



We create chemistry

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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 afternoon and thank you for joining us.

Today, we will provide you with the fourth-quarter and full-year 2018 results, the outlook for 2019 and an update on the implementation of our corporate strategy.

[Chart 3: BASF Group full year 2018 – Overview]

Overall, we are not satisfied with our performance in 2018; we expected much more at the beginning of the year. However, global economic growth slowed in the course of 2018. Geopolitical developments and trade conflicts, in particular between the U.S. and China, led to an increased uncertainty and an overall cautious market sentiment in the second half of the year. In the EU, GDP growth slowed to under 2 percent, mostly driven by weaker export demand. In Asia, the slowdown was also pronounced, especially in China. As a result, demand from key customer industries, mainly automotive, was dampened. In 2018, the global automotive industry recorded a 0.8 percent decline in growth compared to plus 2.3 percent in the prior year.

In this environment, annual sales of the BASF Group increased by 2 percent to 62.7 billion euros. We implemented price increases in all segments and divisions. Volumes were up slightly compared to 2017: Higher volumes in Functional Materials & Solutions and in Agricultural Solutions were partially offset by lower volumes in Performance Products and Chemicals. The outage at the citral plant, which began producing again in Q2 2018, particularly contributed to lower volumes in Performance Products. In addition, several downstream businesses were negatively impacted by the low water levels on the Rhine River.

In the Chemicals segment, the volume effect from the long-lasting drought in Continental Europe was most pronounced. Currency effects amounted to minus 4 percent overall, while portfolio effects positively impacted sales by 1 percent.

EBIT before special items of BASF Group decreased by 17 percent to 6.4 billion euros compared to the prior-year. The decline is mainly attributable to the Chemicals segment, which accounts for two thirds of the overall earnings decrease in 2018. In Europe and Asia, isocyanate margins fell sharply in the second half of 2018. Average steam cracker margins declined in all regions in 2018 and were lower than assumed in our planning. The exceptionally low water levels on the Rhine weighed on earnings in Chemicals and also other segments. Overall, it led to a negative earnings impact of around 250 million euros in 2018.

Lower earnings in Functional Materials & Solutions – the segment that is most exposed to the automotive industry –, Agricultural Solutions and Performance Products also contributed to the overall decline in EBIT before special items. As a consequence of the late closing of the transaction with Bayer and the seasonality of the acquired seeds businesses, earnings in Agricultural Solutions decreased considerably. The associated integration costs also burdened the earnings development.

[Chart 4: Attractive shareholder return]

Ladies and gentlemen,

We are committed to our policy to increase the dividend per share every year. A predictable and progressive dividend policy to return value to our shareholders is a top priority for us.

At this year's Annual Shareholders' Meeting, we will therefore propose to pay a dividend of 3 euros and 20 cents per share, an increase of 10 cents.

We are thus offering an attractive dividend yield of 5.3 percent, based on the share price of 60 euros and 40 cents at the end of 2018.

[Chart 5: Key areas of action to be the leading chemical company for our customers]

Looking at our long-term development, BASF remains on its strategic path of profitable growth. I would like to again highlight our six key areas of action to be the leading chemical company for our customers.

- We will intensify customer focus to accelerate growth.
- We will sharpen our portfolio and strengthen the Verbund.
- We will transform our organization to be more agile and customer-focused.
- We will focus capital allocation on organic growth.
- We will drive growth, particularly in China – the largest market for chemicals worldwide.
- And, we will do this in a sustainable way by setting the tone with our CO₂-neutral growth target.

We have adjusted our segment structure as of January 1, 2019. We now have six segments: Chemicals, Materials, Industrial Solutions, Surface Technologies, Nutrition & Care and Agricultural Solutions. We have done this to increase the transparency of our reporting and allow you to better benchmark us against competitors.

