

Q1-Q3 2017 results

7 November 2017

Dr Frank Hiller, CEO

Dr Margarete Haase, CFO

The engine company.



- **Operational and strategic highlights**

- **Financials**

- **Outlook**

- **Annex**



- DEUTZ is the 1st engine manufacturer in the world to receive EU Stage V emissions standard certification (2 years ahead of regulatory implementation in 2019)
- Customers avoid expensive modifications to their equipment because changing from the current EU Stage IV to Stage V requires no additional installation space for the engine

→ DEUTZ sets environmental standards before they become mandatory

Liebherr cooperation



- Expanding product portfolio in the upper output range (200 to 620 kW)
- Marketing of four engine series as DEUTZ TCD 9.0 to TCD 18.0
- Global distribution & service rights in various applications
- Customers benefit from DEUTZ application skills and aftersales expertise
- Start of serial supply in 2019
- Extended use of DEUTZ engines up to 150 kW in Liebherr applications

→ Expansion of product portfolio

Investment in sales and service network



- Strategy to invest in the service network in selected locations
- Acquisition of Italian dealer IML Motori including its Romanian subsidiary
- Italian sales and service network will trade under the name DEUTZ Italy
- The experienced team continues to serve the customers
- Annual revenue increase approx. €20 million (consolidated); start of consolidation in Q4 2017

→ Investing in service network

Torqueedo acquisition

Torqueedo

TORQUEEDO

- DEUTZ acquired the global market leader in electric drive systems for boats and a specialist in integrated electric drive systems



Strategic reason

- Torqueedo is an innovative catalyst for the E-DEUTZ strategy
- Bringing hybrid and full-electric drive systems to market more quickly than would be possible for DEUTZ alone
- DEUTZ is aiming to be the market leader in innovative drive systems in its core markets

Know-how transfer

- System architecture E-drive
- Steering competence
- 48 and 400 volt know-how
- Power electronics
- Battery management systems expertise – lithium-ion technology

Innovative drive systems

Diesel	Alternative fuels	E-DEUTZ
	<ul style="list-style-type: none"> ■ Liquid gas (LPG) ■ Compressed natural gas (CNG) ■ Synthetic fuels 	<ul style="list-style-type: none"> ■ Hybrid ■ Partial electrification ■ Full electrification 

Additional market opportunities in the diesel segment (including outsourcing potential at OEMs)

