

DEUTZ Investor Presentation

November 2017

The engine company.



DEUTZ at a glance

Company profile

- DEUTZ is one of the world's leading manufacturers of innovative drive systems
- Broad spectrum of diesel and gas engines in the 19 to 620 kW range
- Focus on off-highway with strong market position in construction equipment, agricultural machinery and material handling
- E-DEUTZ electrification strategy launched
- Worldwide sales and service network

Segments

- DEUTZ Compact Engines: liquid-cooled engines < 8 litres cubic capacity
- DEUTZ Customised Solutions: liquid-cooled engines > 8 litres cubic capacity, air-cooled engines and remanufactured engines (Xchange)
- Substantial service business common to both segments

Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

Customer base

Long standing customer relationships (not exhaustive)



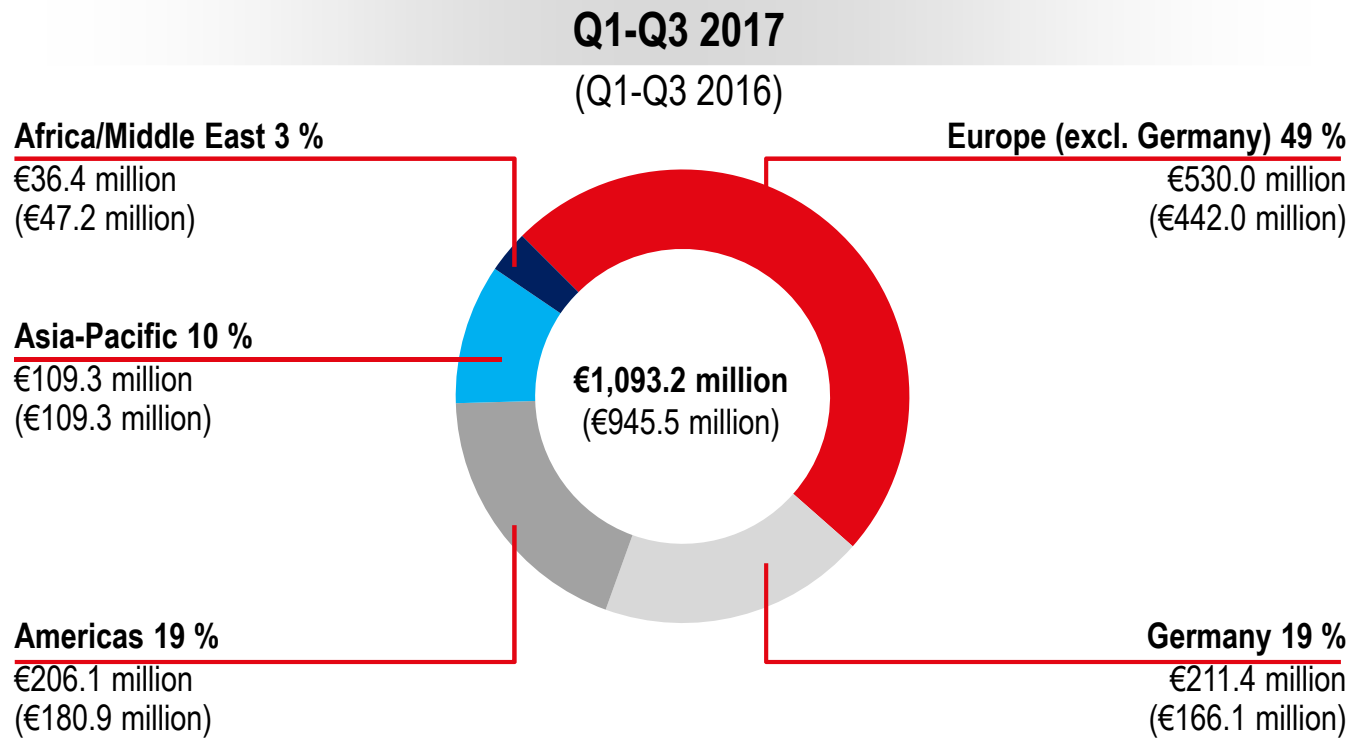
New clients & greater share of wallet (not exhaustive)



- Long standing customer relationships
- Customer base extended and diversified
- Compact design and smart EAT solutions attractive to new customers

