DNV Group AS
Kingdom of Norway, Business Services

A STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2022	2023	2024E	2025E
Scope-adjusted EBITDA interest cover	625.1x	Net interest income	151.6x	Net interest income
Scope-adjusted debt/EBITDA	Net cash	Net cash	Net cash	Net cash
Scope-adjusted funds from operations/debt	Net cash	Net cash	Net cash	Net cash
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	Net cash	Net cash

Rating rationale

DNV's business risk profile (assessed at BBB+) remains driven by its leading global position in maritime classification and services. In addition, through its Energy Systems area, DNV has an active role in the transition to cleaner energy among its industry clients (positive ESG factor). The assessment is constrained by moderate profitability under the current push for growth as well as concentration of earnings around the largest service lines.

However, these constraints are partly mitigated by DNV's conservative financial risk profile (assessed at AA), as the company is expected to continue having a net cash position, strong cash flow generation and robust liquidity.

Outlook and rating-change drivers

The Outlook is Stable, reflecting our expectation that DNV will remain in a net cash position over the next few years, driven by robust cash flow generation and relatively stable profitability, while keeping its leading position in maritime classification and services alongside growth in other business areas.

The upside scenario for the rating and Outlook could materialise if:

- DNV Group were to sustain its net cash position combined with improved profitability and/or diversification through successful organic and inorganic growth.

The negative scenario for the rating and Outlook is:

- Increased leverage with debt/EBITDA moving towards 1x, particularly due to a financial policy change or other event reducing the likelihood of subsequent deleveraging.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
1 Nov 2024	Affirmation	A/Stable
8 Feb 2024	Affirmation	A/Stable
2 Feb 2023	New	A/Stable

Ratings & Outlook

Issuer	A/Stable
Short-term debt	S-1
Senior unsecured debt	A

Analysts

Per Haakestad
+47 92 29 78 11
p.haakestad@scoperatings.com

Thomas Faeh
+47 93 05 31 40
t.faeh@scoperatings.com

Related Methodologies

General Corporate Rating Methodology; October 2023

European Business and Consumer Services Rating Methodology; January 2024

Scope Ratings GmbH

Karenlyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• A globally leading position and longstanding reputation in maritime classification and services • Non-discretionary nature of many services, which supports revenue visibility • Robust cash flow generation and low debt underpins a very strong financial risk profile • Prudent financial policy and ultimate ownership structure removes pressure for shareholder remuneration • Increasing importance of ESG and related compliance as well as accelerated megatrends such as push for cleaner energy and digitalisation supports long-term demand for services (positive ESG factor)	• Moderate profitability to remain stagnant or slightly decline in next few years of expansion • Concentration on its Maritime business area, especially as driver for profitability • Moderate dependence on the largest service lines • Potential reliance on M&A to sustain growth in other business areas than Maritime where the market is more fragmented • Risk of lack of focus through a range of smaller business areas and small or non-core ventures • Room to improve in terms of recurring revenue base, although some business areas are project-based by nature

Positive rating-change drivers	Negative rating-change drivers
• Sustained net cash position combined with improved profitability and/or diversification through successful organic and inorganic growth	• Debt/EBITDA moving towards 1x, particularly due to a financial policy change or other event reducing the likelihood of subsequent deleveraging

Corporate profile

Founded in 1864 and headquartered at Høvik, Norway, DNV is a global provider of services within assurance and risk management. It is the leading maritime classification society and advisor in the shipping and maritime industries. It is also serving a broader range of industries and has a longstanding presence in the areas of energy and renewables. Through its services, DNV ensures that businesses are meeting specified standards or requirements by testing, inspecting and certifying their assets, products, processes, systems or supply chains, supplemented with additional offerings such as related advisory and digital solutions.

DNV generated revenues of NOK 31.6bn in 2023. The company has approximately 15,000 employees in over 100 countries and operates in six business areas: Maritime, Energy Systems, Business Assurance, Supply Chain & Product Assurance, Digital Solutions, and The Accelerator.

