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# Analyst Conference Call Q2 2021

## Speech

### July 28, 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.

On July 9, BASF released preliminary figures for the second quarter of 2021 and increased the outlook for the full year. Today, we will provide you with further details.

### **[Chart 3: Q2 2021: BASF with very strong second quarter supported by higher prices and volumes]**

Let us begin with the highlights of the second quarter of 2021.

The strong growth momentum of the previous two quarters has continued. We achieved volume growth and price increases across all regions and all segments compared with the prior-year quarter. In some businesses we were able to restore and, in some cases, increase our margins with the price increases; in others there is still some way to go.

EBIT before special items rose by more than 2 billion euros compared with Q2 2020 and reached 2.4 billion euros. This is also considerably above the pre-pandemic level of 1 billion euros in Q2 2019.

Considerably higher earnings in our upstream businesses were the main driver for the strong increase in earnings overall. Compared with Q1 2021, margins in some commodity product lines such as isocyanates, slightly declined in Q2 2021 but remained on a high level.

In our downstream segments, we managed to increase volumes and prices based on strong demand. However, pressure from increased raw materials prices remained high in several downstream businesses.

**[Chart 4: Recovery of global chemical production continued in Q2 2021]**

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

According to the currently available data, global chemical production increased by almost 10 percent in Q2 2021 compared with the prior-year quarter. With an increase in volumes of 28 percent, BASF Group grew well above global chemical production.

All regions recorded strong demand growth; this was most pronounced in Asia excluding China, and in Europe. In the prior-year quarter, these regions, as well as North America, were significantly impacted by the COVID-19-related lockdowns. In comparison, chemical production in China had already grown in Q2 2020.

**[Chart 5: BASF Group Q2 2021: Volume growth across all regions]**

This slide shows our volume growth by region. Sales volumes are compared with volumes in the respective prior-year quarters. During the past three quarters, we increased volumes in all regions.

In Greater China, we recorded double-digit volume growth during the past five quarters. In Q2 2021, volume growth in China was less pronounced as the recovery was already in full swing in the second quarter of 2020. Volume growth, however, remained strong at 10 percent.

In Europe and in North America, volumes grew considerably in Q2 2021 as the prior-year quarter in these regions was heavily impacted by the lockdowns due to the pandemic.

**[Chart 6: BASF Group Q2 2021: Volume growth across all segments]**

We move on to the volume development by segment.

In Q2 2021, we increased volumes in all our segments. The volume increase was strongest in the Surface Technologies and Materials segments. Volumes also grew considerably in Industrial Solutions, Chemicals and Agricultural Solutions.

Overall, volumes increased by 28 percent or 3.5 billion euros in absolute terms compared with the prior-year quarter.

**[Chart 7: BASF Group Q2 2021: Sales increased considerably due to higher prices and volumes]**

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

Sales of BASF Group increased by 56 percent to 19.8 billion euros. As already alluded to, considerably higher prices and volumes were the driver for this. In total, organic sales growth amounted to 63 percent in Q2 2021.

Currency effects of minus 7 percent were mainly related to the depreciation of the U.S. dollar. Portfolio measures had a negligible impact on sales.

**[Chart 8: BASF Group Q2 2021: Very strong earnings growth]**

As I already mentioned, EBIT before special items came in at 2.4 billion euros. We achieved considerably higher earnings in the Chemicals, Materials, Surface Technologies and Industrial Solutions segments. Further details on the earnings development in these segments can be found in the Half-Year Financial Report published this morning.

In the Nutrition & Care and Agricultural Solutions segments, EBIT before special items declined considerably. I will talk about this in more detail on the following slide.

Earnings in Other also declined considerably compared with Q2 2020; this was mainly due to higher additions to provisions for variable compensation components as a result of the strong earnings development.

