

ENGINEERING
TOMORROW

Danfoss

Danfoss - Bond Investor Presentation May 2023

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Agenda

Danfoss in brief

03

Core and green growth opportunities

08

Lead in sustainability

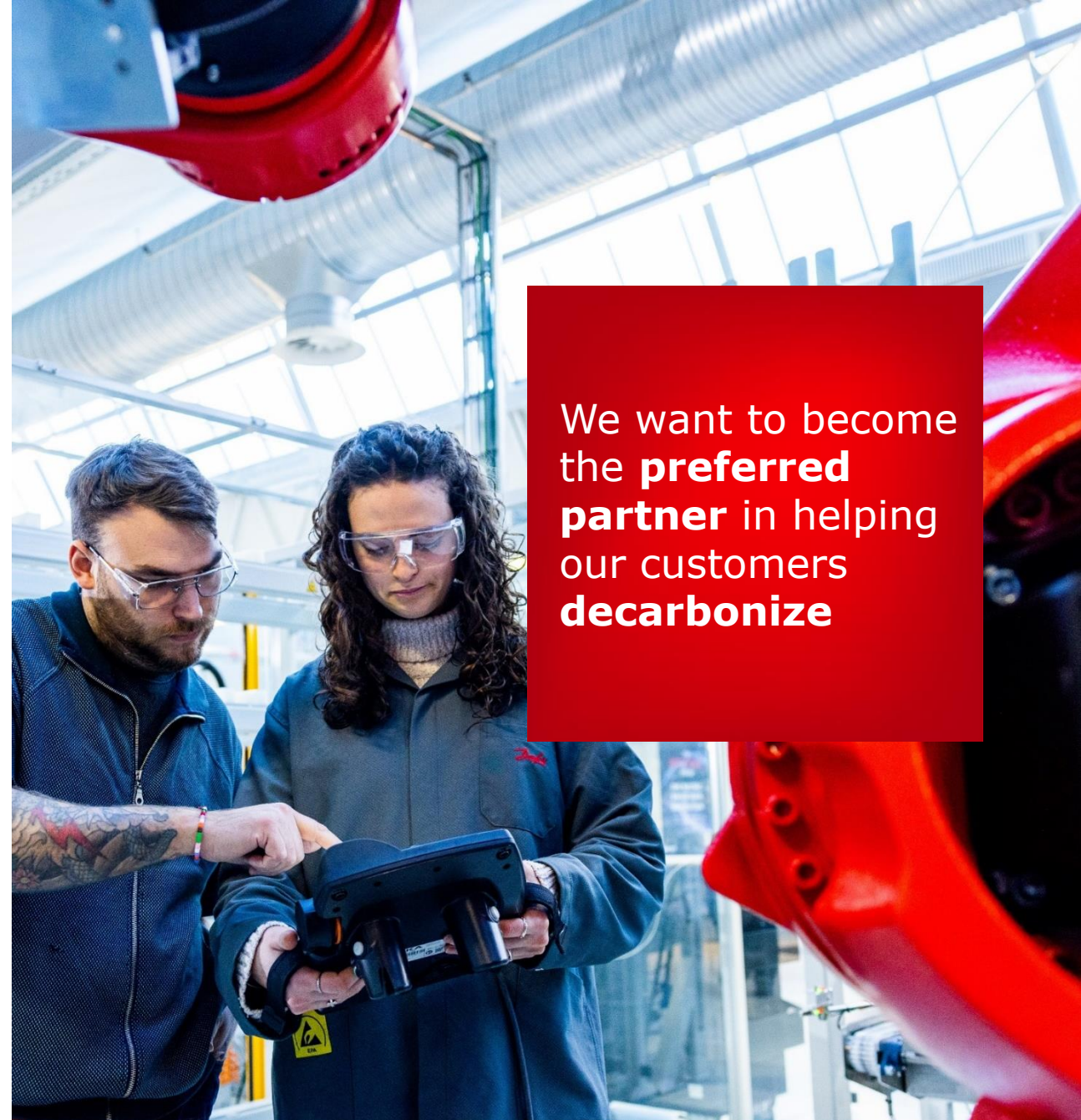
15

Financial performance & key highlights

22

Key investment highlights

- **Well positioned** to capitalize on global mega trends and the green transition
- **Robust and strong performing business segments** with attractive market positions
- **Stable profit margin** and **strong cash generation** over the cycle
- **Prudent financial policy** targeting minimum a **BBB** credit rating
- **Current Rating: BBB/A-2 with stable outlook**



We want to become the **preferred partner** in helping our customers **decarbonize**

A photograph of a man with glasses and a young child with blonde hair, both smiling and looking at a colorful pinwheel they are holding together in a grassy field. The man is wearing a plaid shirt and the child is wearing a dark jacket. The background is a bright, slightly blurred outdoor setting.

Our Purpose

We engineer tomorrow to build a better future

**Decarbonizing
with our
customers**

**Long-term
value
creation**

Danfoss at a glance

Three strong businesses well-positioned in the green transition



Worldwide sales
in more than

100
countries

Three strong business segments
with leading positions

Power Solutions

Climate Solutions

Power Electronics and Drives

Leading technology
partner for our
customers who want to
decarbonize through
energy efficiency,
machine productivity,
low emissions, and
electrification

41,928

Employees worldwide.
People are the foundation
of our business



Well on the way towards
carbon-neutral global
operations by 2030

97 

Factories in more than
20 countries

1933

Long track record within
innovation and engineering

All numbers in this presentation represent 2022 numbers unless otherwise stated | Eaton included from August 2021 | Semikron included from August 2022

Danfoss business overview

Well-diversified sales across segments, geographies, and markets

Three business segments geared for growth



Danfoss Power Solutions

- 5.1bn EUR annual sales
- 18,535 employees
- 52 factories
- 3 Application Development Centers



Danfoss Climate Solutions

- 3.2 bn EUR annual sales
- 10,331 employees
- 31 factories
- 4 Application Development Centers



