Analyst Conference Call Q2 2018
Transcript Q&A
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Thomas Wrigglesworth (Citi Investment Research): Could you try to quantify what you think the ramp-up cost impact was in the second quarter? That would be very helpful.

I am wondering, both in Performance Products and in Functional Materials & Solutions, what was the total cost increase that you have seen year-to-date?

When do you think, across both of those segments, you would be able to fully offset both the cost increase for 2017, noting that Functional Materials & Solutions was down 200 million euros at EBIT and still seems to be down in the first half as well?

So, when can we expect, in both Performance Products and Functional Materials & Solutions, full margin offset?

Dr. Hans-Ulrich Engel: Thomas, I take your question on the ramp-up cost. Start-up cost in Q2 – I give you BASF Group: about a mid-double-digit million euro figure higher.

In Q2 2018 and for Functional Materials & Solutions, it is a lower double-digit million euro figure that the start-up cost is higher than in Q2 2017. In other words, yes, growth comes at a cost. We see that at this point in time. But we obviously have the plan to use these capacities, grow into them. At this point in time, it is a slight burden for the BASF Group and also a slight burden for the Functional Materials & Solutions business.

Dr. Martin Brudermüller: A few more comments on the two downstream segments: If you look at the Performance Products part, we had much less a cost issue than it was actually a growth issue. We had prices going up, which was very much offset by the FX impact.

If you zoom on the volume part here, I really have to say that this is totally connected with the citral value chain outage. If we had not had that, we would have had a positive volume development. This is very important to say. So, we are moving on the volume side and we are also moving on the price side.

I would also expect that the FX impact in the second half of the year will go down because we are simply comparing ourselves to a more favourable basis in the second half. That is on the PP part.

On the FMS part, you actually see that with respect to market-related things we went forward quite well: 4% volume plus 6% prices. So, we really move over there. That means that we can increase prices, but we can also raise volume at the same time. Here we have also lost more than half of that by the FX headwind.

The other part is connected with costs. Higher raw material costs impacted quite significantly, e.g., on the Coatings part where you on the one hand have a price pressure from the automotive companies which you have to resist and you have to digest raw material price increases here.

Let me connect that also with something you maybe have never heard of: For example, the shutdown of several suppliers in China due to environmental issues has taken some resin players out of the market, more or less so quickly that you could not adapt. This led to a significant double-digit increase of some resin prices which are raw material prices for Coatings. You cannot raise prices that quickly and react in one quarter.

You also heard about the start-up cost which were already mentioned by Hans. We have started some plants, also in China. We have also ramped up our teams to get these volumes into the market. That also resulted in higher costs.

Let me also make one final comment on something you cannot see: The combination in the value chain of polyurethanes, the Performance Materials and the Monomers divisions. If you look at the total earnings of that value chain, it was three-digit million euros plus in the first quarter and it is still a good double-digit increase in EBIT in the second quarter, which is, however, to a large extent visible in the Monomers division and not in the Performance Materials part.

Let me really say this again and reiterate what Hans said: Certainly, this development has to go on in Q3 and in Q4, to pass these high raw material costs on to the customer. But we always pointed out that the pricing model in these businesses is sometimes with contracts of one, two, three quarters and it is not raw material formula-related.

That means, if you keep up the logic that you sell value and are not connected with the raw material prices, you need some time to pass this on. You cannot go to the customer and say, last month my raw material costs increased; that is why I increase your price, because then in the opposite direction it also goes very quickly.

So, overall, I think we diminished the difference in FMS in comparison to Q2 in 2017, compared to the delta in Q1 2018 over Q1 2017. So, we are moving in the right direction. This just takes more time.

For that reason, these two segments have to contribute more on the pricing side in the coming half year. Maybe I leave it with these comments.

Patrick Lambert (Raymond James): One quick question on the ramp-up or start-up cost – I think you commented on Q2: Could you help us bridge H2 2018 versus H2 2017 in terms of how the biggest junk of start-ups phase into H2?

