BASF Annual Press Conference for the year 2020

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BASF Group:
Strong performance in Q4 2020 due to higher volumes and prices; EBIT before special items of €3.6 billion in 2020

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.

Corporate Media Relations
Jens Fey
Phone: +49 621 60-99123
jens.fey@basf.com

BASF SE
67056 Ludwigshafen, Germany
www.basf.com
presse.kontakt@basf.com

Good morning ladies and gentlemen,

Hans Engel and I want to extend a warm welcome to our Annual Press Conference for the 2020 business year. We wish we could have welcomed you here in person in Ludwigshafen, but unfortunately this is still impossible due to the pandemic. It will take some time before we can return to our previous ways of doing things. Unfortunately, the virus is mutating faster than expected. And vaccinations in Europe are not progressing as quickly as hoped.

But despite all the negative developments, the coronavirus year 2020 was also a great success for science. One year ago, a vaccine seemed very far away. And today we can already have discussions about which of the developed vaccines is better. As a researcher, chemist and businessman, I can really appreciate the great efforts that went into this. Extremely impressive results were delivered in a very short timeframe. Products went from the laboratory to production in record time. Legislators and public authorities also helped expedite things with a high degree of flexibility. As a society, these experiences should give us confidence going forward.

Of course, we at BASF are doing everything we can to ensure that our employees are able to work safely. We strongly encourage everyone who can work from home to do so.

Ladies and gentlemen,

Last year was challenging in every respect, but BASF was able to close out the year on a strong note. Full-year EBIT before special items exceeded the forecast we released in October. And was considerably above the analysts' consensus. We therefore issued an ad hoc release of our preliminary figures on January 20.

[Chart 2: Strong performance in Q4 2020 due to higher volumes and prices; EBIT before special items of €3.6 billion in 2020]

I would therefore like to begin with some highlights from the strong fourth quarter of 2020.

We increased volumes in all regions. In Greater China, we continued to see double-digit volumes growth. Volumes rose in almost all segments. For some commodity product lines, such as isocyanates, we were also able to significantly expand our margins. Lower fixed costs also contributed to the good results in the fourth quarter of 2020.

We put a strong focus on cash generation and cost controls. In addition, we reduced investments in our ongoing business. And we continue to follow these principles. Moreover, we are holding more liquidity than usual. BASF has a strong balance sheet and good credit ratings. This ensures us unrestricted access to debt capital markets.

[Chart 3: Broad recovery of chemical production in all major regions in second half of 2020]

Ladies and gentlemen,

To evaluate our results, let us take a quick look at the macroeconomic data. The indicators for the fourth quarter are still estimates. Most countries have not yet published their figures for the quarter.

In the fourth quarter of 2020, global chemical production increased by 4.9 percent – primarily due to growth in China. This strong recovery started in the second quarter. Europe and North America also saw a recovery in chemical production in the second half of 2020.

[Chart 4: BASF Group: Volumes growth across all regions in Q4 2020]

Now let us look to our volume growth by region. You can see the four quarters of 2020 compared with the corresponding quarters of 2019. In the three most recent quarters, we experienced double-digit volumes growth in almost all segments in Greater China. We benefitted from our strong position in China. The planned Verbund site in Guangdong province will further increase our presence and customer proximity in the rapidly growing Chinese market.

In Europe and North America, our volume trends turned positive in the fourth quarter of 2020. According to the current macroeconomic estimates, our volumes outpaced market growth. In the second and third quarter of 2020, the sales volumes in Europe and North America were still negatively impacted by the lockdowns.

[Chart 5: BASF Group: Volume growth across almost all segments in Q4 2020]

Ladies and gentlemen,

Now let's turn to our volume development by segment.

In the fourth quarter of 2020 – as shown in the upper graphic – BASF Group's sales volumes increased by 7 percent. All segments reported higher volumes, with one exception: Volumes in the Agricultural Solutions segment remained stable. The increase in volumes was most pronounced in the Surface Technologies, Materials and Industrial Solutions segments. The main driver of this was the global recovery in automotive production.

For the full year 2020 – as shown in the lower graphic – our sales volumes nearly matched the 2019 level. Higher volumes in the Agricultural Solutions and Nutrition & Care segments nearly offset the decline in the other segments as well as in Other.

Overall, BASF has once again proven resilient thanks to its diversified portfolio, which serves a broad range of customer industries.

