

DEUTZ

Investor presentation



February 2019



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Strategy & market position

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Outlook

DEUTZ at a glance

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

- 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

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



DEUTZ offers a broad range of engines

G 2.2 L3 | G 2.9 L4

- 26–54 kW | 35–72 hp at 2800 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



Start of series production in 2019

TCD 2.2 L3

- 55,4 kW | 75 hp at 2600 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



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.



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



TCD 9.0 L4 | 12.0 L6 | 13.5 L6

- 300–450 kW | 400–600 hp at 2100 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



Start of serial supply in 2019

TCD 18.0 L6

- 620 kW | 831 hp at 1900 min⁻¹/rpm
- EU Stage V | US EPA Tier 4



- Expanded product offering in the lower output range
- New gas and bi-fuel engines
- Expansion of product portfolio in the upper output range (200 to 620 kW)

→ Expansion of product portfolio for EU Stage V emissions standard in 2019

DEUTZ is present in more than 130 countries worldwide



Production & service network

● Production & assembly

◆ Xchange centre

▲ Sales company

● Service centre

>800 sales & service partners

DEUTZ is successfully expanding customer base worldwide

Long-standing customer relationships
(not exhaustive)

VOLVO

Atlas Copco

**WACKER
NEUSON**

BOMAG
FAYAT GROUP

WIRTTGEN

AGCO
FENDT

SAME
DEUTZ FAHR

LIEBHERR

New customers & greater share of wallet
(not exhaustive)

HITACHI

TAKEUCHI

TM

SKYJACK

KION
GROUP

JLG

MANITOU

TEREX

Fetor

ARGO TRACTORS

SANY

ZOOMLION



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DEUTZ is well on track to become a leading provider of innovative drive systems

Combustion engines here to stay

~200,000 units
per year expected

Alternative drives

on the rise

Hybrid & electric, hybrid, gas, synthetic & bi-fuels

Reduction of complexity ,CO₂ optimisation

5-10% share of revenue

from electric and hybrid solutions **in 2022**

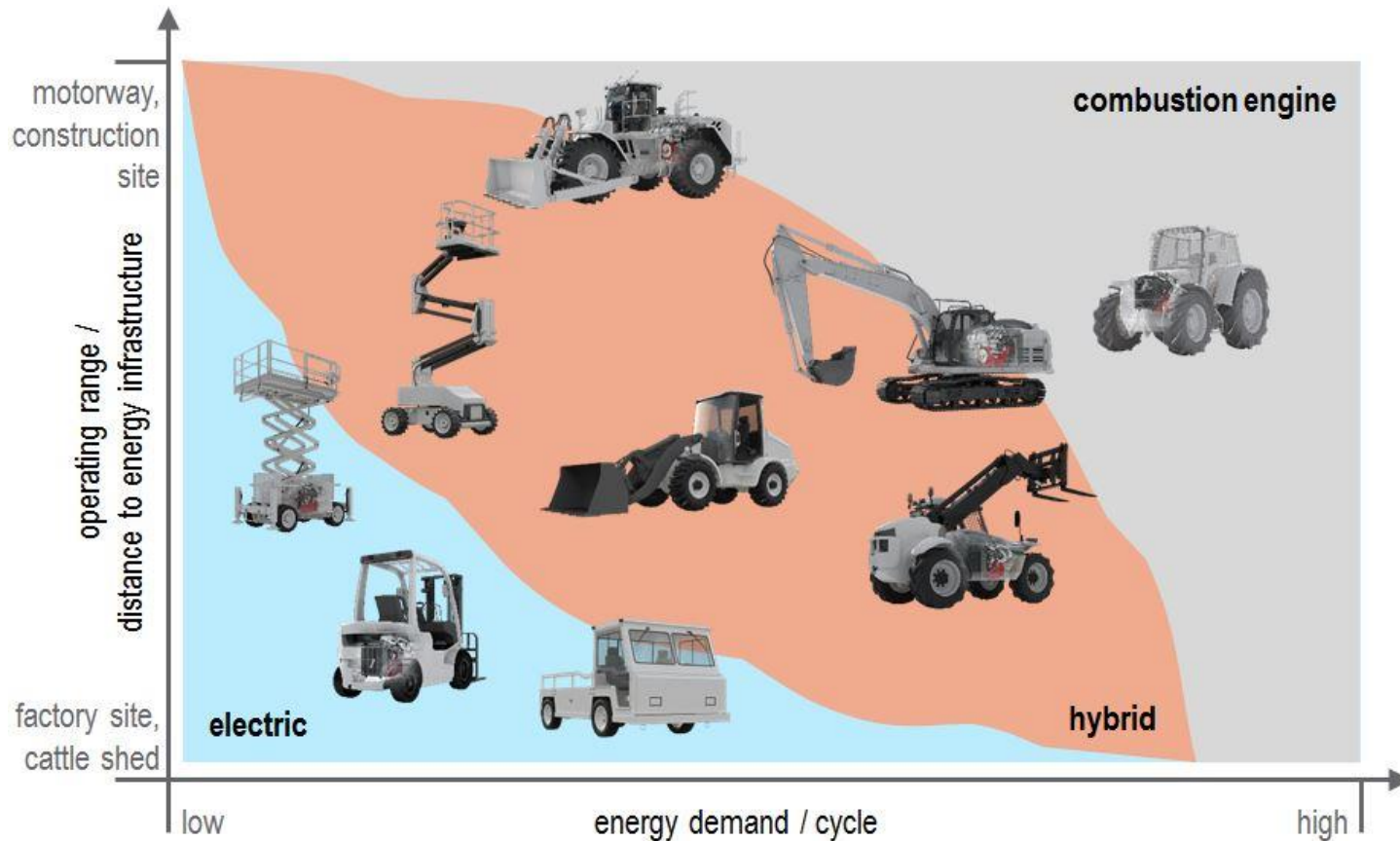
Electrification strategy



- Acquisition of Torqeedo (Sep 2017) is paying off
- Successful know-how transfer –
DEUTZ saves 5 years development time
- First prototype after 6 months
- Marketable hybrid and full-electric products
expected at end of 2019 / early 2020

