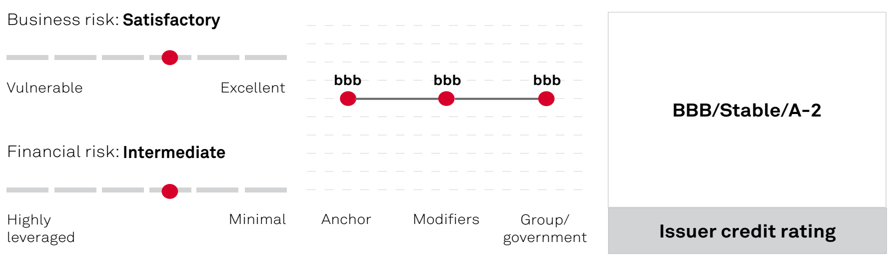
# Danfoss A/S

**January 20, 2025**

## Ratings Score Snapshot

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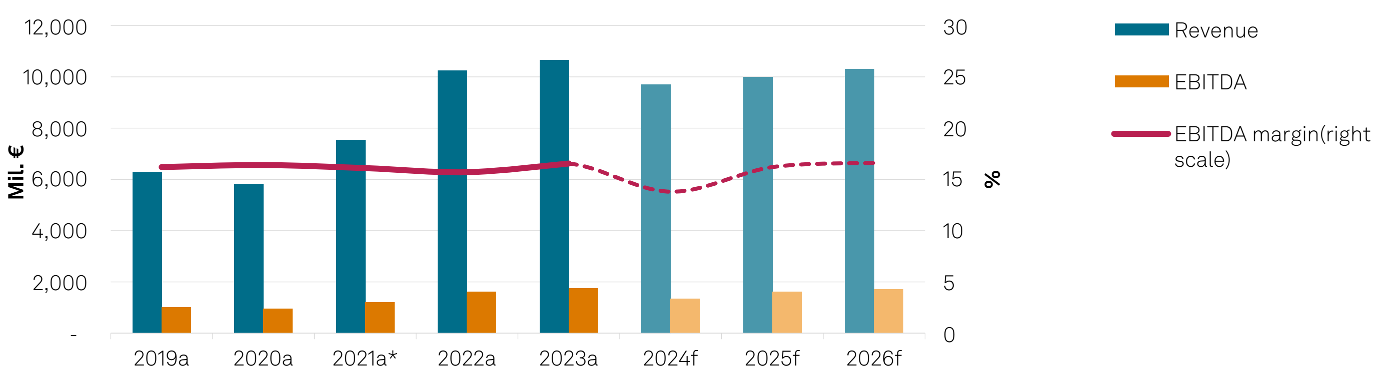
## Credit Highlights

**Overview**

| Key strengths | Key risks |
|---|---|
| Leading position in each of its mechanical and electronical components niche markets. | Exposure to some pricing competition and cyclical demand from construction, agricultural, and other industrial markets, which could dent operating visibility and profitability. |
| Strong growth track record, both organically and via acquisitions, with revenue above €10 billion in 2023 and more than doubling over the past decade. We anticipate that megatrends such as energy efficiency and industrial electrification will continue to support Danfoss' growth in the next few years. | Acquisition appetite can lead to lumpiness in credit metrics and reduce financial headroom compared with our 30% FFO to debt downside threshold. |
| Solid customer, end-market, and geographic diversity, with 33% of 2023 sales from western Europe, 33% from North America, 22% from the Asia-Pacific region, and 12% from the rest of the world. | High investment intensity required to retain a strong market position, with annual research and development (R&D) expense and capital expenditure (capex) representing about 4.5% and 5.0% of sales historically. |
| Resilient operating performance through the cycle, with an S&P Global Ratings-adjusted EBITDA margin remaining stable at 14%-17% (including temporary restructuring costs) thanks to relatively low operating leverage, end-market diversity, and an agile structure. | |
| Financial policy commitment to retain credit metrics commensurate with a 'BBB' rating, with adjusted funds from operations (FFO) to debt staying above our 30% downside threshold historically, including periods of larger acquisition spending. | |
| Strong annual free operating cash flow (FOCF) of €400 million-€800 million historically and a prudent dividend policy provide financial flexibility. | |

**We expect Danfoss' operating performance will gradually recover in 2025.** After an expected decline of about 9% in 2024 we anticipate the group's revenue will grow by 3% this year. We anticipate some recovery in global manufacturing in the second half of 2025 (including in key end markets such as construction, agriculture, and automotive), as well as resilient average selling prices. In first half 2024, Danfoss' power solutions and power electronic and drives segments, which are the most exposed to those end markets, recorded negative revenue growth of 13% and 8%, respectively. This was partly offset by resilient demand for decarbonization, electrification, and digitalization solutions in various sectors, including datacenters. Although macroeconomic uncertainties are expected to remain in 2025, we expect Danfoss will continue to adapt to a likely subdued market by reducing its cost base. We anticipate the group's S&P Global Ratings-adjusted EBITDA margin will recover to 16%-17% after an expected decline to 13.5%-14.0% in 2024, mainly thanks to savings, some volumes growth, and lower restructuring costs. During first half 2024, Danfoss' adjusted EBITDA margin declined to about 15% (including modest restructuring actions) from 16.1% in first half 2023, mainly because of lower volumes leading to weaker fixed cost absorption and some labor cost inflation.

