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CREDIT OPINION
25 February 2022

Update

Rate this Research

RATINGS

DSV A/S

Domicile	Denmark
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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DSV A/S

Update to credit analysis

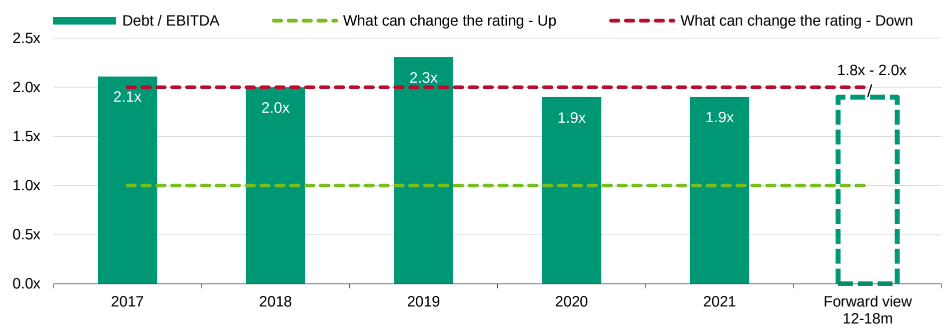
Summary

DSV A/S' (DSV) A3 rating and stable outlook is supported by its market-leading position in the fragmented global freight forwarding industry. Furthermore, the rating reflects DSV's stable and industry-leading profitability levels through the cycle. This profitability stems from a dedicated management team, productive workforce and a clearly defined and implemented IT strategy, which supports efficiency and further scalability of the business. Although DSV has a history of shareholder orientation with large share buyback programs, the A3 rating reflects its commitment to its net debt/EBITDA target of below 2.0x.

Part of DSV's strategy is to grow through acquisitions, and since 2006, the company has gone through five transformational transactions with the latest being the acquisition of Agility Global Integrated Logistics in 2021. Although we recognise the risks associated with sizeable acquisitions, DSV has a track record of using equity to fund the transactions. In addition, its history of integrating acquired companies in a fast and efficient way and realising cost synergies illustrates the success of its acquisition strategy.

The assigned rating is primarily constrained by DSV's Moody's-adjusted debt/EBITDA of 1.9x, which is relatively high compared with that of other A3-rated companies. The strong and sustained free cash flow generation offsets the leverage, reflected in a high Moody's-adjusted free cash flow / debt ratio of 16% for the full year 2021. DSV aims to have as little cash as possible on balance sheet and instead uses its revolving credit facility. Given the very strong cash flow generation over the past two years, the cash balance has been unusually high.

Exhibit 1
Expecting Moody's-adjsuted debt / EBITDA of around 1.8-2.0x for the next 12-18 months



Forward view is Moody's opinion and does not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

- » One of the largest third-party logistics companies globally
- » Track record of stable and predictable profitability and cash flow generation through the cycle
- » One of the most profitable companies in its industry
- » History of successfully executing and integrating large and transformational acquisitions partially funded with equity
- » Dedicated management team with long tenure

Credit challenges

- » Cyclical and competitive nature of the transportation and logistics sector
- » Somewhat elevated leverage for the A3 rating category
- » Shareholder-friendly financial policy, although mitigated by its commitment to adhere to internal net leverage targets
- » A narrow product offering compared with that of similarly rated peers

Rating outlook

The stable outlook reflects our expectation that DSV will continue to realise an operating margin of around 8-9% while maintaining Moody's-adjusted debt/EBITDA of around 1.8x over the next 12-18 months. We expect any sizable acquisitions to be financed with equity support and share buybacks to be balanced with the level of FCF generation.

