

BASF conference call on second quarter 2020

# News Release

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## **BASF Group: EBIT before special items declines in second quarter due to weaker demand as a result of the corona pandemic**

### Second quarter 2020:

- **Sales of €12.7 billion (minus 12%), mainly due to lower sales volumes resulting from lockdowns**
- **EBIT before special items of €226 million (minus 77%)**
- **Net income of minus €878 million due to a non-cash-effective impairment of the shareholding in Wintershall Dea**
- **Cash flows from operating activities of €2,242 million (plus €296 million compared with prior-year quarter); Free cash flow of €1,516 million (plus €551 million compared with prior-year quarter)**
- **Concrete statements on the development of sales and earnings in 2020 still not possible**

Presentations by

Dr. Martin Bruder Müller, Chairman of the Board of Executive Directors, and  
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

Good morning ladies and gentlemen,

Hans Engel and I would like to wish you a warm welcome to our half-year conference call. We already published our preliminary figures for the second quarter on July 10 and today we will provide you with further details.

The corona pandemic is still a huge challenge for all of us. This is true for each one of us and, of course, also for BASF. But this situation is also a catalyst for change and a chance to do many things differently. At BASF, we have quickly adapted to new processes. Everyone is very open to virtual communication – both internally and with our customers.

It also speeds up decision-making. We are an experienced team that works closely together, which enables us to navigate well through times like these. This has always been one of our strengths. This is how we have overcome crises in the past. And it is how we will do this now. With an even stronger focus on our customers.

In these times, we can build on our many strengths: Our flexible and motivated employees. Our diversified portfolio. And our solid financials.

**[Chart 2: Chemical production in China with a V-shaped recovery, recovery in North America and Europe still a question mark]**

Let's look first at the macroeconomic environment. The indicators for the second quarter of 2020 are estimates as most countries have not yet published their figures for the quarter. The future macroeconomic development is still very uncertain and unclear. Forecasts are constantly changing.

The slide illustrates how global chemical production growth deteriorated during the past few months.

During the second quarter, the impact of the pandemic was more pronounced in Europe and North America than in the first quarter. This was due to the timing of the spread of the virus and the related lockdowns.

According to the preliminary data, global chemical production decreased by 4 percent compared to the second quarter of 2019. One reason why this decline was not substantially steeper was the resilience of chemical demand in some important customer industries. Another reason is China: The country has embarked on a V-shaped recovery. The coming months will show whether consumer demand

will rise with production levels. Going forward, it is crucial that global demand returns to a reliable solid level. This is not yet visible, since global GDP and global industrial production both decreased by 10 percent compared to the prior-year quarter. The automotive industry was hit hardest by the collapse in demand, production stoppages and supply chain disruptions. Compared with the prior-year quarter, global automotive production in the second quarter of 2020 dropped by 45 percent. Excluding China, the decline in automotive production in the second quarter was around 60 percent. For the full year 2020, we expect it to decline by 27 percent overall.

**[Chart 3: BASF Group Q2 2020: Sales volumes in Greater China significantly above prior-year months]**

Ladies and gentlemen,

We want to be as transparent as possible. So, today we will provide more details than usual. First, let's look at our monthly sales volumes by region. While BASF's volumes in the second quarter fell by 11 percent, the development of regional demand is clearly reflected in our books. In May 2020, the COVID-19 effect was especially pronounced in Europe and North America. Compared to May 2019, BASF's sales volumes in Europe and in North America declined by 27 percent. In Greater China, though, we were already seeing a volume increase of 13 percent compared with the same month of the previous year. In June 2020, BASF Group's sales volumes grew globally by 1 percent. This was driven by considerably higher volumes in Greater China as well as slightly higher volumes in North America owing to the cracker turnaround there in the second quarter of 2019. In Europe, on the other hand, our volumes were down by 7 percent.

**[Chart 4: The pandemic is impacting key customer industries differently]**

Let's now have a look at how the pandemic affected growth in BASF's key customer industries. The effects of the lockdowns differ greatly by customer industry.

According to preliminary data, global automotive growth decreased by 45 percent in the second quarter. This was also primarily the result of the lockdowns in Europe and North America. Industries such as energy and resources, consumer goods or construction were also considerably impacted, but not nearly as much as the automotive sector. By contrast, the nutrition and health as well as pharma industries were resilient. In some cases, they even benefitted from the pandemic.

Semiconductor production, which is part of the electronics industry, also grew in the second quarter.

Based on the available data, we feel it is not possible at this time to make reliable forecasts regarding the future growth of our key customer industries.