### Danfoss has a sound operating track record during market cycles

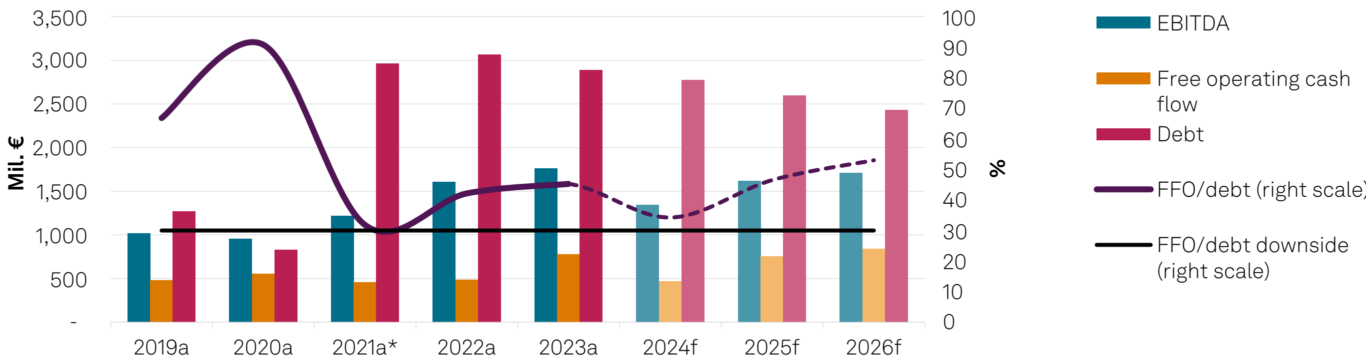



All figures adjusted by S&P Global Ratings. *Only includes a five-month contribution from Eaton Hydraulics. a--Actual. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.



**We anticipate that Danfoss will maintain sound rating headroom in 2025 thanks to resilient cash conversion and muted acquisition spending.** We project Danfoss' FFO to debt will gradually recover to around 46% in 2025 thanks to EBITDA and FOCF growth, representing a robust leeway compared with our 30% downside trigger. Despite the expected decline to about 34% in 2024 from 45.3% in 2023, we believe that Danfoss is maintaining adequate credit metrics headroom during the down cycle. We think the group's solid cash conversion and prudent financial policy support this resilience, with our forecast FOCF growing to about €750 million in 2025 from about €470 million in 2024. We project this will allow a reduction in Danfoss' adjusted debt position to €2.8 billion at year-end 2024 from €2.9 billion in 2023 as we anticipate no bolt-on acquisition until 2025 and annual dividends to decline to €170 million in 2025 (including to minority interests), from about €295 million in 2024.

**Danfoss maintains sound financial headroom despite market headwinds**




All figures adjusted by S&P Global Ratings. *Only includes a five-month FFO contribution from Eaton Hydraulics. a--Actual. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.



**We expect Danfoss will keep a somewhat high internal investment activity in 2025, in line with its growth roadmap.** While we forecast a moderation in adjusted capex to about €435 million in 2024 and €420 million in 2025 from €602 million in 2023 as part of an effort to preserve robust FOCF, this spending still represents 4.0%-4.5% of annual sales and is above the 3.0% average for industry peers such as Parker-Hannifin Corp., Emerson Electric Co., Alfa Laval AB, Eaton Corp, Assa Abloy AB, and Sandvik AB. In addition, we anticipate Danfoss' R&D to sales ratio will remain broadly in line with previous years at around 4.5% and higher than the 3.0% average for the same capital goods companies peer group. This is in line with the group's strategy to support organic growth via product innovation and capacity expansion in more favorable segments.

# Outlook

The stable outlook reflects our view that Danfoss' operating performance will remain resilient despite weaker market conditions in the next 24 months, with adjusted EBITDA margins of 14%-17% and FFO to debt staying comfortably above 30%.

## Downside scenario

We could lower the rating if adverse market conditions or operating setbacks led to a materially weaker operating performance than anticipated, resulting in FFO to debt staying below 30% for a prolonged period. Higher-than-envisaged shareholder distributions or sizable additional debt-funded acquisitions could also lead us to lower the rating.

## Upside scenario

We could raise the rating if adjusted FFO to debt stayed above 45% through the cycle, supported by a financial policy commitment to maintain this leverage.

# Our Base-Case Scenario

### Assumptions

- Global real GDP growth to slow down to 3.3% in 2024 and 3.0% in 2025, after the 3.5% expansion in 2023. This incorporates real GDP growth of 0.8% and 1.2% in the eurozone for 2024-2025, 2.7% and 2.0% in the U.S., and 4.8% and 4.1% in China.
- Revenue growing by 3% in 2025 after the decline of about 9% in 2024 supported by a moderate recovery in global manufacturing and supportive long term demand megatrends such as energy efficiency, digitalization, and electrification.
- Adjusted EBITDA margins recovering to 16.2% in 2025 from 13.5%-14.0% in 2024, supported by cost management, resilient pricing, and lower restructuring costs.
- Neutral working capital changes in 2025 after an outlay of €150 million-€200 million in 2024 mainly driven by higher inventories.
- Reported capex moderately declining to about 4.2% of sales in 2025 from 4.5% in 2024 as most growth projects have been completed, translating into cash spending of about €420 million in 2025 from €435 million in 2024.
- Dividend payments decreasing to about €170 million in 2025 from €295 million in 2024, in line with the group's payout ratio target of 30% and our earnings growth assumption. The figures include €50 million-€75 million of annual dividends to minority interests.
- No share repurchases.
- Bolt-on acquisition envelope of up to €300 million in 2025 after no spending in 2024.