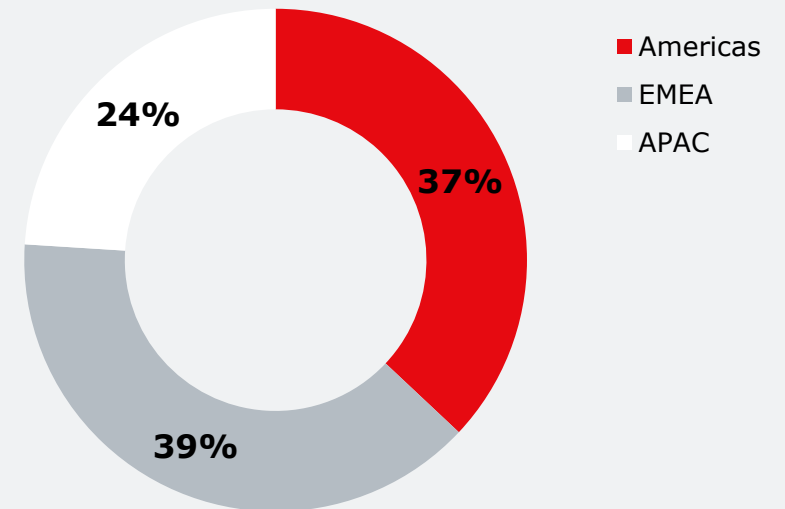
Danfoss Power Electronics and Drives

- 1.9bn EUR annual sales
- 7,875 employees
- 17 factories
- 4 Application Development Centers



Three strong regions supporting our businesses

Driving growth based on customer proximity, local application knowledge and localized supply chains



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Investing in our core and green growth opportunities

We help our customers to decarbonize

OUR PURPOSE

We engineer tomorrow to build a better future

OUR STRATEGY



Leading Portfolio



Customers & Growth



Innovative Solutions



Lean & Agile



OUR FOUNDATION

High-performing diverse teams

Our aspiration is structured around five strategic focus areas



We continue to **invest in the future** in our core businesses, **digital** and **electrification** to strengthen our position and realize the potential



Offer a **seamless** end-to-end customer experience and be the **fastest, easiest,** and most **relevant** company to do business with



We use our **deep application knowledge** for **differentiated, innovative,** and **sustainable** solutions, creating value for our customers



We serve customers with **speed** and **cost-effectiveness**, anchored in One ERP, **flexible** and **agile** supply chains and smart factories

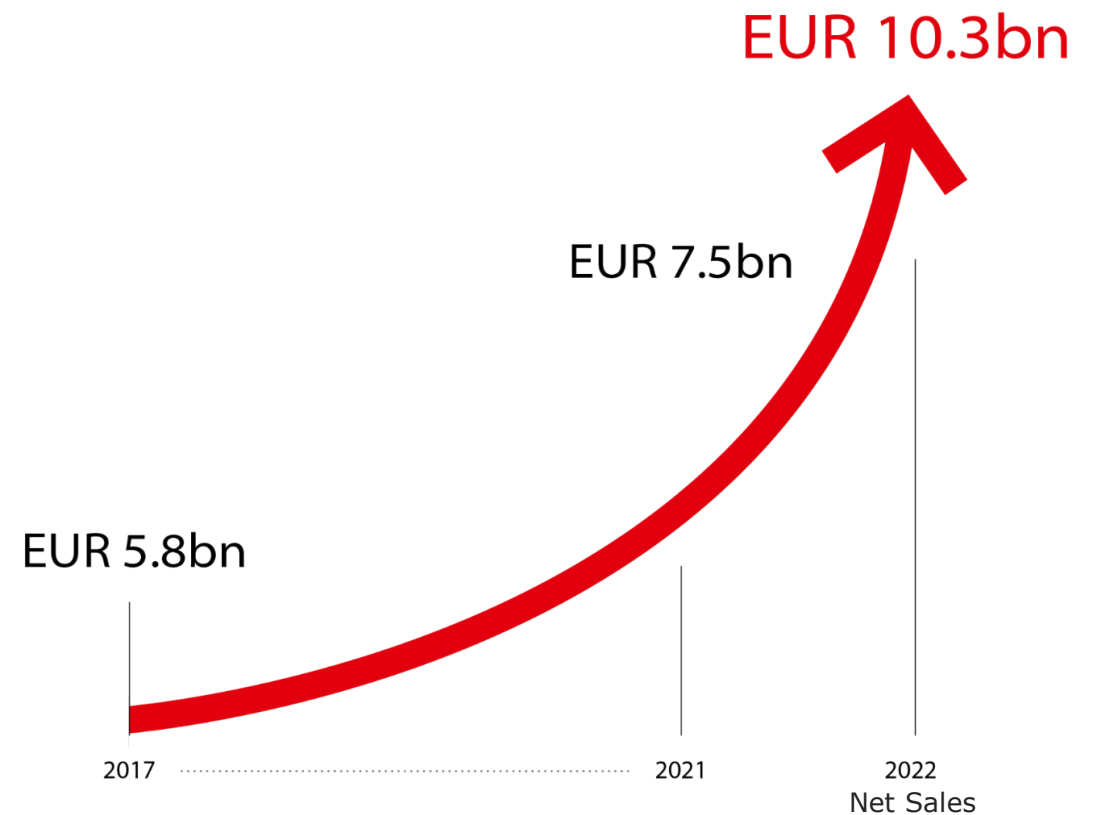


High-performing diverse teams are our strong foundation. We drive engagement by offering an inspiring and inclusive workplace and unlock the full potential of our people.

