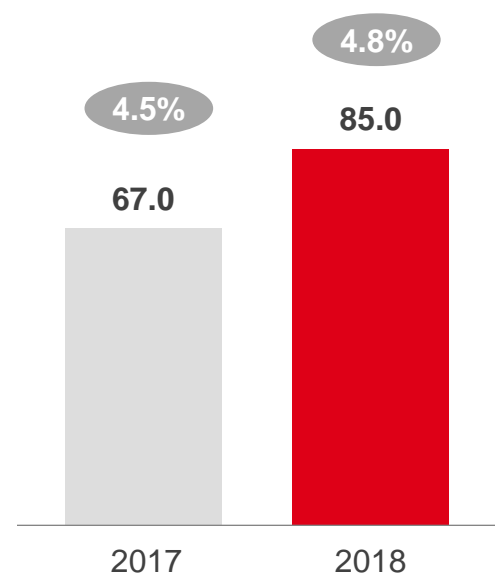
€ million	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>Change</b> in %
New orders	<b>70.7</b>	56.8	24.5
Unit sales (units)	<b>2,766</b>	2,408	14.9
Revenue	<b>79.4</b>	62.3	27.4
EBIT (before except. items)	<b>6.6</b>	2.6	153.8

- New orders increased year-on-year; book-to-bill ratio amounts to 1.05x
- Very good Q4 performance attributable to strong order book
- Service revenue grew by 10.1% yoy
- EBIT margin improvement to 12.1% (+220 bps) due to better product mix, profitable service business and efficiency gains

# R&D spending & capital expenditure

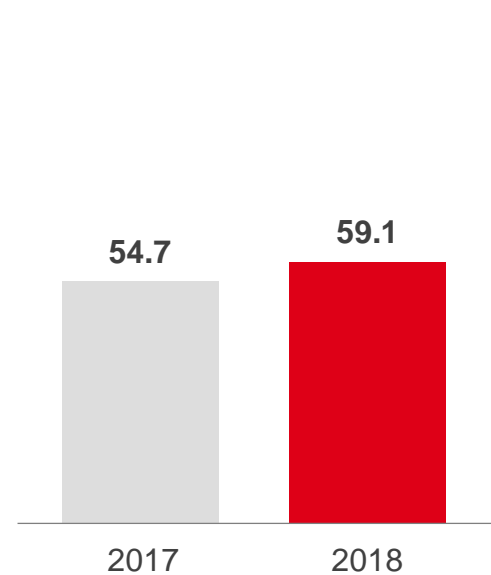
## R&D expenditure

€ million



## Capital expenditure (excl. R&D)

€ million



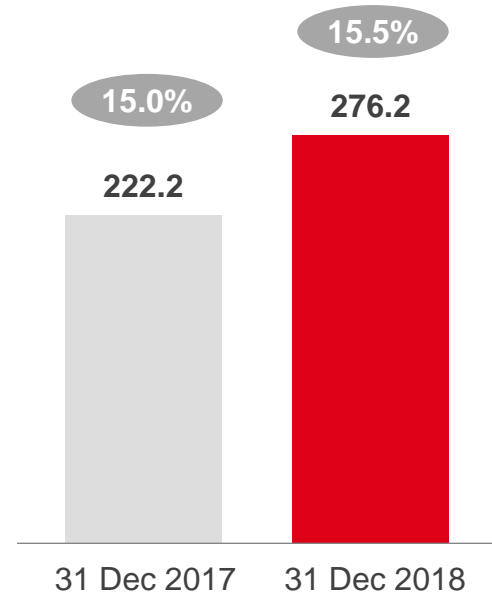
● Net R&D expenditure ratio<sup>1)</sup>

- Increase of R&D spending due to E-DEUTZ strategy and expansion of product range
- Proportion of net R&D expenditure capitalized: €21.0 million (2017: €17.5 million)

