The engine company. DEUTZ

PRESS RELEASE

Cologne, May 7, 2020

DEUTZ’s engine business impacted by coronavirus crisis

- Decrease in operating profit and the corresponding profit margin
- Further growth of high-margin service business
- Implementation of strategy in China progressing according to plan

DEUTZ Group: overview of key figures

€ million	**1-3/2020**	1-3/2019	Change %
New orders	356.7	514.5	-30.7
Unit sales (units)	40,069	47,735	-16.1
Revenue	339.8	452.8	-25.0
Operating profit/loss (EBIT before exceptional items)	-11.8	25.1	<-100
EBIT margin before exceptional items (%)	-3.5	5.5	-
Net income	-10.0	20.9	<-100
Earnings per share (€)	-0.08	0.17	<-100
Equity	642.0	640.9	+0.2
Equity ratio (%)	50.4	48.5	+3.9
Cash flow from operating activities	-11.9	-2.8	<-100
Free cash flow	-35.5	-30.2	-17.5
Net financial position as at Mar. 31	-65.6	21.3	<-100
Employees (number as at Mar. 31)	4,815	4,723	+1.8

DEUTZ, a leading global manufacturer of innovative drive systems, registered an overall decline in business performance in the first quarter of 2020, as it had expected. This was primarily due to the global fall in demand in key customer industries, which was significantly exacerbated by the coronavirus crisis. Furthermore, the DEUTZ engine business was hit by

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Vorsitzender des Aufsichtsrates / Chairman of the Supervisory Board: Dr.-Ing. Bernd Bohr
Vorstand / Board of Management:
Dr.-Ing. Frank Hiller (Vorsitz / Chairman),
Dr. Andreas Strecker, Michael Wellenzohn

customers selling the inventories of engines they had built up before new emissions standards came into force – a phenomenon that had already led to a low level of orders on hand at the end of 2019.

“The detrimental effects of the coronavirus crisis have become very tangible and are creating a further drag on our business in an already challenging market environment. After shutting down large parts of our production facilities in Europe in April, we are now progressively starting them up again. But the level of output is driven by the strength of demand from our customers, which has been declining in the current economic conditions,” comments Dr. Frank Hiller, Chairman of the DEUTZ Board of Management. “In order to overcome the challenges facing the Company during these difficult times, DEUTZ has formulated its Vision of Success 2020, which serves as a guide for the current extraordinary situation and sets out a course to steer DEUTZ through the coronavirus crisis as best we possibly can,” he explains.

DEUTZ has launched an efficiency program, Transform for Growth, in order to shore up its earnings performance in difficult market conditions. A detailed list of measures is currently being drawn up with the aim of further increasing the Group’s competitiveness and reducing complexity along the entire value chain.

Looking at the Company’s repositioning in China, the world’s largest engine market, Hiller strikes a positive note on the progress to date: “The implementation of our China strategy is proceeding according to plan. In the context of our Vision of Success 2020, it is vital that we make the necessary investment in order to secure the long-term success of the Company, and that includes steadfastly pursuing the growth projects that we have already initiated.”

Downward trend in sales figures – coronavirus crisis creating an added drag on demand in the market

In the first quarter of 2020, DEUTZ took **new orders** totaling €356.7 million. The decrease of 30.7 percent compared with the first three months of 2019 was due not only 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, but also – crucially – to a much sharper fall in demand caused by the coronavirus crisis.

The Construction Equipment, Material Handling, Agricultural Machinery, and Stationary Equipment application segments recorded a significant reduction in new orders, whereas the Miscellaneous application segment and the service business notched up substantial increases of 25.3 percent and 8.9 percent respectively. The rise in new orders in the Miscellaneous application segment was primarily attributable to DEUTZ winning a number of tenders for rail vehicle drive systems. The growth in the service business was attributable both to increased revenue from parts sales to existing customers and to newly signed service agreements.

The DEUTZ Group's **unit sales** totaled 40,069 engines in the reporting period, which was 16.1 percent fewer than in the first quarter of 2019. Among the application segments, the only one with a significant increase in unit sales was Miscellaneous with a rise of 257.3 percent. This improvement was essentially due to the launch of trolling motors made by DEUTZ subsidiary Torqeedo, which recorded an almost fivefold increase in unit sales after selling a total of 8,523 electric motors. The driving factors behind the drop in unit sales in the other application segments were weaker demand in the market and, in particular, adverse effects resulting from customers running down inventories of engines that had been purchased ahead of new emissions standards coming into force.

The DEUTZ Group's **revenue** fell by 25.0 percent compared to the first three months of 2019 to €339.8 million. This downward trend was attributable to the impact of the coronavirus crisis and adverse effects resulting from customers running down inventories of engines that had been purchased ahead of new emissions standards coming into force. Among the application segments, only the service business continued to expand, with revenue rising by 2.9 percent. Revenue growth was particularly satisfying in on-site customer service, which registered a sharp increase, due, among other things, to the signing up of new customers by DPS Power Group, which DEUTZ acquired in late 2019.

