BASF
We create chemistry

Analyst Conference Call Q3 2024
Speech
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Markus Kamieth
Chairman of the Board of Executive Directors

Dirk Elvermann
Chief Financial Officer

The spoken word applies.

Markus Kamieth

Good morning, everyone!

Welcome to our Analyst Conference Call. Today, Dirk and I will provide you with details on our business development in the third quarter of 2024. It's roughly one month since we presented BASF's new strategy at our Capital Markets Day. Thanks again to those of you who were able to attend either in person or virtually. Overall, we have the impression that our key messages were understood and well received.

[Slide 3: EBITDA before special items above prior-year quarter, especially driven by higher volumes]

Let's now start with an overview of BASF's performance in Q3 2024.

With 15.7 billion euros, sales matched the level of the prior-year quarter.

Volumes of BASF Group excluding precious and base metals increased by 7 percent. All segments achieved volume growth, with the exception of Surface Technologies. Here, volumes in the Catalysts division declined, while the Coatings division recorded higher volumes.

Prices were slightly positive, excluding precious and base metals. The pressure on sales prices thus continued to ease.

Currency headwinds dampened sales growth by 3 percent. Negative currency effects were mainly related to the Argentine peso and the Brazilian real.

EBITDA before special items improved by 5 percent and came in at 1.6 billion euros. The positive earnings momentum in our core businesses, which was already visible in the first half of 2024, continued in the third quarter, driven by higher volumes and margins.

Considerably higher earnings in BASF’s core businesses more than offset lower contributions from the standalone businesses in Q3 2024.

[Slide 4: Snapshot Q3 2024: Market development and BASF’s performance]

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

In a slightly improving market environment for base chemicals, we achieved strong volume growth in the **Chemicals** segment. The Petrochemicals division increased specific margins, while margins in the Intermediates division remained stable. EBITDA before special items in the Chemicals segment increased considerably compared with the prior-year quarter.

In an overall stable market environment, the **Materials** segment benefited from slightly higher volumes, particularly in the MDI, propylene oxide and ammonia value chains. The considerable increase in specific margins was largely driven by a few product lines in the Monomers division and led to a significant increase in the segment’s EBITDA before special items.

Industrial Solutions operated in an overall stable market environment. Both divisions achieved significant volume growth and improved specific margins slightly. In particular, this was driven by our businesses with the fuel and lubricants, coatings and semiconductor industries. EBITDA before special items rose considerably.

The market environment for **Nutrition & Care** remained favorable. The segment increased volumes thanks to the Care Chemicals division, which recorded higher sales to both the home and personal care markets. Specific margins improved strongly in both divisions, and EBITDA before special items of the segment increased considerably compared with the prior-year quarter.

Global automotive production declined by more than 5 percent in Q3 2024 compared with the prior-year quarter. In this environment, volumes in the **Surface Technologies** segment declined due to lower volumes in the Catalysts division, while Coatings still recorded volume growth. The overall lower volumes could not be offset by higher specific margins in both divisions. Therefore, EBITDA before special items declined in the Surface Technologies segment.

The market for agricultural solutions showed a heterogeneous picture in Q3 2024. On the one hand, low crop commodity prices and elevated financing costs impacted farmers' income and buying behavior. On the other hand, lower channel inventories in Europe and North America were supportive. In this environment, the **Agricultural Solutions** segment achieved strong volume growth, particularly in fungicides, seeds and traits as well as insecticides. However, considerably lower specific margins, partially due to lower prices especially in South America, and a positive one-time effect in the prior-year quarter from an insurance payment led to a decline in EBITDA before special items.

[Slide 5: Global light vehicle production remains under pressure]

In view of the earnings decline in BASF's Surface Technologies segment, let me provide some additional color on the current challenges that the automotive industry is facing.

At the beginning of the year, we had assumed that global light vehicle production would be stable or decline slightly. After a weaker than expected third quarter for global light vehicle production, we have revised our assumptions for 2024 and now anticipate a global decline of up to 2.5 percent on account of lower production in Western Europe and in North America. Production figures for heavy duty vehicles in 2024 will likely recede by around 2 percent in 2024.

Light vehicle production in Western Europe benefited from pent-up demand in 2023, which was supported by the backlog in orders and the replenishment of inventories. These one-off effects have now faded.

In North America, the automotive industry is burdened by a lack of demand and rising inventories. The industry is postponing and canceling new models.

