

BMW GROUP ECONOMIC POSITION ANALYSIS IN THE SITUATION CREATED BY COVID-19 PANDEMIC

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Abstract: *In 2020, the coronavirus crisis caused the global economy to slump on a scale not seen since the Great Depression in the 1930s. Thus, the International Monetary Fund (IMF) estimates the contraction in global gross domestic product of 3.5%. Europe's economy too was hit strongly by the pandemic crisis, the eurozone contracted by 7.6% compared to the previous year. Significant losses were recorded in Germany (-5.0%), France (-8.3%), Italy (-9.0%), Spain (-11.0%). Several sectors of the economy were completely paralysed at times due to lockdowns lasting long periods of time; within this difficult context automotive industry was not spared by the problems generated by the pandemic context.*

Keywords: *pandemic, forecasts, results of operation, incomes, costs, sales, assets, equity, liabilities.*

Short global approach of the economic context created by the pandemic

Unemployment rates registered important increases in most of the states, despite the increases being at least partially held down by short-time work programmes. Governments of these states implemented extensive economic stimulus packages in order to support their own economies. The assistance programmes caused government spending to rise sharply in 2020, resulting in higher debt ratios. In USA, GDP decreased by 3.5% compared to the previous year. Due to the economic blockade and in the absence of short-term work programmes, the unemployment rate rose significantly. Exports registered an important decrease in some periods of the previous year. Moreover, corporate investment and industrial production suffered a significant decline. In this context, the US Federal Reserve (FED) lowered even more its benchmark interest rates in 2020. Although China was the only economy to expand in 2020, its growth rate of 2.3% significantly decreased compared to the previous year. Consumer demand almost completely collapsed during the lockdown of last spring. In spite all these, the demand strongly increased at the beginning of the summer and lasted through to the end of the year, thus helping the economy to recover. Japan, an export-reliant country, also suffered a considerable decline of economic production (-5.3%) due to the coronavirus pandemic related to the analysed period. The main factors were lower private consumption and the drop of exports.

After one of the most difficult years, global automotive industry tries to recover, the consumers coming back in showrooms, after the restrictions imposed during the pandemic, as it is shown in an analysis conducted by Bloomberg.

Comparison of BMW group's forecasts compared to the results of year 2020

Thus the table below presents the key performance indicators for developing the BMW Group as a whole, as well as the segments of services in automotive sector, motorcycles and the analysis of acquired financial services. Within the context of the crisis generated by COVID-19 pandemic, in the first quarter of 2020, BMW Group partially revised their perspectives for this year, and the changes are presented as it follows. Detailed information on the Group's key performance indicators is presented in conjunction with the analysis of the Group's results of operations:

Table 1 Results of operations of the BMW Group

*in €million	2020	2019	Change in %
Revenues	98,990	104,210	- 5.0
Cost of sales	-85,408	- 86,147	0.9
Gross profit	13,582	18,063	- 24.8
Selling and administrative expenses	- 8,795	- 9,367	6.1
Other operating income and expenses	43	-1,285	-
Profit before financial result	4,830	7,411	- 34.8
Financial result	392	-293	-
Profit/loss before tax	5,222	7,118	-26.6
Income taxes	-1,365	-2,140	36.2
Profit from continuing operations	3,857	4,978	-22.5
Profit/loss from discontinued operations	-	44	-
Net profit	3,857	5,022	- 23.2
Earnings per share (common stock in €)	5.73	7.47	- 23.3
Earnings per share (preferred stock in €)	5.75	7.49	- 23.2

Source: www.bmwgroup.com/en.html

Specific analysis. Because of covid-19 pandemic, bmw Group revenues for the financial year under report were moderately down compared to the previous year. Negative currency effects caused by the unfavorable development of the US dollar, Russian rouble and Chinese currency also had a significant impact on incomes. It can be noticed a decrease of the net profit in 2020 compared to 2019 with a value of € 1,165 million due to the coronavirus pandemic. The financial result in 2020 was positive compared to the previous year.

Table 2 BMW Group revenues by regions

in %	2020	2019
Europe	44.3	44.4
Asia	32.1	30.6
Americas	21.4	22.7
Other regions	2.2	2.3
Group	100.0	100.0

Source: www.bmwgroup.com/en.html

Specific analysis. The generating factors included product mix effects due to the less pronounced drop in the sale of vehicles, which generated high revenues, as well as a

portfolio-related upturn in leasing revenues. Positive development on pre-owned vehicle markets were reflected in higher revenues generated from the sale of returned lease vehicles, particularly in the third and fourth quarters of the year 2020.

Table 3 The cost of sales registered by BMW Group

*in €million	2020	2019	Change in %
Manufacturing costs	46,878	48,776	- 3.9
Cost of sales relating to financial services business	27,114	25,828	5.0
Interest expense relating to financial services business	1,960	2,288	-14.3
Research and development expenses	5,689	5,952	4.4
Amortisation of capitalised development costs	1,710	1,667	2.6
Service contracts, telematics and roadside assistance	1,411	1,641	-14.0
Warranty expenses	2,971	2,566	15.8
Other cost of sales	1,345	1,384	-2.8
Cost of sales	85,408	86,147	-0.9

Source: www.bmwgroup.com/en.html

Specific analysis. As it can be easily noticed in the situation previously presented, BMW Group cost of sales in the year 2020 amounted to €85,408 million. Thus, higher risk-provisioning expenses, mainly arising in connection with the measurement of credit and residual value risks, were partially offset by reduced manufacturing costs due to lower production volumes. Cost of sales relating to Financial Services business went up as a result of the costs associated with the sale of returned lease vehicles, mirroring the impact on revenues. Furthermore, research and development expenses were slightly lower than in the previous year. By contrast, the amount assigned to amortisation of capitalised development costs increased in the analysed financial year. Depreciation and amortisation of tangible assets, equipment and intangible assets totalled €6,143 million. Selling and administrative expenses decreased year-on-year, influenced in particular by lower personnel expenses and a decrease in expenses for marketing and communication. Fixed cost management also contributed to a great extent to the reduction in selling and administrative expenses.

