

DEUTZ Investor Presentation

November 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
- DEUTZ engine portfolio will satisfy the next EU emissions standard announced for 2019 “Stage V ready”
- Expanding product range for EU Stage V emissions standard in 2019:
 - New 3-cylinder TCD 2.2 on same platform with 4-cylinder TCD 2.9; both also in a gas version (LPG)
 - Engine project TCD 5.0 to gain market share in the 100 to 150kW output range
 - DEUTZ intends to expand its product portfolio in the 200 to 700 kW power output range with engines supplied by Liebherr that will be sold under its own brand

DEUTZ customer base

Long standing customer relationships (not exhaustive)



New clients & greater share of wallet (not exhaustive)



- 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 extension of customer base









Successful business development

Examples of new applications



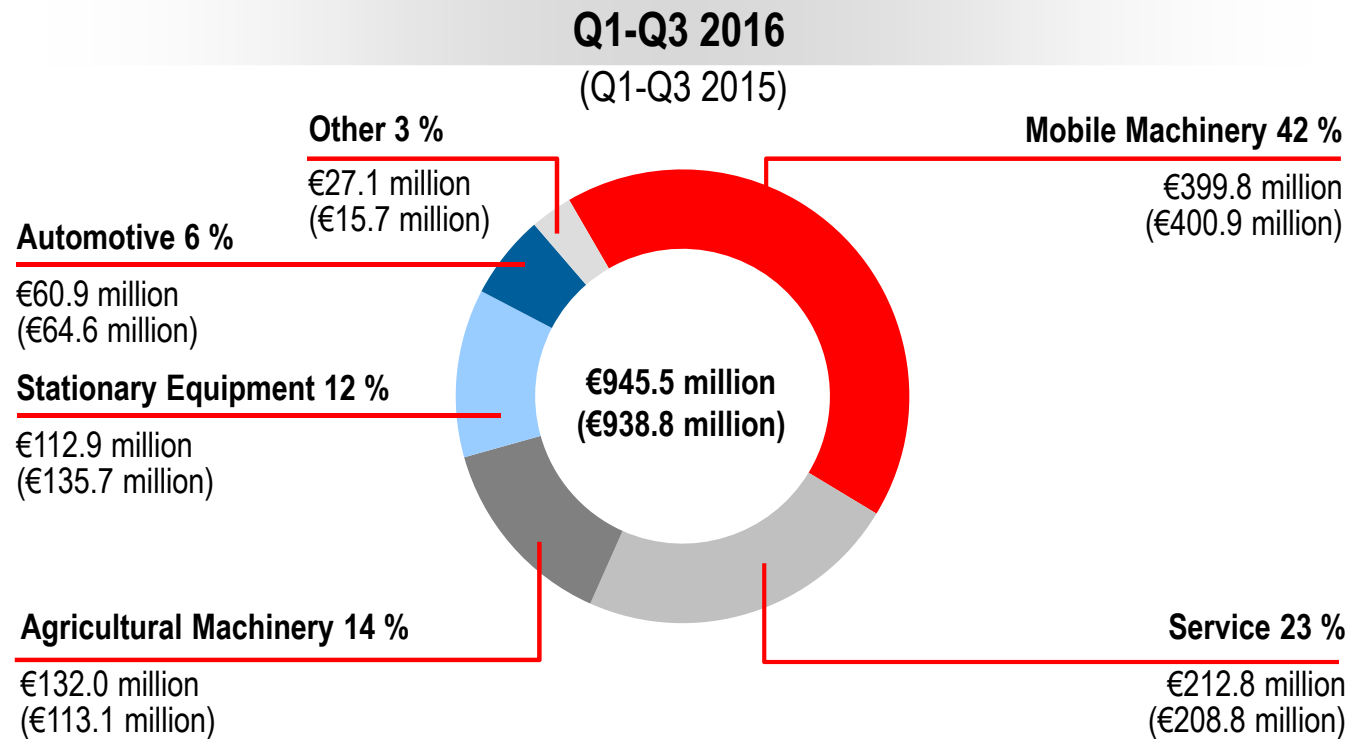
- New customers gained in all regions
- Greater share of wallet at existing clients
- New business related to different applications

Key applications

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

→ Wide application range for DEUTZ engines

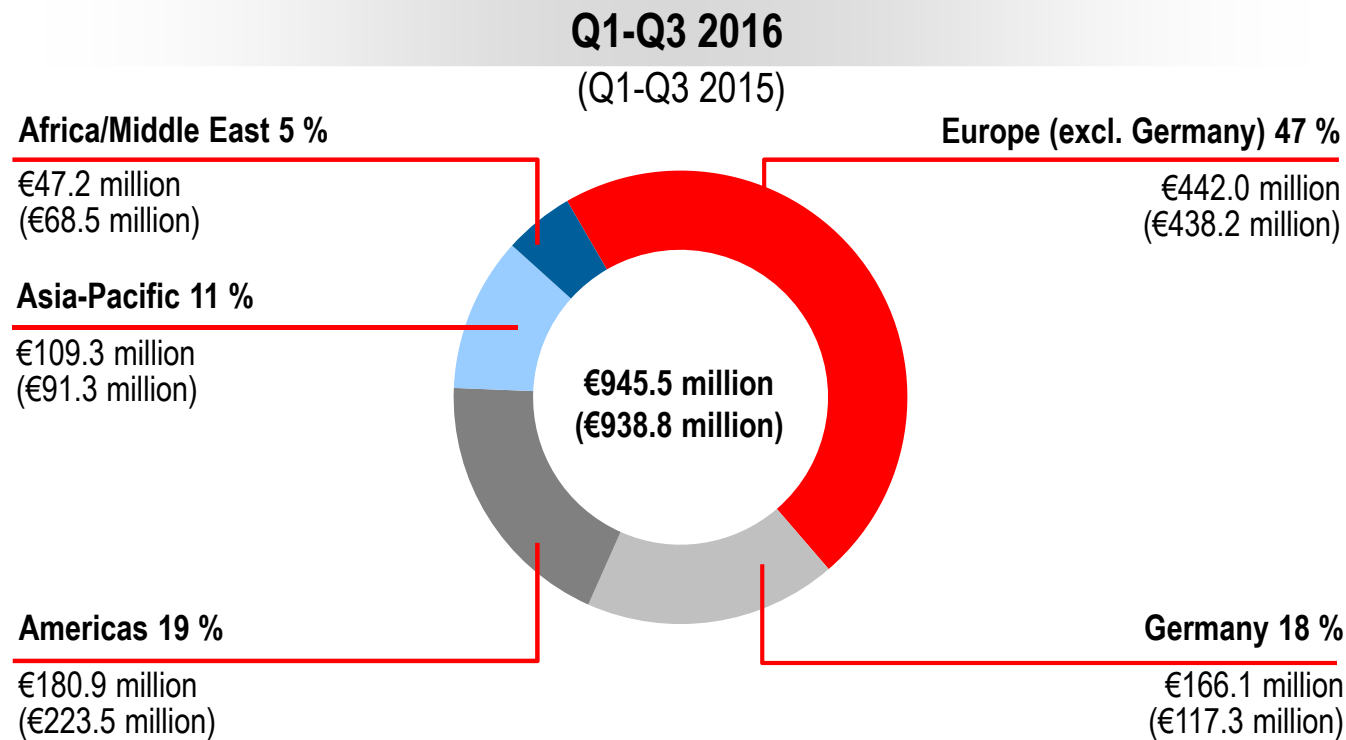
Revenue split by application



- Pro-forma Automotive revenue⁽¹⁾ incl. equity-accounted JV DEUTZ Dalian: €267.0 million (corresponding revenue share amounts to 23%)

