

DEUTZ Investor Presentation

March 2017

The engine company.



Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

DEUTZ at a glance

Company profile	<ul style="list-style-type: none">■ Founded in 1864 by N.A. Otto, the developer of the four stroke engine■ Independent manufacturer of diesel and gas engines in the 25 to 520 kw power range■ Worldwide sales channels and service network■ Leading technology and high-quality products■ Blue chip customer base		
Segments	<ul style="list-style-type: none">■ DEUTZ Compact Engines: liquid cooled engines < 8 litres cubic capacity■ DEUTZ Customised Solutions: liquid-cooled engines > 8 litres cubic capacity and air-cooled engines		
Financials 2016	<ul style="list-style-type: none">■ Revenue €1,260.2 million■ EBIT €23.4 million■ Equity ratio 46.3%	Management board	<ul style="list-style-type: none">■ Dr Frank Hiller (CEO)■ Dr Margarete Haase (CFO)■ Michael Wellenzohn (CSO)

Customer base

Long standing customer relationships (not exhaustive)



New clients & greater share of wallet (not exhaustive)



- DEUTZ has a lot of long standing relationships with key customers
- Customer base extended and diversified with new emissions engines
- New customers attracted by the compact design and smart exhaust aftertreatment of the Stage IV / Tier 4 engines

→ Successful extension of customer base

DEUTZ engines for EU Stage IV / US Tier 4 emissions standard

TCD 2.9

TCD 3.6

TCD 4.1
TCD 6.1

TCD 7.8

TCD 12.0
TCD 16.0



- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- DEUTZ engine portfolio will satisfy the next EU emissions standard announced for 2019 “Stage V ready”
- Expanding product range for EU Stage V emissions standard in 2019:
 - New 3-cylinder TCD 2.2 on same platform with 4-cylinder TCD 2.9; both also in a gas version (LPG)
 - Engine project TCD 5.0 to gain market share in the 100 to 150kW output range
 - 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











Application expertise



- Example: DEUTZ 2.9 litre engine meets technical requirements of different applications and customers
- Same base engine applied for a wide range of equipment classes

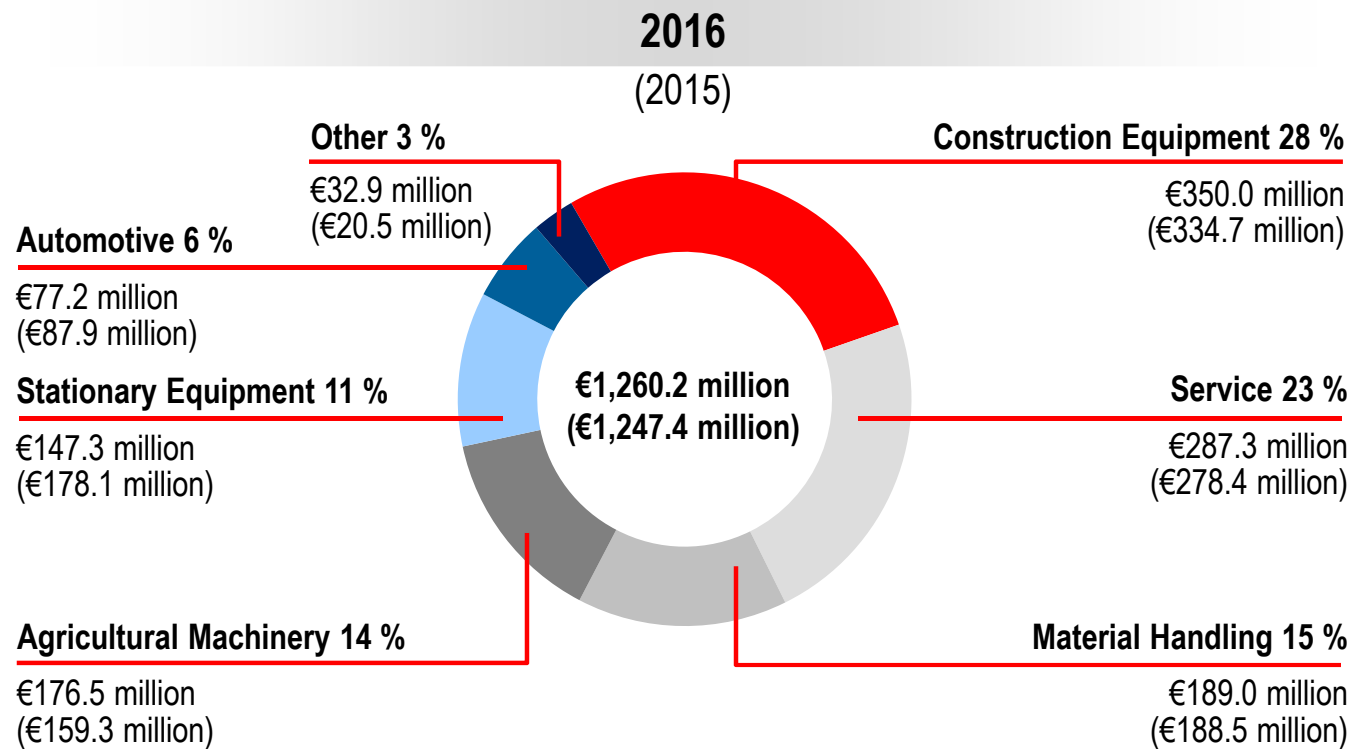
→ DEUTZ application expertise to serve different customer needs

Key applications

	Typical application	Markets benefit from macro trends
Construction equipment	Excavator, Wheel loader, Paver Underground mining	 → 
Material handling	Forklift truck, Telehandler Aerial work platform Ground support	 → 
Agricultural machinery	Tractor Harvester	 → 
Stationary equipment	Genset Pump Compressor	 → 
Automotive	Rolling stock Special vehicle Truck & Bus	 → 