Despite trade-in subsidies, domestic demand in China is weak, and the market for combustion engines is declining. However, Chinese exports continue to increase, and China is therefore likely to see a slight growth in automotive production in 2024.

Overall, the current momentum points towards a more challenging outlook for automotive production in Q4 2024.

[Slide 6: EBITDA before special items increased compared with Q3 2023 due to considerably higher earnings contributions of core businesses]

The factors I have described led to the following developments in EBITDA before special items compared with the prior-year quarter.

Earnings in the core businesses – Chemicals, Materials, Industrial Solutions and Nutrition & Care – increased strongly and more than offset considerably lower contributions from the standalone businesses in the Surface Technologies and Agricultural Solutions segments. Other also recorded lower earnings. Overall, EBITDA before special items increased by 77 million euros.

[Slide 7: Swift adjustment of production structures in Ludwigshafen supported EBITDA before special items growth in Materials segment]

I would now like to highlight the structural measures in Materials that contributed to the growth in EBITDA before special items in this segment.

In February 2023, we announced several measures to adjust the production structures at the Ludwigshafen site to improve competitiveness and restore profitability. These measures were primarily related to the Monomers division and contribute to our cost savings programs for BASF Group.

As shown on the slide, the structural adjustments are related to the polyamide and ammonia value chains as well as TDI. Thanks to the decisive measures, we are already at a run rate of around 150 million euros for fixed cost savings in the Monomers division. Related one-time costs since the start of implementation amount to around 160 million euros as of September 30, 2024.

We will continue to swiftly implement the outstanding measures, which include the full closure of the adipic acid plant and the shutdown of the production plant for cyclododecanone and cyclopentanone that we announced in August 2024. This latter plant is part of the Intermediates division.

In all of our divisions, reviewing the competitiveness of our production assets is a continuous process and not a one-time activity. This is the basis for implementing measures to improve competitiveness or, in certain cases, deciding to shut down plants.

With that, I hand over to Dirk.

Dirk Elvermann

Thank you, Markus. Good morning, everybody.

[Slide 8: BASF Group Q3 2024: Key financial figures]

Let’s now have a look at further financial details of the Group for the third quarter of 2024. EBITDA before special items increased by 5 percent thanks to the considerably improved earnings of our core businesses.

Overall, the EBITDA margin before special items increased from 9.8 percent to 10.3 percent. The EBITDA margin before special items in our core businesses improved by 3.6 percentage points compared with the prior-year-quarter.

EBIT before special items amounted to 635 million euros, an increase of 59 million euros or 10 percent compared with the prior-year quarter. Special items amounted to minus 385 million euros, more than half of which was related to the Agricultural Solutions segment. This is primarily due to the planned closure of the glufosinate-ammonium production and formulation facilities in Knapsack and Frankfurt, which we announced in July 2024. The remaining special charges were mainly related to Group-wide restructuring measures, particularly in connection with the ongoing cost savings programs.

Net income came in at 287 million euros compared with minus 249 million euros in Q3 2023. In the prior-year quarter, a lower earnings contribution from non-integral companies accounted for using the equity method had negatively impacted net income. This contribution included special charges for impairments and restructuring measures at Wintershall Dea. In Q3 2024, earnings were supported by the disposal gain of 398 million euros resulting from the transfer of Wintershall Dea assets to Harbour Energy.

[Slide 9: Cash flow development in Q3 2024 and Q1–Q3 2024]

In Q3 2024, **cash flows from operating activities** decreased by 633 million euros to 2.1 billion euros, mainly due to lower cash inflows from changes in net working capital. During this quarter, changes in net working capital led to a cash inflow of 487 million euros, a decrease from the strong cash inflow of 1.4 billion euros in Q3 2023.

Payments made for property, plant and equipment and intangible assets rose by 262 million euros to 1.5 billion euros, particularly on account of the construction of the Verbund site in South China, which is progressing on time and in budget.

Free cash flow amounted to 569 million euros compared with 1.5 billion euros in Q3 2023.

[Slide 10: Strong balance sheet]

Let's now turn to our balance sheet at the end of September 2024 compared with the end of September 2023.

Total assets decreased by 3.2 billion euros and amounted to 79.4 billion euros.