[Chart 6: Update on strategy implementation – We empower our businesses to optimize and differentiate according to customer needs]

To transform BASF into a more agile and customer-focused organization, we act according to three guiding principles:

- Empowerment
- Differentiation
- Simplification

As of January 1, 2019, around 14,000 colleagues from R&D, engineering & maintenance, supply chain and procurement have moved closer to our operating divisions. The transfer, in this first step, went smoothly. The embedding process will be finalized by the end of the third quarter 2019. By then, around 20,000 colleagues will have moved closer to our businesses, and with this, to our customers.

[Chart 7: Update on announced M&A activities]

Let me also give you an update on the announced M&A activities:

- At the end of January 2019, BASF and Solenis completed the transfer of BASF's paper and water chemicals business to Solenis. As of February 1, 2019, the combined business is operating under the Solenis name. With pro forma sales of around 2.4 billion euros in 2017 and approximately 5,200 employees, the combined company will provide an expanded product portfolio for paper and water treatment customers. BASF holds a 49 percent share; 51 percent of the shares are held by funds managed by Clayton, Dubilier & Rice, and Solenis management. Since closing, BASF accounts for its share in Solenis using the equity method and includes its share of the company's net income in EBIT before special items for the BASF Group (reported under "Other"). The disposal gain in the order of a low triple digit million-euro amount will be reported as special income in the Industrial Solutions segment in the first quarter of 2019.
- At the end of September 2018, BASF and LetterOne signed the agreement to merge their respective oil and gas businesses in a joint venture. We are currently going through the regulatory approval processes and plan to close the transaction in the first half of 2019. The preparation of the integration and the approval processes in various countries are well on track. We expect that the IPO will take place in the second half of 2020 at the earliest. The exact timing will obviously depend on market conditions.
- On January 18, 2019, the EU Commission granted conditional clearance for BASF to acquire Solvay's polyamide business. This approval is an important milestone for the transaction. The merger control process turned out to be more complex than expected.

In the EU approval process, BASF made commitments to address the competition concerns of the Commission. This requires us to divest parts of the original transaction scope to a third-party buyer, namely manufacturing assets and innovation capabilities of Solvay's polyamide business in Europe. BASF will still achieve key strategic objectives from the acquisition and strengthen its polyamide 6.6 business significantly. Closing is expected in the second half of 2019 after all remaining conditions have been fulfilled, including the sale of the remedy package to a third party.

- As part of our active portfolio management, we are continuously evaluating whether our businesses can still realize their full potential within BASF or would perform even better in a different set up. In this context, we announced in October 2018 to evaluate strategic options for our construction chemicals business. Currently, we are preparing the carve out of the business and are structuring the M&A process. Our intention is to sign contractual agreements in the course of 2019.
- Furthermore, we are going to start the divestment process for our global pigments business. BASF has a leading position in the pigments market, however, we also want to ensure the long-term success of this business. BASF's pigments business offers a broad portfolio of colored and effects pigments as well as preparations. It generated sales of about 1 billion euros in 2018, has around 2,600 employees and is supplying more than 5,000 customers worldwide. We strive to close the transaction by the end of 2020 at the latest.

[Chart 8: Announced investments in organic growth in Asia]

Let me now give you an update on our large investment projects intended to fuel future organic growth in Asia:

- In early January 2019, BASF and the government of the Guangdong province signed a framework and investment agreement setting out further details of BASF's plan to establish a new Verbund site in Guangdong. Following the signing of the memorandum of understanding (MoU) in July 2018, BASF selected the city of Zhanjiang as the location for its second Verbund site in China. More than 9 square kilometers of land will be allocated for the project. The city of Zhanjiang is located at the heart of the southwestern Guangdong province. The new site will benefit from Zhanjiang's natural resources, a deep-water port and excellent transportation links to the industrial centers of Guangdong.
- In mid-January 2019, BASF and Adani signed an MoU, to evaluate a major joint investment in the acrylics value chain in India. The designated site would be located at Mundra port in Gujarat. A feasibility study will be completed by the end of 2019. According to the MoU, BASF and Adani want to establish a joint venture with an investment totaling about 2 billion euros, in which BASF would hold the majority. The investment would be BASF's largest in the country to date and comprise the development, construction and operation of several production plants. The products are predominantly for the Indian market to serve a wide range of local industries, including construction, automotive, and coatings, whose growing demand is currently supplied via imports.

