

Financial year 2016

16 March 2017

Dr Frank Hiller, CEO

Dr Margarete Haase, CFO

The engine company.



Agenda

- **Review FY 2016**

- **Outlook**

- **Annex**

Key figures

€ million	FY 2016	yoy	Q4 2016	yoy
New orders	1,261.4	+2.9 %	326.1	+11.3 %
Revenue	1,260.2	+1.0 %	314.7	+2.0 %
EBITDA	114.2	+1.8 %	26.3	-1.1 %
EBIT	23.4	+€18.5 million	3.7	+€9.4 million
Net income	16.0	+€12.5 million	-2.8	+€1.0 million
Free cash flow	4.7	-€30.3 million	32.7	-€11.8 million

→ FY 2016 revenue and operating profit improvement in line with our guidance

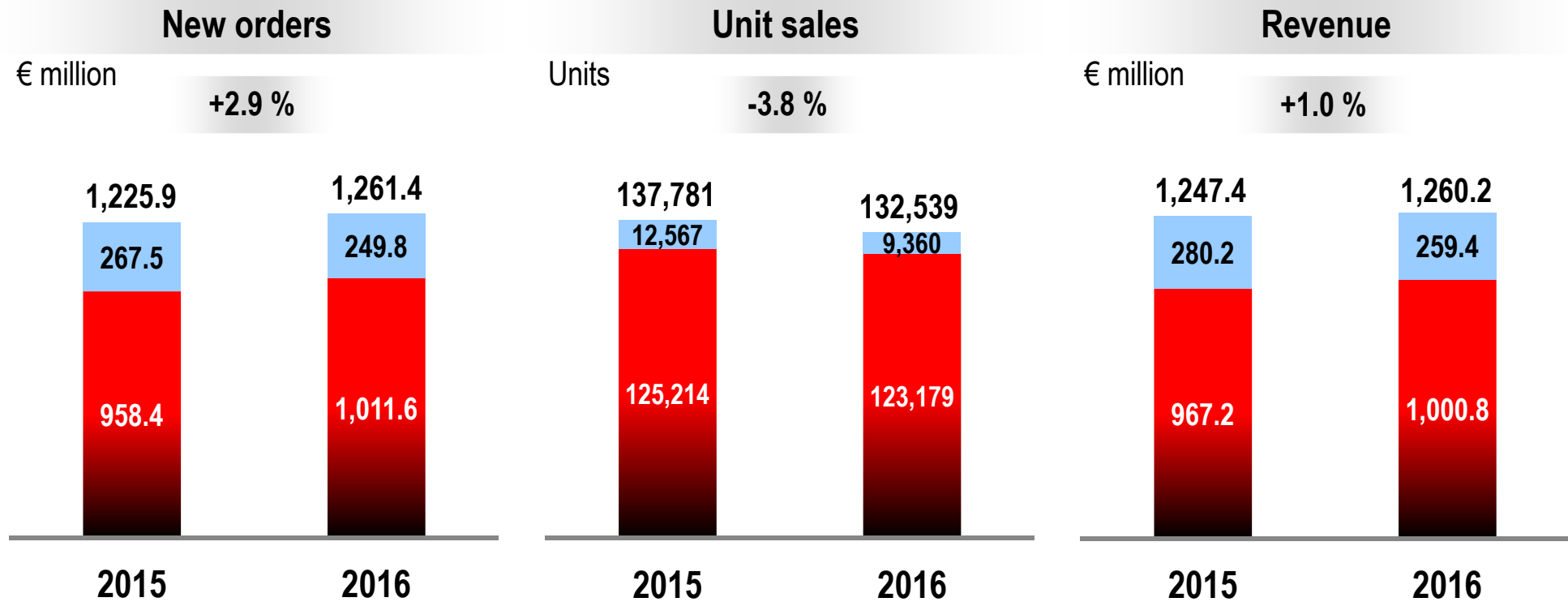
Highlights

- FY 2016 financial guidance accomplished
 - Revenue increased slightly in a challenging capital goods market environment
 - EBIT margin uplift supported by lower production cost, reduced depreciation and licence proceeds

- Site optimisation far advanced
 - Measures in Cologne completed; relocation to Ulm to be finalised mid 2017
 - Efficiency gains of approx. €10 million p.a. from 2017 onwards (higher with better capacity utilisation)
 - Substantial proceeds from sale of property expected in the near-term

- Expansion of product range in 2019
 - New TCD 2.2, TCD 5.0 and gas versions (LPG) to complement the product range
 - DEUTZ branded engines supplied by Liebherr planned to extend upper range product offering
 - New products received positive customer feedback at trade fairs