[Chart 6: BASF Group: Strong finish to the year in Q4 2020]

On this slide, I would first like to talk about the graphic on the left. Here you can see the earnings development in the fourth quarter of 2020 compared with the same quarter of the previous year.

EBIT before special items rose by 32 percent to €1.1 billion. This increase was primarily due to significantly higher earnings in the Materials, Chemicals and Industrial Solutions segments. This more than offset lower contributions from the other segments as well as from Other. Hans Engel will give you more details shortly about the development of the segments.

I would now like to talk about the earnings development over the full year, shown on the right in this chart. You can also find more details in the BASF Report.

EBIT before special items was €3.6 billion, down by 23 percent compared with the prior year. Owing to the effects of the pandemic, all segments posted lower earnings – with one exception: The Industrial Solutions segment achieved EBIT before special items on a level with the year 2019.

The earnings decline at the BASF Group level was attributable in particular to significantly lower contributions from our upstream businesses. The sharp drop in demand from the automotive industry especially weighed on earnings development in our Surface Technologies segment.

[Chart 7: BASF Group 2020: Review of financial and nonfinancial targets]

Ladies and gentlemen,

Now we come to BASF's financial and nonfinancial targets.

As previously mentioned, our sales volumes were nearly stable and were only around 0.5 percent below the level of 2019. Global chemical production decreased in the same order of magnitude.

EBITDA before special items fell by around 11 percent to €7.4 billion – primarily due to lower contributions from the Chemicals and Surface Technologies segments as well as Other.

Return on capital employed (ROCE) was 1.7 percent, compared with 7.7 percent in 2019. EBIT was primarily negatively impacted by non-cash-effective impairments of €2.9 billion. At this point, I would also like to talk about the performance-related compensation of our employees. ROCE determines their variable compensation. But in 2020, it was below the threshold for a bonus payment. Nevertheless, the Board of Executive Directors has decided to pay a bonus as a sign of recognition and appreciation. With this bonus, we want to acknowledge the huge effort put in by the BASF team in the pandemic year 2020, which was difficult for everyone. In total, we will pay out €360 million in bonuses.

We propose to pay a dividend of €3.30 per share. I will go more into the reasons behind this decision later.

But first I would like to take a look at our nonfinancial goals:

BASF wants to achieve CO_2-neutral growth until 2030. This means: We aim to keep the greenhouse gas emissions from our production sites and energy purchases steady at the 2018 level while we increase production. In 2018, emissions amounted to 21.9 million metric tons of CO_2 equivalents.

In 2020, this figure was 20.8 million metric tons of CO_2 equivalents. This represents an increase of 3.5 percent compared with the previous year. Measures to increase energy efficiency and optimize processes as well as lower production volumes resulted in a decline in emissions. However, this was offset in particular by the integration of the polyamide business acquired from Solvay in January 2020.

Moreover, we are aiming to generate sales of €22 billion with our Accelerator products by 2025. Accelerators are BASF products that make a more substantial sustainability contribution in the value chain compared to competing products. They also have higher growth rates and higher profitability. In 2020, we generated sales of €16.7 billion with our Accelerator products. This represents an increase of 11 percent compared with the €15 billion in sales in 2019. The positive development of Accelerator sales in the Surface Technologies and Agricultural Solutions segments was the main reason for this increase.

[Chart 8: BASF has further strengthened its position in sustainability]

On our journey to becoming more sustainable, we reached key milestones in 2020. As part of our Carbon Management Program, we started up a pilot reactor for methane pyrolysis. This is an important step towards large-scale production of hydrogen without CO_2 emissions – and, in the medium term, a more energy efficient alternative to water electrolysis.

Two of our sites in Texas – Freeport and Pasadena – have recently secured access to renewable energies. Overall, 19 of our sites worldwide are either partially or fully operated with renewable energies.

In our plants, we are currently pursuing more than 5,000 measures to increase operational effectiveness, around 25 percent of which fall under the umbrella of Carbon Management. In addition, we are making progress with the introduction of Product Carbon Footprints for all of our 45,000 products.

As part of our Circular Economy Program, we successfully launched the first commercial volumes of our “Ccycled” products on the market. We will further increase these volumes this year. And we will support our customers with their plans to launch additional commercial applications on the market.

