

Q1-Q3 2015 results

5 November 2015

Dr Helmut Leube, CEO

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The engine company.



- **Review Q1-Q3 2015**

- **Outlook**

- **Annex**

Key figures

€ million	Q1-Q3 2015	yoy	Q3 2015	qoq
Order intake	932.9	-13.4%	262.2	-25.0%
Revenue	938.8	-20.3%	268.6	-23.7%
EBITDA (before one-offs)	85.6	-9.4%	15.2	-58.4%
EBIT (before one-offs)	10.6	-53.5%	-9.7	-€19.9 million
Net income	7.3	+€3.9 million	-9.4	-€18.4 million

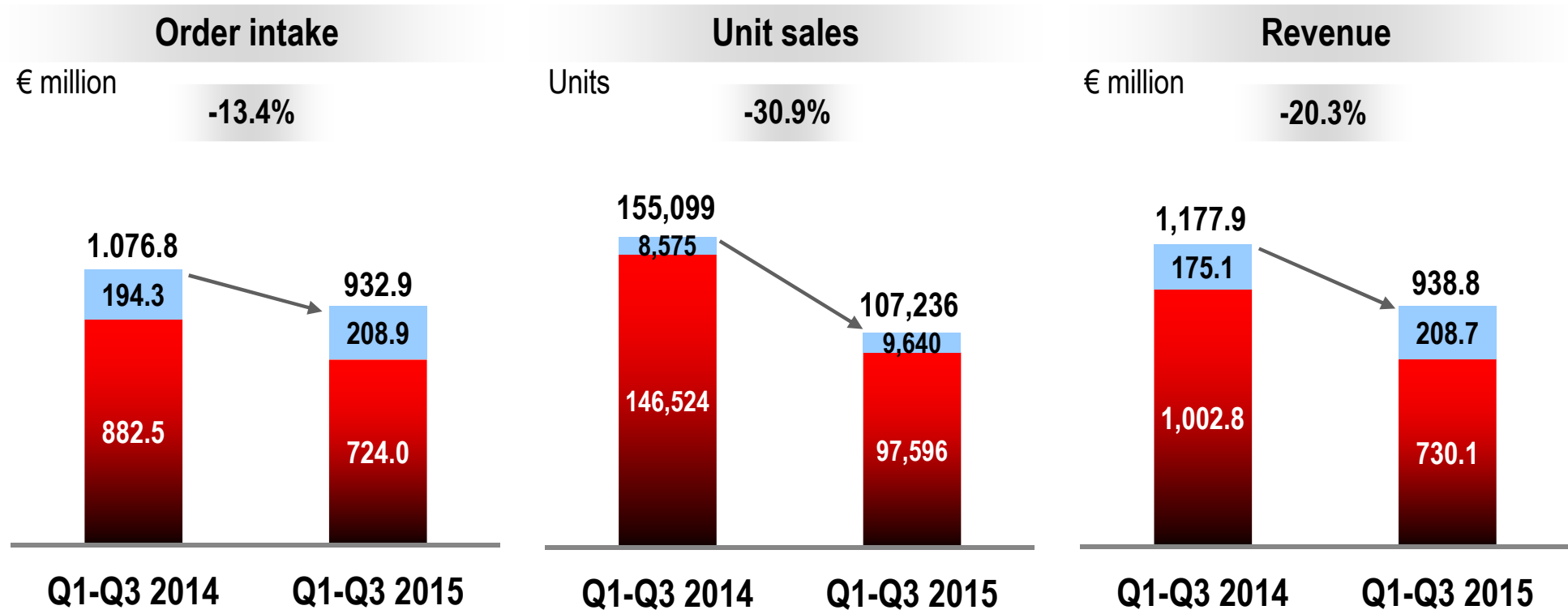
- Q3 2015 result depressed by markets' reluctance to invest
- Financial guidance for the current fiscal year lowered on 15th September

Market assessment

	2015
Unit sales (equipment)	
Construction equipment Europe	sideways
Construction equipment North America	0% to -5% (previous: sideways)
Construction equipment China	more than -40% (previous: more than -30%)
Agricultural Machinery Europe	approx. -10% (previous: -5% to -10%)
Automotive China	more than -20% (previous: more than -10%)

- Pronounced Q3 market downturn in North America and China
- European engine sales below end-market development due to pre-buys in 2014
- New clients partly compensate challenging market environment
- Current assessment for 2016: sideways movement in most key markets

