

# DEUTZ Investor Presentation

March 2016

The engine company.



# Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

# DEUTZ at a glance

## Profile

- World's first engine factory founded in 1864 by N.A. Otto, the developer of the four the stroke engine
- Independent manufacturer of diesel and gas engines up to 520 kw
- Engineering and manufacturing company with strong expertise as system integrator
- Worldwide sales channels and service network
- Strong brand – synonym for leading technology and high-quality products
- Blue chip customer base

## Financials 2015

- Revenue €1,247.4 million
- Free Cash Flow €35.0 million
- Equity ratio 45.5%

## Board

- Dr. Helmut Leube (CEO)
- Dr. Margarete Haase (CFO)
- Michael Wellenzohn (CSO)

## DEUTZ Group

### DEUTZ Compact Engines



- Liquid-cooled engines of up to 8 litres cubic capacity for on- and off-road applications
- Large number of modular approaches
- Joint Venture DEUTZ Dalian (China)

### DEUTZ Customised Solutions



- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines over 8 litres for all applications
- Remanufactured (Xchange) engines for all DEUTZ engine series

### DEUTZ Services (common to both segments)

- Substantial service business based on existing population of approx. 1.6 million engines in the market
- Product portfolio mainly comprises genuine DEUTZ spare parts, remanufactured engines and parts as well as oils and lubricants



# DEUTZ engines for EU Stage IV / US Tier 4 emissions standard

**TCD 2.9**

**TCD 3.6**

**TCD 4.1**  
**TCD 6.1**

**TCD 7.8**

**TCD 12.0**  
**TCD 16.0**



- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- Stage V ready: DEUTZ engines with diesel particle filter up to 7.8 litre capacity already meet the next EU emissions standard announced for 2019
- Expanding product range in Stage V: New three-cylinder TCD 2.2 engine will create a family platform with four-cylinder TCD 2.9 engine. Both engines will be also available in a gas version (LPG)

# DEUTZ customer base

## Long standing customer relationships (not exhaustive)



## New clients & greater share of wallet (not exhaustive)



→ Successful extension of customer base

- DEUTZ has a lot of long standing relationships with key customers
- Customer base extended and diversified with new emission engines
- New customers attracted by the compact design and smart exhaust aftertreatment of the Stage IV / Tier 4 engines











# Successful business development

## Examples of new applications



- New customers gained in all regions
- Greater share of wallet at existing clients
- New business related to different applications

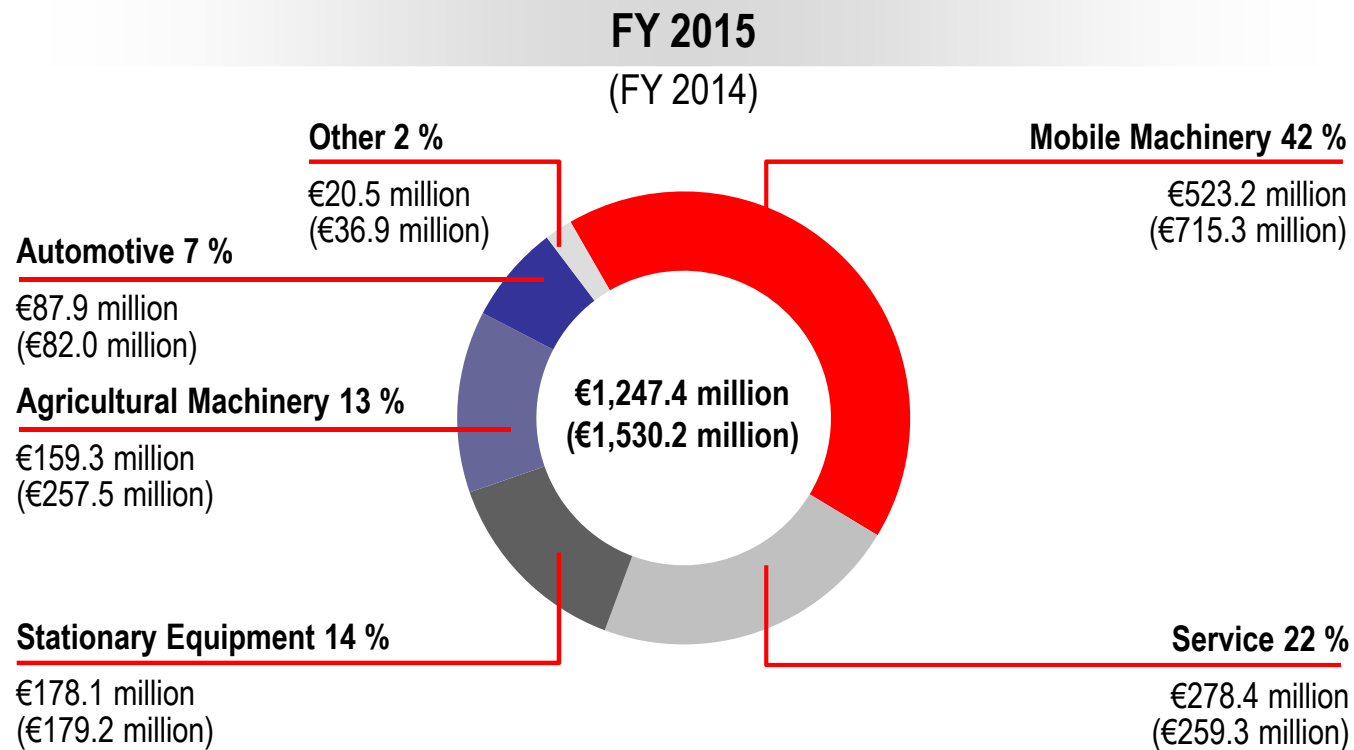
# Key applications

	Typical application	Markets benefit from macro trends
<b>Mobile Machinery</b>	Construction equipment Material handling Ground support Mining equipment	 → 
<b>Agricultural Machinery</b>	Tractors Agricultural equipment	 → 
<b>Stationary Equipment</b>	Gensets Pumps Compressors	 → 
<b>Automotive</b>	Trucks Buses Rail vehicles	 → 

