BASF
We create chemistry

Conference Call Q2 2025
Transcript Q&A
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1 BASF Group

1.1 Current market environment

Alejandro Vigil (Santander): About the European regulation: We have seen the German government and also the European Union with some proposals to support the chemical industry in Europe. Can you elaborate on that? What is the potential impact on your company?

Markus Kamieth: It is really difficult to provide a short answer on EU regulation and how much support the European Commission and maybe also the German government intend giving the chemical industry. Overall, we're getting a lot of positive signals both from recent announcements at the European level, for example, the Chemical Industry Action Plan that was announced, but also certainly from the new coalition agreement in Germany.

I would say, overall, the narrative is positive. It has some very positive intentions. And it's clear that at both the European and the German level, politicians have understood that the chemical industry will be key to securing the industrial competitiveness of Europe. I would say, the events over the weekend have shown how important it is to remain competitive and strong as the European Union with regards to industry.

However, I will also say that, as always, in these times of strong narrative changes and communications, actions will have to prove themselves. And we are still waiting for the implementation of many of these announcements. So, it's too early to call it a tailwind yet, but the signs are turning much more positive than they were 12 or 18 months ago. That's how I would summarize it.

Thomas Wrigglesworth (Morgan Stanley): You are obviously adding capacity in China through the new Verbund site. At the same time, we've started to see the Chinese making statements around what they call "anti-involution."

I was intrigued to understand whether you'd received any insight on this policy and what they're trying to get at in terms of oversupply in the chemicals industry.

Markus Kamieth: For a long period of time, the sense was that the Chinese government and authorities are dodging the discussion around overcapacities and buildup of unhealthy capacities in many industries.

I think, in the run-up to the 15th Five-Year Plan, which will be put into effect in March next year, you now see first signs of intentions to work on supply side reforms. As you said, this also addressed what they call "involution" or "rat race." I personally think that this will also have an effect on the chemical industry.

I was in China a few weeks ago and we had some good conversations around bringing two of the big intentions together: on the one hand, the supply side reforms addressing overcapacity and the low profitability of many chemical companies in China, especially small/medium ones, but also, on the other hand, the green transformation and achieving peak carbon in 2030.

Our intention is to pitch for addressing both things at the same time. I think this will happen now over the next years. You will see capacity adaptations also in the chemical industry, also addressing assets with high energy efficiency, subscale and high emissions in China. So, I think supply side reforms are becoming more popular. You will probably not hear the word "overcapacities" a lot; this will be communicated differently, but we have positive expectations. And that will lead to a picture where we see a rebalancing of chemical value chains and the chemical market by the end of the decade in China. So, the last weeks have been rather positive in this aspect.

Georgina Fraser (Goldman Sachs): We're seeing that even U.S. chemical companies are under enormous pressure with global oversupply at the moment. Your competitor Dow has recently cut its dividend. I think a lot of investors felt that U.S. companies would be better off than European ones because they have a favorable cost position.

Can you say a bit more about the structural dynamics that you see at play outside of China and whether BASF can act as a consolidator to strengthen its core asset base and come out of this downturn in a better competitive position?

Markus Kamieth: I'll try to do my best because this is a multi-dimensional question. I'll try to be simple.

I think we always have to be very cautious if we make statements like "U.S. players have a favorable cost position" if we project this out to the entire chemical industry. There's an enormous number of subsegments in the chemical industry. And if you look at the BASF portfolio, we produce about 50,000 different chemicals. The statement that there are clear cost advantages for people that are close to cheap feedstock regions like the U.S. or the Middle East is only true for a small proportion of this. It's true for large-scale commodities. If you have a portfolio that is, for example, heavy on polyolefins, polyethylene, polypropylene, then you are, of course, much more exposed to these raw material feedstock cycles, but also to the advantages, compared to a company like BASF where we have a variety of different midstream, downstream businesses and typically long value chains. We make very different things out of our olefins than polyethylene and polypropylene. That just as a disclaimer.

