The engine company. DEUTZ

PRESS RELEASE

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DEUTZ records growth in revenue and earnings in the first half of 2019 and confirms its full-year guidance

- New orders below the exceptionally robust volume reported for the prior-year period, but still at a high level
- Revenue rises in all regions and main application segments
- High-margin service business grows by around 8 percent
- Double-digit increase in operating profit even before exceptional items
- Full-year guidance for 2019 confirmed

Key figures for the DEUTZ Group

€ million	H1 2019	YoY change	Q2 2019	YoY change
New orders	953.3	-13.1%	438.8	-15.9%
Revenue	929.8	+5.9%	477.0	+3.0%
EBIT	56.5	+69.2%	31.4	+168.4%
EBIT before exceptional items	47.2	+41.3%	22.1	+88.9%
EBIT margin (%)	6.1	+230 bps	6.6	+410 bps
EBIT margin before exceptional items (%)	5.1	+130 bps	4.6	+210 bps
Net income	45.3	+79.1%	24.4	+243.7%
Net income before exceptional items	37.5	+48.2%	16.6	+133.8%

DEUTZ, one of the world's leading manufacturers of innovative drive systems, again delivered a positive business performance in the first half of 2019.

“We maintained our growth trajectory in all regions and main application segments and did so despite emerging signs of an economic slowdown. We also demonstrated our operational strength and increased earnings by a significant double-digit amount.
Our orders on hand remain at a high level, so we are on track to achieve the targets that we set ourselves for the year as a whole,” said Dr. Frank Hiller, Chairman of the Board of Management of DEUTZ AG, summing up the results for the first half of 2019.

New orders remain at a high level

DEUTZ received orders worth €953.3 million in the period under review. Although still at a high level, new orders were 13.1 percent lower than the exceptionally robust volume reported for the prior-year period, which had been positively influenced by a change in customers’ ordering patterns. In addition to this year-on-year effect, a weakening of demand as a result of the economic climate had an adverse impact at the end of the reporting period, with new orders in the second quarter decreasing by 15.9 percent year on year to €438.8 million.

Revenue up on previous year

DEUTZ’s revenue grew by 5.9 percent to €929.8 million in the first half of 2019.
The Material Handling application segment performed particularly strongly, delivering revenue growth of 8.8 percent, as did the high-margin service business, whose revenue was up by 7.9 percent. In the regional breakdown, the strongest growth momentum was recorded in the Americas and in Asia-Pacific, which grew by 15.8 percent and 15.5 percent respectively. In the Americas region, DEUTZ particularly benefited from the general recovery in the market and from higher demand for new engine series. Factors in the substantial increase in revenue generated in the Asia-Pacific region included business with new customers as well as revenue growth in China and other Asian countries.

Significant increase in operating profit even before exceptional items

In the first six months of 2019, operating profit (EBIT before exceptional items) went up by 41.3 percent year on year to reach €47.2 million. Besides the growth in revenue, this significant increase was primarily due to a low figure being reported in the prior-year period, which had been adversely affected by a drag on earnings resulting from the joint venture DEUTZ Dalian Engine Co. Ltd., Dalian, China. The joint venture has since been sold. However, there were also negative effects on earnings in the first half of 2019 relating to the deconsolidation of the Argentinian company DEUTZ AGCO Motores S.A. in the first quarter of 2019. Furthermore, provisions were recognized in connection with a product recall involving Torqeedo companies.

The EBIT margin before exceptional items increased from 3.8 percent to 5.1 percent during the reporting period. Excluding non-recurring effects, particularly the deconsolidation of DEUTZ AGCO Motores S.A. and the aforementioned recognition of provisions, the operating profit margin stood at 5.5 percent.

Positive exceptional items of €9.3 million arose from the sale of a small part of the land at the former Cologne-Deutz site and were recognized in the second quarter of 2019 in accordance with the sale agreement from 2017. After taking these items into account, EBIT amounted to €56.5 million, which was 69.2 percent higher than in the first half of 2018. The corresponding EBIT margin was 6.1 percent.