We want to be a top-performer among key peers, decarbonize with our customers, and drive long-term value creation

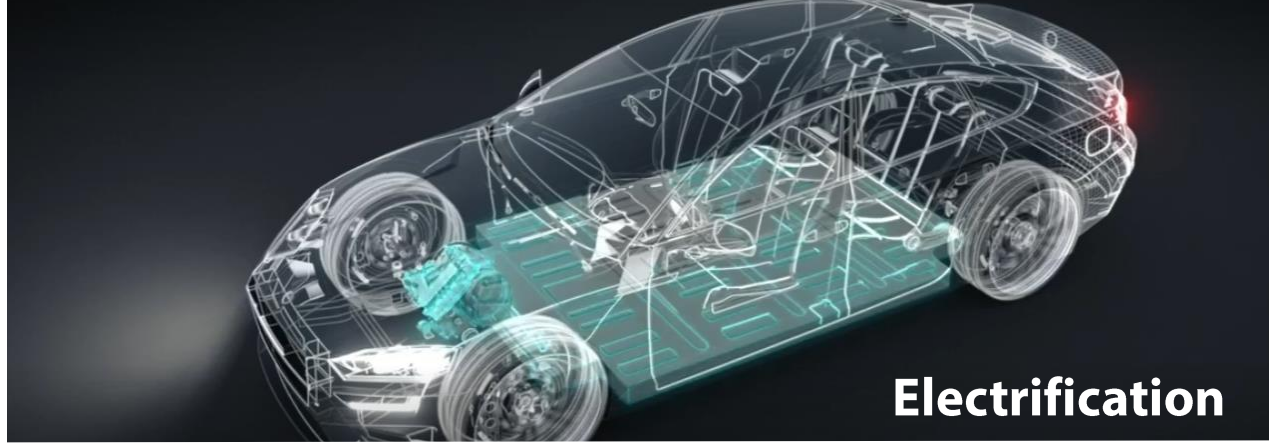


Driving growth and long-term, sustainable value creation





Climate Change



Electrification



Urbanization

GLOBAL MEGATRENDS

Transforming our world












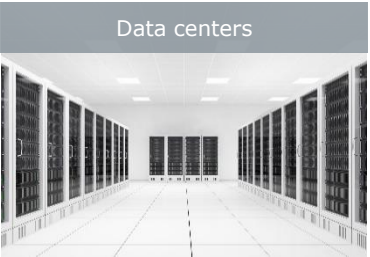


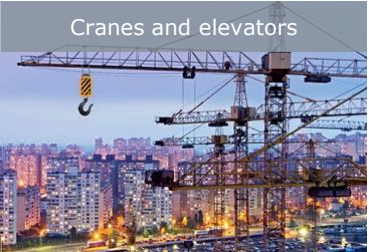


Food & Water Supply



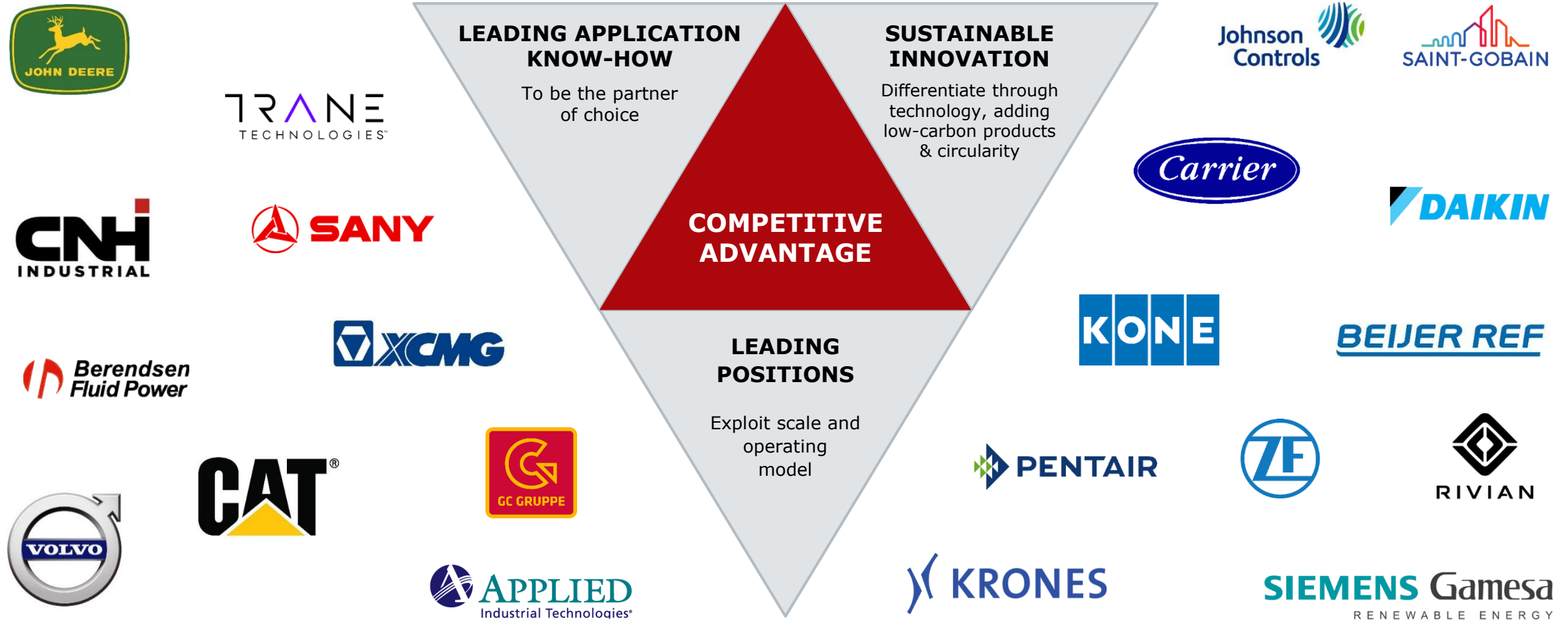
Digitalization

Selected Danfoss applications – hot spots

Leveraging the global megatrends across our segments

	Digitalization	Electrification	Urbanization	Food & Water Supply	Climate change
Power Solutions	<p>Autonomous grape harvester</p> 	<p>Full-electric excavators</p> 	<p>Construction machinery</p> 	<p>Agriculture machinery</p> 	<p>Energy-efficient hybrids</p> 
Climate Solutions	<p>District energy with AI</p> 	<p>Heat pumps</p> 	<p>Single & multi-family Houses</p> 	<p>Connected supermarkets</p> 	<p>Data centers</p> 
Power Electronics and Drives	<p>DrivePro® Life Cycle Services</p> 	<p>E-mobility</p> 	<p>Cranes and elevators</p> 	<p>Food & beverage</p> 	<p>Power-to-X</p> 

