

BASF Capital Markets Day 2021 Transcript Q&A – Nutrition & Care March 26, 2021



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1 Current trading, financial targets

1.1 Current trading (COVID-19 effects)

Christian Faitz (Kepler Cheuvreux): Would you be able to quantify the “COVID-19” effect on Nutrition & Care – in both a negative as well as a potentially positive way?

Saori Dubourg: I would say, Anup, straightaway to you. I just said we were resilient, but maybe, Anup, you can allude a little bit more, please.

Anup Kothari: I think I can address it. If we look at the COVID impact on Nutrition & Health, at a very macro level, there was some shift in consumption. People were consuming more at home and maybe less in restaurants. But overall, it was still a very resilient demand and we actually grew strongly in the entire year. In the first half, actually, there was a lot of pre-buy. So we even had a very strong Q1 and Q2. Overall, it really proved: The entire portfolio was very resilient during the pandemic time.

Saori Dubourg: Ralph had an experience as well, and I think it explains a little bit how the businesses are positively or negatively impacted because we saw consumption behaviors that changed during COVID-19. I think that would be probably interesting for Mr. Faitz.

Ralph Schweens: Exactly. We had very different developments in our business. On the one hand side, when COVID-19 started, we saw a high demand for, how we call it, basic cleaning and cleansing products. So everything that was related to automatic dishwashing, to fabric care, to hard surface cleaning, this went really up. This then combined also with disinfectants really caused a huge run on our products, starting basically a year ago.

But then we also had some downsides. When travel stopped, we saw that the markets of high-end beauty care started to struggle a bit. With no real summer for vacation, we also saw that our UV filters business had some issues.

We also – Anup mentioned this – have some interesting tendencies in some other industries. For instance, we also serve the industrial and institutional part of the cleaning business. There, of course, with bars, restaurants, hotels, cruise lines closed or not operating, we saw also a dip here. But overall, I think our business showed to be quite robust. In the end, in many businesses we had volume growth.

Saori Dubourg: So overall, with vacation in summer, we really hope that some of the sun care UV-related businesses will come back; we do not have an underlying issue. It's just COVID-19 related. The high-end cosmetics are linked to less duty-free purchases. Also here, this will be certainly normalized. We have to wait and see because this is certainly impacted by the global lockdowns.

Andreas Heine (Stifel): How does Nutrition benefit from higher vitamin prices in 2021? Can you provide an update on the progress with the new vitamin A plant? Can you become more specific how you will grow the share of Asian sales?

Anup Kothari: I think we are basically on track with our expansion of capacity for vitamin A. We are right now in the initial stage and we will have the start of the plant on-time in 2021. Because we are doing it at our existing site, we have to reduce and restrict our sales. We also had some quality constraints. So our expectation is: By the end of 2021, we can increase our volumes and we will then show growth there. Asia is a big part of our market already and we have a good market position, people on the ground. The capacity is being built here, but this is really for global markets. We will, of course, focus also on China and Asia with that.

1.2 Overall business composition

Thomas Wrigglesworth (Citi): What is your route to market in animal nutrition and how do you capture your value proposition if you are not selling directly to farmers?

Saori Dubourg: If you allow, Anup, I would give it a little bit of an umbrella. As you know and Anup alluded to, from the past, it is probably the perception of a lot of people that we are very strong in the vitamin field, especially in the animal area.

But what we have done, preparing and really proactively shaping the portfolio for the future: We have looked more systematically into various fields where we want to grow. And this is clearly linked to the Green Deal chances. We have identified lots of new interesting market fields which are very close to our portfolio. So, preparing the future in a proactive manner here is the way for more qualitative growth. And with that I will not say more because I want to give Anup the chance to talk a little bit about that.

Anup Kothari: Building on that, I mean, of course, our core business is supplying vitamins and in this we have a very good position. But we also have a second part of the portfolio, for example, feed enzymes – this also connects back to the enzyme platform we are building – for which we have further potential to grow.

Also, we have acquired recently a small company, the technology company Cloudfarms. Essentially, this company is providing a software. Their focus is on pig farming, where you can get a 360 degree view from a farmer's perspective on the feed, on the supplements, on the vaccination and also the breeding and the entire cycle. These data insights will allow us to link the different parts of this value chain.

