

# DEUTZ Investor Presentation

November 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 power 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



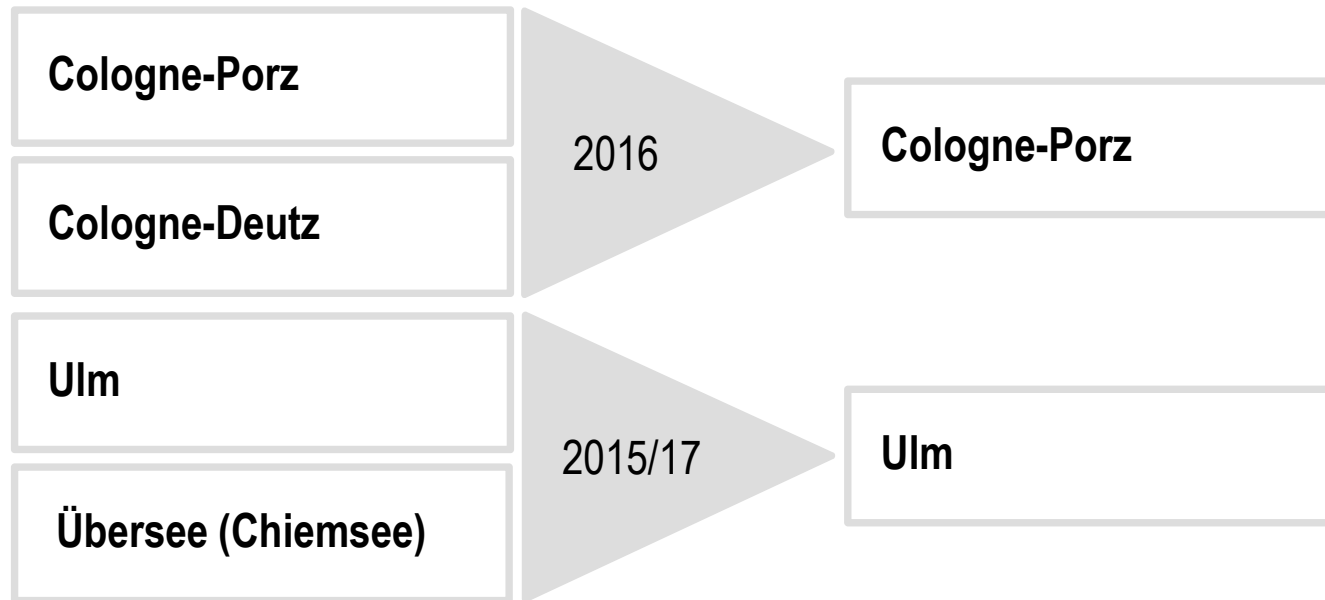
- Air-cooled engines for on-road, off-road and marine applications
- Liquid-cooled engines over 8 litres for all applications
- Remanufactured (Xchange) engines for all DEUTZ engine series

### 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

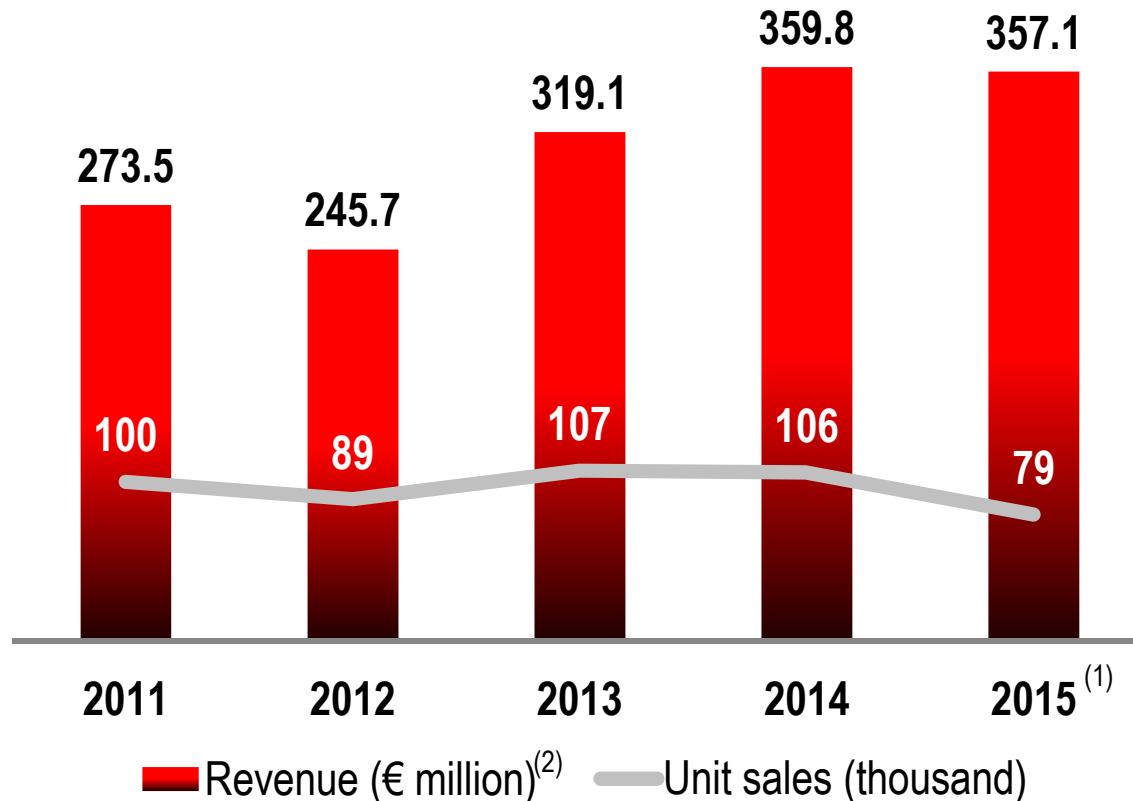


- Site optimisation measures fully on schedule; first relocation stage to Ulm completed
- Annual cost savings > €10 million (considerable effects already in 2016; full effects from 2017 onwards)
- Restructuring costs for site optimisation (€17.1 million) digested in FY 2014 result
- Capex overcompensated by proceeds from property sales in subsequent years