On the competitiveness side, I would say we have certainly looked at our asset setup globally and where we have risks with regards to competitiveness, also as it relates to the trade flows from low feedstock regions. We have been very vocal about our analysis here in Europe, in Ludwigshafen in particular, that most of the assets we have here are actually going to be competitive over the long term, also against imports from low-feedstock regions. The same holds true also for our portfolio in the U.S. for the U.S.

Since we are not a company that is comparable to some of these upstream only, very cyclical, commodity-heavy companies, I think we are much less a proxy for this kind of discussion.

You asked also whether we are potentially a consolidator in this industry. I think here we've also been very clear. I said very consciously at the Capital Markets Day that this is, of course, something we are taking a look at. Because over the next 10 years, the industry will go through a phase of consolidation and restructuring in low-growth regions like North America and also Europe. As one of the market leaders in almost all businesses that we're in, we certainly will see and look whether there are opportunities for BASF in this consolidation phase.

However, this does not mean that we are now on a shopping spree when it comes to buying non-competitive assets from other companies. We feel that we have competitive assets, and we are rather opportunistic, but we believe there are opportunities and benefits for BASF in a phase of consolidation and restructuring because we fundamentally feel our asset base is robust and our market positions are good.

1.2 Zhanjiang Verbund site

Chetan Udeshi (J.P. Morgan): You mentioned previously that you will see strong growth in China next year, which makes sense, from the startup of your Verbund plant.

I'm just curious: At some point, a few years back, you guys talked about 1.2 billion euros in EBITDA from the Chinese Verbund. If you were to mark to market today's reality, which means the pricing and margins are probably much lower, do you have a number what the mark-to-market EBITDA will look like? Will it be half? Will it be less than half?

Markus Kamieth: Next year will be the first year of operation for our new South China Verbund site. The plan is still to ramp up the plant utilization relatively quickly for most of the operations. So volumes would actually come in rather quickly.

The reason is because almost all assets have favorable positions in the cost curves in China, especially in South China. So if you want, they all have a right to have a high utilization. I've talked about this repeatedly: Comparing this, for example, with our Nanjing situation, we're relatively sure about that. Volumes will come.

As you rightly say and expect, currently margins in most of the upstream chemicals in China are at very low levels, some of them at all-time lows. So, from a margin perspective, 2026 will be a very tough year to start up new capacities in China, for sure. But we also expect that towards year-end there will be a rebalancing of most value chains with regards to supply and demand.

The simple picture is that, compared to our original expectations, we will still get to the level of profitability that we have also communicated. But we will have a slower ramp up. The years 2026 and 2027 will certainly be more challenging years in the commodity space in China than what we originally thought when we decided to build this site. But that is nothing unusual in commodities, since commodities are a cyclical business. And it always depends on what timing of the cycle you are starting your plants in.

The only new element is that China now also has a pronounced cycle, which was never the case for the last 20 years, or at least not so much. So we are starting now at the bottom end of the cycle, and we still expect that our profitability expectations are realistic and plausible, although they might come a bit later. We will reach the full run rate a bit later than what we originally expected. That's the picture I can give you today, and there will be more to come once we have actually started up the site and we know what the margins will actually look like in 2026 and 2027 in China.

Laurent Favre (Exane BNP Paribas): Around the startup costs, the 400 million euros. I understand that, with the ramp up, there's more of those costs in Q2 than Q1 and in H2 than in H1. But can you be a little bit more specific on that split? And what should we be assuming for next year as well?

Markus Kamieth: If you have the picture in mind that these are startup costs, you automatically have a good gut feel that these become more, the closer you get to actual startup. So if you look at the total figure that we have communicated and to give you something to model with, I would say, if you split that number into roughly one-third in the first half, two-thirds in the second half of 2025, you will not be totally out of proportion.

Laurent Favre (Exane BNP Paribas): And nothing for next year then?

Markus Kamieth: Well, next year, we still have, of course, extraordinary costs. We're starting up the steam cracker very late in 2025. So there will definitely be a spillover of startup costs. I don't have a number in my head that I could give you to guide or model this.

