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YEARS

# Capital Markets Day 2024

—  
October 8, 2024

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—  
**Welcome**

# Today's agenda



from 09:30	<b>Registration &amp; welcome coffee</b>	
09:55	<b>Official welcome</b>	Mark Schneider
10:00	<b>Current performance</b>	Sebastian Schulte   CEO, Oliver Neu   CFO
	<b>Strategy update</b>	Sebastian Schulte
10:45	<b>Deep-dive Classic</b>	Sebastian Schulte, Markus Müller   CSO/CTO, Petra Mayer   COO
11:25	<b>COFFEE BREAK</b>	
11:40	<b>Deep-dive Service</b>	Sebastian Schulte, Markus Müller
12:10	<b>Deep-dive Energy &amp; Green</b>	Sebastian Schulte, Bert van Hasselt, David Evans
12:45	<b>Q&amp;A (round 1)</b>	
13:00	<b>LUNCH</b>	
13:30	<b>CFO perspective</b>	Oliver Neu
14:00	<b>Transformation approach</b>	Katharina Krüger
14:10	<b>Summary &amp; Q&amp;A (round 2)</b>	Sebastian Schulte
14:30	<b>Info sessions (Energy; Shopfloor tour "Band 6"; HyCET truck; MDEG/HDEP engines)</b>	
16:00	<b>Official ending / Farewell</b>	

# Board of DEUTZ AG

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**Dr. Sebastian C. Schulte**

Chief Executive Officer  
(CEO)



**Dr.-Ing. Petra Mayer**

Chief Operating Officer  
(COO)



**Dr.-Ing. Markus Müller**

Chief Technology and  
Sales Officer  
(CTO/CSO)



**Oliver Neu**

Chief Financial Officer  
(CFO)  
and Chief Human  
Resources Officer

Since Oct 1, 2024

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# Current performance



# Given the current market environment we have adjusted our guidance



European Markets

**German economic institutes expect GDP to contract again in 2024** September 26, 2024

## FINANCIAL TIMES

**Volkswagen issues second profit warning in three months on weaker sales**

September 27, 2024

## FORTUNE

**Stellantis becomes second carmaker to issue profit warning in 4 days as China rivalry bites**

September 30, 2024

## FINANCIAL TIMES

**Top economists downgrade Germany's growth forecasts**

Structural problems mean country will struggle to return to pre-pandemic rates of economic expansion, say leading institutes

September 26, 2024



## Guidance

**2024**

### Unit sales

Less than 150,000 engines  
*(previously: max. of 160,000 engines)*

### Revenue

Around €1.8 billion  
*(previously: €1.9 to €2.1 billion)*

### Adjusted EBIT margin<sup>1</sup>

4.0 bis 5.0%  
*(previously: 5.0 to 6.5%)*

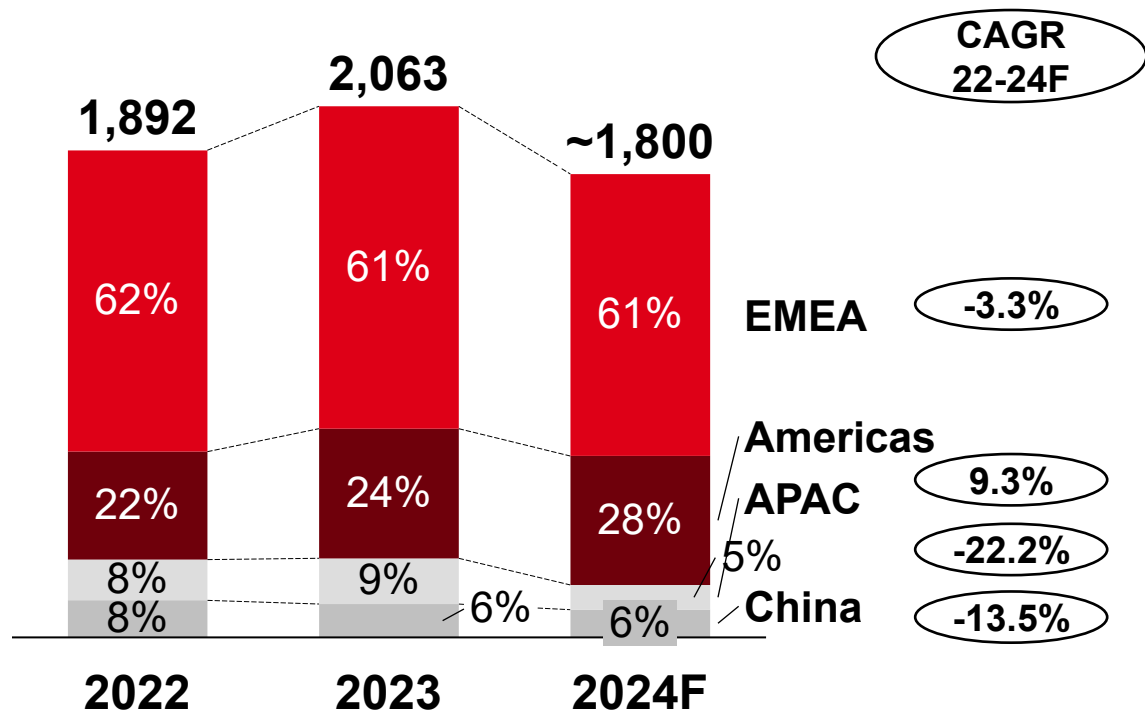
### Free cash flow<sup>2</sup>

At least balanced  
*(previously: mid-double-digit million-euro amount)*

# Our Americas and service businesses stabilize performance in 2024

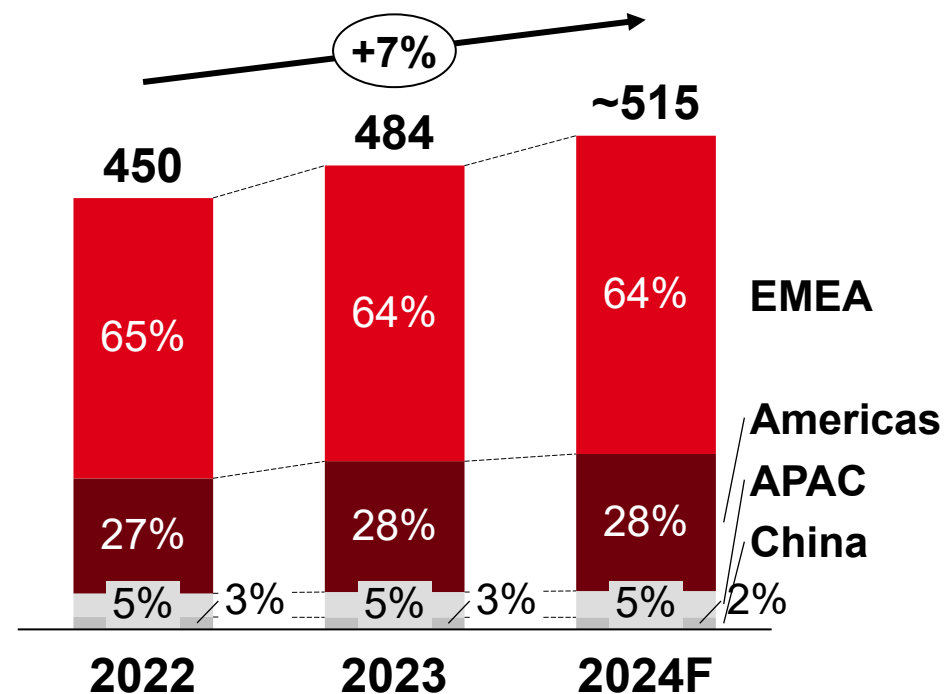


DEUTZ sales<sup>1</sup> by region (in € million)



Americas key stabilizing factor

DEUTZ service sales (in € million)

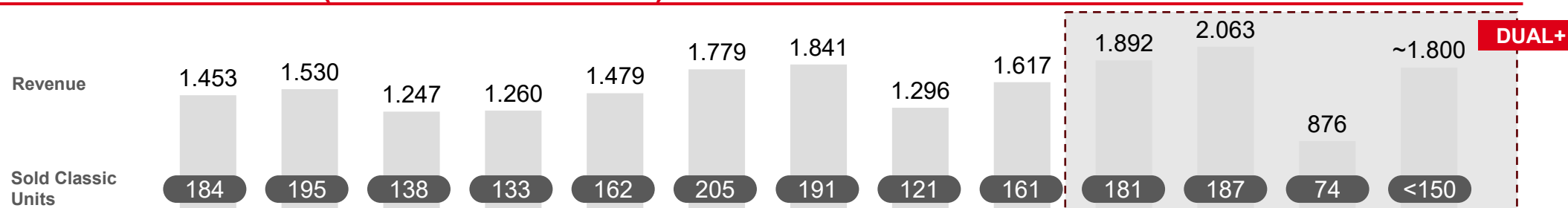


Service growing in difficult market

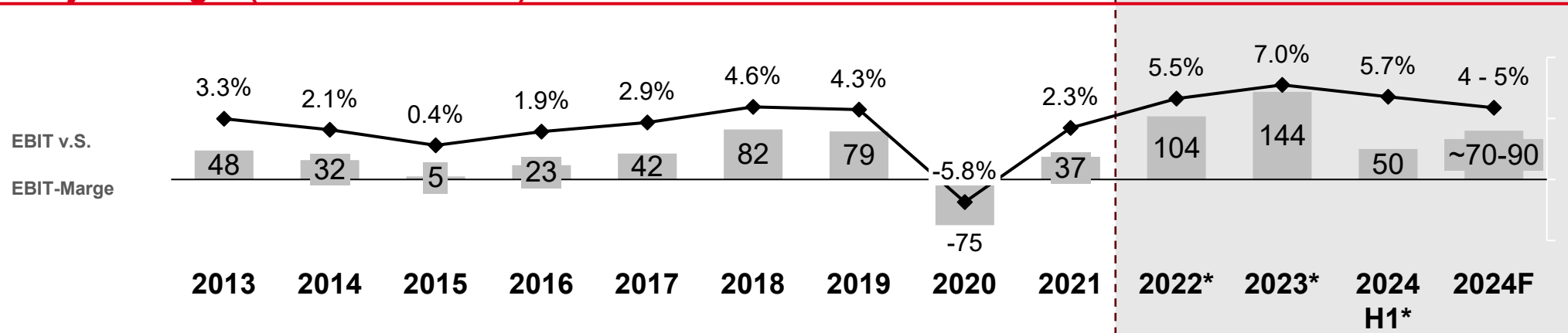
# Our margin performance remains resilient and more robust than in the past



## Revenue & Sales volume (in € million/ in k units)



## EBIT Adj. & Margin (in € million/ in %)



**DEUTZ still in cyclical business, but despite recent 2024 guidance adjustment with visibly higher resilience**



# Top measures along our DUAL+ Strategy which drive our resilience



## Classic

- 1 Pricing Excellence:**
  - ~€150 million acc. price increases in 2022 & 2023
- 2 Acquisition of RRPS Portfolio:**
  - Revenue impact: +€300 million (annualized)
  - Margin above current group margin
- 3 Cost reduction initiatives:**
  - Purchasing savings program started in 2024 with low to mid double-digit euro-million savings in 2024

## Service

- 1 Pricing Excellence:**
  - ~€50 million acc. price increases in 2022 & 2023
- 2 Acquisitions**
  - Mauricio Hochschild
  - Diesel Motor Nordics
  - AUSMA
  - South Coast Diesels
- 3 Overall growth**
  - CAGR of ~7% between since 2022

## Green & Energy

- 1 Sale of Torqeedo group:**
  - Revenue impact: -€50 million
  - EBIT adj. impact: +€23 million
- 2 Acquisition of Blue Star Power Systems:**
  - Revenue impact: >\$120 million (annualized)
  - Margin above current group margin
- 3 Preparation for future:**
  - Organizational setup sharpened
  - H2 gensets China

DEUTZ with consistent proof points towards targeted performance resilience

# We have initiated short-term and structural cost measures



## Impact 2024: Counter-acting market slowdown



### Objective

#### Since Q1/2024

- Flexibilize Classic production costs (esp. personnel)

#### Additional levers

- Reduce costs and cash-spend in Q4/2024

### Measures

- Reduction of shifts, working hours (incl. "Kurzarbeit" in Germany) and temps
- Procurement savings
- Capex & inventory reduction

- Budget freeze in key areas (e.g. R&D)
- Policy changes
- Reduction of overtime/vacation days

### Impact

Since Q1: Counteracting negative scale effects

Q4 2024: €10-15 million in 2024

## Impact 2025 & 2026: Structural cost reduction

- Reduce costs and increase flexibility for 2025 and beyond
- Focus on cyclical Classic business

*Details next page*

Ramping up to €50 million in 2026

# Focusing on, but not limited to, Classic business, we have initiated structural measures to reduce cost base by ~€50 million annually



Key levers		Impact in € million
<b>I</b>	Flexibilize <b>Classic R&amp;D</b> , accounting for delayed emission regulation cycles and adding flexibility by using near-shoring	~20 (after ramp-up)
<b>II</b>	<b>Focus “Green” R&amp;D</b> adjusting effort to market delay	~10 (in 2025)
<b>III</b>	Adjust <b>selected regional set-ups</b> to market needs (e.g. China HQ)	~5 (in 2025)
<b>IV</b>	Streamline <b>supply chain</b> in Classic & Service	~5 (in 2025)
<b>V</b>	Create future readiness by <b>streamlining functions in matrix organization</b>	~10 (after ramp-up)
<b>Total</b>		<b>~€50 million</b> <b>(&gt;€20 million in 2025)</b>

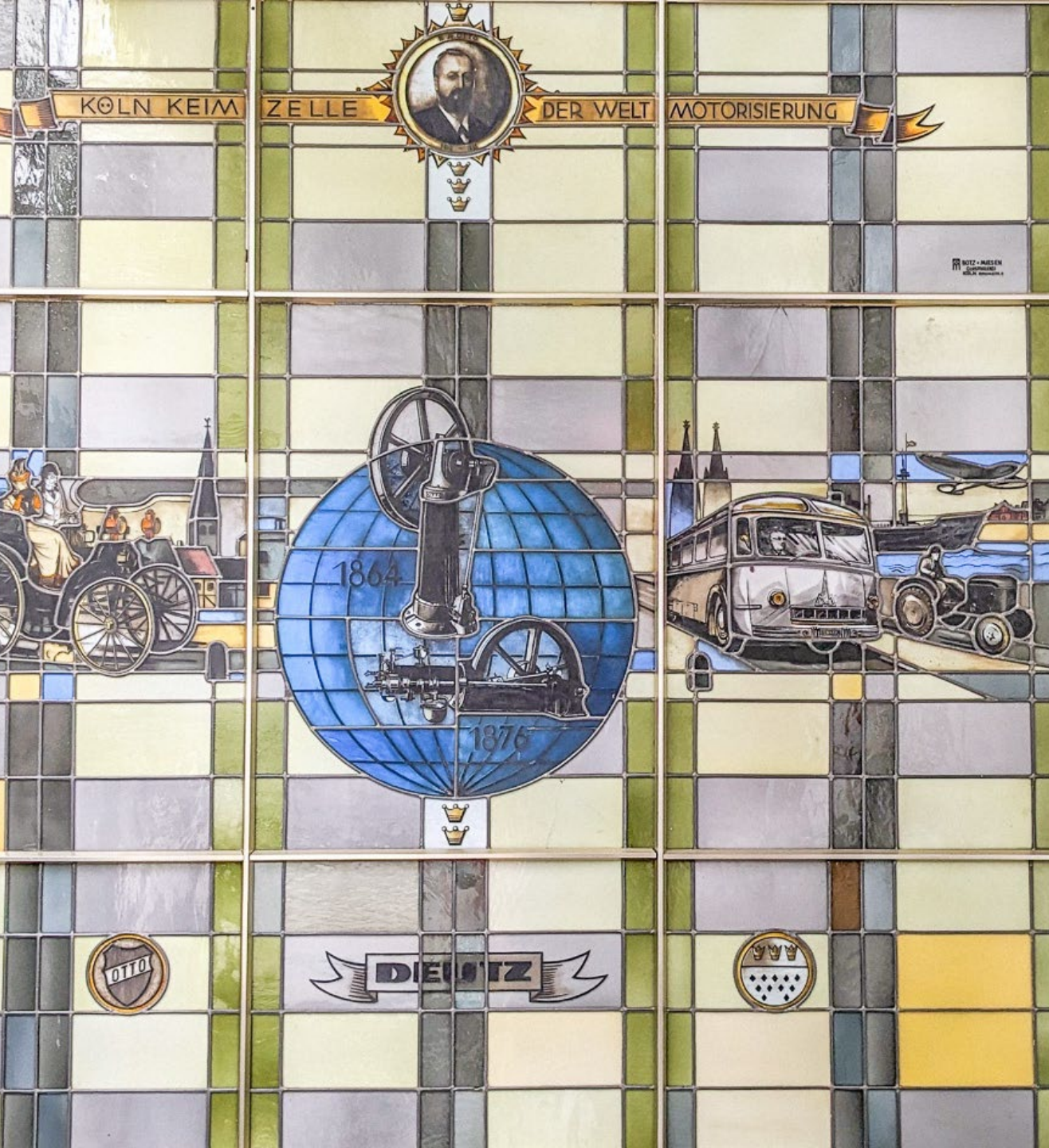
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# Strategy update





**Our mission:  
We ensure the world  
keeps moving.**

# We have clear strategic criteria which define our path forward



✓ **Profitable growth**

Finding the areas in which we can grow successfully and profitably - always with a "right-to-win"!

✓ **Relevant portfolio**

Further develop our portfolio based on our capabilities so that we continue to have competitive offerings (products as well as business models) in the future – or buy in where it makes sense

✓ **Resilient set-up**

Continue to work on being less dependent on economic cycles, have long-term access to the right suppliers and operate our sites successfully

**Future viability and value enhancement of DEUTZ**

# We are in an environment which is dynamic and offers opportunities for profitable growth



## Urbanization & population growth



## Climate protection & new energy mix



## Digitalization & rising consumption



### Growth opportunities

primarily in efficient agriculture, infrastructure (e.g. in developing countries)



**Innovation and shifting markets** (e.g. decentralized energy supply, H2)



**Growth in materials handling and localization of supply chains**

# Our long-term strategic approach reflects the dynamics of our environment



## STRENGTHEN THE BASE

## BROADEN THE BASE

## BECOME SUSTAINABLE

**Horizon I**  
2022 – 2025

*Improve performance, prepare & set right focus for investments & growth*

**Horizon II**  
2026 – 2030

*Continue to build the solutions business and realize M&A opportunities across portfolio*

**Horizon III**  
2030++

*Unleash the full potential and achieve climate neutrality by 2050*



# We are on the right track



## STRENGTHEN THE BASE



**Classic:** First steps in market consolidation and entering new market segments + consistent performance improvement to achieve EBIT margin >6%<sup>1</sup>



**Service:** Strong progress in building up the business organically and with acquisitions to €600 million revenue in 2025

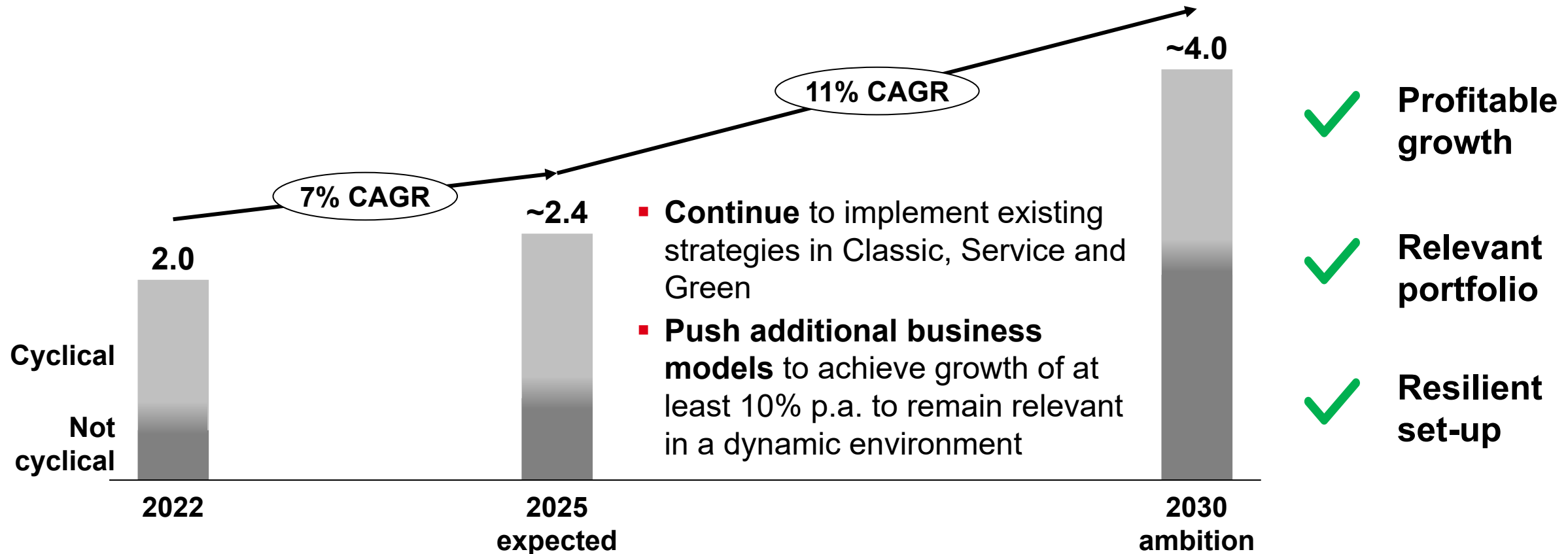


**Green:** Alignment of portfolio with sale of Torqeedo to focus on projects and areas, where DEUTZ has a right-to-win and achievement of technology readiness

# Looking ahead to the second horizon we need to continue to grow – size matters



## DEUTZ revenue development (in € billion)



# Based on our structured “Strategic Dialogue” process, we know how to achieve the next level of growth



## Our environment



- Technological developments and disruptions
- Economic and market growth
- (Geo-)political developments and framework
- Customer needs

## Strategic Dialogue



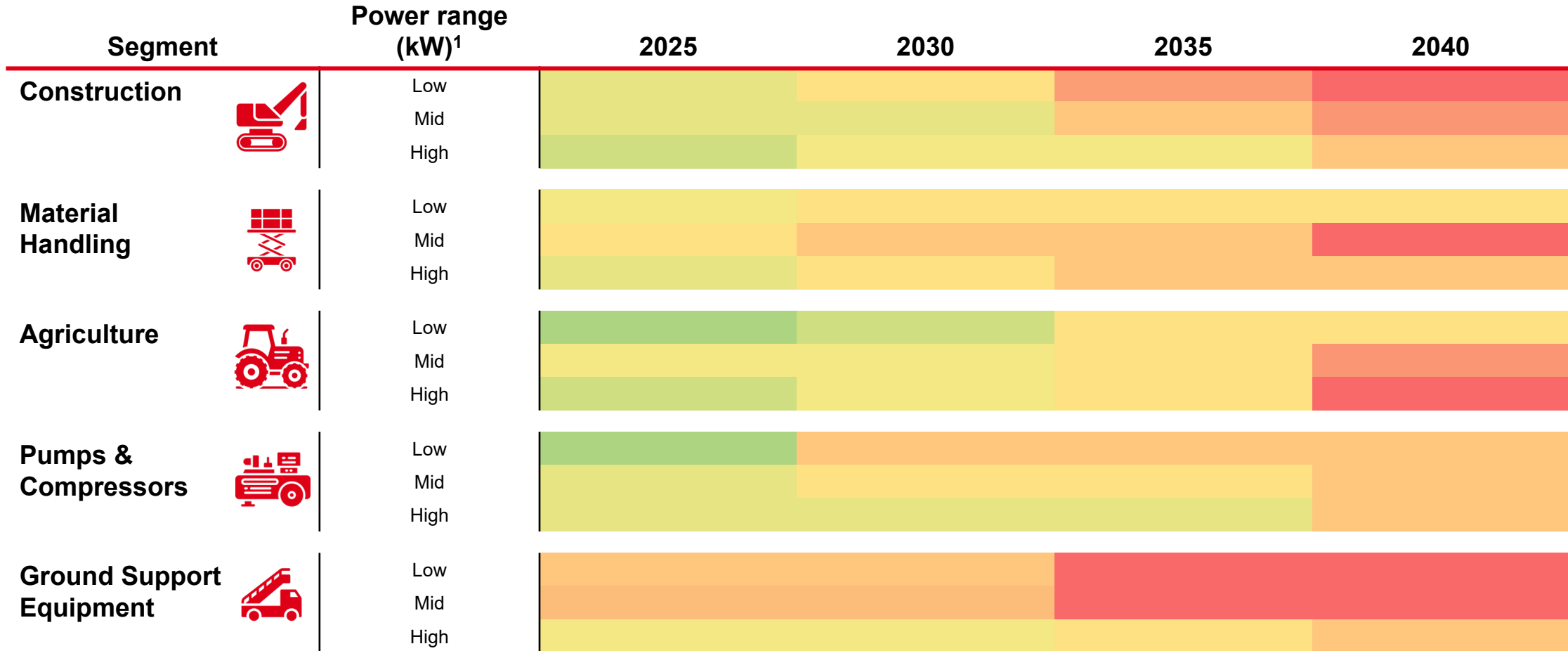
*The Strategic Dialogue aims to drive sustainable revenue growth by aligning regional market insights with DEUTZ's strengths.*

## Our capabilities



- (Engineering) expertise and application know-how
- Customer focus and insight
- Brand recognition
- Footprint (production, sales & service network)
- Committed teams

# Market growth prospects for our segments: A mixed picture



By 2035, approx. 75% market share of diesel engines expected, in 2045 less than 50%

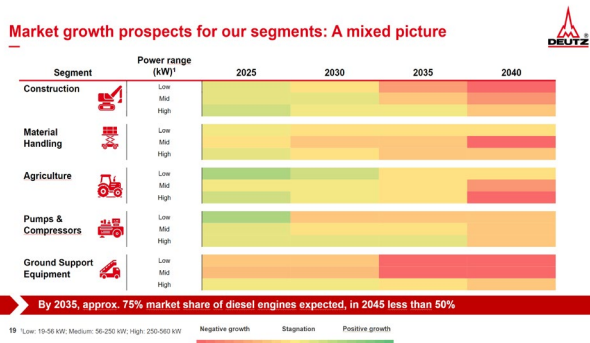
<sup>1</sup> Low: 19-56 kW; Medium: 56-250 kW; High: 250-560 kW.