Strong growth opportunities with low CO₂ emissions drive systems

→ On our way to becoming the leading manufacturer of innovative drive systems

Agenda

- Operational and strategic highlights

- Financials

- Outlook

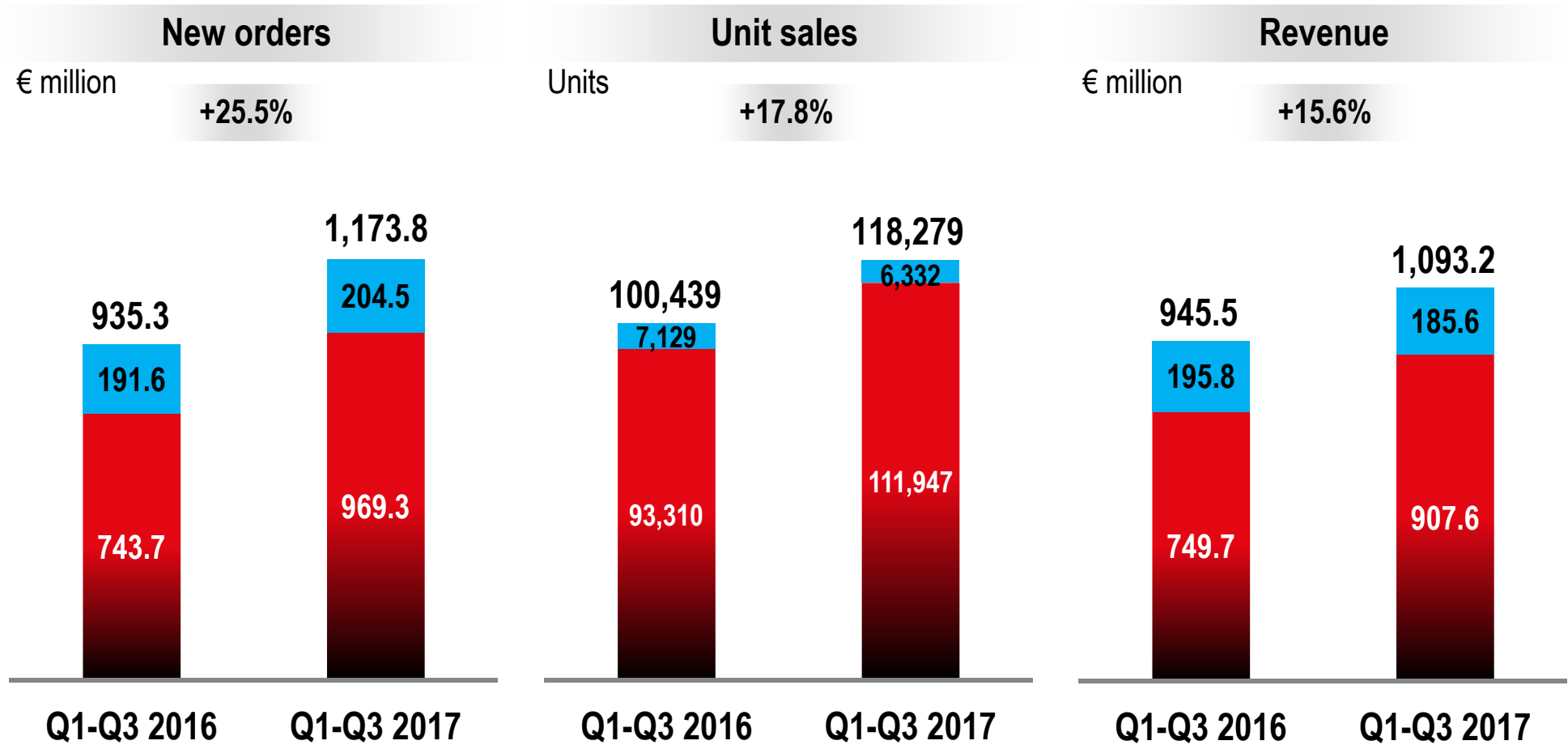
- Annex

Key figures

€ million	Q1-Q3 2017	yoy	Q3 2017	yoy
New orders	1,173.8	+25.5%	370.8	+43.7%
Revenue	1,093.2	+15.6%	358.7	+19.1%
EBITDA (before exceptional items)	90.5	+3.0%	25.8	+22.9%
EBIT (before exceptional items)	27.8	+€8.1 million	5.0	+€6.0 million
Net income	21.3	+€2.5 million	1.5	+€2.7 million
Free cash flow	74.4	+€102.4 million	20.6	+€31.4 million

