



We create chemistry

Presentation Materials

Transcript Speech

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[Title slide: Materials]

I will now switch to the Materials segment before we start the Q&A, because some of the elements in Materials are very similar.

[Slide 2: Materials: We are a global leader in high-performance materials and precursors]

In Materials, you have basically two business models: the commodity business, where we need excellence in commodities – lean and mean, cost-driven, efficient structures. That's exactly the same as in Petrochemicals and Intermediates. And the second is Performance Materials. Here, a new element comes into play, and that is innovation. Innovation makes the difference here. Most of the innovation we are doing together with our customers – I will show you impressive examples – is in the area of sustainability.

But let's first have a look at the key differentiators in Materials. In Materials, we are a global leader in high-performance materials and precursors. Sales in 2023 amounted to €14.1 billion, equally distributed between both divisions. You see here the five key customer industries: chemicals and plastics, transportation, construction, consumer goods and industrial. Here we have 12,000 customers – a very, very broad customer base. We have 13,000 products; more products than customers. This shows that we offer customized solutions to our customers in the Performance Materials division.

Here, we also benefit from fully integrated plants in the polyamide and polyurethane value chains that account for 90% of our business in the segment. We have world-scale plants in all parts of the world; that ensures cost advantages. And we have an extremely strong global R&D footprint that enables us to develop new, sustainable, high-performance materials and applications.

[Slide 3: Two business models combine excellence in commodities with distinct high-performance specialties offering]

Here you see our leading cost and market positions. We hold one of the top three market positions in 80% of our strategic business areas. You see here: We are number one in polyamide 6 for extrusion, for instance for food packaging, number one in glues and resins in Europe. We are number one in thermoplastic polyurethanes, in polyurethane systems, in all kinds of engineering plastics, in Cellasto® for the automotive industry. These business areas where we rank number one account for 60% of our portfolio.

[Slide 4: Innovation and excellence in commodities ensure resilience]

Now a recap of our financial performance from 2019 to 2023. I think you can see here how our innovation capabilities and excellence in commodities ensure resilience over the cycle. Of course, it's a cyclical business, but the amplitude is rather small. During this highly volatile period, we achieved a strong performance. Again, during the pandemic years, the reasons were the same as I already explained for the Chemicals segment. We had high durable goods demand.

We had very strong margin management. We had also balanced supply. This changed in 2023 because of destocking and supply normalization.

On average, €2.2 billion EBITDA before special items during this period of time – again, 25% of the total group. 16% EBITDA before special items margin, 63% cash conversion and 10% ROCE. So, clearly the role of the segment is to provide cash and earnings to BASF Group. We delivered this in the past and we will also deliver this in the future.

[Slide 5: We drive profitable growth by building on cost leadership, customer proximity and innovation]

Now, what are our key drivers that enabled us to perform that well in recent years? Here, the number one now is customer-driven innovation. The key is the word “customer-driven.” Most of the innovation we are creating is not so much basic research. It’s application-driven research that we are doing together with our customers at our 12 R&D centers globally, and at four Creation Centers, where we also do design studies and even go beyond conventional application development. I will give you concrete examples of that later.

Here, too, sustainability is a key differentiator. We have developed a very broad portfolio of sustainable products that account for roughly 40% of the segment’s sales. We are continuously going deeper into this with the same approach that I explained to you for Chemicals. Here we benefit, for instance, because our Performance Materials division gets 50% – and even more in Europe – of its raw materials from the Verbund. Everything that has been decarbonized helps us to make our product portfolio even greener and more attractive.

What’s important are also here the best-in-class technologies, cost leadership, excellence in supply chain. As you know, we are also transforming our assets in Europe. I will show you how we reacted to the challenges in Ludwigshafen by taking out capacities in a very focused way.

Going forward, we strongly believe we can accelerate value creation, plus 50% here. So we target an EBITDA before special items increase of €750 million to €850 million by 2028. And now I’ll tell you how we want to get there.

[Slide 6: Our strategic priorities for 2024 – 2028 will drive value creation for BASF Group]

These are our strategic priorities. We continue driving our successful business models in a very differentiated way in the commodities and in the specialty businesses. We drive growth through innovations, mostly in the area of sustainability, with our customers.

Lever number two is not that different from what I explained, for the Chemicals segment, so I don’t have to go into the details. It’s operational excellence, best-in-class technologies, continuous improvement mindset and fixing assets that are not profitable, restoring profitability in Europe.

Then number three: leading the value-based green transformation in line with – and that’s what I want to highlight – market readiness and willingness to pay.

We again have this very flexible approach here. And we want to grow with low capital intensity.

