

# DEUTZ Investor Presentation

September 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



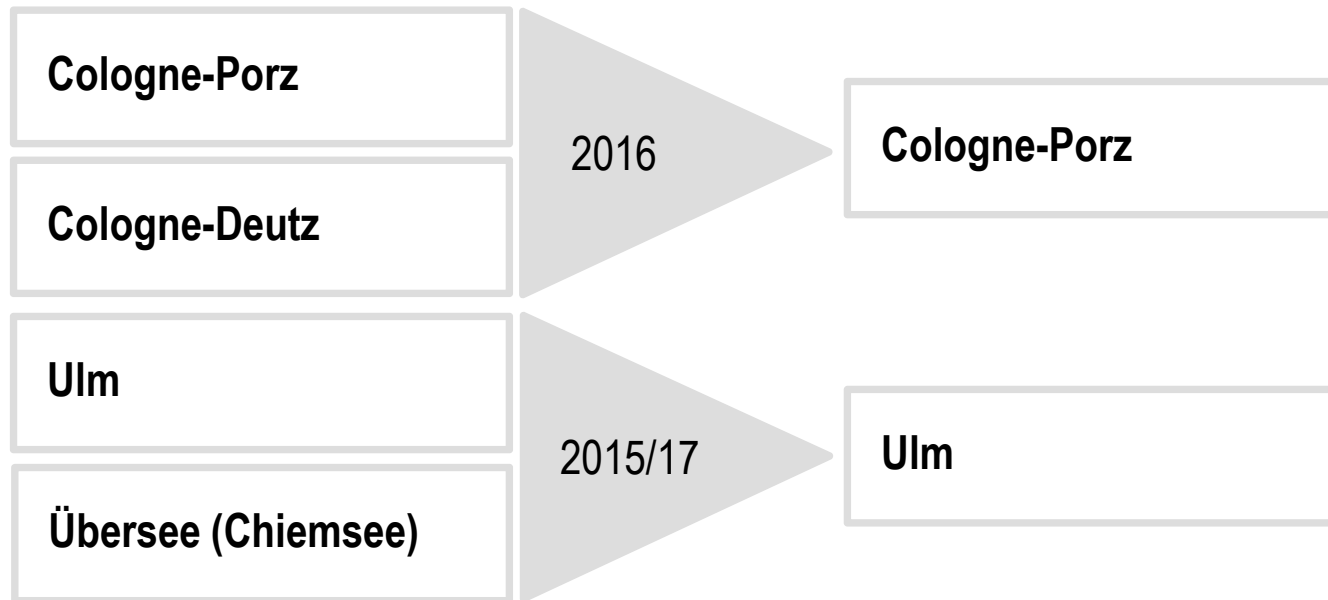
- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines over 8 litres for all applications
- Remanufactured (Xchange) engines for all DEUTZ engine series

### 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



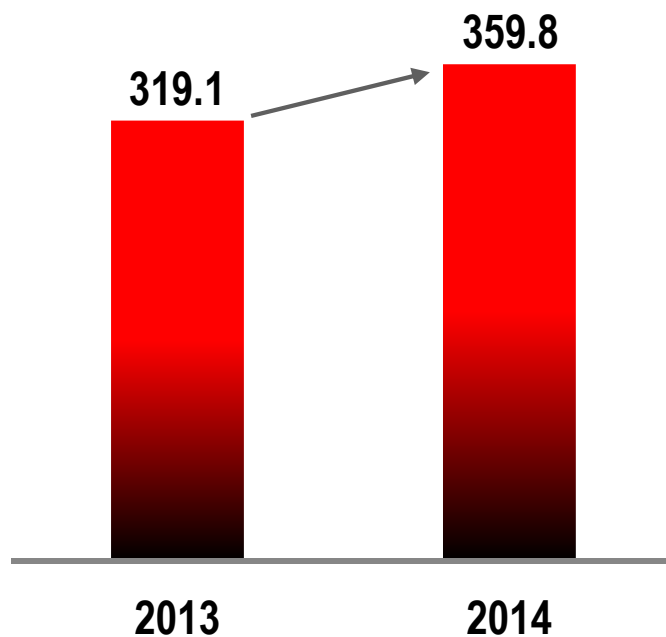
- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Capex overcompensated by proceeds from property sales in subsequent years

**→ Sustainable efficiency improvement by merging facilities**

# DEUTZ activities in China

## Revenue JV DEUTZ Dalian<sup>(1)</sup>

€ million



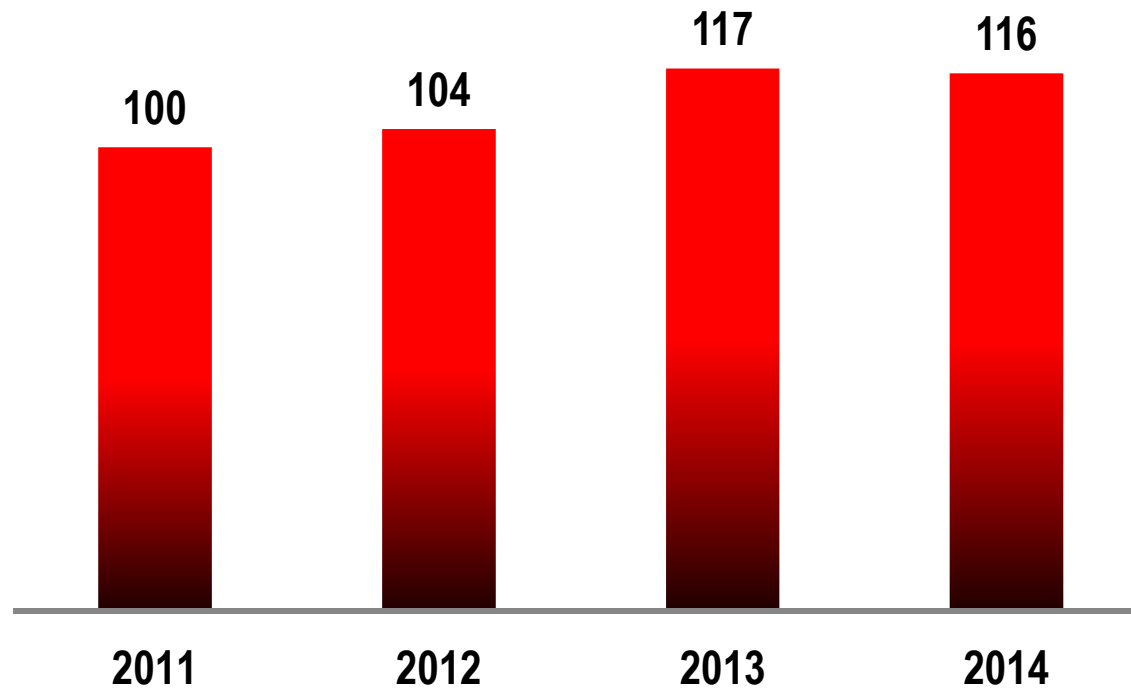
- Challenging capital goods market conditions in China
- Countrywide dealer network
- Strategic decision to focus our production in China on our successful JV DEUTZ Dalian (DDE) which has sufficient capacities
- Joint decision with our partners AB Volvo and Shandong Changlin to unwind Joint Ventures before start of production
- Agreement to sell our stake in JV Weifang to Weichai Power subject to regulatory approval