DNV is ultimately owned by Det Norske Veritas Foundation, which is organised as a free-standing, autonomous and independent foundation.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	625.1x	Net interest income	151.6x	Net interest income	309.4x
Scope-adjusted debt/EBITDA	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted funds from operations/debt	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	Net cash	Net cash	Net cash
Scope-adjusted EBITDA in NOK m					
EBITDA	4,159	5,386	5,387	5,565	5,843
Other items: adjusted for capitalised development costs	(283)	(379)	(417)	(438)	(460)
Scope-adjusted EBITDA	**3,876**	**5,007**	**4,970**	**5,127**	**5,383**
Funds from operations in NOK m					
Scope-adjusted EBITDA	3,876	5,007	4,970	5,127	5,383
less: Scope-adjusted interest	(6)	10	(33)	11	(17)
less: cash tax paid per cash flow statement	(730)	(1,206)	(1,219)	(1,277)	(1,313)
Other non-operating charges before FFO	(78)	334	-	-	-
Funds from operations (FFO)	**3,062**	**4,145**	**3,718**	**3,862**	**4,053**
Free operating cash flow in NOK m					
Scope-adjusted FFO	3,062	4,145	3,718	3,862	4,053
Change in working capital	(806)	(595)	(413)	(232)	(246)
less: capital expenditure (net)	(212)	(370)	(408)	(429)	(451)
less: operating lease payments	(407)	(456)	(502)	(527)	(553)
Free operating cash flow (FOCF)	**1,637**	**2,724**	**2,394**	**2,673**	**2,802**
Net cash interest paid in NOK m					
Net cash interest per cash flow statement	32	(8)	35	(9)	20
Add: pension interest	(26)	(3)	(3)	(3)	(3)
Net cash interest paid	**6**	**(10)**	**33**	**(11)**	**17**
Scope-adjusted debt in NOK m					
Reported gross financial debt	4,702	4,806	3,971	4,066	4,166
less: cash and cash equivalents	(7,325)	(7,386)	(6,727)	(6,740)	(6,952)
add: non-accessible cash	716	769	769	769	769
add: pension adjustment	-	-	-	-	-
Scope-adjusted debt	**(1,906)**	**(1,811)**	**(1,987)**	**(1,905)**	**(2,017)**

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Environmental, social and governance (ESG) profile[1]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

The demand for assurance and risk management services is supported by growing importance of ESG and related compliance. This includes the secular transition to cleaner energy and digitalisation, as well as adherence to increasingly complex regulations and quality control. We believe this underpins the future cash flow of DNV as a globally recognised provider of services to meet these developments.

Through its business area of Energy Systems, DNV plays a role in and benefits from industry transition towards decarbonisation and the usage of more sustainable, green energy.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB+

Industry risk profile reflects asset-light business services with specialised workforce

DNV is captured under our industry risk profile for asset-light business services companies with a specialised workforce, which is assessed at BBB, and reflects the complex services provided by DNV and associated expertise required among its employees. In addition, there is limited substitution risk in maritime classification and certain other assurance services, since these are ongoing requirements for customers to operate or conduct trade.

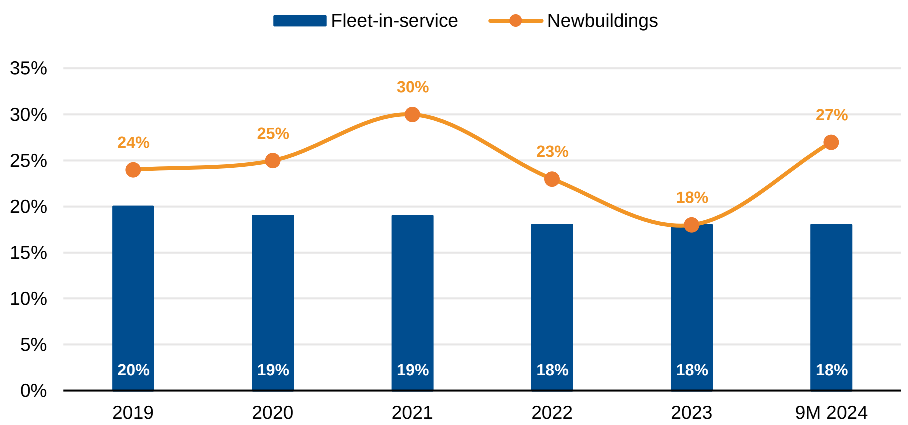
Global leadership position maritime classification, forming the backbone of profitability

DNV's competitive position is driven by its global leading position in maritime classification and services. The company commands a market share of about 18% for fleet-in-service classifications globally, measured as share of the global shipping fleet by gross tonnes.

