



**Interim announcement**  
1<sup>st</sup> half-year 2021

ENGINEERING  
TOMORROW

*Danfoss*

# Performance **highlights**

excluding the acquisition of Eaton Hydraulics

# 28,420

Employees



# +18%

Local currency **growth**



# +45%

EBITA earnings leading to  
EBITA margin of 13.8



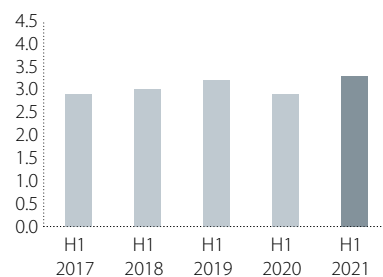
## Sales split by segments



- Danfoss Power Solutions, **37%**
- Danfoss Climate Solutions, **42%**
- Danfoss Drives, **21%**

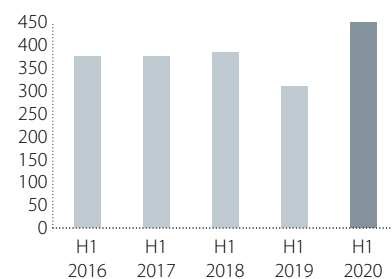
## Sales

EURbn



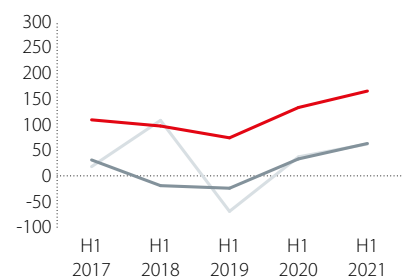
## EBITA

EURm



## Cash flow

EURm



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

## Sales split by regions



- Western Europe, **37%**
- North America, **23%**
- Eastern Europe, **8%**
- Latin America, **4%**
- Asia-Pacific, **25%**
- Africa-Middle East, **3%**

# Financial highlights

	EURm	EURm	Change	DKKm	DKKm
	H1 2020	H1 2021	in %	H1 2020	H1 2021
<b>Profit and loss account</b>					
Net sales	2,864	3,265	14%	21,380	24,281
EBITDA before OOI/E	457	580	27%	3,412	4,311
EBITDA	424	569	34%	3,165	4,229
EBITDA before OOI/E	324	449	39%	2,418	3,343
EBITA	309	449	45%	2,306	3,341
EBIT	252	412	63%	1,883	3,061
Financial items, net	-28	-20	-29%	-206	-148
Profit before tax	224	392	75%	1,677	2,913
Net profit	164	286	74%	1,227	2,126
<b>Financial ratios</b>					
Local currency growth (%)	-10	18	28	-10	18
EBITDA before OOI/E margin (%)	16.0	17.8	1.8	16.0	17.8
EBITDA margin (%)	14.8	17.4	2.6	14.8	17.4
EBITA before OOI/E margin (%)	11.3	13.8	2.5	11.3	13.8
EBITA margin (%)	10.8	13.8	3.0	10.8	13.8
EBIT margin (%)	8.8	12.6	3.8	8.8	12.6

Key figures, financial ratios and below highlighted keyfigures are calculated as defined in Note 27 in the Annual Report for 2020.

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: 0.1345 (2020: 0.1340).  
Balance sheet: 0.1345 (2020: 0.1342).

	EURm	EURm	Change	DKKm	DKKm
	H1 2020	H1 2021	in %	H1 2020	H1 2021
<b>Balance sheet</b>					
Total non-current assets	4,184	4,001	-4%	31,182	29,751
Total assets	6,281	8,850	41%	46,809	65,811
Total shareholders' equity	3,124	3,525	13%	23,285	26,209
Net interest-bearing debt	971	471	-51%	7,235	3,503
<b>Cash flow statement</b>					
Cash flow from operating activities	165	194	18%	1,236	1,444
Cash flow from investing activities	-98	-102	4%	-735	-761
Acquisition of intangible assets	-23	-20	-13%	-175	-149
Acquisition of property, plant and equipment.	-76	-93	22%	-566	-688
Acquisition of/Proceeds from disposal of subsidiaries and activities	0	-1	0%	-3	-12
Acquisition(-) and sale of other investments, etc.	1	12	***	9	88
Free operating cash flow	133	165	24%	995	1,230
Free operating cash flow after financial items and tax	33	63	91%	250	472
Free cash flow	37	62	68%	279	459
Cash flow from financing activities	28	1,848	***	211	13,741
<b>Financial ratios</b>					
Equity ratio (%)	49.7	39.8	-9.9	49.7	39.8
Leverage ratio (%)	31.1	13.4	-17.7	31.1	13.4
Net interest-bearing debt to EBITDA ratio	1.0	0.4	-0.6	1.0	0.4

# Financial **update**

Best half-year results ever. The record-high order intake led to 18% sales growth in local currency. The increased sales generated a high level of earnings, leading to an EBITA margin of 13.8% and high cash generation. Danfoss was affected by components shortages, increasing freight cost and higher raw material prices. Acquisition of Eaton's hydraulics business closed on August 2, 2021.

