

Speech

for the virtual Annual General Meeting of DEUTZ AG
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Chairman of the Board of Management of DEUTZ AG

Check against delivery

**Ladies and gentlemen,
shareholders,
DEUTZ employees,**

Good morning – and welcome to this year’s Annual General Meeting of DEUTZ AG.

These are undoubtedly times of great turmoil. They are characterized by uncertainty in many regards and they also present us with major challenges. I am thinking here of the rising costs of raw materials and logistics. Of the ongoing supply shortages of certain components. Of the pandemic-related lockdowns in China. And, above all, of the terrible war in Ukraine, which has left all of us aghast.

Not one of us can predict the consequences of the war. DEUTZ is not heavily affected, at least not directly. What we do know, however, is that the war is having an increasing impact on the entire global economy. We will therefore continue to monitor the situation very closely.

Ladies and gentlemen,

As I said before, we are facing major challenges. So, it is all the more gratifying that we were able to establish a firm footing for your Company last year.

2021 was a successful year for DEUTZ. The film you watched will have given you an initial impression of why. We built our **10 millionth engine** last year. **And it was a hydrogen engine.**

As well as mapping out the strategic course that we intend to follow – which I will go into in detail at another point – we were also successful on the operational front.

We achieved our guidance, which was last revised upwards in September 2021, despite the situation in the procurement market becoming increasingly difficult as the year progressed.

So, what does that mean in terms of actual figures?

- Well, **new orders rose to more than €2 billion**. This increase of **52 percent** compared with the pandemic-hit prior year can be explained by a resurgence in our customers' willingness to invest.
- **Unit sales across the Group** were up by more than **33 percent year on year**, at 201,283. The number of DEUTZ engines sold advanced by 33 percent, and our subsidiary Torqeedo's unit sales rose by more than 30 percent.
- We **increased our revenue by around 25 percent to €1.62 billion**. **Revenue in our very profitable service business was up by nearly 16 percent to €403 million**. This meant that we hit our service target for 2021.
- The significant improvement in our profitability is particularly encouraging. Our operating profit – EBIT before exceptional items – climbed to **€37.2 million**. In 2020, we had reported an operating loss of around €75 million as a result of the pandemic. This improvement was due not only to the increase in revenue and the related economies of scale but also, in particular, to cost savings. Our EBIT margin before exceptional items was around 8 percentage points higher at 2.3 percent.
- Adjusted for exceptional items, net income rose to €41.3 million in 2021, which equated to earnings per share of €0.34.
- Equity stood at approximately €588 million, which made the equity ratio just under 46 percent. Despite having repaid, ahead of time, the €150 million credit line that was granted to us with the assistance of Germany's KfW development bank (known as the COVID-19 tranche), we still have unused credit lines totaling around €200 million at our disposal. As you can see, the **DEUTZ Group's financial position remains comfortable** and we have ample financial leeway to continue our transformation into the leading supplier of alternative drive technologies.

Ladies and gentlemen,

We know what our customers need and we know what they expect. And it is with this in mind that we have set the cornerstones of our growth strategy.

- We are adding innovative drive technologies to our product portfolio and our service business.
- We are combining our strengths with the strengths of others by entering into strategic partnerships with fellow industry giants.
- We are making our business ever more international.
- And – in order to become even more efficient and therefore more profitable as quickly as possible – we are optimizing production and logistics by ushering in Industry 4.0.

I'll now go into these overarching topics in a little more detail:

The Green Deal agreed by the European Union in 2020 set the bar even higher as regards carbon-neutral drive solutions: Europe intends to be the first carbon-neutral continent by 2050. If we are to deliver on this ambition, we will need to stand shoulder to shoulder. **We are therefore focused in equal measure on environmental objectives and on our customers' expectations as regards functionality.** This means that we have to offer our customers the right drive solutions for their individual requirements. And that is exactly what we are doing. Supplying conventional engines, but also more and more alternative drive systems as well.

The E-DEUTZ development team is working tirelessly and from multiple sites to commercialize four basic drive systems for customer applications in the low and medium power output range. Potential areas of application include construction, agriculture, and ground support equipment at airports. **We readied our first 360-volt drive system for pilot production last year.**

In November, the first all-electric crane by Japanese manufacturer Maeda made its debut at our DEUTZ DAYS event. The crane is fitted with a 360-volt DEUTZ electric drive powered by a lithium-ion battery. With an output of 40 kW, this zero-emission construction-site vehicle has a load capacity of six tonnes. Full production is scheduled to start in 2023. I am intentionally being quite detailed here, in order to highlight to you that environmentally friendly construction sites are now a reality, and no longer a distant dream.