→ Successful extension of customer base

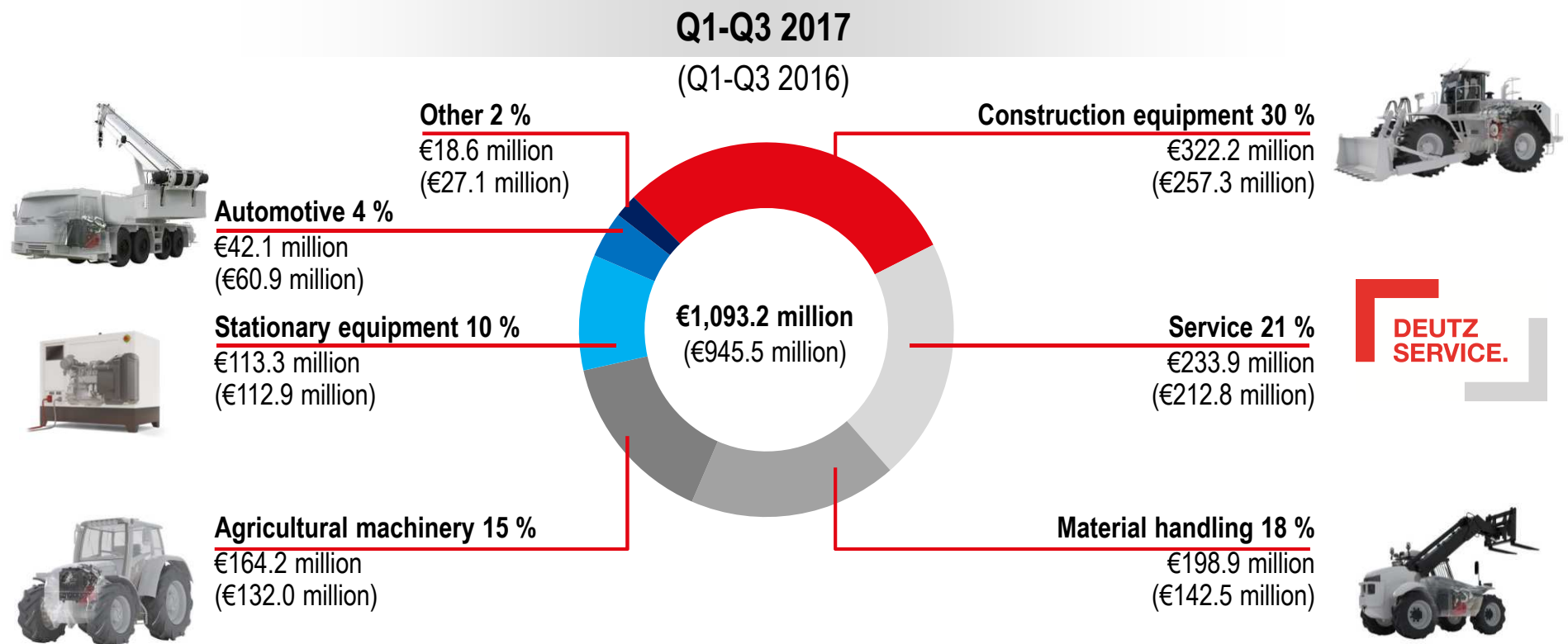
Revenue by region



- 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

Strong application expertise



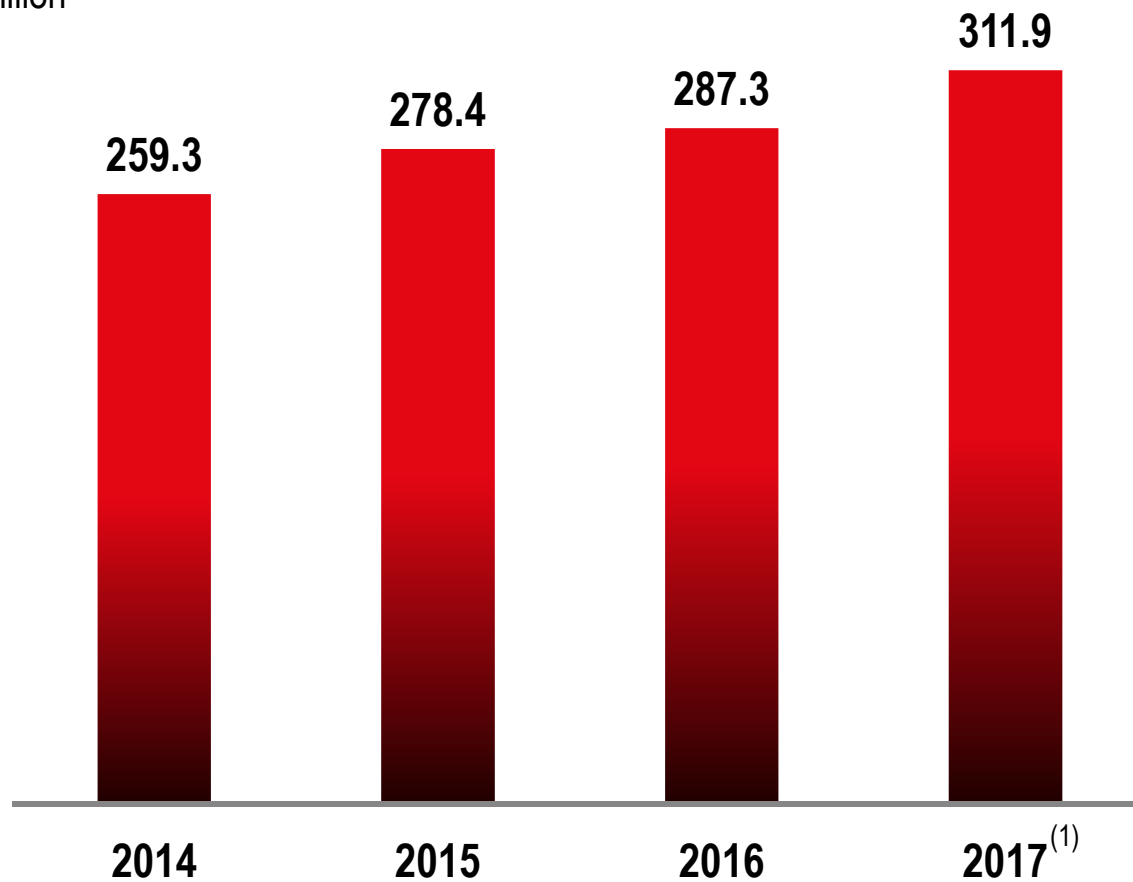
- DEUTZ engines meet technical requirements of different applications and customers⁽¹⁾
- Same base engine applied for a wide range of equipment classes

(1) Pictures show 2.9 litre engine

→ DEUTZ application expertise serving different customer needs

Service business

€ million





- Resilience of profitable service business through different economic cycles
- Expansion of service business with new products, digitalization and down-stream integration
- Investments in own service center and acquisition of selected dealers



(1) Q1-Q3 figures annualised

→ Continuous growth of service revenue

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

Current engine portfolio

TCD 2.9

TCD 3.6

TCD 4.1
TCD 6.1

TCD 7.8

TCD 12.0V
TCD 16.0V



- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- DEUTZ is the 1st engine manufacturer which received an EU Stage V emissions standard certification
- Delivering on the promise that the current engine portfolio will meet the standards that will apply from 2019



Product expansion & Liebherr cooperation

Product expansion






- Enlarged product offering at the lower output range
- New 3-cylinder TCD 2.2 on the same platform with 4-cylinder TCD 2.9
- Both engines also offered as a gas version (LPG)
- Start of series production in 2019


