DEUTZ finishes with a solid fourth quarter in a year dominated by coronavirus

- Significant improvement in operating profit in the fourth quarter of 2020 compared with the previous quarter – free cash flow in positive territory at €43.0 million
- Healthy balance sheet underpinned by equity ratio of 45.3 percent and unutilized credit lines of €245 million
- Successful introduction of Transform for Growth with expected gross cost savings of around €100 million from the end of 2022 – restructuring costs of nearly €32 million recognized as an exceptional item in 2020
- No dividend to be distributed due to the accumulated loss
- DEUTZ expecting, at the very least, to break even in terms of operating profit in 2021 and anticipates revenue of at least €1.4 billion

Cologne, March 18, 2021 – DEUTZ was able to finish a year dominated by coronavirus with a much improved fourth quarter. A book-to-bill ratio of over 1 was achieved for the year thanks to the pick-up in demand. Moreover, proactive management of working capital and the first positive effects from the restructuring program enabled DEUTZ to generate positive free cash flow of €43.0 million in the fourth quarter.

"We continued with our strategic growth initiatives in what proved to be a challenging year. The positive performance of our Chinese joint venture with SANY and the development alliance with John Deere, which we announced at the end of the year, demonstrate that we can look to the future with confidence. Over the coming months, we expect to see a recovery in our main sales markets. From a current perspective, however, it appears likely that they will need a long time to return to their pre-crisis levels," said DEUTZ CEO Dr. Frank Hiller.

Strategic growth initiatives continue despite coronavirus crisis

The joint venture with SANY, China’s biggest construction equipment group, notched up some early success by generating a profit in its first year. The production volume is set to be increased from around 20,000 engines in 2020 to around 40,000 engines in 2021. At the end of the second quarter of 2020, DEUTZ increased its revenue target for China for 2022 from approximately €500 million to around €800 million[1] on the grounds that market demand is already on a par with the production volume planned for the joint venture and in light of the expected further gains in market share.

Significant progress was also made with the global expansion of the high-margin service business, which is a key pillar of the growth strategy. Under this strategy, DEUTZ acquired DEUTZ Austria GmbH, Motorcenter Austria GmbH, and Pro Motor Servis CZ at the start of the fourth quarter of 2020. These former subsidiaries of the Austrian company PRO MOTOR Beteiligungsgesellschaft mbH sell and service diesel engines in Austria, the Czech Republic, Hungary, Slovakia, and Slovenia, providing DEUTZ with direct access to the markets in these countries.

Progress with the global Transform for Growth efficiency program

At the start of 2020, DEUTZ launched its Transform for Growth efficiency program in order to maintain its long-term competitiveness. The measures are aimed at optimizing the global production network, automating and digitalizing operating and administrative processes, and reducing complexity.

By implementing the restructuring program, DEUTZ intends to achieve gross annual cost savings of around €100 million compared with the base year of 2019. The full effect is expected to be achieved from the end of 2022 onward. As well as adjusting operating costs, a large part of the savings are to be achieved by reducing staff costs. This includes a voluntary redundancy program for the German sites in order to reduce the number of employees by up to 350 with the minimum possible social impact. Total restructuring costs

[1] The revenue target of approximately €800 million includes the revenue generated by the joint venture with SANY. Under the equity method, this revenue is not recognized in the consolidated financial statements.

of almost €32 million were recognized as an exceptional item in 2020. As at March 12, 2021, 302 employees had taken up the Company's voluntary redundancy program.

Year-on-year improvement in new orders in the fourth quarter of 2020

In 2020, the value of new orders received by DEUTZ fell by 20.1 percent to €1,322.5 million. New engine business was adversely affected by the huge slump in demand as a result of the coronavirus crisis and by the high number of engines that had been sold in 2019 before new emissions standards came into force. However, there was a very encouraging sharp rise in orders of 14.7 percent in the fourth quarter. As a result, the book-to-bill ratio rose to 1.02 at the end of the year (December 31, 2019: 0.90).

As at December 31, 2020, orders on hand stood at €269.0 million (December 31, 2019: €253.3 million).

28.7 percent decline in unit sales to 150,928 engines

The DEUTZ Group sold a total of 150,928 engines in the reporting year, which was 28.7 percent fewer than in 2019. Among the segments, the Other segment was the only one to see an increase in unit sales, reporting significant growth of 42.7 percent. This was due to the ramp-up of motors at DEUTZ subsidiary Torqeedo, which recorded a sharp rise in unit sales to 29,894 electric motors in 2020. In the core internal combustion engine business, unit sales were down by a substantial 36.5 percent.