→ DEUTZ engines serve a broad range of applications

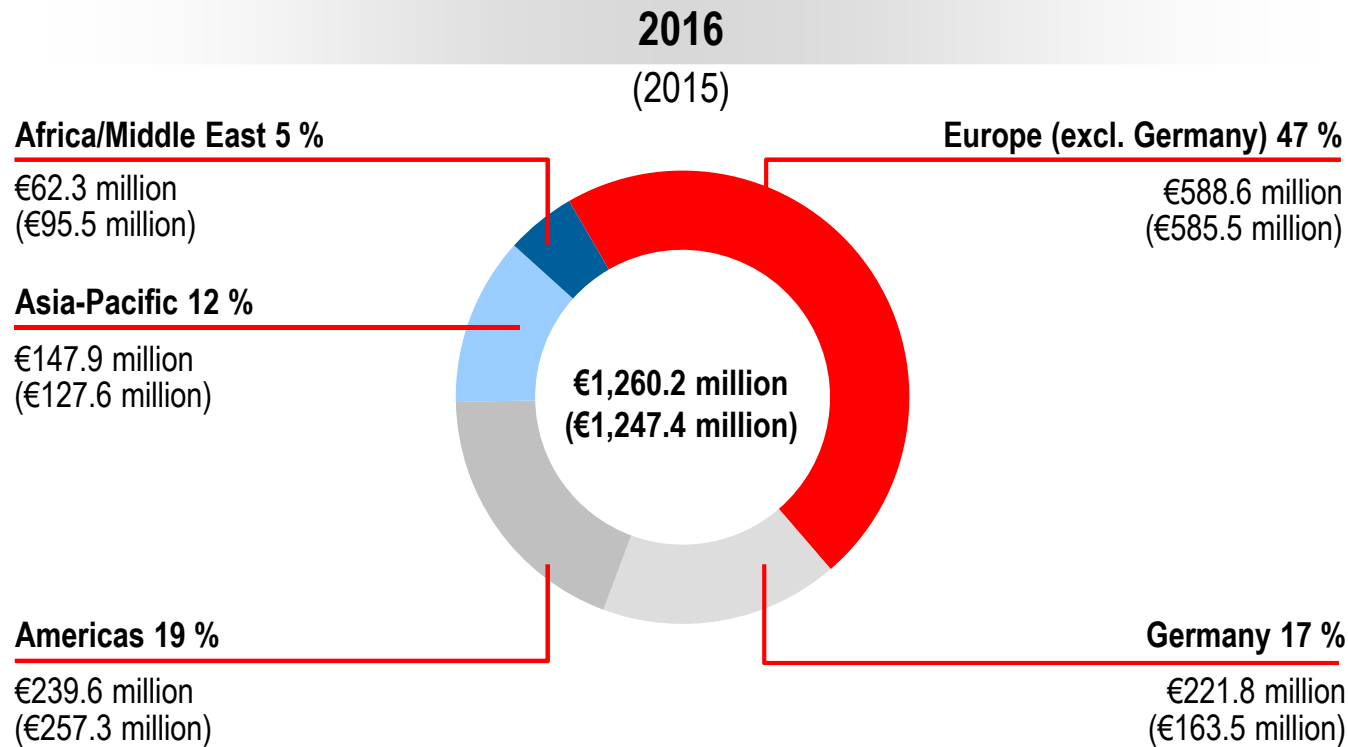
Revenue split by application



- 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

Revenue split by region

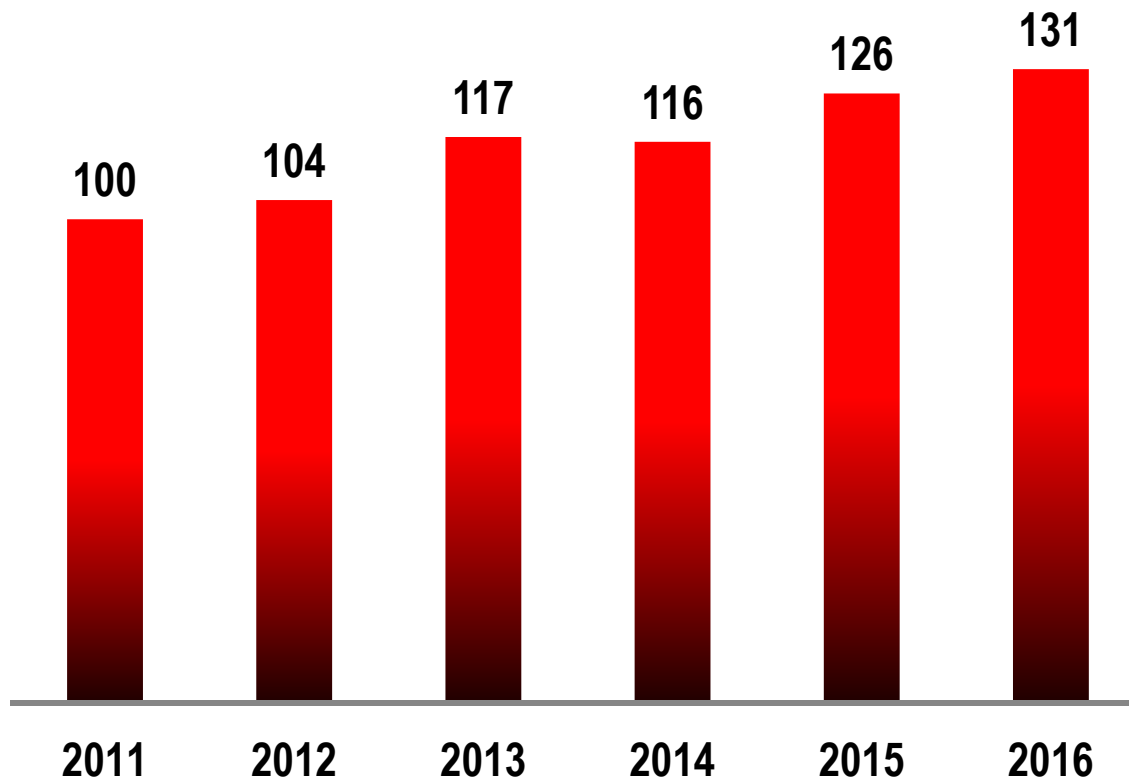


- Increase in Asia-Pacific (+15.9 %) driven by new customer business; EMEA increased by 3.3 %
- Revenue decline in Americas (-13.0 %) mainly due to lower investment spending of rental companies
- Pro-forma revenue⁽¹⁾ including equity-accounted Chinese JV DEUTZ Dalian: €1,563.2 million (-1.5 %); corresponding revenue share of Asia-Pacific amounts to 29 %

(1) Considering 100% of JV revenue

Emissions standards drive revenue growth

Average sales price per engine
(indexed; FY 2011 = 100)