But just remember that also next year we will still have a pretty significant share of capex to finish up the site. I think we still have roughly a billion for 2026 in the books for capex to finish off this site. Because it's so big, it will have a tail. And that also holds true for operational startup costs.

So, overall, I don't have a picture now, but it will tail off; how quickly and how fast in 2026, I cannot tell you off the top of my head.

1.3 Cost savings programs and use of cash

James Hooper (Bernstein Société Générale Group): About cost savings: You've clearly done a good job of executing the plan so far for 2025 and accelerated those. But the current plan ends in 2026. What are the plans for beyond 2026? Are there more structural savings you can make in the Verbund business in particular?

Markus Kamieth: To cost savings: I said this also in the past. We have announced now these 2.1 billion euros in savings by the end of 2026. My ideal scenario would be that this is the last ever real big program that we would announce because, from my perspective, a company is running excellently if you are constantly improving on productivity and cost leadership positions.

I don't really like the announcement and tracking of individual restructuring programs because, in this day and age, the world is turning so fast that the individual programs overlap, and you are not really managing a company responsibly.

From my perspective, right now we have to get the company into a constant productivity increase mode. I think our current restructuring efforts help to get us started, but we do not expect any cost savings initiatives, productivity programs or, let's say, striving for benchmark cost positions initiatives to end in 2026, rather the opposite.

We accept that real cost leadership and being best in class in almost everything we do is part of being competitive as a chemical company, and I don't need to announce an ongoing wave of restructuring programs for this.

Chetan Udeshi (J.P. Morgan): This whole discussion around cost savings: I appreciate you mentioned that you guys are accelerating the cost savings this year. But when I look at your personal expenses, they are up 10% year on year in the second quarter 2025. In the first half, they are up 5%. So I'm just trying to tie those two things together, cost savings being accelerated while personnel expenses are rising so substantially. Maybe you can help us there.

Markus Kamieth: I will give a simple answer, and then I look to Dirk to give color.

You're right: The personnel expenses, as reported, are going up. First of all, when you look at our restructuring programs, a lot of that has to do, of course, with reduction of headcount. It always takes a while until the pay check is actually out of the company. We still are, of course, seeing increases, so inflation, coming from salary increases, most especially in European countries.

But you also have to see that in times of restructuring and especially personnel restructuring, your personnel costs typically also go up because you're paying severances. And that also is part of the personnel expense. So whenever you do a lot of restructuring, you see personnel expenses first go up before they go down. In the P&L, you see it as special items. But of course, if you only look at personnel expenses, you see it all in.

So you have to take this apart a bit. The intention is, of course, that as a result of our restructuring measures, our personnel expenses will eventually go down significantly.

Dirk Elvermann: I can confirm that and put one more number into context. The 2.1 billion euros in savings that we want to achieve by the end of 2026 is a fixed-cost reduction for the Group of 10%. So it is an enormous effort that is currently going on in the company. And this comes with the severance payments that we have to pay now. But from my perspective, this is rather an investment in future efficiency.

So, yes, the number is high, but it is money well spent in order to achieve the restructuring target.

Laurent Favre (Exane BNP Paribas): In the presentation, you mentioned that proceeds would be partially used to reduce leverage. I was wondering if you could talk about the timeframe of that comment. I understand that this year free cash flow is not going to cover the dividend, but I would have thought that, for next year, with capex below D&A, I guess, deleveraging wouldn't be top of mind and you would also think about, I guess, other things with the cash flow.

Dirk Elvermann: With the use of funds from M&A, etc. I do not have a concrete timing for you, but the direction of travel should be very clear. This year we are passing the investment peak that we had last year, but we are still high on capex.

We have spent quite a lot in investments in the last couple of years. We'd say, after the completion of Zhanjiang and then also MDI, Geismar, we are what we call fully invested. So we have now funds available that are coming in from operating cash flow, but also from the proceeds from the projects that we can use in order to strengthen our balance sheet, but then also think about our shareholders and do more on shareholder distributions.