## Key metrics

**Danfoss A/S--Forecast summary**

| Period ending | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 | Dec-31-2024 | Dec-31-2025 | Dec-31-2026 |
|---|---|---|---|---|---|---|---|
| (Mil. EUR) | 2020a | 2021a | 2022a | 2023a | 2024f | 2025f | 2026f |
| Revenue | 5,828 | 7,539 | 10,256 | 10,654 | 9,704 | 10,002 | 10,304 |
| EBITDA | 958 | 1,217 | 1,610 | 1,763 | 1,342 | 1,620 | 1,711 |
| Less: Cash interest paid | (34) | (67) | (84) | (132) | (123) | (117) | (113) |
| Less: Cash taxes paid | (169) | (209) | (233) | (325) | (270) | (297) | (309) |
| Funds from operations (FFO) | 755 | 941 | 1,293 | 1,306 | 949 | 1,206 | 1,289 |
| Capital expenditure (capex) | 245 | 382 | 549 | 602 | 437 | 420 | 464 |
| Free operating cash flow (FOCF) | 555 | 456 | 489 | 779 | 471 | 753 | 840 |
| Dividends | 38 | 56 | 239 | 271 | 295 | 177 | 274 |
| Discretionary cash flow (DCF) | 515 | 398 | 248 | 505 | 176 | 576 | 566 |
| Debt (reported) | 952 | 2,676 | 2,874 | 2,690 | 2,577 | 2,514 | 2,426 |
| Plus: Lease liabilities debt | 219 | 268 | 270 | 316 | 322 | 329 | 335 |
| Plus: Pension and other postretirement debt | 149 | 185 | 137 | 140 | 140 | 140 | 140 |
| Plus: Trade receivables sold | 60 | 60 | 75 | 49 | 49 | 49 | 49 |
| Less: Accessible cash and liquid Investments | (601) | (230) | (290) | (311) | (319) | (440) | (520) |

| Danfoss A/S--Forecast summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| Plus: Contingent considerations and debt at joint-ventures | 52 | 4 | 2 | 2 | 2 | 2 | 2 |
| Debt | 831 | 2,963 | 3,068 | 2,886 | 2,771 | 2,594 | 2,432 |
| **Adjusted ratios** | | | | | | | |
| Debt/EBITDA (x) | 0.9 | 2.4 | 1.9 | 1.6 | 2.1 | 1.6 | 1.4 |
| FFO/debt (%) | 90.8 | 31.8 | 42.1 | 45.3 | 34.3 | 46.5 | 53.0 |
| FOCF/debt (%) | 66.8 | 15.4 | 15.9 | 27.0 | 17.0 | 29.0 | 34.5 |
| DCF/debt (%) | 61.9 | 13.4 | 8.1 | 17.5 | 6.4 | 22.2 | 23.3 |
| Annual revenue growth (%) | (7.3) | 29.4 | 36.0 | 3.9 | (8.9) | 3.1 | 3.0 |
| EBITDA margin (%) | 16.4 | 16.1 | 15.7 | 16.5 | 13.8 | 16.2 | 16.6 |

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. f--Forecast. EUR--euro.

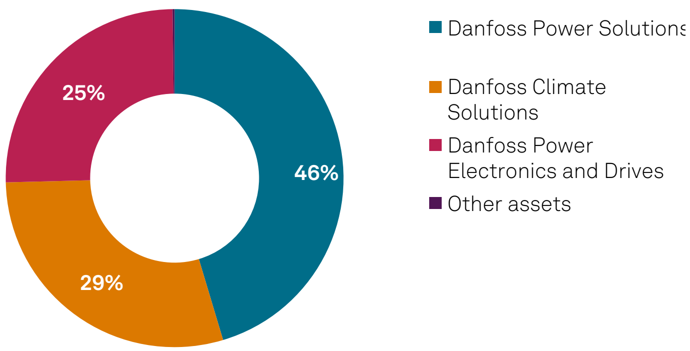
# Company Description

Danfoss is a leading producer of electrical and mechanical components in several industrial segments including power solutions, climate solutions, and drives. With revenue of about €10.6 billion and adjusted EBITDA of €1.8 billion in 2023, the group operates under three main divisions:

- Danfoss Power Solutions: Hydraulic systems and electronic components, with 2023 revenue of €4.8 billion (46% of total revenue). End markets include relatively cyclical sectors such as agriculture, construction, material handling, and specialty equipment.
- Danfoss Climate Solutions: Components for the air conditioning and refrigeration industry, as well as heating components for residential and nonresidential heating and district energy, with 2023 segment revenue of €3.2 billion (29%). End markets include heating, ventilation, air-conditioning systems, and commercial and industrial refrigeration.
- Danfoss Drives: Low voltage drives and power modules with 2023 segment revenue of €1.9 billion (25%). End markets are diverse, covering several industrial sectors including heating, ventilation, air conditioning, mining, lifts and elevators, food and beverage, auto, wind, and solar.

Danfoss is privately held and controlled by The Bitten and Mads Clausen Foundation. The foundation and Clausen family hold 99.8% of the voting shares.

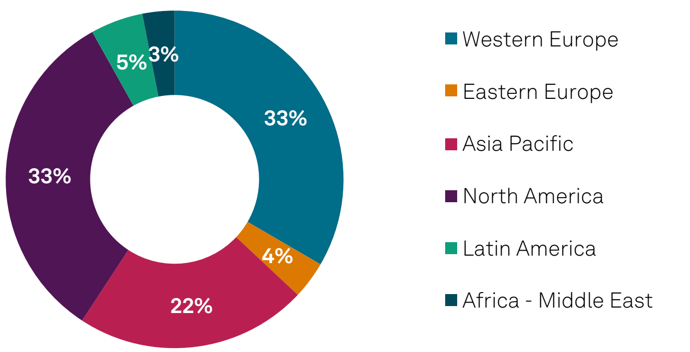
## Danfoss A/S sales split by segment in 2023




Sources: Danfoss annual report, S&P Global Ratings.