So there are a number of things we are working on in animal nutrition, also driven by the farm-to-fork strategy that Saori mentioned, which offers us new areas where we can use our good position with vitamins.

Chetan Udeshi (J.P. Morgan): Can you discuss your activities for the pharma excipients business? One of your key peers is highlighting this as a high growth business with mRNA lipids. Can you discuss how BASF has grown in this business and strategic targets?

Saori Dubourg: Maybe Anup can go into the details in a second. Let me just allude to you what we experienced during COVID-19, because what most people are not aware of: Of course, we are also cooperating with a lot of pharma conglomerates and have been active in a lot of these developments around solutions for COVID-19.

This shows you there are a lot of opportunities. But maybe, Anup, you can go a little bit deeper into that.

Christian Faitz (Kepler Cheuvreux): Out of historic context, you inherited one major customer with the Cognis acquisition. Can you elucidate a bit on how you have diversified your customer structure per today?

Saori Dubourg: I'm just wondering which exact customer you are referring to. But anyhow, we have many and that maybe is the answer to your question, because I can't even refer to just one.

Ralph, I think we are very broadly in terms of customer connectivity there. What happened for sure is that we were looking at the synergy capture when we acquired Cognis years ago. It has definitely strengthened, for example, in Nutrition & Care our nutritional ingredient field. This is what we try to develop further. Our customer base there – I was a long time ago before that with that business – is certainly very diversified. So my answer: I cannot even refer to just one. Maybe that's an answer.

Rob Hales (Morningstar): In Care Chemicals, can you elaborate on what areas within the division have high-value products versus areas where you are primarily competing on cost?

Ralph Schweens: Let's take the example of our personal care business. Here we have quite a number of high-value segments. We are talking about our UV filter business. We are talking about our bio-actives business. We are talking about specialty surfactants. I just mentioned a new product class that will also be part of our portfolio there. So here we have a rather specialized product portfolio.

What we, of course, also have in our offering is the oleochemicals business, which are the oil-based surfactants. Here we are, of course, in a more standard range. But I think the beauty here is also that this is also a very resilient business. We saw that especially back in 2020 when we had this high demand for basic cleaning and cleansing which are areas where this works and where we have also been highly efficient in our processes.

These are the two parts. But these give us also inroads into other customers. These products also make us very important at a number of customers. Especially in emerging markets, this sometimes is also the first step into the BASF world. Again, what I would like to mention here on our portfolio in the personal care arena: We have the highest number of natural products that can be then also claimed in natural or bioproducts. We have the largest or the broadest range in our portfolio of all competitors, and we can basically formulate all the products that our customers do. So here both things come together, but I think it's a good combination.

1.3 Capital expenditures

Peter Clark (Société Générale): Looking at the new five-year capex plan, one of the stand-out numbers for me was the leap in projected spend in Nutrition & Care by 850 million or 40 percent on the last five-year plan. What is behind that? I do see in the presentation you make clear the importance of Asia. So am I right in assuming that the capex includes some step-up investment in Asia, perhaps even some related to the new Chinese Verbund site?

Saori Dubourg: Let me just draw a little bit of an umbrella. In both businesses, we have organic growth initiatives. Markus alluded on Industrial Solutions where ROCE optimization is at the center. In this business, we are talking very much about strategic growth that we want to capture. This is EBITDA-related that we target high-margin business. So we have decided that in both businesses we do fundamental investment in capex.

If you allow, I would start with Anup and then go to you, Ralph, because there are two major pillars in that. Maybe, Anup, you can explain a little bit what we do in the vitamin and other sectors for citral and then Ralph, you go into your alkoxyates plant, Antwerp etc.

Anup Kothari: For Nutrition & Health, we have capacity expansion going on in Ludwigshafen. This capacity was commissioned end of last year and we expect to bring it online as planned in 2021. So this is one part of capex that's going on.

We're also looking for further investments. I mentioned: In Asia, we already built an aroma world-scale plant in Malaysia and we will look into further expansions, but likely in the aroma ingredients area. That will be part of the capex planning that we have right now.

We also have a number of projects going on to debottleneck capacities in pharma solutions. This is probably part of this picture.