DNV's share of the more cyclical newbuilding market declined to 18% in 2023. This is down from 23%-30% in 2021-2022. The reduction was primarily due to a shift in orders from container vessels to the tanker and bulker segments and reflect DNV's comparatively weaker position in those vessel categories.

Despite representing a smaller area of classification services, DNV secured 60% of all new contracts in the offshore space in 2023.

Figure 1: DNV's market share in maritime classification services, based on gross tonnes



Sources: DNV, Scope

Maritime classification reflects a consolidated market with only a few longstanding and reputable providers

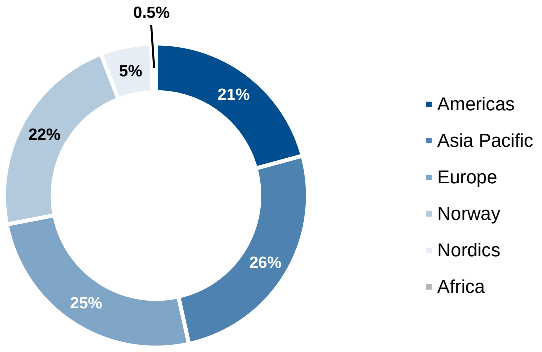
The maritime classification market is consolidated. The six largest players are controlling more than 80% of the market. Main competitors include Lloyd's Register (LR), American Bureau of Shipping (ABS), Nippon Kaiji Koykai (NK), Bureau Veritas (BV) and Registro Italiano Navale (RINA). Having a leading worldwide presence puts DNV in the range of business services companies that have a strong global, rather than regional market position.

DNV sits at the premium segment of the market as it tends to handle more complicated vessels and classifications. The limited options in longstanding and reputable providers of classification services protects DNV's pricing strategy and profitability. DNV has established unique know-how and presence in all ship and offshore categories. This supports its ability to scale the operation of advisory projects or classifications for other vessels of a carrier or to a new region without significant administrative hurdles or barriers to entry.

Market shares outside Maritime more niche dependent

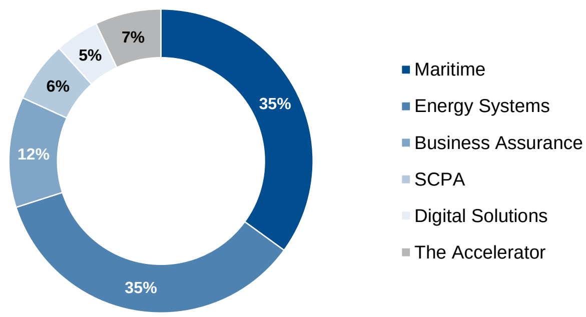
The company's market shares in other business areas than Maritime are mixed. This is driven by higher fragmentation, making it difficult to take significant share of the market and establish the same brand strength. DNV still holds robust positions in specific niches of other end-markets (e.g. energy and renewables) and pushes to expand in new areas (e.g. digital services and cyber security).

Figure 2: Geographical diversification of revenue, 2023



Sources: DNV, Scope

Figure 3: Revenue by business area, 2023



Sources: DNV, Scope

Good diversification, though still skewed towards the end-markets of Maritime and Energy Systems

The business model of DNV is diversified in geographies, helping to reduce exposure to demand of specific regions. The three regions of Europe, Asia Pacific and Americas contributed almost equally to 2023 revenues at 25%, 26%, and 21% respectively. The Nordics contributed 5% and Africa with 0.5% while additional revenues attributed to headquarters in Norway are split globally.

DNV's revenues continues to be skewed towards Maritime and Energy Systems, both accounting for 35% in 2023. The remaining revenues were generated by Business Assurance (12%), Supply Chain and Product Assurance (6%), Digital Solutions (5%) and The Accelerator (7%). The company has a diverse service offering, albeit cash flow generation is biased towards a few key service areas and end-markets, which constrains our assessment.

