

ENGINEERING
TOMORROW

Danfoss

Interim announcement






1st half-year 2020



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Danfoss in brief


Today, global megatrends are changing the world, making Danfoss more relevant than ever. We have proven and reliable solutions to meet many of the climate, urbanization, and food challenges. Driven by the power of an electrified society and fueled by the opportunities of going digital, Danfoss is dedicated to engineering solutions that can unleash the potential of tomorrow.

With the promise of quality, reliability, and innovation deeply rooted in our DNA, we deliver an extensive range of products and solutions across our business segments of Heating, Cooling, Drives, and Power Solutions.

Across the globe, our sustainable, smart technologies power industries and cities, secure a reliable food supply, and create healthier, more comfortable indoor climates. At the same time, we are developing solutions that integrate renewables into tomorrow's smart energy systems, where on- and off-highway machinery, cars and marine vessels are powered by hybrid and electric motors.

This is where the transformation starts – in the way we heat, cool, connect, and feed a growing population. Together with our customers, we help make a greener and better future a reality. **Together, we are engineering tomorrow.**

Our innovative engineering dates back to 1933. Today, Danfoss holds market-leading positions, employing approximately 28,000 people and serving customers in more than 100 countries. We are privately held by the founding family.

Read more about us at  www.danfoss.com

Forward-looking statements

This quarterly announcement includes forward-looking statements, which are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the quarterly announcement. Reference is made to the forward-looking statements in the Annual Report 2019.

Performance highlights

27,539

Employees



100

Sales in more than 100 countries



72

Factory sites and 23 R&D sites

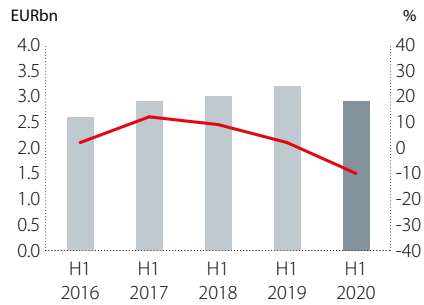


Sales split by segments



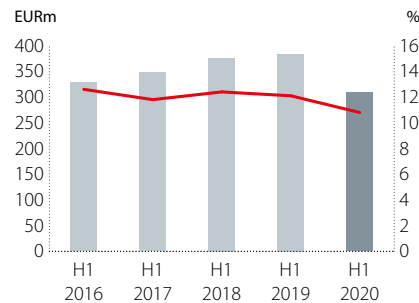
- Danfoss Power Solutions Segment, 35%
- Danfoss Cooling Segment, 26%
- Danfoss Drives Segment, 24%
- Danfoss Heating Segment, 15%

Sales



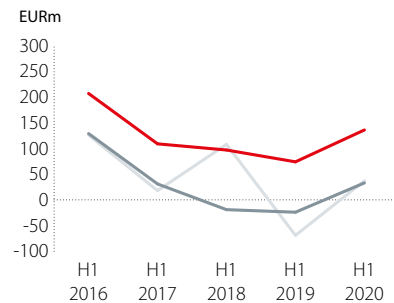
■ Sales — Sales growth in local currency

Earnings



■ EBITA — EBITA margin

Cash flow



— Free operating cash flow
 — Free operating cash flow after financial items and tax
 — Free cash flow

Sales split by regions



- Western Europe, 38%
- North America, 23%
- Eastern Europe, 8%
- Asia-Pacific, 23%
- Africa-Middle East, 4%
- Latin America, 2%

Financial highlights

	EURm	EURm	Change	DKKm	DKKm
	H1 2019	H1 2020	in %	H1 2019	H1 2020
Profit and loss account					
Net sales	3,166	2,864	-10%	23,634	21,380
EBITDA before OOI/E	507	457	-10%	3,787	3,412
EBITDA	511	424	-17%	3,817	3,165
EBITA before OOI/E	387	324	-16%	2,889	2,418
EBITA	383	309	-19%	2,862	2,306
EBIT	351	252	-28%	2,618	1,883
Financial items, net	-17	-28	65%	-128	-206
Profit before tax	333	224	-33%	2,490	1,677
Net profit	242	164	-32%	1,803	1,227
Financial ratios					
Local currency growth (%)	2	-10	-12	2	-10
EBITDA before OOI/E margin (%)	16.0	16.0	0.0	16.0	16.0
EBITDA margin (%)	16.2	14.8	-1.4	16.2	14.8
EBITA before OOI/E margin (%)	12.2	11.3	-0.9	12.2	11.3
EBITA margin (%)	12.1	10.8	-1.3	12.1	10.8
EBIT margin (%)	11.1	8.8	-2.3	11.1	8.8

Key figures, financial ratios and below highlighted keyfigures are calculated as defined in Note 26 in the Annual Report for 2019.

