

## Q1 2015 results

5 May 2015

Dr Helmut Leube, CEO

Dr Margarete Haase, CFO

The engine company.



# Agenda

- **Review Q1 2015**

- **Outlook**

- **Annex**

# 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**

# Highlights

- Group sales figures declined in line with our financial outlook
- Significant operating profit increase: Positive FX effects and compensation of negative scale effects by productivity enhancements
- Site optimisation measures in Germany well on track
- Consolidation of Chinese operations; focus on DEUTZ Dalian to serve local customer demand
- Service with new marketing approach
- DEUTZ compact engines already compliant to next emission standard (Stage V ready)

# 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**

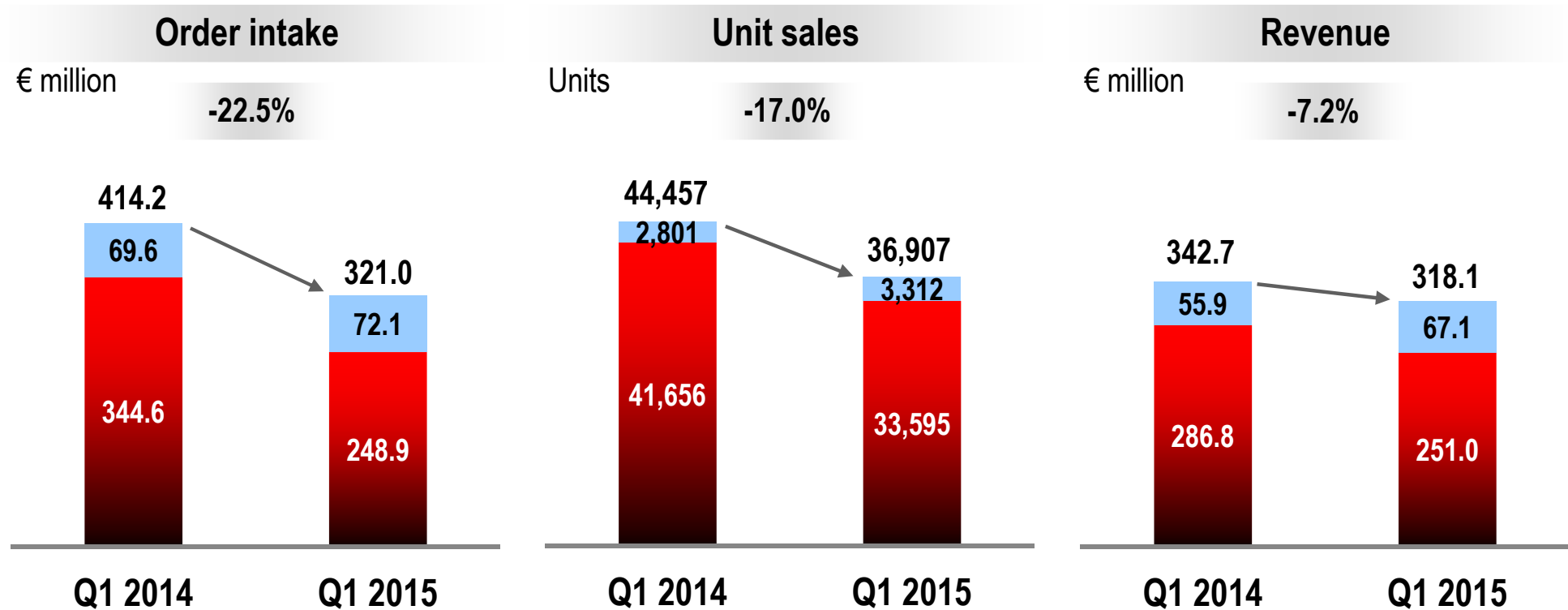


37 – 56 kW

- 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. They do not have to invest in adapting their equipment to comply with the upcoming emission change

