

# DEUTZ Investor Presentation

August 2017

The engine company.



# Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

# DEUTZ at a glance

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

# 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)
  - 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

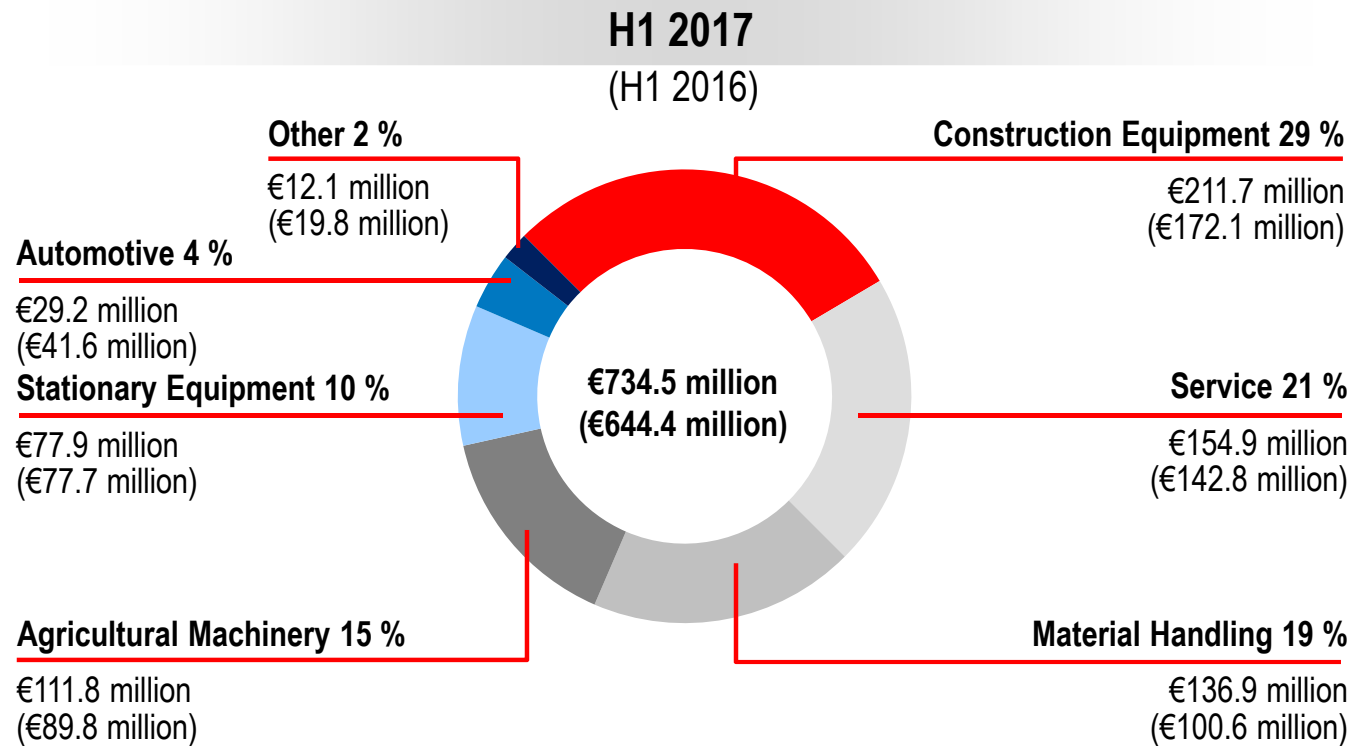


# Key applications

	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

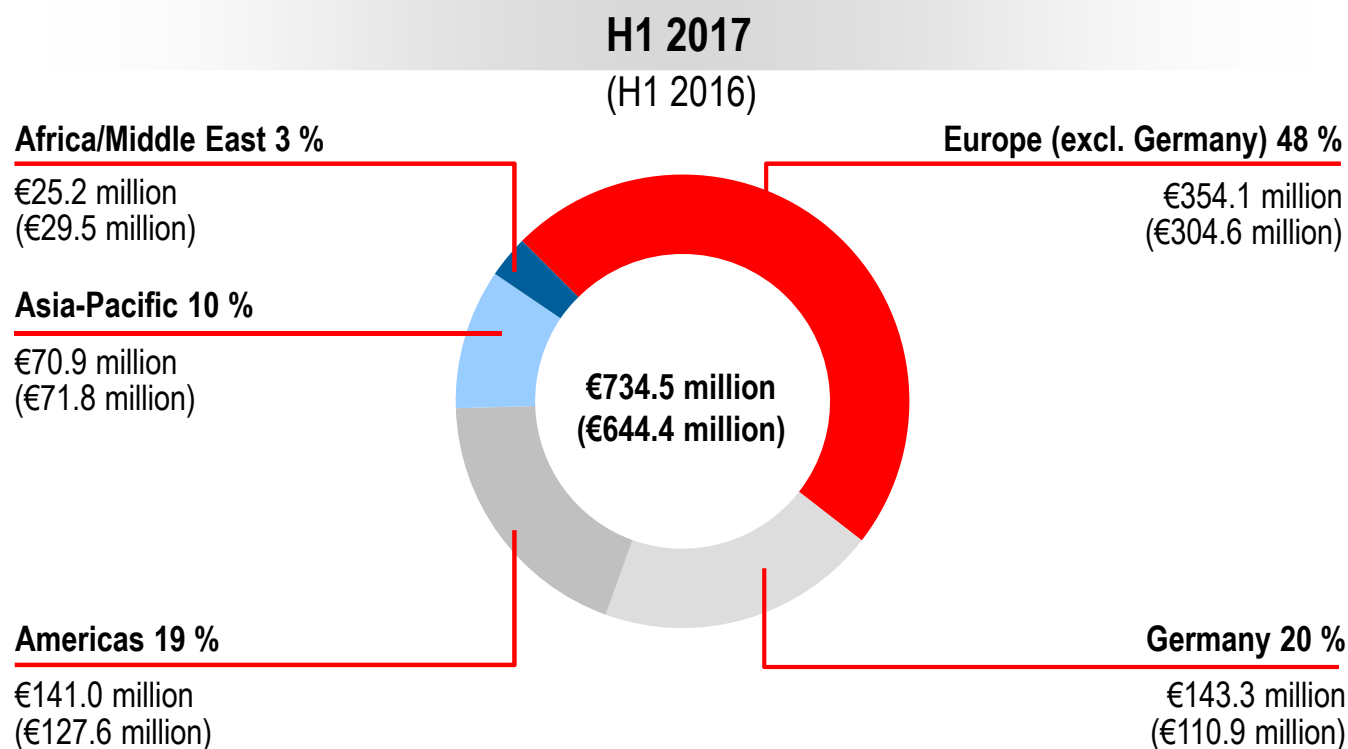


- Highest growth contribution from Material Handling (+36.1%), Agricultural Machinery (+24.5%) and Construction equipment (+23.0%). Service business advanced by 8.5% yoy
- Pro-forma Automotive revenue<sup>(1)</sup> incl. equity-accounted JV DEUTZ Dalian: €157.6 million (corresponding revenue share amounts to 18%)