→ DEUTZ has taken on a pioneering role in the field of electrification

Electrification strategy

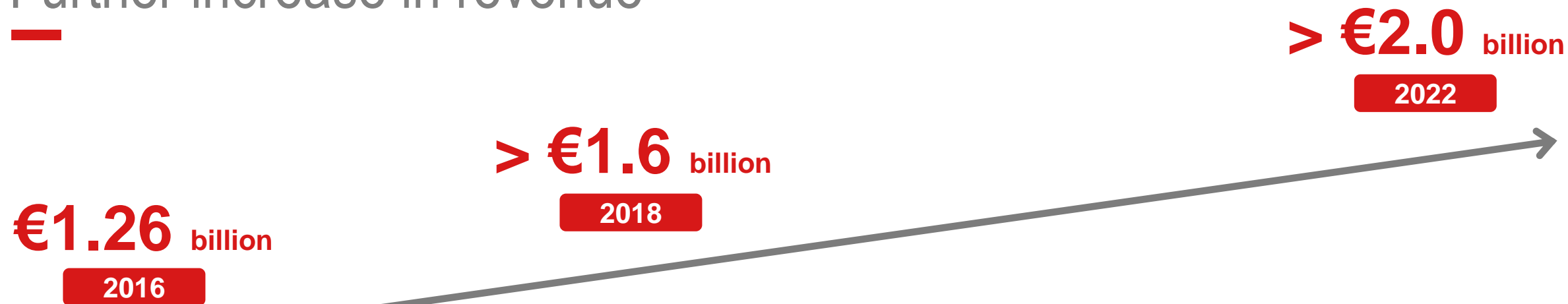


- Electrification strategy is as “door opener” for new customers
- DEUTZ has established expertise in all relevant technological fields (e-motors, power electronics, battery technology, systems integration etc.)
- DEUTZ offers a modular kit solution for customer-specific drive specifications
- Key selling points: lower emissions & total cost of ownership

→ DEUTZ leads the development of electrification solutions for off-highway applications

DEUTZ performance programme

Further increase in revenue



Key drivers

Growth of core business:
expanded portfolio of combustion engines for EU Stage V emissions standard, further expansion of customer base

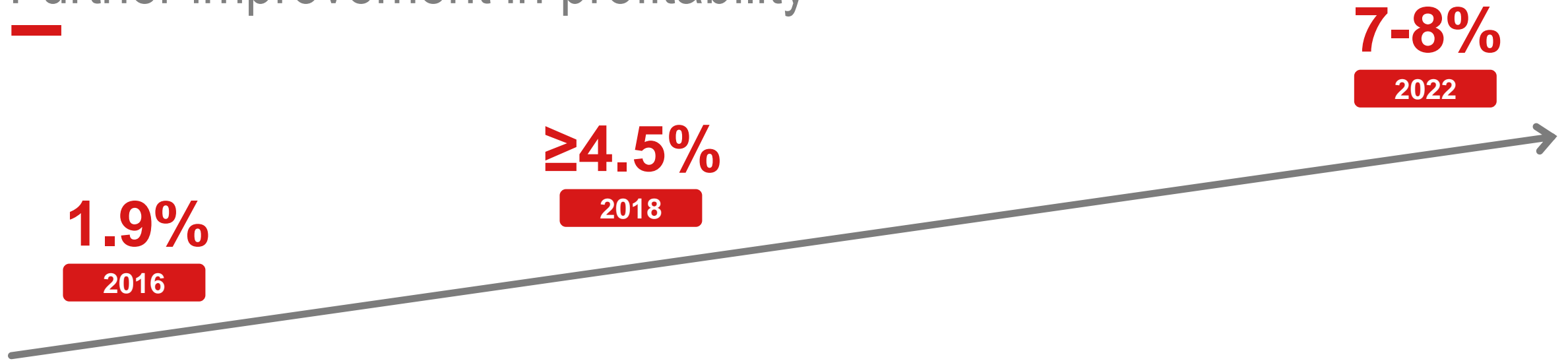
Expansion of product portfolio:
new innovative drive systems (alternative drives & E-DEUTZ), win new customers

Expansion of service business:
more than € 400 million revenue in 2022, digitalisation

Regional growth:
improve market position in the USA, exploit growth potential in Asia with strong focus on China

DEUTZ performance programme

Further improvement in profitability



Key drivers

Operational excellence:

Optimise global production and sourcing network, better efficiency in all operations, reduction of complexity and improvement of quality

Investments in product portfolio:

e.g. Torqeedo, E-DEUTZ, 9-18L engines

Expansion of service business:

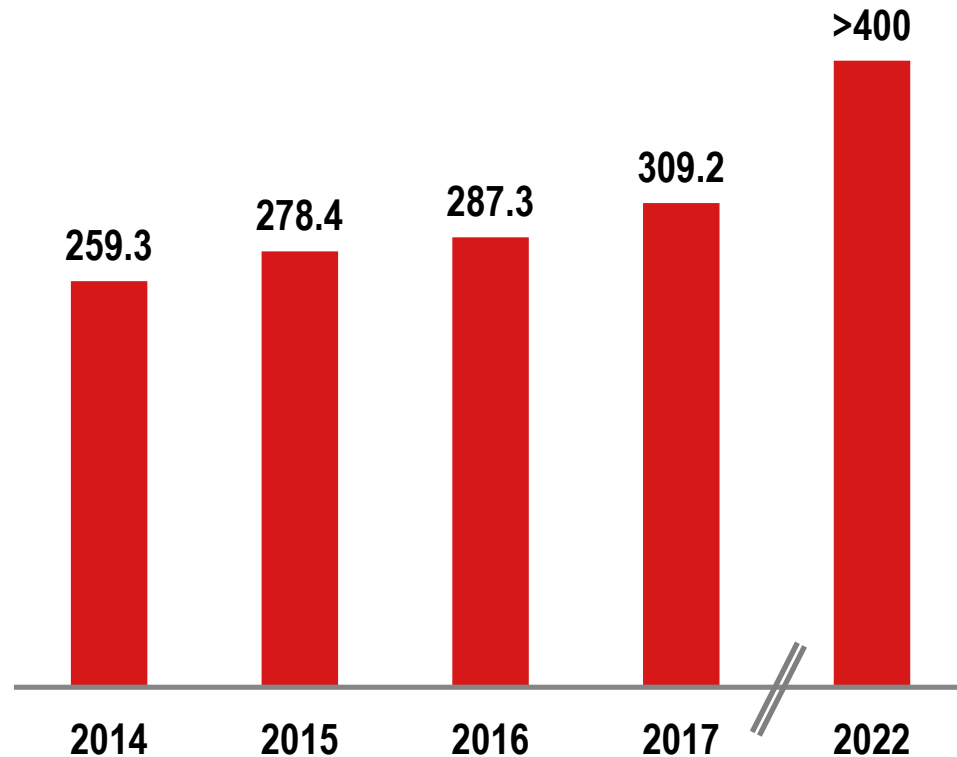
revenues of more than € 400 million expected in 2022, digitalisation

Growth in core business and regions:

Optimise existing portfolio/product mix, optimisation of distribution

Expansion of service business

€ million



→ Revenue of more than € 400 million expected in 2022

- Service business showing resilience throughout the economic cycle
- Expansion of service business
 - New products
 - Best-in-class availability of spare parts
 - Optimised repair concepts (e.g. Xchange engines)
 - Direct connection to our end customers via digital channels
 - Investment in own service centres & acquisition of selected dealers
 - Digitalisation

We care. We support. We deliver.

DEUTZ SERVICE.



