

## **Q1-Q3 2016 results**

8 November 2016

Dr Helmut Leube, CEO

Dr Margarete Haase, CFO

The engine company.



- **Review Q1-Q3 2016**

- **Outlook**

- **Annex**

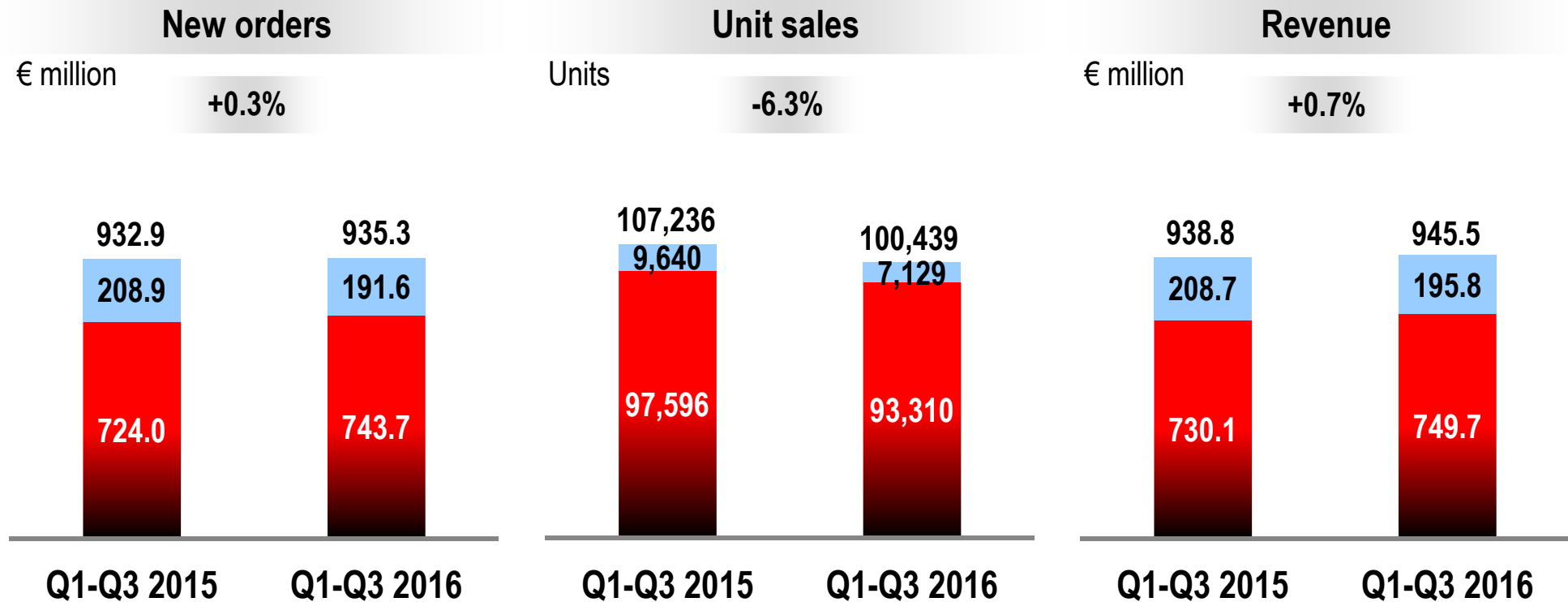
# Key figures

€ million	Q1-Q3 2016	yoy	Q3 2016	yoy
<b>New orders</b>	935.3	+0.3%	258.1	-1.6%
<b>Revenue</b>	945.5	+0.7%	301.1	+12.1%
<b>EBITDA</b>	87.9	+2.7%	21.0	+38.2%
<b>EBIT</b>	19.7	+€9.1 million	-1.0	+€8.7 million
<b>Net income</b>	18.8	+€11.5 million	-1.2	+€8.2 million
<b>Free cash flow</b>	-28.0	-€18.5 million	-10.8	+€24.9 million

# Highlights

- Q1-Q3 2016 result in-line with expectations
  - Operating profit improvement due to of efficiency gains and better product mix
  - Site optimisation measures on track
  
- Positive new business development
  - DEUTZ opens first Power Center in the United States to strengthen distribution
  - Sany equips new wheel loader model with DEUTZ TCD 7.8 engine
  - DEUTZ will supply Terex with exchange engines for aerial work platforms in the United States
  
- Key aspects of strategic alliance with Liebherr agreed
  - From 2019 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
  - The use of DEUTZ engines in Liebherr equipment is also to be expanded
  
- New CEO appointed
  - Dr Frank Hiller to succeed Dr Helmut Leube as Chairman of the Board of Management on 1 January 2017

