Press release

DEUTZ with jump in second quarter earnings

- Order intake rises 65 percent in the first half 2021 to more than one billion euros
- Revenue grows by 24.2 percent to €770.2 million
- Cost-saving effects of the efficiency program are becoming increasingly tangible
- Full-year guidance confirmed – guidance for free cash flow raised

Cologne, August 12, 2021 – After a successful start to 2021, DEUTZ achieved further growth in the second quarter and finished the first half of the year on a positive note. Revenue for the second quarter increased by 52.3 percent compared with the prior-year period, to reach €426.8 million. EBIT before exceptional items came to €16.0 million, up from an operating loss of €38.1 million in the second quarter of 2020.

As well as a healthy operating performance, further strategic milestones were reached. “We continued to pursue our strategic growth initiatives despite the coronavirus crisis and remained focused on embracing new technologies and driving forward the development of our portfolio,” says Dr. Frank Hiller, CEO of the DEUTZ Group. “Our hydrogen engine has now reached market maturity and this will bring us another step closer to a future of climate-neutral off-highway drive solutions. As our customers’ willingness to invest is picking up again, we are seeing growing interest in new, innovative drive systems – be it hydrogen-powered or electric.”

The Company also placed a strong emphasis on the continued expansion of its profitable service business. In January 2021, DEUTZ introduced a Lifetime Parts Warranty for engines that have been registered with DEUTZ online. And in April 2021, ‘lifecycle solutions’ were added to the service portfolio. This service offers DEUTZ customers the right products for every scenario in the lifecycle of their engines and strengthens the position of DEUTZ as a full-service provider.

Strategic partnerships and alliances are a concept that DEUTZ had already been pursuing long before the coronavirus crisis. The impact of the pandemic on the flow of goods around the world and on global supply chains has further increased the significance of these relationships. In early February, DEUTZ entered into a long-term supply agreement with agricultural machinery manufacturer SDF, which is expected to generate annual contributions to revenue in the double-digit millions of euros in the medium term. In early July, another strategic partnership was concluded with AGCO. Alongside an agreement for the supply of updated 6.1 liter and 4.1 liter engines for Fendt tractors, DEUTZ and AGCO will also cooperate on future engine technologies. Additionally the two companies will explore the possibility of expanding their collaboration to sub-150 hp engines and the associated components.

Commenting on the Company's operating performance, DEUTZ CFO Dr. Sebastian C. Schulte says: "Thanks to the marked increase in demand in all customer industries, we concluded the first half of the year with a book-to-bill ratio of 1.34. At the same time, we were able to further strengthen our profitability and improved our EBIT margin before exceptional items from minus 8.0 percent to 2.2 percent. The successful implementation of the restructuring measures we initiated is really starting to pay off."

Double-digit percentage increases in new orders, unit sales, and revenue

In the first half of 2021, **new orders** received by DEUTZ totaled €1,028.8 million – an increase of 65.0 percent compared with the prior-year period, which had been heavily affected by the outbreak of the pandemic. All regions and application segments achieved double-digit percentage increases thanks to customers' growing willingness to invest.

As at June 30, 2021, the DEUTZ Group's **orders on hand** totaled €531.3 million (June 30, 2020: €253.5 million). Orders on hand in the service business were up by 62.5 percent to €35.1 million.

New orders in June 2021 were boosted by nearly €100 million due to the **one-off effects of spending being brought forward**, which helps to explain why the increase in new orders was higher relative to the increase in unit sales and revenue as described in the following section. This situation came about mainly because of customer orders being brought forward in response both to price adjustments and to longer lead times resulting from global material shortages and logistics bottlenecks.

With a total of 93,627 engines sold, the DEUTZ Group registered an **increase in unit sales** of 26.8 percent in the reporting period. The number of DEUTZ engines[1] sold rose by 30.9 percent to 75,431. The DEUTZ subsidiary Torqeedo sold 18,196 electric boat drives, which was 12.0 percent more than in the first half of 2020.

The EMEA region, which is currently DEUTZ’s largest sales market, saw the sharpest rise (up by 34.3 percent). This growth was driven primarily by the Material Handling application segment, whose unit sales nearly doubled.

Reflecting the growth in unit sales, DEUTZ generated **consolidated revenue** of €770.2 million in the first half of 2021. All application segments contributed to this year-on-year increase of 24.2 percent with the exception of Stationary Equipment. Service revenue rose by 14.5 percent to €195.4 million in the reporting period. This means that DEUTZ is on track to achieve its target revenue of around €400 million for the high-margin service business in 2021.

All regions contributed to the increase in revenue with double-digit percentage growth rates. The German sales market saw a particularly sharp rise of 31.5 percent. Revenue in China, the biggest sales market for the regional growth strategy of DEUTZ, advanced by 40.4 percent compared with the first half of 2020 to reach €76.4 million.

[1] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

Strong improvement in profitability; efficiency program is paying off

EBIT before exceptional items (operating profit/loss) improved from a loss of €49.9 million in the prior-year period to a profit of €16.8 million in the first half of 2021. The prior-year figure had been adversely affected by the fallout from the coronavirus pandemic, as well as payments made under continuation agreements with suppliers that are going through insolvency proceedings, and impairment losses recognized on capitalized development projects. The significant improvement in EBIT before exceptional items was mainly attributable to the growth in the volume of business, the associated economies of scale, and the fact that no further payments to suppliers going through insolvency proceedings were required. Earnings were further boosted by the increasingly noticeable effect of cost savings resulting from the restructuring process. The **EBIT margin before exceptional items** also improved significantly year on year, from minus 8.0 percent to plus 2.2 percent.