Sales figures

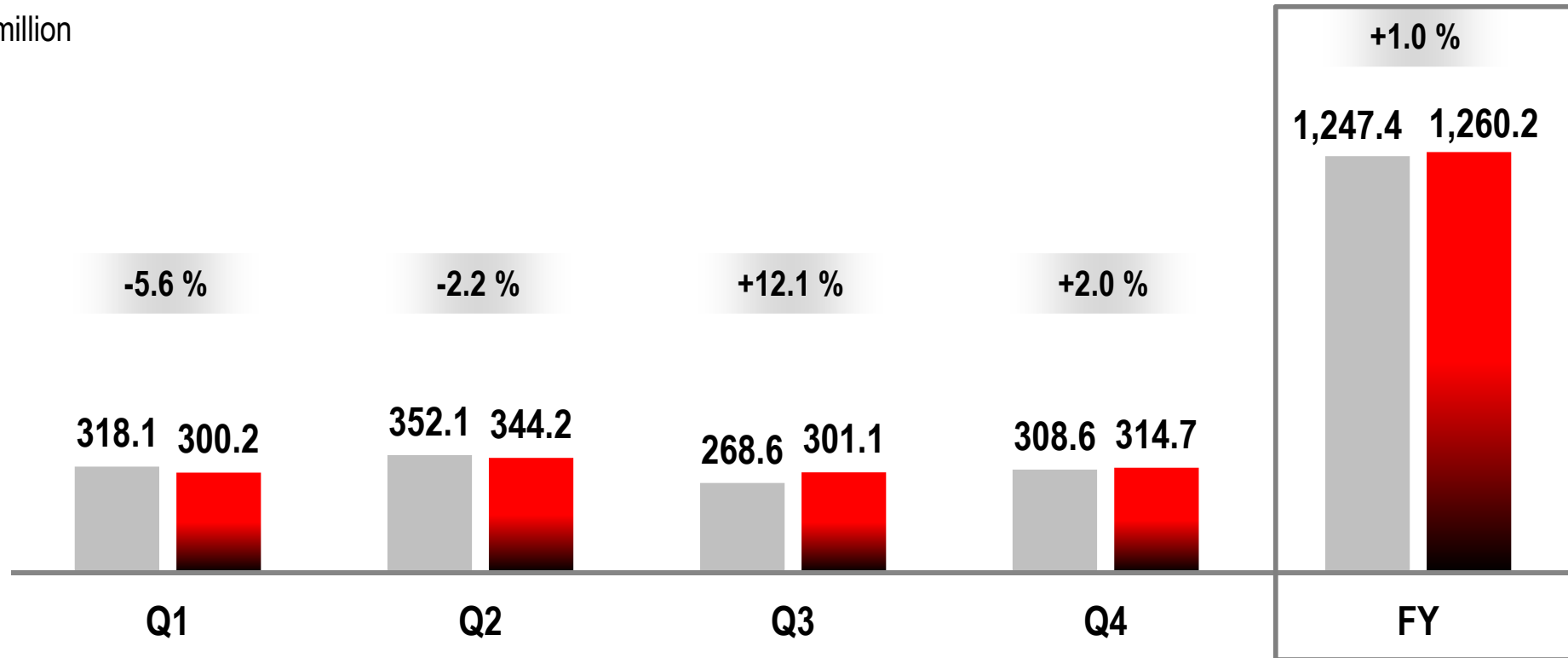


- Positive price mix effects due to new emission engines
- Book-to-bill ratio at 1.0x

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

Revenue development

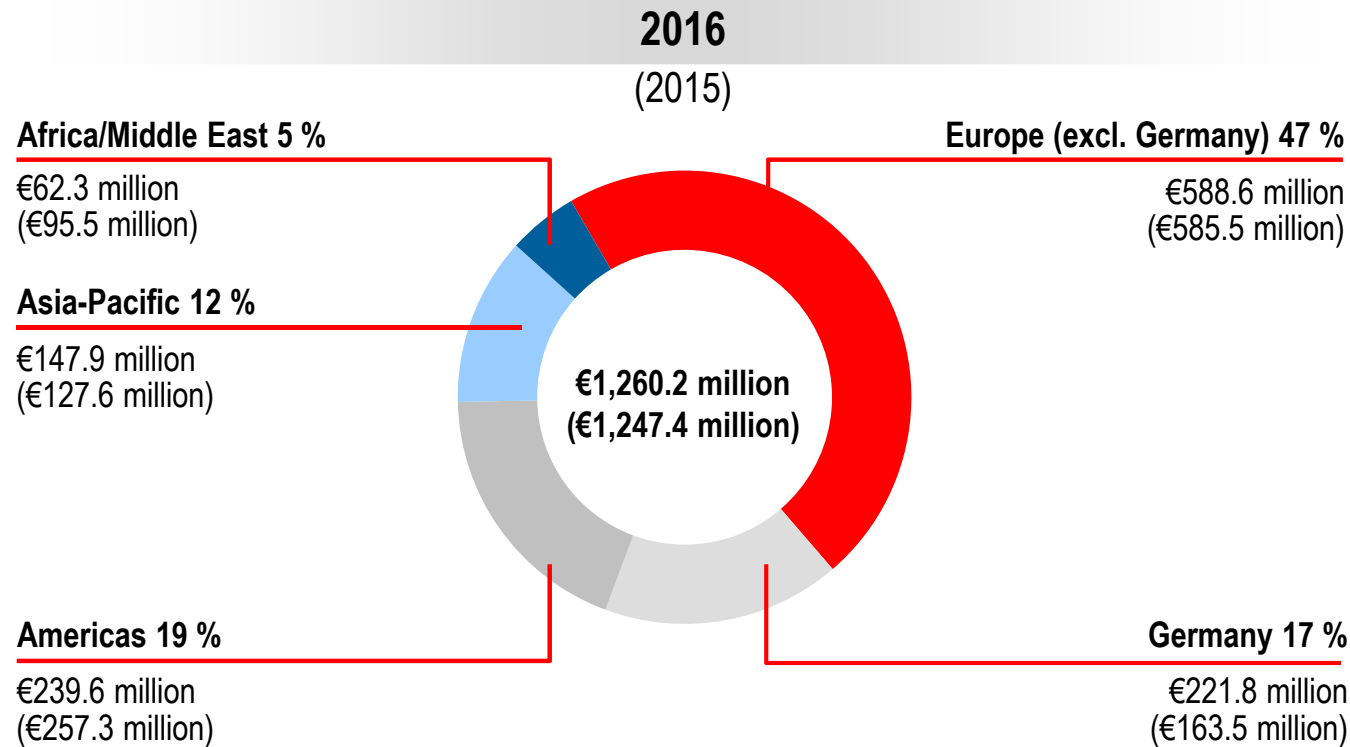
€ million



- Revenue improved over previous year in H2 2016
- Q4 2016 revenue advanced 2.0 % yoy and 4.5 % qoq