With our support, our partner Quantafuel started up its plant in Denmark. It enables the chemical recycling of mixed plastic waste. With an investment in the German startup Pyrum Innovations and a supply agreement with the Hungarian startup New Energy, we expanded our raw material base. Now, end-of-life tires can also be processed into pyrolysis oil. This strongly underscores our ambitious targets for implementing circularity in our company.

And here I'd like to say a few words about policy: With our specific projects on Carbon Management and ChemCycling™, we are supporting the objectives of the E.U. Green Deal. We are supplying the products and technologies necessary to achieve the goal of a carbon-neutral continent.

As part of the Green Deal, the European Commission aims to introduce a new Chemicals Strategy for Sustainability. However, we have concerns about the path the Commission wants to take. In essence, this is about giving up on the proven risk-based principle under the European chemicals regulation REACH – meaning the scientific understanding that the dose determines whether a material is harmful to humans and the environment. However, it is impossible to make sweeping generalizations about the safety of chemicals; safety must be evaluated in the individual applications.

A new regulation like this would not only affect chemical production – bearing in mind that this is the fourth-largest industrial sector in the E.U. It would also impact a large number of our customers. At the moment, they have a large toolbox of safe chemicals available to them on the European market to produce their innovative and globally competitive products.

We therefore want to enter into a constructive dialog with the European Commission on how this common goal – the safety of chemicals – can be better achieved. After all, we want to do our part to help strengthen the European economy through greater sustainability.

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

Now we come to the status of our Excellence Program. In 2020, this program resulted in positive EBITDA contributions of around €1.4 billion. The associated costs amounted to around €200 million. We are well on track to achieve the targeted annual EBITDA contribution of €2 billion by the end of this year. These values are run rates. We estimate the associated one-time costs in 2021 will be between €50 million and €150 million.

In addition to this program, the realignment of the Global Business Services unit as of 2023 will lead to further savings of more than €200 million per year.

[Chart 10: Attractive shareholder return – also in challenging times]

Ladies and gentlemen,

Despite the pandemic, we generated a solid cash flow and BASF has once again proven its resilience. A reliable dividend payment is a priority for the BASF Board of Executive Directors, even in difficult times. We will therefore propose to the Annual Shareholders' Meeting a dividend of €3.30 per share. As in the previous year, we thus plan to pay out a total of €3 billion to our shareholders. Based on the year-end share price of €64.72, the BASF share would therefore offer a high dividend yield of 5.1 percent. And the BASF dividend should also remain attractive for our shareholders in the future.

Ladies and gentlemen,

Allow me to therefore briefly talk about our future dividend policy.

We expect that the earnings power of our ongoing business and the cash flow generated from it will cover our investments in the ongoing business as well as our dividend payments in the coming years. Based on our medium-term financial planning, we will also have scope to reduce our financial indebtedness.

The new Verbund site in southern China and our investments in battery materials will provide additional momentum for BASF's future growth. We will finance the strong organic growth in these areas with proceeds from our divestitures. Despite high investments in these growth activities in the coming years, we expect that our portfolio will be less capital-intensive after this transformation.

And now Hans Engel will provide you with further details about our active portfolio management and our business development in the fourth quarter and full year 2020.

[Hans-Ulrich Engel]

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

Good morning ladies and gentlemen,

I would like to start off by giving you a brief update about our key portfolio measures.

Following the acquisition of the polyamide business from Solvay in January 2020, BASF has successfully integrated these businesses into the Performance Materials and Monomers divisions. We concluded the sale of the construction chemicals business to a subsidiary of Lone Star in September 2020.

The sale of our pigments business to DIC/Sun Chemical is now expected to close in the first half of this year. The project teams are well prepared to ensure a rapid and seamless transition once merger clearance has been obtained from all relevant authorities. So far, the transaction has received merger approval from 10 of 11 authorities worldwide, including conditional approval from the European Commission and the Japan Fair Trade Commission, which were both granted in December 2020. The approval process in the United States is the only one not yet concluded.

Wintershall Dea completed the integration and is realizing the targeted synergies. We assume an initial public offering in 2021, subject to market conditions.

[Chart 12: BASF Group: Q4 and full year 2020]

Let me now take a closer look at the financial figures of the BASF Group for the fourth quarter of 2020 compared with the same period of the previous year:

Sales in the fourth quarter of 2020 increased by 8 percent to €15.9 billion. As Martin Brudermüller mentioned, volumes rose by 7 percent. Prices also increased by 7 percent, driven mainly by the Surface Technologies, Agricultural Solutions and Materials segments. Portfolio effects contributed 1 percent and resulted from the acquisition of the polyamide business from Solvay. Currency effects had a negative impact of 7 percent on sales.

