

Investor presentation

May 2015

The engine company.



Agenda

- **DEUTZ strategy & positioning**

- **Financials**

- **Outlook**

DEUTZ at a glance

Profile

- More than 150 years DEUTZ – a tradition of achievement
- Independent manufacturer of diesel engines with product range from 25 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 2014

- Revenue €1,530.2 million
- Net income €19.5 million
- Free Cash Flow €52.0 million

Board

- Dr. Helmut Leube (CEO)
- Dr. Margarete Haase (CFO)
- Michael Wellenzohn (CSO)

DEUTZ Group

Revenue 2014 €1,530.2 million

DEUTZ Compact Engines

Revenue 2014 €1,279.9 million



- 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

Revenue 2014 €250.3 million



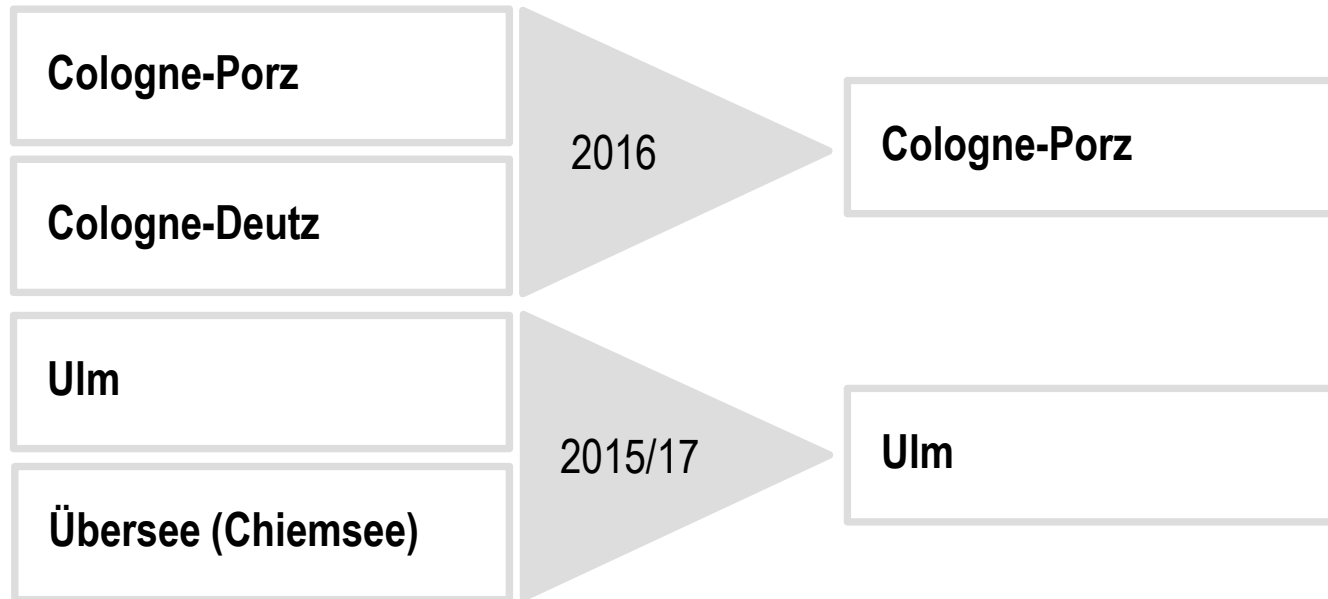
- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines over 8 litres for all applications
- Remanufactured (Xchange) engines for all DEUTZ engine series

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 & parts as well as oils and lubricants



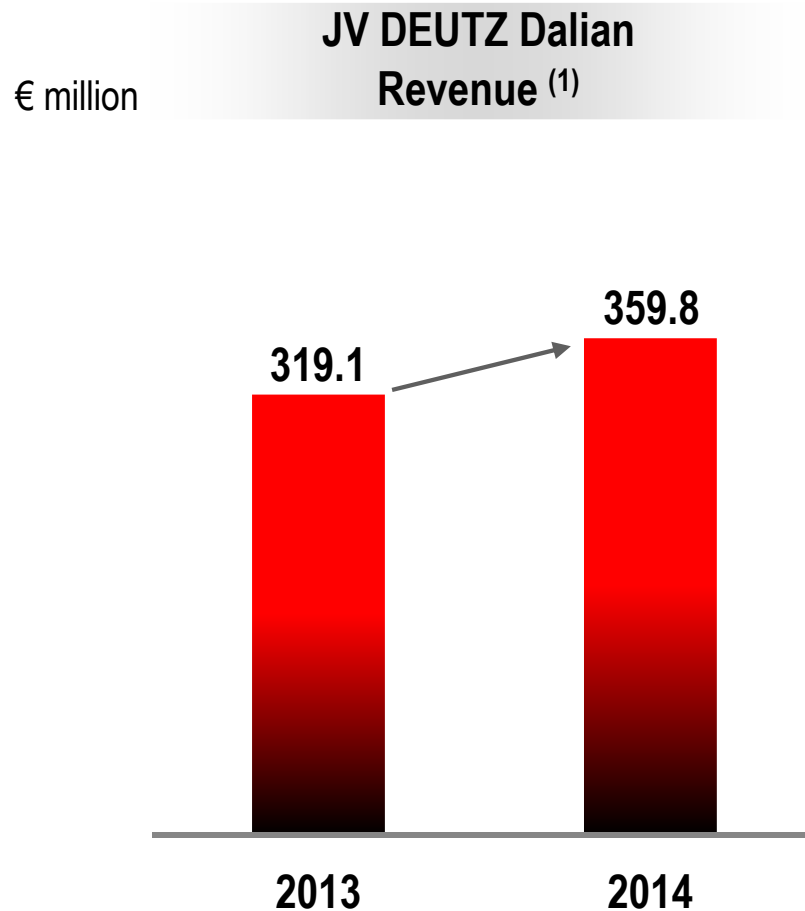
Site optimisation



- 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
- Capex overcompensated by proceeds from property sales in subsequent years

