S&P Global Ratings

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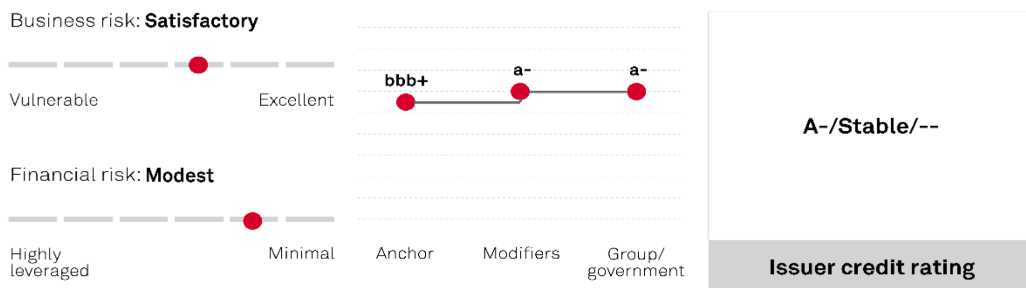
Update: DSV A/S

December 7, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
No. 3 freight forwarder in the world by revenue, offering transport and logistics services along the entire supply chain, thanks to a broad global transport and logistics network.	Revenue generation tied to volatile international trade and GDP growth similar to other freight forwarders.
An asset-light business model from booking shipment transportation via trucking, railroad, ocean shipping, and air freight firms. This allows the group to scale up service offerings without acquiring additional equipment, and avoid having excess equipment when volumes dip	Potential debt-funded acquisitions, although DSV has demonstrated its ability to onboard acquired companies onto its platforms efficiently and realize synergies quickly, allowing it to preserve higher margins than logistics peers.
Low capital expenditure (capex), flexibility to react quickly to secular shifts, scalable IT infrastructure, and standardized workflows that support the group's industry-leading profitability.	Use of FOCF, typically for dividends and share repurchases, yet contingent on the group staying within the specified financial gearing target of less than 2.0x.

Strong liquidity, underpinned by high EBITDA to free operating cash flow (FOCF) conversion, transparent financial policy, and conservative risk tolerance.	Concentration of the business model on facilitating the physical transport of goods, the logistics linked to transportation, and the small global market share of only 4% in a highly fragmented industry.

S&P Global Ratings believes DSV's strong operating performance in 2022 is not likely to be repeated in 2023 amid softening trading conditions. For the first nine months of 2022, the company reported significant growth rates for both gross and operating profit of about 50% and 75% year over year, respectively, and we believe the results for the full year will remain robust. Some of the growth is however attributable to the impact of the GIL acquisition, which DSV completed in August 2021 and we estimate will contribute about Danish krone (DKK) 2.6 billion (about $ 364 million) of EBIT to the group. The integration of GIL and strong yields have helped DSV offset the organic volume decline in its Air & Sea division in the second quarter of 2022 that accelerated somewhat in the third quarter. Air & Sea, DSV's largest business unit, which contributed about 80% of the group's 2021 EBIT, tends to be more sensitive to general macroeconomic trends than the Road or Solutions businesses.

We believe worsening macroeconomic conditions, easing maritime port congestions, supply chain disruptions, and reducing complexity of delivery routes will continue to constrain spot freight rates. Therefore, we expect these to normalize from their record highs in 2021 and the first half of 2022, but remain above the pre-pandemic levels. Furthermore, we expect many major economies and contributors to trade volumes will enter a recession in early 2023 amid inflationary pressures and rising interest rates. We also expect real consumer spending will moderate, and retail restocking will be muted given high inventory levels. We therefore anticipate sluggish global trade in 2023 and 2024. As a result, we now forecast a decline in DSV's revenue and gross profit of 14%-18% in 2023 from record highs in 2022. DSV's market share gains may partly offset lower transportation pricing that it books in its revenue line, likely helping the company post higher revenue growth than the global logistics industry average. Profitability is also likely to reduce as yields soften, and DSV's efficiency improvement measures will only partly offset the inflationary pressure on the fixed cost base.