**[Chart 9: Nutrition & Care and Agricultural Solutions: Main drivers for EBIT before special items development in Q2 2021]**

Let me now provide you with further details about the performance of Nutrition & Care and Agricultural Solutions in Q2 2021. Both segments were able to increase volumes and prices but recorded a considerable decline in EBIT before special items.

In Nutrition & Care, EBIT before special items declined by 46 percent. The earnings decline was mainly driven by the Nutrition & Health division. Compared with the strong prior-year quarter fueled by an exceptional demand during the pandemic, margins declined on account of negative currency effects, lower prices and higher variable costs due mainly to higher raw material costs. In animal nutrition, the earnings decline was most pronounced. Lower volumes in vitamin A, particularly due to the tie-in and start-up of the vitamin A capacity expansion in Ludwigshafen, as well as higher costs from several turnarounds in Q2 were the main drivers. As announced, we plan to bring our vitamin A plant expansion on stream in the second half of 2021. The project is well on track.

In the Care Chemicals division, earnings also declined – compared with a strong second quarter in 2020. This was mainly driven by higher raw material prices that put pressure on margins. Higher fixed costs, in part due to higher maintenance activities, also had an impact.

During the second half of 2021, we expect an improvement of our earnings in the Nutrition & Care segment compared with the second half of 2020.

In Agricultural Solutions, EBIT before special items declined by 38 percent. This is particularly disappointing because our Ag team was very successful in driving volumes up by 15 percent and increasing prices by 3 percent. Due to our regional exposure, the ongoing strong FX headwind, mainly in the U.S. and Latin America, dragged sales down by 7 percent. Higher fixed costs as well as freight cost increases due to higher sales volumes burdened earnings. Furthermore, margins developed unfavorably due to product mix effects.

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

## **Hans-Ulrich Engel**

Good morning ladies and gentlemen,

### **[Chart 10: Major portfolio measures: Acquisitions]**

Let me first give you an update on our recently announced acquisitions.

- In May 2021, **BASF and Shanshan**, a leading Chinese lithium-ion battery materials supplier, agreed to form a BASF majority-owned joint venture to produce cathode active materials and precursors in China. The purchase price for BASF will be in a mid-triple-digit million-euro range. Hunan Shanshan Energy operates four production sites for CAM and PCAM in Hunan and Ningxia with an annual capacity of 90 kilotons by 2022.

By forming the intended joint venture, BASF further strengthens its position in Asia building up an integrated, unique global supply

chain for customers in China and worldwide. Through this joint venture, we will increase our annual capacity to 160 kilotons by 2022 with further expansions underway – making BASF the first company with production capacities in all major markets. Closing of the transaction is targeted for later this summer following the approval of the relevant authorities.

- In June 2021, **BASF and Vattenfall** signed a contract for the purchase of 49.5 percent of Vattenfall's wind farm Hollandse Kust Zuid by BASF. The purchase price amounts to 300 million euros. Including BASF's contribution to fund the wind farm construction, BASF's total commitment amounts to around 1.6 billion euros.

Please consider that following the intended resale of around 50 percent of our share in this project to a financial co-investor, we expect to consolidate our participation at-equity. As a result, the related capex will then not be reported as such in the financial statements of BASF Group.

The wind farm is expected to become fully operational in 2023 with first electricity produced already in 2022. It will be the largest offshore wind farm in the world, with 140 wind turbines and a total installed capacity of 1.5 gigawatts. It will also be the first offshore wind farm without public subsidies for the power produced. BASF is acquiring the electricity from the wind farm for its ownership share through a long-term power purchase agreement. This will enable us to substitute grey power with green power and thus implement innovative, low-emission technologies at several of our production sites in Europe, mainly in Antwerp. Closing of the transaction is expected in the fourth quarter of 2021, subject to the approval of the relevant authorities.

**[Chart 11: Major portfolio measures: Divestitures]**

We have also been successfully working on divestitures.