→ Sustainable efficiency improvement by merging facilities

Consolidation of activities in China



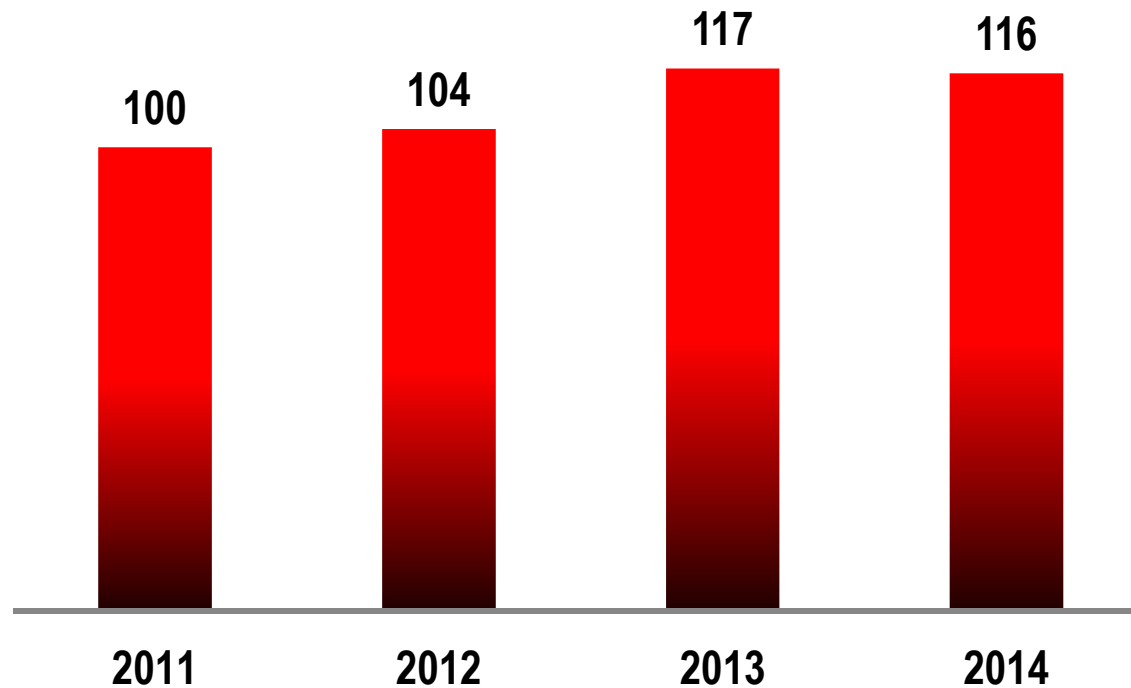
(1) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Consolidation of our Chinese activities and focus on our successful JV DEUTZ Dalian, which has sufficient capacities
- DEUTZ Dalian (at-equity consolidated) increased its revenue by 12.8% yoy and outperformed the Chinese market
- Joint decision with our partner AB Volvo to wind up JV DEUTZ Engine China due to challenging market conditions. JV has not yet made any substantial investments
- Implementation works at JV DEUTZ Engine Shandong put on hold. Impairment of fixed assets (€1.8 million) accounted as one-off in FY 2014
- Strategic talks with Weichai about the future of the JV Weifang

→ Focus on DEUTZ Dalian to meet our customer demands for the Chinese market

Emission standards drive DEUTZ revenue growth

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



- Tier 4 systems require exhaust aftertreatment devices
- Growing share of new emission engines drives revenue growth
- Effect was diluted by strong demand for smaller engine series in 2014
- Positive structural price mix effects are expected to continue in the next years

→ Structural growth due to tighter emission standards

DEUTZ engines for Tier 4 emission standard

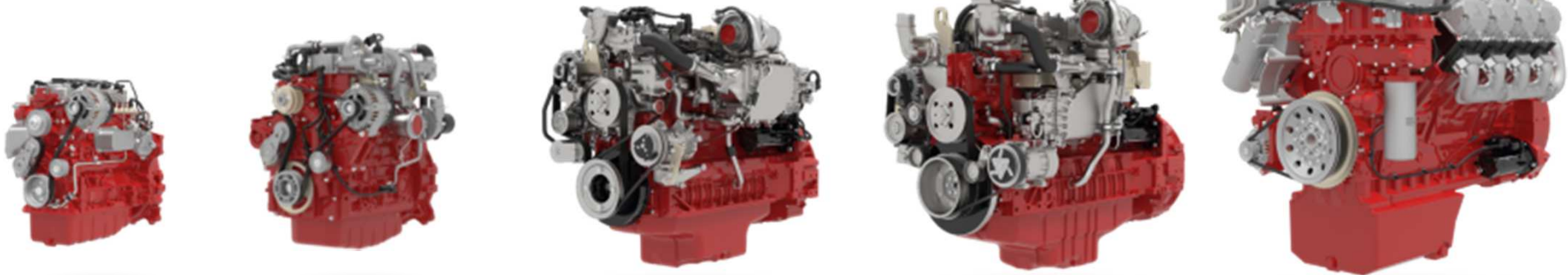
TCD 2.9

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
- Successful combination of platform strategy with DEUTZ application expertise
- Full range offering with focus on engines for Mobile Machinery and Agricultural Machinery

→ New customers gained with Tier 4 engines

Stage V ready

TCD 12.0 / 16.0

240 – 520 kW

TCD 7.8



160 – 291 kW

TCD 6.1



130 – 206 kW

TCD 4.1



85 – 115 kW

TCD 3.6



56 – 100 kW

TCD 2.9



37 – 56 kW

- TCD 2.9 to 7.8 litre engines with DPF already meet the next EU emission standard announced for 2019
- DEUTZ technology platform offers our customers long-term planning certainty as they do not have to invest in adapting their equipment to upcoming emission change

➔ DEUTZ compact engines compliant to next emission standard

DEUTZ customer base

Long standing customer relationships (not exhaustive)



New clients (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 Tier 4 engines
- “Stage V Ready”-campaign will stimulate the continued marketing activities

→ Successful extension of the customer base

Successful business development









Examples of new applications



- New customers gained in all regions, in particular with new engines 2.9 and 3.6
- Greater share of wallet at existing clients
- New business related to different applications, e.g. tractors, fork lifts, telehandler, dumpers, rollers, wheel loaders, trencher, drills and special vehicles
- More business development projects in the pipeline