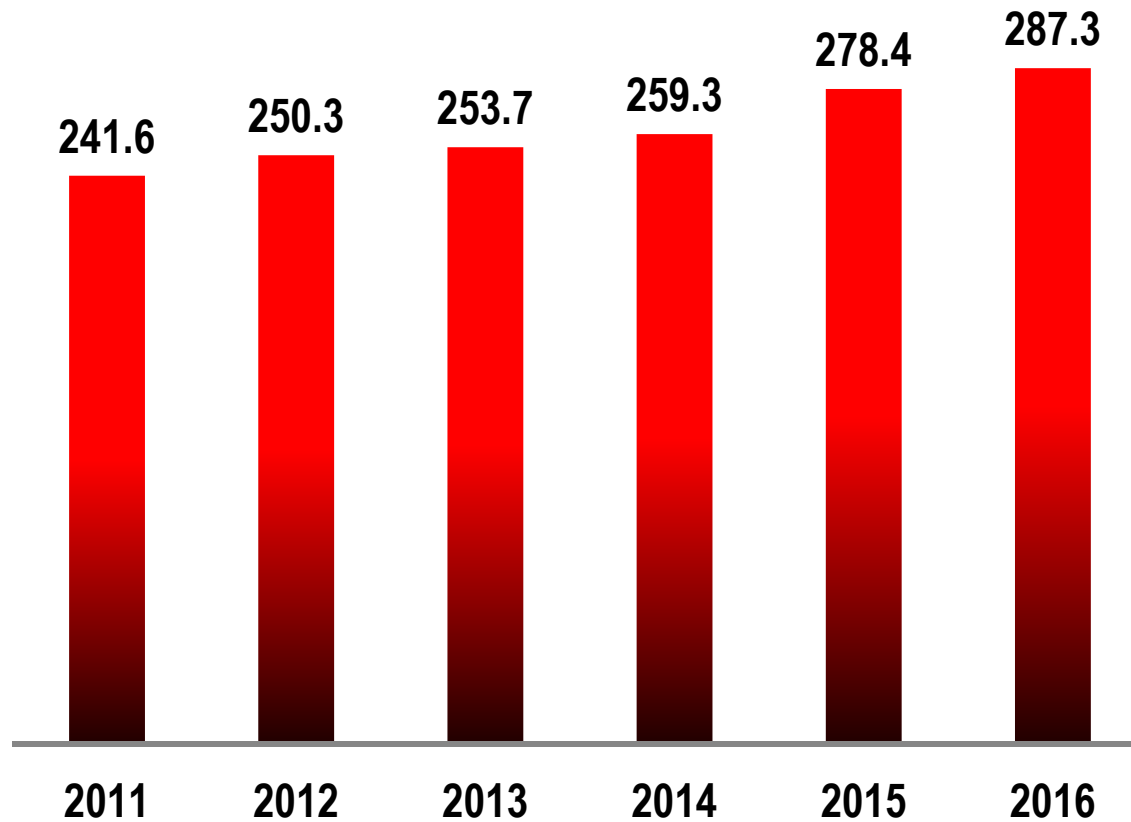


- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emissions engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

→ Structural growth due to tighter emissions standards

Service business

€ million

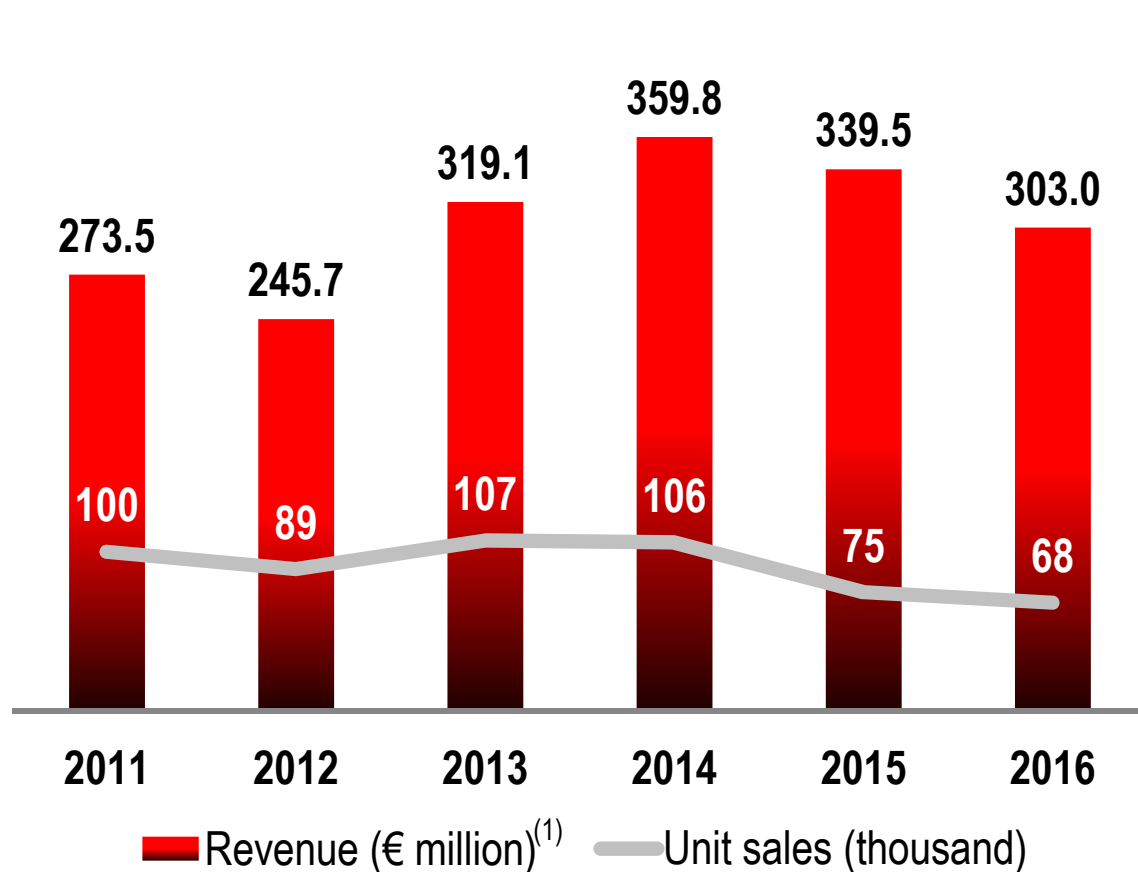


- Strong resilience of profitable service business through different economic cycles
- Future growth driven by investments in the service network and multiple service initiatives

