S&P Global Ratings

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Danfoss A/S

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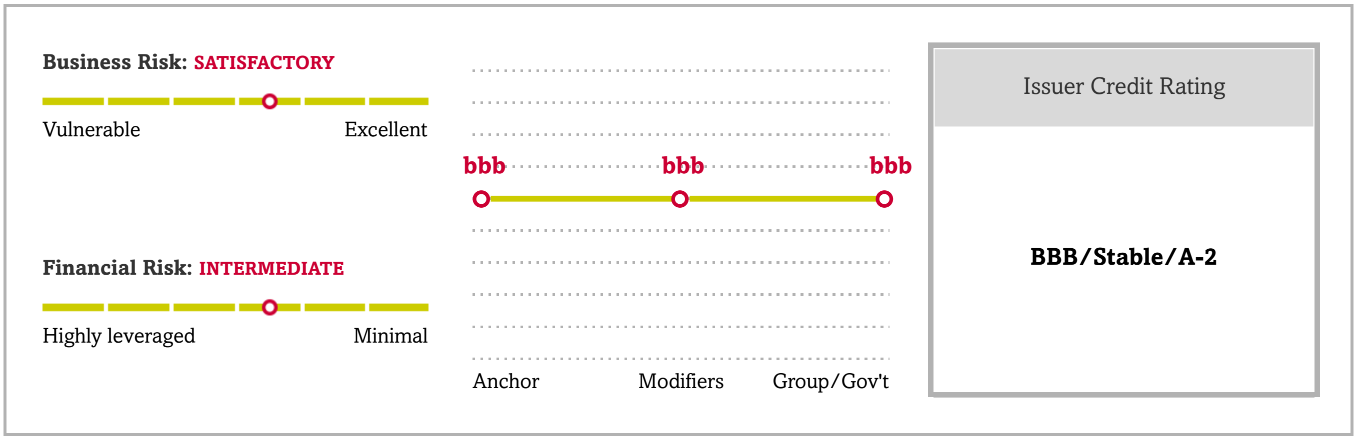


Credit Highlights

Overview

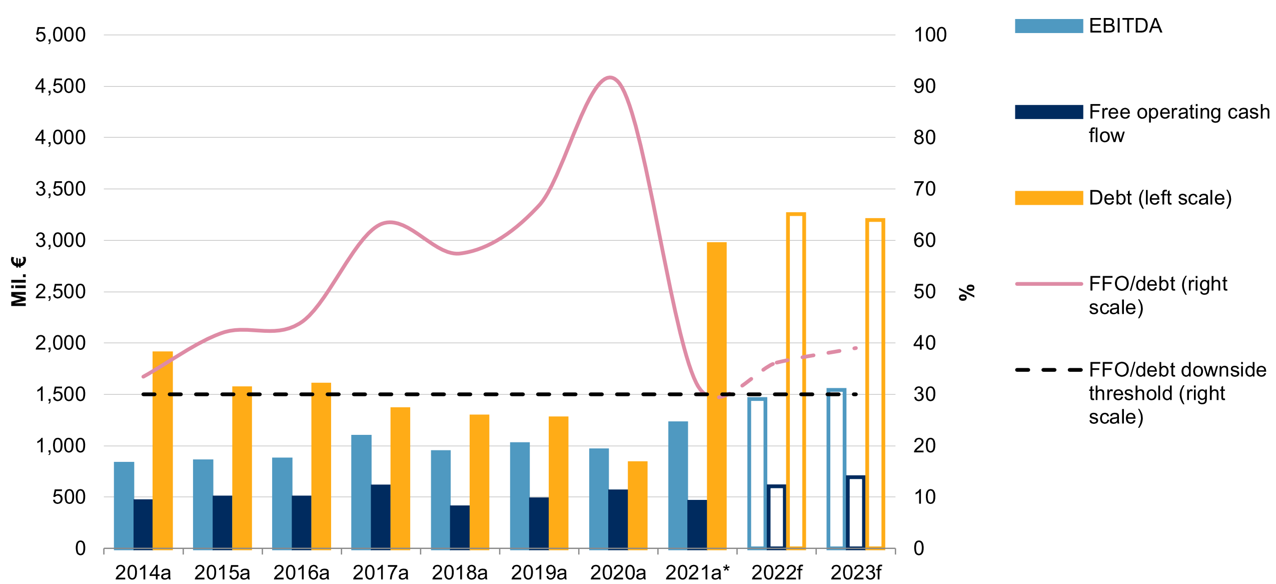
Key strengths	Key risks
Leading competitive position, with the No. 1 or No. 2 market share positions in each of its niche markets, with a strong growth track record, mainly via acquisitions. We expect revenue to approach €9.5 billion this year, more than doubling 2014 levels.	Exposure to some pricing competition and cyclical demand from construction, agricultural, and other industrial markets, which could dent operating visibility and profitability.
Good customer, end-market, and geographic diversity, with 34% of 2021 sales from Western Europe, 25% from Asia-Pacific, 25% from North America, and 16% from the rest of the world.	Financial headroom has reduced after the Eaton Hydraulics and SEMIKRON-Danfoss acquisitions. At the same time, we expect S&P Global Ratings-adjusted funds from operations (FFO) to debt to stay healthy at 35%-40% in 2022-2023, compared with more than 90% in 2020.
Demonstrated financial commitment to maintain credit metrics commensurate with a 'BBB' rating, historically supported by strong annual free operating cash flow (FOCF) of €400 million-€600 million and a prudent dividend policy, notwithstanding a high appetite for acquisitions.	Megatrends such as energy efficiency and industrial electrification require Danfoss to continue investing in research and development (R&D) and capital expenditure (capex) to retain a strong market competition.
Resilient operating performance during the pandemic, with adjusted EBITDA margin remaining stable at about 16% thanks to relatively low operating leverage and an agile structure (almost 70% of the cost base is variable).	