# Working capital & cash flow from operating activities

## Working capital

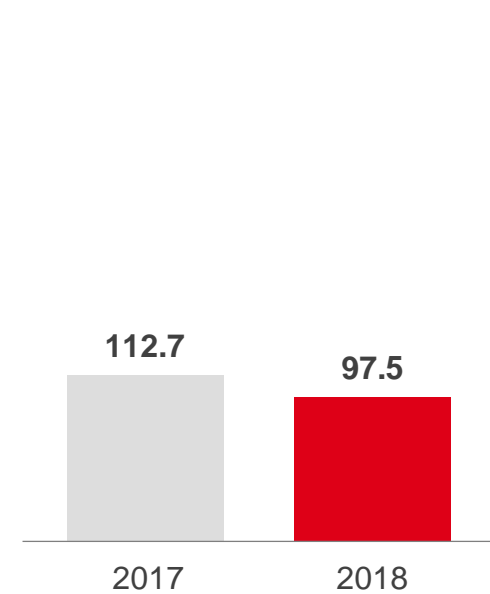
€ million



● Working capital ratio

## Cash flow from operating activities

€ million

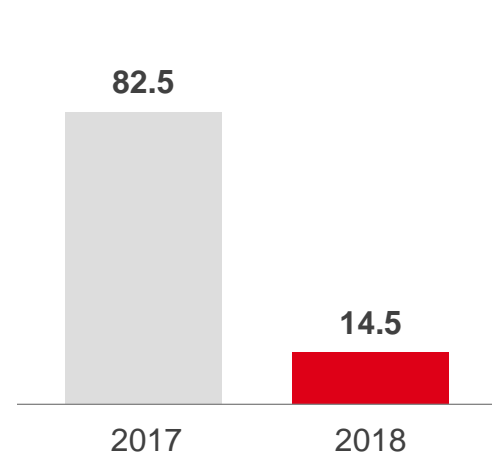


- Working capital increase due to higher business volume and inventory level
- Decline in cash flow from operating activities attributable to working capital increase

# Free cash flow & net financial position

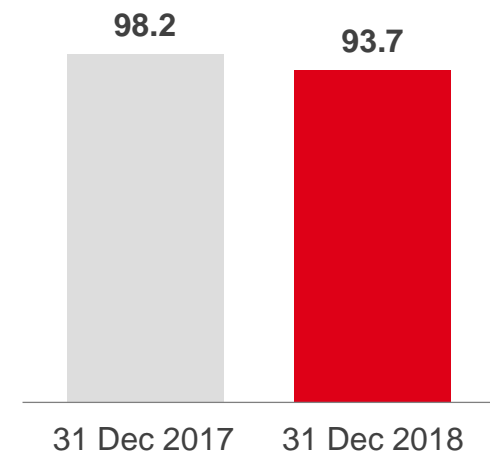
## Free cash flow<sup>1)</sup>

€ million



## Net financial position

€ million

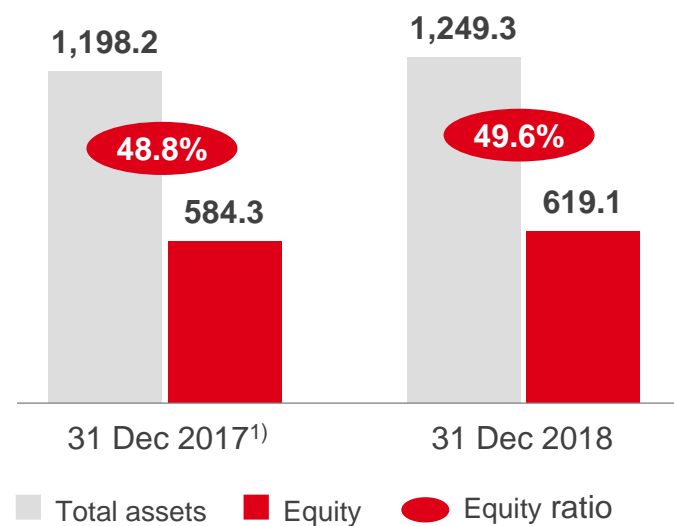


- FY 2017 free cash flow was inflated by disposal gains
- Positive net financial position

