



A **NEW** DYNAMIC

# DEUTZ Investor Presentation

March 2018

The engine company.



## AGENDA

### **About DEUTZ**

Strategy & market positioning

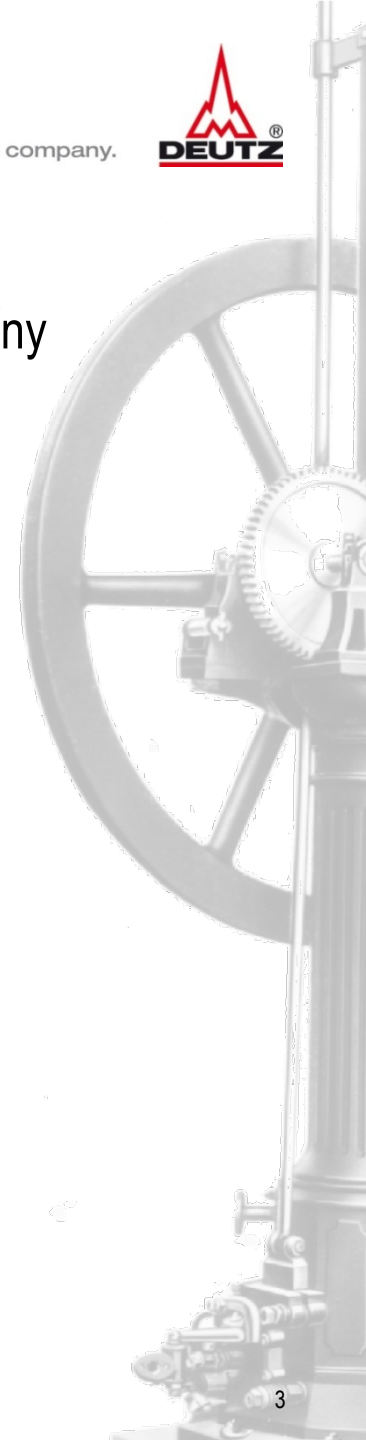
Financials

Outlook

## Our roots and our future – pioneers in engineering

- Founded in 1864 in Cologne, **DEUTZ** is the world's oldest engine company and one of the world's leading independent engine manufacturers
- Otto, Langen, Daimler, Bugatti, Maybach – these pioneers of engine technology all worked for **DEUTZ**
- **DEUTZ** is synonymous with engineering spirit, passion and a culture of innovation
- From the world's first engines, to the world's cleanest diesel engines, to introducing hybrid and electric solutions for off-highway applications: we are developing the technologies today for the demands of tomorrow

→ **DEUTZ** has always driven change. Now, we are ready for the next step.





## What we do – our markets

**DEUTZ** is the leading independent manufacturer of diesel and gas engines in the power range from 19 to 620 kW for off-highway applications – we are developing the technologies today for the demands of tomorrow.





## New trends – paradigm shift

- Public perception of diesel engines is undergoing a paradigm shift: There is a need, and demand, for energy savings and cleaner motorisation
- There are calls from the media and politicians for diesel engines to be taken off the market and replaced with electrified drive systems
- **DEUTZ** is taking action: We will make our engines more efficient and more environmentally friendly
- **DEUTZ** is the first manufacturer in the world with a Stage V certified engine portfolio
- **DEUTZ** firmly believes that diesel technology will remain a leading drive system for heavy-duty, off-highway applications such as agricultural equipment for a long time to come

➔ **DEUTZ** will offer innovative drive systems that meet customers` needs

# Our vision – leading in innovative drive systems

- **DEUTZ** is on track to become a leading provider of INNOVATIVE DRIVE SYSTEMS, playing its part in reducing emissions such as pollution, noise and CO<sub>2</sub>.  
The **DEUTZ** road map for achieving this vision:



- **DIESEL** is here to stay, its future secured by its high energy density that allows for autonomous operation
- Use of **ALTERNATIVE FUELS**, leading to CO<sub>2</sub> neutral approaches, through renewable energies
- Use of **GAS** or bi-fuel engines that offer the same levels of efficiency but are less complex and more economical
- **ELECTRIC** and **HYBRID** drives that offer savings in emissions, energy and cost
- **HYDROGEN** as fuel cells or fuel for internal combustion engines

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## INNOVATIVE DRIVE SYSTEMS

### High-tech Diesel Engines

- Long term future for many off-highway applications
- Pioneering role of DEUTZ in reducing emissions
- Additional market opportunities



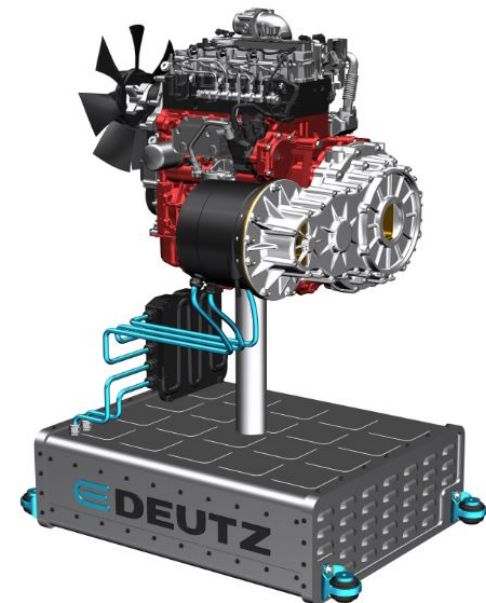
STAGE **V**  
certified<sup>®</sup>

### Alternative Fuels

- Liquid gas (LPG)
- Compressed natural gas (CNG)
- Hydrogen (H<sub>2</sub>)
- Synthetic fuels, Biofuels



### 

- Hybrid systems
- Electric systems
- Fully integrated solutions for OEMs




# High-tech diesel engines – current engine portfolio

- Competitive product features: compact size, low fuel consumption, smart exhaust after-treatment
- DEUTZ is the 1<sup>st</sup> engine manufacturer to obtain certification for the EU Stage V emissions standard
- This delivers on the promise that the current engine portfolio will meet the standards that will apply from 2019



**TCD 2.9 L4**

- 75 kW | 100 hp at 2600 min<sup>-1</sup>/rpm
- EU Stage V | US EPA Tier 4





**TCD 3.6 L4**

- 105 kW | 141 hp at 2300 min<sup>-1</sup>/rpm
- EU Stage V | US EPA Tier 4


**STAGE V CERTIFIED®**

DEUTZ AG is the first engine manufacturer worldwide to be awarded the official certificate for meeting the latest exhaust emission standard. EU Stage V.