**→ Sustainable efficiency improvement by merging facilities**

# DEUTZ activities in China

## JV DEUTZ Dalian



(1) Q1-Q3 figures annualised

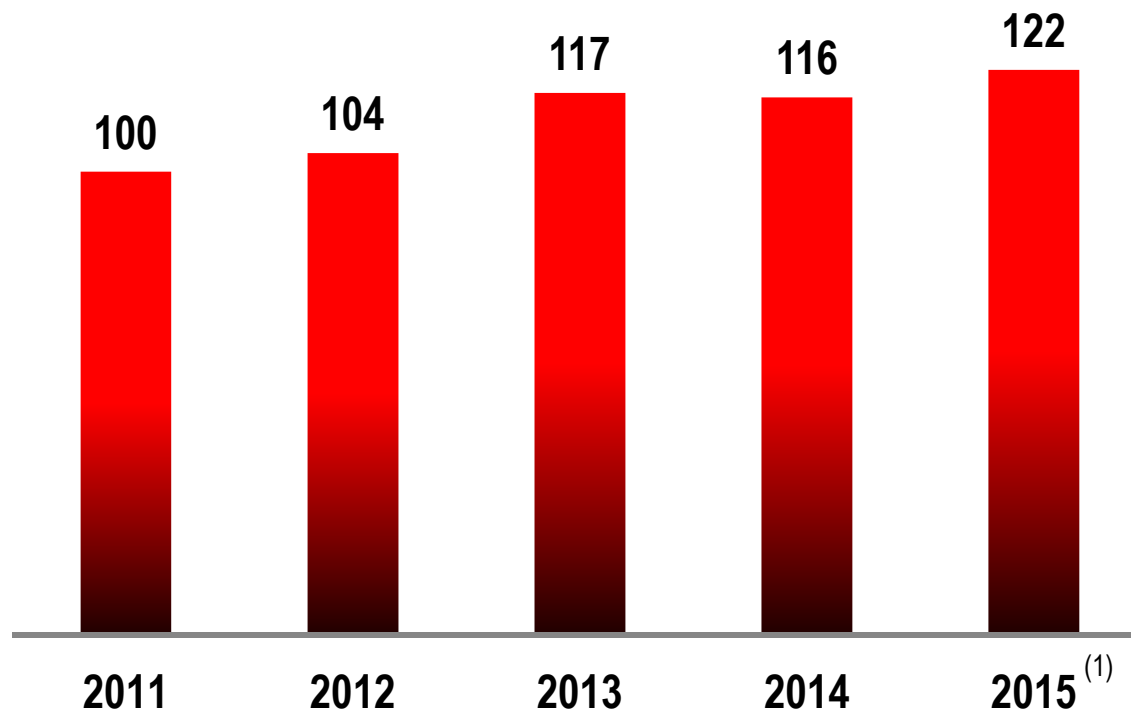
(2) At-equity consolidated; not reflected in the revenue of DEUTZ Group

- Challenging capital goods market conditions in China
- Strategic decision to focus our production in China on our successful JV DEUTZ Dalian (DDE) which has sufficient capacities
- DDE is a 50:50 JV with FAW producing diesel engines for local customer demand
- Countrywide sales and service network

➔ Focus production activities on DEUTZ Dalian

# Emission standards drive DEUTZ revenue growth

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



- Tier 4 engines require exhaust after-treatment 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

(1) Q1-Q3 figures annualised

→ 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**



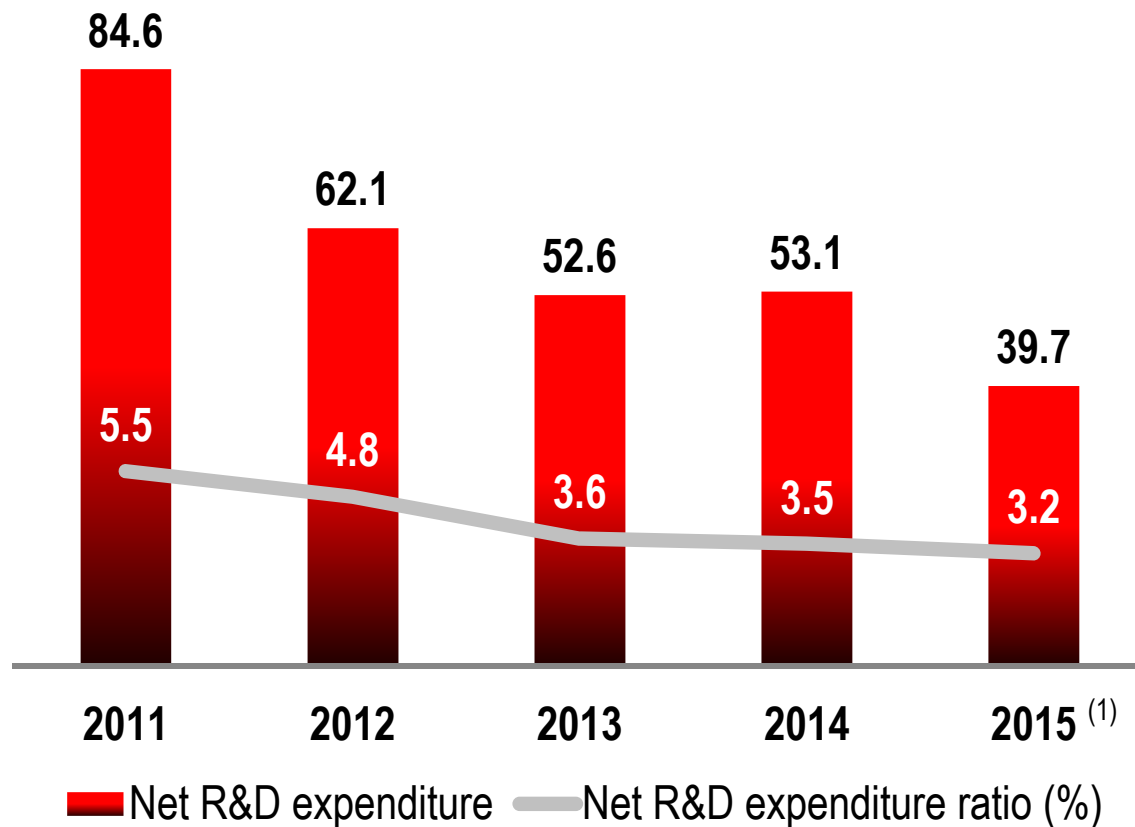
37 – 56 kW

- 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**

# R&D expenditure

€ million



(1) Q1-Q3 figures annualised

- Spending on R&D has been scaled back due to successful market launch of new engine generation
- R&D expenditure will remain on a moderate level in the coming years because DEUTZ compact engines are “Stage V ready”
- Continuous product innovation planned