→ Wide application range for DEUTZ engines

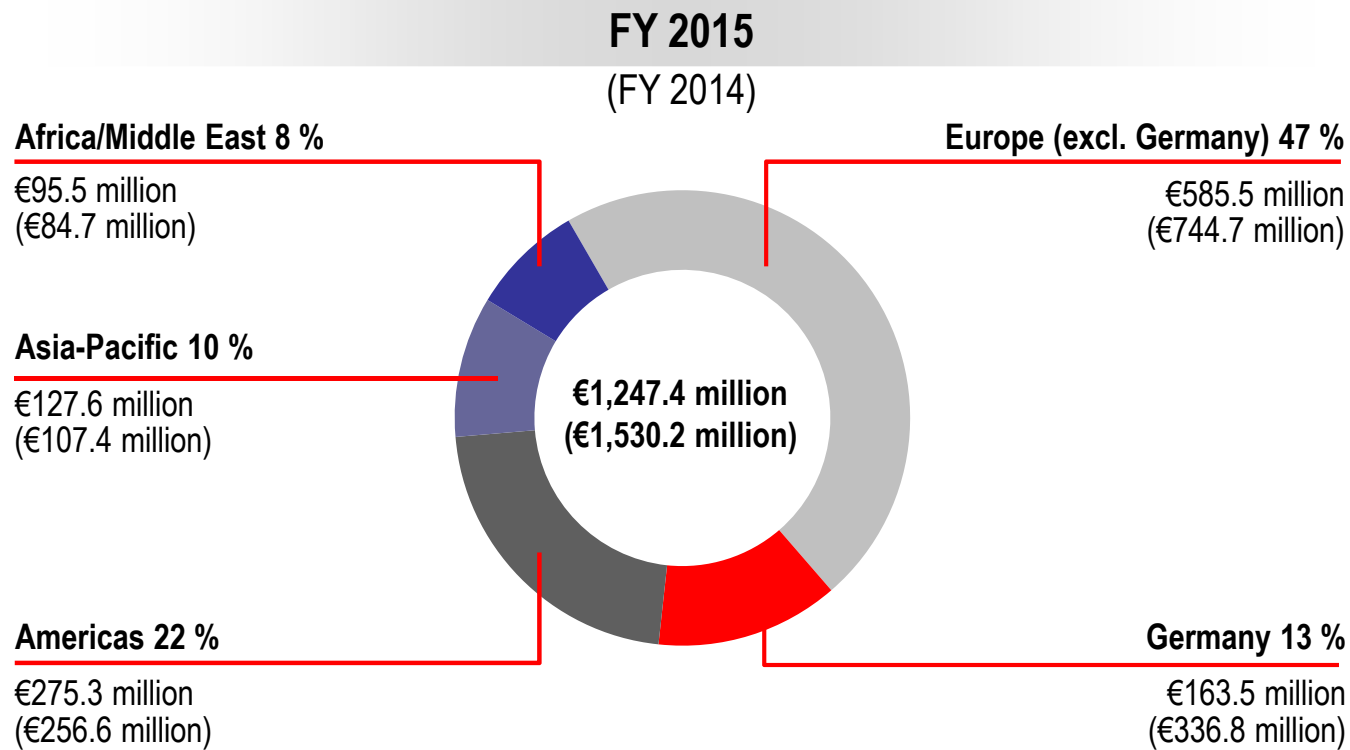


# Revenue split by application



- Pro-forma revenue in Automotive incl. equity-accounted JV DEUTZ Dalian: €383.3 million (corresponding revenue share amounts to 24%)

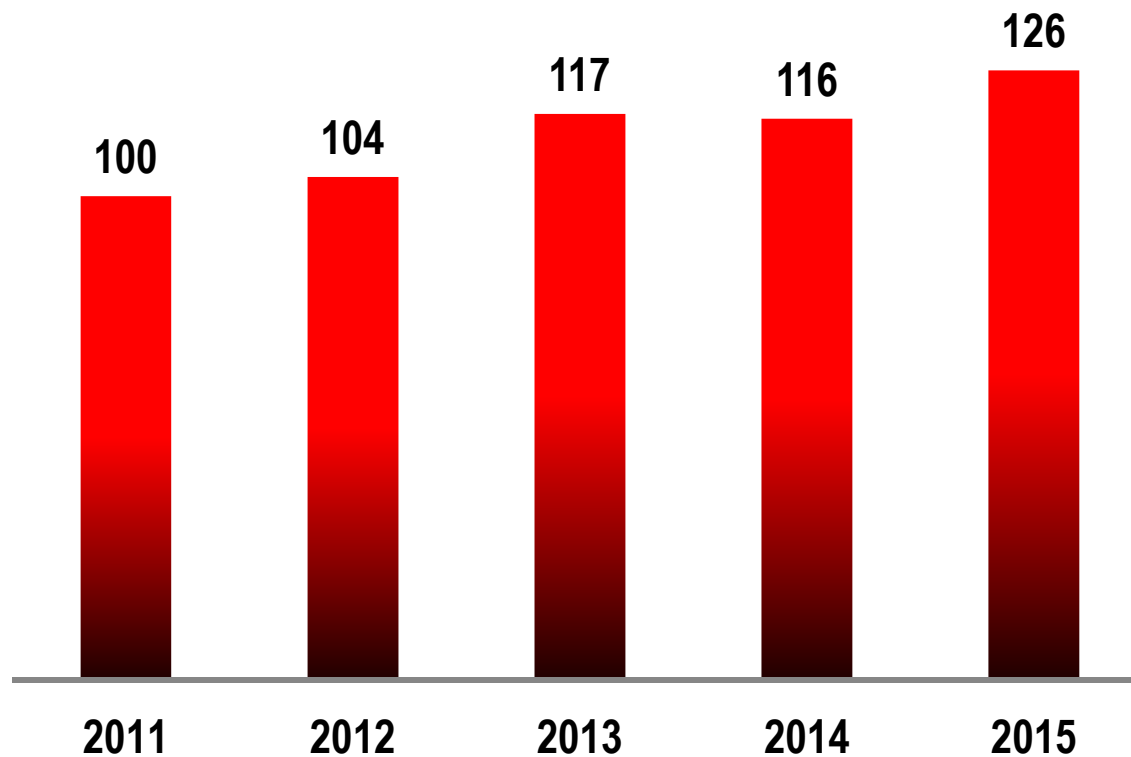
# Revenue split by region



- Pro-forma revenue including equity-accounted Chinese JV DEUTZ Dalian: €1,586.9 million (-16.0%); corresponding revenue share of Asia-Pacific amounts to 29%

# Emissions standards drive revenue growth

Average sales price per engine  
(indexed; FY 2011 = 100)

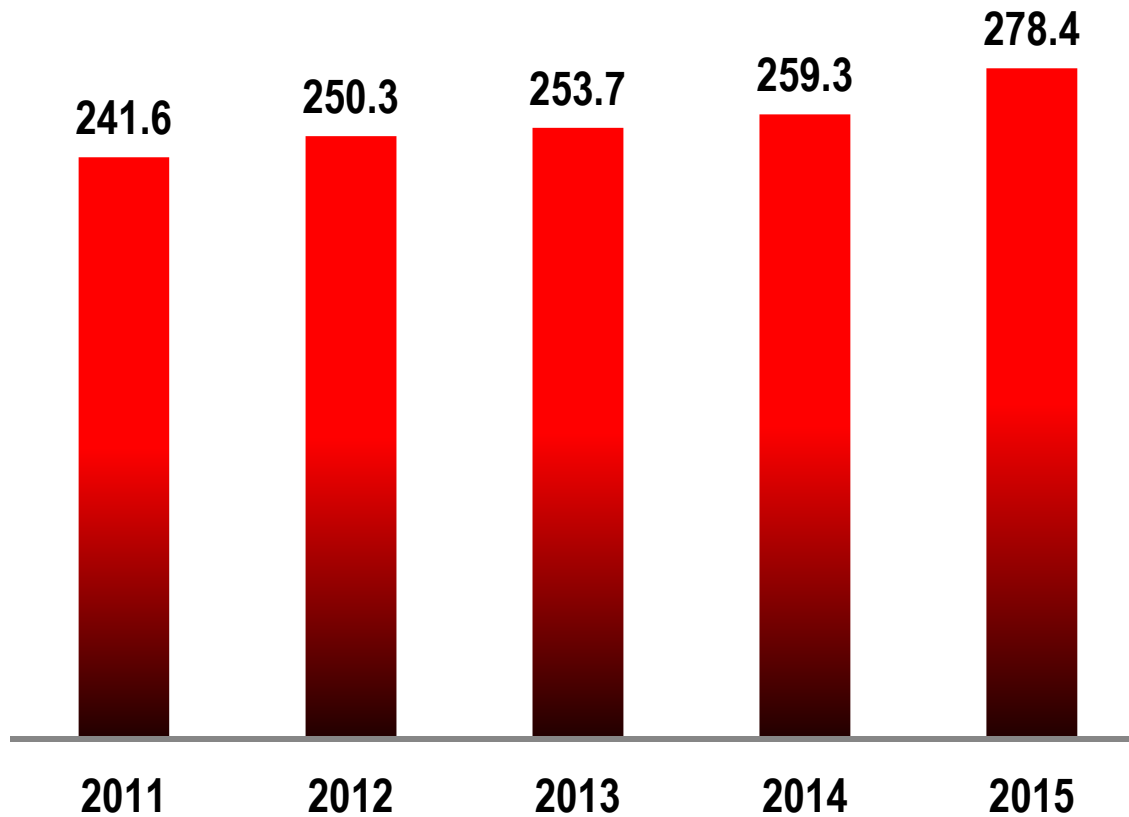


- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emission engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