We anticipate Danfoss will maintain stable operating performance in 2022-2023 amid increasingly uncertain global macroeconomic conditions. We expect the company's solid backlog and active price management will continue to drive solid organic revenue growth of about 5%-7% in 2022, with the full-year contribution of Eaton Hydraulics pushing total revenue close to €9.5 billion from €7.5 billion last year. This marks a material increase in Danfoss' market span, with sales more than doubling from 2014 levels of €4.6 billion. We understand the company is actively working on its list prices to absorb ongoing acute cost inflation. However, there is a delay before the new list prices fully cover the increased costs, and the recent Eaton Hydraulics acquisition will continue to entail some one-off costs in 2022. As a result, we are anticipating some profitability dilution in the first half of 2022 and overall adjusted EBITDA margin of 15%-16% for the full year, slightly down from 16.1% in 2021. Gradual price increases, favorable currency effects, moderately improving fixed cost absorption, and further operating efficiencies should support margin resilience and EBITDA growth to €1.4 billion-€1.5 billion in 2022, from €1.2 billion last year (which only included a five-month contribution from Eaton Hydraulics). We do not anticipate Danfoss' exit from Russia and Belarus to materially impair operating performance since the region represented less than 4% of the group's 2021 sales.

Danfoss is gradually restoring some financial flexibility after the Eaton Hydraulics acquisition. Overall, we think earnings growth and adjusted debt remaining at €3.2 billion-€3.4 billion will underpin some increasing credit metrics buffer, with projected FFO to debt of 34%-38% this year and 37%-41% in 2023. Those metrics remain above our 30% downside threshold. Thanks to robust earnings, Danfoss recorded FFO to debt of 31.8% in 2021, which would have been stronger on a full-year pro forma basis, at about 37%. Demand for electrical and mechanical components in Danfoss' diversified end markets (capital goods, construction, and agricultural, among others) was particularly strong as industrial activity recovered from the pandemic.

Chart 1

Danfoss Has Restored Some Financial Headroom After The Acquisition Of Eaton Hydraulics



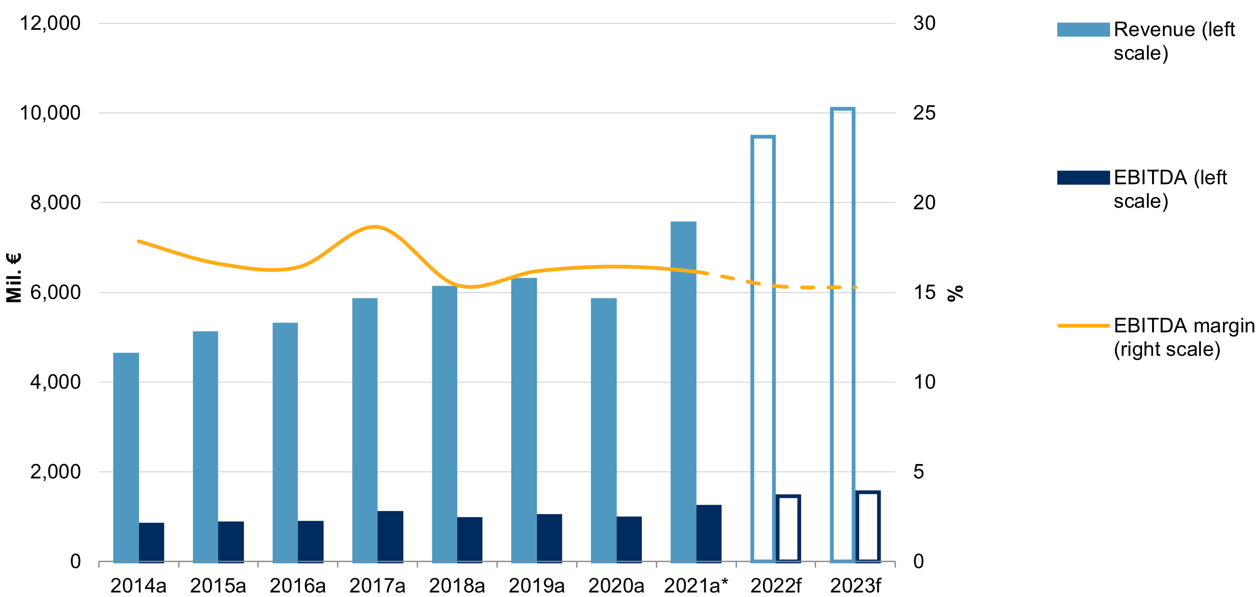
All figures adjusted by S&P Global Ratings. *Only includes a five-month FFO contribution from Eaton Hydraulics. a--Actual. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.

Danfoss' strong FOCF provides financial flexibility. We anticipate the group will record sizable adjusted FOCF of €600 million-€700 million per year in 2022 and 2023, despite annual working capital requirements of €50 million-€100 million and sustained capex of €450 million-€550 million (or about 5% of revenue) to support growth and inventory build-ups. Danfoss has a strong cash generation track record, with FOCF staying between €400 million and €600 million over 2012-2021, allowing for flexibility in its dividend and acquisition policy. We therefore think the company's credit metrics can comfortably absorb higher annual dividend payments (including to minority interests) of €200 million-€250 million from €56 million in 2021 and bolt-on acquisitions of €300 million-€600 million in 2022 and 2023. We also think the company could adjust this spending to preserve cash and credit metrics should market conditions deteriorate. In 2020 and 2021, the board approved common dividend payment cancellations to preserve Danfoss's balance sheet because of the pandemic and because it was set to acquire Eaton Hydraulics.