➔ R&D remain on a moderate level

# 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

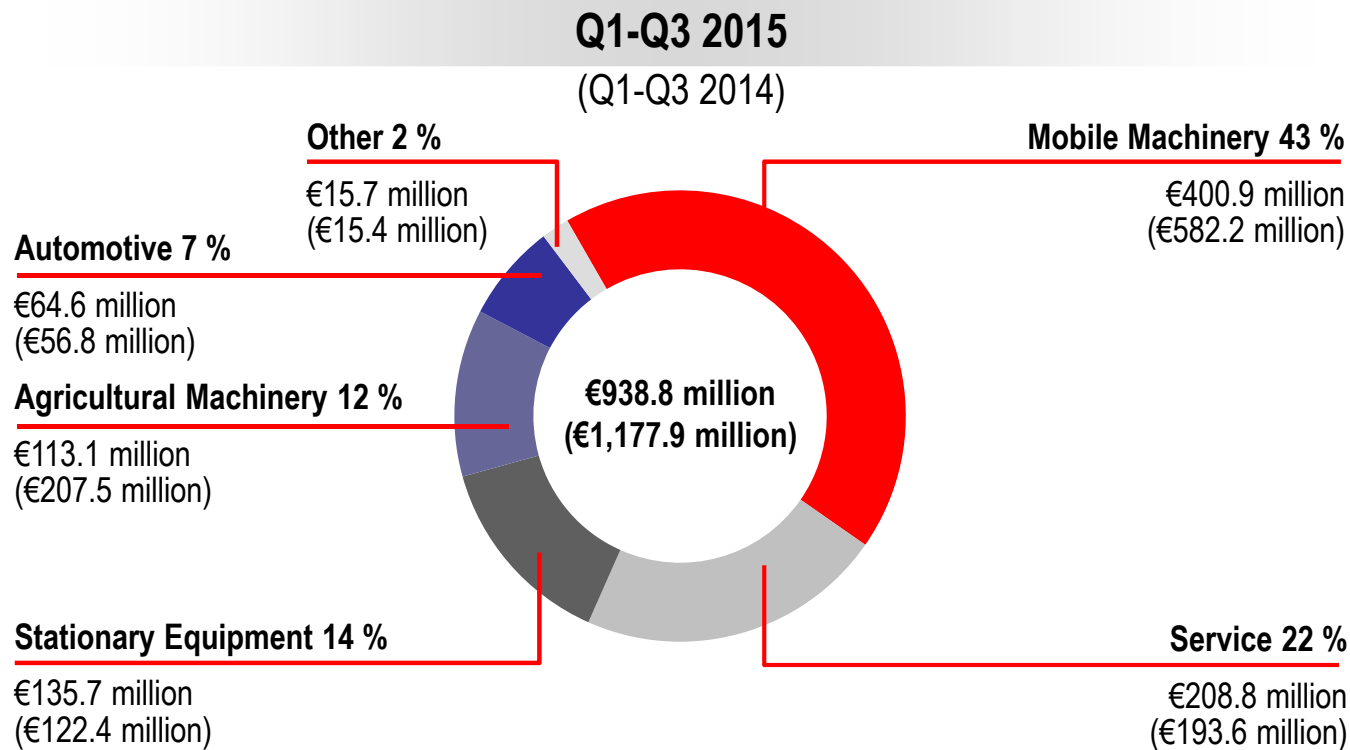
→ Product offensive is paying off

# Key applications

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

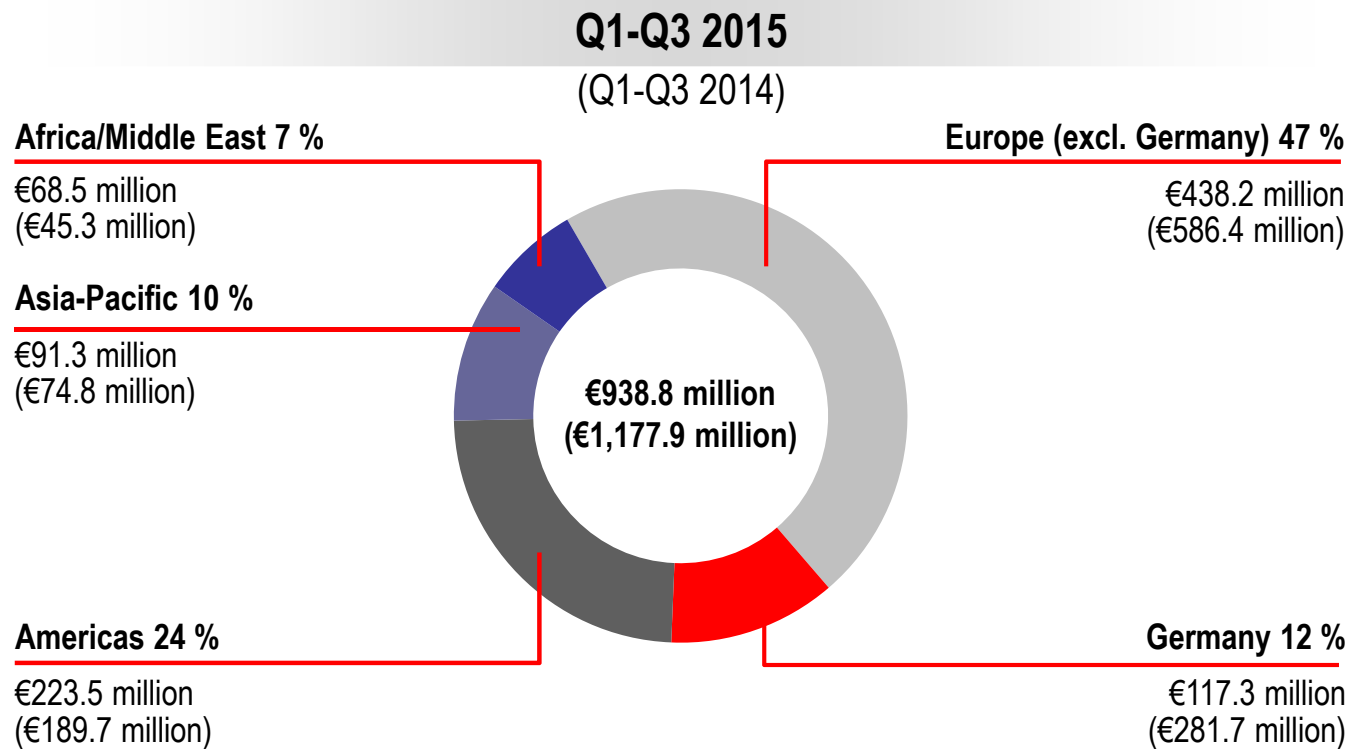
→ Wide application range for DEUTZ engines

# Revenue split by application



- Pro-forma revenue in Automotive incl. at-equity consolidated JV DEUTZ Dalian: €293.7 million (corresponding revenue share amounts to 24.3%)