# Sales figures

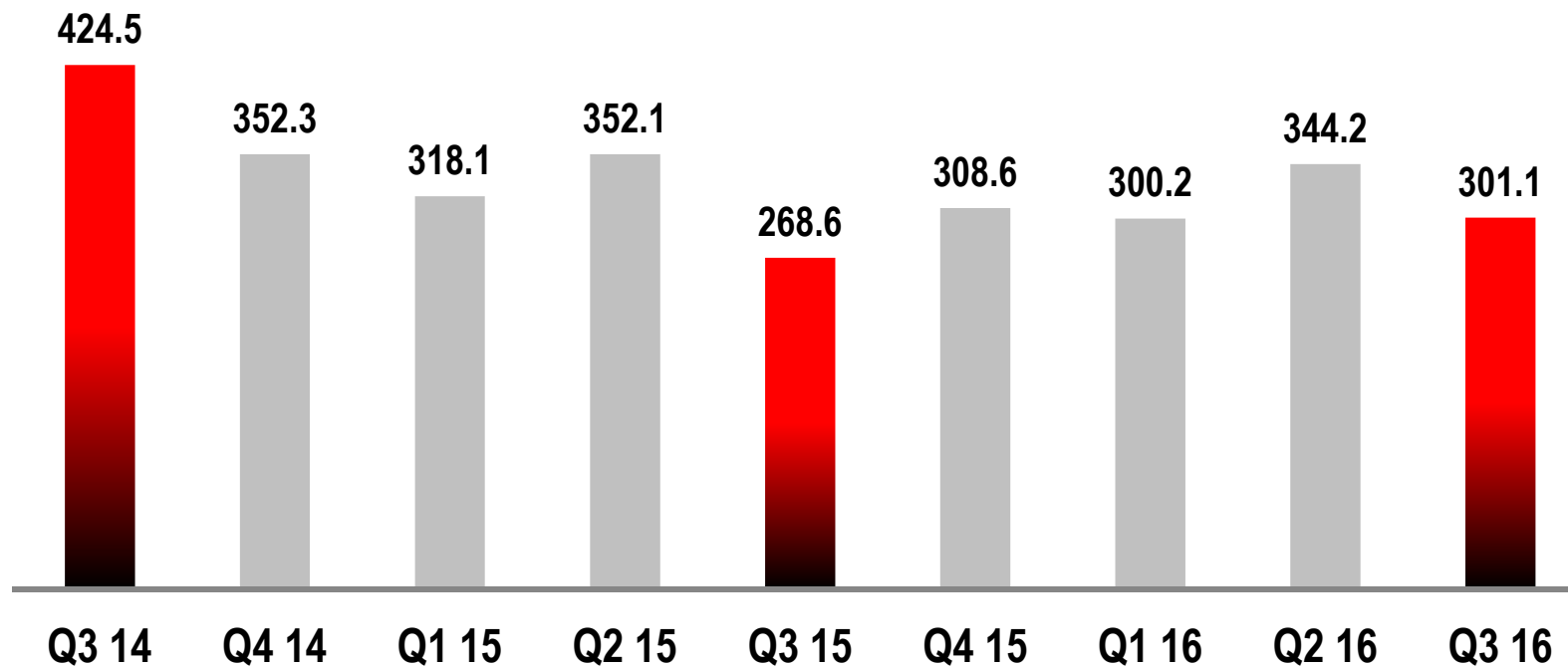


- New orders and revenue at previous year's level
- Revenue development better than unit sales as a result of positive price mix effects and license proceeds realised in Q1 2016

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

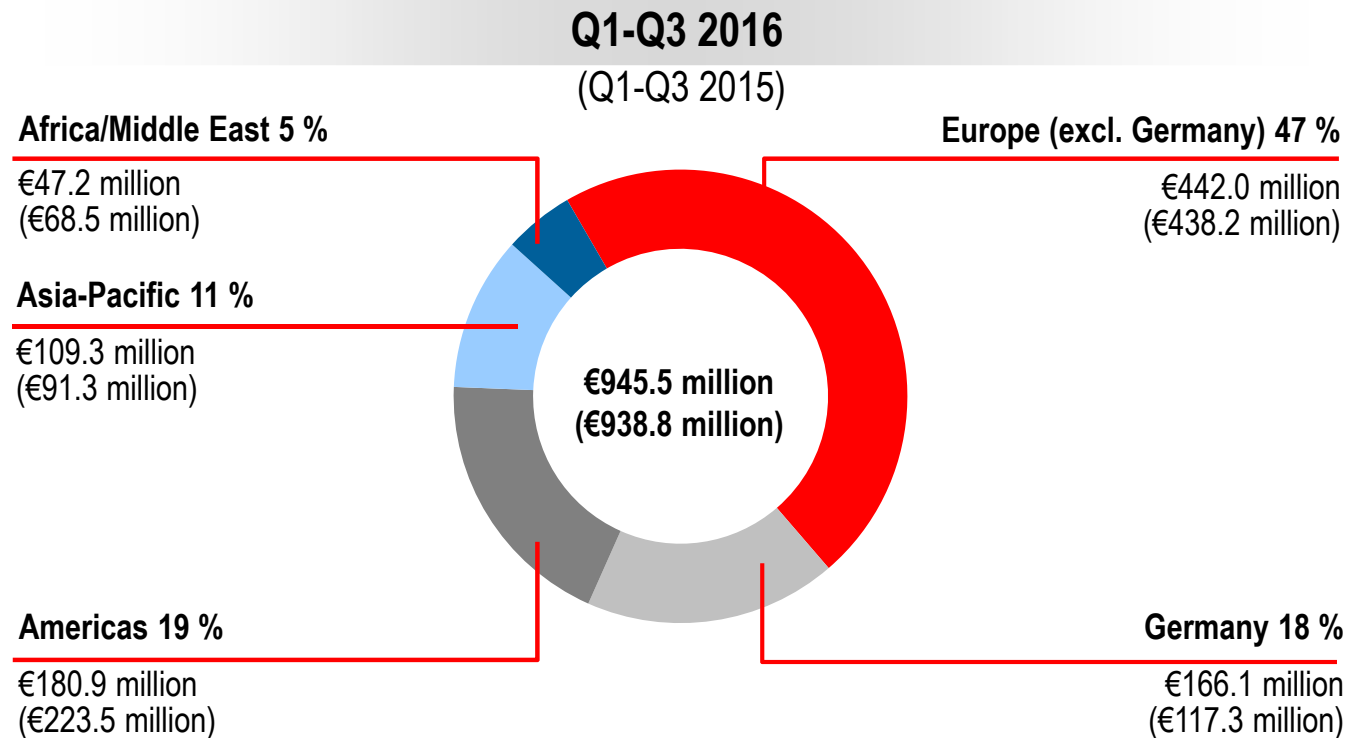
# Revenue by quarter

€ million



- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- Q3 revenue in 2016 and 2015 affected by holiday shutdown