Factors that could lead to an upgrade

- » Operating margin sustainably above 10%
- » A more conservative financial policy leading to debt/EBITDA sustainably around 1.0x
- » FCF/debt in the high 20s in percentage terms
- » Any upward rating considerations to be balanced against the cyclical and competitive nature of the transportation and logistics sector

Factors that could lead to a downgrade

- » A deterioration in operating margin toward 6%
- » Debt/EBITDA sustainably above 2.0x
- » FCF/debt sustainably below 15%
- » A more aggressive financial policy, including debt-financed acquisitions or sizable debt-financed share buybacks

Key indicators

Exhibit 2
DSV A/S

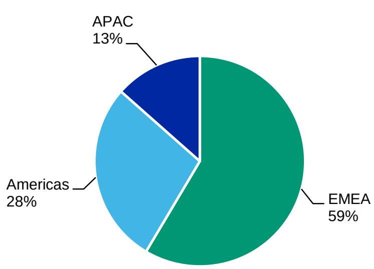
	2017	2018	2019	2020	2021	Forward view 12-18 months
Revenue (USD Billion)	$11.4	$12.5	$14.2	$17.8	$29.0	$29.0 - $30.0
Operating Margin %	6.7%	7.4%	7.0%	8.1%	8.9%	8.0% - 9.0%
EBITA / Average Assets	10.8%	13.0%	9.4%	9.3%	12.8%	10.0% - 11.0%
Debt / EBITDA	2.1x	2.0x	2.3x	1.9x	1.9x	1.8x - 2.0x
FFO / Debt	37.2%	39.0%	34.1%	38.6%	38.7%	41% - 42%
EBIT / Interest Expense	7.0x	7.3x	8.0x	9.1x	16.2x	10.0x - 11.0x

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Forward view are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Profile

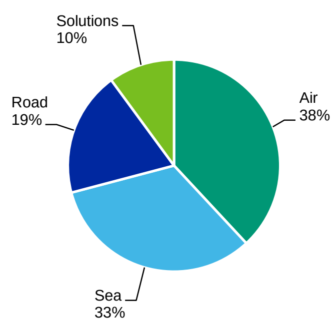
Headquartered in Hedehusene, Denmark, DSV is the fifth-largest third-party logistics (3PL) company in the world and the third-largest air and sea freight forwarder. It is active in over 90 countries and employs 79,000 people. The company was formed in 1976 by 10 independent Danish haulers, and since then, it has grown organically, supported by more than a handful of transformational acquisitions. Its shares are listed on the Nasdaq Copenhagen Stock Exchange and has a market cap of around DKK291 billion (€39 billion). In 2021, the company reported revenue of DKK182.3 billion (€24.5 billion) and EBIT before special items of DKK16.2 billion (€2.2 billion).