**TCD 4.1 L4 | TCD 6.1 L6**

- 80–180 kW | 108–241 hp at 1800–2300 min<sup>-1</sup>/rpm
- EU Stage V | US EPA Tier 4




**TCD 7.8 L6**

- 250 kW | 335 hp at 2600 min<sup>-1</sup>/rpm
- EU Stage V | US EPA Tier 4



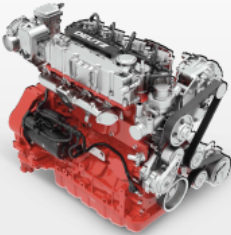






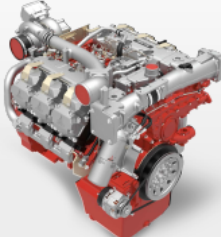


**TCD 12.0 V6 | TCD 16.0 V8**

- 240–520 kW | 322–697 hp at 2100 min<sup>-1</sup>/rpm
- EU Stage V | US EPA Tier 4



# Extended range of products

- Enlarged product offering in the lower output range
- New gas and bi-fuel engines
- Extended product range in the upper output range (200 to 620 kW)

<p><b>G 2.2 L3   G 2.9 L4</b></p> <ul style="list-style-type: none"> <li>■ 26–54 kW   35–72 hp at 2800 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Start of series production in 2019</p>	<p><b>TCD 2.2 L3</b></p> <ul style="list-style-type: none"> <li>■ 55,4 kW   75 hp at 2600 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>TCD 2.9 L4</b></p> <ul style="list-style-type: none"> <li>■ 75 kW   100 hp at 2600 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>TCD 3.6 L4</b></p> <ul style="list-style-type: none"> <li>■ 105 kW   141 hp at 2300 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>STAGE V CERTIFIED®</b></p> <p>DEUTZ AG is the first engine manufacturer worldwide to be awarded the official certificate for meeting the latest exhaust emission standard. EU Stage V.</p> 
<p><b>TCD 4.1 L4   TCD 6.1 L6</b></p> <ul style="list-style-type: none"> <li>■ 80–180 kW   108–241 hp at 1800–2300 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 		<p><b>TCD 7.8 L6</b></p> <ul style="list-style-type: none"> <li>■ 250 kW   335 hp at 2600 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>TCD 12.0 V6   TCD 16.0 V8</b></p> <ul style="list-style-type: none"> <li>■ 240–520 kW   322–697 hp at 2100 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>TCD 9.0 L4   12.0 L6   13.5 L6</b></p> <ul style="list-style-type: none"> <li>■ 300–450 kW   400–600 hp at 2100 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 	<p><b>TCD 18.0 L6</b></p> <ul style="list-style-type: none"> <li>■ 620 kW   831 hp at 1900 min<sup>1</sup>/rpm</li> <li>■ EU Stage V   US EPA Tier 4</li> </ul> 



### Example applications



### Electrification

- Competitive solutions for selected applications
  - Reduced TCO
  - Lower noise emissions
  - Performance / torque advantages
- Reduced CO<sub>2</sub> emissions

### DEUTZ position

- Electric and hybrid solutions have not yet made inroads into off-highway markets
- DEUTZ has established expertise in all relevant technological fields (e-motors, power electronics, battery technology, system integration etc.)
- Marketable hybrid and full-electric products end of 2019 / early 2020
- High interest of OEMs



- ▶ Initial capital expenditure of approx. €100 million (incl. acquisition of Torqeedo)
- ▶ 5-10% revenue share in 2022 / 2023
- ▶ Target EBIT margin in the high single-digit / low double-digit percentage range