→ Structural growth due to tighter emissions standards

# Service business

€ million

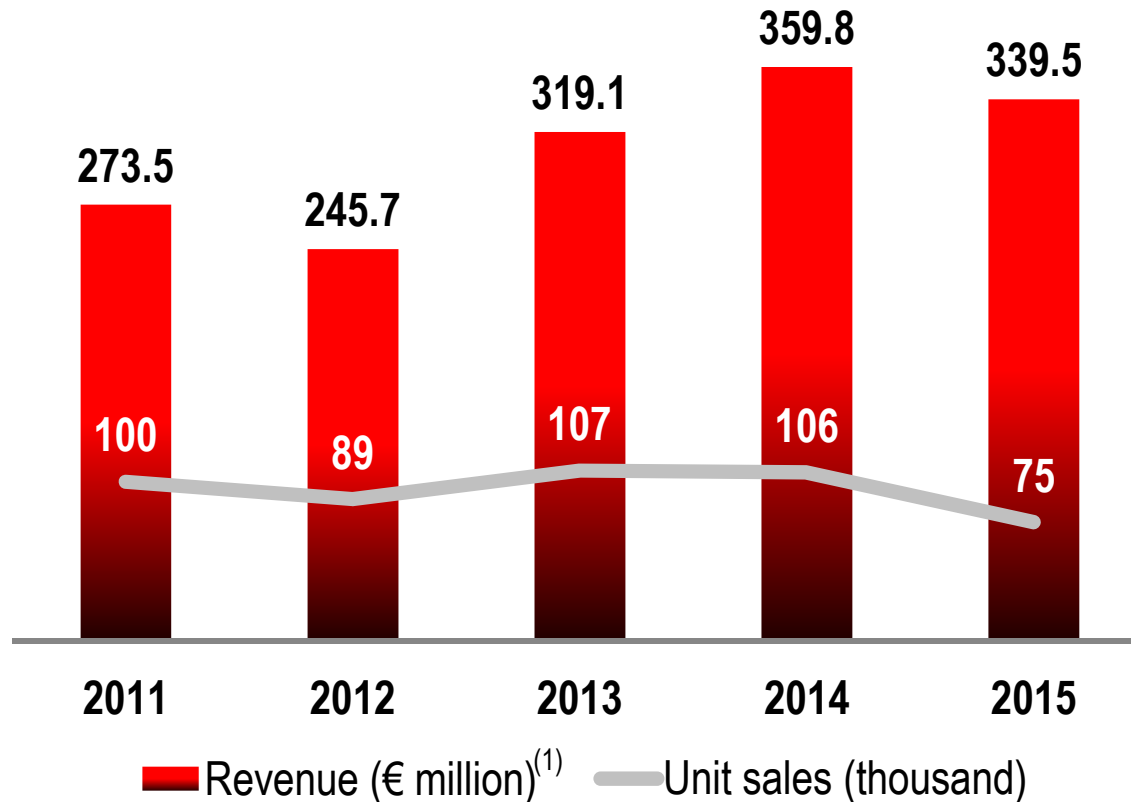


- Further solid service revenue growth
- Strong resilience of profitable service business through different economic cycles

→ Continued growth of service revenue

# DEUTZ activities in China

## JV DEUTZ Dalian

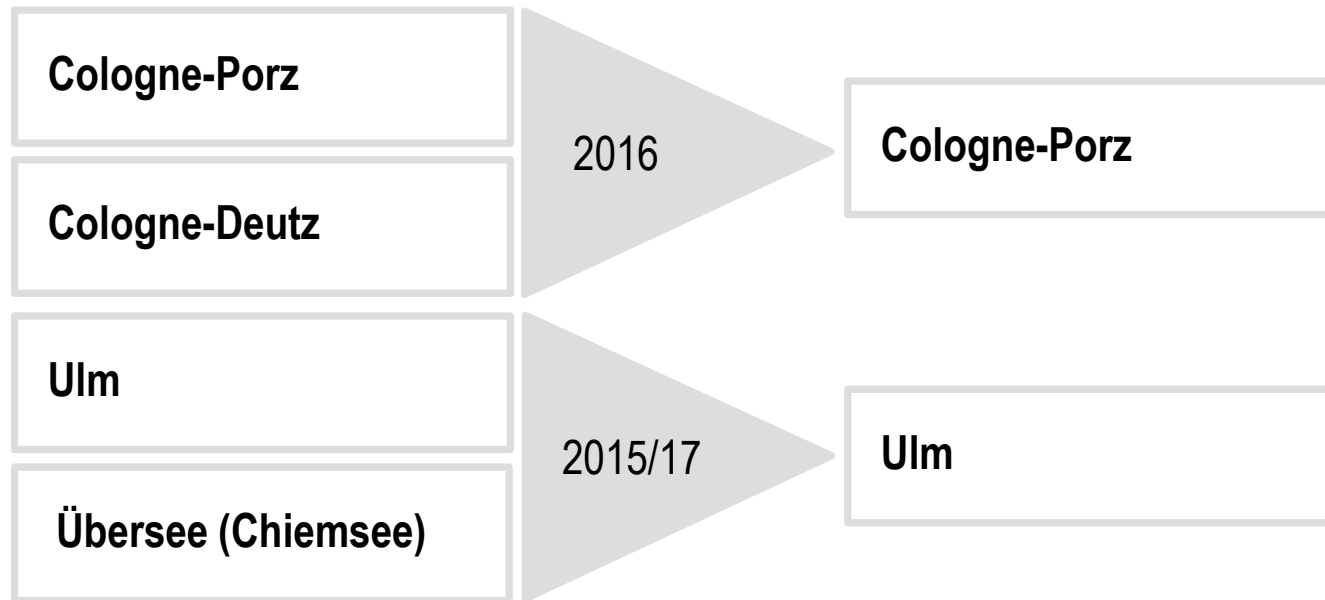


(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Challenging capital goods market conditions in China
- Strategic decision to focus our production in China on our JV DEUTZ Dalian (DDE) which has sufficient capacities
- DDE is a 50:50 JV with FAW producing diesel engines for local customer demand
- Countrywide sales and service network

