Presentation Nutrition & Care

Transcript Speech

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[Title slide: Nutrition & Care]

So let's dive right into Nutrition & Care, which provides a lot of ingredients and innovative products which are dedicated to improving the quality of life.

[Slide 2: Nutrition & Care: Leading provider of essential ingredients and innovative products dedicated towards improving the quality of life]

The segment has about €7 billion in sales. The Care Chemicals division is more than twice as large as the Nutrition & Health division. This used to be one division, called Fine Chemicals. After the acquisitions of Ciba and Cognis, we decided to split it into two separate divisions where Nutrition & Health serves the animal nutrition and human nutrition market, the aroma chemicals market and a pharmaceutical segment. Care Chemicals is then dedicated to personal care, home care and I&I, and industrial formulators.

If you were to sum up in a nutshell what this segment is all about, it's world-scale assets which are deeply embedded in our Verbund; it's cost leadership and cutting-edge technology as well as innovation. And it also provides us with great opportunities when it comes to fulfilling the sustainability claims of our end-use customers.

[Slide 3: Nutrition & Care will keep its leading market segment positions]

Here we provide you, for the first time, with a bit deeper insight into the sales of this particular segment or each business, because we normally don't provide the sales numbers here.

On the nutrition side – animal and human nutrition – we have about €1 billion in sales. Here we are market leader in vitamin A, and we are also well-positioned in vitamin E.

In aroma chemicals, we are clearly market leader with our citral value chain and our menthol business.

In the pharmaceutical business, we are number one in omega-3 fatty acids. And we are number two in polyvinylpyrrolidone, which is an excipient tablet binder that is needed to deliver the active ingredient in the human body.

Then in the Care Chemicals division, we have the personal care business, where we are market leader in the personal care industry. You probably know a lot of our products, such as UV absorbers in sunscreens that you buy in the summer.

Then we are also number one in home care and I&I. And we use the expertise in these two businesses to also be a strong player in industrial formulators, where we provide, for example, surfactants to the ag industry. These are used in their formulations to bring some of the active ingredients onto the fields.

[Slide 4: Verbund integration ensures competitive cost and sustainability advantages as well as feedstock and material flow flexibility]

I mentioned before: This is a business which is really embedded into the Verbund. For the chemists amongst you, we even brought a Verbund chart with us.

It shows you here in green the Nutrition & Health products and in blue the Care Chemicals products.

This embedding into the Verbund provides us with energy integration, logistical cost advantages and general cost advantages. But it also provides us with something that you heard in the keynote and from Stephan: At various points in this value chain, you could substitute in the steam cracker, for example, naphtha with bio-naphtha. Or where it says here C1 (natural gas), you could also use biogas. With that, you can come up with a totally different product carbon footprint and properties in some of the industries where it counts and where our customers and end consumers are most likely to pay a premium for products with a lower carbon footprint.

[Slide 5: BASF technologies and assets are highly competitive globally]

So, let me show you a cost curve here why we think we are best in class when it comes to our costs and our assets, and being highly competitive. On the left-hand side, you see the citral cash cost curve. Again, we are highly competitive because we are deeply embedded in the Verbund and backward-integrated into world-scale assets and we have a lot of experience over many, many decades in improving this process.

On the right, if you remember the chart for the chemists, after citral, you have vitamin A acetate. And this cost advantage becomes even more pronounced along that value chain. We are clearly the cost leader when it comes to market vitamin A acetate. That is also one of the reasons why we believe that we have a really good position going forward in this marketplace.

[Slide 6: Nutrition & Care invested heavily into the future and will deliver solid earnings growth]

This is an interesting chart. It provides a bit of the story of Nutrition & Care and why the profitability, over the last couple of years, hasn’t been where it should have been. We have always been a solid EBITDA generator, and it was always above our capex requirements, except after the Ciba acquisition. But that had something to do with the financial crisis, when performance also went downhill. Then we had a tougher business right after Covid, also with our asset footprint in Europe, particularly for the Nutrition & Health business, where high gas prices had an impact.

At the same time, as you see on the upper part of the chart, there were big key investments that we wanted to do to participate in the growth of this business. Because, obviously, when you start coming close to your capacity, you have a couple of options. Either you don’t participate in market growth, or you start to bottom-skim. So you’re taking out some of the lower-value, lower-margin products, but eventually you’re not participating in market growth.

So we decided to invest heavily, first in a vitamin A acetate plant, and then also in a formulation plant, in a non-ionic surfactant plant in Antwerp and APG investments in Asia and North America. And we are also investing in our Zhanjiang Verbund site with a citral plant and a non-ionic surfactant plant.

[Slide 7: Nutrition & Care will significantly increase earnings by 2028 despite a challenging market environment]

These are the financials in a nutshell and on one chart. On average between 2019 and 2023, we generated roughly €7 billion in sales annually and a 15% EBITDA margin. In absolute terms: €1 billion in average annual EBITDA before special items. Our targets for 2028 are 2%point uplift on the EBITDA margin side, increasing sales by €2 billion and increasing our EBITDA before special items by €400 million to €500 million.

At the bottom, you see again the impacts that we had between 2021 and 2023: the high energy cost, primarily in Ludwigshafen, and destocking and price decline, in particular on the vitamin side. This also had a demand component because of the avian flu and the African swine disease. At least temporarily, together with Covid, some of the demand for meat came down. Then we had this heavy investment cycle, which is also weighing on EBITDA in this business.

[Slide 8: Three levers for success]

So going forward, we believe that we have three levers for success. One is embedded in our portfolio where we have some new assets, world-class assets which are coming on stream. We will go also for some market share. Then we are also taking a look at our portfolio overall, which you will see in a second.