# Equity ratio & funding

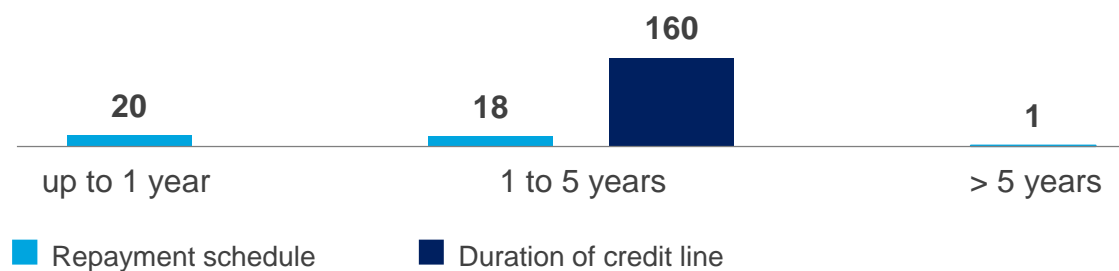
## Equity ratio

€ million



## Funding

€ million



- Equity ratio increased to 49.6%
- Medium- to long-term financing with undrawn facilities available:
  - Credit line of €160 million until June 2023
  - Loan from European Investment Bank (€25 million) repayable by July 2020

# Agenda



## Dividend proposal & outlook

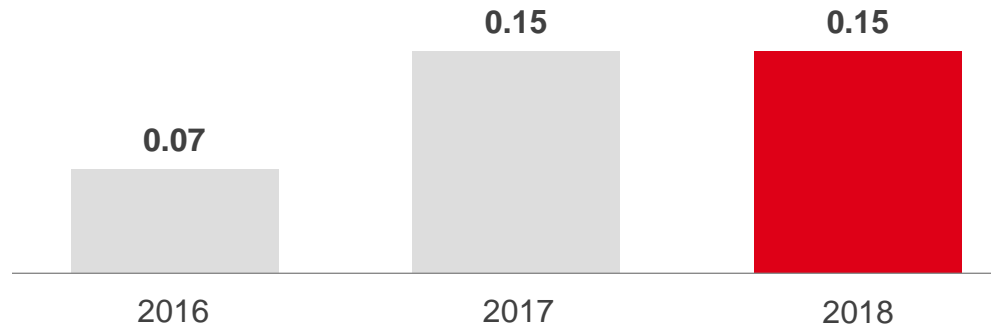


Dr Frank Hiller | CEO

# Dividend proposal

## Dividend per share

€



- Attractive dividend proposal – shareholders benefit from excellent operating performance
- In 2017, significant dividend increase due to exceptional income from property sale
- Payout ratio ~ 30% of net income over multi-year period

**Attractive dividend policy**

# Financial outlook 2019

€ million	FY 2018	FY 2019 guidance
Revenue	1,778.8	> 1,800
EBIT margin (before exceptional items)	4.6%	≥ 5.0%
R&D expenditure <sup>1)</sup>	85.0	85–90
Capex (excl. R&D) <sup>1)</sup>	59.1	85–95 <sup>2)</sup>

- Expected positive exceptional item in FY 2019: ~ €50 million on disposal of Cologne-Deutz site

Continuous improvement of EBIT margin (before except. items) to 7–8 % in 2022



# 2019 forecast for key end-customer markets

Unit sales (equipment)	Europe	North America	China
Construction Equipment	0% to +5%	0% to +5%	0% to +5%
Material Handling	0% to +5%	0% to +5%	+5% to +10%
Agricultural Machinery	0% to +5%	0% to +5%	-5% to -10%

Supportive market environment

# Annex

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# Summary of key financials

€ million	<b>FY 2018</b>	<b>FY 2017<sup>1)</sup></b>	<b>Δ yoy</b> in %
EBITDA (before exceptional items)	<b>161.4</b>	133.2	21.2
EBITDA margin (before exceptional items)	<b>9.1</b>	9.0	+10 bps
EBIT (before exceptional items)	<b>82.0</b>	39.7	106.5
EBIT margin (before exceptional items), %	<b>4.6</b>	2.7	+190 bps
Equity ratio (%)	<b>49.6</b>	48.8	+80 bps
Free cash flow <sup>2)</sup>	<b>14.5</b>	82.5	-82.4
Net financial position	<b>93.7</b>	98.2	-4.6
Working capital	<b>276.2</b>	222.2	24.3
Basic earnings per share (€)	<b>0.58</b>	0.98	-40.8
Basic earnings per share (€) (before exceptional items)	<b>0.58</b>	0.27	114.8
Dividend per share (€)	<b>0.15</b>	0.15	0.0
Number of employees (31 December)	<b>4,645</b>	4,154	11.8

