BASF Conference Call for Analysts and Investors: Full Year 2024

Speech

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The spoken word applies.

Markus Kamieth

Good morning, everyone!

Welcome to our first conference call in 2025.

In a challenging market environment, BASF performed well thanks to the strong performance of our core businesses, where we leveraged our strong market positions to grow EBITDA before special items by 18 percent compared with 2023. Overall, EBITDA before special items of BASF Group increased by 2 percent.

Lower than projected capital expenditures and our continued strict focus on net working capital management led to a free cash flow of around 750 million euros, exceeding our forecast range of 0.1 billion to 0.6 billion euros.

We are also making good progress in terms of portfolio management. The signing of the agreement to sell BASF's decorative paints business to Sherwin-Williams marks an important step in unlocking the value of our standalone businesses.

[Slide 3: Q4 2024: EBITDA before special items above prior-year quarter, supported by strong finish in Agricultural Solutions]

Let's begin with an overview of BASF's performance in Q4 2024.

With 15.9 billion euros, sales matched the level of the prior-year quarter. Volumes of BASF Group excluding precious and base metals increased by 3 percent thanks to the Agricultural Solutions segment in particular. The Chemicals and Industrial Solutions segments also increased volumes in the last quarter of the year. Prices excluding precious and base metals were slightly positive. Overall, prices steadily recovered throughout 2024 compared with the respective quarter of the previous year.

Currency headwinds slightly dampened sales growth and were mainly related to the Brazilian real.

In the fourth quarter of 2024, EBITDA before special items improved by 19 percent and came in at 1.6 billion euros. The considerable increase in earnings was supported by the strong finish in Agricultural Solutions. Fourth quarter earnings were also higher in the Nutrition & Care and Chemicals segments as well as in Other.

[Slide 4: Q4 2024 snapshot: Market development and BASF's performance]

Here is a snapshot of how the markets and our segments' volumes and specific margins developed in the fourth quarter.

In a slightly improved market environment for base chemicals, we achieved solid volume growth in the **Chemicals** segment, mainly on account of the Petrochemicals division. Overall, specific margins in the Chemicals segment declined slightly compared with the prior-year quarter despite higher margins in Intermediates. Both divisions contributed to the slight increase in EBITDA before special items in the segment.

In an overall stable market environment, the **Materials** segment recorded slightly lower volumes in both divisions. In the Monomers division, volumes declined particularly for PA6.6 and PA6, while in the Performance Materials division, volumes decreased mainly in engineering plastics. Specific margins improved in both divisions, with the highest contribution from the MDI value chain. Nonetheless, EBITDA before special items in the Materials segment declined slightly. Higher earnings in the Monomers division could not fully compensate for lower earnings in the Performance Materials division.

The **Industrial Solutions** segment operated in an overall stable market environment and achieved slight volume growth in both divisions. Specific margins declined slightly, most markedly in Performance Chemicals, in particular in plastic additives. The segment’s EBITDA before special items decreased considerably due to lower contributions from both divisions.

The market environment for **Nutrition & Care** remained favorable. Nevertheless, higher volumes in Care Chemicals could not offset lower volumes in Nutrition & Health. Volumes in this division declined mainly due to the production outages in Ludwigshafen as a result of the fire at the isophytol plant at the end of July 2024. Specific margins improved significantly in both divisions. EBITDA before special items of the segment rose considerably compared with the prior-year quarter thanks to higher earnings in the Care Chemicals division.

According to current data, global light vehicle production was stagnant in Q4 2024 compared with the prior-year quarter, and the proportion of ICE vehicles continued to decline. In this environment, the **Surface Technologies** segment recorded lower volumes, particularly in mobile emission catalysts as well as precious metals services. The overall lower volumes in Q4 could not be offset by higher specific margins in both divisions. Therefore, EBITDA before special items declined slightly in the Surface Technologies segment.

Crop commodity prices remained below historical averages, and financing costs were still elevated, resulting in unchanged and challenging farmer economics. Even so, in the final quarter of the year, the market for agricultural solutions showed positive volume momentum in all regions. Margin development differed by region, whereby South America continued to be impacted by competitive pressure paired with negative currency effects. In this environment, the **Agricultural Solutions** segment achieved strong volume growth in all crop protection indications as well as in seeds and traits. The segment was also able to keep specific margins at the level of the prior-year quarter. Overall, EBITDA before special items in the Agricultural Solutions segment increased considerably in Q4.