Our customer promise is as relevant as ever and drives our competitive advantage

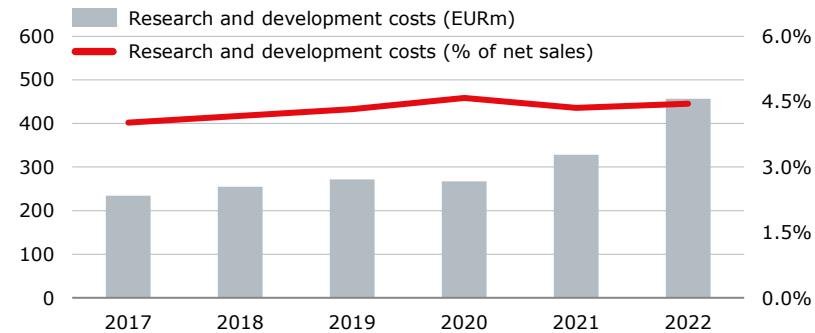


Danfoss continues to invest ahead of competition to capture our core and green growth opportunities

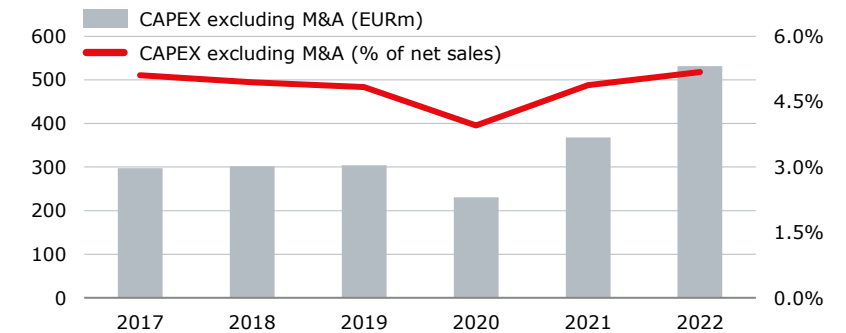
Organic

Danfoss continues to make significant investments in new technology

Research and development costs



CAPEX excluding M&A



Inorganic

We have a proven M&A track record to further strengthen core business and capture green growth opportunities

