

Q1 2016 results

3 May 2016

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The engine company.



- **Review Q1 2016**

- **Outlook**

- **Annex**

Key figures

€ million	Q1 2016	yoy	qoq
New orders	327.3	2.0%	11.7%
Revenue	300.2	-5.6%	-2.7%
EBITDA	31.3	-7.7%	+17.7%
EBIT	7.3	-€2.8 million	+€13.0 million
Net income	8.7	+€1.0 million	+€12.5 million

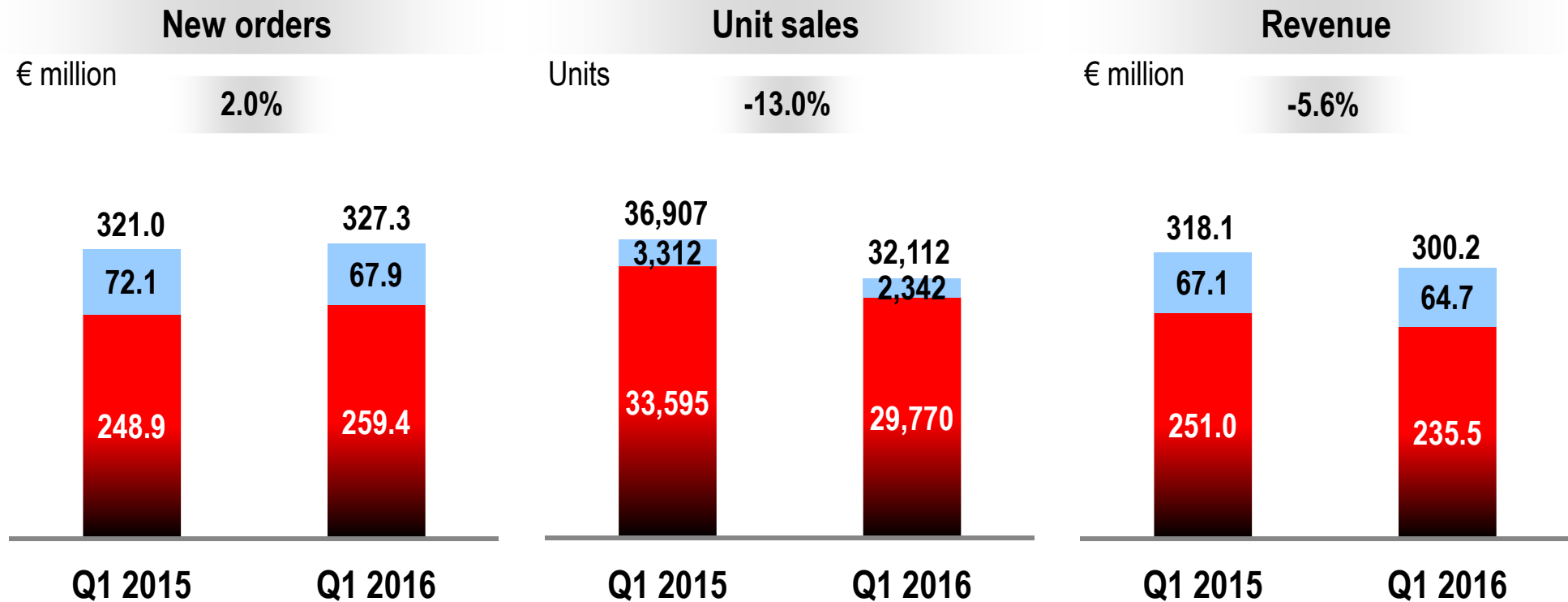
Highlights

- DEUTZ presented extended product portfolio at fair trade "bauma 2016"
 - Positive customer feedback on new 2.2 litre diesel, gas engines and TCD 5.0 engine project
 - TCD 5.0 is scheduled to go into production in 2019 to gain market share in the 100 to 150 kW output range

- Engine portfolio from 2.2 to 16.0 litre capacity "Stage V ready"
 - TCD 12.0 and 16.0 series will also satisfy the next EU emissions standard Stage V announced for 2019

- Positive new business development
 - JLG partners DEUTZ Xchange to remanufacture engines of aerial work platforms in the US
 - Several new customer application projects in the pipeline