Digitalisation

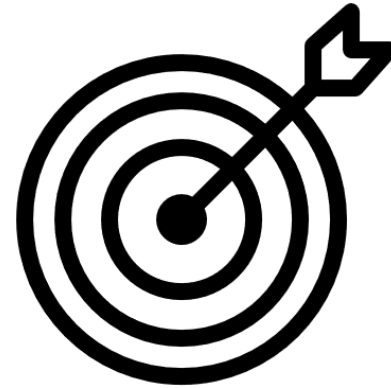
“From data to value”

Where?

- Production
 - Sales
 - Service
 - Administration
 - Quality
-

How?

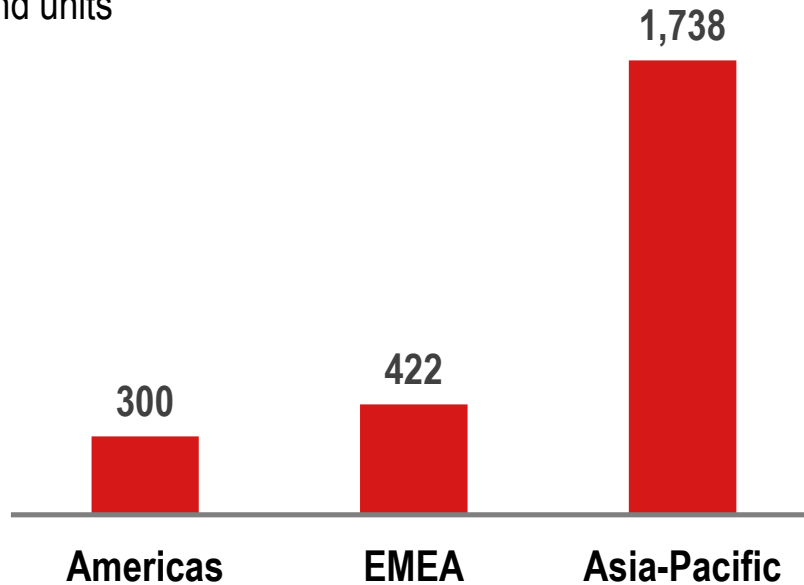
- DEUTZ as a “learning organisation”
- Data processing & analysis



**Improve efficiency
& customer loyalty**

Regional growth strategy

Off-highway market 2017
in thousand units



Attainable market: Non-captive engine supply,
CE / AG / MH / StE segments, 19-620 kW, emission level
≥ Tier 3 (based on PSR 2017 database)

→ **DEUTZ aims to further increase its market share**

- **Americas** offers growth potential with full-electric, hybrid, gas and bi-fuel drives. Focus on strengthening market position in the USA
- **EMEA:** further development of OEMs, increase market penetration with innovative drive systems such as full-electric & hybrid
- **Asia-Pacific:** China is the world's largest individual market and offers growth potential due to fast implementation of emissions standard China IV

China growth strategy

Three-pillar strategy



- China`s biggest construction equipment group
- Large customer
- Joint venture partner



- HORIZON is the largest rental company for material handling in China
- Service partner
- Partner for digitalisation



- First diesel engine company in China
- Contract manufacturing cooperation
- Ability to satisfy additional demand throughout Asia

→ Revenue target in China: ~€500 million in 2022⁽¹⁾

Financial strength

Strong balance sheet

- ▶ Equity ratio to remain >40%
- ▶ Medium- to long-term financing with undrawn facilities available

Potential acquisitions

- ▶ Firepower for acquisitions available
- ▶ Focus on innovation, service & internationalisation

Attractive dividend policy

- ▶ Payout ratio ~30% of recurring profit over multi-year period
- ▶ Stable or growing dividend per share

→ Robust financial framework in volatile markets

Key investment highlights

- Well on track to become a leading provider of innovative drive systems
- Leading position in the development of electrification solutions for off-highway applications
- Successful expansion of customer base worldwide
- Strongly growing service business to enhance resilience and profitability
- Regional expansion of the business including three-pillar growth strategy in China
- Robust financial framework in volatile markets
- Clear strategy to further increase profitability

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Highlights

■ Strong Q1-Q3 2018 performance

- Sharp order growth (+31.9% yoy)
- Double-digit revenue increase (+18.7% yoy)
- Ongoing growth in all regions and segments
- Substantial improvement of operating profit: EBIT (before exceptional items) +71.9% yoy
- Good Q3 result despite strike at supplier

■ Progress towards strategic targets

- DEUTZ sets course for further growth in China. JV DEUTZ Dalian (DDE) sold to former partner FAW in October. DDE related P&L effects will be offset in Q4 (expected cash inflow approx. €10 million)
- New opportunities due to the implementation of China 4 emissions standard for off-highway applications, which has been brought forward to 2020. Licence agreement with Norinco signed in November
- E-DEUTZ strategy well on track: successful presentation of hybrid and full-electric prototypes at our ELECTRIP event week in September. First E-DEUTZ customer project with Manitou