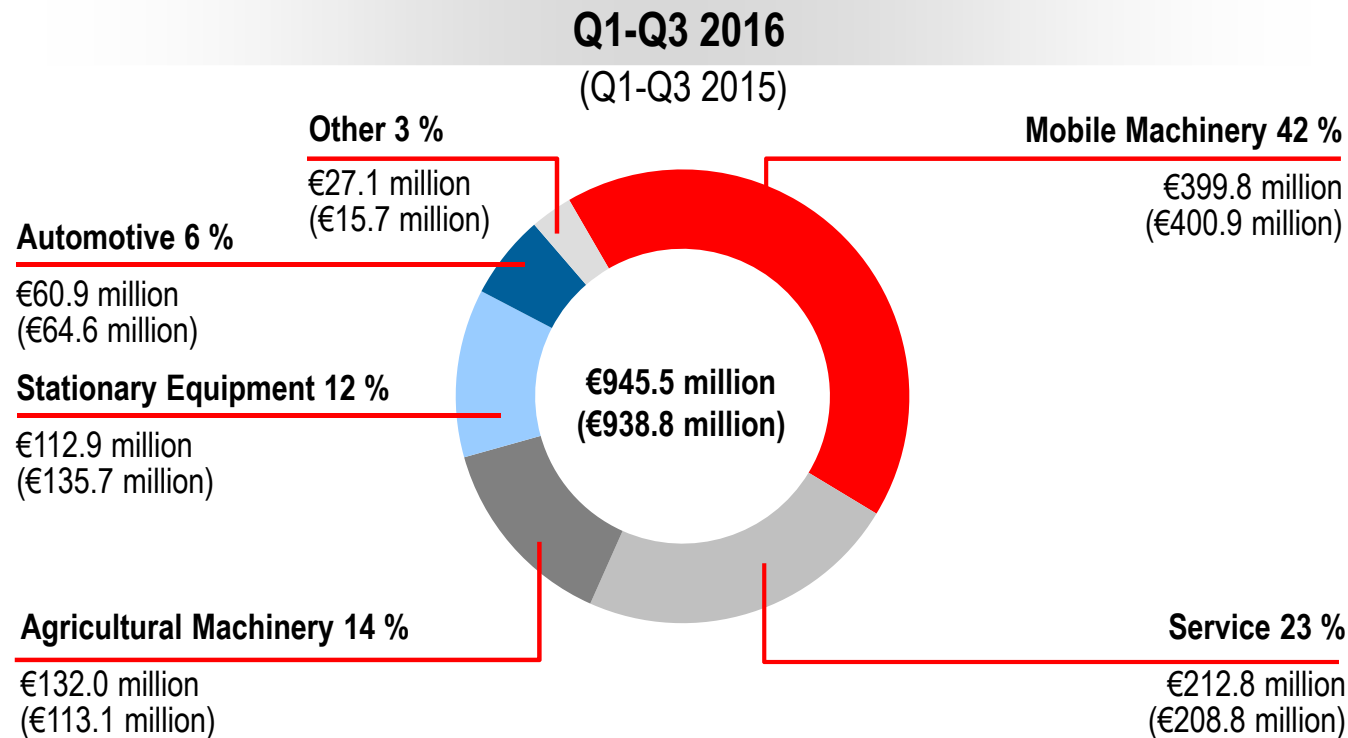
# Revenue split by region



- Growth in Asia-Pacific (+19.7%) driven by new customer gains; EMEA increased by +5.0%
- Revenue decline in Americas (-19.1%) reflects lower investment spending of rental companies
- Pro-forma revenue<sup>(1)</sup> including equity-accounted Chinese JV DEUTZ Dalian: €1,184.0 million (-1.9%); corresponding revenue share of Asia-Pacific amounts to 29%