Exhibit 3
Revenue per region
Full year 2021



Source: Company interim reports

Exhibit 4
Revenue per product line
Full year 2021



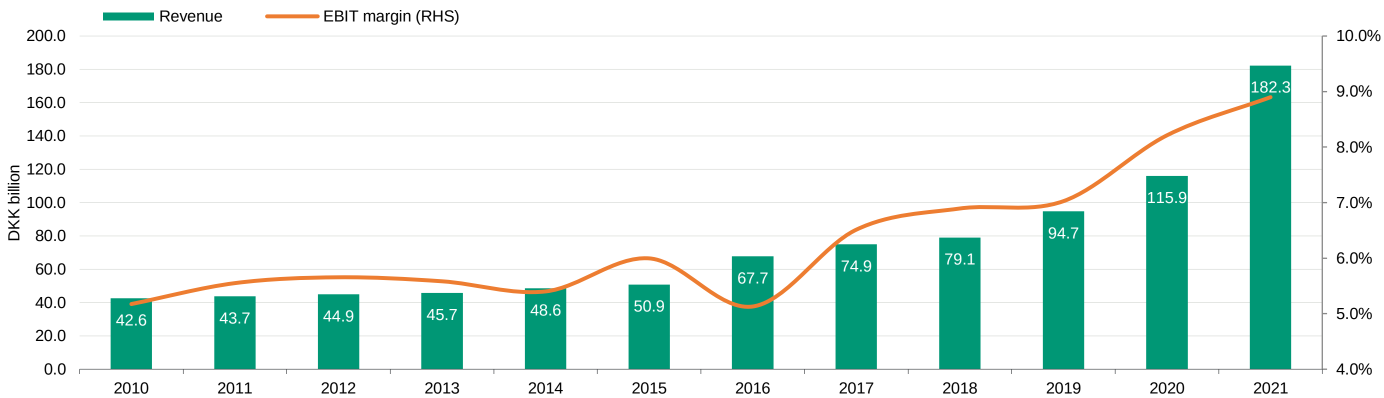
Source: Company interim reports

Detailed credit considerations

Asset-light 3PL company with historically above industry-average profitability

DSV is an asset-light global 3PL company with focus on freight forwarding services for air, ocean and road transport, as well as housing a medium-sized contract logistics business. It is not an asset owner nor does it lease transportation assets (other than trailers for its road division), instead the company focuses on facilitating transport and offering services such as cargo consolidation, warehousing, customs clearance, purchase order management and other products. As the company does not own fixed assets and instead leases terminals and warehouses, its business model is flexible in terms of adjusting its scale and capacity as needed. Although large scale does not in itself guarantee higher profitability, acquiring volume and expanding geographic reach have been integral factors in DSV's strategy to grow its business as well as gradually increase profitability. In the last 10 years, revenue and gross profit have almost tripled and the EBIT margin has expanded to almost 9% from 5% as seen in Exhibit 5. For the next 12-18 months, our projections for the Moody's-adjusted operating margin of 8%-9% is based on that part of the record high figure for 2021 was attributable by the exceptionally strong demand and tight supply induced by the pandemic. We therefor do not rule out a slight decline in profitability.

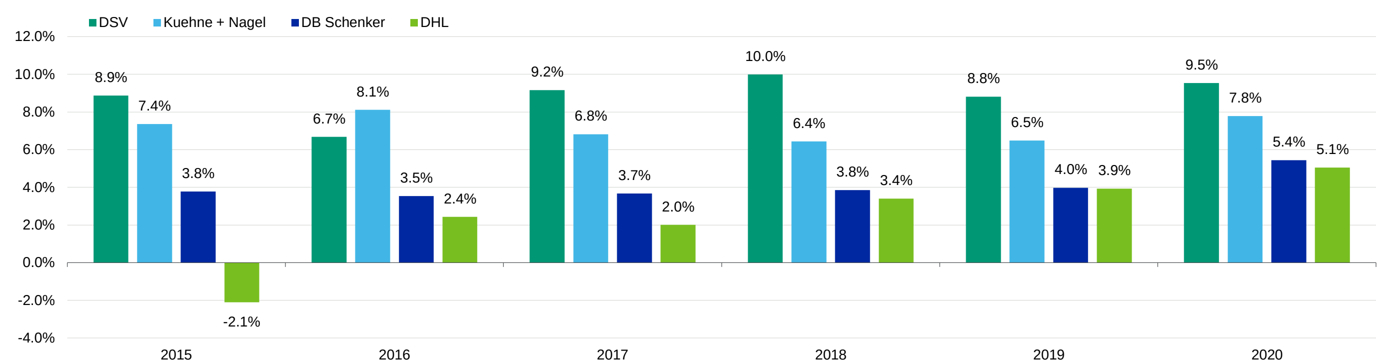
Exhibit 5
DSV grew substantially in the latter part of the last decade
Revenue and reported EBIT margin before special items



Source: Company's annual and interim reports

A strength of DSV is its higher-than-peer profitability in all three divisions: Air and Sea, Road and Solutions (see Exhibit 6 for Air and Sea), partly explained by strategic decisions taken many years ago to streamline the company's IT architecture. It includes a centrally governed enterprise architecture as back-end and one single transport management system per division in the front-end, which supports the productivity of the processes and workforce. Another element of DSV's IT strategy is its scalability, which enables a swift integration of acquired companies and the potential to realise significant cost synergies quickly.