Key figures⁽¹⁾

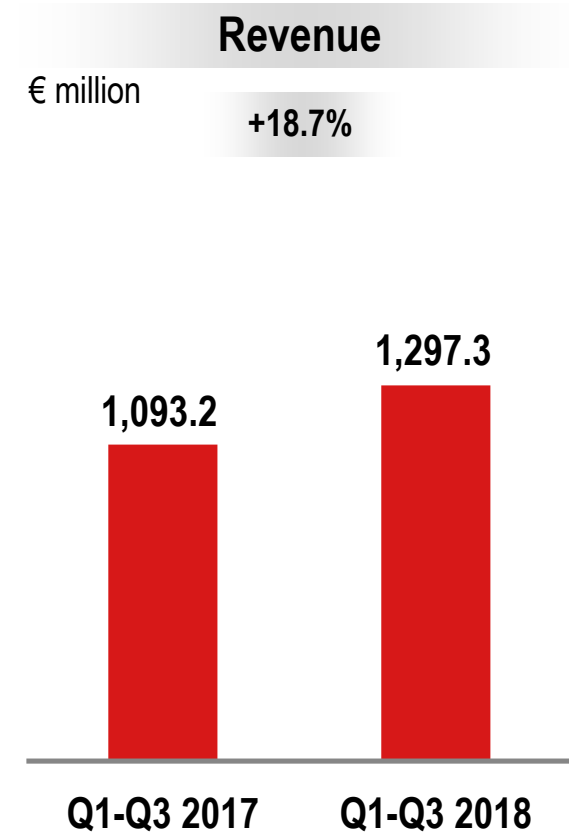
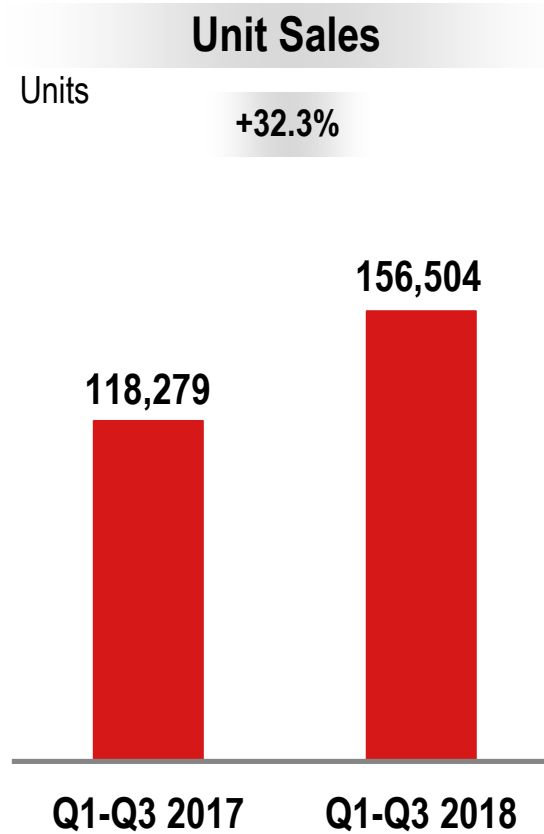
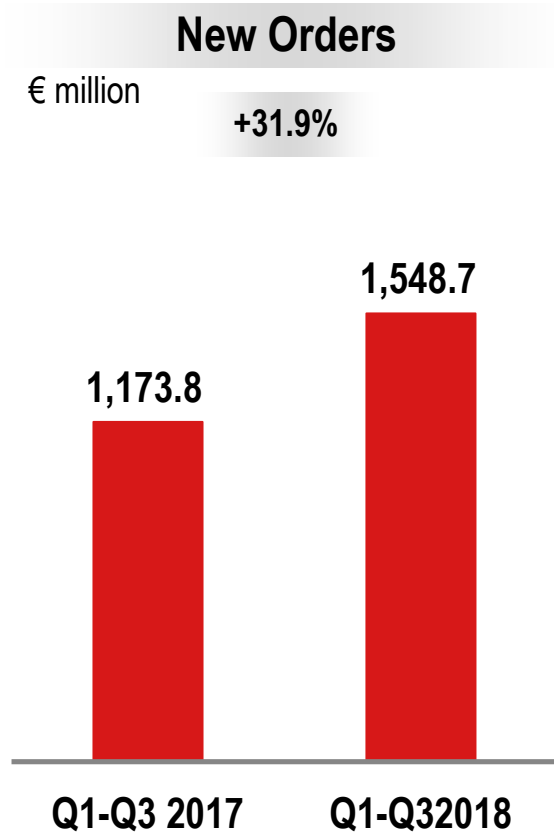
€ million	Q1-Q3 2018	yoy	Q3 2018	yoy
New orders	1,548.7	+31.9%	452.2	+22.0%
Revenue	1,297.3	+18.7%	419.7	+17.0%
Adjusted EBIT⁽²⁾	60.3	+115.4%	12.8	+146.2%
EBIT (before exceptional items)	45.9	+71.9%	12.5	+150.0%
Net income	35.6	+76.2%	10.3	+586.7%

(1) 2017 figures restated

(2) EBIT (before exceptional items) adjusted for DDE effects in 2018 (i.e. operating profit, adjustment of carrying amount and impairment)

→ Substantial improvement of operating profit

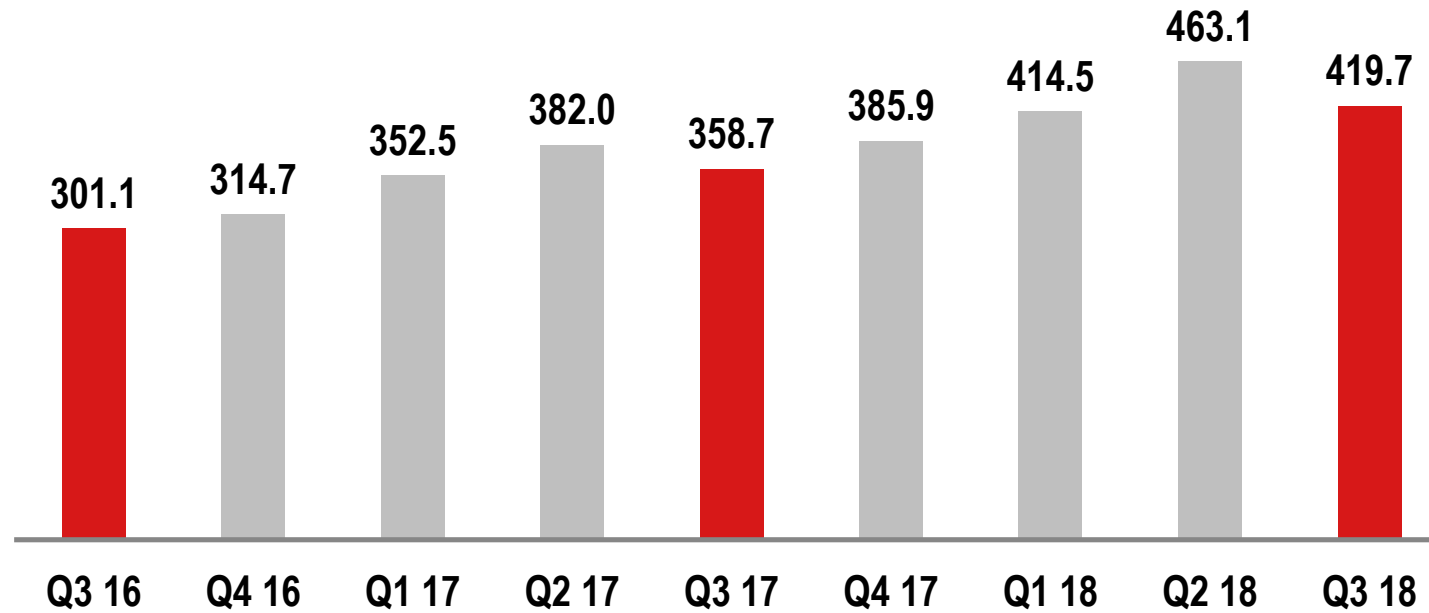
Sales figures



- Torquedo sold 8,977 electric drive systems in Q1-Q3 2018
- Unit sales grew faster than revenue due to strong demand for smaller engine series