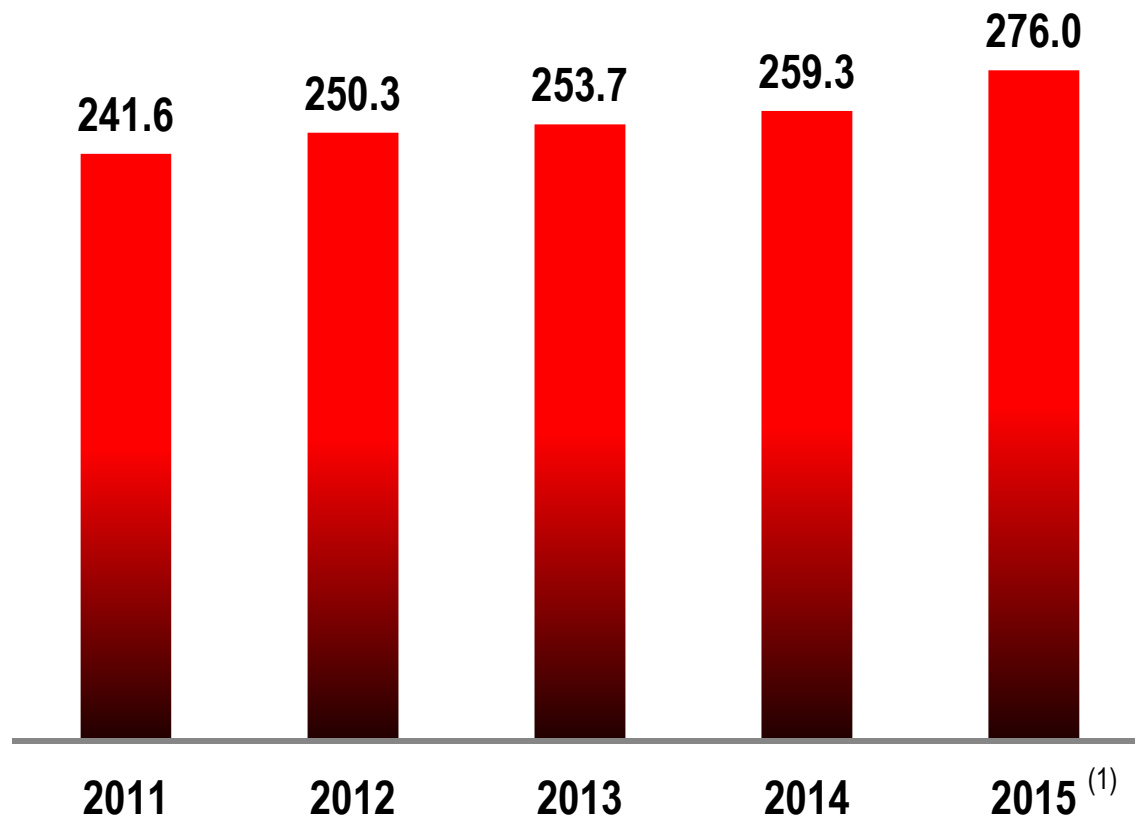
# Revenue split by region



- Pro-forma revenue including at-equity consolidated Chinese JV DEUTZ Dalian: €1,206.6 million (-17.1%); corresponding revenue share of Asia-Pacific amounts to 29.8%

# 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

(1) Q1-Q3 figures annualised

**→ Continued growth of service revenues**



# Agenda

- DEUTZ strategy & positioning

- **Financials**

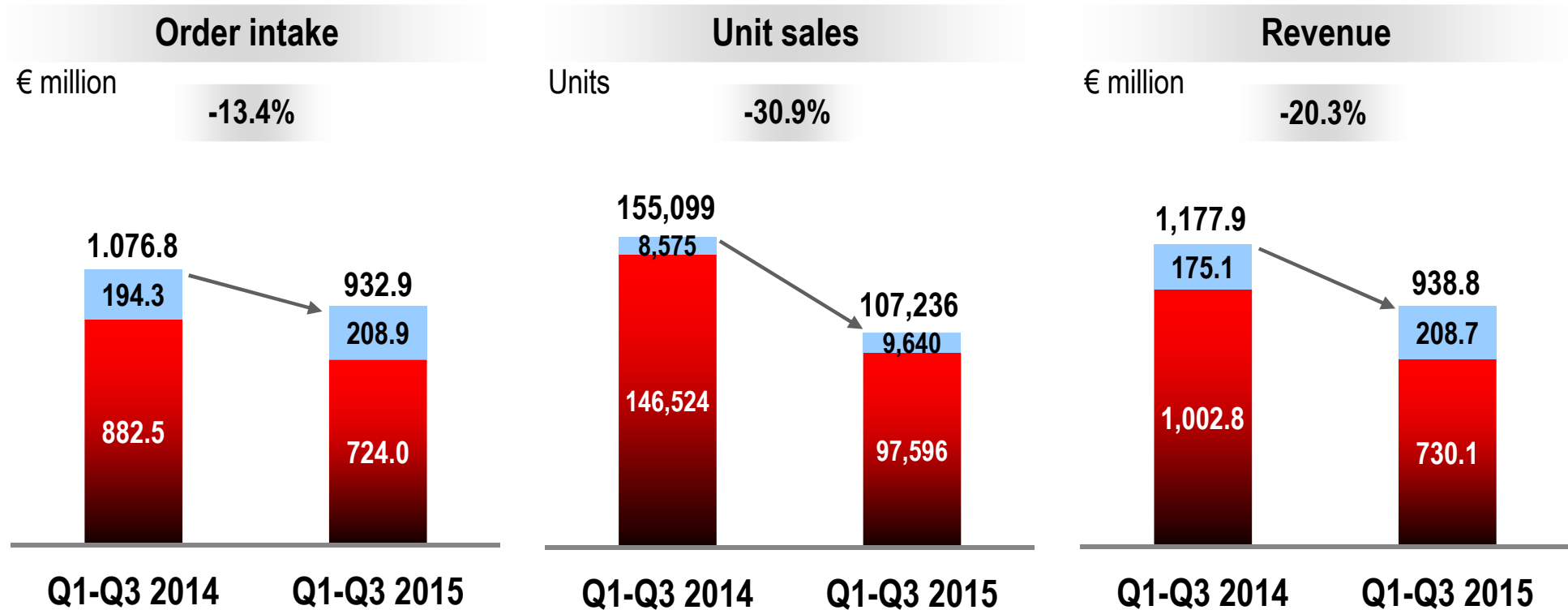
- Outlook

# Key figures

€ million	Q1-Q3 2015	yoy	Q3 2015	qoq
<b>Order intake</b>	932.9	-13.4%	262.2	-25.0%
<b>Revenue</b>	938.8	-20.3%	268.6	-23.7%
<b>EBITDA (before one-offs)</b>	85.6	-9.4%	15.2	-58.4%
<b>EBIT (before one-offs)</b>	10.6	-53.5%	-9.7	-€19.9 million
<b>Net income</b>	7.3	+€3.9 million	-9.4	-€18.4 million

- Q3 2015 result depressed by markets' reluctance to invest
- Financial guidance for the current fiscal year lowered on 15<sup>th</sup> September