Dr. Hans-Ulrich Engel: I gave you earlier already, Patrick, the guidance for the BASF Group for Q2. If I look at the first half of 2018, that is again a low triple-digit million higher than what we had in the first half of 2017.

The second half of 2018 compared to the first half of 2018: It is slightly higher in the second half of 2018 than it was in the first half of 2018.

Patrick Lambert (Raymond James Euro Equities): And versus H2 2017?

Dr. Hans-Ulrich Engel: And H2 2018 to H2 2017: This is also a low triple-digit million figure higher when I compare second half to second half.

Patrick Lambert (Raymond James Euro Equities): So higher in 2018?

Dr. Hans-Ulrich Engel: Higher in 2018, correct.

Andreas Heine (MainFirst Bank AG): I'd like to understand a little bit more what has changed in Performance Products and Functional Materials & Solutions. In your outlook provided at the beginning of the year, with the Annual Report, you expected these two segments to be up considerably, so more than 10%. Effectively, they were down 20% in the first half, by 300 million. If it had been in line with your forecast, then it would be up 150 million, so 450 million short.

You were probably aware at the point when you made the outlook about the FX and the fixed cost. Is this difference of what you were expecting at the beginning of the year and the outcome, at least in the first half year, all related to the raw material cost increases which came then as a kind of surprise in the first half?

Dr. Martin Brudermüller: With regard to the performance of the downstream segments here again, one thing is very clear: If you look at the first half-year, Chemicals performed better than expected and certainly PP and FMS performed behind expectations. You know that we don't correct our segment guidance throughout the year, but confirming our Group guidance basically means that, certainly, FMS and PP have to catch up in the second half of the year.

You ask about what is different: I think I mentioned already some parts. Raw material is certainly higher than we have expected. For Performance Materials alone, we have expected a certain decline in the isocyanate prices which is also visible, but it is much slower than we anticipated. But this also means, e.g., that Performance Materials have a higher raw material basis in the first half-year than we had expected.

I mentioned earlier, overall in the chain, we still earn more, but it is mainly coming with the Chemicals part. Then it is attributed to the segment here. I have to say, I am a bit more relaxed here because what counts for us is: Do we get the money in our pocket? Whether it's the left or the right pocket, is of secondary importance for us. I think that is the raw material part.

There is maybe the one or the other resistance on the customer side, so that the price increases take a little bit longer. There is certainly the one or the other business environment which is different. One where we have changed it ourselves and have constrained the industry, was our citral outage. That totally changed the market dynamics and also how people react. You know on the other hand, just to mention a second one, the superabsorber business which is a tough one, but which rather got a bit tougher than better. At the very end, you have a composition of all that. I would say, it is really a combination of all that.

As we said earlier: It's fixed cost increase, it's raw material increase, but it is also some dynamics in some of the markets. So it is a mixture. I would not boil it down to only one factor. But to conclude: Very clearly, both segments have to catch up in the third and the fourth quarter.

Chetan Udeshi (JP Morgan): Just looking at the second half at this point, do you see a reason why the earnings growth, the EBIT or EBITDA will be higher or lower versus the first half? Any puts and takes you probably want to highlight on second-half growth? On Functional Materials & Solutions again: I appreciate start-up cost and raw material pressure. But at the same time, I think, you also had some benefit, as you pointed out, from higher metal prices which should have flown almost entirely in terms of EBIT contribution. You had a big jump in catalyst sales; a big part of that were metal prices.

I am still sort of struggling why the margin is still down so much, despite the benefit from metal prices.

Dr. Martin Brudermüller: On the comment for the second half: I think Chemicals is ahead, but the downstreams have to catch up. If they do their job right, they have to be able to manage this catch-up. You asked: Can I mention anything particular? Maybe what I can mention is that the citral plant is back on stream. We have lifted the force majeure in the first step and now we basically piece after piece are doing this.