Because of the growth in EBIT, net income increased by 79.1 percent year on year to reach €45.3 million. Earnings per share rose from €0.21 to €0.37. Adjusted net income went up by 48.2 percent to €37.5 million; adjusted earnings per share advanced to €0.31.

DEUTZ Compact Engines segment

€ million	H1 2019	YoY change	Q2 2019	YoY change
New orders	756.2	-18.7%	346.9	-20.7%
Revenue	729.8	-1.1%	373.6	-3.1%
EBIT before exceptional items	34.9	+68.6%	16.4	+343.2%
EBIT margin before exceptional items (%)	4.8	+200 bps	4.4	+344 bps

- Reassignment of the 2011 engine series to the DCS segment influences business performance
- Despite the reassignment of the engine series, revenue is close to the level of the prior-year period, mainly due to a favorable shift in the product mix toward higher-value engines
- Operating profit for the segment increases compared with the low figure reported for the prior-year period, which had been adversely affected by a drag on earnings resulting from the joint venture DEUTZ Dalian
- Improvement in the EBIT margin, partly because higher-value engines now account for a greater proportion of sales and because of the engine series reassignment

DEUTZ Customised Solutions segment

€ million	H1 2019	YoY change	Q2 2019	YoY change
New orders	180.5	+19.2%	83.6	+11.9%
Revenue	185.0	+47.1%	93.8	+37.7%
EBIT before exceptional items	23.6	+31.8%	10.8	+5.9%
EBIT margin before exceptional items (%)	12.8	-140 bps	11.5	-350 bps

- Business performance influenced by inclusion in this segment of the 2011 engine series
- Sharp rise in new orders and tripling of unit sales
- Significant increase in operating profit for the segment, mainly because of the greater proportion of earnings generated by the high-margin service business
- The EBIT margin declines because the profit margin of the 2011 engine series is lower than that of the other series

Group guidance for 2019 confirmed

Despite an increasingly challenging macroeconomic and geopolitical environment, the DEUTZ Board of Management confirms its full-year guidance for 2019. Because of the current volume of orders on hand, which remains at a high level, revenue is expected to rise to more than €1.8 billion. As a result of this and due to various measures aimed at raising efficiency, the EBIT margin before exceptional items is projected to improve to at least 5.0 percent. The ongoing expansion of the service business will also help to improve the margin overall.

DEUTZ CEO Dr. Frank Hiller believes the Company is well positioned to weather the economic challenges that lie ahead: “We are open to embrace new technologies and offer our customers a range of products tailored to their individual needs. The ongoing expansion of our high-margin service business is succeeding, and the initiatives that we have introduced to reap further efficiency gains are bearing fruit. Good progress is also being made with the internationalization of our business. We reached an important milestone in our China strategy by signing an agreement to form a joint venture with SANY. All this means that DEUTZ has a solid foundation on which to continue operating successfully even in an increasingly challenging economic climate."

Conference call

Dr. Frank Hiller, CEO, and Dr. Andreas Strecker, CFO, will explain the results to journalists during a conference call on August 1, 2019, 9.00 a.m. CET. The link to the live webcast is available online at https://www.deutz.com/media/.

Upcoming financial dates

November 7, 2019: Interim management statement for the first to third quarter of 2019
March 12, 2020: 2019 annual report / annual results press conference
May 14, 2020: 2020 Annual General Meeting

Forward-looking statements

This investor news may contain certain forward-looking statements based on current assumptions and forecasts made by the DEUTZ management team. Various known and unknown risks, uncertainties, and other factors may lead to material differences between the actual results, the financial position, or the performance of the DEUTZ Group and the estimates and assessments set out here. These factors include those that DEUTZ has described in published reports, which are available at www.deutz.com. The Company does not undertake to update these forward-looking statements or to change them to reflect future events or developments.

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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 competences are the development, production, distribution and servicing of diesel, gas and electric engines 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 4,700 employees worldwide and over 800 sales and service partners in more than 130 countries, and in 2018 generated revenue of €1,778.8 million.

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