



We create chemistry

Analyst Conference Call Q3 2019

Speech

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Martin Bruder Müller

Chairman of the Board of Executive Directors

Hans-Ulrich Engel

Chief Financial Officer

The spoken word applies.

Martin Brudermüller

Ladies and gentlemen,

Good morning and thank you for joining us.

In Q3 2019, we basically saw a continuation of the second quarter's business development. The trade conflicts between the U.S. and China had a continued negative impact. In addition, the uncertainties associated with Brexit reinforced the underlying trend towards an economic slowdown.

Europe's export-oriented countries like Germany are particularly affected. However, the industrial growth in the U.S. is now also beginning to soften considerably. In China, industrial production continued to grow, albeit at a slower pace.

Production in the global automotive industry again declined compared with the already low level at the end of the first half of the year. The decline compared to the prior-year quarter, which was negatively impacted by the WLTP introduction in Europe, amounted to minus 1 percent.

[Chart 3: BASF Group Q3 2019 – Volume development]

Let's begin with the volume development by segment.

- Compared to Q3 2018, sales volumes of BASF Group were overall stable. Despite the cracker turnarounds, we were able to stop the negative volume development we experienced since Q4 2018.
- Volumes still decreased considerably in the Chemicals segment and in Other. In Chemicals, the decline was mainly driven by lower volume availability due to scheduled cracker turnarounds. In Other, volumes decreased mainly on account of lower trading volumes. Excluding Other, BASF Group sales volumes increased by 1 percent compared to the prior-year quarter.
- In Agricultural Solutions, we increased volumes by 21 percent due to the good start of the South American planting season. In Surface Technologies, Nutrition & Care and Industrial Solutions, we were also able to increase volumes.

From a regional perspective, sales volumes by location of customer increased in the region South America, Africa, Middle East, and in Asia Pacific. Volumes declined in North America and Europe.

[Chart 4: BASF Group Q3 2019 – Sales and EBIT before special items]

Let's now look at our performance in Q3 2019 compared to the prior-year quarter in more detail. We start with our sales development:

- **Sales** in Q3 2019 were slightly below the prior-year level and amounted to 15.2 billion euros. Due to the uncertainty in the market and the cautious ordering behavior of our customers, we did not experience a recovery in demand from key customer industries.
- Nonetheless, we were able to maintain BASF's sales **volumes** on the level of the prior-year quarter.
- **Prices** decreased by 4 percent, mainly driven by the Materials and the Chemicals segments. Higher prices in Surface Technologies partially offset the decline.
- **Portfolio effects** were overall flat: The positive effect related to the acquisition of agricultural solutions businesses compensated negative effects driven by the transfer of BASF's paper and water chemicals business to Solenis.
- **Currency effects** amounted to plus 2 percent and were mainly related to the appreciation of the U.S. dollar against the euro. All segments and divisions incurred positive currency effects.

Let's move on to the earnings development.

- **EBIT before special items** came in at 1.1 billion euros, 24 percent lower than in Q3 2018. This was mainly driven by the considerably lower contributions of the **Materials** and the **Chemicals** segments. The sharp decline of isocyanate prices and the scheduled cracker turnarounds considerably weighed on earnings in these segments.

In our downstream businesses, we saw a considerable improvement compared to the prior-year quarter – despite the challenging market environment:

- In **Industrial Solutions**, EBIT before special items increased considerably, primarily due to lower fixed costs in both divisions.
- In **Surface Technologies**, EBIT before special items rose considerably in all three divisions. In Catalysts, valuation effects in our precious metal trading business and higher volumes had a positive effect. In Coatings, we recorded higher margins and lower fixed costs. In Construction Chemicals, the increase in earnings was mainly due to price-related margin growth.
- In **Nutrition & Care**, EBIT before special items increased considerably due to significantly higher earnings in Care Chemicals. This was supported by a contractual one-off payment in the personal care solutions business. Slightly lower earnings in Nutrition & Health due to higher raw material prices and fixed costs partially offset the increase.
- In **Agricultural Solutions**, EBIT before special items rose considerably, mainly as a result of increased sales. This was particularly due to the good start into the season in South America. Positive one-time effects also contributed to the earnings increase.
- In **Other**, EBIT before special items decreased considerably, largely due to valuation effects for our long-term incentive program. Wintershall Dea's earnings in Q3 2019 were reduced due to the decline in oil and gas prices. Additional depreciation and amortization from the fair value measurement of Wintershall Dea resulted in a slightly negative earnings contribution.