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

**→ Focus production activities on DEUTZ Dalian**

# 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

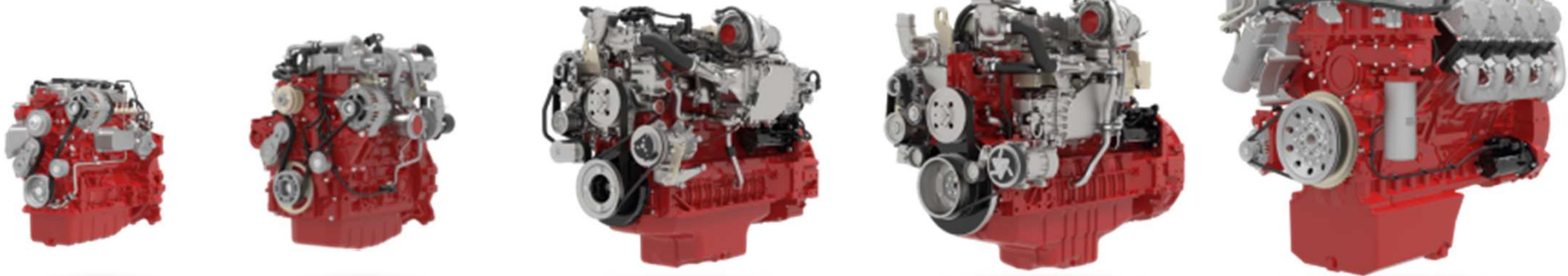
TCD 2.9

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

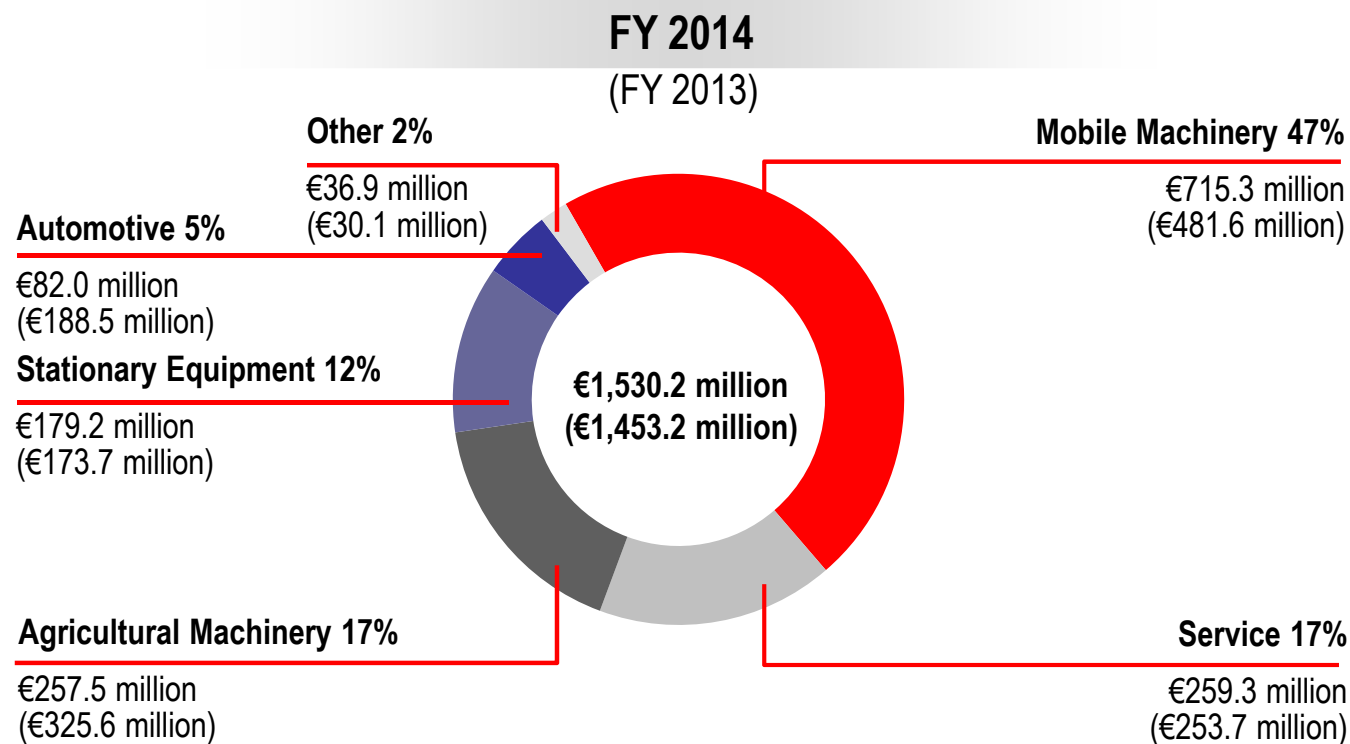
→ Product offensive is paying off

# 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	 → 

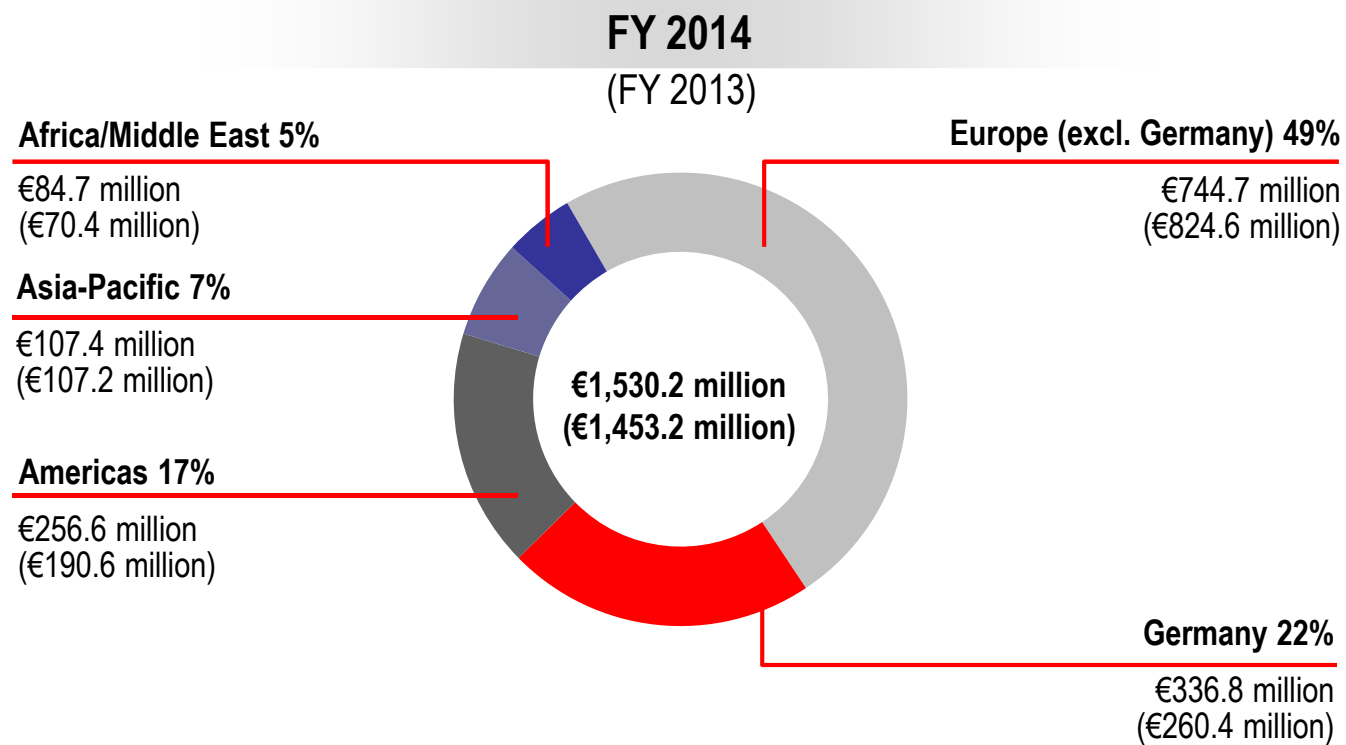
→ Wide application range for DEUTZ engines