# Sales figures

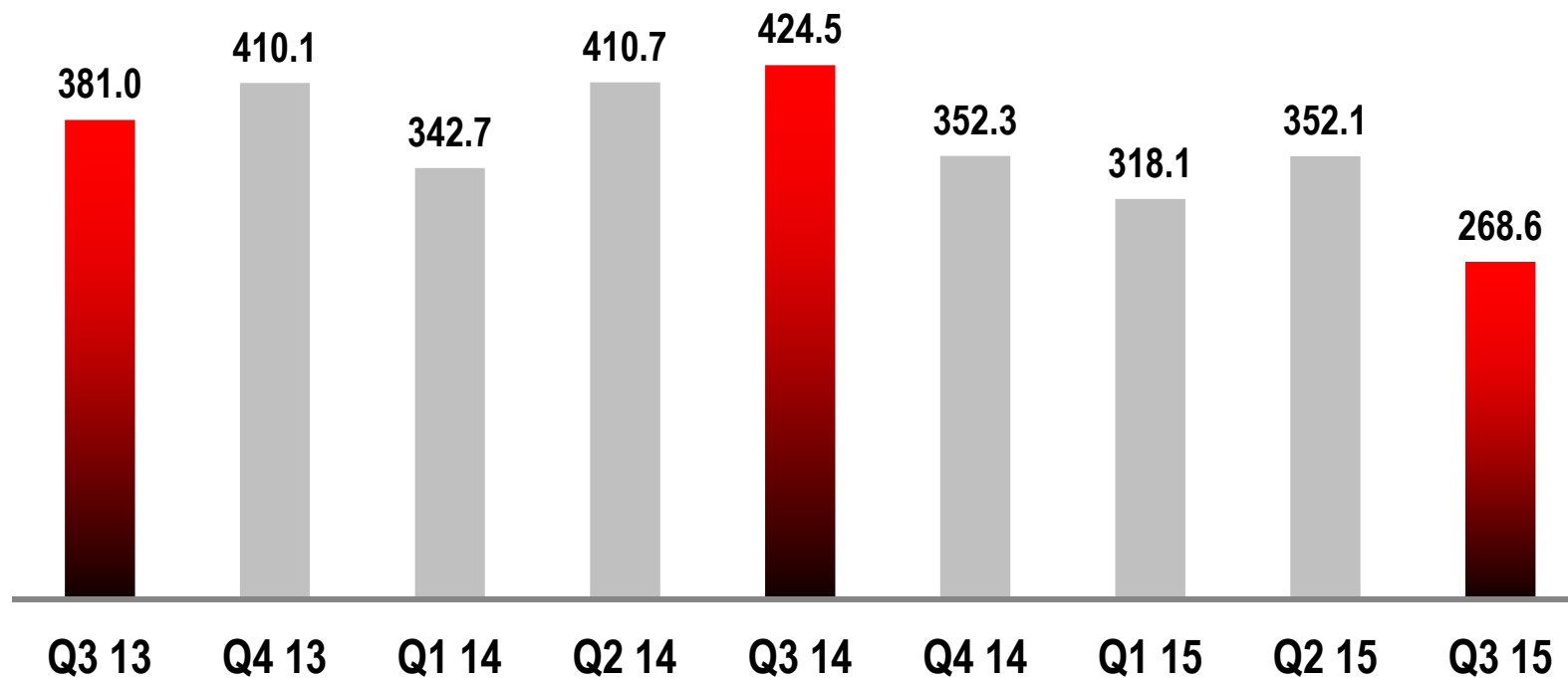


- Order intake decrease caused by pre-buys in FY 2014 and market slowdown
- Revenue declined less than unit sales due to better service business and positive mix effects

■ DEUTZ Compact Engines    ■ DEUTZ Customised Solutions

# Revenue development

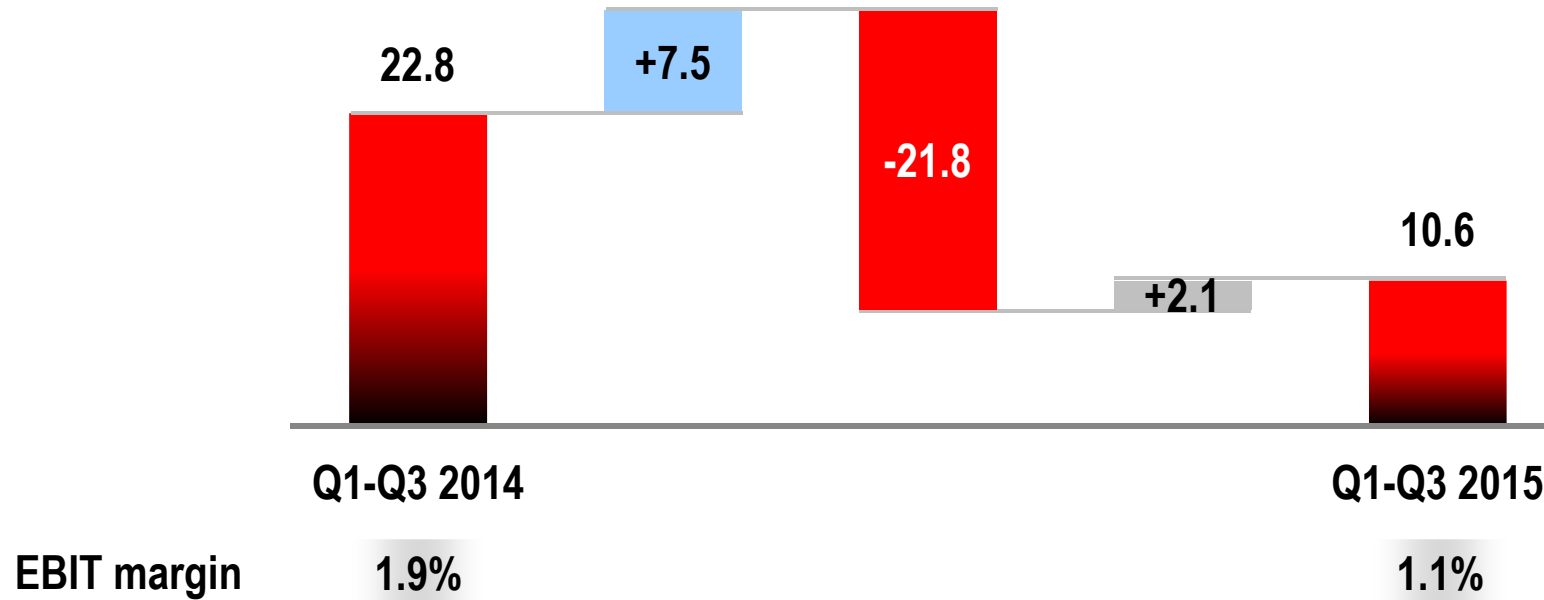
€ million



- Q3 2015 revenue decreased 36.7% yoy and 23.7% sequentially
- Previous year figures benefitted from engine pre-buys
- Quarter-on-quarter decline caused by noticeable softer end markets

