

H1 2016 results

4 August 2016

Dr Helmut Leube, CEO

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The engine company.



- **Review H1 2016**

- **Outlook**

- **Annex**

Key figures

€ million	H1 2016	yoy	Q2 2016	qoq
New orders	677.2	+1.0%	349.9	+6.9%
Revenue	644.4	-3.8%	344.2	+14.7%
EBITDA	66.9	-5.0%	35.6	+13.7%
EBIT	20.7	+2.0%	13.4	+83.6%
Net income	20.0	+19.8%	11.3	+29.9%
Free cash flow	-17.2	-€43.4 million	11.7	+€40.6 million

→ Significant operating profit improvement in Q2

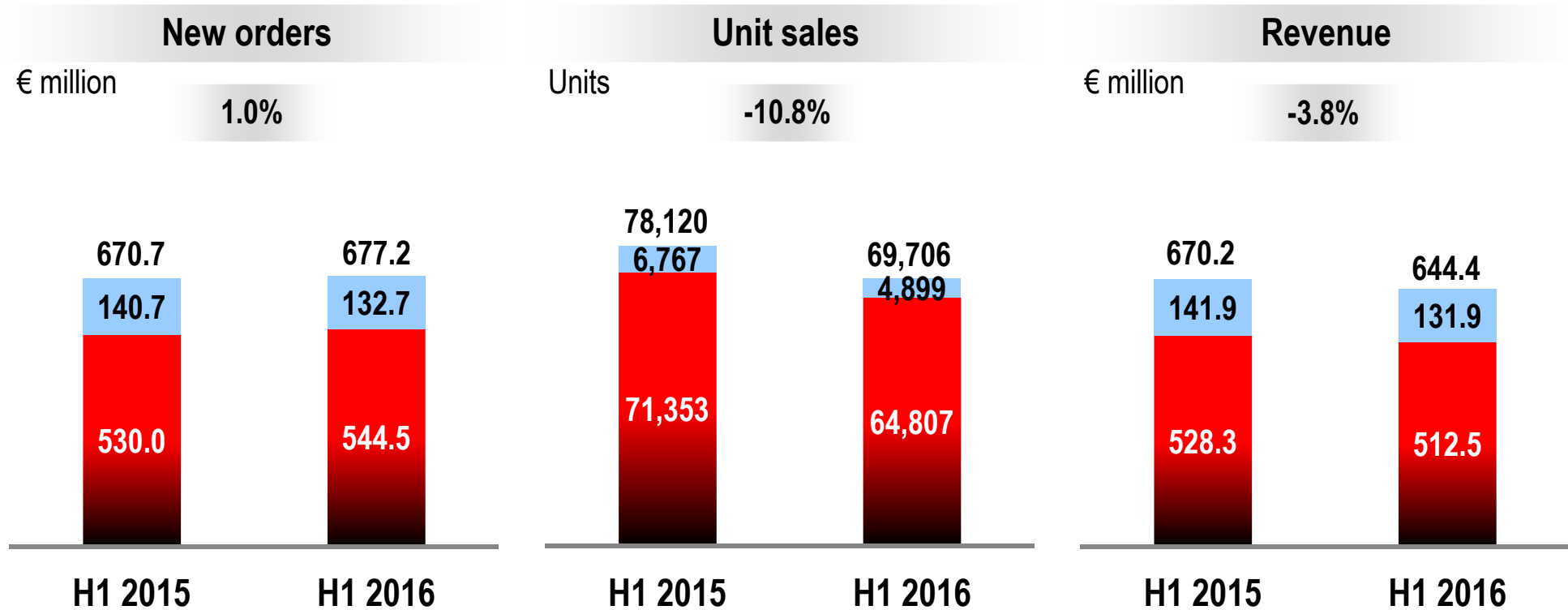
Highlights

- Positive scale effects in Q2
 - EBIT increase of 83.6% outperforming revenue growth of 14.7% quarter-on-quarter
 - Profit improvement due to operating leverage and cost improvements
 - Seasonally, H2 2016 expected to be weaker than H1 2016 (e.g. holiday shutdowns)

- Further efficiency gains in 2017
 - Site optimisation measures fully on schedule
 - Targeted annual cost savings > €10 million from 2017 onwards
 - Sale of leasehold for non-operating property in Hamburg expected to generate a high single digit € million gain in 2017

- Successful extension of customer base
 - Japanese construction machinery company Takeuchi equips new compact excavator models with DEUTZ TCD 3.6 engines
 - Ongoing negotiations to attract further customer applications