Revenue falls by 29.6 percent to €1,295.6 million

The DEUTZ Group's revenue decreased by 29.6 percent to €1,295.6 million in 2020, with nearly all application segments and regions seeing a sharp reduction in revenue. The Material Handling and Agricultural Machinery application segments were hit particularly hard, registering decreases of 56.8 percent and 39.1 percent respectively. Encouragingly, the high-margin service business bucked the trend with a fall of just 1.2 percent. As a result, the share of consolidated revenue attributable to the service business rose from 19 percent in 2019 to 27 percent in 2020.

Compared with the previous quarter, DEUTZ's revenue advanced by 19.2 percent in the fourth quarter, with all regions contributing to this positive result.

Operating loss of €74.7 million, resulting in a net loss for the year

The economic impact of the coronavirus crisis on the business activities of the DEUTZ Group meant that the Company reported an operating loss (EBIT before exceptional items) of €74.7 million in 2020. This significant decline compared with the prior year was attributable, in particular, to the fall in revenue and the resulting diseconomies of scale. There was also a drag on operating profit from payments of around €9 million made under continuation agreements with suppliers that are going through insolvency proceedings and demand-related impairment losses of around €17 million recognized on capitalized development projects and sales licenses. General cost reductions and the use of short-time working had a positive influence on earnings performance. The EBIT margin before exceptional items stood at minus 5.8 percent in the reporting year, compared with 4.3 percent in 2019.

After taking restructuring costs of €31.9 million for Transform for Growth into account, EBIT amounted to minus €106.6 million (2019: €88.1 million) and the EBIT margin fell from 4.8 percent in 2019 to minus 8.2 percent in 2020.

Consequently, DEUTZ reported a net loss of €107.6 million in 2020, a decline of €159.9 million compared with the net income of €52.3 million in the previous year. Earnings per share stood at minus €0.89 (2019: €0.43). The net loss before exceptional items was €75.7 million (2019: net income of €44.2 million) and earnings per share before exceptional items was minus €0.63 (2019: €0.37).

Comfortable financial situation despite accumulated loss

Despite the net loss, the Company continues be in a comfortable financial position. Cash flow from operating activities amounted to €64.3 million in the fourth quarter of 2020, which meant that the net cash provided by operating activities in 2020 amounted to €44.9 million. This was largely due to proactive management of capital expenditure and working capital and to the first positive effects from the restructuring program. At the end of the year, working capital stood at €235.0 million, which was almost €60 million lower than at the end of 2019. Free cash flow amounted to -€35.8 million, which was a slight improvement on the prior-year figure of -€36.6 million. Net debt rose by just under €70 million to €83.8 million at the end of the year, in part due to additions of lease liabilities in accordance with IFRS 16. The Company has additional unutilized credit lines of around €245 million at its disposal.

Dr. Sebastian C. Schulte, DEUTZ CFO, commented: “We have credit lines totaling €310 million at our disposal, of which €150 million is a credit line from Germany’s KfW development bank that we secured in 2020 but have not yet used. We are therefore in a solid financial position and are well prepared for the anticipated increase in business activity as well as any unexpected developments.”

The equity ratio stood at 45.3 percent as at the reporting date, compared with 50.1 percent a year earlier.

No dividend to be distributed due to the accumulated loss in 2020

No dividend will be distributed for 2020 due to the accumulated loss. DEUTZ is retaining its fundamental, medium-term dividend policy, under which it aims to distribute 15 percent to 30 percent of net income over a multi-year period.

Significant improvement in operating performance expected in 2021

The industries in which DEUTZ's customers operate had already begun to show signs of a gradual recovery in the second half of 2020, which led to a much improved business performance in the fourth quarter compared with the previous quarter. We currently anticipate that this trend will continue in 2021, with customers gradually becoming more willing to invest again. However, we are currently seeing difficulties with the supply of some components that will slow the upturn in the first half of the year and possibly longer.

DEUTZ therefore anticipates unit sales of at least 130,000 DEUTZ engines[2] in 2021, which should result in an increase in revenue to at least €1.40 billion. The share of revenue attributable to the high-margin service business should rise to around €400 million. We are expecting, at the very least, to break even in terms of EBIT before exceptional items.

In the second half of 2021, DEUTZ continues to anticipate a positive exceptional item of around €60 million from the payment of the final installment of the purchase consideration for the sale of the Cologne-Deutz site. The precise amount and the exact timing depend on when the development plan for the site is formally approved by the City of Cologne.