➔ Consolidation of Chinese production activities at DEUTZ Dalian

# Site optimisation



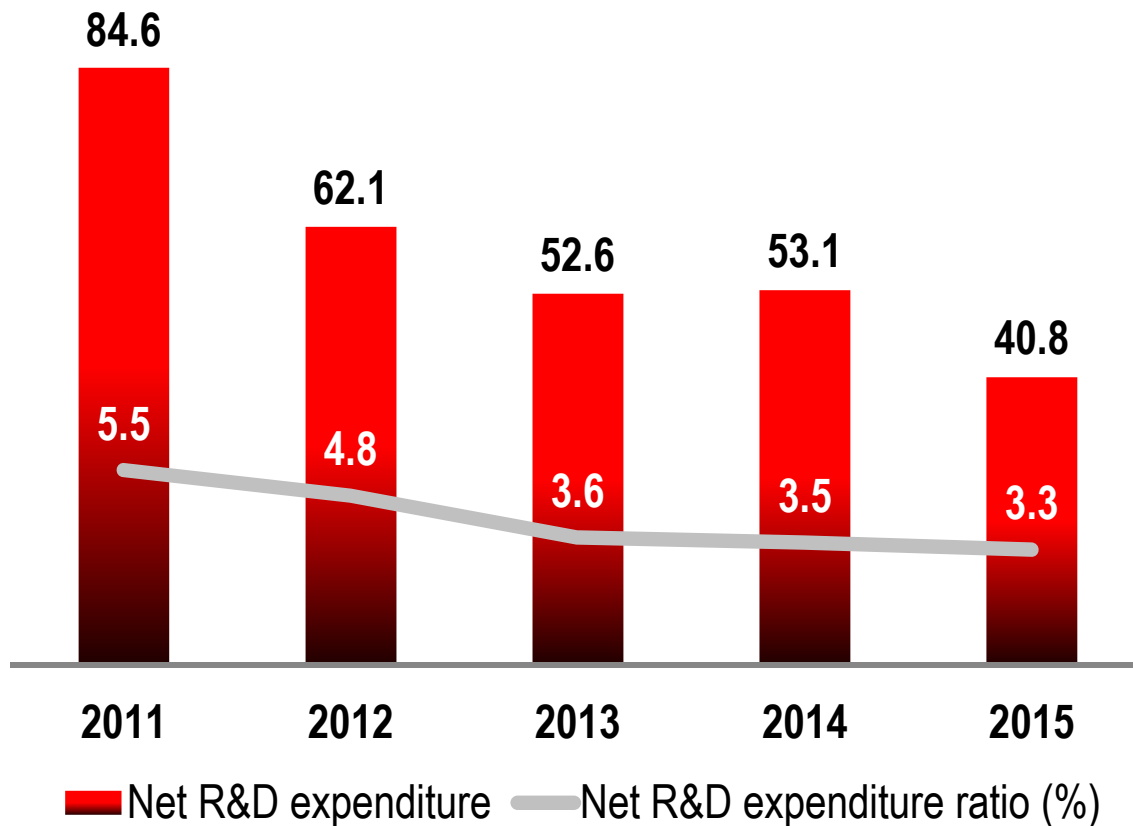
- Site optimisation measures fully on schedule; first relocation stage to Ulm completed
- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Substantial proceeds from sale of property in Cologne-Deutz in the years to come

**→ Sustainable efficiency improvement by merging facilities**



# R&D expenditure

€ million

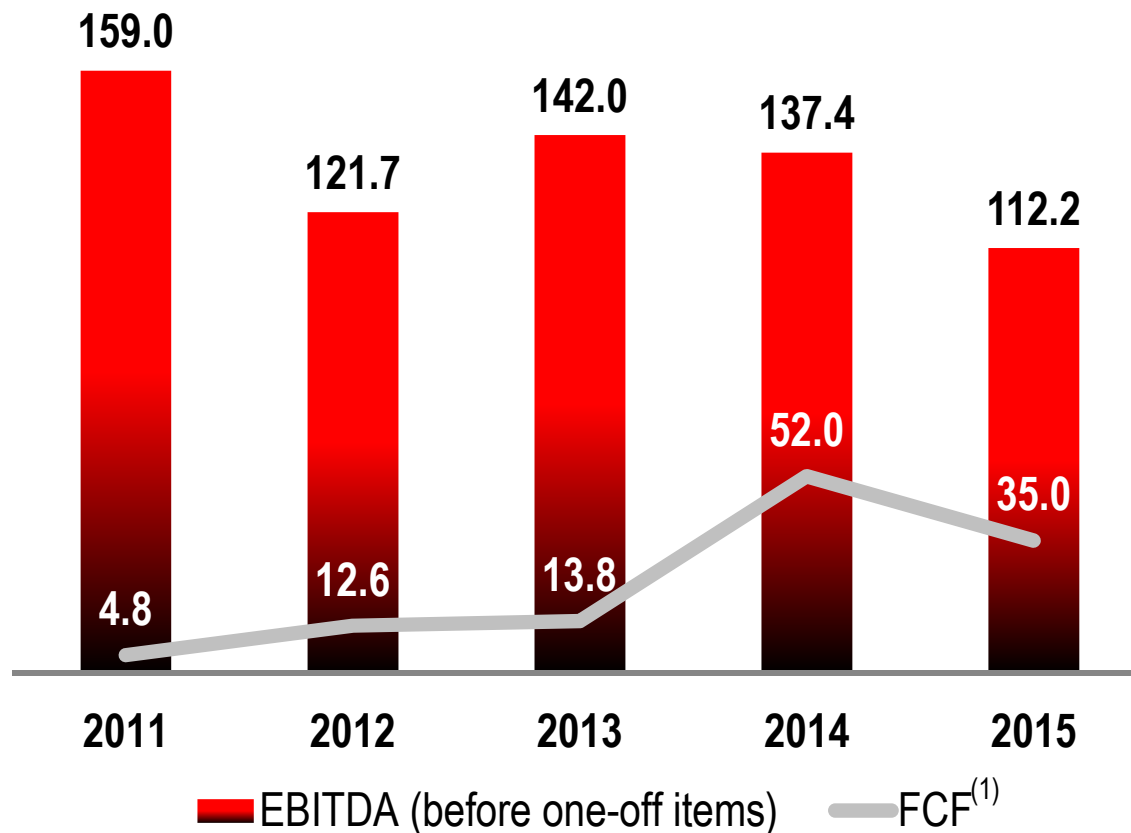


- Spending on R&D has been scaled back due to successful market launch of new engine generation
- Ongoing R&D spending in continuous product innovation

→ R&D expenditure will remain on a moderate level

# EBITDA & free cash flow

€ million



- Volatile market environment requires flexible production
- Successful reduction of break even level in recent years
- Strong free cash flow generation attributable to successful market launch of new engine generation
- Higher capacity utilisation most important driver for profitability enhancement

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

**→ Robust numbers in down cycle & high upside potential at market recovery**

# Cash deployment & dividend policy

## Financial strength

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

## Internal funding

- Invest in profitable organic growth projects and service
- Continuous product innovation

## Dividend policy

- Stable or growing dividend per share
- Dividend payout ~30% of earnings over multi year period

- Proposal to the AGM: stable dividend of €0.07 per share
- Dividend is exempt from tax for domestic investors and without German withholding tax

