

DEUTZ AG

**Quarterly Statement
Q1/2020**



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
- Guidance for 2020 remains under review

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 due in large part to the global fall in demand in key customer industries – heavily exacerbated by the coronavirus crisis – which caused a further contraction in the reporting period and prompted the Company to withdraw its previous guidance for 2020¹ at the end of March. At the same time, the Company announced that it would temporarily suspend much of its production in Europe in April and apply for short-time working, as many of its customers had

¹ See the ad hoc disclosure dated March 2, 2020.

already closed their factories and efficient production was no longer possible.² In the reporting period, the DEUTZ engine business was also impacted by 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.

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.

BUSINESS PERFORMANCE IN THE DEUTZ GROUP

NEW ORDERS

DEUTZ Group: new orders by application segment

€ million	1-3/2020	1-3/2019	Change %
Construction Equipment	105.4	127.1	-17.1
Service	92.0	84.5	+8.9
Material Handling	47.6	143.5	-66.8
Agricultural Machinery	45.0	89.3	-49.6
Miscellaneous	37.2	29.7	+25.3
Stationary Equipment	30.3	41.3	-26.6
Total	356.7	514.5	-30.7

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.

² See the ad hoc disclosure dated March 25, 2020.

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.

UNIT SALES

DEUTZ Group: unit sales by application segment

Units	1-3/2020	1-3/2019	Change %
Construction Equipment	13,866	17,620	-21.3
Miscellaneous	9,462	2,648	>+100
Material Handling	7,670	14,324	-46.5
Stationary Equipment	4,750	6,223	-23.7
Agricultural Machinery	4,321	6,920	-37.6
Total	40,069	47,735	-16.1

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.

Revenue

DEUTZ Group: revenue by application segment

€ million	1-3/2020	1-3/2019	Change %
Construction Equipment	101.9	137.6	-25.9
Service	92.4	89.8	+2.9
Material Handling	47.9	90.4	-47.0
Agricultural Machinery	47.1	73.3	-35.7
Stationary Equipment	27.8	35.2	-21.0
Miscellaneous	23.5	27.4	-14.2
Total	339.8	452.8	-25.0

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 for a number of reasons, including the signing up of new customers by DPS Power Group, which DEUTZ acquired in late 2019.

DEUTZ Group: revenue by region

€ million	1-3/2020	1-3/2019	Change %
Europe/Middle East/Africa	226.4	273.8	-17.3
Americas	63.1	101.2	-37.6
Asia-Pacific	51.1	78.7	-35.1

EARNINGS

DEUTZ Group: overview of results of operations

€ million	1-3/2020	1-3/2019	Change %
Revenue	339.8	452.8	-25.0
Cost of sales	-288.4	-365.3	-21.1
Research and development costs	-24.1	-22.7	+6.2
Selling and administrative expenses	-39.0	-38.6	+1.0
Other operating income	5.1	6.8	-25.0
Other operating expenses	-5.6	-8.3	-32.5
Write-downs of financial assets	0.0	0.4	-100.0
Profit/loss on equity-accounted investments	0.4	0.0	-
EBIT	-11.8	25.1	<-100
thereof exceptional items	0.0	0.0	0.0
thereof operating profit/loss (EBIT before exceptional items)	-11.8	25.1	<-100
Interest income	0.2	0.2	0.0
Interest expense	-0.9	-0.8	+0.13
Other financial income/finance costs	0.0	0.0	0.0
Financial income, net	-0.7	-0.6	+16.7
Income taxes	2.5	-3.6	<-100
Net income	-10.0	20.9	<-100

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).

BUSINESS PERFORMANCE IN THE SEGMENTS

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
Construction Equipment	96.7	130.5	-25.9
Service	48.7	45.7	+6.6
Agricultural Machinery	45.9	71.6	-35.9
Material Handling	41.9	78.6	-46.7
Stationary Equipment	17.0	22.0	-22.7
Miscellaneous	5.7	7.8	-26.9
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
Service	43.7	44.1	-0.9
Stationary Equipment	10.8	13.2	-18.2
Miscellaneous	7.9	13.3	-40.6
Material Handling	6.0	11.8	-49.2
Construction Equipment	5.2	7.1	-26.8
Agricultural Machinery	1.2	1.7	-29.4
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.

FINANCIAL POSITION

DEUTZ Group: overview of financial position

€ million	1-3/2020	1-3/2019	Change %
Cash flow from operating activities	-11.9	-2.8	>+100
Cash flow from investing activities	-22.9	-26.9	-14.9
Cash flow from financing activities	20.8	-8.4	<-100
Change in cash and cash equivalents	-14.0	-38.1	-63.3
Free cash flow ¹	-35.5	-30.2	+17.5
Cash and cash equivalents at Mar. 31/Dec. 31	41.4	55.3	-25.1
Current and non-current interest-bearing financial debt at Mar. 31/Dec. 31	107.0	70.5	+51.8
Net financial position ² at Mar. 31/Dec. 31	-65.6	-15.2	>+100

1) Cash flow from operating and investing activities less interest expense.