# 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%)

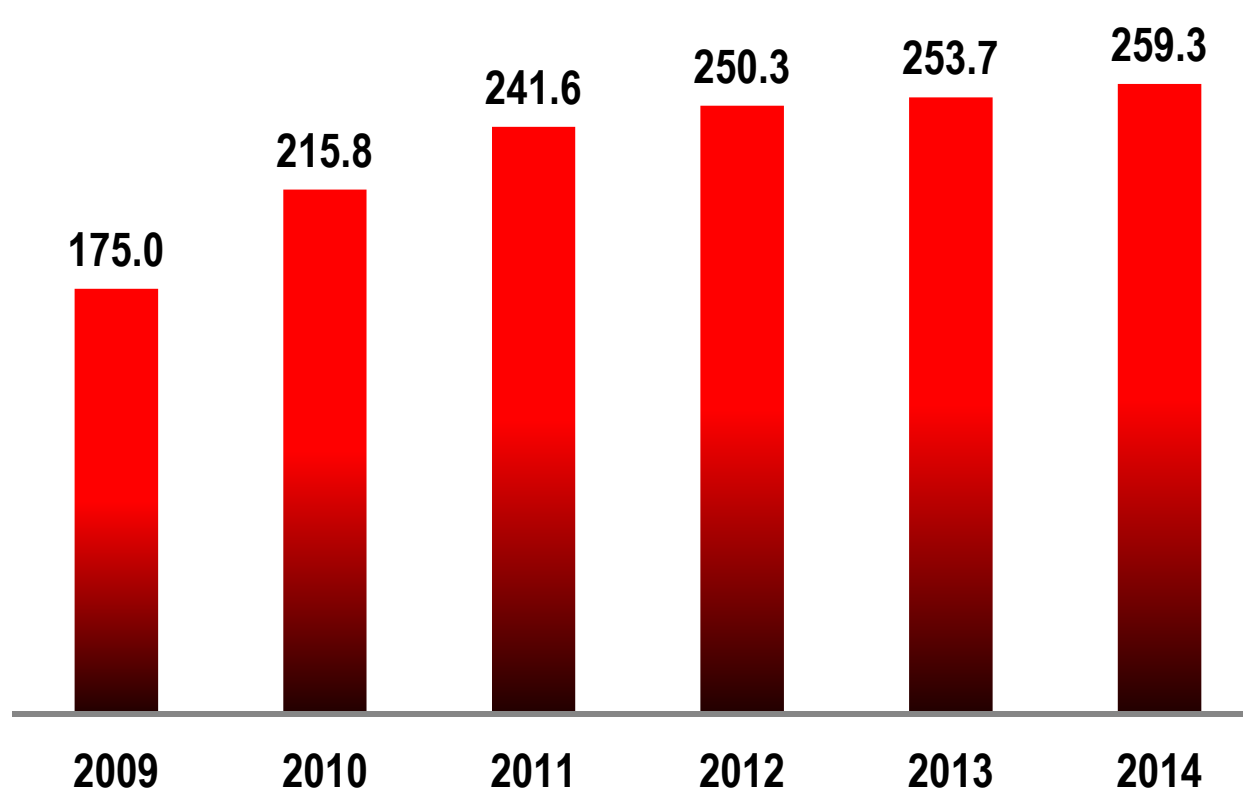
# Revenue split by region



- 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

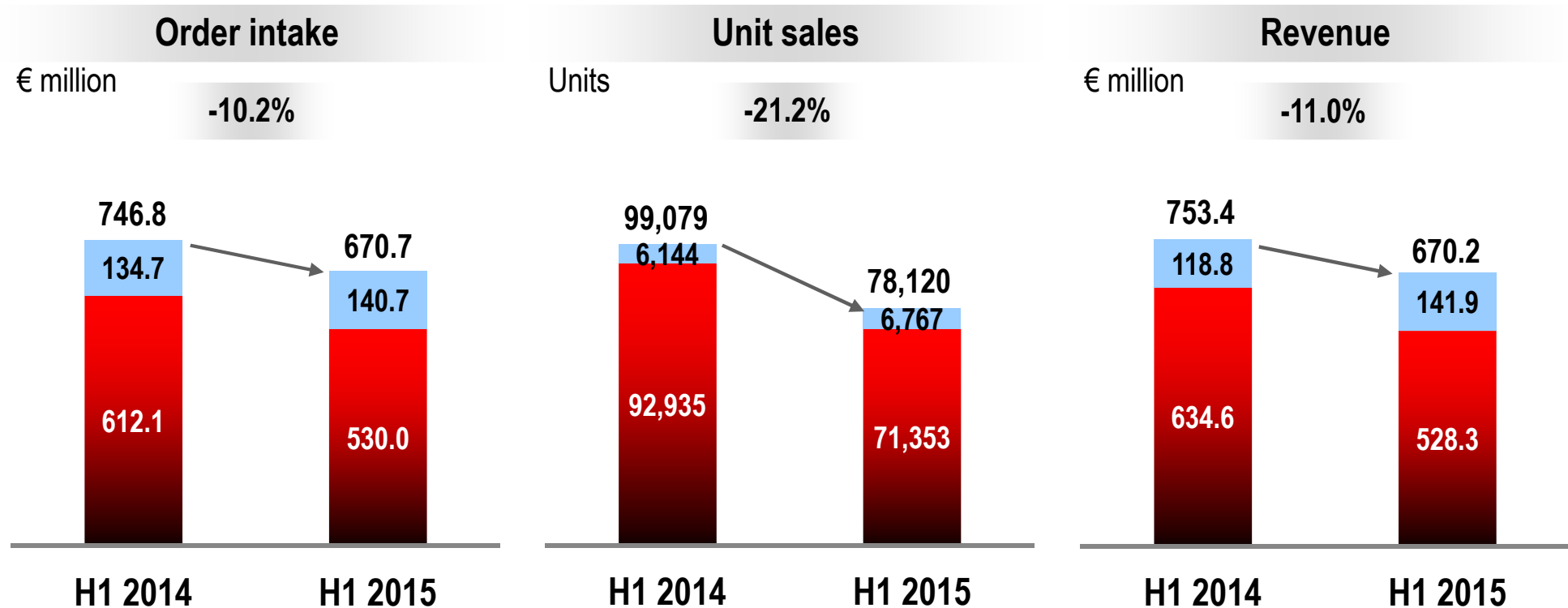


# Key figures

€ million	H1 2015	yoy	Q2 2015	qoq
<b>Order intake</b>	670.7	-10.2%	349.7	+8.9%
<b>Revenue</b>	670.2	-11.0%	352.1	+10.7%
<b>EBITDA (before one-offs)</b>	70.4	+4.3%	36.5	+7.7%
<b>EBIT (before one-offs)</b>	20.3	+1.0%	10.2	+1.0%
<b>Net income</b>	16.7	> 100%	9.0	+16.9%
<b>Free cash flow</b>	26.2	+€17.3 million	27.3	+€28.4 million

➔ Profitability and cash generation improved despite lower capacity utilisation in H1

