



A **NEW** DYNAMIC

DEUTZ Investor Presentation

May 2018

The engine company.



AGENDA

About DEUTZ

Strategy & market positioning

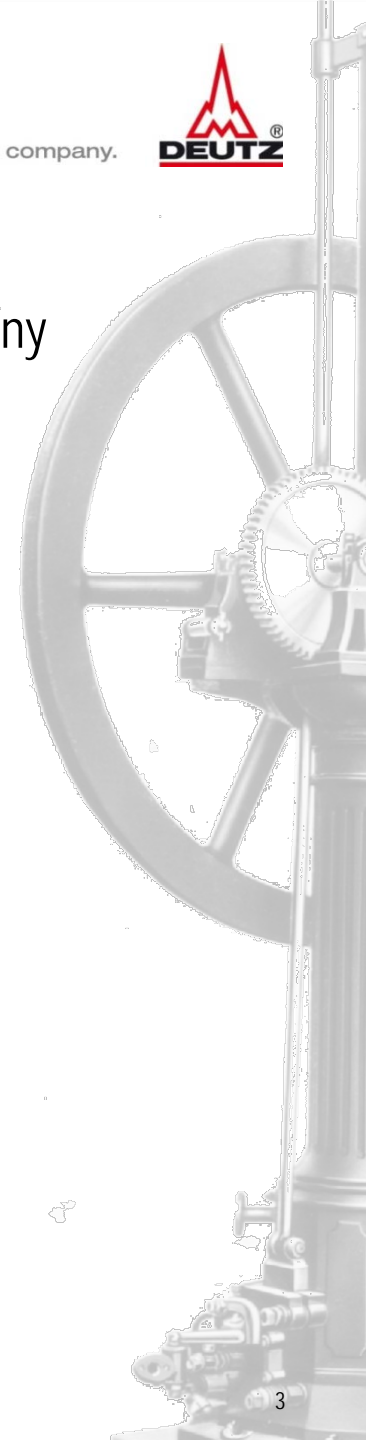
Financials

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 CO₂.
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 CO₂ 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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Strategy & market positioning

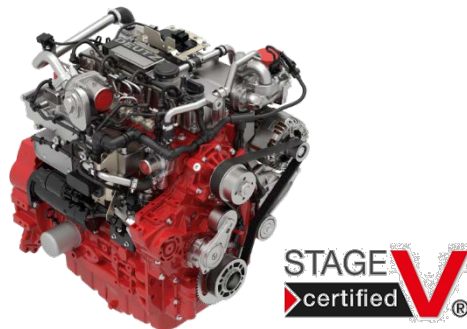
Financials

Outlook

INNOVATIVE DRIVE SYSTEMS

High-tech Diesel Engines

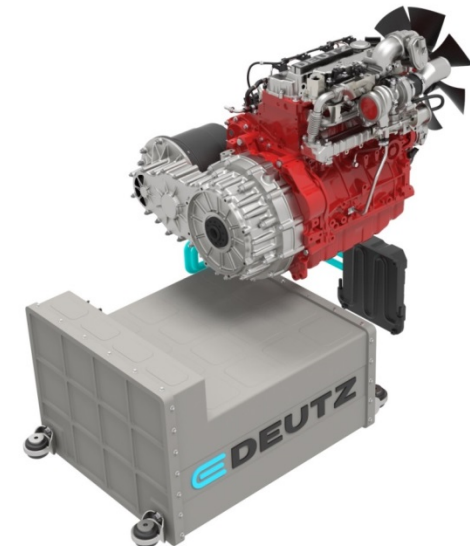
- Long term future for many off-highway applications
- Pioneering role of DEUTZ in reducing emissions
- Additional market opportunities



Alternative Fuels








- Liquid gas (LPG)
- Compressed natural gas (CNG)
- Hydrogen (H₂)
- 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 1st 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⁻¹/rpm
- EU Stage V | US EPA Tier 4

TCD 3.6 L4

- 105 kW | 141 hp at 2300 min⁻¹/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.

STAGE V certified 

TCD 4.1 L4 | TCD 6.1 L6

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

TCD 7.8 L6











- 250 kW | 335 hp at 2600 min⁻¹/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⁻¹/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>G 2.2 L3 G 2.9 L4</p> <ul style="list-style-type: none"> ■ 26–54 kW 35–72 hp at 2800 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Start of series production in 2019</p>	<p>TCD 2.2 L3</p> <ul style="list-style-type: none"> ■ 55,4 kW 75 hp at 2600 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>TCD 2.9 L4</p> <ul style="list-style-type: none"> ■ 75 kW 100 hp at 2600 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>TCD 3.6 L4</p> <ul style="list-style-type: none"> ■ 105 kW 141 hp at 2300 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>STAGE V CERTIFIED®</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>TCD 4.1 L4 TCD 6.1 L6</p> <ul style="list-style-type: none"> ■ 80–180 kW 108–241 hp at 1800–2300 min¹/rpm ■ EU Stage V US EPA Tier 4 		<p>TCD 7.8 L6</p> <ul style="list-style-type: none"> ■ 250 kW 335 hp at 2600 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>TCD 12.0 V6 TCD 16.0 V8</p> <ul style="list-style-type: none"> ■ 240–520 kW 322–697 hp at 2100 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>TCD 9.0 L4 12.0 L6 13.5 L6</p> <ul style="list-style-type: none"> ■ 300–450 kW 400–600 hp at 2100 min¹/rpm ■ EU Stage V US EPA Tier 4 	<p>TCD 18.0 L6</p> <ul style="list-style-type: none"> ■ 620 kW 831 hp at 1900 min¹/rpm ■ EU Stage V US EPA Tier 4 