(1) Considering 100% of JV revenue



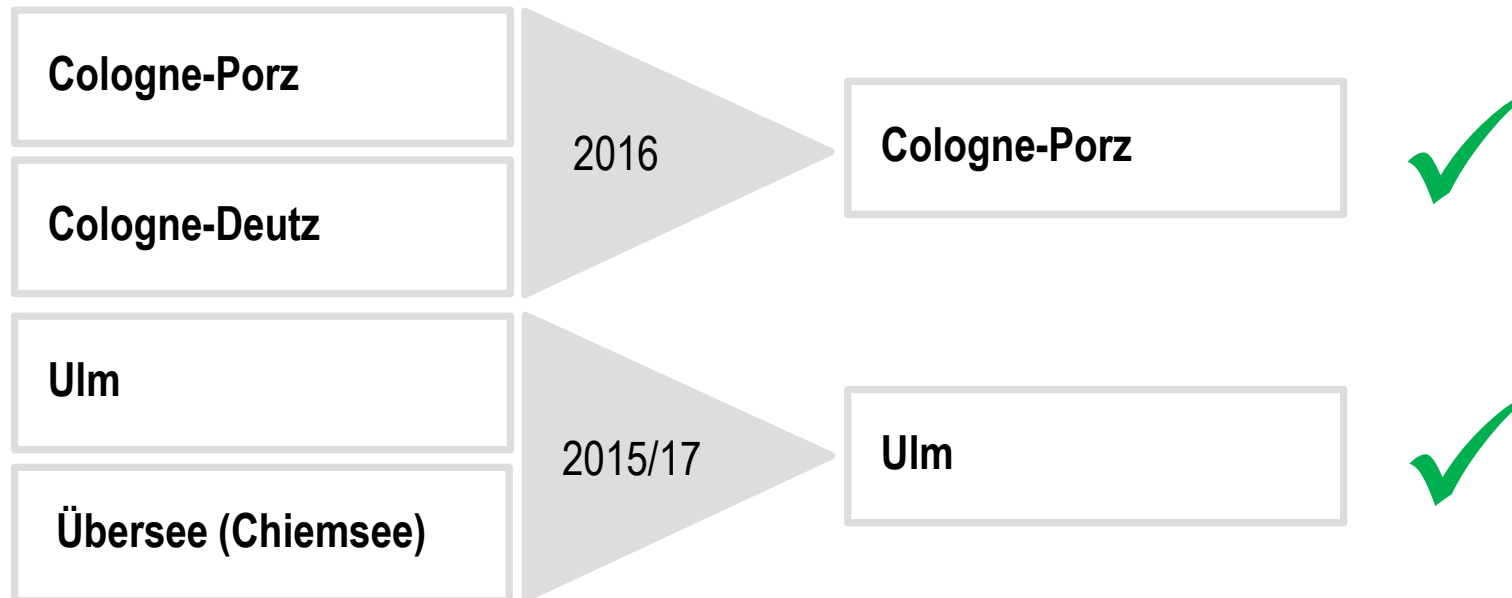
# Revenue split by region



- Revenue increase in EMEA (+17.4%) and Americas (+10.5%). Asia-Pacific declined by 1.3%
- Pro-forma revenue<sup>(1)</sup> including equity-accounted Chinese JV DEUTZ Dalian: €881.4 million (+8.9%); corresponding revenue share of Asia-Pacific amounts to 25%

(1) Considering 100% of JV revenue

# Site optimisation



- Site optimization completed on schedule
- Efficiency gains of approx. €10 million p.a. from 2017 onwards (higher with better capacity utilisation)

**→ Sustainable efficiency improvement by merging facilities**

## Former site in Cologne sold



- Former industrial site in Cologne-Deutz (160,000 m<sup>2</sup>) sold to real estate developer
- Area close to the river Rhine will be developed to a new city district with a high proportion of housing
- Purchase price of around €125 million expected in 2017. Sale will lead to positive contribution to earnings in the high double-digit million euros (after taxes) in Q4 2017, which will be shown as an exceptional item
- Final instalment of the purchase price expected in the coming years, depending on completion of the ongoing planning process. If successful, the final instalment might reach into the mid double-digit million euros

# Investment focus

- Investment in technology, innovation and internationalisation
- Enlarged product portfolio – power range and alternative fuels (e.g. gas engines)
- E-DEUTZ strategy: review of new business opportunities through electrification (start-stop technique, hybrid drive, partial electrification, engine downsizing, etc.)
- Down-stream integration: acquisition of selected dealers
- Growth through intelligent cooperations (e.g. Liebherr)

**→ Organic and inorganic growth opportunities**

# 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

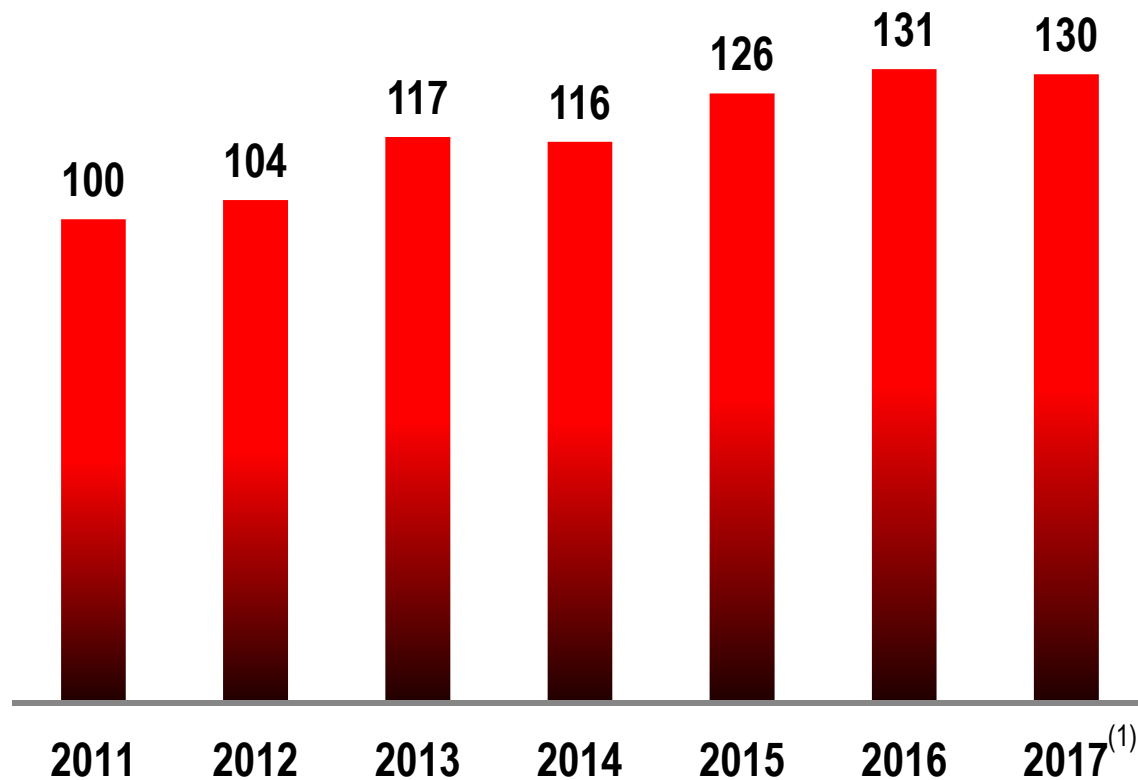
## Dividend policy

- Stable or growing dividend per share
- Payout ~30 % of recurring profit over multi year period