Sales figures

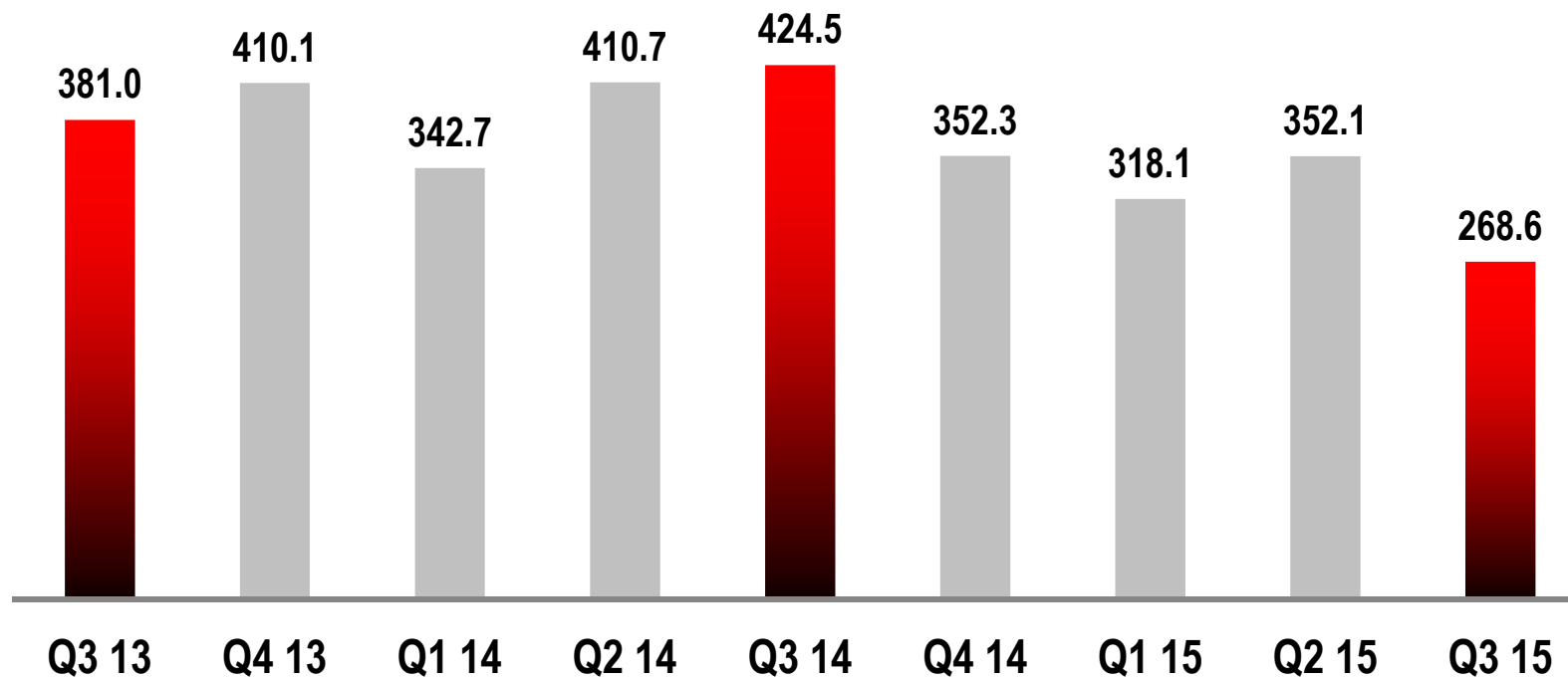


- Order intake decrease caused by pre-buys in FY 2014 and market slowdown
- Revenue declined less than unit sales due to better service business and positive mix effects