■ 2015 ■ 2016

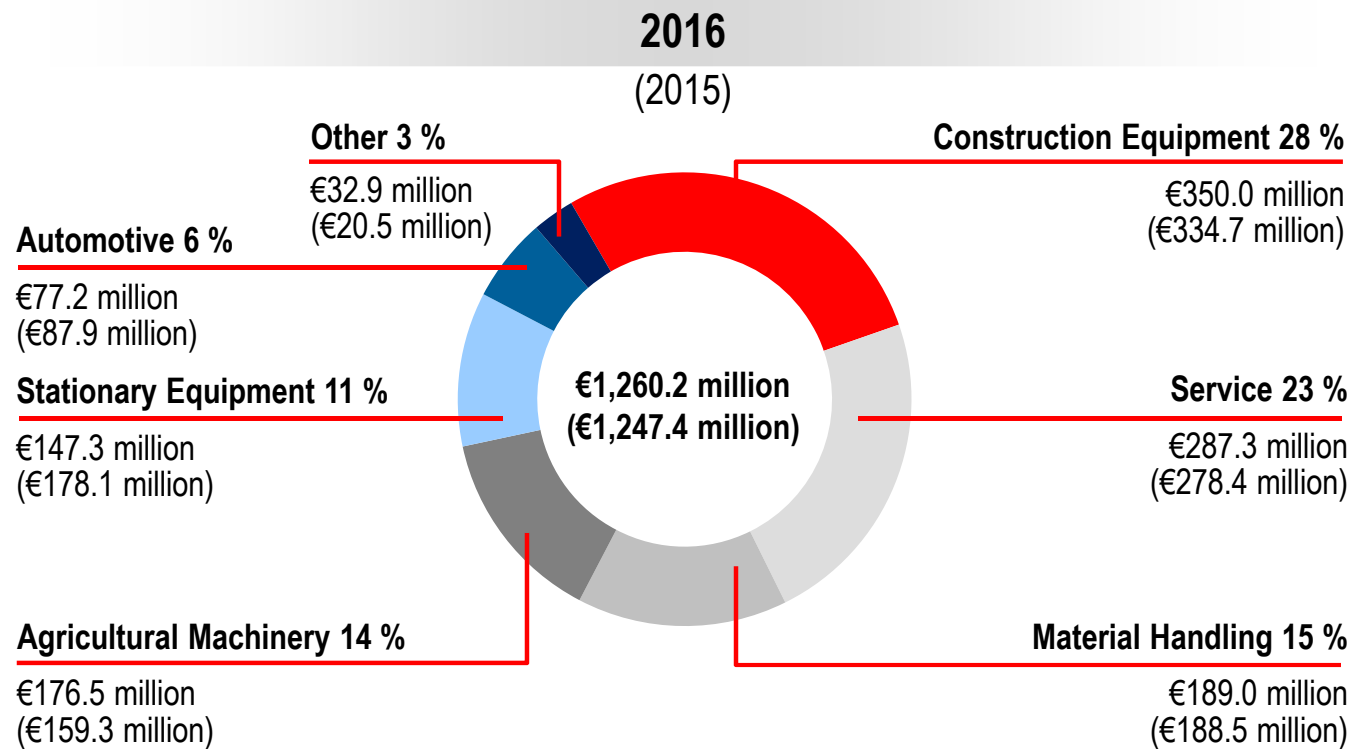
Revenue split by region



- 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⁽¹⁾ 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