(1) Considering 100% of JV revenue

Revenue split by region

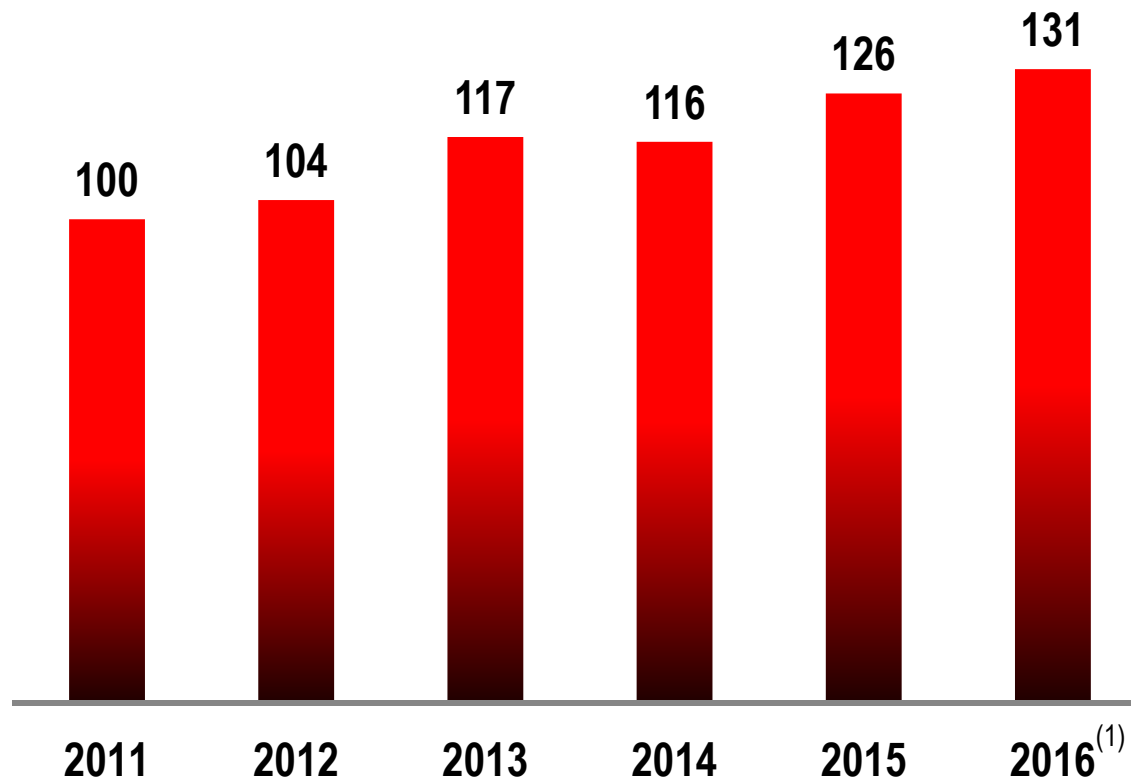


- Pro-forma revenue⁽¹⁾ including equity-accounted Chinese JV DEUTZ Dalian: €1,184.0 million (-1.9%); corresponding revenue share of Asia-Pacific amounts to 29%

(1) Considering 100% of JV revenue

Emissions standards drive revenue growth

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



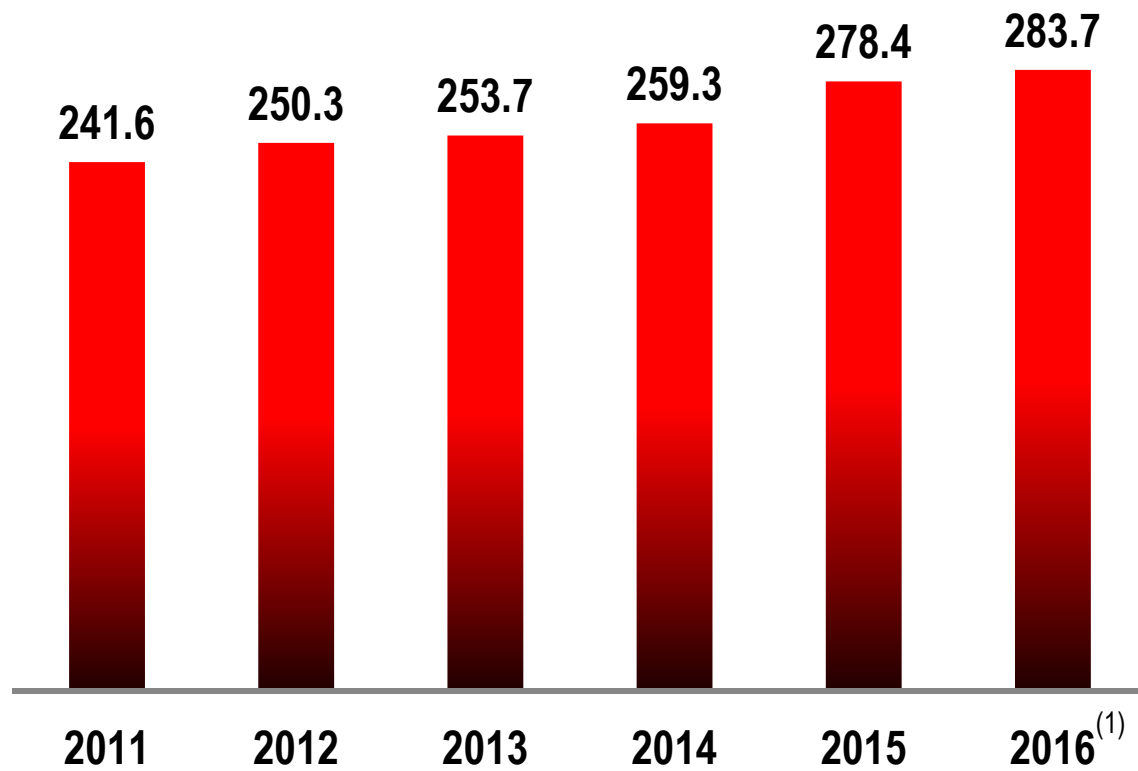
- EU Stage IV / US Tier 4 engines require exhaust after-treatment devices
- Growing share of new emission engines drives revenue growth
- Positive structural price mix effects are expected to continue in the years to come