Exhibit 6
DSV's Air and Sea division has been able to generate higher profitability than that of its closest peers
Reported EBIT margin for the largest freight forwarders globally

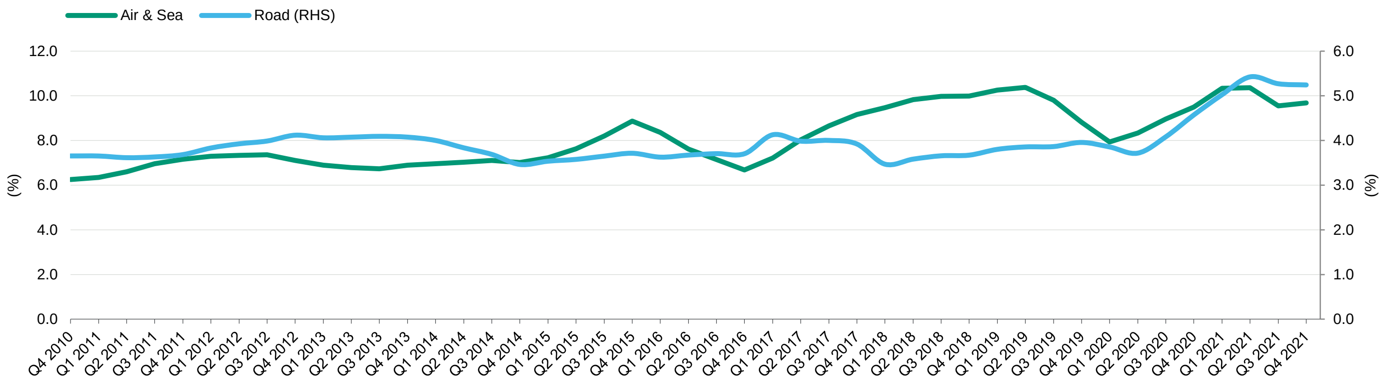


Although numbers have been taken from annual reports of respective companies, combining figures for divisions within a company should only serve as an illustrative purpose. For DSV, numbers are for its Air and Sea division. For Kuehne + Nagle, numbers are for its separate Sea freight business unit and Airfreight business unit combined. For DB Schenker, numbers are for its separate Ocean freight Line of business and Air freight line of business combined. For DHL, number are for its Global Forwarding division excluding freight (road).
Source: Company's annual reports

Highly competitive markets with sensitivity to freight volumes

The freight forwarding and logistics industry is highly competitive and characterised by intense price competition, low margins and relatively low barriers to entry. Furthermore, DSV faces competition from other freight forwarders, integrated carriers, logistics companies and third-party logistics providers. For freight forwarding (Air and Sea), around 40% of global revenue is generated by the 10 largest companies. In contract logistics, the share of the 10 largest companies is even lower — around 20%. This type of competition has resulted in many companies generating lacklustre EBIT margins, typically low- to mid-single digits in percentage terms. Therefore, we consider DSV's historically stable margins a key credit strength supporting the assigned rating.

Exhibit 7
DSV's freight forwarding divisions have recorded very stable margins through the cycle
Reported EBIT margin before special items for DSV Air and Sea and DSV Road, trailing 12 months



Source: Company's interim reports

Another risk is that customer relationships, other than contract logistics, are not based on long-term contracts, with minimum volume commitments from customers. One way for companies like DSV to mitigate this risk is a minimisation of customer concentration; DSV's 10 largest customers represent slightly over 10% of revenue, and its 100 largest customers account for around one-third of revenue, a key driver for the assigned A3 rating. The company's churn rate is also relatively low for both its Air and Sea, and Road divisions. Another way to fend off competition is the ability to be integrated in customers' supply chains by offering a broad service palette. We understand that almost 70% of DSV's largest customers do business with more than one division; the more integrated DSV can become, the higher the switching cost is for its customers.

