We create chemistry

Conference Call Q2 2020
Transcript Q&A
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Christian Faitz (Kepler Cheuvreux): Can you please elucidate your comments on page 10 in your Half-Year Report a bit about potential upcoming impairments on the back of the corona pandemic?

Dr. Hans-Ulrich Engel: We start with your question on the impairments. The situation is quite obvious. Market prices have come down significantly, demand has come down significantly. That simply forces us to address the risk of potential impairments in our outlook and in the risk reporting section of the outlook.

You have seen us impairing a value of about €800 million of the Wintershall Dea asset, as a result of the lower long-term price scenarios primarily. There is also a small impairment as a result of lower reserves in one field.

For the remainder of the portfolio, we haven't done any impairments in Q2, simply due to the fact that – this goes hand in hand with not being able to give you an outlook for the full year 2020 – we don't have the visibility that it needs and we don't have the transparency that it needs to run impairment tests for the rest of the portfolio at this point in time. We are at the height of the corona crisis. Visibility is almost inexistent. Martin alluded to the fact that more than 50% of our current orders are for month 1, about 30% for month 2. That gives you an idea how short-term our view only is.

So, this is a long and winded explanation to tell you that we don't have more at this point in time than the fact that there is a risk. We will see over the coming months to what extent we may have to book impairments, but first and foremost we need to get an understanding of how the world will look post corona, what the new normal will be. Once we have that understanding, we will run our impairment tests and come to the necessary conclusion. I hope this helps to put things in perspective.

Matthew Yates (Bank of America): Coming back to your remarks around impairments: I am not sure if you are thinking about reviewing recent acquisitions or whether this relates to organic capex projects. So, if you can give any indication on assets that you may be thinking about.

As a broader question: If you are impairing assets, should we be rethinking the way management compensation is being tied to growing volumes rather than so much the returns of the business?

Dr. Hans-Ulrich Engel: On the impairments: There is actually not much more that I can say in answering the prior question that came. Maybe one more thing: When you look at the guidance that ESMA gave, the European SEC, with respect to their expectations on what is going to happen as a result of the COVID-19 pandemic, they made a very clear statement that they expect companies to review their mid and long-term scenarios. That is exactly what we will do in Q3 and in Q4, hoping that by then we have the visibility and we have enough understanding of how these mid and long-term scenarios actually look. This will be something that applies to all kinds of assets. There will not be a differentiation between acquired assets and assets that resulted from capex. We simply will have to look and test these assets for their respective values.

Dr. Martin Brudermüller: In terms of tying remuneration into this: That is actually exactly what is happening. The LTI of BASF is tied to three parameters, one is growth above market, which is clearly the volume part and it is our ambition to grow faster than the market. It is about the EBITDA, which is the earnings part; this is the 3 to 5% on average. And the third one is the sustainability part, which is the CO_2 emissions.

I think we have a good mixture here and a good balance in terms of where we want to go. I don't see that we have to overexpose one now. The team has very clearly got the message where they have to go. I think these three parameters have to somehow balance out and form the basis for remuneration.

Christian Faitz (Kepler Cheuvreux): Can you explain the plus 28% sales volume number for Greater China in June? With or without corona, this is an exceptionally good number. Were there any major outages in June 2019 and, hence, the base was so low?

Dr. Martin Brudermüller: Your question on Greater China: It is indeed a good performance over there. It only shows how forceful and great the recovery in China was so far.

It goes across the portfolio, but it is particularly pronounced in the Surface Technologies segment, in the mobile emissions catalysts, which goes with the car industry that recovers. But it is also in the Chemicals and the Materials part. With the Nanjing turnaround we are fully back. These are three pronounced parts of this China performance.

Andrew Stott (UBS): On volumes: Thank you for the information on the sequence of volumes. I am just trying to understand the clarity of slide 6: I wasn't quite sure of the concepts. In July, minus 9 is what exactly? How do you use that for volumes versus June e.g.? I am just trying to understand where we are in Q3 so far.