[Chart 5: Investments to support organic growth and sustainable solutions]

- At the end of September, we announced plans to expand the integrated ethylene oxide and derivatives complex at our Verbund site in Antwerp. The total investment adds about 400,000 metric tons per year and will enable us to support the continuous growth of our customers in Europe. The investment is expected to amount to more than 500 million euros. The sequential start-up is expected to begin in 2022.
- At the beginning of October, BASF announced a 20-million-euro investment in Quantafuel to jointly drive chemical recycling of mixed plastic waste. Quantafuel is a specialist in production and purification of pyrolysis oil from mixed plastic waste. Together, we aim to further develop Quantafuel's technology to create an optimized, recycle-based feedstock for chemical production. The investment underlines our commitment towards a sustainable use of resources and the development of a circular-economy model for plastics.
- Last week, we announced that Abu Dhabi National Oil Company, Adani Group, Borealis and BASF signed an MoU to evaluate a collaboration for the establishment of a chemical complex in India. This is the next step of BASF's and Adani's investment plans announced in January 2019. With the inclusion of ADNOC and Borealis as potential partners, we intend to jointly invest in a world scale PDH plant and thus leverage the technical, financial and operational strengths of each company. The total investment is estimated to be up to 4 billion U.S. dollars. The partners aim to finalize the joint feasibility study by the end of Q1 2020. Production is intended to commence in 2024.

[Chart 6: Ongoing active portfolio management]

With our active portfolio management, we are moving towards higher value and more focus. Let me briefly provide you with an update on recently agreed upon and ongoing portfolio measures:

- To further expand our position as a leading global supplier of engineering plastics, BASF signed an agreement with Solvay in September 2017. In January 2019, the EU Commission approved the acquisition subject to certain conditions, including the sale of Solvay's PA6.6 business in Europe to a third party. In August 2019, BASF, Solvay and Domo Chemicals agreed that Domo will acquire the European PA6.6 business from Solvay. BASF will acquire the global, non-European PA6.6 business from Solvay including its 50 percent share in Butachimie's ADN production. Subject to the approval of the relevant competition authorities, both transactions are targeted to close by the end of 2019. The purchase price to be paid by BASF is 1.3 billion euros.
- At the end of August, we announced that BASF and the fine chemical company DIC have reached an agreement on the acquisition of BASF's global pigments business. The purchase price on a cash and debt-free basis is 1.15 billion euros. The transaction is expected to close in the fourth quarter of 2020, subject to the approval of the relevant competition authorities.
- The structured process to divest our construction chemicals business is on track, so is the carve-out process. We received confirmatory bids and are now progressing with a small number of interested parties. We continue to expect signing of the transaction agreements before the end of the year.

[Chart 7: Transforming BASF into an agile and customer-focused organization]

Let's now move on to a brief strategy update. We are implementing our corporate strategy, with full energy, passion and speed to deliver what we promised. We are in the midst of reshaping our organization and reducing complexity. We are streamlining our administration, sharpening the roles of services and regions and simplifying procedures and processes. Increasingly, we start to see cost reduction effects in the P&L, and we notice strong interest on the customer side in the changes and the new BASF.

Here are some details:

- We have embedded significant parts of our functional services into our operating divisions. As of October 1, the embedding of around 20,000 employees was completed.
- We have defined a lean corporate center to support the Board in steering the BASF Group. As of January 1, 2020, around 1,000 employees will be working in the corporate units. This is less than 1 percent of BASF's workforce.
- The roles of the regions were sharpened to increase the customer focus and to support and enable businesses locally.
- At the same time, we are simplifying our process landscape.
- And, we foster an entrepreneurial performance-culture across the whole organization.

All these measures have one common goal: To put BASF, with increased customer focus, back on the profitable growth track.

At this point, I would like to hand things over to Hans.

Hans-Ulrich Engel

Good morning ladies and gentlemen,

[Chart 8: Update on excellence program 2019 – 2021]

We accelerated our excellence program and are well on track to achieve the targeted 2 billion euro annual EBITDA contribution at the end of 2021:

- In 2019, first positive EBITDA contributions will likely be compensated by costs due to the accelerated implementation. So far, we booked one-time costs related to the program of around 400 million euros.
- In 2020, we expect an EBITDA contribution run rate in the range of 1.0 to 1.3 billion euros. The associated one-time costs in 2020 are estimated to be around 200 to 300 million euros.

In addition, I would like to provide you with a rough break-down of the EBITDA contribution by category:

- By far the largest contribution will come from operational excellence measures in the areas of production, logistics and planning.
- Furthermore, we are streamlining our organization towards leaner structures. By the end of September 2019, we have reduced around 1,800 positions worldwide. In total, we plan a reduction of around 6,000 positions until the end of 2021.
- Finally, innovation budgets will be more consistently focused, and simplification measures will be executed.