(1) Considering 100% of JV revenue

# Revenue split by application

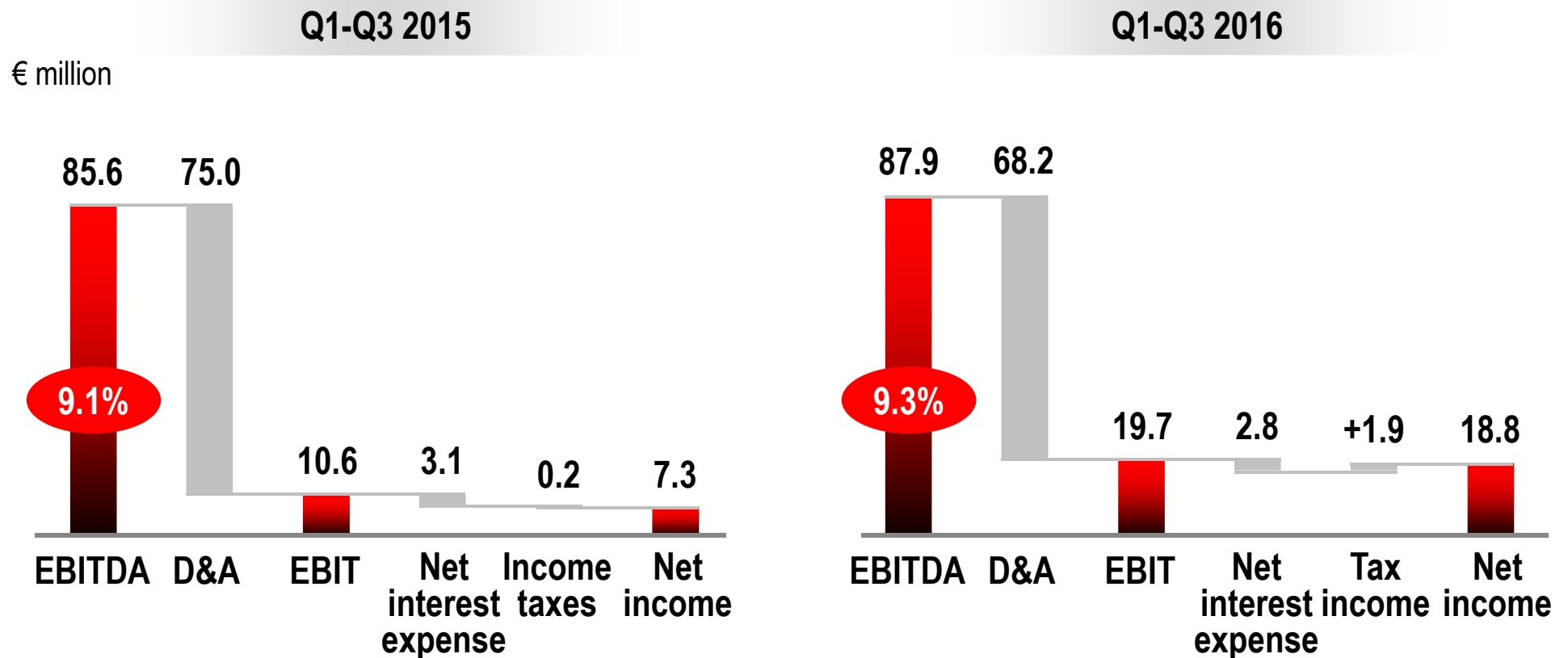


- Largest application Mobile Machinery stable (-0.3%), continuous growth of Service revenues (+1.9%)
- Recovery at Agricultural Machinery (+16.7%), decline in Stationary Equipment (-16.8%)
- Pro-forma Automotive revenue<sup>(1)</sup> incl. equity-accounted JV DEUTZ Dalian: €267.0 million (corresponding revenue share amounts to 23%)

(1) Considering 100% of JV revenue



# Operating profit & net income

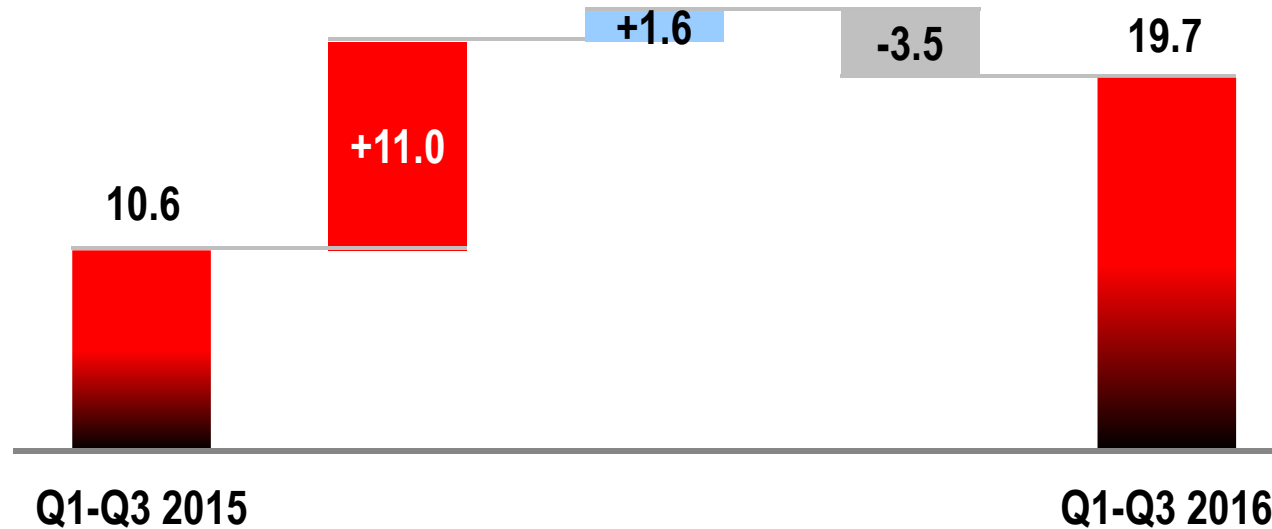


- EBITDA margin improved slightly despite lower unit sales
- Operating profit supported by licence proceeds (€5.5 million) in Q1 2016 and lower depreciation
- Current tax expense more than offset by deferred tax income
- Significant increase in net income (+€11.5 million)

**xx.x%** EBITDA margin

# EBIT

€ million



EBIT margin

1.1%

2.1%

- EBIT improvement at DEUTZ Compact Engines on the back of lower production costs and better product mix
- Operating profit at DEUTZ Customised Solutions ahead of previous year's level despite decrease in unit sales
- Result at Segment Other was supported by unrealised FX-Effects in the previous year