Further strengthen core



Lead digital



#1/#2 position in electrification



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Our step-change initiatives



DECARBONIZATION



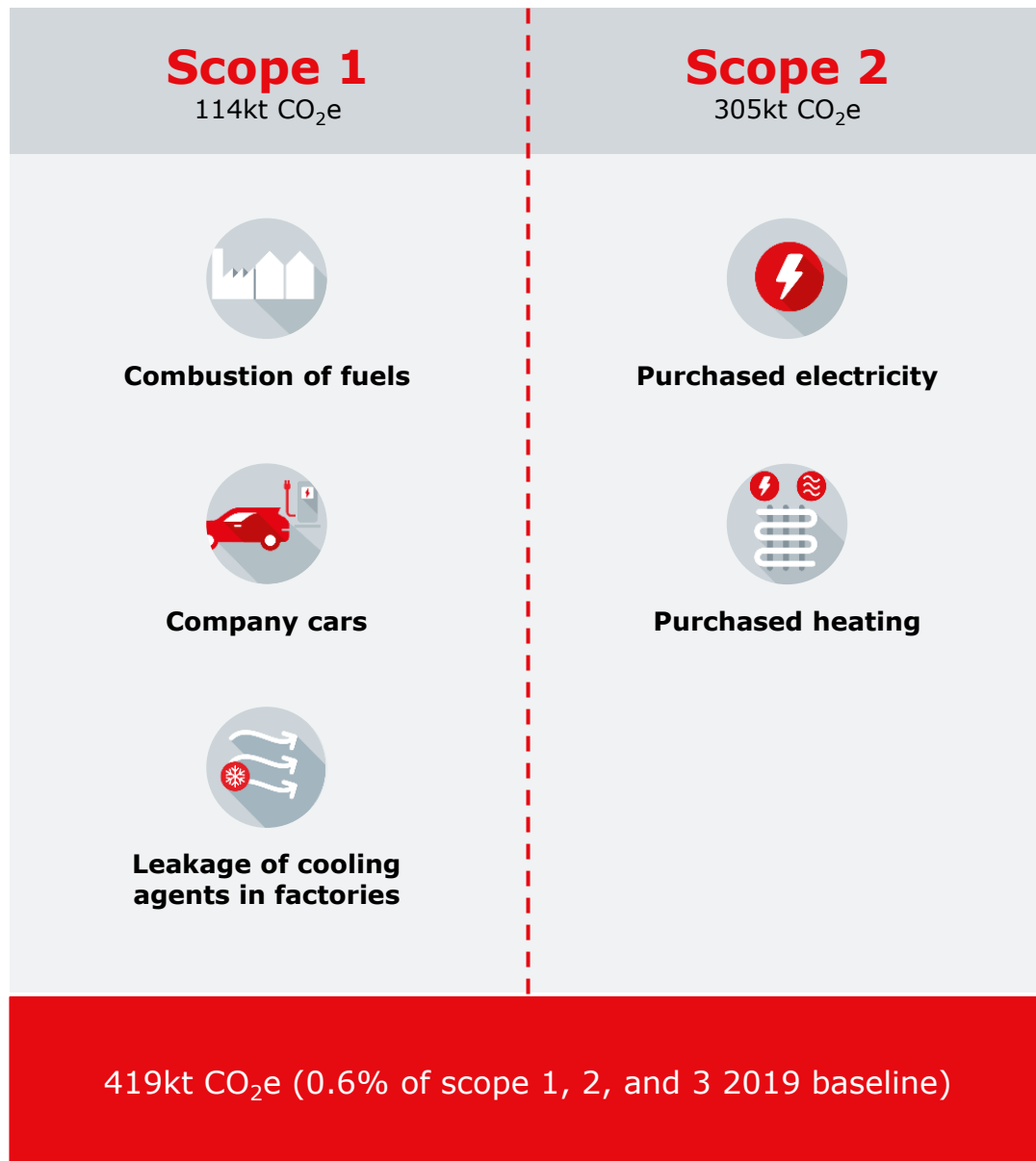
ESG

ENVIRONMENT | SOCIAL | GOVERNANCE

CIRCULARITY



DIVERSITY, EQUITY & INCLUSION



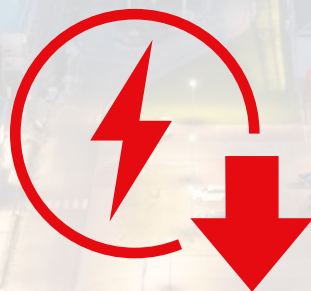
Decarbonizing Danfoss with **ambitious** targets

- Approved science-based targets to limit global warming to 1.5°C for scope 1 and 2
- However, targeting carbon neutrality in our operations by 2030

Our approach to become CO₂ neutral latest in 2030

The way forward for Danfoss and the world to decarbonize

Step 1



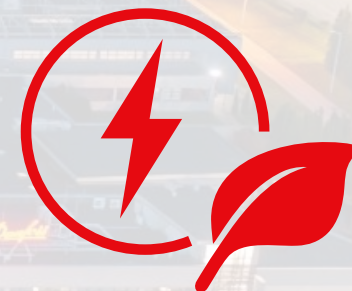
Energy efficiency
reduce

Step 2



Energy recovery
re-use

Step 3

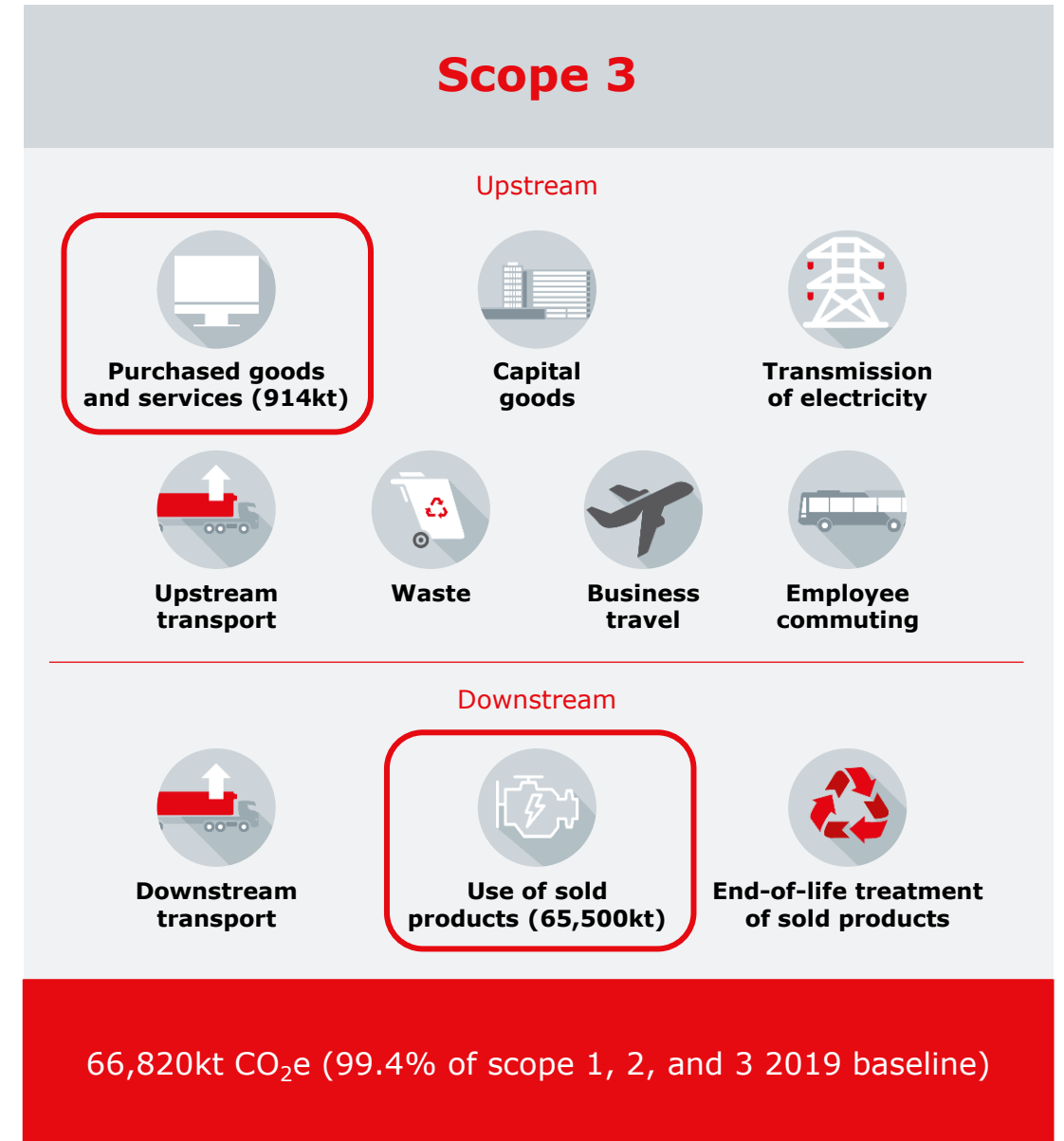


Source renewable
energy
re-source

Decarbonizing our value chain

- **Approved science-based targets** to reduce value chain emissions by 15% by 2030*
- Initiatives to reduce scope 3 emissions in progress
- Continued activities to detail and firm up scope 3 baseline