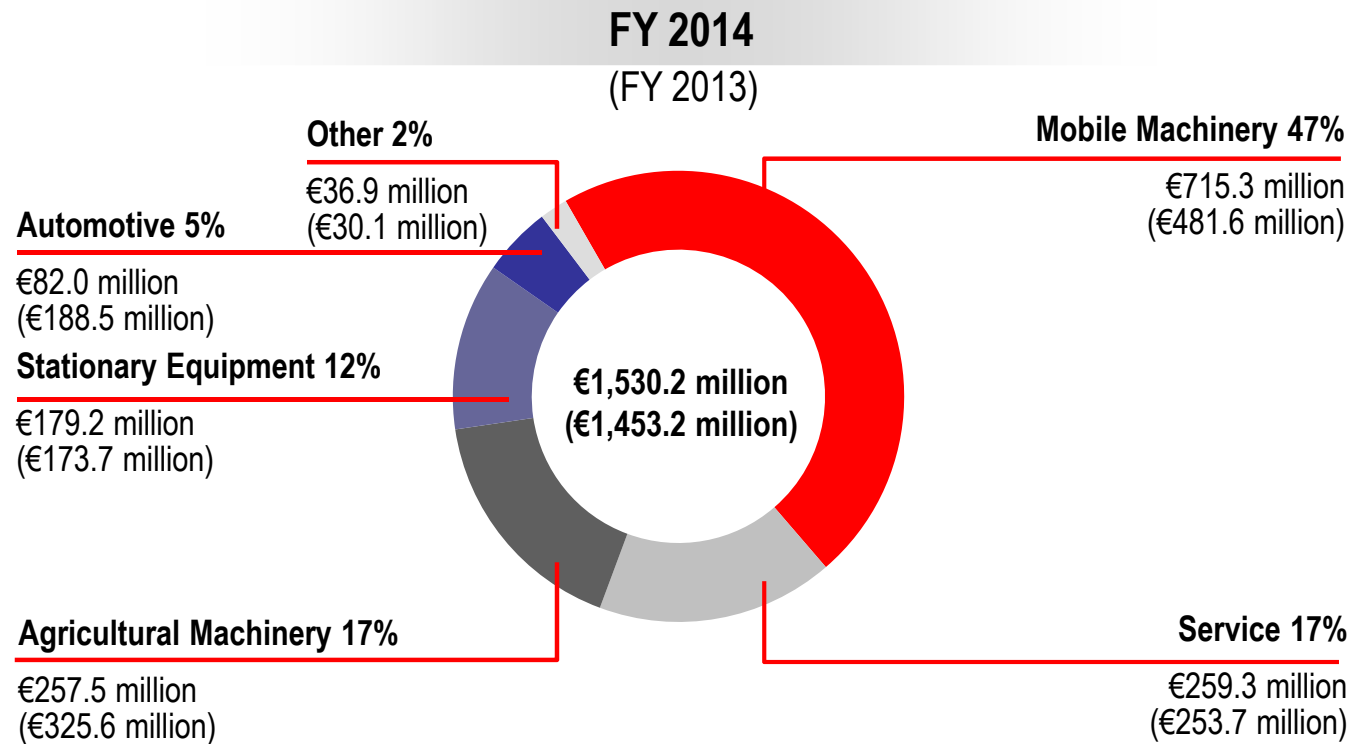
→ Product offensive is paying off

Key applications

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

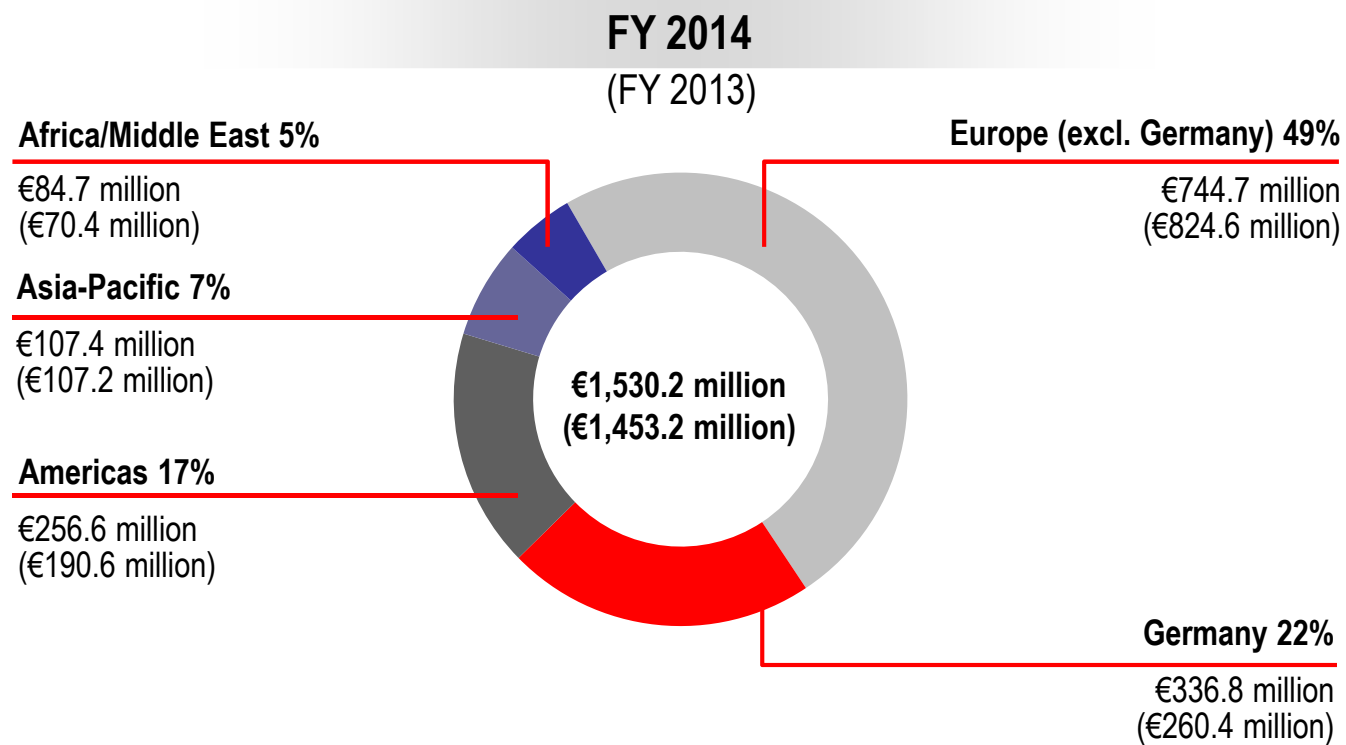
→ Wide application range for DEUTZ engines

Revenue split by application



- Automotive business moving towards Asia; fully consolidated Automotive sales decreased as expected due to decision not to develop Euro 6 (on-highway emission); pro-forma revenue incl. at-equity consolidated JV DEUTZ Dalian in Automotive: €380.1 million (corresponding revenue share amounts to 20.1%)