# Our “Strategic Dialogue” is based on market and customer needs to strengthen our “right-to-win” in existing and new areas

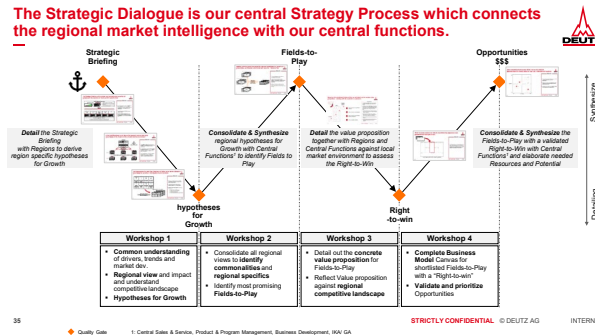


## Strategic intelligence



Global market studies and expert interviews to understand technological developments in the market and related implications

## Annual strategy process



Iterative regional & central process to define strategy in existing and adjacent businesses

## Strengthened existing business

Competitive by being aligned to customer and market needs



## Structured process for identifying new business

“Strategy speedboats” in new business models where DEUTZ has a right-to-win

## How our “strategic speedboats” work

- **Small teams** (strategy team, from organization and external) – no need for long (internal) alignments
- Results expected **within short time** – pragmatic approach
- Tailor-made integration into DEUTZ structures **after successful proof of concept**
  - Criteria: Profitable growth, relevance and resilience as well as right-to-win for DEUTZ
  - Leveraging more or less of DEUTZ structures according to needs of the business

# Our first successful speedboat: Entry into “Energy”



## Strategic dialogue

## Strategy speedboat

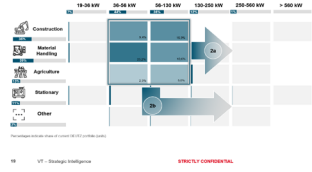
## Target search

**BLUE STAR**  
Power Systems Inc.

and €500 million revenue ambition for Energy

Strategic Portfolio Implications: three main directions

Consolidation in already strong or currently underrepresented markets



**Strategic Direction**

- 1 Consolidation in already strong application segments
- 2 Consolidation in currently under-represented application segments
- 3 Leverage of existing capabilities
- 4 Leverage of existing technological capabilities
- 5 Potential take of manufacturer proximity

We are building a new BU Deutz Energy over the coming months

**Business Unit Deutz Energy**

- 1 All Regions enter market
- 2 All Regions enter market
- 3 All Regions enter market
- 4 All Regions enter market
- 5 All Regions enter market

**North America is a particularly attractive and relevant market for decentralized power supply**

**Market for gensets in North America (in USD billion)**

Year	Market Size (USD billion)	CAGR
2019e	7.8	10%
2024e	10.4	27% p.a.
2030e	14.4	17% p.a.

**Market segments**

- Construction
- Industrial
- Other

**EMEA – Potential Targets**

Europe Screening – Top 100 manufacturers

Basierend auf den Suchkriterien ergibt sich folgende Short-List, bei der Blue Star unser aktueller Favorit ist

**EMEA – Potential Targets**

Europe Screening – Top 100 manufacturers

Strong market with potential right-to-win

Detailed market assessment, strategic approach and potential

Target search & due diligence in cross-functional, global team



Profitable growth with CAGR >15% and EBIT margin >10%<sup>1</sup>



Relevant portfolio linked to energy transformation



Resilient set-up by becoming a solution provider

# We need to broaden our strategic approach



## Strategic Dialogue



## Lessons learned

- **Sufficient market potential** for us to continue to profitably grow our Classic und Service business
- **Market demand lagging for our Green business** where we have a “right-to-win” (larger off-highway solutions) – need for a long-term, flexible approach
- **Potential to capture additional value** by having the right mix of businesses and becoming a solution provider along the value chain which have high growth, e.g. driven by climate change or geopolitical developments (e.g. in Energy, Defense)

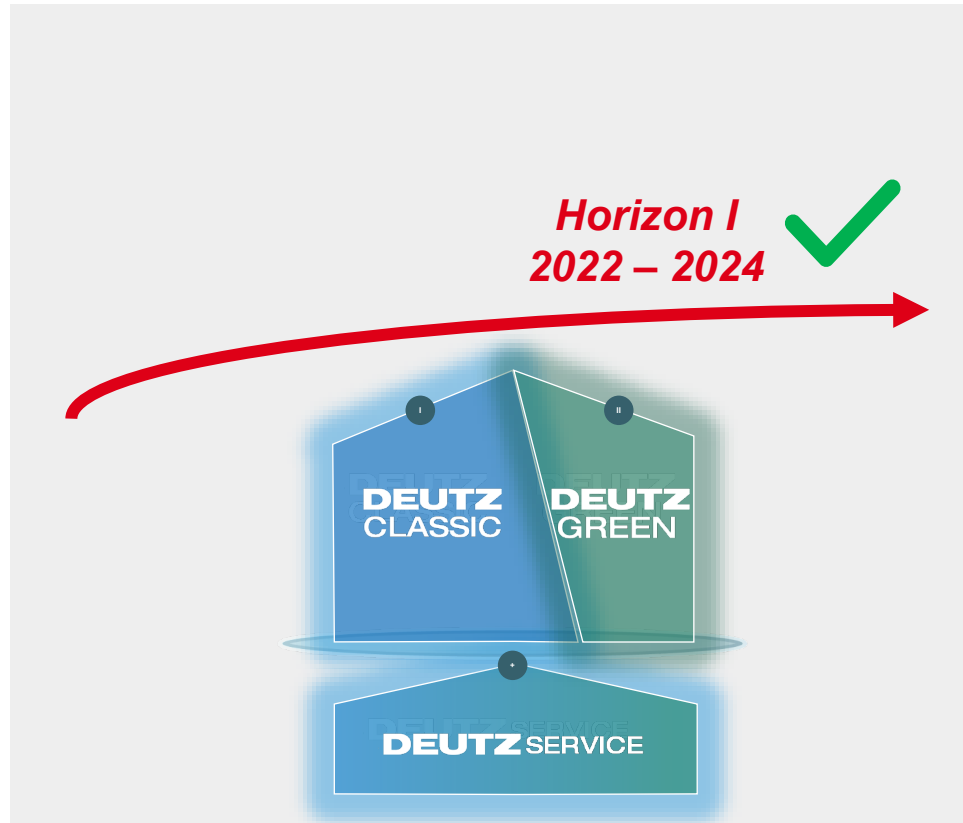
**Alignment  
of DUAL+  
strategy**



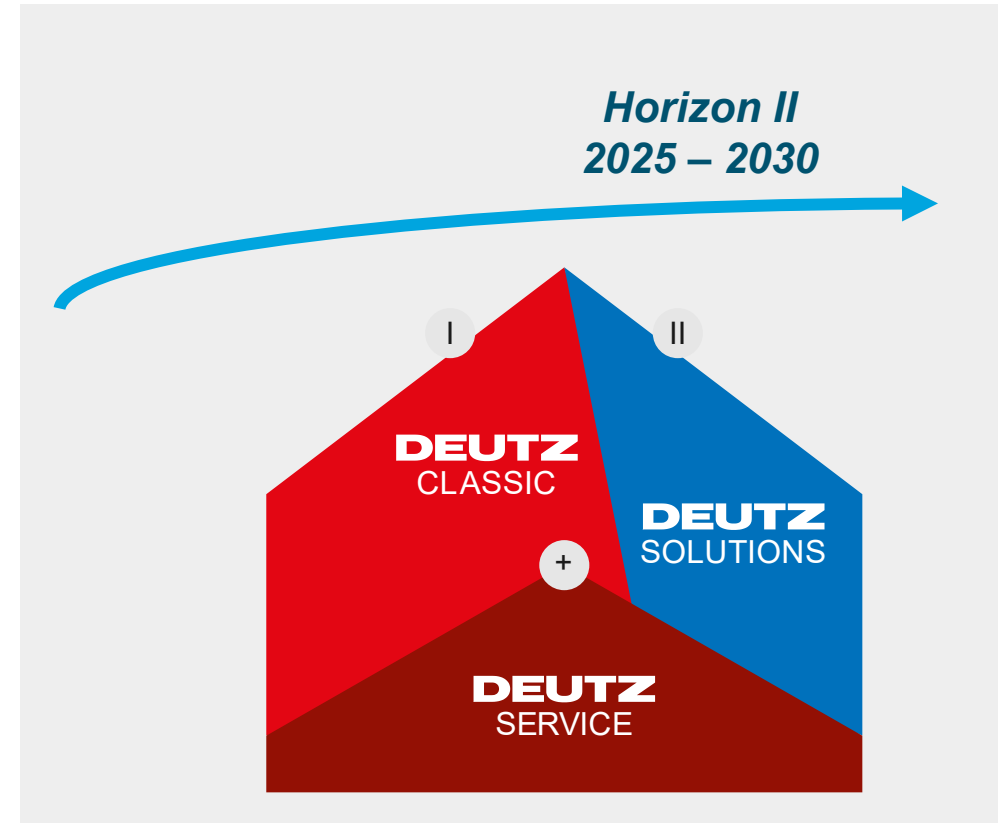
# As we enter the second horizon, we will realign the DUAL+ strategy



## STRENGTHEN THE BASE



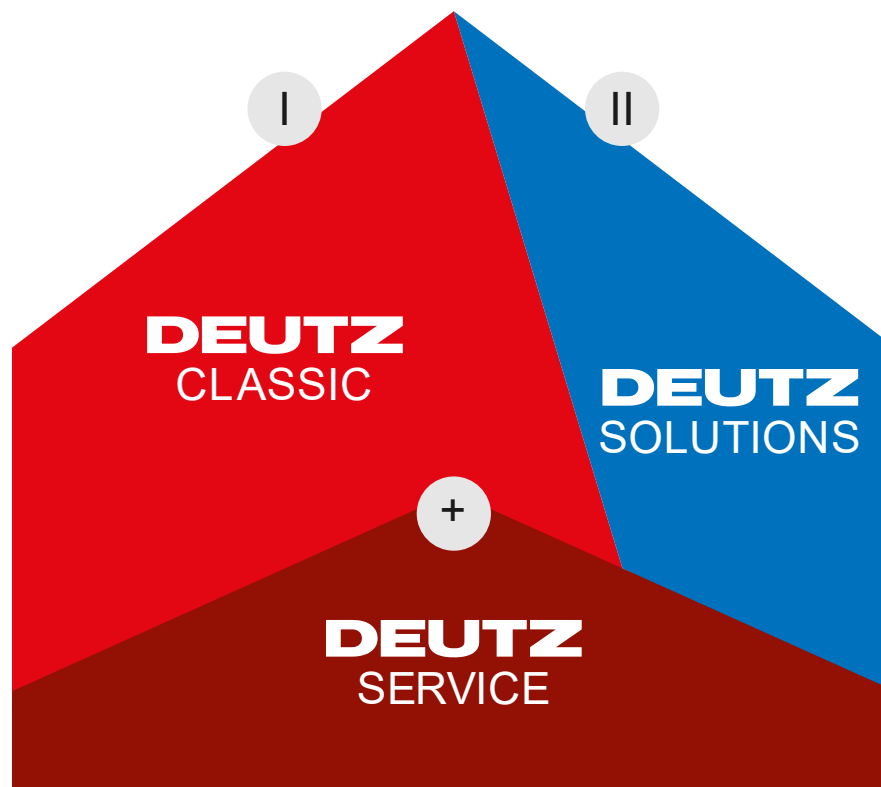
## BROADEN THE BASE



# Our DUAL+ strategy realigned for our second strategic horizon



Grow **Classic** business based on strong performance and consolidation  
→ margin uptake & inorganic growth



Expand **Solutions** offering in Energy & New Technology (formerly "Green") and beyond, where we have a right-to-win  
→ Expansion of value chain coverage, investment, growth and long-term viability

Expand profitable **Service** business around the world  
→ Profitable growth and new business models, e.g. third party and digitalization

# DUAL+ continued: What this means going forward



## Classic

- **Continue consolidation** also in other application segments and power ranges, which will be dependent on Diesel engines longer
- **Align engine portfolio** to become more cost-effective and to access high growth pockets (e.g. Defense)
- **Drive performance** e.g. via new business models (e.g. India/TAFE), flexible production set-up and resilient, efficient supply chain



## Service

- Grow business to revenues of **€1 billion by 2030**
- Close **geographical white spots** and leverage acquired service offerings (e.g. former RRPS-business)
- Expand into **new business models** (e.g. 3<sup>rd</sup> party, industrial fleet)
- Invest in **digitalization** (e.g. FusionHUB)



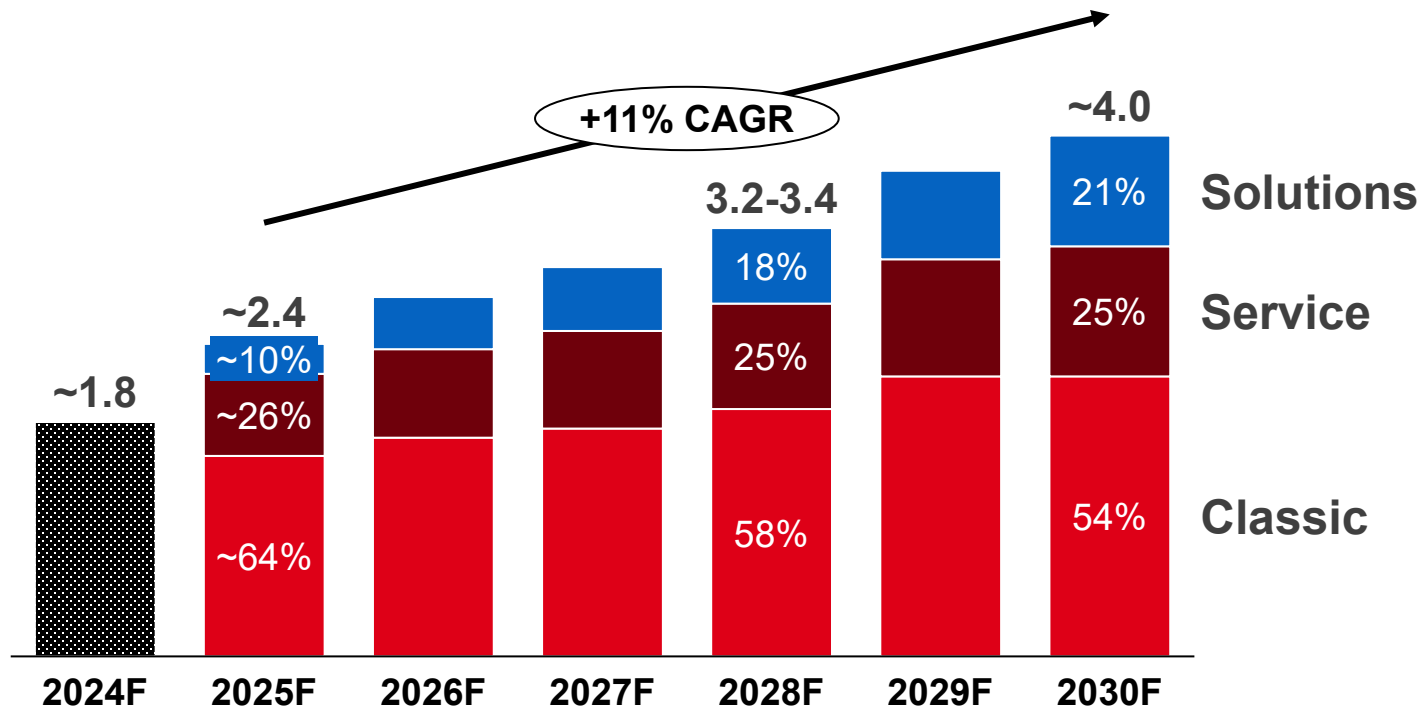
## Solutions

- **Capture value beyond engine and service** by entering businesses with right-to-win for DEUTZ, higher value chain coverage and long-term sustainability
- **Focus on tailored New Technology offering** (formerly “Green”) based on customer and market demands
- **Expand Energy** business to achieve >€500 million revenue by 2030

This will ensure profitable growth, relevant portfolio & resilient set-up

# Strong 2030 revenue ambition

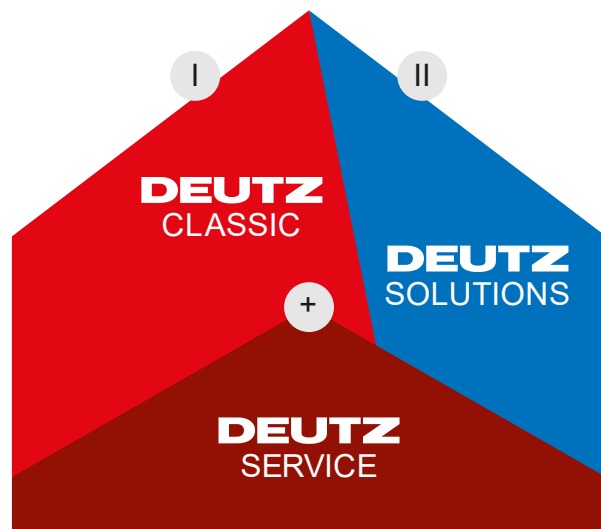
## DEUTZ mid-term revenue ambition (in € billion)



- **Solutions** expected to grow with 30% CAGR until 2030; more than €500 million revenue expected from Energy – growth driven both organically and via acquisitions and >€300 million from New Technology
- **Service growing in line with DEUTZ overall** and contributing 25% of the revenue – and even more to the EBIT
- **Classic** expected to grow in absolute terms, but overall contribution decreases

Revenue growth and changes to the business model to lead to a margin upside of 10% EBIT margin by 2030

# We also updated our mid-term targets to 2028



Mid-term targets	2028	Outlook 2030
Sales	€3.2-3.4 billion	
Adjusted EBIT margin	8 to 9%	
Dividend	Upward trajectory: Stable or higher than previous year	

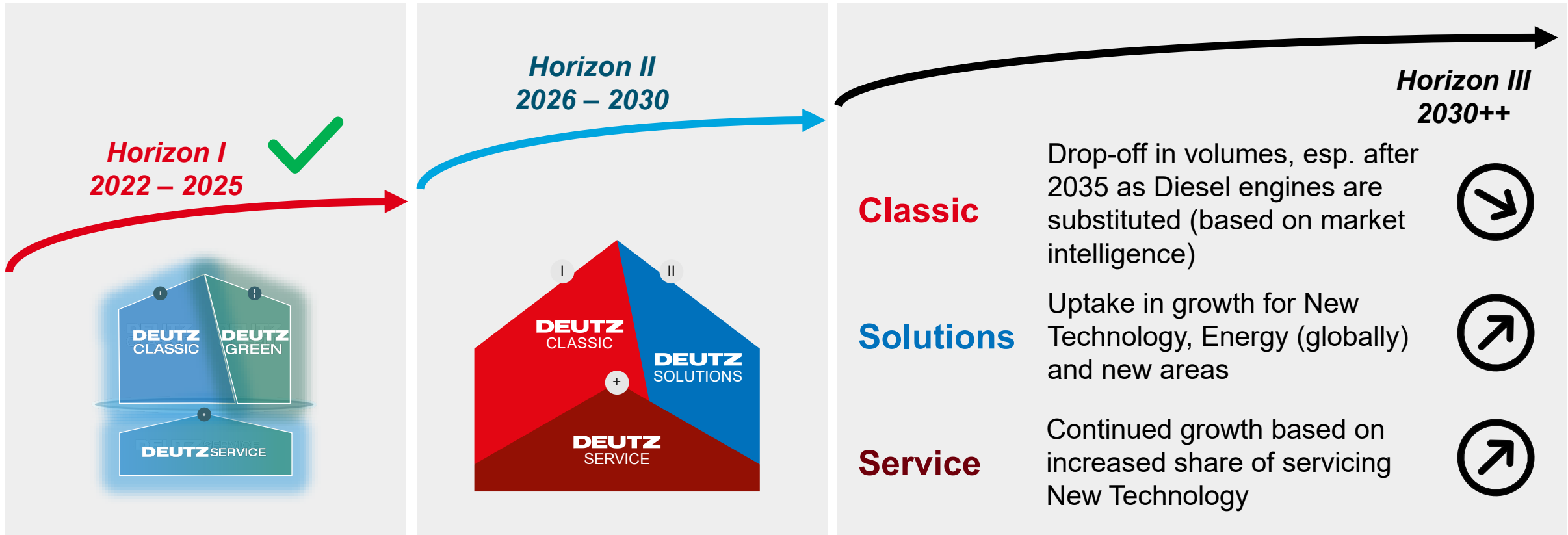
# Beyond 2030, in Horizon III, we expect growth to shift to Solutions and the share of Classic to decrease even more



## STRENGTHEN THE BASE

## BROADEN THE BASE

## BECOME SUSTAINABLE



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the world keeps moving

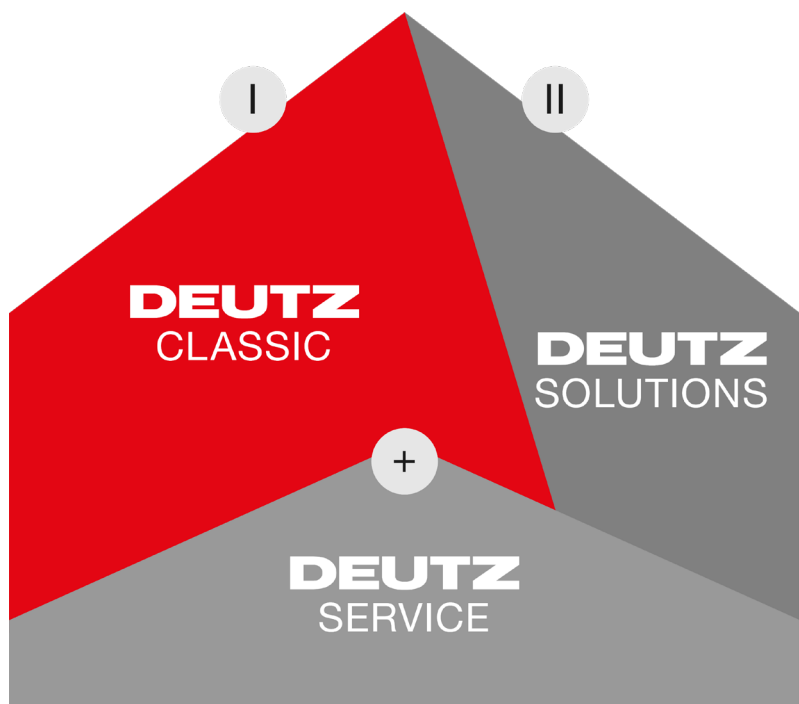


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# Deep-dive Classic



## Our DUAL+ strategy: Focus Classic



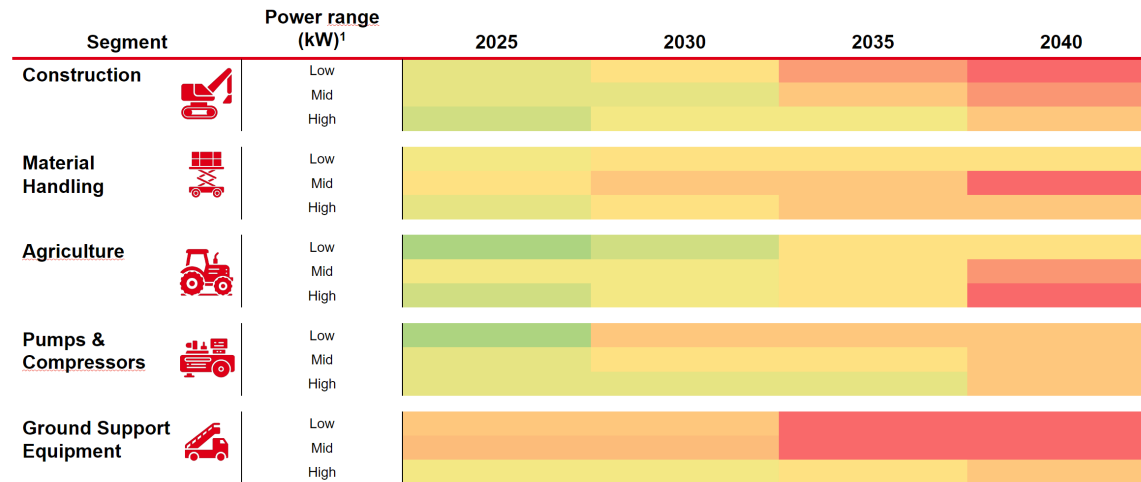
- **Continue consolidation** also in other application segments and power ranges, which will be dependent on combustion engines longer
- **Align engine portfolio** to become more cost-effective and to access high growth pockets (e.g. Defense)
- **Drive performance** e.g. via new business models (e.g. India/TAFE), flexible production set-up and resilient, efficient supply chain



