The engine company. DEUTZ

# INVESTOR NEWS

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## DEUTZ achieves its targets for revenue and the EBIT margin in 2019 and confirms its medium-term targets for 2022

- Revenue surges in the Americas and Asia-Pacific
- Profitable service business maintains its rapid growth
- 'Transform for Growth' efficiency program launched with the aim of increasing competitiveness
- Forecast for 2020 heavily affected by weak economic conditions
- Proposed dividend of €0.15 per share, unchanged on 2018

**Key figures for the DEUTZ Group**

| € million | 2019 | Change | Q4 2019 | Change |
|---|---|---|---|---|
| New orders | 1,654.3 | -15.3% | 339.1 | -16.0% |
| Unit sales (units) | 211,667 | -1.4% | 55,887 | -4.1% |
| Revenue | 1,840.8 | +3.5% | 460.9 | -4.3% |
| EBIT | 88.1 | +7.4% | 9.6 | -73.4% |
| EBIT before exceptional items | 78.8 | -3.9% | 9.6 | -73.4% |
| EBIT margin | 4.8% | +20bps | 2.1% | -540bps |
| EBIT margin before exceptional items | 4.3% | -30bps | 2.1% | -540bps |
| Net income | 52.3 | -25.2% | -2.4 | - |
| Net income before exceptional items | 44.2 | -36.8% | -2.6 | - |

DEUTZ, one of the world's leading manufacturers of innovative drive systems, can look back on a satisfactory financial year overall, even though economic conditions became increasingly gloomy over the course of 2019. “Despite a challenging fourth quarter, we attained the targets that we had set ourselves for revenue and the EBIT margin before exceptional items in 2019. We also successfully forged ahead with implementing our growth initiatives. DEUTZ faces a year of transition in 2020, but we are well on track to achieve the medium-term targets that we have set ourselves for 2022. These are revenue of more than €2 billion and an EBIT margin before exceptional items of between 7 percent and 8 percent. In our high-margin service business, we now hope to achieve our revenue target of approximately €400 million in 2021, which is a year earlier than planned,” said Dr. Frank Hiller, Chairman of the Board of Management of DEUTZ AG.

**New orders affected by weakening of demand as a result of the economic climate**

New orders totaled €1,654.3 million in 2019, which was down by 15.3 percent on the strong figure for the previous year. As expected, the slowing economy depressed demand across all of the main application segments. Moreover, the figure for 2018 had been boosted by spending brought forward due to the introduction of the EU Stage V emissions standard.

**Unit sales slightly lower than in prior year**

The DEUTZ Group sold a total of 211,667 engines in 2019, which was 1.4 percent fewer than in the prior year. Unit sales increased by a significant 23.7 percent in Agricultural Machinery, but fell sharply in the other main application segments: by 8.1 percent in Material Handling, by 10.4 percent in Construction Equipment, and by 15.1 percent in Stationary Equipment. Unit sales of boat drives at Torqeedo continued to surge, jumping by 104.2 percent to 20,942.

**Revenue rises by 3.5 percent to €1,840.8 million**

DEUTZ’s revenue rose by 3.5 percent to €1,840.8 million in the reporting period. It therefore achieved its revenue guidance for 2019, which forecast that revenue would increase to more than €1.8 billion. The Agricultural Machinery application segment performed particularly well, delivering double-digit revenue growth of 12.3 percent. The revenue increases in the Material Handling segment and the high-margin service business were also healthy at 6.9 percent and 6.8 percent respectively. However, revenue in the Construction Equipment and Stationary Equipment application segments declined by 1.8 percent and 6.3 percent respectively compared with the previous year. All regions contributed to the increase in revenue, with the Americas (up by 10.7 percent) and Asia-Pacific (up by 7.6 percent) delivering the strongest growth. In the Americas region, DEUTZ particularly benefited from the ramp-up of new engine series and expansion of the service business with Xchange products. The main factors in the substantial increase in revenue generated in the Asia-Pacific region were revenue growth in China and the expansion of business with new customers.

**Year-on-year fall in operating profit; EBIT margin before exceptional items within the updated forecast range**

In 2019, operating profit (EBIT before exceptional items) fell by 3.9 percent year on year to €78.8 million. This is because revenue growth was outweighed by negative effects, particularly in connection with the opening of insolvency proceedings at various suppliers and with impairment losses recognized on the capitalized development expenditure on two engine series for reasons related to demand. Effects related to the deconsolidation of Argentinian joint venture DEUTZ AGCO Motores S.A. also depressed earnings, as did the recognition of provisions due to a product recall involving Torqeedo companies. Consequently, the EBIT margin before exceptional items fell by 30 basis points to 4.3 percent and was therefore within the forecast range, which was updated to between 4 percent and 5 percent in September 2019.