# Sales figures

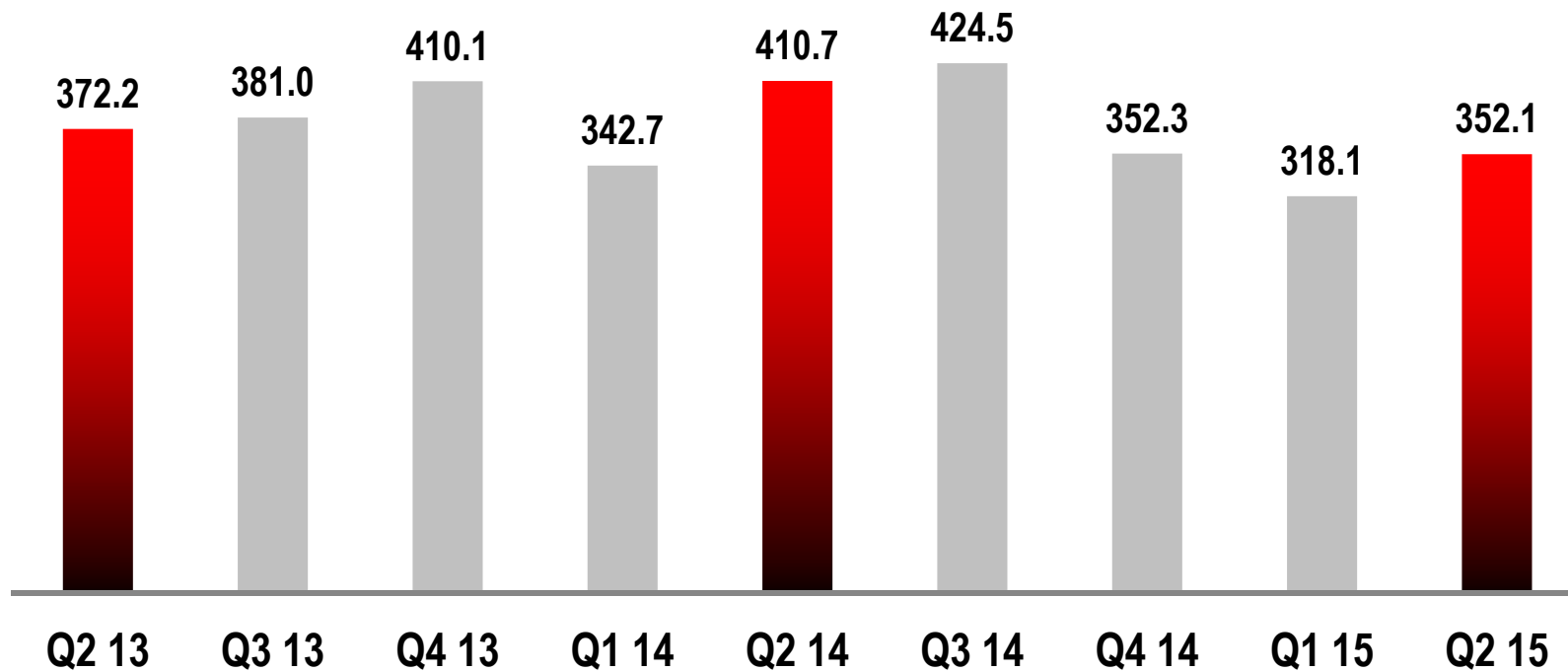


- Sales figures decline due to previous year's pre-buys and soft agricultural market is in line with expectations
- Revenue better than unit sales development attributable to service business and positive mix effects
- Orders on hands increased by 1.9% versus year-end 2014 to €223.8 million; book-to-bill ratio at 1.0x

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

# Revenue development

€ million

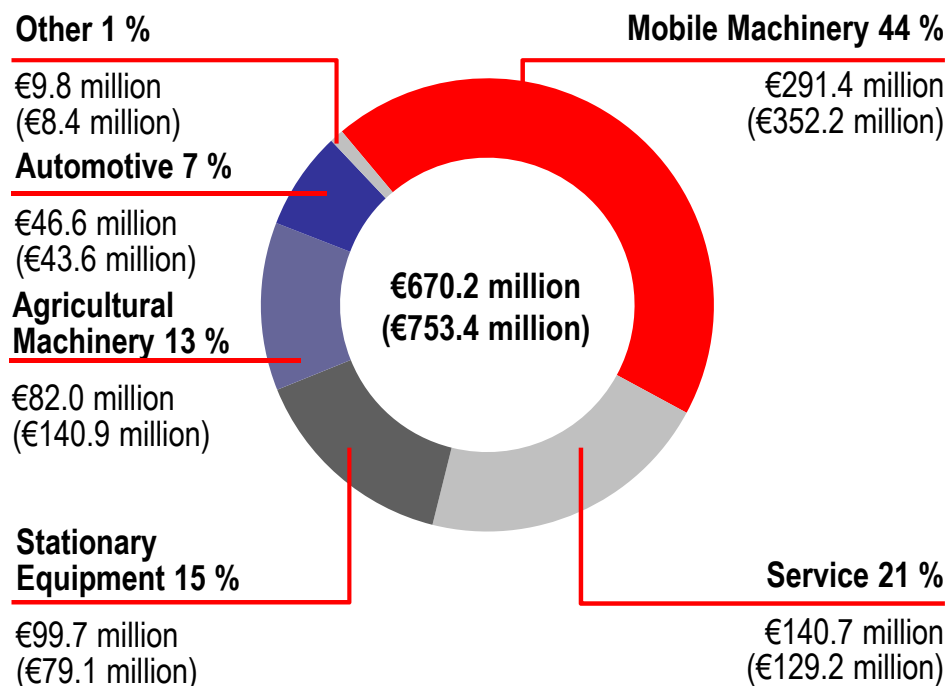


- Current business impacted by emission level change on 1 October 2014 in Europe
- Sequential revenue increase in Q2 but 3 weeks plant holidays in Cologne in Q3