Sales figures

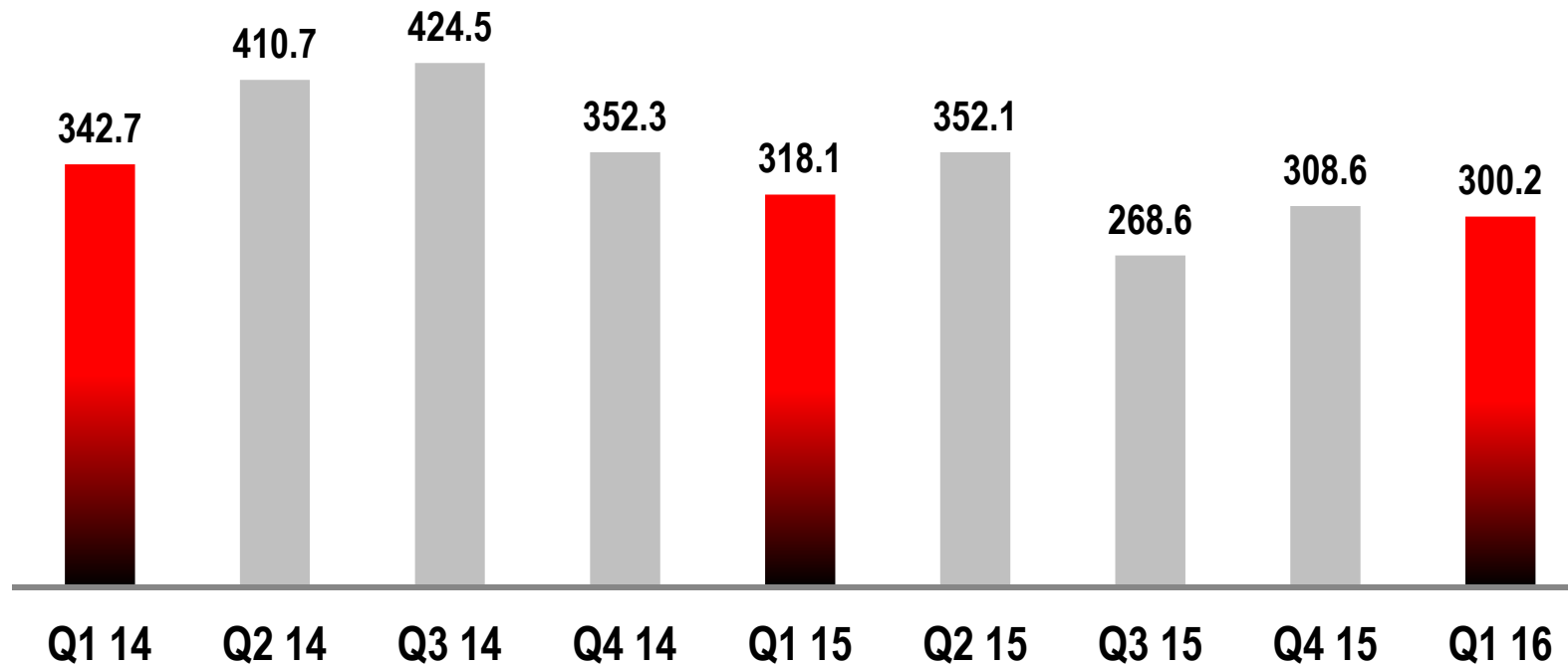


- Revenue decreased to a lesser extent than unit sales due to positive price mix effects and license proceeds
- Improving order intake at DEUTZ Compact Engines
- Book-to-bill ratio at 1.09x