DNV's growth strategy is expected to improve diversification and reduce the current dependence on its traditionally strongest service areas. Notably, in 2023, the company expanded its presence in fields like cyber security and aquaculture by acquiring Nixu Group and Åkerblå Group. Other acquisitions were also made in the area of digital services for the renewable energy industry.

Moderate profitability margins with pressures from cost inflation and growth in lower-margin services

The reported EBITDA margin improved in 2023 to 17.0% (16.6% in 2022), including an increased allocation to the company's profit-share scheme. We expect the margin to weaken in 2024 to 15%-16% but stabilise over the forecast. The downward pressure on profitability in our forecast reflects the anticipated impact from cost inflation and growth in lower-margin services outside Maritime.

Profitability continues to constrain the business risk profile. Our calculation of the Scope-adjusted EBITDA margin is about 100bps lower than DNV's reported margin due to our adjustment for capitalised development costs. We expect both the Scope-adjusted EBITDA margin and return on capital employed (ROCE) to be sustained at around 15%. This assumes the organic and inorganic growth strategy of DNV will remain disciplined to ensure a manageable impact on group profitability.

Service strength backed by global brand

We assess service strength to be supported by DNV's global brand and entrenched standing in the most important service lines for its cash flow generation. The contract structure in maritime classification is multi-year given the five-year cycle for fleet-in-service classifications. Business Assurance reflect a three-year cycle. The other services are often more short term and project-based, depending on either the capex or opex budget at the customers. The volatility of earnings for DNV is therefore considered medium to low.

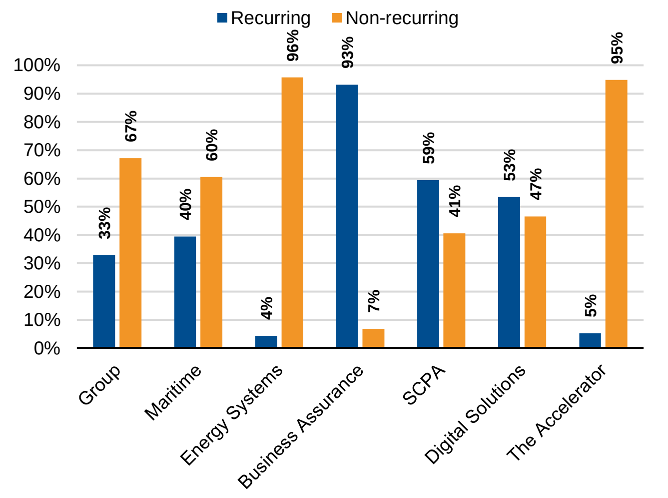
Moderate share of recurring revenues – although high profitability in recurring revenue base

DNV has a moderate share of recurring revenues of about one-third. These are mostly from analogue services despite the growth of digital services. The share of recurring revenues is backed by multi-year contracts and make the financial performance of DNV more stable and visible. This is also considering the comparatively higher profitability among the services driving the recurring revenue base.

Customer churn is mixed and depends on service nature

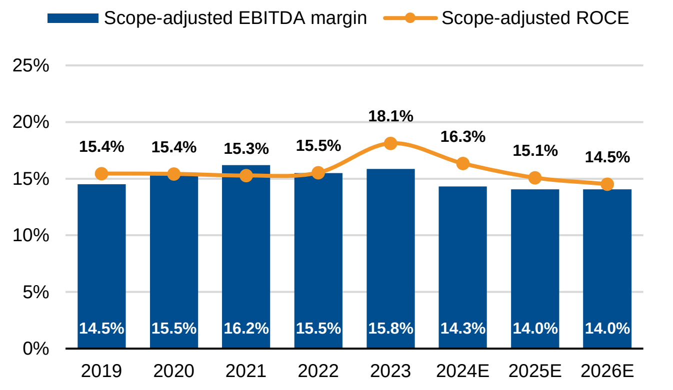
The retention rate for fleet-in-service class is high. Other services also build on long-term customer relations that support order intake. However, we still consider churn in the project-based service lines as high.

Figure 4: Revenue by contract type, 2023



Sources: DNV, Scope

Figure 5: Profitability



Sources: DNV, Scope estimates

Financial risk profile: AA

Unchanged financial risk profile

DNV's financial risk profile supports the issuer rating. The AA assessment reflects strong internal cash generation and the continued negative Scope-adjusted debt (i.e. net cash position) along with a prudent financial policy and liquidity profile.