# Torqueedo acquisition

## Torqueedo

**TORQUEEDO**

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

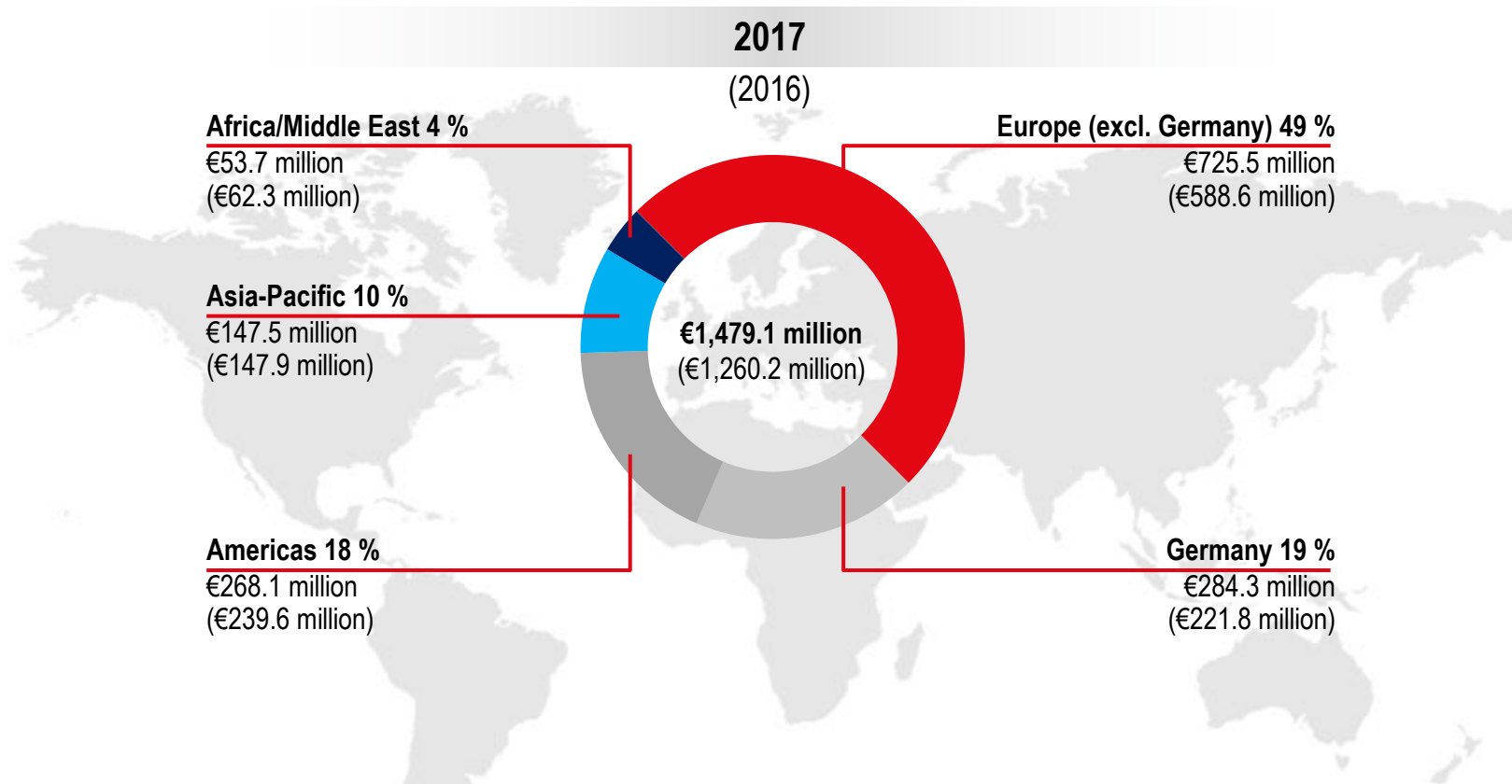
## Strategic reason

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

## Know-how transfer

- System architecture for electric drives
- Know-how in steering technology
- 48 and 400 volt systems
- Power electronics
- Battery management systems expertise – lithium-ion technology

# Revenue by region

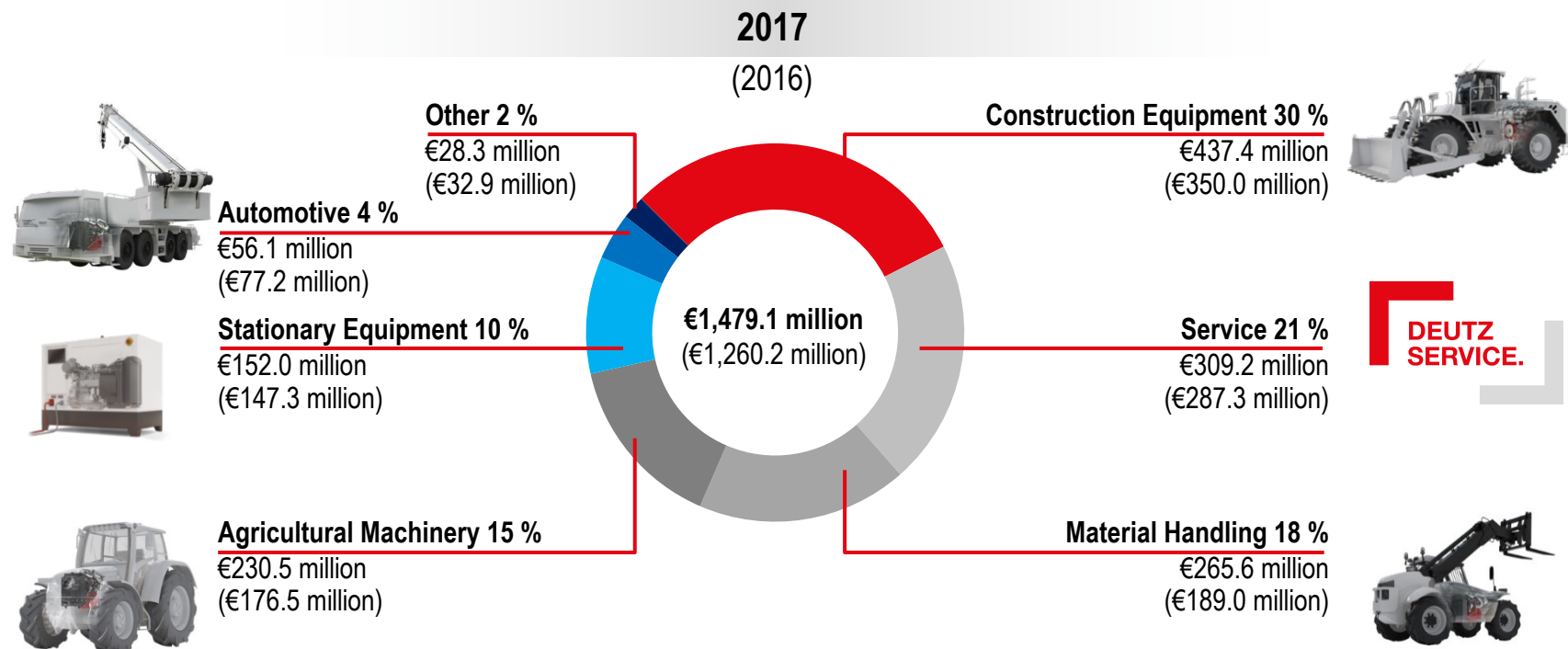


- Pro-forma revenue<sup>(1)</sup> including equity-accounted Chinese JV DEUTZ Dalian: €1,784.7 million (+14.2%); this brings the Asia-Pacific region's share of global revenue up to 25%

(1) Including 100% of JV revenue



# Revenue by application



■ Pro-forma Automotive revenue<sup>(1)</sup> incl. equity-accounted JV DEUTZ Dalian: €325.0 million (18% of revenue)

(1) Including 100% of JV revenue

# Customer base extended successfully

Long-standing customer relationships  
(not exhaustive)

New clients & greater share of wallet  
(not exhaustive)

