

BASF conference call on the Third Quarter 2020

News Release

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BASF Group increases EBIT before special items compared with second quarter of 2020, mainly driven by good business development in September

Q3 2020:

- Sales of €13.8 billion (+9% compared with the second quarter of 2020)
- EBIT before special items of €581 million, up €355 million from the second quarter of 2020
- EBIT of minus €2.6 billion, mainly due to non-cash-effective impairments
- Strong free cash flow of €1.4 billion

Outlook 2020:

- Sales of between €57 billion and €58 billion
- EBIT before special items of between €3.0 billion and €3.3 billion

Presentations by

Dr. Martin Brudermüller, Chairman of the Board of Executive Directors, and
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

Good morning ladies and gentlemen,

Hans Engel and I would like to wish you a warm welcome to our third-quarter press conference. I hope very much that you and your families are doing well. Unfortunately, the spread of the coronavirus is once again increasing sharply in many countries. At the moment, we are all seeing how quickly conditions can change again. And this shows how important it is to act deliberately and consistently during this pandemic. This means we must continue to be cautious. At BASF, we are doing everything we can to work safely in this environment. We have therefore reintroduced stricter measures that were no longer necessary during the summer months. To protect our customers and employees, we are once again increasingly having employees work from home.

We are doing a very good job of switching over to this precautionary mode. Especially in times like these, the Board of Executive Directors team is pleased to see that we can count on every single person in our company. Responsible conduct is part of our DNA at BASF and this is apparent in moments like these.

On October 9, BASF published preliminary figures for the third quarter 2020 and released an outlook for the full year 2020. Today we would like to give you some more details.

[Chart 2: Chemical production growth in China continues, recovery also visible in the U.S. and Europe]

Let's first take a look at the macroeconomic environment. For now, we have to rely on estimates for the third quarter of 2020 as there are not yet current figures for most countries. Overall, the macroeconomic indicators improved in the third quarter of 2020 compared with the preceding quarter. However, the future macroeconomic development remains very uncertain.

According to the preliminary data, global chemical production was slightly positive in the third quarter of 2020 compared with the same quarter of 2019. One reason for this is that we are seeing some resilience in chemical demand in some highly relevant customer industries. Another reason is China: The country continues its V-shaped recovery. Regarding the development in other regions, the bottom seems to have been reached and a gradual recovery is occurring.

Global GDP and global industrial production declined by 4.3 percent and 3.0 percent, respectively, compared with the prior-year quarter. Global automotive production was still around 2 percent below the prior-year quarter. For the full year 2020, we now expect light vehicle production to decline by around 20 percent, whereas we previously had assumed a decline of 27 percent.

[Chart 3: BASF Group Q3 2020: Sales volumes in Greater China significantly above prior-year months]

We also want to look at the developments in the regions and our volume growth there.

Overall, BASF Group sales volumes were 2 percent lower in the third quarter of 2020 compared with the third quarter of 2019. This resulted from lower volumes in July and August. By contrast, we achieved a 4 percent volume increase in September 2020 compared with September 2019.

In Europe, volume growth improved month over month and turned positive in September. In the United States, volume growth compared with the prior-year months remained negative due to the outage of the steam cracker in Port Arthur, Texas. Excluding this effect, volumes in the United States would have also turned positive in September despite the high infection rates. The cracker is now up and running again.

Our business in Greater China continues to develop positively. Here we recorded double-digit volume growth in each month of the third quarter – and in almost all segments. We continue to benefit from our strong position in China. The planned new Verbund site in Guangdong province will further strengthen our market position by increasing our presence and customer proximity in the dynamically growing Chinese market.

[Chart 4: The gap in BASF's average daily order entry is slowly closing, but visibility remains low]

Ladies and gentlemen,

The gap between average daily order entries is slowly narrowing – as a comparison of April to September with the same months of the previous year shows. So far in October, daily orders are still slightly below the same month of the prior year. The recent increase in coronavirus infections worldwide is jeopardizing this development

and the pandemic might again negatively impact our order entry in the coming months.

As in the prior quarters, customers remained 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. This means that 80 percent of all our orders on hand will be booked within the next two months. And we continue to have no clear view beyond that.

[Chart 5: BASF Group Q3 2020: Volumes declined slightly, to a large extent due to lower demand as a result of the pandemic]

Ladies and gentlemen,

Let us now turn to the volume development by segment.