Table 4 BMW Group research and development expenditure

*in €million	2020	2019
Research and development expenses	5,689	5,952
Amortisation	-1,710	-1,667
New expenditure for capitalised development costs	2,300	2,134
Total research and development expenditure	6,279	6,419

Source: www.bmwgroup.com/en.html

Specific analysis. The net amount of other operating income and expenses significantly improved, registering an important annual increase which was attributable to the expense recognised in the first half of the previous financial year. Thus, profit before financial result dropped to €4,830 million compared to €7,411 million in year 2019, reflecting the various negative impacts on the gross profit of BMW Group. On the other side, the financial result of BMW Group significantly improved each year. The figure reported for 2020 benefited in particular from an increase to €1,212 million, compared to €918 million, as it was registered in 2019, as a consequence of earnings generated by the Chinese joint venture BMW Brilliance Automotive Ltd., Shenyang, as well as from the

gain of €105 million recorded by THERE HOLDING B. V. on the sale of shares in the card service provider HERE International B. V to Mitsubishi Corporation (MC), Nippon Telegraph and Telephone Corporation (NTT) during the first half of 2020. In the previous year, the financial result also included higher impairment losses recognised in connection with the strategic realignment of the YOUR NOW Group.

The profit of BMW Group before tax was of € 5,222 million which was significantly lower than the one registered in the previous year, in value of €7,118 million. Income tax expense for the year 2020 decreased to €1,365 million, compared to the level of 2,140 million EUR, in the year 2019, mainly due to the fact that the incomes of BMW Group decreased as a consequence of COVID-19 pandemic. The effective tax rate decreased to 26.1% in 2020, compared to the year 2019, when it was of 30.1%. In the previous financial year, the effective tax rate was raised due to the non-deductibility of items for tax purposes, namely the recognition of the provision relating to the EU Commission’s anti-trust proceedings and losses generated from decreasing the shares at YOUR NOW Group. The size of workforce at BMW Group slightly decreased to 120,726 employees in 2020, compared to 126,016 employees in 2019 (-4.2%).

Table 5 Assets of BMW Group

*in €million	2020	2019	change in %
ASSETS			
Intangible assets	12,342	11,729	5.2
Tangible assets	21,850	23,245	- 6.0
Leased products	41,995	42,609	-1.4
Investments accounted for using the equity method	3,585	3,199	12.1
Other investments	735	703	4.6
Receivables from sales financing	84,277	92,437	- 8.8
Financial assets	7,752	7,325	5.8
Deferred and current tax	3,065	3,403	- 9.9
Other assets	10,326	12,939	- 20.2
Inventories	14,896	15,891	- 6.3
Trade receivables	2,298	2,518	- 8.7
Cash and cash equivalents	13,537	12,036	12.5
Total assets	216,658	228,034	- 5.0

Source: www.bmwgroup.com/en.html

Specific analysis. Adjusted for currency effects, the BMW Group’s balance sheet total was slightly lower than at 31 December 2019. Tangible assets (adjusted for currency effects) were slightly down compared to the previous year, mainly due to the lower amount of capital expenditure in 2020. In the previous year, investments at the BMW plants in Spartanburg, USA and San Luis Potosí, Mexico had the effect of increasing tangible assets. Leased products (adjusted for currency effects) were slightly up compared to the previous year due to portfolio growth, mainly in Germany, Italy and Switzerland.

Receivables from sales financing (adjusted for currency effects) went down slightly compared to 31 December 2019, primarily due to the decrease in dealership financing, mainly in the USA, Germany, the UK and France. A total of 1,238,286 new credit financing contracts were concluded with retail customers during the financial year 2020. The number

of contracts in place with dealerships and retail customers decreased by 0.6 % compared to the previous year, registering at present 4,040,231 contracts.

Table 6 BMW Group equity and liabilities

*in €million	2020	2019	Schimbare în %
Equity and liabilities			
Equity	61,520	59,907	2.7
Pension provisions	3,693	3,335	10.7
Other provisions	13,982	13,209	5.9
Deferred and current tax	1,256	1,595	- 21.3
Service contracts, telematics and roadside assistance	1,411	1,641	-14.0
Financial liabilities	106,376	116,740	- 8.9
Trade payables	8,644	10,182	-15.1
Other liabilities	21,187	23,066	- 8.1
Total equity and liabilities	216,658	228,034	- 5.0

Source: www.bmwgroup.com/en.html

Specific analysis. Group equity rose slightly by €1,613 million to €61,520 million, driven primarily by the profit of €3,775 million attributable to shareholders of BMW AG. The dividend payment for the financial year 2019 amounted to €1,646 million, reducing equity accordingly. Financial liabilities decreased moderately in 2020, with repayments of maturing bonds exceeding new issues.

Conclusions regarding the analysis of BMW group economic position

From the above-mentioned information, despite the volatility caused by the outbreak of the coronavirus pandemic, the results of operations, financial position and net assets of the BMW Group remained stable throughout the financial year, thanks to a set of measures that were immediately implemented, including focused working capital management, strict investment and fixed cost management and targeted liquidity management. The value added statement shows the value of work performed by the BMW Group during the financial year, less the value of work bought in. Depreciation and amortisation, cost of materials, and other expenses are treated as bought-in costs in the value added calculation. Thus, net valued added by the BMW Group remained at a high level in the financial year 2020.

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