# EBIT (before one-offs)

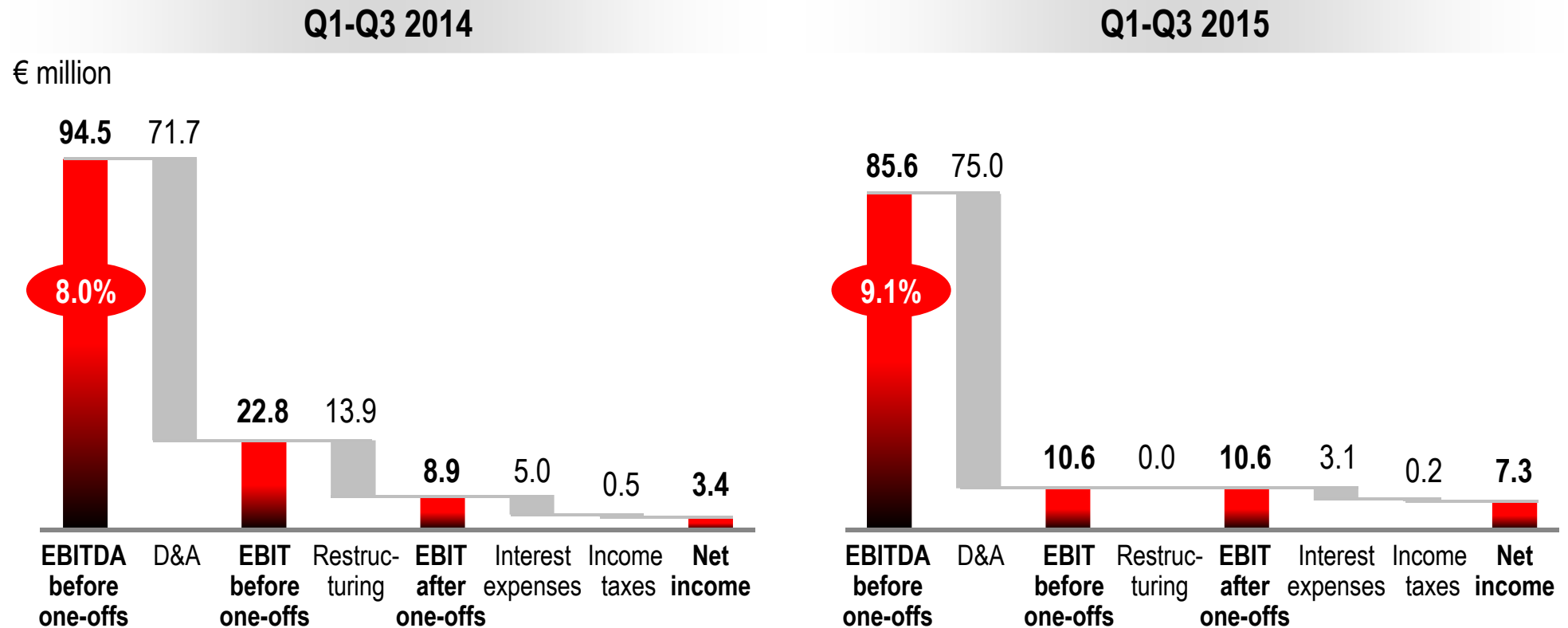
€ million



- Operating profit at DEUTZ Compact Engines burdened by negative scale effects in Q3
- EBIT improvement at DEUTZ Customised Solutions driven by better capacity utilisation
- Segment Other benefitted from reversal of unrealised FX-effects in Q3

■ DEUTZ Customised Solutions 
 ■ DEUTZ Compact Engines 
 ■ Other

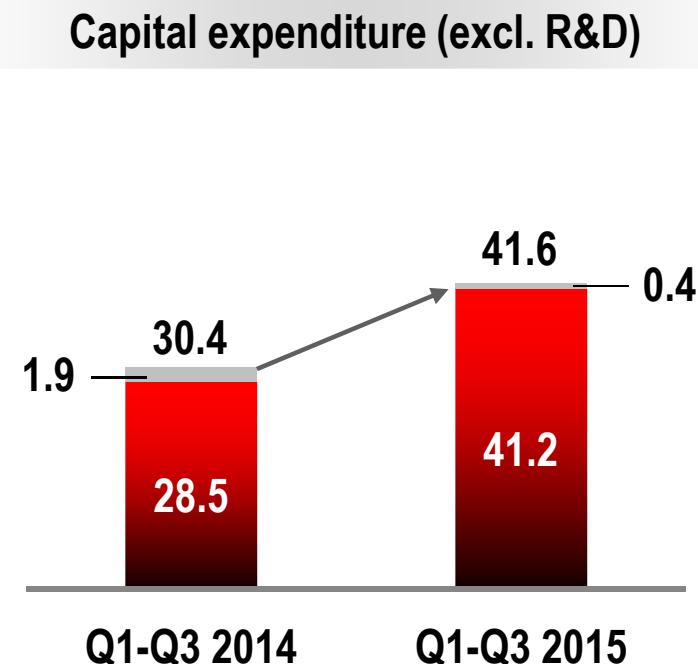
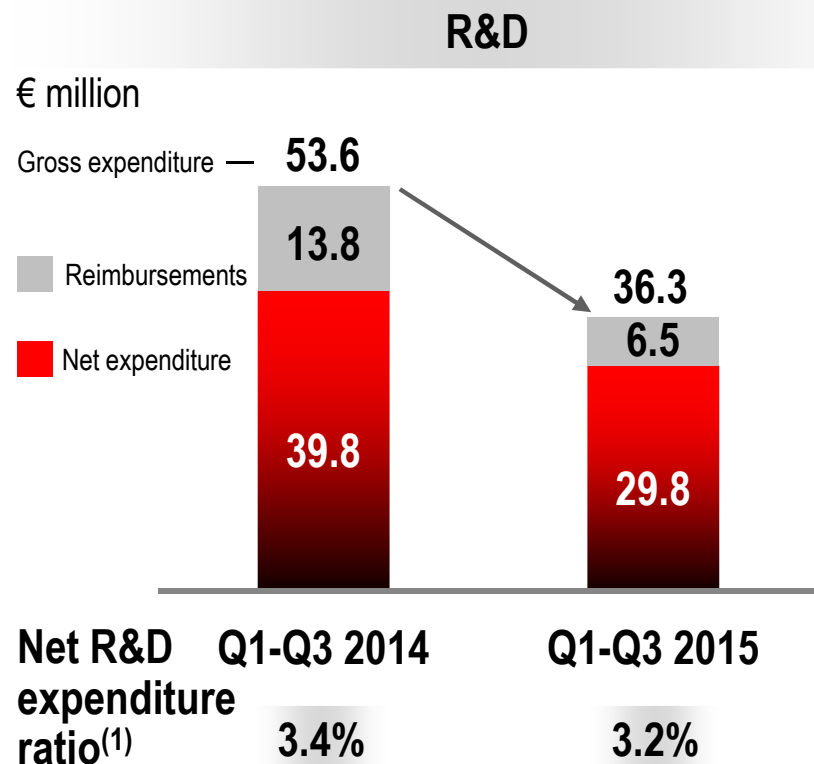
# Operating profit & net income