On June 30, 2021, we closed the divestiture of our global **pigments business** to the fine chemical company DIC following the fulfillment of clearance conditions. With DIC, we have found an acquirer whose portfolio is excellently complemented by our pigments business.

The purchase price on a cash and debt-free basis is 1.15 billion euros. Special items in the Industrial Solutions segment include a preliminary disposal gain of a mid-double-digit million-euro amount from the sale of the pigments business. The disposal group in the Dispersions & Pigments division was derecognized end of the second quarter of 2021. Since July 1, the name of the division is Dispersions & Resins.

In July, BASF and Clayton, Dubilier & Rice signed an agreement to sell **Solenis** to Platinum Equity. With the agreed divestiture of our 49-percent share in Solenis, we will benefit from the value creation that was achieved through combining the complementary strengths of Solenis and BASF's paper wet-end and water chemicals business in 2019.

The transaction implies an enterprise value for Solenis of 5.25 billion U.S. dollars, which includes net debt of around 2.5 billion U.S. dollars. We thus expect our share in the disposal proceeds to amount to around 1 billion euros. From the third quarter of 2021 onward, the non-integral equity participation in Solenis will be classified as disposal group. Pending approval by the relevant authorities, closing of the transaction is expected before the end of 2021. Upon the closing of the transaction, we expect a disposal gain in a mid-triple-digit million-euro range. This disposal gain will be reported as special item below EBIT, in net income from shareholdings.



In June, we announced the postponement of the IPO of **Wintershall Dea** to a later point in time. While oil and gas prices at the spot market as well as at the shorter end of the forward price curve have recovered considerably, this improvement is not yet fully reflected in the forward-looking broker consensus assumptions. In addition, market valuations of oil and gas companies have for various reasons not yet reached the level the shareholders expect in order to kick off the IPO. Due to its very robust performance, Wintershall Dea is a strong cash contributor to its shareholders. Strategically, we remain fully committed to divesting our share in Wintershall Dea.

**[Chart 12: BASF Group Q2 2021 and H1 2021: Financial figures]**

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

- Martin covered the topline development already, thus I'll start with **EBITDA before special items** which increased by 162 percent to 3.2 billion euros. **EBITDA** amounted to 3.2 billion euros compared with 1.1 billion euros in Q2 2020.
- **EBIT before special items** came in at 2.4 billion euros compared with 226 million euros in the prior-year quarter.
- **Special items** in EBIT amounted to minus 39 million euros compared with minus 167 million euros in the second quarter of 2020. **EBIT** came in at 2.3 billion euros in Q2 2021, compared with 59 million euros in Q2 2020.
- At minus 44 million euros, **net income from shareholdings** improved by 744 million euros in the second quarter of 2021. In the prior-year quarter, BASF incurred a non-cash-effective impairment of its shareholding in Wintershall Dea.

- **Net income** amounted to 1.7 billion euros compared with minus 878 million euros in the prior-year quarter.
- The tax rate was 18 percent.
- Reported earnings per share increased from minus 96 cents in the prior-year quarter to 1 euro and 80 cents in Q2 2021. Adjusted EPS increased to 2 euros and 3 cents in the second quarter of 2021; in the prior-year quarter it was 25 cents.

### **[Chart 13: Cash flow development in Q2 2021 and H1 2021]**

I will now move on to our cash flow development in Q2 2021:

- **Cash flows from operating activities** increased by 295 million euros to 2.5 billion euros in Q2 2021. The improvement was mainly driven by the considerable increase in net income compared with Q2 2020. This was partly offset by the lower release of funds from changes in net working capital.
- **Cash flows from investing activities** amounted to plus 323 million euros – an improvement of about 1 billion euros compared with the prior-year quarter. This was mainly due to the proceeds from divestitures, particularly the divestment of BASF's pigments business. With 767 million euros, payments made for property, plant and equipment and intangible assets were slightly above the prior-year level.
- **Cash flows from financing activities** amounted to minus 4.1 billion euros, down by 4.5 billion euros compared with Q2 2020. Repayment of financial and similar liabilities exceeded additions by 1 billion euros; while in the prior-year quarter, net additions in the amount of 3.5 billion euros increased financing cash flows. Dividend payments were slightly above the level of Q2 2020.