Revenue split by application

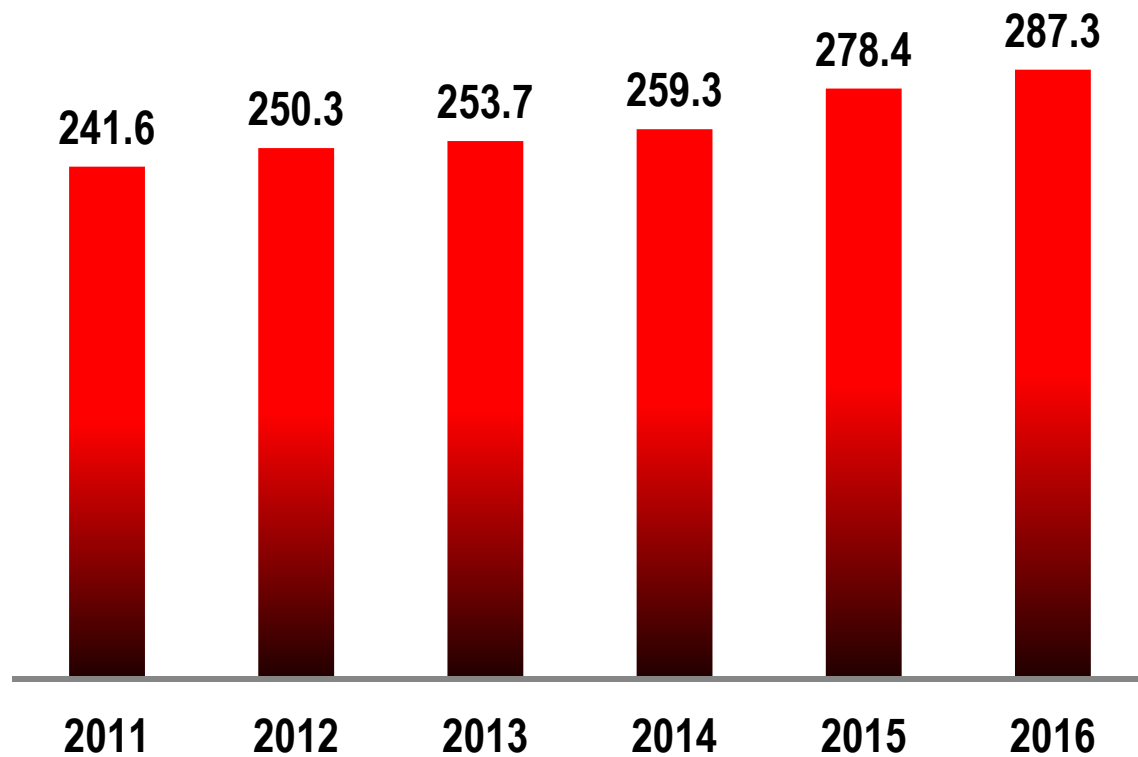


- Former Mobile Machinery application reported as Construction Equipment and Material Handling in the future
- Pro-forma Automotive revenue⁽¹⁾ incl. equity-accounted JV DEUTZ Dalian: €340.2 million (corresponding revenue share amounts to 22 %)