(1) Q1-Q3 figures annualised

→ **Structural growth due to tighter emissions standards**

Service business

€ million



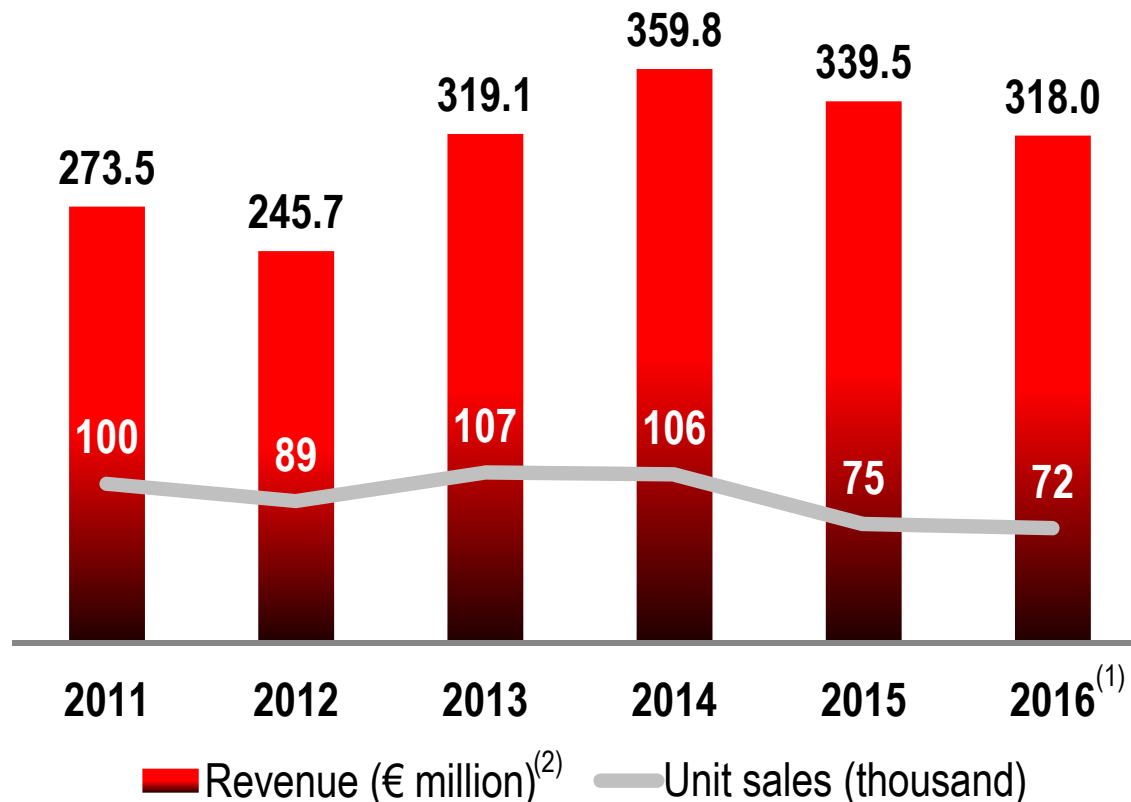
- Further solid service revenue growth
- Strong resilience of profitable service business through different economic cycles