EBIT amounted to a profit of €16.1 million in the reporting period (H1 2020: loss of €49.9 million). This figure takes account of exceptional items amounting to an expense of €0.7 million that related to the efficiency program initiated at the start of 2020. The **EBIT margin** came to 2.1 percent (H1 2020: minus 8.0 percent).

The increase in operating profit meant that the Company generated **net income** of €13.3 million in the first half of 2020, compared with a net loss of €52.3 million in the prior-year period. **Earnings per share** improved from minus €0.43 to plus €0.11 as a result. **Net income before exceptional items** stood at €14.0 million; **earnings per share before exceptional items** came to approximately €0.12.

Positive free cash flow and a comfortable financial position

Compared with the prior-year period, when cash flow had been weakened by the pandemic, **cash flow from operating activities** improved from a net outflow of €43.7 million in H1 2020 to a net inflow of €44.7 million in H1 2021. This positive trend was primarily due to the improved operating profit and a more favorable level of working capital. As a result of the improvement in cash flow from operating activities and the reduction in investing activities, **free cash flow** was up by €95.4 million year on year to €9.7 million.

Reflecting these changes in cash flow in the first half of 2021, **net financial debt** was slightly higher than at the end of 2020, rising by €0.5 million to €84.3 million as at June 30, 2021. With an **equity ratio** of 44.3 percent, which is above the general target figure of greater than 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.

Full-year guidance for 2021 confirmed; Free cash flow guidance raised

It can be assumed that global problems with the supply of input materials will continue to weigh on business performance and that supply issues for certain components will persist. "In light of our positive performance in the first half of this year and the current level of orders on hand, we remain confident that we are on track to achieve what we predicted in the upgraded full-year guidance for 2021 in April," says DEUTZ CEO Dr. Frank Hiller, looking ahead.

Unit sales are still expected to reach between 140,000 to 155,000 DEUTZ engines[2] in 2021. This should result in an increase in revenue to between €1.5 billion and €1.6 billion. The profitable service business is predicted to generate around €400 million of this revenue. The anticipated increase in unit sales and revenue and the realization of further potential cost savings through the implementation of the efficiency program indicate that the EBIT margin before exceptional items is likely to be in a range of 1.0 percent to 2.0 percent.

A positive exceptional item of approximately €60 million that DEUTZ had been expecting to register in 2021 in connection with the final installment of the purchase price for the sale of the former Cologne-Deutz site is now no longer expected to be received this year. The date and amount of the payment depend on when the development plan for the site is formally approved by the City of Cologne and so cannot be precisely forecast. Based on the information currently available, DEUTZ now expects that the criteria needed to trigger payment of the final installment of the purchase price will be met in 2022.

[2] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

Including this exceptional item, DEUTZ had anticipated free cash flow to be a negative figure in the low to mid-double-digit millions of euros for 2021 as a whole. However, cash flow from operating activities is now expected to be much improved thanks to the better business performance in the first half of 2021 than had been expected at the start of the year and the progress that has been made with the ongoing optimization of working capital. Consequently, free cash flow for the whole of 2021 is likely to be only a negative figure in the low double-digit millions of euros despite the fact that the outstanding purchase price installment is now not expected to be received until 2022.

Medium-term targets for 2023/2024 confirmed

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.

DEUTZ Group: overview of key figures

€ million	**H1/2021**	**H1 2020**	Delta	**Q2/2021**	**Q2/2020**	Delta
New orders	1,028.8	623.6	65.0%	564.0	266.9	111.3%
Group's total unit sales (units)	93,627	73,859	26.8%	55,243	33,790	63.5%
thereof DEUTZ engines	75,431	57,615	30.9%	43,182	26,069	65.5%
thereof Torqeedo	18,196	16,244	12.0%	12,061	7,721	56.2%
Revenue	770.2	620.0	24.2%	426.8	280.2	52.3%
EBIT	16.1	-49.9	-	15.7	-38.1	-
thereof exceptional items	-0.7	0.0	-	-0.3	0.0	-
Operating profit/loss (EBIT before exceptional items)	16.8	-49.9	-	16.0	-38.1	-
EBIT margin (%)	2.1	-8.0	+10.1 pp	3.7	-13.6	+17.3 pp
EBIT margin before exceptional items (%)	2.2	-8.0	+10.2 pp	3.7	-13.6	+17.3 pp
Net income	13.3	-52.3	-	14.2	-42.3	-
Net income before exceptional items	14.0	-52.3	-	14.5	-42.3	-
Earnings per share (€)	0.11	-0.43	-	0.12	-0.35	-
Earnings per share before exceptional items (€)	0.12	-0.43	-	0.12	-0.35	-
Equity	555.1	596.4	-6.9%	555.1	596.4	-6.9%
Equity ratio (%)	44.3	48.5	-4.2 pp	44.3	48.5	-4.2 pp
Cash flow from operating activities	44.7	-43.7	-	27.6	-31.8	-
Free cash flow	9.7	-85.7	-	11.4	-50.2	-
Net financial position	-84.3	-117.8	28.4%	-84.3	-117.8	28.4%
Employees[3] (June 30)	4,631	4,673	-0.9%	4,631	4,631	-0.9%

[3] FTEs, excluding temporary workers.

Upcoming financial dates

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

March 17, 2022: 2021 annual report

April 28, 2022: Annual General Meeting

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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.