Dr. Hans-Ulrich Engel: On slide 6 and what that actually shows. This is daily orders. In other words, this is value of customer orders coming in. It doesn't give you an indication what is volume, what is price in there. We have taken that simply from our daily order dashboard.

What it shows is that the big gap that we had in April at minus 27% in daily orders, so in other words: in value, coming in that month, now July year-to-date, has decreased to currently minus 9%.

My assumption for that is – but I don't have data for that available – that a large part of that obviously is in volume. But I can't give you the PVX, in other words: price/volume structure and currency, as we have it when we report our sales figures. But the assumption is the majority of that being volume.

Andrew Stott (UBS): Sorry, I just come back on that. You are showing the four-month number, so each of the blocks is showing a full-month order book if you like. Is that right?

Dr. Hans-Ulrich Engel: What it shows you is: I'll start with April. This is orders coming in in April 2020 compared to April of the year 2019. What it gives you is that during the month of April, the orders that we received were 27% lower than in April 2019, or in July the orders that we received month-to-date were 9% lower than what we received in July 2019. Again, this is value.

Andrew Stott (UBS): On the dividend for next year. I see positive news on your disposal processes, both for pigments and construction chemicals, I guess around €4 billion. Will you tie that, coming February, to your dividend paying ability or will you be more looking at your underlying cash flow and underlying earnings?

Dr. Martin Brudermüller: Let me start with our financial targets which we published with our new corporate strategy which was the assessment of BASF's situation and earnings power going forward midterm in an environment which had certain growth rates, expectations and opportunities.

You know that we are very much committed to this dividend policy. Against a lot of headwind, we had this year, we have actually stuck to our announcement in February and have paid the dividend this year for a performance in 2019.

We also said, we have then to decide about the dividend policy for 2020 when, first of all, we have a clear outlook, we have the performance of this year. And we have to see whether we have to correct anything from the assumptions for the macroeconomic environment going forward.

What we also said all the time, already before COVID-19 came: With the proceeds we get from the divestures and with the needs of capital for the investment in growth projects like battery materials and China, that this is not a year-to-year, one-to-one.

But we said, we have a certain amount of money coming in and we have a certain amount of money we want to spend. I think we have to make the same assessment now when we go forward under the new framework and then decide at the beginning of 2021 about how we pay the dividend for 2020 and whether we have to do any corrections to our assumptions we have taken in 2018.

That is what I can tell you today. That we have a real fighting spirit, to commit to what we said is clear. But we cannot do that in an unrealistic framework.

Thomas Wrigglesworth (Citi): On the carbon footprint which you state will be coming through in 2021. How will we see this change in the P&L? Does this enable BASF to have higher pricing? Do you expect to take more volume? Are there associated costs with this? If you can help transpose that to the financials, that would be very helpful.

Dr. Martin Brudermüller: About the carbon footprint: We are very proud that we can manage this vast information, to structure it and to really attribute it and associate it with each and every product.

What it actually opens – this is, I think, the important aspect – is: It really opens the discussion with your customer. We are with our products their scope 3. If you just took yesterday – I don't mention the name –, there was an important car maker in Germany who has announced very ambitious targets to reduce the footprint of their cars over the next ten years. If they want to do that, they have to talk to their suppliers what kind of CO_2 package they bring in. This is exactly our chance where we can talk about it and we can talk more about specification and price.

When it comes to the impact, I would say, a product that has less CO_2 should have a higher value than a competitor's product with a high association of CO_2. We have then also opportunities, e.g., with the mass balance approach. Just imagine: We take pyrolysis oil into the cracker which comes from recycled plastics, then we allocate this to a product which then reduces its CO_2 footprint, so that we have the opportunity to talk to the customer and say: Yes, you can pay 10 cents more per kilo and you get a certain amount of CO_2 less in the backpack.

So, I would say: If that works and if we really come to the point that the whole industry is forced – and they will be forced by their customers – to create transparency on CO_2, we should have the opportunity to increase margin and value of certain products as a kind of a differentiation and a competitive advantage.

