



We create chemistry

Analyst Conference Call Q1 2020

Speech

April 30, 2020

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Chairman of the Board of Executive Directors

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Chief Financial Officer

The spoken word applies.

Martin Brudermüller

Good morning ladies and gentlemen,
and thank you for joining us. I hope you and your families are doing well in this extraordinary time.

Currently, there is only one topic in the center of everything and that puts the world upside down – the coronavirus. We already addressed major concerns during our end of February conference call, however, we did not foresee a global pandemic with such huge impact on the global economy. And there is a large impact on societies and individuals as well. All countries around the world are confronted with the same challenge at almost the same time. Counter measures from governments and companies all over the world are focusing on people's health and safety. The health of our employees is also our highest priority.

Beyond that it is about solidarity. We have bundled our contribution in the "Helping Hands" initiative. That is our way to demonstrate social responsibility. Apart from many local initiatives, BASF has donated more than 100 million protective masks to the Federal Republic of Germany and the State of Rhineland-Palatinate, and we currently globally provide around 175,000 liters of hand-sanitizer per week free of charge. Overall, BASF has donated a total of approximately 100 million euros in kind to fight the pandemic.

At all BASF sites, we implemented a wide range of dedicated measures to ensure the safe and reliable operation of our global production network. This allows us to maintain production in most of our plants. The entire BASF team is doing a remarkable job and demonstrates a very high level of prudence, responsibility and flexibility.

[Chart 3: BASF stands by progressive dividend policy]

Before talking about the BASF business, I would like to confirm our dividend proposal: We will propose a dividend of 3 euros and 30 cents per share for the business year 2019 at the Annual Shareholders' Meeting on June 18.

I also would like to address a potential issue related to dividend payments directly: A controversial discussion in German media, frequently equates short-time work and government loans. Short-time work is an established and proven insurance system and an instrument of labor market policy in Germany. As an employer, BASF paid unemployment insurance contributions of about 400 million euros over the last 10 years in Germany. And our German employees paid the same amount. To put this into perspective: Payments for short-time work of BASF employees paid by the German Employment Agencies since 2008, sum up to less than 1 percent of the amount paid by BASF. We have currently introduced short-time work at some of our sites in units that primarily supply the automotive industry. At the moment, there are around 3,700 employees at 11 sites in short-time work in Germany and in Europe about 3,000 employees. At the largest BASF site in Ludwigshafen, the number is significantly less than 100.

In the current situation, loans of the German development bank KfW are granted to companies that have run into financial difficulties because of the coronavirus crisis and cannot obtain financing on the capital market. If such emergency loans are taken up, dividends should be suspended according to the German government. BASF has not made use of such emergency loans and does not plan to do so.

[Chart 4: Macroeconomic environment characterized by extreme uncertainty]

Now let me turn to our businesses and the macroeconomic environment. The current macroeconomic development is characterized by extreme uncertainty. As the slide undoubtedly shows, growth expectations for 2020 deteriorated first in small steps during recent months but then abruptly in March.

The indicators for Q1 2020 are still estimates as most of the countries have not yet published their preliminary figures for the quarter. The severity becomes even clearer bearing in mind that outside China, January and February 2020 were significantly less affected by the coronavirus than March.

According to the preliminary data available, global GDP decreased by 1.7 percent compared to the prior-year quarter. Declines were most pronounced in China and Europe due to the timing of the spread of the virus and the related lockdowns. Severe impacts in other countries such as the US will become more visible in the second quarter of 2020.

The decline in industrial production was even more pronounced than in GDP. Global chemical production growth also decreased sharply, by 5.2 percent compared to Q1 2019. From a regional perspective, the decline in chemical production was most pronounced in Asia.

The automotive industry was hit hardest by the demand collapse, production stoppages and supply chain disruptions. In Q1 2020, global automotive production declined by 24 percent compared to Q1 2019, after a decline of 5.6 percent already in 2019 compared to 2018.

[Chart 5: How does the pandemic impact global chemical customer industries?]

Particularly in these difficult times, our diversified portfolio shows resilience even though demand development in relevant customer industries varies greatly.

Some industries are resilient, such as pharma, cleaning and nutrition. They are even experiencing additional demand due to measures to address the coronavirus. Think about disinfectants or basic home and personal care products. This is clearly reflected in sales and order entry of our Nutrition & Care segment. Also, the agricultural industry is not directly impacted.