**[Chart 5: The gap in BASF's average daily order entry is slowly closing, but visibility remains low]**

Ladies and gentlemen,

A look into July reveals that daily orders are still below last year's level.

The gap between average daily orders entries in the April to July period as compared to the prior-year months is slowly narrowing. With a seasonally rather weak August ahead of us, it remains to be seen when the gap can be closed.

Our customers remain very cautious. They are more frequently ordering lower volumes. About 50 percent of orders on hand – across BASF – are booked during the next month. Another 30 percent of all orders have a delivery date in the month after that. This means that 80 percent of all our orders on hand will be booked within the next two months. We have no clear visibility beyond that.

**[Chart 6: BASF Group Q2 2020: COVID-19 leads to lower volumes, mainly due to lower demand from the automotive industry]**

In the second quarter of 2020, our sales volumes declined by 11 percent compared with the prior-year quarter. Not surprisingly, the decline was most pronounced in the segments that supply the automotive industry. Practically all major automotive production sites in Europe and North America were temporarily closed. This affected the segments Surface Technologies, Materials and Industrial Solutions, which recorded a sharp decline in demand.

In contrast, we increased sales volumes in Nutrition & Care and Agricultural Solutions. Sales volumes in the Chemicals segment also went up. This was mainly due to scheduled cracker turnarounds in the prior-year quarter, which had led to lower volumes.

Now Hans Engel will give you more details regarding our business development in the second quarter of 2020.

[Hans-Ulrich Engel]

**[Chart 7: BASF Group Q2 2020: Sales and earnings decline on account of lower demand from key customer industries]**

Good morning, ladies and gentlemen.

Let's look at our sales and earnings development in the second quarter of 2020 as compared to the prior-year quarter. I will start with the sales development:

Sales decreased by 12 percent to €12.7 billion. This was primarily attributable to lower volumes of minus 11 percent. Martin Brudermüller just explained the reasons for this.

Prices decreased by 1 percent, mainly due to lower prices for upstream chemicals. Considerably higher prices in Surface Technologies and slightly higher prices in the Agricultural Solutions segment could only partially offset this. Prices in Surface Technologies were supported by higher prices for precious metals in our Catalysts division.

Portfolio effects contributed plus 1 percent and were mainly related to the acquisition of Solvay's polyamide business.

Currency effects amounted to minus 1 percent. The devaluation of the Brazilian real and the Argentinian peso were the main reasons here.

Moving on to the earnings development:

Income from operations (EBIT) before special items came in at €226 million, 77 percent below the level of the second quarter of 2019. With the exceptions of Nutrition & Care and Other, which increased earnings, and Agricultural Solutions with earnings at the level of the prior-year quarter, all other segments posted lower earnings. This was the result of the pronounced drop in demand in most of BASF's customer industries. The Chemicals and the Materials segments accounted for 70 percent of the earnings decline.

In the Chemicals segment, both divisions recorded considerably lower earnings. The decline was most pronounced in the Intermediates division, but EBIT before special items here was positive overall. The main reasons for the earnings decrease were lower sales volumes, higher fixed costs – primarily as a result of the startup of the new acetylene plant in Ludwigshafen – and a lower equity result. Higher margins

resulting from lower raw material prices could only partially offset the decline. The scheduled turnarounds at BASF's Verbund site in Nanjing, China, and lower margins were the main drivers for the earnings decline in the Petrochemicals division. In addition, an unscheduled shutdown of the Port Arthur cracker negatively impacted earnings in June.

In the Materials segment, earnings decreased considerably in the Monomers and the Performance Materials divisions. This resulted mainly from significantly lower demand from the automotive industry. In the Monomers division, margins for isocyanates in particular declined compared to the second quarter of 2019 due to lower demand. In the Performance Materials division, volumes decreased significantly due to the lockdowns in Europe and North America. Despite higher specific margins due to lower raw material prices, the decline in volumes led to lower EBIT before special items.

Earnings in the Industrial Solutions segment came in below the level of the prior-year quarter. In the Dispersions & Pigments division, volumes decreased in all business areas except electronic materials. In the Performance Chemicals division, volumes decreased in the fuel and lubricants and oil field chemicals businesses. In both divisions, slightly lower prices resulted from lower raw material prices. Lower fixed costs could partially offset the volume-related earnings decline in the segment.

As expected, EBIT before special items in the Surface Technologies segment came in significantly below the prior-year quarter. In the Catalysts division, lower volumes across all businesses led to the earnings decrease. The same was true for the Coatings division. The volumes decrease was attributable to the coronavirus-related weakness in demand from the automotive industry.