## Danfoss A/S sales split by geographic region in 2023



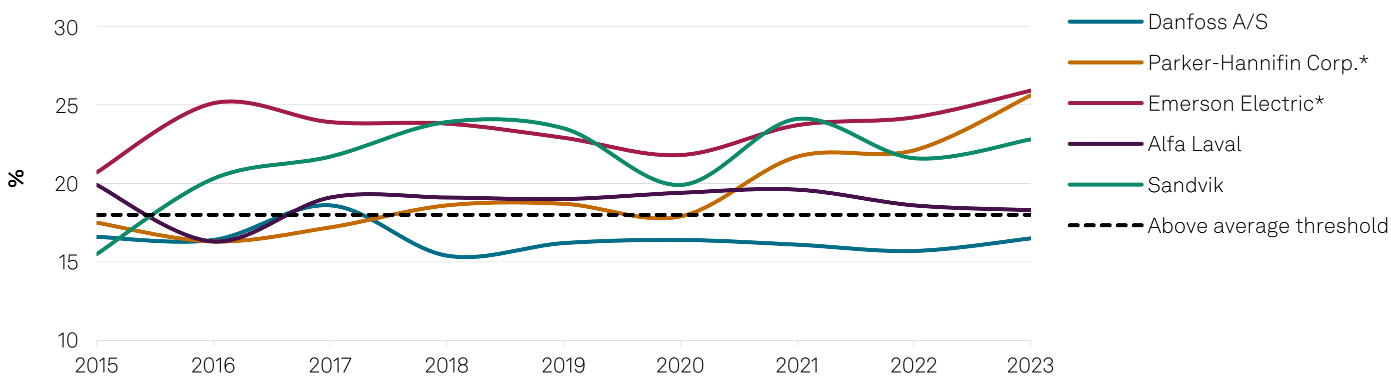

Sources: Danfoss annual report, S&P Global Ratings.



# Peer Comparison

Following the acquisition of Eaton Hydraulics in 2021, Danfoss’ operations are similar in scale to Sandvik's (BBB+/Stable/A-2) and Assa Aboy (A-/Stable/A-2) and close to 2x larger than Alfa Laval’s (BBB+/Stable/--). However, Danfoss' size and profitability still compares negatively with direct peers such as Parker-Hannifin (BBB+/Stable/A-2), Emerson Electric (A/Stable/A-1) and Eaton Corp. (A-/Stable/A-2). Those larger peers have maintained adjusted EBITDA above 18% historically, compared with 14%-17% for Danfoss.

## Danfoss' adjusted EBITDA margins are sound, but trend below peers'




All figures adjusted by S&P Global Ratings. *Fiscal year ending June 30 for Parker and Sept. 30 for Emerson. Source: S&P Global Ratings.



**Danfoss A/S--Peer Comparisons**

| | Danfoss A/S | Parker-Hannifin Corp. | Emerson Electric Co. | Alfa Laval AB | Sandvik AB |
|---|---|---|---|---|---|
| Foreign currency issuer credit rating | BBB/Stable/A-2 | BBB+/Stable/A-2 | A/Stable/A-1 | BBB+/Stable/-- | BBB+/Stable/A-2 |
| Local currency issuer credit rating | BBB/Stable/A-2 | BBB+/Stable/A-2 | A/Stable/A-1 | BBB+/Stable/-- | BBB+/Stable/A-2 |
| Period | Annual | Annual | Annual | Annual | Annual |
| Period ending | 2023-12-31 | 2024-06-30 | 2024-09-30 | 2023-12-31 | 2023-12-31 |
| Mil. | EUR | EUR | EUR | EUR | EUR |
| Revenue | 10,654 | 18,600 | 15,683 | 5,721 | 11,380 |
| EBITDA | 1,763 | 4,770 | 4,055 | 1,048 | 2,595 |
| Funds from operations (FFO) | 1,306 | 3,507 | 3,006 | 830 | 1,745 |
| Interest | 133 | 482 | 314 | 48 | 241 |
| Cash interest paid | 132 | 468 | 197 | 44 | 233 |
| Operating cash flow (OCF) | 1,381 | 3,212 | 3,093 | 796 | 1,691 |
| Capital expenditure | 602 | 373 | 376 | 220 | 478 |
| Free operating cash flow (FOCF) | 779 | 2,839 | 2,718 | 577 | 1,213 |
| Discretionary cash flow (DCF) | 505 | 1,799 | 1,064 | 352 | 628 |
| Cash and short-term investments | 369 | 394 | 3,217 | 527 | 393 |
| Gross available cash | 369 | 394 | 3,217 | 527 | 393 |
| Debt | 2,886 | 9,900 | 4,699 | 1,175 | 3,988 |
| Equity | 5,443 | 11,275 | 24,664 | 3,363 | 7,889 |
| EBITDA margin (%) | 16.5 | 25.6 | 25.9 | 18.3 | 22.8 |
| Return on capital (%) | 15.2 | 18.0 | 8.1 | 18.2 | 17.8 |
| EBITDA interest coverage (x) | 13.3 | 9.9 | 12.9 | 21.7 | 10.8 |
| FFO cash interest coverage (x) | 10.9 | 8.5 | 16.3 | 19.9 | 8.5 |
| Debt/EBITDA (x) | 1.6 | 2.1 | 1.2 | 1.1 | 1.5 |

| Danfoss A/S--Peer Comparisons | | | | | |
|---|---|---|---|---|---|
| FFO/debt (%) | 45.3 | 35.4 | 64.0 | 70.7 | 43.8 |
| OCF/debt (%) | 47.9 | 32.4 | 65.8 | 67.8 | 42.4 |
| FOCF/debt (%) | 27.0 | 28.7 | 57.8 | 49.1 | 30.4 |
| DCF/debt (%) | 17.5 | 18.2 | 22.7 | 30.0 | 15.7 |