2) Cash and cash equivalents less current and non-current interest-bearing financial debt.

The year-on-year decline in cash flow from operating activities was predominantly due to the sharp fall in operating profit. Net cash used for investing activities was below the level reported in the first quarter of 2019 because of the decrease in payments related to capital spending on property, plant and equipment and intangible assets. The main factors affecting cash flow from financing activities were the drawdown of short-term lines of credit and the taking out of a medium-term loan of €13.0 million. DEUTZ is currently at an advanced stage of negotiations about obtaining a further credit line for a low triple-digit million euro amount. Cash flow from financing activities included payments of interest and principal in connection with leases amounting to €0.3 million and €4.3 million respectively (Q1 2019: €0.2 million and €2.9 million respectively). As a result of the decrease in cash flow from operating activities, free cash flow was down by €5.3 million compared with the first quarter of 2019.

The changes in cash flow described above resulted in a reduction in cash and cash equivalents. The net financial position also decreased. This was due not only to the deterioration in cash flow but also to the sharp rise in lease liabilities.

NET ASSETS

DEUTZ Group: overview of net assets

€ million	Mar. 31, 2020	Dec. 31, 2019	Change %
Non-current assets	697.9	688.1	+1.4
Current assets	576.8	613.1	-5.9
Total assets	1,274.7	1,301.2	-2.0
Equity	642.0	652.4	-1.6
Non-current liabilities	237.0	225.2	+5.2
Current liabilities	395.7	423.6	-6.6
Total equity and liabilities	1,274.7	1,301.2	-2.0
Working capital ¹	307.7	293.2	+4.9
Working capital ratio (Mar. 31, %)	17.8	15.9	-
Working capital ratio (average, %)	18.3	17.4	-
Equity ratio ² (%)	50.4	50.1	-

1) Inventories plus trade receivables less trade payables.

2) Equity / total equity and liabilities.

As at March 31, 2020, non-current assets included right-of-use assets of €51.6 million in connection with leases (December 31, 2019: €41.4 million), most of which related to leased property. The rise in the volume of right-of-use assets was mainly due to lease extensions. The contraction of current assets was attributable, in particular, to the contractually agreed payment of 90 percent of the purchase consideration into Hunan DEUTZ Power Co., Ltd., the joint venture with SANY. This payment was transferred from the escrow account that had been opened for this purpose in 2019 and is categorized as other current assets.

Working capital went up, primarily owing to a seasonal increase in inventories.

Non-current and current financial debt included lease liabilities of €52.3 million as at March 31, 2020 (December 31, 2019: €41.9 million). As was the case for the growth of right-of-use assets, the increase in lease liabilities was mainly due to lease extensions. The decrease in current liabilities was primarily the result of the aforementioned payment of the purchase consideration into the joint venture with SANY.

OUTLOOK

At the end of the reporting period, in light of the worsening economic impact of the coronavirus pandemic, DEUTZ withdrew the initial guidance for 2020³, which had been communicated at the time of publication of the annual report.⁴

The progression and timeline of the coronavirus crisis going forward is very difficult to predict, as is its impact. Consequently, 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 the Company's financial stability and flexibility.⁵ DEUTZ is currently also at an advanced stage of negotiations about obtaining a further credit line for a low triple-digit million euro amount.

³ See the ad hoc disclosure dated March 25, 2020.

⁴ See the ad hoc disclosure dated March 2, 2020.

⁵ See the ad hoc disclosure dated May 4, 2020.

FINANCIAL INFORMATION FOR THE 1ST QUARTER OF 2020

DEUTZ GROUP: INCOME STATEMENT

€ million	1-3/2020	1-3/2019
Revenue	339.8	452.8
Cost of sales	-288.4	-365.3
Research and development costs	-24.1	-22.7
Selling expenses	-27.5	-25.9
General and administrative expenses	-11.5	-12.7
Other operating income	5.1	6.8
Other operating expenses	-5.6	-8.3
Write-downs of financial assets	0.0	0.4
Profit/loss on equity-accounted investments	0.4	0.0
Write-downs of equity-accounted investments		0.0
Other net investment income		0.0
EBIT	-11.8	25.1
thereof exceptional items	0.0	0.0
thereof operating profit/loss (EBIT before exceptional items)	-11.8	25.1
Interest income	0.2	0.2
Interest expense	-0.9	-0.8
Other financial income/finance costs	0.0	0.0
Financial income, net	-0.7	-0.6
Net income before income taxes	-12.5	24.5
Income taxes	2.5	-3.6
Net income	-10.0	20.9
thereof attributable to shareholders of DEUTZ AG	-10.0	20.9
thereof attributable to non-controlling interests	0.0	0.0
Earnings per share (basic/diluted, €)	-0.08	0.17