→ Continuous growth of service revenue

Activities in China

JV DEUTZ Dalian

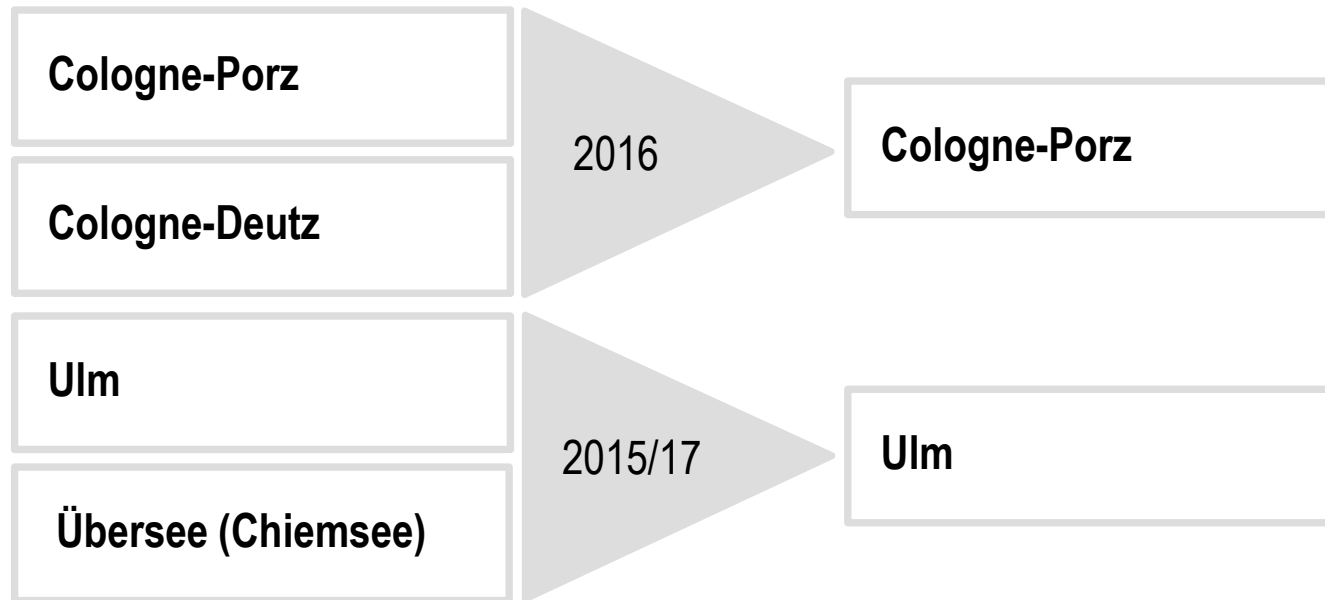


- Countrywide sales and service network
- DEUTZ Dalian manufactures diesel engines compliant to Chinese emissions standards
- First Automotive Works is our Joint Venture partner and key account for light & medium duty truck engines
- Objective to increase penetration in the Chinese off-road market by customer proximity

(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

➔ Well positioned to capture growth opportunities in China

Site optimisation

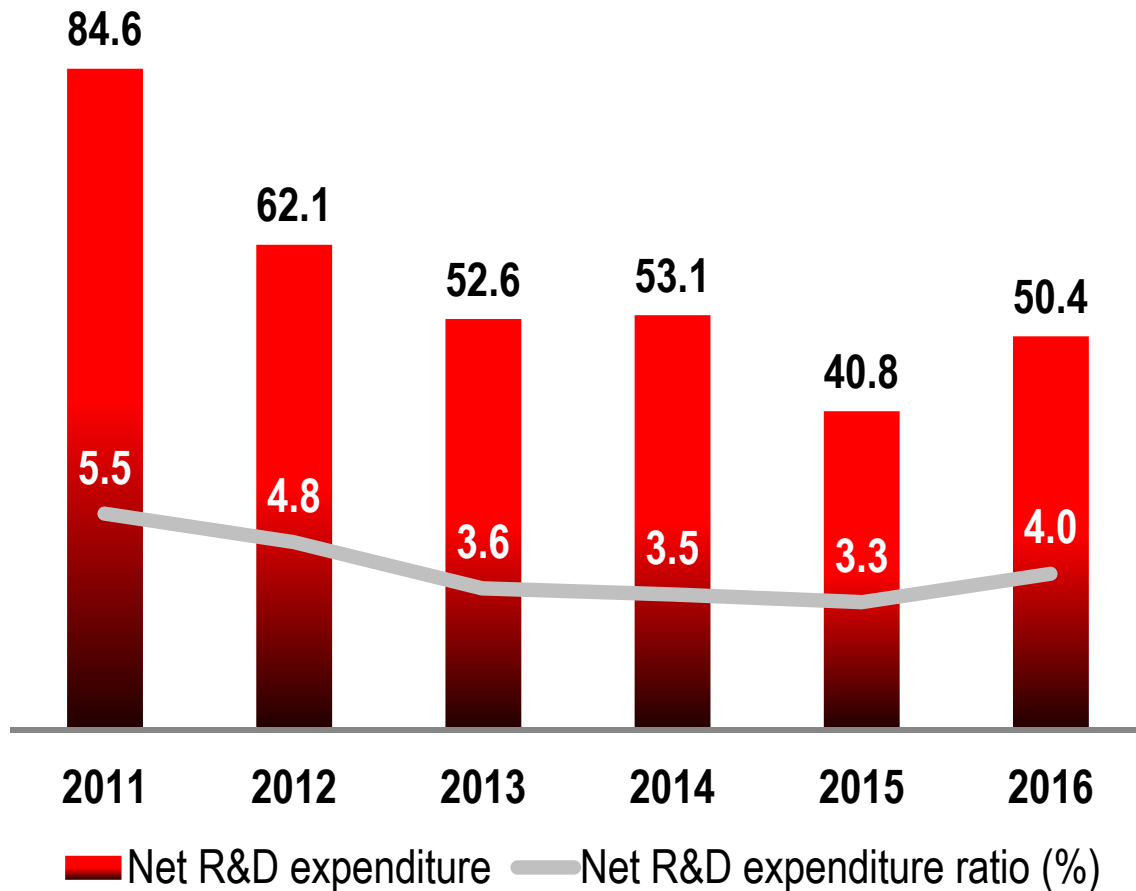


- Site optimisation far advanced: measures in Cologne completed; relocation to Ulm to be finalised mid 2017
- Efficiency gains of approx. €10 million p.a. from 2017 onwards (higher with better capacity utilisation)
- Substantial proceeds from sale of property in Cologne-Deutz expected in the near-term

