BASF
We create chemistry

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Speech
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The spoken word applies.

Martin Brudermüller

Good morning ladies and gentlemen,

and thank you for joining us.

On July 10, BASF released preliminary figures for the second quarter. Today, we will provide you with further details.

I hope you and your families are doing well. COVID-19 is still a huge challenge for all of us. It is, however, also a catalyst for change and an opportunity to do things differently in future. At BASF, we have quickly adapted to new digital processes and virtual communication. Decision making becomes faster and customer relationships intensify. Most importantly, the BASF team works together closely. This has always been our strength. 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.

We are actively managing this crisis. Our diversified portfolio and our solid financials are strong assets in these times.

[Chart 3: Chemical production in China with a V-shaped recovery, recovery in North America and Europe still a question mark]

Let's turn to the macroeconomic environment first. The indicators for Q2 2020 are estimates as most of the countries have not yet published their figures for the quarter.

The future macroeconomic development is still very uncertain and not yet transparent. 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 Q1 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 Q2 2019. The resilience of chemical demand in some important customer industries is one reason why the decline in global chemical production is not substantially steeper. Another reason is China: The country has embarked on a V-shaped recovery. The coming months will show whether retail sales and consumer spending will rise with production levels. Going forward, it is crucial that global demand returns to a reliable solid level. This is not yet visible.

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 demand collapse, production stoppages and supply chain disruptions. In Q2 2020, global automotive production dropped by 45 percent compared to Q2 2019. Excluding China, the drop in automotive production in Q2 amounted to around 60 percent. For the full year 2020, we now expect global automotive production to decline by 27 percent.

[Chart 4: BASF Group Q2 2020: Sales volumes in Greater China significantly above prior-year months]

To create as much transparency as possible for you, we will provide more detailed information than usual. I will show you BASF's sales volumes by region on a monthly basis. While BASF's total volumes dropped by 11 percent in Q2, 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, while we already saw a volume increase of 13 percent in Greater China.

In June 2020, BASF Group's sales volumes grew globally by 1 percent due to considerably higher volumes in Greater China and slightly higher volumes in North America – the latter due to the cracker turnaround there in Q2 2019. This increase was partly offset by a volume decline of 7 percent in Europe.

[Chart 5: 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. This external data is preliminary as well.

The impact of COVID-19 and the corresponding lockdowns differ greatly by customer industry.

In Q2 2020, global automotive growth decreased by 45 percent following the lockdowns especially in Europe and North America. Industries such as energy and resources, consumer goods and construction were also considerably impacted, but significantly less than automotive. In contrast, the nutrition and health and pharma industries were resilient or even benefitted partially from the pandemic. Semiconductors, which form part of the electronics industry, have grown in Q2 as well.

This chart also exemplifies that it is still almost impossible to make reliable forecasts regarding the future growth of our key customer industries at this time.

[Chart 6: The gap in BASF’s average daily order entry is slowly closing, but visibility remains low]

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

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

Customers remain very cautious and are ordering lower volumes more frequently. 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. Thus, 80 percent of all our orders on hand will be booked within the next two months. And we have no clear view beyond that.

[Chart 7: BASF Group Q2 2020: COVID-19 leads to lower volumes, mainly due to lower demand from the automotive industry]

Compared to the prior-year quarter, BASF Group’s sales volumes declined by 11 percent in Q2 2020. Not surprisingly, the decline was most pronounced in the segments supplying the automotive industry. Surface Technologies, Materials and Industrial Solutions recorded a sharp decline in demand, following the temporary closure of practically all major automotive production sites in Europe and North America.

In contrast, we increased sales volumes in Nutrition & Care and Agricultural Solutions. 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 will give you more details regarding our business development in Q2 2020.

Hans-Ulrich Engel

Good morning also from my side.

[Chart 8: BASF Group Q2 2020: Sales and earnings decline on account of lower demand from key customer industries]

Let's look at our sales and earnings development in Q2 2020 compared to the prior-year quarter. I will start with our sales development:

- **Sales** decreased by 12 percent to 12.7 billion euros.
- Lower **volumes** of minus 11 percent were the main driver for this. Martin explained the reasons for the volume decline already.
- **Prices** decreased by 1 percent, mainly due to lower prices for upstream chemicals. Considerably higher prices in Surface Technologies and slightly higher prices in Agricultural Solutions 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.