Example applications



Electrification

- Competitive solutions for selected applications
 - Reduced TCO
 - Lower noise emissions
 - Performance / torque advantages
- Reduced CO₂ 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

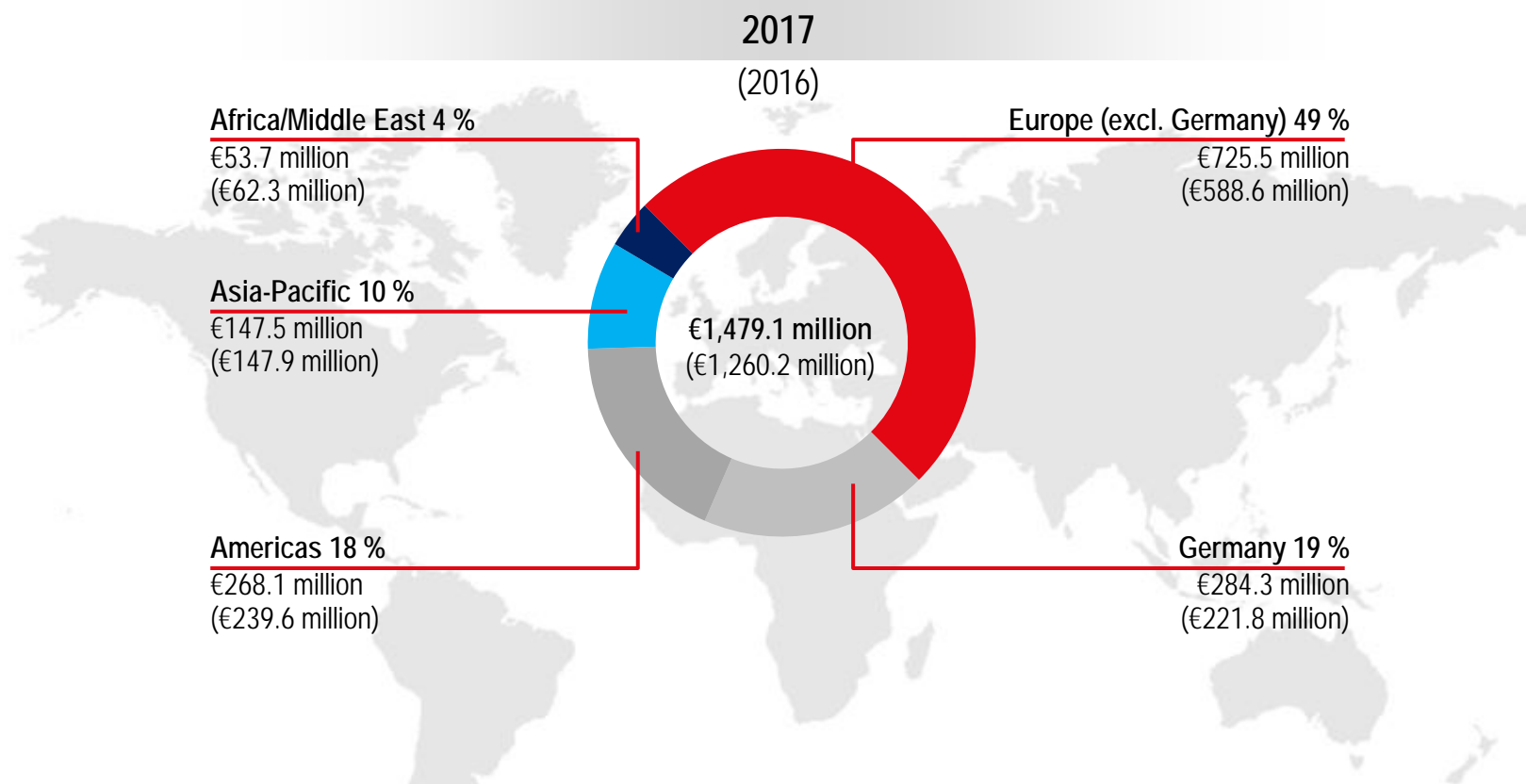
Strategic reason

- 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

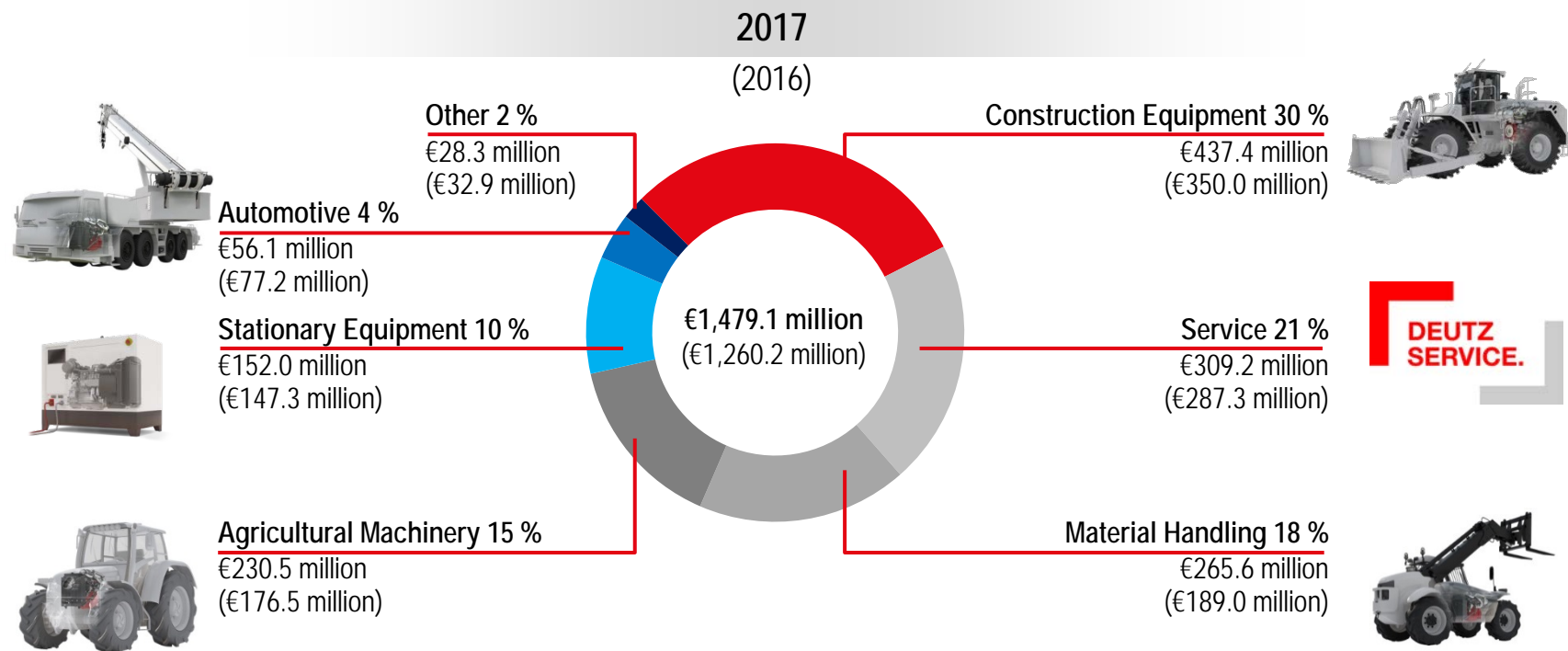
Revenue by region



- Pro-forma revenue⁽¹⁾ 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⁽¹⁾ 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**

