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# **Analyst Conference Call Q3 2021**

## **Speech**

### **October 27, 2021**

**Martin Brudermüller**

Chairman of the Board of Executive Directors

**Hans-Ulrich Engel**

Chief Financial Officer

The spoken word applies.

## Martin Brudermüller

Good morning ladies and gentlemen,

Thank you for joining us today.

### **[Slide 3: BASF with continued strong performance in Q3 2021]**

I would like to begin with the highlights of the third quarter of 2021.

Demand remained solid over the summer, enabling us to continue to grow profitably. Compared with the third quarter of 2020, we increased prices by 36 percent and volumes by 6 percent. Increases were realized especially in the Chemicals, Materials and Industrial Solutions segments.

EBIT before special items rose by around 1.3 billion euros compared with the weak third quarter of 2020 to reach 1.9 billion euros. This is also considerably above the pre-pandemic level of 1.1 billion euros in Q3 2019.

With strong earnings contributions from the Chemicals and Materials segments, the earnings mix in the third quarter of 2021 was comparable with the second quarter of 2021. Overall, margins in the upstream businesses remained at a high level but softened slightly compared with Q2 2021.

Our downstream businesses are still confronted with further rising raw material, energy and freight costs. Price increases in most downstream businesses could only partially offset these higher costs. In addition, higher fixed costs weighed on earnings.

The semiconductor shortage severely hampered the global automotive industry in the third quarter. Temporary shutdowns and lower run rates in production have negatively impacted our

automotive-related businesses, particularly in the Surface Technologies segment.

At the beginning of the year, LMCA projected global light vehicle production would reach 87.6 million in 2021. In the meantime, LMCA has revised its forecast to 76.7 million units. We do not rule out the production of only 75 million units in 2021. We expect the semiconductor shortage to persist, at least in the first half of 2022. It is interesting to note that the production cuts are predominantly related to vehicles with internal combustion engines and not battery electric vehicles.

**[Slide 4: Q3 2021: Global chemical production negatively impacted by various shortages]**

Let's now turn to the macroeconomic data.

According to the currently available estimates, global chemical production increased by around 4 percent in Q3 2021 compared with the prior-year quarter. All regions recorded growth; it was most pronounced in Europe and in Asia excluding China. However, several temporary factors – such as the global semiconductor shortage, hurricanes Ida and Nicholas in the U.S. as well as power cuts in some provinces of China – led to overall lower growth rates compared with Q2 2021. The slowdown was particularly evident at the end of the quarter.

With an increase in sales volumes of 6 percent, BASF Group again grew faster than global chemical production in Q3 2021.

**[Slide 5: BASF Group Q3 2021: Volume growth in all major regions except for China, where the recovery was already in full swing in Q3 2020]**

This slide shows our volume growth by region. Sales volumes are compared with volumes in the respective prior-year quarters.

In Q3 2021, volumes grew considerably in North America and in Europe. The prior-year quarter in these regions was still heavily impacted by pandemic-related restrictions.

In Greater China, we recorded a slight volume decline compared with the very strong prior-year quarter, when we had achieved growth of 17 percent. The volume decline was almost entirely due to lower volumes in our mobile emissions catalysts business in Greater China associated with the decrease in automotive production. In Q3 2020, the introduction of China 6 emission standards for light-duty vehicles had supported volume growth.

**[Slide 6: BASF Group Q3 2021: Volume growth across most segments; Surface Technologies impacted by semiconductor shortage]**

Let's move on to the volume development by segment.

In the third quarter of 2021, we increased volumes in all our segments, except for Surface Technologies. The automotive industry, which is currently strongly affected by the semiconductor shortage, is the dominating customer sector for this segment.

The volume growth was most pronounced in the Chemicals, Industrial Solutions and Materials segments. Volumes in Nutrition & Care and Agricultural Solutions grew by around 100 million euros each.

Overall, volumes increased by 6 percent or 872 million euros in absolute terms compared with the prior-year quarter.

**[Slide 7: BASF Group Q3 2021: Sales increased considerably, mainly due to higher prices and volumes]**

We now look at our sales development compared with the third quarter of 2020.

Sales of BASF Group increased by 5.9 billion euros to 19.7 billion euros. Considerably higher prices and volumes were the main drivers for this. In total, organic sales growth amounted to 42 percent compared with the prior-year quarter, which was weak due to the pandemic.

Currency effects of plus 1 percent were mainly related to Asian currencies. Portfolio effects influenced sales by minus 1 percent; they mainly resulted from the sale of the pigments business.

**[Slide 8: BASF Group Q3 2021: Strong earnings in upstream business, while price increases in downstream business were not yet sufficient]**

This slide shows the growth in EBIT before special items by segment.

As already mentioned, we achieved considerably higher earnings in the Chemicals, Materials and Industrial Solutions segments. In the downstream businesses, price increases were not yet sufficient to compensate for the higher raw material, energy and freight costs.

Compared with Q3 2020, EBIT before special items in Other improved considerably. This was mainly due to the adjustments of bonus provisions, as they were allocated to the divisions.