- Operating profit (before one-offs) decrease mainly related to lower production volume
- Prior year result was affected by restructuring provisions for site optimisation
- Improvement of EBITDA margin driven by elimination of ramp-up costs and lower quality costs
- Net income improved by €3.9 million to €7.3 million

**xx.x%** EBITDA margin

# R&D spending & capital expenditure



- 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: €9.4 million (Q1-Q3 2014: €21.7 million)

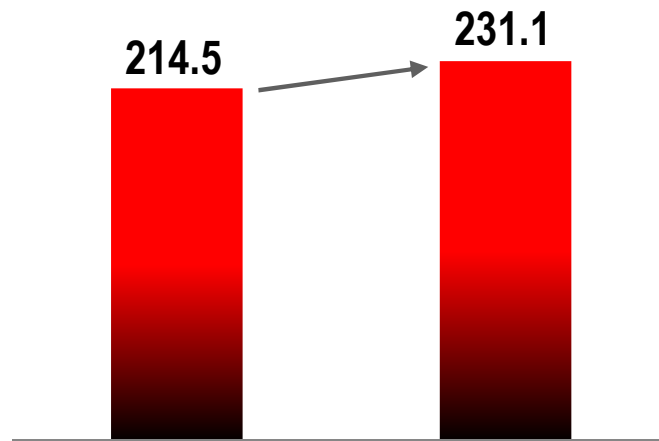
- Capital expenditure increased by €11.2 million
- New shaft centre under construction (important component of our site optimisation)

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

# Working capital & operating cash flow

## Working capital

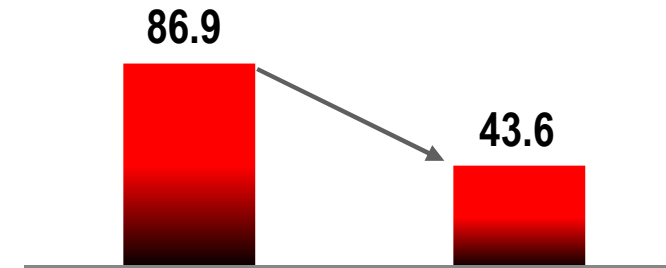
€ million



Working capital ratio (30 Sep)	Q1-Q3 2014	Q1-Q3 2015
	13.5%	17.9%

- Working capital increase (+7.7%) mainly due to higher inventories caused by lower turnover ratio and foreign currency translation
- Increase of working capital ratio also related to revenue decrease

## Operating cash flow

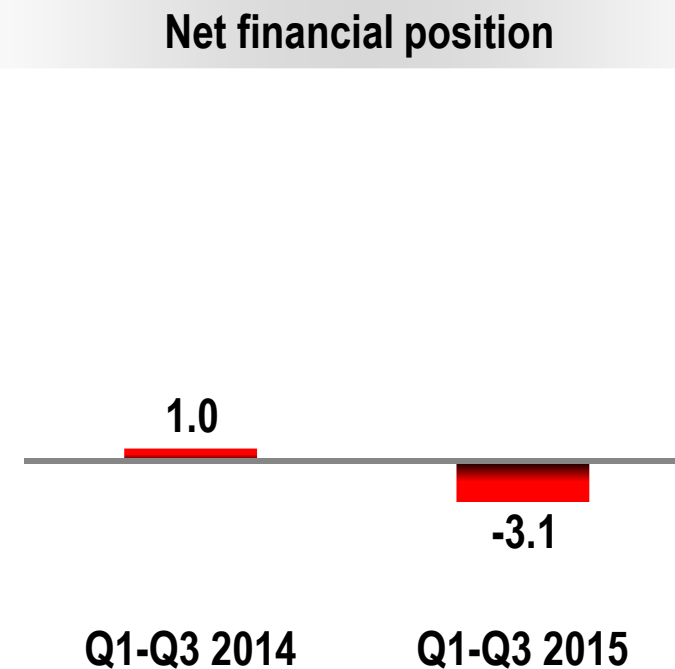
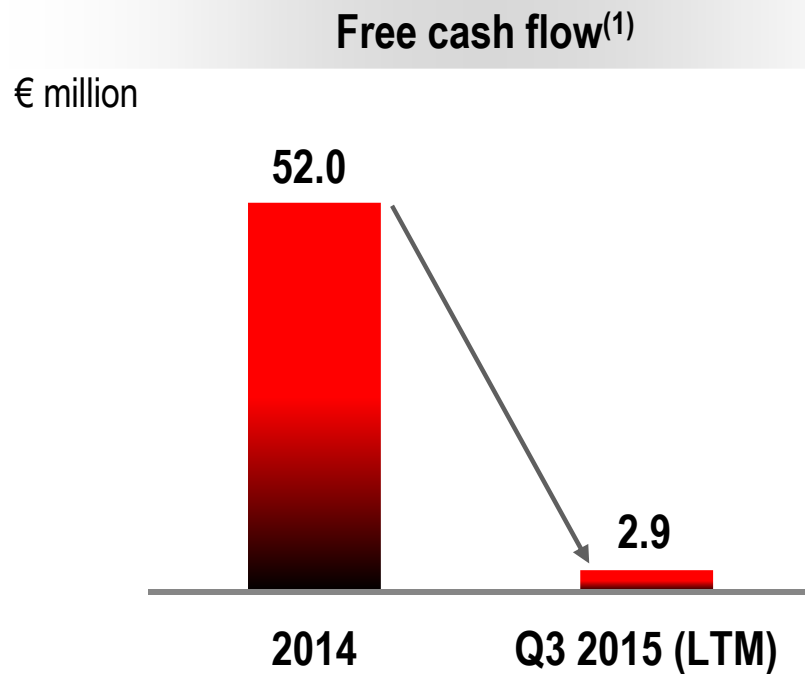