*from the 2019 baseline submitted to SBTi



We help our customers to decarbonize

Through solutions for the most emission heavy industries: buildings, industry, and transport

Energy efficiency



40% of global energy consumption is used to heat and cool buildings

Sector coupling



50% of emissions reductions needed to limit global warming to 1.5°C can be achieved by coupling of sectors

Electrification of transport



Transportation accounts for 25% of energy related global greenhouse gas emissions

Portfolio of efficient components to increase machine productivity, reduce emissions, lower energy consumption, and enable electrification

Data sources: WRI (World Resource Institute), IEA (International Energy Agency) and Navigant Energy Germany GmbH

Case stories of emissions avoided with Danfoss' solutions

50% less energy used for ventilation and water handling



Danfoss' drives reduced energy consumption by up to 50% by controlling ventilation and water pressurization and distribution systems at Carlsberg Group's Okocim Brewery in Brzesko, Poland.

Over 20% energy savings, and maximum food quality



Since switching to Danfoss' Optyma™ Plus variable speed condensing unit and expansion valves, Gibson's Farm Shop in the UK is using over 20% less electricity and thereby reducing operating cost and CO₂ emissions.

Reliance on fossil fuels reduced by 97%



The district heating company in Ringsted, Denmark, reduced reliance on fossil fuels by installing Danfoss Turbocor® powered heat pumps to cool flue gas and recover heat from the outside air to redistribute via the district heating network.

Finland's oldest ferry goes all-electric



The Föri – named after the Swedish word for ferry, färja – initially entered service in 1904 as a steam-powered boat in Turku, Finland. Danfoss Editron provided the zero-emission electric drivetrain system.

Case stories based on Danfoss' and customers' calculations (not externally verified)

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2022 financial performance

Continued strong sales growth

EURm	2021	Margin (%)	2022	Margin (%)
Net sales	7,539		10,256	
EBITDA before OOI/E*	1,232	16.3	1,618	15.8
EBITDA	1,272	16.9	1,576	15.4
EBITA	969	12.8	1,224	11.9
Net profit	631	8.4	683	6.7
Free operating cash flow after financial items and tax	401	5.3	465	4.5
Net interest bearing debt	2,677		3,168	
Net interest bearing debt/EBITDA before OOI/E	2.2x		2.0x	

*OOI/E: Other Operating Income and Expenses

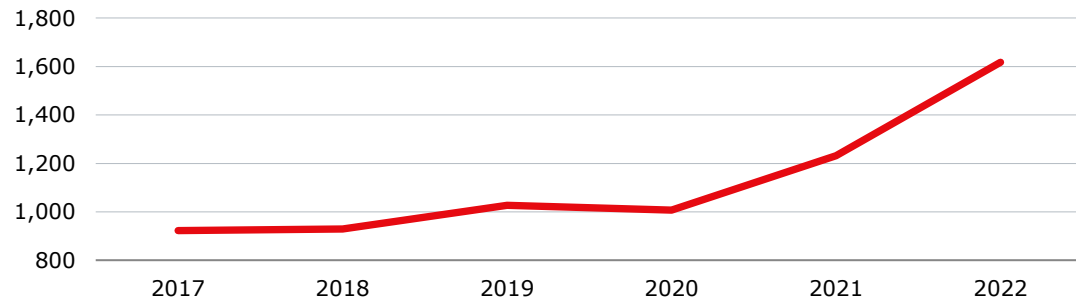
- Sales growth of 36% reaching EUR 10.3bn including additional sales from acquired companies
- Sustained high demand for our solutions and technologies in all three segments, resulting in strong organic growth of 15% for the Group
- Continued investments ahead of competition into innovation, additional capacity, and digitalization
- EBITDA grew by 24% YOY leading to Group EBITDA margin of 15.4%; diluted by full-year effect of Eaton hydraulics business and integration cost as well as Semikron and the cyber attack (just before closing, August 2022)
- Solid free operating cash flow after financial items and tax (before M&A) in 2022 of EUR 465m

Profitability and cash flow

Strong growth while maintaining stable profitability margins, solid cash flow, and declining net-debt ratio

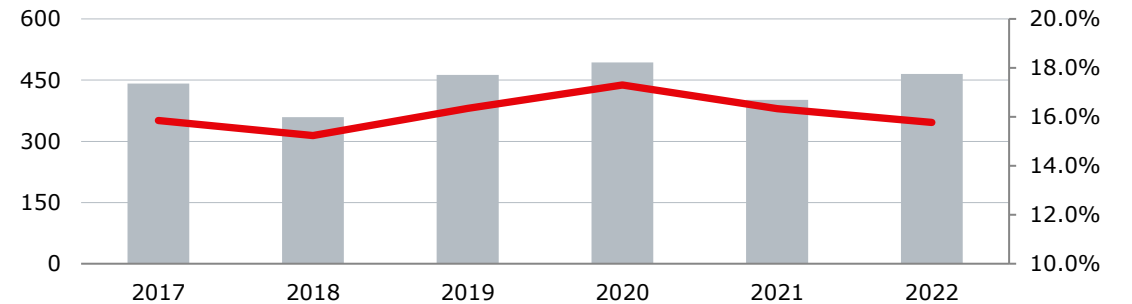
Increased earnings...

EBITDA before OOI/E (EURm)



...with solid margins and cash flows...