→ Stable or growing dividend

# 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 upcoming years
- Effect diluted by mix effects in H1 2017 (strong growth of small engines)

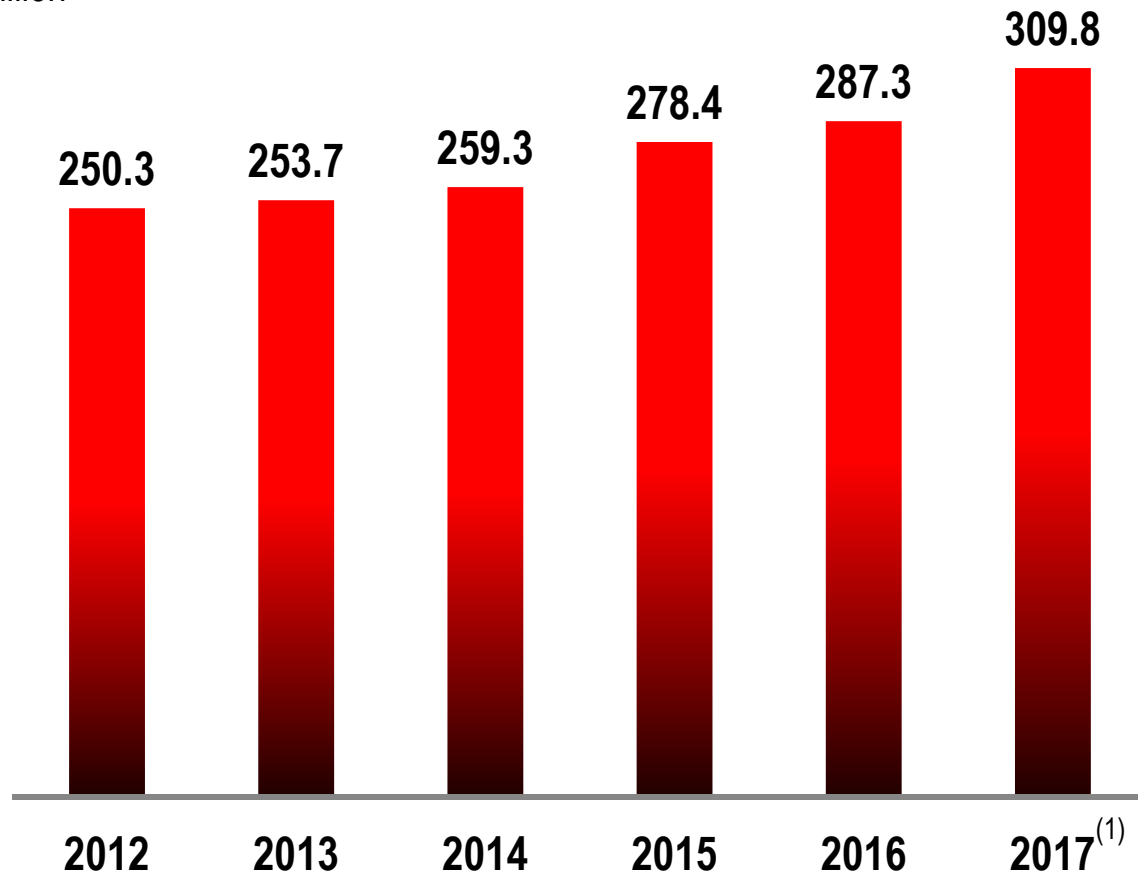
(1) H1 figures annualised

→ **Structural growth due to tighter emissions standards**



# Service business

€ million



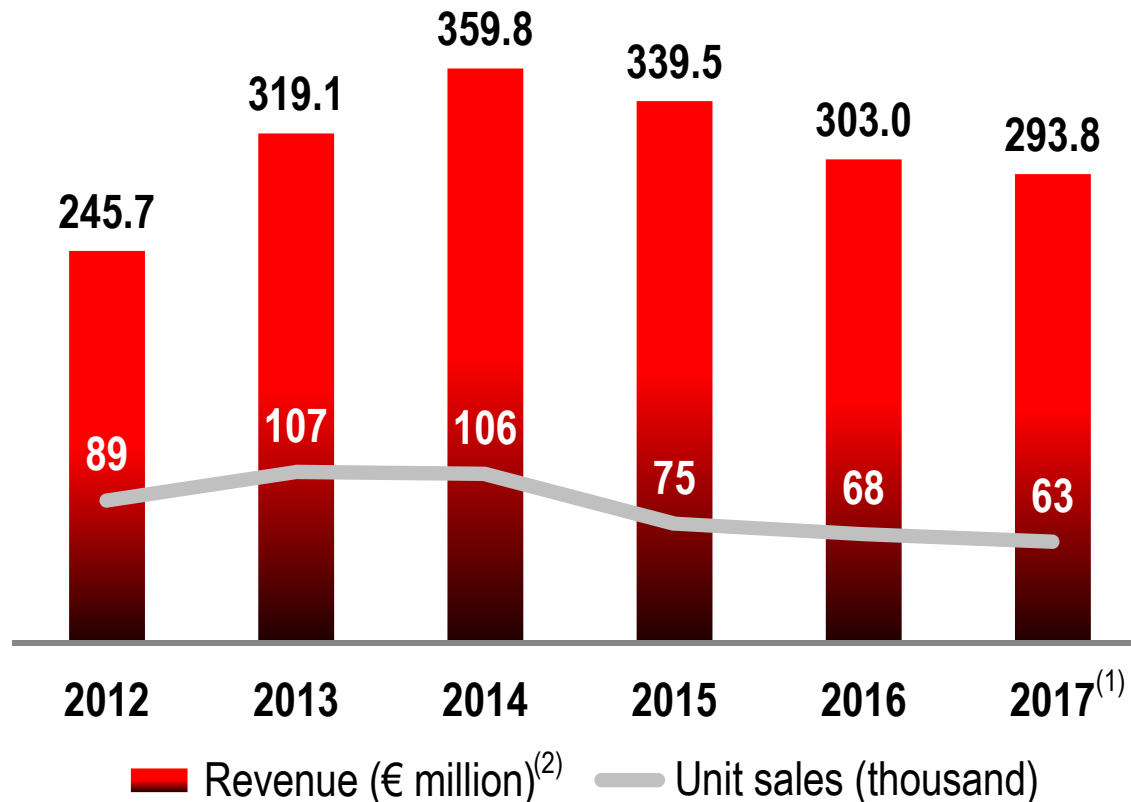
- Strong resilience of profitable service business through different economic cycles
- Expansion of service business with new engine-related products and services. Active approach in dealer management and training
- Investments in own service center and acquisition of selected dealers