(1) Considering 100% of JV revenue

Service business

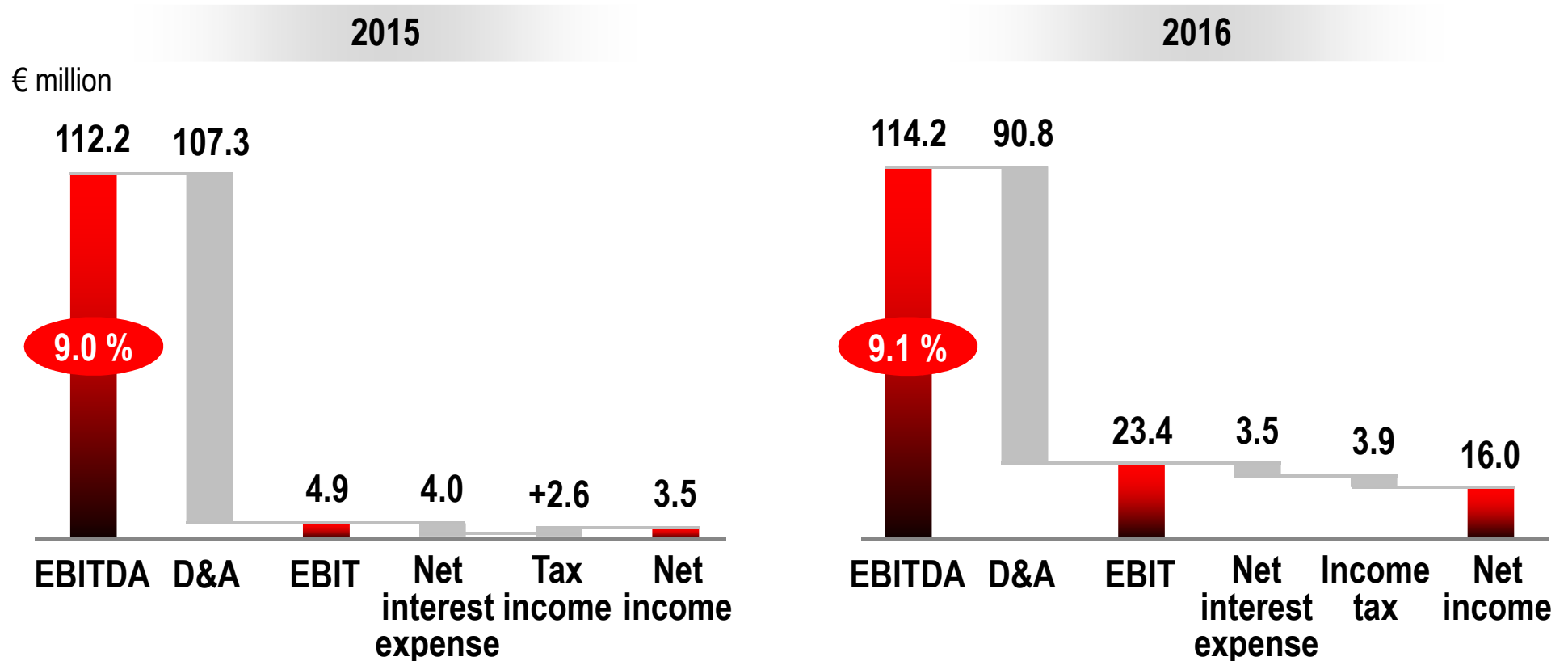
€ million



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

➔ Continuous growth of service revenue

Operating profit & net income

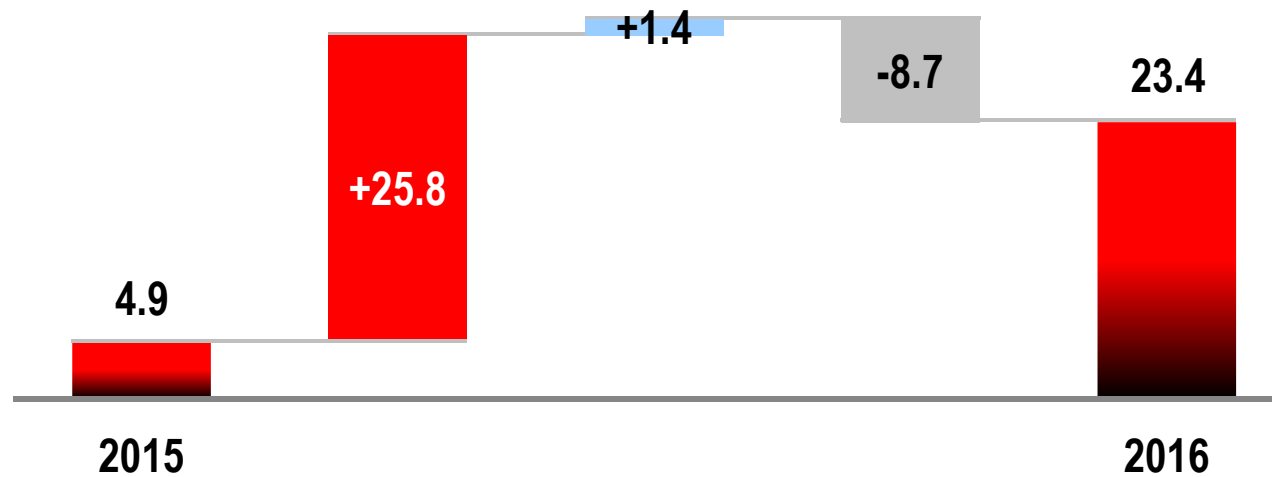


- Slight increase of EBITDA margin despite lower unit sales
- EBIT improvement supported by lower depreciation
- Continued low tax rate
- Net income increased significantly (+€12.5 million)

EBITDA margin

EBIT

€ million



EBIT margin

0.4 %

1.9 %

- Operating profit increase driven by segment DEUTZ Compact Engines
- EBIT at DEUTZ Customised Solutions improved slightly despite lower business volume
- Prior year result at segment Other was inflated by a positive Joint Venture valuation effect

 DEUTZ Compact Engines  DEUTZ Customised Solutions  Other

Segment: DEUTZ Compact Engines

€ million	2016	2015	Change in %
New orders	1,011.6	958.4	5.6
Unit sales	123,179	125,214	-1.6
Revenue	1,000.8	967.2	3.5
EBIT	-6.1	-31.9	80.9

€ million	Q4 2016	Q4 2015	Change in %
New orders	267.9	234.4	14.3
Unit sales	29,869	27,618	8.2
Revenue	251.1	237.1	5.9
EBIT	-0.2	-15.0	98.7

- Strong revenue growth at Agricultural Machinery (+11.8 % yoy) and Construction Equipment (+9.8 % yoy). Service business advanced 4.2 % yoy
- Revenue of equity-accounted Chinese Joint Venture DEUTZ Dalian decreased by 10.8 % yoy to €303.0 million (-5.7 % yoy in local currency)
- Substantial EBIT improvement (+€25.8 million yoy) mainly due to cost improvements and better product mix

Segment: DEUTZ Customised Solutions

€ million	2016	2015	Change in %
New orders	249.8	267.5	-6.6
Unit sales	9,360	12,567	-25.5
Revenue	259.4	280.2	-7.4
EBIT	32.7	31.3	4.5

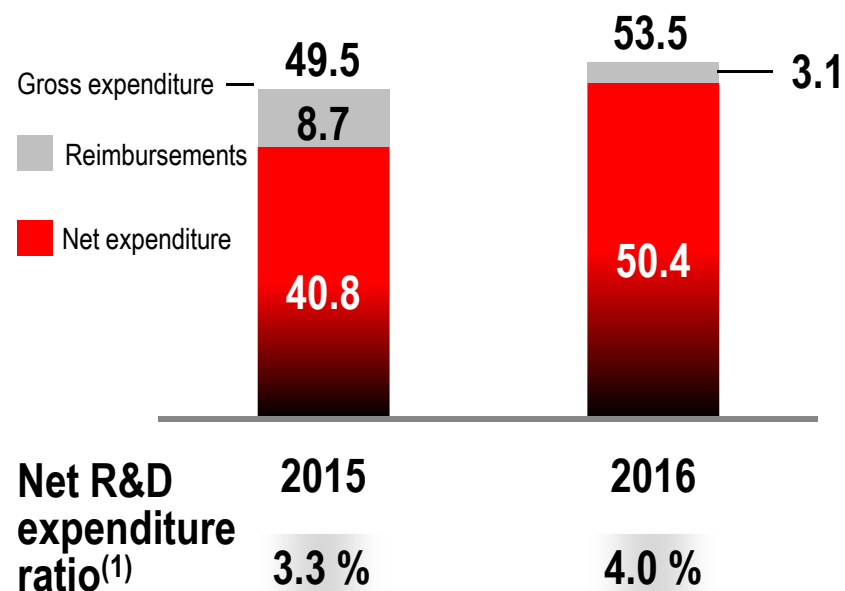
€ million	Q4 2016	Q4 2015	Change in %
New orders	58.2	58.6	-0.7
Unit sales	2,231	2,927	-23.8
Revenue	63.6	71.5	-11.0
EBIT	5.1	5.3	-3.8

- Unit sales decline mainly due to Stationary (-33.4 % yoy) and Construction Equipment (-29.3 % yoy)
- Revenue share of profitable Service business increased to 46.2 % (FY 2015: 42.0 %)
- EBIT increase attributable to licence proceeds (€5.5 million)

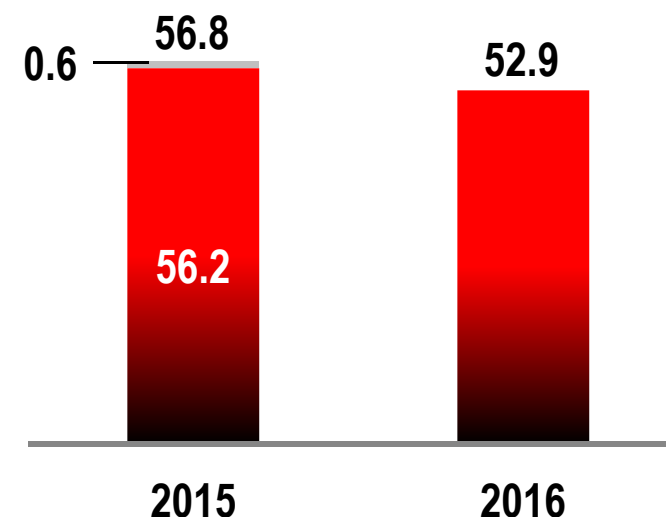
R&D & capital expenditure

R&D expenditure

€ million



Capital expenditure (excl. R&D)