**VOLVO**

*Atlas Copco*



**WACKER  
NEUSON**

**HITACHI**

**TAKEUCHI**

**TM**

**BOMAG**  
FAYAT GROUP



**WIRTGEN**



**SKYJACK**

**KION**  
GROUP

**JLG**

**AGCO**  
**FENDT**

**SAME**

**DEUTZ**  **FAHR**

 **TEREX**

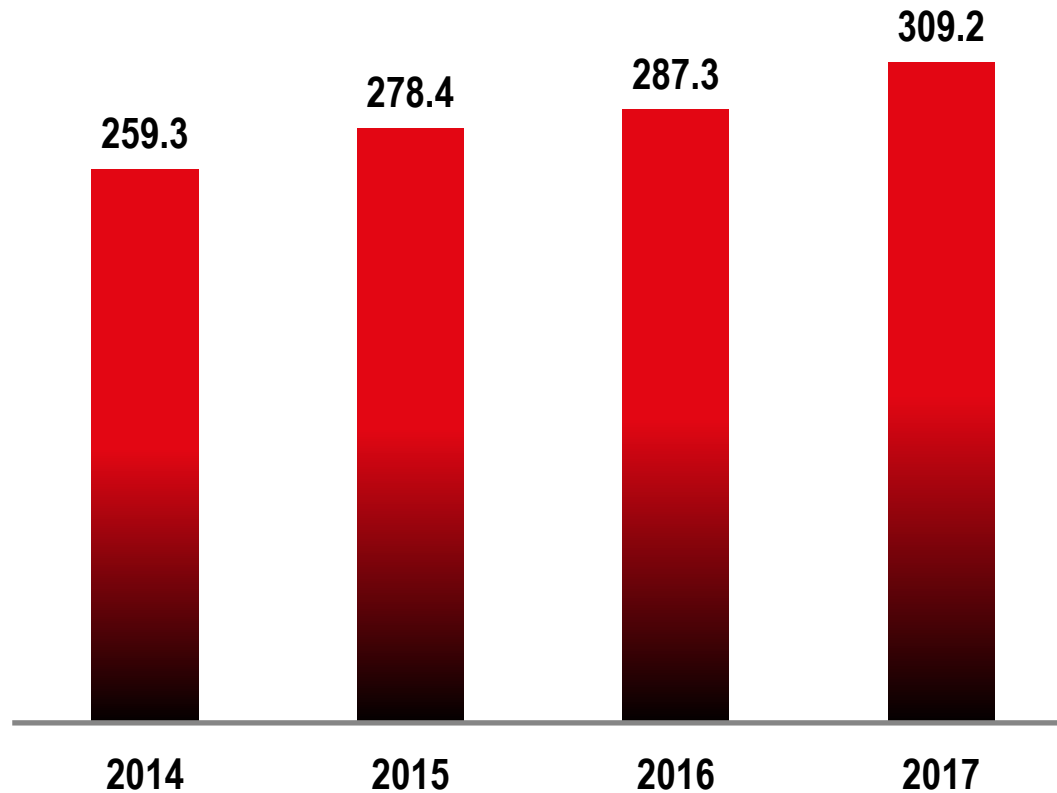
 **MANITOU** *Fetor*

  
**ARGO TRACTORS**



# Service business

€ million



- Profitable service business showing resilience throughout the economic cycle
- Expansion of service business
  - New products
  - Digitalization
  - Investment in own service centers & acquisition of selected dealers

We care. We support. We deliver.

**DEUTZ SERVICE.**

→ Continuous growth of service revenue



# Investment in sales & service network

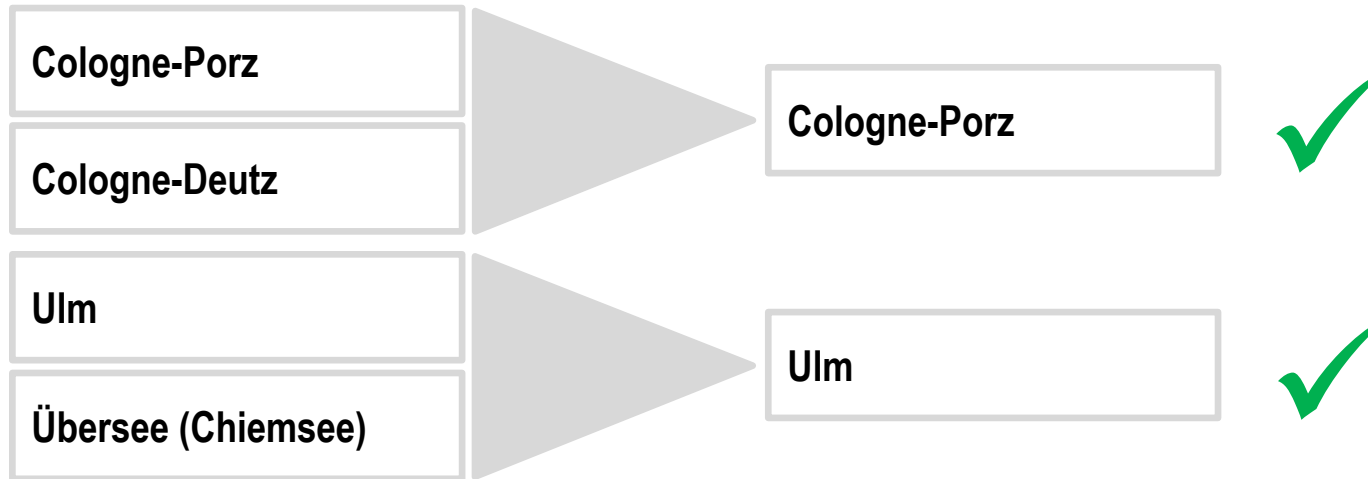
- Acquisition of Italian dealer IML Motori including its Romanian subsidiary
- Italian sales and service network now trading under the name DEUTZ Italy
- The acquisition strengthens our profitable service business



→ Investing in service network

# Site optimisation completed

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



- Substantial proceeds from property sale of former Cologne-Deutz site:
  - Purchase price of around €125 million in 2017. Contribution to earnings shown as an exceptional item
  - Final instalment might reach in the mid double-digit million euros in the coming years, depending on completion of the ongoing planning process

→ Sustainable efficiency gains and substantial proceeds from sale of property

# Cash deployment & dividend policy

## Internal funding

- Investment focus on innovation, service and internationalization
- Electrification strategy – E-DEUTZ
- Service – acquisition of selected dealers