**[Slide 9: Surface Technologies, Nutrition & Care and Agricultural Solutions: Main drivers for earnings development in Q3 2021]**

I will now provide you with further details regarding the unsatisfying earnings development in some of our downstream businesses.

- In the **Surface Technologies** segment, we were confronted with unexpectedly low demand from the automotive industry. According to LMCA, global light vehicle production declined by 16 percent compared with the prior-year quarter. Despite lower automotive volumes, sales in Surface Technologies increased on account of higher prices. These price increases were mainly related to the

precious metals trading and mobile emissions catalysts businesses. EBIT before special items declined due to significantly lower earnings in the Coatings division. Higher fixed costs and increased raw material prices could only partially be passed on in such a deteriorating OEM business environment. The Catalysts division was able to slightly increase EBIT before special items on account of higher margins. These resulted from, among other things, a favorable product mix.

- In the **Nutrition & Care** segment sales increased because of higher volumes in both divisions and price increases in the Care Chemicals division. By contrast, prices were flat in Nutrition & Health. EBIT before special items declined due to significantly increased raw material, energy and freight costs, which could only be partially passed on to customers, as well as higher fixed costs.

Let me also address an underlying challenge in our Nutrition & Health division: Our vitamin A plant expansion successfully came on stream in late summer. Still, we are struggling with production challenges for vitamin A 1000, since the ramp-up of the animal nutrition formulation plant is ongoing. No commercial volumes from this formulation plant are available due to time needed to ensure stable operations. Therefore, we expect to be volume-restricted for several months to come, with a stepwise return to the market.

- The **Agricultural Solutions** segment was severely hit by supply chain constraints in combination with higher input factor costs due to various shortages. Nevertheless, sales increased compared with the prior-year quarter, mainly in the seeds & traits business in South America and the fungicides business in Europe and South America. EBIT before special items decreased on account of considerably higher fixed costs, among other things due to higher bonus provisions, as well as higher raw material and logistics costs and

an unfavorable product mix. The higher costs could only partially be passed on to customers since prices had mostly been negotiated prior to the season.

At this point, I will hand things over to Hans.

## **Hans-Ulrich Engel**

Good morning ladies and gentlemen,

### **[Slide 10: Portfolio measures concluded in Q3 2021]**

I would like to give you an update on our recently concluded portfolio measures.

- On August 31, 2021, BASF and Shanshan formed the joint venture BASF Shanshan Battery Materials. With 51 percent, the company is majority-owned by BASF. With the completion of the transaction, BASF has reached a significant milestone in executing its strategic roadmap to build up a global battery materials value chain, equipped with an industry-leading CAM capacity of 160 kilotons by 2022.
- On September 1, 2021, BASF completed the purchase of 49.5 percent of the offshore wind farm Hollandse Kust Zuid from Vattenfall. Construction work on the wind farm started in July 2021; it is expected to become fully operational in 2023. The electricity from the wind farm will enable BASF to implement innovative, low-emission technologies at several of its production sites in Europe, mainly at our Verbund site in Antwerp, Belgium. Following the closing, we have started the process to sell around half of our shares to a financial co-investor, and we aim to sign agreements in the first months of 2022.

**[Slide 11: BASF Group Q3 2021 and Q1–Q3 2021: Financial figures]**

In the following, I will turn to the financial figures of BASF Group compared with the prior-year quarter in more detail.

- Martin already covered the topline development, so I will start with **EBITDA before special items**, which increased by 1.2 billion euros to reach 2.8 billion euros. **EBITDA** amounted to 2.7 billion euros, compared with 1.0 billion euros in Q3 2020.
- **EBIT before special items** came in at 1.9 billion euros compared with 581 million euros in the prior-year quarter.
- **Special items** in EBIT amounted to minus 43 million euros compared with minus 3.2 billion euros in the third quarter of 2020. In the prior-year quarter, special items were primarily related to non-cash-effective impairments in all segments due to the economic effects of the pandemic and to restructuring measures.
- Consequently, **EBIT** came in at 1.8 billion euros in Q3 2021, compared with minus 2.6 billion euros in Q3 2020.
- At 86 million euros, **net income from shareholdings** improved by 133 million euros in the third quarter of 2021. The improvement is mainly attributable to the earnings contribution of Wintershall Dea of 97 million euros; in the prior-year quarter, its contribution was minus 3 million euros.
- **Net income** amounted to 1.3 billion euros compared with minus 2.1 billion euros in the prior-year quarter.
- The tax rate was 20 percent.
- Reported earnings per share increased from minus 2 euros and 31 cents in the prior-year quarter to 1 euro and 36 cents in Q3

2021. Adjusted EPS increased to 1 euro and 56 cents in the third quarter of 2021; in the prior-year quarter it was 60 cents.