We want to strengthen the balance sheet. We want to do more for our shareholders. The latter you only can do if you have a strong balance sheet. So this is really the emphasis that we are now taking as a Board. A concrete timing I do not have for you. But you shouldn't need to wait too long.

Matthew Yates (Bank of America): A question about the strategy and the portfolio. I'm trying to imagine what BASF's cash flow would have been this year without the contribution and resilience from its coatings and agriculture business.

It strikes me that if you execute on your divestments over the next couple of years, BASF is going to be a more volatile and fundamentally less cash-generative company, unless we see a significant improvement in upstream spreads. So my question is whether a less diversified profile is actually consistent with your financial framework for leverage, which is getting up to three times, and a fixed dividend commitment rather than something that's more flexible in terms of a payout that would allow you to take advantage of countercyclical actions in the way that I think your peer Dow has just admitted that they sort of regretted.

So my question is whether you're rethinking the amount of debt that BASF can carry and dividends it can pay in light of losing the cash flow streams that you have in agriculture and coatings.

Dirk Elvermann: First of all, we are not losing all the standalone businesses. Let's just take the example of Agricultural Solutions, where we have announced a partial IPO, which, even after an initial floating, would leave us with the consolidated business in BASF.

Secondly, our management team is fully aware that, with a business profile change, we also have to take decisive actions, with the capital base that we have, with the leveraging profile that we have, with the approach to shareholders, etc.

I think we have given a consistent framework until 2028, also in terms of dividends and share buybacks. We have emphasized that a single A rating has a huge benefit for us, particularly in these times where resilience is so important. You also heard me saying earlier that we will invest proceeds that we are expecting into the robustness and financial health of the company.

So, we are fully aware that the wheel that we are spinning has to be adjusted if the cash flows that we can expect are a little bit lower. On the other hand, we have strong confidence that our core businesses will prosper over the next couple of years. And we've also said that, in the longer term, we are not categorically excluding M&A. So, in the end, all these points are related to one another. But we will make sure that the leverage is not surpassing 3 and going further north. We will also make sure that we stay on a healthy equity ratio.

Markus Kamieth: I would just say, Matthew, that in the real world, with the new look on our portfolio, not as much will change as quickly as Dirk just alluded to. But we are now also looking at the core in more hypothetical terms: How would the core perform if it were a company, etc.

Of course, our ambition is to make sure that the core itself can be strengthened and grown profitably, so that it also earns a premium on its cost of capital. With the size, the scale and the portfolio we have, we're very confident that this is something we can achieve over the next years.

Just to give you a data point: Sometimes in this discussion, it sounds as though the core could become somewhat small or subcritical. Alone, the core businesses of BASF are still the biggest chemical company in the world outside of China. So, we have ample opportunities to strengthen the portfolio, to work on operational excellence and, at the end of the day, to also achieve cost competitiveness, to outperform our markets and use the size, the scale that we still have in the core to be competitive.

So, we're very confident. We hope that we can give you more color on this when we have the Capital Market Update in October because we will be in Antwerp and we will showcase why we are so confident about the core.

1.4 Natural gas contracts

Sebastian Bray (Berenberg): On the natural gas supply agreement signed with Equinor that, I think, covers quite a large portion, if not the majority, of BASF's European demand. Is this a fixed-price or floating-rate contract or a mixture of both? Does it have any impact on the sensitivity of BASF's earnings to a future decline in gas prices?

Dirk Elvermann: We are not disclosing the exact commercial terms that we have. What I can tell you is that it is an agreement that gives us a very high reliability. On the pricing conditions, it is, from our perspective, an excellent agreement, also giving us high planning security and also a competitive edge, which is certainly also due to the high volumes that we are procuring. The 23 terawatt hours is, I think, the biggest volume from one supplier that we have ever secured.

Geoff Haire (UBS): Coming back to the natural gas contracts: I was wondering if Dirk could help us by giving us some idea: If you'd had these contracts in place in 2022, what would have been the savings that you would have generated from having these in place?