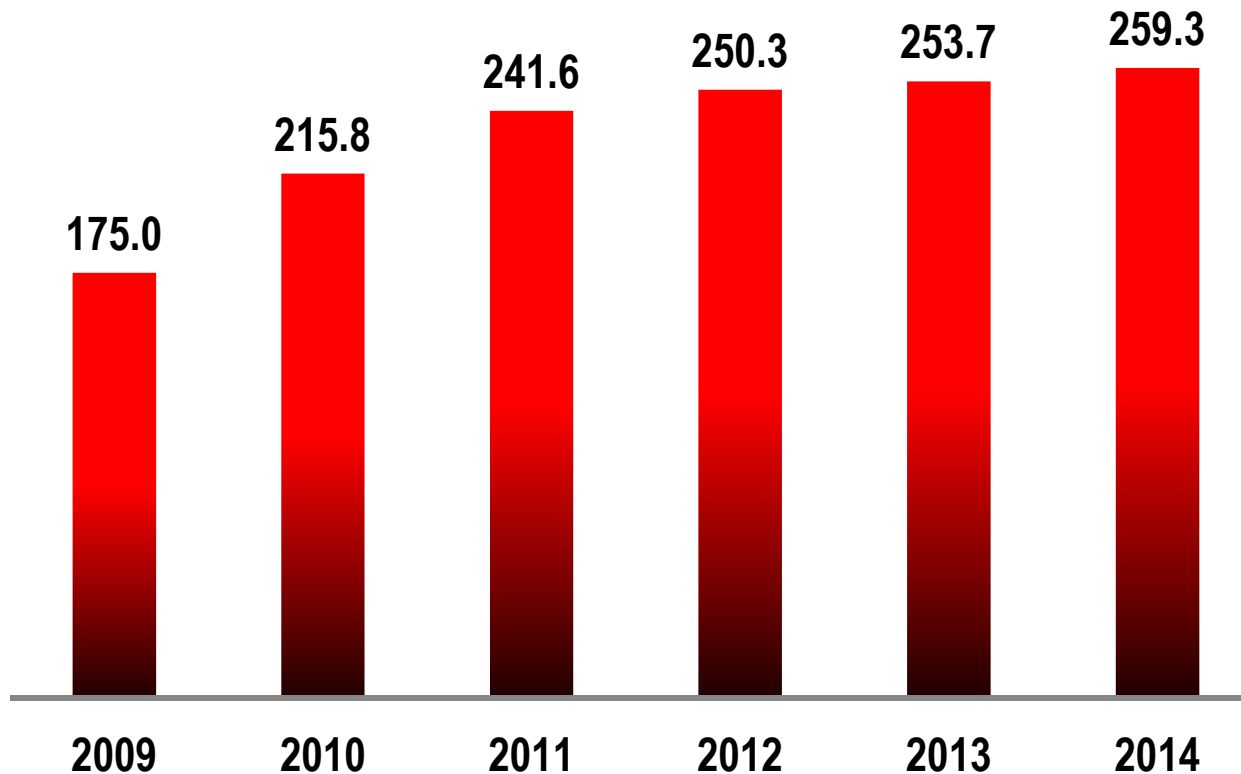
Revenue split by region



- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,890.0 million (+6.6%); corresponding revenue share of Asia-Pacific amounts to 24.7%

Service business

€ million



- Strong resilience of profitable service business through different economic cycles
- Higher complexity of new emission engines provides opportunity to increase penetration of service business
- Active management of service network with training and tools

→ Continued growth of service revenues

Agenda

- DEUTZ strategy & positioning

- **Financials**

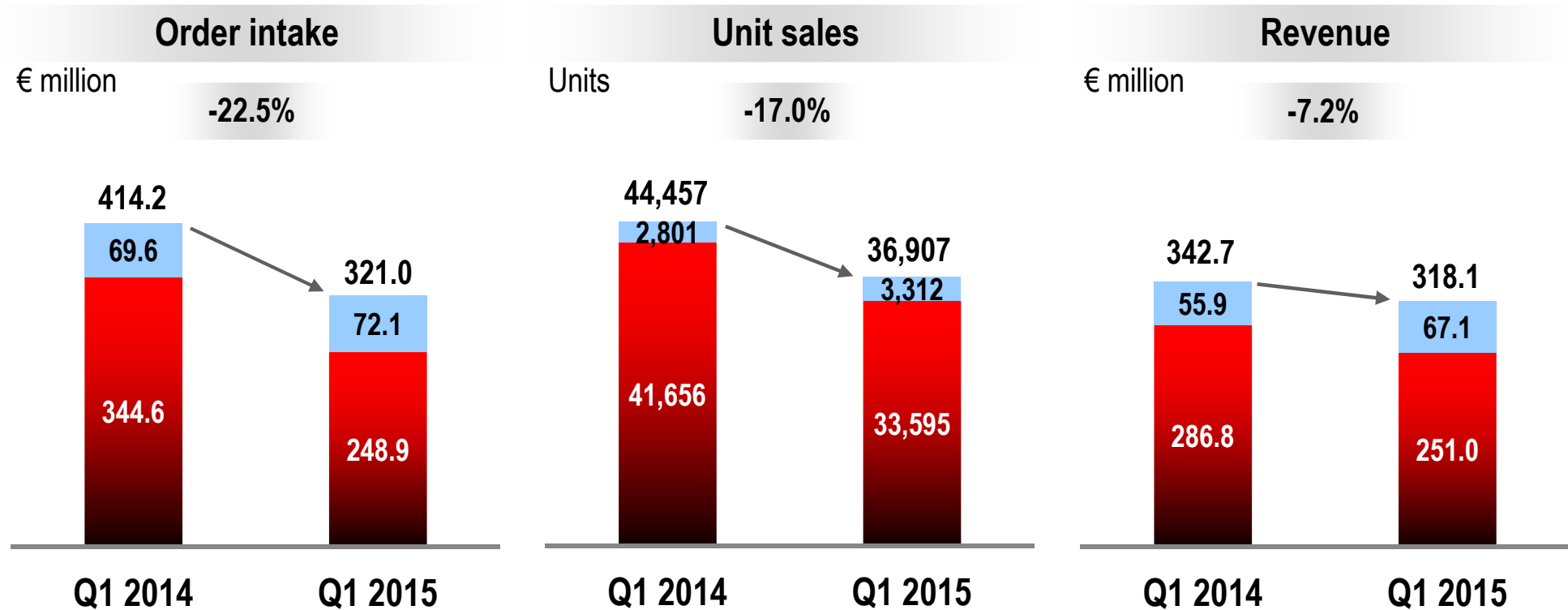
- Outlook

Key figures

€ million	Q1 2015	Year-on-year
Order intake	321.0	-22.5%
Revenue	318.1	-7.2%
EBITDA	33.9	+33.5%
EBIT	10.1	+€8.2 million
Net financial position	15.5	+€51.0 million