Other customer industries are, however, more negatively impacted by the pandemic. The main drivers are the lower final customer demand due to the global lockdowns, the enforced closure of production and supply chain interruptions. Transportation, including the automotive industry, is affected most as production stands still almost all over the world and car sales collapse.

We show our segments on this slide as well – to give you a first indication how and where BASF will likely be impacted.

[Chart 6: BASF Group Q1 2020: Volume growth in all downstream segments]

The BASF team performs with vigor and dedication in this difficult environment. We delivered on volume growth – despite the currently strong economic headwinds. In Q1 2020, we increased BASF Group's sales volumes by 4 percent. All downstream segments contributed to this increase. The volume increase was most pronounced in Surface Technologies and Agricultural Solutions. While the increase in Surface Technologies is a bit counterintuitive and primarily related to higher

precious metal sales, the volume development in Agricultural Solutions, Nutrition & Care, and Industrial Solutions results from sales to industries that are not or less negatively affected by the corona pandemic.

[Chart 7: How we operate safely in the COVID-19 environment]

Let me now touch on the measures we have implemented to operate safely in the COVID-19 environment.

We activated BASF's global crisis management team very early on. All our operating divisions, regions and production sites have activated contingency plans, which are constantly adjusted to the evolving situation. All production-related measures are coordinated from a site perspective to ensure adherence to local regulation.

To minimize the infection risk, we divided production shifts into smaller teams to reduce personal contact during daily operations. This is also supported by the switch to different shift schedules. We have implemented strict hygiene regulations and consistently track infection chains if they occur. Wherever possible, colleagues work remotely. Globally, more than 40,000 colleagues are currently working from home.

Due to our comprehensive set of measures, we have been able to keep the number of infected people comparably low and to maintain all business-critical processes.

[Chart 8: Key measures to lead BASF through the COVID-19 crisis]

With the implementation of our corporate strategy starting at the end of 2018, we are already working on the right levers to address the current crisis. Customer focus, reduction of complexity, the formation

of a more agile and lean organization and significant cost reductions are key. We have our Excellence Program in place, which we accelerate wherever possible. The BASF team has the right mindset to react on the spot.

Our customers are at the center of all our activities. Supply reliability is key to them right now. During this very dynamic situation, we are closely interacting to immediately react to changes in their demand patterns. This is crucial to optimize and adjust our production network and inventories quickly. Our proprietary Verbund simulator and comparable tools support us in Ludwigshafen and at our other integrated sites.

Based on the overall lower demand, we are adapting capacity utilization rates continuously. They are steered by a cross-divisional coordination team of BASF's global production network. At our Verbund sites around the world, the strong alignment between downstream and upstream businesses leads to an optimized result for BASF Group, while ensuring continuity of supply along value chains.

At the end of April, the average utilization rate of our plants was still more than 60 percent. This rather high rate is supported by the fact that in most countries, most of the products we manufacture are regarded as system critical. For example, more than 70 percent of BASF SE's sales can be classified as system critical. As a result, there have only been a few shutdowns ordered by the authorities in the countries where we operate.

To mitigate the impact of possible supply chain interruptions, we take extra efforts regarding the supply of key raw materials and the distribution of our products to our customers. Let me give you practical examples from our logistics Verbund in Ludwigshafen: By installing strict hygiene measures and renting additional mobile sanitary

facilities, we considerably enlarged the available space for truck drivers and other service providers. In addition, we have divided our crucial logistics units into separate teams with strict rules regarding personal contact. These examples demonstrate what we do to reduce the risk of infections while ensuring our supply reliability.

Last but not least, safeguarding cash is of utmost importance in these times. Strict working capital management is applied throughout the company and will be further strengthened during the coming months. This is supported by an elevated level of cost awareness and the consistent implementation of our Excellence Program. Depending on the specific area of activity, short-time work is also considered.