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

E-DEUTZ Strategy

Application examples	E-DEUTZ Strategy	Key selling points
	<ul style="list-style-type: none">■ Electrification of off-highway applications■ Expansion of expertise in hybrid and e-technology■ Best-fit technology depending on application and power requirement■ Strategic addition to the range of engines■ Marketable hybrid and full-electric products end of 2019 / early 2020	<ul style="list-style-type: none">■ Commercially and technically feasible - ecologically worthwhile■ TCO reduction■ CO₂ reduction■ Increased torque■ Engine downsizing with hybrids – same interfaces
		
		



- ▶ Initial capital expenditure of approx. €100 million (incl. acquisition of Torqeedo)
- ▶ 5-10% revenue share in 5 years
- ▶ EBIT target margin high single-digit / low double-digit percentage range

Torqueedo acquisition

Torqueedo

TORQEEDO

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

Strategic reason

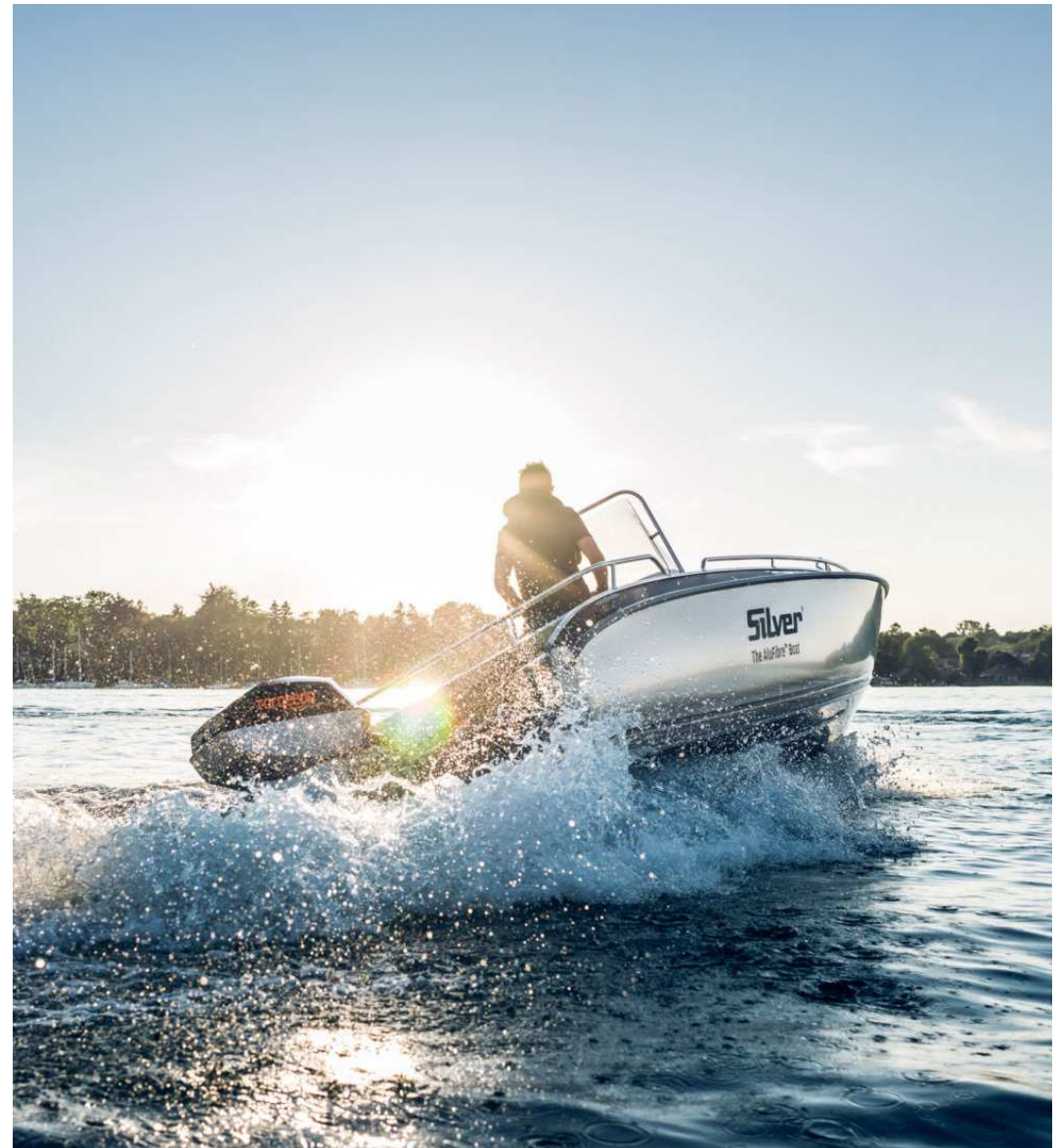
- Torqueedo is an innovative catalyst for the E-DEUTZ strategy
- Bringing hybrid and full-electric drive systems to market more quickly than would be possible for DEUTZ alone
- DEUTZ is aiming to be the market leader in innovative drive systems in its core markets

Know-how transfer

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

Torqueedo – global market leader in electric motors for boats

- **No. 1 for market share:** More than 70,000 electric drive systems sold
- **No. 1 for performance:** Highest efficiency, best power to weight ratio, superior performance
- **No. 1 in technology:** Superior electric and hybrid drive systems for boats
- **No.1 in R&D:** Portfolio of patents for electric and hybrid drive systems (over 100 patents)
- **No. 1 organisation:** 130 employees, more experience than any other player in this market
- **No. 1 in market presence:** Represented in 50+ countries, export share 75 %
- **Wide range of system solutions:** 1–80 hp / 0.5–59 kW equivalent/in future 160 hp/119 kW equivalent⁽¹⁾



(1) HP-equivalent means the same propulsion power as a petrol outboard motor with this horsepower rating, although the shaft power and input power of the e-outboard may be lower.