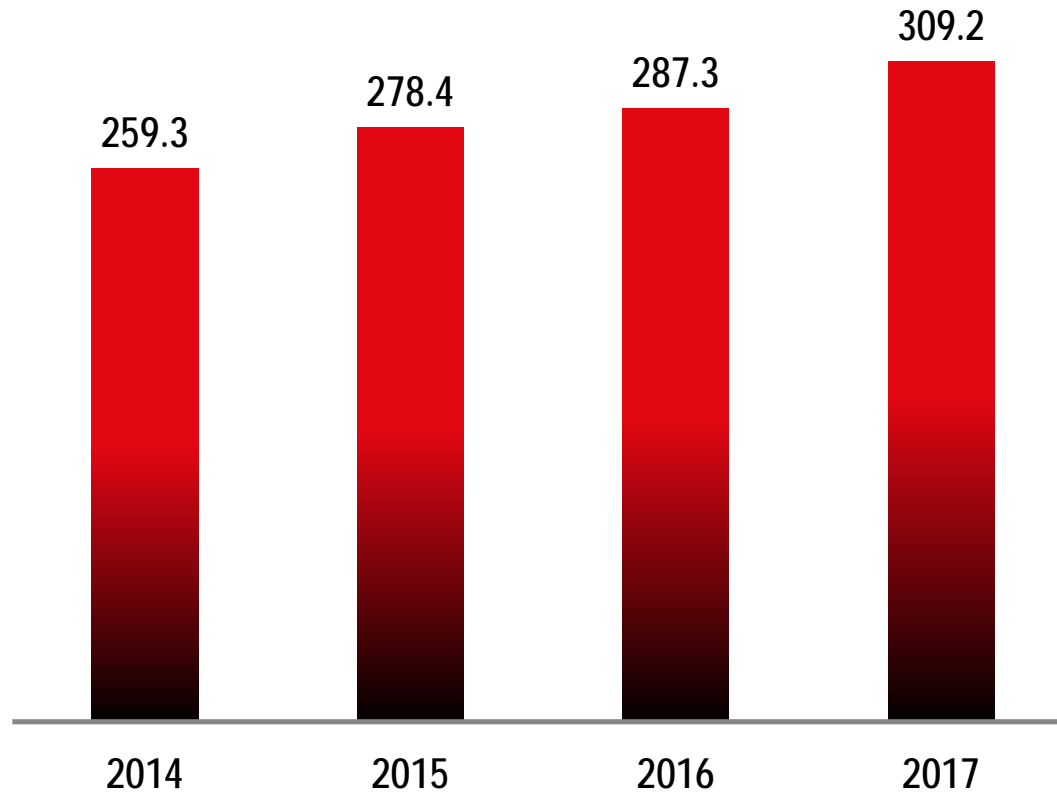
 **MANITOU** *Fetor*


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

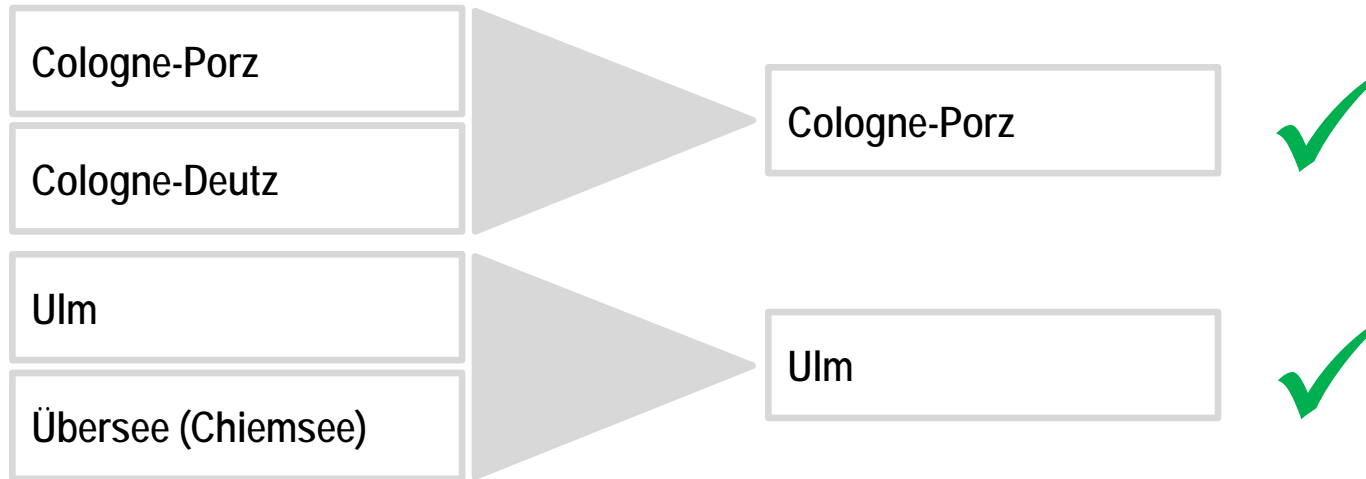
- Acquisition of Italian dealer IML Motori including its Romanian subsidiary
- Italian sales and service network now trading under the name DEUTZ Italy
- The acquisition strengthens our profitable service business



→ 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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Outlook