EBIT before special items came in at 226 million euros, 77 percent below Q2 2019. With the exception 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 from 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 Intermediates, but EBIT before special items in this division was positive overall. The main reasons for the earnings drop 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 as a result of lower raw material prices could only partially offset the decline. The scheduled turnarounds at BASF's Verbund site in Nanjing and lower margins were the main driver for the earnings decline in the Petrochemicals division. In addition, an unscheduled shutdown of the Port Arthur cracker in June negatively impacted earnings.

In the Materials segment, earnings decreased considerably in the Monomers and the Performance Materials divisions, mainly on account of the significantly lower demand from the automotive industry. In Monomers, primarily margins for isocyanates declined compared to Q2 2019 due to lower demand as a result of the pandemic. In Performance Materials, volumes decreased significantly following the lockdowns in Europe and North America, especially in PU systems, engineering plastics and Cellasto. Despite higher specific margins because of lower raw material prices, the volume decrease led to a decline in EBIT before special items.

Earnings in the Industrial Solutions segment came in below prior-year quarter. In Dispersions & Pigments, volumes decreased in all business areas but electronic materials. In Performance Chemicals, volumes decreased in fuel and lubricants and oil field chemicals, while they were up in plastic additives. In both divisions, lower raw material prices resulted in slightly lower prices. Lower fixed costs could partially offset the volume-driven earnings decline in the segment.

As expected, EBIT before special items of Surface Technologies 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 in Coatings. The decline in volumes was due to weak demand from the automotive industry caused by the effects of the corona pandemic.

In Nutrition & Care, EBIT before special items rose on account of significantly 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 Care Chemicals, higher volumes in home care, I&I and industrial formulators as well as oleo surfactants and alcohols more than offset lower volumes in personal care specialties. Earnings in Care Chemicals decreased slightly due to higher fixed costs; the prior-year quarter had included a contractual one-time payment, which reduced fixed costs.

In Agricultural Solutions, EBIT before special items was at the level of the prior-year quarter. While volumes and prices were up, earnings were negatively impacted by currency effects, especially driven by 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 9: Excellence Program 2019 – 2021: On track to achieve the targeted annual EBITDA contribution]

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 euros annual EBITDA contribution 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 an EBITDA contribution in the range of 1.3 billion to 1.5 billion euros. This is a run-rate. The associated one-time costs in 2020 are estimated to be around 300 to 400 million euros.

[Chart 10: Portfolio measures expected to be closed in 2020]

Let me provide you with a short 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 on track despite considerably more challenging framework conditions due to the coronavirus pandemic.

We expect to close the sale of the construction chemicals business in Q3 2020 and of the pigments business in Q4 2020. Both transactions are subject to the approval of the relevant merger control authorities.

With respect to Wintershall Dea, we are realizing the announced synergies. 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 11: BASF Group Q2 2020: Key financial figures]

I will now focus on further details regarding the earnings and cash flow development of BASF Group in Q2 2020 compared to the prior-year quarter:

- **EBITDA before special items** decreased by 35 percent to 1.2 billion euros. **EBITDA** amounted to 1.1 billion euros compared to 1.5 billion euros in Q2 2019.
- **EBIT before special items** came in at 226 million euros, 77 percent lower than in Q2 2019.
- **Special items** in EBIT amounted to minus 167 million euros compared to minus 488 million euros in Q2 2019. Special charges were, for example, related to the carve-out of the pigments business and BASF's “Helping Hands” 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. **EBIT** thus decreased by 88 percent to 59 million euros in Q2 2020.

- **Net income** amounted to minus 878 million euros compared to almost 6 billion euros in Q2 2019. In Q2 2020, BASF incurred a non-cash-effective impairment of its shareholding in Wintershall Dea. Lower long-term oil and gas price scenarios and changed reserve estimates resulted in an impairment of 819 million euros. In the prior-year quarter, net income included a book gain of 5.7 billion euros on the deconsolidation of Wintershall.
- Therefore, reported earnings per share decreased from 6.48 euros to minus 0.95 euros in Q2 2020. Adjusted EPS amounted to 25 euro-cents; this compares with 83 euro-cents in the prior-year quarter.
- **Cash flows from operating activities** increased from 1.9 billion euros to 2.2 billion euros in Q2 2020. The increase was primarily due to cash released from net working capital, which rose by 336 million euros.
- Payments made for property, plant and equipment and intangible assets decreased by 26 percent or 255 million euros to 726 million euros. **Free cash flow** increased by more than 500 million euros to 1.5 billion euros.