**→ DEUTZ compact engines compliant with next emission standard**

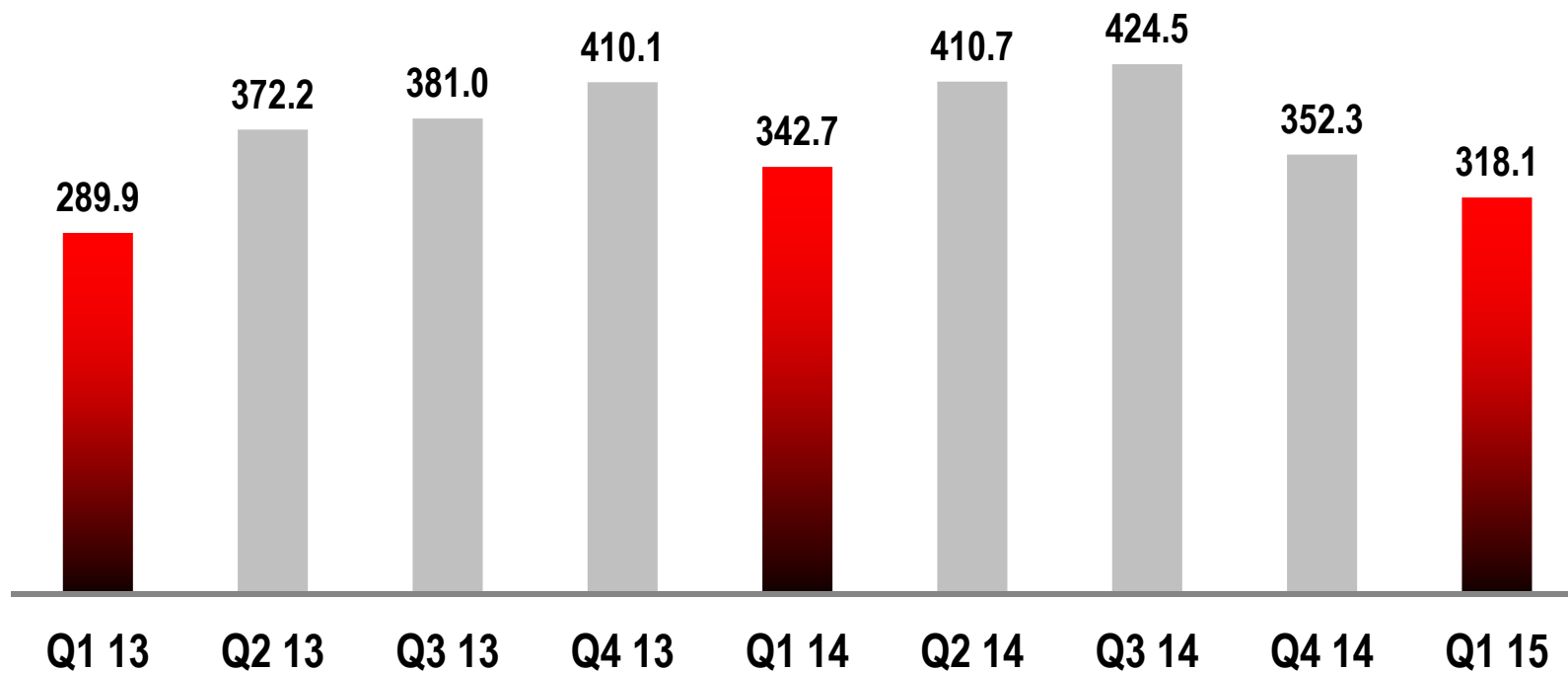
# Sales figures



- 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

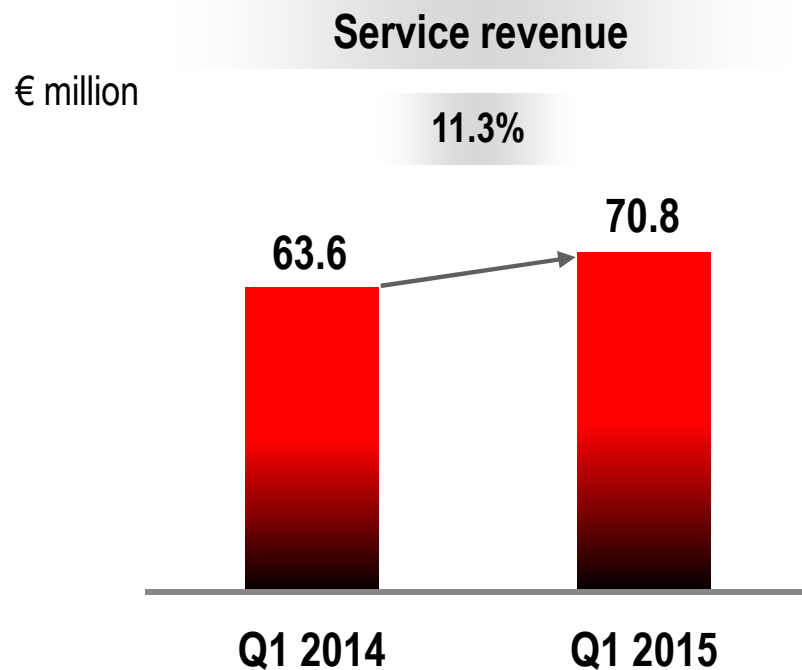
# Revenue development

€ million



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

# Service business

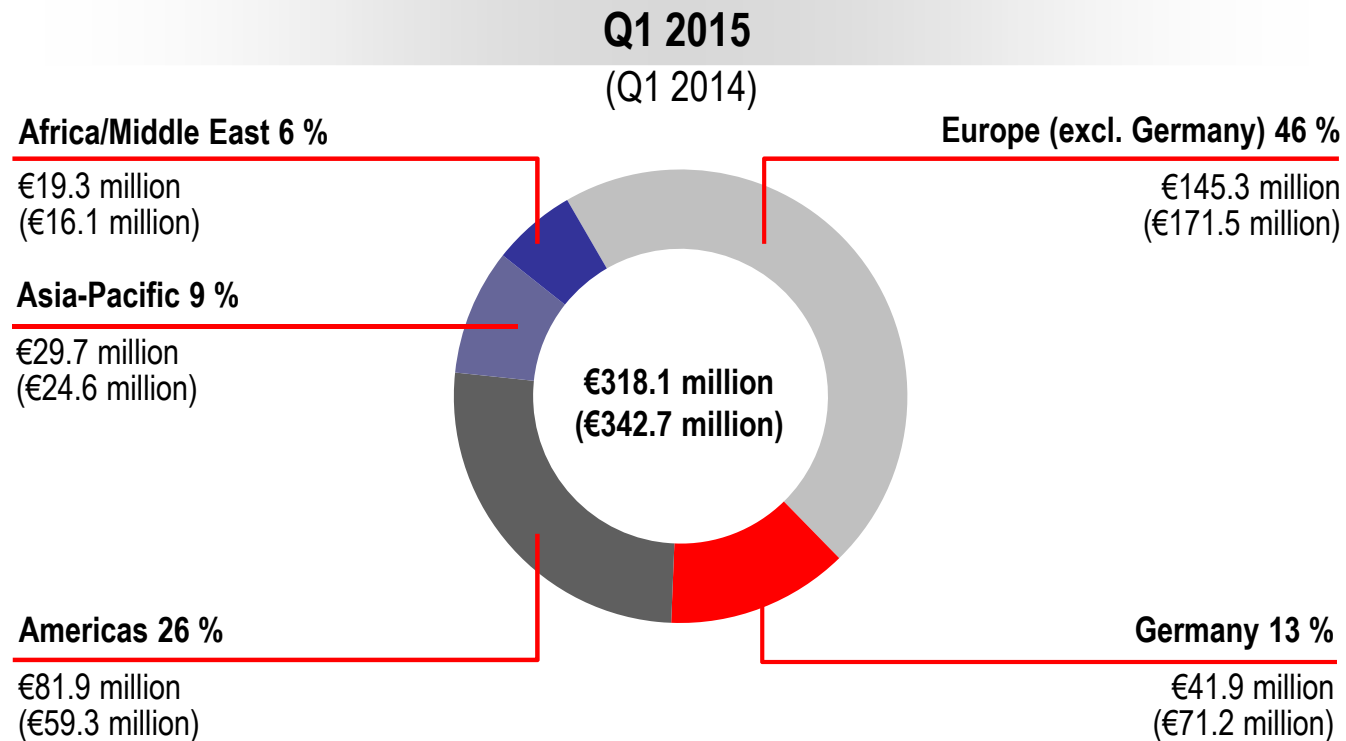


- Strong resilience of profitable service business through different economic cycles