Revenue by quarter

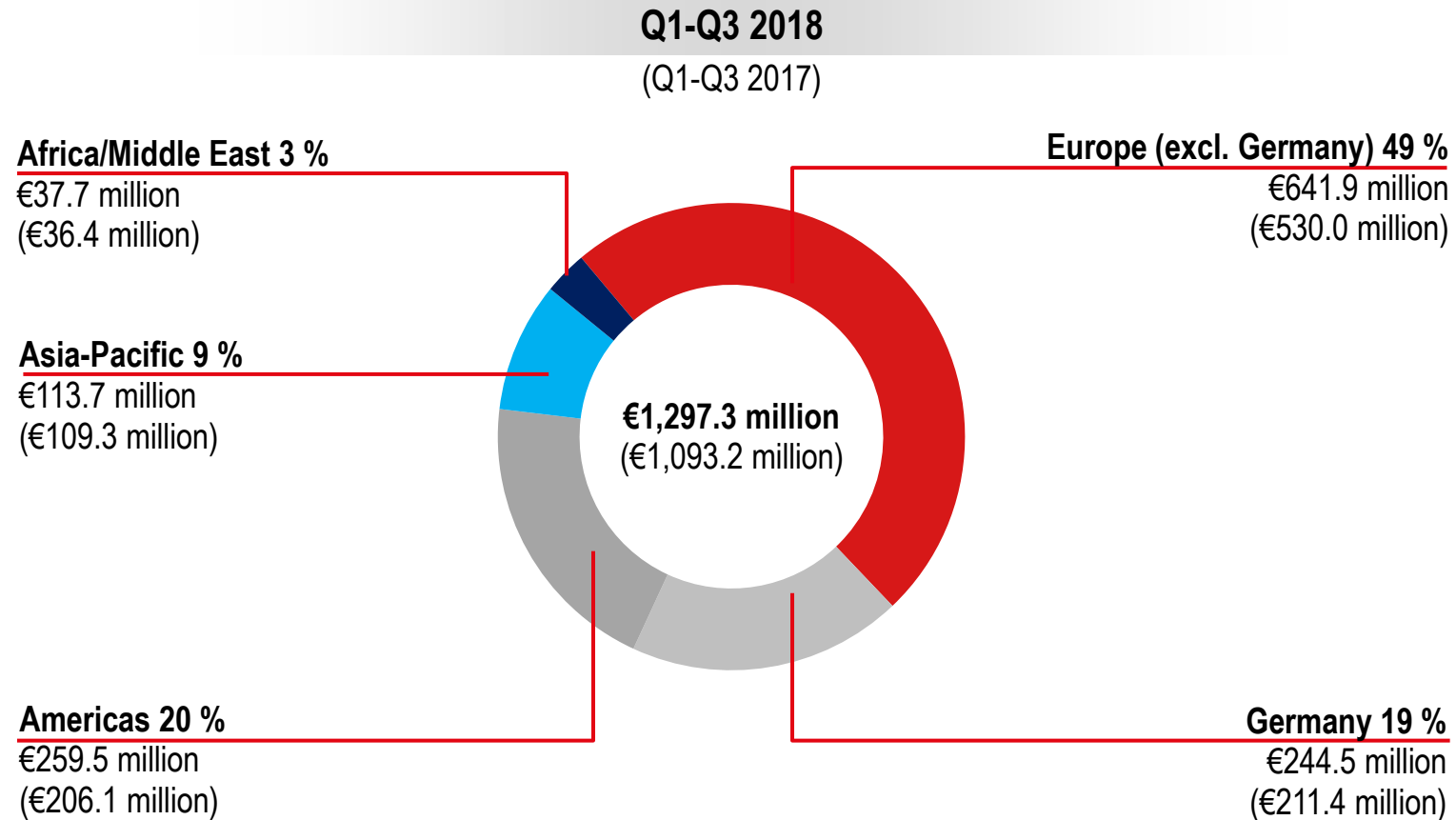
€ million



■ Double-digit revenue growth in Q3 yoy despite strike at a supplier

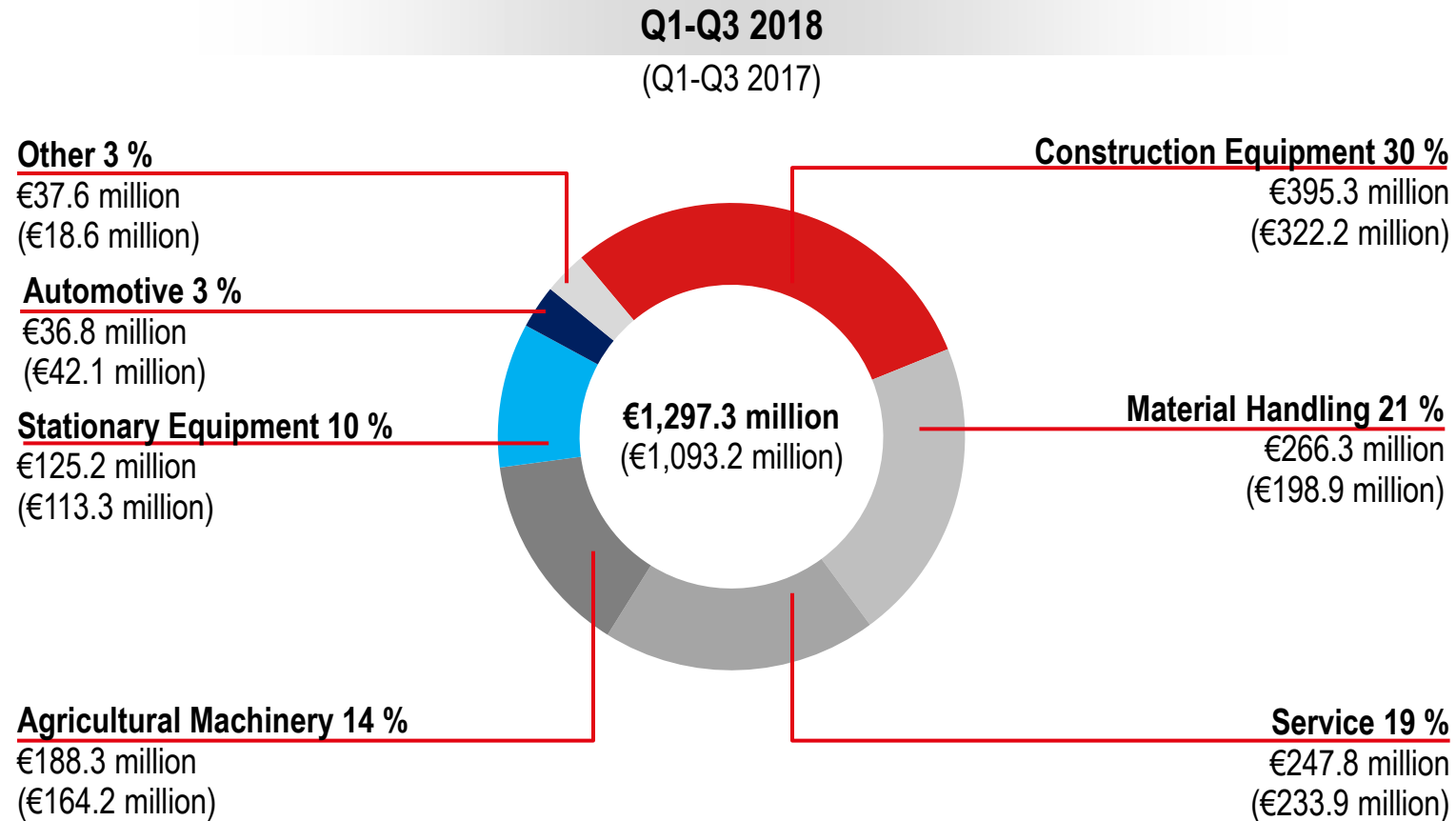
Revenue by region

Strong growth supported by all regions

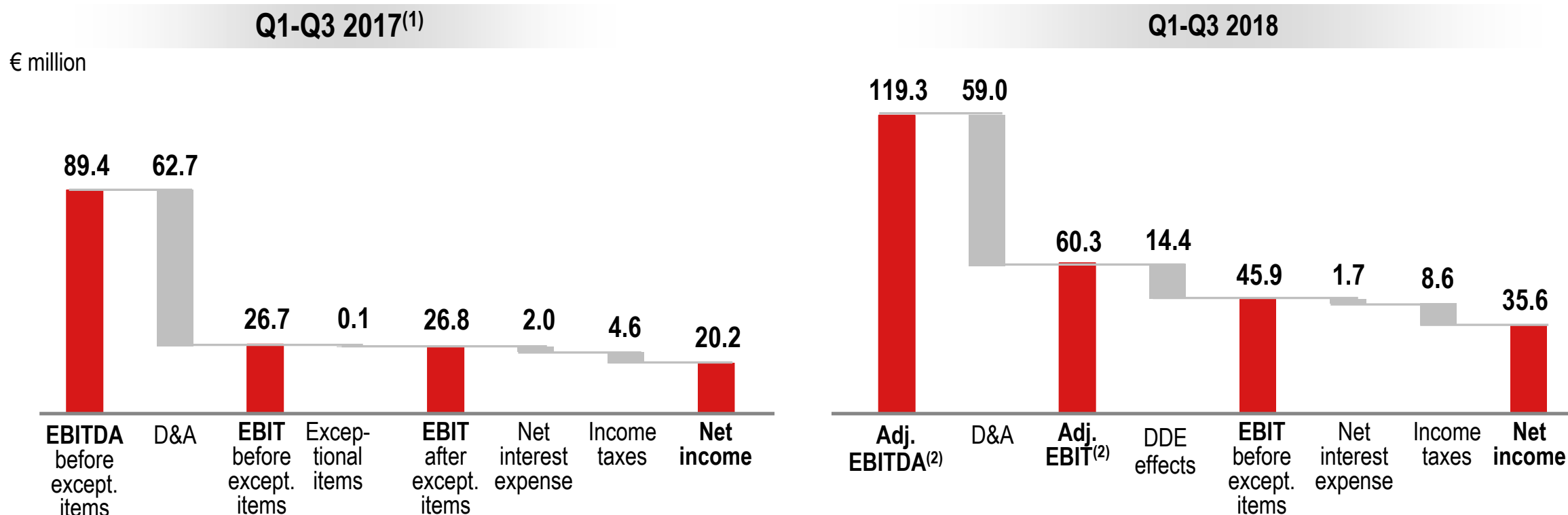


Revenue by application

Substantial revenue growth in all off-highway applications



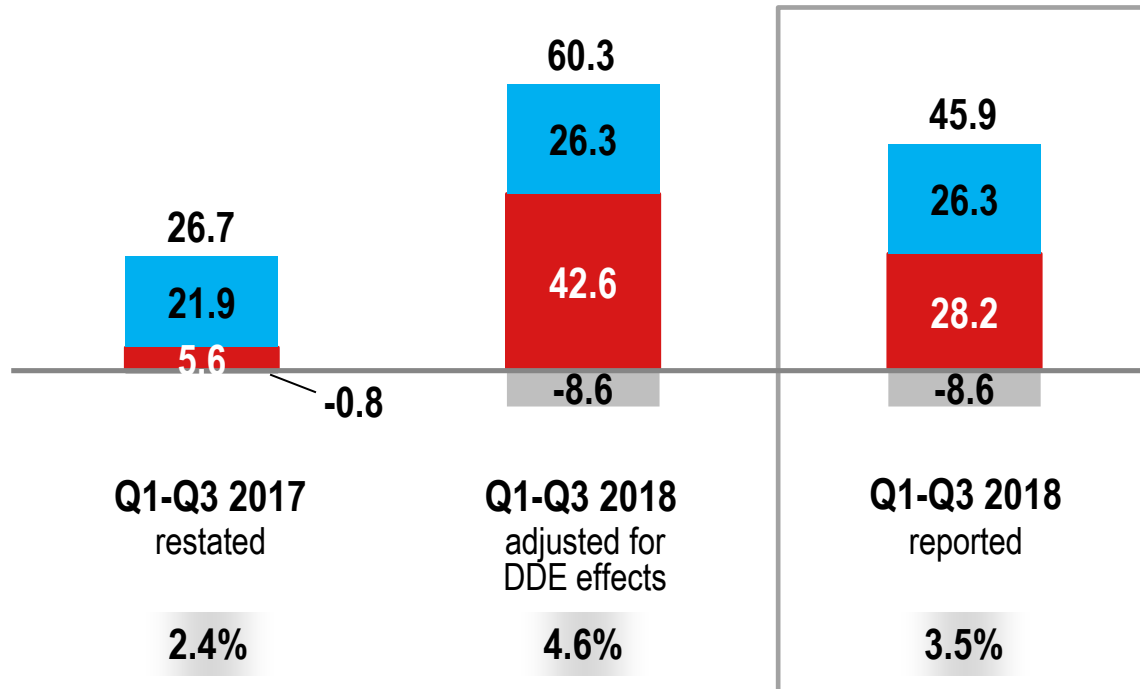
Operating profit & net income



- Adj. EBITDA advanced by 33.4% and adj. EBIT more than doubled
- €14.4 million drag on EBIT in Q1-Q3 2018 by DDE JV, but this will be recovered in Q4
- Low interest expenses and tax rate
- Net income increased by 76.2%

EBIT (before exceptional items)

€ million



- Operating profit increase driven by DEUTZ Compact Engines
- Adjusted EBIT margin improved by 2.2%-points
- Reported EBIT in the DEUTZ Compact Engines segment was affected by JV DDE

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions ■ Other

DEUTZ Compact Engines⁽¹⁾

€ million	Q1-Q3 2018	Q1-Q3 2017	Change in %
New orders	1,312.2	969.3	35.4
Unit sales (units)	141,034	111,947	26.0
Revenue	1,085.2	907.6	19.6
Adjusted EBIT ⁽²⁾	42.6	6.9	517.4
EBIT (before except. items)	28.2	5.6	403.6

€ million	Q3 2018	Q3 2017	Change in %
New orders	381.8	307.7	24.1
Unit sales (units)	46,571	36,465	27.7
Revenue	347.5	294.0	18.2
Adjusted EBIT ⁽²⁾	7.8	-4.5	--
EBIT (before except. items)	7.5	-4.7	--