Although freight rates are volatile, DSV's Air and Sea freight forwarding division normally takes limited freight rate risks, given its policy to agree on up to three-month rate commitments with its customers. Longer commitments are covered by back-to-back agreements with carriers. For its Road division, suppliers are local and regional haulers that are contracted on a spot basis. As the lion's share of gross profit is not extracted from basic freight brokerage but from add-on services, volumes are much more important than the absolute level of freight rates.

Track record of successful equity financed M&A transactions and disciplined financial policy

Over the last 15 years, DSV has carried out five rather transformational acquisitions, expanding the group's revenue by 30%-50%. The acquisition targets typically generated lower profitability than DSV and, therefore, offered a clear business case for significant improvement in productivity. Usually, improvement entails realising cost synergies by reducing headcount in, among others, IT, operations and finance, as well as costs of maintaining systems and infrastructure. We understand management has a target of completing integration and realising full run-rate synergies within two to three years of an acquisition.

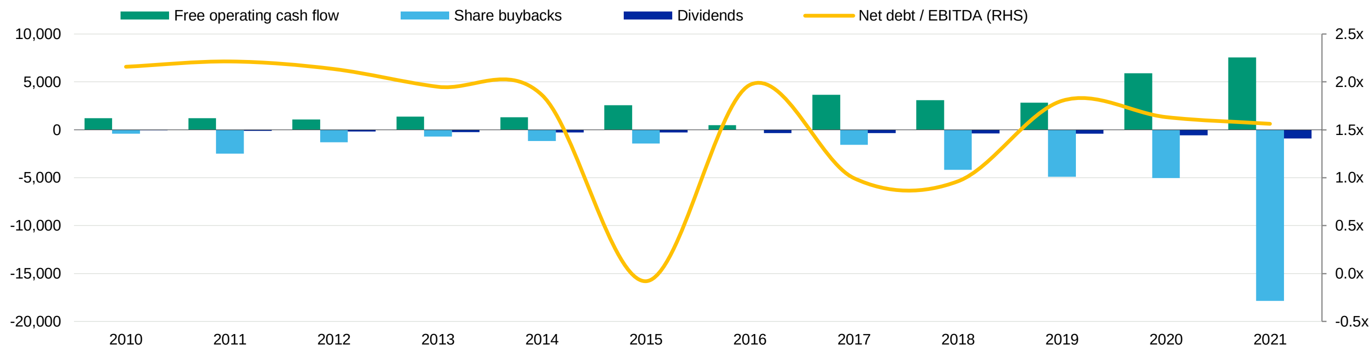
We note DSV's willingness to support the funding of acquisitions with equity. This willingness was most recently showcased by the acquisition of Agility in the second quarter of 2021, for which the purchase price of DKK29.5 billion was paid in DSV shares, corresponding to close of 10% of DSV's share capital.

DSV's capital structure is governed by its financial policy of keeping net debt/EBITDA below 2.0x (excluding pension liabilities but including lease liabilities). The company has a clear order of prioritising cash flow: repayment of net interest bearing debt in periods when the financial gearing ratio is above the target range; value-adding investments in the form of acquisitions or development of the existing business; and distribution to shareholders by means of share buybacks and dividends.

Exhibit 8

DSV has respected its financial policy by ensuring net debt/EBITDA is below 2.0x at all times

Historical cash flow generation, share buyback and dividend levels versus leverage target



The net debt/EBITDA target was changed in 2018 to 2.0x from 1.0x-1.5x because of the upcoming IFRS16 regime. Before 2012, the policy stipulated a range of 2.0x-2.5x.
Free operating cash flow = FCF before dividends.
Source: Annual and interim reports

As Exhibit 7 shows, the company has always let its leverage target steer the level of shareholder remuneration to be paid out. Such was the case in 2016, when the company acquired UTI Worldwide Inc. in late 2015. The board then took the decision to cancel share buybacks, and thus, leverage decreased to 1.0x in 2017 from 2.0x in 2016. Notwithstanding the disciplined financial policy, there is always a risk of the timing of generous share buybacks coinciding with adverse market conditions or economic shocks. For 2022, the company has so far announced DKK3.7 billion in share buybacks. We have, however, included a total of DKK8.9 billion for 2022 and another DKK10 billion in 2023.