Dirk Elvermann: Geoff, as I said, we cannot really comment on the commercial terms in detail. Would I have liked to have the deal in place already in 2022? I think when the CEO of Equinor and I met to sign the deal, we both were of the opinion that earlier would even have been better. But sometimes matters take their time.

We are happy that we have it for 10 years. I am particularly happy that we have it from Norway, which comes with the low product carbon footprint, simply due to the very optimal Norwegian conditions in exploration and production. It is very stable.

Let me just end by saying: It is really just a good deal. Everybody in the industry acknowledges that this was the deal to be made between a big consumer and the biggest supplier from Norway. The terms are satisfying for both sides. I think that's the key message.

1.5 Outlook

Alejandro Vigil (Santander): One question about the outlook of 2025: You have significantly reduced the EBITDA guidance. But the free cash flow isn't changed. So can you bridge this gap between the lower EBITDA and maintaining the free cash flow unchanged?

Dirk Elvermann: Indeed, we are very confident to keep our free cash flow guidance in line. First, as mentioned in the speech already, we will again lower capex. We will save another 200 million euros, I would say, at least in capex for the year 2025. And we have an ongoing focus on working capital management. Together, these two components make us confident that we will reach our free cash flow guidance.

Thomas Wrigglesworth (Morgan Stanley): I just wanted to unpack the assumptions that you've made around the upstream chemicals business for the second half of the year in your new guidance. You cite chemical growth and production at 2.5% to 3% and yet your own upstream business is probably running at negative 0.5% to negative 0.7%. Have you just assumed that conditions from June continue through the second half in this new guidance?

Markus Kamieth: First of all, let me come to the assumptions for chemical growth and also our growth. I will not go into specific growth expectations by segment, but overall, we do not expect a demand increase from what we have seen in the second quarter for our full-year outlook. So, basically from here on out, we expect a rather flattish demand environment. If there is any revival of markets of our customer industries, positive surprises on volumes, this certainly would be an upside.

When you look at the overall world figure, this is, as always, quite an intriguing figure: 2.5% to 3% global chemical growth this year. But if you look into the regional composition, this is solely China. If you take China out, the rest of the world is negative. So, our assumption is that there will be slightly negative chemical market growth outside of China. And you know that, from our regional distribution – and that's true for most Western chemical companies – our market share in China is significantly underrepresented. So, this overall global headline figure always seems a bit too positive. Overall, I would say we're looking at a flat market environment.

Next year then, of course, we will see a significant boost of growth also in China for us, coming from our new capacities that we are putting into operation.

So, overall, I would say we should not be too optimistic about significant growth outside of China for the rest of the year. We are planning for a flat environment. And we continue to show, also in our figures, strong volume growth in China as well.

James Hooper (Bernstein Société Générale Group): You've said on this call that your outlook is predicated on flattish demand. In the case that demand does deteriorate, what actions can you take to protect cash flow and EBITDA guidance? Are there more capex savings that can be taken or further management or acceleration of cost savings?

Dirk Elvermann: We are always on our toes in these times. So, in the event that demand further decreases we will have a sharp look again into our cash and costs. These are the self-help measures that you typically can command. In terms of cash, I already gave an indication saying we are reducing capex by 200 million euros. Could we go even lower? Certainly we could. In terms of cost savings, we are already accelerating by 100 million euros. Is there always a little bit more that you can do? Certainly there is.

In terms of the outlook: Overall, I would say we have now taken a reasonable look and there is a little bit less than half a year to go. So, I'm hopeful that we found the right corridor and that we have the right measures in place.

Markus Kamieth: I can only confirm that we are all on the same page. But we are also not expecting any further significant deterioration. I think there's already a significant, wait-and-see attitude in almost all industries. Apart from certain subsegments of the global economy, everything that has to do with AI, with digitalization, data centers, everything that the data centers need, everything else is rather on a very conservative path. So we don't expect any further deterioration. But of course, as Dirk said, I think you're always looking at additional measures that you can take. But right now, we are – I like that picture – on our toes almost every day.