- Campaign “DEUTZ SERVICE Life Time Support” started

➔ Intensified focus on profitable service business

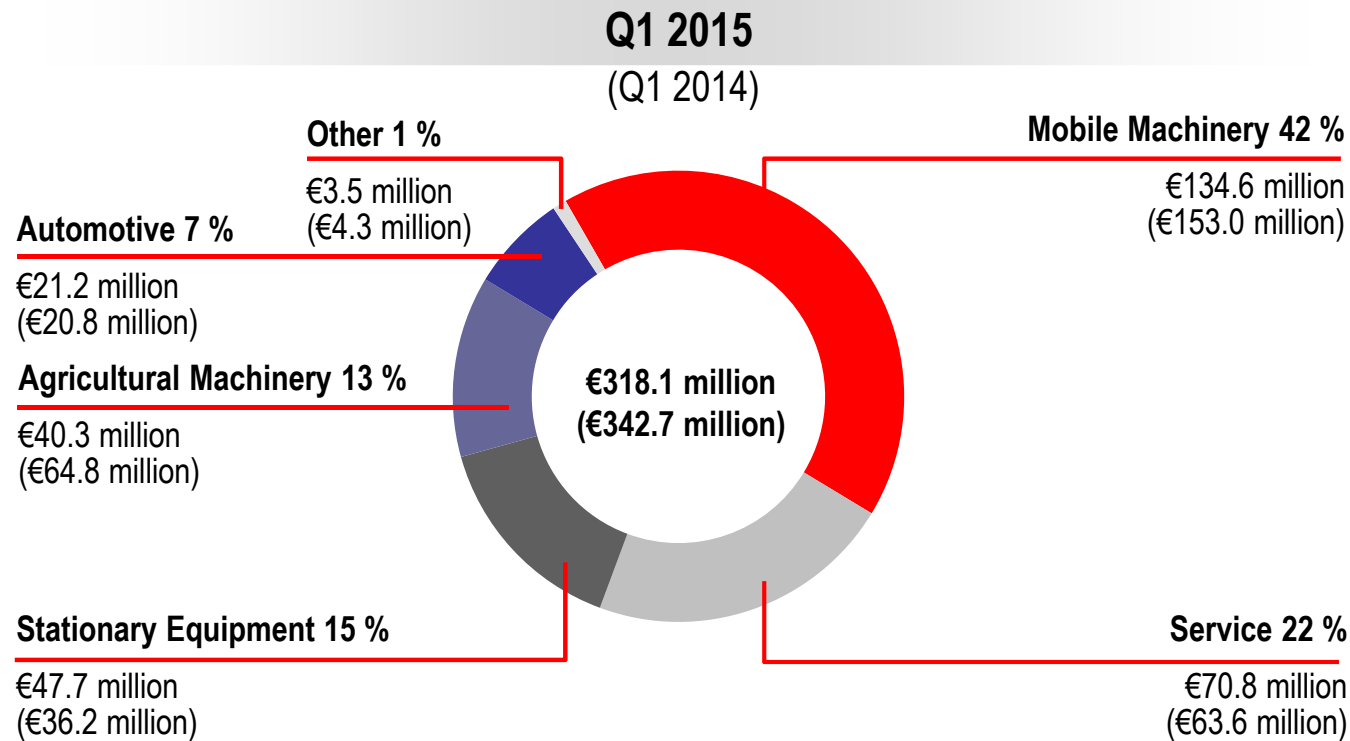


# Revenue split by region



- Sharp revenue growth in Americas (+38.1%) and Asia-Pacific (+20.7%)
- Revenue in Europe declined due to emission level change and related pre-buy effects in FY 2014
- 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%