Compared with the prior-year quarter, sales volumes declined by 2 percent on a BASF Group level. This volume decline was mainly attributable to the Chemicals segment. On a BASF Group level, the steam cracker outage in Port Arthur had a negative volume effect of around 1 percent in the third quarter of 2020 and thus accounted for half of the decline.

In the Materials and Industrial Solutions segments, we also recorded lower volumes, mainly owing to lower demand from the automotive industry. In Other, volumes declined on account of lower raw material trading activities. Volumes in the Nutrition & Care segment were almost stable, after we experienced elevated demand during the first half of the year.

Volumes increased in the Surface Technologies segment and even more strongly in the Agricultural Solutions segment. This partially offset the volumes decline in other segments.

[Chart 6: BASF Group Q3 2020: Sales and EBIT before special items improved compared with Q2 2020, but are still below prior-year quarter]

Let us move on to our sales and earnings development in the third quarter of 2020 compared with the prior-year quarter. I will start with our sales development and the graph you see on the left:

Sales decreased by 5 percent to €13.8 billion. Currency effects of minus 6 percent

were the main driver for this. These resulted primarily from the devaluation of the Brazilian real and the U.S. dollar.

Lower volumes of minus 2 percent also contributed to the sales decline, as I mentioned previously. Prices increased by 2 percent. Considerably higher precious metal prices in the Surface Technologies segment contributed to this. The Agricultural Solutions segment achieved slightly higher prices.

Portfolio effects contributed plus 1 percent, mainly from the acquisition of Solvay's polyamide business.

Now we come to earnings development, which is shown in the graph on the right-hand side: EBIT before special items came in at €581 million, 45 percent below the level of the prior-year quarter. All segments recorded lower earnings. Compared with the second quarter, however, EBIT before special items in the third quarter rose by €355 million to €581 million. This significant increase was mainly driven by good business development in September.

In the Chemicals segment, both divisions recorded considerably lower EBIT before special items due to lower margins and volumes. The decline was most pronounced in the Petrochemicals division. The cracker outage at the Port Arthur site had a negative earnings impact of around €100 million in the third quarter. In the Intermediates division, lower fixed costs could partially offset the earnings decline.

In the Materials segment, EBIT before special items decreased considerably due to lower earnings in the Monomers division. Lower volumes and prices for polyamides were the reasons for this decline. Higher isocyanate margins due to lower raw material prices and increased MDI volumes could only partially offset this. In the Performance Materials division, EBIT before special items increased slightly, mainly due to a positive contribution from the acquired businesses from Solvay. Compared with the second quarter of 2020, EBIT before special items in the Monomers and the Performance Materials divisions improved significantly.

EBIT before special items in the Industrial Solutions segment came in slightly below the level of the prior-year quarter due to considerably lower contributions from Performance Chemicals. In this division, we recorded lower volumes, for example in fuel and lubricants solutions as well as oilfield chemicals. In the Dispersions & Pigments division, EBIT before special items improved slightly, mainly due to lower fixed costs.

EBIT before special items in the Surface Technologies segment almost matched the level of the third quarter of 2019. In the Catalysts division, earnings improved slightly, mainly due to lower fixed costs. In the Coatings division, earnings decreased compared with the third quarter of 2019 due to lower sales volumes. The main reason for this was the decreased demand from the automotive industry. Compared with the second quarter of 2020, EBIT before special items in the Catalysts and the Coatings divisions improved especially strongly.

In the Nutrition & Care segment, EBIT before special items decreased considerably. The Nutrition & Health division recorded lower EBIT before special items, primarily as a result of higher fixed costs. The prior-year quarter had benefitted from an insurance payment. Earnings also declined considerably in the Care Chemicals division. This was primarily due to lower volumes and higher fixed costs. The figure for the prior-year quarter included a contractual one-off payment in the personal care solutions business.

In the Agricultural Solutions segment, EBIT before special items came in considerably below the prior-year quarter. While volumes significantly increased and prices were slightly up, sales and earnings were burdened by strongly negative currency effects. The currency impact was most pronounced in South America and here mainly driven by the depreciation of the Brazilian real.

In Other, EBIT before special items decreased significantly compared with the third quarter of 2019.

And now I will hand over to Hans Engel.

[Hans-Ulrich Engel]

Good morning.