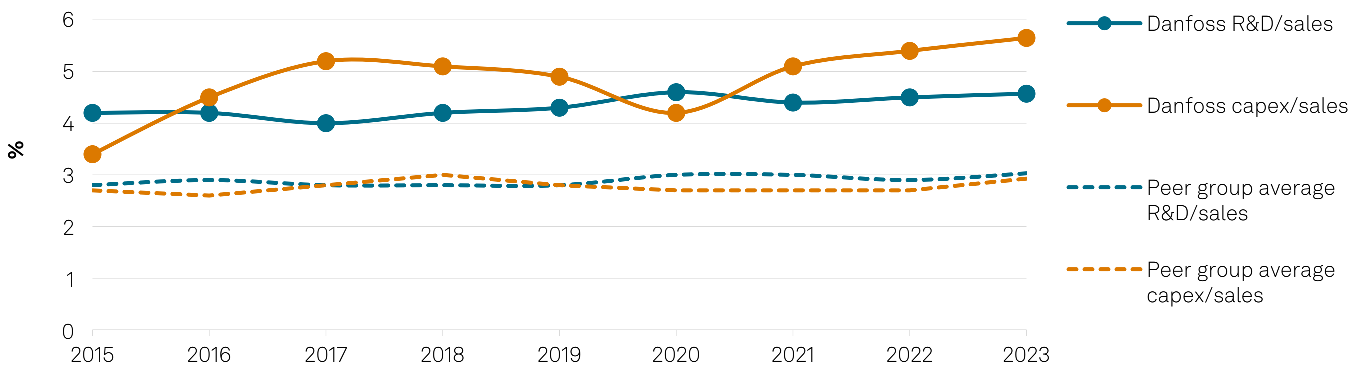
# Business Risk

**Danfoss enjoys leading market positions in its segments.** The group has a widely diversified product and service portfolio and is the market leader or among the top-three solution providers in all the niches in which it operates, with market share of 10%-15% on average. Danfoss increased the scale of its power solutions division by acquiring Eaton Hydraulics in 2021, which added about €2 billion of annual sales and strengthened Danfoss' position as one of the largest operators globally within hydraulic systems. In this market segment, the group competes with Rexroth (a Robert Bosch company) and Parker-Hannifin. In its climate solutions division, Danfoss enjoys leading positions for both cooling and heating components, competing with some of the products offered by Emerson, Parker, and Alfa Laval. Its drives division competes with some of the low-voltage products and power modules offered by ABB (A/Stable/A-1), Siemens (AA-/Stable/--), and Rockwell Automation (A-/Stable /A-2).

**Megatrends tailwinds should support demand for Danfoss' products.** We see Danfoss well positioned to exploit opportunities in all its core segments, given its existing market leadership, sustained internal investments and recent acquisitions. We anticipate structural demand growth for power electronics components in its drives segment, underpinned by growing electrification in automotive and other industries despite the slowing demand for electric vehicles that we view as temporary. We believe this has been supported by the Semikron acquisition, which added strategic offering in silicon carbide semiconductor modules. Although we foresee the electrification of off-highway vehicles as more gradual, it could also provide opportunities in Danfoss' power solutions segment. In climate solutions, we think that the demand for more sustainable systems, supportive regulation on green building initiatives and an increased digital product content should lead to sound long-term growth prospects. We anticipate heat exchangers and heat pumps components will remain in high demand over the next few years, although for the moment the demand is cooling down after the unprecedented peaks reached in 2023. We also expect the Bock business' compressor solutions will continue to benefit from the demand for greener refrigeration systems in the long-term.

**Danfoss is investing more capital than its peers in new products and technologies.** The group's R&D and capex have historically represented about 4.5% and 5.0% of its sales, respectively, or about 150 and 200 basis points higher than its main peers' average. On one hand, we positively assess this investment allocation because it could constitute a source of innovation and organic growth, further supporting Danfoss' market position and pricing power. On the other hand, the higher spending also somewhat constrains it profitability and FOCF capacity compared with peers. After completing several growth projects, we anticipate Danfoss' capex to sales ratio will moderate to 4.0%-4.5% in 2025-2026, while we anticipate R&D spending to stay broadly stable at 4.5%.

### Danfoss' internal investments are above main peers'



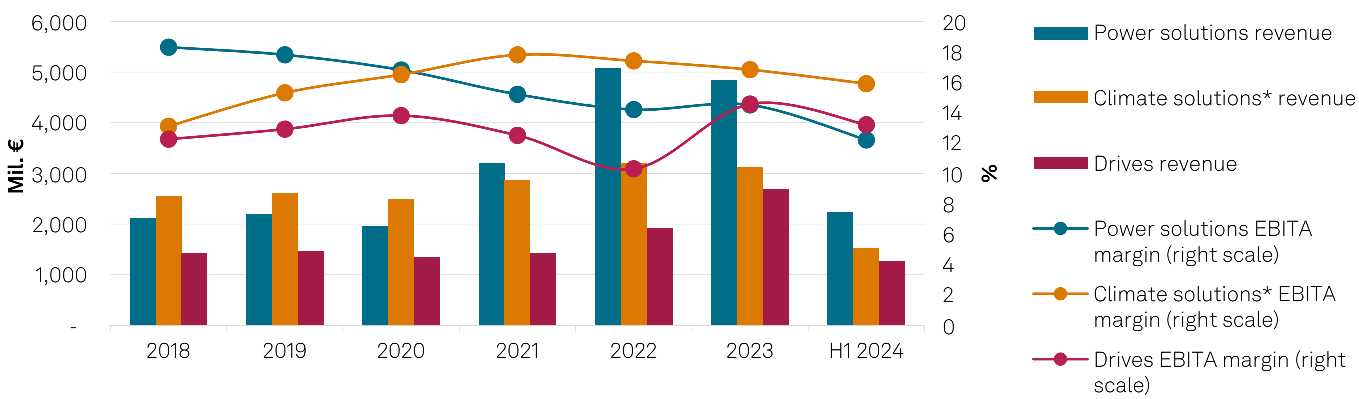

All figures adjusted by S&P Global Ratings. Peer group includes Parker, Alfa Laval, Emerson Electric, Eaton, Assa Abloy and Sandvik. Source: S&P Global Ratings.