We expect Danfoss will continue to deliver on its growth roadmap. With the integration of Eaton Hydraulics, we anticipate the company will progressively reach the €10 billion revenue mark by 2023, more than doubling its 2014 sales level of about €4.6 billion. This business addition strengthened Danfoss' offering and competitive position in power solutions by making the company the leader in hydraulic systems. We also expect the creation of the SEMIKRON-Danfoss joint venture this year to further support growth prospects in the group's drives segment. We estimate the business will add about €500 million to pro forma segment revenue in 2022, with growth prospects of more than 10% thereafter, given the favorable demand fundamentals for silicon power electronics in automotive and other industrial applications. In addition to regular bolt-on acquisitions, Danfoss is also continuously investing internally to maintain sound organic growth prospects through innovation and improved product and service offering. For that purpose, the company spends close to 4.5% of its sales in R&D and 5.0% of its sales on capex per year, which is higher than most peers in relative terms.

Chart 2

Danfoss Has A Sound Revenue And Earnings Growth Track Record



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

Outlook: Stable

The stable outlook reflects our view that Danfoss will maintain sound operating performance in the next 24 months, with adjusted EBITDA margins of 15%-16% and FFO to debt staying comfortably above 30%.

Downside scenario

We could lower the rating if adverse market conditions or setbacks in integrating Eaton Hydraulics led to 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

- Real GDP growth slowing this year to 2.7% in the eurozone, 2.4% in the U.S., and 4.2% in China, from 5.2%, 5.7%, and 8.1%, respectively, in 2021. For 2023, we anticipate modestly lower GDP growth rates of 2.2% and 2.0% in the eurozone and the U.S., and a higher economic expansion of 5.3% in China.
- Revenue growth of about 25%-27% for the group in 2022, owing to the full-year contribution of Eaton Hydraulics and organic growth of about 6% supported by Danfoss' solid order book and price increases. In 2023, we expect sales for the combined group will increase by about 6%-8%, mainly driven by organic growth and the progressive integration of SEMIKRON-Danfoss.
- Adjusted EBITDA margins to modestly decline to 15%-16% in 2022-2023 from 16.1% in 2021 due to cost inflation not immediately passed through, supply chain disruptions, and a modest dilutive impact from Eaton Hydraulics. We estimate this will be partly offset by proactive price management, favorable currency effects, productivity improvements, and procurement savings.
- Working capital outlays of about €100 million in 2022 and in line with last year's requirements due to raw material and other inputs price inflation and somewhat increasing safety stocks. We anticipate those effects will be less pronounced in 2023, with organic activity growth still leading to some working capital consumption of about €50 million.
- Capex remaining at about 5% of sales per year, translating into higher cash spending of €450 million-€500 million in 2022 and €475 million-€525 million in 2023 as revenue increases, from €382 million in 2021.
- Total dividend payments of about €200 million-€250 million per year in 2022 and 2023, in line with the company's payout ratio target of 30%. The figures include close to €50 million of annual dividends to minority interests.
- No share repurchases.
- Annual bolt-on acquisition spending of €500 million-€550 million in 2022 (including SEMIKRON-Danfoss), declining to about €300 million in 2023.

Key metrics

Danfoss A/S--Key Metrics

	--Year ended Dec. 31--				
(Mil. €)	**2019a**	**2020a**	**2021a***	**2022f**	**2023f**
Revenue	6,285	5,828	7,539	9,300-9,700	9,900-10,300
Revenue growth (%)	3.1	(7.3)	29.4	25-27	6-8
EBITDA	1,017	958	1,217	1,400-1,500	1,500-1,600
EBITDA margin (%)	16.2	16.4	16.1	15-16	15-16
Funds from operations (FFO)	848	755	941	1,150-1,250	1,200-1,300
Capital expenditure	310	245	382	450-500	475-525
Free operating cash flow (FOCF)	479	555	456	575-625	675-725
Dividends	161	38	56	200-250	225-275
Discretionary cash flow (DCF)	258	515	398	350-400	425-475
Debt	1,269	831	2,963	3,150-3,350	3,100-3,300

Danfoss A/S--Key Metrics (cont.)

	--Year ended Dec. 31--				
(Mil. €)	**2019a**	**2020a**	**2021a***	**2022f**	**2023f**
Debt-to-EBITDA (x)	1.3	0.9	2.4	2.0-2.4	1.9-2.3
FFO-to-debt (%)	66.8	90.8	31.8	34-38	37-41
FOCF-to-debt (%)	37.8	66.8	15.4	18-20	21-23

All figures adjusted by S&P Global Ratings. *Eaton Hydraulics consolidated from Aug. 1, 2021. Main debt adjustments as of Dec. 31, 2021 include the addition of €268 million of lease liabilities, €185 million of pension obligations, and €60 million of factoring debt, as well as the deduction of €230 million of accessible cash. a--actual. f--forecast.

Company Description

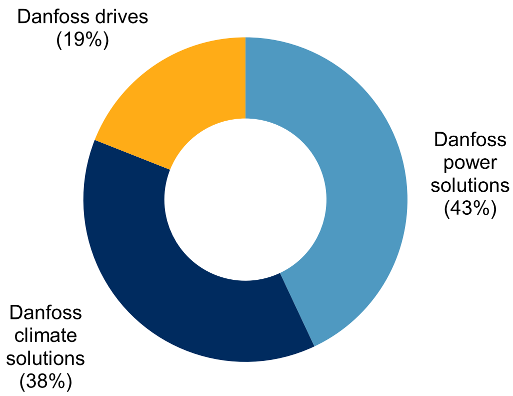
Danfoss is a leading producer of electrical and mechanical components in several industrial segments including power solutions, climate solutions, and drives. With revenue of about €7.5 billion and adjusted EBITDA of €1.2 billion in 2021, Danfoss operates under three main divisions:

- Danfoss Power Solutions: Hydraulic systems and electronic components, with 2021 segment revenue of €3.2 billion (43% of total revenue, including a five-month contribution from recently acquired Eaton Hydraulics). End markets served 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 2021 segment revenue of €2.9 billion (38%). End markets include heating, ventilation, and air-conditioning systems, as well as commercial and industrial refrigeration.
- Danfoss Drives: Low voltage drives and power modules with 2021 segment revenue of €1.4 billion (19%). End markets are diverse, comprising several industrial sectors including heating, ventilation, air conditioning, mining, lifts and elevators, food and beverage, auto, wind, and solar.