Noncurrent assets decreased slightly by 0.5 billion euros. There were additions to property, plant and equipment, due largely to our investments in the Verbund site in South China; furthermore, financial assets increased due to our investments in the wind park projects Nordlicht 1 and 2. These developments were more than offset, among other things, by lower intangible assets and lower non-integral investments accounted for using the equity method due to the transfer of Wintershall Dea assets to Harbour Energy at the beginning of September 2024.

Current assets declined by 2.7 billion euros to 31.7 billion euros, mainly due to the strong reduction in working capital.

Net debt increased slightly to 19.7 billion euros at the end of September 2024 compared with 18.9 billion euros at the end of September 2023.

With 45.4 percent, our **equity ratio** at the end of September 2024 remained solid. BASF’s good credit ratings reflect our strong balance sheet and prudent financial policy.

[Slide 11: We are on track to deliver targeted ~€2.1 billion total cost savings by the end of 2026]

Moving on to a short update on the implementation of BASF’s cost savings programs. We are on track to achieve the targeted 2.1 billion euros annual cost savings by the end of 2026.

The implementation of the cost savings programs announced in February 2023 is in full swing. As of the end of September 2024, we already achieved a cost reduction run rate of around 800 million euros, which is associated with one-time costs of around 500 million euros. By the end of this year, we now expect a cost reduction run rate of more than 800 million euros. The associated one-time costs are expected to amount to around 550 million euros.

We are also moving forward as planned with the additional cost savings program focused on improving our competitiveness in Ludwigshafen. In October, the units at the site were informed about the contributions they are expected to deliver by the end of 2026.

[Slide 12: New publication date for audited BASF Report 2024 due to extended sustainability reporting requirements]

Before I hand back to Markus, I would like to briefly outline changes regarding the publication of BASF’s Annual Report.

Due to the extended sustainability reporting requirements resulting from the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards, we will have two publication dates in the future.

On February 28, 2025, BASF will publish its unaudited full-year results for the business year 2024 via an online report in combination with an investor and news release. These documents will contain all important financial and non-financial figures for 2024 as well as the outlook for 2025 and will form the basis for our Analyst and Press Conferences on that day.

The audited BASF Report 2024 will be published on March 21, 2025. This integrated report will contain all legally required financial and ESG information. The report will be provided in the form of an online report and as a clickable PDF; a print version will no longer be produced.

With that back to you, Markus.

Markus Kamieth

In addition to the changes in our reporting that Dirk just outlined, I would like to provide you with some information on BASF’s Annual Shareholders’ Meeting. Next year’s Annual Shareholders’ Meeting is scheduled for May 2, 2025, and will be held as a virtual meeting. We held two in-person Annual Shareholders’ Meetings at the Congress Center Rosengarten in Mannheim since the end of the pandemic. And now, for the first time, we would like to hold an entirely virtual Annual Shareholders’ Meeting in accordance with the legal requirements that have been in force in Germany since July 2022. This has been decided by the Board of Executive Directors in alignment with the Supervisory Board. Other DAX companies have had good experiences with this format, and we would like to try out what works best for us.

[Slide 13: Outlook 2024 for BASF Group]

Let’s now turn to the outlook.

We are maintaining the outlook for 2024 as published in the BASF Report 2023 at the end of February. Based on current information, we expect to reach the low end of the EBITDA before special items forecast range for the full year 2024.

Generally, the fourth quarter is more difficult to predict. However, due to the positive momentum in our core businesses in Q3 2024, we remain confident despite the continued challenging economic environment and the more tactical buying behavior of customers towards year-end.

Compared to our expectations at the beginning of the year, the business development in the automotive industry and the agricultural sector is weaker. This will continue to negatively impact our earnings development in the Surface Technologies and the Agricultural Solutions segments in the coming months. In Ag, we have also been facing significant FX headwinds, which will impact Q4 as well, particularly burdening our margins in Brazil and Argentina.

Furthermore, as mentioned during the Capital Markets Day, we expect the force majeure in our Nutrition & Health division to impact EBITDA before special items by a low triple-digit million-euro amount in the second half of 2024. The impact in Q3 was not yet pronounced, but we expect a bigger impact in Q4 that will likely sum up to the indicated order of magnitude.

As always, we will provide our outlook for 2025 at the end of February. This will also not be an easy year to predict, but by then, at least the U.S. elections will be behind us.

What is certain is that we at BASF will execute our Winning Ways strategy with a clear focus on value creation and by taking a new direction on portfolio steering, capital allocation and performance culture.

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