



We create chemistry

Analyst Conference Call Q1 2021

Speech

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Chairman of the Board of Executive Directors

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The spoken word applies.

Martin Brudermüller

Good morning ladies and gentlemen,

Thank you for joining us today.

[Chart 3: BASF with strong start to 2021 business year: EBIT before special items plus 42% compared with Q1 2020]

Let me begin with the highlights of the first quarter of 2021.

We had a strong start to the year. The positive earnings momentum of the fourth quarter of 2020 continued. On a comparable basis we posted record earnings for a first quarter: EBIT before special items rose by 42 percent to 2.3 billion euros compared with the prior-year quarter.

Overall, we were able to grow sales volumes by 9 percent. All segments and regions contributed to this strong volume growth. Prices increased by 13 percent. They rose significantly in the Surface Technologies, Chemicals and Materials segments.

In our upstream chemicals businesses earnings rose considerably due to higher prices and volumes compared with Q1 2020. Cracker margins increased in all regions, most pronounced in the U.S. Higher demand and some outages, especially on the U.S. Gulf Coast, led to tighter supply demand balances. In some commodity product lines, such as isocyanates, stronger demand supported margin increases.

As a result of the recovery of the global automotive production, we also achieved considerably higher earnings in our Surface Technologies segment.

[Chart 4: Recovery of global chemical production continued in Q1 2021]

Let us now turn to the macroeconomic data. The indicators for Q1 are estimates as most of the countries have not yet published their figures for the quarter.

Global chemical production volume increased by 10 percent in Q1 2021, mainly due to the above average growth in China. The country continued its strong recovery which started in Q2 2020. The rest of Asia and Europe also experienced a recovery in chemical production. The U.S. recorded a decline in chemical production because of the strong freeze on the Gulf Coast in the first quarter.

With an increase of 9 percent, BASF Group's sales volumes grew in the same order of magnitude as global chemical production.

[Chart 5: BASF Group Q1 2021: Volume growth across all regions]

On this slide, our volume growth by region is depicted. Sales volumes are compared with volumes in the respective prior-year quarters.

During the past four quarters, we recorded double-digit volume growth in Greater China across almost all segments. In Q1 2021, volumes in Greater China rose by 43 percent compared with the prior-year quarter, which was heavily impacted by the pandemic.

Our sales volumes also continued to grow in Europe and North America after turning positive already in Q4 2020. According to current macroeconomic estimates, our growth in these regions was above market growth.

[Chart 6: BASF Group Q1 2021: Volume growth across all segments]

Moving on to the volume development by segment.

In the first quarter of 2021, the absolute volume increase was most pronounced in the Surface Technologies, Materials, Agricultural Solutions and Chemicals segments.

Overall, we benefitted from our diversified portfolio serving a broad range of customer industries which nicely recovered during recent months.

[Chart 7: BASF Group Q1 2021: BASF with strong start to 2021 business year]

Let us now look at our sales and earnings development in Q1 2021 compared with the prior-year quarter.

Sales increased by 16 percent to 19.4 billion euros. As just shown, higher prices and volumes were the driver for this. Currency effects of minus 6 percent were mainly related to the devaluation of the U.S. dollar as well as the Brazilian real.

EBIT before special items came in at 2.3 billion euros, 42 percent higher than in Q1 2020. We achieved considerably higher earnings in the Materials, Chemicals and Surface Technologies segments. EBIT before special items of the Agricultural Solutions segment matched the strong level of the prior-year quarter. The Industrial Solutions segment recorded slightly lower EBIT before special items, while earnings in the Nutrition & Care segment declined considerably.

Let me provide you with further details on the quarterly earnings development by segment:

- In the **Chemicals** segment, EBIT before special items rose considerably compared with the first quarter of 2020 in both divisions, especially in Petrochemicals. Earnings development was driven by higher margins as a result of a recovery in demand,

an improvement in income from equity-accounted companies, and lower fixed costs.