Also a reality is the fact that construction site vehicles always need to be ready for use. **Power supply infrastructure is therefore key when it comes to using electric drives, This is why we are also working on the development and production of mobile rapid-charging stations such as the Powertree.** Installed in a container, the Powertree can be transported wherever it is needed, and it has a charging capacity of 150 kilowatts for rapid recharging of electric-powered construction vehicles. We have already delivered the first prototypes to customers.

Thanks to our alternative drive systems for the off-highway sector, we and our customers are together making an important contribution to achieving the targets of the Paris climate agreement.

Ladies and gentlemen,

At DEUTZ, we believe that global carbon emissions can only be reduced by using an intelligent mix of drive solutions. Electric drives are not going to replace conventional engines overnight, especially in the power range above 100 kilowatts, where we are focusing on synthetic fuels, hybrid drive systems, and hydrogen engines. You watched a video clip of our hydrogen engine earlier. The TCG 7.8 H₂ engine with an output of 200 kilowatts will enter full production in 2024. A key advantage of hydrogen technology is that it is very similar to diesel in terms of engine production. This means it is not just climate-friendly, but also cost-effective and likely to be commercialized more quickly in the medium term.

Innovation is only ever of use when ideas are turned into products. To pave the way from research to application, **we are cooperating with partners from science and industry.** The performance of our hydrogen engine, for example, will be put to the test in a **pilot project with RheinEnergie.** At the beginning of this month, we delivered the TCG 7.8 H₂, which is able to produce around 170 kilovolt-amperes of electrical power in combination with a generator.

Since August 2021, we have been working with the **German Aerospace Center** to explore how hydrogen-powered construction vehicles and agricultural machinery are able to operate quietly and on a zero-emission basis, and therefore sustainably. **The research findings will help us to accelerate the production readiness of hydrogen engines for off-highway applications.**

So, is this the end of the road for the diesel engine? No, not by a long way. Diesel engines will be in demand in off-highway applications for many years to come due to the considerable performance requirements in this segment. Which means there will also be demand for our new engines and our service offering. The shift toward green drive systems in the off-highway sector will not and cannot be achieved overnight – neither on the part of our customers nor on our part. And it is our classic diesel engines that are bringing in the money that we need to transform our business. That is why we are looking to continually improve in this area too. This means we will be improving the **profitability of our CLASSIC business** while **working tirelessly to make the combustion engine cleaner still.** Synthetic fuels will have an important part to play in this. And in August 2021, our entire diesel engine portfolio was approved for use with paraffinic fuels.

Ladies and gentlemen,

An important pillar of our growth strategy – in addition to the ongoing development of our engine portfolio – is the expansion of the high-margin service business. The objective here is to have satisfied customers. To achieve this, we are making our service business even more flexible and efficient, and more digital too.

- Since the beginning of 2021, we have been offering our customers a Lifetime Parts Warranty for parts fitted by an authorized DEUTZ partner.
- With DEUTZ Lifecycle Solutions, we have tailored our services even more closely to our customers' requirements – for all engines, old and new.
- And with S-DEUTZ Telematics, our digital engine condition monitoring system, we enable predictive maintenance and repair services.

The figures show that our customers are satisfied with DEUTZ's full-service offering. And our **plan going forward is to continue registering annual growth of more than 5 percent in the service business.** Through both organic growth and growth by acquisition.

Ladies and gentlemen,

In order to provide maximum reliability, versatility, and performance, we sometimes collaborate with other leading industry players. **Our strategic partnerships with AGCO and John Deere Power Systems, for example, are giving us access to new markets and customers.**

At the end of 2020, we signed an agreement with **John Deere Power Systems** to jointly build a new engine in the power range up to 130 kilowatts. The first milestone in this partnership has already been reached with the first firing of the engine in August 2021. The DEUTZ prototype of the TCD 3.9 has since been running reliably and as planned on the test rig in Cologne.

We also entered into a long-term partnership with agricultural machinery manufacturer **AGCO** that covers the supply of updated 6.1 liter and 4.1 liter engines for numerous Fendt tractors as well as a joint development project for the drive technologies of tomorrow.

Furthermore, we want to move closer to our customers **and exploit opportunities for growth by expanding our international presence.** This applies equally to the US, Europe, and Asia.

Despite the current challenges and geopolitical situation, China remains an important market for us, and it is one in which we are well positioned. As well as close links with the DEUTZ dealer network, a key factor in our success here is our collaboration with strategic partners. In 2021, for example, we developed an 11.5 liter truck engine together with our joint venture partner SANY and commenced production of the 2.9 engine series with **BEINEI**.

