

Press Release

High hopes for 2021 following a successful start to the year for DEUTZ

- Significant new order growth; orders on hand up by around 48 percent year on year
- Strong improvement in profitability and free cash flow
- Further progress with implementing Transform for Growth; voluntary redundancy program taken up in full
- Rigorous implementation of strategic growth initiatives
- Full-year guidance for 2021 raised despite difficult supply situation

Cologne, May 6, 2021 – Having finished a year dominated by coronavirus with a much improved fourth quarter in 2020, the uptrend for DEUTZ continued into the first quarter of 2021. This could be seen from the recently published preliminary results, which the Company has confirmed today.

“The successful start to the year shows that DEUTZ is back on course for growth. Our new orders were up by around a third year on year in the first quarter of 2021, while orders on hand rose by almost a half. And although we will be dealing with the coronavirus pandemic for quite some time to come, we anticipate a sustained increase in customers’ propensity to proceed with capital expenditure in all of the main application segments,” said DEUTZ CEO Dr. Frank Hiller.

As well as a healthy operating performance, further strategic milestones were reached. In China, the world’s largest engine market, the joint venture with SANY continues to operate profitably. Its unit sales amounted to around 8,000 engines in the first quarter of this year and the aim is to increase this to between 35,000 and 40,000 engines in 2021. At the Tianjin site, DEUTZ and BEINEI have begun to manufacture the 2.9 engine series as planned. Establishment of the purchasing organization in China is also proceeding according to schedule. The intention behind this is to achieve the highest possible localization rate and thus significantly lower costs for materials and logistics.

DEUTZ also forged ahead with the ongoing expansion of its high-margin service portfolio in the reporting period. At the start of 2021, the Company added to its analog service concepts by launching a Lifetime Parts Warranty for engines that have been registered with DEUTZ online. Recording these engines in the internal service systems is an important step to be able to further optimize DEUTZ's service offering and strengthen customer loyalty. Activity under the regional growth initiatives included expansion of the service network in the USA: The establishment of a new DEUTZ Power Center got under way in the Dallas metropolitan area. The ongoing expansion supports the planned increase in total revenue of the profitable service business to around €400 million by the end of 2021.

At the start of February, DEUTZ signed a long-term supply agreement with agricultural equipment manufacturer SDF. As well as the supply of engines with a capacity of below and above 4 liters, the agreement includes expansion of the service business between the two companies and is expected to result in additional annual revenue in the low-double-digit millions of euros.

DEUTZ CFO Dr. Sebastian C. Schulte reported on the progress with the efficiency program: "The restructuring measures that we have initiated are already having a noticeable positive impact. For example, the cost savings achieved enabled us to significantly improve our profitability in the reporting period. This shows that we are on the right track to be able to lower the break-even point to our target of 130,000 DEUTZ engines." By the end of 2022, DEUTZ intends to realize potential cost savings of around €100 million gross per year, compared with the base year of 2019. Another important milestone in this context was achieved with regard to the voluntary redundancy program, which originally aimed to reduce the number of positions by 350 but had been taken up 361 employees by the time that the program ended.

New orders up sharply by around a third

On the back of market demand that was better than originally expected, new orders received by DEUTZ in the first quarter of 2021 jumped by 30.3 percent compared with the first quarter of 2020 to reach €464.8 million. All of the regions and main application segments recorded double-digit percentage increases. As at March 31, 2021, orders on hand stood at €394.3 million, which was up by a substantial 47.6 percent year on year. Within this figure, orders on hand in the high-margin service business rose by an impressive 50.0 percent to €31.8 million.

Year-on-year rise in unit sales of DEUTZ engines

The Group's sales totaled 38,384 units in the first quarter of 2021, which was 4.2 percent fewer than in the prior-year period owing to substantial decreases in the Stationary Equipment and Miscellaneous application segments. The decrease in the Miscellaneous application segment was mainly attributable to the business with electric drives for boats at Torqeedo, whose unit sales fell by 28 percent year on year to 6,135 electric motors. The reasons for this included a decline in demand in the US recreational sector, delays in the procurement of materials, and longer logistics lead times. By contrast, the other application segments saw increases in unit sales. Unit sales of DEUTZ engines¹ rose by 2.2 percent year on year to reach 32,249 engines sold.

Revenue increased only slightly year on year due to coronavirus

Despite the fall in the Group's unit sales, consolidated revenue went up by 1.1 percent to €343.4 million owing to the increase in the number of higher-value DEUTZ engines¹ sold in the reporting period. The application segments and regions presented a disparate picture. As a result of the ongoing lockdowns in Europe, revenue in the EMEA region was at more or less the same level as in the prior-year period, whereas the Asia-Pacific region's revenue went up sharply thanks, in particular, to the significant expansion of business in the Construction Equipment application segment. There was a decline in the Americas that was

¹ Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

mainly attributable to the effects of the coronavirus pandemic combined with longer transportation lead times, which had been less pronounced in the first quarter of 2020.