- In the **Materials** segment, the considerable increase in EBIT before special items was mainly driven by a considerably higher earnings contribution from the Monomers division due to improved isocyanate margins. EBIT before special items rose slightly in the Performance Materials division. Volume growth more than offset lower margins from higher raw materials prices.
- In the **Industrial Solutions** segment, EBIT before special items was slightly below the prior-year quarter. Considerably higher earnings in Dispersions & Pigments were unable to completely offset the significantly lower earnings contribution from Performance Chemicals. This was mainly due to lower margins as a result of increased raw materials prices and negative currency effects. The increase in earnings in Dispersions & Pigments primarily resulted from lower fixed costs and volume growth. The division's earnings were weighed down by negative currency effects.
- EBIT before special items in the **Surface Technologies** segment rose considerably compared with the first quarter of 2020. This was largely driven by volume growth in both divisions. The positive development in earnings was supported by lower fixed costs, especially in the Catalysts division.
- In the **Nutrition & Care** segment, EBIT before special items decreased considerably compared with the strong prior-year quarter. The decline in earnings impacted both divisions and primarily reflected lower margins as a result of lower sales. The development of sales was primarily impacted by negative currency effects, mainly relating to the U.S. dollar.

- In **Agricultural Solutions**, EBIT before special items was on a level with the first quarter of 2020. The division showed a strong performance with considerable volume growth and lower fixed costs. The negative currency effects, mainly from the U.S. dollar and the Brazilian real, unfortunately offset the positive development.
- In **Other**, EBIT before special items declined considerably. This was mainly due to higher additions to provisions for variable compensation components as a result of the strong first quarter. Expenses for the long-term incentive program also contributed to the decline in earnings, after positive valuation effects from the program in the prior-year quarter.

And now Hans will give you more details.

Hans-Ulrich Engel

Good morning ladies and gentlemen,

[Chart 8: BASF Group Q1 2021: Financial figures]

Let me turn to the financial figures of the BASF Group compared with the prior-year quarter in more detail.

- **EBITDA before special items** increased by 23 percent to 3.2 billion euros. **EBITDA** amounted to 3.2 billion euros compared with 2.4 billion euros in Q1 2020.
- **EBIT before special items** came in at 2.3 billion euros, 42 percent higher than in Q1 2020.
- **Special items** in EBIT amounted to minus 10 million euros compared with minus 184 million euros in Q1 2020. **EBIT** rose by 59 percent to 2.3 billion euros in Q1 2021.

- At 68 million euros, **net income from shareholdings** improved by 236 million euros compared with the prior-year quarter. This is primarily attributable to the positive earnings contribution of 51 million euros from Wintershall Dea, after minus 165 million euros in the first quarter of 2020. The non-integral equity-accounted shareholding in Solenis also contributed to the increase in net income from shareholdings, with 28 million euros.
- **Net income** almost doubled from 885 million euros in the prior-year quarter to 1.7 billion euros in Q1 2021. The tax rate decreased from 26.6 percent to 19.4 percent, due among other factors to the higher earnings contributions from at-equity consolidated companies. Reported earnings per share increased from 97 cents in the prior-year quarter to 1 euro and 87 cents in Q1 2021. Adjusted EPS increased by 59 percent to 2 euros.

[Chart 9: Cash flow development in Q1 2021]

Let's move on to our cash flow development in Q1 2021:

- **Cash flows from operating activities** amounted to minus 525 million euros, an improvement of 505 million euros compared with the prior-year quarter. This was mainly driven by the increase in net income. The increase in net working capital led to cash tied up of 2.8 billion euros. This was largely attributable to higher trade accounts receivable as a result of seasonal factors.
- **Cash flows from investing activities** amounted to minus 435 million euros. Cash outflows were therefore 1.4 billion euros lower than in the prior-year period. In Q1 2020, the acquisition of Solvay's integrated polyamide business led to payments of 1.2 billion euros. Payments made for property, plant and equipment and intangible assets amounted to 456 million euros in the first quarter of 2021, down 113 million euros from the prior-year figure.