Sales figures

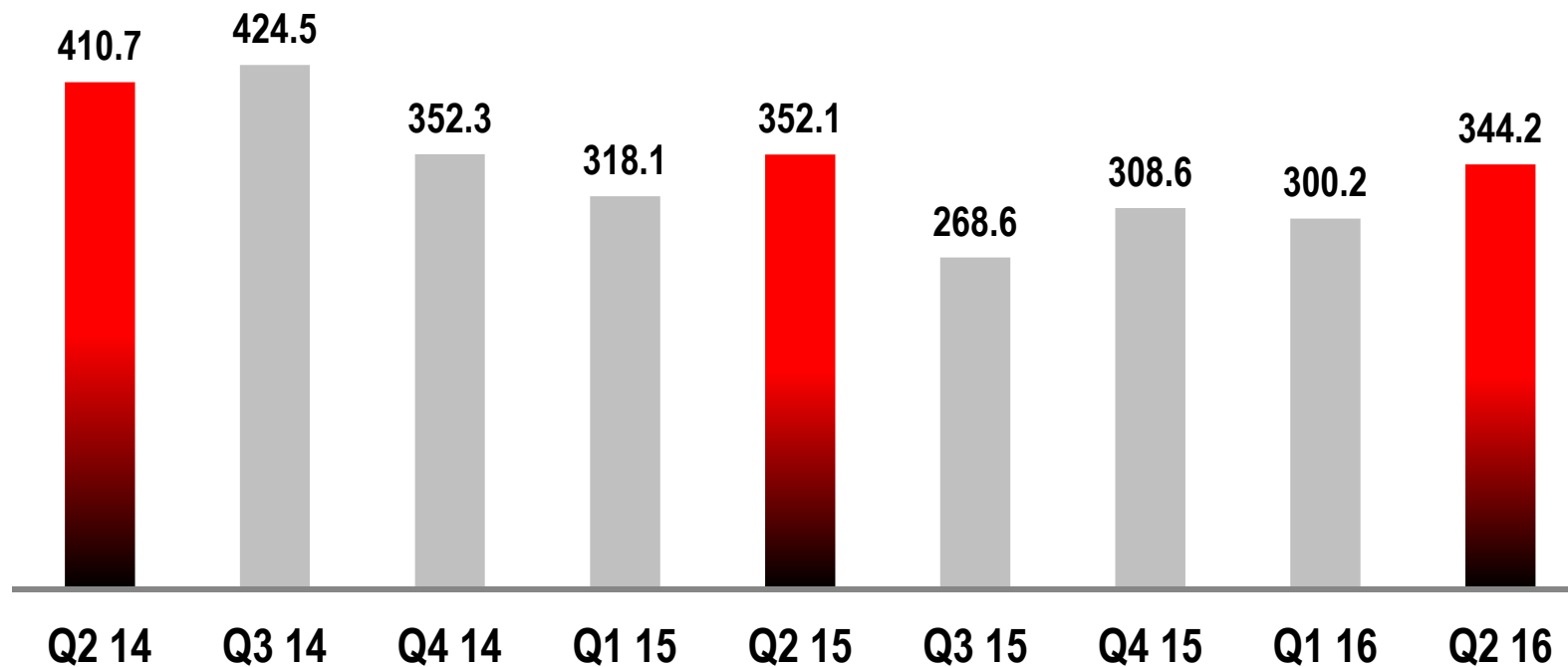


- Revenue decreased to a lesser extent than unit sales due to favorable price mix effects and license proceeds in Q1
- Book-to-bill ratio amounts to 1.05x