 DEUTZ Compact Engines  DEUTZ Customised Solutions  Other

## Segment: DEUTZ Compact Engines

€ million	<b>Q1-Q3 2016</b>	Q1-Q3 2015	Change in %
New orders	<b>743.7</b>	724.0	2.7
Unit sales	<b>93,310</b>	97,596	-4.4
Revenue	<b>749.7</b>	730.1	2.7
EBIT	<b>-5.9</b>	-16.9	65.1

€ million	<b>Q3 2016</b>	Q3 2015	Change in %
New orders	<b>199.2</b>	194.0	2.7
Unit sales	<b>28,503</b>	26,243	8.6
Revenue	<b>237.2</b>	201.8	17.5
EBIT	<b>-7.8</b>	-23.4	66.7

- Q1-Q3 revenue increased 2.7% year-on-year despite lower unit sales
- Revenue improvement at Agricultural Machinery (+17.7% yoy); Service revenue increased by 3.2% yoy
- Q3 operating profit impacted by holiday shutdown
- Q1-Q3 2016 EBIT improvement due to lower production costs and higher share of new emission engines

## Segment: DEUTZ Customised Solutions

€ million	<b>Q1-Q3 2016</b>	Q1-Q3 2015	Change in %
New orders	<b>191.6</b>	208.9	-8.3
Unit sales	<b>7,129</b>	9,640	-26.0
Revenue	<b>195.8</b>	208.7	-6.2
EBIT	<b>27.6</b>	26.0	6.2

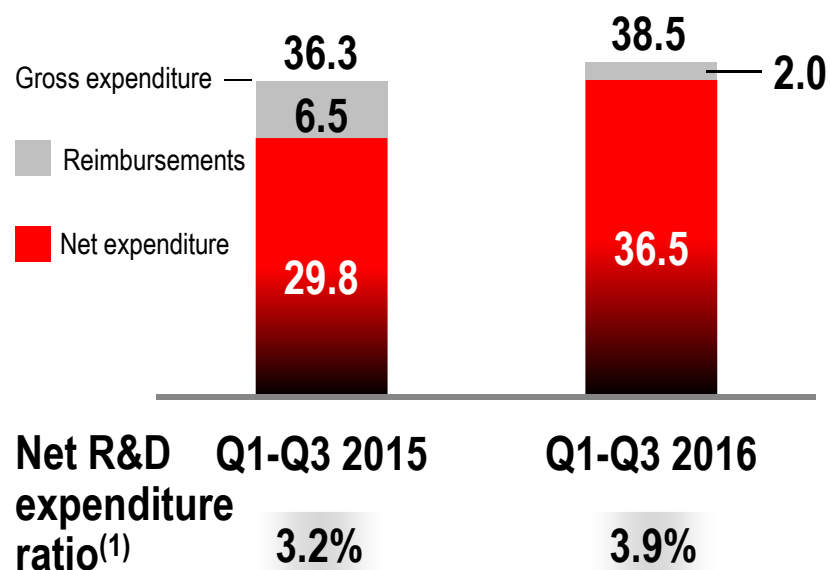
€ million	<b>Q3 2016</b>	Q3 2015	Change in %
New orders	<b>58.9</b>	68.2	-13.6
Unit sales	<b>2,230</b>	2,873	-22.4
Revenue	<b>63.9</b>	66.8	-4.3
EBIT	<b>6.2</b>	8.7	-28.7

- Unit sales decline largely attributable to Mobile Machinery (-31.9% yoy) and Stationary Equipment (-31.5% yoy)
- Revenue share of service business amounts to 45.3%
- Operating profit benefitted from licence proceeds of €5.5 million in Q1 2016

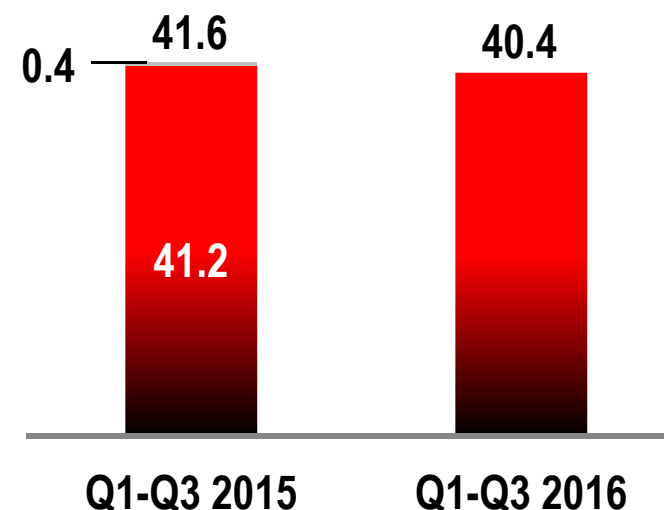
# R&D & capital expenditure

## R&D expenditure

€ million



## Capital expenditure (excl. R&D)



- R&D expenditure remains at moderate level according to our guidance
- Proportion of capitalised net R&D expenditure: €5.3 million (Q1-Q3 2015: €9.4 million)

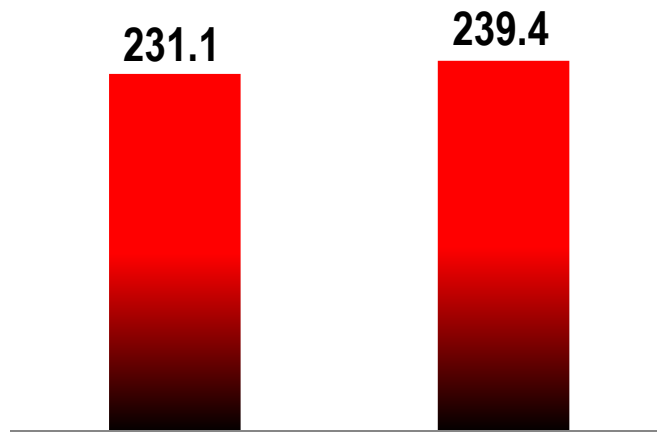
- Capital expenditure in line with budget