→ Strong growth of new orders and substantial free cash flow improvement

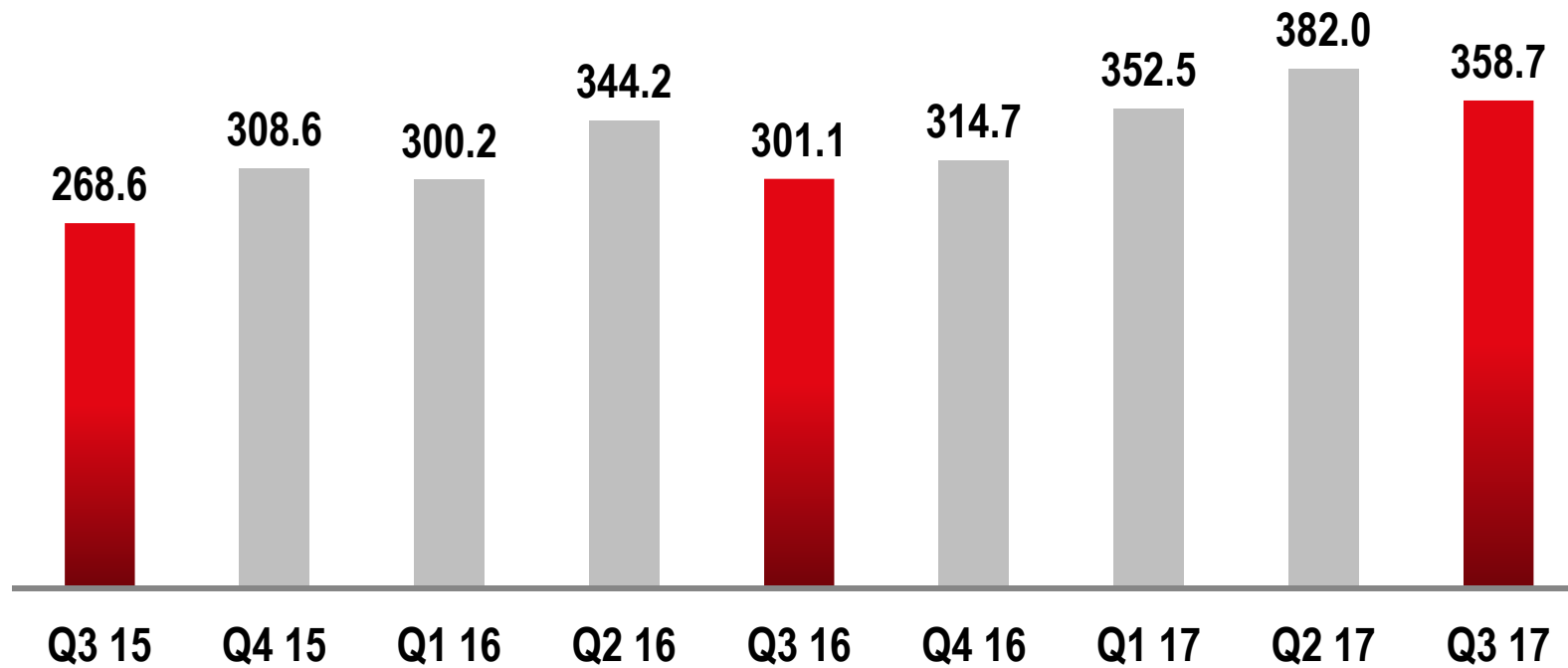
Sales figures



■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

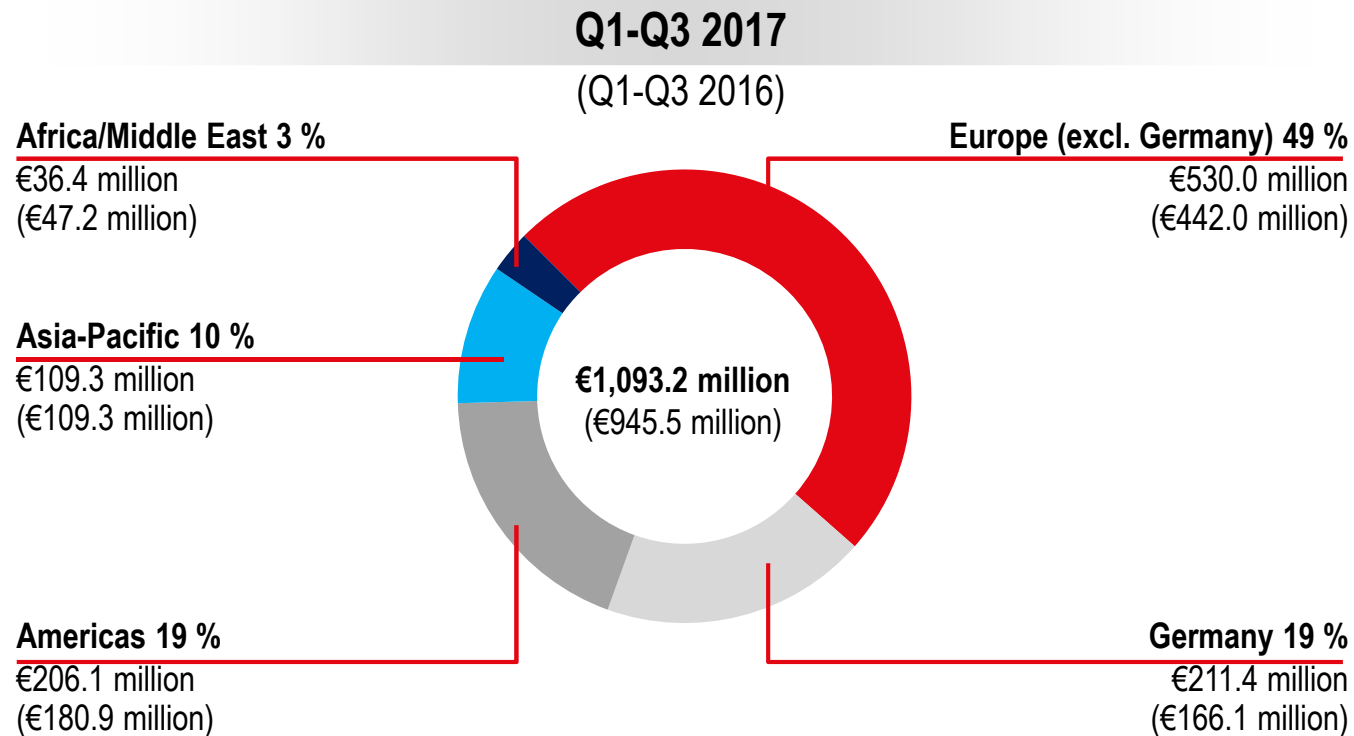
Revenue by quarter

€ million



- Q3 2017 revenue increased 19.1% yoy; seasonally weaker in Q3
- Strong Q4 revenue level expected based on good order intake

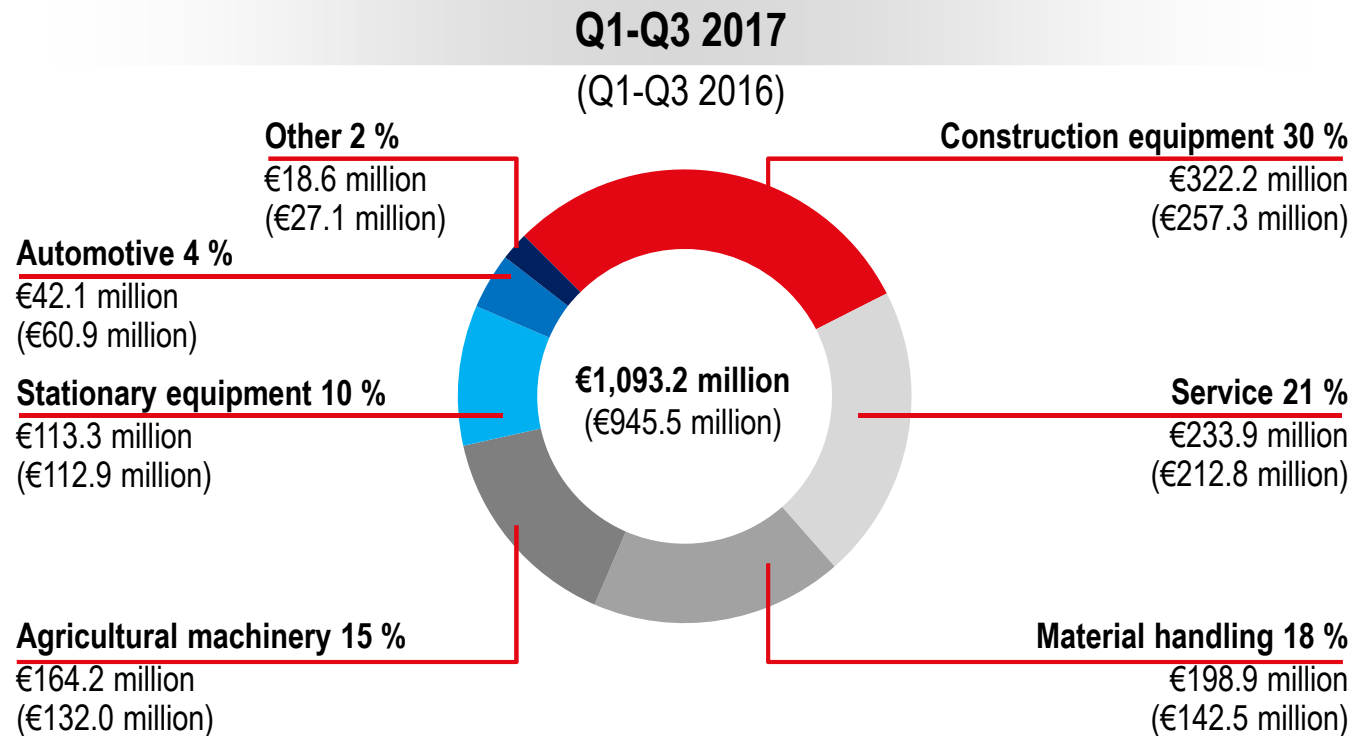
Revenue by region



- Pro-forma revenue⁽¹⁾ including equity-accounted Chinese JV DEUTZ Dalian: €1,312.1 million (+10.8%); corresponding revenue share of Asia-Pacific amounts to 25%