(1) H1 figures annualised

➔ 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

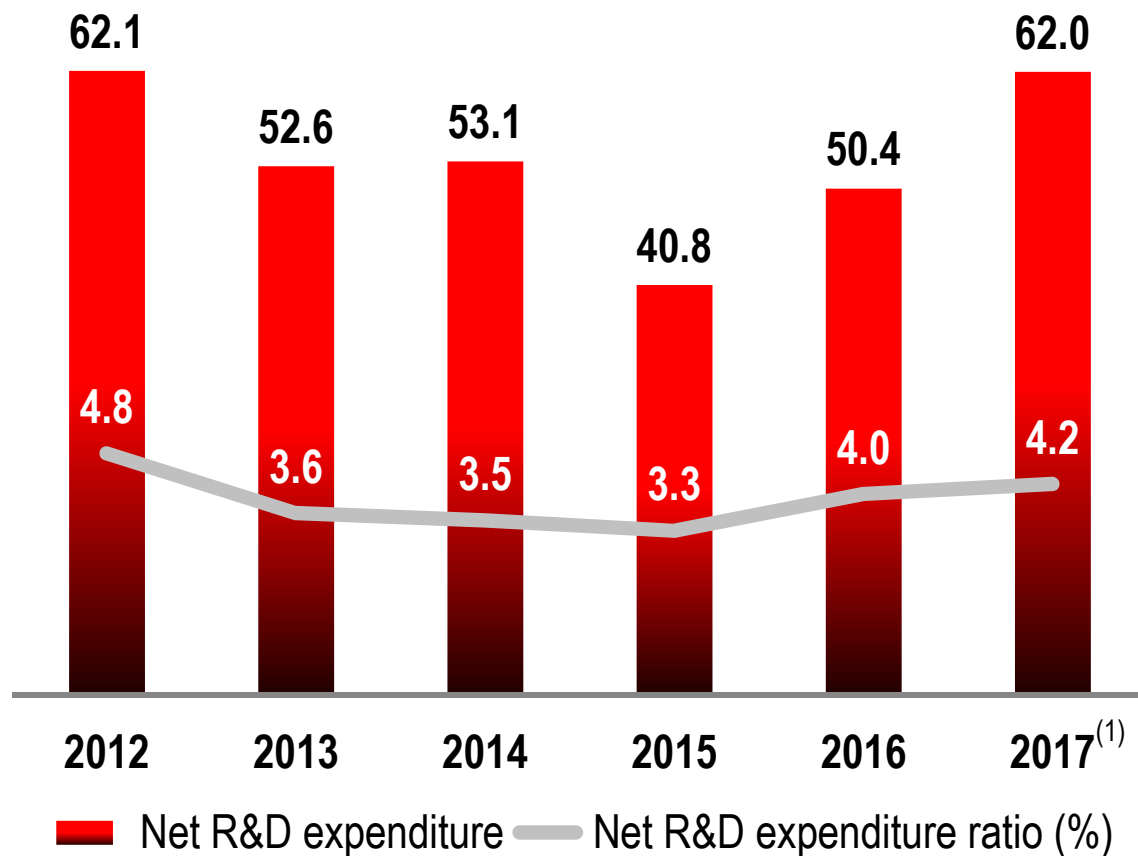
(1) H1 figures annualised

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

**→ Well positioned to capture growth opportunities in China**

# R&D expenditure

€ million



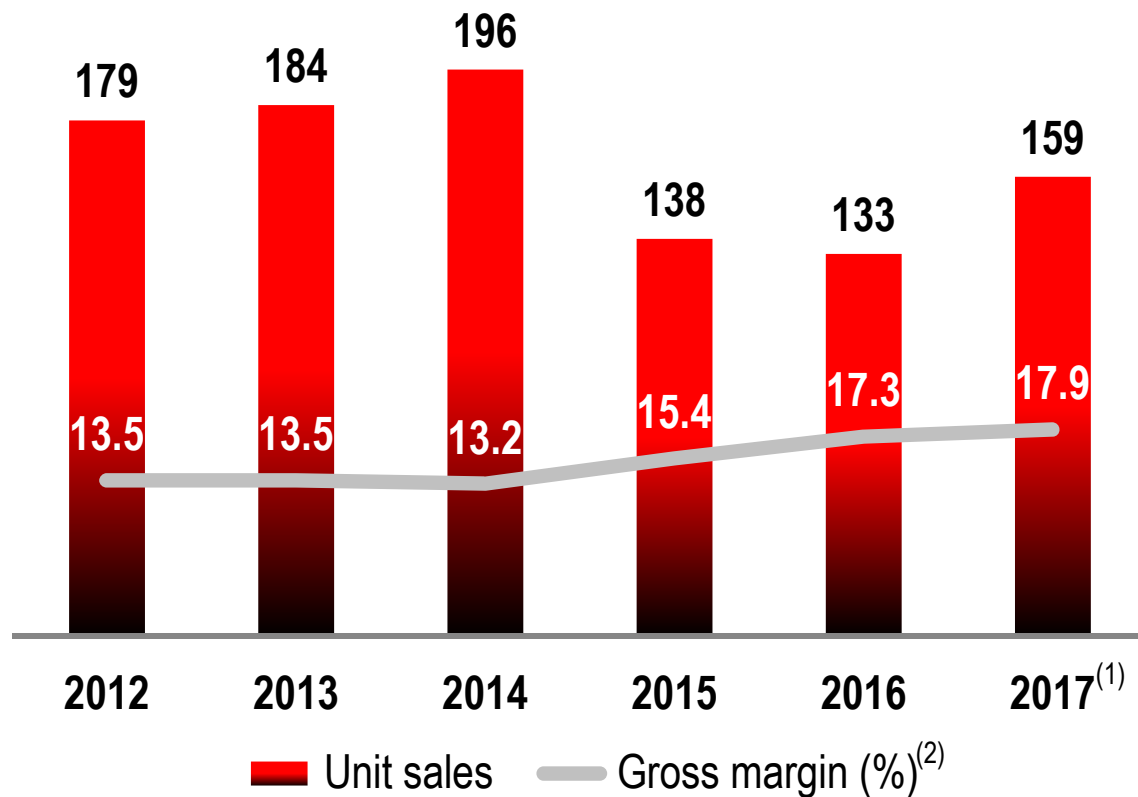
(1) H1 figures annualised

- 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



(1) H1 figures annualised

(2) Gross margin = (Revenue - Cost of goods sold) / Revenue

- Volatile market environment requires flexible production
- Gross margin improvement despite lower unit sales
- Higher capacity utilisation most important driver for profitability enhancement