Then there are the downstream products for human nutrition and in the aroma and fragrance area which then come later. So, we will lift the forces majeures going forward. I think this will bring us back in the health and nutrition part. It's just one element because we have been basically very much hindered in that business to go forward, which had an impact on the whole portfolio, certainly.

If we look at the FMS part where you asked again: I think we have given already some information. The logic is in each of these businesses separately. If you mention precious metal: That is a cost that is carried through. If the price level of palladium is higher, your pricing for the catalyst is higher. That does not really contribute much; it is a little bit on the trading side, but that is not that huge a lever.

On the construction part, that is still a relatively small business compared to the others.

But on the other hand, I think, what we mentioned and what is the important driver in that segment is really the automotive business. We think the automotive business is still in good shape and will be in good shape for the second half. That will drive our businesses. I cannot add much more to what we already said. I think we are still in a good mood that the guys can catch up and will deliver in the second half.

Martin Evans (HSBC Bank Plc): I am just trying to understand all the kind of moving parts here. There have been numerous references to higher fixed cost through the quarter, plant turnarounds and start-ups etc., plus, obviously, raw material pressures. The overall outcome in the second quarter was relatively flat to the earnings or in fact slightly down.

Essentially, are we entering a new, albeit temporary phase of BASF being largely ex growth while these investments are commissioned etc. or is this something more structural whereby potentially you are losing your competitive edge? The second quarter, economically, was a good quarter and yet you have reported profits that are down. That's what I am trying to understand, the impacts of higher fixed cost in particular.

Dr. Martin Brudermüller: On the one hand you should think if a company is as broad and big as ours that somehow these effects level out because one is doing this and the other one is doing that. Unfortunately, that is not always the case. Sometimes you have this stuff accumulating and then you have this kind of effects.

Mainly the start-up cost and what we mentioned: There is also a lot of investment in plants which at a certain moment you start up. You really have to step up in your fixed cost and then you have to fill these plants.

If we now look e.g. at the FMS segment and if we look at what we talk about here, we have investments in the emission catalysts in China and in Poland. We have started new plants there. They add up a fixed cost base. We have basically the start-up of the battery plants in Japan with the TODA activities – we mentioned that –, the NCA business, which is growing nicely, has also to be catered to by new capacities. So we have to invest.

We have built up and started up a new plant in the coatings area in Shanghai. Think about 27 million cars in China. Fortunately enough, we paint a lot of them. That also means that we have to build the capacities for that. So, it is not all the time distributed regularly.

You know that fixed cost management is normally something which is somehow a brand of BASF. We have done that very well over the years. You also know from our equity story this very nice curve: Over more than ten years we have managed to grow sales and EBITDA quite significantly while we have kept fixed cost under control. I think it is not an element which we have to worry about.

I mention this once again, maybe also at the end, that the businesses we have talked about have to look that they participate nicely in the volume growth, because that is share gain and that is where we want to participate and they have to work on the margin and the price side. That is where we have to take our look at.

I am not worried that something under the fixed cost part is getting out of control. It is future investments which now have to be filled with business that pays off. That is what I would say there. I don't see a worrying component that something goes out of control here. It is just normal future investments.

Paul Walsh (Morgan Stanley): Martin, you mentioned that the global economic risks escalated in the first half. I am assuming not, given your guidance is unchanged, but are you seeing any evidence of that manifesting itself in your end industries? I am particularly interested in whether or not you are getting any feedback from the automotive space around production schedules and ordering patterns.

Dr. Martin Brudermüller: Paul, with respect to our statements about the economic risk: You know that we have a certain visibility into the future on the one hand. But on the other hand, we all follow the news going on, particularly about the trade frictions between the US and China and between the EU and the US. We got some relief maybe from the two gentlemen meeting during the last days and maybe this de-escalated some further duties on cars, which is certainly a very determining one not only for Europe's industry, but certainly also for BASF, because it is our largest customer industry.