So, it should be a lever which anyway has to come because of the environment and the demand of customers and society. But it is also a huge opportunity by having the Verbund and all these measures to offer products with differentiation. And differentiation is normally margin. That is the clear intention that you have to see then over time also in our earnings.

Lucy Hancock (Bernstein): On the CO_2 product footprint calculation, on the ability to differentiate from customers. What makes you confident that your products actually will be more or as CO_2-efficient than others? Is there anything in the product itself yielding positive results or are there any surprises?

At your CMD last year, you have said that by 2030 your target is 0.4 tons CO_2 per ton produced. That is based on CO_2-neutrality versus 2018 from 0.6 tons CO_2 per ton. Is that then implying that all the reduction on a per-ton basis is due to volume or are there other CO_2 reductions that are happening there?

Dr. Martin Brudermüller: Let me start with the last one, which basically was a target in absolute emissions. You know this is 22 million tons. We did not break it down to single products at that point. That means certainly that in 2019 we had lower production and volume decline and with this, you also have on certain products certainly less emissions. It strongly depends on the portfolio because you have some with high and some with low emissions. This then simply adds to the mathematics. But this is basically taking major decisions about sites and how you produce energy etc. to mitigate and to manage the absolute number of CO_2.

Regarding the product carbon footprint, you basically break that down on a product level, on a kilogram level. Just imagine: We have products with a very high one, with a very low one. I like that transparency. I think we are in a good position to differentiate here because you know that the Verbund is a very, very efficient way to produce, as we use, e.g., excess heat to preheat something and which automatically translates also in the CO_2 backpack. That's why we are relatively confident that for most of our products we have a favorable footprint.

But let me also be very clear: There might be a few products where we will see from competitors that they maybe have a better footprint. Then it's exactly what I want my team to do: They have to run to get better.

I think I already explained the toolbox: you can buy in renewable energy, you can utilize bio-based materials instead of fossil ones, you can take the pyrolysis oil from ChemCycling. I think there is no other company that has such a great offer and opportunities in terms of levers to reduce CO_2. This is why I say: We simply leverage the Verbund to its full scale here. With this, I expect that we have more to offer than other companies have to offer.

I know from a lot of customers: They waited for that, they engage and they really embark on journeys by saying "Okay, I might get a product I buy today in five or ten years actually CO_2-free." This is why we will get some competitiveness and feeling from competitors, but I am quite sure that most of our competitors feel BASF in their neck by us having products with a better carbon footprint.

Chetan Udeshi (JP Morgan): I just want to get an update on your activity around methane pyrolysis for hydrogen generation. What is the progress there? Have you had any major success in terms of development of the process for that part of your R&D activity?

Dr. Martin Brudermüller: This is indeed one of the key programs we have in the carbon management program because this is really the enablement to have hydrogen more or less CO_2-free, that has a much better energy balance than the water electrolysis which is very expensive because you have to cleave the water molecule and that is a lot of renewable energy. Nevertheless, we have the German and the European hydrogen strategy which we very much appreciate, but it will mean huge costs for the CO_2-free hydrogen.

The only way to get hydrogen CO_2-free, but not with electrolysis, is methane pyrolysis. This is why this is a key project. We have a heavy R&D program here. We are building pilot facilities. And we are marching on very nicely here.

It's still a lot to do and to make this a process which can be run in large scale. But I am actually very happy, with the progress they make in terms of stability, how to run it, to run it under pressure etc. There are a lot of parameters you have to check. I would say, we are at least where we want to be with the progress. I am very happy about that.

Thomas Wrigglesworth (Citi): Following up on the Q3 comments you have made. Obviously, we have got a stepdown in Ag Solutions. Could you help us to understand where the offset is coming from? Is it a particular division where you are expecting to see a raw material benefit come through or volumes recover faster? Any color around where that Ag Solutions offset will be picked up elsewhere in the group would be very helpful.