→ Sustainable efficiency improvement by merging facilities

R&D expenditure

€ million

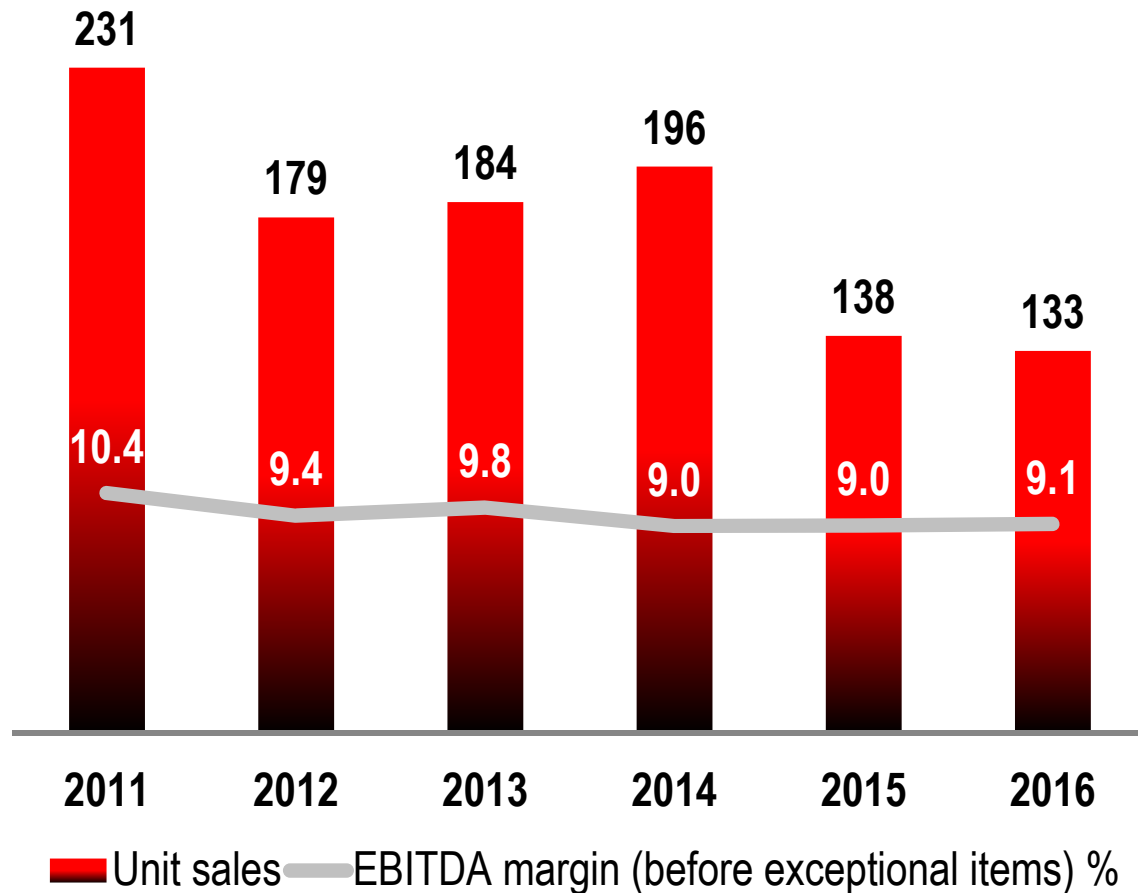


- Strong commitment to continuous product innovation
- Our customers and the environment benefit from lower fuel consumption and emissions
- Expansion of product range results in temporary R&D increase
- Net R&D expenditure budget for 2017: €60-70 million

→ Targeted R&D increase due to product expansion

Unit sales & profitability

Thousand units



- Volatile market environment requires flexible production
- Stable EBITDA margin at lower unit sales
- Ramp-up phase of new engine generation terminated
- Higher capacity utilisation most important driver for profitability enhancement