Adjustments

We have adjusted financial items to calculate Scope-adjusted values:

- EBITDA adjusted for capitalised development costs
- Debt adjusted for:
  - Restricted cash of around NOK 700m-800m per annum.
  - Liquidity placed in equity funds of NOK 1.6bn in the forecast period as part of DNV’s updated capital allocation policy – up from NOK 358m at YE 2023.

Consistent cash flow generation underpins net cash position

DNV has kept low external debt and a high balance of available cash and marketable securities in recent years. This has resulted in a net cash position because its investments and dividend payments have been well covered by internal cash flow generation.

Net cash position of NOK 1.8bn at YE 2023

At YE 2023, the reported gross financial debt amounted to NOK 4.8bn, mainly comprising a NOK 3bn term loan with Nordic banks and NOK 1.7bn of lease liabilities. Adjusted for restricted cash and marketable equity funds, the company's net cash position amounted to NOK 1.8bn (YE 2023).

Very strong credit metrics

We expect the net cash position to be sustained in 2024-2026, ultimately leading to an assessment of very strong credit metrics. This reflects our assumption that DNV will use discretionary cash flow for investments, mostly bolt-on acquisitions. However, we have also accounted for an increase in the holding of marketable equity funds in 2024, reflecting the company's updated capital allocation policy.

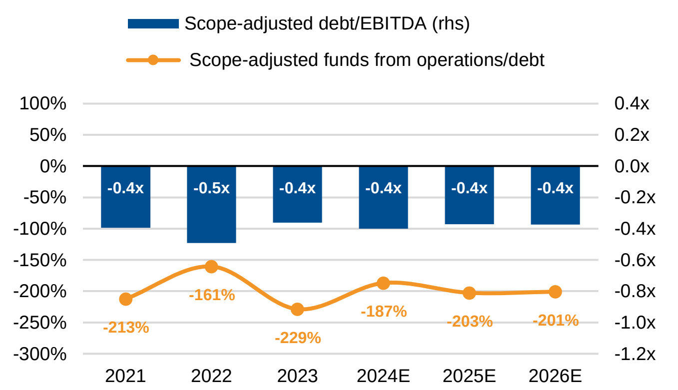
Sustained deleveraging potential

The financial risk profile is supported by expected positive free operating cash flow and low pressure for shareholder remuneration. This results in a consistent deleveraging potential unless funds are used for M&A or invested in marketable securities that are not netted as cash (e.g. equity funds) in our calculation of Scope-adjusted debt.

Industry dynamics underpins organic potential

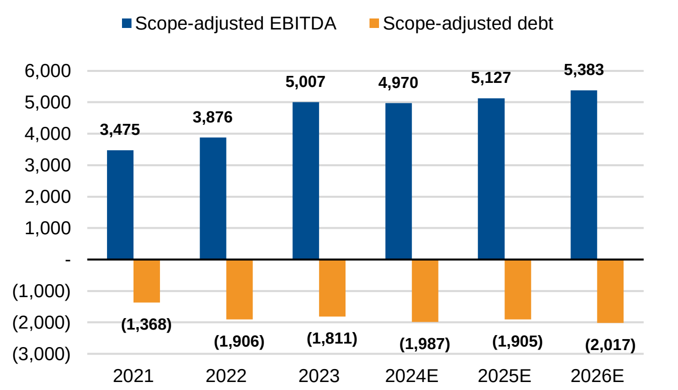
Despite high investment for external targets, a substantial share of top line expansion is expected to be organic, supported by industry dynamics with growing importance of ESG and related compliance.