Dr. Hans-Ulrich Engel: Seasonally – you will look at the history of BASF over the years –, you see the downturn in Q3 compared to Q2 which among other things has to do with the summer lull, in particular in Europe. The ag business traditionally is weaker in Q3 than in Q2; you alluded to that already. The season in the northern hemisphere has ended and the season in the southern hemisphere has not yet really started.

We had there a special development that we need to keep in mind in Q3 of last year with orders coming in very, very early in South America for our ag products. We don't expect to see this this year. We expect orders coming closer to the actual application point in time. And we see the currency headwinds that we have already alluded to: Brazilian real and the Argentinian peso. That is the second piece of explanation.

What else do we expect? In the upstream businesses, so Chemicals and Materials, we do not expect to see a meaningful improvement compared to Q2 2020, neither on the margin nor on the demand side. And please keep in mind that we have the unfortunate shutdown of the Port Arthur cracker and we need to see what kind of an impact that has, for sure not a positive impact; on the results in Chemicals it will have a significant negative impact.

Then, in the businesses depending on the automotive industry, we expect to see some improvement. Actually, we talked about China already, the V-shaped development that we have there, in particular in automotive. But I can say that, in particular in North America, demand has picked up significantly and is actually stronger than what we had forecasted several weeks ago. So, we are expecting these businesses depending on automotive to see some improvement.

And Nutrition & Care then to be more or less on the level of Q2. That should help to put Q3 versus Q2 in perspective, hopefully.

Matthew Yates (Bank of America): You seem to be having a kind of U-shaped recovery in your sales trajectory, but your guidance is more than L-shaped recovery in profit. I understand the answer you gave in terms of the seasonality in ag. So, maybe we can just talk a little bit more about the upstream divisions and your comment that you don't see much meaningful improvement there.

Can you talk about the role the higher feedstock costs play in the margin evolution and whether you are seeing any impact in the broader market from competitors ramping up capacity or the way they are behaving?

Dr. Martin Brudermüller: Matthew, maybe I start with the outlook again, U-shaped and L-shaped. Let me say that BASF is always a little bit more than just looking at our numbers. It is also somehow a proxy for industrial production worldwide because our materials go into so many customer industries.

What is happening now if I look at our share price reaction today, is that maybe with what we say we destroy a little bit of the illusion that the recovery will be fast. I think we just have a little bit more realistic view here. You saw this monthly development going forward.

You clearly see that improvement, the improvement is just slower than most probably some of the people think. They think you can overshoot with your second half last year in positive numbers and then you basically shrink the overall delta between 2019 and 2020. We just don't see this indication.

We clearly indicated our high dependence on automotive; that is the most crucial one. You see mixed pictures over there. On the one hand, you see that short-work schemes are reduced, that a lot of the production lines run. But you also see some cautious statements on their orders and many orders are driven by more premium cars because company cars are replaced. But it comes less from the private side to build cars. So, this is one of the large uncertainties.

You asked about a little bit more guidance on the downstream industries. We referred to nutrition and care chemicals already. They are really resilient and stable. But in the first half of the year or when the pandemic started, we saw a really huge volume increase because they took in their materials. It relaxes a little bit because stocks are filled and people have their own storage of hygiene materials, so it turns more to normal. That means, it's still a good business, but the huge hype is maybe over a little bit.

On the nutrition part, I have to say, this is a rather stable thing because pharma and nutrition is something you need continuously, independent on what the framework is out there. I think we also talked about ag and with the upstream part that is a more long-term picture where we just don't see anything now contributing this year in terms of supply and demand. We are very low with the margins; that is also the main driver of the low performance now in Q2; that is not improving in Q3 and most probably in Q4 neither.

What we really do here is that we give a maybe more realistic picture than some other people who still think and believe and hope for a quick recovery. This is why this is maybe something between a U and an L. You can now say, an L with a small ramp. You can discuss about its slope.