In addition, we are reviewing our investment projects and will reduce capital expenditures to around 2.8 billion euros in 2020. Initially, we had budgeted 3.4 billion euros for this year. However, I clearly want to emphasize that we are fully committed to our long-term growth projects in Asia and our expansion in battery materials. The new BASF Verbund site in Guangdong, China and the intention to establish a chemical complex in Mundra, India together with ADNOC, Adani and Borealis will be key for future profitable growth in Asia. Both projects are currently in the feasibility phase. We are also committed to support the build-up of a European electric vehicle value chain and continue to further strengthen our leading position in battery materials with our investments in Harjavalta, Finland and Schwarzheide, Germany.

On the financing side, our solid financial position is a particular strength now. We implemented a series of measures to increase access to liquidity. Hans will provide further details on this.

Through all these measures, we are maintaining a very solid level of liquidity and are well prepared to lead BASF through the COVID-19 crisis.

Now Hans will give you more details regarding our business development in Q1 and the financing of BASF Group.

Hans-Ulrich Engel

Good morning also from my side.

[Chart 9: Change in reporting of “non-integral” shareholdings as of Q1 2020]

Let me first explain relevant changes regarding BASF Group's reporting effective as of January 1, 2020, with the prior-year figures restated. To increase the transparency of our reporting, we are introducing a differentiation of equity investments that are operationally integrated into the business of the BASF Group, for example, our participation in BASF-YPC, and those that are running rather independently from the BASF Group. The most relevant of these non-integral participations are Wintershall Dea and Solenis, which are also expected to be disposed of in the near to mid-term.

The equity results of non-integral investments are no longer reported in EBIT and EBIT before special items of the BASF Group (under “Other”), but in net income from shareholdings. The net income from shareholdings is a new subtotal within income before income taxes. Consequently, the financial result now only consists of the interest result and the other financial result. Similarly, a distinction is made in the balance sheet between integral and non-integral investments.

With this change, our EBIT and EBIT before special items better reflect the results of our business and are not impacted by non-core businesses, which we consider a financial investment.

[Chart 10: BASF Group Q1 2020: EBIT before special items down due to considerably lower earnings in Chemicals, Materials and Other]

Let's now look at our performance in Q1 2020 compared to the prior-year quarter. I will start with our sales development:

- **Sales** increased by 7 percent to 16.8 billion euros.
- As Martin already explained, higher **volumes** of plus 4 percent, mainly in our downstream segments were the driver for this increase. Sales volumes by location of customer increased in all regions worldwide.
- **Prices** increased by 1 percent on account of significantly higher prices for precious metals in our Catalysts division. Apart from Surface Technologies, all segments recorded lower sales prices.
- **Portfolio** effects contributed plus 1 percent and were mainly related to the acquisition of Solvay's polyamide business.
- **Currency** effects amounted to plus 1 percent. The appreciation of the U.S. dollar against the euro was the main reason here.

Let's move on to the earnings development:

- **EBIT before special items** came in at 1,640 million euros, 6 percent below Q1 2019. If we had not adjusted our reporting of non-integral shareholdings, EBIT before special items would have amounted to 1,474 million euros, 14 percent below Q1 2019 and fully in line with analyst estimates for the first three months of the year. The decline was driven by the considerably lower contributions of the Chemicals and the Materials segments as well as of Other. Compared to Q1 2019, earnings of the two upstream segments declined by 246 million euros to a total of 383 million euros. The year-on-year margin decline in the ethylene and propylene value chains and in isocyanates and polyamide

precursors as well as higher fixed costs, mainly due to the start-up of new plants such the acetylene plant in Ludwigshafen as well as price-related impairment losses on inventories, considerably weighed on earnings in these segments. In the Materials segment, considerably higher earnings in Performance Materials could only partially compensate for the decline in Monomers.

- Despite the difficult market environment, we again saw a considerable improvement in our downstream segments. EBIT before special items of the four segments increased by 13 percent to 1.6 billion euros in Q1 2020. In absolute terms, the earnings increase was most pronounced in Agricultural Solutions and Surface Technologies.
- In Industrial Solutions, EBIT before special items increased slightly. Considerably higher earnings in Dispersions & Pigments, mainly due to lower fixed costs, more than compensated the slightly lower earnings in Performance Chemicals. The transfer of BASF's paper and water chemicals business to Solenis on January 31, 2019 was the main reason for lower earnings in Performance Chemicals.
- In Surface Technologies, EBIT before special items rose considerably. Earnings in Catalysts increased strongly, particularly due to valuation effects from precious metals trading. In Coatings, earnings declined considerably on account of lower demand from the automotive industry. Lower raw materials prices and fixed costs partially offset the earnings decline in the division.
- In Nutrition & Care, EBIT before special items increased considerably, mainly due to significantly higher earnings in Nutrition & Health. This division is catering to customer industries that are partly recording higher demand, which we could serve due to higher product availability compared to the prior-year quarter.