## Financial strength

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

## Dividend policy

- Payout ~30% of recurring profit over multi-year period
- Proposed dividend for 2017 reflects positive exceptional items

→ Objective to participate shareholders in sustained commercial success

# Key investment highlights

Leading manufacturer of drive-systems for off-highway applications

E-DEUTZ – electrification strategy with M&A accelerator

Diesel engines with growing potential for outsourcing

Resilient and expanding service business

Financial strength for organic and inorganic growth

Further improvement of financial performance



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# Key figures

€ million	2017	yoy	Q4 2017	yoy
<b>New orders</b>	1,556.5	+23.4%	382.7	+17.4%
<b>Revenue</b>	1,479.1	+17.4%	385.9	+22.6%
<b>EBITDA</b> (before exceptional items)	135.9	+19.0%	45.4	+72.6%
<b>EBIT</b> (before exceptional items)	42.4	+81.2%	14.6	+€10.9 million
<b>Net income</b>	121.2	+€105.2 million	99.9	+€102.7 million
<b>Free cash flow</b>	82.5	+€77.8 million	8.1	-€24.6 million

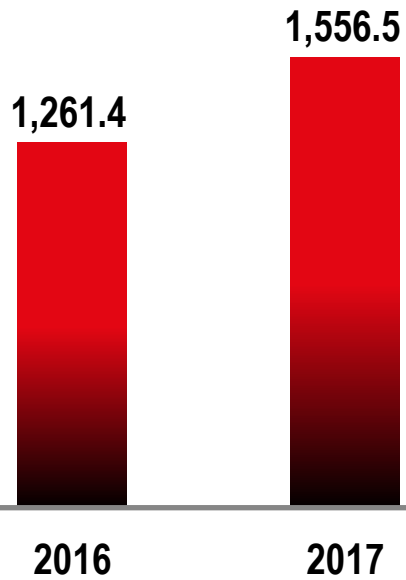
→ Strong 2017 operating results; financial targets fully achieved