 DEUTZ Compact Engines  DEUTZ Customised Solutions

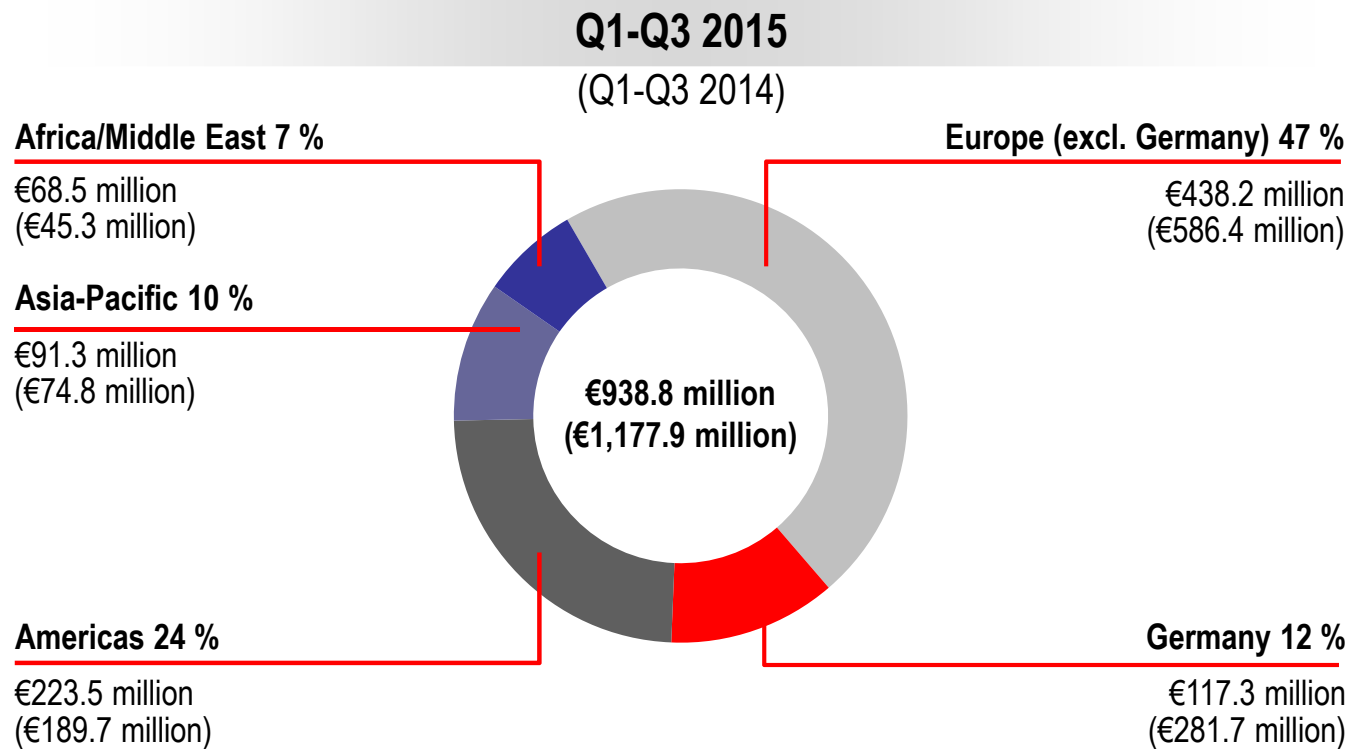
Revenue development

€ million



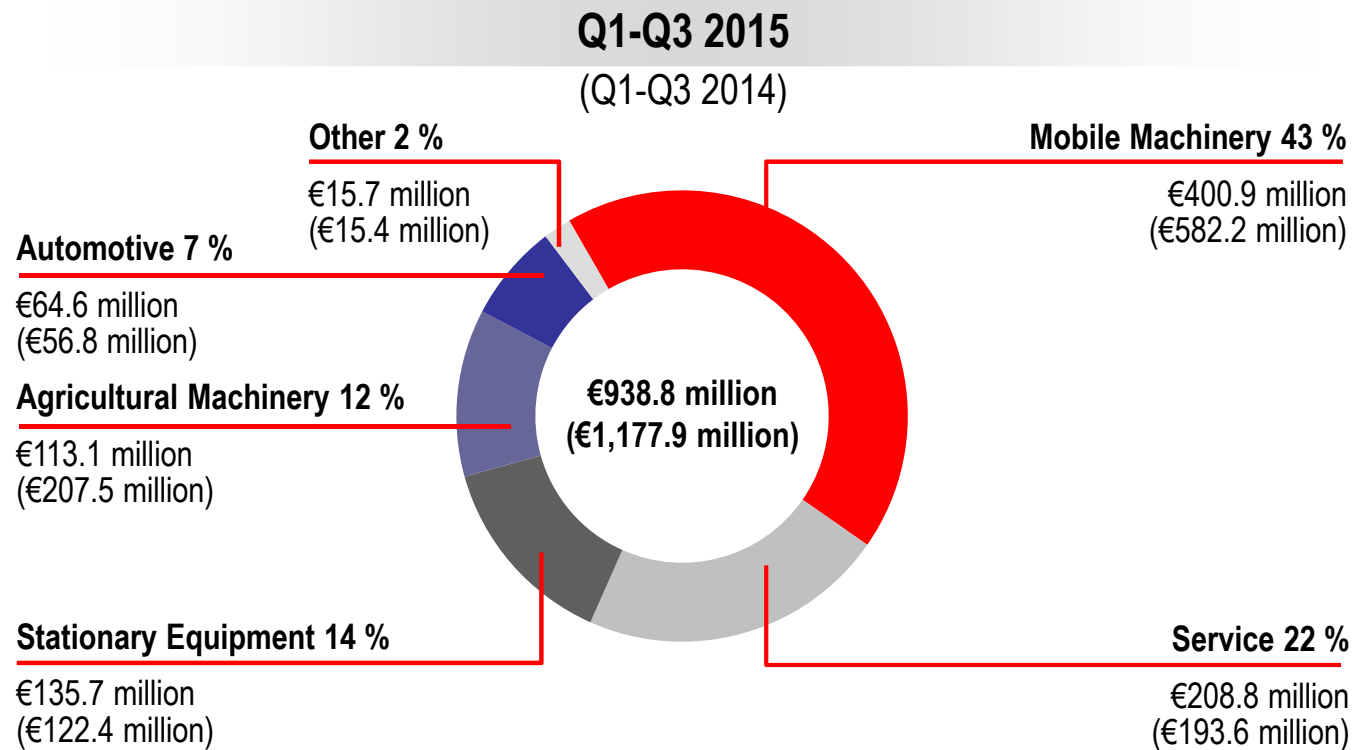
- Q3 2015 revenue decreased 36.7% yoy and 23.7% sequentially
- Previous year figures benefitted from engine pre-buys
- Quarter-on-quarter decline caused by noticeable softer end markets

Revenue split by region



- Revenue decline in Europe mainly caused by emission level change and related pre-buy effects in FY 2014
- Americas (+17.8%) and Asia-Pacific (+22.1%) increased yoy; significant slowdown in Q3
- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,206.6 million (-17.1%); corresponding revenue share of Asia-Pacific amounts to 29.8%