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

Chart 3

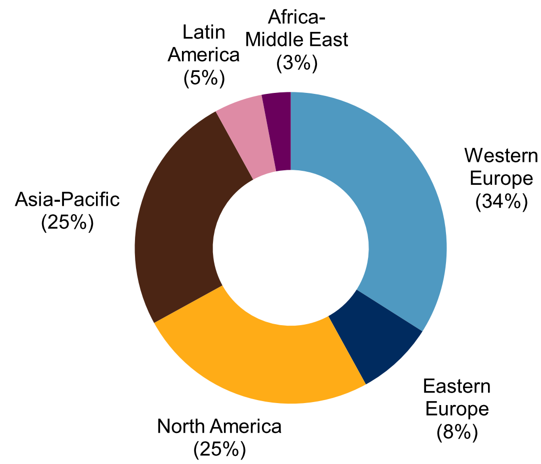
Danfoss A/S Sales Split By Segment In 2021



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

Chart 4

Danfoss A/S Sales Split By Geographic Region In 2021



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

Peer Comparison

Table 1

Danfoss A/S--Peer Comparison

Industry sector: Capital goods/diversified

	Danfoss A/S	Parker-Hannifin Corp.	Alfa Laval AB	Emerson Electric Co.	Eaton Corp. PLC	Assa Abloy AB	Sandvik AB
Ratings as of June 17, 2021	BBB/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/--	A/Stable/A-1	A-/Stable/A-2	A-/Negative/A-2	A-/Stable/A-2
	--Fiscal year ended--						
	Dec. 31, 2021	June 30, 2021	Dec. 31, 2021	Sept. 30, 2021	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2021
(Mil. €)							
Revenue	7,539	12,101	3,978	15,733	17,258	9,239	9,637
EBITDA	1,217	2,622	781	3,729	3,209	1,768	2,324
Funds from operations (FFO)	941	2,010	606	2,995	2,355	1,409	1,827
Interest expense	62	213	24	155	137	59	104
Cash interest paid	67	202	20	147	192	55	94
Cash flow from operations	838	2,210	500	3,240	2,036	1,211	1,308
Capital expenditure	382	177	120	501	506	167	375
Free operating cash flow (FOCF)	456	2,033	380	2,739	1,530	1,045	933