→ Significant operating profit increase despite lower revenue

Sales figures

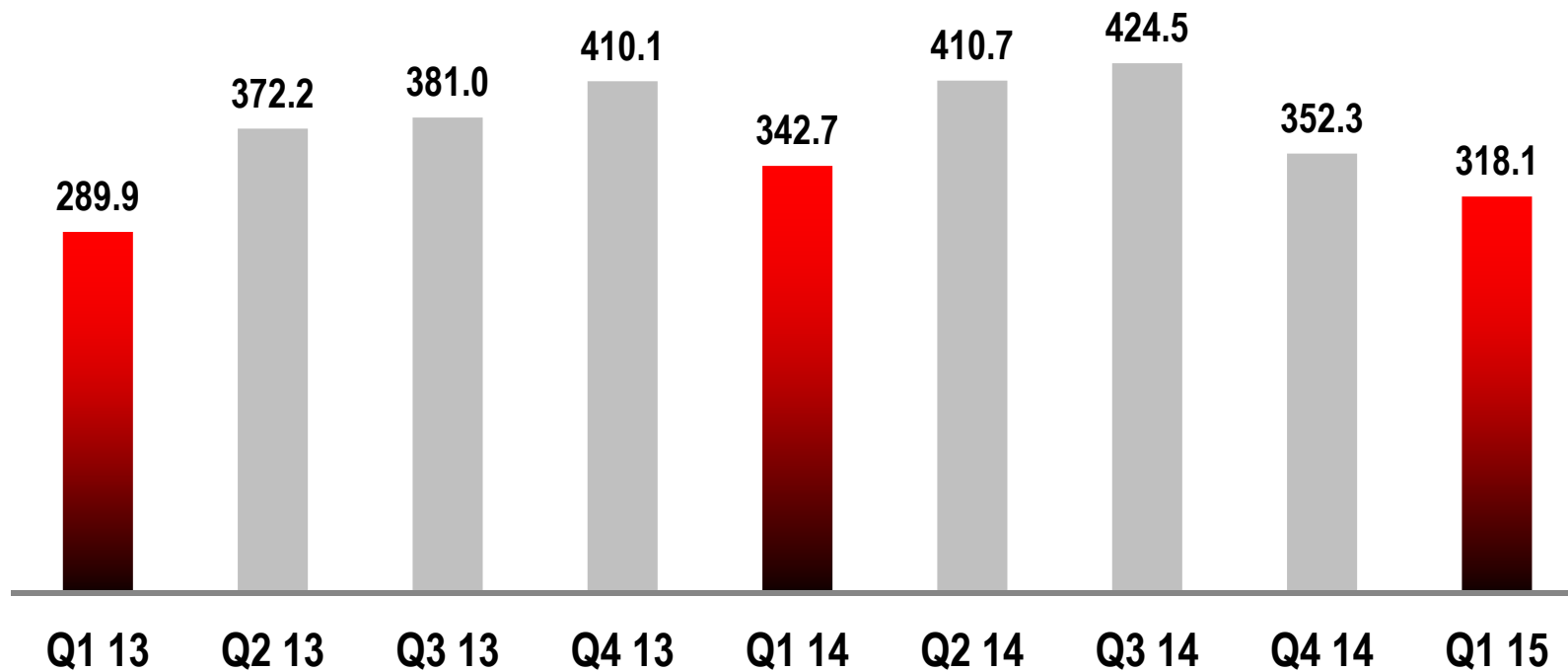


- Decline of sales figures mainly caused by previous year's pre-buy engines and weak agricultural market
- Revenue better than unit sales development due to higher service revenues and positive price-mix effects
- Orders on hands of €228.4 million increased by 4.0% versus year-end 2014

■ DEUTZ Compact Engines ■ DEUTZ Customised Solutions

Revenue development

€ million

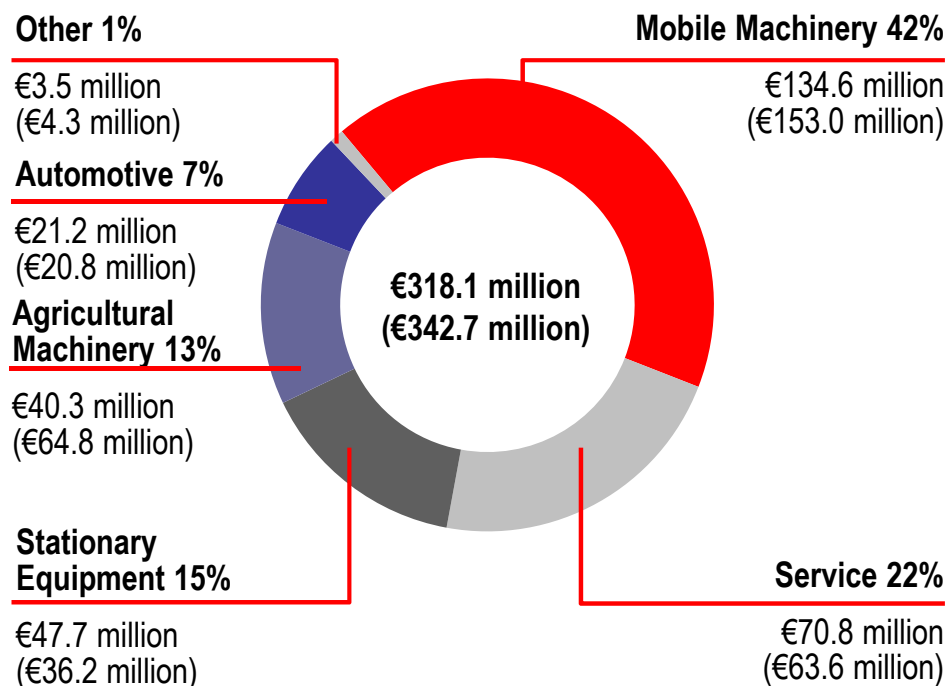


- Current business impacted by the emission change on 1 October 2014 in Europe

Revenue split

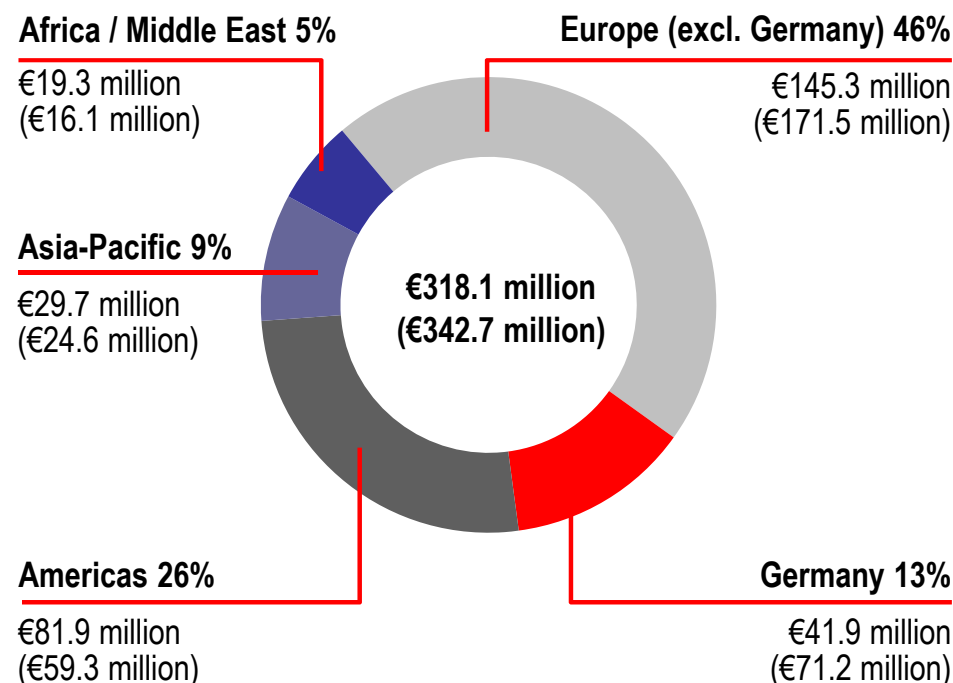
Revenue split by application, Q1 2015

(Q1 2014)