(1) Including 100% of JV revenue

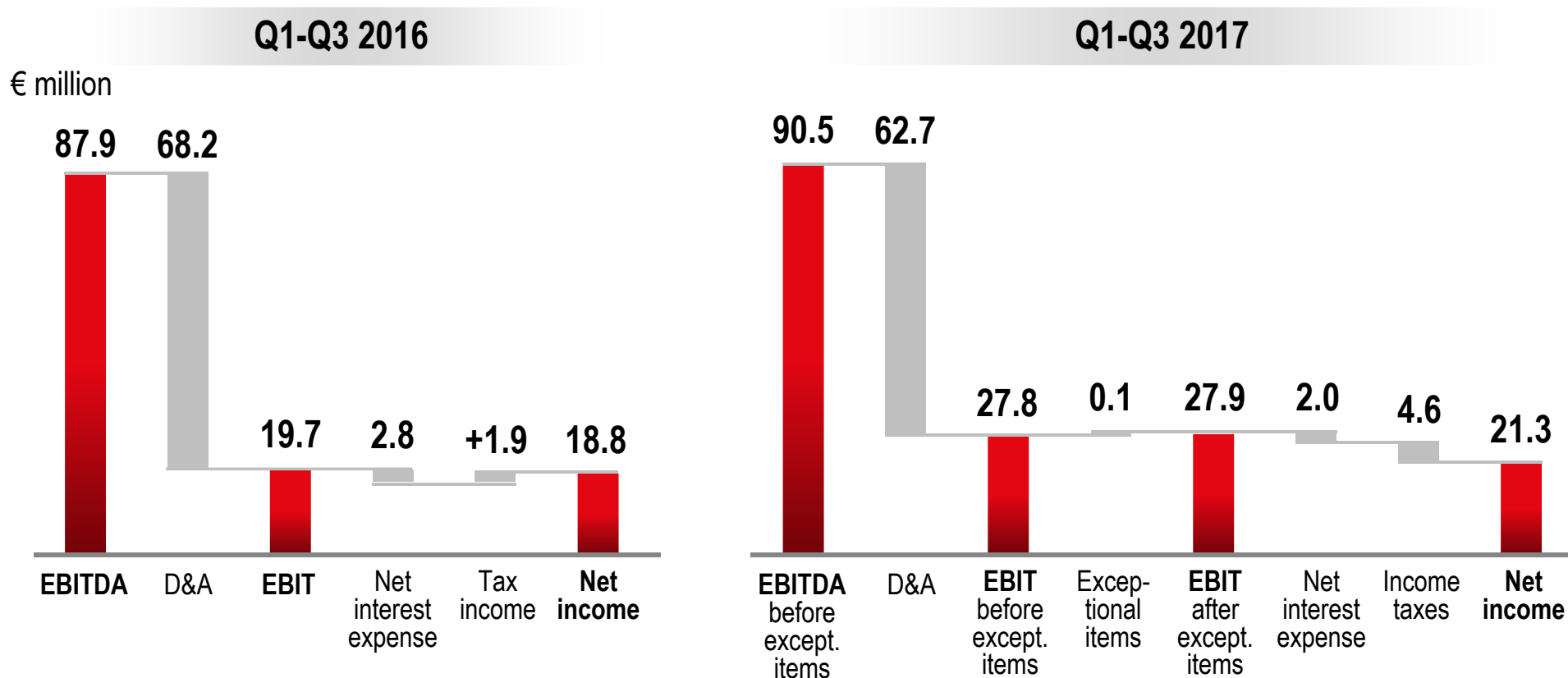
Revenue by application



- Pro-forma Automotive revenue⁽¹⁾ incl. equity-accounted JV DEUTZ Dalian: €232.1 million (corresponding revenue share amounts to 18%)