Key messages

- Strong start to the 2018 financial year
 - Exceptional high volume of new orders
 - Marked revenue growth
 - Substantial improvement of profitability

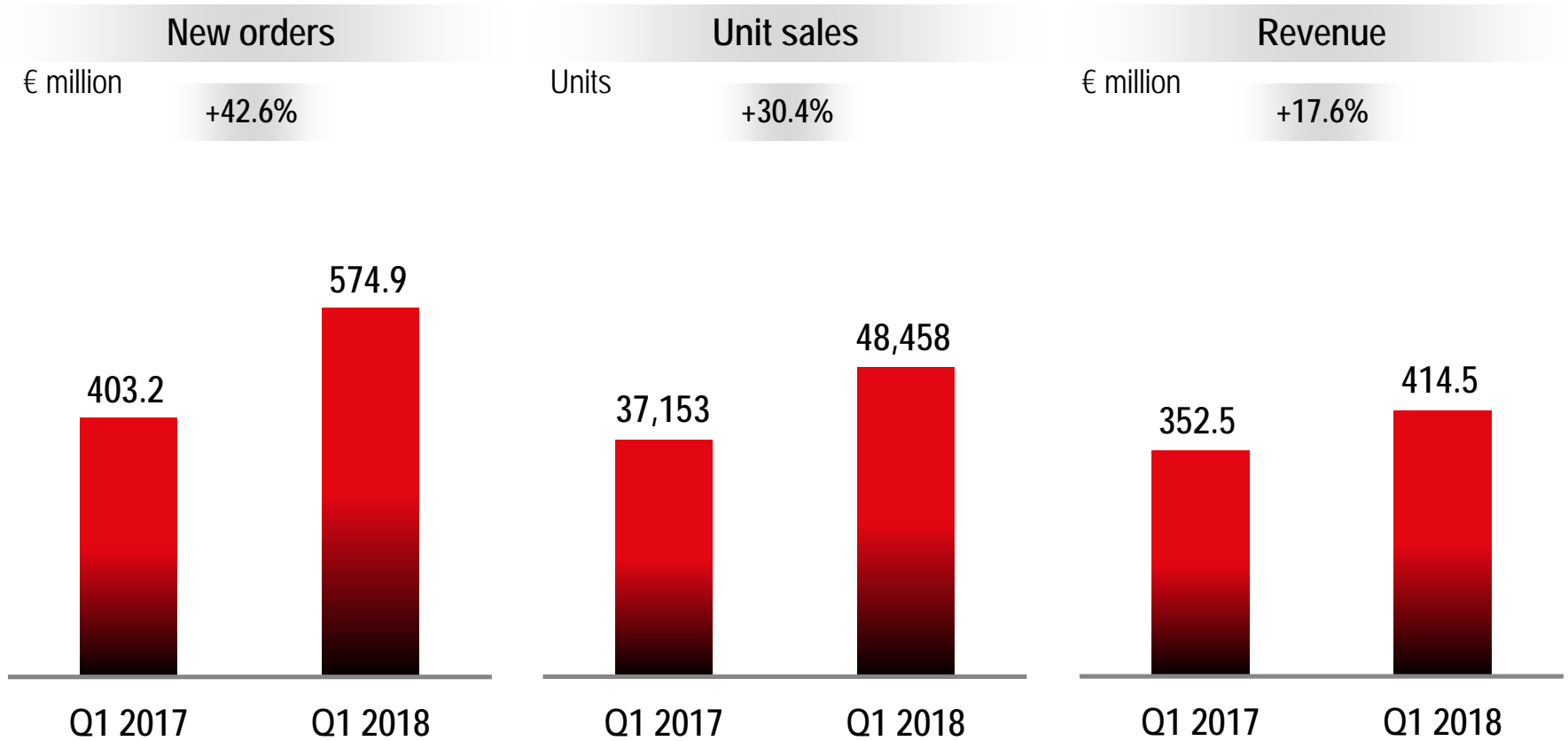
- Review of carrying amounts at JV DEUTZ Dalian
 - DEUTZ engaged an audit firm to review strategic options for the joint venture
 - According to preliminary estimates, the necessary write-down might impact the consolidated financial statements in the range of €16 million to €32 million