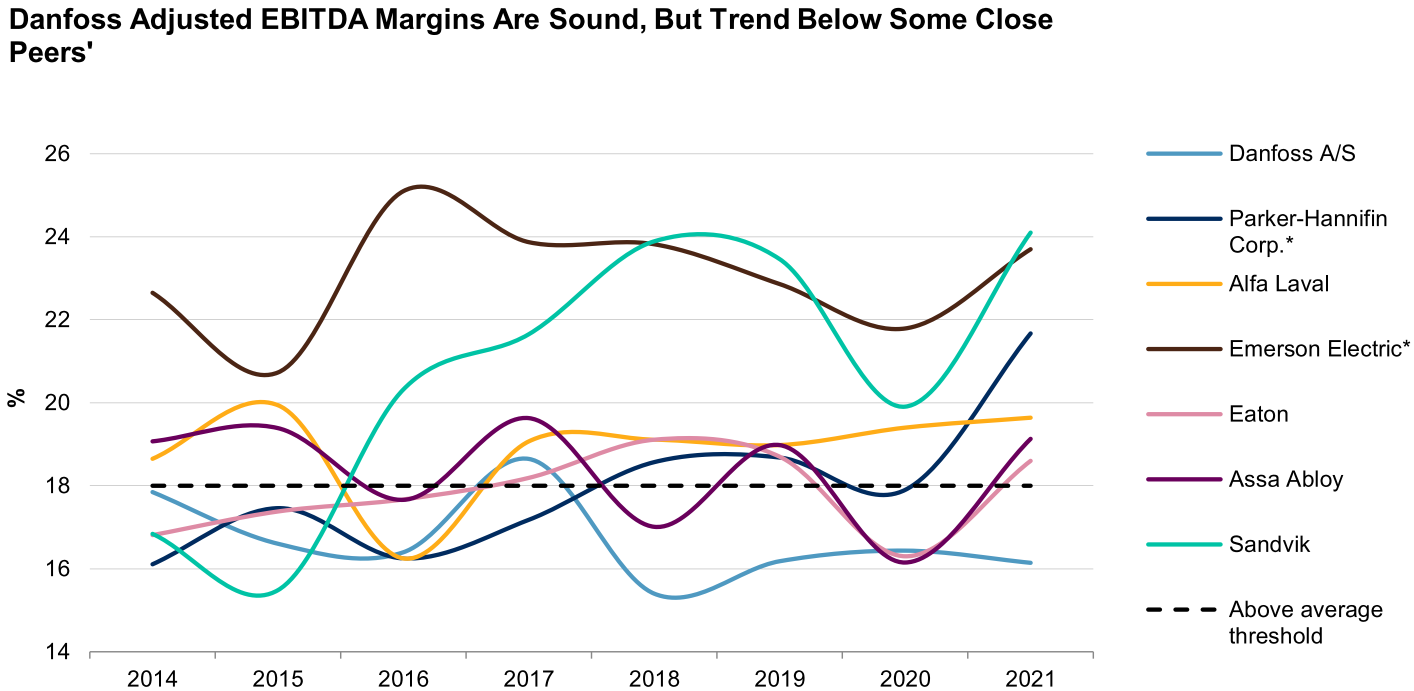
Table 1

Danfoss A/S--Peer Comparison (cont.)							
Discretionary cash flow (DCF)	398	1,448	25	1,264	310	618	142
Cash and short-term investments	249	651	355	2,031	499	421	1,321
Debt	2,963	6,080	981	4,522	8,345	2,661	2,295
Equity	3,951	7,096	3,145	8,561	14,465	6,767	7,486
Adjusted ratios							
EBITDA margin (%)	16.1	21.7	19.6	23.7	18.6	19.1	24.1
Return on capital (%)	15.1	15.3	15.7	20.3	9.5	15.4	22.5
EBITDA interest coverage (x)	19.6	12.3	32.4	24.0	23.4	29.9	22.4
FFO cash interest coverage (x)	15.0	11.0	30.7	21.4	13.2	26.5	20.5
Debt/EBITDA (x)	2.4	2.3	1.3	1.2	2.6	1.5	1.0
FFO/debt (%)	31.8	33.1	61.7	66.2	28.2	53.0	79.6
Cash flow from operations/debt (%)	28.3	36.4	50.9	71.7	24.4	45.5	57.0
FOCF/debt (%)	15.4	33.4	38.7	60.6	18.3	39.3	40.7
DCF/debt (%)	13.4	23.8	2.6	27.9	3.7	23.2	6.2

With the acquisition of Eaton Hydraulics, Danfoss reached similar revenue size to Assa Abloy AB and Sandvik AB, close to €9.5 billion in 2022. That said, Danfoss's profitability remains below, the two specialty capital goods companies and its larger competitors Parker-Hannifin Corp., Emerson Electric Co., and Eaton Corp., as well as smaller player Alfa Laval AB. We still view Danfoss' adjusted EBITDA margin track record of 15%-17% as robust, trending above larger and more diversified capital goods companies such as ABB and Siemens.

Danfoss' adjusted FFO to debt of 30%-45% and debt to EBITDA of 2x-3x compare negatively with less leveraged peers Alfa Laval, Emerson, and Sandvik. Its credit metrics are in line with historical leverage for Eaton, Parker, and Assa Abloy. However, the latter two peers are set to close sizable acquisitions this year, likely weighing on leverage. Last year, Parker announced the acquisition of U.K.-based aerospace and defense motion and control technologies company Meggitt. Assa Abloy announced the planned purchase of U.S.-based HHI, a division of Spectrum Brands focused on security and builder hardware products for residential construction and renovation.

Chart 5



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.

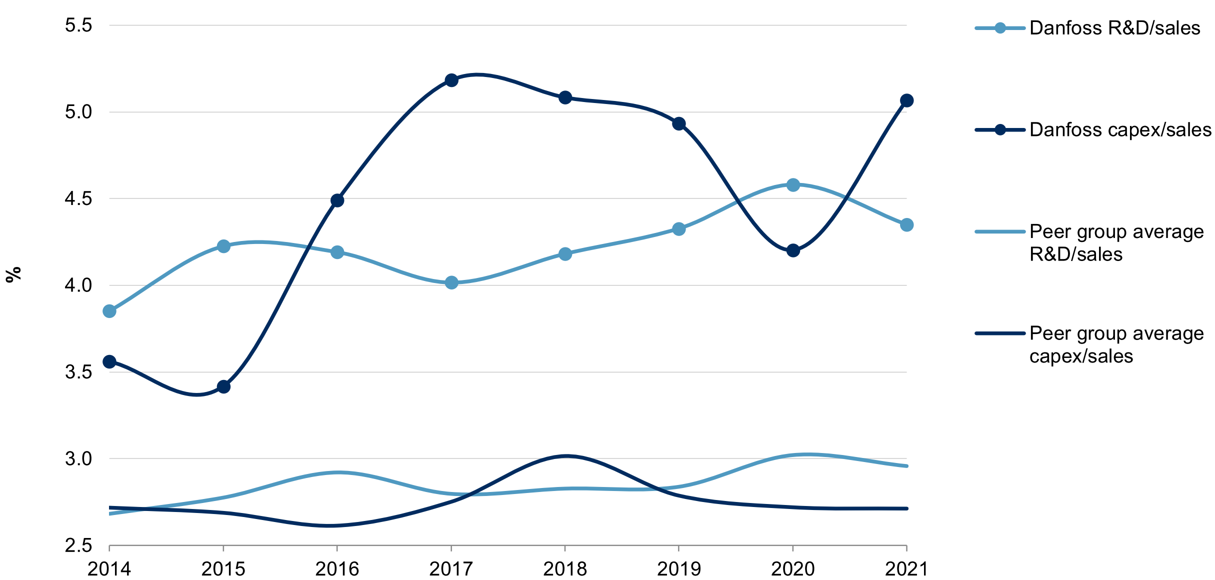
Business Risk: Satisfactory

Danfoss enjoys leading market positions in its segments. The company is the market leader or among the top three solution providers in all the niches in which it operates and has a widely diversified product and service portfolio. In its power solutions division, the group competes with Rexroth (a Robert Bosch company) and Parker (BBB+/Negative/A-2). After the acquisition of Eaton Hydraulics, we estimate that it is the largest operator globally within hydraulic systems and that it holds a No. 1 retail position in the overall segment. Its climate solutions segment competes with some of the products offered by Emerson (A/Stable/A-1), Parker, and Alfa Laval (BBB+/Stable/--), with clear leading positions in cooling and heating components. Its drives division competes with some of the low voltage products and power modules offered by ABB (A-/Stable/A-2), Siemens (A+/Stable/A-1+), and Rockwell Automation (A/Negative/A-1). We think Danfoss is well placed to capture new demand in its core segments, supported by its existing market leadership and sustained internal investments. We anticipate potential tailwinds from growing demand for power electronics components in its drives segment, supported by the electrification in automotive and other industries. 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 digital and more sustainable systems should lead to sound long-term growth prospects.