**→ Stable or growing dividend**

## Summary: DEUTZ key investment highlights

Successful extension of customer base

Structural growth due to tighter emissions standards

Continued growth of service revenue

Sustainable efficiency improvement by merging facilities

Robust numbers in down cycle

High upside potential at market recovery

Stable or growing dividend



# Agenda

- DEUTZ strategy & positioning

- **Financials**

- Outlook

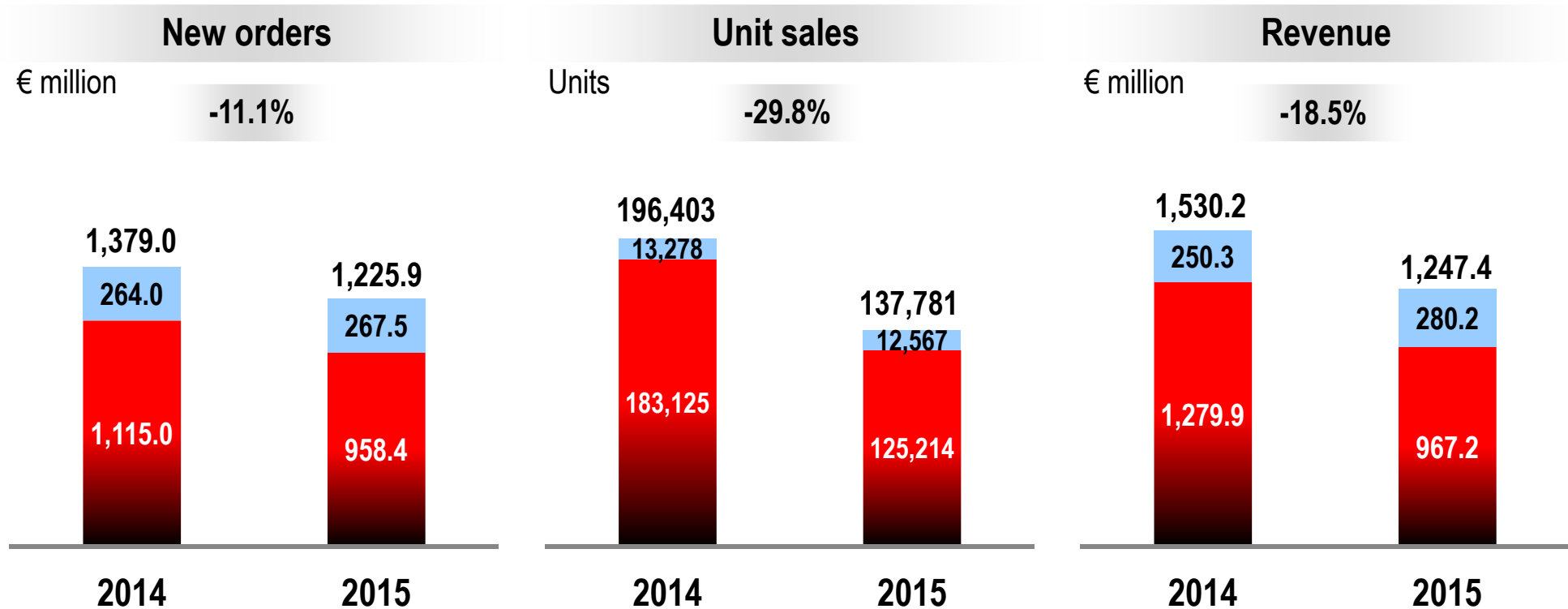
# Key figures

€ million	FY 2015	yoy	Q4 2015	qoq
<b>New orders</b>	1,225.9	-11.1%	293.0	+11.7%
<b>Revenue</b>	1,247.4	-18.5%	308.6	+14.9%
<b>EBITDA</b> (before one-off items)	112.2	-18.3%	26.6	+75.0%
<b>EBIT</b> (before one-off items)	4.9	-€26.8 million	-5.7	+€4.0 million
<b>Net income</b>	3.5	-€16.0 million	-3.8	+€5.6 million
<b>Free cash flow</b>	35.0	-€17.0 million	44.5	+€80.2 million

- FY 2015 results in line with financial guidance revised on 15 September 2015
- Positive free cash flow for the 5<sup>th</sup> year in succession



# Sales figures

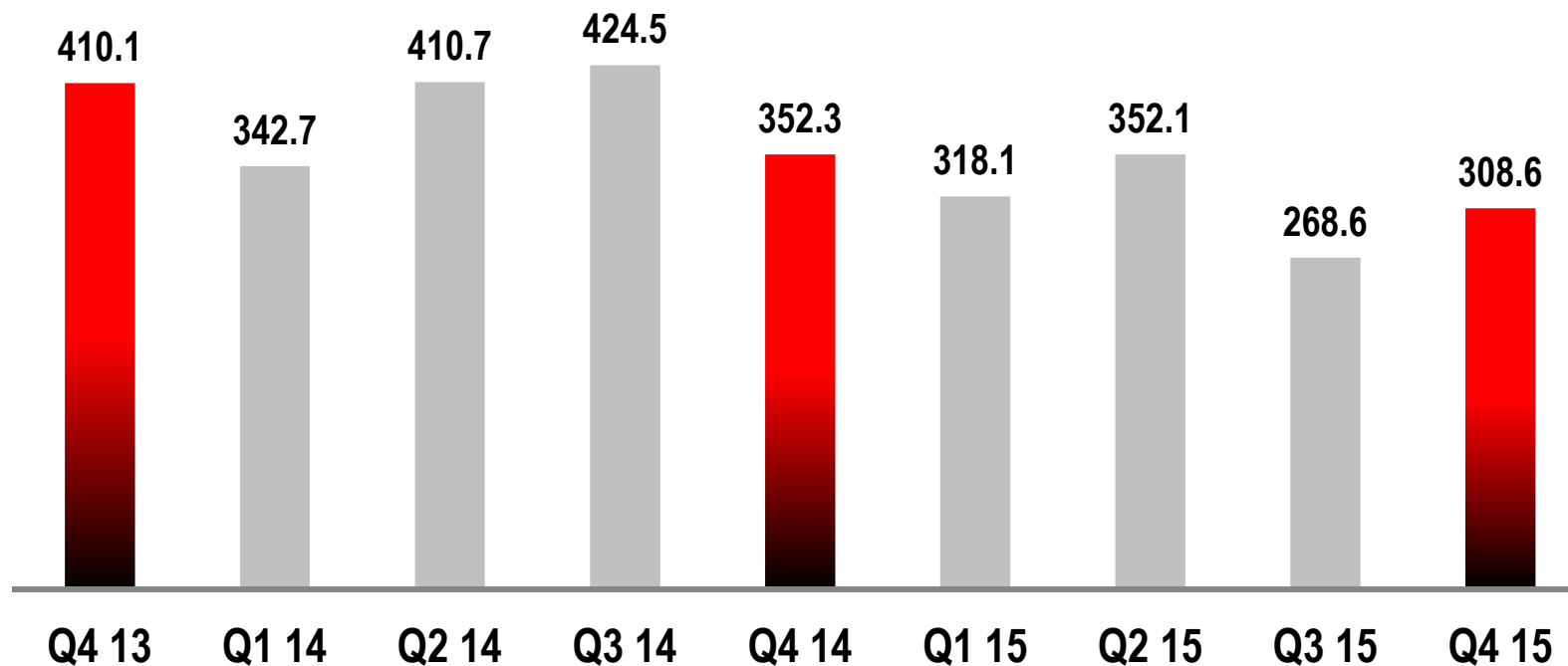


- Sales figures dampened by advance production of engines in FY 2014 and challenging end markets
- Revenue decreased to a lesser extent than unit sales due to positive mix effects and increase in service business