Key figures

€ million	Q1 2018	yoy	qoq
New orders	574.9	+42.6%	+50.2%
Revenue	414.5	+17.6%	+7.4%
EBITDA (before exceptional items)	40.9	+42.5%	-9.9%
EBIT (before exceptional items)	21.7	+185.5%	+48.6%
Net income	18.2	+€2.8 million	-€81.7 million
Free cash flow	-9.1	-€48.8 million	-€17.2 million

→ Dynamic revenue and EBIT improvement

Sales figures



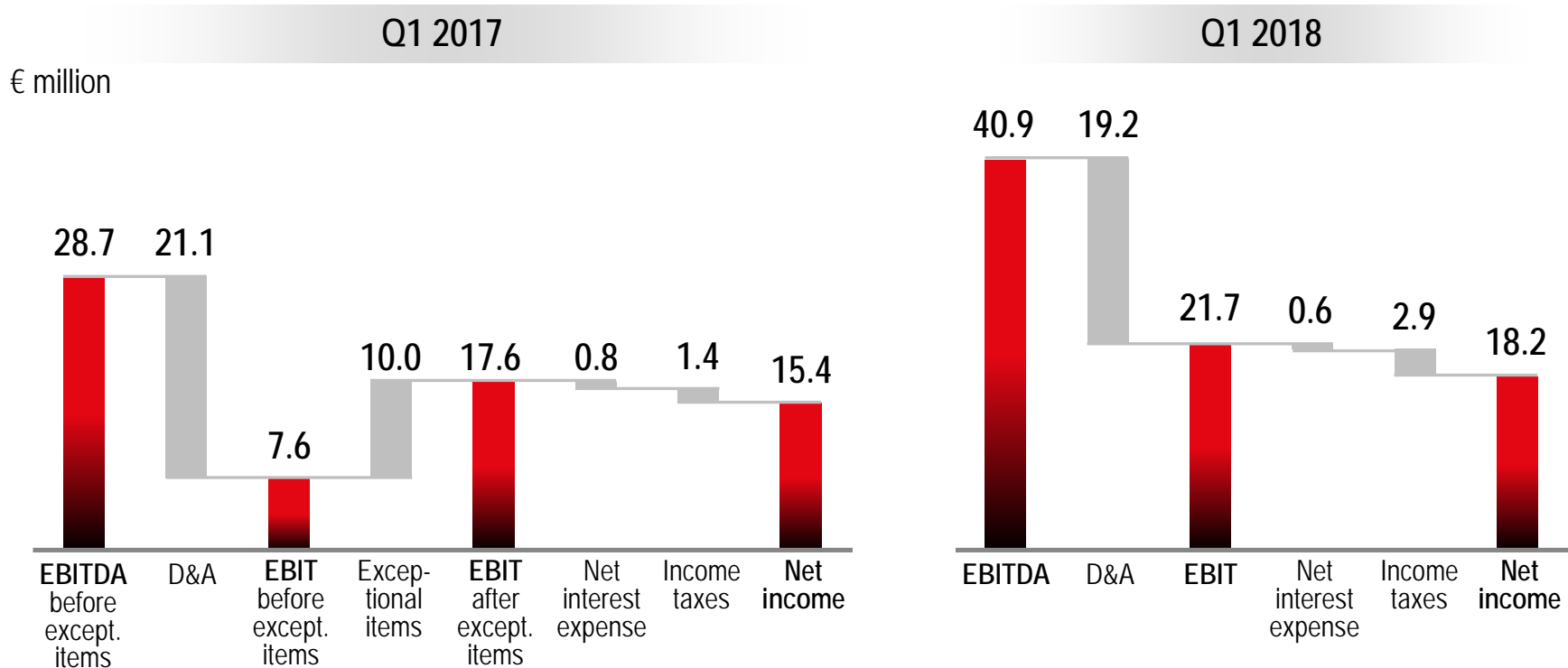
- Organic revenue growth amounts to 15.0%
- Torquedo sold 2.133 electric drive system in Q1 2018

Book-to-bill ratio

€ million	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
New orders	574.9	382.7	370.8	399.8	403.2
Revenue	414.5	385.9	358.7	382.0	352.5
Book-to-bill ratio	1.39x	0.99x	1.03x	1.05x	1.14x
Orders on hand	427.5	270.9	265.1	253.9	238.8

- Strong increase in order intake across all regions and off-road applications due to very favourable business conditions and changed customer procurement behaviour
- Customers placed their orders earlier in the light of the high demand and the introduction of emissions standard EU Stage V in the coming year