➔ Robust numbers in down cycle & high upside potential at market recovery

Cash deployment & dividend policy

Financial strength

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

Internal funding

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

Dividend policy

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

→ Stable or growing dividend

Summary: DEUTZ key investment highlights

Successful extension of customer base

Continuous growth of service revenue

Expanding product range for Stage V emissions standard

Well positioned for market recovery

Significant improvement of profitability

Sound balance sheet

Stable or growing dividend



Agenda

- DEUTZ strategy & positioning

- **Financials**

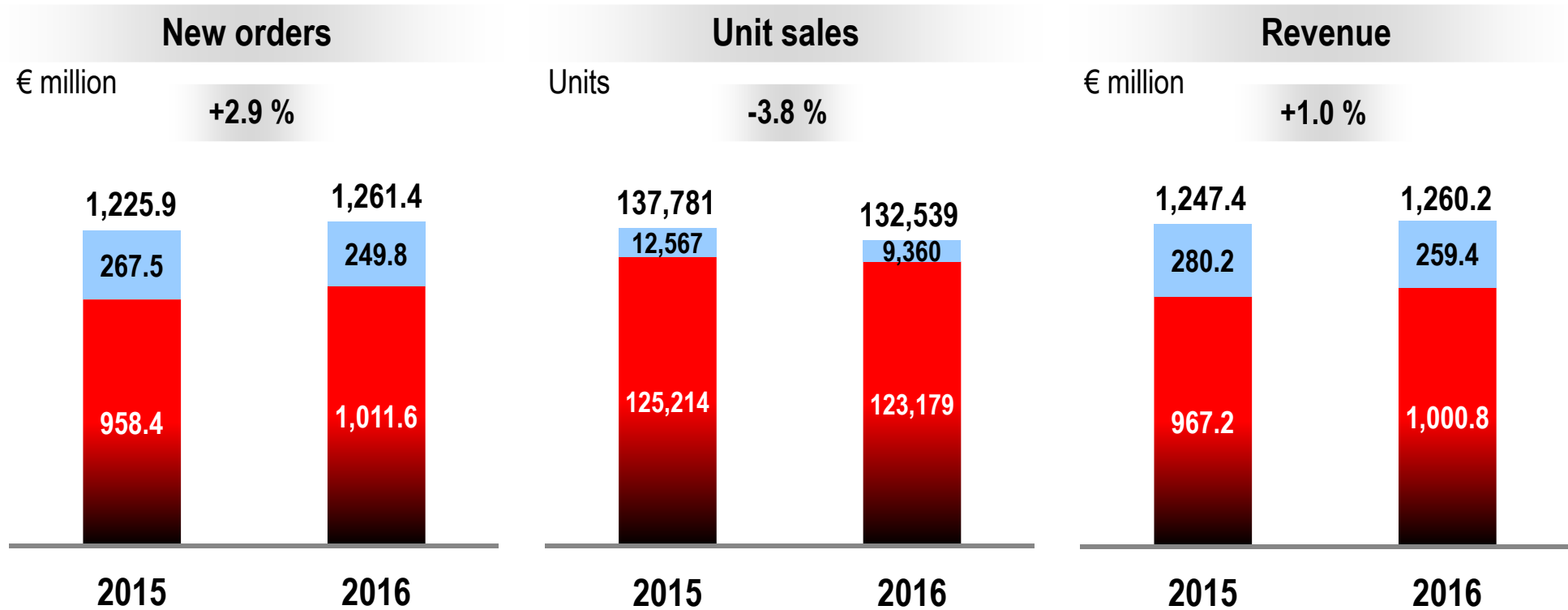
- Outlook

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

Sales figures

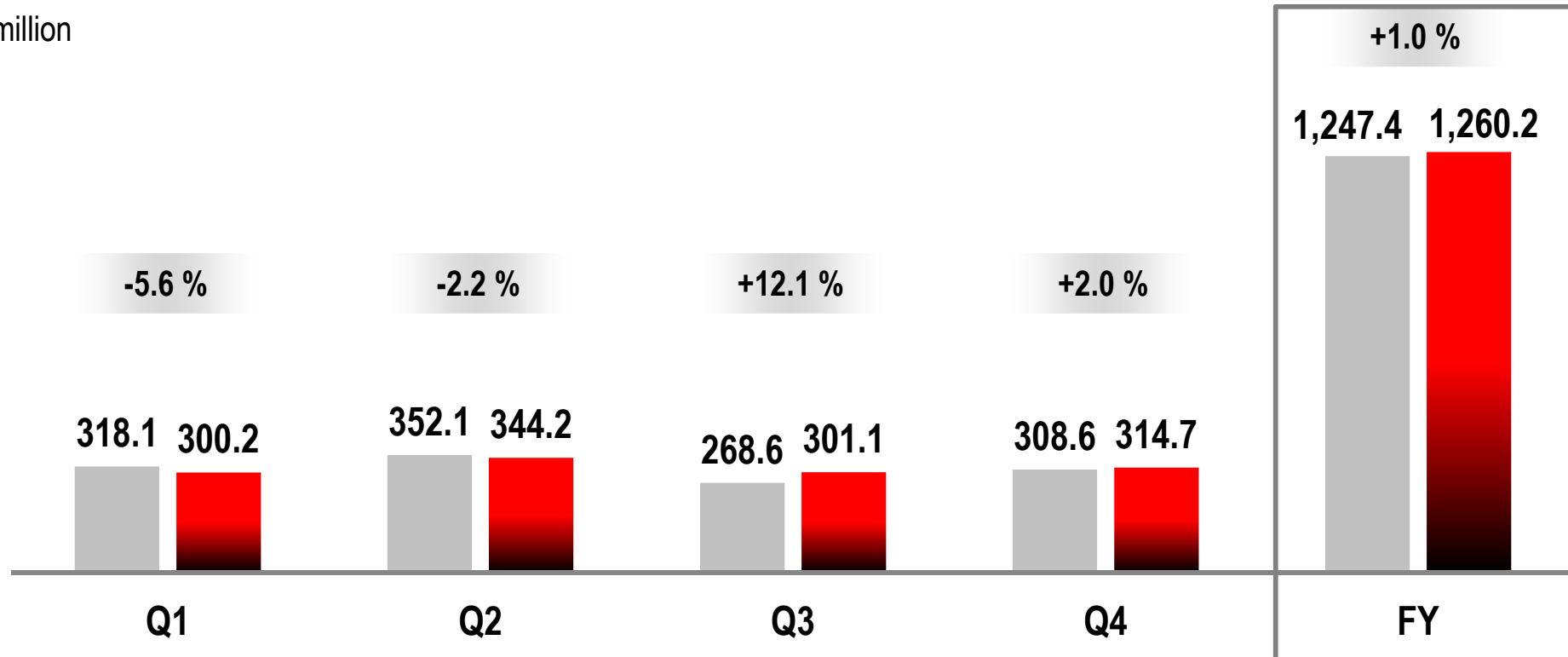


- Positive price mix effects due to new emission engines
- Book-to-bill ratio at 1.0x