# Basis for our Classic strategy is our strong market and technology intelligence



## Market growth prospects for our segments: A mixed picture

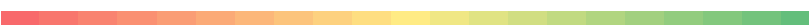


- Comprehensive, application-driven model
- Updated regularly
- Based on renowned market studies and expert interviews with customers and technology experts

By 2035, approx. 75% market share of diesel engines expected, in 2045 less than 50%

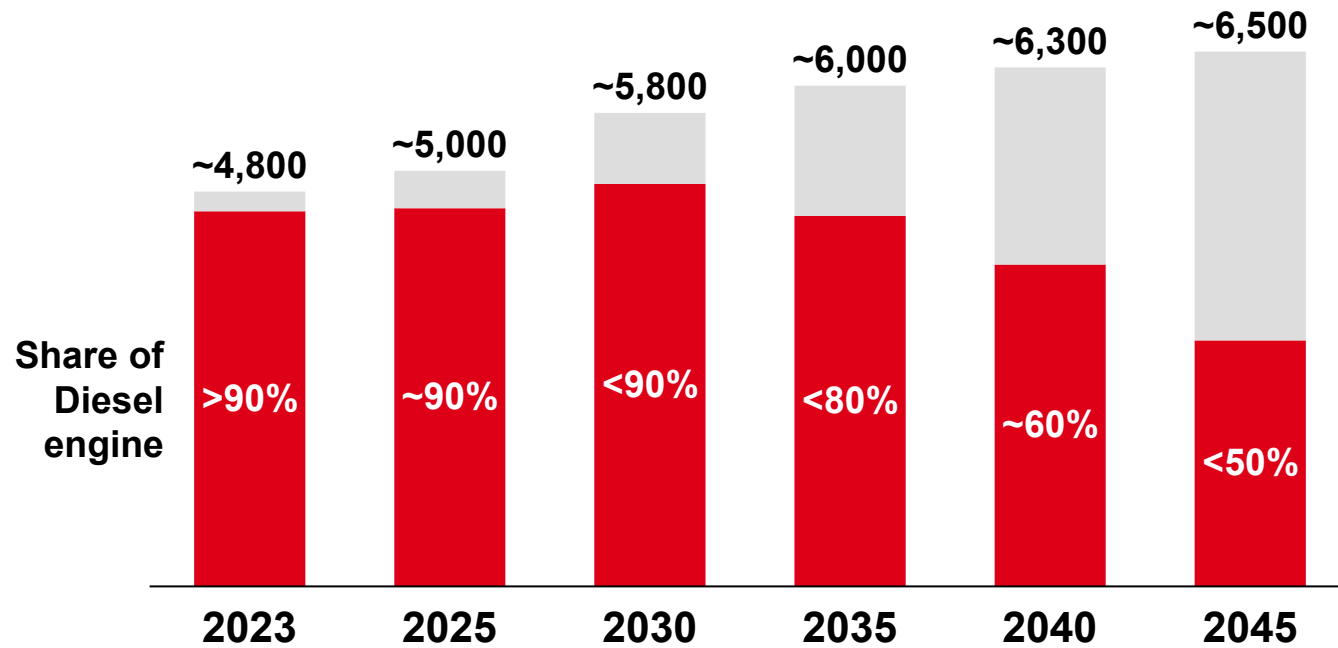
<sup>19</sup> Low: 19-56 kW; Medium: 56-250 kW; High: 250-560 kW

Negative growth    Stagnation    Positive growth



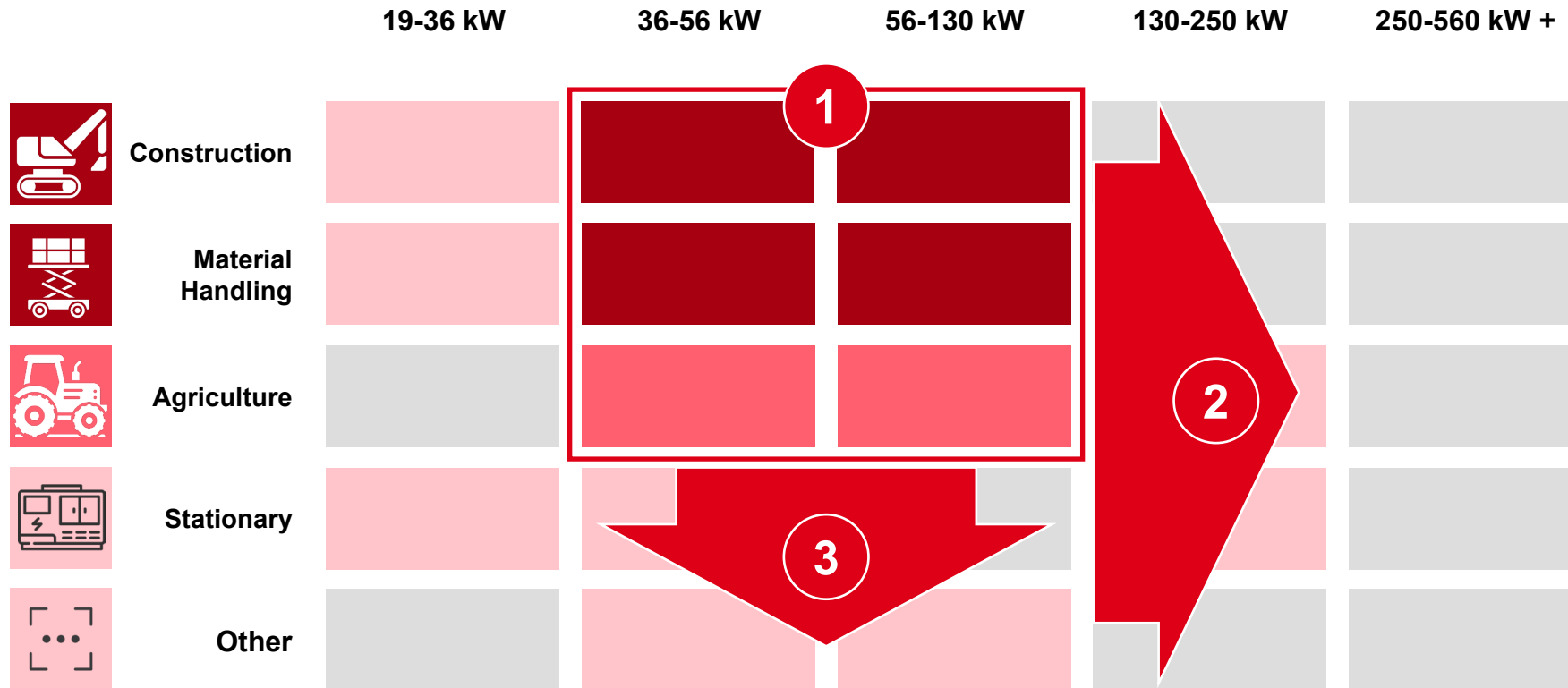
# We expect Diesel engine volumes to drop significantly after 2035

## Development of relevant<sup>1</sup> engine market (in units k of engines, indicative)



- Indicative view only, as based on current DEUTZ portfolio and available information/market insight
- Continued high share of Diesel until 2030 and beyond
- Stagnation for BEV in key power ranges until 2035, strong uptake in BEV and H2 FC after 2035

# Three strategic directions to develop our portfolio



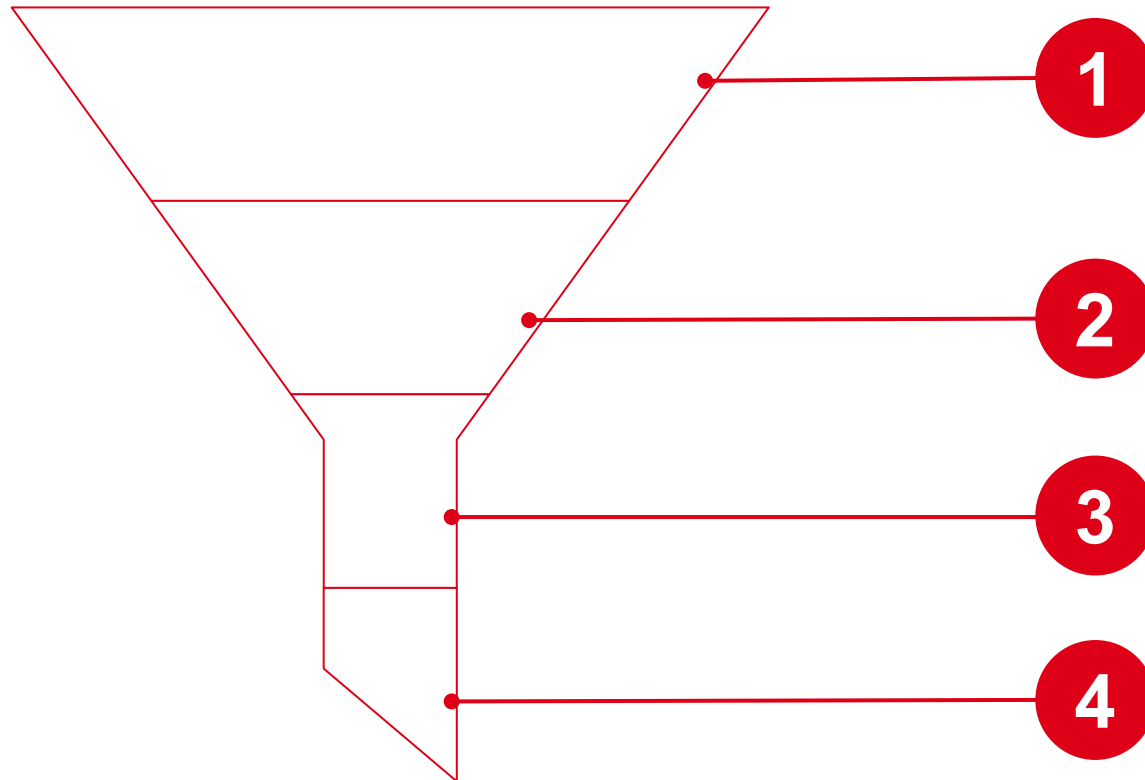
- 1** Consolidation in existing applications
- 2** Extension into higher power ranges
- 3** Push into new applications with comparable power ranges



# We have a structured, continuous process to ensure that we realize additional strategic partnerships



## Consolidation funnel



List of  
priority candidates

### Selection of relevant markets, regions & applications

- Focus on ICE in Americas, Europe and Asia off- and potentially on-highway
- Continuous update based on strategic intelligence
- Open approach: horizontal & vertical consolidation as well as forward and backward integration

### Basic screening

- Exclusion of partners that are not attractive and/or will not be available

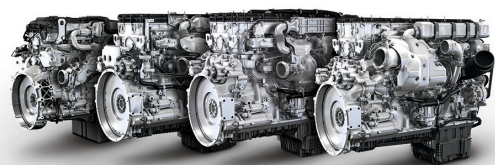
### Strategic partnership evaluation

- Screening and evaluation
- Criteria: Fit to DEUTZ (portfolio, geography, culture), probability of success, synergies, deal structure

### Detailed evaluation of potential partners

- Deep-dive & further analysis (e.g. outside-in due diligence)

# Execution of our strategic partnership with RRPS is a strong proof point



**BELL**  
Mining & Construction



**CLAAS**



**PONSSE**



**90% of customers transferred** giving access to new applications with higher power ranges – strong partnerships developing



**9 months** from signing to execution – new set-up operational on Day 1 after closing (e.g. personnel, IT, logistics, order process)



**~€300 million revenue contribution in 2025** expected with attractive margin contribution

# We will continue on this trajectory with integration of Daimler Truck engines



## First phase MDEG/HDEP engines (2024-2028)

- Building up **customer relationships** and exploring opportunities for cross-selling and gaining new market share
- Transferring **existing business** to DEUTZ
- Exploring **cross-selling opportunities**, e.g. in agricultural and construction equipment
- Ramping up **service business** for MDEG/HDEP
- Gaining **technology expertise**



## Second phase MDEG/HDEP engines (2028 ff)

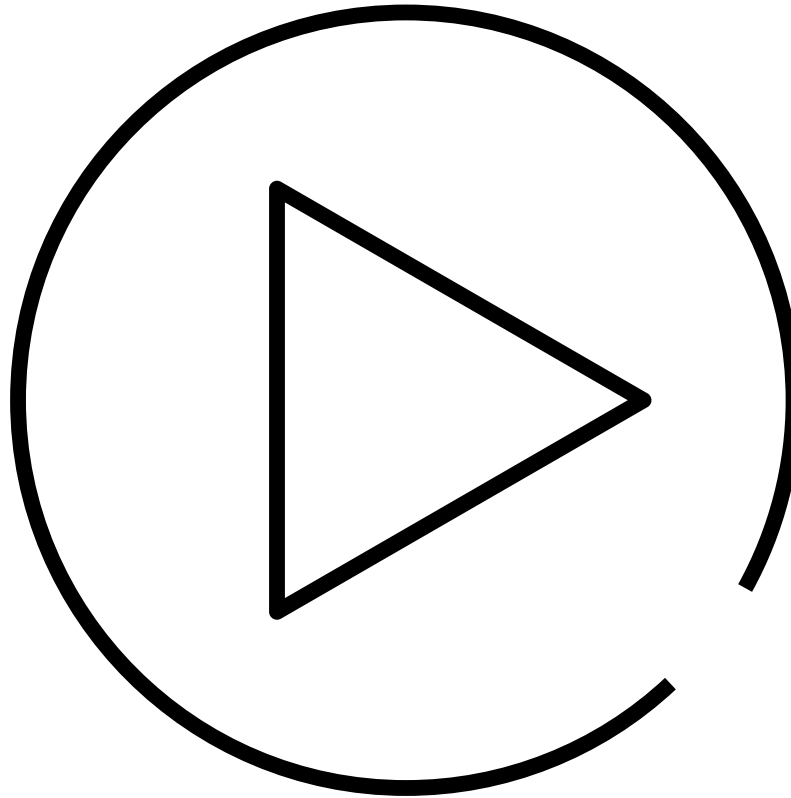
- Rolling out **technologically more advanced Daimler Truck engine HDEP25+** and taking over the responsibility for producing MDEG
- Setting up **pilot phases/prototyping** with this new engine for new and existing customers
- Continuing to build **customer relationships**

DAIMLER  
TRUCK

Reflecting our consolidation approach to enter higher power ranges

# What our customers think

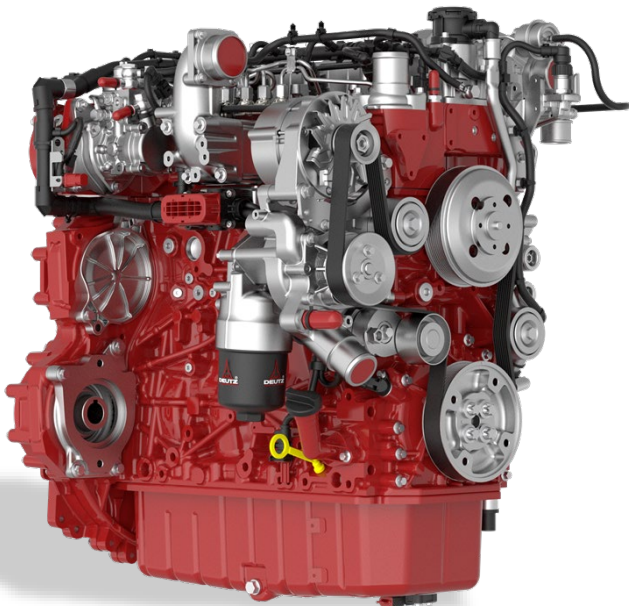
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# Mid 2025 we will be launching our new 3.9L engine – jointly developed with John Deere



JOHN DEERE



TCD 3.9/4.0

- Developed in cooperation with John Deere
- Production to start in 2025 – successor of highly successful 3.6L and 4.1L engine
- State of the art technical concept, e.g. one engine platform from 75kW up to 130kW, better peak performance
- Future-proofed design, e.g. due to easy scaling with other operating fluids (e.g. ReFuels, H2)





CULTIVATING  
THE WORLD



*TAFE Motors is a subsidiary of TAFE,  
the third largest producer of tractors worldwide,  
founded 1960 in Chennai*

## Long-term cooperation with TAFE Motors



- **Long-term cooperation with TAFE Motors** for licensed production of DEUTZ engines **starting 2027**
- Objective: Production of **up to 30,000 DEUTZ-engines** per year until 2030 in 2.2 liter (50-75 hp) and 2.9 liter (75-100 hp) class
- **Target markets:** Locally given increasing emission standards in India and globally

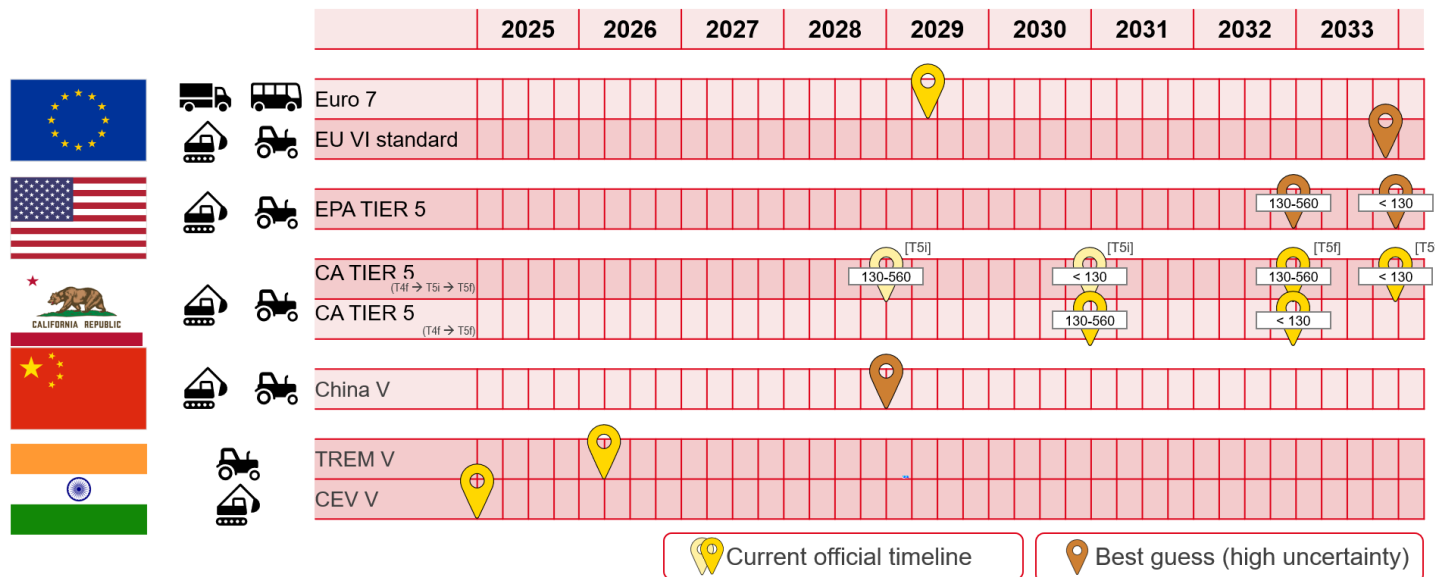
# Emission standards in key applications expected to tighten only from 2032 onwards



## Perspective on expected development of emission standards (indicative)

### Upcoming emission legislation

Current planning premises



- Typical timeline from publication to **implementation of regulation** (following new “On-Road”-emission regulation publication): **at least 5+ years for “Off-Road”**
- Updates on **Tier 5** regulation in US expected in 2025 with impact 2033ff
- **Fully compliant** with current emission standards – also for MDEG/HDEP (2028)

Need to align cost structures in R&D

# Structural adjustment of Classic R&D given changing environment



## Driver

Change to dynamics in emission standard setting

Increased cost pressure in Classic

## Key lever in optimizing Classic R&D

- **Capacity alignment** to lesser projects/slower pipeline
- **Optimized allocation** of resources to increase efficiency and optimize spend
- **Flexibilization** by near-shoring/leveraging global DEUTZ network (e.g. Maribor, Slovenia) and strengthening network of strategic R&D partners – to bring down cost base & ensure that new customer projects can still be done
- Increasing **effectiveness** by using AI/product simulation, re-allocating roles & responsibilities

## Expected impact

- **Reduced cost base** (potential of more than 25% reduction)
- **Reduction of headcount in Cologne** in two steps
  - ~60 FTE beginning of 2025
  - Additional potential by end of 2025
- Ramp-up of **capacities in Maribor** (Slovenia)

Contribution of €20 million to cost program (full-year effect in 2026)



## Significant operations benefits



- Production in TAFE Motors' **modern manufacturing facility at Alwar** in India
- Build-up of **dedicated line** for DEUTZ engines – with production start in 2026
- **Opportunity to expand current supplier base** and increase a more efficiency and resilience in **German production sites**

# Long-term focus: Dual- and best-cost country sourcing



Introduction of **Best Cost Country (BCC) sourcing** in India (e.g., via cooperation with TAFE Motors)



Extension of **dual sourcing for engine components** to increase resilience with focus on BCC (e.g., casted and forged parts)



Utilization of **insourcing opportunities** to increase resilience and strengthen negotiation power with suppliers

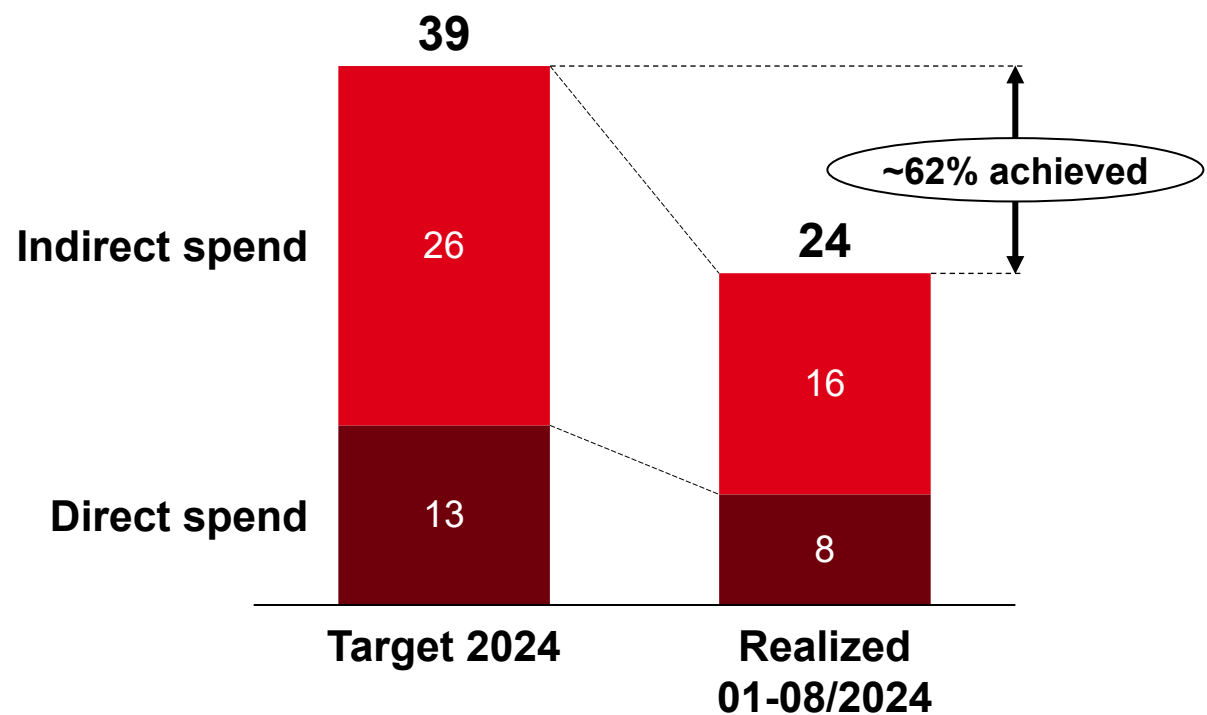
# RESILIENCE

Objective: Optimize cost-structure and ensure supply in consolidating ICE-supplier market