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

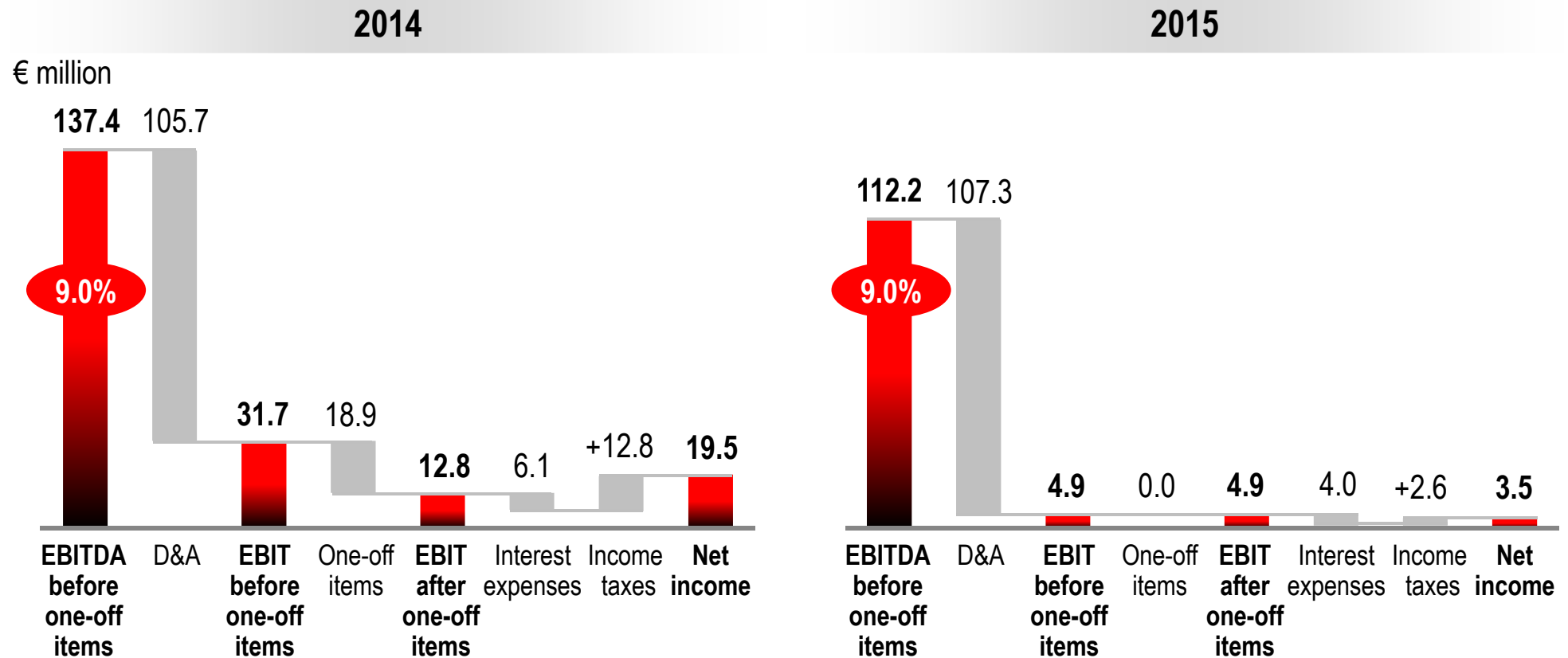
# Revenue development

€ million



- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- Higher customer inventories and market slowdown resulted in lower demand
- Q4 2015 revenue decreased 12.4% yoy and advanced 14.9% compared with Q3 2015

# Operating profit & net income

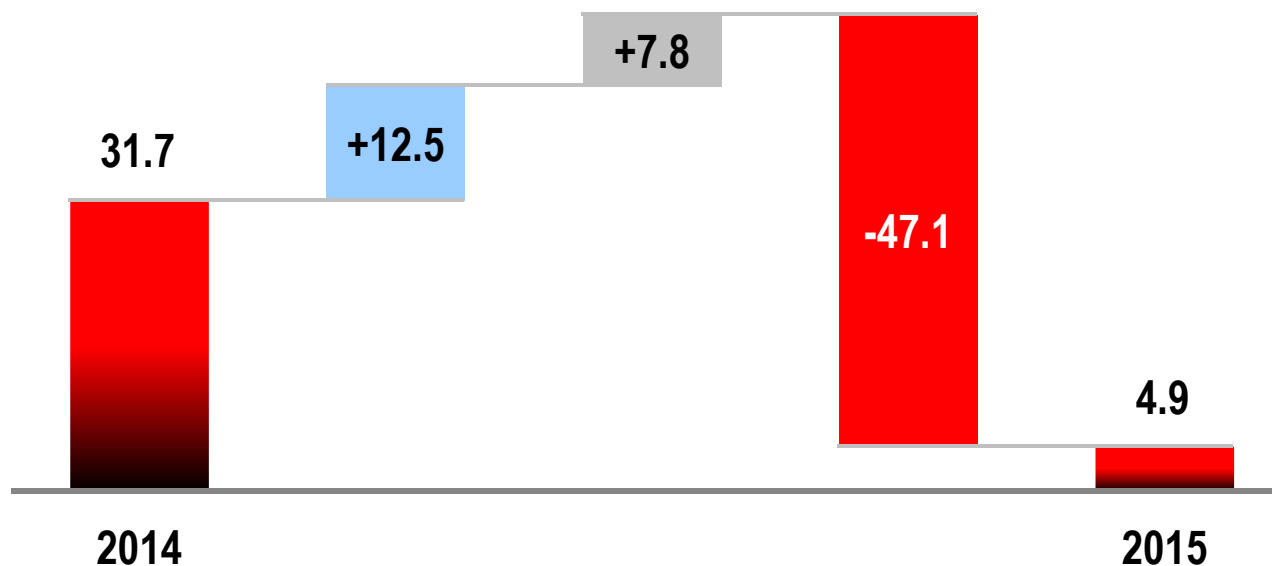


- Lower capacity utilisation partly offset by cost savings and enhanced efficiency
- EBITDA margin remained stable
- Prior year result included restructuring provision for site optimisation
- Current tax expense more than offset by deferred tax income

 EBITDA margin

# EBIT (before one-off items)

€ million



EBIT margin

2.1%

0.4%

- Operating profit at DEUTZ Compact Engines adversely affected by lower business volume and low capacity utilisation of Chinese Joint Venture DEUTZ Dalian
- EBIT improvement at DEUTZ Customised Solutions mainly due to higher business volume
- Segment Other benefited from reversal of unrealised FX-effects and sale of joint venture Weifang

■ DEUTZ Compact Engines   ■ DEUTZ Customised Solutions   ■ Other

## Segment: DEUTZ Compact Engines

€ million	2015	2014	Change in %
New orders	958.4	1,115.0	-14.0
Unit sales	125,214	183,125	-31.6
Revenue	967.2	1,279.9	-24.4
EBIT (before one-off items)	-31.9	15.2	--

€ million	Q4 2015	Q3 2015	Change in %
New orders	234.4	194.0	20.8
Unit sales	27,618	26,243	5.2
Revenue	237.1	201.8	17.5
EBIT (before one-off items)	-15.0	-23.4	35.9