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

# Working capital & operating cash flow

## Working capital

€ million



Working capital ratio (30 Sep)	Q1-Q3 2015	Q1-Q3 2016
	17.9%	19.1%

- Working capital increased by €8.3 million

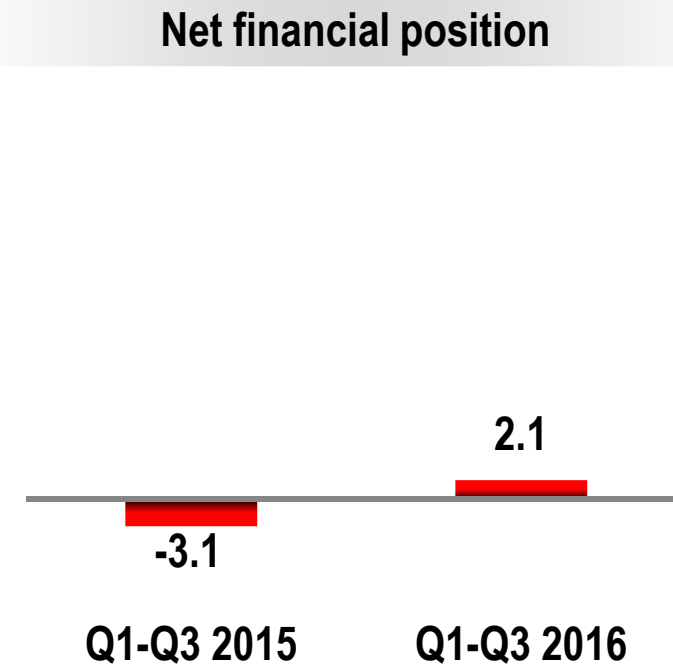
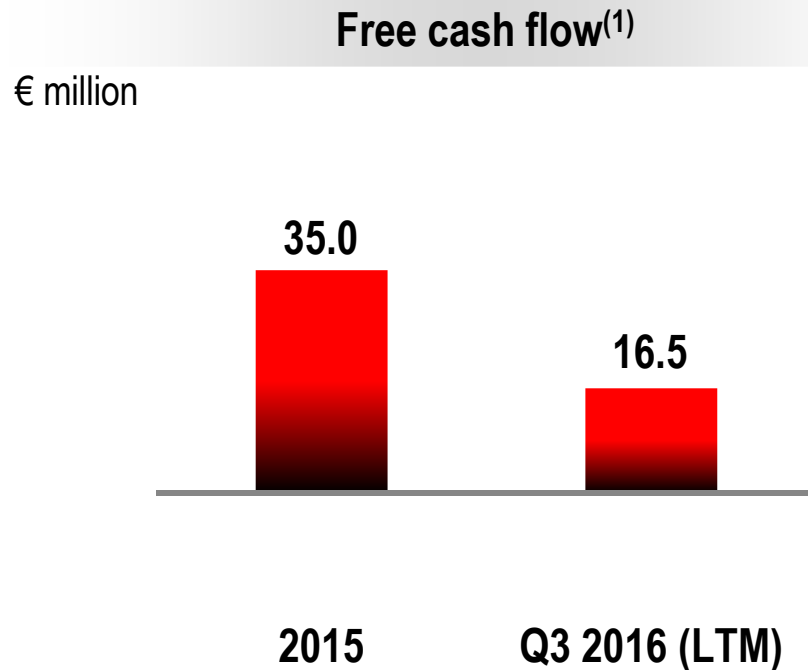
## Operating cash flow



Period	Operating cash flow (€ million)
Q1-Q3 2015	43.6
Q1-Q3 2016	22.3

- Operating cash flow decline mainly attributable to higher working capital increase