(1) Including 100% of JV revenue

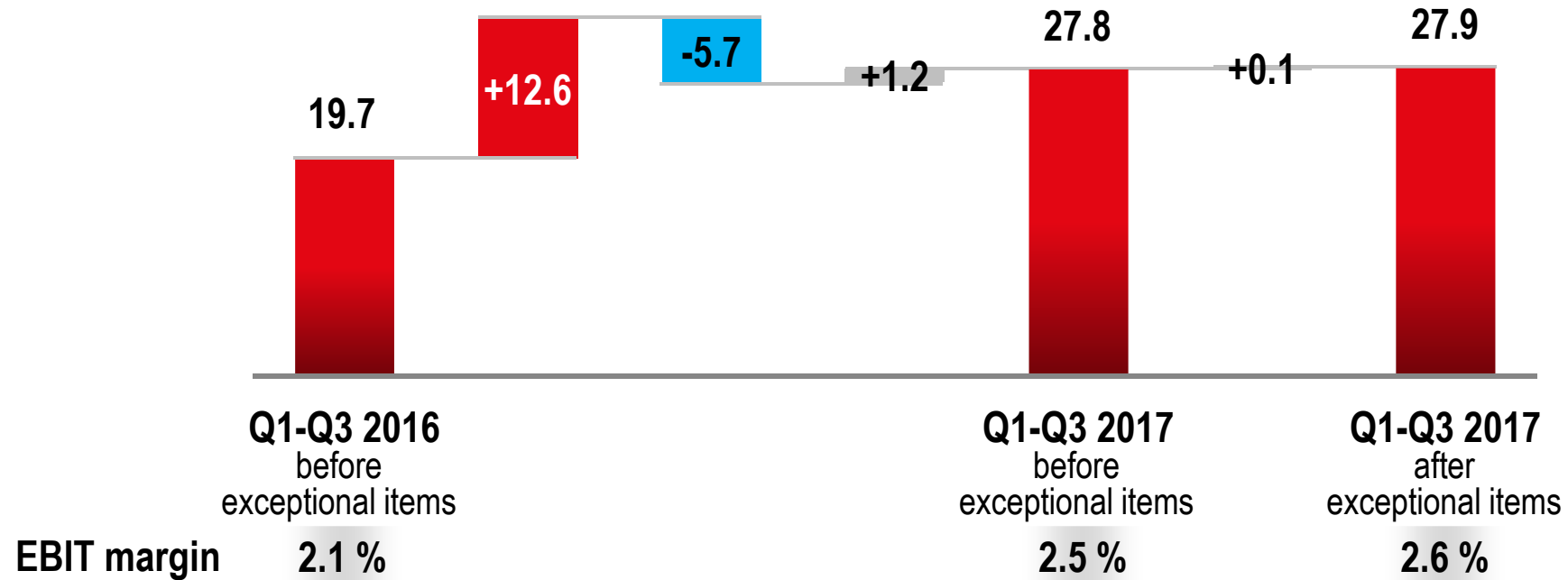
Operating profit & net income



- Prior year operating result was supported by licence proceeds (€5.5 million)
- EBIT (before exceptional items) increased by €8.1 million (+41.1% yoy)

EBIT

€ million



- EBIT improvement at DEUTZ Compact Engines mainly driven by higher business volume
- Prior year result at DEUTZ Customised Solutions was supported by licence proceeds of €5.5 million

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

Segment: DEUTZ Compact Engines

€ million	Q1-Q3 2017	Q1-Q3 2016	Change in %
New orders	969.3	743.7	30.3
Unit sales (units)	111,947	93,310	20.0
Revenue	907.6	749.7	21.1
EBIT	6.7	-5.9	--

€ million	Q3 2017	Q3 2016	Change in %
New orders	307.7	199.2	54.5
Unit sales (units)	36,465	28,503	27.9
Revenue	294.0	237.2	23.9
EBIT	-4.7	-7.8	--

- Double-digit growth of order intake
- Strong revenue growth driven by Material Handling (+42.1% yoy), Construction Equipment (+25.4% yoy) and Agricultural Equipment (+25.1% yoy)
- Significant EBIT improvement in Q1-Q3 2017 due to higher capacity utilisation
- Q3 result impacted by holiday shutdown

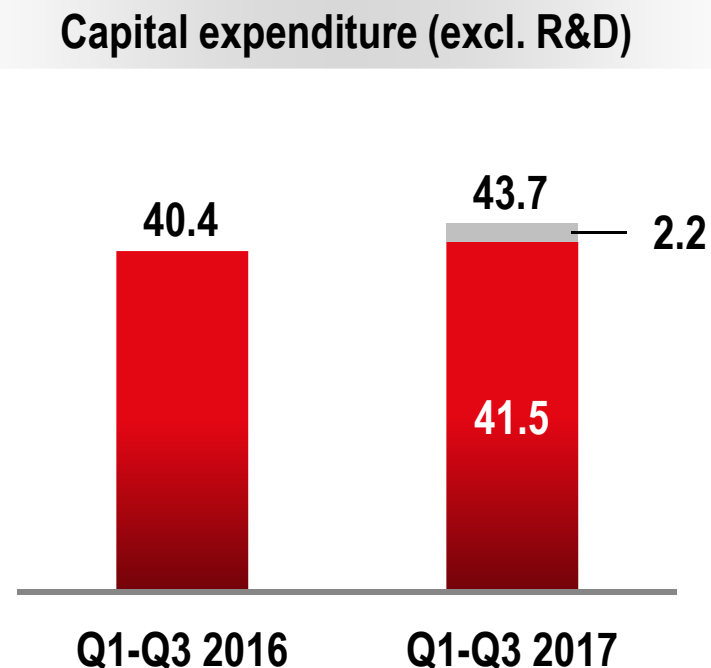
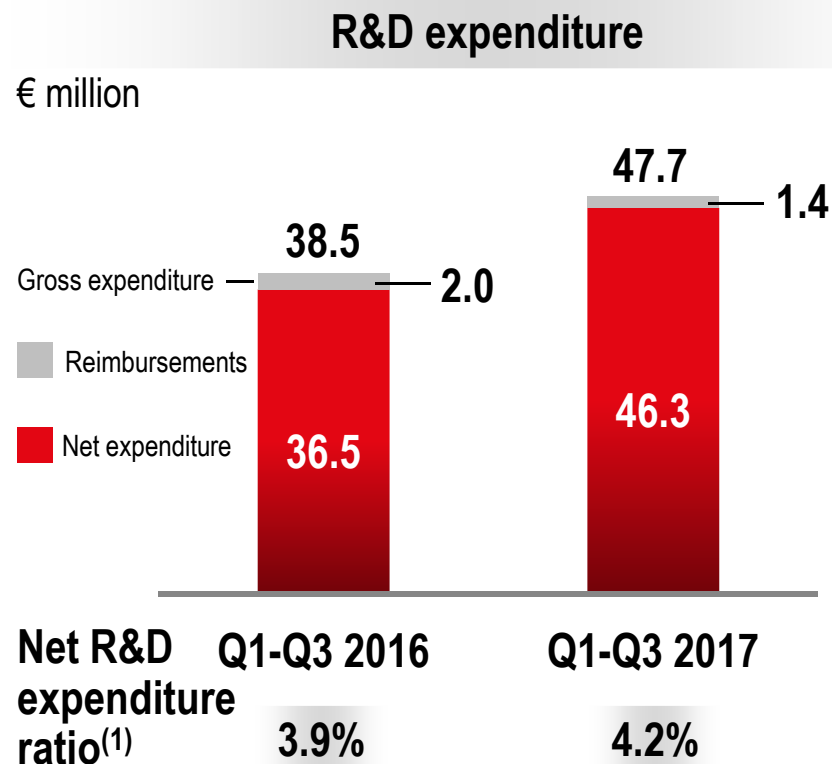
Segment: DEUTZ Customised Solutions