# In 2024 focus on achieving procurement savings of about €40 million



## Procurement spend savings (in € million)



- In **direct materials** driven by intense negotiations with major suppliers and ramp-up of production of Best Cost Country Dual Sources with Chinese suppliers
- In **indirect materials** and services mainly driven by logistics and packaging as well as IT and licensing concepts
- Additionally **successful defense against cost increases** by suppliers (claims) – only about 10% effective in 2024

# Clear cost focus in Operations to counteract cyclical Classic business and scale-back capacities

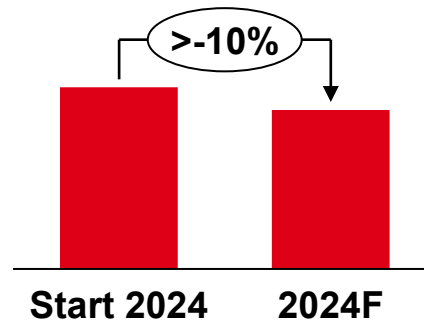


## Capacities

- Reduction of shifts, e.g. Porz <4l and >4l, Ulm, Herschbach
- Short-time work (“Kurzarbeit”) in Zafra & planned in Cologne
- Reduction of 350 temp FTE (2024 vs. 2023)
- Reduction of working time, e.g. vacation, flex days
- Additional measures, e.g. shut-downs, planned in Q4 in Germany

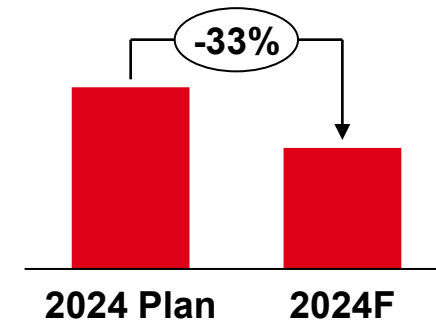
## Inventories

- Target-driven inventory management to align to lower demand



## Capex

- Postponement of projects & longer maintenance cycles due to lower utilization of capacities



# Increasing automation to increase efficiency



## Automation

Automation in mechanical manufacturing, especially in high-cost countries with invest of ~€8 million in 2024



## Impact (on average)

Productivity increase

24%

Increase in output

10-20%



# Optimization of the production footprint to ensure long-term competitiveness



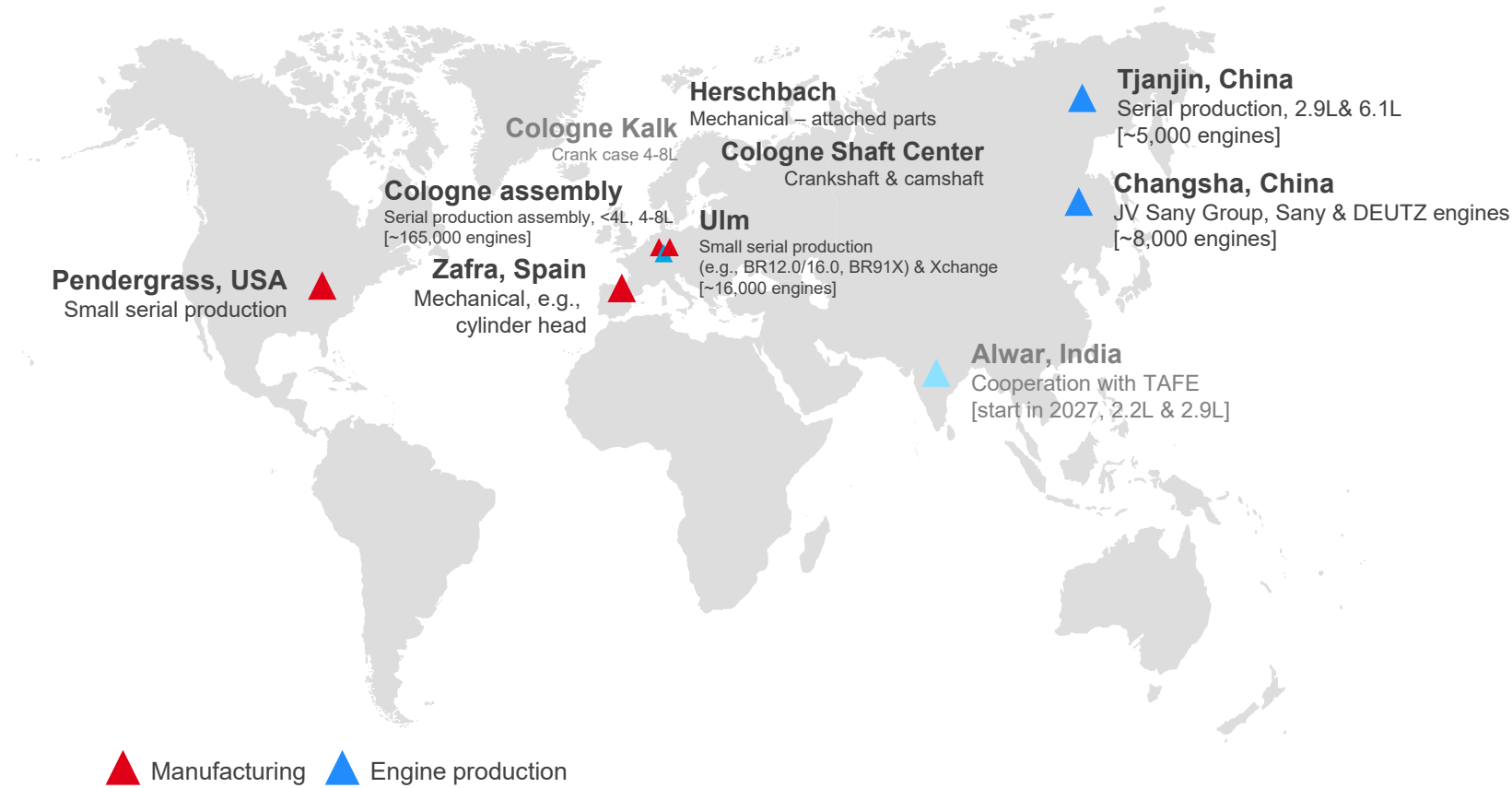
## Optimization imperatives

**Future-readiness of sites given strategy & expected demand**  
e.g., closure production Kalk by end of 2026, ramp-up of production lines for future portfolio (e.g. MDEG, H2, 3.9l)

**Build-up capacity in best cost countries**  
e.g., cooperation with TAFE in India for engine assembly

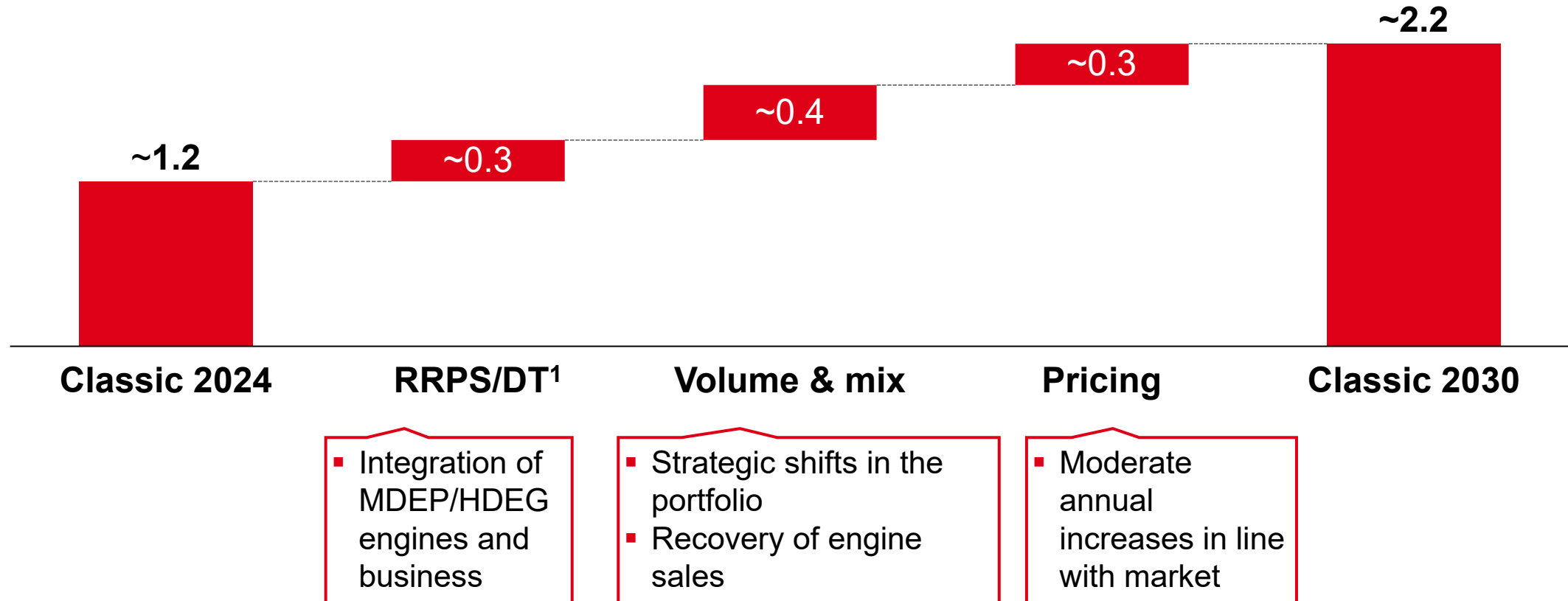
**Identification of insourcing potential for certain key components**

## Production sites DEUTZ (Focus Classic, output numbers 2023)



# How Classic contributes to our 2030 ambition

DEUTZ mid-term revenue ambition - Classic (in € billion, indicative)










50 <sup>1</sup> RRPS = Rolls Royce Power Systems; DT = Daimler Truck.

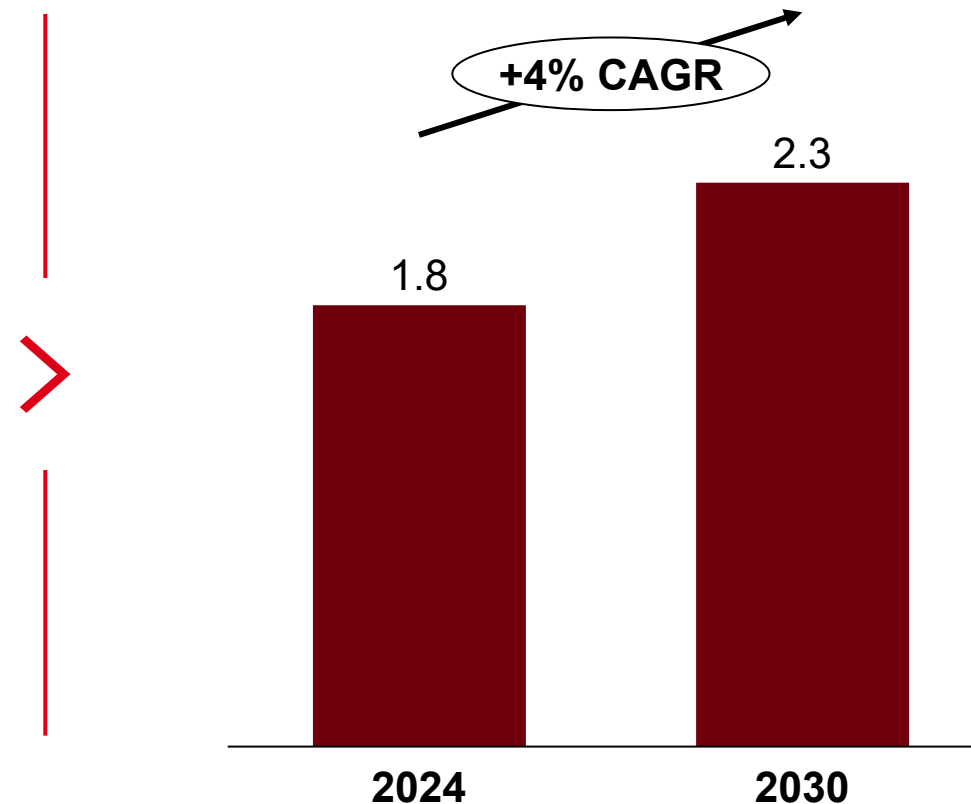
# Additional upside expected in growing defense market



## Market trends

Defense-specific		Increasing defense budgets
		Increased demand for ground transportation
		Increasing competitiveness for integrators
		Heavier vehicle platforms
Technology		Growing service needs
		Fuel efficiency, incl. electrification and hybrid
		Multi-fuel approach (incl. alternative fuels)

## Global market for engines in armoured fighting vehicles<sup>1</sup> (in € billion)



51 <sup>1</sup> Total market "Armored Fighting Vehicles" including all platform systems (wheeled and tracked),; light duty and medium duty about 60% of the market in value but more in volume.



Ukrainian Ingvar3,  
powered by DEUTZ engine

## Organic and inorganic pathways into Defense



**Key opportunities** in supplying engines and/or components into Defense market (focus on armoured fighting vehicles and Europe) as well as structured approach in gaining ISS-business<sup>1</sup> in defense

### Organic:

- Explore opportunities in engine and/or (existing) component business based on current customer relationships and offerings
- Identify relevant segments for re-powering for supply of DEUTZ engines

### Inorganic:

- Assess M&A opportunities e.g. for defense components

<sup>1</sup> ISS = In Service Support.

We ensure  
the world keeps moving



160  
YEARS

**COFFEE BREAK**  
**Start at 11:45**



We ensure  
the world keeps moving



160  
YEARS

# Deep-dive Service

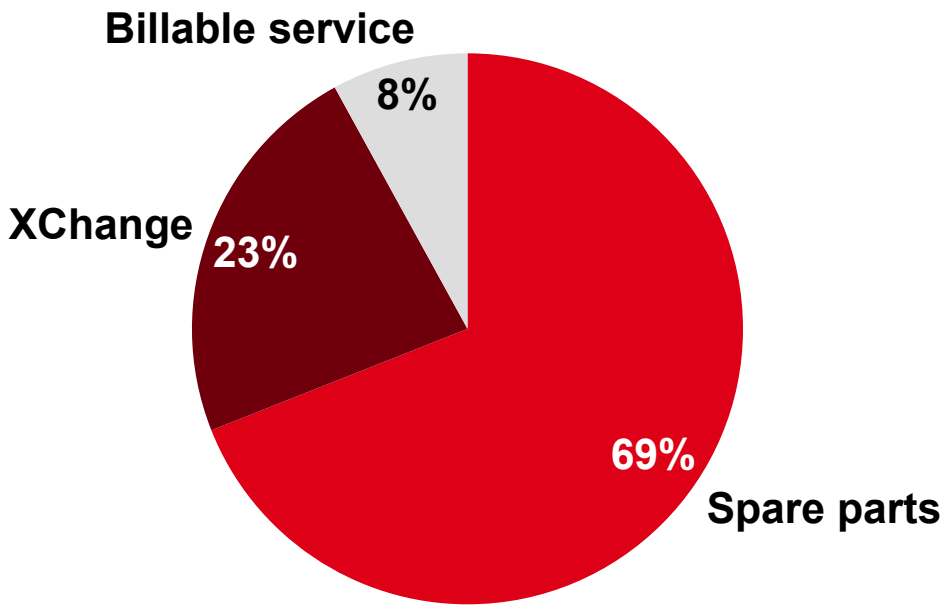




# Our service business in a nutshell



**DEUTZ service sales 2023: €484 million**



Global presence  
**>130**  
countries

A white outline icon of an airplane in flight, symbolizing global reach.

**1,025**  
DEUTZ service  
dealers globally

A white icon representing a building with several human figures, symbolizing a network of service dealers.

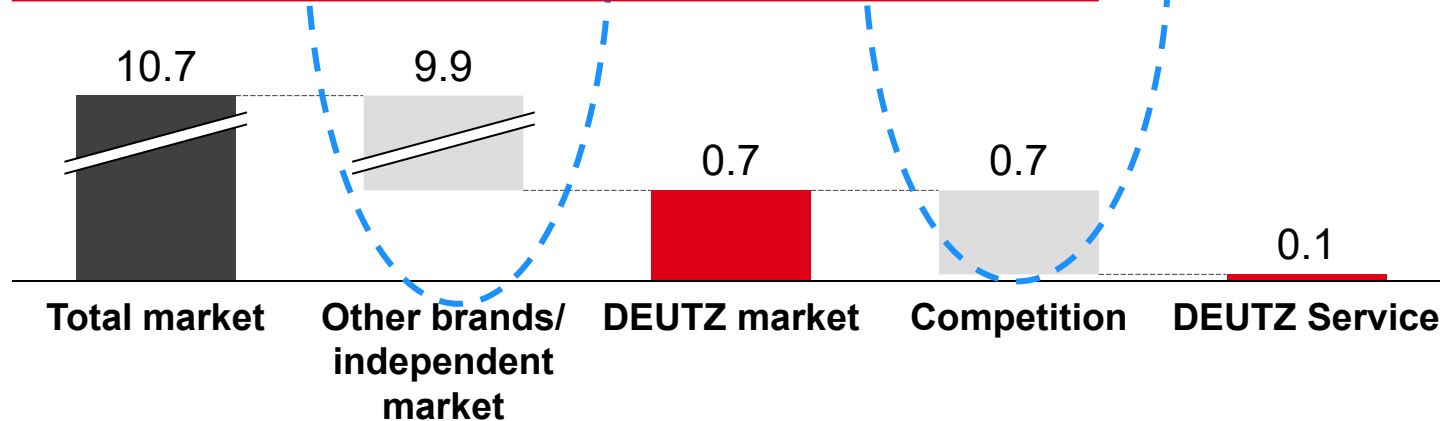
# Significant growth potential for the DEUTZ service business

## Spare parts (in € billion)



36% | 3%

## Billable service / maintenance hours (in € billion)



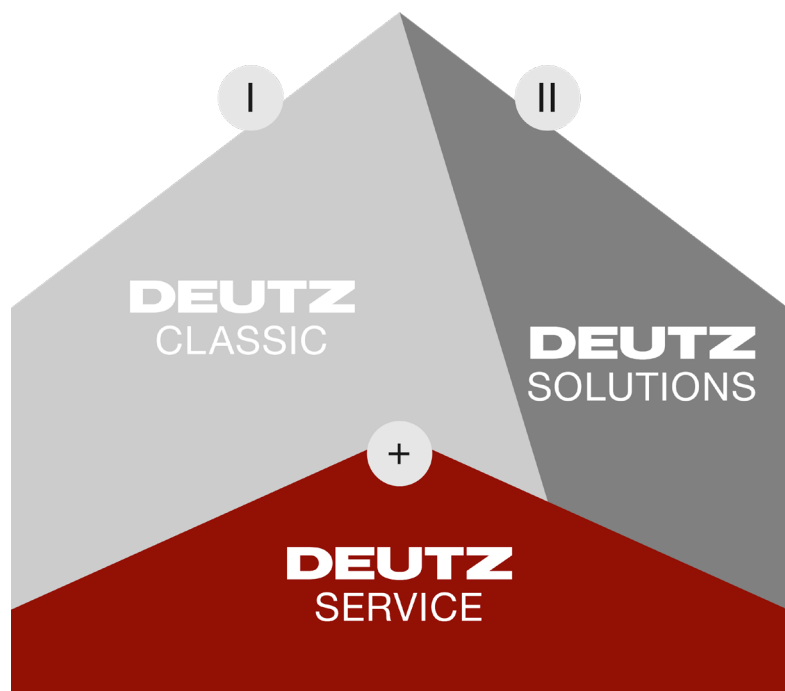
14% | 1%

■ Market share DEUTZ (DEUTZ/Total market)

- Every 1pp higher penetration gain of **DEUTZ market** is **€18 million** growth
- Every 1pp gain of **3<sup>rd</sup> party market** is **€250 million** growth



## Our DUAL+ strategy: Focus Service



- Grow business to revenues of **€1 billion by 2030**
- Continue to invest in **network development** and establish new sales channels
- Expand into **new business models** (e.g. 3<sup>rd</sup> party, industrial fleet)
- Invest in **digital business models** (e.g. FusionHUB)
- Close **geographical white spots** and **leverage acquired service offerings** (e.g. MDEG/HDEP services from RRPS/Daimler Truck)

# We will continue to build our service network – with focus on the US



## The idea



- Continue to build up Service Center infrastructure with focus on US market
- Complement with expansion of “Technician in a Van” concept

## Approach USA – identified levers to accelerate growth

- 1 Prepare the base**  
Optimization of existing DEUTZ Power Centers using commercial and operational levers to increase the total revenue and revenue/ tech – e.g. by freeing technician capacity and offering additional services
- 2 Grow the base**  
Growth based on existing locations with focus on prioritized segments, serving more customers and more applications – based on a build-up of technicians
- 3 Expand locations**  
Opening of new locations (e.g. fully-fledged service centers or satellite locations), as well inorganic growth within prioritized segments

Targeted additional revenue of ~€100 million by 2030

# We will tap additional potential by establishing industrial fleet services



## The idea

### Development and scaling of services for fleet customers

- Leveraging our engine know-how
- Offering comprehensive fleet management for our OEM partners
- Creating a strong global platform (e.g. contracts, tools, spare parts tracking)
- Building up independent aftermarket

## Exemplary proof points

### US



- Highly profitable service business of 3rd party genset engines
- Extension of Aerial Work Platform service and repair business

### Benelux



- Build-up of 3rd party business for small/mid-sized engines based on AUSMA business

### Ireland



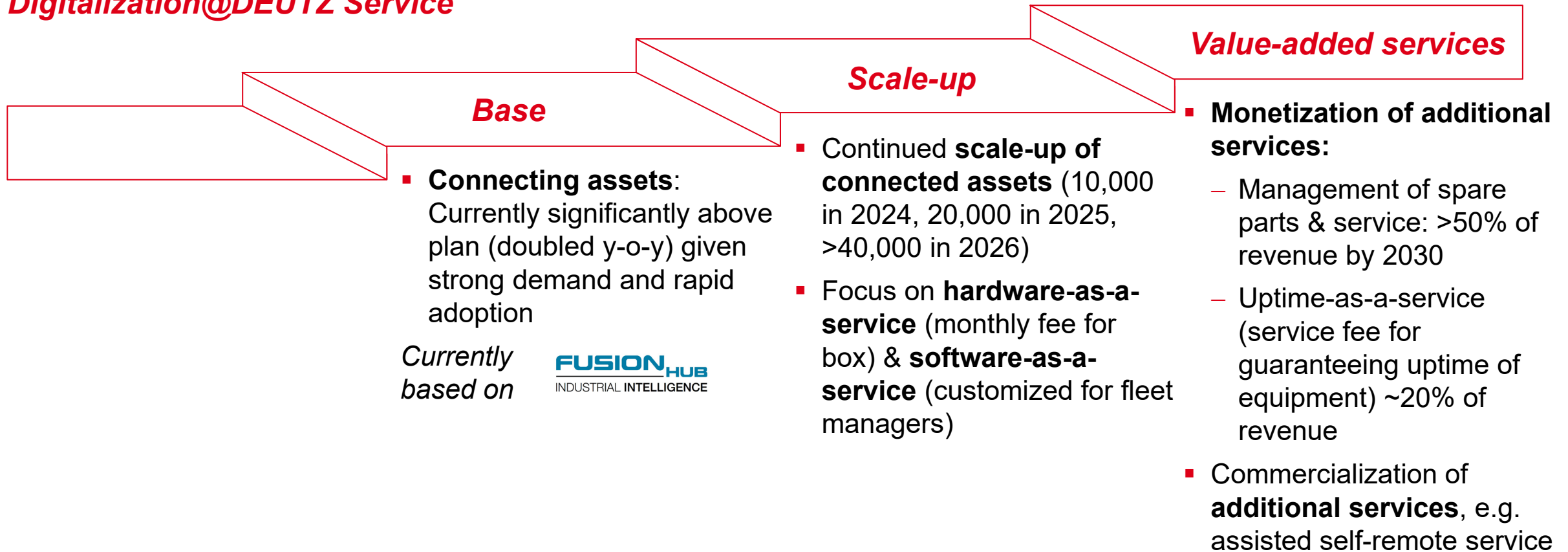
- Service contracts for small & mid-sized engines based on South Coast Diesel business

Targeted additional revenue of ~€50 million by 2030

# Digitalization will further push our service business with potential for next-level services



## Digitalization@DEUTZ Service



Targeted additional revenue of ~€50 million by 2030

# We will continue to leverage Service M&A to grow and broaden our geographic reach



## The idea

### Continue to **grow service business with M&A**

- Addressing geographical white spots, e.g. in Western Europe
- Using continuous M&A target search and pipeline
- Working with clear criteria, e.g. strategic fit to DEUTZ, CAGR, sales, margin, no of technicians