Earnings in the Care Chemicals division increased slightly on account of lower fixed costs.

- In Agricultural Solutions, EBIT before special items rose slightly, mainly as a result of higher sales and lower fixed costs. Due to the corona pandemic, we recorded earlier demand in our business.
- In Other, EBIT before special items decreased considerably.

Overall, the earnings development by segment shows clearly how we benefit from our diversified portfolio supplying many customer industries impacted very differently by the pandemic.

[Chart 11: Q1 2020: BASF Group shows resilience amid corona crisis with diversified portfolio and financial solidity]

I will now focus on the earnings development of BASF Group in Q1 2020 compared to the prior-year quarter:

- **EBITDA before special items** decreased by 2 percent to 2.6 billion euros. **EBITDA** amounted to 2.4 billion euros compared to 2.8 billion euros in Q1 2019.
- As already explained, **EBIT before special items** came in at 1.6 billion euros, 6 percent lower than in Q1 2019.
- **Special items** in EBIT amounted to minus 184 million euros compared to plus 29 million euros in Q1 2019. Special charges were mainly related to the integration of the acquired polyamide business; further special charges resulted from various structural measures. In the prior-year quarter, income from divestitures had led to overall positive special items. **EBIT** thus decreased by 18 percent to 1.5 billion euros in Q1 2020.
- The tax rate was 26.6 percent compared to 25.3 percent in Q1 2019. **Net income** amounted to 885 million euros compared to

1.4 billion euros in Q1 2019. Therefore, reported earnings per share decreased from 1.53 euros to 96 cents in Q1 2020. Adjusted EPS amounted to 1.36 euros; this compares with 1.70 euros in the prior-year quarter.

[Chart 12: Cash flow development Q1 2020]

Let's now move on to our cash flow in the first quarter of 2020:

- Cash flows from operating activities amounted to minus 1.0 billion euros compared to 373 million euros in the prior-year quarter. This was primarily due to the lower net income and the considerably higher level of cash tied up in net working capital. Net working capital increased by 1.2 billion euros, mainly as a result of higher trade accounts receivable following the strong business development of Agricultural Solutions. In addition, higher prices for precious metals contributed to the increase in net working capital, as did a decrease in accounts payable trade.
- Cash flows from investing activities amounted to minus 1.8 billion euros in the first quarter of 2020, compared with minus 837 million euros in the prior-year quarter. The increase in cash outflows was mainly due to the purchase price payment for Solvay's polyamide business. Payments made for intangible assets and property, plant and equipment decreased by 23 percent or 172 million euros to 569 million euros.
- Cash flows from financing activities amounted to 4.3 billion euros in the first quarter of 2020, after 620 million euros in the prior-year quarter. The year-on-year increase was primarily due to higher usage of our commercial paper program and higher bank loans.

- Free cash flow declined from minus 368 million euros in the prior-year quarter to minus 1.6 billion euros, mainly due to the lower cash flows from operating activities.

[Chart 13: Balance sheet remains strong]

Turning to our balance sheet at the end of March 2020 compared to year-end 2019:

- Total assets increased by 5.4 billion euros to 92.4 billion euros on account of higher current assets. Compared to the end of Q1 2019, total assets remained at the same level.
- Current assets rose due to higher trade accounts receivable, increased cash and cash equivalents as well as higher other receivables. The increase in accounts receivable was mainly driven by the seasonality of the agricultural solutions business. The increase in cash and cash equivalents reflects our measures to increase liquidity.
- Noncurrent assets were almost stable at 56.3 billion euros.
- Net debt increased by 3.3 billion euros to 18.8 billion euros, partially as a result of the acquisition of Solvay's polyamide business in the first quarter.
- At the end of March 2020, the equity ratio amounted to 47 percent.

[Chart 14: Well-balanced financing instruments with strong focus on liquidity]

Let me provide you with further information on BASF's financing strategy and the instruments we are using to ensure a solid level of liquidity also during these challenging times.