(1) Q1-Q3 figures annualised

➔ Continued growth of service revenue

DEUTZ activities in China

JV DEUTZ Dalian



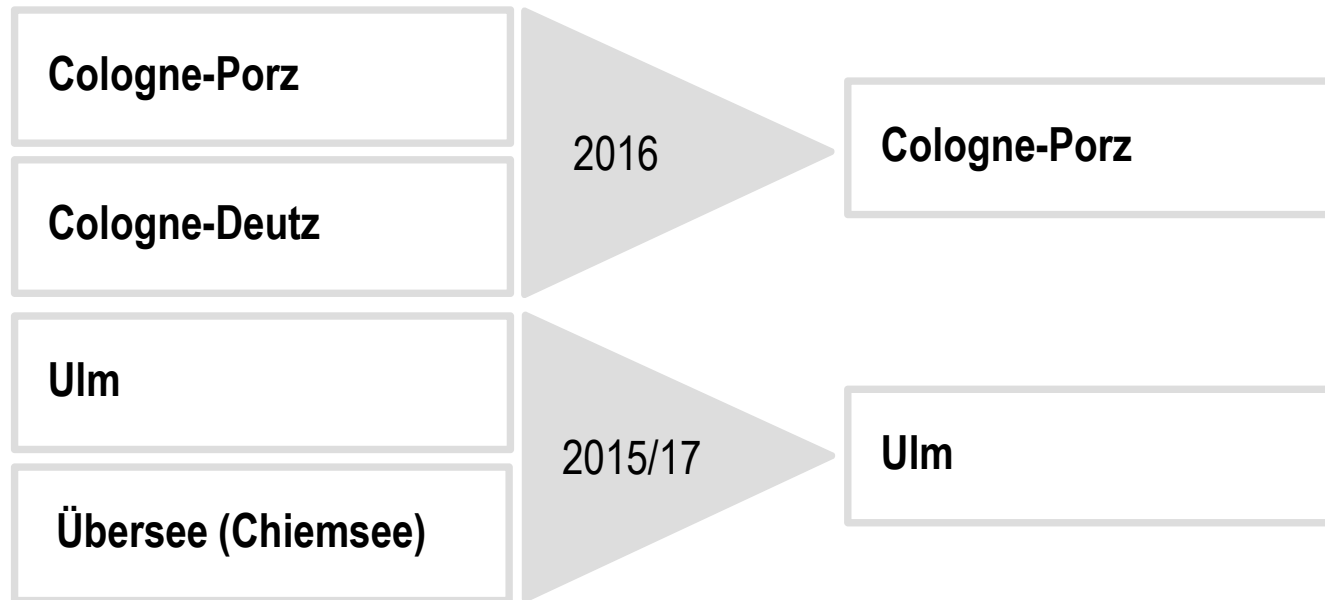
(1) Q1-Q3 figures annualised

(2) 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

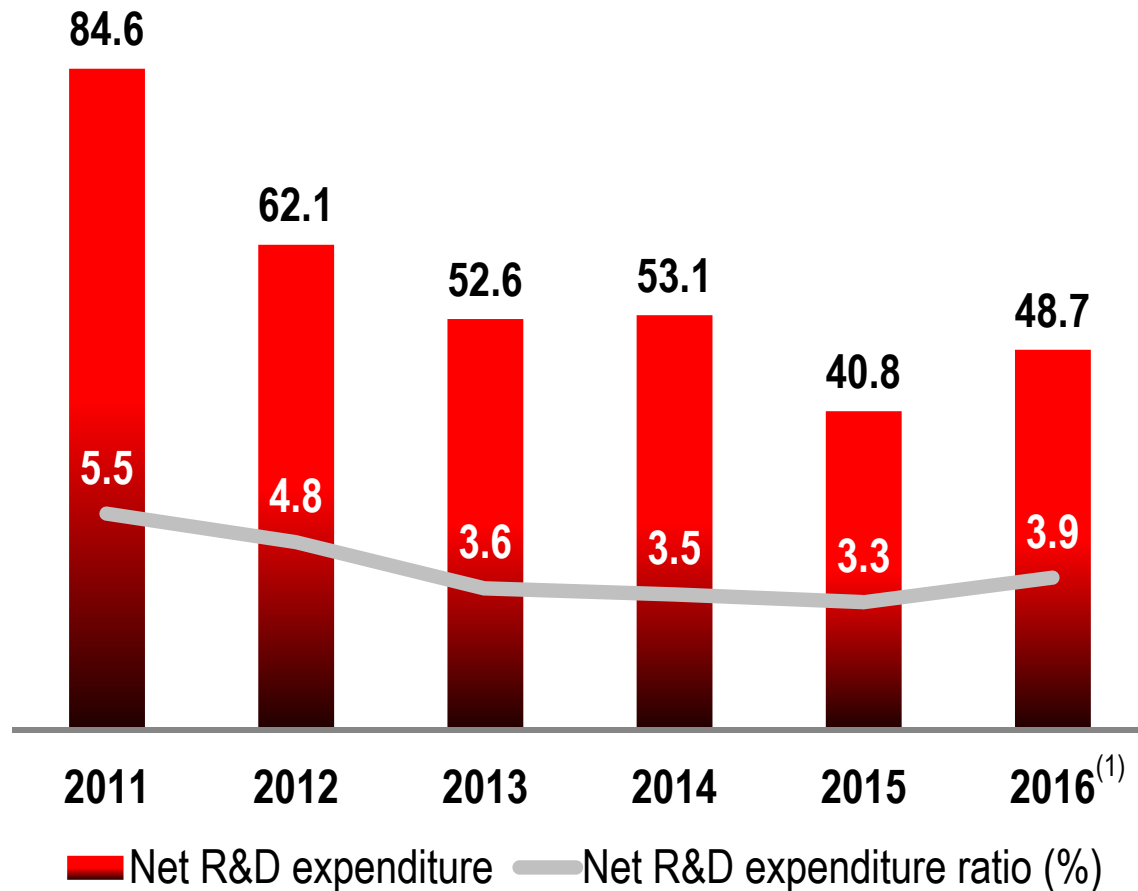


- Site optimisation measures fully on schedule; first relocation stage to Ulm completed
- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Substantial proceeds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

→ Sustainable efficiency improvement by merging facilities

R&D expenditure

€ million



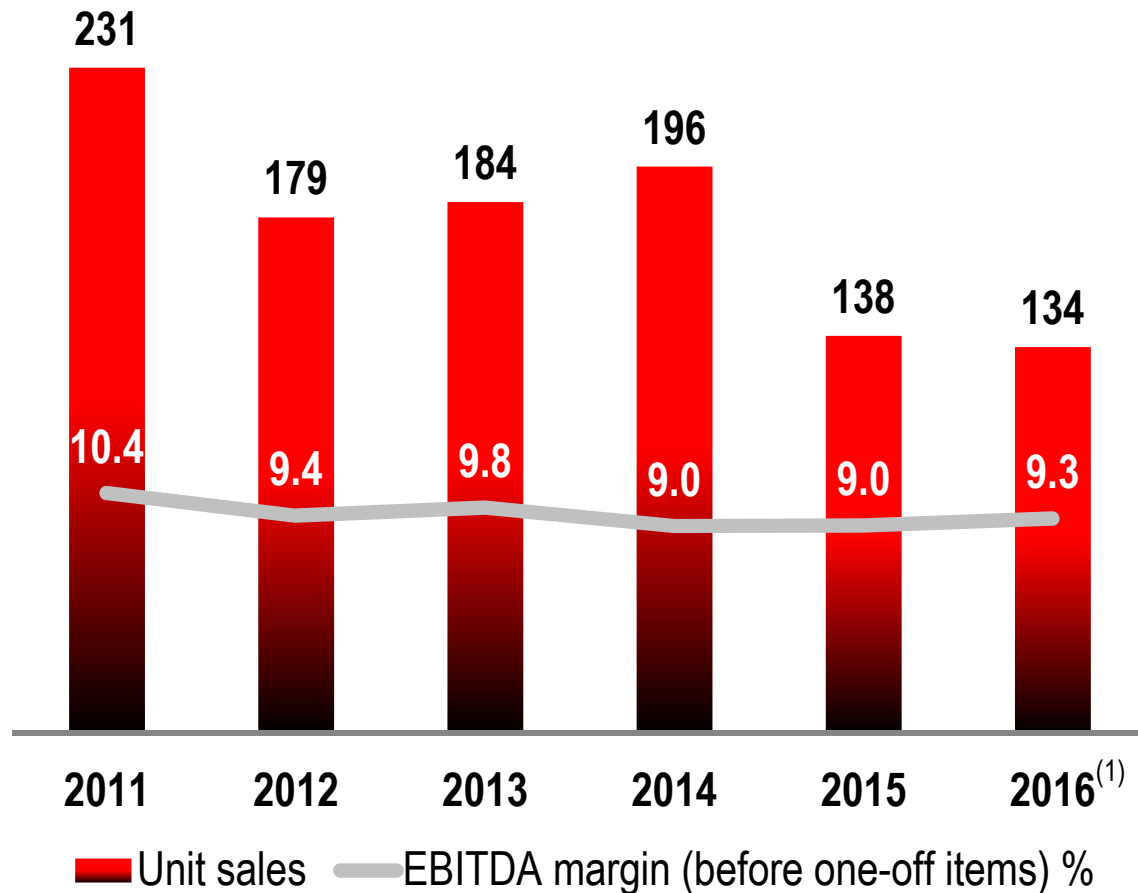
(1) Q1-Q3 figures annualised

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

➔ R&D expenditure will remain on a moderate level

Unit sales & profitability

Thousand units



(1) Q1-Q3 figures annualised

- Volatile market environment requires flexible production
- Stable EBITDA margin at lower unit sales
- Ramp-up phase of new engine generation terminated
- Higher capacity utilisation most important driver for profitability enhancement