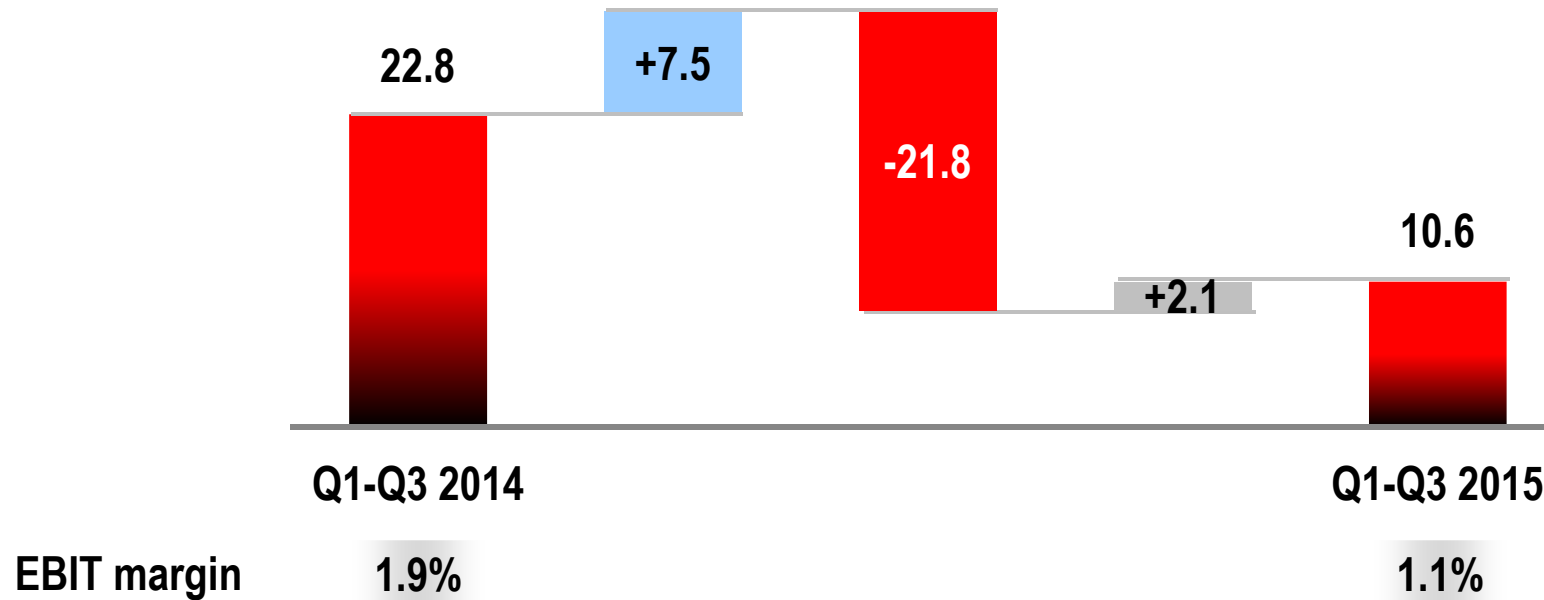
Revenue split by application



- Substantial revenue decline in Agricultural (-45.5%) and Mobile Machinery (-31.1%)
- Revenue improvement in Automotive (+13.7%), Stationary Equipment (+10.9%) and Service (+7.9%)
- Pro-forma revenue in Automotive incl. at-equity consolidated JV DEUTZ Dalian: €293.7 million (corresponding revenue share amounts to 24.3%)

EBIT (before one-offs)

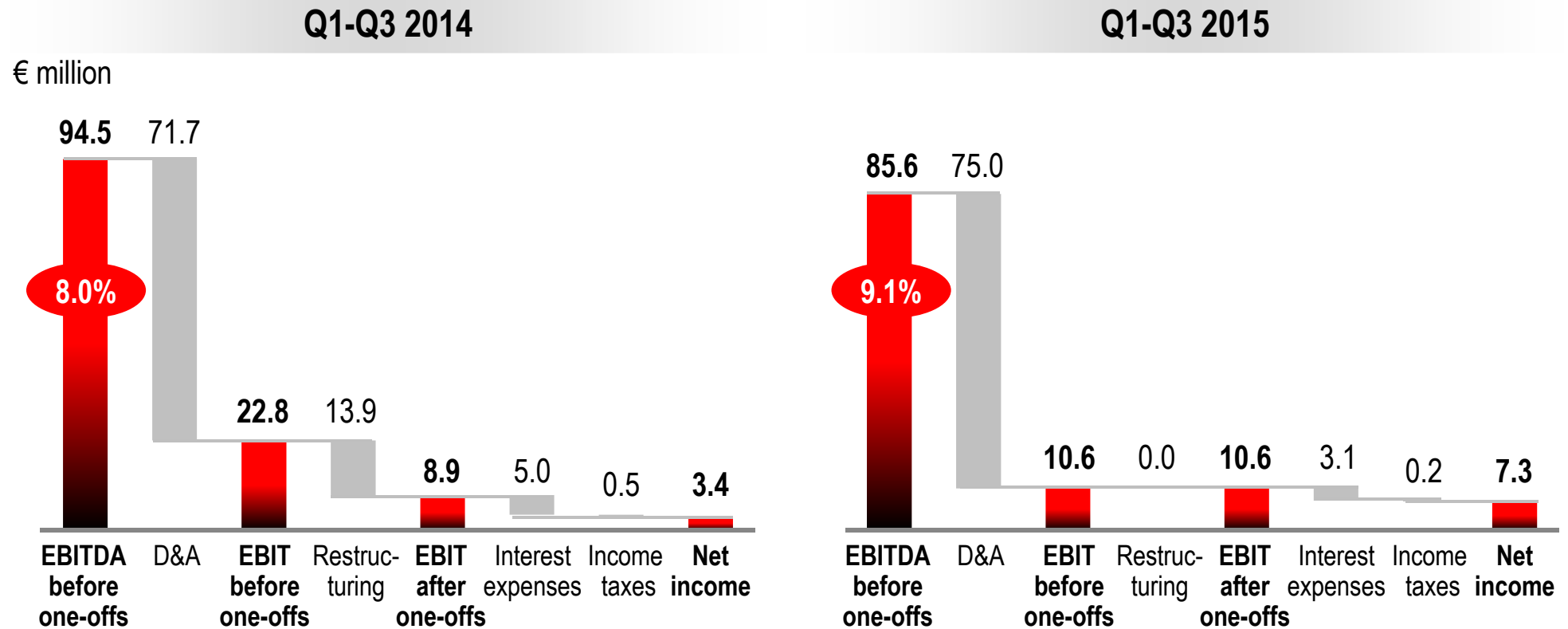
€ million



- Operating profit at DEUTZ Compact Engines burdened by negative scale effects in Q3
- EBIT improvement at DEUTZ Customised Solutions driven by better capacity utilisation
- Segment Other benefitted from reversal of unrealised FX-effects in Q3