So far, if we look at the first half year, actually the car production globally is pretty much on exactly the level which was forecasted. We have some 97 million cars projected and I think we have 48.5 million cars more or less been produced in the first half of the year.

Currently, we also do not get any signals or see anything in the order pattern from the automotive industry, which would lead us to any corrections in this regard. But as I said, we have only a certain visibility on the one hand and this is why we made this statement. But on the other hand, a very clear statement is that we stay with our forecast.

On a global level, we still see the automotive industry being strong and performing as expected.

Andrew Stott (UBS): A different question, a higher-level question. I saw this week that the EU have decided to treat gene editing in the same regulatory context as GMO. I am just wondering what that means for your nearly assembled seeds and traits business.

Dr. Martin Brudermüller: With respect to CRISPR/Cas and the ruling of the European High Court, at the very end it has to be evaluated in detail what that really means. But on the other hand, a very clear statement: This is a pretty revolutionary additional tool for the whole biotech and genome-editing technology. It is a very precise tool to basically generate mutations and, with this, there is also the expectation that in future you can accelerate developments and make them cheaper.

In that respect, I think someone who runs a state-of-the-art biotech platform has to use this technology. We have also taken a global licence from the Broad Institute of MIT and Harvard. So, we are enabled and we have people who can use this instrument. It is certainly planned and has to be used in our platform.

Now, with the new additions we have from the Bayer business, which will basically complement our platform in biotech and plant biotech on the one hand, but also our enzyme activities and now the whole seed business, this will be a very important tool.

If it is really true what the Europeans have done here, then they have again basically given green light for the precautionary principle – not evaluating at the same time also the innovation principle, which means that it is a pure risk-based assessment and not a risk and opportunity-based one. It would be a pity for the European industry and the European scientific community, because it will take away one other opportunity for innovation.

For us as a company, at the very end this would mean that such tools would be applied in our US operations. You know that the plant biotech activities of BASF have already been relocated in the past, mainly from Germany to the US. As we run a global platform that would mean that basically the application of these instruments would not be used in Europe and in Germany.

So overall, this will not impact us as a company too much, but as a European citizen I am worried about what that means to Europe and its innovation power.

Peter Clark (SG Corporate and Investment Banking): I realize you can't say much on the Solvay deal, where we are at the moment. But I am assuming that you are still pretty confident and you can address the Commission concerns as we go through that process.

Dr. Martin Brudermüller: Peter, regarding the transaction with Solvay: We have now to look into detail what the concerns of the EU Commission mean. It's actually a three-chapter exercise because the market is basically divided in three different layers. It is about the precursors and it is about polyamides and then it's about engineering plastics. We are now in the discussion with the EU what we have to do here.

We are still confident that we find an arrangement that makes sense for us and that does not destroy value. It will delay now a little bit our time schedule. But I think, over the next months, after the summer break, we will have intensive discussions with the EU Commission and then we will see how we go forward. I am still very confident that we find a solution.

2 Segments

2.1 Chemicals

Tony Jones (Redburn): Going back to added cost, for this time in Chemicals: You called out that fixed costs were up. Could you tell us what that roughly was and maybe split it up into recurring and non-recurring costs associated with shutdowns?

Dr. Martin Brudermüller: Fixed cost in Chemicals: I don't see a big effect here, honestly spoken. There is always a little bit on turnarounds which shift from one quarter to the other, but we did not have a major start-up over there in the quarter here. It's roughly up, in a not very significant manner over here.

Patrick Lambert (Raymond James): Can you update us on your TDI ramp-up in Ludwigshafen?

Dr. Martin Brudermüller: With regard to the TDI situation, you know that we had this major period to change the reactor, build it in and connect everything and overhaul the one or the other thing. I can inform you that the plant is up and running. It is running on all the steps in the synthesis of TDI. It also produces in-spec material. So, we are going to ramp and stabilize this according to market needs. Just keep in mind that we still have our Schwarzheide plant running which we will shut down at a certain point in time. Then these volumes transfer to the Ludwigshafen plant.