 DEUTZ Compact Engines  DEUTZ Customised Solutions

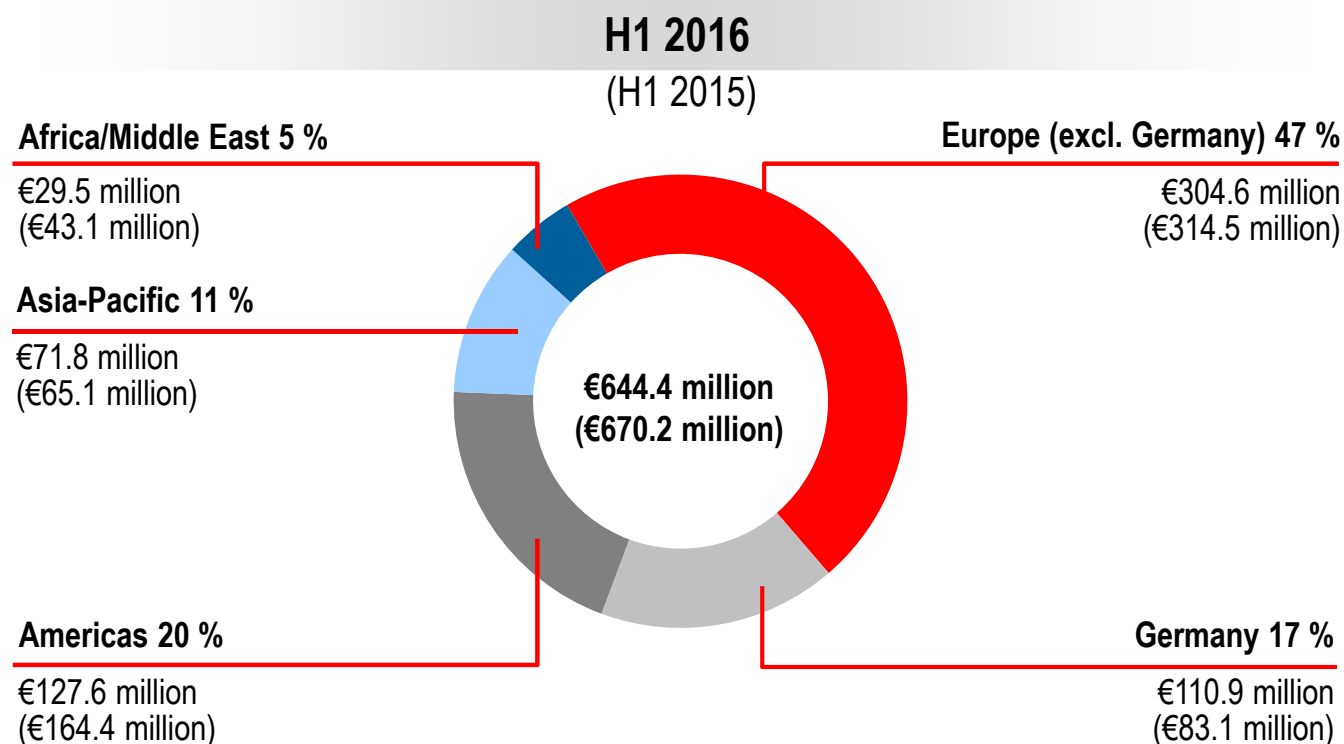
Revenue by quarter

€ million



- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- Q2 2016 revenue increased 14.7% quarter-on-quarter

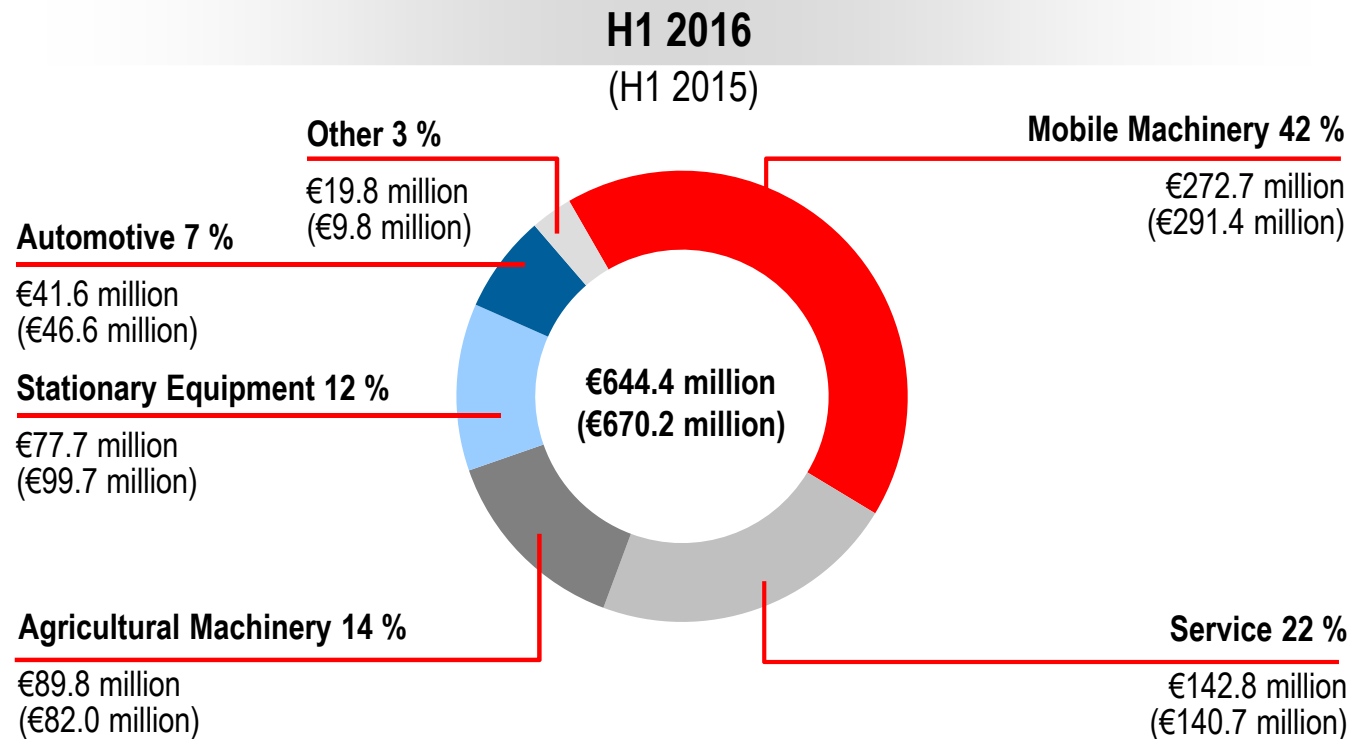
Revenue split by region



- Revenue advanced in Asia-Pacific (+10.3%) and EMEA (+1.0%) but declined in Americas (-22.4%)
- Pro-forma revenue⁽¹⁾ including equity-accounted Chinese JV DEUTZ Dalian: €809.3 million (-6.3%); corresponding revenue share of Asia-Pacific amounts to 29%

