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Transcript Q&A
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1 BASF Group

1.1 Market environment

Christian Faitz (Kepler Cheuvreux): I guess all of us are fully aware that the current business environment is pretty bad, to say the least. Can you share with us some thoughts on current order income, with October being the last really relevant month for the year? Will some major automotive OEM producers canceling their production on the back of the new chip crisis have an impact, particularly on your emission control business?

Markus Kamieth: We currently do not see any major changes in the macroeconomic environment, and that also relates to the dynamics going into Q4. As we said in our speech, almost all verticals, everything outside of, let's say, semiconductors, AI, data centers and so forth, in other words everything else in the industrial sectors that we typically serve, are rather slow and moving sideways. We see no real negative or positive development right now. And that is also reflected in the momentum we take into Q4.

As we also said in the speech, the only exception on the volume side is China right now. China is growing quite strongly. Overall macro, the chemical market in China is growing healthily. With 12% volume growth in Q3, we have also seen a good volume momentum in China. That also relates, for example, to the automotive industry.

Your second question on automotive OEM, shutdowns: There is, of course, now for a few weeks, I would say, high nervousness again in the OEM landscape, particularly here in Europe. We have not seen any adverse impact, and we're not expecting any major impacts from this.

Please remember that in all of our automotive-related businesses our source of strength right now and our source of growth is mainly our significant market share in China.

Tony Jones (Rothschild & Co Redburn): Referring to the well-known oversupply of chemicals and materials, particularly China. How do you see this developing by region over the next year or so? So, for China, do you think there are still going to be net capacity additions or will it slow? In Europe, capacity closures seem to have paused. What do you think is happening with that? In North America, do you see any need for further capacity? And if there is, would you participate?

Markus Kamieth: Generally, I would say, the oversupply situation is not changing quarter by quarter. We can only repeat what we have said over the last two or three quarters. The situation remains unchanged. In China, we have significant overcapacity in most chemical categories. I would say, upstream a little bit stronger than downstream, but for sure everything is quite well available in China. However, we are already seeing a slowdown of investment in capacity, and we still see significant domestic demand growth.

So, overall, we continue to stay in our model that we expect a rebalancing of capacities over the next years, and that certainly will also be supported by the Chinese government in what they call supply-side reforms – to what extent we will have to see. Overall, this is a slow-moving system, but it will equilibrate to some extent. That's at least our model as of today.

In Europe, I do not necessarily share your view that the capacity adjustments have stopped because I think there is an ongoing stream of announcements. I also expect that over the next years continued capacity rationalizations are going to be observed in Europe. Just be reminded that from announcement to actually closing and shutting down a plant or a site, two or three years can sometimes be necessary.

So, overall, we expect this to continue because we expect that quite a number of chemical assets in Europe are currently operating at unsustainable profit levels.

The situation in North America is that we expect the North American market to have modest growth also going forward. For chemical products, it is a reasonably mid-term growing market, so capacity additions will certainly be needed in certain products. But we have no major plans now for big capacity additions in North America because also here we're well invested. We have competitive assets all over the country. With our latest investment project – the MDI expansion in Geismar – I think we have done the most attractive step for BASF right now. So, also in the US for the foreseeable future, we expect a positive development in supply/demand overall, and we don't have any major investments planned for the next couple of years.

Georgina Fraser (Goldman Sachs): If I take your answer on the overcapacity situation, it sounds like it will be resolved by a growth of demand in China and capacity rationalization in Europe. Given you've already announced a lot of your own capacity rationalization, could you talk about which value chains you think are most likely to see meaningful consolidation that BASF would be able to benefit from on the other side?

Markus Kamieth: It's hard to pick and pinpoint certain value chains, but if you look at capacity rationalization in Europe in particular, you're surely looking at energy-intensive products or energy-intensive value chains where the asset base is often also subscale compared to how things are produced in other areas.