BASF's financing policy aims to ensure its solvency at all times, limiting the risks associated with financing and optimizing the cost of capital. We normally run our business with a level of cash and cash equivalents of around 2 billion euros. In times like these, it is obvious that we must operate with an elevated level of liquidity.

On March 31, 2020, cash and cash equivalents including marketable securities amounted to 4.2 billion euros compared to 2.3 billion euros at the end of March 2019 and 2.9 billion euros at the end of December 2019.

For short-term financing, we use BASF's commercial paper program, which has an issuing volume of up to 12.5 billion U.S. dollars. As of March 31, 2020, commercial paper with a nominal value of 5.1 billion U.S. dollars was outstanding under this program. If we needed to further increase our liquidity position, we would use this instrument as a first step. We have been active in the U.S. commercial paper market for more than 20 years. In 2020, we also started to issue on the European commercial paper market as this market became attractive for issuers like BASF.

In recent weeks, we have taken out additional bank loans in a total amount of more than 600 million euro, e.g., from the European Investment Bank.

At the beginning of April 2020, BASF entered a one-year committed credit facility with several banks summing up to a total of 3 billion euros.

Corporate bonds form the basis of our medium to long-term debt financing. These are issued in euros and other currencies with different maturities as part of our 20 billion euros debt issuance program. The goal is to create a balanced maturity profile, diversify our creditor base and optimize our debt capital financing conditions.

The average maturity of our bond portfolio as of March 31, 2020 was at 6.6 years.

Finally, a firmly committed, syndicated credit line of 6 billion euros – maturing in 2025 – is in place to cover the repayment of outstanding commercial paper. It can also be used for general corporate purposes. Such back-up credit facility is in place for about 20 years and has never been utilized.

With the described instruments, BASF has a solid financing and access to additional liquidity, if needed.

And now Martin will conclude with the outlook.

Martin Brudermüller

[Chart 15: Outlook 2020 for BASF Group]

Ladies and gentlemen,

any outlook for the global economy is currently highly uncertain if not impossible. External forecasts are falling drastically day by day. Because of the severe impact of the corona pandemic, the expectation in macroeconomic development is significantly reduced. The downward correction is ongoing as the pandemic develops and it is unclear at this time when and how the global economy will get out of the lockdown and when and how the situation will begin to stabilize. Thus, we feel unable to provide you with a new meaningful forecast for 2020. That is why we will give you only qualitative information today.

The second quarter of 2020 will be much more heavily hit by the drop in economic activities than Q1 2020. Sales and volume development in April clearly indicate this. Order entry for May and June exhibit further deterioration. From today's perspective, we expect at best an

EBIT before special items in a low triple-digit-million-euro range in Q2. However, at present I cannot rule out the possibility that BASF Group's EBIT before special items will drop to zero or even below in Q2. A main reason for this is the global shutdown in the automotive industry. The most relevant question in this regard is: How long will it take to really restart the whole automotive value chain? For 2020, we expect at least a decline by 20 percent in automotive production globally compared to the year 2019.

You are aware that several of our segments are supplying the automotive industry, particularly Surface Technologies, Materials and Industrial Solutions. Apart from automotive, some other customer industries are highly impacted by the pandemic as well. Favorable business development in Nutrition & Care and Agricultural Solutions cannot compensate for that.

Under these circumstances, the Supervisory Board members have decided to voluntarily waive 20 percent of their fixed compensation from April 1 to the end of 2020. The members of the Board of Executive Directors will waive 20 percent of their fixed salaries for the second quarter of 2020. We will consider further steps depending on the further development in the course of the year.

In Q3 and Q4, we currently expect a gradual improvement based on the indications we are getting from our customers. However, many influencing factors, most importantly the development of consumer demand and the functionality of supply chains of important customer industries, are still intransparent and questionable at this time. By the end of July, we expect to have a better grasp on the overall economic development and hope to be in a position to provide you with a meaningful quantitative guidance again.

I would like to close with assuring you that the BASF team is consistently with dedication and confidence working hands-on together with our customers through these unprecedented challenges.

Our diversified portfolio and our solid financials are strong assets in these times. We at BASF remain optimistic about the future and we will emerge stronger from this situation.

And now, we are glad to take your questions.