➔ 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

→ Stable or growing dividend

Summary: DEUTZ key investment highlights

Successful extension of customer base

Continued growth of service revenue

Expanding product range for Stage V emissions standard

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

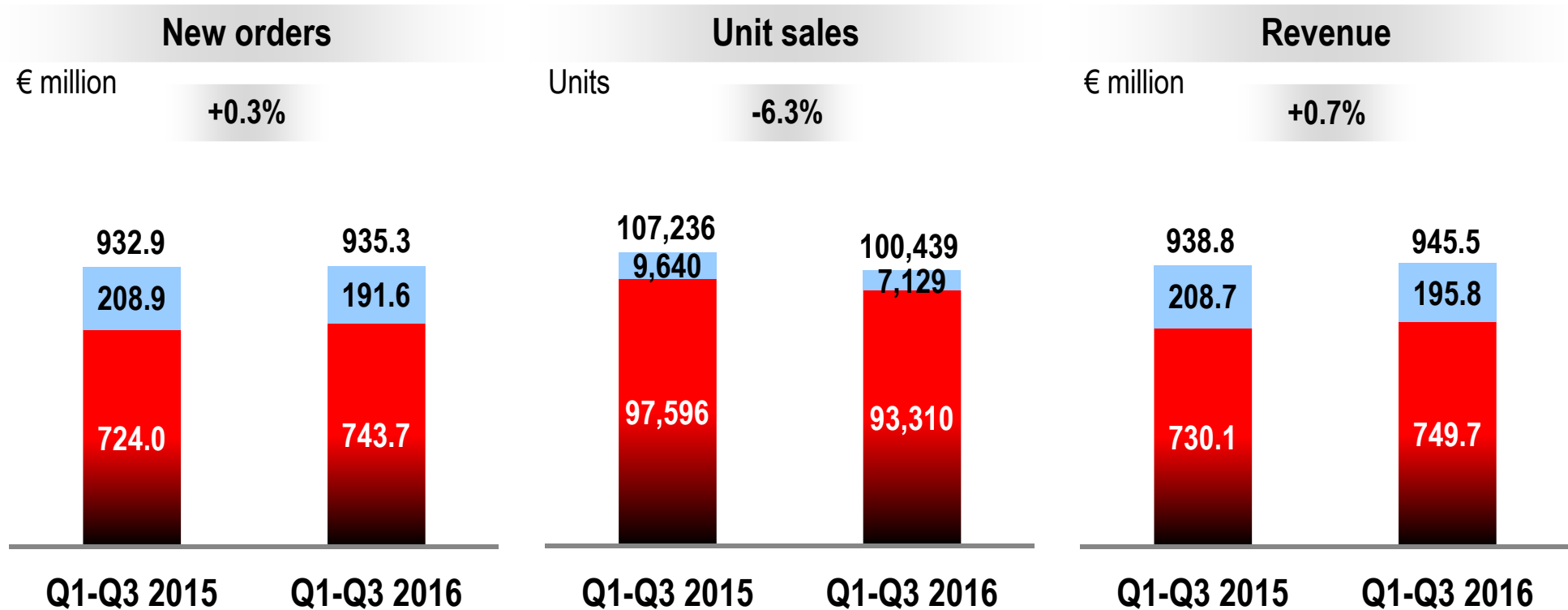
- **Financials**

- Outlook

Key figures

€ million	Q1-Q3 2016	yoy	Q3 2016	yoy
New orders	935.3	+0.3%	258.1	-1.6%
Revenue	945.5	+0.7%	301.1	+12.1%
EBITDA	87.9	+2.7%	21.0	+38.2%
EBIT	19.7	+€9.1 million	-1.0	+€8.7 million
Net income	18.8	+€11.5 million	-1.2	+€8.2 million
Free cash flow	-28.0	-€18.5 million	-10.8	+€24.9 million

Sales figures

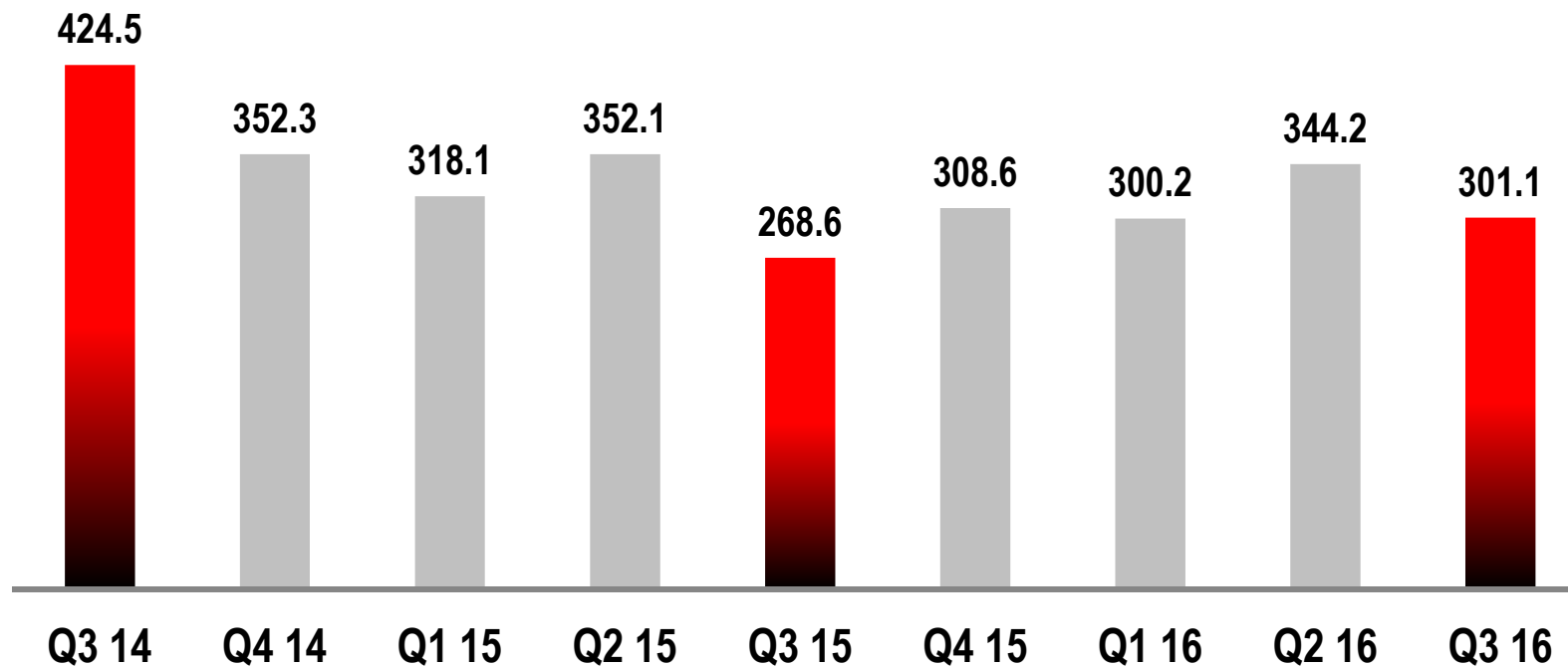


- New orders and revenue at previous year's level
- Revenue development better than unit sales as a result of positive price mix effects and license proceeds realised in Q1 2016