We clearly admit here that we see on a monthly basis an improvement. But it is not so fast that it really changes the game in the second half. So, a little bit a longer explanation, but necessary to understand why we clearly said this is the maximum we can say today.

Georgina Iwamoto (Goldman Sachs): Going back to the guidance on the third quarter: I wanted to understand how you see the sequential trends versus normal seasonality. It makes kind of high-level sense that the end of July and August would be weak due to school holidays and that September is really the key month. Why have we got a more cautious message? Do you have lower visibility of September than usual or is that month already weaker than expected? Maybe you can talk about the year-on-year trends as well as the sequential.

Dr. Martin Brudermüller: We alluded a lot to Q3 already, mentioned the visibility of orders. If you take that, it's true that we don't have so much insight into full September. September is every year, at least in Europe where the summer lull is always a little bit stronger than it is in other regions, a kind of key month. Is it really picking up or is it not picking up? That will be also very crucial this year.

As we said, we don't expect that this will be a super pronounced recovery. That's the reason why we are cautious. Beyond that, normally, you have then October/November which is also a strong month for production with Christmas sales, where we don't see anything yet from the order pattern of our customers. This is why I think we have to pause here with information and have to go forward now and see how it develops and how it really picks up in the fourth quarter. We clearly said that.

We also expect that Q4 will be gradually better than Q3. That is the logic of our numbers and we believe in that. How strong that pick-up in Q4 is, I simply cannot say.

Tony Jones (Redburn): In Q2 there was this €880 million cash inflow. Could you please tell us what the main parts of that are and if anything might recur in the second half.

Then, also sort of thinking about free cash flow for the year: Year-to-date, it is just below zero. Based on your guidance for Q3 and maybe a more normalized result in the final quarter of the year, I assume free cash flow somewhere between €2 and €2.5 billion euros. Is there anything I am missing? Or is that sort of scenario how we should be thinking?

Dr. Hans-Ulrich Engel: I'll start with the bigger picture. In Q1, lots of you were concerned about the cash flow that we generated. We explained what this is. Q1, due to the fact that we have a very strong ag business in Q1, is cash-consuming. That situation has even seen more impact as a result than the acquisition of the Bayer assets in 2018. So, from 2019 on, a stronger cash consumption in Q1 than what we had historically.

Exactly the same development in Q1 of this year. We then had guided for a strong cash flow for the following quarters. This is exactly what we are expecting. I think, Q2 is already a proof of that.

What will be the key drivers for cash flow in the remaining two quarters? It will be our strict and very focused working capital management. It will be our strict cost management and it will be lower capex, as you have already seen in Q2.

I think the €880 million that you are referring to is in the miscellaneous items line. What that is in the end is the non-operating cash flow affecting items that we have in net income and in this case in particular the €819 million impairment that we have in the Wintershall Dea participation which is non-cash-effective. That's the big chunk in the €880 million. The remainder – pardon my English – are onesies and twosies then adding up to the €880 million.

Laurent Favre (Exane BNP Paribas): It doesn't seem that we are seeing capacity cuts, are you thinking of delaying your key upstream projects in India and China? Martin, you just talked about how recovery in the upstream could take years.

Dr. Martin Brudermüller: It's too early to say that. We have a huge team working on that, detailing it down and preparing it for decision making, looking into market developments. I cannot foresee now that the timeframe changes. I think the most important part is the market assessment, that we really confirm that this is still valid. I don't see major delays from today's point of view with regard to the big China project.

Laurent Favre (Exane BNP Paribas): I was wondering if you could talk a bit about your utilization rates and perhaps give us a sense of where you think industry utilization rates are.

Dr. Hans-Ulrich Engel: What have we done in Q2 and how have we run our upstream assets? Obviously, according to market demand. You see this also reflected in the development of our working capital. Among other things, we have shut in temporarily our isocyanate plants. Most of them are back up and running. On the cracker side, we had relatively good and high capacity utilization in Q2, at least in China and also to a large extent in North America. Also, the Antwerp cracker and the Ludwigshafen crackers ran at, I want to say, okay capacity utilization rate.