A look across the Atlantic shows how sustainability is paying off for DEUTZ.

The **DEUTZ Xchange team** in Georgia makes engines for the entire Americas market that meet the US Tier 2 and 3 emissions standards. Demand for exchange engines is just as high in the less regulated countries of Latin America as it is in the USA, where these genuine, like-new engines extend the useful life of older agricultural machinery and construction equipment. Today, the exchange engine business accounts for a **considerable share of our service revenue. Annual unit sales in the American market have now reached 25,000.** In 2021, we opened new DEUTZ Power Centers in Texas and Nevada to bring us even closer to our customers.

Our most important growth market is and remains the EMEA region, i.e.

Europe, the Middle East, and Africa. The biggest drivers of revenue in the territory are Germany and Europe as a whole. Our strategy here is mainly focused on further increasing profitability and strengthening our market position. Expanding our customer base and increasing our service footprint are among the ways we are doing this. Last year, for example, we won two important new customers, in Italy – Argo – and in the Benelux countries – Keestrack/Goldoni. We are also integrating new multi-brand dealers into our service network and running our own fleets of service vans.

As a company with international operations, we need to be efficient in our production and logistics. We therefore took further steps to raise efficiency last year, and launched digitalization and Industry 4.0 applications. Our German sites have been made 7 percent more efficient as a result. DEUTZ SPAIN also used digitalization to take efficiency to the next level at its **smart factory for connecting rods in Zafra**. Over the last four years, around €4 million has been invested in setting up a new production line at the plant. The pilot project will enable us to produce up to 600,000 connecting rods a year and cut production times by a third.

Ladies and gentlemen,

Only those who understand sustainability as a necessity of our times will be successful in the long run. So, while we of course want to achieve our financial objectives, we are striving to fulfill our environmental, social, and corporate responsibilities as well.

DEUTZ signed up to the United Nations Global Compact at the end of March last year. In doing so, we voluntarily undertook – on the basis of ten universally accepted principles – to promote human rights, fair working conditions, environmental protection, and the fight against corruption.

By signing up, we also committed to supporting the achievement of the United Nations' 17 sustainable development goals. **In 2021, we identified eight of these goals that we will be looking to prioritize.** In addition to climate action, we will be focusing on innovation, responsible consumption and production, decent work, and gender equality. This is one of the reasons why **we joined the Diversity Charter employer initiative at the beginning of 2021.** The common goal of the 4,000 or so companies that have signed up to the charter is to strengthen and promote respect, appreciation, and diversity in the workplace.

Our sustainability strategy Taking Responsibility, which was initiated in 2019, is already delivering measurable positive results. Let me share with you some **highlights from 2021:**

- We reduced the CO₂ emissions of our production sites by 55 percent compared to 2019.
- We are using 100 percent green electricity at all DEUTZ AG production sites.
- 75 percent of our production sites are certified to ISO 45001, which means they comply with the latest standard for occupational health and safety management systems.
- And we have a 99 percent completion rate for compliance training.

These successes are reflected in our sustainability ratings. Here are just a couple of examples:

- In 2021, DEUTZ saw a year-on-year improvement of 11 percentage points in its ESG rating with Vigeo Eiris.
- And we were awarded Prime status by ISS in our first year of participation in its ESG rating scheme.

These are results that validate our efforts and motivate us to become even more sustainable in the future.

Before I now turn to how your shares performed and to our dividend proposal, I would like to thank our employees – all 4,805 of them around the world – on behalf of the entire Board of Management for their outstanding contribution last year. They made everything that I have just explained possible, and they did it all despite the restrictions placed on them to contain the spread of coronavirus. They are the ones who drive our Company forward with their pioneering spirit and strength in innovation. And they are also the ones who take it upon themselves to ensure that the DEUTZ engine continues to turn even in challenging times. We thank them again.

Ladies and gentlemen,

DEUTZ's share price was volatile in 2021, but the overall performance was still significantly better than in the prior year. The year-end closing price of €6.57 was **29 percent higher than the closing price in 2020.** Your investment also **significantly outperformed our benchmark indices.** The SDAX, for example, climbed by 11.2 percent in 2021, while the DAXsector Industrial was up by 19.3 percent.