(1) Considering 100% of JV revenue

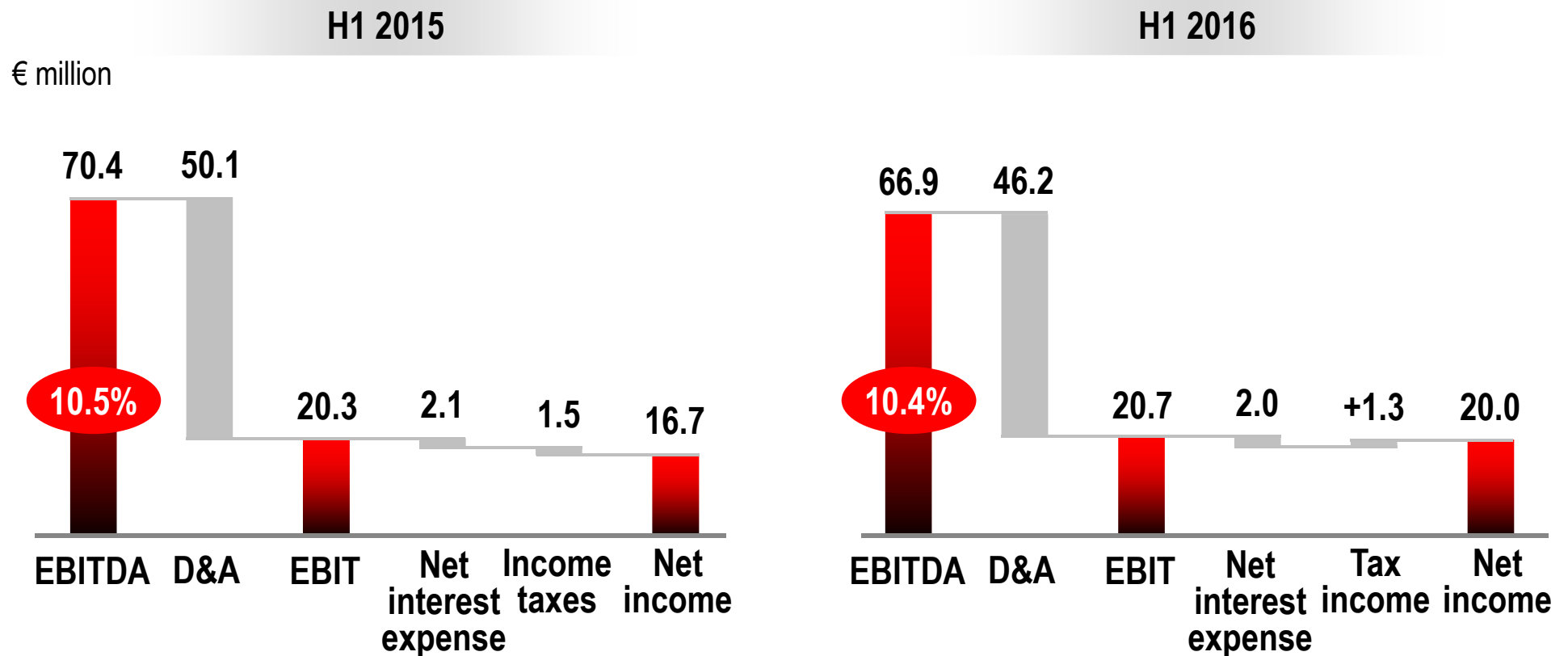
Revenue split by application



- Mobile Machinery (-6.4%), Automotive (-10.7%) and Stationary Equipment (-22.1%) down yoy
- Service business (+1.5%) and Agricultural Machinery (+9.5%) increased
- Pro-forma Automotive revenue⁽¹⁾ incl. equity-accounted JV DEUTZ Dalian: €188.4 million (corresponding revenue share amounts to 23%)