Revenue split by region, Q1 2015

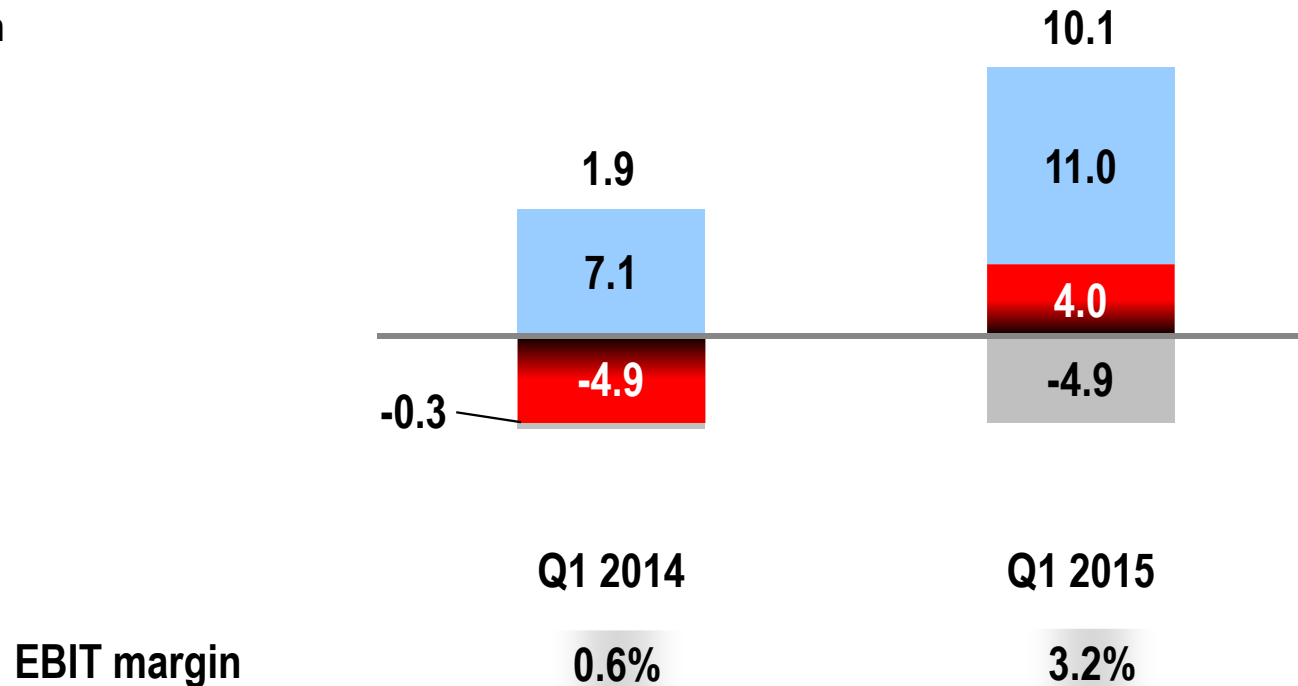
(Q1 2014)



- Revenue decline in Agricultural Machinery (-37.8%) and Mobile Machinery (-12.0%) due to pre-buys and weak underlying business in agriculture
- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €434.4 million (-1.6%); corresponding revenue share of Asia-Pacific amounts to 33.6%

EBIT⁽¹⁾

€ million



- EBIT notably up by €8.2 million - both operating segments contributed to the profit improvement
- Substantial FX effects. Compensation of negative scale effects by higher service revenues as well as lower production and warranty costs
- Segment “Other” impacted by unrealised FX effects
- Q1 2015 EBIT margin in-line with full year guidance

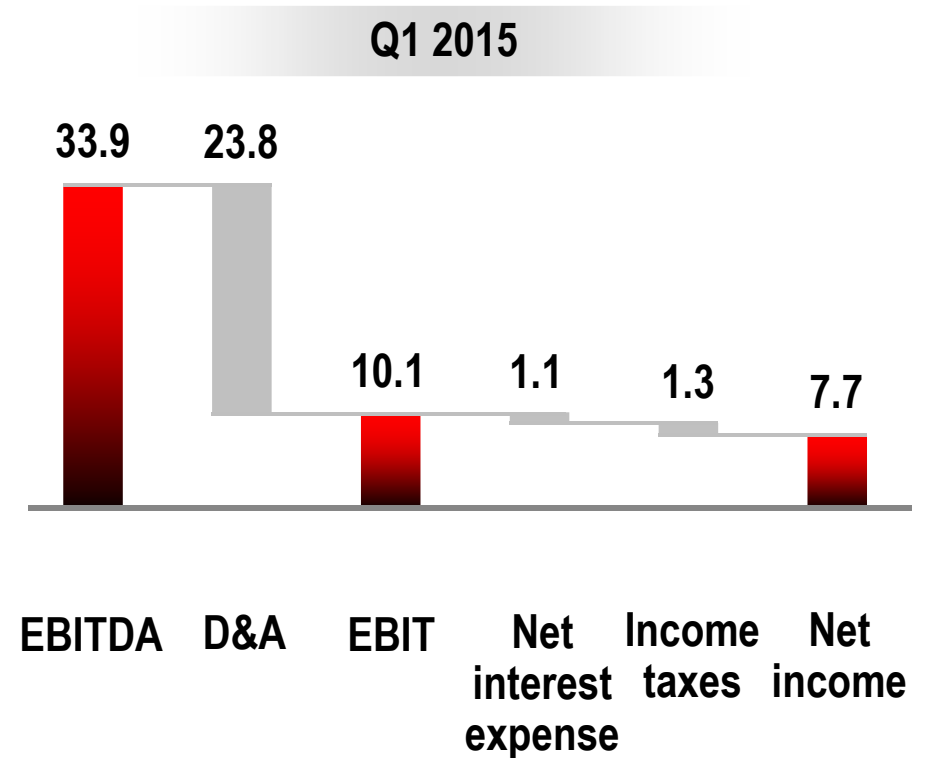
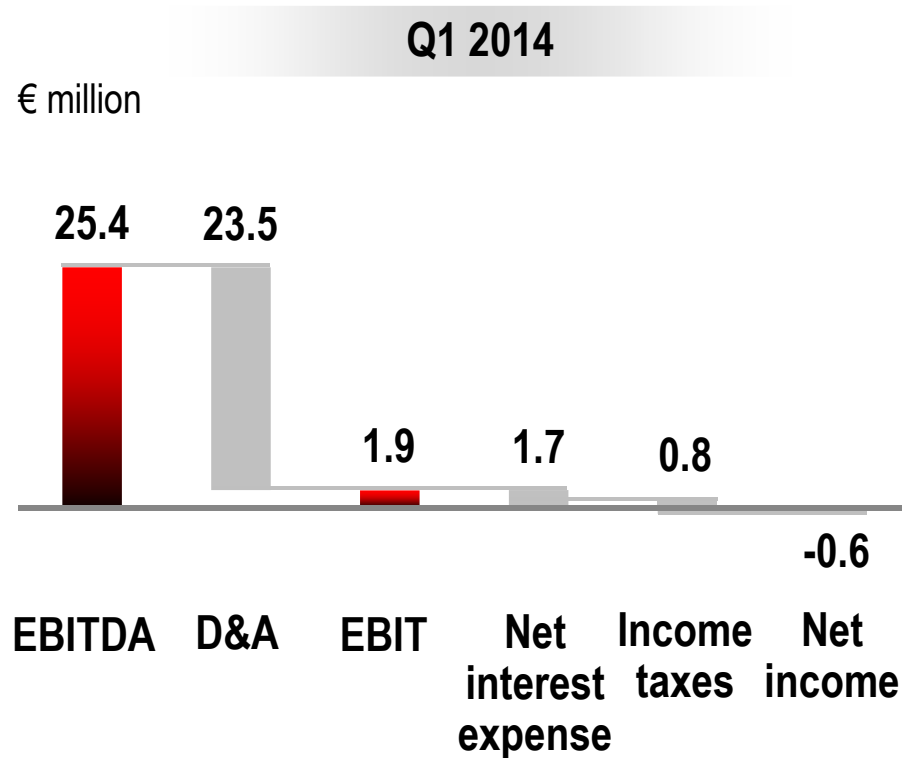
(1) No one-off effects, both in Q1 2015 and Q1 2014