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

## Summary: DEUTZ key investment highlights

Benefitting from market recovery

Successful extension of customer base

Continuous growth of service revenue

Expanding product range for Stage V emissions standard

Significant improvement of profitability

Available funds for organic and inorganic growth

Stable or growing dividend



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- **Financials**

- Outlook

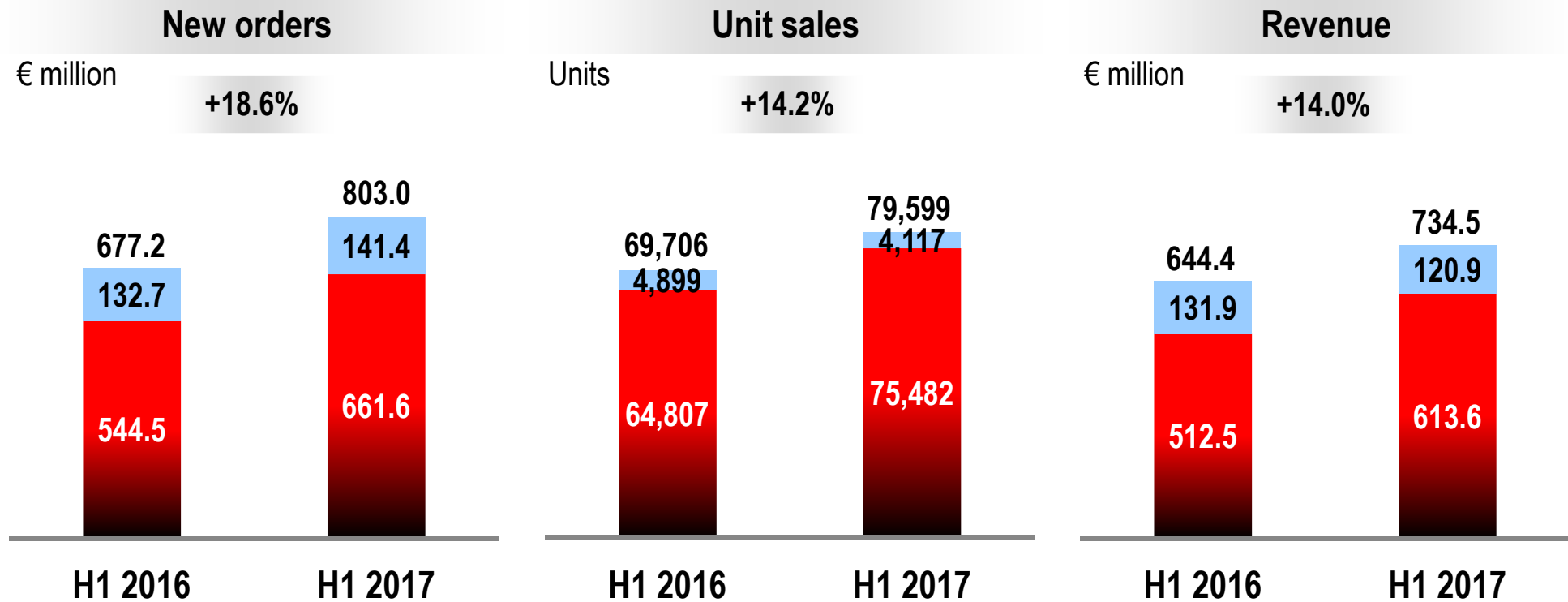


# Key figures

€ million	H1 2017	yoy	Q2 2017	yoy
<b>New orders</b>	803.0	+18.6%	399.8	+14.3%
<b>Revenue</b>	734.5	+14.0%	382.0	+11.0%
<b>EBITDA</b> (before exceptional items)	64.7	-3.3%	36.0	+1.1%
<b>EBIT</b> (before exceptional items)	22.8	+10.1%	15.2	+13.4%
<b>Net income</b>	19.8	-1.0%	4.4	-61.1%
<b>Free cash flow</b>	53.8	+€71.0 million	14.1	+€2.4 million

→ Double-digit revenue growth and strong free cash flow

# Sales figures

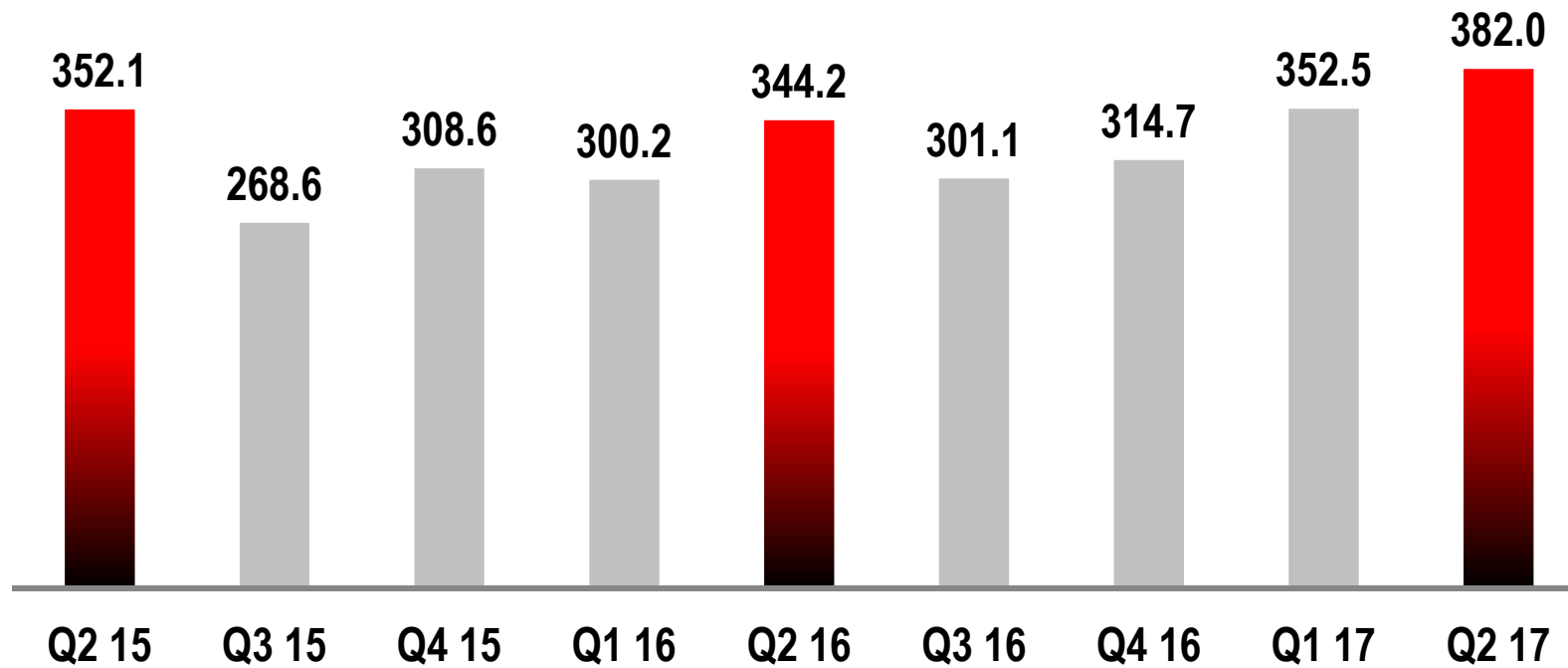


- Double-digit growth of sales figures driven by DEUTZ Compact Engines
- Book-to-bill ratio amounts to 1.09x