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

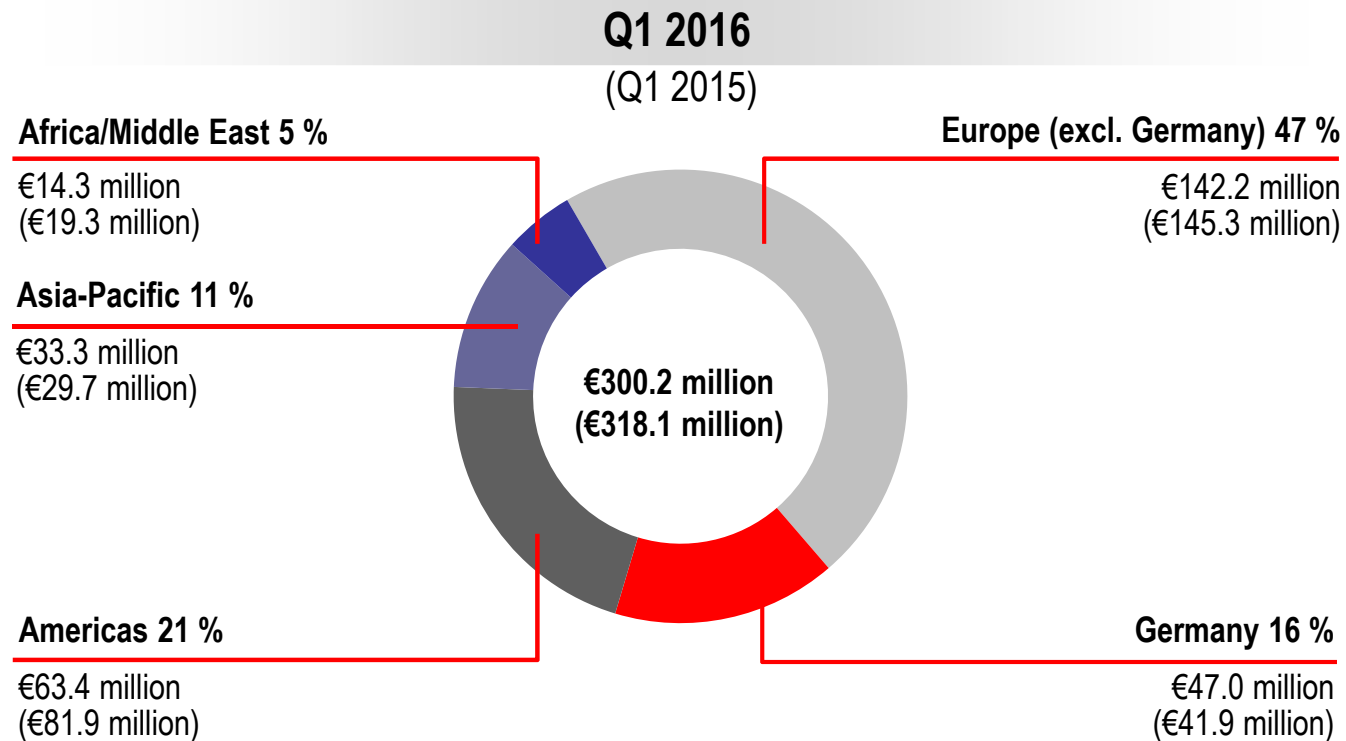
Revenue by quarter

€ million



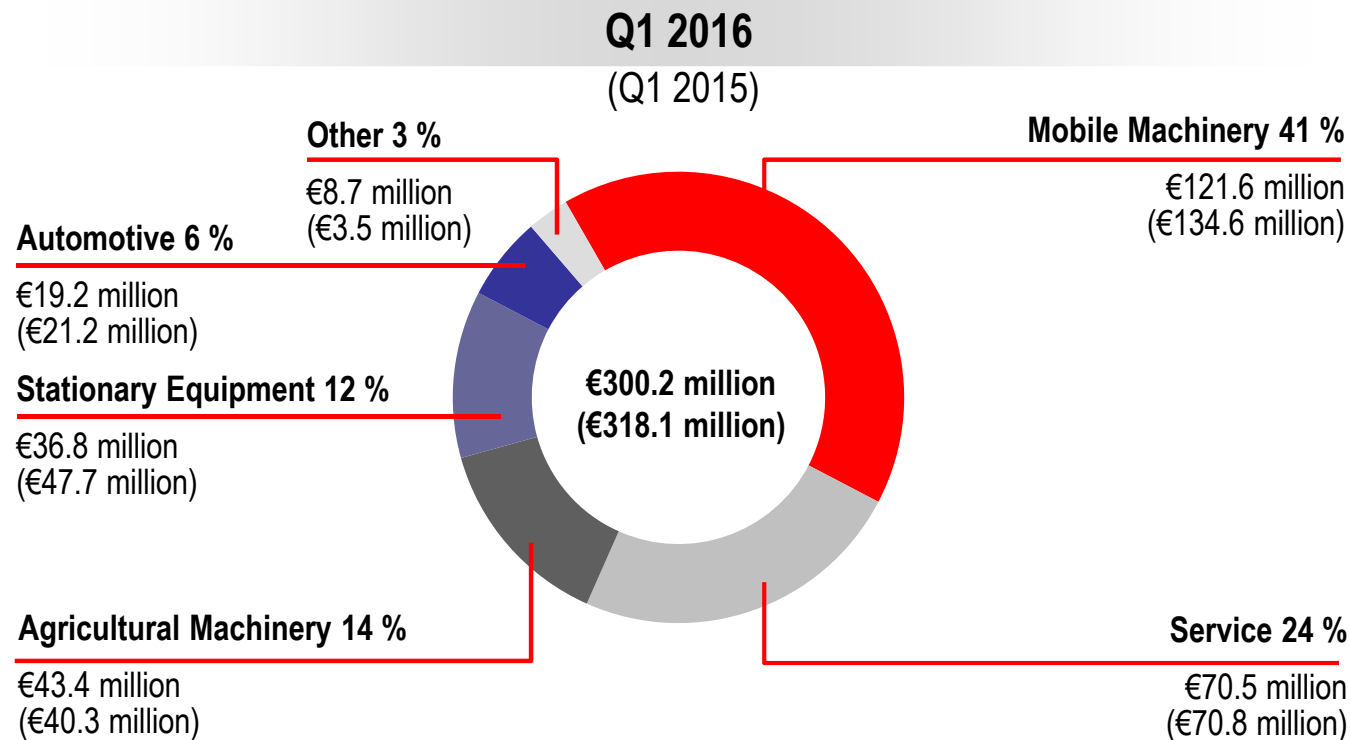
- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- We anticipate revenue will be higher in the Q2 but then will decrease in the third quarter of 2016 due to holiday shutdowns