Danfoss technologies are more relevant than ever. At a time when the effects of climate change are increasing, Danfoss is taking the lead in the transformation towards a carbon neutral future. Our growth strategy is driven by our energy-efficient, low emission and electrification solutions, and unmatched innovation and R&D capabilities. Our top priority remains the health and wellbeing of our employees who continue to navigate the challenges created by the pandemic while delivering strong results.

## Sales

In the first six months of 2021, Danfoss was in a strong position in all markets with record-high order intake, despite the continued volatility in our global markets deriving from the COVID-19 pandemic. Group sales increased 14% to record-high EUR 3,265m (H1 2020: 2,864m), corresponding to local currency growth of 18%. Compared with the first half in 2019, which was pre-COVID, local currency growth was 6%.

Furthermore, all three business segments had better sales in the first half of 2021 than in the first half of 2020 where the second quarter was the low point of the pandemic. Compared with the first half in 2019, Danfoss



## Danfoss Power Solutions

Danfoss Power Solutions delivered significantly better sales than in the first half last year and above the level of the first half of 2019, driven by the recovery of the mobile hydraulic industry. Sales grew strongly in Asia-Pacific; Europe gained traction; and the US also picked up. Fueled by the global demand for digitalization, electrification and connectivity, the supply of electronic components was tight since the beginning of 2021. Furthermore, the strong global rebound put high inflationary pressure on component prices and freight rates. Profitability was significantly ahead of the prior-year period.



## Danfoss Climate Solutions

Danfoss Climate Solutions had a strong start to 2021 with sales being well ahead of the first half last year and 2019. All regions grew, and China showed record-high sales. However, the strong global rebound put high inflationary pressure on raw material prices, freight rates and component availability. Profitability was significantly ahead of the prior-year period.



## Danfoss Drives

Danfoss Drives delivered better sales than in the first half last year and 2019. Danfoss Silicon Power saw solid organic growth driven by the ramp-up of automotive power modules for drive trains. Most regions grew, and China was a significant contributor to growth. Drives sales and order intake increased, due to the fast market recovery with strong market growth. However, the strong global rebound was followed by delays in logistics and material shortages. Profitability was slightly below the prior-year period.

Power Solutions and Danfoss Drives had better sales and Danfoss Climate Solutions was significantly ahead.

Parts of the world are still affected by COVID-19, but Danfoss saw extensive growth in all regions.

Increased activity levels in the world economy caused supply chain challenges due to components shortages, delays in logistics, increasing freight cost and higher raw material prices. Danfoss acted early to counter that through strong follow-up with suppliers to ensure supply of components, re-designs using alternative components approved by customers, new and additional price increases, and even more focus on adapting our planning and working closely with our customers to avoid delays in their lines.

Safety remains a key priority in our daily operations, as some regions are still deeply affected by the pandemic. Generally, the situation is improving, and several countries have planned or already started to re-open society and offices. In many of the Danfoss locations around the world, office employees have begun to work from Danfoss offices again. The gradual normalization will happen in step with national health regulations and local guidelines and embrace flexibility as we knew it before COVID-19.

### Earnings

As a result of the higher topline, earnings reached a strong level. Operating profit before depreciation and amortization (EBITDA) increased 34% to EUR 569m (H1 2020: 424m), mainly due to increased sales. Operating profit before acquisition-related

amortization (EBITA) increased 45% to EUR 449m (H1 2020: 309m), leading to an EBITA margin of 13.8% (H1 2020: 10.8%).

Operating profit (EBIT) was 63% better than the prior-year period, leading to an EBIT margin of 12.6% (H1 2020: 8.8%). EBIT was negatively impacted by Eaton integration cost. Net profit reached EUR 286m (H1 2020: 164m), 74% higher than last year's level at the end of June.

### Innovation

Danfoss continues to focus on innovation to become an even stronger technology partner for our customers and partners. Research and development expense reached EUR 154m (H1 2020: 130m), corresponding to 4.7% of sales (H1 2020: 4.6%).

### Balance sheet

To secure long-term funding of the acquisition of Eaton's hydraulics business, Danfoss completed a successful bond issuance on April 21, 2021. Danfoss raised EUR 1.9bn, and the remaining funding of the cash purchase price of 3.3 billion USD (approximately 3.0 billion EUR) will be made up of bank financing already in place and cash at hand.

