

# News Release

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Media Conference Call on the First Quarter 2020

## **BASF Group shows resilience amid corona crisis with diversified portfolio and financial solidity**

- Sales of €16.8 billion (plus 7 percent), mainly due to volumes growth
- EBIT before special items of €1.6 billion (minus 6 percent), primarily as a result of lower earnings in the Chemicals and Materials segments; EBIT before special items improves in all downstream segments
- BASF with solid financing; equity ratio of 47 percent

### **Outlook:**

- High uncertainty about future economic developments in 2020
- Concrete statements on the development of sales and earnings in 2020 cannot be made at present

**EMBARGO PERIOD: April 30, 2020, 9:00 a.m.**

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.

[Martin Brudermüller]

Good morning ladies and gentlemen,  
Hans Engel and I would like to welcome you to our press conference on the first quarter. I do not need to stress that this was not a normal quarter. The same will be true for the second quarter. And likely the entire year. The coronavirus has turned the world upside down.

At our Annual Press Conference back at the end of February, unlike many of our DAX peers, we were already warning about the severe consequences of the coronavirus and we integrated this into our guidance. But even we did not anticipate a global pandemic of this scale. Around the world, all countries are facing the same challenges, some slightly later than others. Not only is the global economy suffering, so are all societies. Or, more accurately: Every person is affected.

In these times, we are learning how important health is and what price it has. And how important it is to be considerate to others, to keep your distance. That is also why we are not having an Annual Shareholders' Meeting today, as we had originally planned. Instead, for the first time, it will take place virtually on June 18.

This is a time of change and reorientation. It requires rethinking many processes. It requires reorganizing our ways of being together. And it is a time of solidarity and reliability. Solidarity within the company and in society. That is why we decided early on to launch the "Helping Hands" initiative. In Ludwigshafen and at many other BASF sites, we are producing hand sanitizer, which is desperately needed everywhere. We produce around 175,000 liters per week worldwide, which we distribute for free to hospitals and other public healthcare facilities. To protect these people who are doing incredible work right now, we also decided to donate more than 100 million protective masks to the Federal Republic of Germany as well as the state of Rhineland-Palatinate. In total, BASF is committing approximately €100 million worldwide to fighting the pandemic. We say thank you, and in solidarity, we make our contribution to human health.

And at BASF, the health of our employees is our highest priority. I will tell you more about how we do this a little bit later.

**[Chart 2: BASF stands by progressive dividend policy]**

Ladies and gentlemen,

We want to be reliable to all our stakeholders, also with respect to our dividend. We confirm our dividend proposal of €3.30 per share, as we had announced in February 2020. We will propose this to the Annual Shareholders' Meeting on June 18.

We are very aware of the controversial discussions in German media about dividend payments. I would therefore like to clarify our position here. It is very simplistic to equate short-time work with government loans. Short-time work is a proven instrument of German labor market policy in the social market economy, especially in economically troubled times. Over the past 10 years, BASF has transferred around €400 million in employer contributions to the German labor office and BASF employees have contributed an equal amount. Since 2008, BASF has received less than 1 percent of this amount back in connection with registered short-time work. Currently, BASF has applied for very limited short-time work in some of our Group companies, primarily in connection with production for the automotive industry.

The German development bank KfW is giving government-backed loans to protect companies from insolvency when firms are no longer able to access sufficient financing on the capital market due to the coronavirus crisis. In this case, the German government expects that no dividends will be paid out. BASF has not applied for one of these emergency loans and we do not intend to.

We continue to secure our financing via the capital market. We therefore believe that the discussion about dividends, short-time work and state aid needs to be more nuanced.

BASF's broad portfolio and financial solidity are especially paying off now in these economically challenging times. Hans Engel will tell you more about this later.

**[Chart 3: Macroeconomic environment characterized by extreme uncertainty]**

Ladies and gentlemen,

The macroeconomic environment is truly challenging at the moment. There is great uncertainty in the markets. This makes reliable planning nearly impossible

right now. Let us look at the developments over the past few months. At first, growth forecasts were gradually scaled back. Then, in March, they abruptly dropped into negative territory. Countries around the world have not yet presented all their preliminary figures for the first quarter, but the trend is clear. While outside China, January and February 2020 were still significantly less affected by the coronavirus pandemic, the impacts of the lockdown measures around the world became very noticeable in March.