What's happening in the industry is at this point in time extremely difficult to say. We do not yet have the data, the reports on industry utilization rates, but if you look at demand overall, I would expect that everyone ran their plants in line with market demand, which would indicate in Q2 a rather low capacity utilization across the industry with respect to upstream plants.

Laurent Favre (Exane BNP Paribas): Do you expect others to shut down in the second half, especially weaker players, given your outlook? I am talking of permanent shutdowns, not temporary.

Dr. Hans-Ulrich Engel: Well, you see this happening here and there. There is a rather recent announcement – I think that came out last week – on a BDO plant in the US Gulf Coast by one of the competitors. But, actually, that's the only one that I saw so far.

Markus Mayer (Baader Bank): On the cost savings: Could you help us on the phasing for this year?

Dr. Hans-Ulrich Engel: We gave you a run rate there of €1.3 to €1.5 billion. I am a bit hesitant to give you a P&L impact at this point in time. Let's come back to that in the next quarterly call.

But I can guarantee you: We are very well on track to achieve that.

Markus Mayer (Baader Bank): But should we assume that this effect is more back-end-loaded this year or should it be equally split over the year?

Dr. Hans-Ulrich Engel: With these programs, you have this ramp-up during the entire program time and then also during the respective years, so a bit more coming in the second half of the year.

Laurence Alexander (Jefferies): As part of your review of your longer-term scenarios, are there any other broader kind of philosophical tenets of BASF's strategy that you would be reviewing? So, e.g., the way you balance cyclicality and commitments to different cyclical industries within the portfolio, how you think about the mix, then markets you have exposure to. Are there any other assumptions that you are also putting under review?

Dr. Martin Brudermüller: Laurence, when we are looking at the current situation, we are actually happy that we launched the corporate strategy because the topics we have been working on there have been exactly right for the situation we are in. I think this is also one of the reasons why the BASF team performs so greatly because we did not have to put them on a new path. They actually have been working there, we intensified, we accelerated things.

I think the strategy is still very, very valid, also post COVID-19. And there is no alternative to be more customer focused. We need digitalization. Innovation, as we said it, with carbon footprints, is even more pronounced. Efficiency, leaner structures – that all pays in.

When it comes to the portfolio, you know that we have taken quite rigorous steps this year. We are now working towards executing them. You should not underestimate that. Its huge teams working on that because it's highly complex, particularly the Construction Chemicals part – and this all in the environment of the pandemic, not having physical meetings.

We continuously look into the portfolio. We will continue to do that. We have done this in the past. You know this chart in our equity story, what we have actually sold and also acquired over the recent ten years which is basically more than one third of the sales of BASF that turned over portfolio-wise. And we have to go on with that. That also has to do with the long-term assessment of the chances of our business where we have then to decide for this business whether BASF is still the best owner going forward. You can expect that we will have a very critical view on the remainder of the portfolio as in the past.

Sebastian Bray (Berenberg): As far as capex is concerned for the year 2021, assuming that the Chinese Guangdong project goes ahead as planned, what is the lowest level plausible, provided that macro is not a disaster?

Regarding the strategic role of China within the BASF Group, it has performed very strongly over Q2. Could you give any indication of how much of BASF Group EBIT came from China in Q2?

Dr. Martin Brudermüller: The role of China – let me start with this: I think the V-shaped recovery now shows even one more time how important the Chinese market is and also how robust the market is. Having all these trade frictions and, on the other hand, having this recovery shows you that this is mainly a domestic-market-driven recovery.

If you look at a lot of the KPIs, there is still such a huge difference in the per-capita consumption with the average of the western world, that this market has huge opportunities for the next decades. I think this will be maybe even more pronounced post COVID-19 because they will continue on this path in China, whereas we might have slower market development in the western world.

The strategic value of the China business is even more pronounced than it has been in the past. I don’t expect that any of the numbers in the midterm will change that.