Here we have a big advantage compared to the Chemicals segment. Like the Chemicals segment, we are now in the midst of this major investment wave because of our new Zhanjiang Verbund site. Here we are already one step further. We have been investing in the past and some of these investment projects are coming to an end, so now we have the capacities in place to grow, to grow without massive need for capital. We'll do smart debottlenecking and fill the selected investments that we have made. Here we will reduce capex below depreciation by 2027.

[Slide 7: With our global production network, regional R&D and creation centers, we are close to our customers]

Here you see also the world map and our major sites. You see how close we are to all our customers in the respective regions. Here it's also important: In the upstream plants, the monomers plants, the share of our plants integrated into Verbund structures is 90%.

Already today, Asia Pacific accounts for one-third or 33% of our sales, very strong. Europe is 39%, North America 23%. So, this is absolutely well balanced and in line with the global markets.

[Slide 8: Swift implementation of measures to adjust production structures in Ludwigshafen in view of structural changes in Europe]

The second lever: competitiveness. Here I just picked one slide for Ludwigshafen because back in February 2023 we announced plans to shut down some of our plants at the Ludwigshafen site. Most of these plants were in the Materials segment, in the polyamide value chains, ammonia value chains and TDI. I don't have to repeat that. In August of this year, we added CDon, CPon and we said we would fully shut down adipic acid after a partial closure. All this has been discussed yesterday. I think now is the last line here that is important: To date, we have taken out €150 million in fixed cost, and that helps, of course.

[Slide 9: Customer driven innovation and process development drive profitable growth with sustainable future solutions]

Now the really exciting part in Materials: innovation. Here you see our approach. What makes the difference for BASF compared to many peers is that, typically, you offer a customer product development and process development. That's what you do.

Where we are really leading, where we are superb in many application areas is application development. Our engineers, technicians and chemists sometimes know more about certain applications than our customers. We also help them, for instance if they do injection molding, to simulate how they have to design their machines and do the molding, what temperature profiles they have to apply and how they have to run the extruders. This is a unique kind of service that we are offering with our Ultrasim[®] application support.

We also go one step further. We have the Creation Centers. For instance, we not only provide new materials to make a car seat, but we do design studies: How can we make a car seat thinner, easier to design, saving space without compromising on safety and comfort? That's the kind of know-how that is really appreciated by our customers.

Especially in China, I can tell you, this is a key differentiating factor when it comes to driving innovation with local champions in all kinds of industries, be it automotive, appliances or other technical applications.

What do we spend on R&D to achieve this? Roughly €190 million per year for the entire segment. The lion's share is, of course, for Performance Materials, almost 600 projects. So you see, it's really customized. It's customer by customer, region by region, application by application. You have to do this and that's how you secure a higher margin. You get a premium, you secure and gain market share and you can grow.

You see how all this effort is translated now into the vitality of innovation, as we call it. Our innovation sales, i.e., sales with products that we have launched on the market within the last five years. So they came out of the lab and the design center, and now they are generating sales. This pipeline has increased from €1.7 billion in 2019 to €2.3 billion last year, and we expect €2.8 billion by 2028.

[Slide 10: We shape our portfolio to enable the green transformation of our customers and to capture attractive growth areas]

I'll give you some examples. Because, of course, you also have to be smart when you make your choices. If you run 600 projects in parallel, this is a lot. You cannot go to 2,000. So we pick the application fields where we see the best opportunities for growth and healthy margins. Here you see that in climate protection, new energy & electronics, e-mobility, the sales growth in the application segment sometimes significantly outpaces the underlying sales in the industry: for instance, engineering plastics in electronics and new energy, 15% growth rates.

Looking at e-mobility, yes, there's ups and downs with electric vehicles. We have discussed this comprehensively. But with polyurethane systems, we see a 70% CAGR is possible.

Why is that? There are a lot of challenges with heat management in the battery, it gets very hot. You have to make sure that all this heat gets out of the battery. So you need thermal conductivity adhesives to bring the cells together. And you need potting insulating the individual cells. These are polyurethane applications that we are developing with various OEMs. This is really where we are leading at this point.

All these application areas that you see here on the chart account for roughly one-third of sales in Performance Materials. So it's sizable. It's not niches we are talking about here. This is significant.

[Slide 11: We co-create with global key accounts and local champions in emerging markets]

Two examples of co-creation where we really do innovation that's not in our lab, but we need input from the customer. We need their know-how. And they open up their books. It's a very trusting kind of collaboration that yields better products.

I'm proud to say that we are as successful with this kind of co-creation with global key accounts as with local champions in emerging markets. That's why I've picked two examples.