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

The operating loss (EBIT before exceptional items) amounted to €11.8 million in the first quarter of 2020, compared with an operating profit of €25.1 million in the prior-year period. This decline was largely attributable to the sharp fall in revenue – caused by the coronavirus crisis and customers selling the inventories of engines they had built up before new emissions standards came into force – and the resulting diseconomies of scale. There was also a heavy drag on operating profit because of payments made under continuation agreements with suppliers that are going through insolvency proceedings. The EBIT margin before exceptional items stood at minus 3.5 percent in the first quarter of 2020, compared with 5.5 percent in the prior-year period.

The decline in operating profit caused net income to deteriorate to a net loss of €10.0 million. The positive income tax situation was predominantly attributable to deferred tax income. Earnings per share came to minus €0.08 (Q1 2019: €0.17).

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

€ million	**1-3/2020**	1-3/2019	Change %
New orders	255.3	409.3	-37.6
Unit sales (units)	26,993	38,970	-30.7
Revenue	255.9	356.2	-28.2
EBIT before exceptional items	-16.7	18.5	<-100
EBIT margin before exceptional items (%)	-6.5	5.2	-

In the first quarter of 2020, the new orders received in the DCE segment fell by 37.6 percent year on year to €255.3 million. In the same period, unit sales declined by 30.7 percent to 26,993 engines and revenue contracted by 28.2 percent to €255.9 million. The breakdown by application segment reveals that only the service business continued to generate revenue growth, with an increase of 6.6 percent.

The operating loss for the segment amounted to €16.7 million in the first three months of 2020, a deterioration of €35.2 million compared with the operating profit in the prior-year period. This decline was mainly due to revenue falling by around a third. There was also a drag on the operating profit for the segment because of the aforementioned payments made under continuation agreements with suppliers that are going through insolvency proceedings.

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

€ million	**1-3/2020**	1-3/2019	Change %
New orders	92.5	96.9	-4.5
Unit sales (units)	4,553	7,094	-35.8
Revenue	74.8	91.2	-18.0
EBIT before exceptional items	8.3	12.8	-35.2
EBIT margin before exceptional items (%)	11.1	14.0	-

New orders in the DCS segment fell by 4.5 percent to €92.5 million in the reporting period. Unit sales declined by 35.8 percent to 4,553 engines, while revenue contracted by 18.0 percent to €74.8 million. Revenue went down in every application segment.

The substantial 35.2 percent decrease in the operating profit for the segment to €8.3 million was largely attributable to the much smaller volume of business.

Other: key figures for the segment

€ million	**1-3/2020**	1-3/2019	Change %
New orders	9.7	9.2	+5.4
Unit sales (units)	8,523	1,671	>+100
Revenue	9.9	6.3	+57.1
EBIT before exceptional items	-3.4	-6.2	+45.2
EBIT margin before exceptional items (%)	-34.3	-98.4	-

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. New orders rose by 5.4 percent to €9.7 million, primarily owing to demand for the newly launched trolling motors. These motors were also the main reason why unit sales increased fivefold in the first quarter of 2020. Revenue jumped by 57.1 percent to €9.9 million.

The operating loss for the Other segment improved by €2.8 million to €3.4 million in the period under review. This was predominantly attributable to the deconsolidation of the joint venture DEUTZ AGCO Motores S.A., Haedo, Argentina, in the first quarter 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 quarter. Futavis GmbH reported an operating loss of €0.4 million. However, Torqeedo's operating loss was significantly reduced, reflecting the increase in the volume of business.

Full-year guidance for 2020 remains under review

DEUTZ had communicated its guidance for 2020[1] at the time of publication of the annual report and withdrew this guidance at the end of the reporting period due to the worsening economic impact of the coronavirus pandemic.[2] It is still not possible to provide updated guidance for 2020.

In agreement with the Supervisory Board, the Board of Management of DEUTZ AG has decided to propose to the Annual General Meeting on June 25, 2020 that the dividend payment for the 2019 financial year be suspended in order to help maintain financial stability and flexibility.[3] The Company is also at an advanced stage of negotiations about obtaining a further credit line for a low triple-digit million euro amount.

[1] See the ad hoc disclosure dated March 2, 2020.
[2] See the ad hoc disclosure dated March 25, 2020.
[3] See the ad hoc disclosure dated May 4, 2020.

Upcoming financial dates

June 25, 2020: Annual General Meeting

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

November 10, 2020: results for the first to third quarter of 2020

Contact

DEUTZ AG / Leslie Isabelle Iltgen / SVP Communications & Investor Relations

Tel: +49 (0)221 822 3600 / Email: Leslie.Iltgen@deutz.com

Forward-looking statements

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.