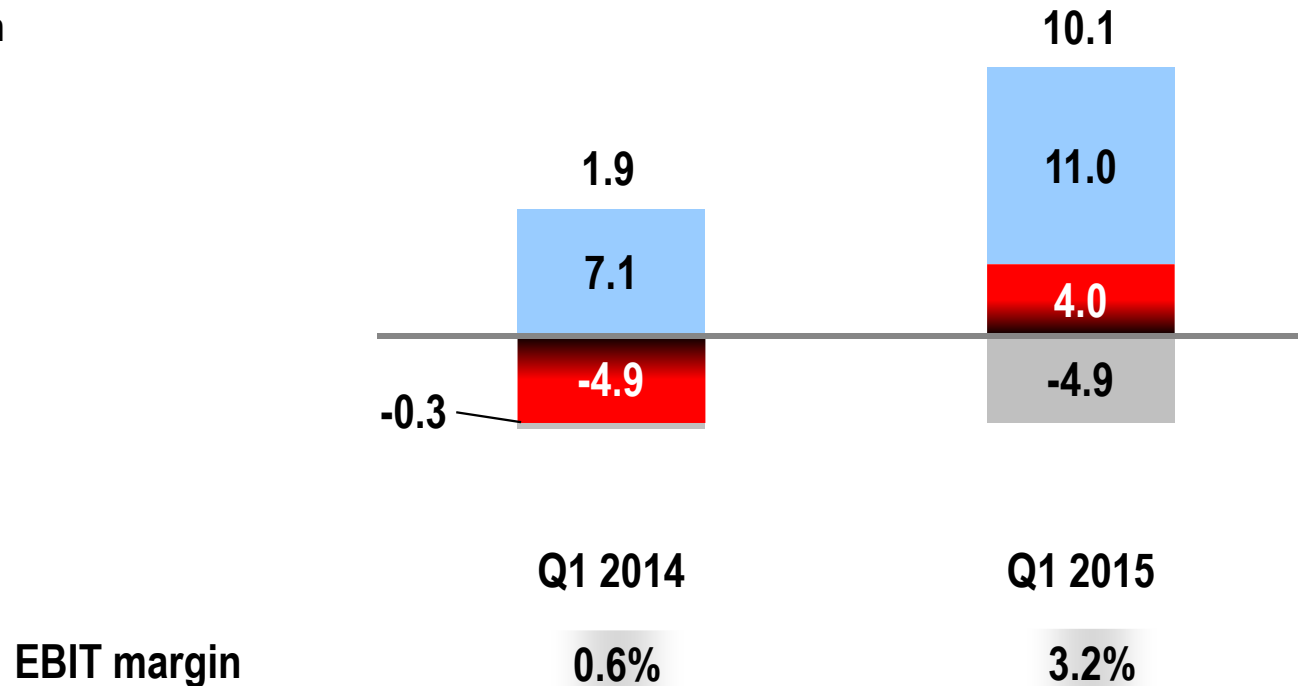
# Revenue split by application



- Stationary equipment and Service posted a revenue increase of 31.8% and 11.3%, respectively
- 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 in Automotive incl. at-equity consolidated JV DEUTZ Dalian: €122.1 million (corresponding revenue share amounts to 28.1%)