€ million	Q1-Q3 2017	Q1-Q3 2016	Change in %
New orders	204.5	191.6	6.7
Unit sales (units)	6,332	7,129	-11.2
Revenue	185.6	195.8	-5.2
EBIT	21.9	27.6	-20.7

€ million	Q3 2017	Q3 2016	Change in %
New orders	63.1	58.9	7.1
Unit sales (units)	2,215	2,230	-0.7
Revenue	64.7	63.9	1.3
EBIT	10.3	6.2	66.1

- New orders advanced by 6.7% yoy; book-to-bill ratio amounts to 1.10x
- Revenue decline attributable to Automotive and Other applications
- Revenue share of service business amounts to 50.5%
- Prior year operating profit benefitted from licence proceeds (€5.5 million in Q1 2016)

R&D & capital expenditure



- R&D increase in line with guidance due to planned expansion of product offering
- Proportion of capitalised net R&D expenditure: €10.0 million (Q1-Q3 2016: €5.3 million)

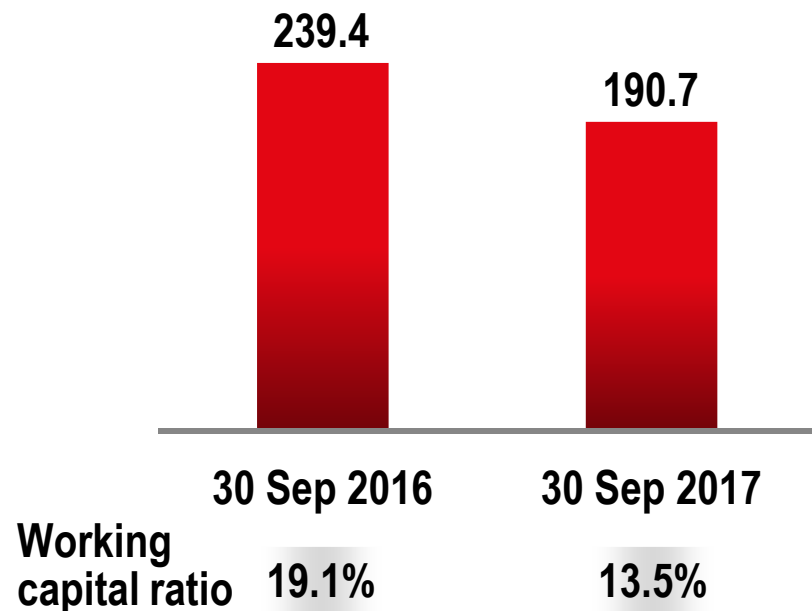
- Capex net of reimbursements at previous year's level

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

Working capital & operating cash flow

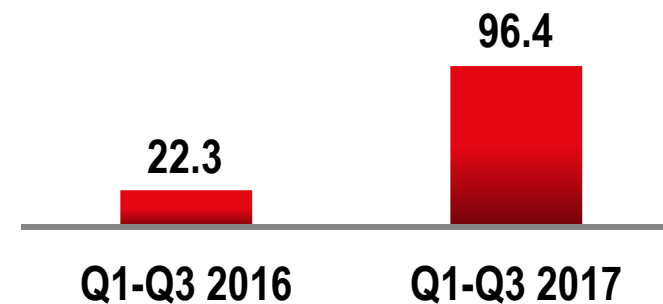
Working capital

€ million



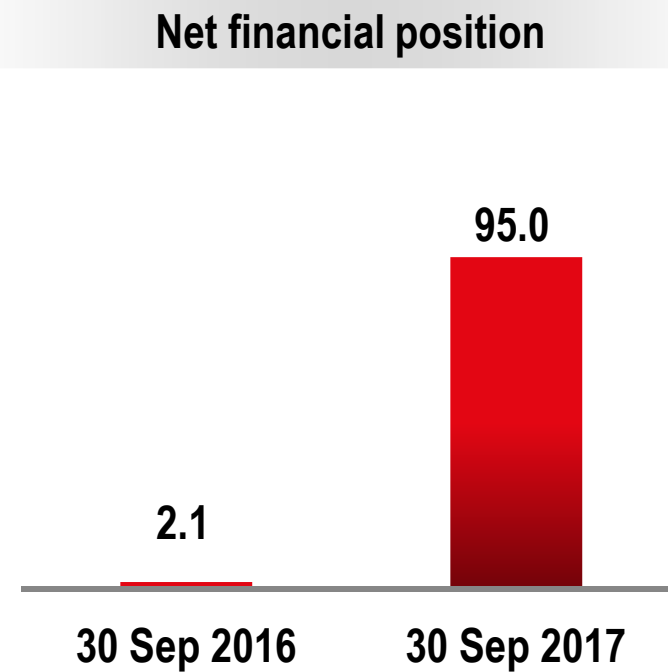
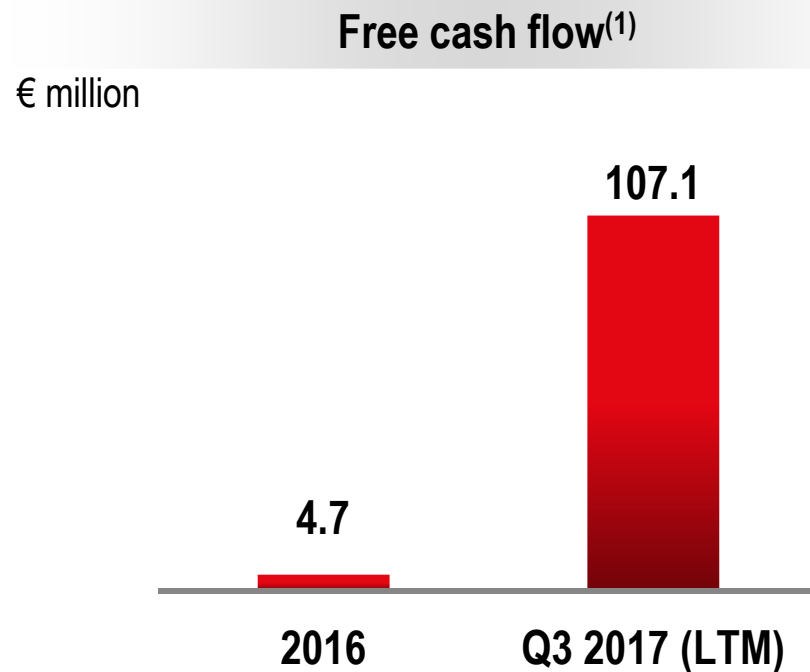
- Working capital decrease mainly due to higher trade payables
- Significant improvement of working capital ratio