**[Slide 12: Cash flow development in Q3 2021 and Q1–Q3 2021]**

I will now move on to our cash flow development in Q3 2021:

- **Cash flows from operating activities** reached 1.9 billion euros, a decrease of 204 million euros compared with Q3 2020. The main reason for the decline was the higher net working capital requirement of our strong business in Q3 of this year, while net working capital released almost 800 million euros in the prior-year quarter, which was heavily affected by the pandemic.
- **Cash flows from investing activities** amounted to minus 1.8 billion compared with plus 1.9 billion euros. In Q3 2020, cash inflows from acquisitions and divestitures amounted to plus 2.7 billion euros and were primarily attributable to the divestiture of the construction chemicals business. In Q3 2021, we had a cash outflow of minus 627 million euros, mainly due to the acquisition of 51 percent in BASF Shanshan Battery Materials. At minus 819 million euros, payments made for property, plant and equipment and intangible assets were 83 million euros above the level of Q3 2020.
- At minus 56 million euros, **cash flows from financing activities** were almost balanced. In the prior-year quarter, the reduction of financial and similar liabilities led to negative cash flows from financing activities.
- **Free cash flow** amounted to 1.1 billion euros, representing a decrease by 287 million euros due to lower cash flows from operating activities and higher payments made for property, plant and equipment and intangible assets.

**[Slide 13: BASF's natural gas supply and demand balance in Europe]**

Since we are currently receiving a lot of questions about the impact of recent natural gas price developments, I would like to provide you with further information on this topic.

As a result of the strong economic recovery, overall lower gas production rates and comparably low gas storage levels, gas prices in Europe increased significantly, reaching a historical peak in October 2021.

In Europe, we require most gas for our Verbund site in Ludwigshafen. Our second-largest gas consumer is the Verbund site in Antwerp. We use gas to produce electricity and steam in our combined heat and power plants. Furthermore, gas is used as a feedstock to produce, for example, ammonia, acetylene and hydrogen. As you might have read, we recently had to curtail our ammonia production in Antwerp and Ludwigshafen. Due to the recent rise of natural gas prices in Europe, the economics for operating ammonia plants in the region have become very challenging.

To secure our natural gas supply, we have long-term supply contracts with different suppliers in place. The pricing is predominantly based on spot prices. Part of our gas price exposure in Europe is compensated via our shareholding in Wintershall Dea. The remaining exposure is partly hedged through financial instruments.

For our European sites, the additional costs due to higher natural gas prices amounted to around 600 million euros in the first nine months of 2021, with a significant increase expected following the price hike in October. At BASF Group level, this amount is partly mitigated by the above-mentioned measures.

And now I will hand back to Martin.

## Martin Brudermüller

Before we turn to the outlook, I would like to share another example that illustrates how BASF is using the transparency of product carbon footprints to reduce the carbon footprint of our customers.

### **[Slide 14: Low carbon Neopor® BMB: Up to 90% CO<sub>2</sub> avoidance in the production process]**

Energy efficiency and more particularly the insulation of a building play a key role in achieving the CO<sub>2</sub> reduction targets connected with the EU Green Deal.

Since 1997, BASF's insulation panels made of Neopor® have been helping our customers avoid CO<sub>2</sub> emissions. An analysis performed by BASF showed that the volumes of Neopor® sold in 2019 helped our customers avoid 37 million metric tons of CO<sub>2</sub> emissions over the entire product lifecycle when used to insulate existing buildings.

To offer our customers products with an even better environmental profile, BASF has started to sell Neopor® BMB. Using the biomass balance approach, 100 percent of the fossil resources needed to produce Neopor® can be replaced by renewable raw materials. The use of renewable raw materials reduces the carbon footprint of Neopor® BMB by 90 percent compared with traditionally produced material.

Due to tighter regulatory requirements, demand for our product Neopor® BMB is strong. The example shows how we continuously evolve our innovative products contributing to a sustainable development and combining sustainability with economic success.

### **[Slide 15: Outlook 2021 for BASF Group]**

Ladies and gentlemen,

We will conclude with BASF Group's outlook.

Overall, we expect solid demand in the different businesses until year end and beyond. Automotive will remain challenging with production levels far below consumer demand for cars. The final number of cars produced will continue to depend on the availability of semiconductors. We expect the supply challenges to last at least until the middle of next year.

Margins in the upstream businesses are slowly normalizing from a very high level with improving availability but largely stable demand. Throughout basically all value chains, our suppliers, our customers, and we ourselves continue to be confronted with increasing raw material, energy and transportation costs, supply chain constraints and the related and largely unforeseeable issues with material availability. The situation requires an elevated level of coordination and close customer and supplier contact. Despite these challenges, we express our confidence for Q4 by increasing our outlook for 2021 in accordance with market expectations:

- We now expect sales in the range of 76 billion euros to 78 billion euros.
- EBIT before special items is anticipated to reach between 7.5 billion euros and 8.0 billion euros.
- The return on capital employed is expected to be between 13.2 percent and 14.1 percent.
- Accelerator sales are expected to reach between 21.5 billion euros and 22.5 billion euros.
- We maintain our forecast regarding the expected CO<sub>2</sub> emissions.

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

- We now assume gross domestic product to grow by 5.3 percent.
- Industrial production and chemical production are now both expected to grow by 6.0 percent instead of 6.5 percent for the full year.
- Our assumption for the average exchange rate of the U.S. dollar per euro remains unchanged.
- With an average annual oil price of 70 U.S. dollars per barrel Brent crude, we increased our expectation for 2021.

And now, we are glad to answer your questions.