# EBIT<sup>(1)</sup>

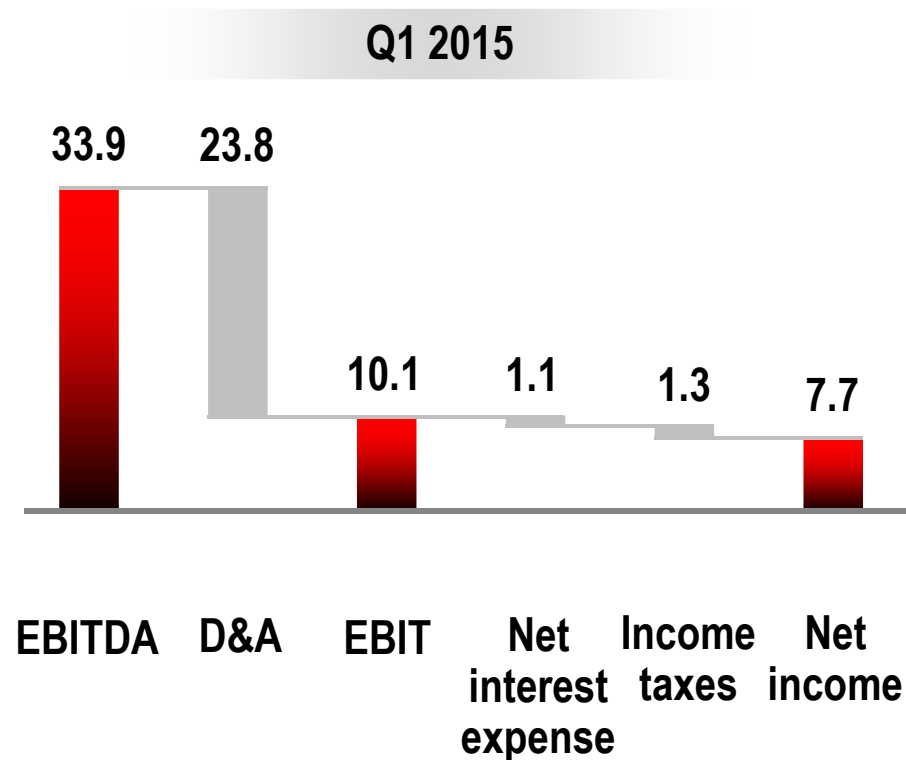
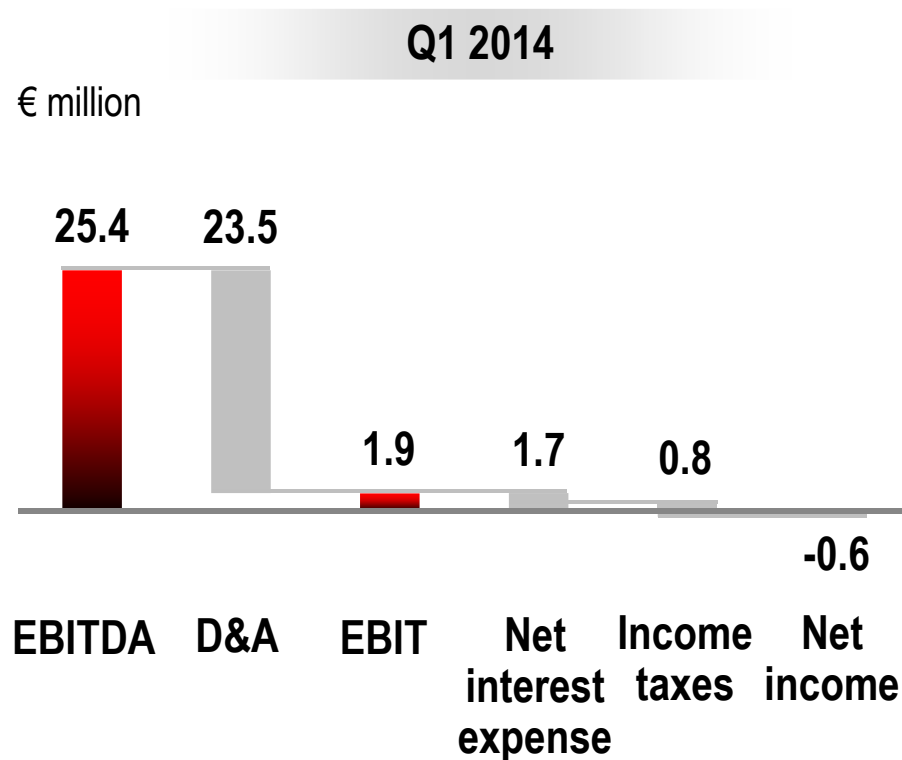
€ million



- 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

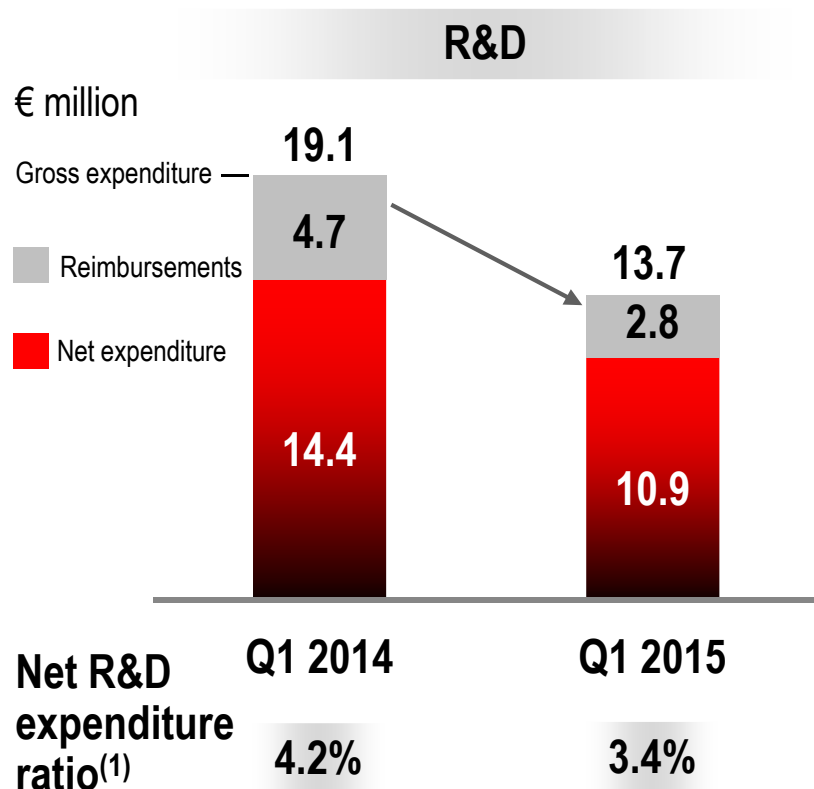
(1) No one-off effects, both in Q1 2015 and Q1 2014