Investment in sales & service network

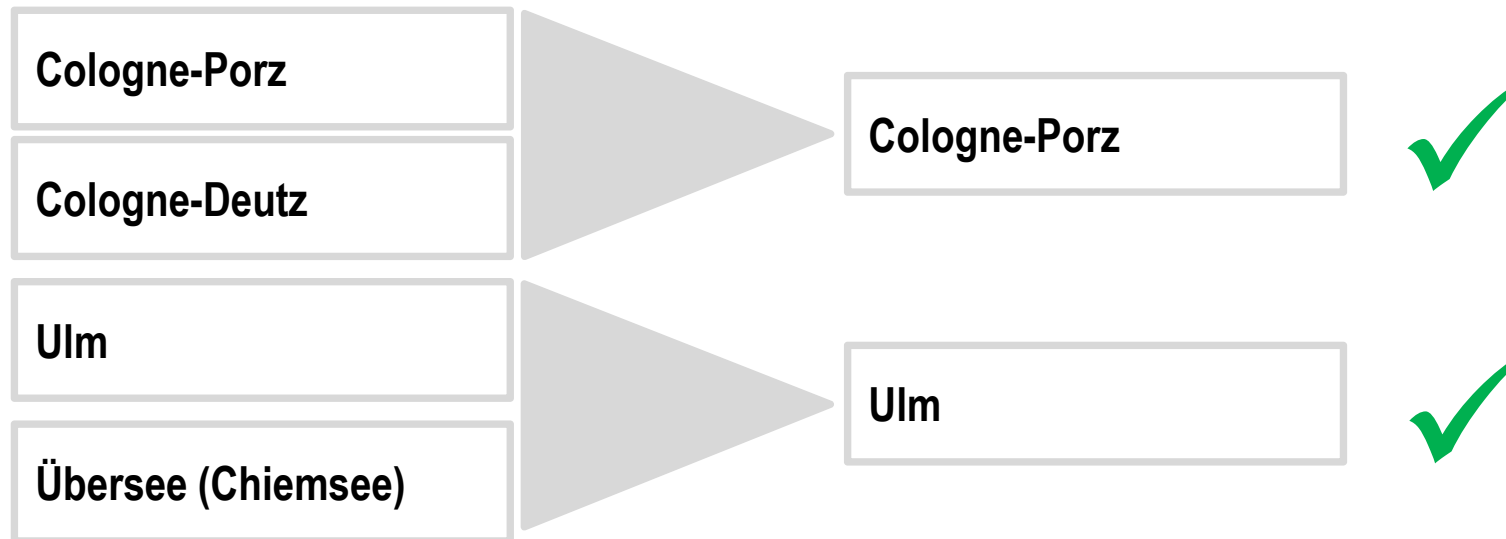


- Strategy to invest in the service network in selected locations
- Acquisition of Italian dealer IML Motori including its Romanian subsidiary
- Italian sales and service network will trade under the name DEUTZ Italy
- The experienced team continues to serve the customers
- Annual revenue increase approx.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

→ Investing in service network

Site optimisation completed

- Efficiency gains of approx. €10 million p.a. (higher with better capacity utilisation)



- Substantial proceeds from property sale of former Cologne-Deutz site:
 - Purchase price of around €125 million in 2017. Sale will lead to positive earnings contribution in the high double-digit million euros (after taxes) in Q4 2017, which will be shown as an exceptional item
 - Final instalment might reach in the mid double-digit million euros in the coming years, depending on completion of the ongoing planning process

→ Sustainable efficiency improvement and substantial sale proceeds

Cash deployment & dividend policy

Internal funding

- Investment focus on innovation, service and internationalization
- Electrification strategy – E-DEUTZ
- Service – acquisition of selected dealers
- Committed to diesel – enlarged product portfolio, intelligent cooperations and outsourcing opportunities

Financial strength

- Keep equity ratio above 40 %
- Robust financial framework in volatile markets

Dividend policy

- Stable or growing dividend per share
- Payout ~30% of recurring profit over multi year period