Ralph Schweens: We have developed quite a pipeline of investments for the next couple of years. To put it into a figure: If you look until 2025, we will be at roughly 20 percent of new capacity for our main product lines. This includes, for instance, an MSA plant, a product that we use in industrial formulators business. At the end of 2022, we will start a big new alkoxylation plant in Antwerp. This is also combined with an investment in Ludwigshafen. But what we are also foreseeing is a couple of investments in the market that will be growing the fastest. We will add new capacity for our UV filter business. As Saori rightfully mentioned, this is rather a temporary drop in demand. We see this coming and we are in close discussions with our customers there.

And we will also participate in the new Verbund project of BASF in China. China is the market that will be growing the fastest. But we have also done some investments and also an acquisition very recently in Jinshan in China, where we bought a surfactants asset from Sinopec. This year we will further invest in a very sustainable technology, purely bio-based surfactants, also in our Jinshan plant in China.

1.4 Segment targets

Andrew Stott (UBS): Why is the margin guidance conservative, both relative to your recent performance and also to your peers?

Saori Dubourg: First of all, I think you always have to look at the portfolio of peers. We have a mixture of businesses, so it depends on whom you compare us to, of course. But first of all, as I said, over the last years, we have significantly taken out structures where we felt: It's not the future, the growth could be better, margin could be optimized. This is certainly something which we have done very consequently.

Going forward, we spoke about the high share of bio-based, biodegradable share in this segment. We are very confident there is growth coming.

Let us give you a little bit of insight into the portfolio compositions very shortly so that you get a better understanding why it's not always 100 percent comparable, because our portfolio might differ. So maybe Anup very shortly and Ralph very shortly on what the composition really is.

Anup Kothari: Our portfolio, if you compare it with the peers, is actually quite unique. We are, of course, in animal nutrition, human nutrition, aroma ingredients and also in pharma solutions. It's a fairly broad portfolio, which is not necessarily the same for many of our peers.

In terms of EBITDA margin, part of the story is, like was mentioned in Saori's presentation: We have done some structural measures where we have exited some business to improve our EBITDA margins. The focus going forward is really on growth. Here we are also doing some acquisitions. We are also investing, for example, in enzymes. And this will require some initial investments to really drive this forward-looking growth.

Ralph Schweens: In our case, some of the investments that we just mentioned are also very attractive investments for BASF. In total, our business is growing. I take one of the questions up that came earlier, about Accelerator products. We have a very significant share in our portfolio of Accelerator business, and we are further increasing this. Here, apart from seeing higher margins than in the average of our portfolio, we see also the highest growth opportunities. So also investing in the field of sustainable, bio-based and biodegradable products, we will benefit from in the future.

2 Sustainability

2.1 Enzymes

Matthew Yates (Bank of America): You mentioned being in the process of creating a “sizeable” enzyme business in detergents. How long do you think it will take to commercialize your offering and what market share ambition do you have?

Saori Dubourg: We are already working with customers, but maybe, Ralph, you can give a little bit more feedback on the detergents enzymes because this is really in your shop.

Ralph Schweens: Exactly. We have been working on this for some time and we have already commercial products in the market. I'm happy that you showed also this case where we also see the advantages of BASF in this respective segment, because we can combine chemicals with enzymes that lead to a more differentiated portfolio.

What I can say in terms of market share: We have ambitious market share ambitions. I would not say a number, but this is, of course, something that will not come from one day to the other. This will be developing. But for us, the enzymes business is a very important part of our sustainability strategy in our home and fabric care business.

Thomas Wigglesworth (Citi): What can BASF offer enzyme customers other than lower prices?

Saori Dubourg: Let me just explain what we did in the enzymes business. This is a category build-up that we do since many years now because we realized – this is the difference that Ralph just mentioned – there are, of course, enzyme players out there, but what is unique: You need to have a combination of know-how. Number one is the chemical know-how that we can bring in as an add-on. This has nothing to do with pricing and it's not the key focus. The key focus in enzymes is innovation because there's a lot of problems that we need to solve for customers.

So the combination of enzyme know-how and chemical know-how is where we see a leading triangle for the future because then the application know-how is important. We have started out with a Dyadic license. We have built this business over time now. Maybe, Anup, you can present a little bit the view from the Nutrition & Health viewpoint because we heard from Ralph how the detergents look like. This is a joint undertaking between the two divisions.

Anup Kothari: Building on what Saori said: We have this unique position of chemistry know-how plus the biotechnology. Just think from the perspective of a customer like P&G or Henkel that Ralph mentioned: They are buying a lot of chemistry solutions right now. Now we can bring in this know-how and combine it with our biotechnology know-how which yields this combined solution. We have the customer access, and, with this combination, we get really good feedback with customers that we can develop further solutions.