With respect to the capital allocation, let me only say that you saw that in our numbers this year: We are much more restrictive, and we drive down overall capital expenditure. We will also proceed with this in the next years. I can assure you that. But on the other hand, we also clearly said that we don’t give up our growth projects which are battery materials and the China project.

You don’t have to expect that there is huge spending already in 2021. The team is ramping up and certainly first items are booked, but the main part we have to allocate for the China project is beyond 2021.

Dr. Hans-Ulrich Engel: Sebastian, your question on EBIT coming from China in Q2: Under normal circumstances, we don’t disclose EBIT coming from specific countries. But here is what I can do for you: You look at Asia Pacific with an EBIT bsi of €180 million for the region and I can tell you that the vast majority of that comes out of China. It shouldn’t be a surprise. We talked about the recovery that we have seen in China. That started towards the second half of March, while other countries went into lockdown.

When you look at these numbers coming from China, please always keep in mind that there is a big at-equity participation that we have there. In fact, the BYC joint venture is a 50/50 joint venture and, as a result of that, only reported as its net profit in our EBIT bsi.

2 Segments

2.1 Chemicals

– no specific questions –

2.2 Materials

Markus Mayer (Baader Bank): You announced this week a force majeure for your TDI Geismar plant in the US. How long should we pencil in the length of this plant shutdown?

Dr. Martin Brudermüller: It will most probably be about two weeks.

2.3 Industrial Solutions

– no specific questions –

2.4 Surface Technologies

Andreas Heine (MainFirst): The automotive recovery we see right now, I think, is different from former days because it is happening at the time of the paradigm shift going to more e-mobility, with the Green Deal and also sustainability efforts that might happen faster.

Do you see this already in this recovery, that there is a different mix? What does that mean for your catalyst business and how fast is your battery material business growing by this? Does it mean more investments in battery materials than you originally thought?

Dr. Martin Brudermüller: There is no change now because of the situation the automotive industry is in that they abandon their plans on e-mobility. I cannot see that. It is, on the other hand, too early now to see from an ordering pattern, from the market that now more electric cars are actually sold. We have to look at this over a longer timeframe.

What we, however, see with automotive: The battery materials business of BASF is growing nicely this year. We are also qualifying our materials now amongst a broad customer circle which referred to our current investment.

But we also told you that, after this initial step, which is quite a significant one, we will look at how much money we really earn with that. That is then also the justification and the speed for further investments into further capacity. But I have no doubt that the Green Deal will make the environment at least in Europe even tougher for the automotive industry. Everything you can read is going to support electric cars and to make life for combustion-engine-driven cars more difficult. I think this trend is clearly proceeding even after COVID-19. It will depend on the overall number of cars, but I guess the share of electric cars will proportionally even increase.

Georgina Iwamoto (Goldman Sachs): Can you give us a more detailed update of how your cathode-active materials business is trending. You said that it's going nicely this year. It would be great if you could put some numbers to that and maybe an idea of the kind of current capacity levels that you have.

Dr. Hans-Ulrich Engel: On battery materials: You want some more color there, you want some more data. What I can give you is that sales in Q2 for battery materials are up by 10%. This compares to significantly higher increases that we have seen in 2019 and also in Q1. But the good message is: It's one of the businesses that generates higher sales in this very difficult environment in Q2. I hope that answers your question.

2.5 Nutrition & Care

– no specific questions –

2.6 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): If my numbers are right, your reported growth in herbicides again outperformed the other product areas in agro. Is that mainly glufosinate?

Staying with herbicides, can you comment on the payment that Bayer expects from you for the Dicamba settlement?

Dr. Hans-Ulrich Engel: On Dicamba: I think that refers to the Dicamba settlement that Bayer entered into in the US. All I can say is that there is discussion going on between Bayer and BASF and that is it.

On herbicides development: On that, you have to think back to Q1 and Q2 and the disastrous weather conditions that we had in North America. That's the explanation for what we have there. Yes, glufosinate is an important part in our herbicide portfolio.