Danfoss is more capital intensive than its peers. The company's sustained annual R&D and capex is above its main peers', representing close to 4.5% and 5.0% of its sales, respectively. On one hand, we view favorably this investment allocation because it could constitute a source of innovation and organic growth. The group had a similar R&D budget to Parker over 2017-2021, despite being about half the size of its competitor. Danfoss' absolute spending remained lower than those of larger players Emerson Electric and Eaton over the same period, but we think sustained investments should continue to support its strong market position and pricing power in its core segments. On the other hand, the higher spending somewhat constrains profitability and cash flow, with recurring maintenance capex suggesting relatively high capital intensity. Danfoss' capex budget was 1.5x-2.0x higher than for Parker and Assa Abloy over 2014-2017, which we think somewhat reduced its FOCF capacity in comparison to peers.

Chart 6

Danfoss Internal Investments Are Materially Above Main Peers



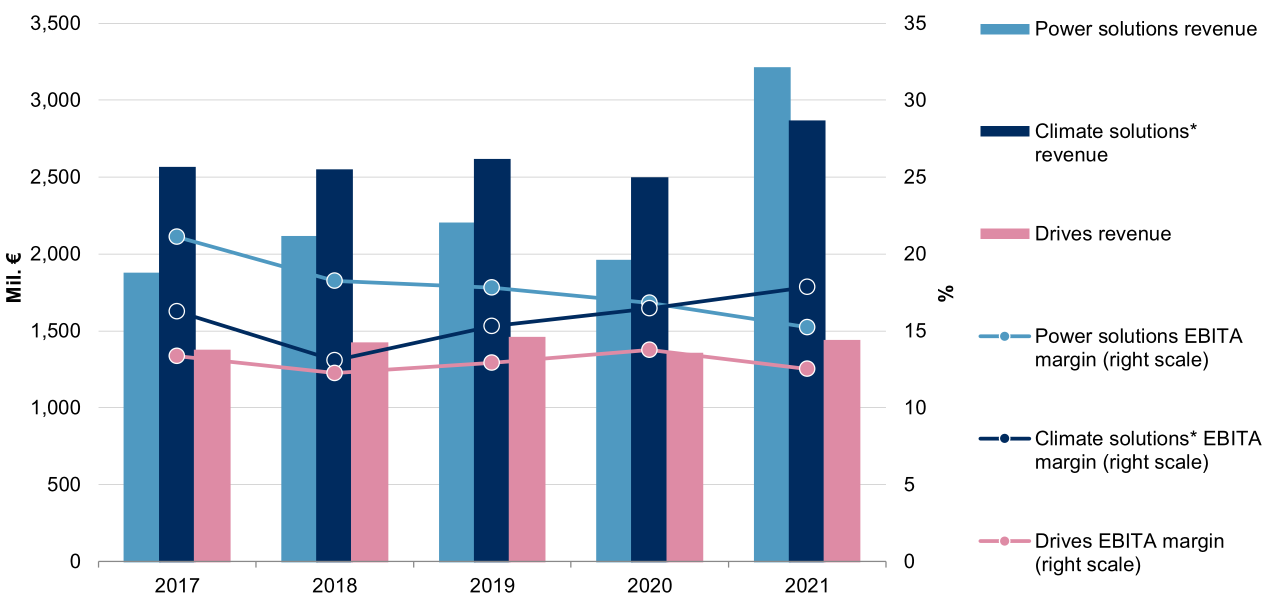
Capex--Capital expenditure. R&D--Research and development. All figures adjusted by S&P Global Ratings. Peer group includes Parker, Alfa Laval, Emerson Electric, Eaton, Assa Abloy, and Sandvik. Source: S&P Global Ratings.

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, and beverage, and auto. We think this diversification supports the company's business resilience, providing some earnings stability at low points of the industrial activity cycle. That said, Danfoss still 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, 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. Pro forma the Eaton Hydraulics integration, we estimate that close to 50% of sales are derived from the power solutions business (from about 33% previously), which could increase the company's earnings volatility.

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. The company has demonstrated resilience during the pandemic, being able to post stable margins of about 16% against 2019 levels thanks to its relatively low operating leverage and fixed-cost reduction (about 30% of the cost base), as well as continued contribution margin optimization. We think this was less the case for more cyclical companies such as Sandvik or for less diversified peers such as Assa Abloy, whose operating margins fell by about 300 basis points during the period. We anticipate the company will continue to post robust adjusted EBITDA margins in the next two years, albeit at the low end of its historical 15%-17% range. We estimate that the acquisition of historically less profitable Eaton Hydraulics, along with some integration costs totaling €70 million-€80 million, will continue to temporarily weigh on margins in 2022 before operating synergies gain pace in procurement, organization, and production. We anticipate those to support a progressive improvement in the power solutions segment's margins thereafter.

Chart 7

Danfoss Revenue And Profitability By Segment



Figures as reported by the company. *Combining cooling and heating segments for 2017-2019. Source: Danfoss annual reports, S&P Global Ratings.