# Sales figures

## New orders

€ million

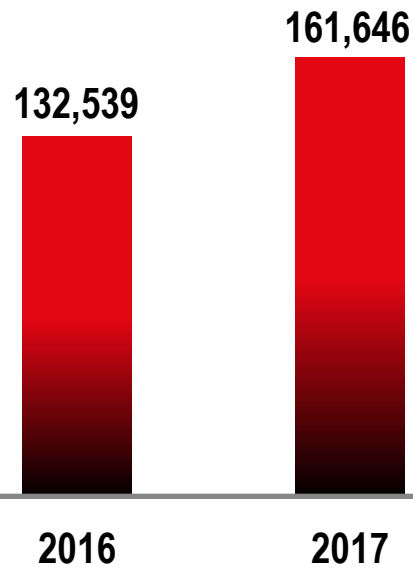
+23.4%



## Unit sales

Units

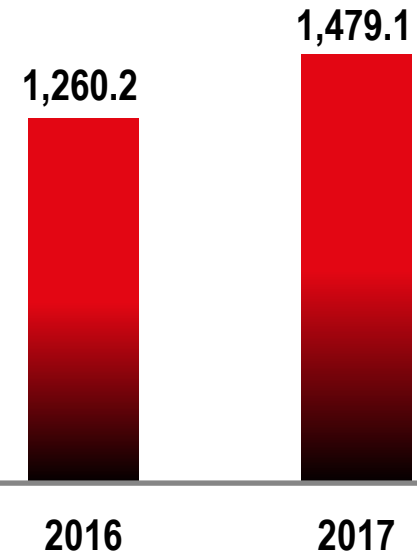
+22.0%



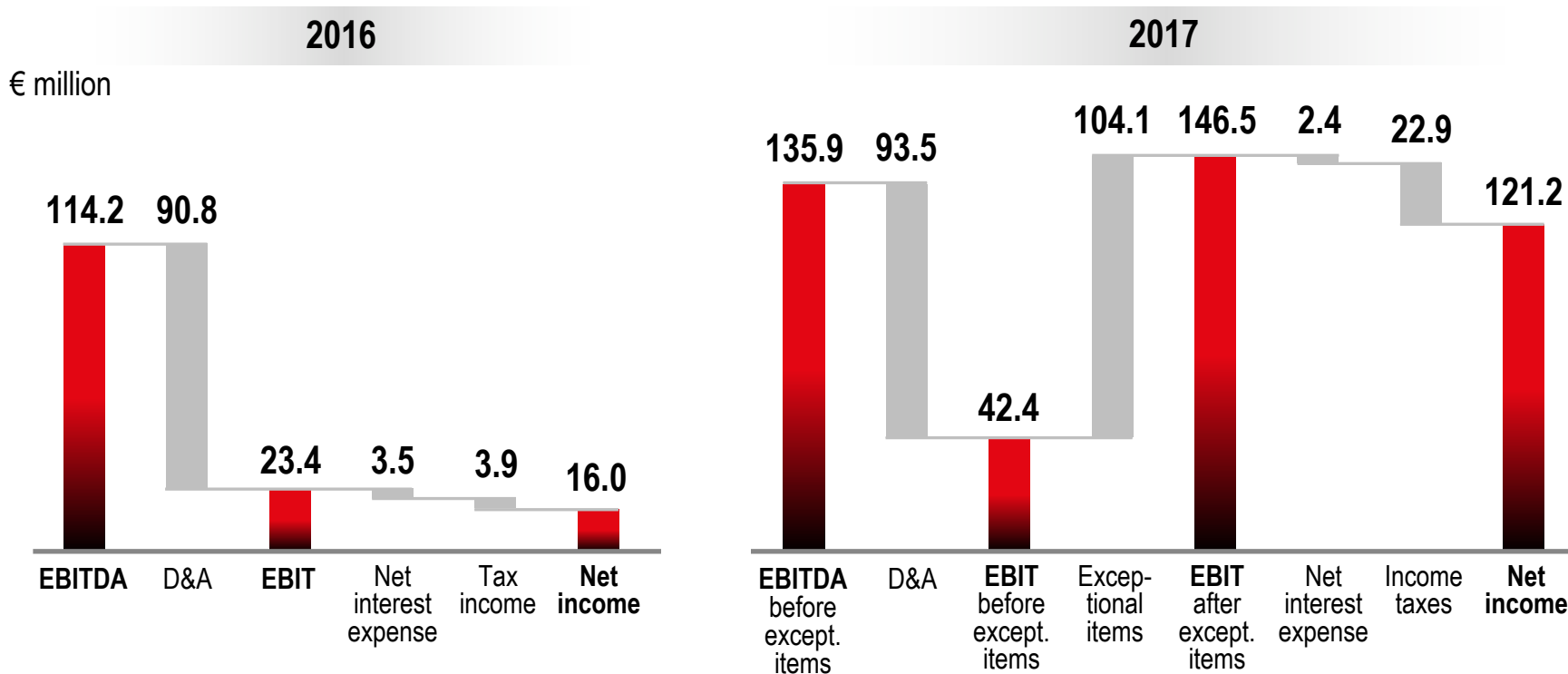
## Revenue

€ million

+17.4%



# Operating profit & net income

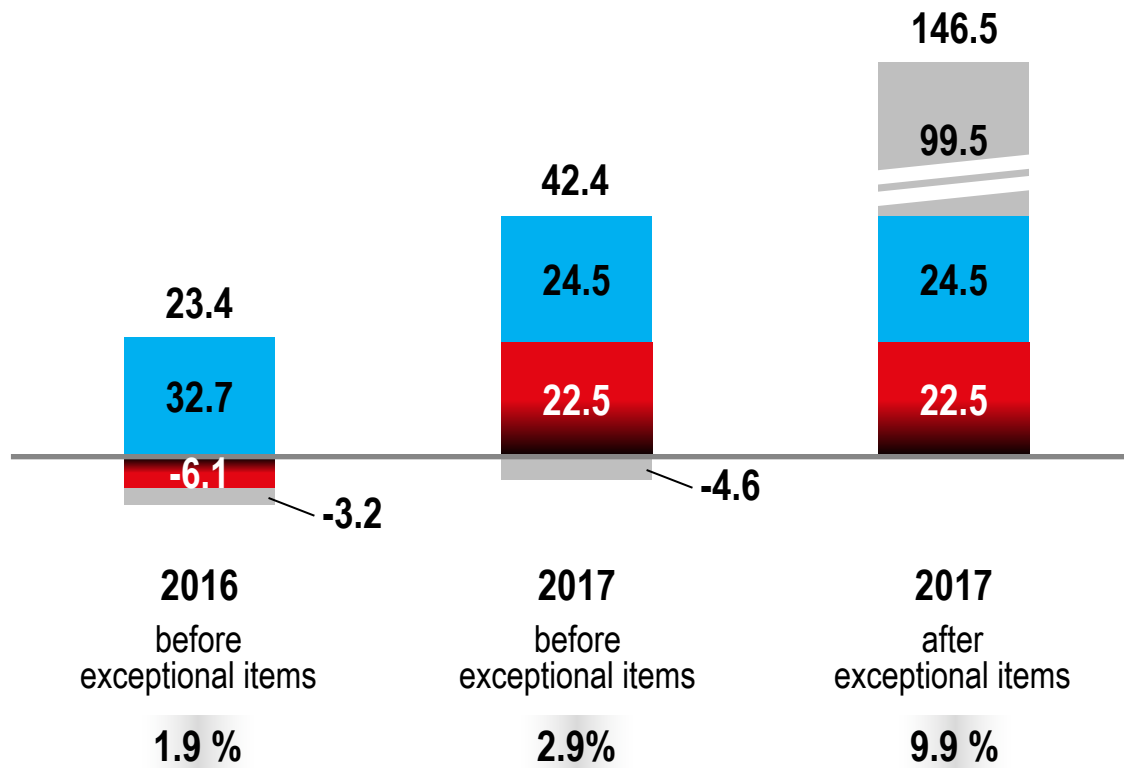


- Solid improvement of EBITDA (+19.0%) due to higher capacity utilisation
- D&A includes an impairment (€8.8 million) of a development project
- EBIT before exceptional items increased strongly by €19.0 million (+81.2%)
- Positive exceptional items of €104.1 million (net) mainly attributable to proceeds of property sale



# EBIT

€ million



- Significantly improved EBIT for DEUTZ Compact Engines
- Prior-year result for DEUTZ Customised Solutions had been boosted by licensing income of €5.5 million
- EBIT margin after positive exceptional items amounts to 9.9%

■ DEUTZ Compact Engines   ■ DEUTZ Customised Solutions   ■ Other

# DEUTZ Compact Engines

€ million	2017	2016	Change in %
New orders	1,290.4	1,011.6	27.6
Unit sales (units)	151,671	123,179	23.1
Revenue	1,227.5	1,000.8	22.7
EBIT (before except. items)	22.5	-6.1	--

€ million	Q4 2017	Q4 2016	Change in %
New orders	321.1	267.9	19.9
Unit sales (units)	39,724	29,869	33.0
Revenue	319.9	251.1	27.4
EBIT (before except. items)	15.8	-0.2	--

- Strong revenue growth driven by key application segments: Material Handling (+43.0% yoy), Agricultural Equipment (+31.4% yoy) and Construction Equipment (+25.1% yoy)
- Service business advances by 11.1% yoy
- Improved EBIT (+€28.6 million yoy) mainly attributable to higher capacity utilisation and profit improvement from Chinese joint venture DEUTZ Dalian
- EBIT in Q4 2017 adversely affected by an €8.8 million impairment on intangible assets (capitalised R&D)

# DEUTZ Customised Solutions

€ million	2017	2016	Change in %
New orders	261.3	249.8	4.6
Unit sales (units)	8,740	9,360	-6.6
Revenue	247.9	259.4	-4.4
EBIT (before except. items)	24.5	32.7	-25.1