Figure 6: Leverage ratios



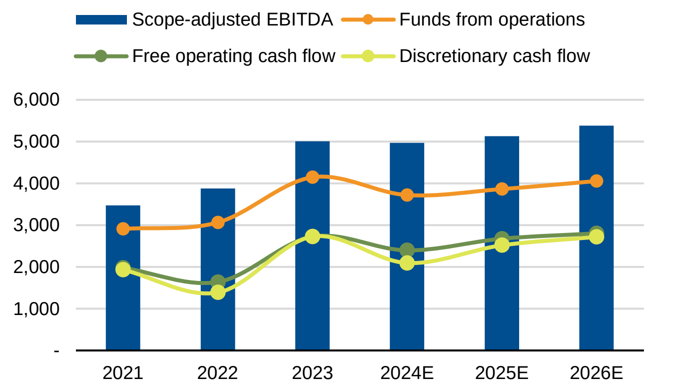
Sources: DNV, Scope estimates

Figure 7: Scope-adjusted EBITDA and debt, NOK m



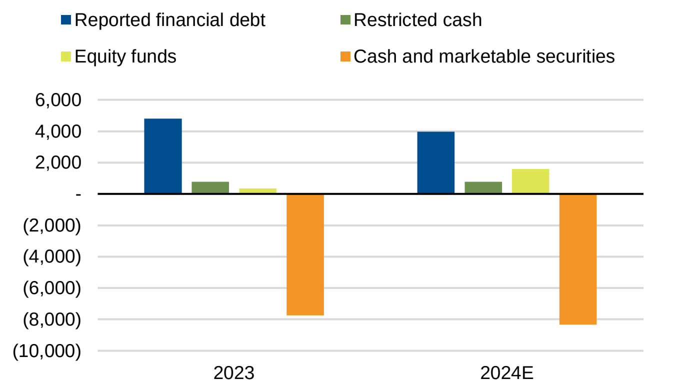
Sources: DNV, Scope estimates

Figure 8: Scope-adjusted cash flows, NOK m



Sources: DNV, Scope estimates

Figure 9: Composition of Scope-adjusted debt, NOK m



Sources: DNV, Scope estimates

Adequate liquidity

Liquidity remains adequate with available liquidity sources expected to cover the company's short-term maturities by more than 200%.

The liquidity profile is supported by substantial cash sources. At YE 2023, the company had NOK 7,744m of cash and marketable securities, of which NOK 6,617m is available according to our definition, which excludes restricted cash and holdings of marketable equity funds. Other liquidity sources include expected positive free operating cash flow and an undrawn revolving credit facility of NOK 3,000m with maturity in 2028.

DNV has arranged for the refinancing of its NOK 2,998m term loan through the issuance NOK 2,000m of bonds in October 2024. The remaining amount is covered by available cash. The bonds were issued in two tranches, consisting of NOK 750m with a 3-year tenor and NOK 1,250m with a 5-year tenor.

The next notable debt maturities beyond 2024 are those of the recently issued bonds in 2027-2029. Liquidity is therefore likely to remain strong with expected cash uses mainly being discretionary investments.

Balance in NOK m	2023	2024E	2025E
Cash and cash equivalents (t-1)	7,325	7,744	8,327
Non-accessible cash (t-1)[2]	(716)	(1,127)	(2,369)
Open committed credit lines (t-1)	3,000	3,000	3,000
Free operating cash flow	2,724	2,394	2,673
Short-term debt (t-1)	13	3,009	-
Coverage, internal	**71237%**	**300%**	**No ST Debt**
Coverage, internal + external	**94137%**	**399%**	**No ST Debt**

Supplementary rating drivers: +/- 0 notches

Supplementary rating drivers

We have not adjusted for any supplementary rating drivers.

Despite its expansion strategy, DNV has maintained headroom to its defined maximum threshold for leverage (net debt/EBITDA) of 2x in the past years. Furthermore, there are no pressures for upstreaming of cash to the ultimate shareholder, Det Norske Veritas Foundation, given its main activity is owning and further developing the business activities in DNV.

The financial policy and ownership structure has implicitly been incorporated in the financial risk profile assessment. This is reflected by our assumption of low dividend payments in the coming years and the likelihood of larger M&A activities under DNV's growth strategy.

Long-term and short-term debt ratings

Senior unsecured debt rating: A

We have affirmed the instrument rating of A on senior unsecured debt, in line with the issuer rating.

Short-term debt rating: S-1

The short-term debt rating of S-1 is based on the issuer rating of A/Stable. It reflects the company's better-than-adequate liquidity, adequate banking relationships and adequate standing in capital markets.

[2] Includes restricted cash and marketable securities which are not netted as cash in our calculation of Scope-adjusted debt.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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