(1) Considering 100% of JV revenue

Operating profit & net income

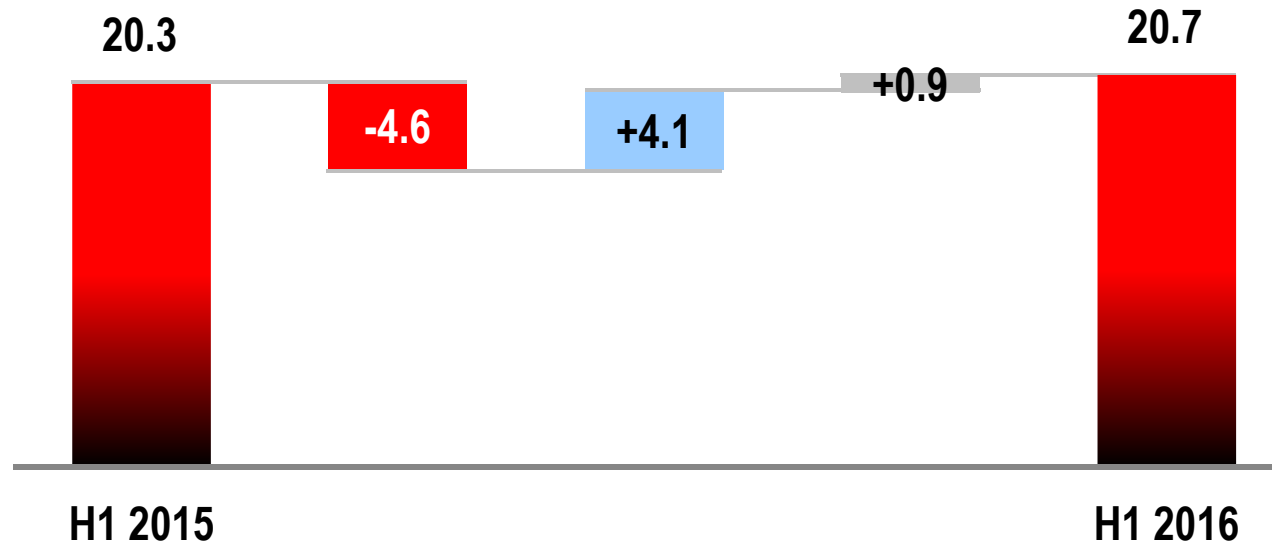


- Operating profit benefitted from licence proceeds of €5.5 million in Q1 2016
- Stable EBITDA margin development despite lower unit sales
- Current tax expense more than offset by deferred tax income
- Net income improved by €3.3 million

xx.x% EBITDA margin

EBIT

€ million



EBIT margin

3.0%

3.2%

- Slight EBIT margin increase attributable to cost improvements and lower depreciation
- Operating profit decline at DEUTZ Compact Engines due to lower unit sales and higher R&D costs
- Licence proceeds at DEUTZ Customised Solutions overcompensated decrease in business volume

 DEUTZ Compact Engines  DEUTZ Customised Solutions  Other

Segment: DEUTZ Compact Engines

€ million	H1 2016	H1 2015	Change in %
New orders	544.5	530.0	2.7
Unit sales	64,807	71,353	-9.2
Revenue	512.5	528.3	-3.0
EBIT	1.9	6.5	-70.8

€ million	Q2 2016	Q1 2016	Change in %
New orders	285.1	259.4	9.9
Unit sales	35,037	29,770	17.7
Revenue	277.0	235.5	17.6
EBIT	4.2	-2.3	--

- New orders increased 2.7% year-on-year and 9.9% quarter-on quarter
- Revenue increased 17.6% quarter-on quarter
- Operating profit increase in Q2 on the back of higher production volume and cost improvements

Segment: DEUTZ Customised Solutions

€ million	H1 2016	H1 2015	Change in %
New orders	132.7	140.7	-5.7
Unit sales	4,899	6,767	-27.6
Revenue	131.9	141.9	-7.0
EBIT	21.4	17.3	23.7

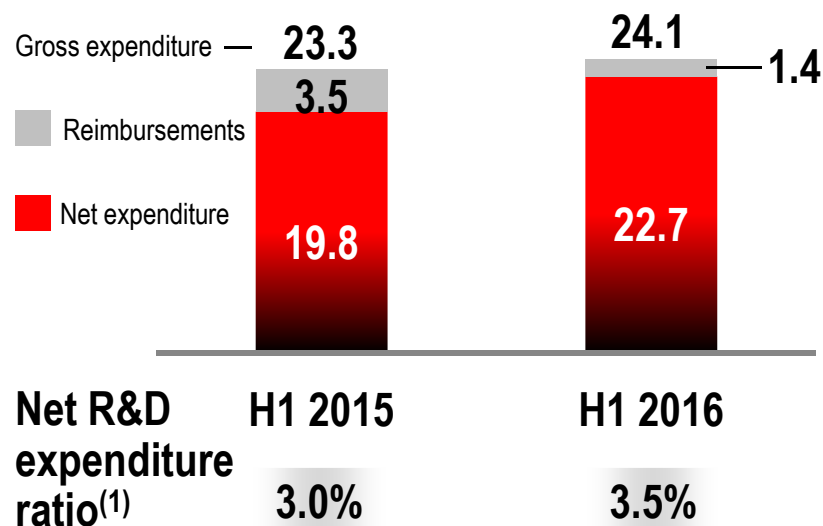
€ million	Q2 2016	Q1 2016	Change in %
New orders	64.8	67.9	-4.6
Unit sales	2,557	2,342	9.2
Revenue	67.2	64.7	3.9
EBIT	11.2	10.2	9.8

- Unit sales declined year-on-year mainly due to Mobile Machinery (-32.6%) and Stationary Equipment (-32.7%)
- Revenue share of service business amounts to 44.6%
- Q1 operating profit benefitted from licence proceeds of €5.5 million
- EBIT in Q2 increased quarter-on-quarter due to higher production volume, cost improvements and positive mix effects