[Chart 9: BASF Group Q3 2019 – Sales decreased slightly; EBIT before special items 24% below prior-year quarter]

Let me turn to BASF Group's financial figures for Q3 2019 compared to the prior-year quarter in more detail:

- **Sales** decreased by 2 percent to 15.2 billion euros.
- **EBITDA** rose to 2.3 billion euros compared to 2.2 billion euros in Q3 2018. EBITDA before special items decreased by 8 percent to 2.1 billion euros.
- **EBIT before special items** came in at 1.1 billion euros, 24 percent lower than in Q3 2018. Martin already explained the main drivers for the earnings development.
- **Special items** in EBIT amounted to plus 257 million euros compared to minus 75 million euros in Q3 2018. A considerable disposal gain from the sale of real estate in Basel overcompensated special charges from restructuring measures and integration costs. **EBIT** amounted to 1.4 billion euros and almost matched the prior-year level.
- The tax rate was 22.5 percent compared to 17.9 percent in the third quarter of 2018, due among other factors to lower deferred tax income.
- **Net income** amounted to 911 million euros compared to 1.2 billion euros in Q3 2018.
- **Reported earnings per share** decreased from 1.31 euros to 1.00 euros in Q3 2019. Adjusted EPS amounted to 0.86 euros; this compares with 1.51 euros in the prior-year quarter.

- The **cash flows from operating activities** came in at 2.0 billion euros compared to 2.9 billion euros in the third quarter of 2018. The decrease was mainly driven by the lower net income and the reclassification of the disposal gain from the sale of real estate in Basel to cash flows from investing activities. The free cash flow decreased accordingly to 1.1 billion euros.

[Chart 10: Cash flow development Q1 – Q3 2019]

Let's now turn to our cash flow in the first nine months of 2019:

- **Cash flows from operating activities** amounted to 4.3 billion euros compared to 6.4 billion euros in the same period last year. This was primarily due to the lower net income after the reclassification of disposal gains to cash flows from investing activities, particularly the book gain from the deconsolidation of Wintershall.
- **Cash flows from investing activities** amounted to plus 47 million euros in the first nine months of 2019, compared with minus 10 billion euros in the same period last year. This reflects the cash received in connection with the Wintershall Dea merger, whereas in the prior-year period the purchase price payment for the acquisition of agricultural solutions businesses from Bayer was included. Payments made for intangible assets and property, plant and equipment increased by 220 million euros to 2.6 billion euros.
- **Financing activities** led to a cash outflow of 4.7 billion euros in the first three quarters of 2019, compared to a cash outflow of 127 million euros in the prior-year period.
- **Free cash flow** declined from 4 billion euros in the first nine months of 2018 to 1.7 billion euros in 2019, mainly as a result of lower cash flows from operating activities.

[Chart 11: Balance sheet remains strong]

Turning to our balance sheet on September 30, 2019 compared to the year end 2018:

- Total assets rose by 3 billion euros to 89.6 billion euros. More than one third – 1.3 billion euros – of this increase resulted from the implementation of the IFRS 16 standard on leases. Higher deferred tax assets and higher other receivables and miscellaneous assets also contributed to the increase.
- Noncurrent assets increased by 16.2 billion euros. The main driver for this increase was the recognition of our participating interests in Wintershall Dea and Solenis at fair value. We are reporting our shares in Wintershall Dea and in Solenis as investments accounted for using the equity method.
- Current assets declined, largely due to the derecognition of the disposal groups for the oil and gas business and the paper and water chemicals business.
- Net debt decreased by 393 million euros to 17.8 billion euros.
- Our equity ratio increased from 41.7 percent to 46.2 percent at the end of September 2019.

And with that, back to Martin for the outlook.

Martin Brudermüller

[Chart 12: Outlook 2019 for BASF Group confirmed]

As mentioned before, the geopolitical conditions are and will remain challenging. It is not within our power to change these unfavorable conditions. However, we know what we have to address within BASF. And we are working on this with speed and determination.

For 2019, we confirm our outlook for the BASF Group, as provided on July 8, 2019:

- We anticipate a slight decline in sales.
- For EBIT before special items, we expect a considerable decline of up to 30 percent.
- ROCE for the full year 2019 is anticipated to decline considerably compared with 2018.

Let me also reiterate that we stand by our dividend policy of increasing our dividend per share every year.

We slightly adapted the underlying planning assumptions: We now expect an average oil price of 65 U.S. dollars per barrel Brent for 2019. Previously we expected 70 U.S. dollars per barrel Brent.

And now, Hans and I are glad to take your questions.