The left one is with Siemens. In June this year, we published the first example of an electric component that contains biomass-balanced engineering plastics. The circuit breaker here is needed for all kind of electric cabinets in industrial plants and in infrastructure. The beauty of it is that it's based on biomass from residues from the food industry or agricultural waste. This is converted into biomethane via a mass balance approach. We feed this into our Verbund and allocate it to the engineering plastics. In terms of quality and durability, it's exactly the same material as a conventional plastic. There is no downcycling. There is no risk, no need to re-certify the products. And that's why it's a very nice example.

On the right-hand side, you see Haptex[®]. That's a new material invented by BASF. That's a PU system that is now substituting synthetic leather in certain applications. Synthetic leather is mostly PVC. This is processed with high volumes of solvents, such as DMF. DMF is very problematic in terms of its toxicological properties. It's damaging the liver and so on. So, the first challenge is: When you do the processing in the customer's plant, you have to ensure the workers are protected and then you have odor in the final product, and you have VOC emissions. You don't want to have this, for instance, in the interior of a car.

With our Haptex[®], you can get to the same product quality and you have even more design freedom. You get a very sophisticated, more luxurious look and feel compared to conventional synthetic leather. And you do not have to apply any kind of solvent. So this is a sustainability advantage. It's a quality advantage. And it really helps our customers to meet very stringent requirements now in place in China for this kind of manufacturing.

These are two examples where we help our customers, where we enable them to meet the very strict standards they are facing in production, or to achieve their goals in the green transformation.

[Slide 12: Our unique sustainable product portfolio enables growth across a wide range of customer industries]

I could continue for hours and hours, but I will not. I just wanted to make sure you believe me that there are not just two examples or a maximum of three. There are hundreds in insulation, packaging, consumer goods, textiles and automotive.

Let me pick one: Furniture and wood. This is a nice example: A large volume business with the customer Egger, a family-owned company in Austria. They are one of the leaders in wood products for the furniture and construction industry.

They buy wood binder from us. Why do they buy from us? Because we offer this material with a lower product carbon footprint. Competitors from China, from Eastern Europe have a PCF of around 2 or 2.1. So for each metric ton of their wood binder sold, there are 2.1 metric tons of CO₂ emissions. We are offering it with a PCF of 0.7.

We sell this stuff with a price premium. And Egger pays a price premium because they can then offer a product with a reduced Scope 3. They get a reduced Scope 3, and the PCF of their own product also gets lower. The next level would be then, as I mentioned regarding the Verbund, to not only do this via the allocation of green power, but to also use a biomass approach or recycled material, or to apply heat pumps. There is a toolbox that we now have ready in the Verbund system that is very versatile, that translates into a big advantage.

[Slide 13: We benefit from past and current investments and have the production capacities to grow volumes without major investments]

This is the reason why we can reduce capex and go well below the depreciation level in the years to come and can still grow. I'll show you some examples: In Geismar, we have very low specific investment costs for our MDI expansion because it's a brownfield; we benefit from the existing Verbund structures at the site. Here we are ramping up our MDI capacity in steps until Q2 2026.

In Guaratinguetá, we have expanded our sodium methylate plant. Sodium methylate is used for first-generation biodiesel. We are the market leader in sodium methylate, with more than 50% of the market. This is a very attractive business. So we seize this growth opportunity.

Then you also see some examples in Asia. In India, we are expanding engineering plastics stepwise, not such big capex but a lot of additional volume. We also started up a technical development center in Navi Mumbai very recently.

In Zhanjiang, the initial phase of our new Verbund site, as you know, is already on stream. Two plants, one for engineering plastics and one for thermoplastic polyurethanes, are ramping up according to the business plan and it's going very smoothly.

And we have debottlenecking opportunities for MDI in Shanghai and at the Chongqing site that you can see here on the picture. What is this all about? You have basically two types of MDI. You have a polymeric MDI; that is the conventional form that you get when you run a big MDI plant. This is used in appliance and construction applications, as insulation. If you want to go into TPU, into footwear and technical applications, you need to split the polymeric MDI into monomeric MDI and polymeric MDI because you need this mMDI. This is the higher-value product. You get typically a price premium of up to 25% over longer periods of time, over the cycle. Now we are using our existing capacities to add splitting facilities and improve the average margin of our MDI business. That's a very smart and simple approach.

[Slide 14: We are accelerating value creation in Materials]

That brings me to the end of my presentation. Now I want to summarize our priorities again. What are the key levers for our future success? It's the innovation together with customers. Customer intimacy and R&D power are key here. We maintain leading cost positions. We drive a value-based, profitable green transformation, and we grow in attractive markets with low capital intensity. This will give us at midpoint plus 50% EBITDA before special items or, in absolute numbers, €750 million to €850 million.

And with that, we start the Q&A.