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

Revenue development

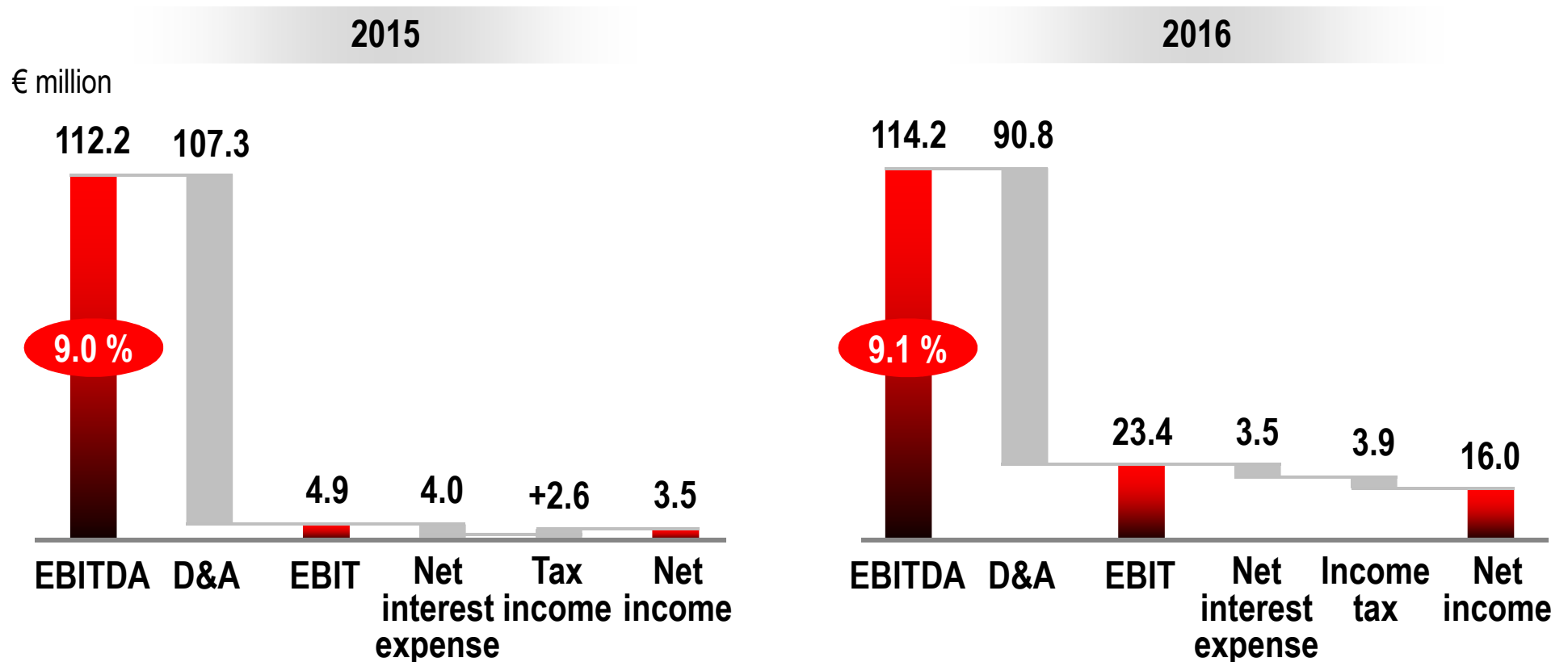
€ million



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

■ 2015 ■ 2016

Operating profit & net income

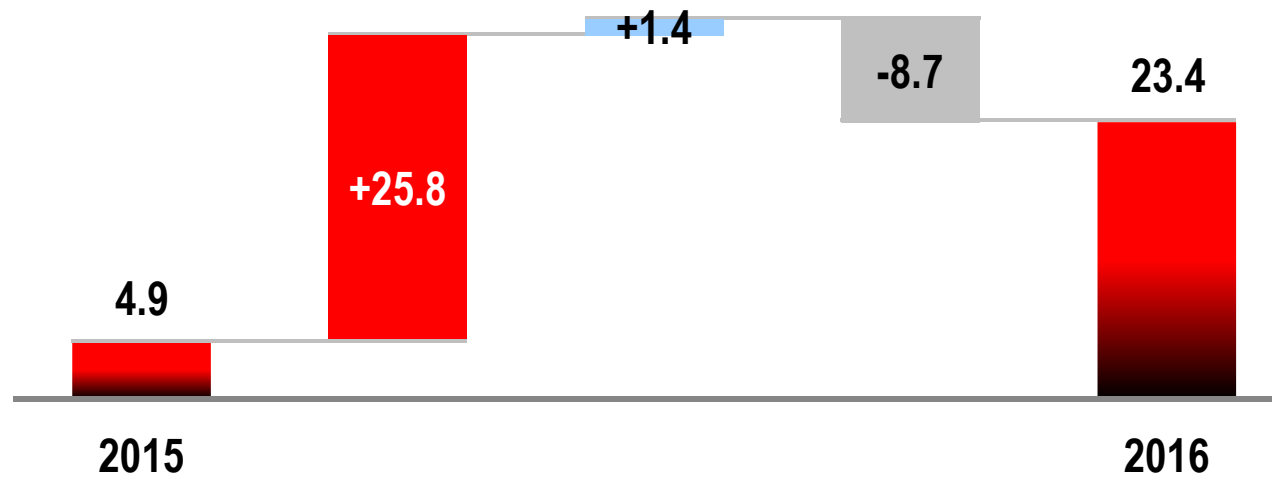


- Slight increase of EBITDA margin despite lower unit sales
- EBIT improvement supported by lower depreciation
- Continued low tax rate
- Net income increased significantly (+€12.5 million)

 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

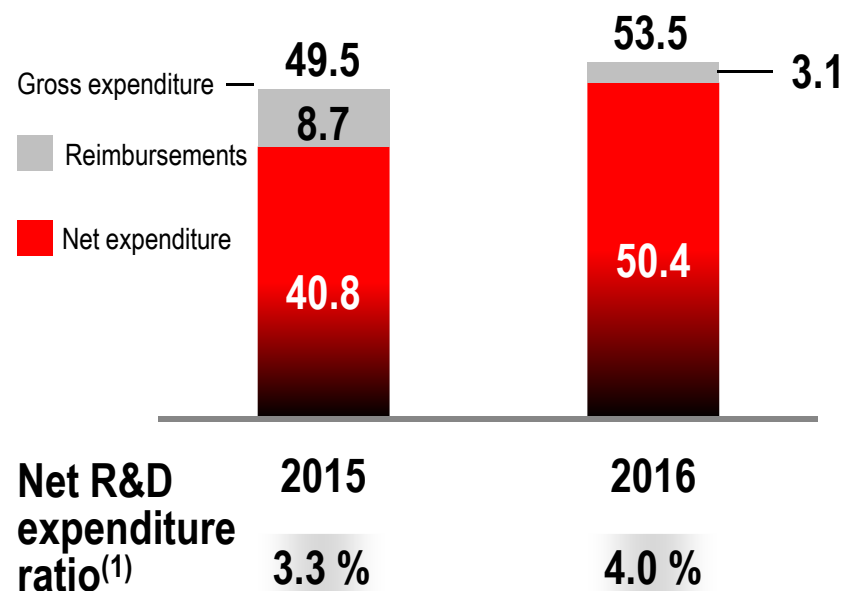
€ million	Q4 2016	Q4 2015	Change in %
New orders	58.2	58.6	-0.7
Unit sales	2,231	2,927	-23.8
Revenue	63.6	71.5	-11.0
EBIT	5.1	5.3	-3.8

- 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)

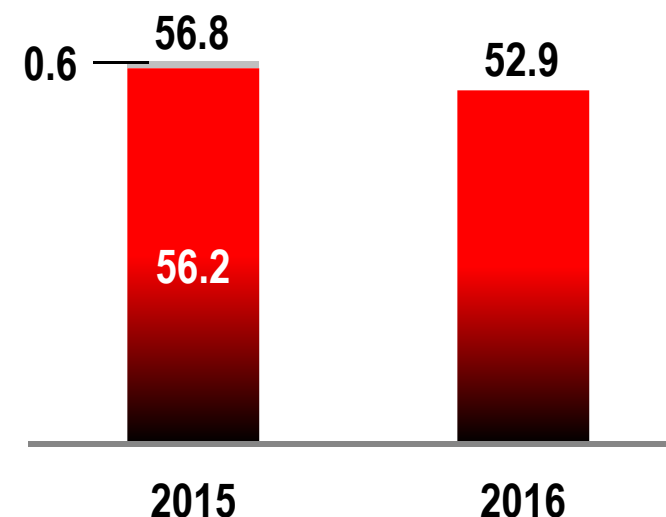
R&D spending & capital expenditure

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)

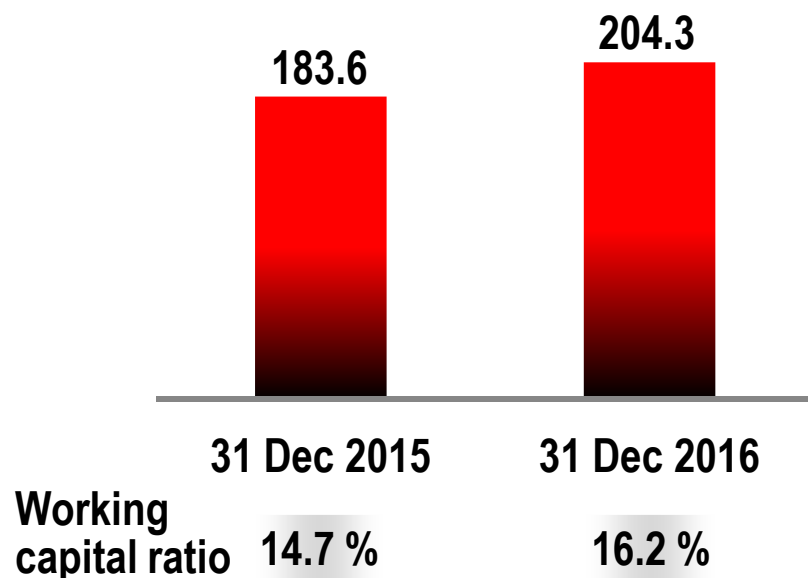
- Capital expenditure decreased (guidance approx. €55 million)