# Operating profit & net income

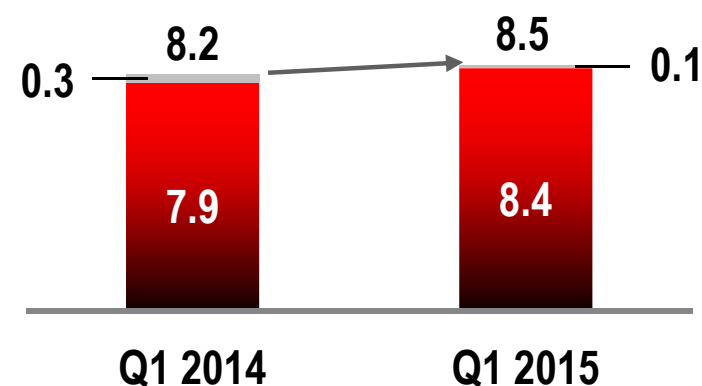


- EBITDA increased by €8.5 million (+33.5% year-on-year)
- Net interest expense and tax ratio remained at low level
- Net income improved by €8.3 million

# R&D & 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)

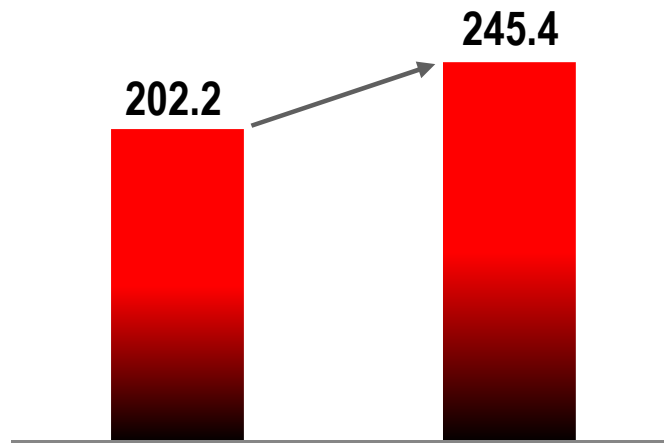
- Capital expenditure on previous year's level

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

# Working capital & operating cash flow

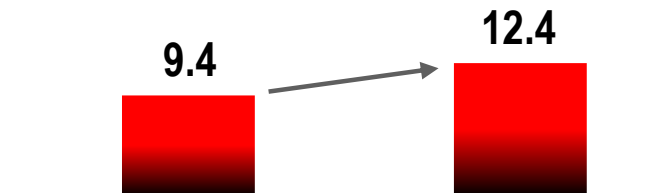
## Working capital

€ million



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

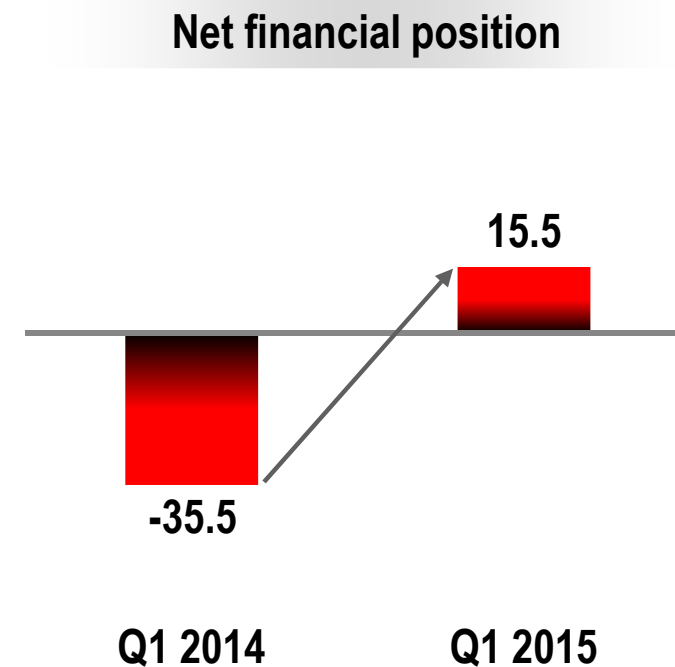
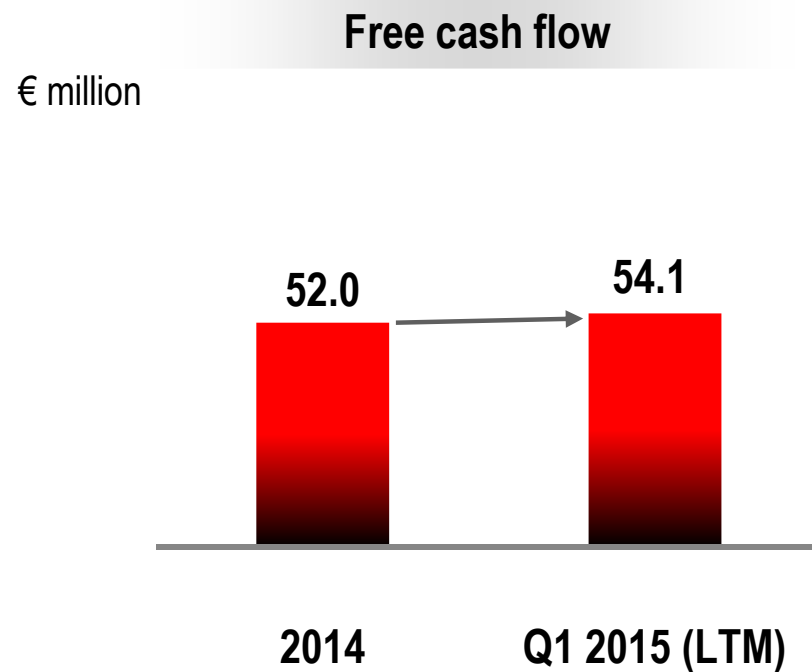
## Operating cash flow