- Double-digit revenue growth in key applications: Material Handling (+35.9% yoy), Construction Equipment (+24.3% yoy) and Agricultural Equipment (+14.6% yoy)
- Service revenue increased by 5.5% yoy
- Substantial improvement of underlying profitability

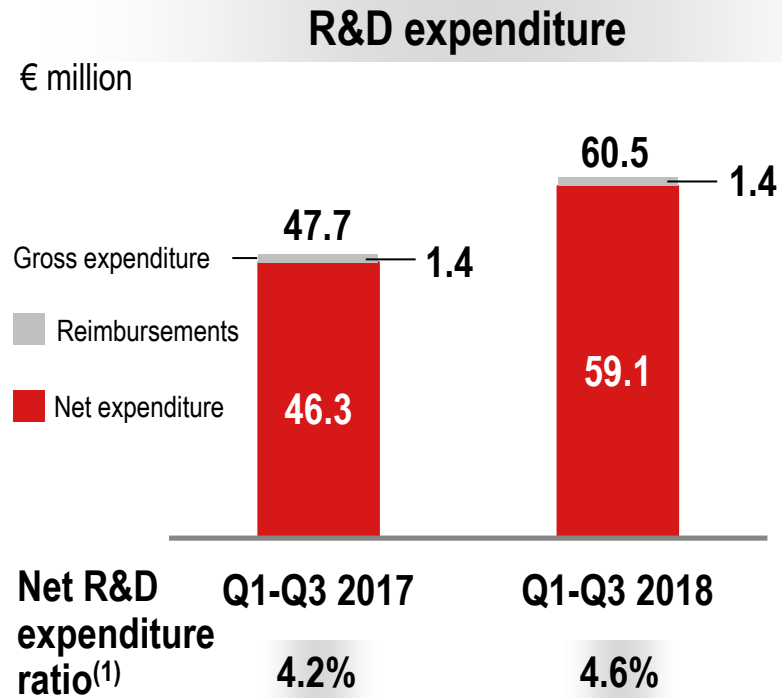
DEUTZ Customised Solutions

€ million	Q1-Q3 2018	Q1-Q3 2017	Change in %
New orders	214.8	204.5	5.0
Unit sales (units)	6,493	6,332	2.5
Revenue	191.3	185.6	3.1
EBIT (before except. items)	26.3	21.9	20.1

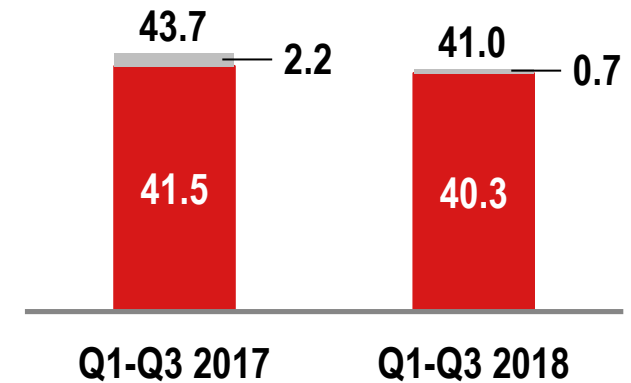
€ million	Q3 2018	Q3 2017	Change in %
New orders	63.7	63.1	1.0
Unit sales (units)	2,100	2,215	-5.2
Revenue	65.8	64.7	1.7
EBIT (before except. items)	8.4	10.3	-18.4

- Good Q1-Q3 2018 performance
- Service revenue advanced by 6.6% yoy
- Strong EBIT growth (+20.1% yoy) attributable to better product mix, profitable service business and efficiency gains

R&D spending & capital expenditure

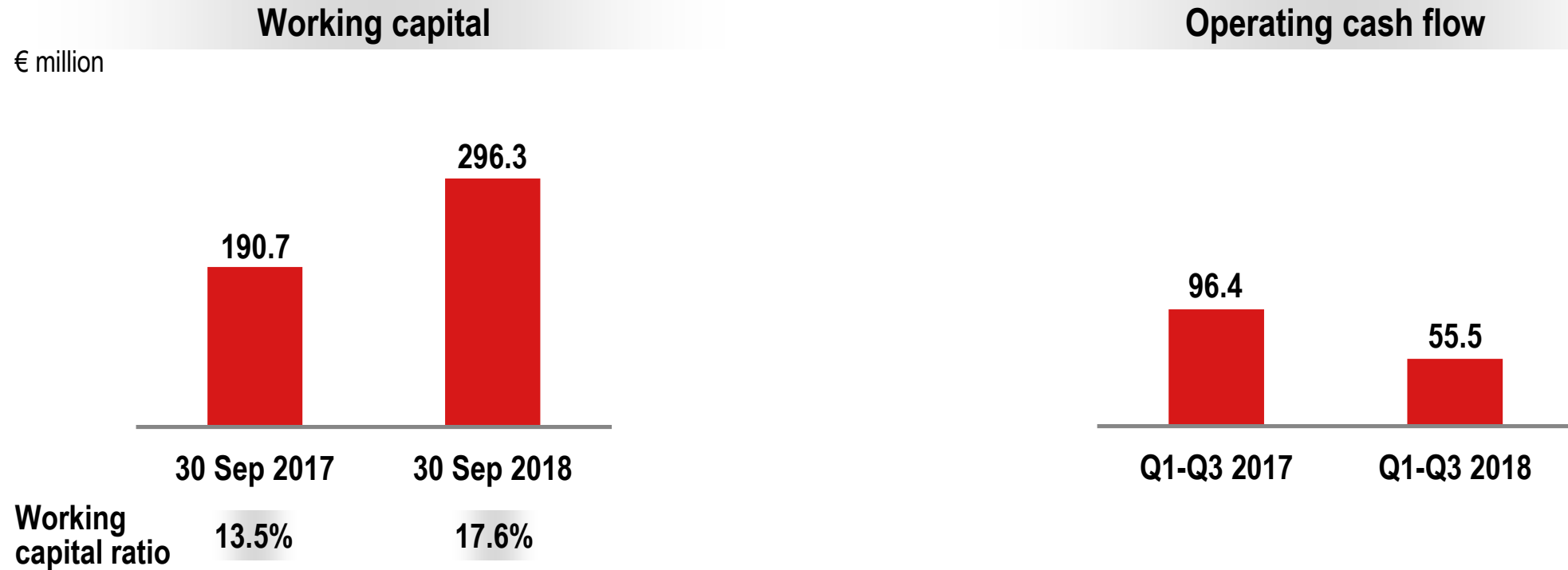


Capital expenditure (excl. R&D)