EBIT:
Operating profit.

EBITA:
Operating profit (EBIT) before profit from associates & joint ventures and amortization, gains and losses related to acquisitions and divestments.

EBITDA:
Operating profit (EBIT) before depreciation, amortization, impairment and profit from associates & joint ventures.

OOI/E:
Other operating income and expenses.

Conversion factor between DKK/EUR:
Profit and loss account and cash flow statement: 0.1340 (2019: 0.1340).
Balance sheet: 0.1342 (2019: 0.1340).

	EURm	EURm	Change	DKKm	DKKm
	H1 2019	H1 2020	in %	H1 2019	H1 2020
Balance sheet					
Total non-current assets	4,088	4,184	2%	30,508	31,182
Total assets	6,138	6,281	2%	45,808	46,809
Total shareholders' equity	2,764	3,124	13%	20,632	23,285
Net interest-bearing debt	1,318	971	-26%	9,840	7,235
Cash flow statement					
Cash flow from operating activities	115	166	44%	862	1,236
Cash flow from investing activities	-157	-98	-38%	-1,174	-735
Acquisition of intangible assets	-24	-23	-4%	-178	-175
Acquisition of property, plant and equipment.	-91	-76	-16%	-674	-566
Acquisition of/Proceeds from disposal of subsidiaries and activities	-45	0	-100%	-336	-3
Acquisition(-) and sale of other investments, etc.	3	1	-67%	14	9
Free operating cash flow	74	133	80%	551	995
Free operating cash flow after financial items and tax	-24	33	***	-178	250
Free cash flow	-69	37	***	-514	279
Cash flow from financing activities	24	28	17%	178	211
Financial ratios					
Equity ratio (%)	45.0	49.7	4.7	45.0	49.7
Leverage ratio (%)	47.7	31.1	-16.6	47.7	31.1
Net interest-bearing debt to EBITDA ratio	1.4	1.0	-0.4	1.4	1.0

Financial **update**

In the first six months of 2020, sales were 10% lower than the same period last year. A strong focus to manage profitability resulted, under the circumstances, in a satisfactory EBITA margin of 10.8%. Cash flow was better than the prior-year period, driven by a lower net working capital and lower CAPEX spending. Danfoss was affected by COVID-19 but was fast to take action and respond. Outlook reinstated.

Steering through the challenging COVID-19 situation, Danfoss' key priorities are to keep our people safe, continue to serve our customers and collaborate closely with our suppliers, and to keep our people on board to the extent possible, while flexing our costs to the lower sales. At the same time, we remain focused on our preparations to combine the Eaton Hydraulics and Danfoss Power Solutions businesses, which is on track.

Handling COVID-19

During Q1 and especially Q2, the COVID-19 pandemic escalated rapidly with the situation varying from country to country. The lockdowns, first in China and then across Europe and North America, have led to significantly lower demand, which affected all parts of the Danfoss business.

Our global operations have been functioning throughout the first half of 2020, and we have done our utmost to protect our employees across the world and to maintain world-class service to our customers despite the pandemic.

Danfoss has set up Group and local coronavirus crisis teams tasked with limiting the risk of infection, safeguarding business continuity and ensuring that our business can continue to operate. Numerous steps have been taken to address the situation, and multiple precautionary procedures and processes are in place to handle COVID-19, while adhering to guidelines and regulations from local authorities.

Danfoss took action early to flex our costs to the lower activity level. This includes CAPEX reductions, different temporary cost-reduction measures and using furlough schemes where possible globally.

The COVID-19 situation with social distancing has showed us that operating digitally is more relevant than ever. We have seen a rapid adoption of digital tools to communicate, coordinate, and serve our customers. As a global company, we operate in many different digitally connected geographical locations, and Danfoss employees are used to working across

borders on a daily basis. This also means that if one location should be in lockdown, we would be able to serve our customers from another location.

Across the world, we now see that governments are working on recovery plans to reboot the economies with green stimulus packages, and Danfoss' solutions can help advancing energy efficiency, electrification and infrastructure investments.

Sales

In the first six months of 2020, Danfoss Group sales amounted to EUR 2,864m (H1 2019: 3,166m), down 10% from the same period last year. Local currency growth was -10%.

All segments were impacted by the COVID-19 situation, but Danfoss Power Solutions and Danfoss Cooling were hit the hardest, especially in the significant markets of North America and Europe.