## Exemplary proof points

### 2023 acquisitions

#### Poland



#### MDEG/HDEP

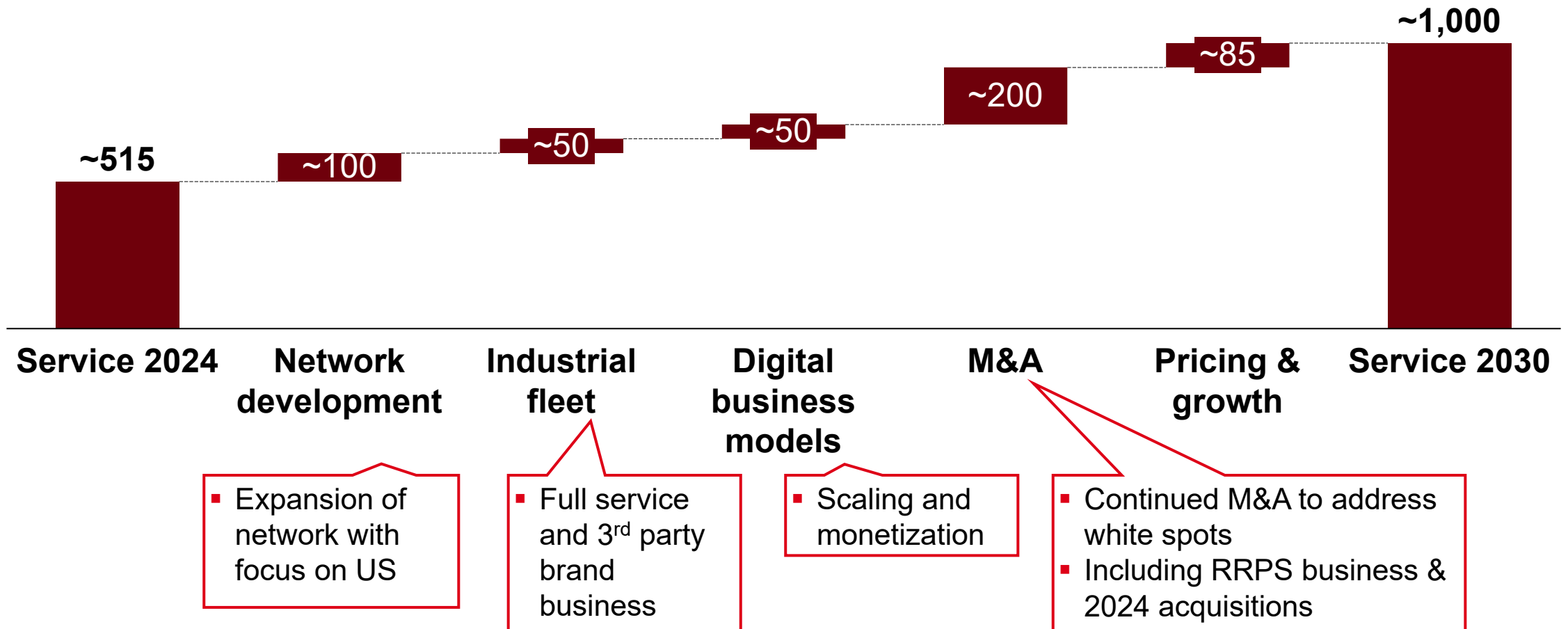


- Successful integration of e.g. Diesel Motor Nordics, Hochschild
- Recent acquisition of BTH Fast in Poland/Eastern Europe with focus on mining (Sales >€10 million in 2023, CAGR >5%)
- Take-over of service activities (~€30 million in 2025)
- Potential for optimization leading to revenue upside and additional M&A to build up business

Targeted additional revenue of ~€200 million by 2030

# How Service contributes to our 2030 ambition

DEUTZ mid-term revenue ambition – Service (in € million, indicative)



We ensure  
the world keeps moving

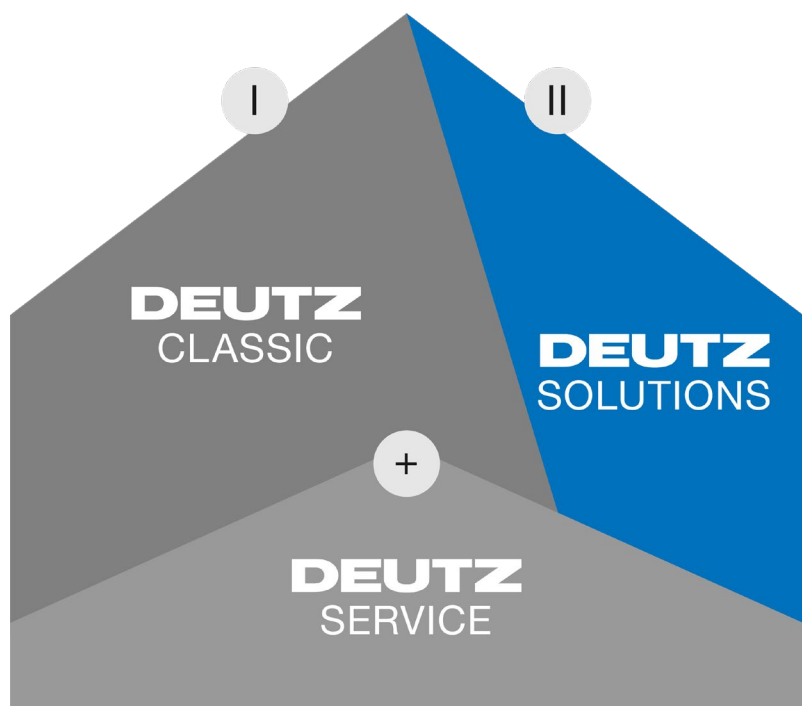


160  
YEARS

# Deep-dive Solutions



# Our DUAL+ strategy: Focus Solutions



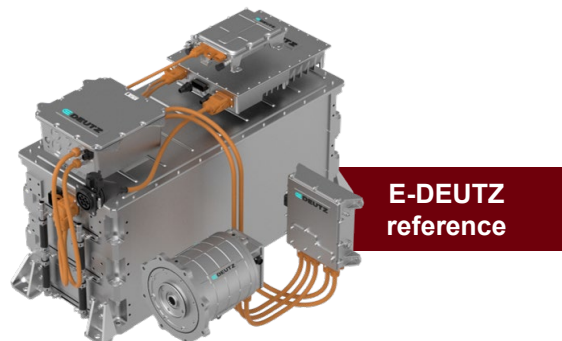
- **Capture value beyond engine and service** by entering businesses with right-to-win for DEUTZ, higher value chain coverage and long-term sustainability
- **Focus on tailored New Technology offering** (formerly “Green”) based on customer and market demands
- **Expand Energy** business to achieve >€500 million revenue by 2030



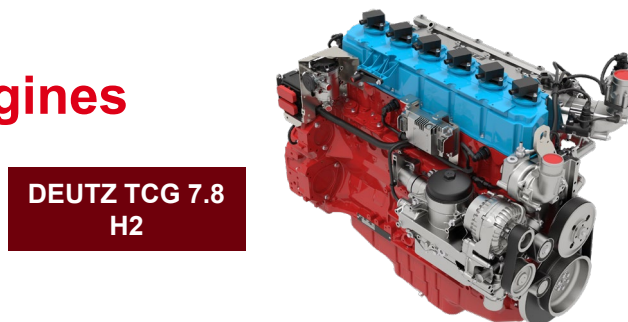
# We have currently two offerings in New Technology



## e-Products



## H2 engines



## Status

- Comprehensive offering based on battery packaging, battery management systems and 360V-power systems
- Customer-specific solutions and offerings
- H2 engine using 80% of basis technology of classic engine
- Initial projects completed, ready for serial production

## Focus application segments



Com-  
pressors  
& pumps



Ground  
support  
equipment



On road  
applications



Battery

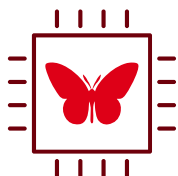


Gensets



Rail

# For e-Products we have a unique value proposition



## Battery Management System (BMS) and software expertise

- Proprietary electronics and software for battery management
- Modular battery design which can be customized



## Application integration

- Internal capabilities for integrating battery and drive systems
- Customer-specific application development
- Retrofit capabilities



## Global service network

- Global repair and maintenance network for high voltage
- Established diagnostic tools (SerDia)
- >1,000 locations globally

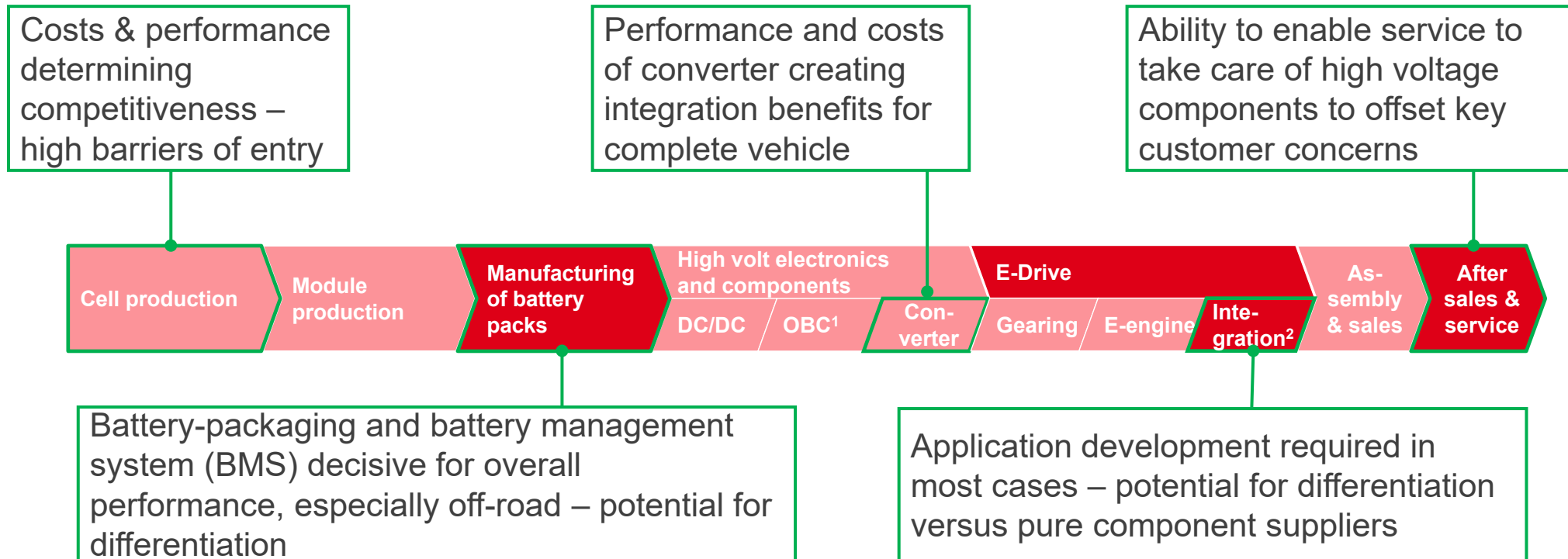


## Brand equity

- High recognition of DEUTZ and trust in products and know-how
- Strong heritage in relevant segments

One-stop shop offering – enabling reduced time-to-market for our customers

# We have strong position in the value chain and are investigating a push into additional strategic control points



■ Value chain element covered by DEUTZ

□ Strategic control point

**Potential for strategic partnerships to solidify value chain position and grow business**

# We have a good pipeline of fixed customer projects and offers in the market ...



Customer

**KÄRCHER**



Application

Road sweeper



Cooling trailer



Cement pump



Strong interest from both off- as on-road OEMs for DEUTZ e-Products

# ... however: Structural market demand will only become relevant after 2026 for us



## Market perspective

### Customers with high volume production

Focus on in-house solutions – but expected to change in case of more complex solutions in mid to long-term

### Customers with lower volume production

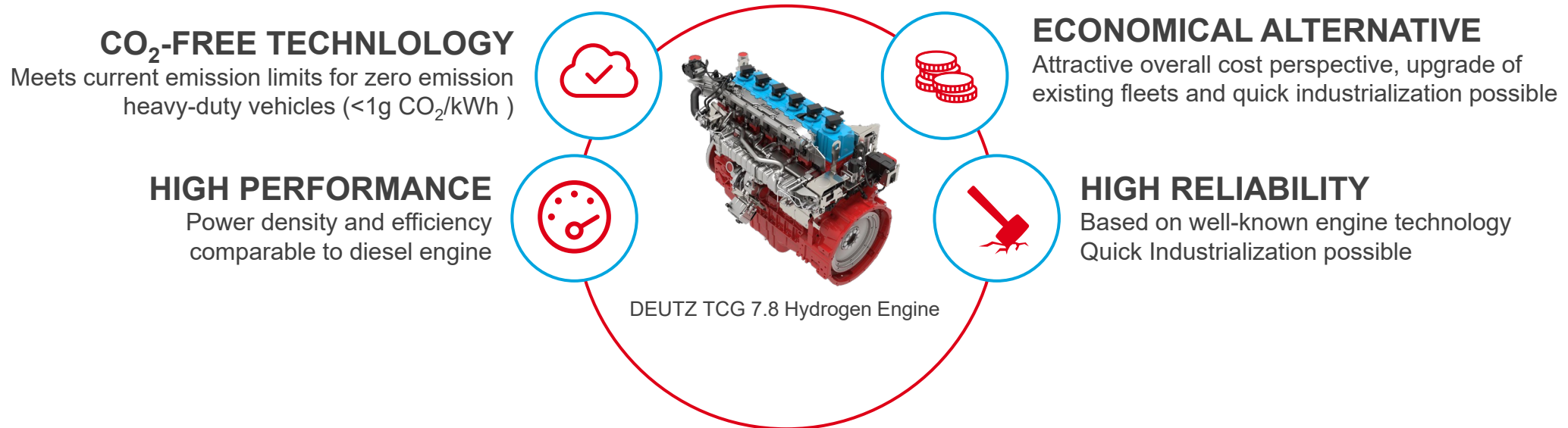
Small volume per customer requiring individual solutions based on off-the-shelf products and need high amount of support



## What this means for us

2024-25	2025	2026ff
<b>Solid foundation</b> Validation of market potential and establishment of two lead customers per application segment	<b>More customers and small series</b> Prototype orders of customers to confirm market potential and establishing the right production set-up	<b>Scaling up</b> Ramp-up to achieve New Tech target of ~€300 million sales in 2030

# With our TCG 7.8 H2 we offer a commercially viable engine based on our proven engine technology



- **80% of parts the same** for our hydrogen engine (TCG 7.8 H2) with comparable Diesel engine (TCD 7.8)
- **Efficiency of 40%**, compared to 43% of comparable Diesel engine

# Our H2 engine is certified for a next generation of regional trains



- RS Zero as successor of “Regio Shuttle” with first stage V certified H2 combustion engine TCG 7.8 H2 for railcars
- First train displayed at Innotrans 2024
  - 2 engines TCG 7.8 H2 (65° inclination with 200kw@2200rpm)
  - H2 tanks on the roof of railcar
  - Batteries below railcar
- First trial run of RS Zero in Thüringen starting in 2025; impact for DEUTZ expected around 2027, after start of series production

# Our H2 project in Beijing was commissioned in September



- First firing of gensets with initial four H2 engines on September 11, 2024 in Beijing
- High political support with mayors of both Cologne (Henriette Reker) and Beijing (Jin Wie) present
- Potential to save 800 tons of CO<sub>2</sub> p.a. using grey hydrogen as a by-product of cokes plant

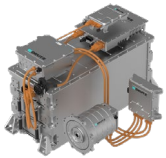


# Based on the slower market uptake in e-Products and H2, we have adjusted investments



## Market perspective

### e-Products



- Heterogenous and fragmented customer landscape leading to slower uptake than expected
- Dynamic uptake expected

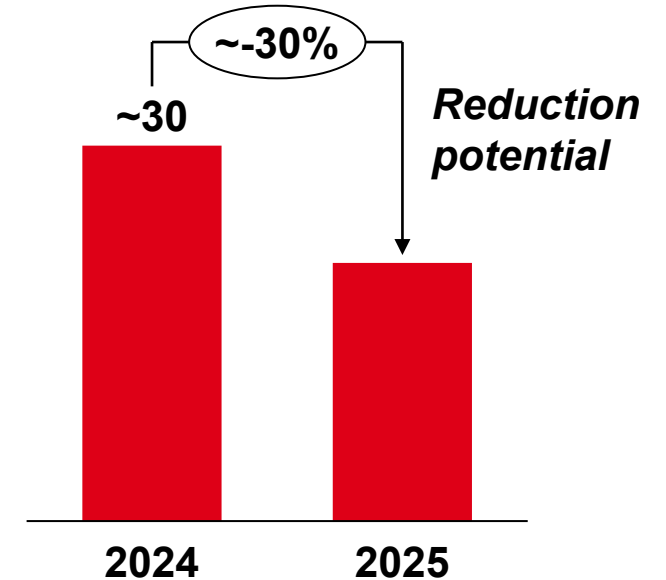
### H2 engines



- Technically viable product and initial customer projects
- Uptake dependent on external factors, e.g. regulation - limited demand so far as

*Need for a smart, entrepreneurial approach to ensure that we partake in the market in future*

## R&D budget New Tech (in € million)



Contribution of €10 million to cost program (full effect in 2025)

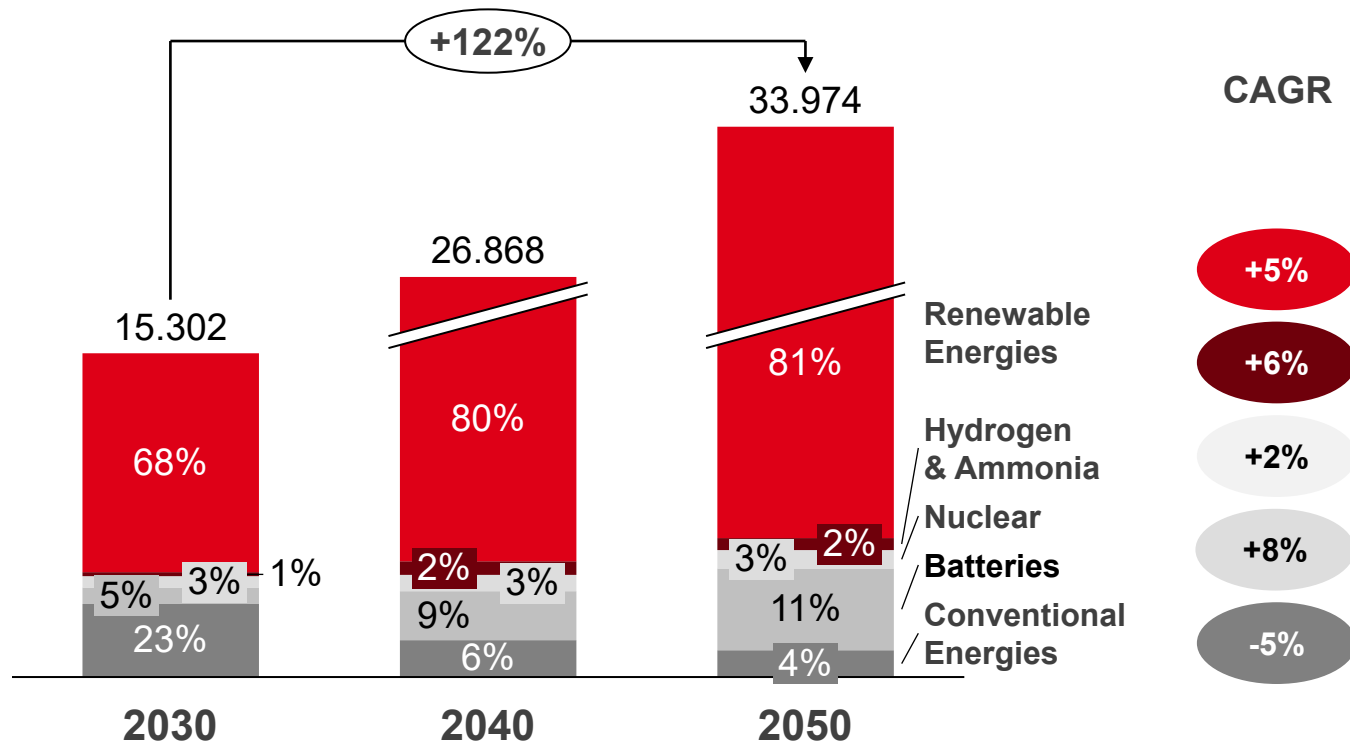
# Update on Energy – our genset business



# Doubling of global electricity demand & changes in the energy mix leads to growth in decentralized energy supply



## Global energy supply (in EJ)



- **Doubling** of global electricity demand by 2050 and increasing share of renewable energy, but **no expansion of grids at the same pace**
- **Growth of renewable energy and instability in supply** due to mismatch between demand and grid capacity - relevant not only for developing countries, but increasingly also for **highly developed countries, such as the USA**
- Solution: **More decentralized energy supply** and microgrids in which gensets play a key role and help to make **renewable energy suitable for widespread use**

# Growth drivers for decentralized electricity supply in North America



## Extreme weather events



More frequent occurrence of severe weather events leads to increasing power outages requiring independent energy solutions -- even for non-critical areas



## Insufficient Infrastructure



Outdated power grids and increasing demand are leading to capacity overloads. Cybercrime and hybrid warfare are also threatening the stability of supply



## Renewable energies



Increasing demand for renewable energies leads to volatility in the power grid and a higher demand for hybrid solutions and decentralized energy systems, such as microgrids as a connection of different technologies



## Relocation of production



Relocation of production to the USA because of government subsidies; especially for high-tech sector (e.g., battery production, semiconductors); backup gensets for business-critical tasks




## (Public) investments

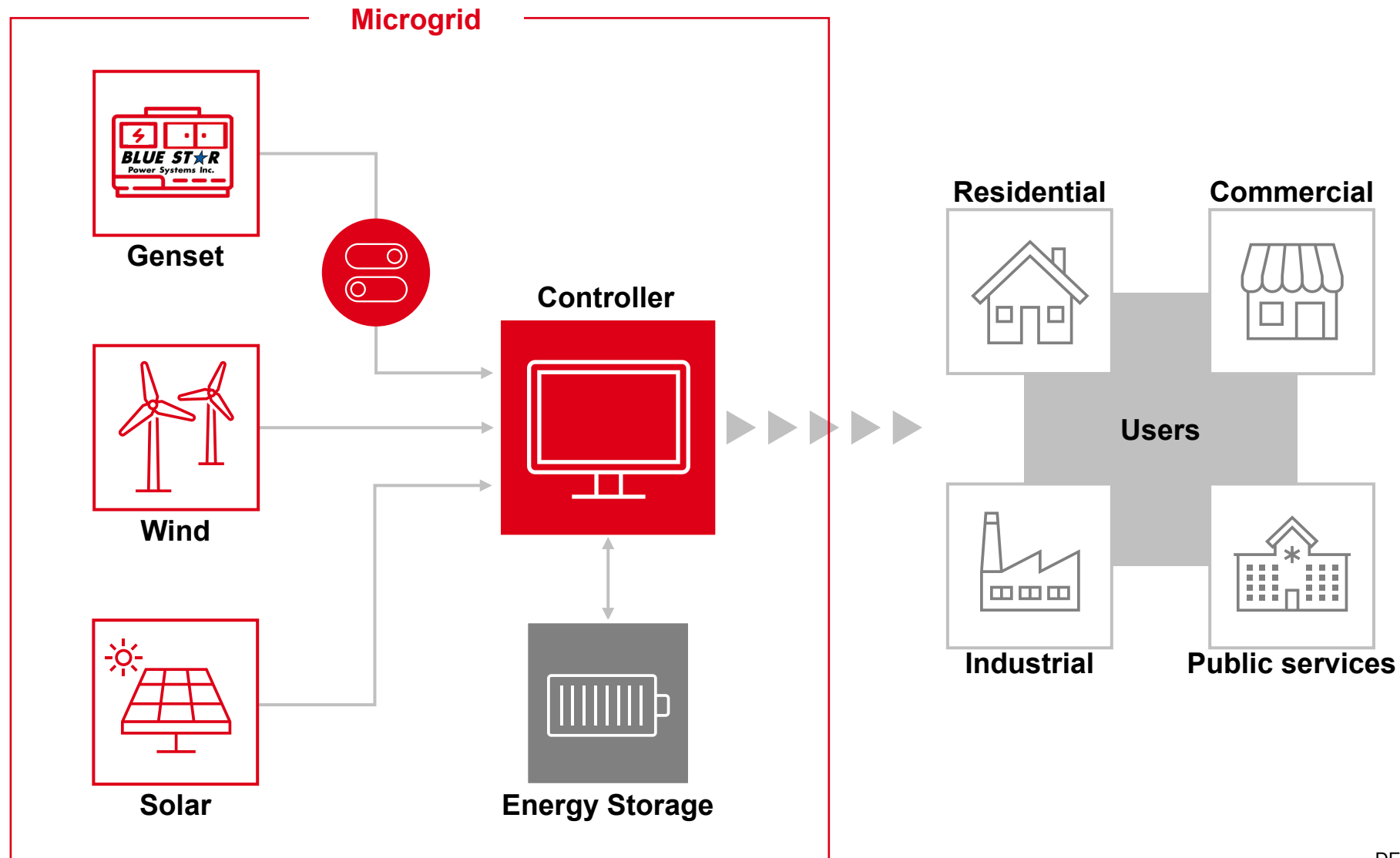


Increasing investments in digital infrastructure (e.g. data centers) lead to higher demand for backup solutions; among other things as a result of the "Bipartisan Infrastructure Law" (airports, water infrastructure, transit)