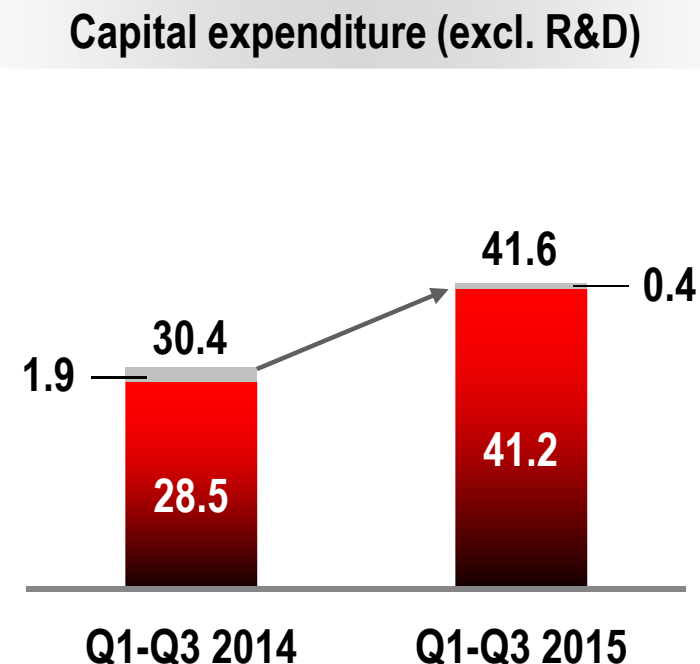
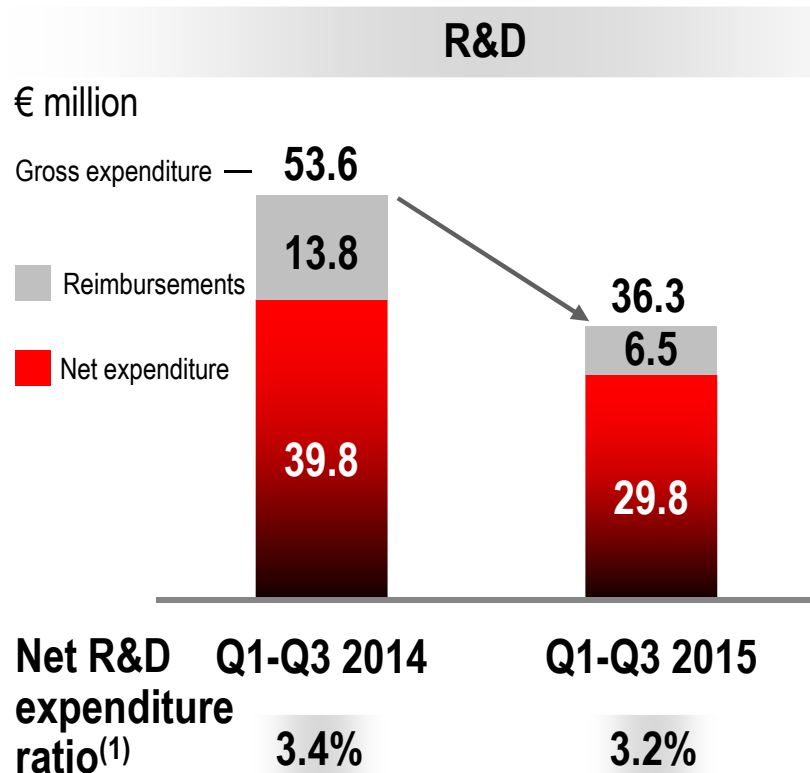
 DEUTZ Customised Solutions  DEUTZ Compact Engines  Other

Operating profit & net income



- Operating profit (before one-offs) decrease mainly related to lower production volume
- Prior year result was affected by restructuring provisions for site optimisation
- Improvement of EBITDA margin driven by elimination of ramp-up costs and lower quality costs
- Net income improved by €3.9 million to €7.3 million

R&D & capital expenditure



- R&D scaled back significantly after all engines designed for the latest emission standard in the EU and in the US were launched in 2014
- Proportion of capitalised net R&D expenditure: €9.4 million (Q1-Q3 2014: €21.7 million)

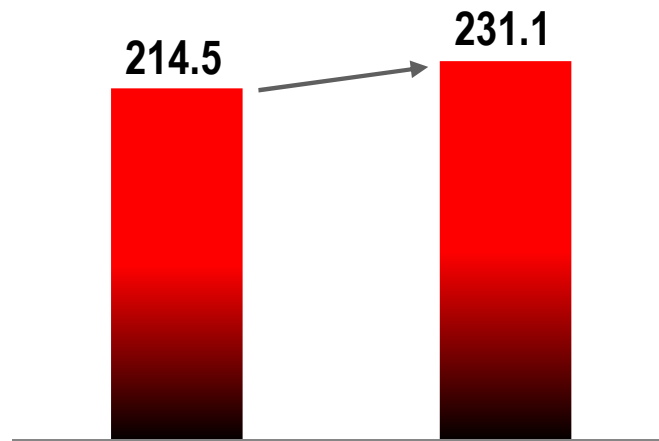
- Capital expenditure increased by €11.2 million
- New shaft centre under construction (important component of our site optimisation)

