The engine company. DEUTZ

INVESTOR NEWS

Significant decline in business performance in the first half of 2020 due to the coronavirus crisis

- Measures under the Transform for Growth efficiency program defined and initiated – annual cost savings of around €100 million expected from 2022
- Group guidance for 2020 remains under review; medium-term targets confirmed
- Revenue target for China in 2022 raised to €800 million[1]

DEUTZ Group: overview of key figures

€ million	**H1 2020**	Change	**Q2 2020**	Change
New orders	623.6	-34.6%	266.9	-39.2%
Unit sales (units)	73,859	-27.3%	33,790	-37.3%
Revenue	620.0	-33.3%	280.2	-41.3%
EBIT	-49.9	<-100%	-38.1	<-100%
EBIT before exceptional items	-49.9	<-100%	-38.1	<-100%
EBIT margin	-8.0	-	-13.6	-
EBIT margin before exceptional items (%)	-8.0	-	-13.6	-
Net income	-52.3	<-100%	-42.3	<-100%
Net income before exceptional items	-52.3	<-100%	-42.3	<-100%
Earnings per share (€)	-0.43	<-100%	-0.35	<-100%
Earnings per share before exceptional items (€)	-0.43	<-100%	-0.35	<-100%
Equity ratio (%)	48.5	-	48.5	-
Cash flow from operating activities	-43.7	<-100%	-31.8	<-100%
Free cash flow	-85.7	-85.5%	-50.2	<+100%
Net financial position (at Jun. 30)	-117.8	<-100%	-117.8	<-100%
Employees (number as at Jun. 30)	4,673	-3.9%	4,673	-3.9%

[1] The revenue target of approximately €800 million includes the revenue generated by the joint venture with SANY. Under the equity method, this revenue is not recognized in the consolidated financial statements.

Cologne, August 11, 2020 – DEUTZ, a leading global manufacturer of innovative drive systems, registered a significant overall decline in business performance in the first half of 2020 as a result of the coronavirus crisis. Demand slumped due to customers continuing to sell the inventories of engines they had built up before new emissions standards came into force, which had already led to a low level of orders on hand at the end of 2019, and due to the macroeconomic impact of the coronavirus pandemic in what was already a challenging market environment. Furthermore, business operations were significantly disrupted in the second quarter as a result of a temporary production shutdown and the introduction of short-time working.

“The adverse effects of the coronavirus pandemic on the global economy and thus on our engine business cannot be ignored. At present, nobody can predict how the coronavirus crisis will continue to unfold. However, it is clear that the entire DEUTZ team will do everything they can to ensure that we emerge stronger from the crisis. Despite the current situation, we believe we are on the right track to be able to achieve our medium-term targets,” said DEUTZ CEO Dr. Frank Hiller. Commenting on the Transform for Growth efficiency program launched at the start of this year, he added: “To be competitive in the long term and ensure the Company stays on course for success, it is vital that we regularly review our processes and structures. We have done this and we expect implementation of the resulting action plan to generate annual cost savings totaling around €100 million from the end of 2022.”

Sharp decline in sales figures as a result of the coronavirus crisis

In the period under review, the **new orders** received by DEUTZ fell by 34.6 percent year on year to €623.6 million. This was due not only to the sharp drop in new orders triggered by the coronavirus crisis but also to the high level of new orders in the prior-year period as a result of customers building up their inventories of engines before new emissions standards came into force. Customers then sold these engines, putting a further strain on the business.

The Construction Equipment, Material Handling, Agricultural Machinery, and Stationary Equipment application segments recorded double-digit percentage reductions in new orders.

By contrast, the Miscellaneous application segment and the service business notched up further increases of 16.4 percent and 0.8 percent respectively. The sharp rise in the Miscellaneous application segment was primarily due to the growth in new orders for rail vehicle drive systems.

As at June 30, 2020, orders on hand stood at €253.5 million (June 30, 2019: €462.6 million).

The DEUTZ Group sold a total of 73,859 engines in the reporting period, which was 27.3 percent fewer than in the first half of 2019. Miscellaneous was the only application segment with an increase in **unit sales**, registering a substantial rise of 112.7 percent that was largely attributable to the introduction of small outboard motors known as trolling motors. The ramp-up of these motors enabled DEUTZ subsidiary Torqeedo to more than double its sales of boat motors to a total of 16,244, which equates to a year-on-year rise of 163.8 percent.