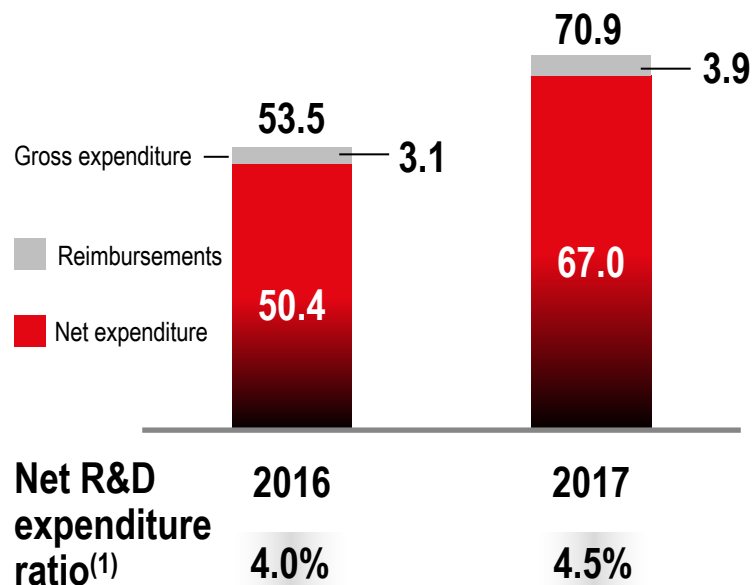
€ million	Q4 2017	Q4 2016	Change in %
New orders	56.8	58.2	-2.4
Unit sales (units)	2,408	2,231	7.9
Revenue	62.3	63.6	-2.0
EBIT (before except. items)	2.6	5.1	-49.0

- New orders improve by 4.6% yoy
- Decline in unit sales largely attributable to Stationary Equipment and Automotive
- Proportion of revenue generated by the service business increases to 50% (2016: 46%)
- Prior-year operating profit had been boosted by licensing income (€5.5 million in Q1 2016)

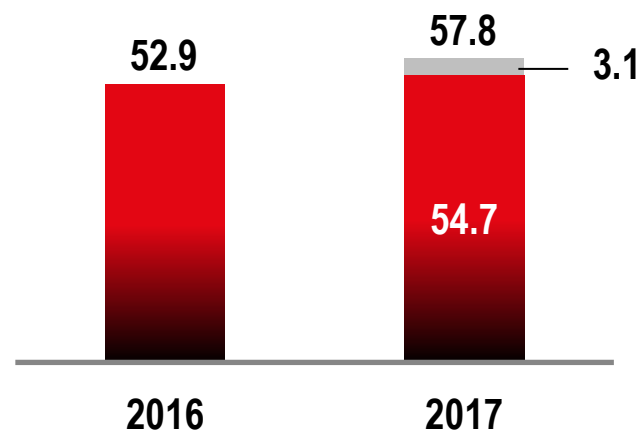
# R&D spending & capital expenditure

## R&D expenditure

€ million



## Capital expenditure (excl. R&D)



- R&D increase in line with guidance due to expansion of product offering
- Proportion of capitalised net R&D expenditure: €17.5 million (2016: €9.1 million)

- Capex below initial expectation (~€70 million) due to postponement of investments

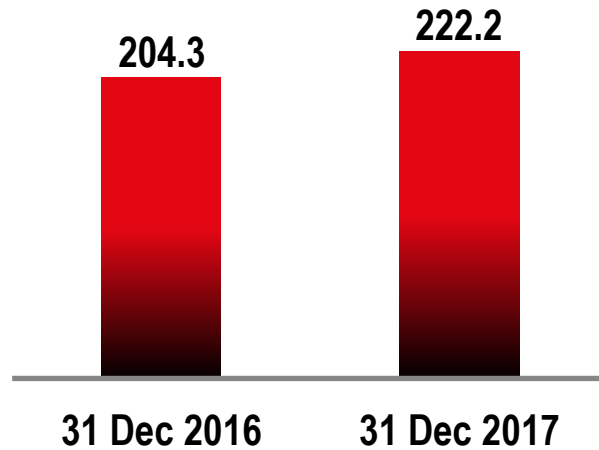
(1) Ratio of net R&D expenditure to consolidated revenue



# Working capital & operating cash flow

## Working capital

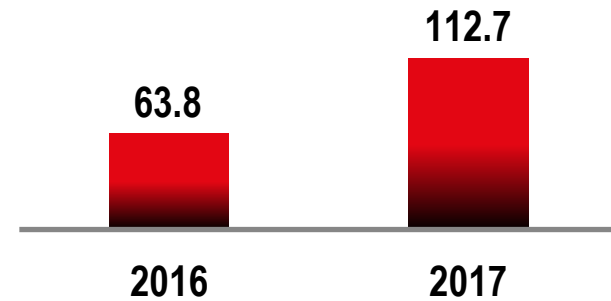
€ million



Working capital ratio 16.2% 15.0%

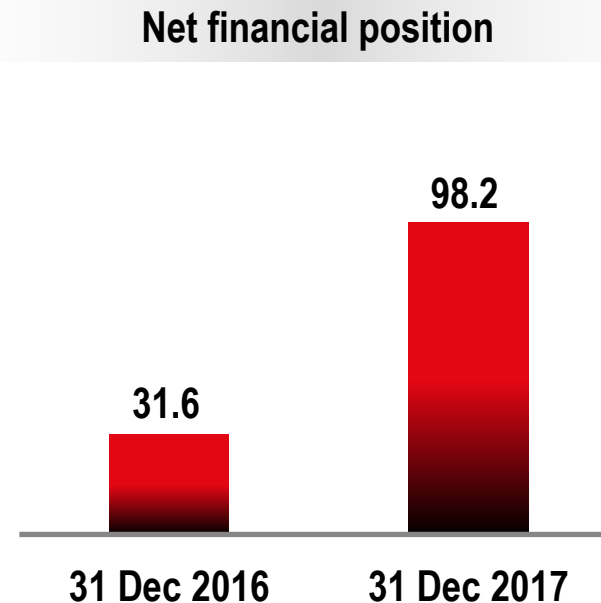
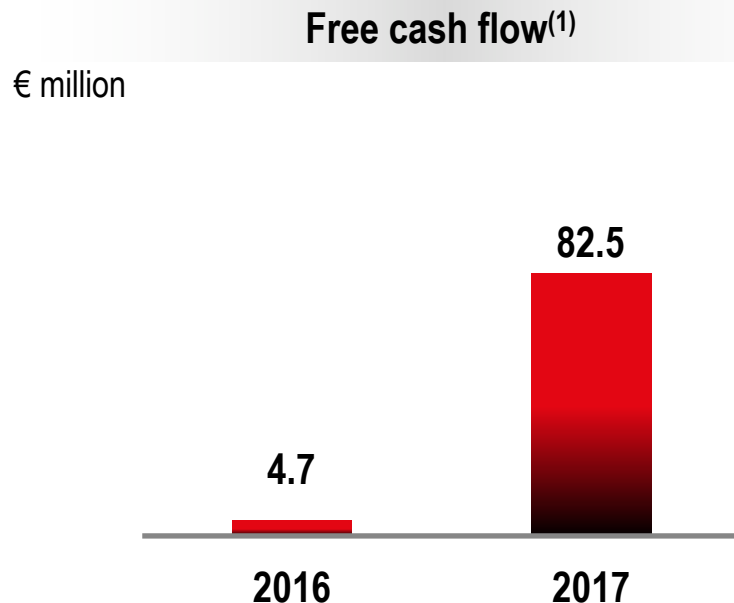
- Improvement of working capital ratio due to strong working capital management and higher volume of business