Revenue split by region



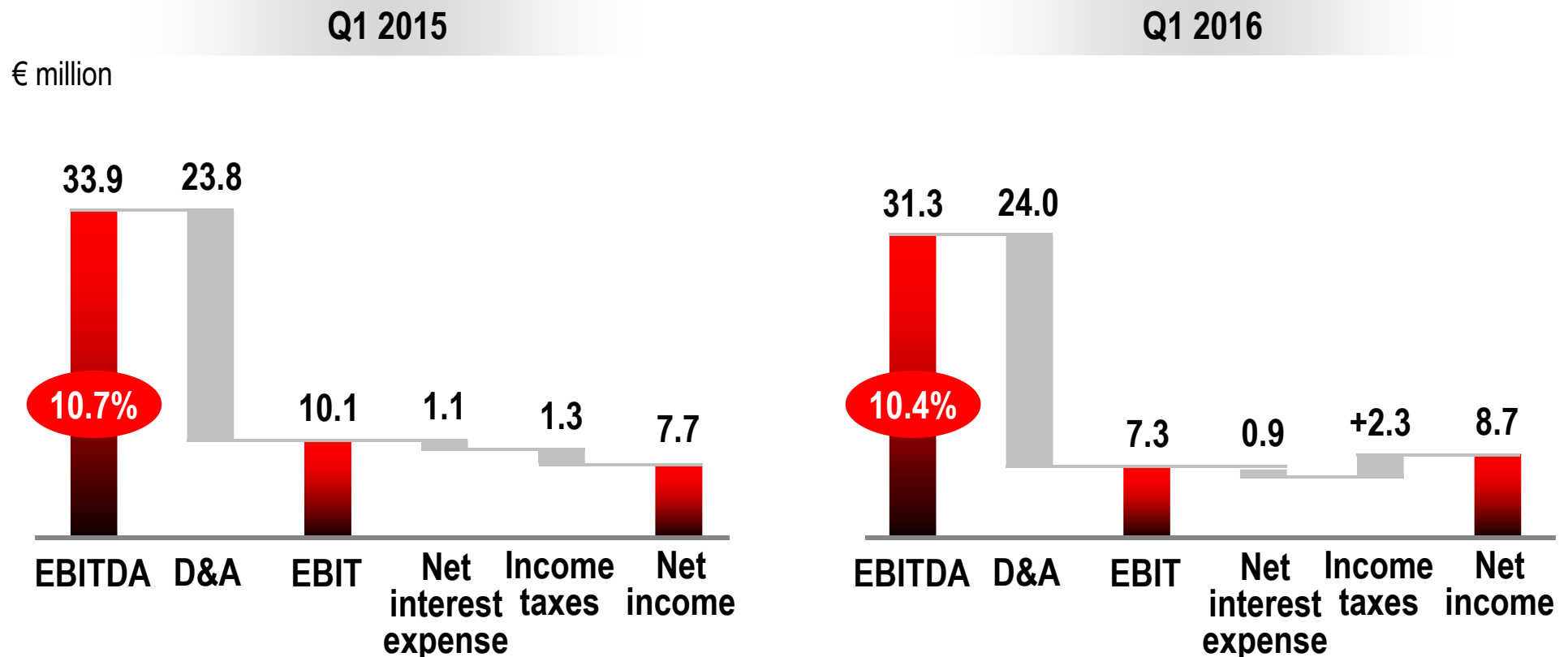
- Diverging dynamics yoy in key regions: Asia-Pacific (+12.1%), EMEA (-1.5%) and Americas (-22.6%)
- Pro-forma revenue including equity-accounted Chinese JV DEUTZ Dalian: €388.4 million (-10.6%); corresponding revenue share of Asia-Pacific amounts to 31%

Revenue split by application



- Largest application segment Mobile Machinery declined 9.7%, Agricultural Machinery improved by 7.7%
- Share of service business increased to 24% (Q1 2015: 22%)
- Pro-forma revenue in Automotive incl. equity-accounted JV DEUTZ Dalian: €97.7 million (corresponding revenue share amounts to 25%)

Operating profit & net income

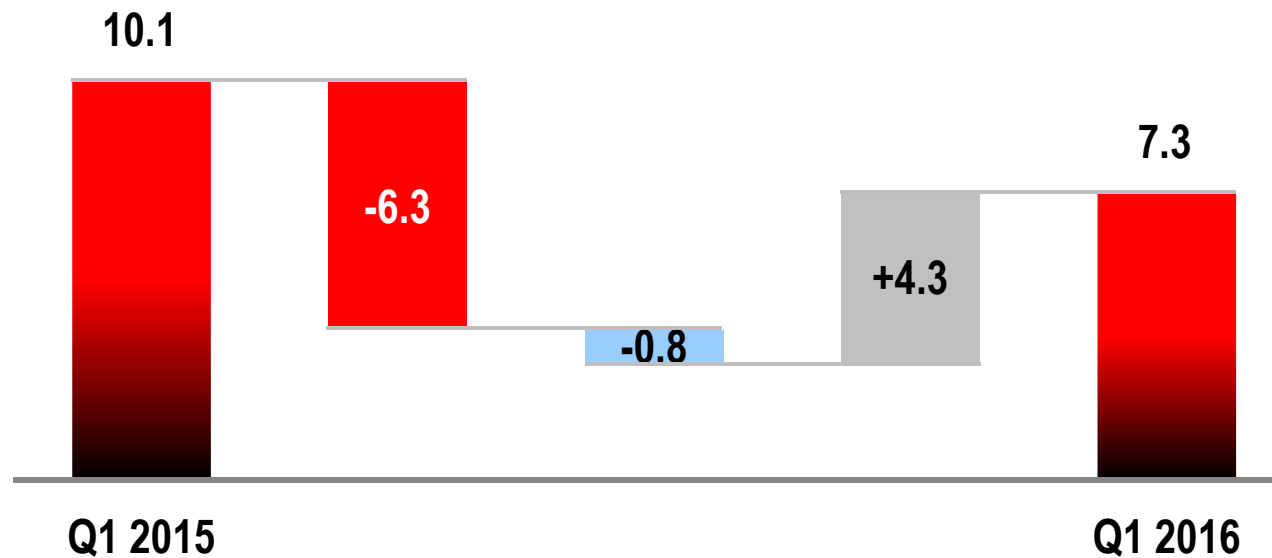


- Operating profit benefitted from licence proceeds by €5.5 million
- EBITDA decrease attributable to lower business volume and negative FX effects in contrast to positive FX effects in the previous year
- Current tax expense more than offset by deferred tax income
- Net income increased by €1.0 million