EBITDA before special items rose by 15 percent to €2.1 billion. EBITDA amounted to €2 billion, compared with €1.6 billion in the fourth quarter of 2019. EBIT before special items was €1.1 billion, up by 32 percent compared with the fourth quarter of 2019.

Ladies and gentlemen,

And now I would like to provide you with some more details about earnings development by segment in the fourth quarter of 2020, since this is not contained in the BASF Report 2020 published today.

In the Chemicals segment, we were able to increase EBIT before special items significantly compared with the fourth quarter of 2019. Both divisions – Petrochemicals and Intermediates – posted significantly higher earnings. The reasons for this were lower fixed costs and better equity-accounted income, especially from our shareholding in BASF-YPC Nanjing.

EBIT before special items improved even more strongly in the Materials segment than in the Chemicals segment. Both divisions in the Materials segment achieved significantly higher earnings compared with the fourth quarter of 2019. This was especially true for the Monomers division. The main drivers of this were higher margins as a result of the rebound in demand and, in some cases, reduced product availability on the market.

The Industrial Solutions segment also posted a significant rise in EBIT before special items. In the Dispersions & Pigments division, lower fixed costs and higher margins significantly contributed to this. The Performance Chemicals division increased EBIT before special items as well.

In the Surface Technologies segment, there was a slight decline in EBIT before special items. While margins remained nearly stable in the Catalysts division, EBIT before special items decreased, primarily due to higher fixed costs. In the Coatings division, lower fixed costs more than offset the slight decrease in margins. As a result, EBIT before special items increased slightly in the Coatings division.

EBIT before special items in the Nutrition & Care segment declined slightly compared with the fourth quarter of 2019. Due to lower fixed costs, EBIT before special items in the Care Chemicals division improved slightly. By contrast, the Nutrition & Health division posted significantly lower EBIT before special items. The increase in margins in this division was offset by higher fixed costs.

Earnings in the Agricultural Solutions segment declined significantly compared with the strong fourth quarter of 2019. This was the result of negative currency effects, especially from the Brazilian real and the U.S. dollar. Lower fixed costs partially compensated for this.

In Other, higher fixed costs – including higher provisions for BASF’s LTI program – and lower margins led to a significant decline in EBIT before special items compared with the fourth quarter of 2019.

Now back to the figures for the BASF Group:

Special items in EBIT amounted to minus €181 million, as compared to minus €263 million in the fourth quarter of 2019. EBIT in the fourth quarter of 2020 rose by 61 percent to €932 million.

Net income amounted to €1.1 billion, compared with €150 million in the fourth quarter of 2019. The tax rate was 24.7 percent, compared with 19.2 percent in the fourth quarter of 2019. The reported earnings per share increased from €0.16 in the fourth quarter of 2019 to €1.15 in the fourth quarter of 2020. Adjusted earnings per share were €1.10, as compared to €0.64 in the same quarter of the previous year.

Cash flows from operating activities declined by €1.1 billion in the fourth quarter of 2020 to €2.1 billion. This decline was caused primarily by a lower cash inflow due to changes in net working capital. In the fourth quarter of 2019, changes in net working capital led to a cash inflow of €1.6 billion compared with €0.6 billion in the operationally stronger fourth quarter of 2020. Payments made for property, plant and equipment and intangible assets declined by €78 million and amounted to €1.1 billion. Free cash flow was €1 billion, compared with €2 billion in the fourth quarter of 2019.

I will now just briefly touch on the earnings development for the full year 2020:

Sales were nearly stable at €59.1 billion. Negative currency and volume effects were nearly offset by higher prices and positive portfolio effects.

EBITDA before special items was €7.4 billion, down by 11 percent versus the previous year. EBITDA came in at €6.5 billion, compared with €8.2 billion in 2019.

EBIT before special items declined by €1.1 billion to €3.6 billion. EBIT decreased from €4.2 billion to minus €191 million.

Overall, special items in EBIT amounted to minus €3.8 billion compared to minus €442 million in 2019. This increase was due to non-cash-effective impairments in the third quarter of 2020.