# Revenue split

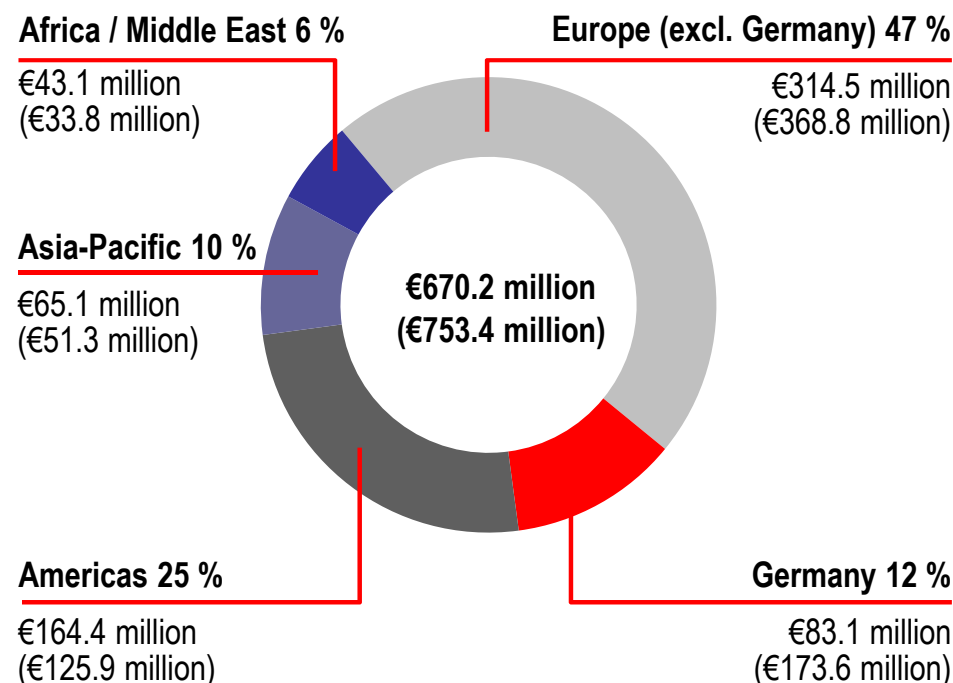
## Revenue split by application, H1 2015

(H1 2014)



## Revenue split by region, H1 2015

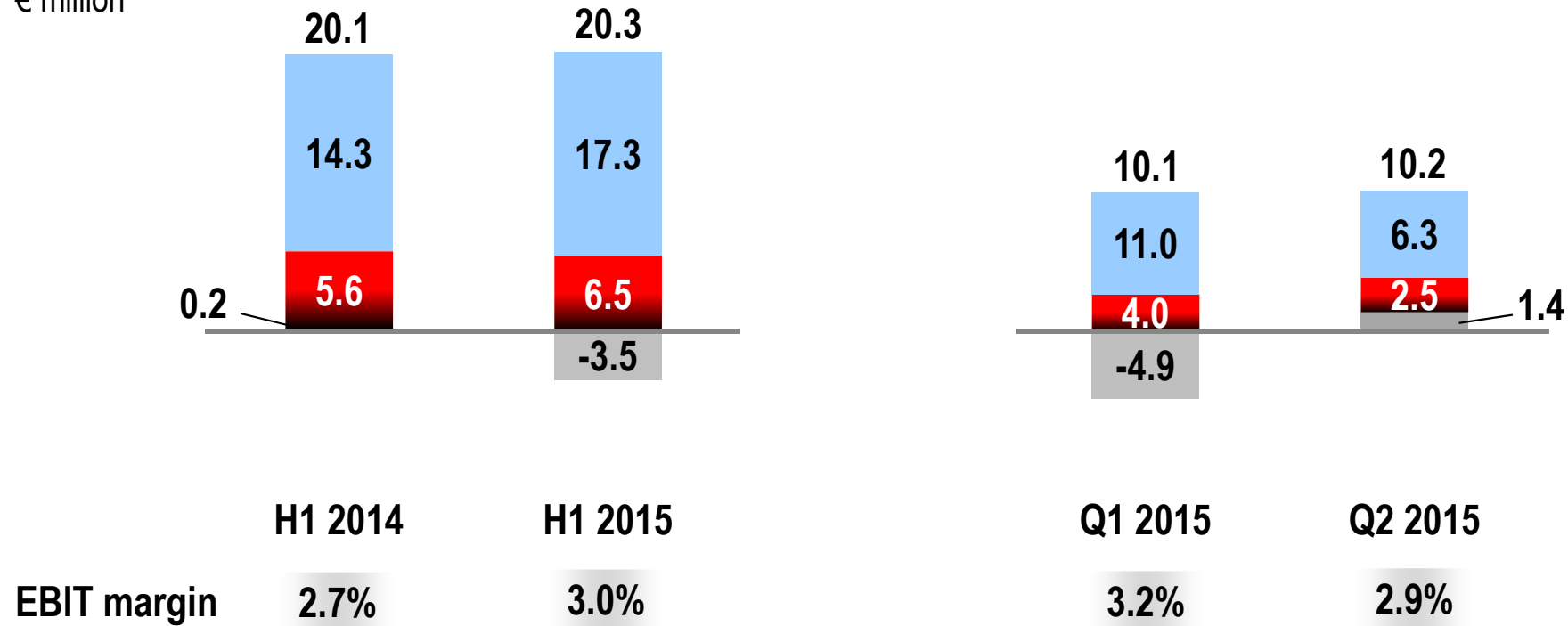
(H1 2014)



- Revenue declined in Mobile Machinery (-17.3%) and Agricultural Machinery (-41.8%) due to pre-buys and weak underlying business in agriculture
- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €863.8 million (-8.8%); corresponding revenue share of Asia-Pacific amounts to 29.9%