[Chart 12: Strong balance sheet]

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

- Total assets increased by 3.4 billion euros to 90.4 billion euros on account of higher current assets. Compared to the end of Q4 2019, noncurrent assets decreased by 804 million euros, mainly driven by the non-cash-effective impairment of BASF's shareholding in Wintershall Dea.

- Current assets rose by 4.2 billion euros to 35.2 billion euros, mainly due to higher cash and cash equivalents, as well as higher other receivables.
- Net debt increased by 5.0 billion euros to 20.5 billion euros, mainly due to the dividend payment in Q2 2020 and the purchase price payment for Solvay's polyamide business in Q1 2020.
- At the end of June 2020, the equity ratio amounted to 42.5 percent.

And now I hand things back to Martin.

Martin Brudermüller

[Chart 13: Qualitative statements on further business development in 2020 provided in the Half-Year Financial Report 2020]

Ladies and Gentlemen,

Due to the continuing high uncertainty of the further economic development and the low visibility, we still refrain from making any concrete statements on the development of sales and earnings for the full-year 2020 today.

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.

Our own recovery path from the corona pandemic is still as unclear as the medium and long-term macroeconomic development globally and by region. The risk of further infection waves with the corresponding impact from further lockdowns as well as subdued customer demand in the midterm are the main reasons for that.

Without a swift and solid recovery and a positive midterm outlook, there is a certain risk of having to impair some of our assets. Today, we do not yet have sufficient transparency to assess the long-term economic impacts of the corona crisis and 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 step in implementing its sustainability strategy.

[Chart 14: 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 and an integral part of our corporate purpose "We create chemistry for a sustainable future." When we launched our new corporate strategy in 2018, sustainability was highlighted again and further strengthened. I would like to emphasize that post-corona we will not change our commitment or ambition to achieve our CO_2 targets. The topic continuously grows in importance in our external dialogue with stakeholders across society and politics. Particularly, the EU Green Deal pushes an extremely ambitious agenda. When it comes to CO_2, it sets the goal of achieving CO_2 neutrality in the European Union by 2050. We subscribe to the importance of the reduction of CO_2 emissions by committing to climate-neutral growth until 2030. Our customers and partners have ambitious CO_2 reduction targets as well.

To reach our ambitious goals in 2030 and beyond, we pursue a comprehensive Carbon Management Program leveraging new production technologies as well as electrification of chemical processes based on renewable energy. However, to actively address CO_2 intensity in our customer dialogues it is paramount to create transparency of the carbon footprint on product level.

Carbon footprints for our products will guide us and our customers in our joint sustainability progress and enable us to support our customers' transformation efforts. The cradle-to-gate Product Carbon Footprint comprises all emissions that occur until the BASF product leaves the factory gate for the customer. This shows them the CO_2 units per ton of product, from the purchased raw material to the use of energy and our own production processes covering scope 1, 2 and 3 emissions. 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.

With many of our customers, we are continuously working on sustainable solutions. The carbon footprints provide our customers with valuable information on where the levers for avoiding greenhouse gas emissions are. Already today, we offer – with our mass balance approach – the use of alternative raw materials and renewable energies; in the future, chemcycled materials will also be available. Thus, in a customized way we can define tailormade strategies with our customers to stepwise reduce product carbon footprints, and within their scope 3 emissions, reduce 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 closer customer collaboration.

With our straightforward tangible approach, we are again a front-runner when it comes to sustainability and additional customer benefits. We will participate in the development of industry standards for the calculation method. The implementation of the Product Carbon Footprints in our marketing concepts will take place step by step.

We are currently starting to offer the Product Carbon Footprint to selected product and customer segments and plan to make these data available for the entire portfolio by the end of 2021.

Ladies and gentlemen,

And now, we are happy to take your questions.