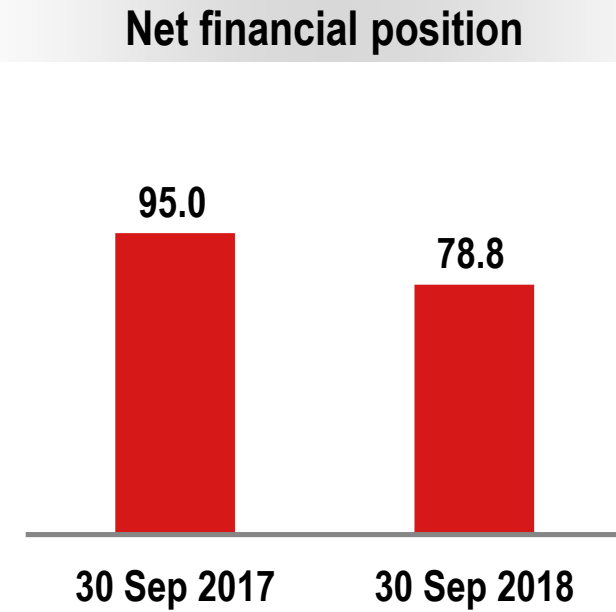
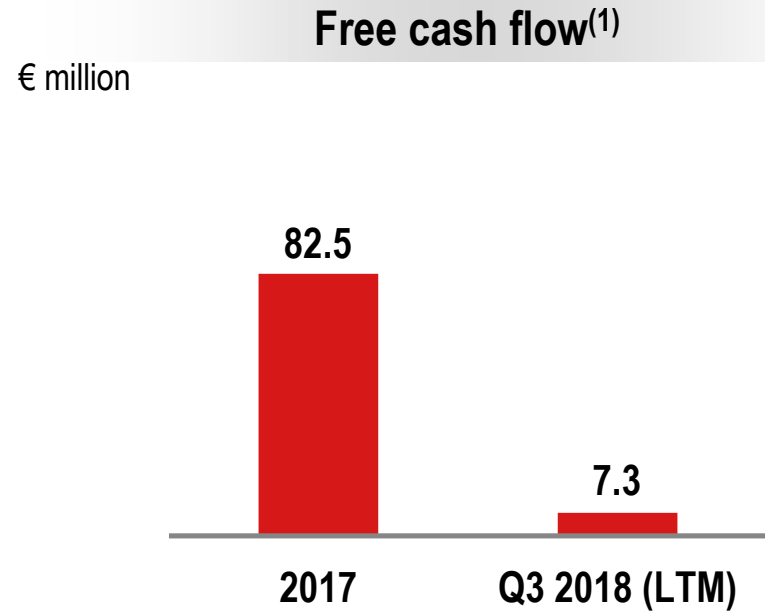
- Increase of R&D due to expansion of product range
- Proportion of capitalised net R&D expenditure: €13.4 million (Q1-Q3 2017: €10.0 million)

Working capital & operating cash flow



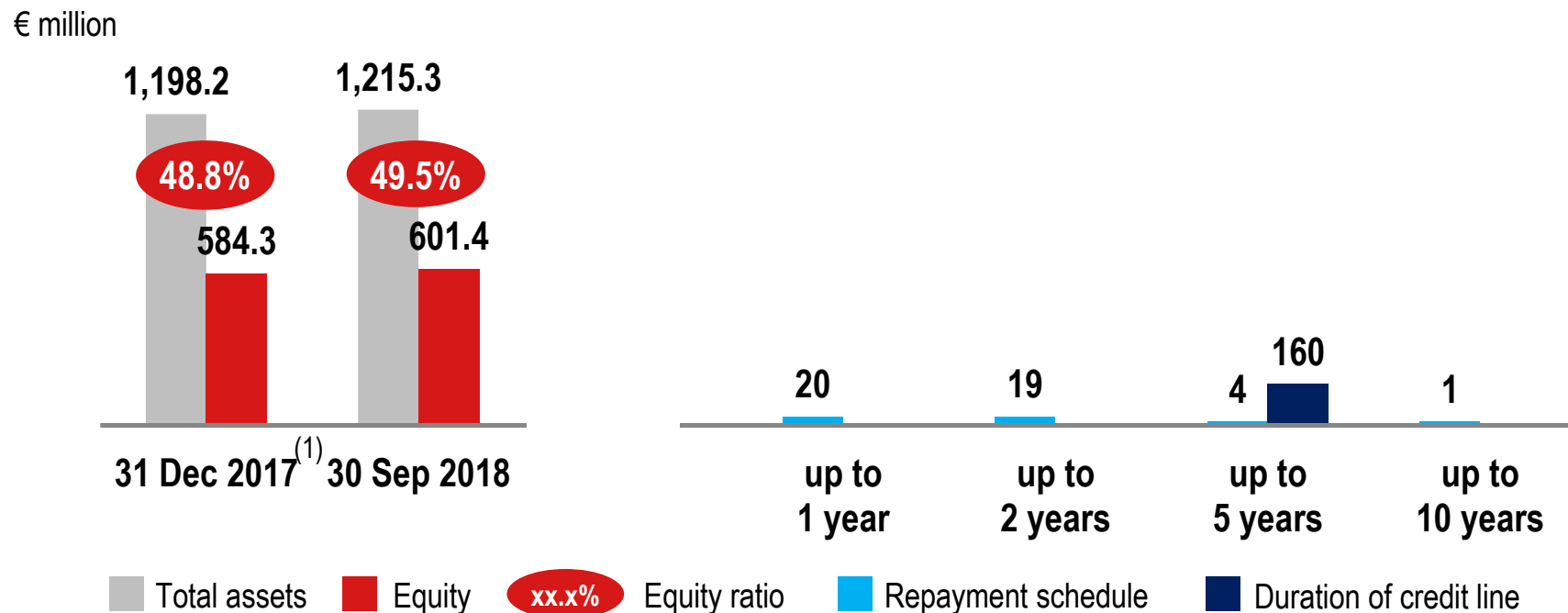
- Working capital increase mainly due to higher business volume and higher inventory level
- Higher working capital to meet production requirements in Q4

Free cash flow & net financial position



- Decline of free cash flow due to working capital increase
- Positive net financial position

Equity ratio & funding



- Equity ratio increased to 49.5%
- Medium- to long-term financing with undrawn facilities available:
 - Credit line of €160 million until June 2023
 - Loan from European Investment Bank repayable by July 2020

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Financial outlook

€ million	FY 2017	FY 2018 guidance ⁽²⁾
Revenue	1,479.1	> 1,600
EBIT margin (before exceptional items)	2.7 % ⁽³⁾	≥ 4.5 %
R&D expenditure⁽¹⁾	67.0	70 - 80
Capex (excl. R&D)⁽¹⁾	54.7	60 - 70

(1) Net of reimbursements

(2) Assuming no further supply shortage

(3) Restated

→ Guidance figures increased on 27 July 2018

Financial calendar & contact details

- FY 2018 results 14 March 2019
- Annual general meeting 30 April 2019
- Q1 2019 results 7 May 2019

▶ Contact details

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Thank you for your attention