**Danfoss' operations are well balanced, with some exposure to cyclical end markets.** The group is present in more than 100 countries worldwide, making its business geographically well diversified. Danfoss' diverse customer base covers various key end markets such as agriculture, construction, specialty mobile machines, industrial and residential heating and cooling, energy, renewables, food, beverage, and auto. We think this diversification supports the group's business resilience, providing some earnings stability at low points of the industrial activity cycle. That said, Danfoss remains somewhat exposed to pricing competition and cyclical demand, especially in power solutions where it caters components to off-highway vehicles used in agriculture, construction, and material handling. In 2020, during the pandemic, the power solutions segment's revenue and reported EBITA fell by about 11% and 16%, respectively, compared with 7% and 6% for the total group. With the Eaton Hydraulics integration, about 45% of sales are derived from the power solutions business (from about 33% previously), which may result in greater earnings volatility through the cycle.

**Danfoss has a sound profitability track record.** The group's adjusted EBITDA margins are positioned at the upper end of the 11%-18% range that we view as average for the capital goods industry. Danfoss has demonstrated resilience during inflationary periods and the pandemic, maintaining stable margins of 14%-17% over 2018-2023 thanks to its relatively low operating leverage and fixed-cost reduction (now representing about 30% of the cost base), as well as continued contribution margin optimization. We anticipate that the group will continue to post robust adjusted EBITDA margins within its historical 14%-17% range in 2025-2026 after an expected drop to about 13.5%-14.0% in 2024 due to temporary higher restructuring costs.

**Danfoss revenue and profitability by segment**




All figures adjusted by S&P Global Ratings. *Combining Cooling and Heating segments for 2017-2019.
Sources: Danfoss annual reports, S&P Global Ratings.

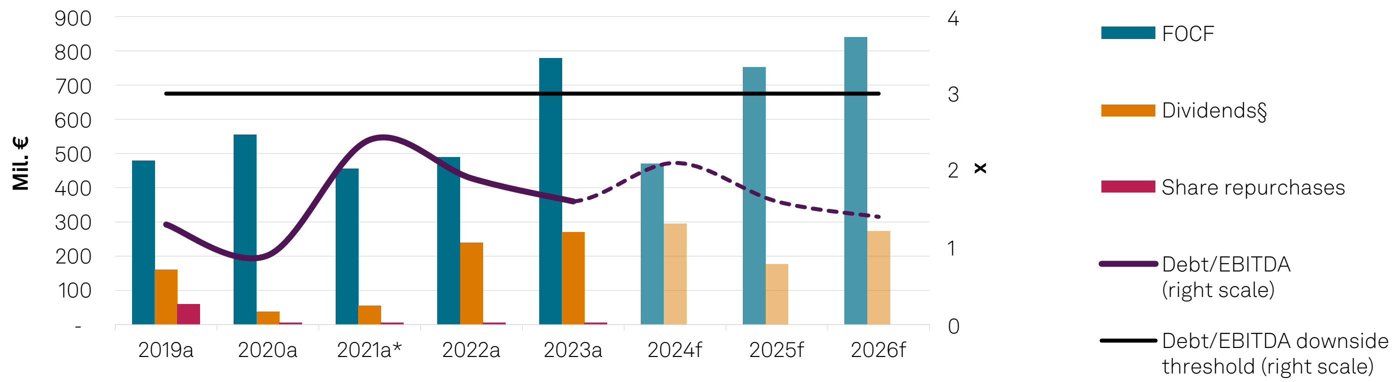


# Financial Risk

**We believe that Danfoss remains strongly committed to its 'BBB' rating, with a supportive leverage track record.** We anticipate adjusted FFO to debt to stand at about 46% in 2025, well above our 30% downside trigger, and adjusted debt to EBITDA of 1.5x-2.0x, well below our 3x rating limit. The group built sizable financial flexibility before the €2.7 billion Eaton Hydraulics acquisition in 2021, with FFO to debt of 50%-90% and adjusted debt to EBITDA of 1.0x-1.5x during 2017-2020. Strong annual FOCF allowed the group to partly prefund the sizable transaction, while common dividend cancellations during 2020-2021 helped it to keep FFO to debt above 30% and debt to EBITDA below 2.5x shortly after closing. As of year-end 2023, Danfoss had adjusted debt of about €2.9 billion, broadly stable from €3.0 billion in 2022. Our main adjustments to its reported debt of €2.7 billion are €316 million for leases, €140 million for pensions, and €49 million for factoring. We deducted from those adjustments €311 million of cash that we consider to be accessible at short notice.

**Danfoss' strong FOCF and moderate shareholder distributions provide financial flexibility to navigate through market cycles.** The group has a strong cash conversion track record with FOCF ranging between €400 million and €800 million over 2014-2023. This translated into solid FOCF to sales of 4.5%-9.5% over the period. We think this allows for flexibility in its dividend and acquisition policy. We view Danfoss' payout target of distributing no more than 30% of net income (in addition to annual minority dividends of €50 million-€75 million) as lower than most of its public Scandinavian peers. We also believe that Danfoss can swiftly adjust its acquisition and dividend spending to preserve cash and credit metrics if needed during periods of less favorable market conditions. In 2020 and 2021, the board approved common dividend payment cancellations to preserve Danfoss' balance sheet because of the pandemic and because it was set to acquire Eaton Hydraulics.