- Mixed growth rates: Significant revenue decline in EMEA (-32.8%), solid growth in Americas (+7.6%) and Asia-Pacific (+10.6%)
- Revenue of equity-accounted Chinese Joint Venture DEUTZ Dalian decreased by 5.6% yoy to €339.5 million (-19.6% yoy in local currency)
- FY 2015 EBIT amounted to a loss as a result of weak business volume and low capacity utilisation of joint venture DEUTZ Dalian
- EBIT improvement in Q4 (+€8.4 million qoq) attributable to positive scale effects

## Segment: DEUTZ Customised Solutions

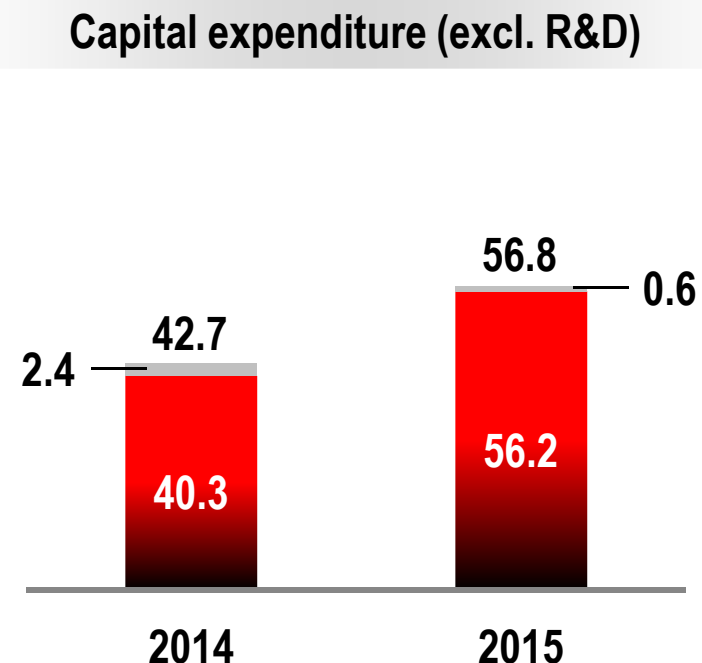
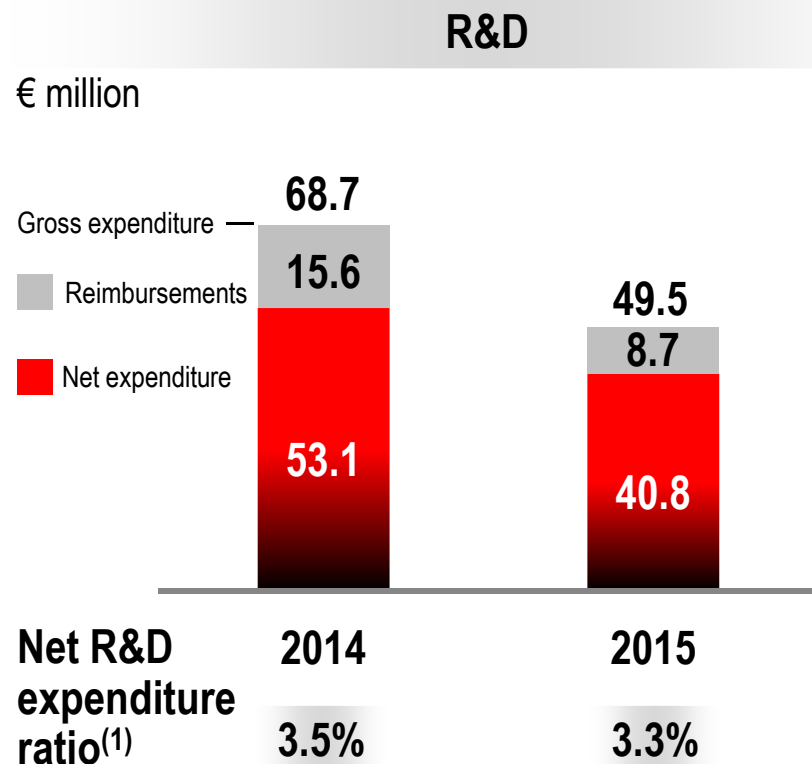
€ million	2015	2014	Change in %
New orders	267.5	264.0	1.3
Unit sales	12,567	13,278	-5.4
Revenue	280.2	250.3	11.9
EBIT (before one-off items)	31.3	18.8	66.5

€ million	Q4 2015	Q3 2015	Change in %
New orders	58.6	68.2	-14.1
Unit sales	2,927	2,873	1.9
Revenue	71.5	66.8	7.0
EBIT (before one-off items)	5.3	8.7	-39.1

- Unlike DEUTZ Compact Engines, segment was not affected by advance production of engines in Europe
- Revenue increase yoy across all regions: Americas (+5.8%), EMEA (+8.4%) and Asia-Pacific (+26.0%)
- Very strong increase in service revenue (+9.9%)
- Robust EBIT growth (+€12.5 million yoy) and margin expansion to 11.2% (+3.7%-points)



# R&D spending & capital expenditure



- R&D decline in line with our guidance after all engines designed for the latest emission standard in the EU and in the US were launched until 2014
- Proportion of capitalised net R&D expenditure: €13.0 million (2014: €26.3 million)

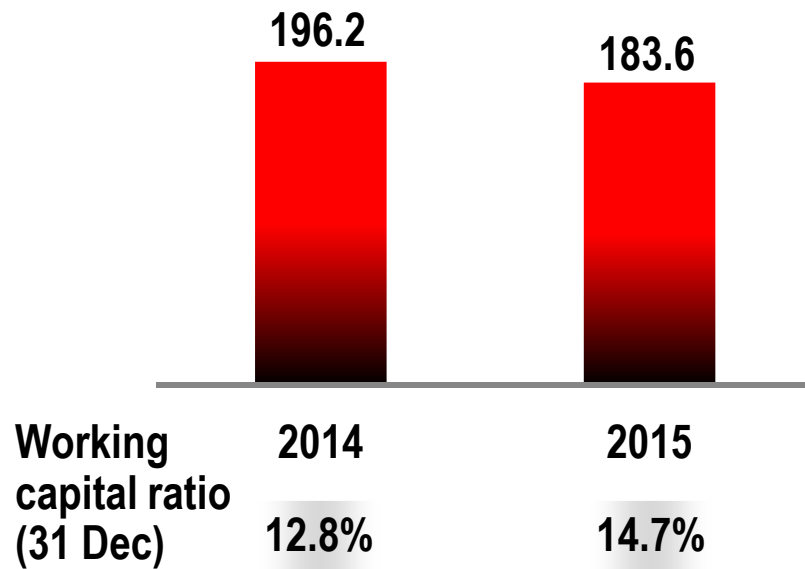
- Net capital expenditure increase largely attributable to new shaft centre, which is an important element of our site optimisation