Taking account of positive exceptional items of €9.3 million resulting from the realization of gains on the sale of a small part of the land at the former Cologne-Deutz site that were recognized in the reporting year in accordance with the agreement from 2017 regarding the sale of this land, EBIT rose by 7.4 percent to €88.1 million. The corresponding EBIT margin increased from 4.6 percent in the previous year to 4.8 percent.

Net income fell by 25.2 percent to €52.3 million in the reporting year. Earnings per share stood at €0.43 as a result (2018: €0.58). Adjusted for exceptional items, net income amounted to €44.2 million, which led to adjusted earnings per share of €0.37 (2018: €0.58).

### DEUTZ Compact Engines segment

| € million | 2019 | Change | Q4 2019 | Change |
|---|---|---|---|---|
| New orders | 1,268.4 | -22.6% | 248.9 | -23.7% |
| Unit sales (units) | 164,677 | -15.7% | 42,039 | -22.5% |
| Revenue | 1,446.4 | -2.5% | 366.7 | -8.0% |
| EBIT | 57.7 | -8.7% | 11.9 | -66.0% |
| EBIT margin | 4.0% | -30bps | 3.2 | -560bps |

- Reassignment of the 2011 engine series to the DEUTZ Customized Solutions segment impacted on business performance, as did the weakening of demand as a result of the economic climate
- Revenue was below the 2018 level owing to reassignment of the engine series
- The EBIT margin was affected by various factors, including supplier insolvencies and impairment losses recognized on capitalized development expenditure for reasons related to demand

### DEUTZ Customized Solutions segment

| € million | 2019 | Change | Q4 2019 | Change |
|---|---|---|---|---|
| New orders | 341.7 | +19.5% | 74.5 | +5.4% |
| Unit sales | 26,048 | +181.3% | 5,896 | +113.2% |
| Revenue | 362.5 | +33.7% | 86.0 | +8.3% |
| EBIT | 42.8 | +30.1% | 5.2 | -21.2% |
| EBIT margin | 11.8% | -30bps | 6.0 | -230bps |

- Revenue grew substantially in all regions, with a particularly strong performance by the service business with Xchange products in the Americas region
- The operating profit for the segment rose sharply, due in large part to reassignment of the 2011 engine series
- The EBIT margin was just below the prior-year level, mainly because the profit margin of the 2011 engine series is lower than that of the other series

**Proposed dividend of €0.15 per share, unchanged on 2018**

As in 2018, the Board of Management and Supervisory Board are jointly proposing to use €18.1 million of the accumulated income to pay a dividend of €0.15 per share. Under its dividend policy, DEUTZ is aiming to maintain a dividend ratio of around 30 percent of net income over a number of years. Based on the amount of net income, the proposed dividend would give a dividend ratio of 34.9 percent.

**Economic climate and coronavirus make 2020 a year of transition**

The downturn in key customer industries as a result of economic conditions led to a low level of orders on hand at the end of 2019, a situation that is continuing in 2020. From the current perspective, this is likely to cause a decline in performance this year. The Company is forecasting a year-on-year decrease in revenue in the low double-digit percentage range. The fall in the EBIT margin before exceptional items is expected to be in the mid double-digit percentage range relative to the prior-year figure. Aside from the decline caused by economic conditions, the DEUTZ engine business will be hit this year by customers selling the inventories of engines they had built up before new emissions standards came into force. The establishment of second-source suppliers will also be a drag on earnings, particularly in the first half of 2020. Furthermore, DEUTZ cannot exclude the possibility of its business and its supply chain being affected by the outbreak of coronavirus. The Company has launched an efficiency program, ‘Transform for Growth’, in order to counteract the factors that are expected to depress earnings. This groupwide program aimed at increasing competitiveness is designed to reduce complexity along the entire value chain and to improve the Company’s efficiency.

**Upcoming financial dates**

May 7, 2020: results for the first quarter of 2020

August 11, 2020: results for the first half of 2020

November 10, 2020: results for the first nine months of 2020

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**Forward-looking statements**

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***About DEUTZ AG***

*DEUTZ AG, a publicly traded company headquartered in Cologne, Germany, is one of the world's leading manufacturers of innovative drive systems. Its core competencies are the development, production, distribution, and servicing of diesel, gas, and electric drive systems for professional applications. It offers a broad range of engines delivering up to 620 kW that are used in construction equipment, agricultural machinery, material handling equipment, stationary equipment, commercial vehicles, rail vehicles, and other applications. DEUTZ has around 4,900 employees worldwide and over 800 sales and service partners in more than 130 countries. It generated revenue of €1,840.8 million in 2019.*

*Further information is available at www.deutz.com.*