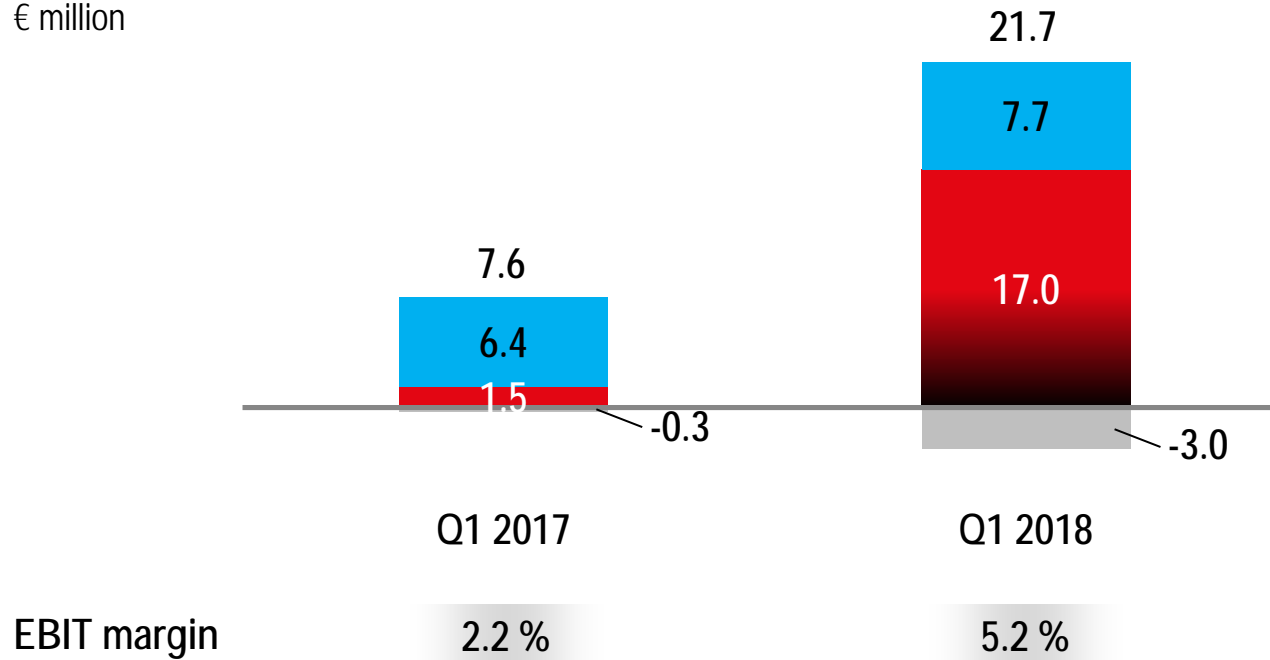
Operating profit & net income



- Significant improvement of EBITDA (+42.5%) due to higher business volume
- EBIT before exceptional items increased strongly by €14.1 million (+185.5%)
- Prior year net income benefitted from exceptional positive items (€10.0 million)

EBIT (before exceptional items)

€ million



- Substantial EBIT improvement driven by higher business volume at DEUTZ Compact Engines
- EBIT margin at DEUTZ Customised Solutions amounts to 13.3% (Q1 2017: 11.0%)
- Operating result of Torqeedo (accounted in Segment Other) in line with expectations

■ DEUTZ Compact Engines
 ■ DEUTZ Customised Solutions
 ■ Other

DEUTZ Compact Engines

€ million	Q1 2018	Q1 2017	Change in %
New orders	492.9	326.3	51.1
Unit sales (units)	44,563	35,321	26.2
Revenue	352.0	294.1	19.7
EBIT (before except. items)	17.0	1.5	>100

€ million	Q1 2018	Q4 2017	Change in %
New orders	492.9	321.1	53.5
Unit sales (units)	44,563	39,724	12.2
Revenue	352.0	319.9	10.0
EBIT (before except. items)	17.0	15.8	7.6

- Double-digit revenue growth in key application segments: Material Handling (+31.4% yoy), Construction Equipment (+30.1% yoy) and Agricultural Equipment (+24.6% yoy)
- Service revenues increased by 4.6% yoy
- EBIT improvement (+€15.5 million yoy) attributable to higher business volume

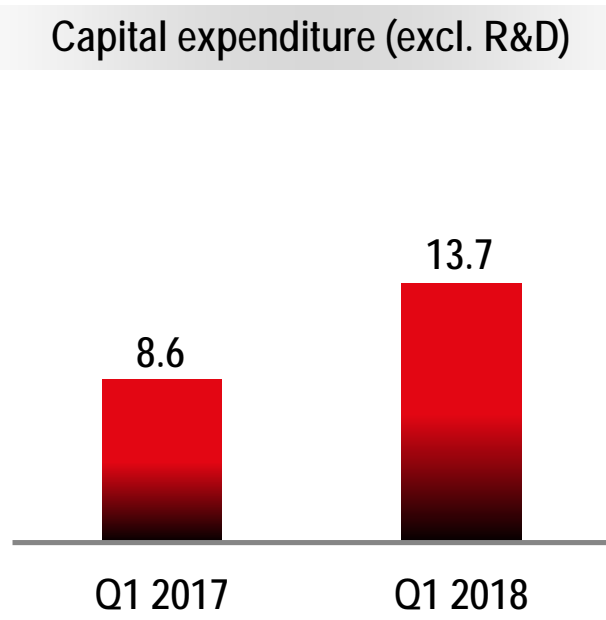
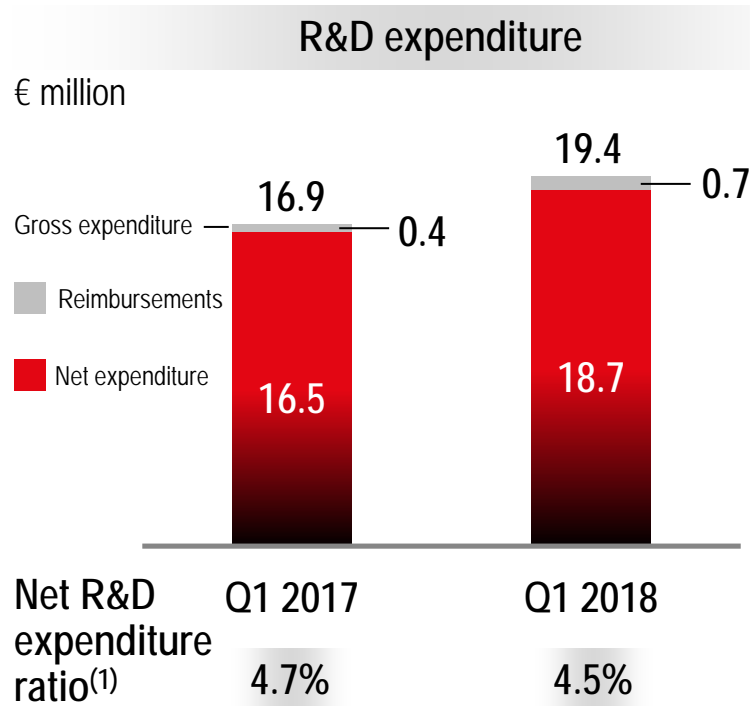
DEUTZ Customised Solutions