Net income amounted to minus €1.1 billion, compared with €8.4 billion in 2019. This considerable decline is attributable to the higher special charges in the reporting year and the book gain of around €5.7 billion in 2019 resulting from the deconsolidation of Wintershall businesses following the merger between Wintershall and DEA on May 1, 2019. The tax rate fell from 22.9 percent to 5.8 percent.

[Chart 13: Cash flow development in 2020]

Now we come to the development of cash flows in the full year 2020:

Cash flows from operating activities amounted to €5.4 billion, compared with €7.5 billion in 2019. This was primarily attributable to the lower net income as well as the increase in cash tied up in net working capital. Here, the reduction of inventories could not compensate for the increase in trade accounts receivable and precious metal positions due to the strong business in the fourth quarter and the high precious metal prices. In 2020, the change in net working capital led to a cash outflow of €400 million, compared with a cash inflow of €1.4 billion in 2019.

Despite the negative effects of the pandemic on our business, we achieved a solid free cash flow of €2.3 billion. The corresponding figure was €3.7 billion in 2019. This decline is primarily due to lower net income and higher cash tied up in net working capital. Lower payments made for intangible assets and property, plant and equipment could only partially offset this.

[Chart 13: Strong balance sheet: High liquidity and solid equity ratio]

Let us compare the balance sheet at the end of 2020 with the end of 2019:

Total assets decreased by €6.7 billion to €80.3 billion. Compared with year-end 2019, noncurrent assets decreased by €5.5 billion to €50.4 billion, primarily due to non-cash-effective impairments and currency effects.

Compared with the end of 2019, net debt decreased by €829 million to €14.7 billion. The equity ratio amounted to 42.8 percent at the end of 2020.

And I will now hand back over to Martin Brudermüller for the outlook.

[Martin Brudermüller]

[Chart 15: Outlook 2021 for BASF Group]

Ladies and gentlemen,

We expect the global economy to recover in 2021 after the sharp downturn resulting from the coronavirus pandemic. However, uncertainty about future developments remains exceptionally high. Our forecast therefore includes wide ranges to account for the risk of renewed significant disruptions to global supply chains and the associated negative effects on the entire economy. However, we are confident that without such negative impacts, we will be able to achieve earnings at the upper end of the forecast range.

Our forecast assumes growth in our customer industries. For the automotive industry in particular, we are forecasting significant production growth compared with 2020. The global economy should see significant growth of 4.3% compared with 2020. Global chemical production is expected to expand by 4.4%, well above the prior-year level. We anticipate an average oil price of $50 for a barrel of Brent crude and an exchange rate of $1.18 per euro.

Based on these assumptions, we aim to increase our sales to between €61 billion and €64 billion. The BASF Group's EBIT before special items is expected to be between €4.1 billion and €5.0 billion. The return on capital employed (ROCE) is expected to be between 8.0 percent and 9.2 percent.

For 2021, we anticipate Accelerator sales of between €18 billion and €19 billion. Our CO_2 emissions are expected to stabilize at between 20.5 million metric tons and 21.5 million metric tons in 2021.

[Chart 16: High capex discipline in ongoing business leads to lower capex budget in five-year planning period]

I would like to give you some additional information about our capital expenditures budget. Between 2021 and 2025, we are planning investments of €22.9 billion. The investments over the next five years will therefore be lower than in the previous planning period from 2020 until 2024.

The Asia Pacific region will account for 41 percent of these expenditures and Europe will account for 39 percent. Our growth project – the Verbund site in Guangdong – plays a very important role in expanding our business in Asia. For 2021, we are planning investments of €3.6 billion overall.

[Chart 17: BASF in excellent position to benefit from market recovery – priorities for 2021]

Ladies and gentlemen,

To conclude, I would like to discuss our priorities for 2021:

With the continued implementation of our strategic measures, we will systematically drive forward the transformation of BASF into a more agile and highly customer-centric company.

Our investments in the Verbund project in Guangdong province and in battery materials production will be very important for our company to achieve faster profitable growth.

We will energetically advance sustainability and innovation with our Carbon Management and Circular Economy Programs. During our Capital Markets Day and subsequent press conference on March 26, we will present to you our aspirations in this field.

We are systematically implementing the announced portfolio measures. The key upcoming measures are the closing of the sale of our pigments business and the IPO of Wintershall Dea, which is subject to market conditions.

We will successfully conclude our excellence program and keep our strict focus on capital and cost discipline.

And now Hans Engel and I look forward to taking your questions.