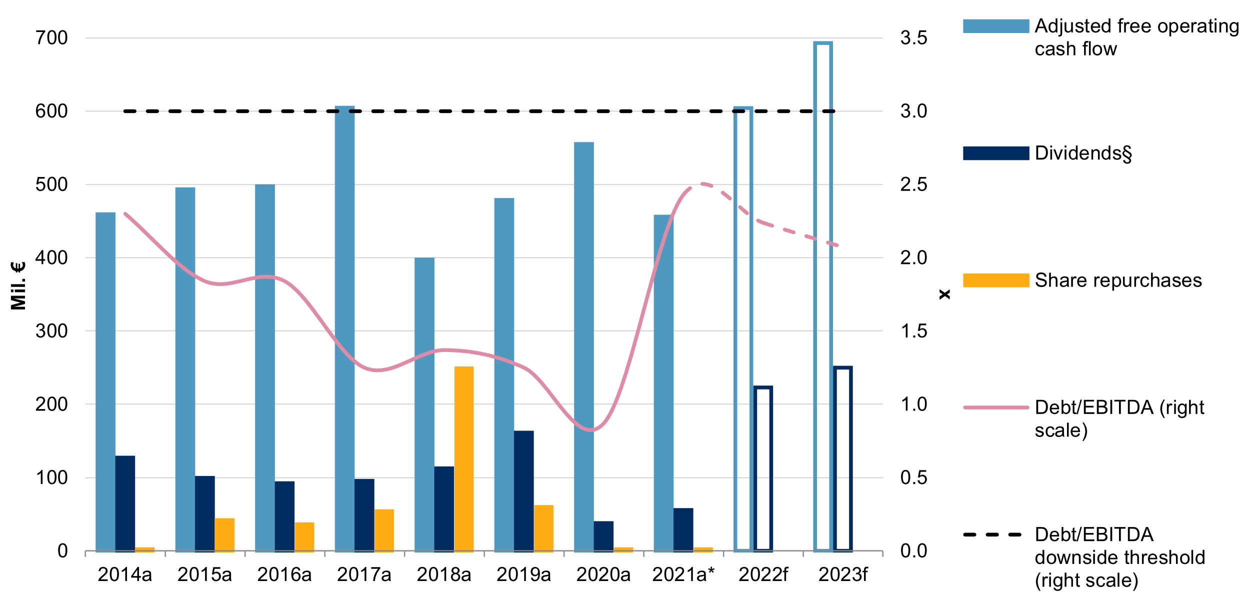
Financial Risk: Intermediate

Danfoss is committed to retaining a 'BBB' rating and has a track record in achieving this. We think the company is strongly committed to maintaining leverage commensurate with the 'BBB' rating. Before acquiring Eaton Hydraulics, the company maintained strong adjusted FFO to debt of 50%-90% between 2017 and 2020, well above our 30% downside trigger. Adjusted debt to EBITDA of 1.0x-1.5x was also well below our 3x rating limit. Strong annual FOCF allowed the company to partly prefund the sizable €2.7 billion transaction, while common dividend cancellations during 2020-2021 helped the company keep FFO to debt above 30% and debt to EBITDA below 2.5x shortly after closing. As of year-end 2021, Danfoss had adjusted debt of about €2.9 billion, up from €0.8 billion in 2020. Our main adjustments to its reported debt of €2.7 billion are €268 million for leases, €185 million for pensions, and €60 million for factoring. We deducted from those adjustments €230 million of cash that we consider to be accessible.

Moderate shareholder distributions sustain Danfoss' credit standing. We view Danfoss' pay-out target of distributing no more than 30% of net income (in addition to annual minority dividends of about €50 million) as lower than most of its public Scandinavian peers. We believe this results in some financial flexibility, allowing discretionary cash deployment for tuck-in acquisitions or net-debt reduction.

Chart 8

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.

Financial summary

Table 2

Danfoss A/S--Financial Summary				
Industry sector: Capital goods/diversified				
	--Fiscal year ended Dec. 31--			
	2021	**2020**	**2019**	**2018**
(Mil. €)				
Revenue	7,539	5,828	6,285	6,098
EBITDA	1,217	958	1,017	939

Table 2

Danfoss A/S--Financial Summary (cont.)				
Industry sector: Capital goods/diversified				
	--Fiscal year ended Dec. 31--			
	2021	**2020**	**2019**	**2018**
Funds from operations (FFO)	941	755	848	737
Interest expense	62	37	33	46
Cash interest paid	67	34	29	45
Cash flow from operations	838	800	789	708
Capital expenditure	382	245	310	310
Free operating cash flow (FOCF)	456	555	479	398
Discretionary cash flow (DCF)	398	515	258	36
Cash and short-term investments	249	611	110	50
Gross available cash	249	611	110	50
Debt	2,963	813	1,269	1,283
Equity	3,951	3,184	2,933	2,654
Adjusted ratios				
EBITDA margin (%)	16.1	16.4	16.2	15.4
Return on capital (%)	15.1	15.4	16.9	15.9
EBITDA interest coverage (x)	19.6	25.9	30.8	20.4
FFO cash interest coverage (x)	15.0	23.2	30.2	17.4
Debt/EBITDA (x)	2.4	0.8	1.2	1.4
FFO/debt (%)	31.8	92.9	66.8	57.4
Cash flow from operations/debt (%)	28.3	98.4	62.2	55.2
FOCF/debt (%)	15.4	68.3	37.7	31.0
DCF/debt (%)	13.4	63.4	20.3	2.8

Reconciliation

Table 3

Danfoss A/S--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)						
	--Fiscal year ended Dec. 31, 2021--					
Danfoss A/S reported amounts						
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**
Reported	2,676.0	3,848.0	1,274.0	877.0	59.0	1,217.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	--	(209.0)
Cash interest paid	--	--	--	--	--	(67.0)
Trade receivables securitizations	60.0	--	--	--	--	--
Reported lease liabilities	268.0	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	185.0	--	--	--	3.0	--