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

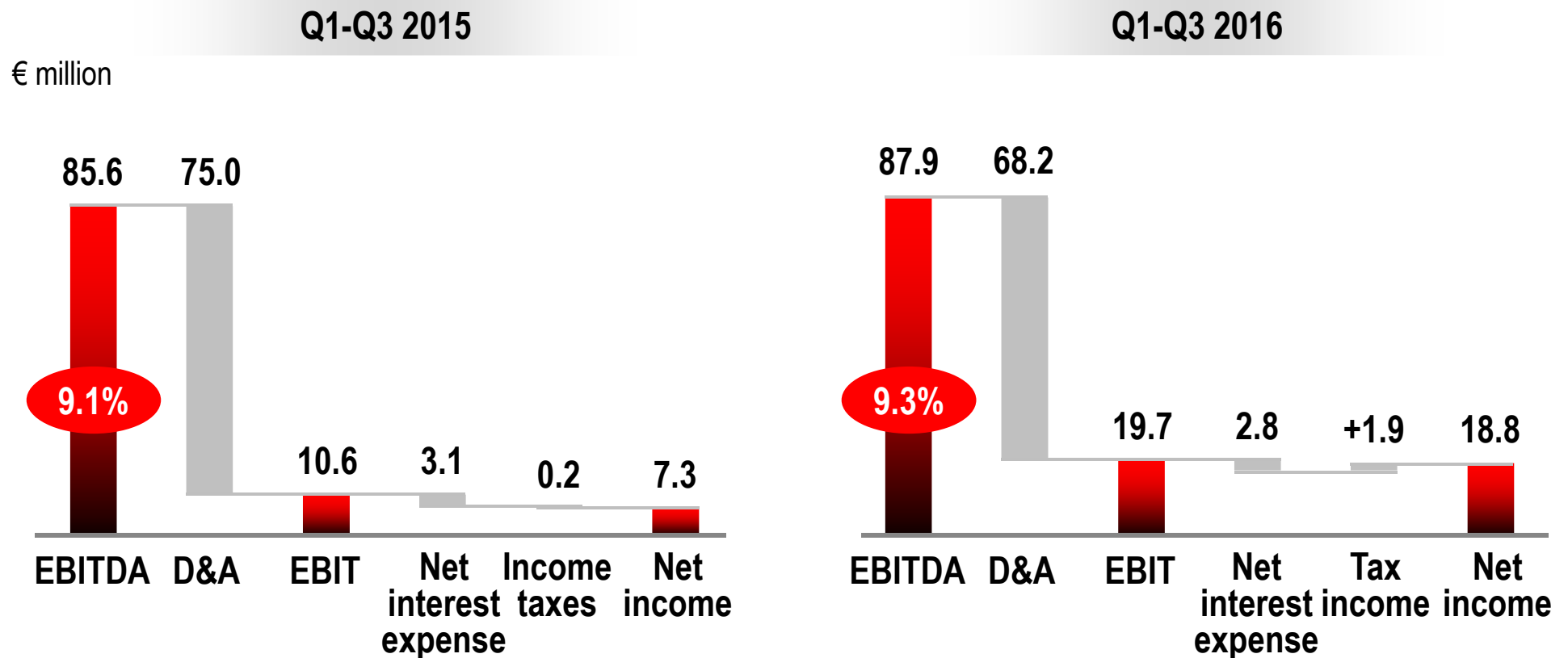
Revenue by quarter

€ million



- Advance production of engines ahead of changes to European emissions standards for engines < 130 kW in October 2014 with significant influence on revenue
- Q3 revenue in 2016 and 2015 affected by holiday shutdown

Operating profit & net income

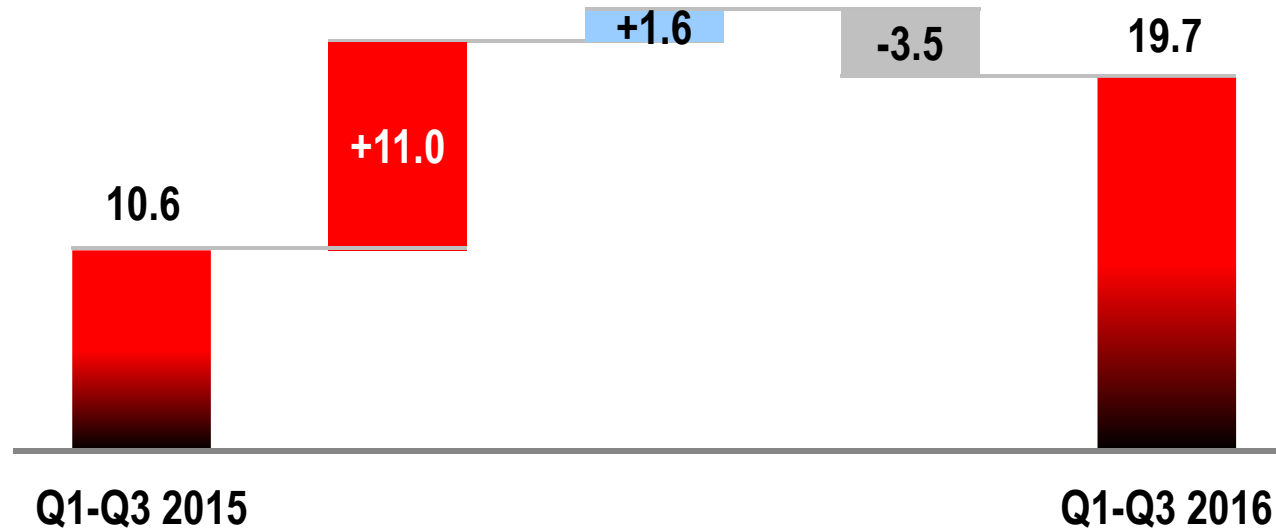


- EBITDA margin improved slightly despite lower unit sales
- Operating profit supported by licence proceeds (€5.5 million) in Q1 2016 and lower depreciation
- Current tax expense more than offset by deferred tax income
- Significant increase in net income (+€11.5 million)

xx.x% EBITDA margin

EBIT

€ million



EBIT margin

1.1%

2.1%

- EBIT improvement at DEUTZ Compact Engines on the back of lower production costs and better product mix
- Operating profit at DEUTZ Customised Solutions ahead of previous year's level despite decrease in unit sales
- Result at Segment Other was supported by unrealised FX-Effects in the previous year

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

Segment: DEUTZ Compact Engines

€ million	Q1-Q3 2016	Q1-Q3 2015	Change in %
New orders	743.7	724.0	2.7
Unit sales	93,310	97,596	-4.4
Revenue	749.7	730.1	2.7
EBIT	-5.9	-16.9	65.1

€ million	Q3 2016	Q3 2015	Change in %
New orders	199.2	194.0	2.7
Unit sales	28,503	26,243	8.6
Revenue	237.2	201.8	17.5
EBIT	-7.8	-23.4	66.7

- Q1-Q3 revenue increased 2.7% year-on-year despite lower unit sales
- Revenue improvement at Agricultural Machinery (+17.7% yoy); Service revenue increased by 3.2% yoy
- Q3 operating profit impacted by holiday shutdown
- Q1-Q3 2016 EBIT improvement due to lower production costs and higher share of new emission engines