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

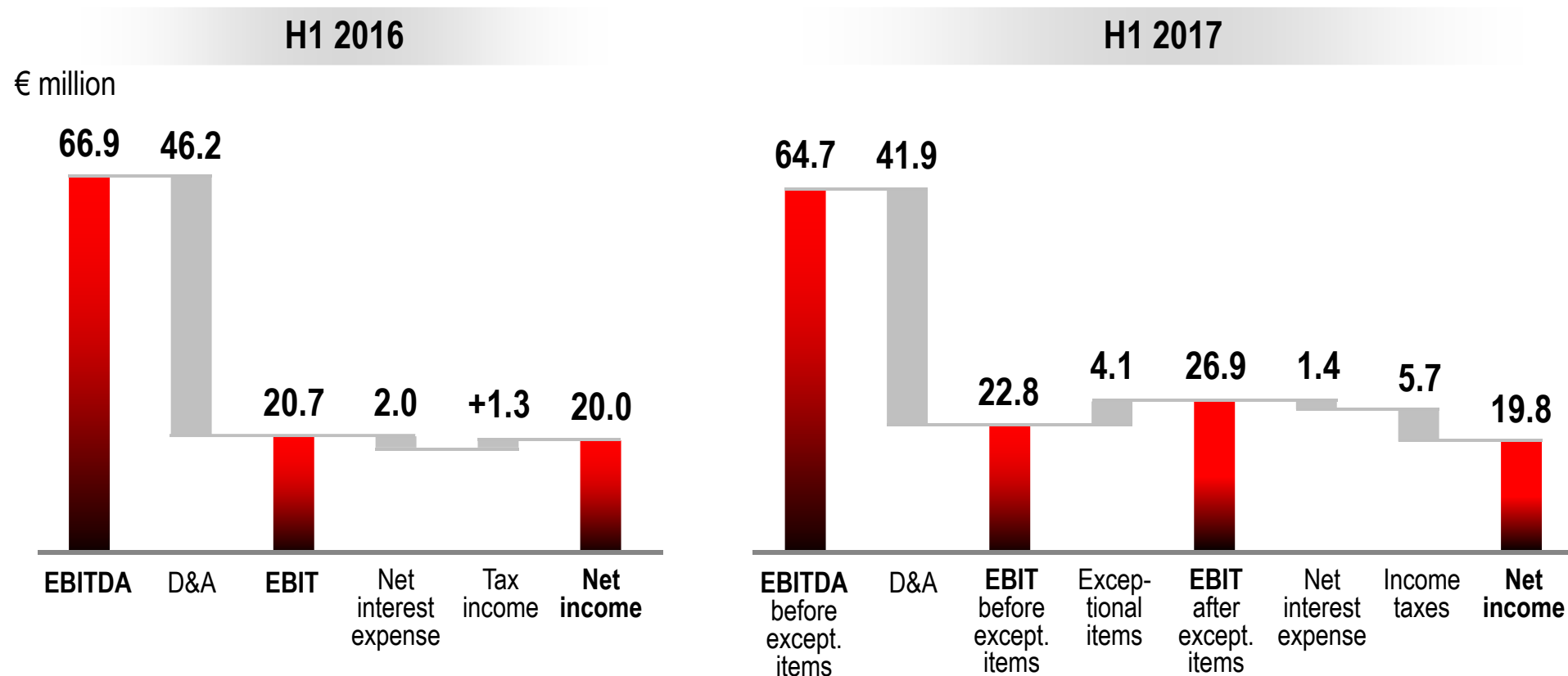
# Revenue by quarter

€ million



■ Q2 2017 revenue increased 11.0% yoy and 8.4% qoq

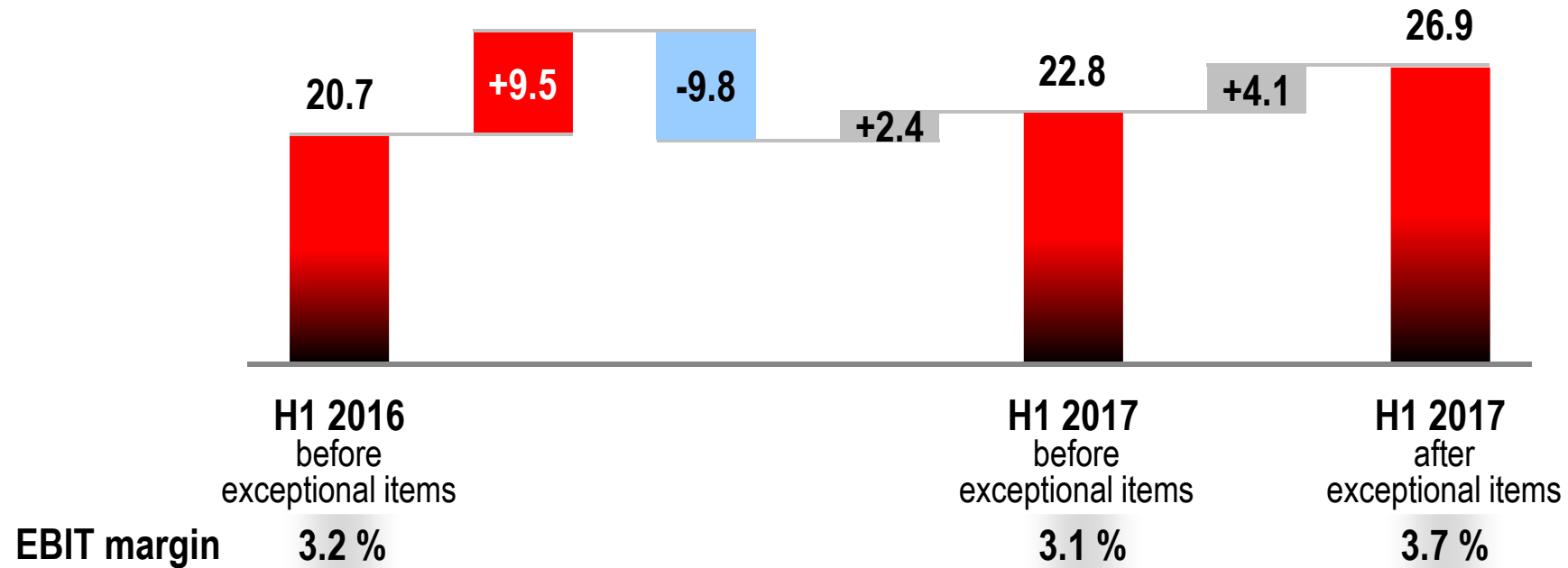
# Operating profit & net income



- Prior year operating result benefitted from licence proceeds (€5.5 million)
- Lower depreciation and amortization
- Net positive exceptional items of €4.1 million realised in H1 2017
- Higher income taxes resulting from deferred taxes

# EBIT

€ million



- EBIT improvement at DEUTZ Compact Engines due to higher business volume
- Prior year result at DEUTZ Customised Solutions was supported by licence proceeds of €5.5 million

■ DEUTZ Compact Engines   ■ DEUTZ Customised Solutions   ■ Other

## Segment: DEUTZ Compact Engines

€ million	<b>H1 2017</b>	H1 2016	Change in %
New orders	<b>661.6</b>	544.5	21.5
Unit sales	<b>75,482</b>	64,807	16.5
Revenue	<b>613.6</b>	512.5	19.7
EBIT (before exceptional items)	<b>11.4</b>	1.9	>100

€ million	<b>Q2 2017</b>	Q2 2016	Change in %
New orders	<b>335.3</b>	285.1	17.6
Unit sales	<b>40,161</b>	35,037	14.6
Revenue	<b>319.5</b>	277.0	15.3
EBIT (before exceptional items)	<b>9.9</b>	4.2	>100