### Danfoss' prudent shareholder return policy provides financial flexibility

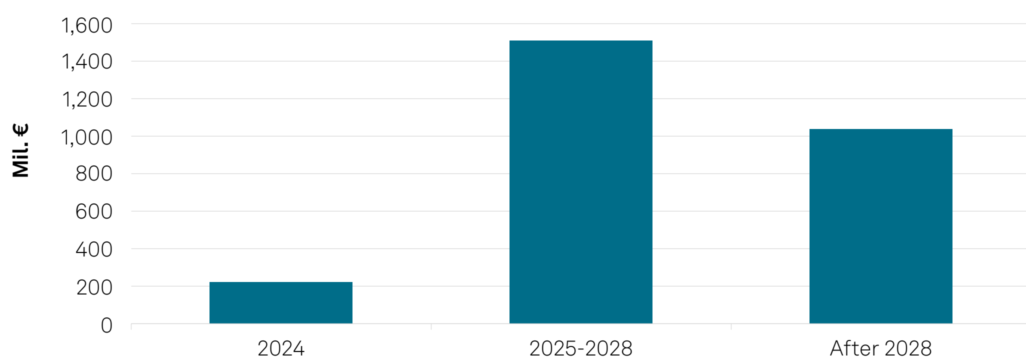



All figures adjusted by S&P Global Ratings. *Only includes a five-month contribution from Eaton Hydraulics. §Includes common dividends and dividends to minority interests. a--Actual. f--Forecast. Source: S&P Global Ratings.



## Debt maturities

### Danfoss debt maturity profile as of Dec. 31, 2023




Sources: Danfoss annual report, S&P Global Ratings.



**Danfoss A/S--Financial Summary**

| Period ending | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 |
|---|---|---|---|---|---|---|
| Reporting period | 2018a | 2019a | 2020a | 2021a | 2022a | 2023a |
| Display currency (mil.) | EUR | EUR | EUR | EUR | EUR | EUR |
| Revenues | 6,098 | 6,285 | 5,828 | 7,539 | 10,256 | 10,654 |
| EBITDA | 939 | 1,017 | 958 | 1,217 | 1,610 | 1,763 |
| Funds from operations (FFO) | 737 | 848 | 755 | 941 | 1,293 | 1,306 |
| Interest expense | 46 | 33 | 37 | 62 | 90 | 133 |
| Cash interest paid | 45 | 29 | 34 | 67 | 84 | 132 |

**Danfoss A/S--Financial Summary**

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating cash flow (OCF) | 708 | 789 | 800 | 838 | 1,038 | 1,381 |
| Capital expenditure | 310 | 310 | 245 | 382 | 549 | 602 |
| Free operating cash flow (FOCF) | 398 | 479 | 555 | 456 | 489 | 779 |
| Discretionary cash flow (DCF) | 36 | 258 | 515 | 398 | 248 | 505 |
| Cash and short-term investments | 50 | 110 | 611 | 249 | 340 | 369 |
| Gross available cash | 50 | 110 | 611 | 249 | 340 | 369 |
| Debt | 1,283 | 1,269 | 831 | 2,963 | 3,068 | 2,886 |
| Common equity | 2,654 | 2,933 | 3,184 | 3,951 | 5,048 | 5,443 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 15.4 | 16.2 | 16.4 | 16.1 | 15.7 | 16.5 |
| Return on capital (%) | 15.9 | 16.9 | 15.4 | 15.1 | 14.4 | 15.2 |
| EBITDA interest coverage (x) | 20.4 | 30.8 | 25.9 | 19.6 | 17.9 | 13.3 |
| FFO cash interest coverage (x) | 17.4 | 30.2 | 23.2 | 15.0 | 16.4 | 10.9 |
| Debt/EBITDA (x) | 1.4 | 1.2 | 0.9 | 2.4 | 1.9 | 1.6 |
| FFO/debt (%) | 57.4 | 66.8 | 90.8 | 31.8 | 42.1 | 45.3 |
| OCF/debt (%) | 55.2 | 62.2 | 96.2 | 28.3 | 33.8 | 47.9 |
| FOCF/debt (%) | 31.0 | 37.7 | 66.8 | 15.4 | 15.9 | 27.0 |
| DCF/debt (%) | 2.8 | 20.3 | 61.9 | 13.4 | 8.1 | 17.5 |

**Reconciliation Of Danfoss A/S Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)**

| | | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial year | Dec-31-2023 | | | | | | | | | | |
| Company reported amounts | | 2,690 | 5,130 | 10,654 | 1,819 | 1,252 | 127 | 1,763 | 1,355 | 271 | 602 |
| Cash taxes paid | | - | - | - | - | - | - | (325) | - | - | - |
| Cash interest paid | | - | - | - | - | - | - | (132) | - | - | - |
| Trade receivables securitizations | | 49 | - | - | - | - | - | - | 26 | - | - |
| Lease liabilities | | 316 | - | - | - | - | - | - | - | - | - |
| Postretirement benefit obligations/ deferred compensation | | 140 | - | - | - | - | 6 | - | - | - | - |
| Accessible cash and liquid investments | | (311) | - | - | - | - | - | - | - | - | - |
| Income (expense) of unconsolid. cos. | | - | - | - | (51) | - | - | - | - | - | - |
| Nonoperating income (expense) | | - | - | - | - | 4 | - | - | - | - | - |

**Reconciliation Of Danfoss A/S Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)**

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Noncontrolling/ minority interest | - | 313 | - | - | - | - | - | - | - | - |
| Debt: other | 2 | - | - | - | - | - | - | - | - | - |
| EBITDA - Gain/(loss) on disposals of PP&E | - | - | - | (3) | (3) | - | - | - | - | - |
| EBITDA: Business divestments | - | - | - | (2) | (2) | - | - | - | - | - |
| Total adjustments | 196 | 313 | - | (56) | (1) | 6 | (457) | 26 | - | - |
| **S&P Global Ratings adjusted** | **Debt** | **Equity** | **Revenue** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from Operations** | **Operating cash flow** | **Dividends** | **Capital expenditure** |
| | 2,886 | 5,443 | 10,654 | 1,763 | 1,251 | 133 | 1,306 | 1,381 | 271 | 602 |

# Liquidity

We assess Danfoss' liquidity as strong. We expect sources of liquidity will cover uses by at least 2.0x over the 12 months from Oct. 1, 2024, and by 1.6x in the following 12 months. Our assessment is also supported by the group's prudent risk management, track record of addressing debt maturities well in advance, sound relationship with banks, and covenant-free capital structure.