# EBIT (before one-offs)

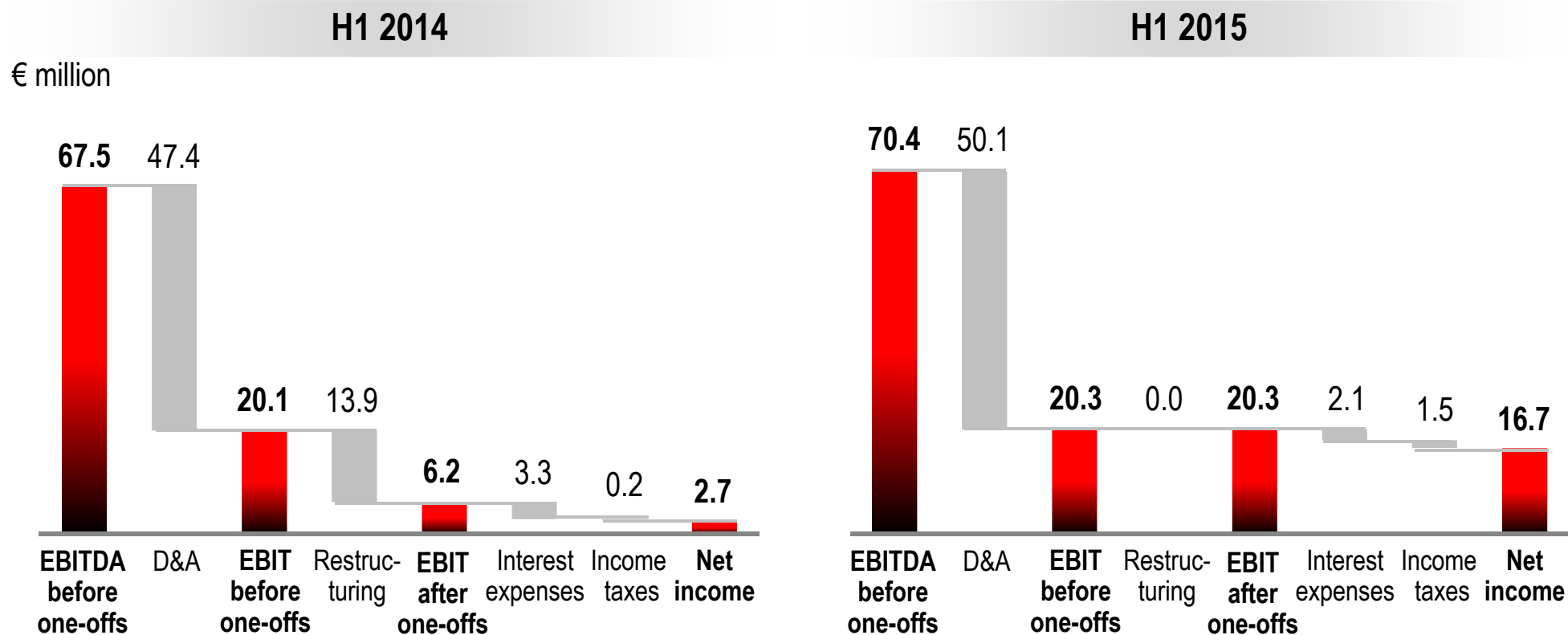
€ million



- EBIT on the previous year level; margin in-line with full year outlook
- EBIT improved at both operating segments in H1
- Segment “Other” impacted by unrealised FX effects; offset expected in H2

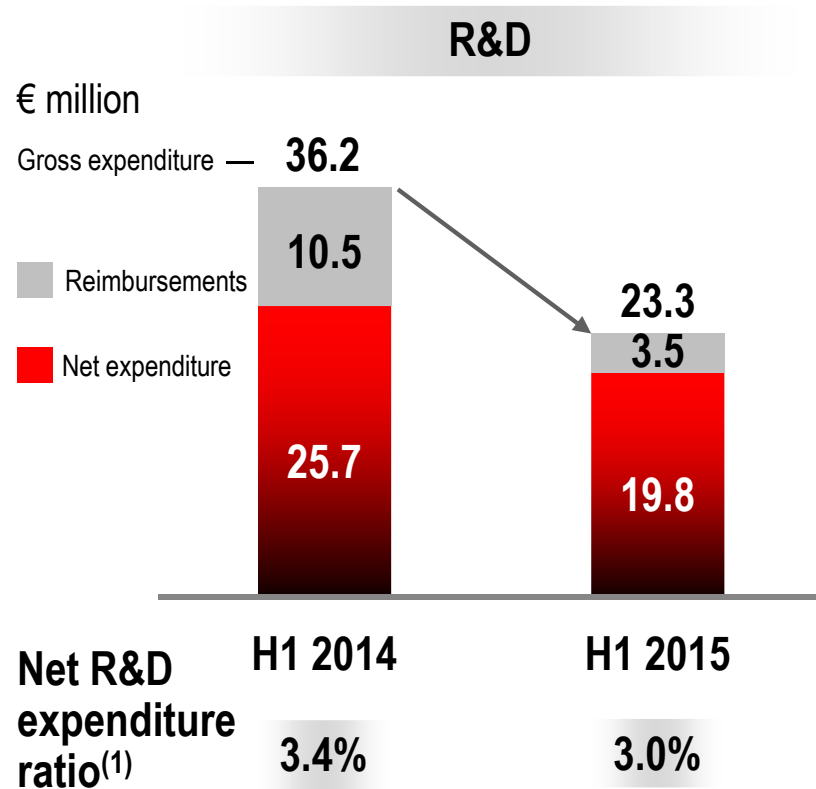
■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions    ■ Other

# Operating profit & net income

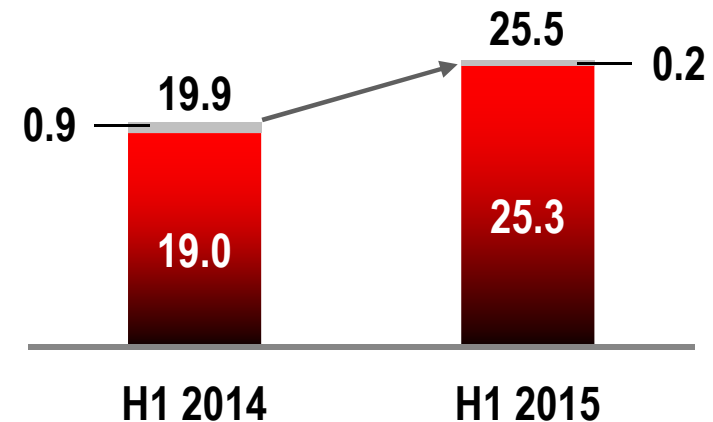


- EBITDA (before-one-offs) increased by €2.9 million despite lower revenue
- Sustainably low interest expenses and income taxes
- Net income improved by €14.0 million. Prior year affected by restructuring cost related to site optimisation