Operating cash flow



- Operating cash flow increase largely attributable to higher business volume and working capital decrease

Free cash flow generation & net financial position



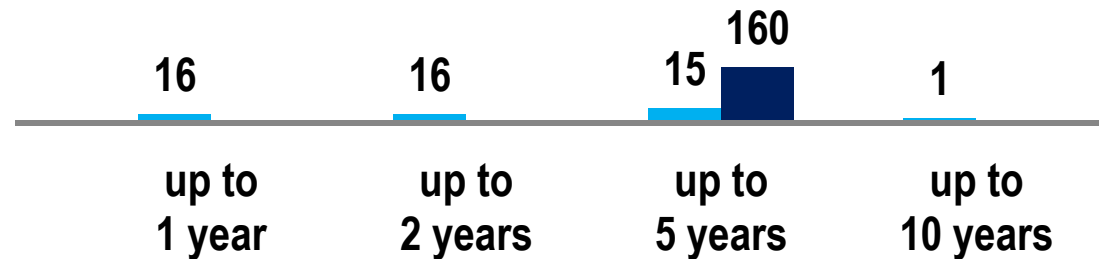
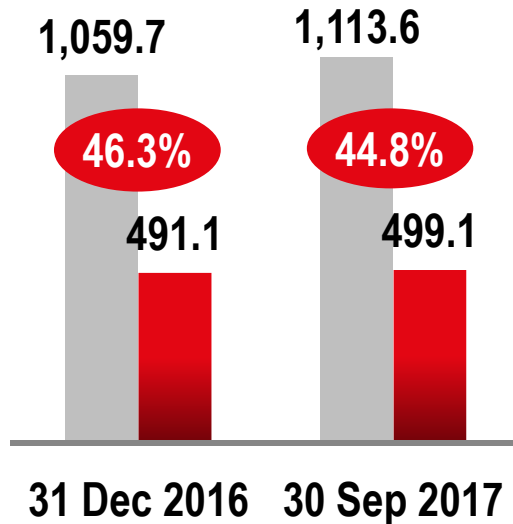
- Substantial increase of free cash flow
- Free cash flow in Q3 2017 amounted to +€20.6 million

- Strong cash flow led to improvement of net financial position

(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 remains strong at 44.8%
- Medium- to long-term financing with undrawn facilities available:
 - Credit line of €160 million until June 2022 (prolonged in Q2 by two years at improved conditions)
 - Loan from European Investment Bank repayable by July 2020

Agenda

- Operational and strategic highlights

- Financials

- Outlook

- Annex

Assessment for key end-customer markets, 2017

	Europe	North America	China
Unit sales (equipment)			
Construction equipment	+5 % to +10 %	0 % to +5 %	+20 % to +30 %
Material handling	+5 % to +10 %	+5 % to +10 %	+20 % to +30 %
Agricultural machinery	0 % to +5 %		
Medium & light-duty trucks			0 % to +5 %

Financial outlook

€ million	FY 2016 reported	FY 2017 guidance
Revenue	1,260.2	marked increase
EBIT margin (before exceptional items)	1.9 %	moderate increase

■ Positive exceptional items:

- Property sale in Cologne-Deutz with positive contribution to earnings in FY 2017 in the high double-digit million euros (after taxes)
- Gain from disposal of building lease (€10.0 million) in Hamburg realised in Q1 2017

Summary

1st engine manufacturer to receive EU Stage V certification

Expansion of product portfolio in the 200 to 620 kW range

E-DEUTZ – clear electrification strategy with M&A accelerator

Integration of sales and service partner in Italy

Double-digit top line growth

Revenue and EBIT guidance confirmed



Agenda

- Operational and strategic highlights
- Financials
- Outlook
- Annex

Summary of key financials (I)

€ million	Q1-Q3 2017	Q1-Q3 2016	Change (%)
Revenue	1,093.2	945.5	15.6
EBITDA (before exceptional items)	90.5	87.9	3.0
EBIT (before exceptional items)	27.8	19.7	41.1
EBIT margin (before exceptional items), %	2.5	2.1	--
Net income	21.3	18.8	13.3
Basic earnings per share (€)	0.18	0.16	12.5
Number of employees (30 September)	3,835	3,695	3.8

Summary of key financials (II)

€ million	Q1-Q3 2017	Q1-Q3 2016	Change (%)
Total assets	1,113.6	1,063.8	4.7
Equity	499.1	491.5	1.5
Equity ratio (%)	44.8	46.2	--
Cash flow from operating activities	96.4	22.3	>100
Free cash flow ⁽¹⁾	74.4	-28.0	>100
Net financial position	95.0	2.1	>100
Working capital	190.7	239.4	-20.3