	Q1 2014	Q1 2015
Operating cash flow	9.4	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

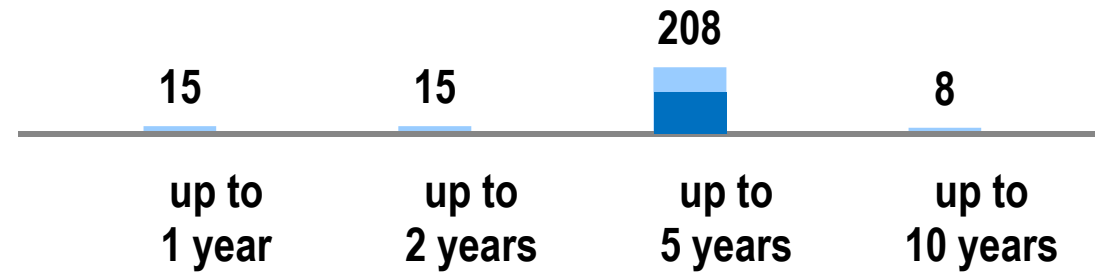
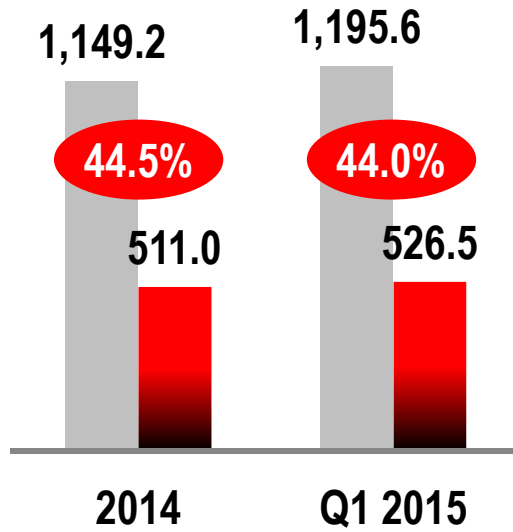


- Free cash flow of last twelve months improved compared to the last quarter

- 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	<b>Q1 2015</b>	Q1 2014	Change in %
New orders	<b>248.9</b>	344.6	-27.8
Unit sales	<b>33,595</b>	41,656	-19.4
Revenue	<b>251.0</b>	268.8	-12.5
EBIT	<b>4.0</b>	-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	<b>Q1 2015</b>	Q1 2014	Change in %
New orders	<b>72.1</b>	69.6	3.6
Unit sales	<b>3,312</b>	2,801	18.2
Revenue	<b>67.1</b>	55.9	20.0
EBIT	<b>11.0</b>	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

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

- Review Q1 2015

- Outlook

- Annex

# Financial outlook

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

(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**

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# Summary of key financials (I)

€ million	Q1 2015	Q1 2014	Change (%)
Revenue	318.1	342.7	-7.2
EBITDA	33.9	25.4	33.5
EBIT	10.1	1.9	>100
EBIT margin (%)	3.2	0.6	--
Net income	7.7	-0.6	>100
Basic earnings per share (€)	0.07	0.00	--
Number of employees (31 March)	3,850	4,042	-4.8

## Summary of key financials (II)

€ million	Q1 2015	Q1 2014	Change (%)
Total assets	1,195.6	1,154.2	3.6
Equity	526.5	497.3	5.9
Equity ratio (%)	44.0	43.1	--
Cash flow from operating activities	12.4	9.4	31.9
Free cash flow	-1.1	-3.2	-65.6
Net financial position	15.5	-35.5	>100
Working capital	245.4	202.2	21.4



# Income statement

€ million	Q1 2015	Q1 2014	Change (%)
<b>Revenue</b>	<b>318.1</b>	<b>342.7</b>	<b>-7.2</b>
Cost of goods sold	-264.1	-300.1	-12.0
Research and development costs	-18.5	-16.3	13.5
Selling expenses	-17.4	-16.6	4.8
Administrative expenses	-8.6	-8.4	2.4
Other operating income	12.6	3.2	>100
Other operating expenses	-11.6	-3.1	>100
Income from investments accounted for using the equity method	-0.4	0.5	--
Other investment income	0.0	0.0	--
<b>EBIT</b>	<b>10.1</b>	<b>1.9</b>	<b>&gt;100</b>
Net interest expense	-1.1	-1.7	-35.3
<b>Net income before taxes</b>	<b>9.0</b>	<b>0.2</b>	<b>&gt;100</b>
Income taxes	-1.3	-0.8	62.5
<b>Net income</b>	<b>7.7</b>	<b>-0.6</b>	<b>&gt;100</b>