According to the currently available figures, global GDP declined by 1.7 percent versus the first quarter of 2019. This affected all of the major economic regions. At first, it was most striking in China and Europe. Severe effects in countries such as the United States will be seen in the second quarter.

Industrial production declined even more sharply than GDP. Global chemical production also contracted significantly by 5.2 percent. Here, too, the decline was most pronounced in Asia.

The hardest-hit sector was the automotive industry. Demand collapsed and supply chains were disrupted. Production lines are still shut down. In the first quarter of 2020, global automobile production was down by 24 percent compared with the same period of the previous year. And this came on top of a 5.6 percent drop in 2019.

#### **[Chart 4: How does the pandemic impact global chemical customer industries?]**

Ladies and gentlemen,

BASF's diversified portfolio offers advantages, especially in difficult times. Not all of our customer industries are equally affected by the pandemic.

Some industries are resilient. For example, pharma, detergents and cleaners, or food. At the moment, they are even experiencing additional demand. Just think of disinfectants and cleaners, or home and personal care products. We see this clearly in the incoming orders in our Nutrition & Care segment. Demand in the agricultural industry is also not really affected.

Other customer industries, however, are intensely experiencing the consequences of the pandemic. They are hampered by the low demand from final customers. Moreover, there are production shutdowns and supply chain disruptions. The

transportation and automotive sector is seeing the strongest declines right now. This decline in demand from our most important customer industry is currently hitting us hardest.

This overview shows you our segments and their key customer industries. Here you can see how and where BASF is impacted by the effects of the crisis and will be in the coming months.

#### **[Chart 5: BASF Group Q1 2020: Volume growth in all downstream segments]**

Let's look at the development of our volumes. This impressively shows how well BASF has been holding up despite the strong economic headwinds. In the first quarter of 2020, BASF Group's sales volumes rose by 4 percent. All downstream segments contributed to this. The increase was most pronounced in two segments: Surface Technologies and Agricultural Solutions.

Given that the auto sector accounts for a large share of business in the Surface Technologies segment, the increase here appears somewhat surprising. It is primarily attributable to higher precious metal volumes. The increase in the Agricultural Solutions segment is consistent with the impression that this business is less affected by coronavirus-related demand declines. The Nutrition & Care and Industrial Solutions segments have also seen robust volumes growth so far.

#### **[Chart 6: How we operate safely in the COVID-19 environment]**

With numerous internal measures, we are ensuring that BASF navigates safely through this difficult time. This is especially true for our employees. We activated our global crisis response team very early on, as did our divisions, regions and production sites. We constantly adapt our contingency plans to the latest developments and make sure they are closely aligned with each other.

Our sites are primarily in charge of coordinating production-related measures. In this way, we ensure compliance with local regulations. However, the overarching objective at BASF worldwide is: Minimize the risk of infection! We therefore divided our production shifts into smaller teams. And we have switched to different shift times, without overlaps among the shift teams. This reduces contact during plant operations. In addition, we have stringent hygiene rules.

**[Chart 7: Key measures to lead BASF through the COVID-19 crisis]**

Ladies and gentlemen,

With the implementation of our corporate strategy since late 2018, we have been working on the right topics. These are also the right levers to overcome the current crisis: Focus on customers! Reduce complexity! Create an agile and streamlined organization! And realize significant cost reductions! These are our focus. We are accelerating our ongoing Excellence Program, wherever possible.

Our customers are the focus of all our activities. Right now in particular, they want supply reliability. Therefore, we are working even more closely with them. We want to immediately react to changes in our customers' demand. To do so, it is crucial to be able to quickly optimize and adapt our production network and inventories. Tools, such as our own Verbund simulator, support us in doing this.

Because of the crisis, demand is at a low level. We are therefore adjusting our capacity utilization rate where necessary. We manage the capacity utilization of our plants in the global BASF production network in close coordination between the downstream and upstream businesses. This is because we must ensure continuous supplies even if there are differing levels of demand along the value chain. Thanks to our integrated approach, we can quickly respond to fluctuations in demand.

At the end of April, the average capacity utilization rate of our plants was still more than 60 percent. One helping factor is that most of our products are considered essential in many countries. At BASF SE, this is the case for more than 70 percent of sales. That is why we have only had a few government-mandated shutdowns worldwide.

And, wherever possible, we are strengthening supply chains. For example, with additional measures to secure supplies of important raw materials – and to deliver our products to customers.