We run that, as you also know, in a global grid. I think I mentioned earlier that the TDI margins have gone down a bit, particularly in Asia. So we also have to drive this whole thing from our side in a very balanced way to preserve value and on the other hand to take volume growth. So, we now ramp this up basically according to the market needs. It is a very good situation on the TDI side at the moment.

Laurence Alexander (Jefferies): When you think about your steam cracker margins and your ability to capture dislocated feedstocks, how will the marine regulation change at the end of the decade affect the steam cracker positions for your business?

Dr. Martin Brudermüller: With regard to your question: Bunker fuel regulations – is that what you wanted to know?

Laurence Alexander (Jefferies & Company Inc.): Correct, yes.

Dr. Martin Brudermüller: I don't know really what the impact will be here. I cannot see really that it has an impact on our cracker business because, at the very end: Yes, most of our crackers are naphtha-driven. On the one hand, we have driven projects – and partly executed already – to use more flexible feedstock. What you mean is basically how the usage in the shipping is changing the availability and the pricing of the transportation sector and with that impact for us. That's really too early to say.

There is a lot of activity going on now with LNG enablement for the ships, building even terminals. Even in Germany, we build one for the future ship fuel. But I think it's really too early to put that in numbers. Please understand that. I cannot do that.

2.2 Performance Products

Paul Walsh (Morgan Stanley): I think you mentioned there was an insurance payment for citral in the second quarter. I wondered if you could just quantify that for me. Maybe you could just comment on how you see that business progressing now that the capacity is coming back up. I think some of the pricing has come down. Could you give us some context around that, please?

Dr. Hans-Ulrich Engel: On your citral insurance question, you will understand that we will not quantify this for you. But I give you the following explanation: What we received is compensating us for the additional cost that we have as a result of the force majeure situation. When I compare it to how we have budgeted the division for Q2, the compensation that we received from the insurance leads us to being on budget.

2.3 Functional Materials & Solutions

Andrew Stott (UBS): One question is really on the timing of the turnaround in margins in FMS. I guess, on Performance Materials and Construction Chemicals, it is less of an issue because that will be to some extent dictated by raw material trends upstream. I am more thinking about your own thoughts into 2019 and indeed the second half on both Catalysts and Coatings where EBIT was clearly well down in Q2. So just a roadmap on the turnaround potential for those two.

Dr. Hans-Ulrich Engel: Andrew, I will take your question on the margin turnaround that you asked about in Functional Materials & Solutions. If you look at the quarter-over-quarter development that we have, we are obviously still faced with increasing raw material prices. You are well familiar with the fact that it takes the time it takes in order to pass these on. Typically, when raw material prices increase, you go through a phase of margin pressure. That was very pronounced in Q1 of this year, when Functional Materials & Solutions, on a quarter-over-quarter basis, was down by 200 million euros compared to prior-year quarter. If you now look at Q2, it is 80 million euros down. So margin compression is continuing, but at a lower degree than what we experienced in Q1.

In addition to that, we have, as you know, significant growth measures in Functional Materials & Solutions with a number of plant start-ups around the globe in Catalysts, in Coatings, in Performance Materials and also to a smaller extent in Construction Chemicals. That adds to the fixed cost at this point in time and it does so pretty much in two ways, which is very typical in a situation where you grow a business. On the one-hand side, you have the additional fixed cost coming from the new plants and new employees that you have in there, additional depreciation and you are also burdened with the cost of not fully utilizing the plant. All that needs to be factored in.

We see a trend of improvement in the Functional Materials & Solutions segment and we expect this to continue in the second half of 2018. Once we have budgeted the year 2019, I think we can give clearer guidance on that.