In the EMEA region (Europe, Middle East, and Africa), DEUTZ's biggest sales market, unit sales went down by 30.5 percent compared with the prior-year period to 37,763 engines. In the Americas region, unit sales fell by 47.4 percent to 14,726 engines. By contrast, unit sales in the Asia-Pacific region grew by 10.8 percent owing to the aforementioned ramp-up at Torqeedo.

The DEUTZ Group's **revenue** fell by 33.3 percent compared with the first six months of 2019 to €620.0 million. Revenue declined across the board, from both a regional and an application segment perspective.

Operating profit falls sharply, partly as a result of diseconomies of scale

The impact of the coronavirus pandemic on the business activities of the DEUTZ Group and its customers meant that DEUTZ reported an operating loss (EBIT before exceptional items) of €49.9 million in the first half of 2020. This significant decline compared with the prior-year period was attributable, in particular, to the fall in revenue and the resulting diseconomies of scale. There was also a heavy drag on operating profit from payments of around €10 million made under continuation agreements with suppliers that are going through insolvency proceedings and demand-related impairment losses of around €5 million recognized on capitalized development projects. However, there were some positive influences on earnings performance in addition to the general cost reductions and the use of short-time working: The Board of Management waived its one-year variable remuneration for 2020 and senior managers waived a substantial part of their variable remuneration for 2020. The EBIT margin stood at minus 8.0 percent in the reporting period, compared with 5.1 percent in the prior-year period.

DEUTZ Compact Engines (DCE): key figures for the segment

€ million	**H1 2020**	Change	**Q2 2020**	Change
New orders	439.9	-41.8%	184.6	-46.8%
Unit sales (units)	48,173	-41.2%	21,180	-50.7%
Revenue	453.7	-37.8%	197.8	-47.1%
EBIT before exceptional items	-49.8	<-100%	-33.1	<-100%
EBIT margin before exceptional items (%)	-11.0	-	-16.7	-

In the first half of 2020, the **DCE segment's sales figures** declined overall compared with the prior-year period. New orders came to €439.9 million, which was 41.8 percent lower than in the first six months of 2019. The breakdown by application segment reveals that only the service business recorded a rise in new orders, with an increase of 6.0 percent to €89.0 million that was primarily attributable to the expansion of on-site customer service business. The segment's unit sales declined by 41.2 percent to 48,173 engines and revenue contracted by 37.8 percent to €453.7 million, with decreases in all regions and application segments.

In the first six months of this year, the **operating profit of the DEUTZ Compact Engines segment** deteriorated by a substantial €84.7 million to a loss due to the collapse in demand triggered by the coronavirus pandemic. The segment's operating profit was weighed down by a fall in revenue of almost 38 percent, payments to suppliers going through insolvency proceedings to enable them to continue supplying DEUTZ, and impairment losses on a development project. These impairment losses were recognized due to the expected decrease in demand for the affected engine series.

DEUTZ Customized Solutions (DCS): key figures for the segment

€ million	**H1 2020**	Change	**Q2 2020**	Change
New orders	165.4	-8.4%	72.9	-12.8%
Unit sales (units)	9,442	-30.1%	4,889	-23.8%
Revenue	145.0	-21.6%	70.2	-25.2%
EBIT before exceptional items	6.6	-72.0%	-1.7	<-100%
EBIT margin before exceptional items (%)	4.6	-	-2.4	-

The DCS segment's sales figures also deteriorated in the period under review. New orders fell by 8.4 percent year on year to €165.4 million. Miscellaneous was the only application segment with an increase in new orders, registering a substantial rise of 52.6 percent to €29.6 million that was largely attributable to new orders for rail vehicle drive systems. The segment's total unit sales dropped by 30.1 percent to 9,442 engines. Only the Construction Equipment application segment recorded an increase, with its unit sales advancing by 13.7 percent to 1,755 engines thanks to the business involving drives for mining equipment. Revenue decreased across all regions and application segments, falling by 21.6 percent year on year to €145.0 million.

The operating profit for the segment deteriorated markedly compared with the first half of 2019. This was mainly due to the sharp decline caused by the global coronavirus pandemic in the reporting period. The segment's operating profit was also weighed down by impairment losses on two development projects that were recognized due to the expected decrease in demand for the affected engine series.