In our Logistics Verbund in Ludwigshafen, we have implemented strict hygiene measures. And we have rented additional mobile sanitary facilities. We were thus able to considerably expand the space available for truck drivers and other service providers, which increased our handling capacity. In addition, BASF's key logistics units have been divided into separate teams – with strict rules about physical

distancing. After all, reduced risk of infection translates into increased supply security.

Ladies and gentlemen,

Especially now, securing our liquidity is extremely important. Throughout the entire company, we practice strict working capital management. In the coming months, we will further intensify this and adapt it to business development. This will be supported by increased cost awareness. And the rigorous implementation of our Excellence Program.

Short-time work may also be considered in individual business activities. As previously mentioned, we have currently introduced it at some of our sites in units that primarily supply the auto 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 BASF SE in Ludwigshafen, the number is significantly less than 100.

In addition, we are scrutinizing our investment projects. We want to further reduce our spending on investments. Our target for this year is €2.8 billion. We had originally budgeted €3.4 billion. But we also want to explicitly stress that we are still committed to our long-term growth projects in Asia as well as the expansion in the battery materials business. The new BASF Verbund site in southern China and the chemical complex we want to build with partners in India are key to profitable future growth in Asia. Both of these projects are currently in the feasibility phase.

In Europe, BASF is active in building a value chain for electric vehicles. We will further expand our leading position in the battery materials sector. This will be driven by our investments in Harjavalta, Finland, and Schwarzheide, Germany.

Thanks to all these measures, we are in a good position to lead BASF successfully – not just through the coronavirus crisis.

In terms of financing, too, we have implemented a number of measures to improve our access to cash. Hans Engel will provide you with further details about this. He will also talk about business development in the first quarter and a change in our financial reporting.

**[Chart 8: Change in reporting for “non-integral” shareholdings as of Q1 2020]**

[Hans-Ulrich Engel]

Good morning from me as well. Ladies and gentlemen,

We implemented a change in BASF Group’s reporting as of January 1, 2020, and adjusted the previous year’s figures. The aim is to increase the transparency of our reporting. This is why our presentation of the results of investments accounted for using the equity method will distinguish between those investments that are integrated into BASF Group’s business activities and those that are effectively operating independently of the BASF Group. One example of an investment that is an integrated operation is our 50 percent stake in BASF-YPC at the Verbund site in Nanjing, China.

The most important non-integral investments are Wintershall Dea and Solenis. These investments are also expected to be divested in the short to medium term.

The income from these non-integral investments will no longer be presented in the BASF Group’s EBIT and EBIT before special items (under “Other”), but instead under net income from shareholdings. Net income from shareholdings is a new subtotal within income before income taxes. Integral and non-integral investments will also be shown separately in the balance sheet.

With this change, we ensure that our EBIT and EBIT before special items better reflect the results of our business. These will no longer be influenced by activities that we consider to be financial investments rather than part of our core business.

**[Chart 9: BASF Group Q1 2020: EBIT before special items down due to considerably lower earnings in Chemicals, Materials and Other]**

Now, let us look at BASF Group’s business development in the first quarter of 2020 compared with the same quarter of the previous year.

Sales rose by 7 percent to €16.8 billion. The reason for this, as Martin Brudermüller just mentioned, was that volumes were up by 4 percent. A rise was seen especially in our downstream segments and in Other. Prices increased by 1 percent due to significantly higher precious metal prices in the Catalysts division. Apart from Surface Technologies, all segments experienced lower sales prices.



Portfolio effects of plus 1 percent contributed to the sales increase, largely due to the acquisition of the polyamide business from Solvay. Currency effects amounted to plus 1 percent. This was due to the appreciation of the U.S. dollar against the euro.

Income from operations (EBIT) before special items was €1.6 billion, down by 6 percent compared with the first quarter of 2019. Without the previously mentioned change to the reporting of non-integral investments, EBIT before special items would have been around €1.5 billion, approximately 14 percent below the prior-year quarter.

The decline in EBIT before special items was mainly attributable to significantly lower contributions from the Chemicals and Materials segments and from Other. Compared with the prior-year quarter, the earnings of the two upstream segments declined by €246 million to a total of €383 million. Lower margins year on year in the ethylene and propylene value chains as well as for isocyanates and polyamide precursors had a considerable negative impact on earnings in these segments. In addition, fixed costs were higher. In the Materials segment, considerable growth in earnings in the Performance Materials division could only partially compensate for the decline in the Monomers division.