We acquired a company, Verenium, which has given us very good access to technology in terms of strains. And now we are building a platform on the production side, on the R&D side. Yes, we will have some products which are maybe “me too,” but this is just phase one or step one. And we are very confident we can then develop the differentiated solutions, building on our close customer collaboration.

2.2 Bio-offering

Chetan Udeshi (J. P. Morgan): Does a bio-based product portfolio for consumer markets offer any competitive edge anymore? It appears that most suppliers of products to the personal care and cleaning products have bio-based products in their arsenal. So is BASF doing anything differently on bio-based products?

Saori Dubourg: Quite frankly, I've been in strategic dialogues together with Ralph during the so-called ACI Conference. I didn't have that impression, to be quite honest, because at the moment we are in deep dialogue with key accounts globally because there are a lot of unresolved problems with certain ingredients and they know that we have by far the broadest bio-based technologies in our house. So Ralph, maybe you can allude a little bit more detailed where these ingredients are.

Ralph Schweens: What happens here is that most of our customers, almost all of our customers, have committed to very ambitious sustainability targets. These targets have to be achieved. One thing is the CO₂ footprint, but other targets are also related to the kind of products that are in the formulations of our customers.

I will give you just one very recent example where we see a good field for growth. We have already a broad portfolio of bio-based surfactants. APGs are one product class where BASF is really leading globally. But there are other markets also where we see that there can be made very good claims for our customers' products. One of these areas is, for instance, the glycolipids. In our case, we have just communicated two partnerships, one with a Japanese company, ACS, that is focusing on sophorolipids. These are bio-surfactants that can be used in quite a number of applications and substitute also other surfactants.

And then we have a technology partnership with a UK-based company called Holiform, where we will work on the process and the technology and how to produce these products more efficiently and more competitively. I think there are many other cases. We are having a big R&D portfolio in terms of our biopolymers business. This is a product class where we will be launching more and more products that are then also bio-based and/or biodegradable. This is also a strong need and wish from our customers to be stronger in these products because they will make the competitive edge in future.

Saori Dubourg: Let me add and build on what Ralph said: The customers are not just looking at one factor. You have to imagine: BASF has originally already 240 different formulation technologies. So there's a broad experience across various industries that we research-wise can tap in. That's number one.

You have heard this morning from the CO₂ data footprint that in combination with bio-based this is a whole package of modular solutions that we offer to customers up to the certified palm oil. What they are looking for is a partner that can tap into various option fields of optimizing their portfolio because the targets of these customers are going across various fields. So if you can provide, what we saw this morning, a very clear carbon strategy that builds into their purchasing target for CO₂ reduction, a wide variety of product solutions on bio-based, certified processes along the value chain, that's what makes it very interesting for customers. And this is what I observed in our dialogues: that they really appreciate the broad kind of modules that BASF can offer.

For Nutrition & Health, for example, we are the only player out there in the market that has a combination of food and agricultural solutions. So the future will be about CO₂ capturing along the entire, we call it, farm-to-fork value chain. We are one of the only players who can do this along the whole value chain. And this is where I think we really have a differentiation factor. This is why it was so important what Martin said this morning and what Markus alluded to: We have multiple experience layers across the company that we can bring to the customer, and they really appreciate it.

2.3 Carbon footprint

Tim Jones (Deutsche Bank): Do you see customers paying for the lower carbon footprint in your products or is it something they just insist on as part of a long-term relationship? Is there any big difference in this trend across customer groups, say pharma, consumer or the food/feed industries?

Saori Dubourg: First of all, we are probably the first chemical company out that has such a distinctive number of data on the CO₂ footprint. The willingness to pay, of course, does not only relate to CO₂ values. But – I think we can give you concrete examples with Ralph and Anup in a second – what we do see: There is a paradigm shift happening at customers. Maybe 10 years ago, it was a little bit more difficult. But with regulatory frameworks changing, be it in Europe, but also foreseeable in the United States and China, there is increasingly pressure at the customer frontier and they are heavily looking for solutions.

So besides the topics that we will share in a second on our Accelerator sales, what I see at the moment in a lot of strategic dialogues: Those companies who come first helping with the CO₂ values, they will get additional share of wallet because they look for solutions and they look for fast solutions.