■ DEUTZ Compact Engines

■ DEUTZ Customised Solutions

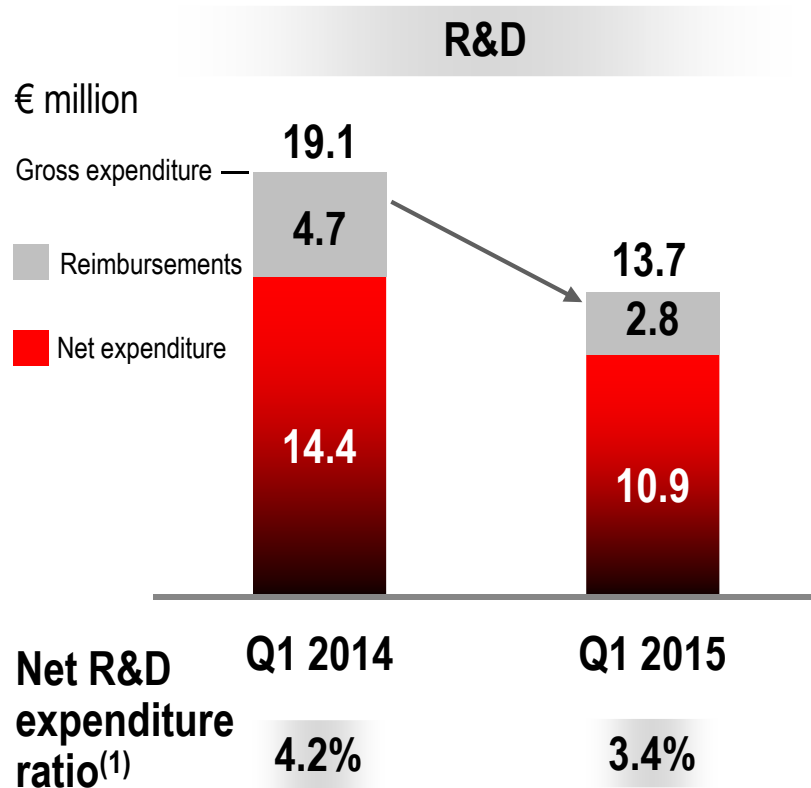
■ Other

Operating profit & net income

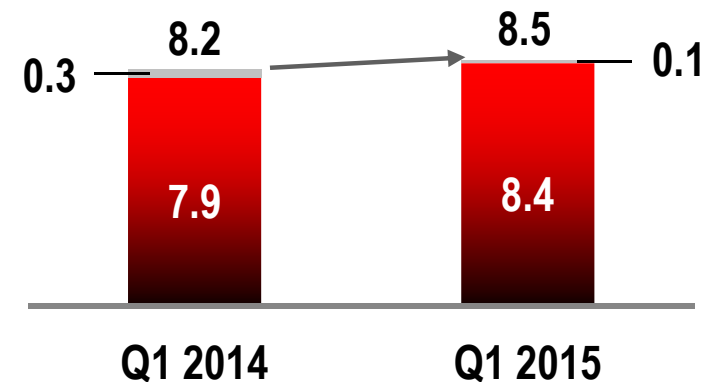


- EBITDA increased by €8.5 million (+33.5% year-on-year)
- Net interest expense and tax ratio remained at low level
- Net income improved by €8.3 million

R&D spending & capital expenditure



Capital expenditure (excl. R&D)



- After all engines designed for the latest emission standard in the EU and in the US were launched in 2014, R&D expenditure declined significantly
- Proportion of capitalised net R&D expenditure decreased to €1.8 million (Q1 2014: €9.0 million)

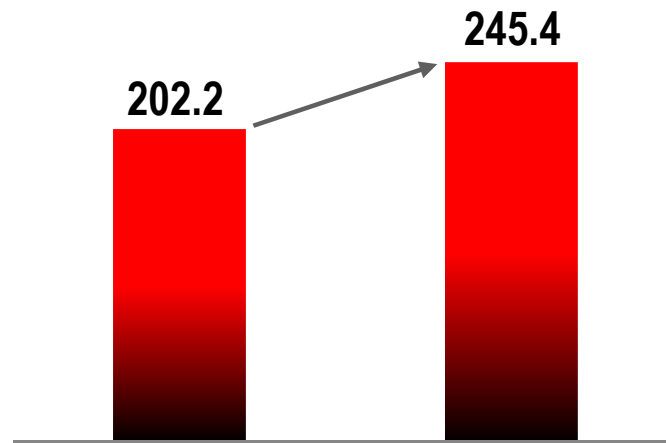
- Capital expenditure on previous year's level