Liquidity analysis

We view DSV's liquidity as good. While the company usually has a relatively low cash balance, typically 1%-2% of revenue, sustained FCF generation is supporting the company's liquidity profile. As of the fourth quarter of 2021, the company's cash balance was DKK8.2 billion, with part of it restricted. Furthermore, the company had access to DKK8.1 billion of revolving credit facilities with no material adverse clauses (MAC) but with financial covenants. We understand the company's policy is to have liquid reserves (cash and undrawn facilities) of at least €150 million at any time. In terms of cash uses, working capital swings are fairly low with no particular seasonal patterns; the largest driver is changes in volumes. Because DSV runs an asset-light business, its reported capital spending has historically been low at DKK1.2 billion - DKK1.4 billion in the last three years. Together with contractual lease payments, we expect Moody's-adjusted capital spending to hover at around DKK5.0 billion over the next three years.

ESG considerations

We consider the impact of environmental, social and governance (ESG) factors when assessing companies' credit quality. In the case of DSV, the main ESG-related drivers are as follows:

We consider the ongoing coronavirus pandemic, with its impact on the global economic outlook, commodity and asset prices, as a severe and extensive shock across sectors, regions and markets. The manufacturing industry is one of the sectors that is severely affected. We regard the pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. DSV is exposed to shutdown measures and travel restrictions, which have affected operating conditions, and the company remains vulnerable to the continued spread of the virus.

In terms of environmental impact, DSV is exposed to the global efforts to reduce CO_2 emissions, as well as emissions of other pollutants in the form of increased fuel costs at suppliers of road, ocean and air transportation. Given the business model of DSV, where these costs are naturally passed on to customers, we view environmental risks as limited from a credit perspective. However, initiatives to reduce global freight volumes to meet the environmental goals set up by various governments can weaken DSV's credit profile over time.

The company adheres to publication and corporate governance practices in line with its listing requirements. The company has a distribution policy of 10%-15% of net profit in place, in combination with additional share buybacks depending on FCF generation. In addition, leverage, defined as reported net debt/EBITDA before special items, should remain below 2.0x.

Methodology and scorecard

The principal methodology used in these ratings was the Surface Transportation and Logistics methodology, published in December 2021. DSV's long-term issuer rating of A3 is one notch below the scorecard-indicated outcome in our current and forward view. The difference can be explained by the strong operating performance within the air and ocean freight forwarding industry, which we believe is not representative over the cycle.

Exhibit 9
DSV A/S

Surface Transportation and Logistics Industry Grid [1][2]	Current FY 12/31/2021		Moody's 12-18 Month Forward View As of 2/17/2022 [3]	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$29.0	Aa	$29 - $30	Aa
Factor 2 : Business Profile (20%)				
a) Business Profile	Baa	Baa	Baa	Baa
Factor 3 : Profitability & Efficiency (10%)				
a) Operating Margin %	8.9%	Ba	8% - 9%	Ba
b) EBITA / Average Assets	12.8%	Baa	10% - 11%	Baa
Factor 4 : Leverage & Coverage (40%)				
a) Debt / EBITDA	1.9x	A	1.8x - 2.0x	A
b) FFO / Debt	38.7%	A	41% - 42%	A
c) EBIT / Interest Expense	16.2x	Aaa	10x - 11x	Aa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned				A3

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2021.
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Ratings

Exhibit 10

Category	Moody's Rating
DSV A/S	
Outlook	Stable
Issuer Rating -Dom Curr	A3
DSV PANALPINA FINANCE B.V.	
Outlook	Stable
Bkd Senior Unsecured	A3

Source: Moody's Investors Service

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