The anticipated upturn is likely to significantly increase the amount of working capital needed up to the end of the year. At the same time, there will be cash outflows as a result of the restructuring program. Despite the anticipated payment for the sale of land, we therefore expect that free cash flow will be a negative amount in the low to mid-double-digit millions of euros.

[2] Excluding electric boat drives from DEUTZ subsidiary Torqeedo.

DEUTZ Group: overview of key figures

€ million	2020	Change (%), yoy	Q4 2020	Change (%), yoy
New orders	**1,322.5**	-20.1	**388.9**	+14.7
Unit sales (units)	**150,928**	-28.7	**42,369**	-24.2
Revenue	**1,295.6**	-29.6	**367.4**	-20.3
EBIT	**-106.6**	-221.0	**-3.2**	-133.3
thereof exceptional items[3]	**31.9**	-443.0	**5.9**	–
thereof operating profit/loss (EBIT before exceptional items)	**-74.7**	-194.8	**-9.1**	-194.8
EBIT margin (%)	**-8.2**	–	**-0.9**	–
EBIT margin before exceptional items (%)	**-5.8**	–	**-2.5**	–
Net income	**-107.6**	-305.7	**-3.1**	-29.2
Net income before exceptional items	**-75.7**	-271.3	**-7.4**	-184.6
Earnings per share (€)	**-0.89**	-307.0	**-0.03**	-50.0
Earnings per share before exceptional items (€)	**-0.63**	-270.3	**-0.06**	-200.0
Equity	**535.2**	-18.0	–	–
Equity ratio (%)	**45.3**	–	–	–
Cash flow from operating activities	**44.9**	-61.2	**64.3**	+2.2
Free cash flow	**-35.8**	2.2	**43.0**	+1,262.2
Net financial position (Dec. 31)	**-83.8**	-451.3	–	–
Employees[4] (Dec. 31)	**4,586**	-6.5	–	–

[3] Restructuring costs in connection with the global efficiency program.
[4] FTEs, excluding temporary workers.

DEUTZ Compact Engines (DCE): key figures for the segment

€ million	2020	Change (%), yoy	Q4 2020	Change (%), yoy
New orders	**954.3**	-24.8	**293.9**	+18.1
Unit sales (units)	**102,054**	-38.0	**31,228**	-25.7
Revenue	**943.8**	-34.7	**275.2**	-25.0
EBIT before exceptional items	**-80.5**	-239.5	**-12.9**	-208.4
EBIT margin before exceptional items (%)	**-8.5**	–	**-4.7**	–

DEUTZ Customized Solutions: key figures for the segment

€ million	2020	Change (%), yoy	Q4 2020	Change (%), yoy
New orders	**324.5**	-5.0	**83.2**	+11.7
Unit sales (units)	**18,980**	-27.1	**5,304**	-10.0
Revenue	**310.1**	-14.5	**84.3**	-2.0
EBIT before exceptional items	**18.7**	-56.3	**7.8**	+50.0
EBIT margin before exceptional items (%)	**6.0**	–	**9.3**	–

Other: key figures for the segment

€ million	2020	Change (%), yoy	Q4 2020	Change (%), yoy
New orders	**46.4**	-2.9	**12.4**	-24.8
Unit sales (units)	**29,894**	+42.7	**5,837**	-26.6
Revenue	**44.4**	+25.1	**8.5**	-5.6
EBIT before exceptional items	**-12.9**	+40.6	**-4.0**	-46.7
EBIT margin before exceptional items (%)	**-29.1**	–	**-47.1**	–

Upcoming financial dates

April 29, 2021: Annual General Meeting (virtual)

May 6, 2021: quarterly statement for the first quarter of 2021

August 12, 2021: interim report for the first half of 2021

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Forward-looking statements

About DEUTZ AG

DEUTZ AG, a publicly traded company headquartered in Cologne, Germany, is one of the world's leading manufacturers of innovative drive systems. Its core competencies are the development, production, distribution, and servicing of diesel, gas, and electric drive systems for professional applications. It offers a broad range of engines delivering up to 620 kW that are used in construction equipment, agricultural machinery, material handling equipment, stationary equipment, commercial vehicles, rail vehicles, and other applications. DEUTZ has around 4,600 employees worldwide and over 800 sales and service partners in more than 130 countries. It generated revenue of almost €1.3 billion in 2020.

Further information is available at www.deutz.com.