That addresses two of the sources of uncompetitiveness: number one, the relatively high raw material costs, especially natural gas and other feedstocks in Europe compared to other regions. And second, the age and certainly the capacity of some of these assets compared to offshore assets that we have.

So I would say, in the area of high raw material and energy-intensive production upstream, this is certainly the hotspot of where restructuring efforts will be. If you look at the announcements of the last 12 to 18 months, a lot of that has circled around upstream assets – cracker, cracker plus one – especially in non-integrated setups often lacking an integrated value chain. So that's certainly the area where I would expect most.

If you look at BASF, as we also discussed at our Capital Market Update, this is not a setup we are often operating in Europe because we have, at least on the commodity side, highly integrated structures in Antwerp and Ludwigshafen, where we have a significant value-add beyond the cracker and the cracker plus one step.

I don't say that our assets are necessarily totally shielded from this, but we for sure have a higher resilience compared to other companies when it comes to running these assets because we provide significant value-add downstream. If you look at the chemical industry overall, that is not the case for many of the more isolated and non-integrated assets.

Geoff Haire (UBS): I want to ask a slightly longer-term question. Given the volume environment we've had now for the best part of three years in terms of very lackluster volume, are you concerned that the industry is going to start chasing volumes, particularly in more downstream products? You've obviously seen big price declines in upstream. But what is your fear that that moves into the downstream area, and we start to see effectively a price war for volume?

Markus Kamieth: Actually, I'm not scared, but I'm conscious that this is already happening. If you look at the commentary of more singular downstream competitors, more in the specialty area, they all will tell you that margins are compressed compared to what we've seen in the past. There's a race for competitiveness. And with this, further competition on who has the best asset setup is also happening downstream.

This is why we also highlighted at the Capital Market Update that some of our downstream divisions need restructuring because, in general, the chemical industry is getting more competitive. That's true upstream, and it's also true downstream.

I would say in general: Downstream, of course, pricing cycles are much slower. There's also a lot of pricing and value components that go beyond the physical product. There is application know-how and there are innovation opportunities. So there is not a direct correlation between what's going on upstream in commodity areas and what's happening in downstream business solution-type areas.

There is certainly a trend that most of the businesses in the chemical industry are becoming more competitive because the number of competitors is increasing and capabilities are commoditizing. But that is also part of our outlook for the industry. That's part of our strategy because we bank on all of our businesses, especially also in the core, being on top of the pile when it comes to competitiveness and innovation capabilities.

So, we're not afraid of this, but it's a trend that has certainly been materializing over the last 10 years, I would say.

1.2 Modeling assumptions

Tony Jones (Rothschild & Co Redburn): On currency and impact for EBITDA: For this quarter, my simple math got me to about a 90 to100 million euros negative impact on EBITDA. Firstly, is that in the right sort of region? And then secondly, what is now the dollar/euro sensitivity? Could you give us an indication for the core businesses?

Dirk Elvermann: Regarding FX impact on the earnings side in the third quarter, your assumption is right. It was closer to a 90 million euros than a 100 million euros negative impact. And regarding the sensitivity, a mid-double-digit euro per U.S. dollar cent change. So roughly 50 million euros per U.S. cent change.

James Hooper (Bernstein Société Générale Group): On Slide 6, looking at next year, the negative ramp-up cost bar seems slightly larger than the blue positive one. Should we be reading this that Zhanjiang will still be a negative contributor in 2026? Or do you have levers to potentially reduce losses here?

Markus Kamieth: We already discussed this at the Capital Market Update in Antwerp. With the ramp-up being late in 2025, we will still have significant startup efforts in 2026 because you can imagine that ramping up a steam cracker plus 20+ downstream plants is not happening within a couple of weeks. Together with a currently challenging margin picture, which could also change significantly within a few quarters, it's now very difficult to predict an accurate number for 2026 with all these moving parts. We will try to do our best in giving you this as part of our outlook in February.