DEUTZ GROUP: STATEMENT OF COMPREHENSIVE INCOME

€ million	1-3/2020	1-3/2019
Net income	-10.0	20.9
Amounts that will not be reclassified to the income statement in the future	0.0	-3.3
Remeasurements of defined benefit plans	0.0	-3.3
Amounts that will be reclassified to the income statement in the future if specific conditions are met	-1.0	4.2
Currency translation differences	0.0	4.4
thereof profit/loss on equity-accounted investments	0.1	2.9
Effective portion of change in fair value from cash flow hedges	-0.9	-0.5
Fair value of financial instruments	-0.1	0.3
Other comprehensive income, net of tax	-1.0	0.9
Comprehensive income	-11.0	21.8
thereof attributable to shareholders of DEUTZ AG	-11.0	21.8
thereof attributable to non-controlling interests	0.0	0.0

DEUTZ GROUP: BALANCE SHEET

Assets, € million	Mar. 31, 2020	Dec. 31, 2019
Property, plant and equipment	355.6	347.2
Intangible assets	215.2	216.2
Equity-accounted investments	51.6	51.1
Other financial assets	4.3	5.0
Non-current assets (before deferred tax assets)	626.7	619.5
Deferred tax assets	71.2	68.6
Non-current assets	697.9	688.1
Inventories	367.1	321.7
Trade receivables	124.4	152.1
Other receivables and assets	43.9	84.0
Cash and cash equivalents	41.4	55.3
Current assets	576.8	613.1
Total assets	1,274.7	1,301.2

Equity and liabilities, € million	Mar. 31, 2020	Dec. 31, 2019
Issued capital	309.0	309.0
Additional paid-in capital	28.8	28.8
Other reserves	-0.9	0.1
Retained earnings and accumulated income	304.9	314.3
Equity attributable to shareholders of DEUTZ AG	641.8	652.2
Non-controlling interests	0.2	0.2
Equity	642.0	652.4
Provisions for pensions and other post-retirement benefits	148.2	151.2
Deferred tax liabilities	0.7	0.8
Other provisions	30.5	33.4
Financial debt	51.9	34.1
Other liabilities	5.7	5.7
Non-current liabilities	237.0	225.2
Provisions for pensions and other post-retirement benefits	12.3	12.4
Provision for current income taxes	1.2	1.3
Other provisions	71.5	66.6
Financial debt	55.1	36.4
Trade payables	183.8	180.6
Other liabilities	71.8	126.3
Current liabilities	395.7	423.6
Total equity and liabilities	1,274.7	1,301.2

DEUTZ GROUP: CASH FLOW STATEMENT

€ million	1-3/2020	1-3/2019
EBIT	-11.8	25.1
Income taxes paid	-3.7	-1.3
Depreciation, amortization and impairment of non-current assets	21.7	19.8
Profit/loss and impairment on equity-accounted investments	-0.4	0.0
Other non-cash income and expenses	0.5	2.9
Change in working capital	-3.0	-37.0
Change in inventories	-43.6	-42.0
Change in trade receivables	28.5	-15.9
Change in trade payables	12.1	20.9
Change in other receivables and other current assets	43.6	-1.8
Change in provisions and other liabilities (excluding financial liabilities)	-58.8	-10.5
Cash flow from operating activities	-11.9	-2.8
Capital expenditure on intangible assets, property, plant and equipment	-23.1	-26.7
Expenditure on investments	0.0	-0.2
Proceeds from the sale of non-current assets	0.2	0.0
Cash flow from investing activities	-22.9	-26.9
Interest income	0.1	0.2
Interest expense	-0.8	-0.7
Cash receipts from borrowings	38.0	0.0
Repayments of loans	-12.2	-5.0
Principal elements of lease payments	-4.3	-2.9
Cash flow from financing activities	20.8	-8.4
Cash flow from operating activities	-11.9	-2.8
Cash flow from investing activities	-22.9	-26.9
Cash flow from financing activities	20.8	-8.4
Change in cash and cash equivalents	-14.0	-38.1
Cash and cash equivalents at Jan. 1	55.3	132.8
Change in cash and cash equivalents	-14.0	-38.1
Change in cash and cash equivalents related to exchange rates	-0.2	0.4
Change in cash and cash equivalents related to the basis of consolidation	0.3	0.0

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

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Forward-looking statements

This quarterly statement 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.

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.

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