Across the regions, the COVID-19 challenge was very present, and the situation continues to be volatile. On the positive side, sales were stabilizing in Q2 in Asia-Pacific, mainly due to recovery and growth in China that was the first country to be hit by COVID-19 in Q1 – in fact, Danfoss had record sales in Q2 in China. However, sales in Western and Eastern Europe remained mixed with several countries in partial lockdown especially in Q2. Most uplifting were the positive indications of recovery towards the end of the first half in the Southern part of Europe that was hit the hardest in Europe, and potentially we expect to have seen the bottom in Europe. In North America, the health crisis accelerated some weeks after Europe and remains in a very difficult phase together with Latin America. India was also challenged due to the extensive lockdown in the country – however, Danfoss has started to see sales coming back, but also some setbacks with new focused lockdowns.

Danfoss' solutions remain relevant for several strong global megatrends, such as increasing electrification, urbanization and climate change. This was reflected in the first half, as parts of the Danfoss business were driving growth. This includes power modules for electric vehicles, energy-efficient and sustainable compressor technologies such as Turbocor®, stacks for renewable wind energy and deliveries for district-energy networks in cities – confirming that Danfoss' flexible business model with a diverse business portfolio shows resilience and remains our strength.

Earnings

Operating profit before depreciation and amortization (EBITDA) decreased 17% to EUR 424m (H1 2019: 511m), mainly due to the lower sales. Operating profit before acquisition-related amortization (EBITA) decreased 19% to EUR 309m (H1 2019: 383m), leading to an EBITA margin of 10.8% (H1 2019: 12.1%).

As a response to the lower sales, Danfoss has gradually taken steps to lower the cost base and CAPEX spend in Q1 and Q2. This includes reduced discretionary spend, organizational-wide travel restrictions, hiring freeze, salary reduction programs, no dividend payout, and use of different government-funded relief programs. Focus will continue to be on adjusting to the market conditions.

Net profit decreased 32% to EUR 164m (H1 2019: 242m).

Innovation

The research and development spend reached EUR 130m (H1 2019: 140m), corresponding to 4.6% of sales (H1 2019: 4.4%). The innovation activities were

concentrated around digitalizing and electrifying our energy-efficient and sustainable solutions and services to create even more value for our customers.

Balance sheet

At June 30, 2020, total assets had increased 2% to EUR 6,281m (H1 2019: 6,138m). Equity had increased 13% to EUR 3,124m (H1 2019: 2,764m), mainly influenced by the profits. Furthermore, at the Annual General Meeting held on May 29, 2020, it was decided that no dividends would be paid, due to the uncertainty created by COVID-19. The equity ratio was 49.7% (H1 2019: 45.0%).

Net interest-bearing debt was 26% lower year-over-year and amounted to EUR 971m (H1 2019: 1,318m), leading to a net interest-bearing debt to EBITDA ratio of 1.0 (H1 2019: 1.4). The net interest-bearing debt was positively impacted by no dividend payout.

Danfoss' BBB credit rating assigned by Standard & Poor's was put on "Credit Watch Negative" in March following the COVID-19 outbreak.

Cash flow

Free cash flow increased to EUR 37m (H1 2019: -69m), positively impacted by the lower net working capital and lower CAPEX spending. Free operating cash flow increased to EUR 133m (H1 2019: 74m), mainly driven by the lower net working capital. Cash flow from investing activities amounted to EUR -98m (H1 2019: -157m), due to reduced investments.

Acquisition

On January 21, 2020, Danfoss announced the agreement to acquire Eaton's hydraulics business for a cash purchase price of 3.3

billion USD (approximately 3.0 billion EUR). The transaction is subject to customary closing conditions and regulatory approvals. The transaction is expected to close in Q1 2021.

Employees

At June 30, 2020, the number of employees had decreased by 379 year over year to 27,539 employees.

Outlook 2020 reinstated

On May 27, the financial guidance for 2020 was suspended due to the low visibility and increased uncertainty associated with COVID-19 and its potential impact on end markets. The uncertainty remains higher than normal but based on the performance in the first half of 2020, Danfoss is now able to reinstate guidance for the full year 2020 on level with the guidance given before COVID-19.

Despite the current volatility, we expect to continue to expand or maintain our market share, while maintaining the profitability measured as margin at the 2019 level, following continued investments in sustainable value creation. To the extent that sales are negatively impacted, Danfoss also expects to see a negative impact on the absolute result.

The outlook is based on assumptions of a gradual improvement of the end markets over the third and fourth quarters as markets reopen and with no material disruptions of Danfoss' global supply chain.

The outlook excludes any impacts of the acquisition of Eaton's hydraulics business. The transaction is expected to close in the first quarter of 2021.