In the Nutrition & Care segment, EBIT before special items rose on account of considerably higher earnings in Nutrition & Health. The increase was driven mainly by higher volumes and prices, which resulted in higher margins. The significant volumes growth in the Nutrition & Health division was mainly attributable to the aroma ingredients, pharmaceutical and human nutrition businesses. In the Care Chemicals division, we achieved higher volumes in the home care, industrial and institutional cleaning and industrial formulators business as well as in the oleo surfactants and fatty alcohols business. These more than compensated for the lower volumes in personal care specialties. Earnings in the Care Chemicals division

decreased slightly due to higher fixed costs; the prior-year quarter had included a contractual one-time payment which reduced fixed costs.

In the Agricultural Solutions segment, EBIT before special items was at the level of the prior-year quarter. While volumes and prices increased, earnings were negatively impacted by currency effects, especially relating to the Brazilian real and the Argentinian peso, as well as an unfavorable product mix. Drought conditions in many parts of Europe led to lower fungicide sales volumes in this region. Lower fixed costs were almost able to compensate for these effects.

In Other, EBIT before special items improved significantly compared to the second quarter of 2019.

**[Chart 8: Excellence Program 2019 – 2021: On track to achieve the targeted annual EBITDA contribution]**

Ladies and gentlemen,

Let us turn to the measures we are implementing to mitigate the financial impact of COVID-19.

Overall, we are well on track to achieve the targeted €2 billion annual EBITDA contribution from our excellence program by the end of 2021. As announced, we accelerated the program and, for example, strive to reduce 6,000 positions already by the end of this year. We are doing this thoughtfully, transparently and in a socially responsible way.

By the end of 2020, we continue to expect a run-rate EBITDA contribution in the range of €1.3 billion to €1.5 billion. The associated one-time costs in 2020 are estimated to be around €300 million to €400 million.

**[Chart 9: Portfolio measures expected to be closed in 2020]**

Let me provide you with a brief update on our portfolio measures.

We are on schedule regarding the divestiture of our construction chemicals and pigments businesses. We are in close contact with Lone Star and DIC, and both buyers are committed to completing the transactions as planned. The associated carve-outs are also on track despite considerably more challenging framework conditions due to the coronavirus.

We expect to close the sale of the construction chemicals business in the third quarter of 2020 and of the pigments business in the fourth quarter. Both transactions are subject to the approval of the relevant merger control authorities.

With respect to Wintershall Dea, we are realizing the announced synergies as planned. We have also been working on the IPO preparedness and are well advanced. However, in the current market environment, we will not initiate the IPO of Wintershall Dea. We now assume a first placement in 2021, again subject to market conditions.

### **[Chart 10: BASF Group Q2 2020: Key financial figures]**

Ladies and gentlemen,

Now we come to further earnings and cash-flow development of BASF Group in the second quarter of 2020 compared to the prior-year quarter:

EBITDA before special items decreased by 35 percent to €1.2 billion. EBITDA amounted to €1.1 billion, compared with €1.5 billion in the second quarter of 2019.

EBIT before special items came in at €226 million, 77 percent lower than in the second quarter of 2019.

Special items in EBIT amounted to minus €167 million, compared with minus €488 million in the second quarter of 2019. Special charges were, for example, related to the carve-out of the pigments business and BASF's "Helping Hands" coronavirus aid campaign. In the prior-year quarter, special charges were mainly caused by one-time costs for the excellence program and the impairment of a natural gas-based investment on the U.S. Gulf Coast. In the second quarter of 2020, EBIT thus decreased by 88 percent to €59 million.

Net income amounted to minus €878 million compared to almost €6 billion in the second quarter of 2019. In the second quarter of 2020, BASF incurred a non-cash-effective impairment of its shareholding in Wintershall Dea. Lower long-term scenarios for oil and gas prices and changed reserve estimates resulted in an impairment of €819 million. In the prior-year quarter, net income included a book gain of €5.7 billion on the deconsolidation of Wintershall.

Therefore, reported earnings per share decreased to minus €0.95 in the second quarter of 2020 from €6.48 in the same period of the prior year. Adjusted for special



items and amortization of intangible assets, earnings per share amounted to €0.25 (second quarter of 2019: €0.83).

Cash flows from operating activities increased from €1.9 billion to €2.2 billion in the second quarter of 2020. This was primarily due to cash released from net working capital, which rose by €336 million.

Payments made for property, plant and equipment and intangible assets decreased by 26 percent or €255 million to €726 million. Free cash flow rose by more than €500 million compared with the second quarter of 2019 and amounted to €1.5 billion.

### **[Chart 11: Strong balance sheet]**

Turning now to our balance sheet:

Compared to year-end 2019, total assets increased by €3.4 billion to €90.4 billion on account of higher current assets. Noncurrent assets decreased by €804 million, mainly due to the non-cash-effective impairment of BASF's shareholding in Wintershall Dea.