- Net R&D expenditure in line with our guidance (slightly above €50 million)
- Proportion of capitalised net R&D expenditure: €9.1 million (2015: €13.0 million)

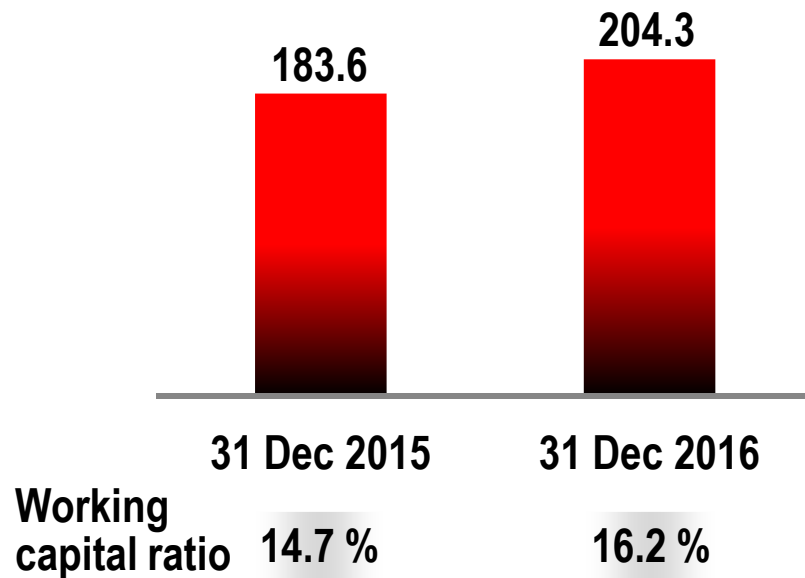
- Capital expenditure decreased (guidance approx. €55 million)

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

Working capital & operating cash flow

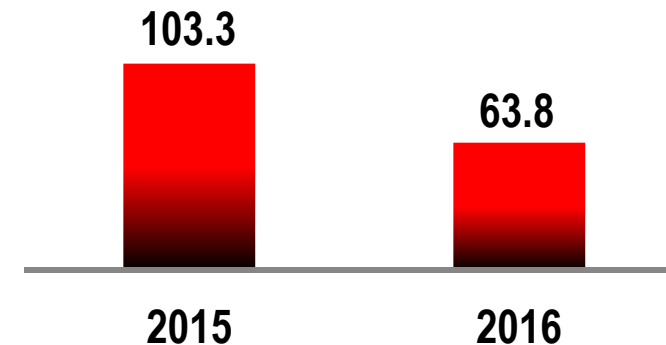
Working capital

€ million



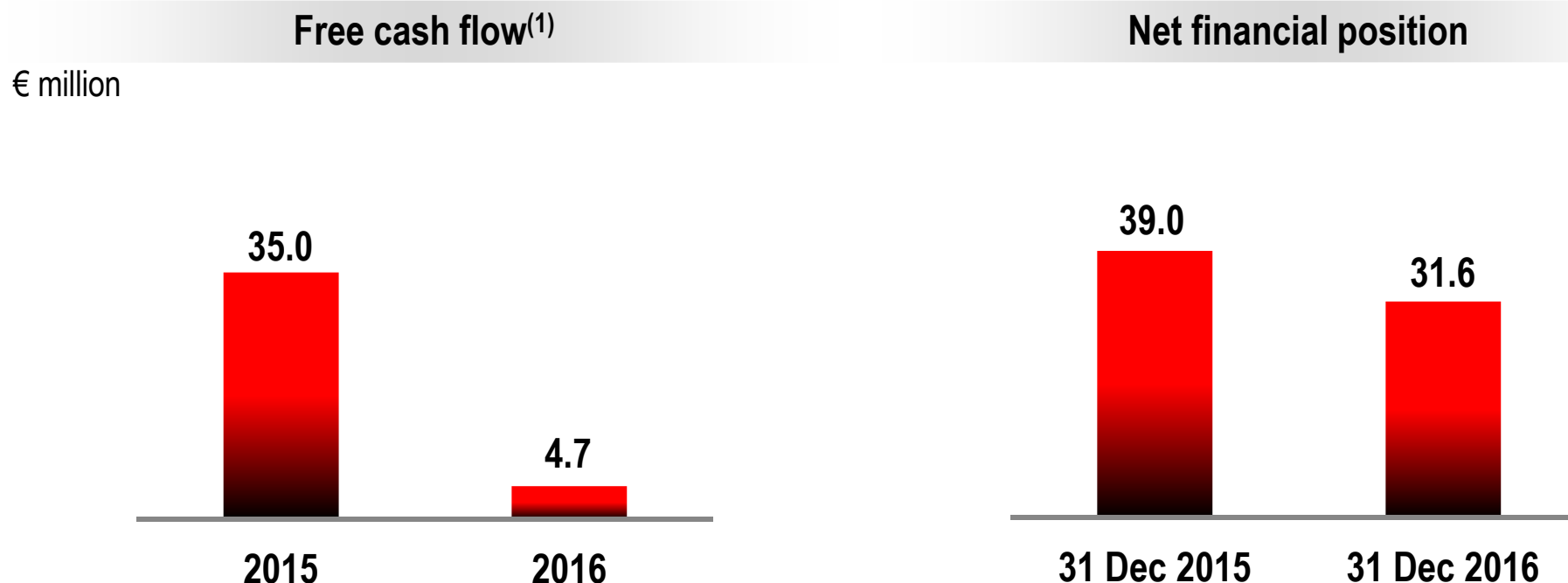
- Increase of working capital ratio mainly attributable to higher trade receivables at the reporting day