We think DSV's credit metrics will weaken in 2023 but remain rating commensurate, thanks to DSV's capacity to generate FOCF, willingness to adjust financial policy, and commitment to keeping its gearing ratio below 2.0x (as defined by the group). In 2022-2023, DSV's adjusted FOCF will largely mirror its EBITDA trend and benefit from low annual gross capex of DKK1.3 billion-DKK1.5 billion (less than 1% of revenue) and normalizing working capital requirements after a material outflow of DKK4.6 billion in 2021, since receivables have surged due to record-high freight rates. We foresee however that, in 2022, FOCF will be fully consumed by dividend payments and share buybacks, thus limiting DSV's ability to reduce absolute adjusted debt. Given that we anticipate a slowdown in EBITDA in 2023 resulting in lower absolute funds from operations, and we estimate FOCF reducing to DKK14 billion-DKK16 billion, we think our ratio of funds from operations (FFO) to debt will weaken to 45%-50% from an estimated 63% in 2022 and close to 54% in 2021, but remain in line with our rating threshold of above 45%. Absent value-accretive acquisitions, we believe that the group will use FOCF for dividends and share repurchases; however, we expect these payouts to be contingent on the group adhering to its clearly communicated financial gearing target of less than 2.0x. In April 2020, the group suspended share buybacks due to COVID-19-related uncertainties and shifted its priority to using FOCF for net debt reduction rather than shareholder returns. Our rating reflects DSV's conservative risk tolerance, as well as its demonstrated commitment and uninterrupted capacity to keep the gearing ratio below 2.0x.

Our rating analysis continues to position DSV at the stronger end of our satisfactory business risk category, given the scale and diversification of the group's transportation network. Taking advantage of its efficient IT infrastructure and standardized workflows, DSV will continue posting industry-leading profitability, in our view. The group has almost doubled its volumes in the last five years and is now the third largest freight forwarder in the world by revenue, offering transport and logistics services that support the entire supply chain, ahead of Germany-based DB Schenker, Japan-based Nippon Express, and U.S.-based peer C.H. Robinson Worldwide Inc. Germany-based DHL Logistics and Switzerland-based Kuehne + Nagel remain the two largest players in the sector. DSV operates with an asset-light business model by booking the transportation of shipments from trucking, railroad, ocean shipping, and air freight firms. Since DSV does not rely on owning material transportation fixed assets, the group can scale up its service offerings without having to acquire additional equipment and is not hindered by excess equipment when volumes decline. The business model supports low gross capex requirements (typically less than 1% of revenue) and the flexibility to react quickly to secular shifts. DSV offers traditional freight services as well as a variety of value-added services like purchase order management, pick-up and delivery, cargo consolidation, customs clearance, and cargo insurance. About 75% of DSV's gross profit is generated from these value-added products, which highlights its service-focused value proposition. The integration of Panalpina and GIL has enhanced the group's scale and diversity. Typically, a large scale improves customer relationships, provides economies of scale, and increases bargaining power with clients and suppliers, supporting profitability. DSV's operations are not dependent on any single industry, supplier, or customer. Geographic diversity is decent, with about 51% of gross profit coming from Europe, about 26% from North and South America, and Asia-Pacific accounting for the remainder. Even though its customers are concentrated in Europe, DSV's broad transport and logistics network allows it to serve its customers globally.

We regard DSV as being in a positive position versus peers in our comparable rating analysis. This is because the group has higher EBIT margins. This, combined with our strong assessment of management and governance, lifts the anchor by one notch, resulting in the 'A-' rating. We factor in management's long tenure with the company and its track record of achieving above-industry average profitability for DSV and effectively integrating acquisitions, while articulating and maintaining a transparent financial policy and conservative risk tolerance.

Outlook

The stable outlook reflects our expectation that, although the demand and pricing for global freight transportation will normalize over the next 12 months, DSV will preserve higher EBIT margins than logistics peers while capitalizing on its scalable IT infrastructure, standardized workflows, and demonstrated grip on cost control. We also believe that the group will generate solid FOCF and keep adjusted FFO to debt above 45% and adjusted debt to EBITDA below 2.0x.

Downside scenario

We could downgrade DSV if we expected the group's adjusted FFO to debt to fall significantly below 45%, with limited prospects for recovery. This could materialize, for example, if the group fails to adjust its financial policy, in particular shareholder remuneration, to accommodate the likely moderation in earnings and prevent destabilization of credit measures. A large debt-funded acquisition resulting in credit measures falling short of our guidelines for a prolonged period may also trigger a downgrade.

We could also consider a downgrade if DSV's business risk profile weakened. This could stem from macroeconomic headwinds beyond our current expectations or operational missteps resulting in a substantial and structural revenue decline; the EBIT margin falling below 5% for a prolonged period; or a significant increase in the volatility of the group's profitability.

Upside scenario

We could raise the rating if DSV's adjusted FFO-to-debt ratio improved beyond 60% because, for example, it consistently uses FOCF to reduce debt, while adjusting its financial policy to ensure that such a ratio level is sustainable.

We could also raise the rating if DSV significantly expands its revenue and EBITDA, global market share, and geographic scale outside Europe, while generating stable and above-industry-average EBIT margins.