Period	Operating cash flow
Q1-Q3 2014	86.9
Q1-Q3 2015	43.6

- Operating cash flow decrease driven by lower business volume



# Free cash flow generation & net financial position



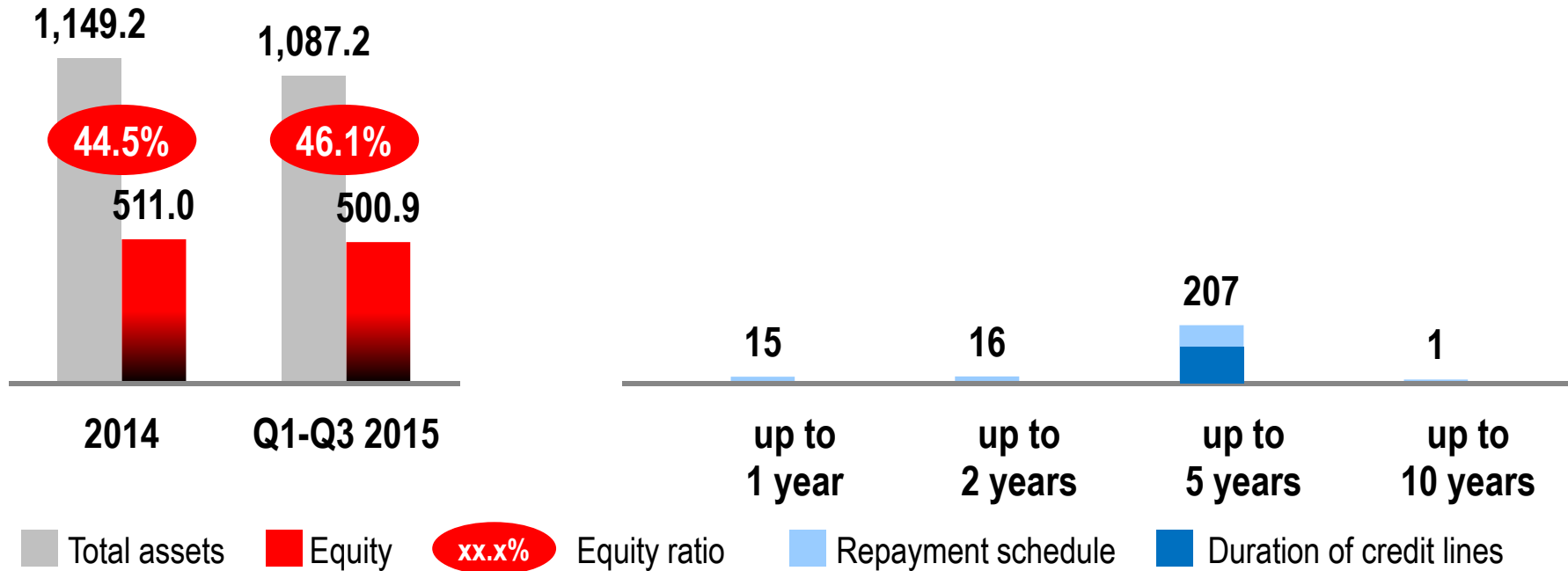
■ Last twelve months free cash flow decreased to €2.9 million due to lower operating cash flow

■ Almost debt free

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

# Equity ratio & funding

€ million



- Equity ratio increased by 1.6%-points to 46.1%
- Medium- to long-term financing with undrawn facilities available:
  - Duration of €160 million credit line extended in Q2 by one year until May 2020
  - Loan from European Investment Bank repayable until July 2020

## Segments: DEUTZ Compact Engines

€ million	<b>Q1-Q3 2015</b>	Q1-Q3 2014	Change in %
New orders	<b>724.0</b>	882.5	-18.0
Unit sales	<b>97,596</b>	146,524	-33.4
Revenue	<b>730.1</b>	1,002.8	-27.2
EBIT (before one-offs)	<b>-16.9</b>	4.9	--

€ million	<b>Q3 2015</b>	Q2 2015	Change in %
New orders	<b>194.0</b>	281.1	-31.0
Unit sales	<b>26,243</b>	37,758	-30.5
Revenue	<b>201.8</b>	277.3	-27.2
EBIT (before one-offs)	<b>-23.4</b>	2.5	--

- Q1-Q3 revenue decline mainly driven by Agricultural (-46.6%) and Mobile Machinery (-34.2%)
- Service business revenues improved by 4.8% yoy
- At-equity consolidated Joint Venture DEUTZ Dalian (China) with revenue of €267.8 million (-19% on local currency basis). Lower profit contribution due to very challenging market environment
- Negative scale effects caused significant decrease of operating profit in Q3

## Segments: DEUTZ Customised Solutions

€ million	<b>Q1-Q3 2015</b>	Q1-Q3 2014	Change in %
New orders	<b>208.9</b>	194.3	7.5
Unit sales	<b>9,640</b>	8,575	12.4
Revenue	<b>208.7</b>	175.1	19.2
EBIT (before one-offs)	<b>26.0</b>	18.5	40.5

€ million	<b>Q3 2015</b>	Q2 2015	Change in %
New orders	<b>68.2</b>	68.6	-0.6
Unit sales	<b>2,873</b>	3,455	-16.8
Revenue	<b>66.8</b>	74.8	-10.7
EBIT (before one-offs)	<b>8.7</b>	6.3	38.1

- Unlike DEUTZ Compact Engines, segment is not affected by European pre-buys in FY 2014
- Q1-Q3 revenue increase across all applications: e.g. Automotive (+38.6%), Mobile Machinery (+20.0%) and Stationary Equipment (+5.4%)
- Service business revenues improved by 12.3% yoy
- Operating profit increase (+40.5% yoy) driven by better capacity utilisation

## Summary: key development

Pronounced market slowdown in Q3

EBIT decrease due to scale effects at DEUTZ Compact Engines

Focus Chinese production activities on DEUTZ Dalian

Site optimisation in Germany well on track

Strong balance sheet and solid net financial position



The engine company.

# Agenda

- DEUTZ strategy & positioning

- Financials

- **Outlook**

# Financial outlook

€ million	2014 reported	Previous 2015 guidance	Revised 2015 guidance
<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 outlook revised on 15<sup>th</sup> September due to markets' reluctance to invest

# Market assessment

	2015
Unit sales (equipment)	
<b>Construction equipment Europe</b>	sideways
<b>Construction equipment North America</b>	0% to -5% (previous: sideways)
<b>Construction equipment China</b>	more than -40% (previous: more than -30%)
<b>Agricultural Machinery Europe</b>	approx. -10% (previous: -5% to -10%)
<b>Automotive China</b>	more than -20% (previous: more than -10%)

- Pronounced Q3 market downturn in North America and China
- European engine sales below end-market development due to pre-buys in 2014
- New clients partly compensate challenging market environment
- Current assessment for 2016: sideways movement in most key markets



# Financial calendar & contact details

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

## ➤ Contact details

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