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

Working capital & operating cash flow

Working capital

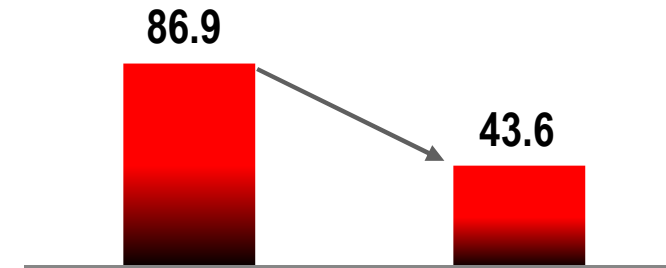
€ million



Working capital ratio (30 Sep)	Q1-Q3 2014	Q1-Q3 2015
	13.5%	17.9%

- Working capital increase (+7.7%) mainly due to higher inventories caused by lower turnover ratio and foreign currency translation
- Increase of working capital ratio also related to revenue decrease

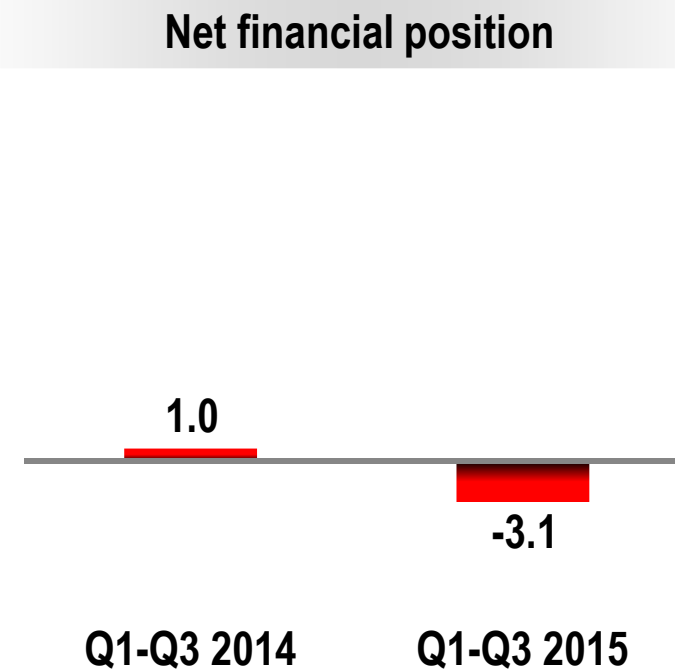
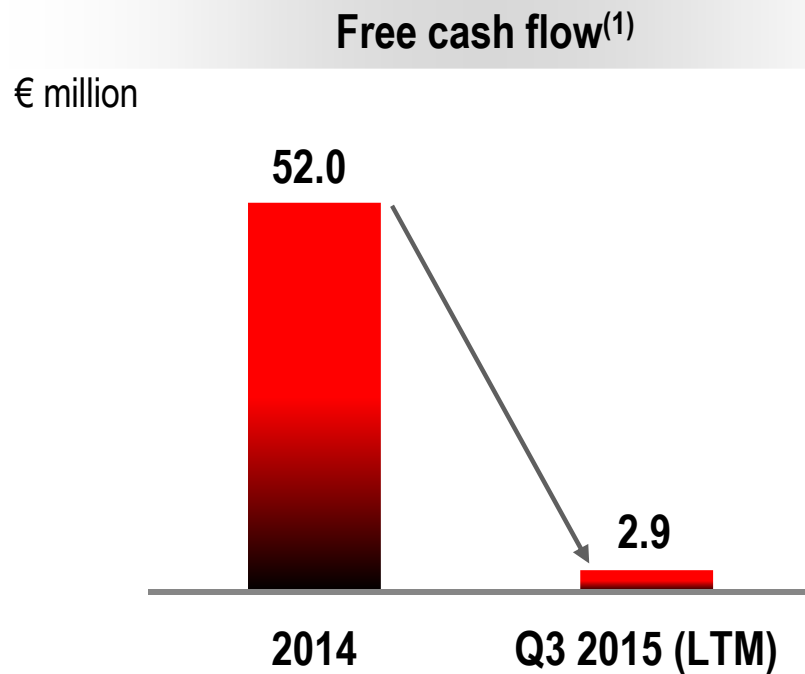
Operating cash flow