But even in a difficult market environment, we saw considerable improvements in our downstream segments. EBIT before special items in these four segments increased in the first quarter of 2020 by 13 percent to €1.6 billion. The strongest growth was seen in the Surface Technologies and Agricultural Solutions segments.

In the Industrial Solutions segment, EBIT before special items rose slightly. Here, the Dispersions & Pigments division posted significantly higher earnings, mainly as a result of lower fixed costs. This more than offset the slight earnings decline in the Performance Chemicals division. The transfer of our paper and water chemicals business to the Solenis group as of January 31, 2019, was the main reason for the decline in earnings in the Performance Chemicals division.

The Surface Technologies segment considerably increased EBIT before special items. The Catalysts division posted considerably higher earnings as a result of valuation effects in precious metal trading. In the Coatings division, earnings declined considerably because of lower demand from the automotive industry.

This decrease in earnings could only be partially offset by lower raw materials prices and lower fixed costs.

In the Nutrition & Care segment, EBIT before special items increased considerably. This was primarily due to significantly higher earnings in the Nutrition & Health division. This division supplies customer industries which in some cases have increased demand during the crisis. We were able to meet this demand thanks to higher product availability in comparison to the same quarter of the previous year. Earnings in the Care Chemicals division rose slightly due to lower fixed costs.

EBIT before special items was slightly higher in the Agricultural Solutions segment. This was the result of higher sales and lower fixed costs. Due to the corona pandemic we recorded earlier demand.

In Other, EBIT before special items was considerably lower.

Ladies and gentlemen,

Overall, the breakdown of earnings development by segment shows clearly just how much we benefit from our diversified portfolio, especially right now. We serve many customer sectors and they are affected very differently by the pandemic.

**[Chart 10: Q1 2020: BASF Group shows resilience amid corona crisis with diversified portfolio and financial solidity]**

Ladies and gentlemen,

Now that we have covered sales, I would like to present BASF Group's earnings development in the first quarter of 2020 compared with same period of the previous year.

EBITDA before special items declined by 2 percent to €2.6 billion. EBITDA amounted to €2.4 billion, compared with €2.8 billion in the same quarter of the previous year. EBIT before special items was €1.6 billion, down by 6 percent compared with the first quarter of 2019. I already explained the reasons for this.

Special items in EBIT amounted to minus €184 million. In the first quarter of 2019, the corresponding figure was plus €29 million. Special charges were related mainly to the integration of the polyamide business acquired from Solvay in the Materials segment. Various restructuring measures also contributed to the

negative special items. In the prior-year quarter, income from divestitures led to positive special items overall. EBIT therefore declined by 18 percent in the first quarter of 2020 to €1.5 billion.

The tax rate was 26.6 percent, compared with 25.3 percent in the prior-year quarter. Net income amounted to €885 million. This compared to €1.4 billion in the first quarter of 2019. Consequently, earnings per share decreased to €0.96 in the first quarter of 2020, as compared to €1.53. Adjusted earnings per share were €1.36, compared with €1.70 in the prior-year quarter.

### **[Chart 11: Cash flow development Q1 2020]**

Ladies and gentlemen,

Now we come to cash flows in the first quarter of 2020.

Cash flows from operating activities amounted to minus €1 billion, compared with €373 million in the prior-year quarter. Alongside the considerable decline in net income, this was primarily attributable to the €1.2 billion increase in cash tied up in net working capital.

Cash flows from investing activities amounted to minus €1.8 billion, around €1 billion below the figure for the prior-year quarter. This was mainly attributable to the payment of the purchase price for the polyamide business acquired from Solvay. By contrast, payments made for intangible assets and property, plant and equipment were €172 million lower year on year.

The significant increase in cash flows from financing activities, from €620 million in the first quarter of 2019 to €4.3 billion, was primarily due to the creation of additional liquidity as a precautionary measure.

Free cash flow declined from minus €368 million in the prior-year quarter to minus €1.6 billion as a result of lower cash flows from operating activities.

### **[Chart 12: Balance sheet remains strong]**

Now let us compare the balance sheet at the end of March 2020 with year-end 2019.

Total assets increased by €5.4 billion to €92.4 billion due to higher current assets. Current assets rose due to higher trade accounts receivable as well as an

increase in cash and other receivables. The increase in trade accounts receivable was primarily attributable to the seasonality of our agricultural business. Compared with March 31, 2019, our total assets were unchanged.