Operating cash flow



- Operating cash flow decline largely due to change in working capital, which increased in 2016 and declined in 2015

Free cash flow generation & net financial position

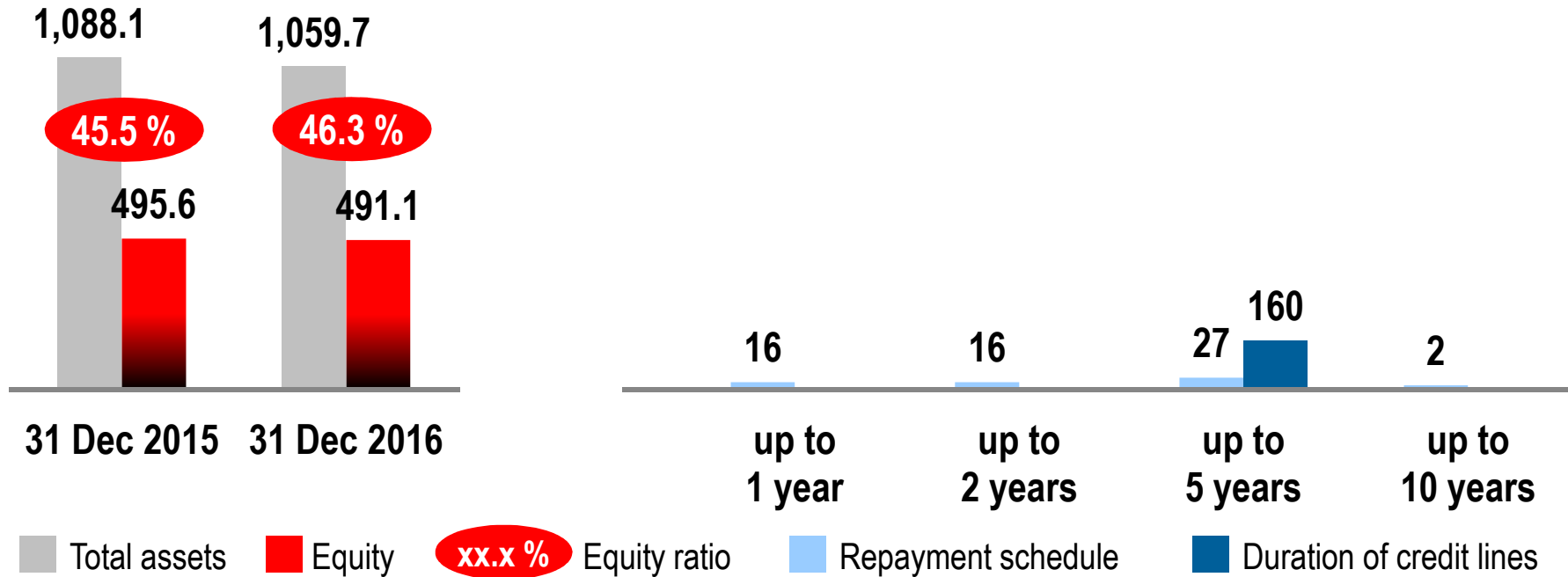


- Free cash flow below prior year level as a result of lower operating cash flow
- Net financial position remained positive

(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 by 0.8 %-points to 46.3 %
- Financing with undrawn facilities available:
 - Credit line of €160 million until May 2020
 - Loan from European Investment Bank repayable until July 2020

Cash deployment & dividend policy

Financial strength

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

Internal funding

- Invest in profitable growth projects and service
- Continuous product innovation

Shareholder return

- Stable or growing dividend per share
- Dividend payout ~30 % of earnings over multi-year period

- Proposal to the AGM: stable dividend of €0.07 per share
- Dividend is exempt from tax for domestic investors and without German withholding tax

Summary

Well positioned for market recovery

Significant improvement of profitability

Site optimisation measures far advanced

Expansion of product range in 2019

Substantial proceeds from property sales ahead

Sound balance sheet

Stable dividend payment



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Assessment for key end markets, 2017

Unit sales (equipment)	Europe	North America	China
Construction equipment	0 % to +5 %	-5 % to +5 %	+5 % to +10 %
Material handling	0 % to +10 %	-5 % to +5 %	-5 % to +5 %
Agricultural machinery	-5 % to +5 %		
Medium & light duty trucks			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
- Improvement in North American end markets and European agricultural machinery not visible yet

Financial outlook

€ million	FY 2016 reported	FY 2017 guidance
Revenue	1,260.2	marked increase
EBIT margin (before exceptional items)	1.9 %	moderate increase
R&D expenditure⁽¹⁾	50.4	60 - 70
Capex (excl. R&D)⁽¹⁾	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:
 - Gain from disposal of building lease from Ad. Strüver in Hamburg (approx. €10 million in Q1 2017)
 - In the near-term, substantial proceeds from 160,000 sqm property sale in Cologne-Deutz expected, to a significant extent potentially already in 2017

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Summary of key financials (I)

