PETRUSADVISERS

Wacker Neuson SE („Wacker Neuson“)
Hans Neunteufel (Chairman of the Supervisory Board)
Professor Dr. Matthias Schüppen (Vice-Chairman of the Supervisory Board)
Preussenstrasse 41

80809 München

London, 10th February 2017

Dear Mr. Neunteufel, dear Professor Schüppen,

We refer to our letter of 24 November 2016 and your email of 22 December 2016. In our letter, we requested a meeting with you as the Chairman of Wacker Neuson in order to hold a constructive exchange of views on the company, its strategy and management team. Unfortunately, our request for a meeting was not granted - amongst other with reference to certain legal concerns - and we were instead referred to management.

Since a great deal of our observations and points of criticism essentially relate to management, a discussion with Mr. Peksaglam makes little sense. Both previous discussions with your management team as well as Wacker Neuson's investor communication have laid clear Mr. Peksaglam's inability to realistically assess, understand and anticipate the company's development. Moreover, we see no legal reason why the members of the Supervisory Board should not be allowed to communicate with shareholders. On the contrary, the mandate of the Supervisory Board and the Chairman in particular specifically include these responsibilities in order to be able to effectively supervise and steer the company, its strategy and the execution thereof by management.

Against this background, we, as co-shareholders, would like to reiterate our request for a meeting with you and already in advance put forward a set of points and issues we would like to discuss:

(1) Silo Culture

There is clear evidence that at Wacker Neuson every brand and even individual production plants work for themselves as opposed to for the group. A homogenous strategy for the whole group or rather the execution thereof is missing. Only small to no synergies between the Light Equipment and Compact Equipment segments seem to have been generated. In the last few years, the differences in the development of the two businesses has been staggering. Whilst the revenues for Light Equipment between 2006, i.e. before the merger of Wacker Construction Equipment AG with Neuson Kramer Baumaschinen AG, and September 2016 (12-month period) dropped by approx. 0.3%, the revenues for Compact Equipment grew by an astonishing 106%[1,2,3].

The situation has also resulted in significant cost inefficiencies. For instance, interviews have revealed that your suppliers have no difficulty bypassing the 'central procurement department' and negotiate conditions on a local basis. Advantages through economies of scale are thus carelessly wasted.

[1] *For the years prior to the merger, Light Equipment is defined as the segment Light Equipment of Wacker Construction Equipment AG. Since 2007, we use the segment Light Equipment of Wacker Neuson AG. For 2005 and 2006, the segment Compact Equipment defined as the sum of the segments Compact Equipment of Wacker Construction Equipment AG and the segments Compact Equipment, Harvesters and Telehandlers of Neuson Kramer Baumaschinen AG.*

[2] *For simplification purposes, for the years 2005 and 2006 the audited IFRS Annual Reports of Neuson Kramer Baumaschinen AG for the respective fiscal years (31 January year-end) 2005/06 and 2006/07 were used.*

[3] *Without considering the Service segment.*

Petrus Advisers Ltd, Company Number 08288908 is a company incorporated as private limited by shares, having its registered office situated in England and Wales with the registered office address of 8th Floor, 6 New Street Square, New Fetter Lane, London EC4A 3AQ. Petrus Advisers Ltd is Authorised and Regulated by the Financial Conduct Authority.

(2) Priority of Growth over Margins

As already indicated in our letter of 20 October 2015, we see insufficient focus on sustainable quality of profitability at Wacker Neuson. As one of many examples, the sudden and surprising loss of Wacker's high margin business in the Oil and Gas sector lead to disproportionate profit losses for the whole company without any previous guidance by management in this regard.

While this demonstrates a poor understanding of its own end-markets, it also means that other parts of the company achieve insufficiently low profit margins. In our opinion, the root cause of this problem is the inconsiderate growth plan of Wacker Neuson combined with insufficient discipline and focus on products and end-markets that can deliver sustainable and attractive profit margins.

A look at the operating history of Wacker and Neuson Kramer shows the enormous improvement potential. In the 12-month period ending September 2016, EBIT amounted to a mere Euro 92.5 million on a group turnover of Euro 1,371.4 million[4]. In 2006, the combined Wacker Construction Equipment AG and Neuson Kramer Baumaschinen AG generated an aggregated EBIT of Euro 122.0 million with a combined turnover of Euro 881.7 million.[2,5] The EBIT margin thus more than halved from 13.8% in 2006 to 6.7% per September 2016 – despite the existence of synergy potential! Management's guidance for the full year 2016 does not make us hopeful for any improvement to be expected.

(3) Too many SKUs

The presentation of the new product range in autumn 2016 proved once more Wacker Neuson's enormous ability to innovate. However, it has also made apparent a lack of focus on profitable products. Take as an example the wide range of electrically powered products for agricultural applications. We are of the view that, unfortunately, they were developed significantly ahead of demand for such products. Based on market interviews, we fear that many of the investments in new products will not justify the resources allocated to their development.

(4) Parallel US Expansion and Asia Growth Strategy

As to be expected, there have been teething problems around Neuson's growth strategy in the US. Setting up a profitable business with a new product (Skip Steer) in a huge market like the USA with its fragmented dealership structure is without doubt challenging. In his communication, Mr. Peksaglam has continuously dispelled doubts with regards to possible delays or market penetration problems, and he has in fact based a significant part of the group's recovery and growth story on a swift and successful roll-out in the US. We are worried that such communication has been too positive, underestimating execution challenges with not enough buffers to avoid further negative surprises.

At the same time, pursuing a growth strategy in Asia parallel to the US seems very ambitious for a company of Wacker Neuson's size. We see further execution risks as the existing Asia business, and the Chinese business in particular, is still in its infancy. Trying to conquer both major markets, the US and China, at the same time appears very ambitious and to some extent risky.

(5) Working Capital

As far back as in 2015 we pointed to the lack of focus on stringent working capital management. Management has repeatedly hinted at medium-term improvement targets. However, working capital is still approx. 5% of revenues higher than in the 2008 to 2010 timeframe. Despite minor recent successes in reducing inventories, these are still more than 10% of revenues above historically achieved levels. All credibility regarding the intentions and/or the ability of the company to realise the desired progress has been lost.

---

[4] *To calculate the 12 month period ending 2016, Q4 2015, Q1 2016, Q2 2016 and Q3 2016 were added together.*

[5] *Aggregated EBIT results for 2006 without any pro forma consideration of PPA effects.*

(6) Management

The change of your Chief Sales Officer and Executive Board member Jan Willem Jongert after only 9 months in the position together with Mr. Binder's (CFO) departure raise many questions as to the quality and continuity of your management team. The repeated earnings warnings of the past two years speak for themselves. Beyond all the issues described above, there now also seem to be question marks with regards to the stability of Wacker Neuson's management team.

As mentioned in our letter from October 2015, we are highly convinced of the outstanding underlying strength and potential of Wacker Neuson. We see an enormous opportunity for operating improvement and as co-shareholders we want you to realise it.

We look forward to hearing back from you regarding a potential meeting and to having the opportunity to present to you our views for potential solutions on the issues identified above.

Yours sincerely,

Klaus Umek

Managing Partner
Petrus Advisers

Till Hufnagel

Partner
Petrus Advisers