On top of that, margin-wise, I think you have a good example, Ralph, how this translates into business for us.

Ralph Schweens: Yes, of course. Let me start maybe with a very interesting example. I've been attending the so-called ACI Conference, of the American Cleaning Institute, which normally takes place in Orlando. This year, it was a pure virtual conference. But what I can tell you is that two years ago, back in 2019, sustainability was an important topic. Last year, it was already the most important topic. And what we discussed with our customers this year was basically sustainability. What we put on the table were the options that Martin also mentioned this morning. We are in the starting phase here.

But I would like to come back to the topic I mentioned in terms of Accelerator sales. The products that are more bio-based, more biodegradable, which are part of our Accelerator sales, here we see really higher margins already today. I think this shows a little bit in which direction this can go.

Saori Dubourg: When we looked at the various markets – Anup can also give one example – what we do observe at the moment: The future-oriented markets that are more bio-based, that are Green Deal ready show a growth rate that is going far beyond the traditional markets. It's what we saw from an outside-in perspective. Just looking from outside in, depending on which area you depict, there are between 2 up to 35 percent growth, depending on where you look at.

This shows you there's a strong demand. And I'm sure, Anup, you're experiencing the same in your businesses, in the customer dialogues we were in.

Anup Kothari: Yes. I think I can also share one example, maybe picking from our aroma ingredients business. These are the ingredients going to the flavor and fragrances houses, and there is a very strong consumer demand for these bio-based trends or also looking for a lower CO₂ footprint. Here we have already certified three products in our value chain. Actually, this was the example that Martin mentioned in the keynote. With green energy and renewable feedstock, using the Mass Balance Approach, we can tell our customers: This has a lower CO₂ footprint than maybe other competitive offerings.

Customers, when they are looking to buy things from us, look at price, they look at quality, they look at reliability, and they are adding sustainability and carbon footprint as one of the criteria. So this will definitely, allow us to grow. The willingness to pay will come, but this is, of course, the big discussion with customers. But I'm confident this will give us growth and the willingness to pay will come as we move forward.

Tim Jones (Deutsche Bank): Saori, your role overseeing the BASF Corporate Sustainability Board: Could you comment on how embedded the need for change regarding sustainability and/or carbon management is already within BASF, looking bottom up from the factory floor all the way to the Board?

Saori Dubourg: I think if you look at the presentations today, my colleague Markus, his peers, my colleagues here on the stage, they have all talked about this the whole day. I think, first of all, it really has arrived at the core and center stage of BASF. Specifically, when you looked this morning at Martin's presentation, where he looked from production technologies to all kinds of methodologies where we can capture carbon, for example, you can really tell it's the number one topic at the moment across our company.

But what I would like to say is: This is not just now. We have started years ago. For example, in 2017, we have asked 9,000 experts, external experts, policymakers, NGOs, opinion leaders: What are the megatrends to come up in this sector of sustainability? And so it was visible already years ago that we would enter a phase – and 2021, by the way, was the year where lots of things technology-wise would pop up with a stronger emphasis; that was visible in that study with the experts – we could see there is an acceleration of the trend of sustainability.

The core sentence we believe is: If you react, there's one thing for sure, you are too late. Having said that, we started with the Board together, for example, with Hans Engel and others: What does this mean if we transform the company? How do we prepare for this?

So it goes from production-related technologies that you have seen this morning and we are really prepared in various angles, up to portfolio-related moves that we do. We have analyzed in detail the Green Deal with all the regulatory frameworks.

And yes, of course, there are challenges, but we have also looked at the chances and what this means for our portfolio, up to the sustainable finance area where my colleague Hans Engel is very active as well.

You know that we are also, together with other companies, working on reporting. This is thanks to our Finance department, for example, who has over years already reported in an integrated way if you look at our business report.

So all this experience and this integrated reporting we have done for years. This is the basis for why we have so much data. In the integrated reporting alone, we own as BASF 8 million data points from all kinds of angles, greenhouse gas etc. impact, and this work years ago enabled us to now come out with a CO₂ footprint.

I want to say really humbly: Of course, we are not perfect. We are learning every day. But one thing you can be assured of: This company is working like hell to make this really a good narrative, also specifically for our customers. Yes, I think there's a lot of passion in our company for the topic.