# Free cash flow generation & net financial position

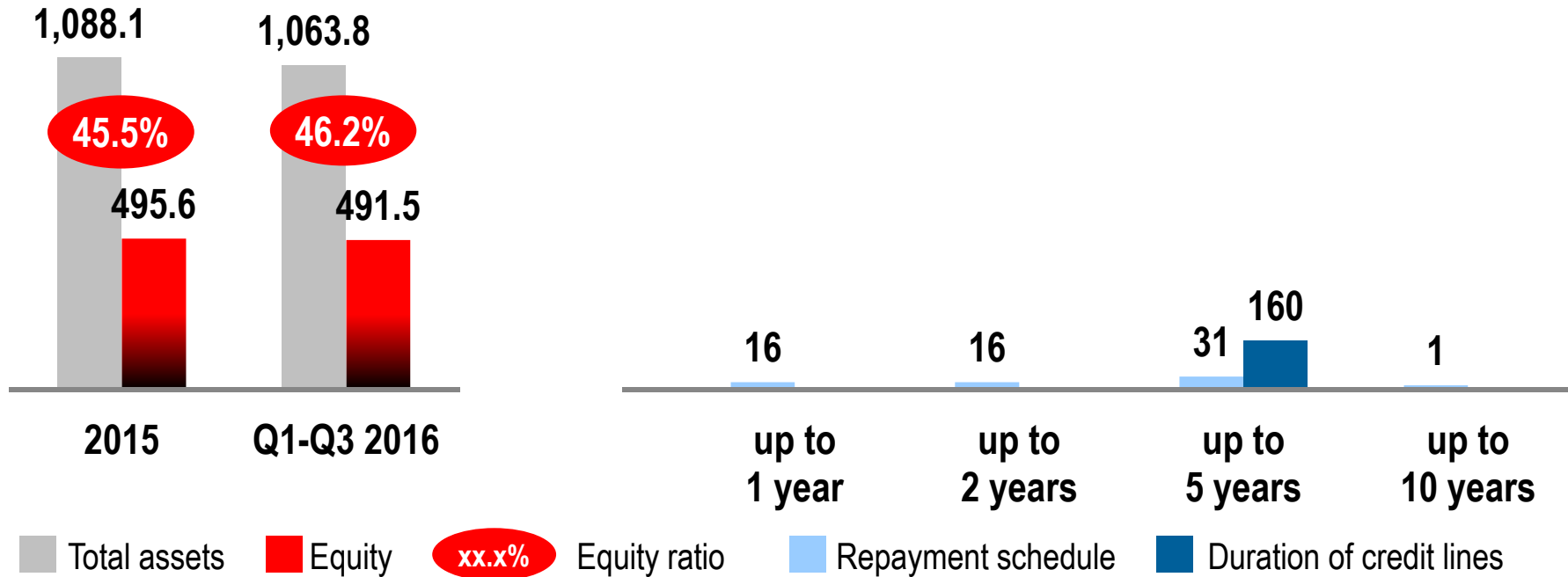


- Last twelve months free cash flow below FY 2015 level as a result of lower operating cash flow
- Net financial position slightly positive

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

# Equity ratio & funding

€ million



- Healthy balance sheet; equity ratio increased to 46.2%
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line until May 2020
  - Loan from European Investment Bank repayable until July 2020



# Summary

Closer cooperation with Liebherr planned

New customer business attracted

Site optimisation measures on track

Margin improvement due to lower production costs

Significant increase in net income

Balance sheet remained strong



# Agenda

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# Market assessment

	2016
Unit sales (equipment) <sup>(1)</sup>	
<b>Construction equipment Europe</b>	0% to +5% (previous: -5% to +5%)
<b>Construction equipment North America</b>	-5% to 0%
<b>Construction equipment China</b>	-15% to -10% (previous: -20% to -10%)
<b>Agricultural Machinery Europe</b>	-5% to 0%
<b>Automotive China<sup>(2)</sup></b>	+5% to +10% (previous: -5% to +5%)

- Initial assessment for 2017: European end markets expected to move sideways. Major US rental companies remain reluctant to invest in new equipment. Cautiously optimistic for Chinese automotive and construction market

(1) Numbers refer to end markets. DEUTZ business may differ due advance production of engines

(2) Automotive China refers to Medium & Light Duty Trucks

# Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
<b>Revenue</b>	1,247.4	stagnant or slight increase
<b>EBIT margin</b>	0.4%	moderate increase
<b>R&amp;D expenditure<sup>(1)</sup></b>	40.8	slightly above 50
<b>Capex (excl. R&amp;D)<sup>(1)</sup></b>	56.2	approx. 55

(1) Net of reimbursements

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# Summary of key financials (I)

€ million	Q1-Q3 2016	Q1-Q3 2015	Change (%)
Revenue	945.5	938.8	0.7
EBITDA	87.9	85.6	2.7
EBIT	19.7	10.6	85.8
EBIT margin (%)	2.1	1.1	--
Net income	18.8	7.3	>100
Basic earnings per share (€)	0.16	0.07	>100
Number of employees (30 September)	3,695	3,755	-1.6

## Summary of key financials (II)

€ million	Q1-Q3 2016	Q1-Q3 2015	Change (%)
Total assets	1,063.8	1,087.2	-2.2
Equity	491.5	500.9	-1.9
Equity ratio (%)	46.2	46.1	--
Cash flow from operating activities	22.3	43.6	-48.9
Free cash flow <sup>(1)</sup>	-28.0	-9.5	<-100
Net financial position	2.1	-3.1	--
Working capital	239.4	231.1	3.6

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

# Income statement

€ million	Q1-Q3 2016	Q1-Q3 2015	Change (%)
<b>Revenue</b>	<b>945.5</b>	<b>938.8</b>	<b>0.7</b>
Cost of sales	-775.6	-792.4	-2.1
Research and development costs	-58.8	-53.4	10.1
Selling expenses	-51.9	-52.1	-0.4
General and administrative expenses	-26.2	-26.8	-2.2
Other operating income	10.6	19.1	-44.5
Other operating expenses	-20.8	-19.2	8.3
Profit/loss on equity-accounted investments	-3.1	-3.4	-8.8
<b>EBIT</b>	<b>19.7</b>	<b>10.6</b>	<b>85.8</b>
Interest expense, net	-2.8	-3.1	-9.7
<b>Net income before income taxes</b>	<b>16.9</b>	<b>7.5</b>	<b>&gt;100</b>
Income taxes	1.9	-0.2	--
<b>Net income</b>	<b>18.8</b>	<b>7.3</b>	<b>&gt;100</b>



## Balance sheet: assets

€ million	30 Sep 2016	31 Dec 2015	Change (%)
Non-current assets (before deferred tax assets)	490.0	520.5	-5.9
Deferred tax assets	84.6	69.1	22.4
Inventories	278.4	251.9	10.5
Trade receivables	112.9	101.2	11.6
Other receivables and assets	30.7	32.5	-5.5
Cash and cash equivalents	65.0	112.5	-42.2
Non-current assets classified as held for sale	2.2	0.4	>100
<b>Total assets</b>	<b>1,063.8</b>	<b>1,088.1</b>	<b>-2.2</b>