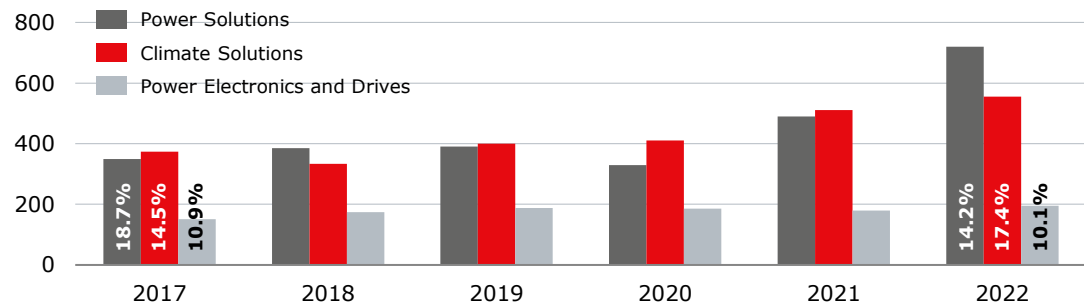
Free operating cash flow after financial items and tax (EURm)
EBITDA margin before OOI/E (% of net sales)



...from strong segment performance...

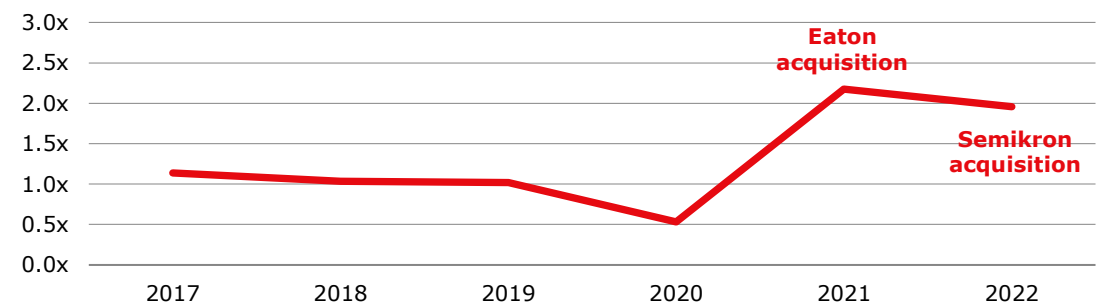
EBITA (EURm)

EBITA margin (%)



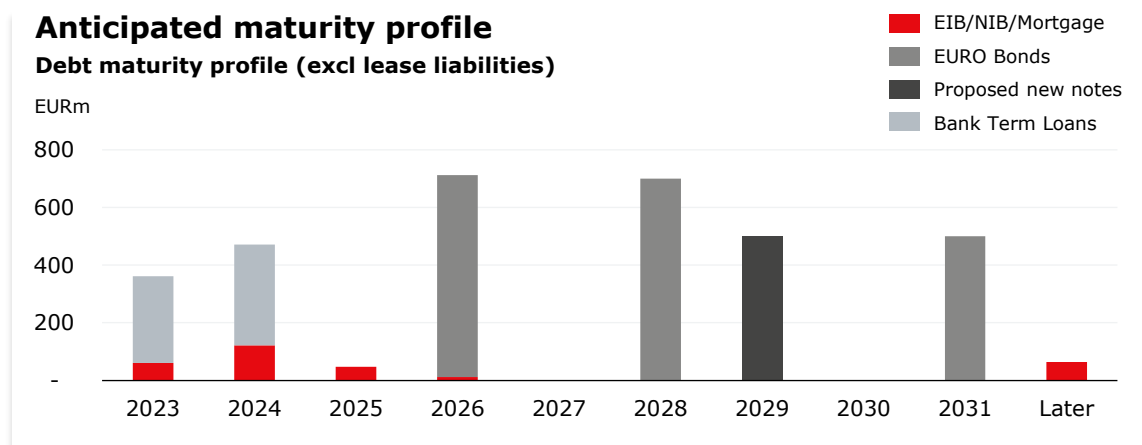
...driving declining net-debt ratio

Net interest-bearing debt / EBITDA before OOI/E



Financing and capital structure

Maintaining a BBB rating and adequate liquidity are cornerstones of our policy

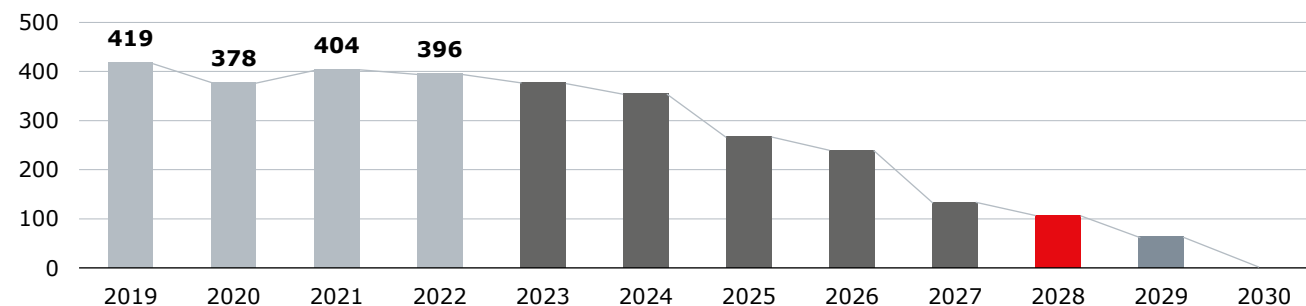


Key area	Policy	Status
Credit rating	Maintain a capital and financing structure over the cycle that is compatible with minimum a BBB credit rating	BBB with stable outlook by S&P (12 May 2023) EUR 2.5bn EMTN programme - BBB rated
Financial gearing target	The target financial gearing is 2 x EBITDA before special items. The ratio may exceed this level following significant acquisitions.	Net interest-bearing debt / EBITDA before OOI/E at 2.0 (31 December 2022)
Liquidity	Liquidity reserve equal to minimum 7.5% of net sales in terms of accessible cash and undrawn committed credit facilities	Liquidity reserve of EUR 1.24bn incl. EUR 240m of cash and cash equivalents at Danfoss A/S (31 December 2022)
Maturity	Average maturity on committed credit facilities above 3 years	Above 3 years (31 December 2022)
Shareholder remuneration	Danfoss A/S dividend distribution up to 30% of previous year's net profit in addition to minority shareholder distribution	Dividend paid according to policy in 2022 and 2023