→ Stable or growing dividend

Key investment highlights

Leading manufacturer of engines for off-highway applications

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

Diesel engines with growing outsourcing chances

Resilient and growing service business

Stable or growing dividend

Financial strength for organic and inorganic growth



Agenda

- DEUTZ strategy & positioning

- Financials

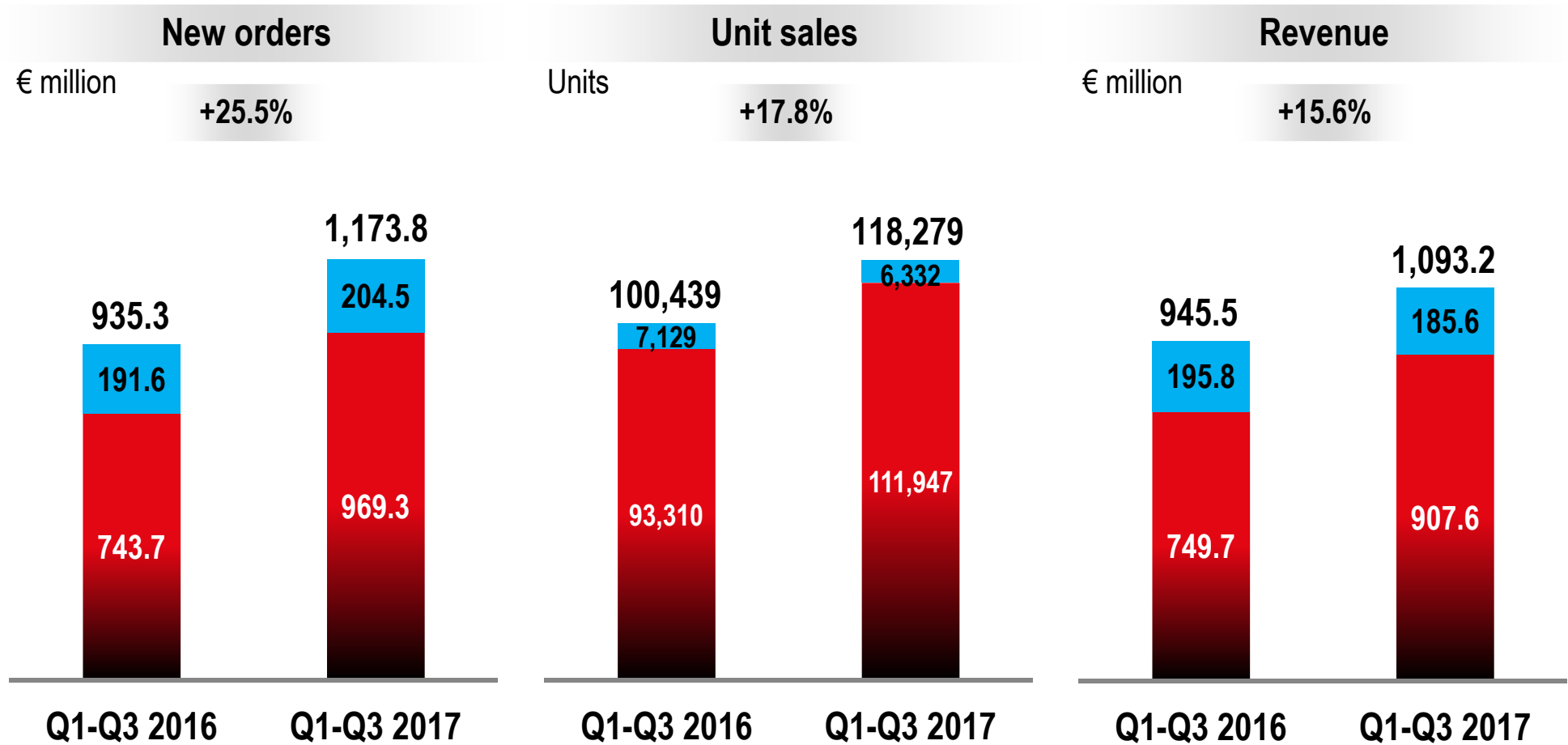
- Outlook

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

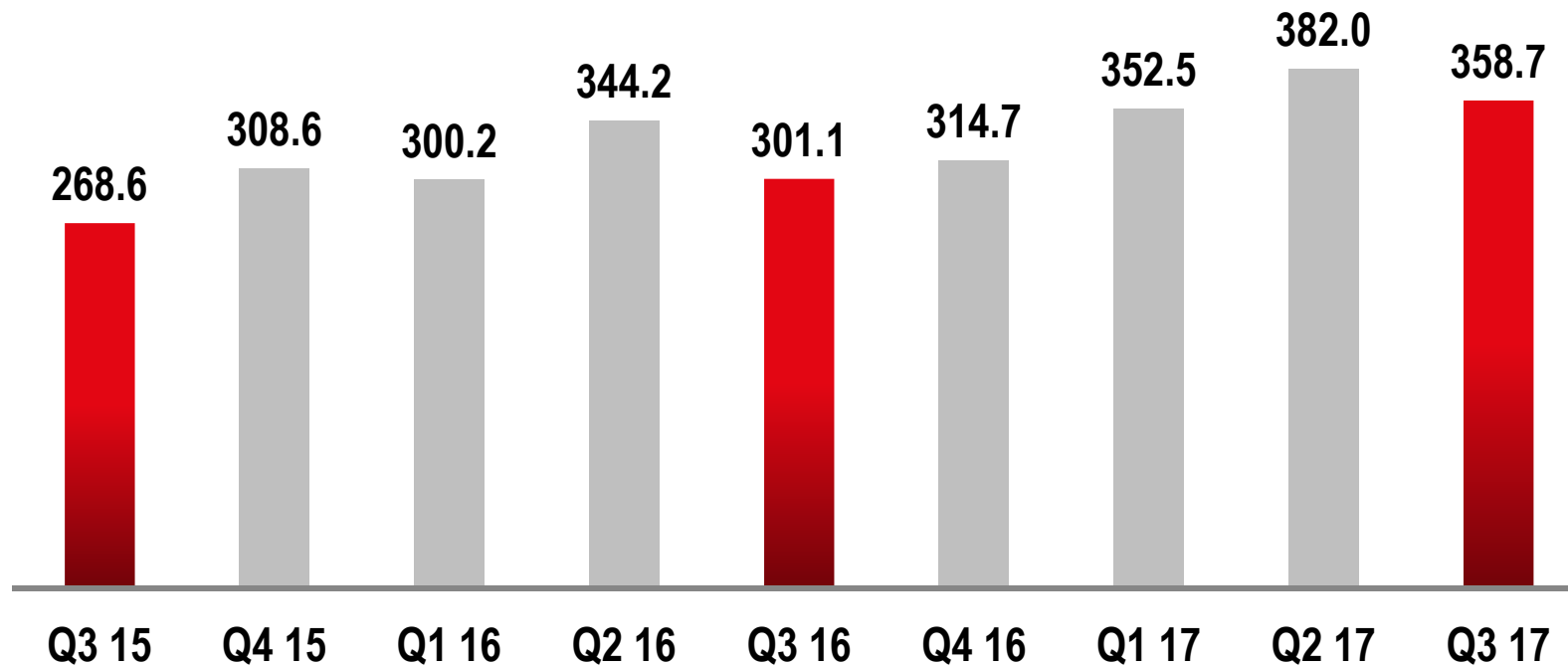
Sales figures



■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

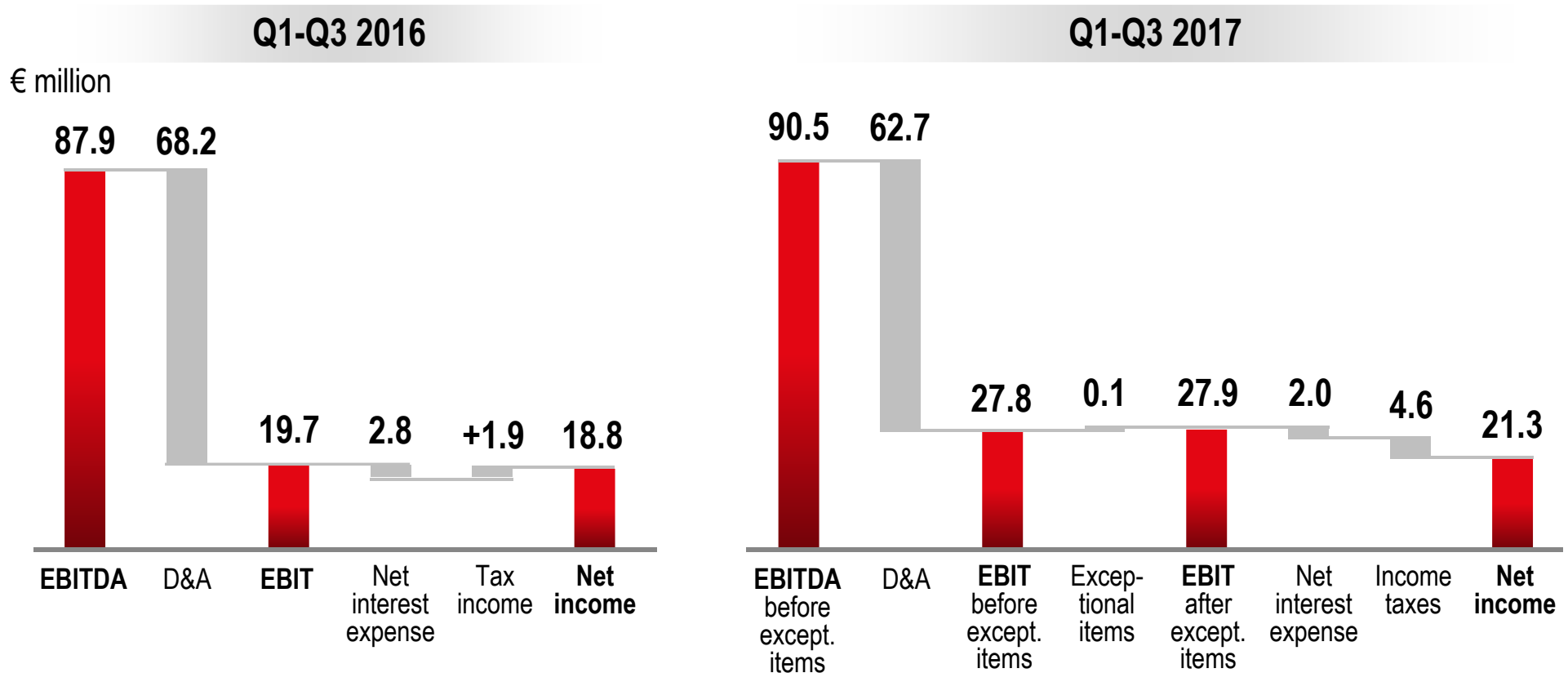
Revenue by quarter

€ million



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

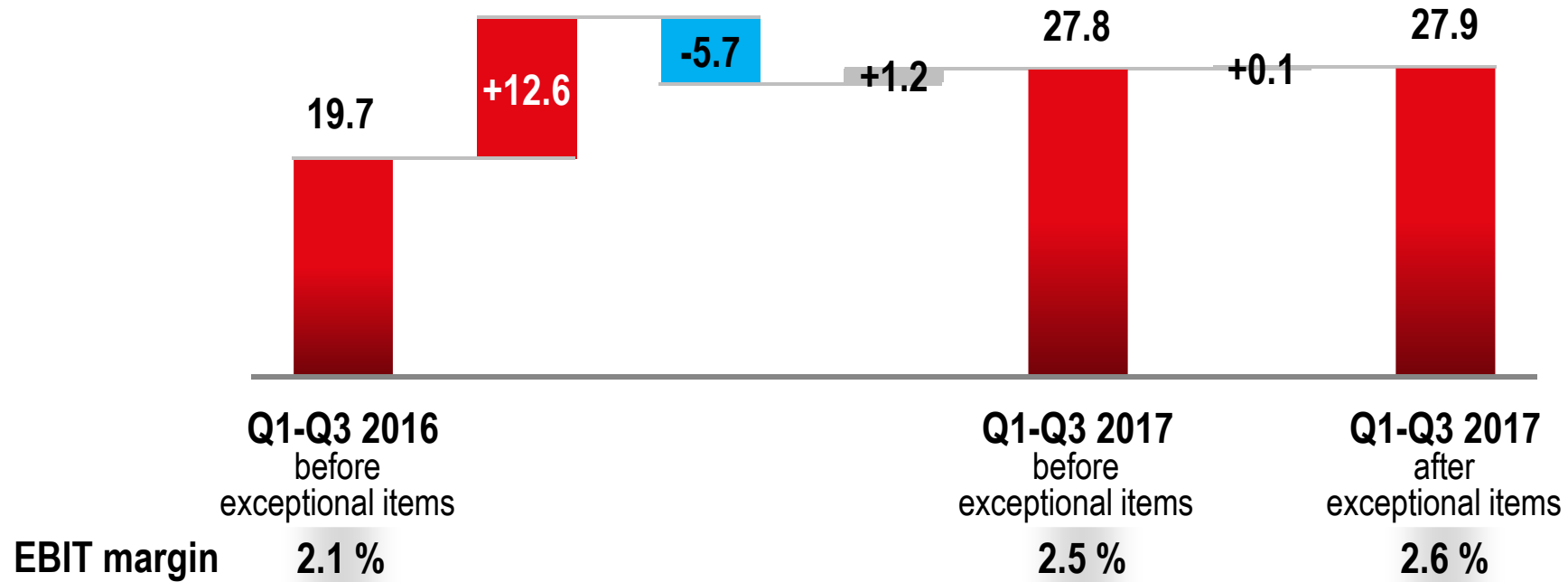
Operating profit & net income