Our noncurrent assets were nearly stable at €56.3 billion. Net debt rose by €3.3 billion to €18.8 billion. One reason for this was the acquisition of the polyamide business from Solvay in the first quarter of 2020. The equity ratio amounted to 47 percent at the end of March 2020.

Now let me briefly address our financing strategy and how we achieve a solid level of liquidity, even in these challenging times. We normally operate our business with cash reserves of around €2 billion. In times like these, it is obvious that we must work with an increased level of liquidity.

As of March 31, 2020, our cash and marketable securities amounted to €4.2 billion. This compared with €2.3 billion at the end of March 2019 and €2.9 billion at the end of December 2019.

For short-term financing, we utilize our commercial paper program with an issuing volume of up to \$12.5 billion.

Moreover, in recent weeks, we have taken out additional bank loans amounting to €600 million, for example, from the European Investment Bank.

At the beginning of April 2020, BASF entered into an agreement with several banks for a one-year line of credit totaling €3 billion, which is currently unused. We want to be prepared in the event that it becomes more difficult to access commercial paper markets.

Last but not least, for the past 20 years, we have had a never-tapped credit facility of €6 billion which serves as a backstop for our commercial paper program.

I will be happy to answer your questions on our financing in more detail in our Q&A session.

And now let me hand over to Martin Bruder Müller again for the outlook.

**[Chart 13: Outlook 2020 for BASF Group]**

[Martin Bruder Müller]

Ladies and gentlemen,

At the moment, forecasts about the development of the global economy are extremely uncertain, if not impossible. Even economic experts are dramatically altering their projections on an almost daily basis. Due to the current severe effects of the coronavirus pandemic, we have now revised our forecasts for the development of the macroeconomic environment and dramatically reduced our growth expectations. However, given the dynamic developments and the associated high level of uncertainty, today for the first time we are not going to provide the figures you are accustomed to. Instead, I will only make qualitative statements.

The second quarter will be affected by a clearer and sharper decline than the first quarter of 2020. From today's standpoint, in the best-case scenario we expect EBIT before special items in the low triple-digit million-euro range in the second quarter. However, at present I cannot rule out the possibility that BASF Group's EBIT before special items may drop to zero or even lower. One key reason for this is the global standstill in the automotive industry. Nobody currently knows how long it will take until the entire value chain really gets back to running at high capacity again. Or how quickly demand for vehicles in various countries will pick up again. For the current year, we expect automotive production to decline by at least 20 percent.

As you know, automotive production is our largest customer industry. Various BASF segments supply the auto industry, in particular Surface Technologies and Materials, but also Industrial Solutions to a smaller extent. Moreover, some of our other customer industries are also strongly affected by the pandemic. This cannot be offset by the ongoing strong demand in the Nutrition & Care and Agricultural Solutions segments. We therefore expect a considerable decline in demand in the second quarter.

Ladies and gentlemen,

Under these circumstances, the members of BASF's Supervisory Board have decided to forego 20 percent of their fixed compensation from April 1 until the end of 2020. Members of BASF's Board of Executive Directors will voluntarily waive 20 percent of their fixed salaries for the second quarter of 2020. Depending on how things develop over the course of the year, we will consider further steps.

In the third and fourth quarter, we anticipate a gradual improvement. However, we do not expect a rapid recovery to pre-crisis levels. As of today, this cannot be quantified because too many factors are unclear. We expect that by the end of July we will have a clearer picture and more reliable data for the rest of the year. We want to then provide you with the usual quantitative outlook again.

I do not want to close off without assuring you that the BASF team is working very hard and with confidence. We are collaborating closely with our customers in order to achieve the best-possible result for BASF. Our diversified portfolio and our financial solidity are assets in these challenging economic times. We are looking ahead optimistically to BASF's future and we expect to emerge stronger from this situation.

Before we get to your questions, I would like to take a moment to express my heartfelt thanks to Anke Schmidt for her outstanding work and her dedication to our company. After 24 years at BASF, Anke decided to take on an entirely new set of challenges, which she found in her former hometown of Hamburg. As much as I am happy for Anke, I am sad to see her go because we have worked well together for many years, first in Asia and then in her current role. Dear Anke, I would like to take this opportunity once again to say thank you very much, also on behalf of the entire BASF team.

And now I will hand over the mic one last time to Anke Schmidt, who will moderate the Q&A session.