2 Segments

2.1 Chemicals

– No specific questions –

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Surface Technologies

Christian Faitz (Kepler Cheuvreux): Can you elucidate a bit on the improved volumes? Is this automotive OEM-driven? And how much would you attribute to OEMs in Q2, having tried to produce/ship as much as possible in order to circumvent upcoming tariffs? And what would this mean for Q3 volumes, particularly in automotive?

Markus Kamieth: Overall, as I said in the speech, the automotive market actually grew quite a bit over the last two quarters. I think, year to date, we are up a million cars globally versus last year. It doesn't feel like this when you're in the Western world because this growth is solely coming from Asia, in particular China. Overall, Asia is up 2 million. The rest of the world is down a million cars. That's roughly the picture year to date.

So, there is growth in automotive. And, of course, in all of our automotive-related divisions, we are overproportionally present in China. And when you are in China, you also have volume growth in automotive.

Here, we are benefiting from our strong partnerships with OEMs that are also increasing market share in China. Even in our Environmental Catalysts and Metal Solutions business, we are benefiting from the strong drive towards hybrid models at this point in time.

So, overall, I would say the market is not so unfavorable, but we are still in this environment outperforming this market on a volume basis, especially due to our strong presence of all businesses in China. And we do not see any pronounced tactical supply chain actions by tiers or by OEMs with regards to the tariff situation. So, we do not see any prebuying or offshoring, etc. For us, these are just small and anecdotal stories, but not the business.

Georgina Fraser (Goldman Sachs): Could you please give us a little bit more detail around the CATL battery material supply agreement that you recently announced?

Markus Kamieth: This was announced, a few days ago. CATL is by far the biggest producer of battery cells in the world. I think their market share, if you look at public figures, is about one-third when you look at EV-type batteries, so by far the largest player. We've had a long-term collaboration history with CATL over the past few years. We've also announced plans to look at a value chain collaboration with them. And now we have just agreed on looking at very concrete opportunities to supply CATL with our cathode active materials over the next years, with high-performing materials for their new investments both in China and in Europe. That's just a confirmation of our joint intent to increase the business between BASF and CATL. There is not much else more to say about this.

Sebastian Bray (Berenberg): On the Coatings divestment. Is there any sense from your side on willingness to use bridge financing once an acquisition is announced to finance things like a buyback? Or would this be a case of literally waiting on the proceeds? It's quite a large asset, and I imagine regulatory hurdles are pretty significant.

Do you have any sense of the amount of tax leakage that might be associated with this transaction?

Dirk Elvermann: The idea is not to finance share buybacks via debt. We rather would wait for the proceeds in order to have the money at hand before we think about a distribution to shareholders. So it's rather about accelerating and confirming and wrapping up the deals that we have in the pipeline and then only doing share buybacks once the money is in the bank.

In terms of tax leakage, there is no exact number that I can give you here. But rest assured that the tax departments are on it to make the deal as effective as possible, also post-tax.

2.5 Nutrition & Care

– No specific questions –

2.6 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): With the weather having been rather dry during a good chunk of Q2 in Europe, would you see some channel buildup in this region, i.e., you and your peers having to buy back some of the Q2 volumes sold over the next couple of quarters?

Dirk Elvermann: Indeed, there was an excellent performance by the Ag team in the second quarter. I think we already indicated during the roadshows prior to the quiet period that this business is doing well and that we have a good momentum.

Channel buildup and buying back: I did not get any indication in this direction from the teams. The demand that we are fulfilling appears to be real. This is not only volume, but this is also quality of earnings.

I would like to highlight one thing that we have improved significantly. Last year, we talked about glufosinate-ammonium, where we had to undertake a restructuring measure. The team did a forceful turnaround and came up with an innovation called glufosinate-P-ammonium on an asset-light approach, which significantly contributed to this great result in the second quarter.

So, a higher quality of the business compared to last year due to forceful action. And I do not see a big risk of significant channel inventory.