In line with BASF's carbon-neutral growth strategy, the chemical site in Mundra would be the company's first CO₂-neutral production site fueled by renewable energy.

- At the end of October 2018, BASF and SINOPEC signed an MoU to further develop their partnership in upstream and downstream chemical production at the Nanjing Verbund site in China. Our joint venture BASF-YPC will invest in a 50 percent stake to build another steam cracker with a capacity of 1 million metric tons of ethylene per year. SINOPEC Yangtzi Petrochemical will invest the other 50 percent. The participation in a new steam cracker and the expansion of our joint venture underline the strong partnership between SINOPEC and BASF and the commitment to our customers in China. We will also jointly explore new business opportunities in China's fast-growing battery materials market.

Already today, China is the largest chemical market worldwide. Growing above the global market requires a strong participation in China's growth. With our announced investment projects, we are well placed to further expand our already strong position in this region and accelerate our organic growth.

And now Hans will give you more details regarding the business development in Q4 and the full year 2018.

Hans-Ulrich Engel

Good afternoon ladies and gentlemen,

Let me turn to the financial figures of BASF Group for Q4 2018 compared to the prior-year quarter in more detail:

[Chart 9: BASF Group Q4 and full year 2018 – Sales increased slightly, earnings declined mainly due to lower contributions from Chemicals]

- Sales in the fourth quarter of 2018 increased by 2 percent to 15.6 billion euros. Prices were up by 2 percent supported by Performance Products, Functional Materials & Solutions and Agricultural Solutions. Volumes decreased by 3 percent, mainly as a result of the low Rhine water levels and the supply limitation of important raw materials at the Ludwigshafen site. Portfolio effects amounted to 3 percent and were related to the acquisition of agricultural solutions businesses from Bayer. Currency effects had no impact on sales overall.
- EBITDA before special items decreased by 35 percent to 1.5 billion euros. EBITDA amounted to 1.3 billion euros compared to 2.3 billion euros in Q4 2017.
- EBIT before special items came in at 630 million euros, 59 percent lower than in Q4 2017. Considerably lower earnings in Chemicals and in Agricultural Solutions led to this decline. In Chemicals, lower margins in the isocyanates and cracker businesses were the main driver. In Agricultural Solutions, acquisition-related expenses burdened the earnings development in the quarter. In Performance Products and Functional Materials & Solutions, we were able to increase earnings. Overall, earnings in Q4 2018 were negatively impacted by around 200 million euros as a result of the low water levels on the Rhine.

- Special items in EBIT amounted to minus 161 million euros compared to minus 104 million euros in Q4 2017. Special charges were mainly related to the acquisition of agricultural solutions businesses from Bayer.
- EBIT decreased from 1.4 billion euros in Q4 2017 to 469 million euros in Q4 2018.
- The tax rate was 25.1 percent. In the prior-year quarter, we reported a negative tax rate due to the effect of corporate tax reforms, mainly in the U.S. and Belgium, which resulted in a one-time non-cash, deferred tax income of more than 400 million euros.
- Net income amounted to 348 million euros compared to 1.5 billion euros in Q4 2017.
- Reported earnings per share decreased from 1.68 euros to 37 cents in Q4 2018. Adjusted EPS amounted to 66 cents; this compares with 1.29 euros in the prior-year quarter.
- In the fourth quarter of 2018, operating cash flow increased by 366 million euros to 1.6 billion euros. The increase was driven by a cash inflow from changes in net working capital of 123 million euros compared to a cash outflow of 1.3 billion euros in 2017. Payments made for property, plant, equipment and intangible assets increased by 76 million euros and amounted to 1.5 billion euros. Free cash flow came in at 88 million euros.