# R&D spending & capital expenditure



## Capital expenditure (excl. R&D)

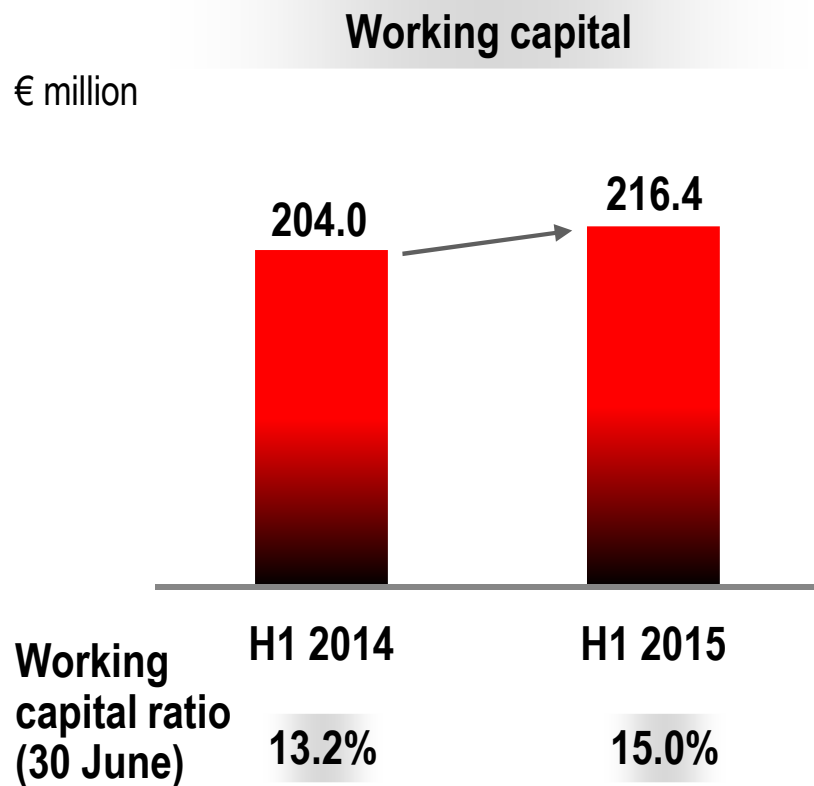


- R&D scaled back significantly after all engines designed for the latest emission standard in the EU and in the US were launched in 2014
- Proportion of capitalised net R&D expenditure decreased to €5.0 million (H1 2014: €15.8 million)

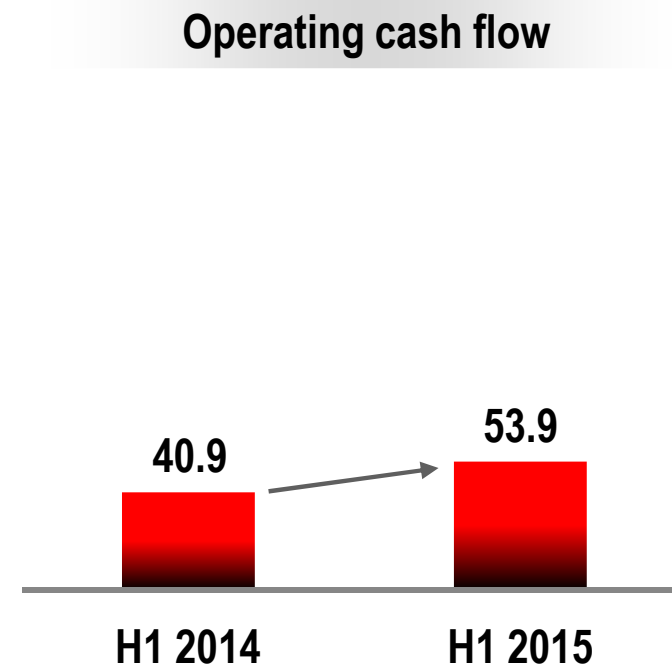
- Capital expenditure increase in line with full year guidance (~€50 million)
- Foundation laid for new shaft centre which is an important component of our site optimisation

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

# Working capital & operating cash flow



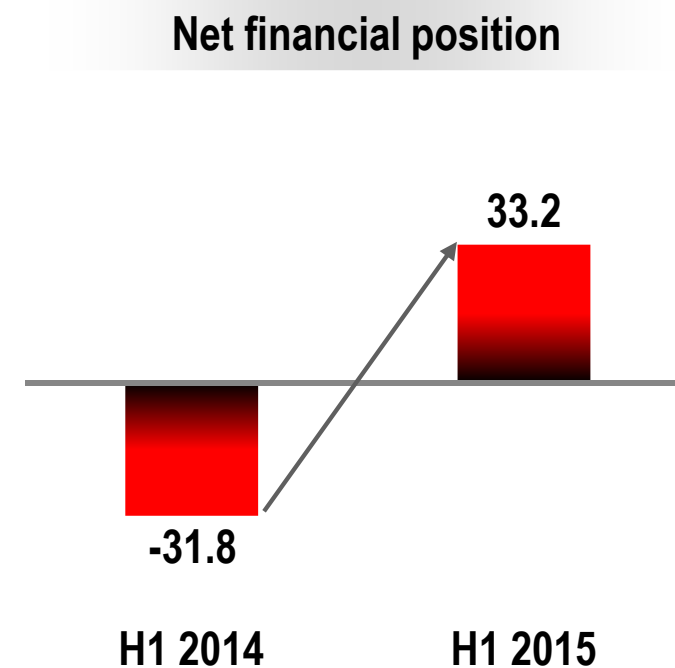
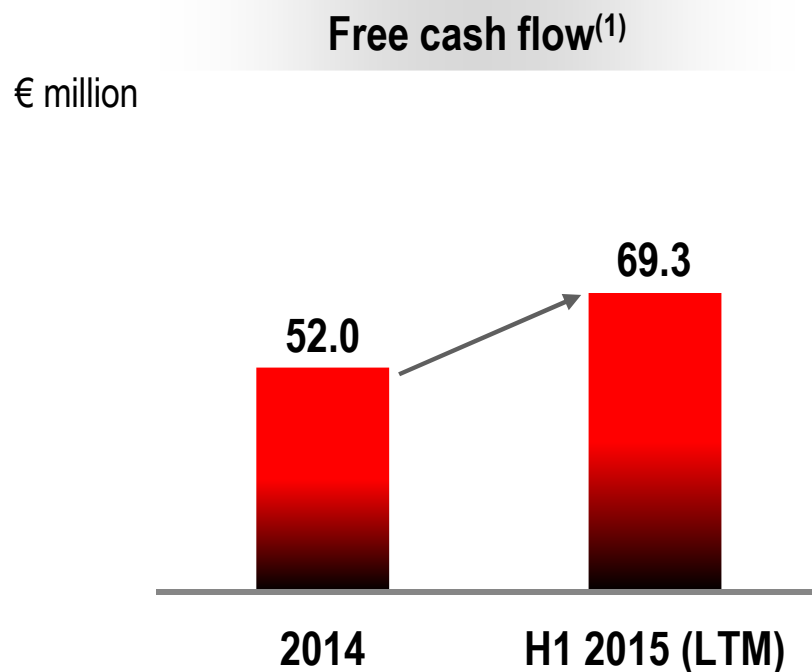
- Working capital increase (+6.1%) related to temporarily higher inventories and FX effects