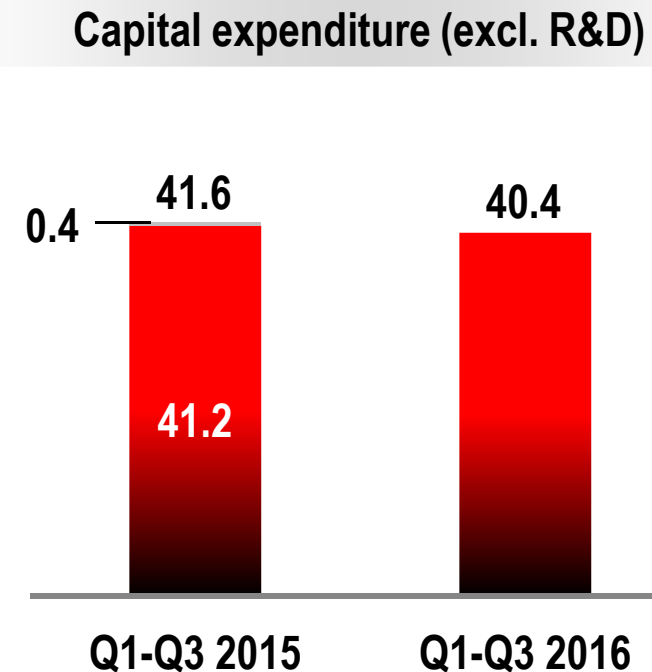
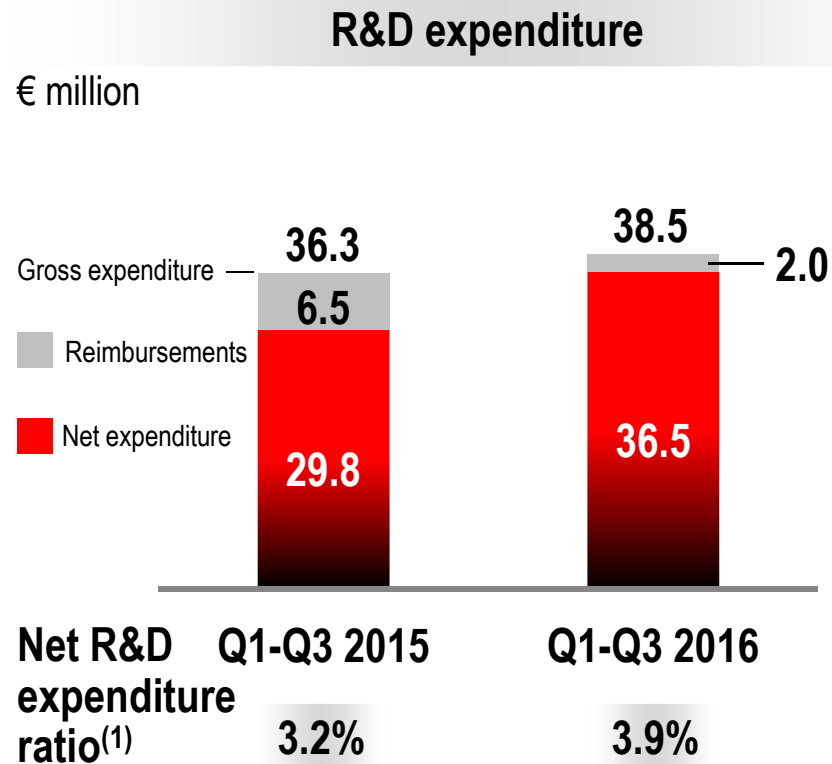
Segment: DEUTZ Customised Solutions

€ million	Q1-Q3 2016	Q1-Q3 2015	Change in %
New orders	191.6	208.9	-8.3
Unit sales	7,129	9,640	-26.0
Revenue	195.8	208.7	-6.2
EBIT	27.6	26.0	6.2

€ million	Q3 2016	Q3 2015	Change in %
New orders	58.9	68.2	-13.6
Unit sales	2,230	2,873	-22.4
Revenue	63.9	66.8	-4.3
EBIT	6.2	8.7	-28.7

- Unit sales decline largely attributable to Mobile Machinery (-31.9% yoy) and Stationary Equipment (-31.5% yoy)
- Revenue share of service business amounts to 45.3%
- Operating profit benefitted from licence proceeds of €5.5 million in Q1 2016

R&D spending & capital expenditure



- R&D expenditure remains at moderate level according to our guidance
- Proportion of capitalised net R&D expenditure: €5.3 million (Q1-Q3 2015: €9.4 million)

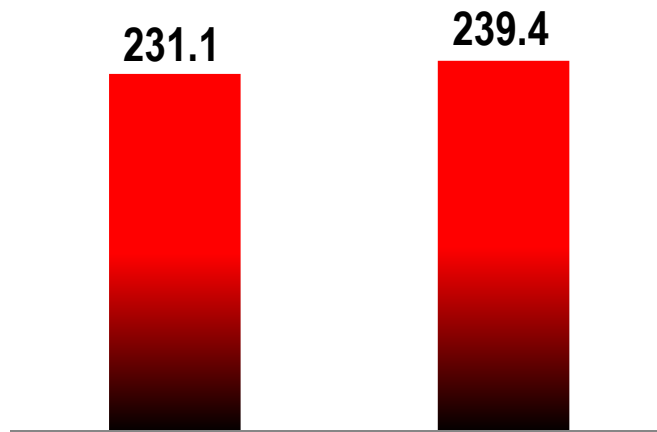
- Capital expenditure in line with budget