I will now quickly comment on the full year 2018:

- Sales of BASF Group increased by 2 percent to 62.7 billion euros on account of higher prices, slightly higher volumes and positive portfolio effects.
- At 9.5 billion euros, EBITDA before special items was 12 percent lower than in the prior year. EBITDA amounted to 9.2 billion euros compared to 10.8 billion euros in 2017.
- EBIT before special items decreased from 7.6 billion euros to 6.4 billion euros.
- In total, special items amounted to minus 320 million euros compared with minus 58 million euros a year ago. EBIT decreased by 20 percent to 6.0 billion euros.
- The tax rate increased from 18.7 percent to 21.5 percent – for the reasons already explained. Net income amounted to 4.7 billion euros, this compares to 6.1 billion euros in 2017.
- Income after taxes from our discontinued oil and gas operations increased by 9 percent to 829 million euros due to higher oil and gas prices and increased production volumes.
- Reported earnings per share decreased from 6.62 euros to 5.12 euros in 2018. Adjusted EPS were 5.87 euros, 57 cents lower than in 2017.

[Chart 10: Cash flow development in 2018]

Let's now turn to our full-year cash flow:

- Cash flows from operating activities decreased from 8.8 billion euros to 7.9 billion euros. This was mainly driven by lower net income. In 2018, changes in net working capital reduced the cash flow by only 530 million euros, compared to minus 1.2 billion euros in 2017.
- Cash used in investing activities increased from 4.0 billion euros to 11.8 billion euros. In 2018, net payments for acquisitions and divestitures amounted to around 7.3 billion euros, mainly due to the acquisition of agricultural solutions businesses from Bayer. In 2017, we had a minor cash inflow from divestitures. Payments made for property, plant, equipment and intangible assets decreased by 102 million euros to 3.9 billion euros.
- At 4.0 billion euros, free cash flow remained strong but decreased by 744 million euros compared to 2017 due to the lower operating cash flow.
- Cash flows from financing activities amounted to minus 52 million euros. Changes in financial liabilities led to a net cash inflow of 3.0 billion euros, mainly due to the issuance of U.S. dollar commercial papers as well as bonds.
- In 2018, we paid 2.8 billion euros in dividends to the shareholders of BASF SE and 174 million euros were paid to minority shareholders.

[Chart 11: Balance sheet remains strong]

Turning to our balance sheet at the end of 2018 compared to the year end 2017:

- Total assets increased by 7.8 billion euros to 86.6 billion euros. The acquisition of a range of businesses and assets from Bayer contributed more than 8 billion euros to this increase.
- Non-current assets decreased by 4.3 billion euros, mainly attributable to the reclassification of the fixed assets in our oil and gas business to current assets following the signing of the agreement to merge Wintershall and DEA.
- Current assets amounted to 43.2 billion euros compared to 31.1 billion euros at year end 2017. This increase is mainly attributable to the reporting of our oil and gas assets as a disposal group.
- Total liabilities increased by 6.4 billion euros to 50.4 billion euros. Current liabilities were up by 8.4 billion euros to 23.3 billion euros, primarily because of the reclassification of the non-current liabilities and provisions of our oil and gas activities to the liabilities of the disposal group.
- Financial debt was up by 2.8 billion euros to 20.8 billion euros. Net debt increased to 18.2 billion euros compared to 11.5 billion euros at the end of 2017, due to financing the acquisition from Bayer.
- Our equity ratio was 41.7 percent at the end of 2018.

And with that, back to Martin for the outlook.

Martin Brudermüller

[Chart 12: Outlook 2019 for BASF Group]

With this, I come to the 2019 outlook for BASF Group.

The global economy is visibly slowing down:

- At 2.8 percent for 2019, we assume that the global economy will grow 0.4 percentage points less than in 2018. In Europe, domestic and export demand are forecast to grow at a slower pace. For the U.S., we still expect solid growth, but the benefits from the tax reform should be less pronounced than in 2018. Growth in the Asian emerging markets is probably weakening slightly, in particular as a result of lower growth in China. Nonetheless, growth will remain high compared with the advanced economies. In South America, we predict the recovery in Brazil to continue, assuming that the newly elected president takes a liberal and reform-oriented course for the economy.
- We anticipate global chemical production in this environment to grow at the previous year's level of 2.7 percent. A slightly better growth rate in the advanced economies is offset by a somewhat slower development in the emerging markets.
- We assume an average exchange rate of 1.15 U.S. dollars per euro and an average oil price of 70 U.S. dollars per barrel Brent.