- **Cash flows from financing activities** amounted to 710 million euros, mainly from the increase in financial and similar liabilities.
- **Free cash flow** improved by 618 million euros to minus 981 million euros as a result of higher cash flows from operating activities in conjunction with lower payments made for property, plant and equipment and intangible assets.

[Chart 10: Strong balance sheet]

Turning to our balance sheet at the end of March 2021 compared with year-end 2020:

- Total assets increased by 4.5 billion euros to 84.8 billion euros on account of higher current assets. They rose by 4.8 billion euros to 34.6 billion euros. This was primarily due to higher trade accounts receivable. All segments contributed to the increase, especially the Agricultural Solutions segment as a result of seasonal effects. Other receivables and miscellaneous assets rose, mainly because of higher precious metal trading items and higher fair values of derivatives.
- At 50.2 billion euros, noncurrent assets remained on the level of December 31, 2020.
- Net debt rose by 1.3 billion euros to 16.0 billion euros. Compared with the respective figure at the end of March 2020, net debt declined by 2.8 billion euros.
- Equity amounted to 39.0 billion euros at the end of March 2021, an increase of 4.6 billion euros compared with year end. This was driven by net income and higher other comprehensive income, mainly due to actuarial gains and translation effects.
- On March 31, the equity ratio was 46.0 percent.

And now I will hand things back to Martin.

Martin Brudermüller

Thank you, Hans.

Before I turn to the outlook, I would like to share a product example that illustrates BASF's efforts to contribute to a circular and low-carbon economy.

[Chart 11: BASF plasticizers are now also available based on renewable and chemically recycled feedstocks]

Customers from the PVC industry are increasingly facing pressure with regards to resource-efficient products. Catering to this customer demand, BASF is now offering part of its plasticizer portfolio based on circular feedstocks.

For this purpose, either renewable or chemically recycled feedstocks are used at the beginning of the value chain instead of fossil resources. The alternative feedstock is allocated to the sales products according to a third-party certified mass balance approach. The mass balance approach enables us to process renewable and recycled feedstocks together with fossil raw materials in our existing efficient production network and to allocate their share to specific products.

Biomass balanced plasticizers have a lower carbon footprint than the conventional ones and help save fossil resources. Ccycled™ plasticizers are contributing to the recycling of plastic waste and also help to save fossil resources.

With these products we make another step towards a circular economy. Same specifications and technical properties as those of conventional plasticizers enable our customers to easily transition or produce "special editions."

[Chart 12: Outlook 2021 for BASF Group]

Ladies and gentlemen,

Let's conclude with BASF Group's outlook.

Based on the development of sales and earnings in the first quarter of 2021, the stronger-than-expected recovery of the global economy and much higher raw materials prices than planned, we raised the 2021 forecast for the BASF Group as follows:

- For the full year, we now expect sales of 68 billion euros to 71 billion euros.
- We anticipate EBIT before special items of between 5.0 billion euros and 5.8 billion euros for 2021.
- The return on capital employed is expected to be between 9.2 percent and 11.0 percent.
- Regarding our Accelerator sales, we now expect 19 billion euros to 20 billion euros.
- No changes have been made to the forecast for the expected CO₂ emissions.

This outlook is based on the following adjusted assumptions regarding the global economic environment in 2021:

- Gross domestic product, industrial production and chemical production are all expected to grow by 5.0 percent.
- The average euro/dollar exchange rate assumption of 1.18 U.S. dollars per euro remains unchanged.
- The average annual oil price (Brent crude) is expected to reach 60 U.S. dollars per barrel.

Overall, the market environment continues to be dominated by a high level of uncertainty. Risks could arise if restrictions on macroeconomic activity continue for longer than expected as a result of measures to fight the coronavirus pandemic. Opportunities could arise from a faster vaccination rate and a more rapid recovery of the economy as a whole, as well as a continuation of the positive margin trend.

And now, we are glad to take your questions.