[Chart 7: The pandemic is impacting key customer industries differently]

The preliminary external data for the third quarter represents the aggregate of the situation in the E.U., China and the United States. China has quite a high weight in many of these industries, therefore the development is strongly impacted by the V-shaped recovery there. Nonetheless, these figures should give a good indication of global trends.

Besides the strong recovery in the automotive sector – especially in September –

we see a recovery of durable consumer goods and in construction activity. Information and communication technologies continue to show robust growth, owing to solid demand and the very high weight of China's production. Demand in the health and nutrition market is less volatile and shows tendencies towards normalization.

[Chart 8: Details on the impairments in the third quarter of 2020]

After describing the development of our customer industries, I would like to briefly talk about the non-cash-effective impairments in the third quarter of 2020.

Our impairment tests identified fixed asset impairments of €2.8 billion due to our expectations of a considerably weaker macroeconomic environment in the coming years and weaker demand in certain industry segments as a consequence of the pandemic. The impairments were mainly booked in the following segments:

In Surface Technologies, the weaker future demand from the automotive and aviation industries led to impairment charges of around €1 billion.

In the Chemicals and Materials segments, the continued oversupply of basic chemicals and the respective margin pressure resulted in impairments of around €1.3 billion in total.

In the Agricultural Solutions segment, measures to streamline BASF's glufosinate-ammonium production resulted in impairments of around €300 million.

In the Industrial Solutions and Nutrition & Care segments, impairments added up to less than €200 million in total.

[Chart 9: Excellence Program 2019 – 2021: On track to achieve the targeted annual EBITDA contribution]

Let us move on to the measures we are implementing under the umbrella of our Excellence Program.

Overall, we are well on track to achieve the targeted €2 billion annual EBITDA contribution by the end of 2021. In terms of personnel cost savings, we had set a target of reducing 6,000 positions globally by the end of 2020. According to our current estimates, around 10 percent of this reduction will likely be delayed to 2021. This is mainly attributable to labor market effects caused by the pandemic.

Let me also specify the EBITDA contribution and associated one-time costs. We are on track and now expect an EBITDA contribution of around €1.4 billion by the end of 2020. This is a run-rate. The associated one-time costs in 2020 are estimated to be around €300 million.

[Chart 10: Realignment of BASF's Global Business Services unit – expected annual cost savings of >€200 million from 2023 onwards]

At the end of September, we announced the realignment of BASF's Global Business Services unit. The division was established as of January 1, 2020. As of that date, around 8,400 employees worldwide transferred to Global Business Services. Since then, Global Business Services has been providing services for BASF Group – ranging from financial and logistical processes to services in the areas of communications, human resources and environment, health & safety. Organizational changes have not yet been initiated.

The division will now fundamentally simplify and reorganize processes as well as systematically utilize digital solutions. As a result, Global Business Services will be able to meet the needs of the business units even more flexibly and competitively. As part of this, more services than before will be bundled in hubs, which will offer as many services as possible for the units in the BASF Group.

Following this bundling and the implementation of a wide-ranging digitalization strategy, the number of employees in Global Business Services will be reduced by up to 2,000 by the end of 2022. This reduction is not part of the Excellence Program, which we will conclude at the end of 2021.

From 2023 onward, we expect to achieve annual cost savings of over €200 million from the realignment of the Global Business Services unit. In the third quarter of 2020, provisions of around €300 million for the necessary measures were recognized.

[Chart 11: Major portfolio measures in 2020 and 2021]

Let me now provide you with a brief update on our portfolio measures.

We closed the sale of the construction chemicals business to an affiliate of Lone Star on September 30. The purchase price on a cash and debt-free basis is €3.17 billion. The Construction Chemicals business now forms the newly founded

MBCC Group and is very well positioned in its market. We wish the team much success in the future.

The sale of the construction chemicals business and the related disposal gain – likely to be around €300 million to €400 million – will only be reflected in BASF's reporting on the fourth quarter of 2020. However, payments received until September 30 in connection with this divestiture are included in the statement of cash flows for the third quarter 2020 under cash flows from investing activities.

Ladies and gentlemen,

We had been aiming to close the sale of our pigments business to DIC/Sun Chemical in the fourth quarter of 2020. We now expect the closing to be delayed to Q1 2021. The joint project teams are preparing for the closing and the integration to allow for a seamless cutover once merger clearance from all relevant authorities has been granted.

Wintershall Dea is realizing the announced synergies. We are also working on the IPO preparedness and now assume an initial placement in 2021, again subject to market conditions.