## Balance sheet: assets

€ million	<b>31 March 2015</b>	<b>31 Dec 2014</b>	Change (%)
Non-current assets (excluding deferred tax assets)	556.1	563.6	-1.3
Deferred tax assets	70.0	62.2	12.5
Inventories	277.6	245.2	13.2
Trade receivables	146.2	122.0	19.8
Other receivables and assets	45.3	54.1	-16.3
Cash and cash equivalents	100.0	101.7	-1.7
Non-current assets classified as held for sale	0.4	0.4	0.0
<b>Total assets</b>	<b>1,195.6</b>	<b>1,149.2</b>	<b>4.0</b>

# Balance sheet: equity and liabilities

€ million	31 March 2015	31 Dec 2014	Change (%)
<b>Equity</b>	<b>526.5</b>	<b>511.0</b>	<b>3.0</b>
Provisions for pensions and other post-retirement benefits	197.1	187.1	5.3
Other provisions	57.2	58.4	-2.1
Financial liabilities	69.6	73.3	-5.0
Other liabilities	3.8	3.9	-2.6
<b>Non-current liabilities</b>	<b>327.7</b>	<b>322.7</b>	<b>1.5</b>
Provisions for pensions and other post-retirement benefits	14.7	14.7	0.0
Other provisions / Provisions for income taxes	78.2	70.8	10.5
Financial liabilities	14.9	14.7	1.4
Trade payables	178.4	171.0	4.3
Other liabilities	55.2	44.3	24.6
<b>Current liabilities</b>	<b>341.4</b>	<b>315.5</b>	<b>8.2</b>
<b>Total equity and liabilities</b>	<b>1,195.6</b>	<b>1,149.2</b>	<b>4.0</b>

# Cash flow statement (condensed)

€ million	Q1 2015	Q1 2014
EBIT	10.1	1.9
<b>Cash flow from operating activities (total)</b>	<b>12.4</b>	<b>9.4</b>
Capital expenditure on intangible assets, property, plant and equipment and investments	-13.0	-16.2
Proceeds from the sale of non-current assets	0.6	5.1
<b>Cash flow from investing activities (total)</b>	<b>-12.4</b>	<b>-11.1</b>
<b>Cash flow from financing activities</b>	<b>-4.7</b>	<b>13.5</b>
<b>Change in cash and cash equivalents</b>	<b>-4.7</b>	<b>11.8</b>

# Overview of segments, Q1 2015

	<b>Q1 2015</b>	<b>Q1 2014</b>	<b>Change (%)</b>
<b>New orders (€ million)</b>			
DEUTZ Compact Engines	248.9	344.6	-27.8
DEUTZ Customised Solutions	72.1	69.6	3.6
<b>Total for operating activities</b>	<b>321.0</b>	<b>414.2</b>	<b>-22.5</b>

	<b>Q1 2015</b>	<b>Q1 2014</b>	<b>Change (%)</b>
<b>Revenue (€ million)</b>			
DEUTZ Compact Engines	251.0	286.8	-12.5
DEUTZ Customised Solutions	67.1	55.9	20.0
<b>Total for operating activities</b>	<b>318.1</b>	<b>342.7</b>	<b>-7.2</b>

	<b>Q1 2015</b>	<b>Q1 2014</b>	<b>Change (%)</b>
<b>Unit sales</b>			
DEUTZ Compact Engines	33,595	41,656	-19.4
DEUTZ Customised Solutions	3,312	2,801	18.2
<b>Total for operating activities</b>	<b>36,907</b>	<b>44,457</b>	<b>-17.0</b>

	<b>Q1 2015</b>	<b>Q1 2014</b>	<b>Change (%)</b>
<b>EBIT (€ million)</b>			
DEUTZ Compact Engines	4.0	-4.9	>100
DEUTZ Customised Solutions	11.0	7.1	54.9
Other	-4.9	-0.3	<-100
<b>Total for operating activities</b>	<b>10.1</b>	<b>1.9</b>	<b>&gt;100</b>

# Employees

	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>Change (%)</b>
Cologne	2,393	2,426	-1.4
Ulm	375	393	-4.6
Other German operations	278	281	-1.1
<b>Germany</b>	<b>3,046</b>	<b>3,100</b>	<b>-1.7</b>
Foreign operations	804	942	-14.6
<b>DEUTZ Group</b>	<b>3,850</b>	<b>4,042</b>	<b>-4.8</b>

# Financial calendar & contact details

■ Interim report 1<sup>st</sup> half 2015

6 August 2015

■ Interim report 1<sup>st</sup> to 3<sup>rd</sup> quarter 2015

5 November 2015

## ➤ Contact details

Christian Krupp  
Ottostrasse 1  
51149 Cologne (Porz-Eil)  
Germany

Tel:+49 (0) 221 822 5400  
Fax:+49 (0) 221 822 15 5400  
Email: [krupp.c@deutz.com](mailto:krupp.c@deutz.com)  
[www.deutz.com](http://www.deutz.com)

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