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

Working capital & operating cash flow

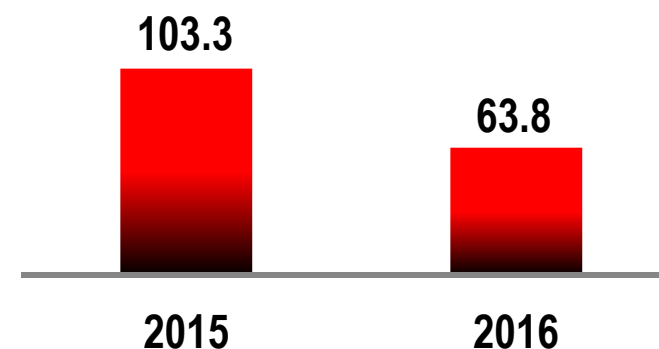
Working capital

€ million



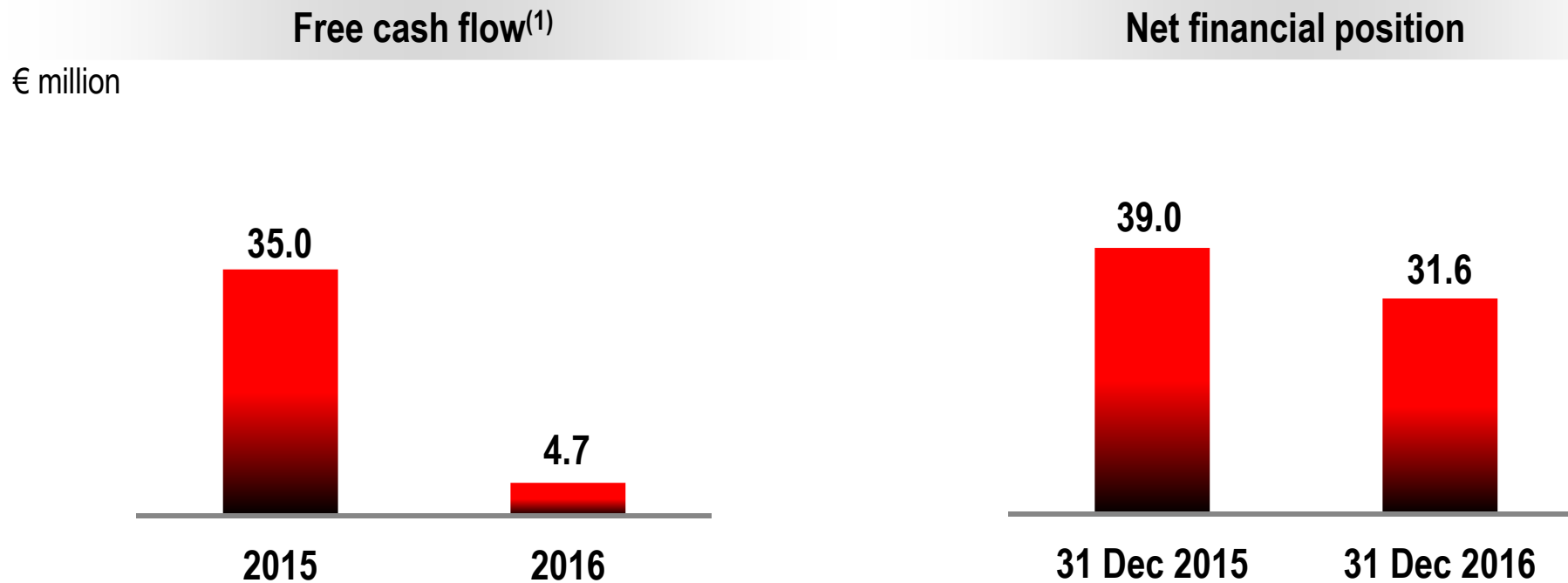
- Increase of working capital ratio mainly attributable to higher trade receivables at the reporting day

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

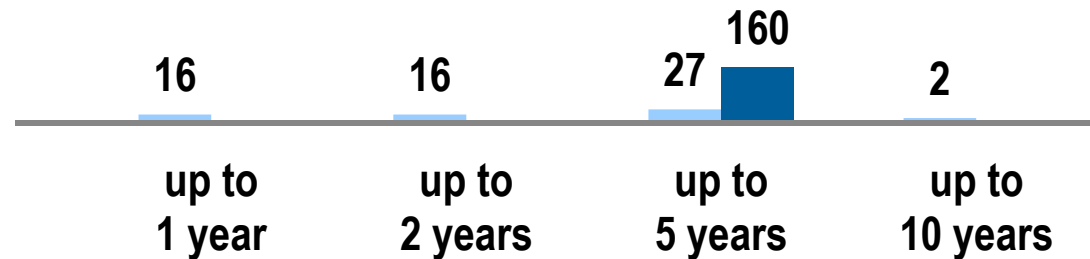
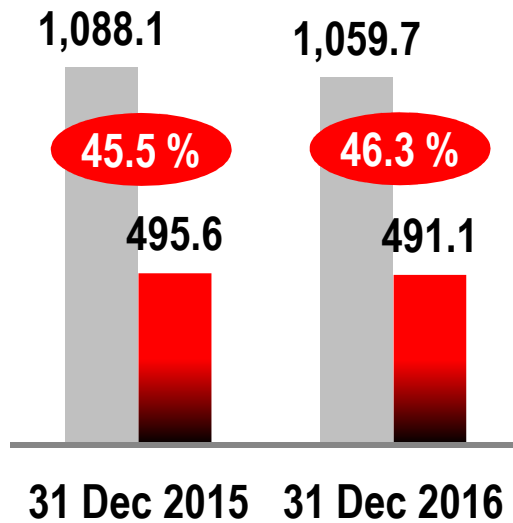


- Free cash flow below prior year level as a result of lower operating cash flow
- Net financial position remained positive

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

Equity ratio & funding

€ million



Total assets
 Equity
 xx.x % Equity ratio
 Repayment schedule
 Duration of credit lines

- 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

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- **Outlook**

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

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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