€ million	Q1 2018	Q1 2017	Change in %
New orders	76.7	76.9	-0.3
Unit sales (units)	1,762	1,832	-3.8
Revenue	57.7	58.4	-1.2
EBIT (before except. items)	7.7	6.4	20.3

€ million	Q1 2018	Q4 2017	Change in %
New orders	76.7	56.8	35.0
Unit sales (units)	1,762	2,408	-26.8
Revenue	57.7	62.3	-7.4
EBIT (before except. items)	7.7	2.6	>100

- Book-to-bill ratio amounts to 1.33x
- Proportion of revenue generated by the service business increased to 55% (Q1 2017: 53%)
- EBIT increased by 20.3% yoy to €7.7 million due profitable service business

R&D spending & capital expenditure



- R&D increased in line with guidance
- Proportion of capitalised net R&D expenditure: €4.3 million (Q1 2017: €3.6 million)

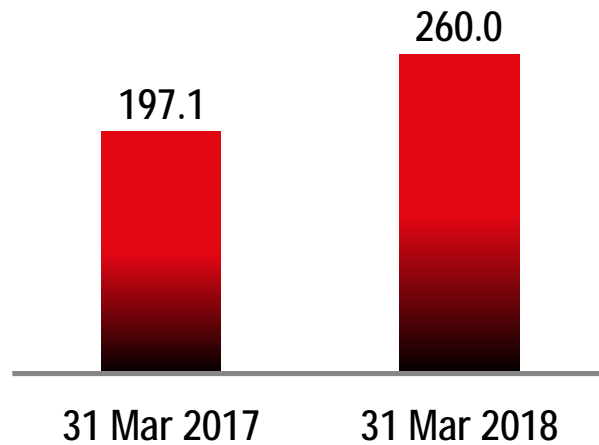
- Capex increase according to budget

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

Working capital & operating cash flow

Working capital

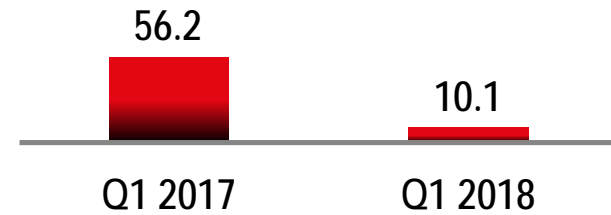
€ million



Working capital ratio 15.0% 16.9%

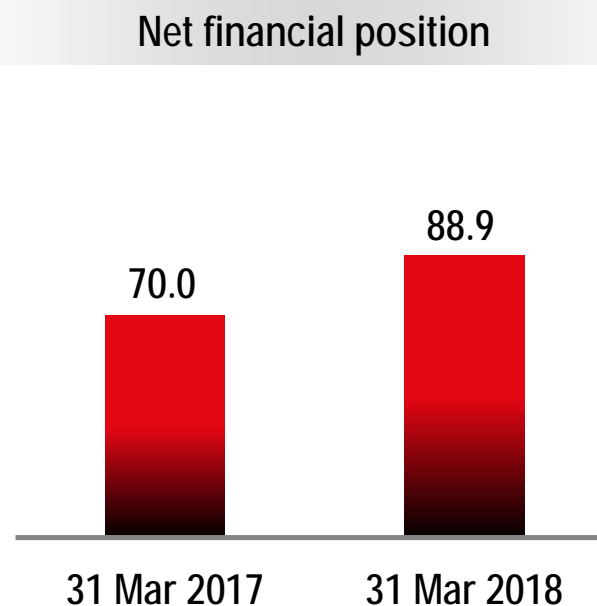
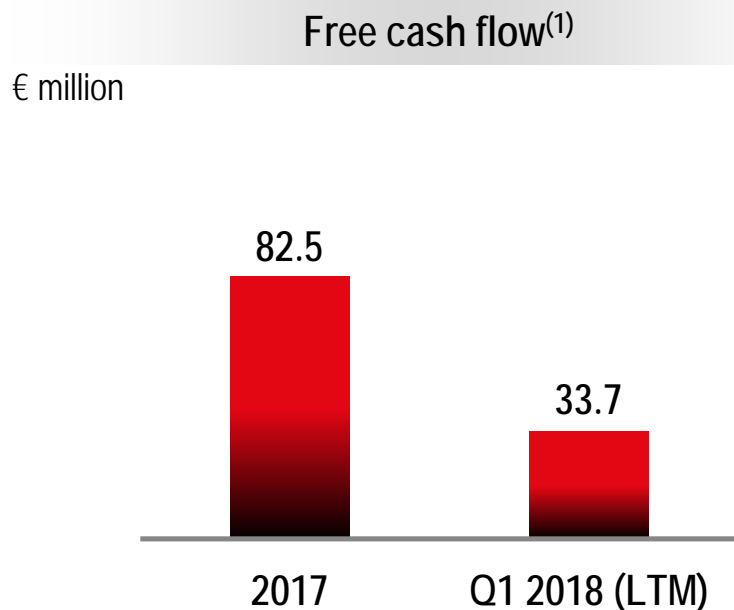
- Working capital increased by €62.9 million mainly due to higher business volume