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

Working capital & operating cash flow

Working capital

€ million



Working capital ratio (30 Sep)	Q1-Q3 2015	Q1-Q3 2016
	17.9%	19.1%

- Working capital increased by €8.3 million

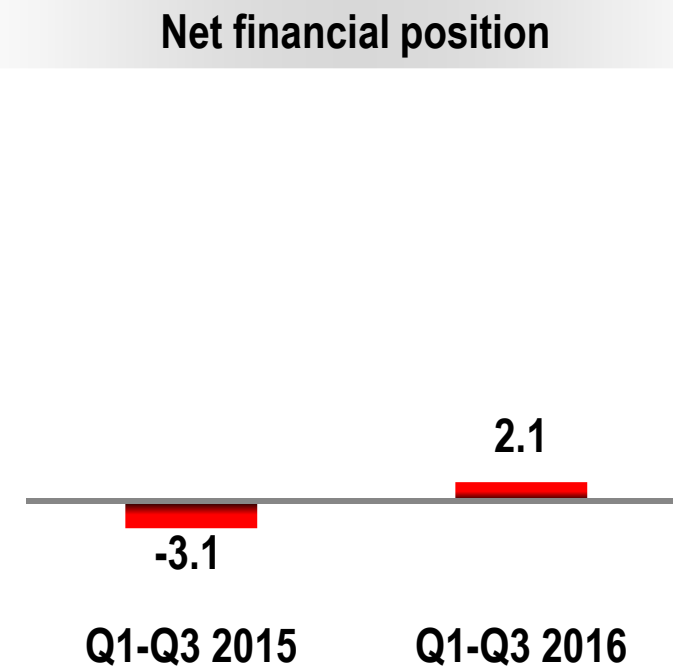
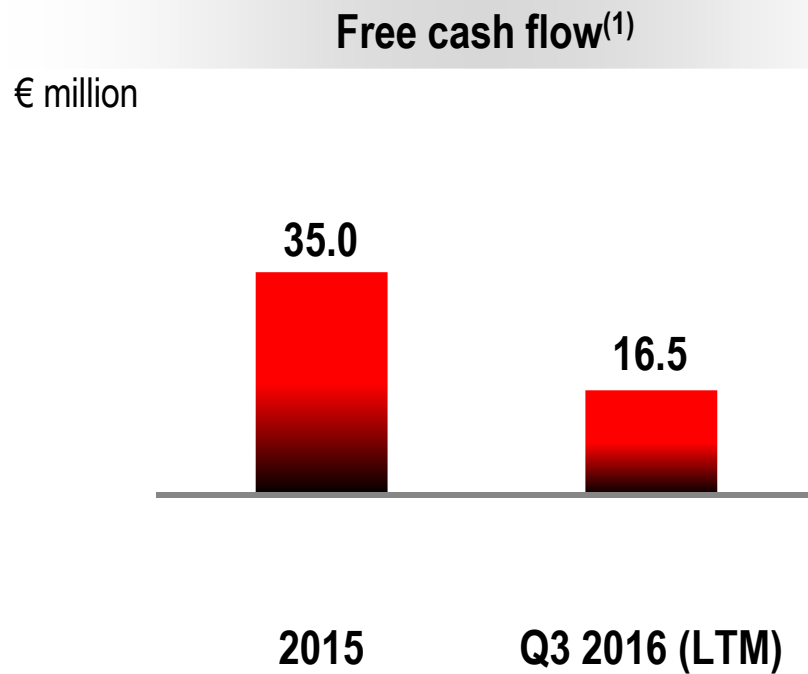
Operating cash flow



Period	Operating cash flow (€ million)
Q1-Q3 2015	43.6
Q1-Q3 2016	22.3

- Operating cash flow decline mainly attributable to higher working capital increase

Free cash flow generation & net financial position

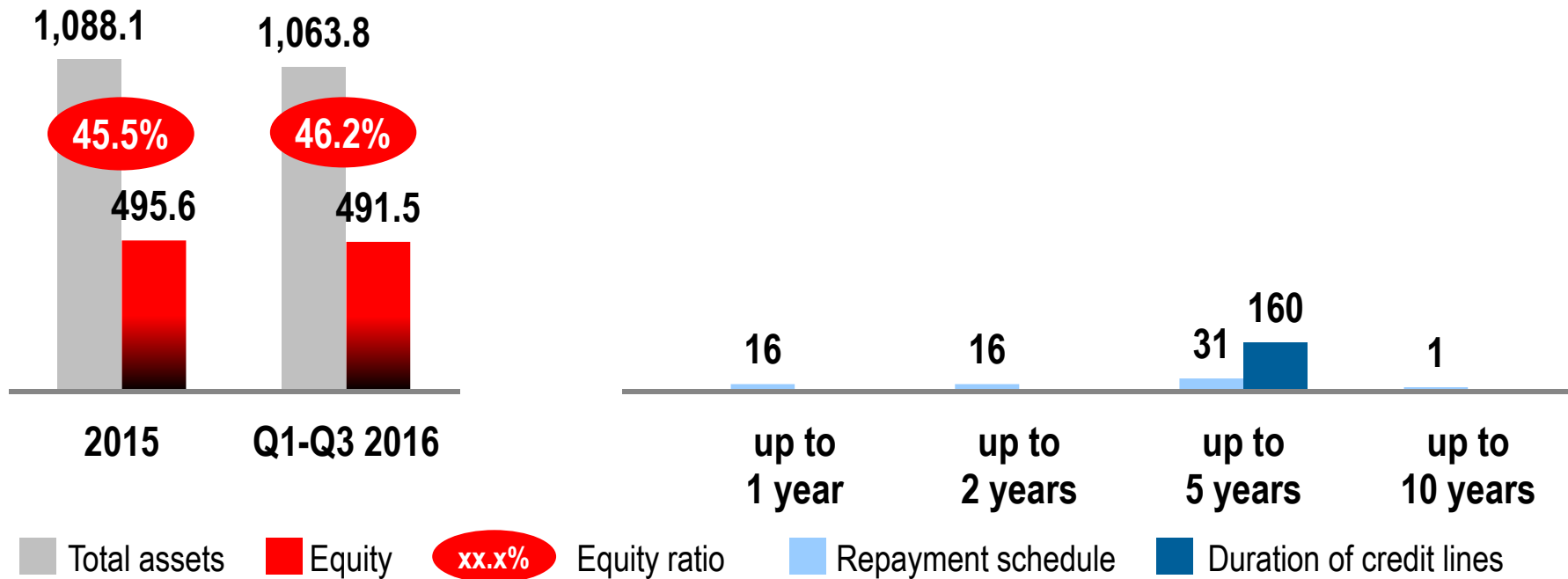


- Last twelve months free cash flow below FY 2015 level as a result of lower operating cash flow
- Net financial position slightly positive

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

Equity ratio & funding

€ million



- Healthy balance sheet; equity ratio increased to 46.2%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line until May 2020
 - Loan from European Investment Bank repayable until July 2020

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- **Outlook**

Market assessment

	2016
Unit sales (equipment) ⁽¹⁾	
Construction equipment Europe	0% to +5% (previous: -5% to +5%)
Construction equipment North America	-5% to 0%
Construction equipment China	-15% to -10% (previous: -20% to -10%)
Agricultural Machinery Europe	-5% to 0%
Automotive China⁽²⁾	+5% to +10% (previous: -5% to +5%)

- Initial assessment for 2017: European end markets expected to move sideways. Major US rental companies remain reluctant to invest in new equipment. Cautiously optimistic for Chinese automotive and construction market

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

(2) Automotive China refers to Medium & Light Duty Trucks

Financial outlook

€ million	FY 2015 reported	FY 2016 guidance
Revenue	1,247.4	stagnant or slight increase
EBIT margin	0.4%	moderate increase
R&D expenditure⁽¹⁾	40.8	slightly above 50
Capex (excl. R&D)⁽¹⁾	56.2	approx. 55

(1) Net of reimbursements

Financial calendar & contact details

- Annual report FY 2016 16 March 2017
- Annual general meeting 4 May 2017
- Q1 2017 result 9 May 2017
- H1 2017 result 3 August 2017
- Q1-Q3 2017 result 7 November 2017

➤ Contact details

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