Media Information
3 August 2021

– Check against delivery –

Statement
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Member of the Board of Management of BMW AG, Finance
Conference Call Half-Year Report to 30 June 2021
3 August 2021, 10:00 a.m. CEST

Ladies and Gentlemen,

Good morning!

In the second quarter of 2021, as expected, the BMW Group was able to build on its strong performance of the first three months. Individual mobility remains in high demand across the globe. The EBIT margin in the Automotive Segment for the year to the end of June was 13.0% and, therefore, at a very healthy level.

In a decade of transformation, the BMW Group is taking an active and formative role. Sustainable profitability lays the foundation for us to continue investing in future technologies. That is why, during a strong first half-year, we continued to focus on our performance. The efficiency measures we launched in recent years are now also bearing fruit.

So far, thanks to the hard work of our staff in Purchasing, Production and Sales, we have been able to make up for the challenges in semiconductor supplies. But, as the supply bottlenecks drag on, the situation is becoming more volatile. That is why we anticipate further disruption to production in the second half of the year and a related impact on vehicle sales.

Ladies and Gentlemen,

Let's start with the financial figures for the Group. The recovery from the economic impact of the coronavirus crisis continued in the first half of 2021.

In the year to the end of June, Group revenues climbed 28.1% to 55.36 billion euros.

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At 9.74 billion euros, Group earnings before tax for the first six months were, as expected, significantly higher than the previous year – which had been heavily impacted by the lockdown. The figure for the second quarter rose to almost 6 billion euros. Reflecting the positive business development overall, the Group EBT margin was 17.6% for the year to the end of June and 20.9% for the second quarter. The revenue and earnings results largely reflect better pricing, positive effects from our model mix, as well as higher sales volumes resulting from increased demand. Both our new vehicles and our pre-owned cars are proving very popular with customers right now. The significant improvement in our financial result also boosted Group earnings.
Lower risk provisioning and higher income from the resale of end-of-lease vehicles also contributed to the increase. Having recognised higher provisions last year, in response to the volatile situation caused by the pandemic, we were now able to release some of this amount. In addition to this, as already announced in May, positive effects came from the partial release of the provision in connection with the EU antitrust proceedings of around one-billion-euro, as well as from valuation effects from our pension obligations. However, these positive effects were offset by headwinds from higher raw material prices.

In recent years, we have implemented long-lasting changes in all areas of the company that are now paying off. At the same time, we have taken further important steps to reduce complexity: For instance, new package solutions for our products have, in particular, made the digital customer experience much simpler and more enjoyable. They are also relieving pressure on the cost side.

To fully exploit sales potential and improve working capital, we are constantly optimising our sales structures and using analysis tools to manage our sales and inventories in an even more granular way, i.e. by market, model or sales channel. In this way, we always have the appropriate offer. On the production side, as previously announced, we will reduce cost per unit by a quarter from 2019 levels by 2025. One of the ways we will achieve this is by exploiting potential for optimisation in logistics and capacity utilisation, as well as through virtual planning processes.

Further electrification of our vehicle fleet is the focus of our short and medium-term planning. The all-electric BMW iX has been rolling off the production line at our plant in Dingolfing since July. This will be followed in the autumn by the all-electric BMW i4 from our main plant in Munich.

At over 2.57 billion euros, R&D expenditure for the first six months remained high. This also includes initial upfront investments for the Neue Klasse, as well as expenditure for further development of our electric drive trains and digitalisation of our fleet. As always, our focus remains on the customer. The R&D ratio for the first half-year, according to the German Commercial Code, was 4.6%.

All our decisions are clearly focused on the main topics of electrification, sustainability and digitalisation. We are using available resources intelligently for maximum impact.

Capital expenditure is higher than for the same period of last year, at just under 1.71 billion euros. Investment in the launch of the new iX and further development of our electric drive trains were key drivers for this.

Higher revenues meant the capex ratio of 3.1% was slightly lower than the previous year.
In the second half of 2021, capital expenditure is forecast to be higher, due to the number of launches and usual seasonal effects. We expect the ratio for the full year to be below our target figure of 5%.

The financial result increased significantly in the first six months. The at-equity result once again reflects the strong business performance of our Chinese joint venture BBA, whose earnings contribution climbed to one billion euros, thanks to strong customer demand. Of course, the figure for the previous year had been dampened by pandemic restrictions, especially in the first quarter.

The other financial result benefited from valuation effects for interest rate derivatives in connection with higher interest rates in the US. The result from investments also saw further positive valuation effects from the iVentures fund and SGL Carbon shares.

YourNow's digital services have benefited from the Europe-wide easing of pandemic restrictions in recent months. Demand has risen significantly.

FREE NOW Ridehailing, for example, achieved 140% growth in taxi and chauffeur rides. SHARE NOW also experienced a strong upswing in car sharing. Long-term rents increased by 41% in the first half of 2021 compared to the previous year.

Ladies and Gentlemen,

Let's now take a look at the individual segments, starting with the Automotive Segment.

Strong demand in the international automotive markets was reflected in significantly higher revenues – which reached 47.75 billion euros for the year to the end of June. Revenues for the second quarter totalled 24.98 billion euros. All regions of the world saw positive development – especially China and the US.