- Substantial increase of new orders
- Double-digit revenue growth at all major applications: Material Handling (+37.6%), Agricultural Equipment (+25.0%), Construction Equipment (+23.3%)
- Service revenue advanced by 10.8%
- Operating profit boosted by €9.5 million due to higher business volume. Negative FX-effects and higher R&D expenditures clearly overcompensated



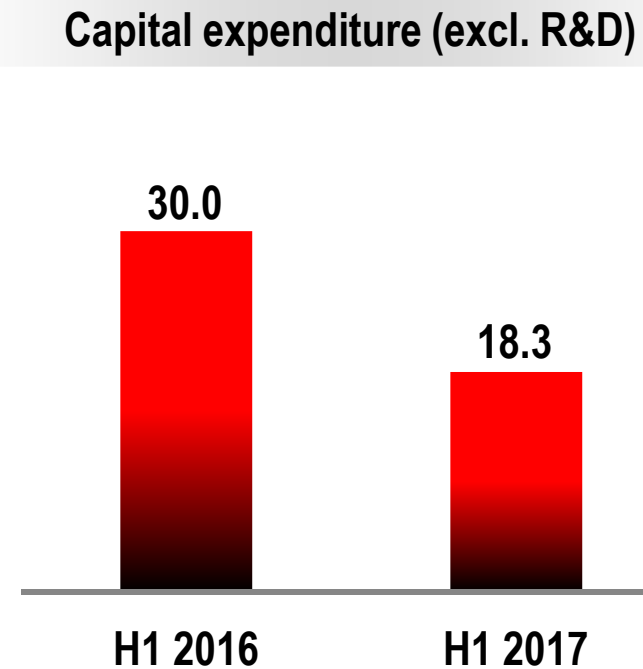
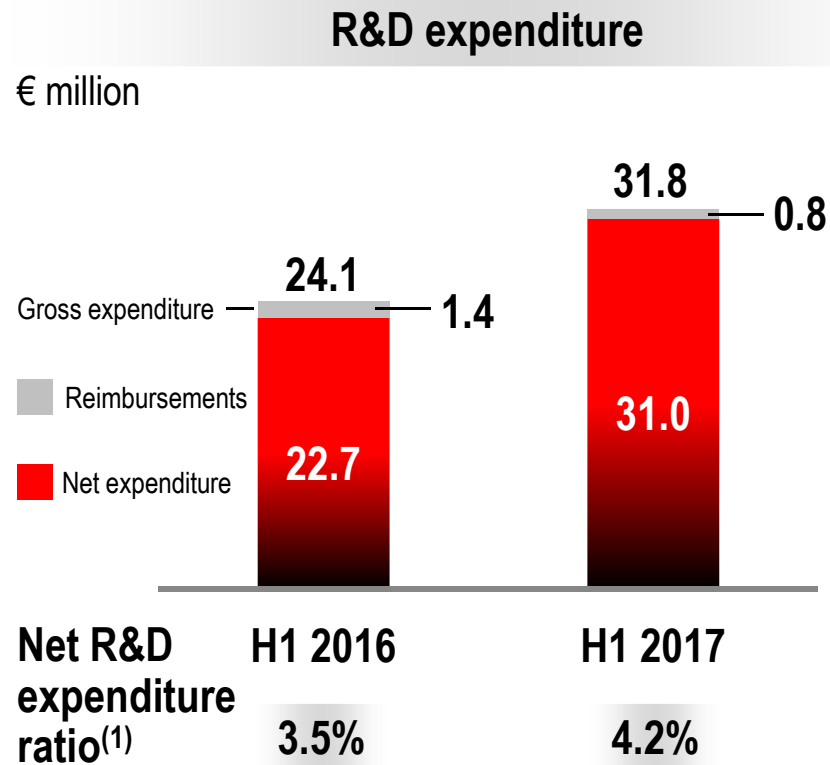
## Segment: DEUTZ Customised Solutions

€ million	<b>H1 2017</b>	H1 2016	Change in %
New orders	<b>141.4</b>	132.7	6.6
Unit sales	<b>4,117</b>	4,899	-16.0
Revenue	<b>120.9</b>	131.9	-8.3
EBIT (before exceptional items)	<b>11.6</b>	21.4	-45.8

€ million	<b>Q2 2017</b>	Q2 2016	Change in %
New orders	<b>64.5</b>	64.8	-0.5
Unit sales	<b>2,285</b>	2,557	-10.6
Revenue	<b>62.5</b>	67.2	-7.0
EBIT (before exceptional items)	<b>5.2</b>	11.2	--

- New orders increased by 6.6% yoy
- Unit sales decline mainly attributable to Stationary Equipment
- Revenue share of service business amounts to 51.1%
- EBIT reduction due to licence proceeds of €5.5 million in the prior year (Q1 2016), lower business volume, mix and FX effects

# R&D spending & capital expenditure



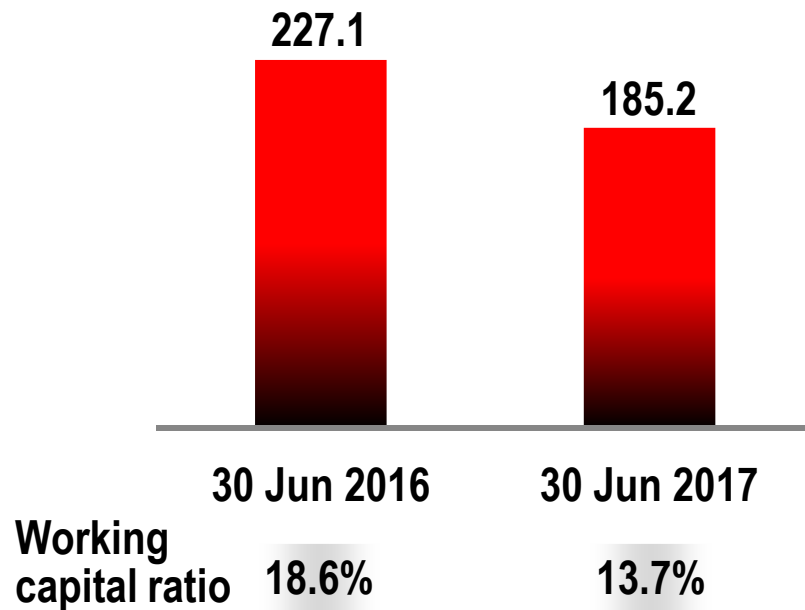
- Higher R&D expenditure in line with guidance due to expansion of product range
- Proportion of capitalised net R&D expenditure: €7.1 million (H1 2016: €2.5 million)
- CAPEX guidance for FY unchanged (approx. €70 million) despite low expenditures in H1 2017