On June 30, 2021, total assets increased 41% to EUR 8,850m (H1 2020: 6,281m). The increase mainly can be ascribed to the bond issuance. Equity increased 13% to EUR 3,525m (H1 2020: 3,124m), predominantly influenced by the profits. Furthermore, at the Annual General Meeting held on March 26, 2021, it was decided that no dividends would be paid, due to the uncertainty created by COVID-19. The equity ratio was

39.8% (H1 2020: 49.7%), primarily influenced by the bond issuance.

On June 30, 2021, the net interest-bearing debt was very low, amounting to EUR 471m (H1 2020: 971m), leading to a net interest-bearing debt to EBITDA ratio of 0.4 (H1 2020: 1.0). The net interest-bearing debt was positively impacted by no dividend payout.

At the end of June 2021, Danfoss' credit rating assigned by Standard & Poor's was "BBB/A2 with a stable outlook."

### Cash flow

Danfoss had strong cash generation in the first half of 2021. The free operating cash flow after financial items and tax (before M&A) increased to EUR 63m (H1 2020: 33m), driven by a positive operational performance.

The cash flow from operating activities increased 18% to EUR 194m (H1 2020: 165m). Cash flow from investing activities amounted to EUR -102m (H1 2020: -98m). Danfoss continued the high level of investments in our digital transformation as well as in machinery and equipment. The cash flow from financing activities increased to EUR 1,848m (H1 2020: 28m), due to the bond issuance related to the acquisition of Eaton's hydraulics business.

### Employees

At June 30, 2021, the number of employees was 28,420 against 27,539 employees at the same time last year.

### Divestiture

On January 27, 2021, Danfoss announced the preparation of a necessary divestiture to meet regulatory requirements as a

prerequisite to close the Eaton Hydraulics acquisition. On June 1, Danfoss entered into an agreement to sell the business unit to Interpump Group S.p.A. in Italy. The transaction is subject to customary closing conditions and regulatory approvals.

Furthermore, on June 7, the final approval to acquire Eaton's hydraulics business was obtained in China with the structural remedy requirement to divest the orbital motor business and assets from the Power Solutions Zhenjiang facility within six months. The carve-out process and sales process is ongoing.

### Acquisition of Eaton Hydraulics

As announced on August 2, 2021, Danfoss officially finalized its USD 3.3bn (approximately EUR 3bn) acquisition of Eaton's hydraulics business following confirmation of all necessary regulatory approvals and closing conditions. With this move, the Danfoss Group has grown in size by a third and established itself as a global leader in mobile and industrial hydraulics.

Mobile hydraulics has been one of Danfoss' core and most successful businesses for over 50 years. The acquisition of Eaton's hydraulics business is a vital aspect of Danfoss' growth strategy. Eaton's hydraulics business will be combined with the Danfoss Power Solutions business segment, adding approximately 10,000 employees worldwide and USD 1.8bn (around EUR 1.5bn) annual sales. Combining the two organizations will double the size of Danfoss Power Solutions, increasing its innovation capacity twofold.

The strengthened Danfoss Power Solutions will have the broadest selection of mobile and industrial hydraulics products and

solutions available on the market, with the full line offering including fluid conveyance systems. The company's distribution channels have also been significantly boosted, while its local application support and geographical reach have increased considerably. All these benefits will enable Danfoss Power Solutions to become an even stronger technology partner for existing and new customers, while also taking the lead in digitalization and electrification.

### Outlook 2021

Danfoss, excluding Eaton Hydraulics, expects to continue to expand or maintain our market share, while maintaining or improving profitability measured as margin versus the 2020 level, following continued investments in the development of new products and solutions.

Taking into account the expected additional Eaton Hydraulics sales following closing of the acquisition, Danfoss expects a significant increase in Group sales for the year 2021. We expect that profitability will be impacted by purchase-price allocation and depreciation and amortization as well as integration costs related to merging with Eaton Hydraulics. The acquisition has been financed with debt and will result in an increase in financial expenses.

Danfoss continues the work to make the campus at our 250,000 m<sup>2</sup> headquarters in Nordborg CO<sub>2</sub> neutral in 2021 by using green electricity. We plan to cover the heating demand through CO<sub>2</sub> neutral district energy systems. We will do this by using excess heat from data centers and other operations

and installing heat pumps to cover the remaining heating demand – in other words, by applying our own solutions.

Danfoss is committed to decarbonizing its global operations by 2030.

### Forward-looking statements

This interim announcement includes forward-looking statements, which are subject to risks and uncertainties, some of which are outside of Danfoss' control. Various factors could cause actual developments and results to differ from the expectations set out in this announcement. Reference is made to the forward-looking statements in the Annual Report 2020. We do not assume any obligation to update these forward-looking statements.



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Further information available  
on Danfoss' website: [www.danfoss.com](http://www.danfoss.com)

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