The operating result, EBIT, reached a new all-time high of 6.19 billion euros for the first half-year. The figure for the second quarter rose to 3.95 billion euros. As well as releasing some of the provision for the EU antitrust proceedings, as I already mentioned, lower employee numbers, better pricing and an exceptionally good situation for residual value development also had a positive effect. Higher raw material prices, including a sharp increase in rhodium and palladium costs, dampened earnings development, however. Against this background, the EBIT margin was 13.0% for the year to the end of June and 15.8% for the second quarter.

The uncertainty over supply chains and additional raw material headwinds remains high. As a result, earnings momentum is expected to weaken in the second half of the year.

The segment’s financial result for the second quarter benefited from the strong earnings contribution of almost 500 million euros from our Chinese joint venture BMW Brilliance Automotive and positive valuation effects from equity investments.

Let's take a look at free cash flow in the Automotive Segment.
We are taking advantage of the current situation to systematically optimise our working capital. We are on the right track: Free cash flow in the Automotive Segment totalled 4.9 billion euros at the end of June. Good working capital management related to lower inventories due to the semi-conductor situation and, in particular, higher earnings, are the driver for this. As is usual, payments for investments will increase towards year-end. Additionally, earnings momentum will be dampened by the supply bottlenecks I referred to. In the second half of the year, we also anticipate cash outflows for personnel restructuring measures. Tax pre-payments will also be due. We are aiming for a free cash flow at year-end above our previous record of 5.8 billion euros.

Let's move on to the Financial Services Segment, which also benefited from global sales growth and a positive risk situation in the second quarter and delivered a strong financial performance.

A total of 1.03 million new financing and leasing contracts were concluded with retail customers in the first half of 2021 – an increase of 28% year-on-year. The total portfolio of 5.6 million retail contracts was at the same level as at the start of the year. The very positive development in pre-owned car markets I already mentioned also continued in the second quarter – especially in the US and UK. This resulted, in high income from the sale of end-of-lease vehicles. Credit losses remained at a low level.

In the first half of the year, segment earnings before tax increased to 1.94 billion euros. The figure for the second quarter was 1.15 billion euros. The prior-year quarter had been dominated by uncertainty due to the coronavirus pandemic, with additional risk provisioning for anticipated credit and residual value risks.

The Motorcycles Segment also performed well in the second quarter, with eight new models introduced by the end of June. Thanks to this strong product offering, we were able to grow sales to 107,000 units in the first half of the year – a new all-time high for this period. The segment's operating earnings rose in line with the positive business development in the year to the end of June to 284 million euros. The figure for the second quarter was 149 million euros.
The EBIT margin for the first half of the year was 17.5%.

Ladies and Gentlemen,

Let's take a look now at our guidance for the current year.

The BMW Group continues to focus on profitable, sustainable growth.

After a strong first half-year, we generally expect the positive business development to continue in the second half of 2021. Our guidance assumes that political and economic conditions will not deteriorate significantly. It also does not take account of the possible further impact of the coronavirus pandemic.

For the full year, based on our current assessments, we expect the key financial and non-financial performance indicators to develop as follows:

We anticipate a significant increase in Group pre-tax earnings for the full year. Thanks to ongoing personnel restructuring measures, we intend to achieve our goals with a slightly lower number of employees than last year.

In the Automotive Segment, we should see a solid increase in the number of BMW, MINI and Rolls-Royce vehicles delivered to customers. Electrified vehicles will account for a significantly higher percentage of total volumes. We have a strong market position in China. Demand for cars from our three BMW Group brands remains high in the US and Europe. However, due to the current uncertainty over semiconductor supplies, we cannot rule out the possibility of our sales figures being impacted by further production downtimes. Continued high raw material prices will have a significant impact in the second half of 2021. We also expect to see the usual seasonal increase in fixed costs towards the end of the year. For this reason, the EBIT margin is forecast to be at the high end of our target range of 7 to 9%. We will once again significantly reduce CO_2 emissions in our new vehicle fleet.

In the Financial Services Segment, earnings development will benefit more from the improved situation than originally anticipated – both in terms of credit and residual value risks. This is reflected in a higher return on equity than in our original guidance – which we now expect to be within the range of 17 to 20%.

In the Motorcycles Segment, we had so far forecast a solid increase in deliveries. Now, due to positive market development, it looks like we will be able to deliver slightly more motorcycles than forecast in March. We therefore anticipate a significant increase in deliveries, slightly above the 10% mark. The EBIT margin will remain within our target range of 8 to 10%.

Ladies and Gentlemen,

After the first six months of 2021, the BMW Group is on course to meet its goals for the year. However, the uncertainty surrounding semiconductor supplies makes planning for the full year difficult. Our vehicle plants have the capacity and the flexibility to meet high customer demand at all times. But we are dependent on functioning supply chains.

There are, of course, opportunities to be found in every challenging situation. We are taking advantage of these and have reacted quickly and systematically in recent months. Activities have ranged from inventory optimisation to sustainable efficiency measures in all areas of the company. We are maintaining the momentum of the past few months and actively shaping the transformation of the company.

Thank you.