- 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

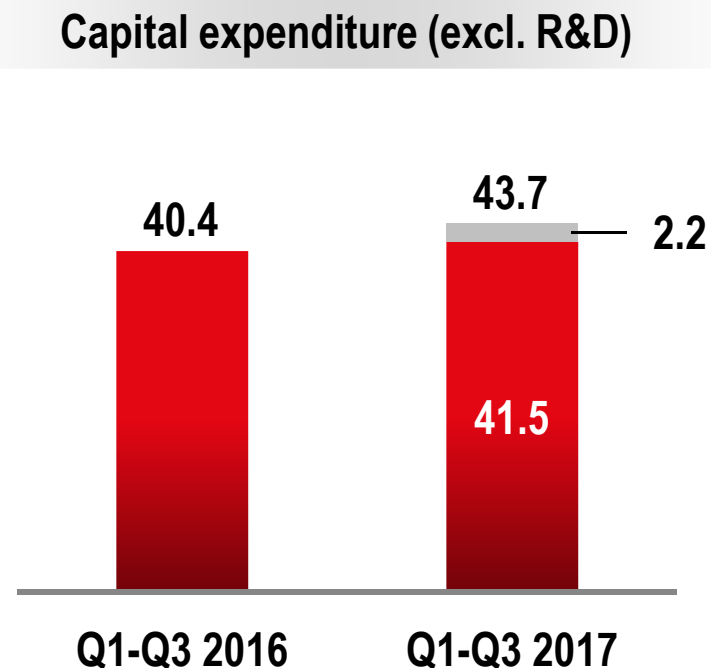
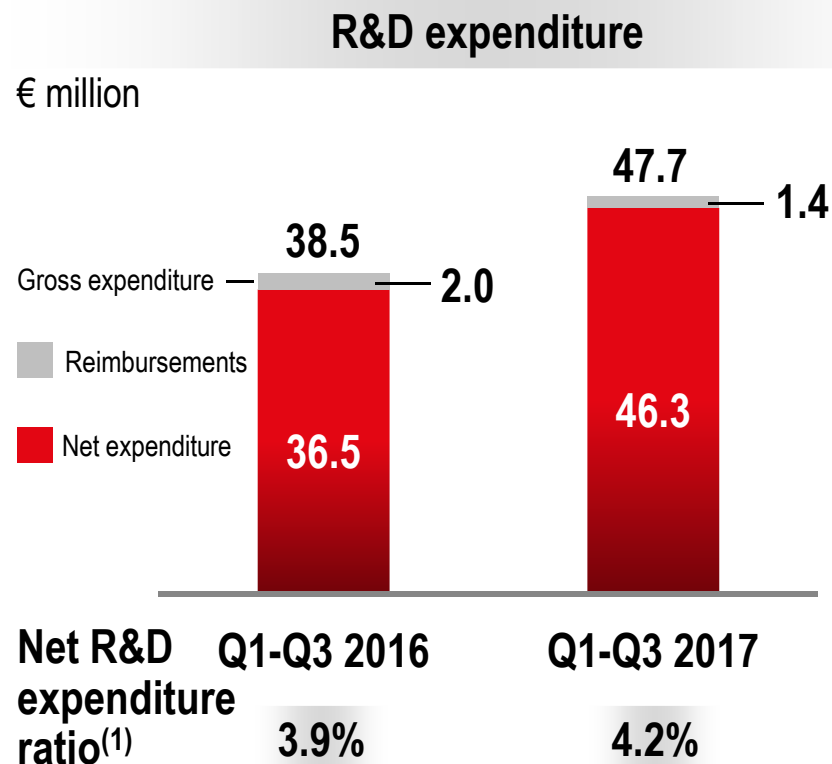
Segment: DEUTZ Customised Solutions

€ 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 spending & 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)

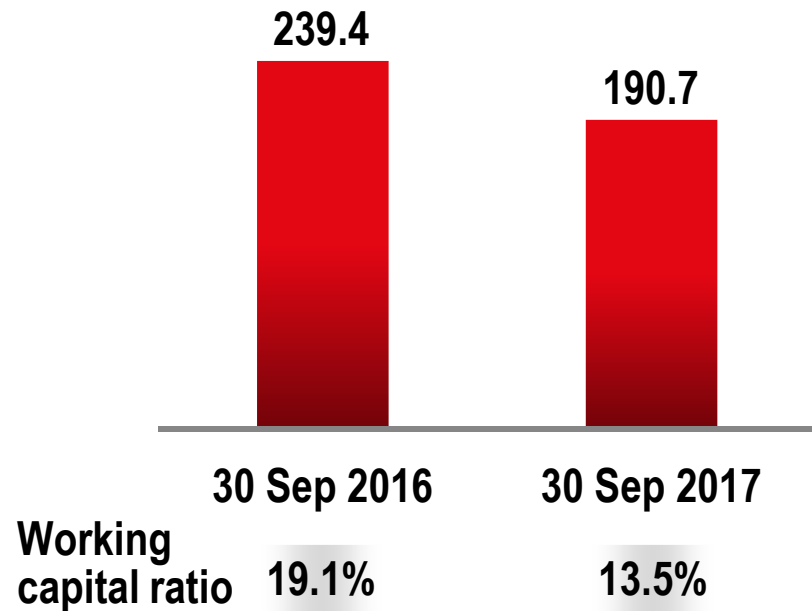
- Capex net of reimbursements at previous year's level