Operating cash flow



- Operating cash flow decline attributable to higher working capital

Free cash flow generation & net financial position



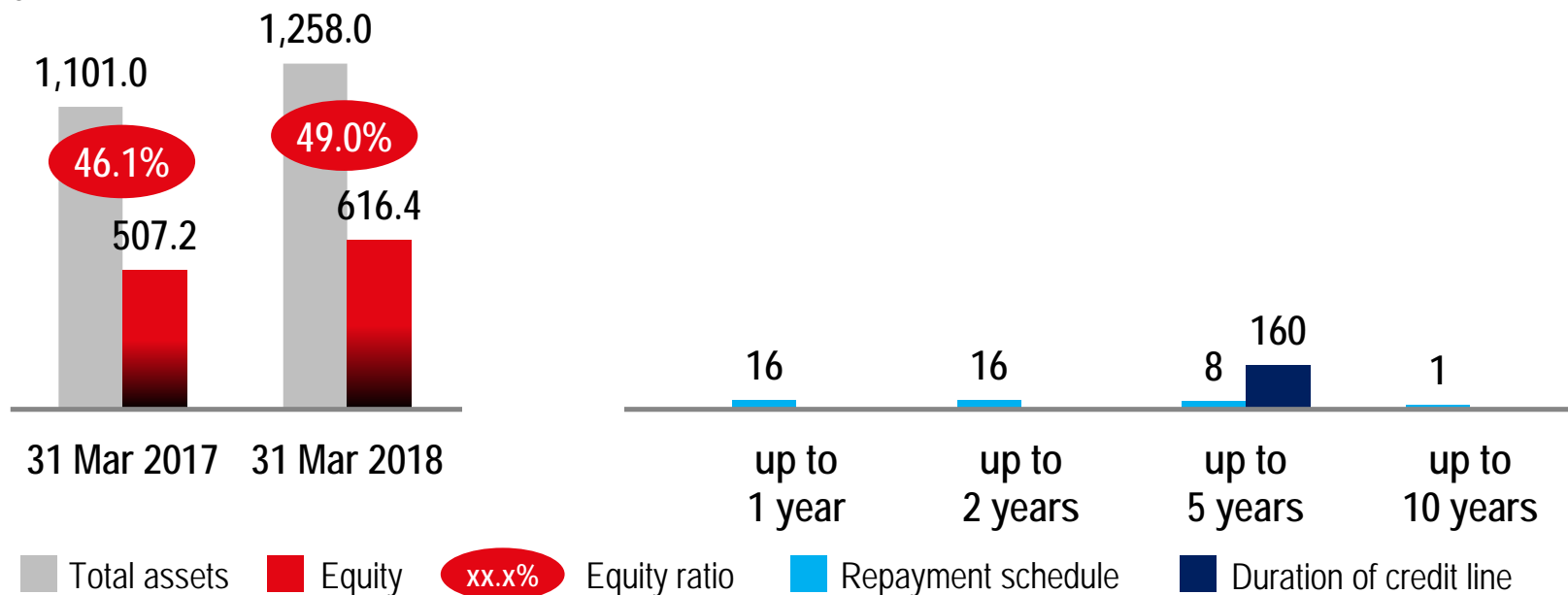
■ Free cash flow decline due to lower operating cash flow

■ Net financial position increased by €18.9 million

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

Equity ratio & funding

€ million



- Strong balance sheet; equity ratio amounts to 49.0%
- Medium- to long-term financing with undrawn facilities available:
 - Credit line of €160 million until June 2022
 - 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)			
Construction Equipment	+5% to +10%	+5% to +10%	+10% to +20%
Material Handling	+5% to +10%	+5% to +10%	+10% to +20%
Agricultural Machinery	0% to +5%	0% to +5%	-5% to 0%
Medium & Light-Duty Trucks			0% to +5%

Financial outlook

€ million	FY 2017 reported	FY 2018 guidance
Revenue	1,479.1	marked increase
EBIT margin (before exceptional items) ⁽¹⁾	2.9 %	moderate increase
R&D expenditure ⁽²⁾	67.0	70 - 75
Capex (excl. R&D) ⁽²⁾	54.7	60 - 70

(1) Subject to final results of review of carrying amounts at JV DEUTZ Dalian

(2) Net of reimbursements

Financial calendar & contact details

- H1 2018 results 2 August 2018
- Q1-Q3 2018 results 8 November 2018
- FY 2018 results 14 March 2019

▶ Contact details

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