xx.x% EBITDA margin

EBIT

€ million



EBIT margin

3.2%

2.4%

- EBIT decline at DEUTZ Compact Engines mainly attributable to lower capacity utilisation and FX
- Licence proceeds at DEUTZ Customised Solutions largely compensated lower business volume
- Prior year result at segment Other was burdened by unrealised FX-effects

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

Segment: DEUTZ Compact Engines

€ million	Q1 2016	Q1 2015	Change in %
New orders	259.4	245.9	4.2
Unit sales	29,770	33,595	-11.4
Revenue	235.5	251.0	-6.2
EBIT	-2.3	4.0	--

€ million	Q1 2016	Q4 2015	Change in %
New orders	259.4	234.4	10.7
Unit sales	29,770	27,618	7.8
Revenue	235.5	237.1	-0.7
EBIT	-2.3	-15.0	--

- New orders increased 4.2% yoy and 10.7% qoq
- Book-to-bill ratio amounts to 1.10x
- Revenue remained on Q4 2015 level
- Operating profit improved by €12.7 million vs. Q4 2015 due to lower depreciation and cost improvements

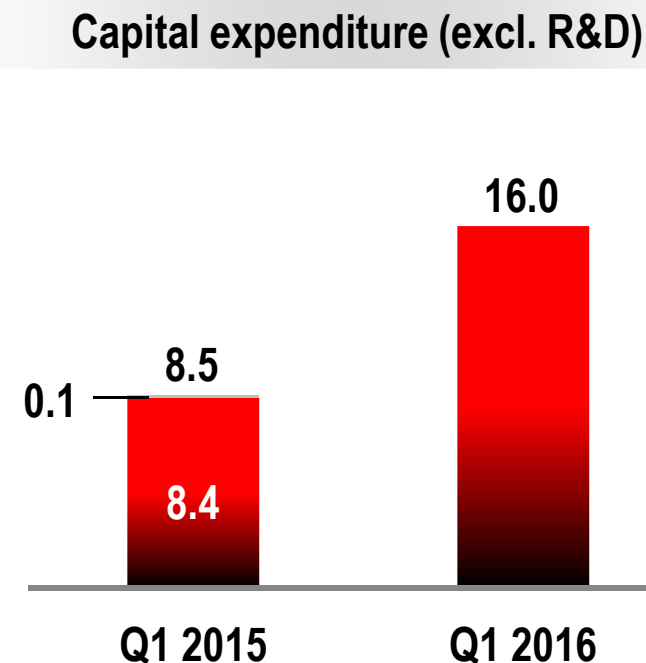
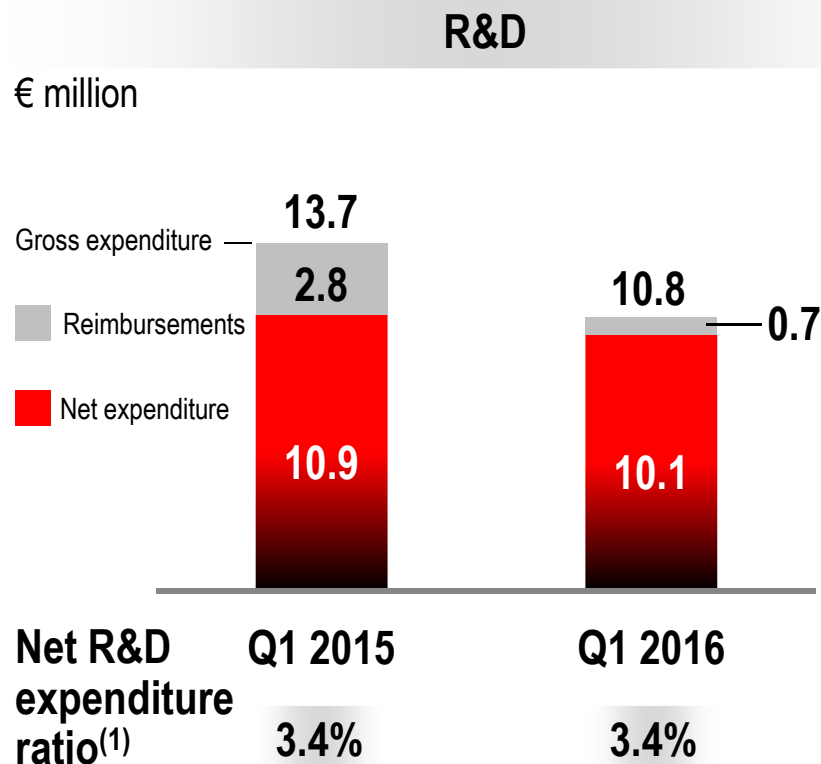
Segment: DEUTZ Customised Solutions