[Slide 5: FY 2024: BASF’s EBITDA before special items increased due to the strong performance of its core businesses]

Let’s move on to the development of EBITDA before special items in the full year 2024.

As already mentioned, earnings in the core businesses increased by 18 percent. In the Nutrition & Care, Industrial Solutions, Chemicals and Materials segments, EBITDA before special items grew mainly due to higher volumes. Overall, volume growth in the core businesses was 5 percent in 2024 and a remarkable 6 percent in Europe. This is a testament to the strong competitive position of our core businesses in their respective markets. The strong performance of the core businesses more than offset lower contributions from the standalone businesses in the Agricultural Solutions and Surface Technologies segments. Other also recorded lower earnings. Overall, EBITDA before special items of the BASF Group rose slightly.

Let me provide some additional color on the challenges our Surface Technologies and Agricultural Solutions segments are facing.

According to current data, global light vehicle production reached 89.5 million units in 2024, and thus decreased by around 1 percent compared with a strong prior year. In this environment, full-year earnings in the Surface Technologies segment declined on account of the Catalysts division and particularly due to lower contributions from precious metals trading activities. In contrast, the Coatings division was able to improve earnings slightly.

In 2024, the market for crop protection and seed products was characterized by high channel inventories at the distributors, low customer demand and continued destocking in an overall environment of falling prices. Compared with a record prior year, earnings in BASF’s Agricultural Solutions segment declined, mainly on account of the difficult market conditions in the glufosinate-ammonium business. Overall, our Agricultural Solutions segment performed well in a challenging market and competitive environment, finishing the year with a strong fourth quarter and a full-year EBITDA margin before special items of 20 percent.

[Slide 6: Active portfolio management]

As announced at our Capital Markets Day in September 2024, we are becoming more active in portfolio management. With a focus on our standalone businesses, our goal is to unlock value.

The signing of the agreement to sell our decorative paints business to Sherwin-Williams marks a first step in line with our “Winning Ways” strategy. The transaction multiple is at the higher end of previous multiples in the paints and coatings industry and significantly above the trading multiple of BASF. And we are glad to have made such rapid progress in finding a new home for Suvinil.

In the second quarter of 2025, we will approach the market to explore strategic options for our remaining Coatings activities, which include automotive OEM coatings, refinish coatings and surface treatment.

In Agricultural Solutions, we are advancing as announced in September and are currently focusing on executing the legal separation and the implementation of a dedicated ERP system by 2027. In parallel, with the support of financial advisors, our team is beginning to prepare for the IPO readiness, which is also targeted for 2027.

In summary, we are delivering what we outlined with regard to portfolio management.

With that, I hand over to Dirk.

Dirk Elvermann

Thank you, Markus. Good morning, everybody.

[Slide 7: BASF Group FY 2024: Key financial figures]

Let’s now have a look at the financial details of the Group for the full year 2024. EBITDA before special items rose by around 200 million euros thanks to the considerably increased earnings of our core businesses. The adjusted EBITDA margin before special items increased from 12.6 percent to 13.1 percent. In our core businesses, the margin improved by 2 percentage points compared with 2023 and amounted to 13.0 percent in 2024.

EBIT before special items reached 3.9 billion euros, an increase of 3 percent compared with the prior year. Special items in EBIT amounted to minus 1.9 billion euros. I will provide further details in a moment.

Net income came in at 1.3 billion euros compared with 225 million euros in 2023. Net income from shareholdings increased by 798 million euros to 598 million euros, mainly on account of higher earnings contributions from non-integral companies accounted for using the equity method. This was particularly due to a disposal gain of 390 million euros related to the sale of Wintershall Dea assets to Harbour Energy.

Cash flows from operating activities decreased by 1.2 billion euros to 6.9 billion euros in 2024 and were in the forecasted range. We again managed to achieve cash inflows from changes in net working capital in 2024. With a cash inflow of 360 million euros, changes in net working capital were, however, considerably lower than the strong cash inflow of 1.8 billion euros in 2023.

Payments made for property, plant and equipment and intangible assets rose by 803 million euros to 6.2 billion euros, particularly on account of the construction of the Verbund site in South China, which is progressing on time and in budget. Overall, we remained 300 million euros below our original forecast of 6.5 billion euros.

Free cash flow amounted to 748 million euros, exceeding the forecast range of 0.1 billion to 0.6 billion euros.