- Significant increase of operating cash flow (+€13.0 million)



# Free cash flow generation & net financial position

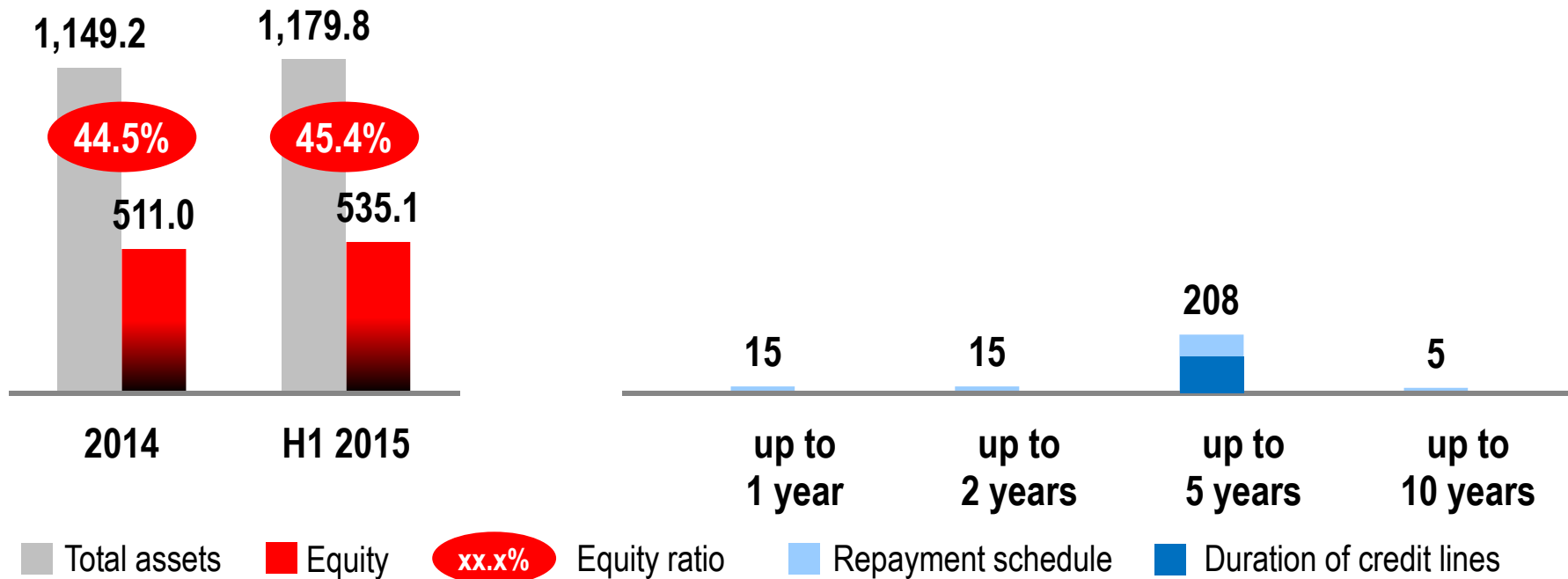


- Strong free cash flow performance continued
- Free cash flow in H1 2015 amounted to €26.2 million (H1 2014: €8.9 million)
- Marked improvement of net financial position (+€65.0 million) on the back of strong cash generation

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

# Equity ratio & funding

€ million



- Sound balance sheet; equity ratio increased to 45.4%
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line extended by one year until May 2020
  - Loan from European Investment Bank repayable until July 2020

## Segments: DEUTZ Compact Engines

€ million	<b>H1 2015</b>	H1 2014	Change in %
New orders	<b>530.0</b>	612.1	-13.4
Unit sales	<b>71,353</b>	92,935	-23.2
Revenue	<b>528.3</b>	634.6	-16.8
EBIT (before one-offs)	<b>6.5</b>	5.6	16.1

€ million	<b>Q2 2015</b>	Q1 2015	Change in %
New orders	<b>281.1</b>	248.9	12.9
Unit sales	<b>37,758</b>	33,595	12.4
Revenue	<b>277.3</b>	251.0	10.5
EBIT (before one-offs)	<b>2.5</b>	4.0	-37.5

- H1 revenue decrease mainly attributable to Mobile Machinery (-19.6%) and Agricultural Machinery (-42.5%)
- Service business revenues increased by 5.3% yoy
- At-equity consolidated DEUTZ Dalian (China) generated revenue of €193.6 million (-0.3% yoy) in a very challenging market environment
- Operating profit improved (+16.1% yoy). Negative scale effects and lower profit contribution from DEUTZ Dalian overcompensated by productivity enhancements, FX tailwind and higher share of service business

## Segments: DEUTZ Customised Solutions

€ million	<b>H1 2015</b>	H1 2014	Change in %
New orders	<b>140.7</b>	134.7	4.5
Unit sales	<b>6,767</b>	6,144	10.1
Revenue	<b>141.9</b>	118.8	19.4
EBIT (before one-offs)	<b>17.3</b>	14.3	21.0

€ million	<b>Q2 2015</b>	Q1 2015	Change in %
New orders	<b>68.6</b>	72.1	-4.9
Unit sales	<b>3,455</b>	3,312	4.3
Revenue	<b>74.8</b>	67.1	11.5
EBIT (before one-offs)	<b>6.3</b>	11.0	-42.7

- Unlike DEUTZ Compact Engines, segment not affected by European pre-buys in the last year
- Revenue increased at all major applications: Automotive (+28.1%), Mobile Machinery (+16.4%) and Stationary Equipment (+14.0%)
- Service business revenues increased by 14.4%
- Operating profit improvement in H1 (+21.0% yoy) mainly driven by higher volume; Q2 affected by an impairment (€2.0 million)

## Summary: key development

Sales figures impacted by prior year's pre-buys

EBIT improvement despite negative scale effects

Focus Chinese production activities on DEUTZ Dalian

Site optimisation in Germany on schedule

Strong cash flow generation



The engine company.

# Agenda

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- Financials

- **Outlook**

# Financial outlook

€ million	FY 2014 reported	Previous Guidance FY 2015	New Guidance FY 2015
<b>Revenue</b>	1,530.2	approx. -10 %	approx. -20 %
<b>EBIT margin (before one-offs)</b>	2.1 %	approx. 3 %	approx. 0 %
<b>Net R&amp;D expenditure<sup>(1)</sup></b>	53.1	significant decline	significant decline
<b>Capex (excl. R&amp;D)<sup>(1)</sup></b>	40.3	~ 50	~ 50

(1) Net of reimbursements

# Financial calendar & contact details

- Interim report 1<sup>st</sup> to 3<sup>rd</sup> quarter 2015 5 November 2015
  
- Annual Report 2015 17 March 2016
  
- Annual General Meeting 28 April 2016
  
- Interim report 1<sup>st</sup> quarter 2016 3 May 2016

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