€ million	Q1 2016	Q1 2015	Change in %
New orders	67.9	72.1	-5.8
Unit sales	2,342	3,312	-29.3
Revenue	64.7	67.1	-3.6
EBIT	10.2	11.0	-7.3

€ million	Q1 2016	Q4 2015	Change in %
New orders	67.9	58.6	15.9
Unit sales	2,342	2,927	-20.0
Revenue	64.7	71.5	-9.5
EBIT	10.2	5.3	92.5

- Book-to-bill ratio at 1.05x
- Unit sales declined significantly due to Mobile Machinery and Stationary Equipment applications
- Service business accounted for 43.4% of total revenue
- Operating profit benefitted from licence proceeds by €5.5 million

R&D & capital expenditure



- R&D remain at moderate level
- Proportion of capitalised net R&D expenditure: €0.9 million (Q1 2015: €1.8 million)

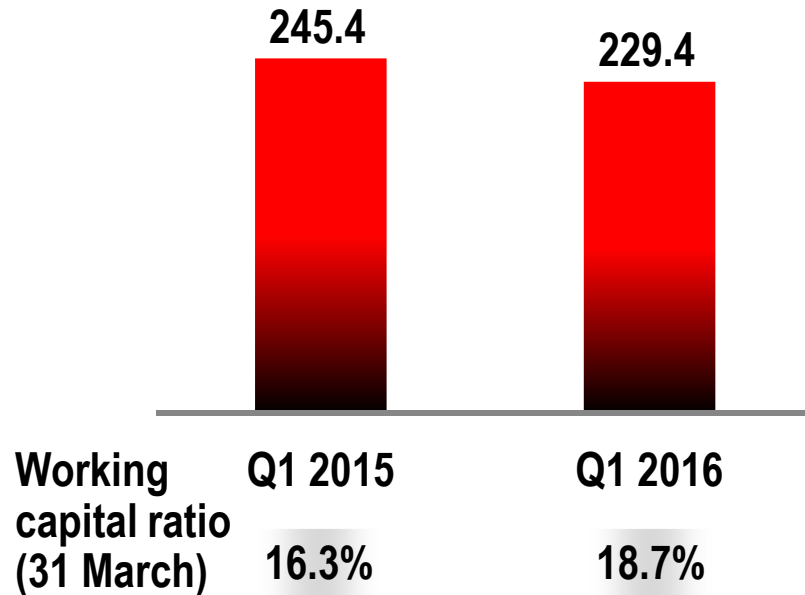
- Capital expenditure increase largely attributable to new shaft centre, which is an important element of our site optimisation