Current assets rose by €4.2 billion to €35.2 billion, mainly because of higher cash and cash equivalents as well as higher other receivables.

Net debt increased by €5.0 billion to €20.5 billion, mainly due to the dividend payment in the second quarter of 2020 and the purchase price payment for Solvay's polyamide business in the first quarter of 2020.

At the end of June 2020, the equity ratio amounted to 42.5 percent.

And now I'll hand back over to Martin Bruder Müller.

[Martin Bruder Müller]

### **[Chart 12: Qualitative statements on further business development in 2020 provided in the Half-Year Financial Report 2020]**

Ladies and gentlemen,

Given the continued high level of uncertainty and low visibility surrounding economic developments, we will not make any concrete statements today about the development of sales and earnings for the full year 2020. For the third quarter of

2020, we currently do not expect EBIT before special items to improve significantly compared with the second quarter of 2020, in part due to the generally lower demand in August and the seasonality of the Agricultural Solutions business.

There is a significant risk that both the economic recovery and the medium and long-term macroeconomic development will be slower than before the Corona pandemic. The impact on our business can hardly be predicted reliably. Without a swift economic recovery to pre-crisis levels, there is a certain risk of having to impair some of our assets. We do not yet have sufficient visibility. We are carefully analyzing various scenarios.

Before we open the Q&A, I would like to conclude by making you aware of BASF's next key step in implementing its sustainability strategy: the launch of the Product Carbon Footprint for all BASF products.

**[Chart 13: Product Carbon Footprints create transparency for customers – digital solution to calculate greenhouse gas emissions for all BASF products]**

Sustainability has long been an important strategic lever at BASF. It is an integral part of our corporate purpose: "We create chemistry for a sustainable future." When we launched our new corporate strategy in 2018, we set ourselves ambitious sustainability goals. We thus considerably strengthened sustainability aspects in our company management. Simultaneously, the topic has gained in importance among the public. Particularly, the E.U.'s Green Deal pushes an ambitious agenda. It sets the goal of achieving CO<sub>2</sub>-neutrality in the European Union by 2050.

Ladies and gentlemen,

BASF has taken a clear position with its strategy. Reducing CO<sub>2</sub> emissions is immensely important. That is why we have committed to climate-neutral growth until 2030. I want to emphasize: The coronavirus pandemic does not change any of our goals. Our customers and partners also have ambitious CO<sub>2</sub> reduction targets.

To reach our goals until 2030 and beyond, we pursue a comprehensive Carbon Management Program. This program leverages new production technologies as well as electrification of chemical processes based on renewable energy. Moreover, we want to actively address the topic of CO<sub>2</sub> in our customer dialogues. It is therefore vital that we create as much transparency as possible about carbon footprints at the product level.

With our new process to calculate carbon footprints, we will be able to determine the total CO<sub>2</sub> values for our products. We can therefore provide a high level of transparency about CO<sub>2</sub> emissions in our value chains. This gives customers valuable information about how BASF products contribute as inputs to the carbon footprint of the end products that customers manufacture. The Product Carbon Footprint is expressed in CO<sub>2</sub> units per metric ton of product and includes all emissions that occur until the product leaves the factory gate for delivery to the customer. The carbon footprint therefore encompasses Scope 1, 2 and 3 – from the purchased raw materials to the use of energy to production.

With our own digital solution, we can now calculate the value for each of the approximately 45,000 sales products based on extensive data, including emission data from our production network on a global basis. Our sophisticated Verbund steering systems build a suitable platform for this. Sustainability and digitalization are core elements of our corporate strategy, which we are rigorously implementing. The calculation of a carbon footprint brings these both together.

We are continuously working on sustainable solutions with many of our customers. With our mass balance approach, we already offer customers the use of alternative raw materials and renewable energies. In the future, input materials derived from chemical recycling will also be available. In this way, we can develop tailor-made strategies with our customers to progressively reduce product-specific carbon footprints and shrink the carbon footprint of their products. Going forward, our joint innovations will become even more targeted and impactful and allow for both further differentiation and customer intimacy.

Ladies and gentlemen,

With this innovative solution, we are again a front-runner when it comes to sustainability and additional customer benefits. We will work together with other companies in the chemical industry. We will participate in the development of common standards for the calculation method and the resulting industry norms. The implementation of the Product Carbon Footprint in our marketing concepts will take place step by step. We are currently starting with selected product and customer segments and plan to make these data available for the entire portfolio by the end of 2021.

And now, we are happy to take your questions. Thank you very much.