Company Description

Denmark-based DSV is the third largest third-party logistics services providers worldwide, as measured by 2021 revenue, behind DHL Logistics and Kuehne + Nagel. It enjoys top-three global positions in sea and air freight, and the top-three position in road freight in Europe, offering transport and logistics services that support the entire supply chain. The group operates an asset-light business model by booking the transportation of shipments from trucking, railroad, ocean shipping, and air freight firms. DSV is listed on the Copenhagen Stock Exchange and generated revenue of about DKK182 billion (about €20 billion) and adjusted EBITDA of DKK20 billion in 2021.

Peer Comparison

The main peers are listed in the table below.

DSV A/S--Peer Comparisons

	DSV A/S	C.H. Robinson Worldwide Inc.	A.P. Moller - Maersk A/S	United Parcel Service Inc.	FedEx Corp.
Foreign currency issuer credit rating	A-/Stable/--	BBB+/Stable/--	BBB+/Stable/--	A/Stable/A-1	BBB/Stable/A-2
Local currency issuer credit rating	A-/Stable/--	BBB+/Stable/--	BBB+/Stable/--	A/Stable/A-1	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2022-05-31
Mil.	DKK	DKK	DKK	DKK	DKK
Revenue	182,306	151,033	403,940	636,026	648,743
EBITDA	20,159	9,080	159,093	112,898	93,691
Funds from operations (FFO)	16,958	7,194	150,195	95,318	83,998
Interest	994	355	5,315	5,342	8,424
Cash interest paid	938	399	5,093	5,362	8,466
Operating cash flow (OCF)	11,913	1,117	141,095	102,071	86,072
Capital expenditure	1,483	464	19,423	27,040	46,488
Free operating cash flow (FOCF)	10,430	653	121,672	75,032	39,583
Discretionary cash flow (DCF)	(8,331)	(5,138)	101,640	49,293	18,486
Cash and short-term investments	8,299	1,683	68,874	69,253	47,848
Gross available cash	7,467	1,683	101,562	69,253	47,848
Debt	31,690	12,956	0	159,466	259,436
Equity	74,278	13,219	298,037	93,285	173,015
EBITDA margin (%)	11.1	6.0	39.4	17.8	14.4
Return on capital (%)	18.5	30.8	45.2	33.7	11.2
EBITDA interest coverage (x)	20.3	25.6	29.9	21.1	11.1
FFO cash interest coverage (x)	19.1	19.0	30.5	18.8	10.9
Debt/EBITDA (x)	1.6	1.4	0.0	1.4	2.8
FFO/debt (%)	53.5	55.5	NM	59.8	32.4
OCF/debt (%)	37.6	8.6	NM	64.0	33.2
FOCF/debt (%)	32.9	5.0	NM	47.1	15.3
DCF/debt (%)	(26.3)	(39.7)	NM	30.9	7.1

Financial Risk

We view DSV's financial risk profile as modest in light of its high EBITDA to FOCF (operating cash flow after cash interest and capital expenditure) conversion because of the asset-light nature of its business model and effective working capital management. Our base case points to the FFO-to-debt ratio remaining well in line with our guidelines for the rating of above 45% in 2022 after 54% in 2021.

DSV A/S--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	DKK	DKK	DKK	DKK	DKK	DKK
Revenues	67,747	74,901	79,053	121,002	115,932	182,306
EBITDA	5,427	7,500	8,954	10,712	11,656	20,159
Funds from operations (FFO)	3,759	5,558	7,069	8,512	9,656	16,958
Interest expense	901	977	1,002	855	928	994
Cash interest paid	904	973	1,034	971	933	938
Operating cash flow (OCF)	2,909	6,513	6,333	6,802	10,271	11,913
Capital expenditure	795	1,013	1,210	1,406	1,341	1,483
Free operating cash flow (FOCF)	2,114	5,500	5,123	5,395	8,930	10,430
Discretionary cash flow (DCF)	1,787	3,599	582	84	3,311	(8,331)
Cash and short-term investments	1,714	1,348	1,158	2,043	4,060	8,299
Gross available cash	400	400	250	737	3,317	7,467
Debt	18,883	16,192	16,665	22,426	20,200	31,690
Common equity	13,378	14,809	14,532	49,319	47,297	74,278
Adjusted ratios						
EBITDA margin (%)	8.0	10.0	11.3	8.9	10.1	11.1
Return on capital (%)	12.1	15.5	19.7	12.4	11.1	18.5
EBITDA interest coverage (x)	6.0	7.7	8.9	12.5	12.6	20.3
FFO cash interest coverage (x)	5.2	6.7	7.8	9.8	11.3	19.1
Debt/EBITDA (x)	3.5	2.2	1.9	2.1	1.7	1.6
FFO/debt (%)	19.9	34.3	42.4	38.0	47.8	53.5
OCF/debt (%)	15.4	40.2	38.0	30.3	50.8	37.6
FOCF/debt (%)	11.2	34.0	30.7	24.1	44.2	32.9
DCF/debt (%)	9.5	22.2	3.5	0.4	16.4	(26.3)