Due to the COVID-19 situation, it must be stressed that the assumptions behind the guidance are more uncertain than normal.

Events occurring after the balance sheet date

We are not aware of any events after the balance sheet date of June 30, 2020, which could be expected to have a material impact on the Group's financial position.

Development in the **business segments**



Danfoss **Power Solutions**

Danfoss Power Solutions had sales significantly below the prior-year period due to the uncertainty created by the COVID-19 situation that triggered customer restraint, especially within agriculture and construction. Sales grew in China, but North America and Europe had sales below the prior-year period. The profitability was below the prior-year period.



Danfoss **Cooling**

Danfoss Cooling had a strong start to 2020, but sales started to decrease towards the end of Q1, as customers postponed their purchasing of refrigeration and air-conditioning equipment due to the COVID-19 situation. Six months into the year, sales were below the prior year, despite recovery in China that is back in growth. The profitability was below the prior-year period.



Danfoss **Drives**

Danfoss Drives delivered sales slightly below the prior-year period. Despite the COVID-19 situation, Danfoss Silicon Power grew, driven by deliveries to renewables and electric vehicles. Drives saw a mixed sales performance across the regions and was driving growth in some countries, such as China, Russia, and parts of Europe. The profitability was significantly better than the prior-year period.



Danfoss **Heating**

Danfoss Heating delivered sales slightly below the prior-year period, resulting from very different growth dynamics across the business and regions in Q1 and Q2. Asia-Pacific was up, due to a fast market bounce-back in China that is back in growth. Western and Eastern Europe, on the other hand, were down with a very mixed picture across markets. The profitability was better than the prior-year period.

Financial highlights, quarterly

EURm	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	Q1 2020	Q2 2020
Profit and loss account							
Net sales	1,563	1,603	1,589	1,530	6,285	1,479	1,385
EBITDA before OOI/E	241	266	282	239	1,028	215	242
EBITDA	240	272	282	232	1,026	201	223
EBITDA before OOI/E	182	205	217	174	778	156	168
EBITA	181	203	219	168	771	143	166
EBIT	160	190	198	147	695	117	135
Financial items, net	-8	-9	-10	-6	-33	-20	-8
Profit before tax	152	181	187	142	662	97	127
Net profit	110	132	141	119	502	71	93
Balance sheet							
Total non-current assets	4,056	4,088	4,235	4,217	4,217	4,230	4,184
Total assets	6,181	6,138	6,299	6,096	6,096	6,227	6,281
Total shareholders' equity	2,794	2,764	2,938	2,933	2,933	3,011	3,124
Net interest-bearing debt	1,181	1,318	1,252	1,048	1,048	1,125	971
Cash flow statement (YTD)							
Cash flow from operating activities	-9	115	376	789	789	4	166
Cash flow from investing activities	-53	-157	-324	-407	-407	-49	-98
Acquisition of intangible assets	-12	-24	-39	-52	-52	-11	-23
Acquisition of property, plant and equipment	-36	-91	-143	-252	-252	-38	-76
Acquisition of/Proceeds from disposal of subsidiaries and activities	-11	-45	-140	-140	-140	0	0
Acquisition(-) and sale of other investments, etc.	6	3	-2	37	37	0	1
Free operating cash flow	1	74	284	634	634	11	133
Free operating cash flow after financial items and tax	-65	-24	148	463	463	-58	33
Free cash flow	-75	-69	8	323	323	-57	37
Cash flow from financing activities	43	24	-72	-322	-322	-25	28
Financial ratios							
Local currency growth (%)	3	0	2	-1	1	-6	-14
EBITDA before OOI/E margin (%)	15.4	16.6	17.7	15.6	16.4	14.6	17.5
EBITDA margin (%)	15.3	16.9	17.7	15.2	16.3	13.6	16.1
EBITA before OOI/E margin (%)	11.6	12.8	13.7	11.4	12.4	10.5	12.1
EBITA margin (%)	11.6	12.6	13.8	11.0	12.3	9.7	12.0
EBIT margin (%)	10.3	11.9	12.4	9.6	11.1	7.9	9.8
Equity ratio (%)	45.2	45.0	46.6	48.1	48.1	48.4	49.7
Leverage ratio (%)	42.3	47.7	42.6	35.7	35.7	37.4	31.1
Net interest-bearing debt to EBITDA ratio	1.3	1.4	1.3	1.0	1.0	1.3	1.0
Number of employees	27,704	27,918	28,130	27,871	27,871	27,792	27,539

Key figures and financial ratios are calculated as defined in Note 26 in the Annual Report for 2019.

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Danfoss

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