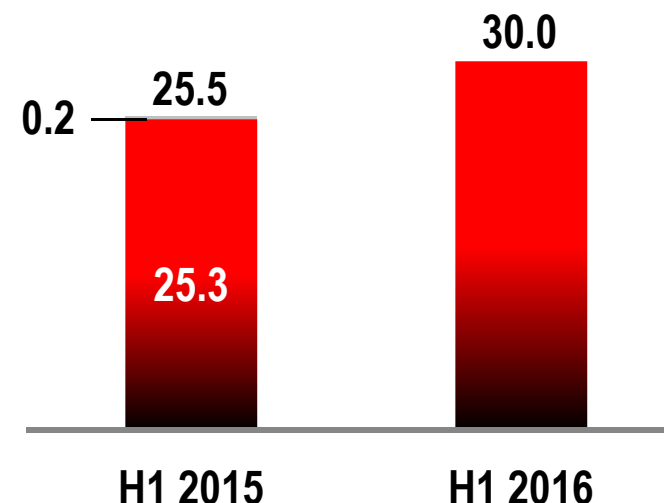
R&D & capital expenditure

R&D expenditure

€ million



Capital expenditure (excl. R&D)



- R&D expenditure remains at moderate level in line with our guidance
- Proportion of capitalised net R&D expenditure: €2.5 million (H1 2015: €5.0 million)

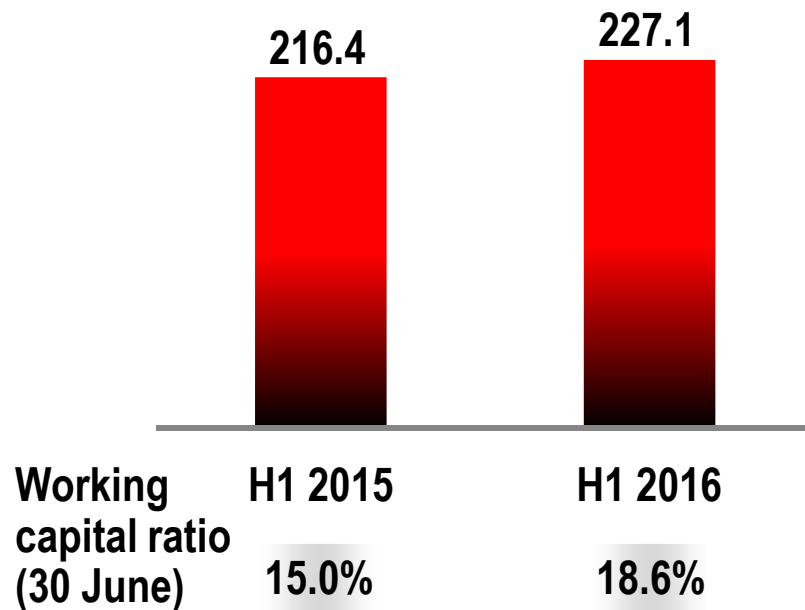
- Capital expenditure increase due to new shaft centre, which is an important element of our site optimisation

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

Working capital & operating cash flow

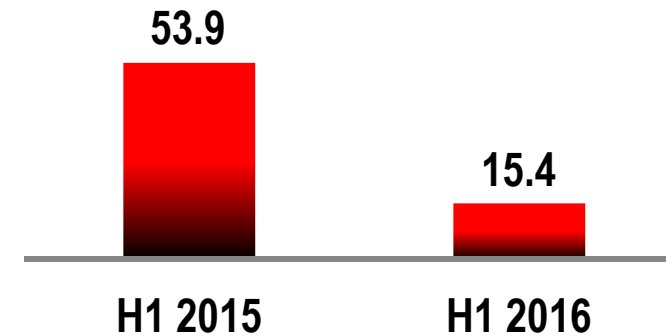
Working capital

€ million



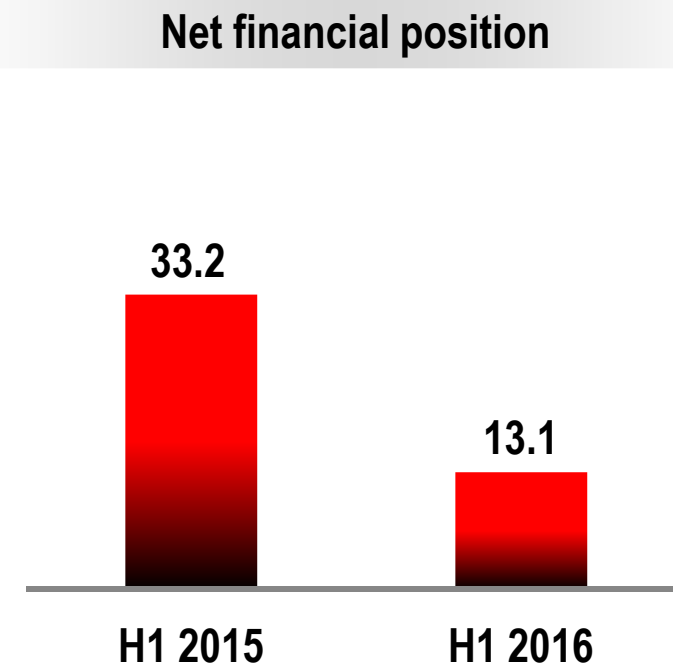
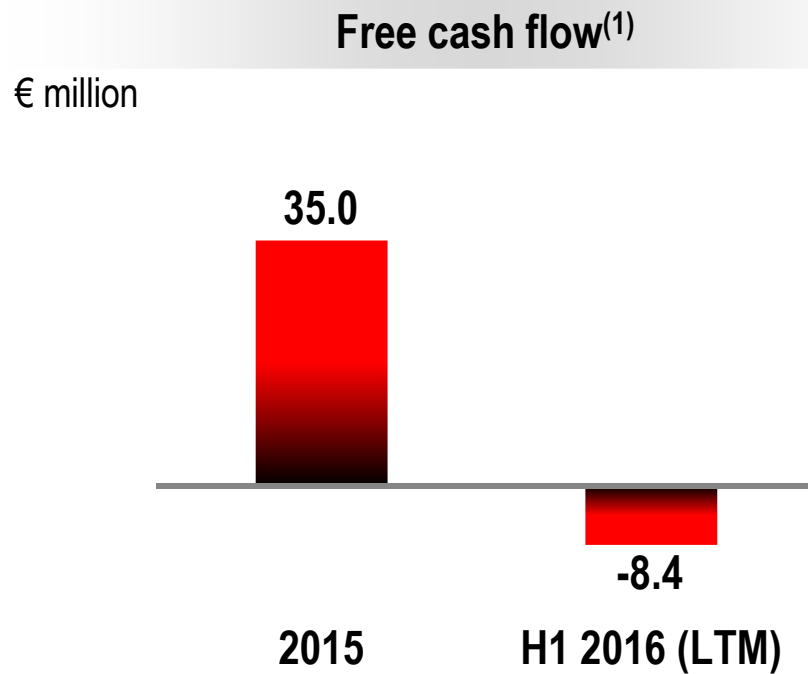
- Working capital increased by €10.7 million due to higher inventories
- Higher working capital ratio also related to revenue decline