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

# Working capital & operating cash flow

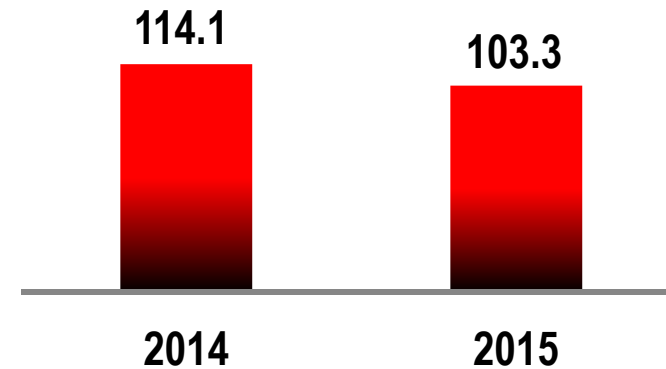
## Working capital

€ million

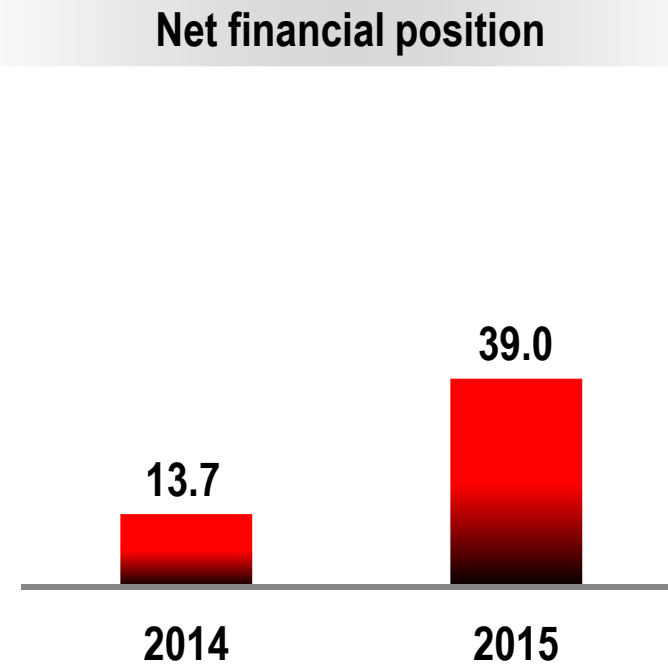
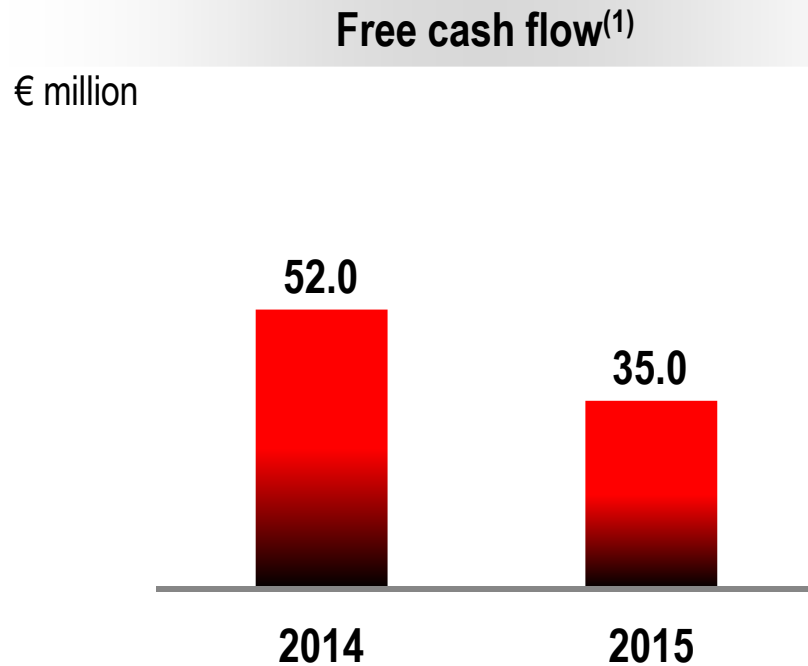


- Increase of working capital ratio related to lower revenue and higher inventories

## Operating cash flow



# Free cash flow generation & net financial position



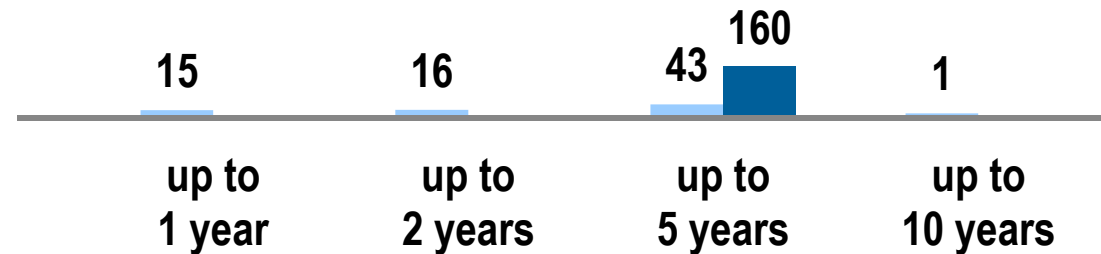
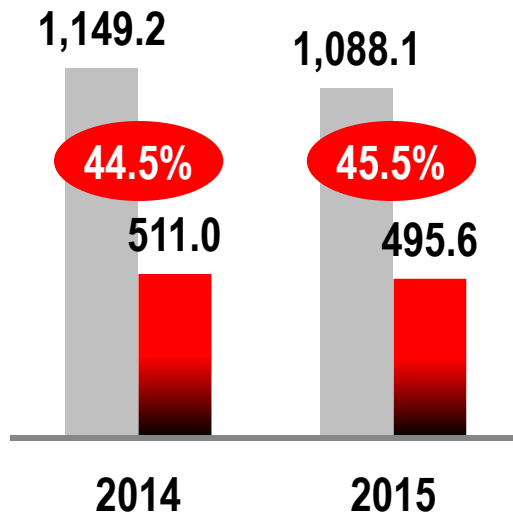
■ Significant positive free cash flow despite lower business volume

■ Positive net financial position (+€25.3 million yoy)

(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 improved to 45.5% (+1.0%-points)
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line extended in Q2 2015 by one year until May 2020
  - Loan from European Investment Bank repayable until July 2020

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- **Outlook**

# Market assessment

	2016
Unit sales (equipment) <sup>(1)</sup>	
<b>Construction equipment Europe</b>	-5% to +5%
<b>Construction equipment North America</b>	-5% to +5%
<b>Construction equipment China</b>	-20% to -10%
<b>Agricultural Machinery Europe</b>	-5% to 0%
<b>Automotive China</b>	-5% to +5%

- Recovery of key application markets not yet visible
- Chinese construction equipment market expected to remain challenging
- While DEUTZ will still suffer from the effect of advance production of engines in 2016, the burden will be less pronounced than in 2015

(1) Numbers refer to end markets. DEUTZ business may differ due advance production of engines



# Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
<b>Revenue</b>	1,247.4	stagnant or slight increase
<b>EBIT margin</b> (before one-off items)	0.4%	moderate increase
<b>R&amp;D expenditure</b> <sup>(1)</sup>	40.8	slightly above 50
<b>Capex (excl. R&amp;D)</b> <sup>(1)</sup>	56.2	approx. 55

(1) Net of reimbursements

- EBIT margin uplift supported by cost and site optimisation measures
- For FY 2017 we expect a noticeable improvement in revenue and profitability based on depleted OEM inventories related to advance production of engines and an anticipated market recovery

# Financial calendar & contact details

- Annual General Meeting 28 April 2016
- Interim management statement 1<sup>st</sup> quarter 2016 3 May 2016
- Interim report 1<sup>st</sup> half 2016 4 August 2016
- Interim management statement 1<sup>st</sup> to 3<sup>rd</sup> quarter 2016 8 November 2016

## ➤ Contact details

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