€ million	2016	2015	Change (%)
Revenue	1,260.2	1,247.4	1.0
EBITDA	114.2	112.2	1.8
EBIT	23.4	4.9	>100
EBIT margin (%)	1.9	0.4	--
Net income	16.0	3.5	>100
Basic earnings per share (€)	0.14	0.04	>100
Dividend per share (€)	0.07	0.07	0.0
Number of employees (31 December)	3,665	3,730	-1.7

Summary of key financials (II)

€ million	2016	2015	Change (%)
Total assets	1,059.7	1,088.1	-2.6
Equity	491.1	495.6	-0.9
Equity ratio (%)	46.3	45.5	--
Cash flow from operating activities	63.8	103.3	-38.2
Free cash flow ⁽¹⁾	4.7	35.0	-86.6
Net financial position	31.6	39.0	-19.0
Working capital	204.3	183.6	11.3

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

Income statement

€ million	2016	2015	Change (%)
Revenue	1,260.2	1,247.4	1.0
Cost of sales	-1,041.6	-1,054.8	-1.3
Research and development costs	-77.5	-76.3	1.6
Selling expenses	-68.0	-68.3	-0.4
General and administrative expenses	-36.7	-36.5	0.5
Other operating income	17.7	29.3	-39.6
Other operating expenses	-26.7	-30.6	-12.7
Profit/loss on equity-accounted investments	-5.1	-6.3	-19.0
Other investment income	1.1	1.0	10.0
EBIT	23.4	4.9	>100
Interest expense, net	-3.5	-4.0	-12.5
Net income before income taxes	19.9	0.9	>100
Income taxes	-3.9	2.6	--
Net income	16.0	3.5	>100

Balance sheet: assets

€ million	31 Dec 2016	31 Dec 2015	Change (%)
Non-current assets (before deferred tax assets)	483.7	520.5	-7.1
Deferred tax assets	79.9	69.1	15.6
Inventories	253.1	251.9	0.5
Trade receivables	113.5	101.2	12.2
Other receivables and assets	37.3	32.5	14.8
Cash and cash equivalents	91.8	112.5	-18.4
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,059.7	1,088.1	-2.6

Balance sheet: equity and liabilities

€ million	31 Dec 2016	31 Dec 2015	Change (%)
Equity	491.1	495.6	-0.9
Provisions for pensions and other post-retirement benefits	175.9	172.3	-2.1
Deferred tax liabilities	0.4	0.0	>100
Other provisions	38.4	46.7	-17.8
Financial liabilities	44.0	58.6	-24.9
Other liabilities	6.3	3.2	96.9
Non-current liabilities	265.0	280.8	-5.6
Provisions for pensions and other post-retirement benefits	14.1	14.3	-1.4
Other provisions / Provisions for income taxes	60.0	67.2	-10.7
Financial liabilities	16.2	14.9	8.7
Trade payables	162.3	169.5	-4.2
Other liabilities	51.0	45.8	11.4
Current liabilities	303.6	311.7	-2.6
Total equity and liabilities	1,059.7	1,088.1	-2.6

Cash flow statement (condensed)

€ million	2016	2015
EBIT	23.4	4.9
Cash flow from operating activities (total)	63.8	103.3
Capital expenditure on intangible assets, property, plant and equipment and investments	-58.0	-68.3
Proceeds from the sale of non-current assets	2.6	3.9
Cash flow from investing activities (total)	-55.4	-64.4
Cash flow from financing activities	-26.8	-29.8
Change in cash and cash equivalents	-18.4	9.1

Overview of segments, 2016

	2016	2015	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	1,011.6	958.4	5.6
DEUTZ Customised Solutions	249.8	267.5	-6.6
Total for operating activities	1,261.4	1,225.9	2.9

	2016	2015	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	1,000.8	967.2	3.5
DEUTZ Customised Solutions	259.4	280.2	-7.4
Total for operating activities	1,260.2	1,247.4	1.0

	2016	2015	Change (%)
Unit sales			
DEUTZ Compact Engines	123,179	125,214	-1.6
DEUTZ Customised Solutions	9,360	12,567	-25.5
Total for operating activities	132,539	137,781	-3.8

	2016	2015	Change (%)
EBIT before exceptional items (€ million)			
DEUTZ Compact Engines	-6.1	-31.9	80.9
DEUTZ Customised Solutions	32.7	31.3	4.5
Other	-3.2	5.5	--
Total for operating activities	23.4	4.9	>100

Overview of segments, Q4 2016

	Q4 2016	Q4 2015	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	267.9	234.4	14.3
DEUTZ Customised Solutions	58.2	58.6	-0.7
Total for operating activities	326.1	293.0	11.3

	Q4 2016	Q4 2015	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	251.1	237.1	5.9
DEUTZ Customised Solutions	63.6	71.5	-11.0
Total for operating activities	314.7	308.6	2.0

	Q4 2016	Q4 2015	Change (%)
Unit sales			
DEUTZ Compact Engines	28,869	27,618	8.2
DEUTZ Customised Solutions	2,231	2,927	-23.8
Total for operating activities	32,100	30,545	5.1

	Q4 2016	Q4 2015	Change (%)
EBIT before exceptional items (€ million)			
DEUTZ Compact Engines	-0.2	-15.0	98.7
DEUTZ Customised Solutions	5.1	5.3	-3.8
Other	-1.2	4.0	--
Total for operating activities	3.7	-5.7	--

Employees

	31 Dec 2016	31 Dec 2015	Change (%)
Cologne	2,202	2,269	-3.0
Ulm	411	410	0.2
Other German operations	214	231	-7.4
Germany	2,827	2,910	-2.9
Foreign operations	838	820	2.2
DEUTZ Group	3,665	3,730	-1.7

Financial calendar & contact details

- 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
www.deutz.com

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