Peter Clark (SG Corporate and Investment Banking): One question on the raw material pressure: You make it very clear that Coatings is seeing acute pressure at the moment. That's likely to continue in the second half. In the Functional Materials & Solutions segment, excluding Coatings, do you think that margin could be up in the second half year-on-year?

Dr. Martin Brudermüller: With regard to your question about FMS and then excluding Coatings and what it means for the rest: At the very end, I would say, for the whole segment I can only repeat what I said: Yes, the margins have to go up. They have to catch up in Q3 and Q4. They have to even work harder to accelerate their margin development. That is also including Coatings because we haven't said now: Coatings is in a challenging situation because of raw materials. They also have to work on this. It is true for the whole segment, very clearly.

Gunther Zechmann (Bernstein): Your catalyst business grew quite strongly in the quarter, up 13%. That's including the currency headwinds. What drives the volumes there, please? Maybe you can rank-order the automotive catalysts, the battery materials and the chemical catalysts.

Dr. Hans-Ulrich Engel: As you say, we have 13% sales growth in Catalysts. Out of that, we have about 7% volume growth and we have a significant price growth which, to a certain extent, is driven by precious metal prices and there, in particular, by the price increases in palladium. So, overall, a very nice volume development – and that is what counts –, obviously offset again by currency impacts.

If I look at the businesses and I start with the automotive catalyst business, that has, as you would expect in the current environment, the one or the other challenge in light-duty diesel in Europe. But that's compensated by light-duty gasoline. Overall, the automotive industry performs as we had expected it at the beginning of the year. So we see, on a volume basis, light vehicle grow by 2% for 2018. We have our fair share of that growth in our automotive catalyst business.

Chemical catalyst business and refinery catalyst business: both are performing well and to expectations. As you know, our battery materials business is a business that is set for growth. We are targeting significant sales growth there year over year and we support that by way of strong volume growth. So they are fully in line with expectations.

Gunther Zechmann (Bernstein): Can I just clarify: Within the battery materials, which has the strongest growth, is that mainly NCA driving that growth?

Dr. Hans-Ulrich Engel: To a large extent, that is NCA, yes.

Markus Mayer (Baader Helvea): On your Construction Chemicals: It looks as if the competitors, at least took some further share there. Is this still due to your high Middle East business and/or do you think you might have to consolidate the market further to get critical scale?

Dr. Hans-Ulrich Engel: With respect to Construction Chemicals, you pointed in the right direction. As you know, we have a stronger footprint than our competitors in the Middle East. The Middle East has not yet recovered. Despite the fact that oil prices have gone up, we have not seen an improvement in pricing and in conditions there.

If we think about the developments around the globe, we have seen good, strong business development in Europe. We have seen a good development also in North America where also the Thermotek acquisition that we did in Mexico last year is contributing. But, as I said, Middle East is pulling us down.

What is strong in our portfolio is Asia Pacific. If I compare how we have done in Asia Pacific compared to our, let me just say, most important competitors, we don't have to hide. It is actually looking quite positive.

2.4 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): Coming to Agricultural Solutions, can you please give us an assessment of the channel inventory in the northern hemisphere? I am asking this question in particular with a view on Europe and the drought situation in larger parts of the region which, in my view, could have led to some channel inventory.

Dr. Hans-Ulrich Engel: Christian, you are obviously well familiar with the industry. The situation that we are experiencing in the northern hemisphere this year is actually a challenging one.

Thinking about Europe and in particular western Europe: late start of the season, overall a compressed season. When we saw each other last time, I said I am not yet sure what's going to happen here. But by now we know that it was a compressed season. As a result of the continued drought-like conditions that we have right now, we didn't get the disease pressure that you would actually hope for from a business perspective towards the end of the season.

Even though, as you know, the final on-the-ground numbers are not yet out, our expectation is that channels will be relatively full at the end of the season: The same may be true – it's not yet sure – for North America, where we have also experienced, weather-related, a very, very late start, in particular in Canada.