# Balance sheet: equity and liabilities

€ million	30 Sep 2016	31 Dec 2015	Change (%)
<b>Equity</b>	<b>491.5</b>	<b>495.6</b>	<b>-0.8</b>
Provisions for pensions and other post-retirement benefits	182.2	172.3	5.7
Deferred tax liabilities	0.6	0.0	>100
Other provisions	43.8	46.7	-6.2
Financial liabilities	47.0	58.6	-19.8
Other liabilities	2.9	3.2	-9.4
<b>Non-current liabilities</b>	<b>276.5</b>	<b>280.8</b>	<b>-1.5</b>
Provisions for pensions and other post-retirement benefits	14.2	14.3	-0.7
Other provisions / Provisions for income taxes	70.8	67.2	5.4
Financial liabilities	15.9	14.9	6.7
Trade payables	151.9	169.5	-10.4
Other liabilities	43.0	45.8	-6.1
<b>Current liabilities</b>	<b>295.8</b>	<b>311.7</b>	<b>-5.1</b>
<b>Total equity and liabilities</b>	<b>1,063.8</b>	<b>1,088.1</b>	<b>-2.2</b>

# Cash flow statement (condensed)

€ million	Q1-Q3 2016	Q1-Q3 2015
EBIT	19.7	10.6
<b>Cash flow from operating activities (total)</b>	<b>22.3</b>	<b>43.6</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-47.6	-50.9
Proceeds from the sale of non-current assets	0.1	0.9
<b>Cash flow from investing activities (total)</b>	<b>-47.5</b>	<b>-50.0</b>
<b>Cash flow from financing activities</b>	<b>-22.2</b>	<b>-22.6</b>
<b>Change in cash and cash equivalents</b>	<b>-47.4</b>	<b>-29.0</b>

# Overview of segments, Q1-Q3 2016

	Q1-Q3 2016	Q1-Q3 2015	Change (%)
<b>New orders (€ million)</b>			
DEUTZ Compact Engines	743.7	724.0	2.7
DEUTZ Customised Solutions	191.6	208.9	-8.3
<b>Total for operating activities</b>	<b>935.3</b>	<b>932.9</b>	<b>0.3</b>

	Q1-Q3 2016	Q1-Q3 2015	Change (%)
<b>Revenue (€ million)</b>			
DEUTZ Compact Engines	749.7	730.1	2.7
DEUTZ Customised Solutions	195.8	208.7	-6.2
<b>Total for operating activities</b>	<b>945.5</b>	<b>938.8</b>	<b>0.7</b>

	Q1-Q3 2016	Q1-Q3 2015	Change (%)
<b>Unit sales</b>			
DEUTZ Compact Engines	93,310	97,596	-4.4
DEUTZ Customised Solutions	7,129	9,640	-26.0
<b>Total for operating activities</b>	<b>100,439</b>	<b>107,236</b>	<b>-6.3</b>

	Q1-Q3 2016	Q1-Q3 2015	Change (%)
<b>EBIT before one-off items (€ million)</b>			
DEUTZ Compact Engines	-5.9	-16.9	65.1
DEUTZ Customised Solutions	27.6	26.0	6.2
Other	-2.0	1.5	--
<b>Total for operating activities</b>	<b>19.7</b>	<b>10.6</b>	<b>85.8</b>

# Overview of segments, Q3 2016

	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>Change (%)</b>
<b>New orders (€ million)</b>			
DEUTZ Compact Engines	199.2	194.0	2.7
DEUTZ Customised Solutions	58.9	68.2	-13.6
<b>Total for operating activities</b>	<b>258.1</b>	<b>262.2</b>	<b>-1.6</b>

	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>Change (%)</b>
<b>Revenue (€ million)</b>			
DEUTZ Compact Engines	237.2	201.8	17.5
DEUTZ Customised Solutions	63.9	66.8	-4.3
<b>Total for operating activities</b>	<b>301.1</b>	<b>268.6</b>	<b>12.1</b>

	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>Change (%)</b>
<b>Unit sales</b>			
DEUTZ Compact Engines	28,503	26,243	8.6
DEUTZ Customised Solutions	2,230	2,873	-22.4
<b>Total for operating activities</b>	<b>30,733</b>	<b>29,116</b>	<b>5.6</b>

	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>Change (%)</b>
<b>EBIT before one-off items (€ million)</b>			
DEUTZ Compact Engines	-7.8	-23.4	66.7
DEUTZ Customised Solutions	6.2	8.7	-28.7
Other	0.6	5.0	-88.0
<b>Total for operating activities</b>	<b>-1.0</b>	<b>-9.7</b>	<b>89.7</b>

# Employees

	<b>30 Sep 2016</b>	<b>30 Sep 2015</b>	<b>Change (%)</b>
Cologne	2,212	2,298	-3.7
Ulm	414	405	2.2
Other German operations	219	234	-6.4
<b>Germany</b>	<b>2,845</b>	<b>2,937</b>	<b>-3.1</b>
Foreign operations	850	818	3.9
<b>DEUTZ Group</b>	<b>3,695</b>	<b>3,755</b>	<b>-1.6</b>

# Financial calendar & contact details

- Annual report FY 2016 16 March 2017
  - Annual general meeting 4 May 2017
  - Q1 2017 result 9 May 2017
  - H1 2017 result 3 August 2017
  - Q1-Q3 2017 result 7 November 2017
- 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](mailto:krupp.c@deutz.com)  
[www.deutz.com](http://www.deutz.com)

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