Our outlook assumes that the trade conflict between the U.S. and its trading partners will ease over the course of the year, and that Brexit will not cause wider economic repercussions.

Furthermore, we assume that our customer industries will maintain their growth trajectory. For the automotive industry, we expect a slight recovery following the decrease in production in 2018.

Based on these macroeconomic and further assumptions we provide the following outlook for the BASF Group:

- We anticipate slightly higher sales in 2019, largely as a result of volume growth and portfolio effects.
- EBIT before special items is targeted to be slightly above the 2018 level, however, at the lower end of the range.
- ROCE is forecast to be slightly above our cost of capital rate, but slightly below the 2018 level. It will be negatively impacted by the higher capital base due to the assets acquired from Bayer.

Let me add that Q1 and Q2 2019 will be comparably weak quarters. Firstly, the first half of 2018 still benefitted from high margins in isocyanates; that means comparables are tough. Secondly, costs associated with the implementation of our strategy and a higher number of planned turnarounds compared to the first half of 2018 will negatively impact earnings. The decisive factors to achieve our targets for 2019 are an improved business performance, solid customer demand and first contributions from our excellence program in the second half.

[Chart 13: Outlook 2019 by segment]

This slide summarizes the outlook 2019 by segment.

The slight increase in EBIT before special items largely reflects significantly higher contributions we expect from the Agricultural Solutions, Industrial Solutions, Surface Technologies and Nutrition & Care segments. We are forecasting a slight improvement in earnings in the Chemicals segment. In the Materials segment, by contrast, we anticipate considerably lower EBIT before special items, driven by a decline in margins in the isocyanates business. We also expect the earnings generated by Other to be considerably below the prior-year figure. In 2018, the release of provisions from the LTI program had a positive effect, which we do not expect in 2019.

Additional information is available in the BASF Report 2018, which was published today.

[Chart 14: Priorities 2019]

Ladies and gentlemen,

Let me conclude with our priorities for 2019:

- Despite a more challenging macroeconomic environment, we will consistently implement our corporate strategy and transform BASF into a more customer-focused and entrepreneurial company.
- Our commitment to R&D and sustainability is core and the major pillar for our future organic growth. Therefore, we will focus our R&D resources even more on growth businesses and increase our customer focus. In a first step, we moved R&D closer to the businesses to better align customer needs and R&D projects. During our R&D Webcast on January 10, we presented four specific projects of our Carbon Management program to support our target of CO₂-neutral growth until 2030. In mid-January, we co-founded a global alliance of more than 30 companies to advance solutions that reduce and eliminate plastic waste in the environment, especially in the ocean. These examples show our commitment to sustainable development.
- We will continue our active portfolio pruning towards higher value and clearer focus. This is an ongoing task, and one major portfolio change in 2019 will be the merger of Wintershall and DEA.
- We will accelerate our excellence program announced in November. The target is to achieve an annual EBITDA contribution of 2 billion euros from 2021 onwards. For 2019, we aim to achieve an EBITDA contribution of 500 million euros. For the implementation we expect one-time costs of 0.8 billion euros in the period 2019 until 2021. This includes special charges in a mid-triple-digit million-euro-range. Due to the accelerated implementation, a large share of the implementation costs will

occur as early as 2019. These costs will reduce the EBITDA contribution in 2019 accordingly.

The program does not only cover our operations, but also includes expected benefits from digitalization and automatization. Furthermore, we include the expected efficiency gains from organizational changes and simplification measures in the program. At the same time, we will continue to invest in our organic growth.

Our corporate strategy is first and foremost a growth strategy. We are committed to implementing the defined strategic measures to achieve profitable and sustainable growth.

And now, we are glad to take your questions.