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

Working capital & operating cash flow

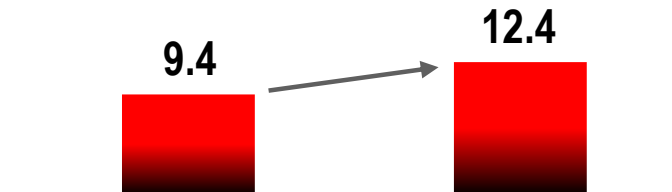
Working capital

€ million



Working capital ratio (31 March)	Q1 2014	Q1 2015
	13.4%	16.3%

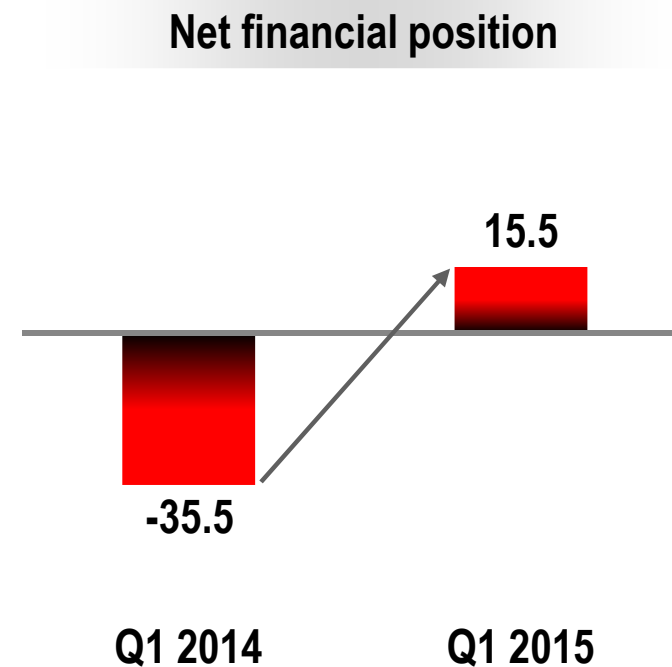
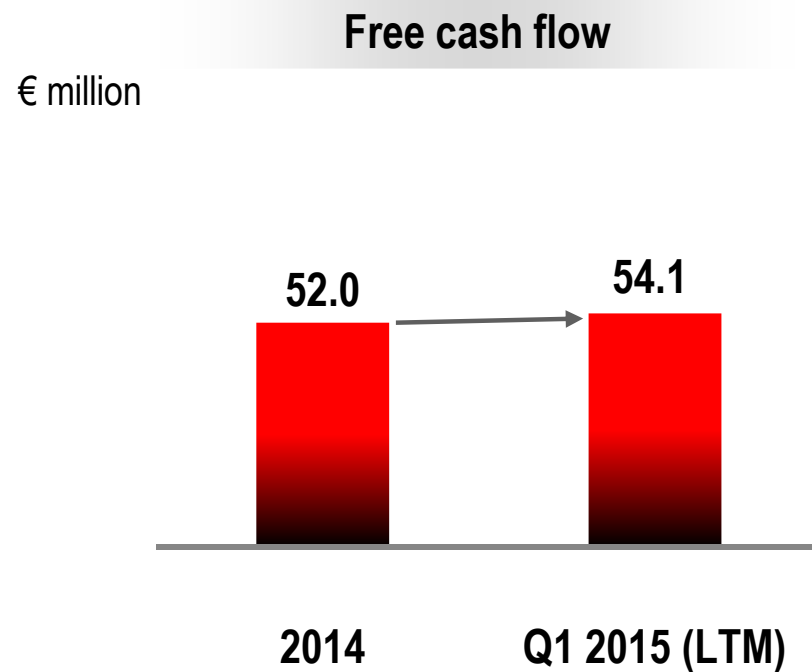
Operating cash flow



Period	Operating cash flow (€ million)
Q1 2014	9.4
Q1 2015	12.4

- Working capital increased at the end of Q1 2015
- Operating cash flow increased by €3.0 million
- Inventories raised by FX effects and strike related longer transit times to the US

Free cash flow generation & net financial position

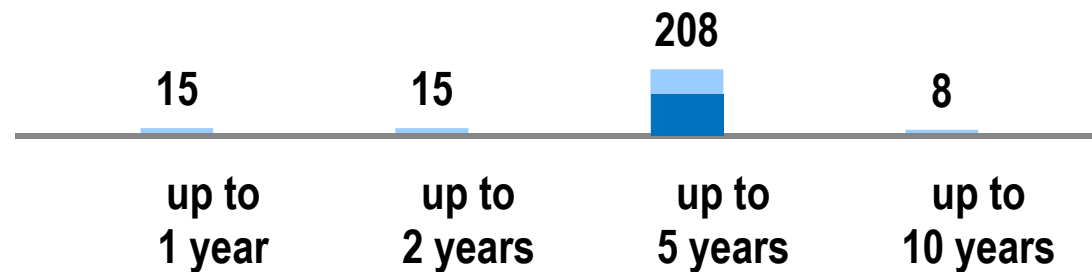
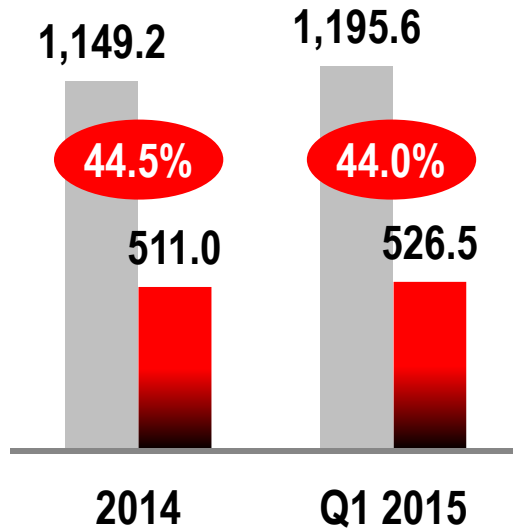


- Free cash flow of last twelve months improved compared to the last quarter

- Net financial position improved by €51.0 million
- Free cash flow used to reduce net financial debt and to pay dividend

Equity ratio & funding

€ million



Total assets
 Equity
 xx.x% Equity ratio
 Repayment schedule
 Duration of credit lines

- Sound balance sheet; equity ratio >40%
- Medium- to long-term financing with undrawn facilities available:
 - Duration of €160 million credit line until May 2019
 - Loan from European Investment Bank repayable until July 2020

Segments: DEUTZ Compact Engines

€ million	Q1 2015	Q1 2014	Change in %
New orders	248.9	344.6	-27.8
Unit sales	33,595	41,656	-19.4
Revenue	251.0	268.8	-12.5
EBIT	4.0	-4.9	>100

- Mixed growth dynamics: Revenue increased in Stationary Equipment (+34.8%) and Service (+7.7%). Revenue declined in Agricultural Machinery (-38.5%), Mobile Machinery (-13.9%) and Automotive (-17.1%)
- Substantial improvement of operating profit (+€8.9 million) due to FX effects, higher share of service business as well as lower production and warranty costs
- Orders on hand (€144.4 million) grew by 2.0% versus year-end 2014
- At-equity consolidated DEUTZ Dalian (China) generated revenue of €116.3 million (+18.0%) in a very challenging market environment (-3.0 % in local currency)

Segments: DEUTZ Customised Solutions

€ million	Q1 2015	Q1 2014	Change in %
New orders	72.1	69.6	3.6
Unit sales	3,312	2,801	18.2
Revenue	67.1	55.9	20.0
EBIT	11.0	7.1	54.9

- All applications with strong growth momentum, e.g. Automotive (+26.4%), Stationary Equipment (+22.1%) and Mobile Machinery (+12.7%)
- Service business accelerated by 17.0%
- Operating profit improvement (+€3.9 million) mainly attributable to higher business volume
- Orders on hand (€84.0 million) increased by 7.4% versus year-end 2014

Summary: key development

Demand impacted by prior year's pre-buys

Operating profit increase in both segments

“Stage V ready”-campaign

Focus of Chinese activities on DEUTZ Dalian

Sound balance sheet



The engine company.

Agenda

- DEUTZ strategy & positioning

- Financials

- **Outlook**

Financial outlook

€ million	FY 2014 reported	Guidance FY 2015
Revenue	1,530.2	approx. -10 %
EBIT margin (before one-offs)	2.1 %	approx. 3 %
Net R&D expenditure⁽¹⁾	53.1	significant decline
Capex (excl. R&D)⁽¹⁾	40.3	~ 50

(1) Net of reimbursements

- Group revenue expected to decline in FY 2015; slight revenue growth at DEUTZ Customised Solutions
- Expectation for FY 2016: Group revenue growth >10% and significant EBIT margin improvement

→ On track to reach financial outlook

Financial calendar & contact details

■ Interim report 1st half 2015

6 August 2015

■ Interim report 1st to 3rd quarter 2015

5 November 2015

➤ Contact details

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