Legend

 Impact on the market for decentralized energy supply

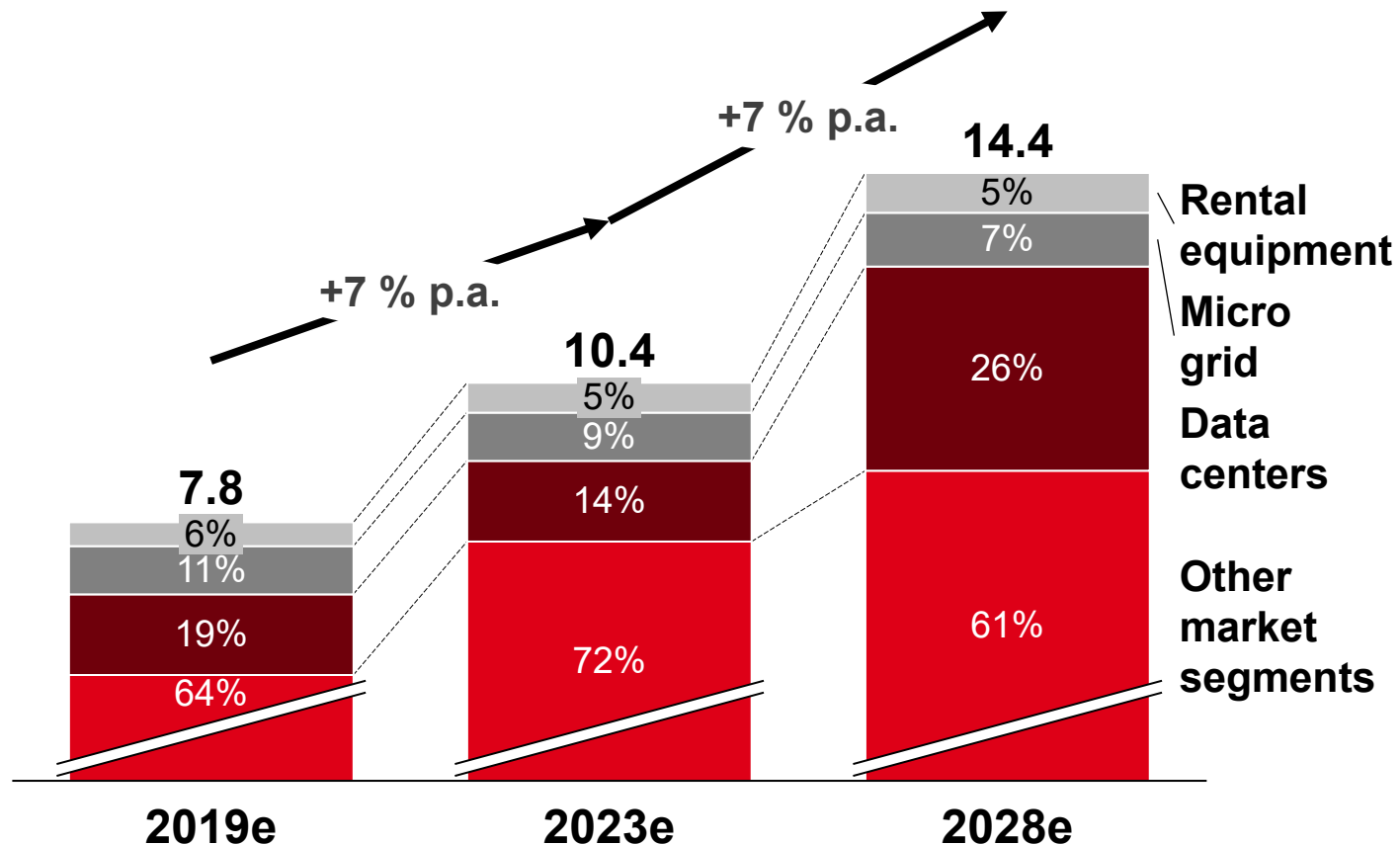
# Case example microgrid – how US customers ensure electricity self-sufficiency



# North America is a particularly attractive and relevant market for decentralized power supply



## Market for gensets in North America (in \$ billion)



- **North American market** accounts for almost **half of the global genset market**, which will grow to \$34.5 billion by 2030
- **Data centers** strongest growth driver with 11% growth p.a. until 2028
- **Other market segments** include single-family homes, gas supply, agriculture and production

# Blue Star Power Systems is one of the top 10 genset producers in the North American market

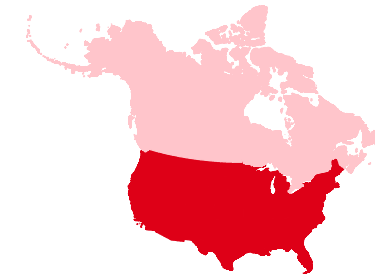


- **Acquisition** of Blue Star Power Systems closed in August 2024
- Production and sales of **diesel and gas-powered gensets** from 20 to 2,000 kW
- **120 employees**
- Expected order entry 2024: **>\$100 million**



## Revenue distribution 2023

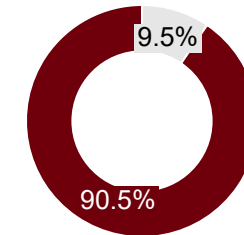
Region



Canada: 15 %

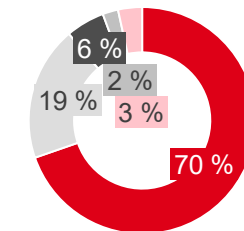
USA: 85 %

Customer type



Direct customers  
Distributors

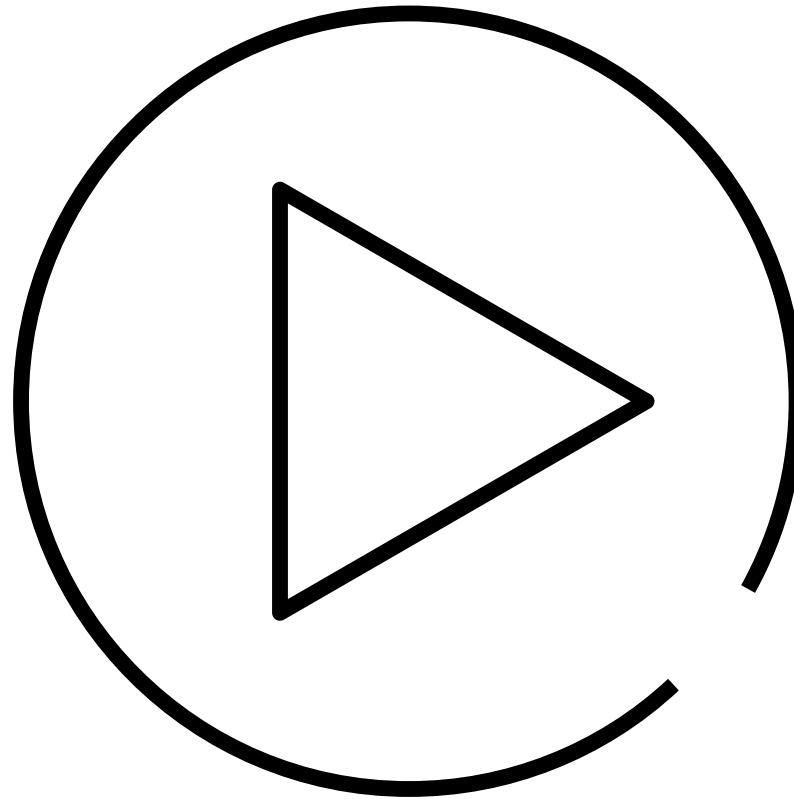
Product category



Gensets – Diesel  
Gensets – Gas  
Transfer switches  
Transport  
Components

# How Blue Star Power Systems works

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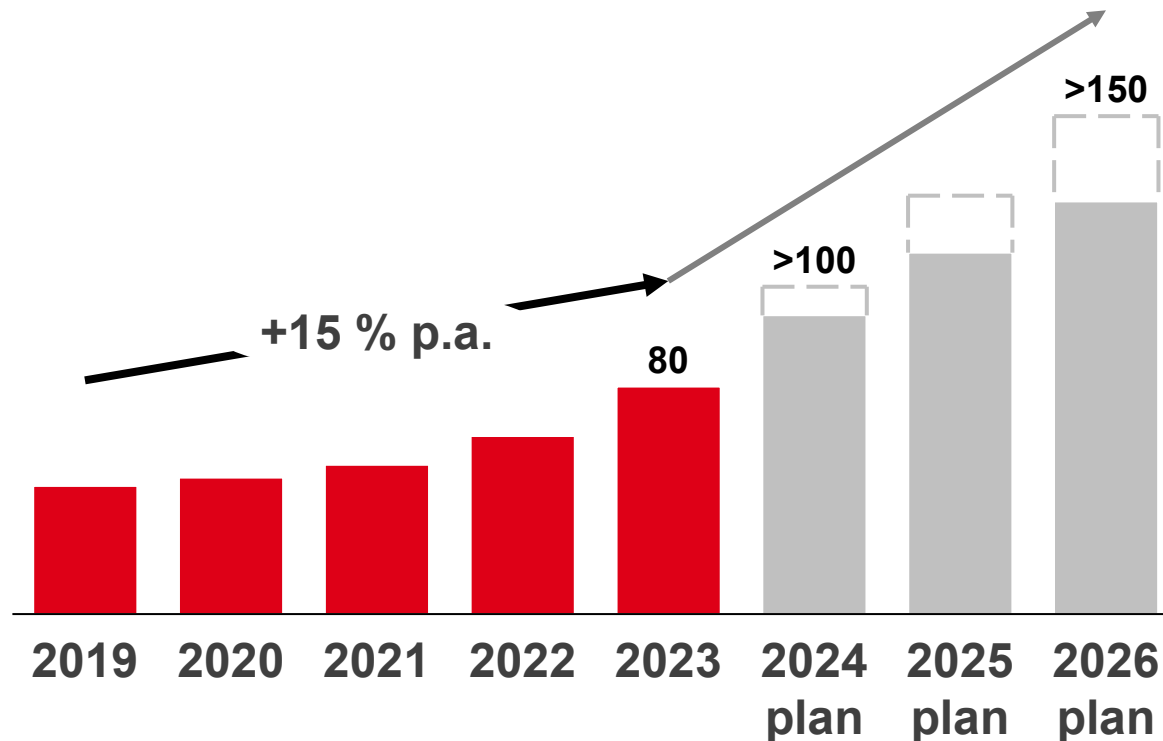




# Blue Star Power Systems has achieved a strong development in recent years and has clear growth prospects



## Revenue development Blue Star Power Systems (in \$ million)



- **Growth** with 15% p.a. in recent years **above** growth rate of the **North American market**
- **Revenue almost doubled** since 2019, **EBITDA margin increased significantly more** in the double-digit range due to economies of scale
- Key drivers responsible for the **leap in growth** in recent years and the **positive outlook** in the coming years:
  - Entry into the distribution of gensets for microgrids with a strong customer as a partner
  - Growth in high power classes (>500 kW) with applications in airports, hospitals, production and large industrial plants

**Strong current trading – revenue 2024 expected to be well above \$100 million**



## How we will lead Blue Star Power Systems



- **Part of future BU Energy** responsible for developing the Energy business overall
- **Managed on a stand-alone basis** to maintain entrepreneurial spirit
- **Selective integration focusing on**
  - Identifying commercial synergies (e.g., in Service)
  - Ensuring sufficient governance (e.g., Finance, IT, Compliance)
  - Realizing value chain potentials – long-term

# Blue Star Power Systems opens up growth opportunities for the Energy business



**BLUE STAR**  
Power Systems Inc.



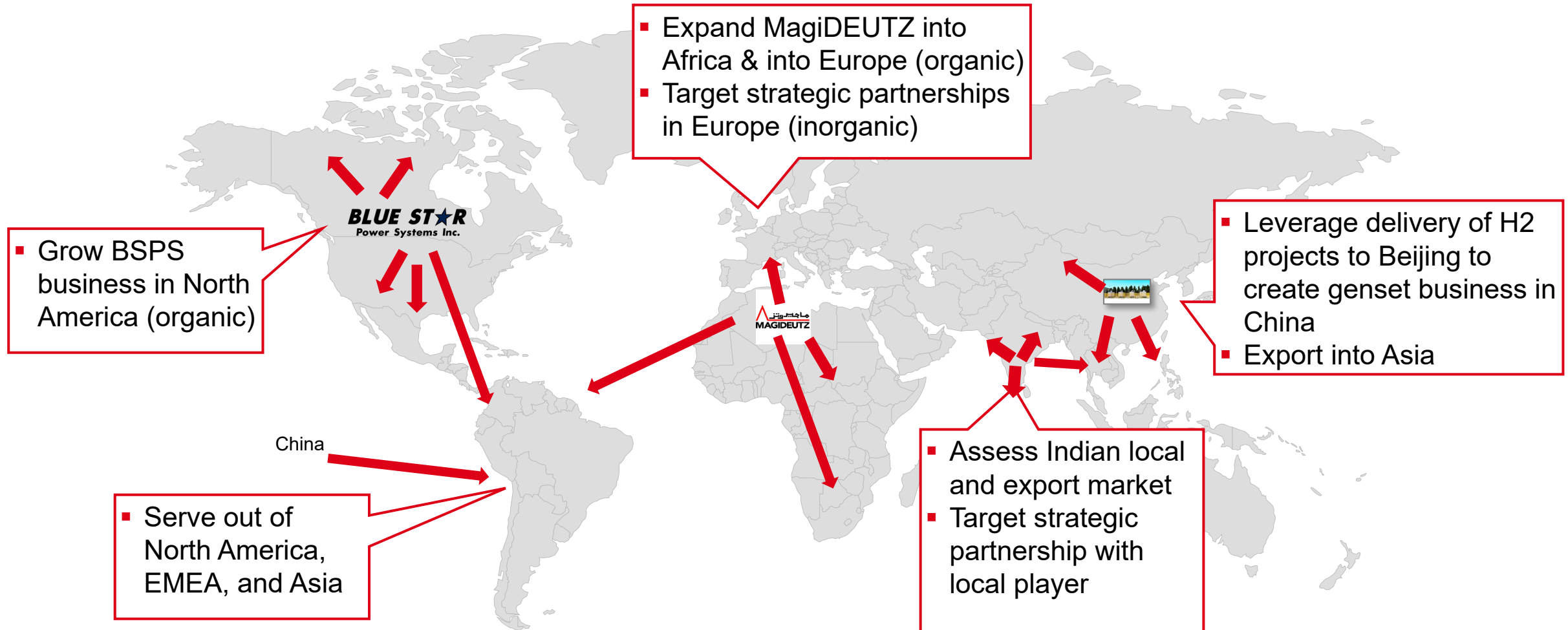
**Grow Energy  
business in  
Americas**

Further scaling of Blue Star Power Systems business in US and beyond – incl. scale-up of service business leveraging existing US basis

**Transfer to other  
regions**

Expansion of the genset business globally, e.g., in Asia and Africa, but also Europe – incl. technological developments, e.g., “green” gensets with hydrogen, use of bio and synthetic fuels

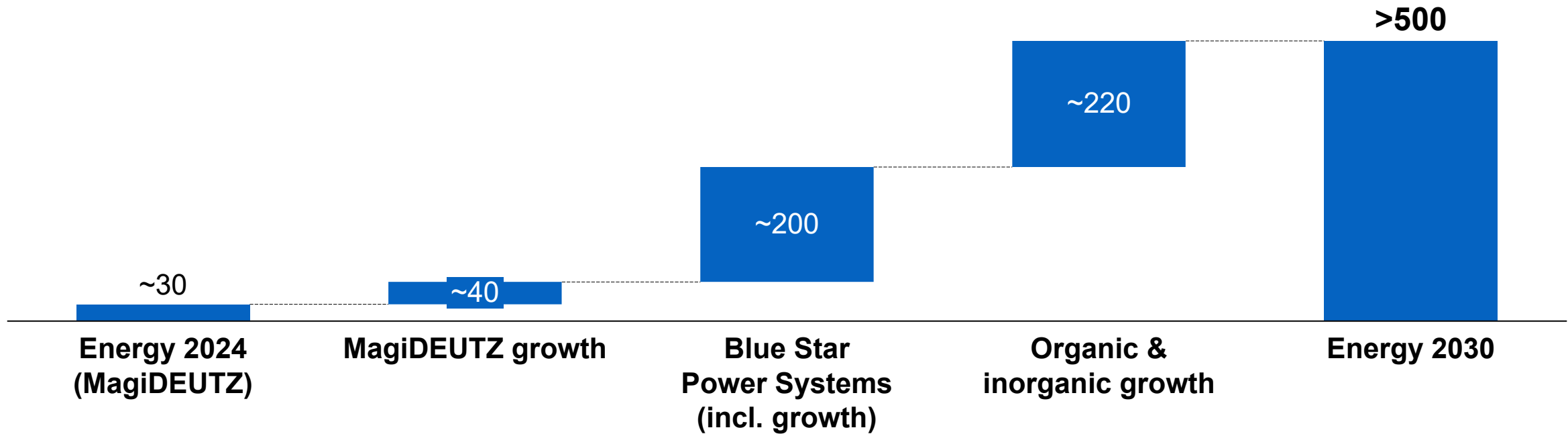
# We will deploy region-specific strategies to grow the Energy business both organically and inorganically



# We will grow the Energy business to >€500 million by 2030



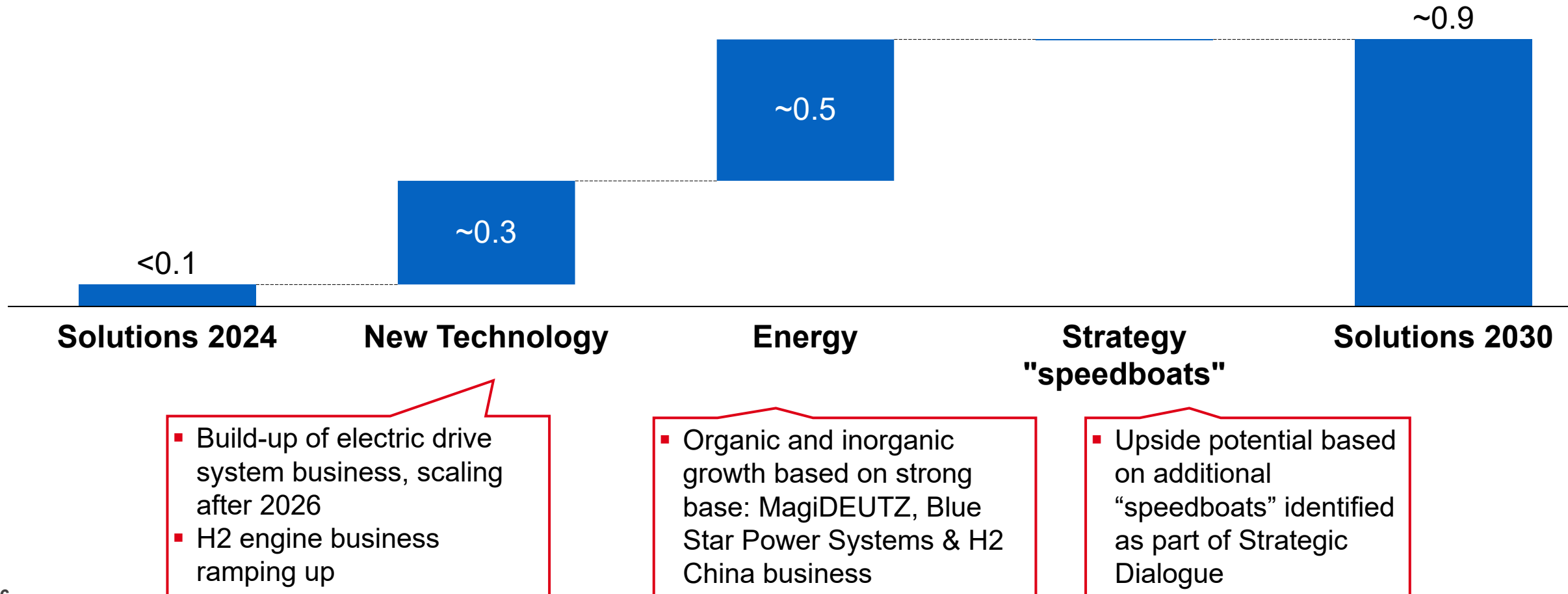
## Ambition for DEUTZ Energy (in € million, indicative)



Developing a relevant, profitable energy business by 2030 with a "buy & build" strategy

# How Solutions contributes to our 2030 ambition

DEUTZ mid-term revenue ambition - Solutions (in € billion, indicative)



We ensure  
the world keeps moving



160  
YEARS

# Q&A session



We ensure  
the world keeps moving



160  
YEARS

**LUNCH**  
**Start at 13:30**





We ensure  
the world keeps moving



160  
YEARS

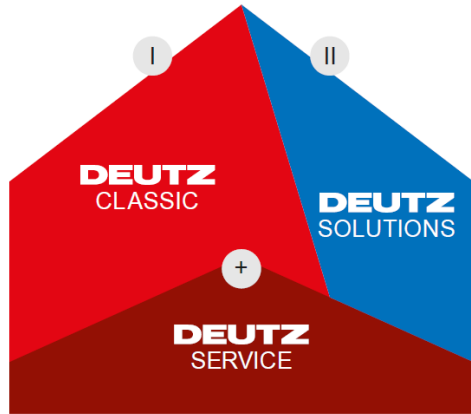
# CFO perspective



# Full focus on implementation of DUAL+ strategy

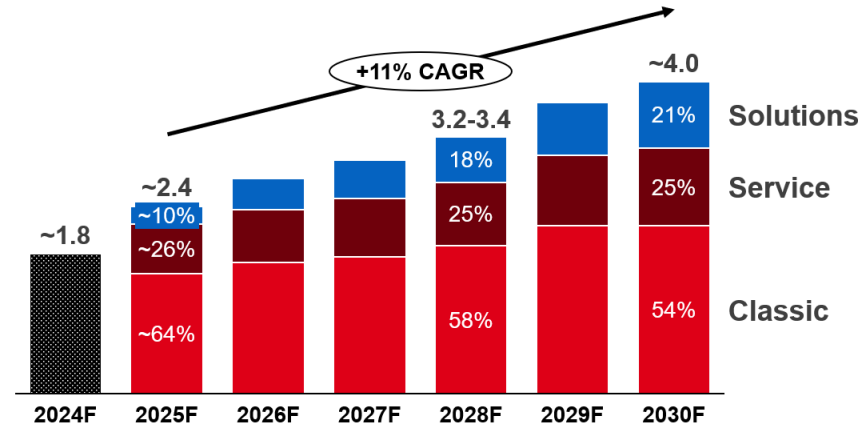


## Our strategy



## Our 2030 ambition

DEUTZ mid-term revenue ambition (in € billion)



## CFO contribution

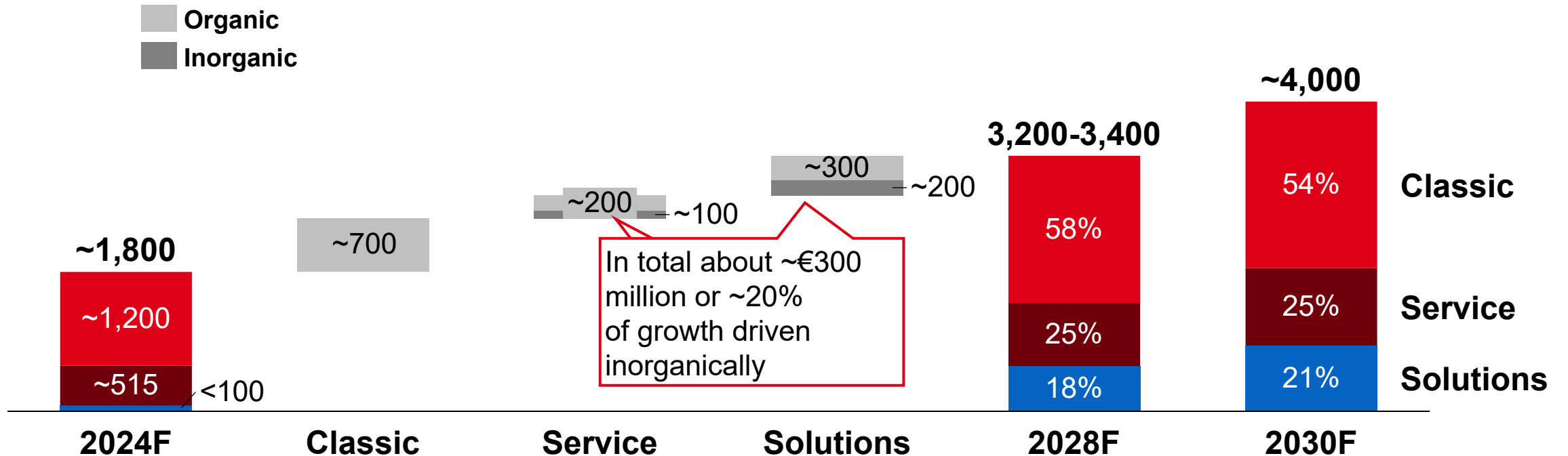
Ensure execution & performance

Finance our growth

# Growth in resilient Service and Solutions – Classic expected to recover



DEUTZ mid-term revenue target (in € million, indicative)