# Income statement

€ million	<b>FY 2018</b>	<b>FY 2017<sup>1)</sup></b>	<b>Δ yoy</b> in %
<b>Revenue</b>	<b>1,778.8</b>	<b>1,479.1</b>	<b>20.3</b>
Cost of sales	-1,468.3	-1,222.9	20.1
Research & development costs	-92.0	-94.8	-3.0
Selling expenses	-96.4	-78.8	22.3
General & administrative expenses	-49.3	-41.5	18.8
Other operating income & expenses (net)	22.9	102.2	-77.6
Equity-accounted income & other financial income	-13.7	0.5	- -
<b>EBIT</b>	<b>82.0</b>	<b>143.8</b>	<b>-43.0</b>
<b>EBIT (before exceptional items)</b>	<b>82.0</b>	<b>39.7</b>	<b>106.5</b>
Interest expense, net	-1.9	-2.4	-20.8
Income taxes	-10.2	-22.9	-55.5
<b>Net income</b>	<b>69.9</b>	<b>118.5</b>	<b>-41.0</b>
<b>Net income (before exceptional items)</b>	<b>69.9</b>	<b>33.0</b>	<b>111.8</b>

# Balance sheet: assets

€ million	31 Dec 2018	31 Dec 2017 <sup>1)</sup>	Δ yoy in %
Non-current assets (before deferred tax assets)	506.2	519.3	-2.5
Deferred tax assets	75.9	69.2	9.7
Inventories	333.5	287.0	16.2
Trade receivables	157.3	142.7	10.2
Other receivables & assets	43.2	35.8	20.7
Cash & cash equivalents	132.8	143.8	-7.6
Non-current assets classified as held for sale	0.4	0.4	0.0
<b>Total assets</b>	<b>1,249.3</b>	<b>1,198.2</b>	<b>4.3</b>

# Balance sheet: equity & liabilities

€ million	31 Dec 2018	31 Dec 2017 <sup>1)</sup>	Δ yoy in %
<b>Equity</b>	<b>619.1</b>	<b>584.3</b>	<b>6.0</b>
Provisions for pensions & other post-retirement benefits	152.8	162.9	-6.2
Deferred tax liabilities	0.5	0.2	150.0
Other provisions	36.2	36.2	0.0
Financial liabilities	19.3	28.1	-31.3
Other liabilities	3.5	13.0	-73.1
<b>Non-current liabilities</b>	<b>212.3</b>	<b>240.4</b>	<b>-11.7</b>
Provisions for pensions & other post-retirement benefits	13.0	13.5	-3.7
Other provisions / Provisions for income taxes	83.3	76.7	8.6
Financial liabilities	19.8	17.5	13.1
Trade payables	214.6	207.5	3.4
Other liabilities	87.2	58.3	49.6
<b>Current liabilities</b>	<b>417.9</b>	<b>373.5</b>	<b>11.9</b>
<b>Total equity and liabilities</b>	<b>1,249.3</b>	<b>1,198.2</b>	<b>4.3</b>

# Cash flow statement (condensed)

€ million

	<b>FY 2018</b>	<b>FY 2017<sup>1)</sup></b>
EBIT	82.0	143.8
<b>Cash flow from operating activities (total)</b>	<b>97.5</b>	<b>112.7</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-90.1	-152.3
Proceeds from the sale of non-current assets	9.8	125.0
<b>Cash flow from investing activities (total)</b>	<b>-80.3</b>	<b>-27.3</b>
<b>Cash flow from financing activities</b>	<b>-28.2</b>	<b>-32.6</b>
<b>Change in cash and cash equivalents</b>	<b>-11.0</b>	<b>52.8</b>

# Overview of segments

<b>New orders</b> € million	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
DEUTZ Compact Engines	1,638.2	1,290.4	27.0
DEUTZ Customised Solutions	286.0	261.3	9.5
Other	31.6	4.8	>100
Consolidation	-3.2	0.0	--
<b>Total</b>	<b>1,952.6</b>	<b>1,556.5</b>	<b>25.4</b>

<b>Unit sales</b> Units	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
DEUTZ Compact Engines	195,259	151,671	28.7
DEUTZ Customised Solutions	9,259	8,740	5.9
Other	10,258	1,235	>100
Consolidation	0	0	--
<b>Total</b>	<b>214,776</b>	<b>161,646</b>	<b>32.9</b>

<b>Revenue</b> € million	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
DEUTZ Compact Engines	1,484.0	1,227.5	20.9
DEUTZ Customised Solutions	271.2	247.9	9.4
Other	26.8	3.7	>100
Consolidation	-3.2	0.0	--
<b>Total</b>	<b>1,778.8</b>	<b>1,479.1</b>	<b>20.3</b>