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

# Working capital & operating cash flow

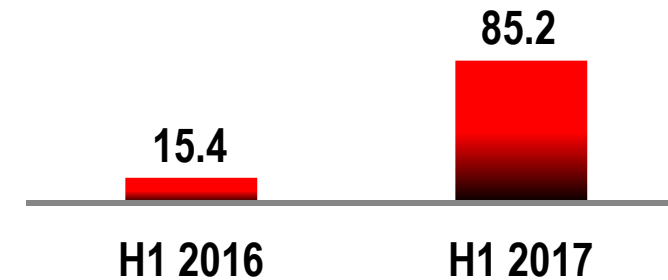
## Working capital

€ million



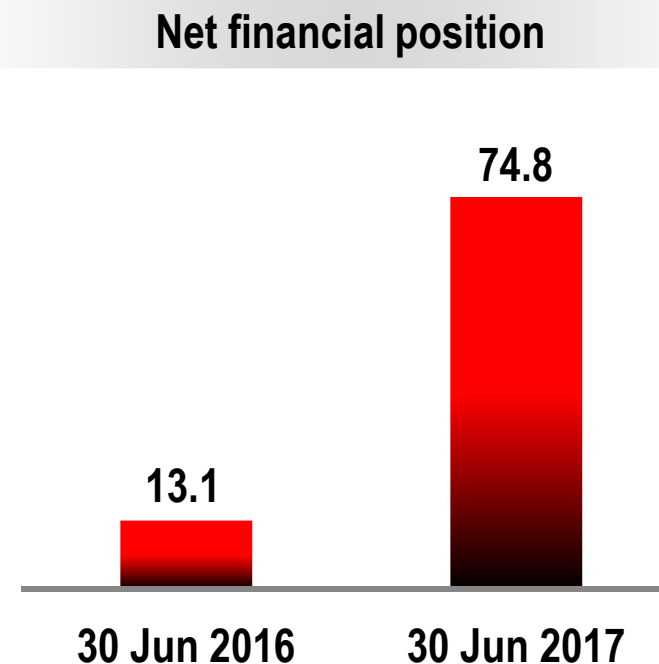
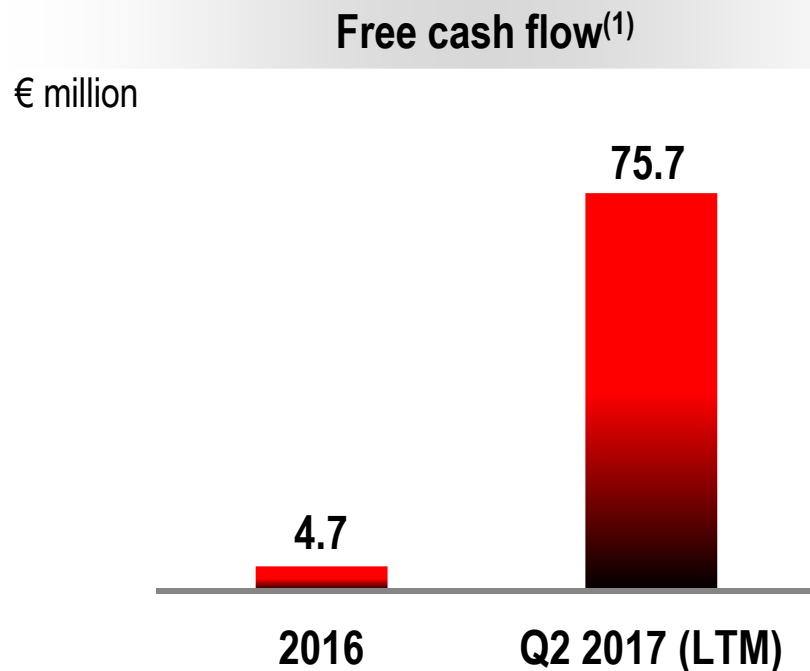
- Tight working capital management
- Significant improvement of working capital ratio

## Operating cash flow



- Strong operating cash flow driven by business growth and lower working capital

# Free cash flow generation & net financial position

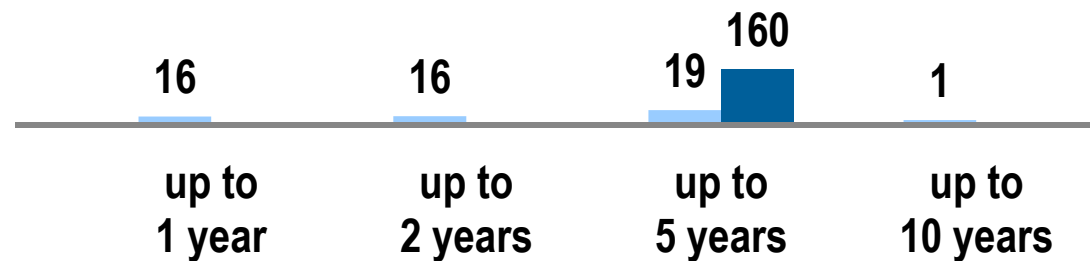
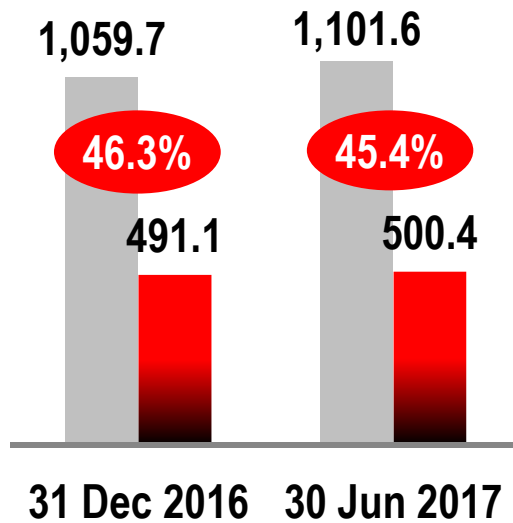


- Substantial increase of free cash flow
- Free cash flow in Q2 2017 amounted to +€14.1 million
- Net financial position improved by €61.7 million

(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

- Strong balance sheet; equity ratio amounts to 45.4%
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line prolonged by two years until June 2022 at improved conditions
  - Loan from European Investment Bank repayable until July 2020

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# Assessment for key end markets, 2017

Unit sales (equipment)	Europe	North America	China
<b>Construction equipment</b>	+5 % to +10 %	0 % to +5 % (previous: -5 % to +5 %)	+20 % to +30 % (previous: +5 % to +10 %)
<b>Material handling</b>	+5 % to +10 % (previous: 0 % to +10 %)	+5 % to +10 % (previous: -5 % to +5 %)	+20 % to +30 % (previous: 0 % to +10 %)
<b>Agricultural machinery</b>	0 % to +5 % (previous: -5 % to +5 %)		
<b>Medium &amp; light duty trucks</b>			0 % to +5 %



# Financial outlook

€ million	FY 2016 reported	FY 2017 guidance
<b>Revenue</b>	1,260.2	marked increase
<b>EBIT margin</b> (before exceptional items)	1.9 %	moderate increase
<b>R&amp;D expenditure<sup>(1)</sup></b>	50.4	60 - 70
<b>Capex (excl. R&amp;D)<sup>(1)</sup></b>	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:
  - Property sale in Cologne-Deutz with positive contribution to earnings in FY 2017 in the high double-digit million euros (after taxes)
  - Gain from disposal of building lease (€10.0 million) from Ad. Strüver in Hamburg realised in Q1 2017

# Financial calendar & contact details

- Q1-Q3 2017 result 7 November 2017
- Annual report 2017 14 March 2018
- Annual general meeting 26 April 2018

## ➤ Contact details

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