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

Income statement

€ million	Q1-Q3 2017	Q1-Q3 2016	Change (%)
Revenue	1,093.2	945.5	15.6
Cost of sales	-909.9	-775.6	17.3
Research and development costs	-67.1	-58.8	14.1
Selling expenses	-56.1	-51.9	8.1
General and administrative expenses	-28.4	-26.2	8.4
Other operating income	22.9	10.6	>100
Other operating expenses	-26.9	-20.8	29.3
Profit/loss on equity-accounted investments	0.2	-3.1	--
EBIT	27.9	19.7	41.6
Thereof: Exceptional items	0.1	0.0	--
Interest expense, net	-2.0	-2.8	-28.6
Net income before income taxes	25.9	16.9	53.3
Income taxes	-4.6	1.9	--
Net income	21.3	18.8	13.3

Balance sheet: assets

€ million	30 Sep 2017	31 Dec 2016	Change (%)
Non-current assets (before deferred tax assets)	464.4	483.7	-4.0
Deferred tax assets	77.2	79.9	-3.4
Inventories	257.8	253.1	1.9
Trade receivables	131.0	113.5	15.4
Other receivables and assets	35.3	37.3	-5.4
Cash and cash equivalents	143.4	91.8	56.2
Non-current assets classified as held for sale	4.5	0.4	>100
Total assets	1,113.6	1,059.7	5.1

Balance sheet: equity & liabilities

€ million	30 Sep 2017	31 Dec 2016	Change (%)
Equity	499.1	491.1	1.6
Provisions for pensions and other post-retirement benefits	164.6	175.9	-6.4
Deferred tax liabilities	0.1	0.4	-75.0
Other provisions	36.5	38.4	-4.9
Financial liabilities	32.3	44.0	-26.6
Other liabilities	13.3	6.3	>100
Non-current liabilities	246.8	265.0	-6.9
Provisions for pensions and other post-retirement benefits	14.1	14.1	0.0
Other provisions / Provisions for income taxes	62.8	60.0	4.7
Financial liabilities	16.1	16.2	-0.6
Trade payables	198.1	162.3	22.1
Other liabilities	76.6	51.0	50.2
Current liabilities	367.7	303.6	21.1
Total equity and liabilities	1,113.6	1,059.7	5.1

Cash flow statement (condensed)

€ million	Q1-Q3 2017	Q1-Q3 2016
EBIT	27.9	19.7
Cash flow from operating activities (total)	96.4	22.3
Capital expenditure on intangible assets, property, plant and equipment and investments	-40.9	-47.6
Proceeds from the sale of non-current assets	21.2	0.1
Cash flow from investing activities (total)	-19.7	-47.5
Cash flow from financing activities	-24.1	-22.2
Change in cash and cash equivalents	52.6	-47.4

Overview of segments, Q1-Q3 2017

	Q1-Q3 2017	Q1-Q3 2016	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	969.3	743.7	30.3
DEUTZ Customised Solutions	204.5	191.6	6.7
Total for operating activities	1,173.8	935.3	25.5

	Q1-Q3 2017	Q1-Q3 2016	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	907.6	749.7	21.1
DEUTZ Customised Solutions	185.6	195.8	-5.2
Total for operating activities	1,093.2	945.5	15.6

	Q1-Q3 2017	Q1-Q3 2016	Change (%)
Unit sales			
DEUTZ Compact Engines	111,947	93,310	20.0
DEUTZ Customised Solutions	6,332	7,129	-11.2
Total for operating activities	118,279	100,439	17.8

	Q1-Q3 2017	Q1-Q3 2016	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	6.7	-5.9	--
DEUTZ Customised Solutions	21.9	27.6	-20.7
Other	-0.8	-2.0	60.0
Total for operating activities	27.8	19.7	41.1

Overview of segments, Q3 2017

	Q3 2017	Q3 2016	Change (%)
New orders (€ million)			
DEUTZ Compact Engines	307.7	199.2	54.5
DEUTZ Customised Solutions	63.1	58.9	7.1
Total for operating activities	370.8	258.1	43.7

	Q3 2017	Q3 2016	Change (%)
Revenue (€ million)			
DEUTZ Compact Engines	294.0	237.2	23.9
DEUTZ Customised Solutions	64.7	63.9	1.3
Total for operating activities	358.7	301.1	19.1

	Q3 2017	Q3 2016	Change (%)
Unit sales			
DEUTZ Compact Engines	36,465	28,503	27.9
DEUTZ Customised Solutions	2,215	2,230	-0.7
Total for operating activities	38,680	30,733	25.9

	Q3 2017	Q3 2016	Change (%)
EBIT before one-off items (€ million)			
DEUTZ Compact Engines	-4.7	-7.8	39.7
DEUTZ Customised Solutions	10.3	6.2	66.1
Other	-0.6	0.6	--
Total for operating activities	5.0	-1.0	--

Employees

	30 Sep 2017	30 Sep 2016	Change (%)
Cologne	2,257	2,212	2.0
Ulm	449	414	8.5
Other German operations	138	219	-37.0
Germany	2,844	2,845	0.0
Foreign operations	991	850	16.6
DEUTZ Group	3,835	3,695	3.8

Financial calendar & contact details

- Annual report 2017 14 March 2018
- Annual general meeting 26 April 2018
- Q1 2018 results 3 May 2018

▶ Contact details

Christian Krupp
SVP Finance, Public and Investor Relations
Ottostrasse 1
51149 Cologne (Porz-Eil), Germany

Tel:+49 (0) 221 822 5400
Fax:+49 (0) 221 822 15 5400
Email: christian.krupp@deutz.com
www.deutz.com

Disclaimer

Unless stated otherwise, all the figures given in this presentation refer to continuing operations.

The details given in this document are based on the information available at the time it was prepared. This presents the risk that actual figures may differ from forward-looking statements. Such discrepancies may be caused by changes in political, economic or business conditions, a decrease in the technological lead of DEUTZ's products, changes in competition, the effects of movements in interest rates or exchange rates, the pricing of parts supplied and other risks and uncertainties not identified at the time this document was prepared.

The forward-looking statements made in this document will not be updated.

Thank you very much