<b>EBIT (before except. items)</b> € million	<b>FY 2018</b>	<b>FY 2017</b>	<b>Δ yoy</b> in %
DEUTZ Compact Engines	63.2	19.8	219.2
DEUTZ Customised Solutions	32.9	24.5	34.3
Other	-14.1	-4.6	206.5
Consolidation	0.0	0.0	--
<b>Total</b>	<b>82.0</b>	<b>39.7</b>	<b>106.5</b>



# Financial calendar & contact

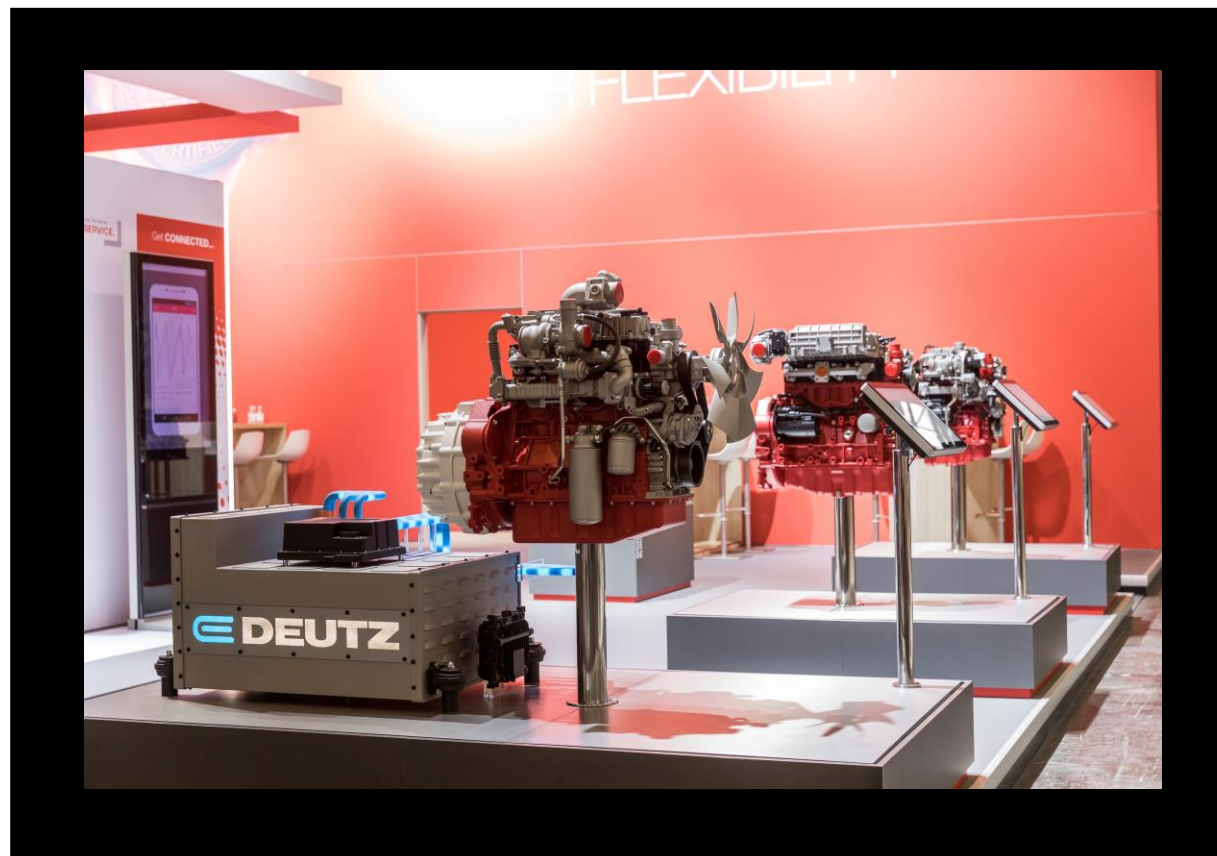
## Financial calendar

Annual general meeting	30 April 2019
Q1 2019 results	7 May 2019
H1 2019 results	1 August 2019
Capital markets day	September 2019

## Contact

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# Questions & answers

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**Thank you for  
your attention!**

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