The share price was weak **in the first quarter of 2022**, mainly because of the war in Ukraine and the potential for knock-on effects further down the line. However, the measures we have taken to ensure continued growth and, above all, higher profitability, convince us that DEUTZ is on the right path to a future of sustained – and sustainable – success. This is also the view taken by our analysts, **the majority of whom recommend buying our shares.**

Ladies and gentlemen,

The impact of the coronavirus pandemic meant that DEUTZ has been unable to pay you a dividend in the previous two years. Of course, even though we continue to find ourselves in uncertain times, we would also like you – our shareholders – to reap the benefit of our positive business performance in 2021. The **Board of Management and Supervisory Board are therefore proposing** to use the accumulated income to pay a dividend of €0.15 per share. This would equate to a dividend ratio of around 47 percent.

DEUTZ is back on a growth trajectory. And only those who invest can grow. Investment is needed to lead technological change rather than chase after it. We intend to continue funding a significant proportion of the necessary spending ourselves, that is to say from our own capital. This is why, going forward, we will be **retaining our fundamental dividend policy**, under which we aim to distribute around 30 percent of our net income.

Ladies and gentlemen,

it is unclear how our markets and therefore our business will perform over the coming months.

The pandemic has demanded so much of us over the past two years, and now we are all facing the consequences of the war in Ukraine. However, no one can predict what the full extent of these will be.

Before war broke out, we had been expecting the upturn in the industries that we serve to be sustained this year, even on the assumption that global problems with the supply of input materials would continue to weigh on business performance, and that supply issues for certain components would persist. Our specific guidance for the year as a whole was for unit sales of 165,000 to 180,000 DEUTZ engines, which would likely have resulted in revenue increasing to between €1.7 and €1.8 billion. We would then have expected an EBIT margin before exceptional items of between 3.5 percent and 5.5 percent. This span reflected not only the aforementioned revenue range but also the expectation that prices for commodities and energy would rise further and that it would not be possible to pass on the additional costs to customers straight away due to the high level of orders on hand. Free cash flow would have been in the low to mid-double-digit millions of euros in this scenario.

Our business in Russia, Belarus and Ukraine had previously been generating annual revenue of around €20 million and is therefore relatively modest in terms of its size. Moreover, DEUTZ has no branches in Ukraine or Belarus and also no direct suppliers based in the crisis regions. Nevertheless, the geopolitical impact of the war in Ukraine on the global economy, on its flow of goods and on the supply of energy brings with it a great deal of uncertainty for DEUTZ as well. For this reason, we are initially classing the aforementioned guidance for the 2022 financial year as **subject to change**.

Ladies and gentlemen,

Your investment in DEUTZ is not an end in itself. We are aware of that. And so we are also aware that the return on your DEUTZ shares has not been satisfactory in recent years. Neither for you nor for us.

The foundations for accelerating our transformation process and focusing on the essentials have been laid, and the overarching goal has been defined: We want to make DEUTZ a pioneer of carbon-neutral drive systems for off-highway applications and to grow **profitably and sustainably** in the process. We need to do this to remain **competitive**. But also to increase the return on your investment over the long term and thus **create added value for you, the owners of our Company**.

Yes, we made a lot of progress in 2021. However, an EBIT margin before exceptional items of 2.3 percent is only a **first step back in the right direction**. We cannot and we will not rest on our laurels.

More than ever in times like these, we need to keep our eyes firmly on the future. After all, **to be successful you have to look forward**. And that is exactly what we are doing.

The Board of Management has worked with the senior management team to initiate a **multi-phase strategy process. Its target horizon: 2030**. We will present the specific goals – and how we aim to achieve them – in greater detail in the second half of the year when we publish our half-year results, knowing full well that our strategic agenda will also be influenced by various external factors that we cannot directly control.

Making our Classic business more profitable will be a key focus up to 2023. We have already launched a comprehensive purchasing drive, at the end of 2021, which aims to cut costs across all our purchased item groups. Among other things, we will also be revising the pricing structure for the new engine business and optimizing our engine portfolio. I can already tell you this much today.

We also have clear **goals for the medium term**, namely revenue in excess of €2 billion and an EBIT margin before exceptional items of 7 to 8 percent.

We are confident that we have **already put ourselves on the right course to achieving these goals**. However, it is also clear that we have a challenging road ahead of us. **That is why we must – and we will – put our foot even further to the floor.**

We are looking forward to the work that lies ahead and we thank the Supervisory Board for the trust it has placed in us.

Ladies and gentlemen,

In these challenging times, we particularly appreciate the trust that you have placed in us. All of us on the Board of Management would like to thank you for this. I can assure you that I, my colleagues on the Board of Management, and of course your entire DEUTZ team will do everything in our power to steer your Company through these troubled times with a steady hand. To achieve what we have envisaged for you.

Thank you for your time.

Disclaimer

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