Period	Operating cash flow (€ million)
Q1-Q3 2014	86.9
Q1-Q3 2015	43.6

- Operating cash flow decrease driven by lower business volume

Free cash flow generation & net financial position



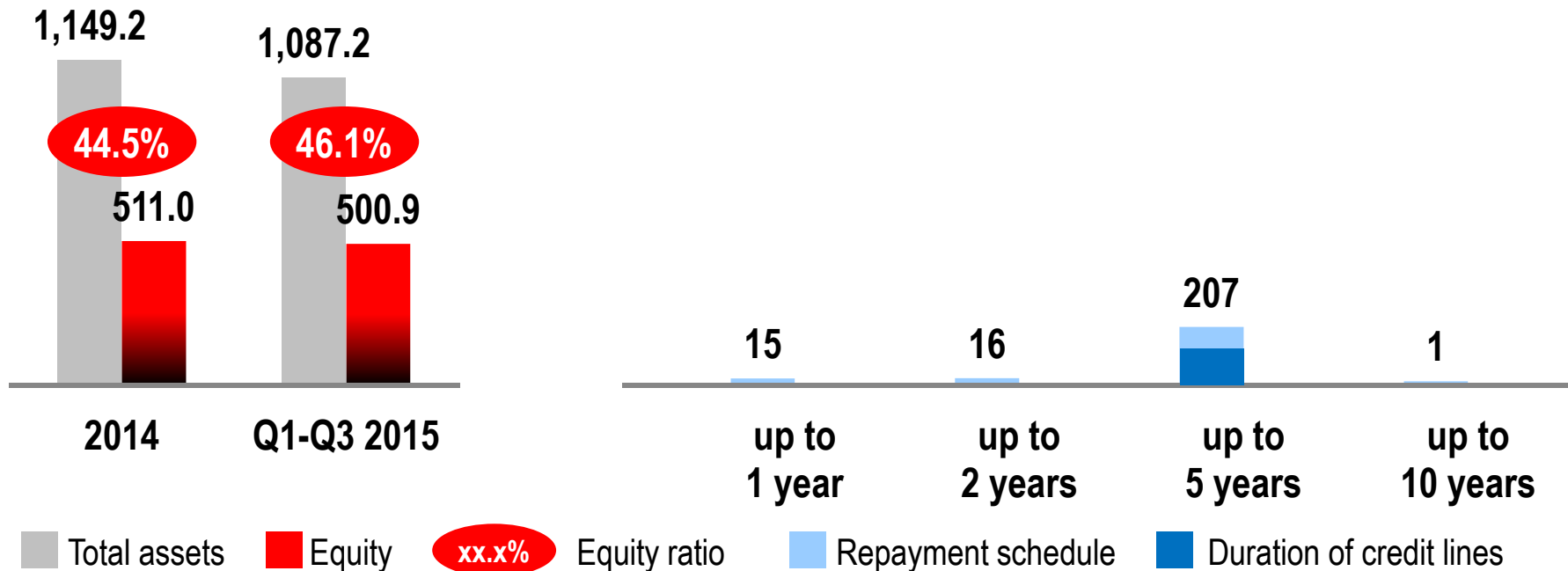
■ Last twelve months free cash flow decreased to €2.9 million due to lower operating cash flow

■ Almost debt free

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

Equity ratio & funding

€ million



- Equity ratio increased by 1.6%-points to 46.1%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line extended in Q2 by one year until May 2020
 - Loan from European Investment Bank repayable until July 2020

Segments: DEUTZ Compact Engines

€ million	Q1-Q3 2015	Q1-Q3 2014	Change in %
New orders	724.0	882.5	-18.0
Unit sales	97,596	146,524	-33.4
Revenue	730.1	1,002.8	-27.2
EBIT (before one-offs)	-16.9	4.9	--

€ million	Q3 2015	Q2 2015	Change in %
New orders	194.0	281.1	-31.0
Unit sales	26,243	37,758	-30.5
Revenue	201.8	277.3	-27.2
EBIT (before one-offs)	-23.4	2.5	--

- Q1-Q3 revenue decline mainly driven by Agricultural (-46.6%) and Mobile Machinery (-34.2%)
- Service business revenues improved by 4.8% yoy
- At-equity consolidated Joint Venture DEUTZ Dalian (China) with revenue of €267.8 million (-19 % on local currency basis). Lower profit contribution due to very challenging market environment
- Negative scale effects caused significant decrease of operating profit in Q3

Segments: DEUTZ Customised Solutions

€ million	Q1-Q3 2015	Q1-Q3 2014	Change in %
New orders	208.9	194.3	7.5
Unit sales	9,640	8,575	12.4
Revenue	208.7	175.1	19.2
EBIT (before one-offs)	26.0	18.5	40.5

€ million	Q3 2015	Q2 2015	Change in %
New orders	68.2	68.6	-0.6
Unit sales	2,873	3,455	-16.8
Revenue	66.8	74.8	-10.7
EBIT (before one-offs)	8.7	6.3	38.1

- Unlike DEUTZ Compact Engines, segment is not affected by European pre-buys in FY 2014
- Q1-Q3 revenue increase across all applications: e.g. Automotive (+38.6%), Mobile Machinery (+20.0%) and Stationary Equipment (+5.4%)
- Service business revenues improved by 12.3% yoy
- Operating profit increase (+40.5% yoy) driven by better capacity utilisation

Summary

Pronounced market slowdown in Q3

EBIT decrease due to scale effects at DEUTZ Compact Engines

Focus Chinese production activities on DEUTZ Dalian

Site optimisation in Germany well on track

Strong balance sheet and solid net financial position



The engine company.

Agenda

- **Review Q1-Q3 2015**

- **Outlook**

- **Annex**

Financial outlook

€ million	2014 reported	Previous 2015 guidance	Revised 2015 guidance
Revenue	1,530.2	approx. -10 %	approx. -20%
EBIT margin (before one-offs)	2.1 %	approx. 3 %	approx. 0 %
Net R&D expenditure⁽¹⁾	53.1	significant decline	significant decline
Capex (excl. R&D)⁽¹⁾	40.3	~ 50	~ 50

(1) Net of reimbursements

- Financial outlook revised on 15th September due to markets' reluctance to invest

Agenda

- Review Q1-Q3 2015

- Outlook

- Annex

Summary of key financials (I)

€ million	Q1-Q3 2015	Q1-Q3 2014	Change (%)
Revenue	938.8	1,177.9	-20.3
EBITDA (before one-offs)	85.6	94.5	-9.4
EBIT (before one-offs)	10.6	22.8	-53.5
EBIT margin (%)	1.1	1.9	--
Net income	7.3	3.4	>100
Basic earnings per share (€)	0.07	0.03	>100
Number of employees (30 September)	3,755	3,976	-5.6

Summary of key financials (II)