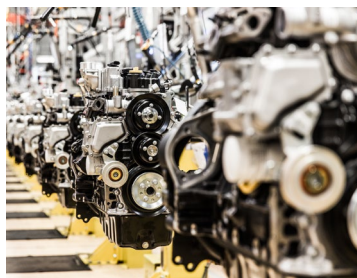
# CFO focus on ensuring execution of our strategy

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## Classic

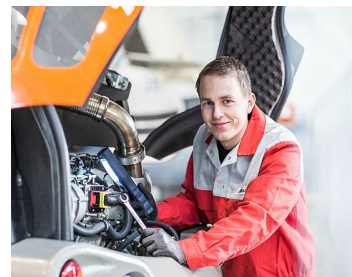
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- Driving **structural cost reduction**, e.g. production footprint, R&D, SG&A
- **Ensuring execution** of transformation projects: ramp-up TAFE, MDEG/HDEP engines

## Service

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- Safeguarding our **margins** as we grow the business
- Ensuring monetization of **new business models** (digital, fleet mgmt)

## Solutions

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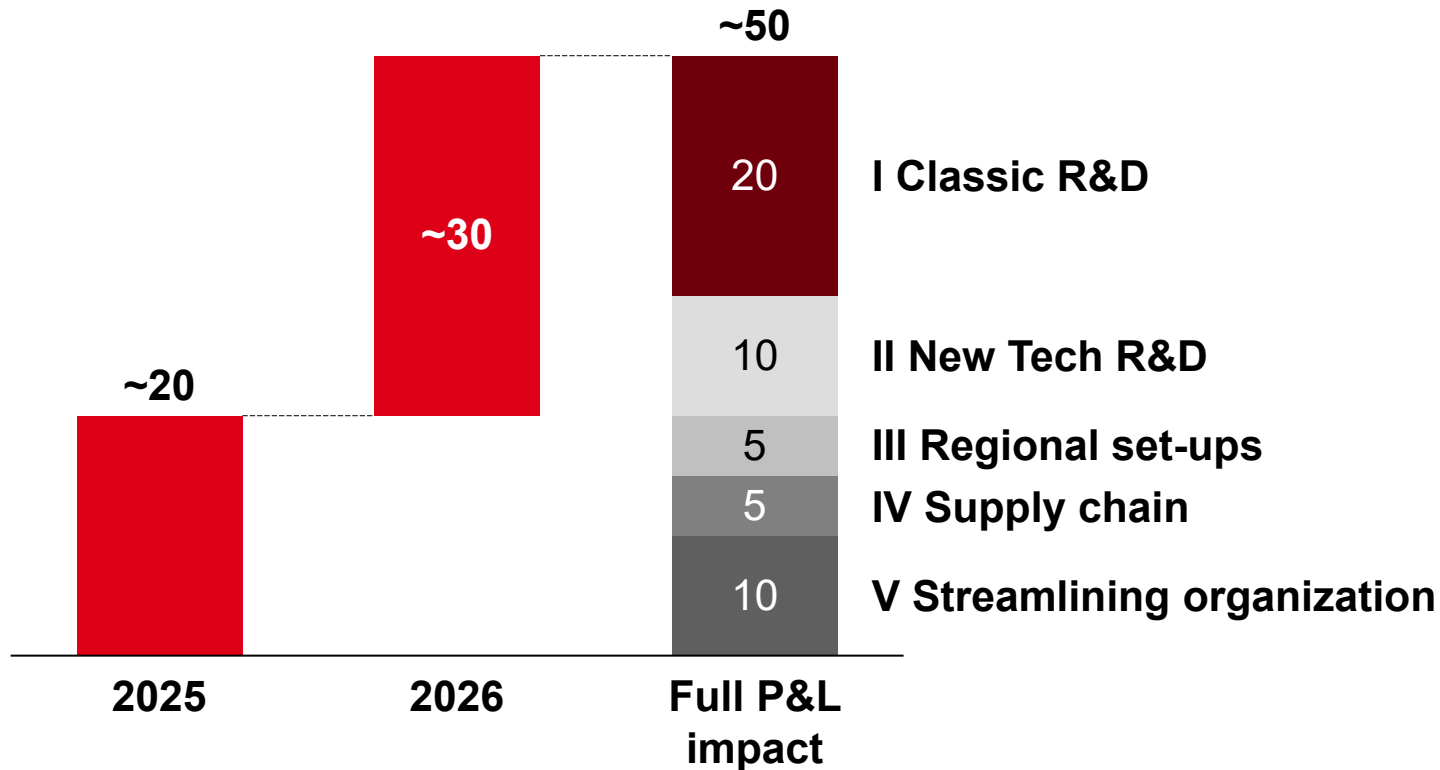


- Monitoring **smart scale-up approach in New Tech** (e.g. right level of investment)
- Supporting **entrepreneurial growth in Energy** (e.g. Blue Star Power Systems, MagiDEUTZ)

# CFO focus on ensuring performance



## Cost program (in € million)

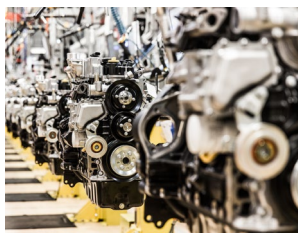


- Progress to be tracked by PMO using established maturity grade logic (e.g. identified, confirmed, implemented)
- Driving a sustainable performance focus in the organization

# Finance our growth: Enabling different types of M&A transactions

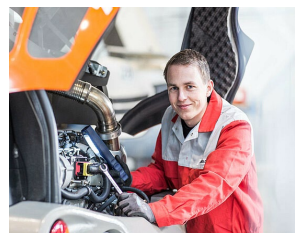


## Classic



- Providing **sufficient financing for potential larger scale M&A opportunities**, e.g. consolidation, defense (on top of business plan)
- **Tailormade** transactions

## Service



- Enabling efficient **network growth**
- Supporting our **serial M&A** (~€100 million in additional revenue by 2028)
  - Standardized transactions (e.g. established dealers/ service providers)
  - Annual turnover low to mid-double-digit € million

## Solutions

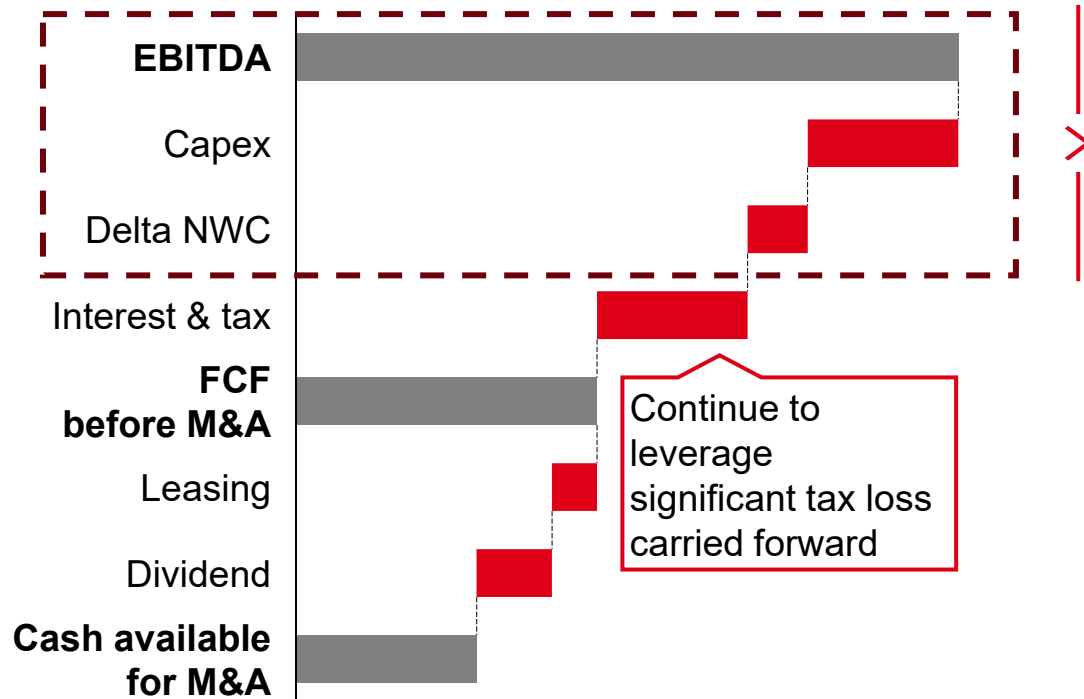


- Ensuring financing of **larger scale M&A in Energy & New Tech** (~€200 million in additional revenue by 2028)
  - Companies with USP/ specialized know how
  - Annual turnover mid double-digit up to low triple-digit € million

**We continue our value accretive M&A strategy and remain flexible for opportunistic M&A**

# Internal financing: Continuous improvement in cash drivers


## EBITDA to cash walk (illustrative)




## Focus areas

- EBITDA**


Strengthening margins via growth, resilience and performance measures


- CAPEX**

Structural reduction as business less CAPEX intensive – target 3.5-4% CAPEX/sales


- NWC**

Mid term target towards 15% NWC in Classic/Service business

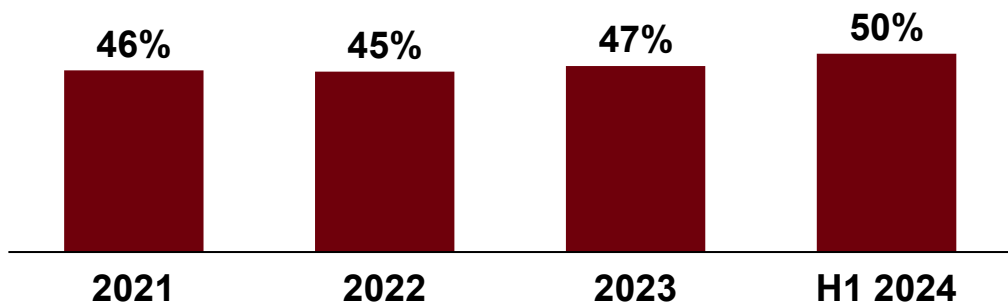


Free Cash Flow before M&A to mid term level of 5-6%<sup>1</sup> expected

# External financing: Increased resilience allows for higher leverage

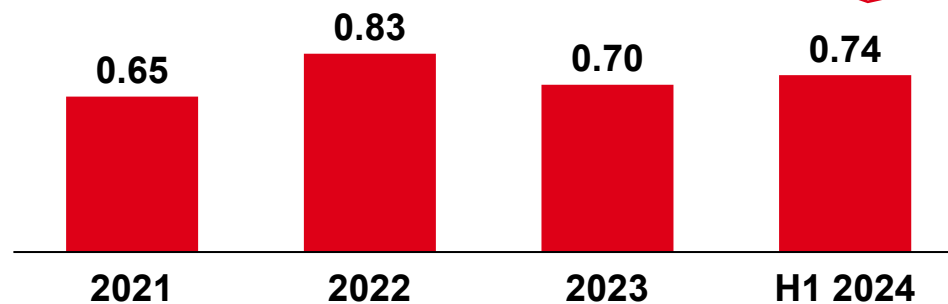


## Equity ratio



Targeted to be >40% to ensure flexibility for additional financing

## Leverage (Net debt/ EBITDA)



H2-effects from capital increase and financing RRPS engines & Blue Star acquisition not reflected

Could be increased to 1-2 with higher resilience of business model if required

DEUTZ will maintain solid financing structure and achieve inorganic growth



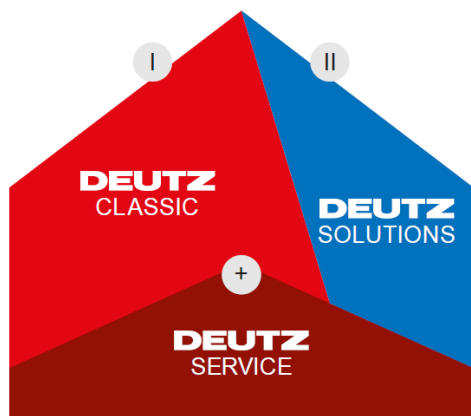
# Clear focus on shareholder value



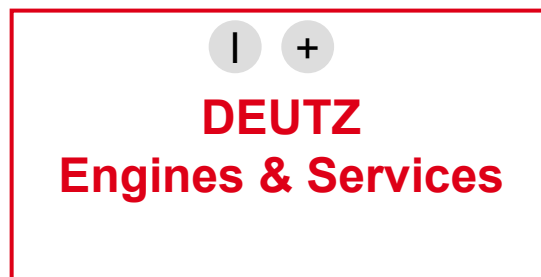
# Revised DUAL+ strategy triggers new structure of segment reporting



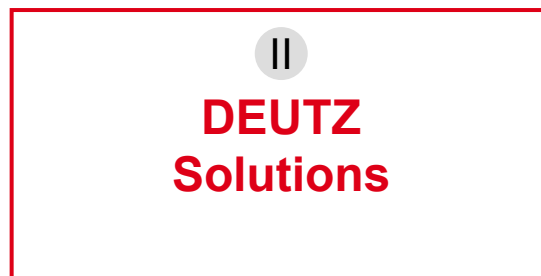
## Our strategy



## Segment structure from 2025 forward



DEUTZ Classic  
→ Current DEUTZ Classic Engines Business  
DEUTZ Service  
→ Service Business w/o Service Business from DEUTZ Solutions



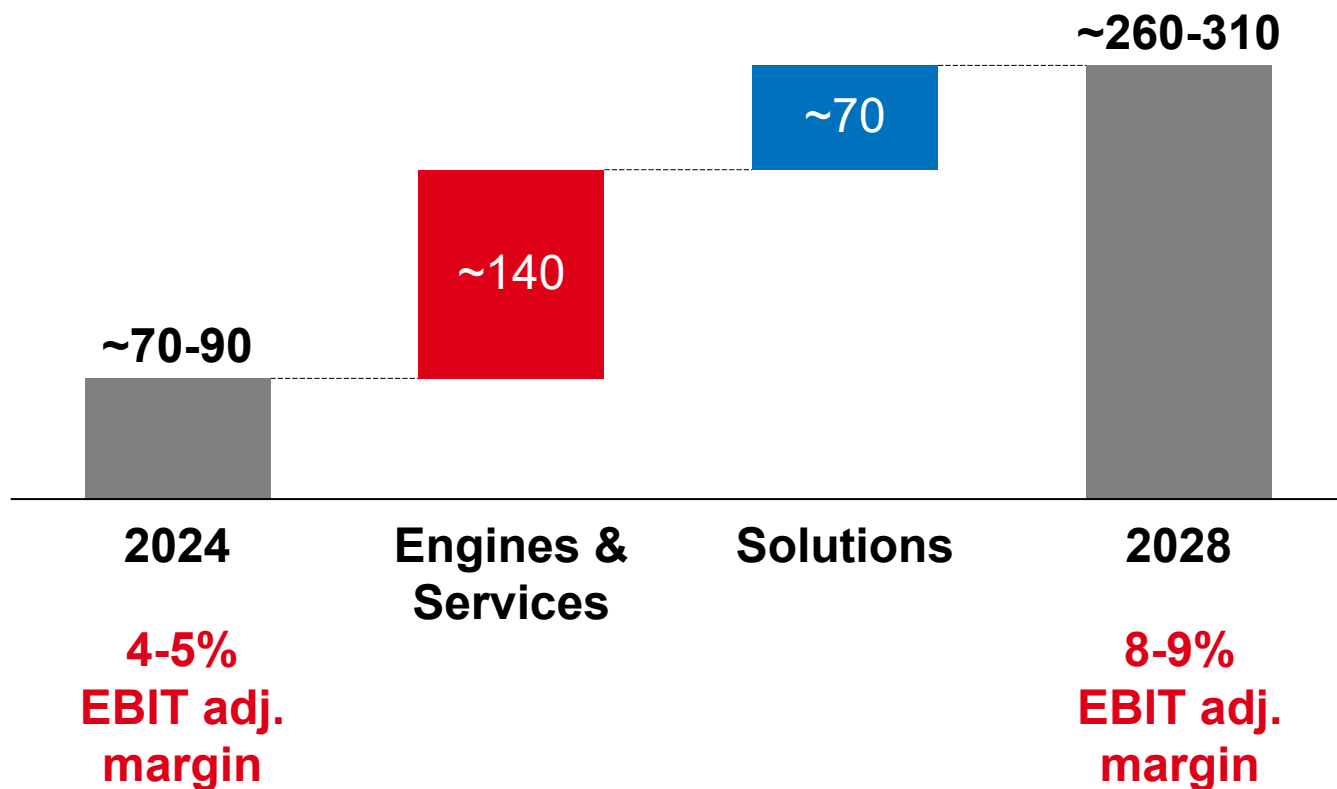
Energy  
→ DEUTZ genset business plus related services  
New Technology  
→ Former DEUTZ Green Business / Segment

Major cornerstones for DEUTZ growth & transformation reflected in segment structure going forward

# Both segments will contribute to our overall margin improvement

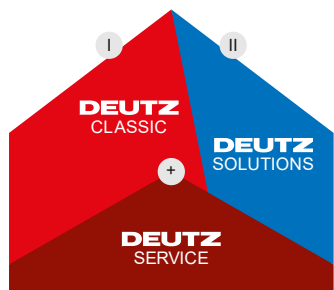


DEUTZ 2028 mid-term targets EBIT adj. (in € million, indic.)



- **Engines & Services:**
  - Recovery impact as well as performance uptake due to cost reduction especially in Engines
  - Organic & inorganic service growth at stable margins
- **Solutions:**
  - Growing Energy business with low double-digit EBIT margins
  - Driving New Technology towards break even (M&A as upside)

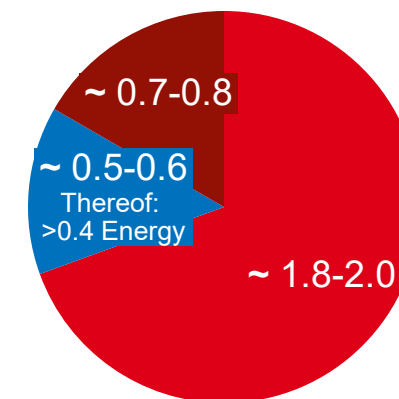
# Our new mid-term targets



## Mid-term targets 2028

<b>Unit sales</b>	From 2025 on, no longer part of guidance
<b>Sales</b>	€3.2-3.4 billion
<b>Adjusted EBIT margin</b>	8 to 9%
<b>Dividend</b>	Upward trajectory: Stable or higher than previous year

## Revenue split 2028



■ Classic ■ Solutions ■ Service

## Key message from a CFO perspective

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- Clear **top-line growth path** defined with healthy mix of organic and focused inorganic growth
- Business model towards businesses with higher resilience  
> prospect of **uplifting valuation multiples**
- **Bottom-line improvement** with performance focus and cost reduction program underway
- Increased (business) resilience and performance allowing for **optimized capital structure**
- Full commitment to **reliable dividend payments**  
> stable or higher than previous year dividends per share

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# Transformation update



# DUAL+ is a major transformation for DEUTZ



before 2022

- **Flat** business, no significant growth
- Highly **exposed to economic cycles**
- Innovation and development **mainly reacting to emission standards**
- **Cologne-focused**



**Change is imperative**

- Pressure on established business model
- **Technology shift**
- **Need for relevant size & better profitability**



in 2030

- **€4 billion company** – doubling in size with EBIT margins of 10%
- More diversified and **resilient company**
- **Business model innovation**
- **Truly global**

# Basis is a strong performance culture

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**Promoting  
performance  
culture  
@DEUTZ**

- **Courage** to break new grounds without giving up our strengths
- **Ownership** in leading the company – with clear business responsibilities, lean structures and easy decision-taking
- **Execution mindset** to achieve performance upside and growth
- **Engaged teams** to drive the transformation based on our values



# How we promote a performance culture



## Ownership

## Execution

## Engagement

### Implemented

- **Regional Strategic Dialogues** to measure each Regional CEO against their growth path
- Dedicated units with **accountable CEOs for new businesses** (e.g. New Tech, Energy)

- **Pricing and procurement programs**
- **Strategy speedboats** to ramp-up new businesses (e.g. Energy)

- **>60% of leadership positions<sup>1</sup>** exchanged since 2022, thereof >40% with external hires
- **Adjustment of performance-based pay for leadership** to ensure focus on group results

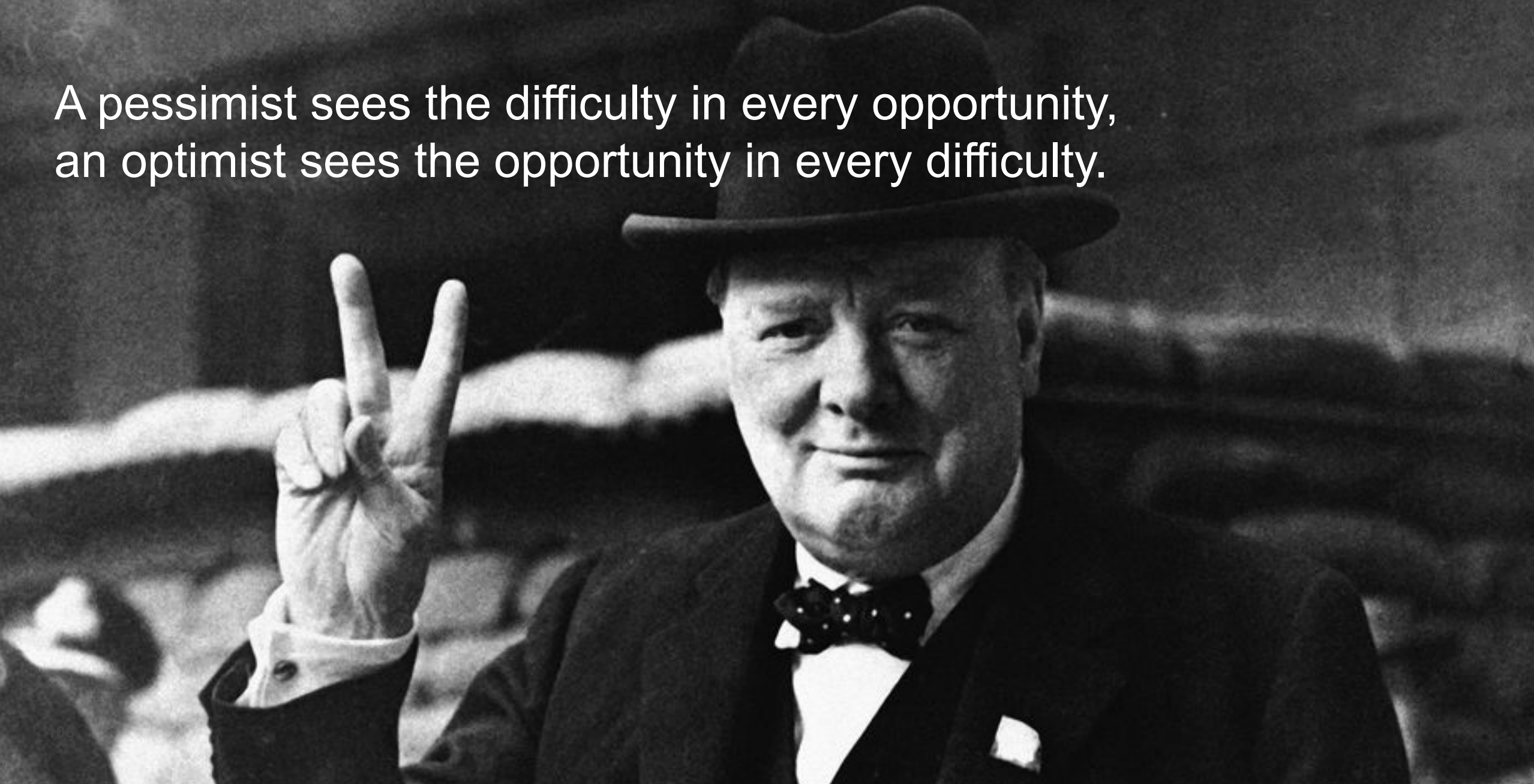
### In progress/ ongoing

- **Organizational streamlining**, e.g. in Corporate Functions; next level in preparation

- **Cost program 2024**
- **“Powering Progress” program management:** Business case-based measures, quarterly tracking – updated to next horizon of DUAL+

- **Stringent cascading of information** via coms and engagement (e.g. with >50% how they contribute to DUAL+) – continuous process

A pessimist sees the difficulty in every opportunity,  
an optimist sees the opportunity in every difficulty.