[Slide 8: BASF Group FY 2024: Special items in EBIT]

As I just mentioned, special items in EBIT amounted to minus 1.9 billion euros and were mainly caused by restructuring costs and impairments.

Restructuring costs were incurred in all segments. They included restructuring in glufosinate-ammonium in the Agricultural Solutions segment and one-time costs for our ongoing efficiency programs. Impairments were focused on battery materials in the Surface Technologies segment. Other charges were mainly related to the class settlement of the multidistrict litigation proceedings related to aqueous film forming foam products in the United States. This settlement was reached in May 2024, and we agreed to it without the acknowledgment of a legal obligation.

[Slide 9: Progress toward 2030 goals for CO_2 emissions]

Now let's turn to BASF Group's CO_2 emissions.

Despite BASF's volume growth, Scope 1 and Scope 2 emissions remained almost stable in 2024 compared with 2023 and amounted to 17.0 million metric tons. This figure is within the forecast range that we published in February 2024.

Our progress toward our 2030 target is being driven by our strong focus on operational excellence measures to increase energy and process efficiency as well as our efforts to increase the share of electricity from renewable sources. In 2024, the proportion of electricity from renewable sources rose to around 26 percent from around 20 percent in 2023.

Specific Scope 3.1 emissions amounted to 1.58 kilograms of CO_2 per kilogram of raw materials purchased compared with 1.67 in 2023. The reduction was mainly achieved by a change in the raw materials portfolio. Furthermore, we sourced first raw materials with lower PCFs from selected suppliers.

[Slide 10: Cash flow development in Q4 2024 supported by cash inflows from net working capital]

In Q4 2024, **cash flows from operating activities** decreased by 806 million euros to 3.5 billion euros, mainly due to lower cash inflows from changes in net working capital. In Q4 2024, changes in net working capital led to a cash inflow of 2.4 billion euros compared with a strong cash inflow of 3.2 billion euros in the prior-year quarter. Given that net working capital cannot be reduced indefinitely, the Q4 2024 figure highlights our strong commitment to growth with high capital efficiency.

Payments made for property, plant and equipment and intangible assets rose by 257 million euros to 2.3 billion euros, particularly on account of the construction of the Verbund site in South China.

Free cash flow amounted to 1.2 billion euros compared with 2.2 billion euros in Q4 2023.

[Slide 11: Strong balance sheet]

Let’s now turn to our balance sheet at the end of December 2024 compared with year-end 2023.

Total assets rose by 3 billion euros and amounted to 80.4 billion euros. The increase in noncurrent assets was mainly driven by additions to property plant and equipment due to our investments in the Verbund site in South China. Current assets declined slightly compared with the end of 2023.

At the end of 2024, **equity** stood at around 37 billion euros. With 45.9 percent, BASF’s equity ratio remained very healthy.

Net debt increased by 2.2 billion euros to 18.8 billion euros at the end of 2024, mainly on account of higher long-term debt.

BASF’s single A credit ratings reflect our strong balance sheet and prudent financial policy.

[Slide 12: We will bring down capex after startup of the Zhanjiang Verbund site]

Let’s shift our focus to capital expenditures between 2025 and 2028.

As announced at our Capital Markets Day, we aim to grow with high capital efficiency by reducing capital expenditures, increasing the utilization of existing assets and optimizing our net working capital.

After the startup of the Zhanjiang Verbund site, which will begin in the second half of 2025, we will bring down capex below the level of depreciation, despite significant cost inflation.

For the BASF Group, we plan capital expenditures of 16.2 billion euros between 2025 and 2028. During this four-year period, around 3 billion euros relate to the new Verbund site in China, of which 2 billion euros will be spent in 2025.

Overall, we plan total capital expenditures in 2025 of 5 billion euros compared with 6 billion euros in 2024. This reduction by 1 billion euros is primarily associated with lower capex for the Zhanjiang site following the peak in 2024.

And let me add that we have sufficient own capacities in our key markets to support volume growth without major new investments going forward.

[Slide 13: We are on track to deliver cost savings of ~€2.1 billion by the end of 2026]

Now let's turn to a short update on the implementation of BASF's cost savings programs. We are well on track to achieve the targeted 2.1 billion euros annual cost savings by the end of 2026.

By the end of 2024, we already achieved a total annual cost reduction run rate of around 1 billion euros, of which around 100 million euros is related to the Ludwigshafen Cost Improvement Program announced in February 2024.