Other: key figures for the segment

€ million	**H1 2020**	Change	**Q2 2020**	Change
New orders	19.5	+4.8%	9.8	+4.3%
Unit sales (units)	16,244	>+100%	7,721	+72.1%
Revenue	22.5	+32.4%	12.6	+17.8%
EBIT before exceptional items	-6.7	+40.7%	-3.3	+35.3%
EBIT margin before exceptional items (%)	-29.8	-	-26.2	-

The Other segment includes not only Torqeedo's business with electric motors for boats but also Futavis GmbH, which was acquired in October 2019. Overall, the segment's business performance was positive in the reporting period. Despite the coronavirus crisis, new orders rose by 4.8 percent year on year to €19.5 million. In the first half of 2020, unit sales more than doubled to a total of 16,244 electric motors. This was primarily thanks to the ramp-up of trolling engines and led to a 32.4 percent jump in revenue to €22.5 million. All regions contributed to this growth.

In the period under review, the Other segment's operating loss improved by €4.6 million. This was mainly attributable to the deconsolidation of the joint venture DEUTZ AGCO Motores S.A., Haedo, Argentina, in the first half of 2019. As part of the deconsolidation, which was carried out for reasons of materiality, cumulative negative exchange differences were reclassified from equity to the income statement, which had a significant adverse impact on the segment's earnings in the prior-year period.

Full-year guidance for 2020 remains under review

The progression and timeline of the coronavirus crisis going forward is very difficult to predict, as is its impact on the economy and thus on DEUTZ's engine business. Consequently, it is still not possible to provide updated guidance for 2020 at the present time.

Fundamentally, it can be assumed that the remainder of 2020, particularly the third quarter, will continue to be heavily affected by the impact of the coronavirus crisis, although to a lesser extent than the second quarter.

It is now anticipated that the final installment of the purchase price for the Cologne-Deutz site, which had been expected as a positive exceptional item, will be paid in 2021 rather than this year. However, it is important to note that the amount and the date of this payment continue to depend on when the development plan for the site is formally approved and so cannot be precisely determined yet.

Medium-term targets confirmed

Despite the currently difficult situation, the Company reaffirms its current outlook for 2022, when it expects to generate revenue in excess of €2.0 billion and an EBIT margin before exceptional items in the range of 7 percent to 8 percent.

Growth is likely to be driven mainly by the continued internationalization and rapid expansion of the service business, but also by the expansion of the core business and the further development of the product portfolio. As a result, DEUTZ is also adhering to its revenue target for the service business, which it has brought forward to 2021 and envisages revenue of over €400 million.

In view of the restructuring of its business in China, DEUTZ raised its original revenue target for 2022 from around €500 million to around €800 million. This significant increase is due, in particular, to the fact that the planned volume for the joint venture already meets existing market demand and the intention is to gain further market share from competitors by implementing the China strategy.

Transform for Growth global efficiency program defined

At the start of the year, DEUTZ launched a Company-wide efficiency program, Transform for Growth, in order to further shore up its earnings performance in challenging conditions. The details of the underlying action plan were drawn up in the second quarter. The main areas of action are optimization of the global production network, automation and digitalization of production and administrative processes, and groupwide streamlining of the organizational structure.

By taking these measures, DEUTZ hopes to generate annual cost savings of around €100 million, with the full effect expected to be achieved from 2022 onward. As well as adjusting operating costs, a large part of the savings are to be achieved by reducing staff costs. This will involve a reduction in headcount of up to 1,000 across the Group, which will be implemented with the minimum possible social impact.

A total of 380 jobs have already been cut in the first half of this year, partly by reducing the number of temporary workers. Following on from this, DEUTZ is planning to launch a voluntary program encompassing a further 350 jobs at its sites in Germany. The remaining reduction in headcount is to be achieved by the end of 2022 as fixed-term contracts come to an end and through natural attrition.

“Our utmost objective is to avoid compulsory redundancies and find a socially responsible solution for our employees. We have therefore already entered into an ongoing dialog with the employee representatives to discuss the details of a voluntary program,” stressed DEUTZ CEO Hiller.

Upcoming financial dates

November 10, 2020:	Quarterly statement for the first to third quarter of 2020
March 18, 2021:	2020 annual report
April 29, 2021:	Annual General Meeting
May 6, 2021:	Quarterly statement for the first quarter of 2021

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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.