But we have indicated this because there is a likelihood that this number will be negative next year, and there's also a likelihood that it could be positive next year. This is the most honest and most transparent indication we can give you right now.

That's basically also our state of knowledge. Right now, we're compiling all the numbers for 2026, but we are expecting this to hover around zero – slightly positive to negative. That's why we depicted it this way.

Sebastian Bray (Berenberg): If we are looking at available proceeds, let's say, the German government insurance program pays out, the company has got more than it expected probably a year and a half ago for Coatings: Is 4 billion euros a firm number for buybacks by 2028? Or is it a number that offers some upside if cash proceeds continue to roll in?

Dirk Elvermann: You are right, we have announced a 4 billion euro share buyback program. At the same time, we are now accelerating a substantial part of this program, which I think is a good sign of strength of the company. This is it for the time being. I'm not excluding anything, but I'm also not changing anything. It's 4 billion euros until 2028. And we always said that this is the minimum.

But let me also very clearly say that, apart from share buybacks, the company has a job to do, next year particularly, to deleverage the debt. There's a good opportunity to do that next year because in 2026 we will have maturities of a little bit more than 2.5 billion euros. It will be also a priority for the use of funds that we will significantly deleverage the company in 2026, alongside the share buyback program that we have announced.

1.3 Outlook

Tom Wrigglesworth (Morgan Stanley): Can you help us understand the moving parts, excluding EBITDA changes in 2026, that you expect to be influencing free cash flow? So the capex level and how that might drop, obviously the sale of Coatings, what free cash flow net loss there will be from the divestiture of that.

Obviously, the working capital buildup has been substantial this year in the China Verbund. How should we be thinking about that? Clearly, with the sale of Coatings, people are questioning the free cash flow generation of the business. So we're just trying to get a picture, post the divestiture, what that looks like.

Dirk Elvermann: In terms of free cash flow: Indeed, we can keep our outlook here for the full year. Markus already mentioned that we are significantly below in capex numbers, both from the investment in China, but also beyond. We are now calculating as a company with a capex for the year of roundabout 4.5 billion euros, a little bit more maybe. This will significantly alleviate the pressure on free cash flow.

Apart from that, all the businesses are super focused on working capital management for the last quarter of the year. As you know, this is the cash collection quarter for BASF. Everybody is also super focused on inventory levels.

With regard to the free cash profile of the Coatings business, I would say: So far, it is still part of the Group's cash flow as I outlined in the speech. Going forward, we will then also show this data differently. But you can be assured that the underlying cash flow will be sufficient to cater for our capital allocation ambitions for everything that we want to achieve strategically.

Laurent Favre (Exane BNP Paribas): I know that last year you kept the guidance. Markus, you mentioned that you had a fighting chance of getting there. I'm wondering whether it's something similar this year, i.e., if we had a normal seasonality into Q4, you would feel confident with the guidance? Or is there something else that gives you that confidence to reach at least the lower point, if not more?

Markus Kamieth: As I said, we are expecting Q4 to stay more or less similar to Q3 in dynamics, plus the normal seasonality that we have in our businesses. So in Ag, of course, an uptick in activity, in some of our more seasonal businesses that are, for example, construction-related, a certain downside, and we expect normal year-end behavior of customers. So these are our expectations. Based on this, we feel comfortable with our range.

But we all know that the volatility in the world right now is very high. News can change this every day, positively and negatively. We know that the U.S. President and the Chinese President are meeting this week. Who knows what's going to happen.

So, we are basing our guidance on a rather stable outlook compared to Q3. This is also what all our customers are telling us is going to happen in Q4. So, we feel this is a robust outlook, but we certainly cannot exclude any surprises in either direction.

2 Segments

2.1 Chemicals

– No specific questions –

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Nutrition & Care

Georgina Fraser (Goldman Sachs): I was a bit surprised to see the negative volumes, but prices up in the segment. We also saw margins deteriorate a lot. Could you explain a little bit more of what's going on there because it's an unusual dynamic?