Reconciliation Of DSV A/S Reported Amounts With S&P Global Adjusted Amounts (Mil. DKK)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	21,465	74,103	182,306	20,417	16,223	977	20,159	12,202	920	1,483
Cash taxes paid	-	-	-	-	-	-	(2,263)	-	-	-
Cash interest paid	-	-	-	-	-	-	(938)	-	-	-
Trade receivables securitizations	1,696	-	-	-	-	-	-	(289)	-	-
Lease liabilities	15,288	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	708	-	-	(26)	(26)	17	-	-	-	-
Accessible cash and liquid investments	(7,467)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	160	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	206	-	-	-	-	-
Noncontrolling/ minority interest	-	175	-	-	-	-	-	-	-	-
EBITDA: Restructuring costs	-	-	-	(392)	(392)	-	-	-	-	-
Total adjustments	10,225	175	-	(258)	(212)	17	(3,201)	(289)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	31,690	74,278	182,306	20,159	16,011	994	16,958	11,913	920	1,483

Liquidity

We view DSV's liquidity as strong, supported by solid cash flow generation, availability under the credit lines, and a medium-term debt maturity profile. Excluding the share buybacks from liquidity uses, since we view them as discretionary and do not expect them under a stress scenario, we anticipate that DSV's sources of liquidity will be 5.0x-5.5x its uses over the 12 months from Sept. 30, 2022, and more than 6.0x in the following 12 months.

We also believe that net sources will remain positive even if EBITDA declined by 30% and that DSV will maintain significant headroom under its gearing covenant to support a strong liquidity assessment. In addition, we consider that DSV has well-established and solid relationships with banks and could absorb high-impact adverse credit events without the need to refinance, due to its low capex requirements and discretionary shareholder returns.

DSV has one financial covenant in the loan documentation, stipulating maximum net debt to EBITDA of 4.5x, which is tested quarterly. As of Sept. 30, 2022, the ratio was 0.9x (as defined by the group). Based on DSV's communicated net leverage target of less than 2.0x, we expect the group will maintain a significant cushion under its covenant.

Principal liquidity sources

- DKK12 billion of cash and short-term investments we view as readily available for debt repayment as of Sept. 30, 2022.
- DKK4.4 billion of unused and committed financing available for more than one year.
- FFO after lease amortization of DKK15 billion-DKK16 billion.

Principal liquidity uses

- Short-term debt maturities of DKK1.2 billion.
- Gross capex of DKK1.3 billion-DKK1.5 billion.
- Working capital outflows averaging DKK1.0 billion annually, including potential intrayear volatility.
- Dividend distributions in line with the guided pay-out ratio of 10%-15% of net profit.

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.

Governance factors are a moderately positive consideration in our credit rating analysis of DSV, underpinned by management's long tenure and its track record of achieving above-industry-average profitability and effectively integrating acquisitions, while articulating and maintaining conservative risk tolerance. Generally positive employee relations and procedures make DSV a safe place to work and minimize employee turnover. As a freight forwarder, the company is only indirectly exposed to environmental risks relevant to the transportation sector. We believe that DSV is well positioned to track and reduce its carbon footprint, thanks to its cutting-edge IT systems and collaboration with suppliers and customers, which have enabled it to optimize its supply chains while consolidating its freight and selecting the most fuel-efficient mode of transport. This initiative covers its over-land transportation, new office, and terminal and warehouse buildings, in addition to its choice of trailer equipment. DSV's environmental awareness is further underpinned by the annual greenhouse gas emissions reports for all modes of transport it provides to its customers and its commitment to the Science Based Targets initiative.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, DSV's capital structure consisted of DKK21.4 billion of unsecured debt, which included bank loans, bonds, and overdrafts; and DKK15.3 billion of leases.

Analytical conclusions

We rate DSV's unsecured debt 'A-', at the same level as the issuer credit rating on DSV, because the group has a modest financial risk profile, indicating financial leverage that is sufficiently low to offset the potential subordination.

Rating Component Scores

Foreign currency issuer credit rating	**A-/Stable/--**
Local currency issuer credit rating	**A-/Stable/--**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Modest**
Cash flow/leverage	Modest
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	Strong (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**a-**

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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings Detail (as of December 07, 2022)*

DSV A/S	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Issuer Credit Ratings History	
15-Feb-2021	A-/Stable/--
19-Sep-2018	BBB+/Stable/--
Related Entities	
DSV Finance B.V.	
Issuer Credit Rating	A-/Stable/--

*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.