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

Working capital & operating cash flow

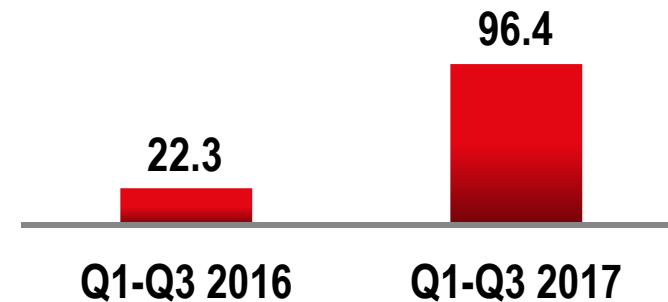
Working capital

€ million



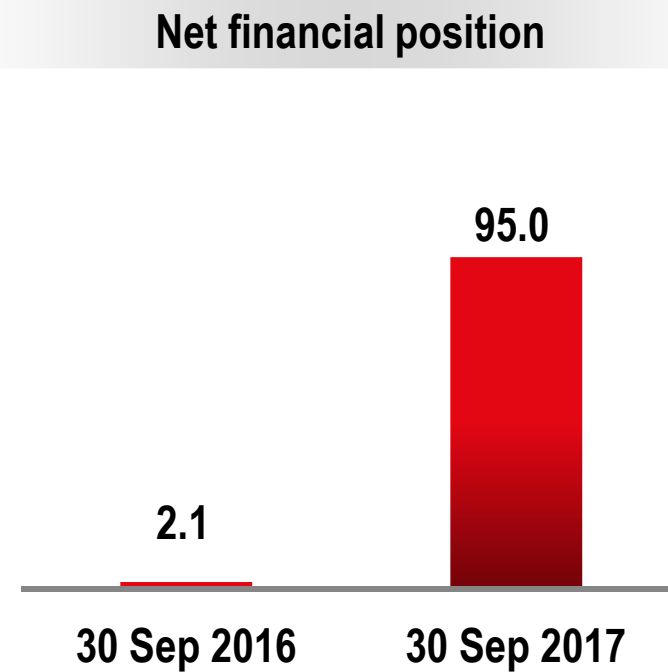
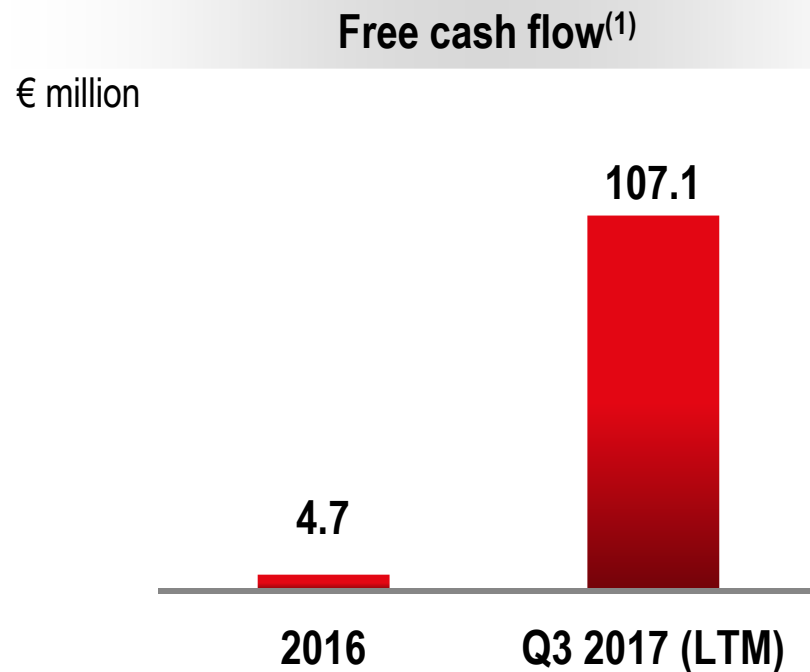
- Working capital decrease mainly due to higher trade payables
- Significant improvement of working capital ratio

Operating cash flow



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

Free cash flow generation & net financial position



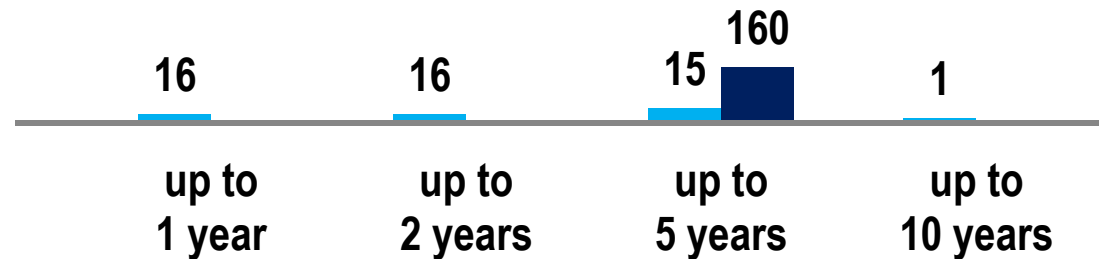
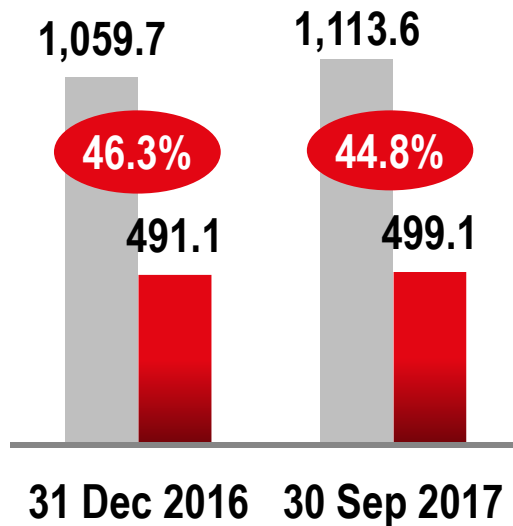
- Substantial increase of free cash flow
- Free cash flow in Q3 2017 amounted to +€20.6 million

- 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

- DEUTZ strategy & positioning

- Financials

- Outlook

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

Financial calendar & contact details

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

▶ Contact details

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Thank you very much