Operating cash flow



- Operating cash flow decline attributable to working capital increase and lower business volume

Free cash flow generation & net financial position



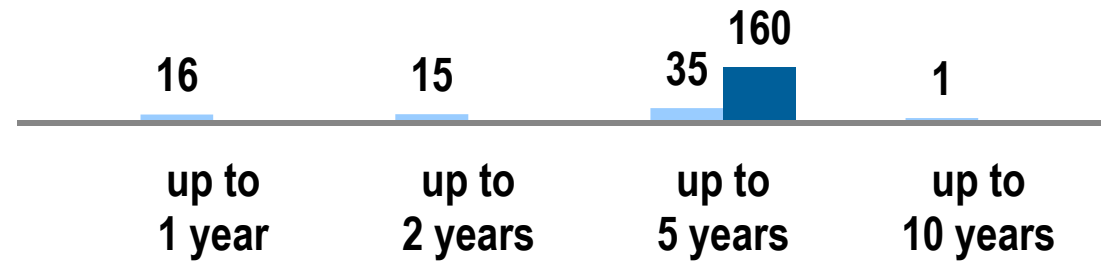
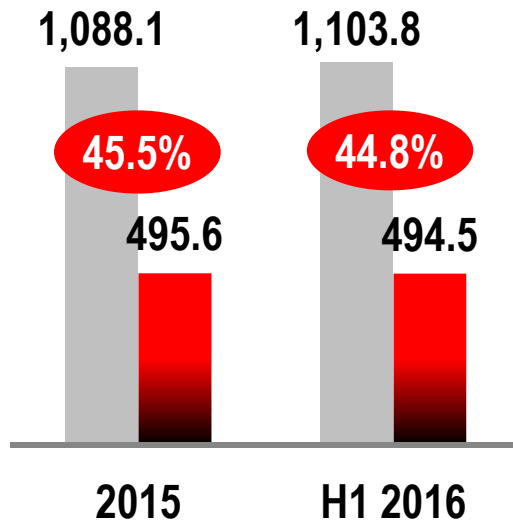
■ Free cash flow in Q2 2016 amounted to +€11.7 million

■ Net financial position remains in positive territory

(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
- 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

Significant improvement of profitability in Q2

Operating leverage and cost improvements

Site optimisation measures on track

New customer applications attracted

R&D expenditure remains at moderate level

Solid balance sheet and funding



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- Review H1 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 0% (previous: -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
- US rental companies reluctant to invest in new equipment
- Chinese construction equipment market expected to remain challenging

(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	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

- Full year guidance confirmed
- Revenue and profitability expected to decrease in Q3 2016 qoq
- Operating profit (EBIT) presumably largely earned in H1 2016 while capacity utilization in H2 2016 will be lower (related to market demand, holiday shutdowns and relocation of shaft centre)

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Summary of key financials (I)

€ million	H1 2016	H1 2015	Change (%)
Revenue	644.4	670.2	-3.8
EBITDA	66.9	70.4	-5.0
EBIT	20.7	20.3	2.0
EBIT margin (%)	3.2	3.0	--
Net income	20.0	16.7	19.8
Basic earnings per share (€)	0.17	0.14	21.4
Number of employees (30 June)	3,708	3,822	-3.0

Summary of key financials (II)

€ million	H1 2016	H1 2015	Change (%)
Total assets	1,103.8	1,179.8	-6.4
Equity	494.5	535.1	-7.6
Equity ratio (%)	44.8	45.4	--
Cash flow from operating activities	15.4	53.9	-71.4
Free cash flow ⁽¹⁾	-17.2	26.2	--
Net financial position	13.1	33.2	-60.5
Working capital	227.1	216.4	4.9