- **Free cash flow** increased by 254 million euros to 1.8 billion euros due to higher cash flows from operating activities.

#### **[Chart 14: Strong balance sheet]**

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

- Total assets increased by 2.6 billion euros to 82.9 billion euros on account of higher current assets. They rose by 3.3 billion euros to 33.1 billion euros. This was primarily due to higher trade accounts receivable and increased inventories resulting mainly from the stronger business performance and higher raw materials prices. Other receivables and miscellaneous assets also contributed to the increase mainly due to higher precious metal trading items.
- Net debt rose by 1.6 billion euros to 16.2 billion euros. This resulted from reduced cash and cash equivalents and a slight increase in financial indebtedness. Compared with the respective figure at the end of June 2020, net debt decreased by 4.3 billion euros.
- Equity amounted to 38.1 billion euros at the end of June 2021, an increase of 3.7 billion euros compared with year end 2020. This was driven by net income and other comprehensive income, mainly due to actuarial gains and translation effects.
- On June 30, the equity ratio was 45.9 percent.

And now I will hand back over to Martin.

#### **Martin Bruder Müller**

Before I turn to the outlook, I would like to share an example that illustrates how BASF's innovations contribute to a circular economy and the success of our customers.

**[Chart 15: BASF's plastic additives VALERAS™ enable customers to achieve their sustainability goals]**

Plastics are a versatile material. If they remain in use as long as possible and, ideally, do not end up as waste at all, they can also make an important contribution to sustainability. To support our customers in driving sustainability connected with plastics, BASF's plastic additives team focused its sustainable solutions under the new global brand VALERAS™.

We help our customers to reduce CO<sub>2</sub> emissions with our focus on lower product carbon footprints and bio and renewable feedstocks. VALERAS™ builds on the extensive experience in stabilization, protection, technical and regulatory support of BASF to strengthen its two technology approaches to the circular economy: extend the loop and close the loop. VALERAS™ includes additive solutions that reduce VOC emissions in foams, enhance biodiversity in plastic greenhouses and reduce energy consumption during PP nonwoven fiber production.

To help achieve global recycling targets, which are ranging from 25 to 100 percent in the packaging industry, the portfolio will expand to include BASF's additive packages for mechanically recycled plastics and applications.

**[Chart 16: Outlook 2021 for BASF Group]**

Ladies and gentlemen,

We will conclude with BASF Group's outlook.

As already announced on July 9, we increased our outlook for 2021 based on the strong business development in the first six months of the year:

- We now expect sales in the range of 74 billion euros to 77 billion euros.
- EBIT before special items is anticipated to reach between 7.0 billion euros and 7.5 billion euros.
- The return on capital employed is expected to be between 12.1 percent and 12.9 percent.

The considerably increased earnings expectations in the Chemicals and Materials segments are the main reason for the increase of our forecast. We continue to expect a certain normalization in margins and thus earnings of the upstream businesses in the second half of the year – but to a lesser extent than previously assumed.

Regarding our Accelerator sales, we now expect 21 billion euros to 22 billion euros in 2021. No changes have been made to the forecast of our expected CO<sub>2</sub> emissions.

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

- Gross domestic product is expected to grow by 5.5 percent.
- Industrial production and chemical production are expected to grow by 6.5 percent each.
- We now assume an average exchange rate of 1.20 U.S. dollars per euro and an average annual oil price of 65 U.S. dollars per barrel Brent crude.

Our forecast assumes that there will be no more severe restrictions on economic activity due to measures to combat the COVID-19 pandemic in the second half of 2021.

And now, we are glad to answer your questions.