Dirk Elvermann: I'd say the entire segment, including Care Chemicals, has an EBITDA significantly below the previous year's quarter. That is mainly driven by lower contribution margins. And this is mainly on account of high price margin pressure, but also lower volumes. You see that in many areas. It's hard to pick an example here, but you could take, for instance, lower UV filter volumes. You see here and there higher price developments. But this is not a margin expansion widely, but rather on the back of higher raw material costs versus the prior-year quarter.

Finally, for Q4, for the outlook, I would not expect a fundamental change in the market dynamics for the rest of the year. There are only two months still ahead of us, so I would assume that the current trend is also following us for the rest of the year.

James Hooper (Bernstein Société Générale Group): Can you provide a little bit more color on the Care Chemicals and the Asian competition margins and whether that's imports, exports or any reason specifically? How do you expect capacity situations in those markets to change? Can you provide some updates on the dynamics of the vitamin markets and your production ramp up?

Dirk Elvermann: There is nothing particular to be said about China, but maybe on the volume picture: As we already indicated, volumes decreased in both divisions. With regard to vitamins, there was also a decrease here compared to higher than expected inventory sell-offs in the previous year's quarter.

I would say, the position and outlook for Nutrition & Care are very much in line with the other Chemicals divisions. We expect high uncertainty for the fourth quarter. We expect ongoing weak demand and ongoing price margin pressure to persist globally. Therefore, also in Nutrition & Care we are very much concentrating on our self-help measures, which for the Nutrition part is certainly our efficiency program, plus the further ramp-up of our vitamin production. In the Care Chemicals division, we also have an efficiency program running. So, this is currently the main focus for us and also for the rest of the year.

2.5 Surface Technologies

Tom Wrigglesworth (Morgan Stanley): On the bridge that you provide on Slide 5 in Surface Technologies, the 179 million euro year-on-year improvement in EBITDA: Could you just break out some of the components of that, specifically this comment you've made around gaining subsidies and grants in the US? I guess we're keen to know what's an underlying improvement in this business versus what's a kind of one-time factor.

Dirk Elvermann: EBITDA for ECMS was significantly up. This was due to significantly lower fixed costs, as you rightly pointed out, but was also on the back of a strong precious metal trading business and volume growth. So it's a multiple-component effect that we have here.

The lower fixed costs, apart from the efficiency measures taken by the business, are indeed also due to grants in the US, as we have clearly stated. In the third quarter we are seeing a cumulative effect not only from 2025, but also from the years 2023 and 2024. Going forward, there will also be a positive effect. You might think about this effect, on a net basis, as a low-double-digit million-euro amount per year that the business is benefiting from.

Chetan Udeshi (J.P. Morgan Cazenove): I just wanted to discuss Surface Technologies. Maybe in hindsight, we should have seen some of this metal trading benefit come through because a few of your peers have also indicated the same. It would be useful to just remind us: How is your business in terms of PGM different from that of Umicore or Johnson Matthey? I think you have a much bigger trading operation, rather than refining and recycling. I think, in a nutshell, the question is: Are you much more exposed to the trading volumes rather than the pricing? In that context, is the trading volume uplift that you saw in Q3 more a one-off? Or is that something that you think can sustain if the prices remain high?

The second question is going back to the government grants. You said it's about a low-double-digit million euro per annum benefit that you expect going forward. But because in Q3 you've seen the benefit which has been accumulated, it's the benefit of a number of years. Are we talking about the benefit in Q3 specifically more closer to 100 million euros then? I am just curious in terms of the magnitude in Q3 from that contribution.

Markus Kamieth: Dirk has given you already quite an indication here, I would say. Please also understand that the government grants are also linked to the specific business model that we run and which is slightly different from what our competitors do. So we would not like to disclose more. Dirk has said, and let me repeat this, that this was a cumulative effect over roughly three years. On an ongoing basis, we expect a low-double-digit million-euro range. I think you can do the math and get into the right ballpark here.