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

Income statement

€ million	H1 2016	H1 2015	Change (%)
Revenue	644.4	670.2	-3.8
Cost of sales	-522.5	-555.6	-6.0
Research and development costs	-38.8	-36.1	7.5
Selling expenses	-35.0	-35.0	0.0
General and administrative expenses	-17.4	-18.6	-6.5
Other operating income	7.2	13.3	-45.9
Other operating expenses	-14.2	-14.9	-4.7
Profit/loss on equity-accounted investments	-3.0	-3.0	0.0
EBIT	20.7	20.3	2.0
Interest expense, net	-2.0	-2.1	-4.8
Net income before income taxes	18.7	18.2	2.7
Income taxes	1.3	-1.5	--
Net income	20.0	16.7	19.8

Balance sheet: assets

€ million	30 June 2016	31 Dec 2015	Change (%)
Non-current assets (before deferred tax assets)	499.6	520.5	-4.0
Deferred tax assets	82.0	69.1	18.7
Inventories	286.6	251.9	13.8
Trade receivables	121.1	101.2	19.7
Other receivables and assets	32.9	32.5	1.2
Cash and cash equivalents	79.4	112.5	-29.4
Non-current assets classified as held for sale	2.2	0.4	>100
Total assets	1,103.8	1,088.1	1.4

Balance sheet: equity and liabilities

€ million	30 June 2016	31 Dec 2015	Change (%)
Equity	494.5	495.6	-0.2
Provisions for pensions and other post-retirement benefits	182.5	172.3	5.9
Deferred tax liabilities	0.6	0.0	>100
Other provisions	42.4	46.7	-9.2
Financial liabilities	50.8	58.6	-13.3
Other liabilities	3.1	3.2	-3.1
Non-current liabilities	279.4	280.8	-0.5
Provisions for pensions and other post-retirement benefits	14.2	14.3	-0.7
Other provisions / Provisions for income taxes	68.4	67.2	1.8
Financial liabilities	15.5	14.9	4.0
Trade payables	180.6	169.5	6.5
Other liabilities	51.2	45.8	11.8
Current liabilities	329.9	311.7	5.8
Total equity and liabilities	1,103.8	1,088.1	1.4

Cash flow statement (condensed)

€ million	H1 2016	H1 2015
EBIT	20.7	20.3
Cash flow from operating activities (total)	15.4	53.9
Capital expenditure on intangible assets, property, plant and equipment and investments	-30.7	-26.3
Proceeds from the sale of non-current assets	0.1	0.7
Cash flow from investing activities (total)	-30.6	-25.6
Cash flow from financing activities	-17.8	-17.8
Change in cash and cash equivalents	-33.0	10.5

Overview of segments, H1 2016

	H1 2016	H1 2015	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	544.5	530.0	2.7
DEUTZ Customised Solutions	132.7	140.7	-5.7
Total for operating activities	677.2	670.7	1.0

	H1 2016	H1 2015	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	512.5	528.3	-3.0
DEUTZ Customised Solutions	131.9	141.9	-7.0
Total for operating activities	644.4	670.2	-3.8

	H1 2016	H1 2015	Change (%)
Unit sales			
DEUTZ Compact Engines	64,807	71,353	-9.2
DEUTZ Customised Solutions	4,899	6,767	-27.6
Total for operating activities	69,706	78,120	-10.8

	H1 2016	H1 2015	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	1.9	6.5	-70.8
DEUTZ Customised Solutions	21.4	17.3	23.7
Other	-2.6	-3.5	25.7
Total for operating activities	20.7	20.3	2.0

Overview of segments, Q2 2016

	Q2 2016	Q1 2016	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	285.1	259.4	9.9
DEUTZ Customised Solutions	64.8	67.9	-4.6
Total for operating activities	349.9	327.3	6.9

	Q2 2016	Q1 2016	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	277.0	235.5	17.6
DEUTZ Customised Solutions	67.2	64.7	3.9
Total for operating activities	344.2	300.2	14.7

	Q2 2016	Q1 2016	Change (%)
Unit sales			
DEUTZ Compact Engines	35,037	29,770	17.7
DEUTZ Customised Solutions	2,557	2,342	9.2
Total for operating activities	37,594	32,112	17.1

	Q2 2016	Q1 2016	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	4.2	-2.3	--
DEUTZ Customised Solutions	11.2	10.2	9.8
Other	-2.0	-0.6	--
Total for operating activities	13.4	7.3	83.6

Employees

	30 June 2016	30 June 2015	Change (%)
Cologne	2,203	2,348	-6.2
Ulm	407	384	6.0
Other German operations	218	276	-21.0
Germany	2,828	3,008	-6.0
Foreign operations	880	814	8.1
DEUTZ Group	3,708	3,822	-3.0

Financial calendar & contact details

- Interim management statement 1st to 3rd quarter 2016 8 November 2016

- Annual report FY 2016 16 March 2017

- Annual general meeting 4 May 2017

➤ Contact details

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