## Operating cash flow



- Higher operating cash flow largely attributable to increase in operating profit

# Free cash flow generation & net financial position

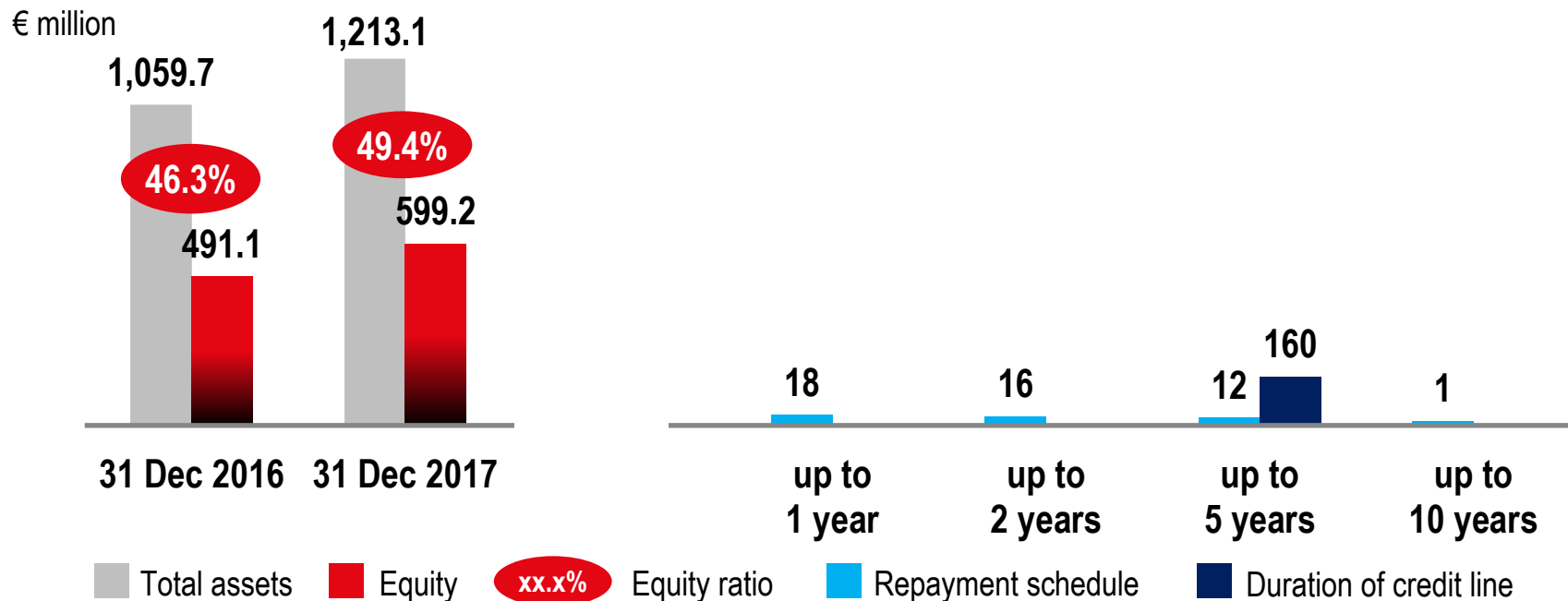


- Significant increase (+€77.8 million) in free cash flow due to higher operating cash flow
- Cash outflow for acquisition of Torqeedo and DEUTZ Italy more than made up for by proceeds from the sale of property

- Strong free cash flow leads to improvement of net financial position

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

# Equity ratio & funding



- Equity ratio increased to 49.4%
- Medium- to long-term financing with undrawn facilities available:
  - Credit line of €160 million until June 2022 (extended in Q2 by two years on improved conditions)
  - Loan from European Investment Bank repayable by July 2020

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# Forecast for key end-customer markets, 2018

	Europe	North America	China
Unit sales (equipment)			
<b>Construction Equipment</b>	+5% to +10%	+5% to +10%	+10% to +20%
<b>Material Handling</b>	+5% to +10%	+5% to +10%	+10% to +20%
<b>Agricultural Machinery</b>	0% to +5%	0% to +5%	-5% to 0%
<b>Medium &amp; Light-Duty Trucks</b>			0% to +5%



# Financial outlook

€ million	FY 2017 reported	FY 2018 guidance
<b>Revenue</b>	1,479.1	marked increase
<b>EBIT margin</b> (before exceptional items)	2.9 %	moderate increase
<b>R&amp;D expenditure<sup>(1)</sup></b>	67.0	70 - 75
<b>Capex (excl. R&amp;D)<sup>(1)</sup></b>	54.7	60 - 70

(1) Net of reimbursements

# Financial calendar & contact details

- Annual general meeting 26 April 2018
- Q1 2018 results 3 May 2018
- H1 2018 results 2 August 2018
- Q1-Q3 2018 results 8 November 2018

## ▶ Contact details

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

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