With respect to the difference to our competitors: Also here, I would not like to go too much into detail. I do not think that we have a fundamentally different setup and business model. Of course, the size, especially of recycling operations, is different, especially since both competitors have a significantly larger scope in terms of metal recycling. They recycle more metals than just PGM. We are focused very much on PGM. However, we have, of course, a leading position in the recycling of actual emission catalysts. So, we have a much more integrated loop, if you want, on this side.

On the relative size of the trading business: I don’t actually know this by heart, but I would say this also always depends a bit on the market conditions. So, this is also not something that’s carved in stone.

I’m not sure that this is a very helpful answer for you. But I would also not like to give more details. I think if you follow our competitors as well, you will be able to do the read across.

Laurent Favre (Exane BNP Paribas): I would just like to understand whether the improvements on the trading side in ECMS are mostly linked to realized gains. Or is there also a component of inventory mark-to-market? I guess this is more of an accounting question. I’m wondering whether therefore we can assume that if everything stays the same, there might be a further improvement into Q4.

Dirk Elvermann: This is a real trading result. There are also some valuation effects which are, as you know, largely hedged anyway. So this is a decent trading result that we are talking about.

Laurent Favre (Exane BNP Paribas): As a follow-up: We now have disclosures for the last two and a half years. So we can see ECMS, I guess, the wider Surface Tech division printing EBITDA between 70 and 170 million euros and a big step up in Q3. If you look at the last two and a half years, in those six quarters prior to Q3, was there any abnormally low result from trading? Or were all those quarters roughly normal and it’s just that Q3 is so good this year?

Dirk Elvermann: Not that I’m aware of, Laurent.

2.6 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): You cite adverse weather conditions impacting European sales in Q3. Can you please elucidate what happened there? Was this largely an inventory effect, i.e., BASF Agricultural Solutions buying back inventory from Q2 adverse weather conditions?

Dirk Elvermann: There were extremely dry weather conditions in part of Western Europe that were also impacting us. But I would say, overall, the third quarter is a seasonally low quarter for Ag. The results came in more or less as we expected. Going forward for the end of the year, I believe that the Agricultural Solutions business will at least hit the forecast for the segment or maybe do a little bit better.

Sebastian Bray (Berenberg): How is the company thinking about the pricing moving into 2026? Because some of this was starting to slip in Q3. I appreciate there's a danger of reading too much into one quarter, but I'm curious about the view on this.

Dirk Elvermann: The Ag business and the agricultural industry altogether is still suffering from low and soft commodity prices. There is, as you know, also uncertainty among farmers, particularly in the Northern hemisphere, with regard to purchasing power. So this is the more critical part.

On the other hand, I would say we have healthy channel inventories. So substantially, we see demand for our products. This is also why we are optimistic for the rest of the year that the Ag Solutions segment will deliver on its plans.

Going forward, we see the business in a really good competitive position because we took a lot of measures last year, for example, the glufosinate ammonium restructuring, which is now paying off. So I would say that we feel good about the business, also going into next year, despite the low price levels that we are currently still seeing. It would certainly be helpful if the soft commodity cycle gains momentum to the upside.

Sebastian Bray (Berenberg): A secondary question on the terminology that BASF uses for describing its ambitions to IPO the business? Why does the company always use the term "partial IPO" rather than, let's say, "full IPO"? Is the ambition to remain indefinitely a long-term shareholder in this business or to divest completely eventually?

Dirk Elvermann: With regard to the partial IPO, we are saying it's a partial IPO because we have no intention to launch 100% of the shares at the inception. We used the term "partial IPO" to indicate that this business, also beyond the IPO event, will be a business that is consolidated into our Group financials. And it's a business that we also like.

We have not yet set any definitive portion of shares that we are going to IPO. We will do so at the right moment in time. And then, what happens over time remains to be seen. But clearly, at inception, it will be a partial IPO. This is what we are clearly saying.