Table 3

Danfoss A/S--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)						
Accessible cash and liquid investments	(229.7)	--	--	--	--	--
Dividends received from equity investments	--	--	2.0	--	--	--
Income (expense) of unconsolidated companies	--	--	(2.0)	--	--	--
Nonoperating income (expense)	--	--	--	5.0	--	--
Noncontrolling interest/minority interest	--	103.0	--	--	--	--
Debt: Other	4.0	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(57.0)	(57.0)	--	--
Total adjustments	287.3	103.0	(57.0)	(52.0)	3.0	(276.0)
S&P Global Ratings' adjusted amounts						
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**
Adjusted	2,963.3	3,951.0	1,217.0	825.0	62.0	941.0

Liquidity: Strong

We assess Danfoss' liquidity as strong. We expect sources of liquidity will cover uses by at least 1.6x over the 12 months from April 1, 2022, and by 1.5x in the following 12 months. Our assessment is also supported by the company's prudent risk management, track record of addressing debt maturities well in advance, sound relationship with banks, and covenant-free capital structure.

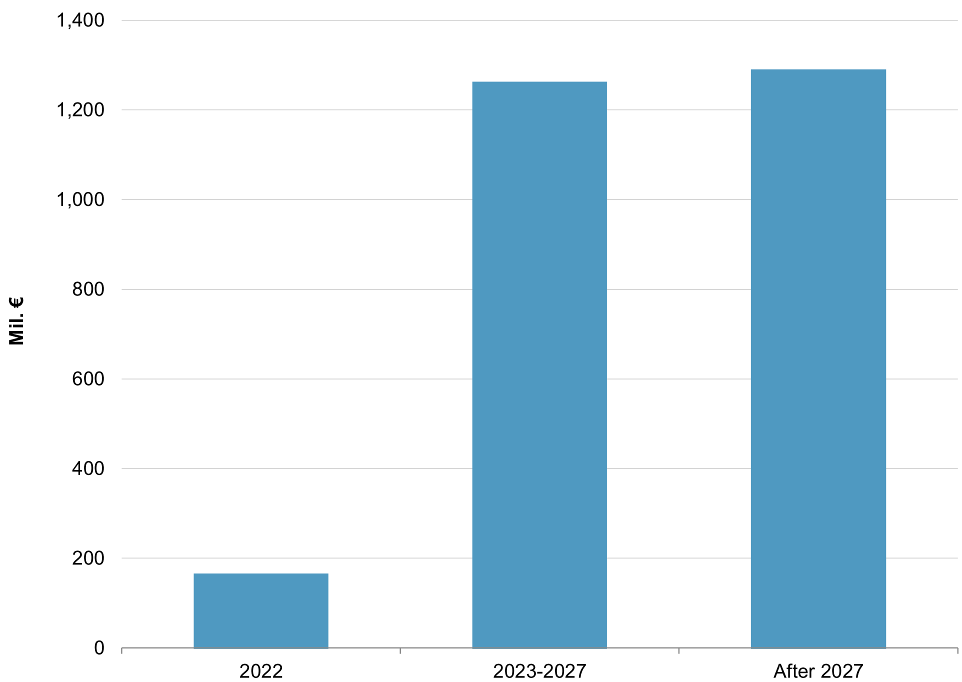
Principal liquidity sources for the 24-month period starting April 1, 2022	Principal liquidity uses for the same period
• Our assumption of about €30 million of total unrestricted cash; • Close to €950 million available under several long-term committed credit lines. Our conservative assumption is that this will decrease to about €600 million in the following 24 months, but we expect the company will extend the upcoming maturities well in advance; • Cash FFO of €1,075 million-€1,175 million in the next 12 months, increasing to about €1,150 million-€1,250 million over the following 24 months; and • A €200 million committed bridge facility to fund the SEMIKRON deal.	• Debt maturities of about €300 million in the next 12 months, increasing close to €350 million over the subsequent 12 months; • Total working capital requirements of €150 million-€200 million in 2022 and €100 million-€150 million in 2023, including intra-year swings of up to €100 million; • Capex of roughly €450 million-€500 million in the next 12 months and €475 million-€525 million in the following 12 months period; • Annual dividend payments of up to €250 million in the next 24 months, including to minority interests; and

	• Contracted acquisition spending of up to €500 million in the next 12 months, and nil thereafter.

Debt maturities

Chart 9

Danfoss Debt Maturity Profile As Of Dec. 31, 2021



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

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Danfoss. Danfoss' 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 automotive. 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 Danfoss' 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 company committed to reducing its direct and indirect CO_2 emissions by at least 46% and 15%, respectively, before 2030.

Issue Ratings - Subordination Risk Analysis

Capital structure

- Danfoss' consolidated unadjusted debt at Dec. 31, 2021 amounts to €2.7 billion, of which about €69 million is represented by a mortgage loan that we consider secured. Danfoss has a €2.5 billion euro medium-term note program, under which €1.4 billion and €500 million of unsecured debt was 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 basis, 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. and about €19 million of other unsecured debt held at other subsidiaries, our priority debt ratio was about 56% as of Dec. 31, 2021.
- Our overall priority debt on Danfoss A/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 Danfoss A/S EMTN program and 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.

Ratings Score Snapshot

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

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Macro Update: Growth Forecasts Lowered On Longer Russia-Ukraine Conflict And Rising Inflation, May 17, 2022
- Danfoss' Credit Metrics Can Absorb The SEMIKRON Deal, March 30, 2022

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 21, 2022)*	
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.