So, overall, it's a challenging situation right now. But then you look at our business and you see that, yes, on a first-half year basis, we are down, but Q2 over Q2 we are slightly up. The indications for the season in the southern hemisphere – or in other words: Brazil and Argentina in particular – at this point in time look pretty good.

Tony Jones (Redburn): On Ag Solutions: Volumes were good. You certainly point out there was better demand in Q2, particularly in Brazil. Are you able to split out the revenue growth into volume and price and perhaps talk about what actually is underlying demand or whether just this was a restocking of the inventory that was reduced in the channel last year?

Dr. Martin Brudermüller: On Crop Protection: If you look a little bit here on the regional part and you are particularly interested in the South-American part, then we had a very, very strong volume growth here. Volume almost doubled, prices 14% plus, but a headwind of the foreign exchange rate with the Brazilian Real of 35%.

So you see that we have positioned over there very well, had also a good starting base, basically from the last year where we had all these inventory effects. I think, with this we are doing very well in South America at this point of time.

Andreas Heine (MainFirst Bank AG): The trait research which is currently put in the Corporate line, will that now move to Agro in 2019, as you have the full value chain from seed and crop protection and also trait research with the Bayer agro business?

Dr. Martin Brudermüller: Andreas, on the reporting of trait research cost. I think I said it earlier (on the acquisition of businesses and assets from Bayer): We now have to look into this discovery phase where we take three months to really understand in detail what's going on.

But one thing is also clear: If we acquire a business, then the segment also has to carry the major part of research because that is an integral part of the business.

Overall, it complements the skills and the competences we have in the ag chem business very well. How we do it at the very end in all the detail, I cannot tell you. There might be also a part which is, let's say, more forward-looking, which we have to support by corporate skills. Then it could be supplemented in a part of that, with a time horizon which is more than five years, that we partly carry something like this also on the corporate part.

You know that we have about 20% of our research cost paid by corporate, in order to ensure that we do not lose opportunities and capabilities in the long-term build-up and that they are not sacrificed in the P&L on the short-term outlook. So we always balance this. How we exactly do this, we have to wait until we have the discovery phase.

Laurence Alexander (Jefferies): On the pro-forma ag portfolio: Can you give some perspective or benchmarks for the combined R&D pipeline, your peak sales, NPV or however you think about it? Where does digital ag or precision ag fit in that pipeline? I am thinking there in terms of the spend that you have.

Dr. Martin Brudermüller: Laurence, concerning the pipeline consideration, I think, it's really too early. We have to look in depth into this. Certainly, we did not buy a black box. We had certain information about that in the due diligence for that package. But now we have to really look at how that goes together.

The only thing I can tell you – you know that – is that I think the pipeline of BASF's traditional business or legacy business is formidable. It's really a great pipeline. From all what we know, it should go very, very well together and we are very happy because we get really 2,500 excellent scientific people joining now our platform.

When it comes to digital, I can only say at this point: We have a very nice digital kind of start-up business and we get this xarvio platform from Bayer which, I think, is also very much respected in the market in terms of their capabilities. I can only predict for the future: If they bring these two pieces together, we certainly can make something very nice of it.

But also here, I mean it's too early. We really have to see the capabilities and approaches and how we bring them together.

2.5 Oil & Gas

Markus Mayer (Baader Helvea): On Nord Stream. Do you see any kind of impact from the political discussion on Nord Stream or do you also expect the discussion might fade as the trade war discussion between the US and Europe faded?

Dr. Hans-Ulrich Engel: Markus, on Nord Stream: In today's political environment, it's always difficult to predict what will happen tomorrow and where the political mood will swing to. I understood the comments after the Helsinki meeting in a way that there will be competition between pipeline gas from Russia and LNG from the US. At least this was how it was positioned at the meeting. I guess that's all I can say with respect to that. Obviously, we are following closely the developments, but somehow the tone seems to change there on a daily basis.