[Chart 12: BASF Group Q3 2020: Key financial figures]

I will now give you further details about the earnings and cash flow development of BASF Group in the third quarter of 2020 as compared with the prior-year quarter:

EBITDA before special items decreased by 22 percent to €1.5 billion. EBITDA amounted to €1 billion, compared with €2.3 billion in the third quarter of 2019.

EBIT before special items came in at €581 million, 45 percent lower than in the third quarter of 2019.

Special items in EBIT amounted to minus €3.2 billion compared with plus €280 million in the third quarter of 2019. Around €2.8 billion are related to the non-cash-effective impairments and around €300 million are related to the realignment of Global Business Services.

EBIT thus decreased to minus €2.6 billion from €1.3 billion in the third quarter of 2019.

Net income amounted to minus €2.1 billion compared with €911 million in the third quarter of 2019. This was mainly due to the non-cash-effective impairments, the lower EBIT before special items, and provisions for restructuring.

In the third quarter of 2020, cash flows from operating activities increased by 5 percent to €2.1 billion. Payments made for property, plant and equipment and intangible assets decreased by €190 million to €736 million. Free cash flow increased by 27 percent to €1.4 billion.

[Chart 13: Strong balance sheet]

Turning to our balance sheet at the end of September 2020 compared with year-end 2019: Total assets were stable at €87 billion. Compared with the end of December 2019, noncurrent assets decreased by €4 billion to €51.9 billion, mainly driven by the non-cash-effective impairments. In addition, negative currency effects contributed to the decline.

Current assets rose by €4.1 billion to €35 billion, mainly due to higher cash and cash equivalents, as well as higher other receivables.

Compared with year-end 2019, net debt increased by €196 million to €15.7 billion. Compared with the end of the second quarter of 2020, net debt decreased by €4.8 billion. At the end of September 2020, the equity ratio amounted to 39.8 percent.

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

Martin Brudermüller

[Chart 14: Outlook 2020 for BASF Group]

Ladies and gentlemen,

As already announced on October 9, we expect 2020 sales of €57 billion to €58 billion, mainly due to weaker demand because of the pandemic. We expect EBIT before special items of between €3.0 billion and €3.3 billion for 2020. As a result of the impairments in the third quarter, we anticipate a return on capital employed of between 0 percent and 1 percent. For the fourth quarter of 2020, we expect a further improvement in EBIT before special items compared with the third quarter of 2020.

Our forecast assumes that severe restrictions on economic activity to contain the pandemic, such as lockdowns, are not reintroduced.

As we have been asked several times, let me also touch on our dividend policy: BASF remains highly committed to its progressive dividend policy. We have based our dividend policy on BASF's midterm macroeconomic assumptions and the related earnings expectations. If the future macroeconomic environment reduces BASF's growth opportunities and significantly impacts BASF's profitability, we might have to adapt our dividend payout. However, I would like to make clear that we will only decide on this matter in February 2021 – based on our actual cash flow in 2020 and a more reliable medium-term forecast.

[Chart 15: Measures to navigate BASF through the pandemic – well positioned to benefit from market recovery]

Let me conclude by discussing our measures to continue navigating BASF safely through the pandemic and mitigating the associated financial impacts.

With our customers in the center of all our activities, our corporate strategy is – more than ever – the right answer to successfully operate in this environment. We have significantly increased interactions with our customers during the pandemic. This gives us the ability now to react even better to changes in their demand patterns. Our BASF team is now working to create long-term profitable growth supported by strategic agreements with our customers. In this context, our global production network makes us highly flexible and we are well positioned to benefit from a market recovery.

We have a clear focus on further cost reduction and are fully on track to achieve the targeted earnings contribution from our Excellence Program. In addition, the realignment of BASF's Global Business Services unit will further support BASF's efficiency.

In these times, safeguarding cash is a top priority. In 2020, we will bring down capital expenditures by €600 million to €2.8 billion. Together with strict management of working capital, this will also support a robust free cash flow, even in a year as difficult as 2020.

We will continue to critically review the projects in our five-year capital expenditures budget. To support BASF's future profitable growth, we will continue to energetically

pursue our investment project in Guangdong and our investments in the production of battery materials.

Ladies and gentlemen,

We at BASF are actively managing this crisis. Our diversified portfolio, our solid balance sheet and a robust cash flow are strong assets in these times.

And now, we are happy to take your questions. Thank you very much.