## Principal liquidity sources

Principal liquidity sources for the 24 month period starting Oct. 1, 2024, include:

- Our assumption of about €20 million of total unrestricted cash;
- About €1 billion available under several long-term committed credit lines in the next 12 months. Our conservative assumption is that this will decrease to about €870 million in the subsequent 12 months, although we expect the group will extend the upcoming maturities well in advance; and
- Cash FFO of €1,000 million-€1,100 million in the next 12 months, increasing to about €1,150 million-€1,250 million over the following 12 months.

## Principal liquidity uses

Principal liquidity uses for the same period:

- Debt maturities of about €290 million in the next 12 months and close to €525 million over the subsequent 12 months;
- Total working capital requirements of about €150 million in the next 12 months and €140 million in the following 12 months, including intra-year swings of up to €100 million per year;
- Annual capex of roughly €400 million-€450 million per year;
- Annual dividend payments of about €200 million- €250 million per year; and
- No contracted acquisition spending in the next 24 months.

# Environmental, Social, And Governance

ESG factors are an overall neutral consideration in our credit rating analysis of Danfoss. The group's end-market exposure is well diversified, with no significant exposure toward industries with higher environmental risks, such as oil and gas, metals and mining, or auto. Although Danfoss has some exposure to off-highway vehicles through its hydraulic systems and electronic controls products, those are mostly used by construction and agriculture customers that we view as less prone to environmental risks. We also view positively the group's increasing solutions offering for the renewable industry (solar and wind electric power conversion), the electrification of vehicles (power modules), and energy efficiency in heating and cooling for residential and commercial construction. We view the carbon intensity of Danfoss' operations as broadly in line with the capital goods sector average, with the group committed to reducing its direct and indirect carbon dioxide emissions by at least 46% and 15%, respectively, before 2030.

# Issue Ratings--Subordination Risk Analysis

## Capital structure

- Danfoss' consolidated unadjusted debt on Dec. 31, 2023, amounted to €2.7 billion, of which about €64 million consists of a mortgage loan that we consider secured. Danfoss has a €2.5 billion euro-medium-term-note program, under which €1.4 billion and €1 billion of unsecured debt is issued by financing vehicles Danfoss Finance I B.V. and Danfoss Finance II B.V., respectively.
- Operating subsidiary Danfoss Power Solutions Inc. is the immediate parent of Danfoss Finance I B.V., and ultimate group parent company Danfoss A/S the immediate parent of Danfoss II B.V.
- Danfoss A/S and Danfoss Power Solutions Inc. have irrevocably and unconditionally agreed to guarantee, on a joint and several bases, the obligations of Danfoss Finance I B.V. under and in relation to notes issued by Danfoss Finance I B.V.
- Danfoss A/S has irrevocably and unconditionally agreed to guarantee the obligations of Danfoss Finance II B.V under and in relation to notes issued by Danfoss Finance II B.V.
- Including the €1.4 billion of debt issued by Danfoss Finance I B.V. on behalf of Danfoss Power Solutions Inc., $117 million still outstanding under an acquisition loan facility at Danfoss Power Solutions Inc. and about €60 million of other unsecured debt held at other subsidiaries, our priority debt ratio was about 56.7% on Dec. 31, 2023.
- Our overall priority debt on Danfoss A/S's consolidated debt of over 50% indicates structural subordination for rated debt issued by Danfoss A/S or Danfoss Finance II B.V.
- That said, to overcome any structural subordination, Danfoss Power Solutions Inc. has provided an upstream guarantee to Danfoss A/S. We view the upstream guarantee from Danfoss Power Solutions Inc. (supported by a third-party legal opinion) as a mitigant to structural subordination.

## Analytical conclusions

- We rate the notes issued by Danfoss Finance II B.V. 'BBB' because elements of structural subordination have been mitigated by the upstream guarantee issued by Danfoss Power Solutions Inc. to Danfoss A/S.
- Danfoss Finance I B.V.'s notes are rated 'BBB', in line with the long-term issuer credit rating on Danfoss A/S.

| Rating Component Scores | |
|---|---|
| **Foreign currency issuer credit rating** | **BBB/Stable/A-2** |
| **Local currency issuer credit rating** | **BBB/Stable/A-2** |
| **Business risk** | **Satisfactory** |
| Country risk | Intermediate |
| Industry risk | Intermediate |
| Competitive position | Satisfactory |
| **Financial risk** | **Intermediate** |
| Cash flow/leverage | Intermediate |
| **Anchor** | **bbb** |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Strong (no impact) |
| Management and governance | Neutral (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| **Stand-alone credit profile** | **bbb** |

# Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, Jan. 7, 2024
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

# Related Research

- Nordic Capital Goods Companies, Dec. 17, 2024
- Global Economic Outlook Q1 2025: Buckle Up, Nov. 27, 2024
- Danfoss A/S, May 31, 2024

| Ratings Detail (as of November 28, 2024)* | |
|---|---|
| **Danfoss A/S** | |
| Issuer Credit Rating | BBB/Stable/A-2 |
| **Issuer Credit Ratings History** | |
| 29-Mar-2021 | BBB/Stable/A-2 |
| 14-Sep-2020 | BBB/Negative/A-2 |
| 25-Mar-2020 | BBB/Watch Neg/A-2 |
| 23-Jan-2020 | BBB/Negative/A-2 |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.