€ million	Q1-Q3 2015	Q1-Q3 2014	Change (%)
Total assets	1,087.2	1,180.3	-7.9
Equity	500.9	497.6	0.7
Equity ratio (%)	46.1	42.2	--
Cash flow from operating activities	43.6	86.9	-49.8
Free cash flow ⁽¹⁾	-9.5	39.6	--
Net financial position	-3.1	1.0	--
Working capital	231.1	214.5	7.7

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

Income statement

€ million	Q1-Q3 2015	Q1-Q3 2014	Change (%)
Revenue	938.8	1,177.9	-20.3
Cost of goods sold	-792.4	-1,032.5	-23.3
Research and development costs	-53.4	-49.2	8.5
Selling expenses	-52.1	-50.3	3.6
Administrative expenses	-26.8	-25.5	5.1
Other operating income	19.1	15.5	23.2
Other operating expenses	-19.2	-27.2	-29.4
Income from investments accounted for using the equity method	-3.4	0.2	--
Other investment income	0.0	0.0	--
EBIT	10.6	8.9	19.1
Thereof restructuring costs	0.0	-13.9	--
EBIT (before one-offs)	10.6	22.8	-53.5
Net interest expense	-3.1	-5.0	-38.0
Net income before taxes	7.5	3.9	92.3
Income taxes	-0.2	-0.5	-60.0
Net income	7.3	3.4	>100

Balance sheet: assets

€ million	30 Sep 2015	31 Dec 2014	Change (%)
Non-current assets (excluding deferred tax assets)	537.2	563.6	-4.7
Deferred tax assets	65.0	62.2	4.5
Inventories	273.4	245.2	11.5
Trade receivables	106.3	122.0	-12.9
Other receivables and assets	30.8	54.1	-43.1
Cash and cash equivalents	74.1	101.7	-27.1
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,087.2	1,149.2	-5.4

Balance sheet: equity and liabilities

€ million	30 Sep 2015	31 Dec 2014	Change (%)
Equity	500.9	511.0	-2.0
Provisions for pensions and other post-retirement benefits	173.7	187.1	-7.2
Other provisions	54.6	58.4	-6.5
Financial liabilities	62.3	73.3	-15.0
Other liabilities	3.3	3.9	-15.4
Non-current liabilities	293.9	322.7	-8.9
Provisions for pensions and other post-retirement benefits	14.7	14.7	0.0
Other provisions / Provisions for income taxes	66.8	70.8	-5.6
Financial liabilities	14.9	14.7	1.4
Trade payables	148.6	171.0	-13.1
Other liabilities	47.4	44.3	7.0
Current liabilities	292.4	315.5	-7.3
Total equity and liabilities	1,087.2	1,149.2	-5.4

Cash flow statement (condensed)

€ million	Q1-Q3 2015	Q1-Q3 2014
EBIT	10.6	8.9
Cash flow from operating activities (total)	43.6	86.9
Capital expenditure on intangible assets, property, plant and equipment and investments	-50.9	-47.4
Proceeds from the sale of non-current assets	0.9	5.1
Cash flow from investing activities (total)	-50.0	-42.3
Cash flow from financing activities	-22.6	-17.1
Change in cash and cash equivalents	-29.0	27.5

Overview of segments, Q1-Q3 2015

	Q1-Q3 2015	Q1-Q3 2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	724.0	882.5	-18.0
DEUTZ Customised Solutions	208.9	194.3	7.5
Total for operating activities	932.9	1,076.8	-13.4

	Q1-Q3 2015	Q1-Q3 2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	730.1	1,002.8	-27.2
DEUTZ Customised Solutions	208.7	175.1	19.2
Total for operating activities	938.8	1,177.9	-20.3

	Q1-Q3 2015	Q1-Q3 2014	Change (%)
Unit sales			
DEUTZ Compact Engines	97,596	146,524	-33.4
DEUTZ Customised Solutions	9,640	8,575	12.4
Total for operating activities	107,236	155,099	-30.9

	Q1-Q3 2015	Q1-Q3 2014	Change (%)
EBIT before one-offs (€ million)			
DEUTZ Compact Engines	-16.9	4.9	--
DEUTZ Customised Solutions	26.0	18.5	40.5
Other	1.5	-0.6	--
Total for operating activities	10.6	22.8	-53.5

Overview of segments, Q3 2015

	Q3 2015	Q3 2014	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	194.0	270.4	-28.3
DEUTZ Customised Solutions	68.2	59.6	14.4
Total for operating activities	262.2	330.0	-20.5

	Q3 2015	Q3 2014	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	201.8	368.2	-45.2
DEUTZ Customised Solutions	66.8	56.3	18.7
Total for operating activities	268.6	424.5	-36.7

	Q3 2015	Q3 2014	Change (%)
Unit sales			
DEUTZ Compact Engines	26,243	53,589	-51.0
DEUTZ Customised Solutions	2,873	2,431	18.2
Total for operating activities	29,116	56,020	-48.0

	Q3 2015	Q3 2014	Change (%)
EBIT before one-offs (€ million)			
DEUTZ Compact Engines	-23.4	-0.7	--
DEUTZ Customised Solutions	8.7	4.2	>100
Other	5.0	-0.8	--
Total for operating activities	-9.7	2.7	--

Employees

	30 Sep 2015	30 Sep 2014	Change (%)
Cologne	2,298	2,432	-5.5
Ulm	405	389	4.1
Other German operations	234	292	-19.9
Germany	2,937	3,113	-5.7
Foreign operations	818	863	-5.2
DEUTZ Group	3,755	3,976	-5.6

Financial calendar & contact details

- Annual Report 2015 17 March 2016
- Annual General Meeting 28 April 2016
- Interim report 1st quarter 2016 3 May 2016

➤ Contact details

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