Danfoss' Sustainability-Linked Bond Framework

2030 decarbonization plan

Scope 1 and 2 GHG Emission



Danfoss has published our first **Sustainability-Linked Bond Framework** – linked to targets on our decarbonization journey

KPI	Scope 1 and 2 GHG emissions	
	2028	2030
SPTs	Reduce absolute scope 1 and 2 GHG emissions by 75% from a 2019 base year	Achieve carbon neutral operations (scope 1 & 2), equivalent to a minimum of 90% absolute Scope 1 and 2 emissions reduction

- The framework is **aligned with the ICMA Sustainability-Linked Bond Principles**
- The SPTs set out constitute a **more ambitious pathway** compared to the target already validated to be in line with a 1.5°C scenario by the science-based target initiative. This reinforces that Danfoss' climate ambitions are in line with science and the goals of the Paris Agreement.
- S&P has provided a **Second Party Opinion** considering Danfoss SPTs to be **"Strong"**
- Danfoss will **annually report** on **performance of the KPI** against the SPTs, **verified by a qualified external reviewer**

Key terms of the proposed Sustainability-Linked Bond Offering

Please see the EMTN
Programme for complete
Terms and Conditions

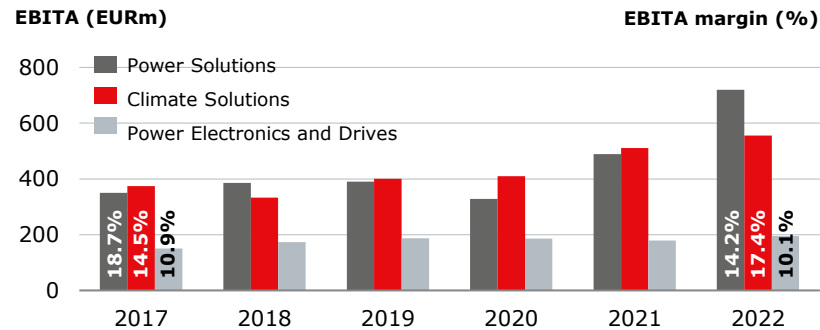
Issuer	Danfoss Finance II BV (Ticker: DNFSDC / Country: NL)
Guarantor	Danfoss A/S
Guarantor Rating	BBB (stable outlook) by S&P
Expected Issue Rating	BBB by S&P
Status / Format	Senior Unsecured, Reg S, Bearer
Currency	EUR
Expected tenor	[6-7 years]
Expected size	EUR 500m (WNG)
Coupon	Fixed, Annual, Actual/Actual (ICMA)
SPTs	Reduce absolute Scope 1 and 2 GHG emissions by 75% from a 2019 baseline
SLB Premium Amount	75 bps payable at maturity following the occurrence of a Sustainability-Linked Trigger Event
Denominations	EUR 100,000 + 1,000
Listing	Official List of Luxembourg Stock Exchange (Euro MTF market)
Documentation	EUR 2.5bn EMTN programme; Offering Circular dated 17 May 2023
Optional Redemption	3-month Par Call, Make Whole Call, Clean-Up Call at Par (80%)
Governing law	English Law
Use of Proceeds	General Corporate Purposes
Joint Bookrunners	BNPP, Danske Bank, JP Morgan, Nykredit
Sustainability Structuring Advisor	Danske Bank
Target Market	Manufacturer target market (MiFID II / UK MiFIR product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs or UK PRIIPs key information document (KID) has been prepared. No sales to retail in the EEA or the United Kingdom

Key investment highlights

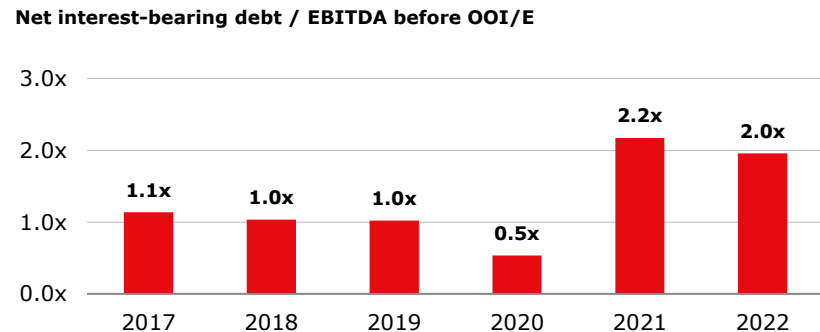
Well positioned to capitalize on global megatrends



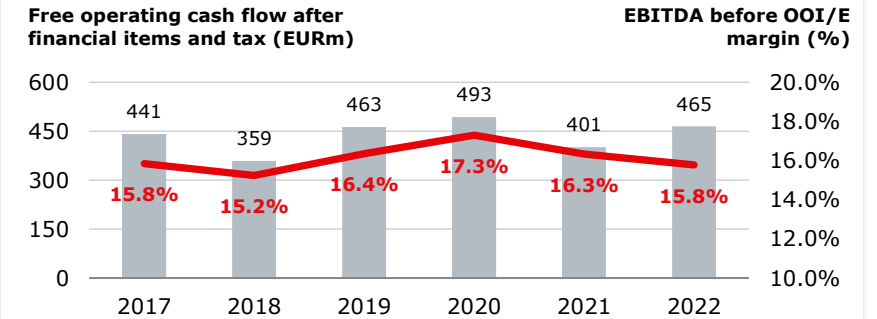
Robust and well-performing business segments with attractive market positions



Prudent financial policy targeting 2xEBITDA and minimum BBB



Stable profit margin and strong cash generation over the cycle



Current rating

S&P Global Ratings

BBB/A-2 with stable outlook



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