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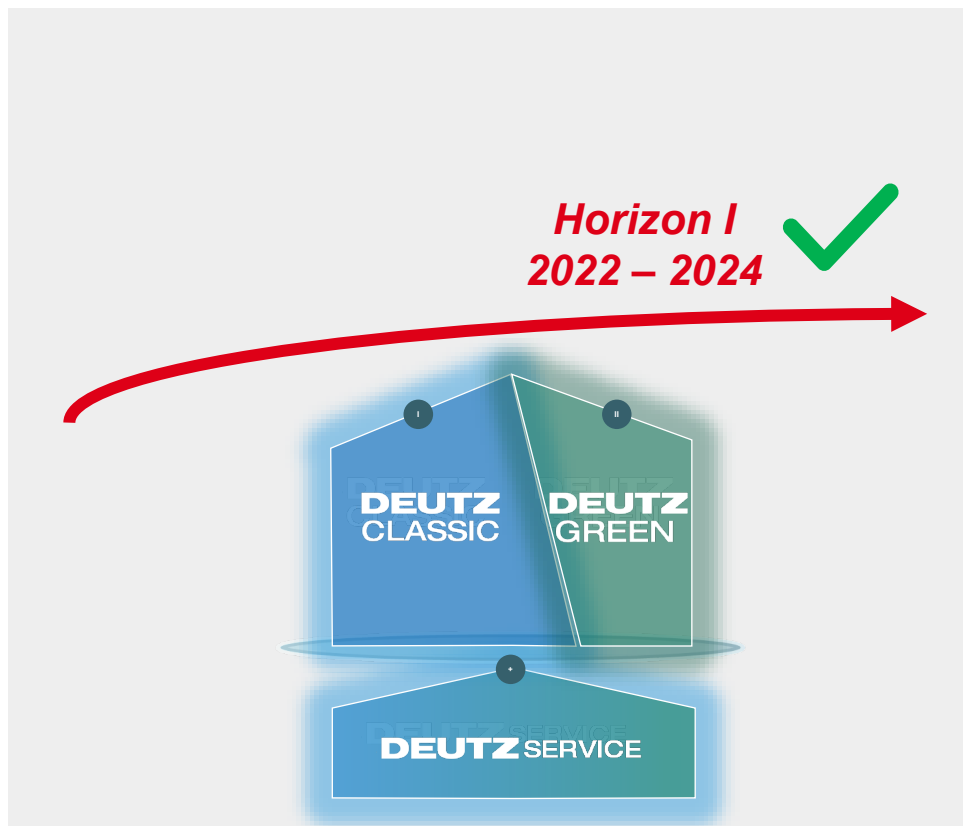
# Wrap-up



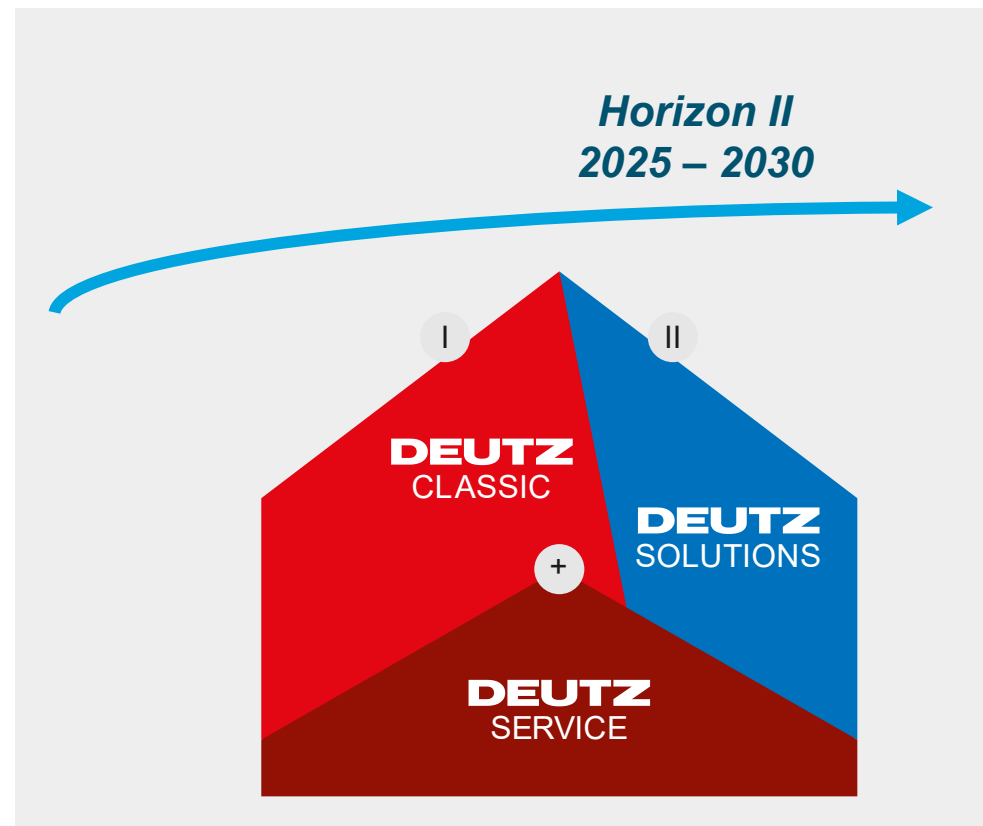
# Looking to our next strategic horizon with confidence



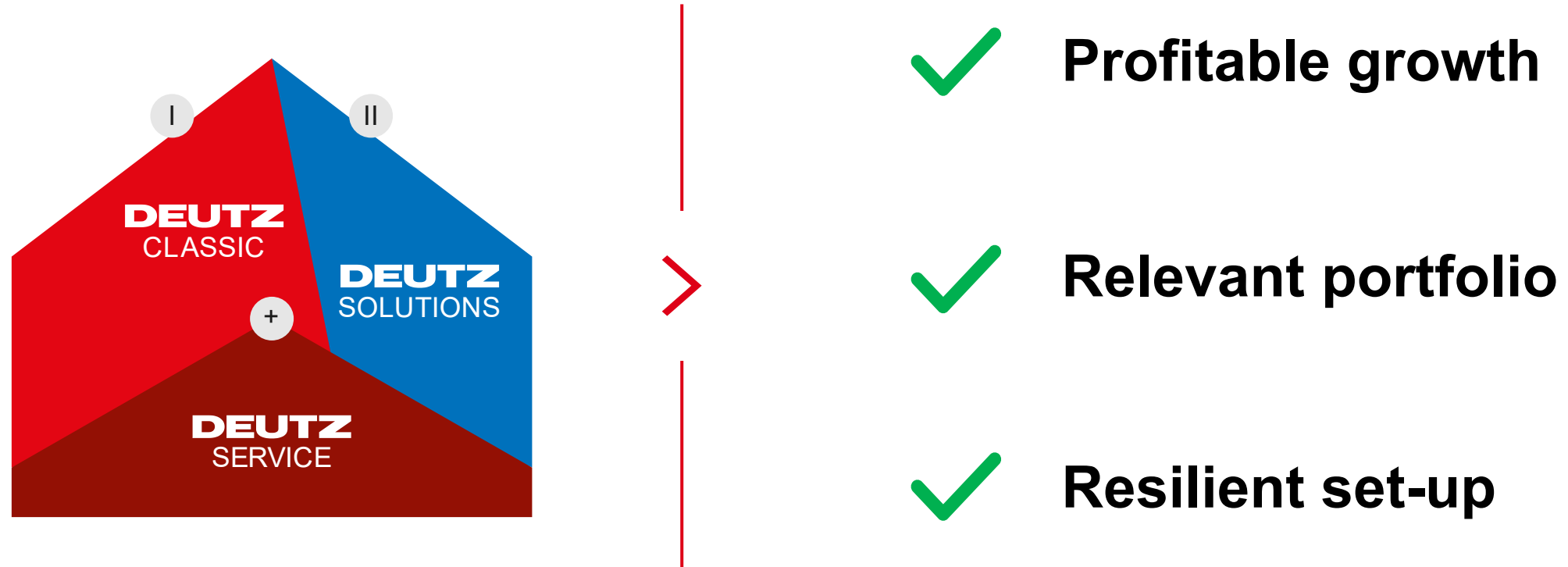
## STRENGTHEN THE BASE



## BROADEN THE BASE



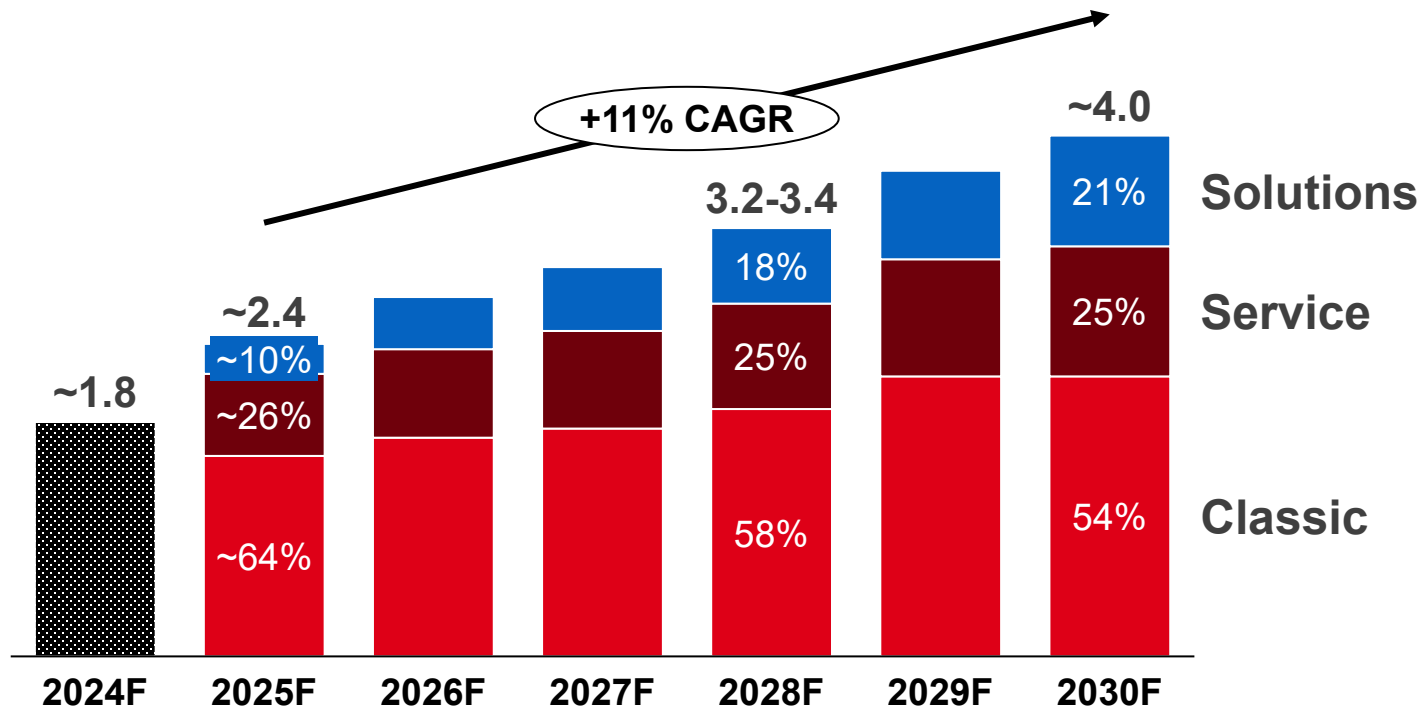
# Benefits of our aligned DUAL+ strategy



Future viability and value enhancement of DEUTZ

# Strong 2030 revenue ambition

## DEUTZ mid-term revenue ambition (in € billion)



- **Solutions** expected to grow with 30% CAGR until 2030; more than €500 million revenue expected from Energy – growth driven both organically and via acquisitions and >€300 million from New Technology
- **Service growing in line with DEUTZ overall** and contributing 25% of the revenue – and even more to the EBIT
- **Classic** expected to grow in absolute terms, but overall contribution decreases

Revenue growth and changes to the business model to lead to a margin upside of 10% EBIT margin by 2030

# We have initiated short-term and structural cost measures



## Impact 2024: Counter-acting market slowdown



### Objective

#### Since Q1/2024

- Flexibilize Classic production costs (esp. personnel)

#### Additional levers

- Reduce costs and cash-spend in Q4/2024

### Measures

- Reduction of shifts, working hours (incl. "Kurzarbeit" in Germany) and temps
- Procurement savings
- Capex & inventory reduction

- Budget freeze in key areas (e.g. R&D)
- Policy changes
- Reduction of overtime/vacation days

### Impact

Since Q1: Counteracting negative scale effects

Q4 2024: €10-15 million in 2024

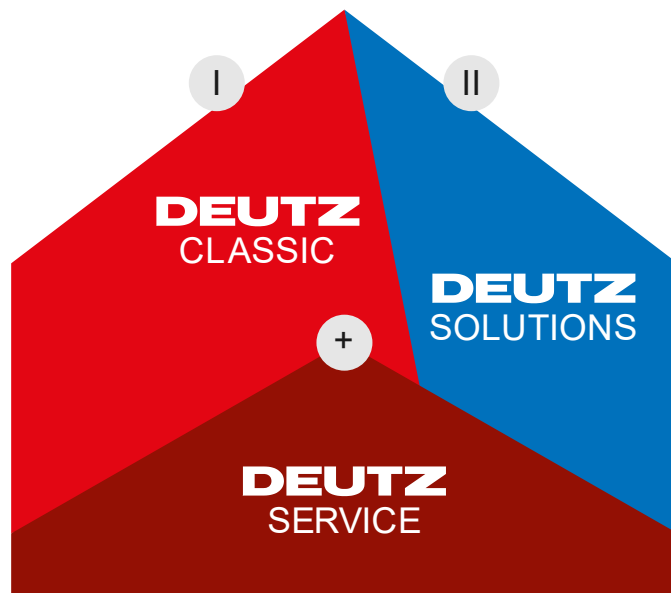
## Impact 2025 & 2026: Structural cost reduction

- Reduce costs and increase flexibility for 2025 and beyond
- Focus on cyclical Classic business

- Right-size, flexibilize R&D, sales and IT and streamline roles & responsibilities
- Re-assess regional organization, esp. China

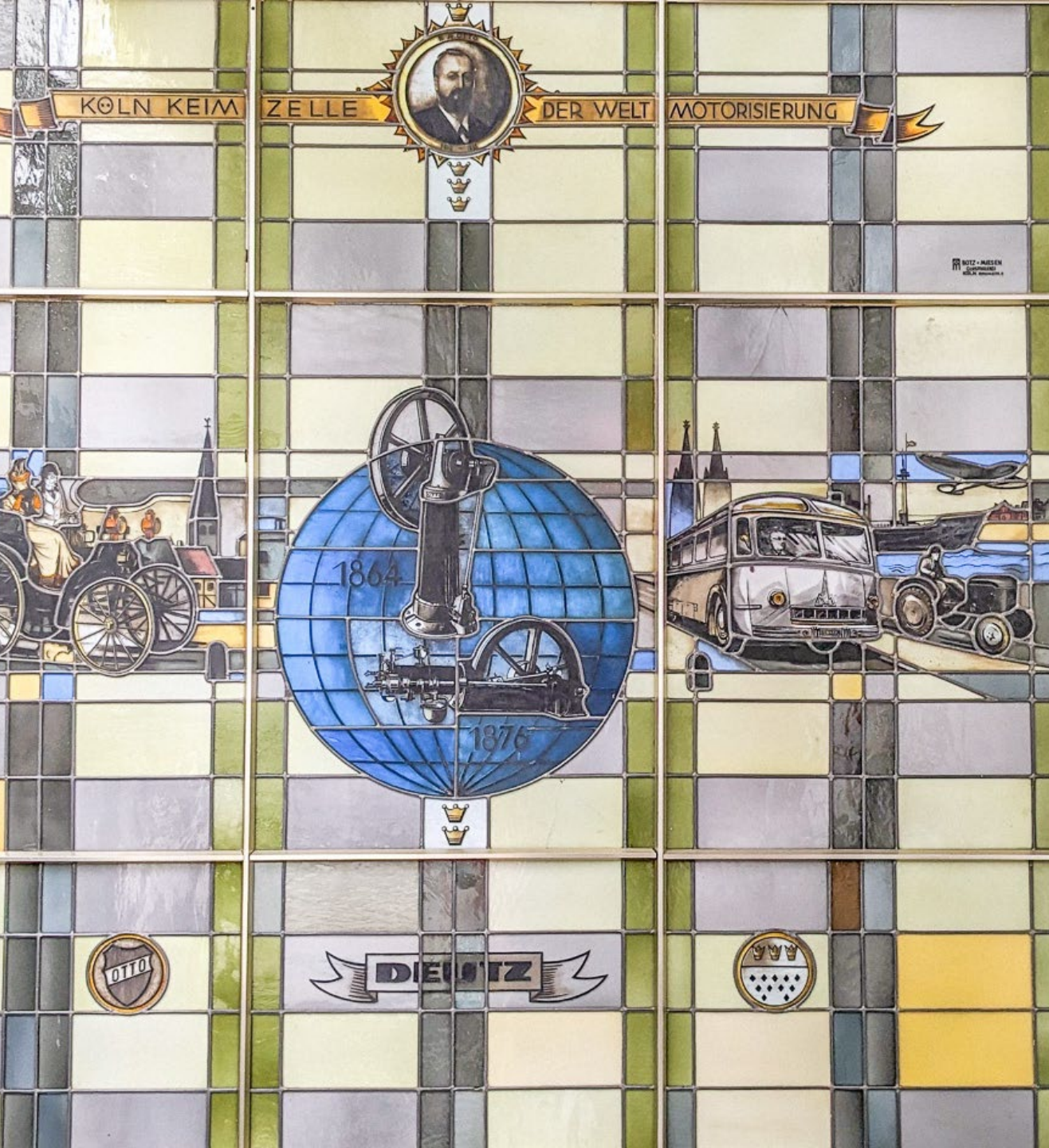
Ramping up to €50 million in 2026

# Our 2028 mid-term targets



Mid-term targets	2028	Outlook 2030
Sales	€3.2-3.4 billion	
Adjusted EBIT margin	8 to 9%	
Dividend per share	Upward trajectory: Stable or higher than previous year	





**Our mission:  
We ensure the world  
keeps moving.**

# Disclaimer

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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.

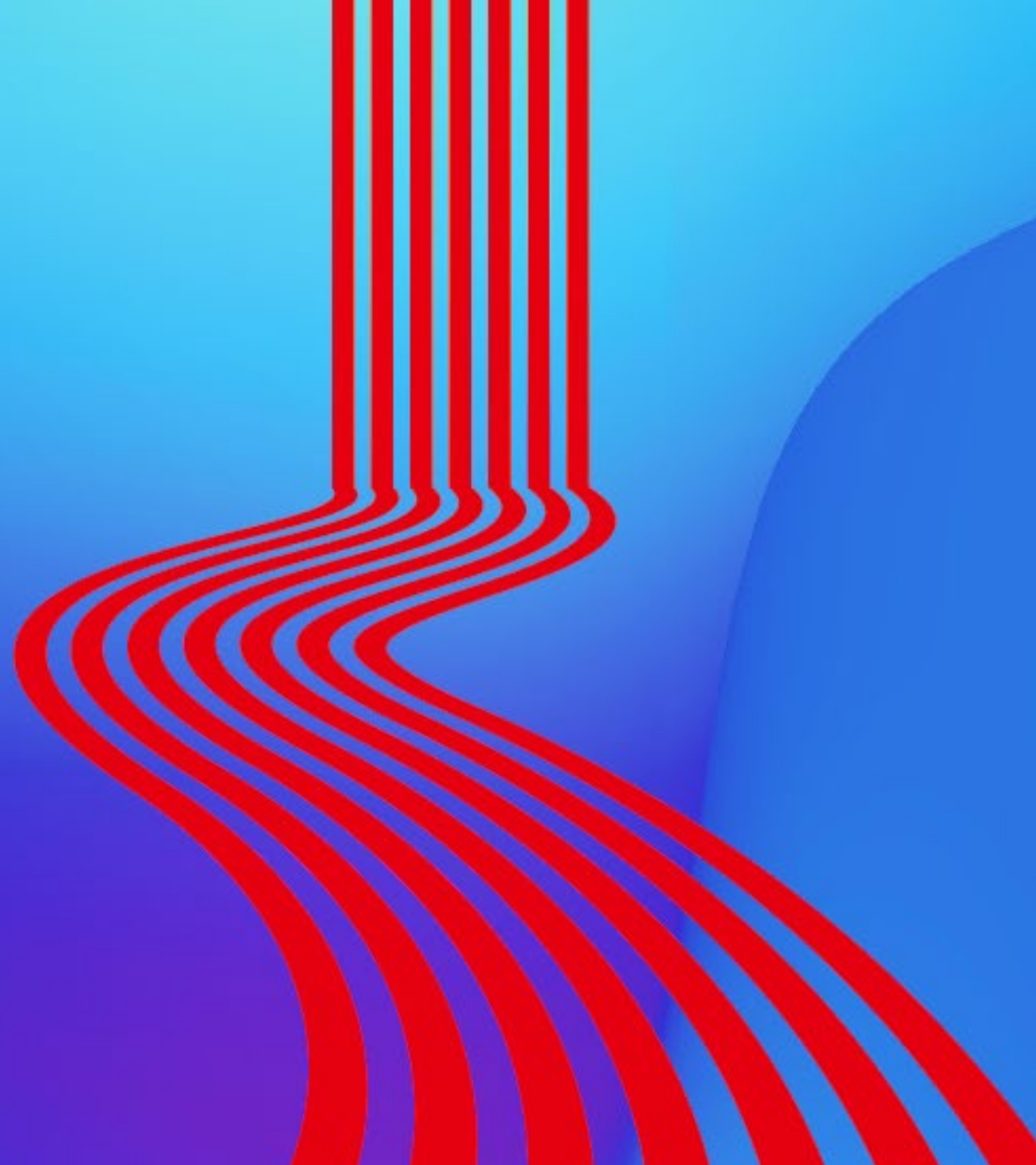
The forward-looking statements made in this document will not be updated.

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Thank you



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# Q&A session



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# Info sessions



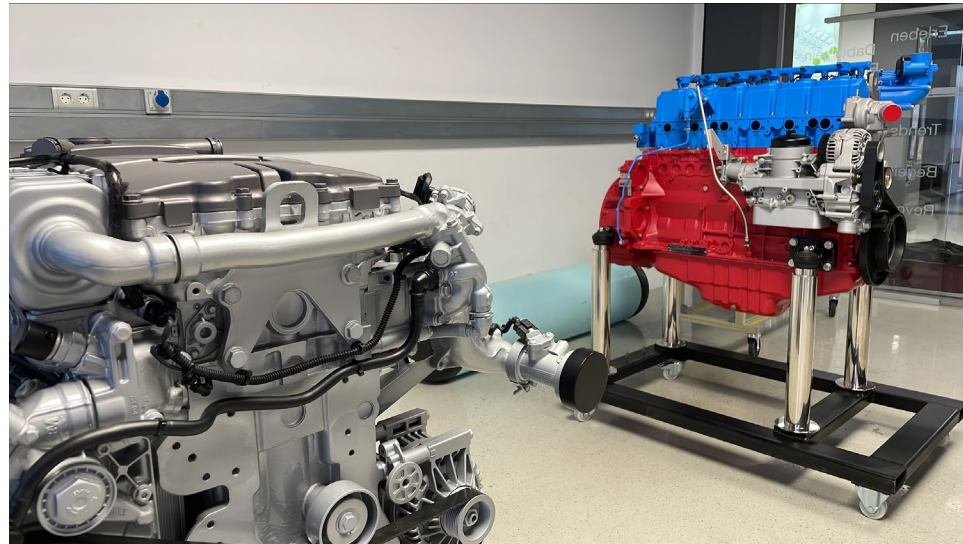
## Info sessions

Join the **Shopfloor tour (1h)**, please gather at **15:00** at the Innovation Center entrance

Get to know more about our **Energy business** with Katharina Krüger (Strategy) and David Evans (Energy) at the Blue Star Power Systems genset



Ask our experts for more about the engines shown in the „garage“



Have a look at the **HyCET Truck** just outside the Innovation Center (left hand side)

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**Thank you and farewell**