On the innovation side, we continue to be the extended workbench for a lot of our customers. We have a lot of

innovation that we bring to the marketplace. And we also have innovation as this investment cycle is coming to an end, in order to continue to work on improving our processes.

On the sustainability side – that is highly linked to what I said earlier – there are a lot of opportunities, particularly with this business, in going for low product carbon footprint products.

[Slide 9: Clear portfolio focus to drive financial performance]

Portfolio: We made a decision two years ago in the Nutrition & Health division to say: We will focus much more on where our strength lies, which is becoming a pure ingredient provider. Whereas in the past, our dream was always to become a solution provider to get away from this vitamin cyclicality. But this was not successful. And that’s also why you see here in gray that we are in the process of divesting our food & health performance ingredients business, located in Illertissen, Germany.

We had also announced earlier that we were stepping out of our bioenergy enzymes business because we really did not have a right to play here. We were just not the best owner for this particular business.

There are a few other products on this slide which we want to optimize going forward. One is our omega-3 fatty acid “franchise,” I guess you could say, because we have a medium concentrate type of fatty acid as well as highly concentrated omega-3 fatty acids. But also our ibuprofen business. We also still carry a few other vitamins, besides vitamin A and vitamin E, which are not as important to the overall business.

[Slide 10: Zhanjiang Verbund site – driving growth for Nutrition & Care]

We are investing where the market is going to grow heavily. We are part of our Zhanjiang Verbund site. The important thing on that chart is not just the capacity increase or the startup number, but that a very, very high percentage rate, over 70%, is really for the growth of the Asian market.

Coming back to what was said before: We invest where the market is, and that's what we are also doing in Asia.

The citral investment is also a very important point for our customers because they want to make sure we have several locations in this citral value chain.

[Slide 11: Process innovation is key to competitiveness and improved quality in core value chains]

As I mentioned before, we are wrapping our phase of large investments. But this does not mean there are no more opportunities to improve the output, variable costs or asset availability of our plants. We have done that successfully, for example, with our UV filter Tinosorb® S plant in Korea where de-bottlenecking measures as well as smart software tracking processes enabled us to increase the capacity by 26% over a span of six years.

[Slide 12: Pioneering bio-based solutions to avoid microplastics and synthetic polymers in personal care products]

Innovation: I said that we are the extended workbench of our customers. We frequently win innovation awards from all the large end-consumer companies, for example, in the field of personal care.

You know that one of the problems in the industry is microplastic, particularly in rinse-off of shampoos or conditioners. Some of that microplastic is caused by the synthetic polymers which are in the formulations. So our team developed a substitute: natural-based biodegradable wax dispersions which have the same sensory effect as polymers and which also help with combability. The product shown here can be bought off the shelf and contains our wax dispersions, as do many other products from Nivea. That has a double-digit, mid-sized million sales number but also a quite interesting CAGR going forward.

You have to remember that, especially in personal care, a lot of these innovations are not like a blockbuster in Agricultural Solutions, which can have sales of €200 million or more. In this industry, an innovation typically generates sales in the €20 million to €30 million range.

[Slide 13: We support our customers in achieving their sustainability targets by providing products with reduced CO_2 footprints]

Sustainability: On the left-hand side, it's an interesting example because ideally you want to have better product properties than the product that you can replace. That is an easy sell. Then we go to the large end-consumer companies and they say: We are willing to pay a premium. In this case, if you look at the bars on the right – a performance test for limescale prevention in automatic dishwashing – Trilon® M, which is bio-based and biodegradable, has a better performance.

On the left-hand side, you also see the product carbon footprint is 50% better than sodium citrate, which is also used in a dishwashing formulation to prevent scaling.

The example on the right of the slide is also interesting because we always say: Natural products have a much better product carbon footprint than synthetic products. Here we have the example of natural menthol, which is mainly produced in India, in comparison to our synthetic menthol. If you just compare the standard product carbon footprint of our synthetic menthol, it's already 50% lower. Why is that? It has to do with agricultural practices. In order to get some of the crystals from natural menthol, you need to freeze the compound and that uses a lot of energy.

If, for example, we assign green energy to the standard PCF, there is an opportunity to reduce this PCF even further. If we then also allocate some of the biomass properties, you could bring this down even further. It also gives us the opportunity, in a market that values some of those lower product carbon footprints, to set the pricing according to what the customer is willing to pay.

[Slide 14: Our strategic priorities will drive BASF value creation 2024 – 2028]

What are our strategic priorities over the next four years? We need to, want to and will drive volume from these existing assets that have come on stream. And we believe that we have a right to win, and that right to win is a result of where we are in the cost curve for these products.

We want to continue to sharpen our portfolio. Sharpening our portfolio does not necessarily mean that we will have to sell some of the compounds that are in the Optimize range. It might mean that we run them much leaner, that we run them for cash. Or, if we were to find someone who is a better owner of these products, we would also consider that.

We will continue with our operational excellence, in particular when this stream of new capex buildup comes to an end. I hope this also gives you some confidence in what we would like to achieve: It is not just driven by volume growth, but it's also – around 40% – driven by cost efficiency. These cost efficiencies range from restructuring the organizational setup, whether in Nutrition & Health or in Care Chemicals, where we basically went to global business units on both sides. We are taking out layers of the hierarchy. And these efficiencies also include cost improvements for our products through sourcing strategy and production optimization.

[Slide 15: We will significantly increase earnings by 2028 by growing volumes, productivity gains and streamlining the portfolio]

So when you add that all up, then we are confident that we can increase our EBITDA before special items by €800 million to €900 million by 2028 compared to the level we achieved in 2023.