We incurred cumulative one-time costs of approximately 0.9 billion euros related to the implementation of the cost savings programs by year-end 2024. This amount is about half of the total one-time costs we anticipate by the end of 2026. By then, we aim to have concluded all programs and will benefit from the full amount of savings on an annual basis.

By the end of 2025, we expect to have achieved a total cost reduction run rate of around 1.5 billion euros and cumulative one-time costs of around 1.3 billion euros.

With that back to you, Markus.

Markus Kamieth

[Slide 14: We are committed to attractive shareholder distributions]

Ladies and gentlemen,

The Board of BASF SE is fully committed to attractive shareholder distributions via dividends and share buybacks.

As announced in September 2024, we aim to distribute at least 12 billion euros to shareholders from 2025 to 2028. The aggregate dividend payment of at least 8 billion euros in the four-year period will be complemented by share buybacks, which we target from 2027 onward at the latest and which are expected to amount to at least 4 billion euros. BASF’s strong balance sheet and cash flows will support the payment of dividends and the execution of share buybacks.

In line with our previous announcement, we will propose a dividend of 2 euros and 25 cents per share for the business year 2024 to the Annual Shareholders’ Meeting. Based on the year-end share price, this offers an attractive dividend yield of more than 5 percent. In total, we will pay out around 2 billion euros to our shareholders.

[Slide 15: Outlook 2025 for BASF Group]

Now I will move on to the outlook for the BASF Group.

Our 2025 forecast assumes that a moderate rise in goods demand will support the expected GDP and industrial production growth. Challenges such as high geopolitical and trade policy uncertainty will weigh on the confidence of companies and consumers. For the global chemical industry, we anticipate slightly higher growth compared to the expectations for GDP and industrial production.

Based on these assumptions, the BASF Group’s EBITDA before special items is expected to rise to between 8.0 billion and 8.4 billion euros in 2025. All segments are forecast to contribute to the increase in earnings with the exception of Chemicals. Here, EBITDA before special items is expected to decline slightly compared with the prior-year figure, mainly as a result of higher fixed costs associated with the commissioning of the new Verbund site in China and scheduled maintenance shutdowns.

We forecast the BASF Group’s free cash flow to be between 0.4 billion and 0.8 billion euros in 2025. This is based on expected cash flows from operating activities of between 5.6 billion and 6.0 billion euros, minus expected payments made for property, plant and equipment and intangible assets in the amount of 5.2 billion euros. The continued high investment-related cash outflow is mainly due to investments in the new Verbund site in China. Compared with 2024, the outflow is expected to be around 1 billion euros lower.

You will have noted that we have added two columns on our outlook slide to give you more transparency on our earnings power and on the impact of the Zhanjiang startup. As previously indicated, the burden on EBITDA before special items in 2025 is expected to be around 0.4 billion euros. On free cash flow, we expect the burden to be around 0.8 billion euros; this includes the earnings impact as well as the impact on net working capital. In other words, our outlook ranges would be higher by these amounts if you disregard the effect of the Zhanjiang startup.

CO_2 emissions are expected to range between 16.7 and 17.7 million metric tons in 2025. This anticipated increase compared with the previous year is likely to result from higher production volumes based on rising demand. We will continue to implement targeted emission reduction measures and further transition to electricity from renewable sources.

[Slide 16: Priorities for 2025]

Overall, we are approaching 2025 with both humbleness and confidence. As I just outlined, we anticipate limited tailwinds. Most improvements we aim to achieve will need to be driven by our own efforts.

Let me highlight three topics that we will prioritize in 2025.

First: We will advance our portfolio management for the standalone businesses to create value for BASF and our shareholders. We also want to further strengthen our core businesses. To this end, we will address our lower-performing businesses by implementing necessary measures to improve them.

Second: We will continue to advance the construction of our new Verbund site in China and will begin with the startup in the second half of the year. The goal remains to start up most of the plants by the end of the year. We have every confidence that our teams in Zhanjiang will successfully master this task, which is unique in terms of size and complexity.

And third: We will drive forward our restructuring measures to bring down costs in line with current market conditions. The Ludwigshafen site remains a clear focus of these measures. Our aim is that our efficiency measures at least compensate for inflation.

In implementing our “Winning Ways” strategy, our ambition is to combine active portfolio steering, operational discipline on capital and costs with a winning culture to create value for our shareholders.

And now Dirk and I are glad to take your questions.