Strong improvement in profitability; efficiency program already paying off

EBIT before exceptional items (operating profit) improved significantly to a profit of €0.8 million in the first three months of this year (Q1 2020: loss of €11.8 million) due to the increasingly noticeable effect of cost savings resulting from the restructuring that is under way. Furthermore, the figure for the prior-year period had been burdened by payments to suppliers going through insolvency proceedings. The EBIT margin before exceptional items improved to 0.2 percent, compared with minus 3.5 percent in the first quarter of 2020.

As a result of the increase in operating profit, the net loss declined by €9.1 million to €0.9 million. Earnings per share therefore improved from minus €0.08 to minus €0.01. The net loss before exceptional items stood at €0.5 million and earnings per share before exceptional items at €0.00.

Clear improvement in free cash flow and comfortable financial position

Thanks to the improvement in operating profit and a favorable level of working capital, cash flow from operating activities was significantly better, amounting to a net cash inflow of €17.1 million (Q1 2020: net cash outflow of €11.9 million). As a result of this, coupled with the reduction in investing activities, free cash flow was up by a substantial €33.8 million compared with the first quarter of 2020 and amounted to a net cash outflow of €1.7 million.

Net financial debt was slightly higher than at the end of 2020, rising by €3.4 million to €87.2 million as at March 31, 2021. In view of the sound equity ratio, which – as it had been in the prior-year period – was above the target figure of 40 percent, the DEUTZ Group's financial position remains comfortable. Moreover, the Company continues to have unutilized credit lines totaling around €245 million at its disposal.

Positive outlook for 2021 and 2023/2024

Despite the difficult supply situation, DEUTZ recently raised its full-year guidance for 2021, having made a successful start to the new year.² It now expects unit sales of 140,000 to 155,000 DEUTZ engines in 2021.³ This should result in an increase in revenue to between €1.5 billion and €1.6 billion. In view of the continued successful expansion of the service business, DEUTZ still anticipates that service revenue will rise to around €400 million. In terms of the Company's profitability, the revenue target and the realization of further potential cost savings indicate that the EBIT margin before exceptional items is likely to be in a range of 1.0 percent to 2.0 percent.

In the medium term, DEUTZ continues to predict an increase in revenue to more than €2.0 billion in 2023/2024 and an EBIT margin before exceptional items of between 7 percent and 8 percent.

² See the ad hoc disclosure dated April 19, 2021.

³ Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

DEUTZ Group: overview of key figures

€ million	Q1 2021	Q1 2020	Change
New orders	464.8	356.7	30.3%
Group's total unit sales (units)	38,384	40,069	-4.2%
thereof DEUTZ engines	32,249	31,546	2.2%
thereof Torqueedo	6,135	8,523	-28.0%
Revenue	343.4	339.8	1.1%
EBIT	0.4	-11.8	–
thereof exceptional items	-0.4	0.0	–
Operating profit/loss (EBIT before exceptional items)	0.8	-11.8	–
EBIT margin (%)	0.1	-3.5	+3.6pp
EBIT margin before exceptional items (%)	0.2	-3.5	+3.7pp
Net income	-0.9	-10.0	91.0%
Net income before exceptional items	-0.5	-10.0	95.0%
Earnings per share (€)	-0.01	-0.08	87.5%
Earnings per share before exceptional items (€)	0.00	-0.08	–
Equity	538.2	642.0	-16.2%
Equity ratio (%)	44.3	50.4	-6.1pp
Cash flow from operating activities	17.1	-11.9	–
Free cash flow	-1.7	-35.5	95.2%
Net financial position (Mar. 31)	-87.2	-65.6	-32.9%
Employees ⁴ (Mar. 31)	4,548	4,815	-5.5%

⁴ FTEs, excluding temporary workers.

Upcoming financial dates

August 12: Interim report for the first half of 2021

November 10: Quarterly statement for the first to third quarter of 2021

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Forward-looking statements

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About DEUTZ AG

DEUTZ AG, a publicly traded company headquartered in Cologne, Germany, is one of the world's leading manufacturers of innovative drive systems. Its core competencies are the development, production, distribution, and servicing of diesel, gas, and electric drive systems for professional applications. It offers a broad range of engines delivering up to 620 kW that are used in construction equipment, agricultural machinery, material handling equipment, stationary equipment, commercial vehicles, rail vehicles, and other applications. DEUTZ has around 4,600 employees worldwide and over 800 sales and service partners in more than 130 countries. It generated revenue of almost €1.3 billion in 2020. Further information is available at www.deutz.com.