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

Working capital & operating cash flow

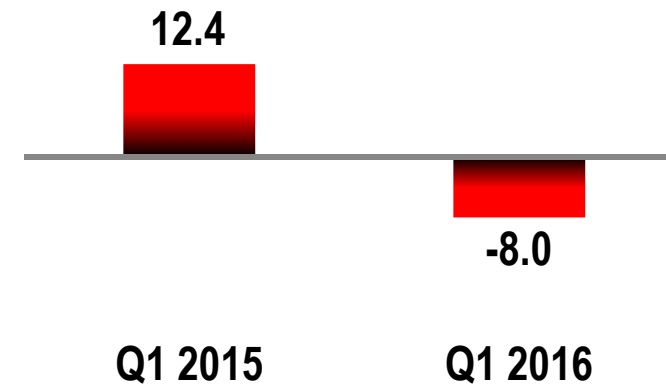
Working capital

€ million



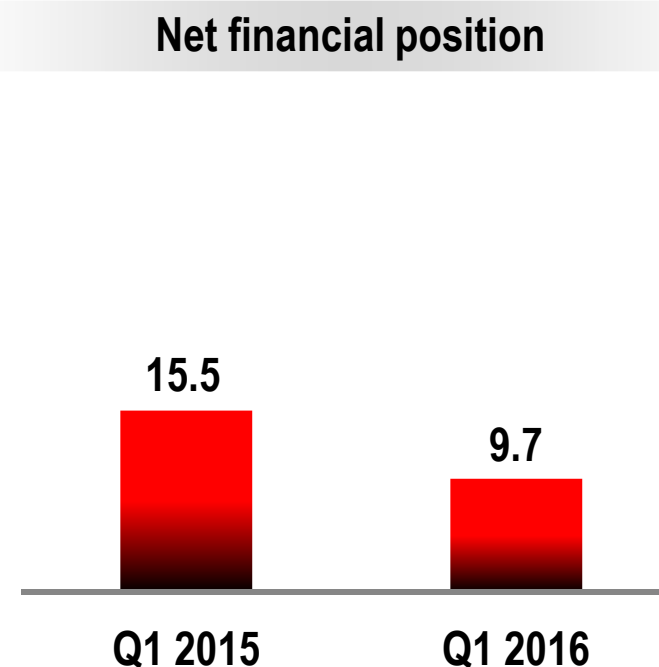
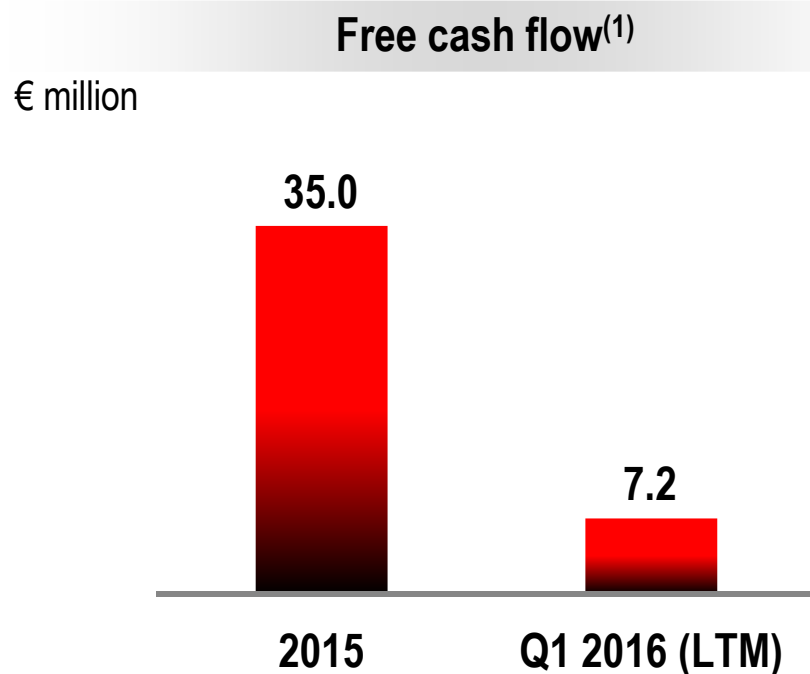
- Increase of working capital ratio related to revenue decline in the second half of FY 2015

Operating cash flow



- Operating cash flow decline mainly due to lower business volume

Free cash flow generation & net financial position



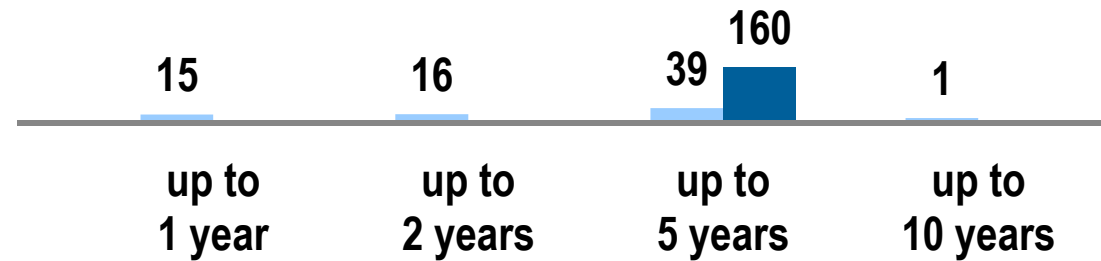
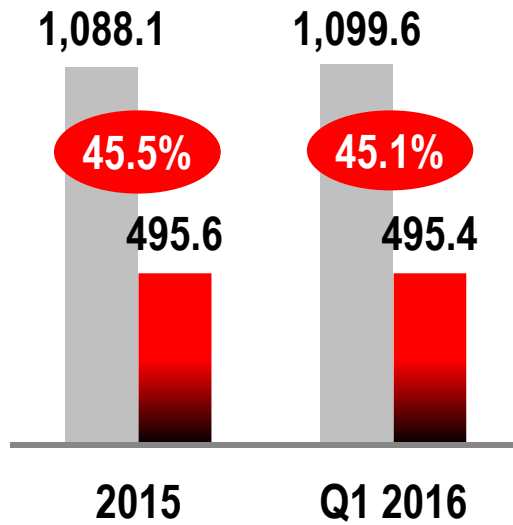
■ Free cash flow of last twelve months decreased by €27.8 million

■ Net financial position remains 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

- Equity ratio remained strong
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line until May 2020
 - Loan from European Investment Bank repayable until July 2020

Summary

Q1 business development in line with expectations

Operating profit increased quarter over quarter

Continuous focus on improvement of flexibility

Positive customer feedback on extended product portfolio

DEUTZ TCD 2.2 – 16.0 litre engines “Stage V ready”

Strong balance sheet and financial position



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- Review Q1 2016

- Outlook

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Market assessment

	2016
Unit sales (equipment) ⁽¹⁾	
Construction equipment Europe	-5% to +5%
Construction equipment North America	-5% to +5%
Construction equipment China	-20% to -10%
Agricultural Machinery Europe	-5% to 0%
Automotive China	-5% to +5%

- Recovery of key application markets not yet visible
- Chinese construction equipment market expected to remain challenging
- While DEUTZ will still suffer from the effect of advance production of engines in 2016, the burden will be less pronounced than in 2015

(1) Numbers refer to end markets. DEUTZ business may differ due advance production of engines

Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
Revenue	1,247.4	stagnant or slight increase
EBIT margin (before one-off items)	0.4%	moderate increase
R&D expenditure ⁽¹⁾	40.8	slightly above 50
Capex (excl. R&D) ⁽¹⁾	56.2	approx. 55

(1) Net of reimbursements

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Summary of key financials (I)

€ million	Q1 2016	Q1 2015	Change (%)
Revenue	300.2	318.1	-5.6
EBITDA (before one-off items)	31.3	33.9	-7.7
EBIT (before one-off items)	7.3	10.1	-27.7
EBIT margin (%)	2.4	3.2	--
Net income	8.7	7.7	13.0
Basic earnings per share (€)	0.08	0.07	14.3
Number of employees (31 March)	3,699	3,850	-3.9

Summary of key financials (II)

€ million	Q1 2016	Q1 2015	Change (%)
Total assets	1,099.6	1,195.6	-8.0
Equity	495.4	526.5	-5.9
Equity ratio (%)	45.1	44.0	--
Cash flow from operating activities	-8.0	12.4	--
Free cash flow ⁽¹⁾	-28.9	-1.1	--
Net financial position	9.7	15.5	--
Working capital	229.4	245.4	-6.5

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

Income statement

€ million	Q1 2016	Q1 2015	Change (%)
Revenue	300.2	318.1	-5.6
Cost of sales	-241.5	-264.1	-8.6
Research and development costs	-19.2	-18.5	3.8
Selling expenses	-17.3	-17.4	-0.6
General and administrative expenses	-8.8	-8.6	2.3
Other operating income	3.6	12.6	-71.4
Other operating expenses	-8.8	-11.6	-24.1
Profit/loss on equity-accounted investments	-0.9	-0.4	>100
EBIT	7.3	10.1	-27.7
Interest expense, net	-0.9	-1.1	-18.2
Net income before income taxes	6.4	9.0	-28.9
Income taxes	2.3	-1.3	--
Net income	8.7	7.7	13.0

Balance sheet: assets

€ million	31 March 2016	31 Dec 2015	Change (%)
Non-current assets (before deferred tax assets)	510.0	520.5	-2.0
Deferred tax assets	77.0	69.1	11.4
Inventories	273.9	251.9	8.7
Trade receivables	123.1	101.2	21.6
Other receivables and assets	35.5	32.5	9.2
Cash and cash equivalents	79.7	112.5	-29.2
Non-current assets classified as held for sale	0.4	0.4	0.0
Total assets	1,099.6	1,088.1	1.1

Balance sheet: equity and liabilities

€ million	31 March 2016	31 Dec 2015	Change (%)
Equity	495.4	495.6	-0.0
Provisions for pensions and other post-retirement benefits	179.3	172.3	-4.2
Other provisions	46.9	46.7	-19.7
Financial liabilities	54.8	58.6	-25.2
Other liabilities	3.0	3.2	-23.1
Non-current liabilities	284.0	280.8	-12.0
Provisions for pensions and other post-retirement benefits	14.2	14.3	-3.4
Other provisions / Provisions for income taxes	72.9	67.2	3.0
Financial liabilities	15.2	14.9	3.4
Trade payables	167.6	169.5	-2.0
Other liabilities	50.3	45.8	13.5
Current liabilities	320.2	311.7	1.5
Total equity and liabilities	1,099.6	1,088.1	1.1

Cash flow statement (condensed)

€ million	Q1 2016	Q1 2015
EBIT	7.3	10.1
Cash flow from operating activities (total)	-8.0	12.4
Capital expenditure on intangible assets, property, plant and equipment and investments	-19.9	-13.0
Proceeds from the sale of non-current assets	0.0	0.6
Cash flow from investing activities (total)	-19.9	-12.4
Cash flow from financing activities	-4.6	-4.7
Change in cash and cash equivalents	-32.5	-4.7

Overview of segments, Q1 2016

	Q1 2016	Q1 2015	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	259.4	248.9	4.2
DEUTZ Customised Solutions	67.9	72.1	-5.8
Total for operating activities	327.3	321.0	2.0

	Q1 2016	Q1 2015	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	235.5	251.0	-6.2
DEUTZ Customised Solutions	64.7	67.1	-3.6
Total for operating activities	300.2	318.1	-5.6

	Q1 2016	Q1 2015	Change (%)
Unit sales			
DEUTZ Compact Engines	29,770	33,595	-11.4
DEUTZ Customised Solutions	2,342	3,312	-29.3
Total for operating activities	32,112	36,907	-13.0

	Q1 2016	Q1 2015	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	-2.3	4.0	--
DEUTZ Customised Solutions	10.2	11.0	-7.3
Other	-0.6	-4.9	87.8
Total for operating activities	7.3	10.1	-27.7

Employees

	31 March 2016	31 March 2015	Change (%)
Cologne	2,237	2,393	-6.5
Ulm	408	375	8.8
Other German operations	222	278	-20.1
Germany	2,867	3,046	-5.9
Foreign operations	832	804	3.5
DEUTZ Group	3,699	3,850	-3.9

Financial calendar & contact details

■ Interim report 1st half 2016

4 August 2016

■ Interim management statement 1st to 3rd quarter 2016

8 November 2016

➤ Contact details

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