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# **Analyst Conference Call Full Year 2021 Speech February 25, 2022**

**Martin Bruder Müller**

Chairman of the Board of Executive Directors

**Hans-Ulrich Engel**

Chief Financial Officer

The spoken word applies.

## Martin Brudermüller

Good morning, ladies and gentlemen,

It is hard to go back to business as usual the day after Russia attacked Ukraine. Yesterday marks the end of peace in Europe. It is a bitter day for all of us. A short time ago, no one would have thought it possible. We are dismayed by the attack and are very concerned about further developments. And we are all thinking at this moment of the people in Ukraine who have to fear for their lives and their future. Nevertheless, Hans Engel and I would like to welcome you to our Analyst Conference Call for the full year 2021.

### **[Slide 3: BASF achieves strong earnings growth in full year 2021; EBIT before special items reaches €7.8 billion]**

2021 was a strong year for BASF. Compared with 2020, EBIT before special items more than doubled and amounted to 7.8 billion euros. This is an increase of 67 percent compared with the pre-pandemic level in 2019. BASF's positive earnings development was mainly driven by the Chemicals and Materials segments. The Surface Technologies and Industrial Solutions segments also contributed considerably to the strong recovery.

Looking at the underlying sales development: We increased sales prices by 25 percent and volumes by 11 percent. All segments achieved price and volume growth in 2021.

Cash flows from operating activities improved by 34 percent and amounted to 7.2 billion euros, as compared to 5.4 billion euros in 2020. Free cash flow increased by 1.4 billion euros to 3.7 billion euros in 2021.

BASF's automotive-related businesses continued to be negatively impacted by the semiconductor shortage. According to current data, global automotive production reached around 76 million units in 2021, and thus increased only slightly compared with the very low level of the previous year. For 2022, IHS Markit expects 84 million units. We assume that the semiconductor shortage will persist, at least in the first half of 2022. We therefore expect just 82 million units to be produced and are less optimistic than IHS for the full year.

Throughout 2021, and particularly in the fourth quarter, higher raw materials prices and increased energy and logistics costs burdened the earnings development in all segments. Consequently, we will focus on further substantial price increases in the coming months to pass on the significantly higher costs and improve our margins in the downstream businesses. The established pricing procedures in these businesses lead to a delay in passing on costs.

**[Slide 4: Global chemical production increased by 6.1% in the full year 2021]**

Let's now turn to the macroeconomic environment. According to the currently available data, global growth in the chemical industry was 6.1 percent in 2021.

The strongest growth in chemical production was achieved in China, the world's largest chemical market, with a full-year expansion of 7.7 percent. Here, however, growth slowed at a high level during the course of the year. Electricity cuts had a negative effect on production, particularly in the third and fourth quarters.

Growth in Asia excluding China reached 6.2 percent in 2021.

Chemical production growth in the European Union was extraordinarily high at 6 percent. A contributing factor was the low basis in the previous year. In addition, the European chemical industry benefited from the fact that availability of global production capacities for basic chemicals was limited.

In the United States, significant petrochemical capacities were temporarily unavailable. After the freeze in the first quarter, production on the U.S. Gulf Coast was also negatively impacted in the summer by hurricanes Ida and Nicholas. In total, chemical production in North America grew by only 1.7 percent in 2021.

**[Slide 5: BASF Group: Volume growth of 10.6% in the full year 2021 – outgrowing global chemical production by 4.5 percentage points]**

On this slide you can see BASF's volume growth by region compared with the prior year. With an increase in volumes of 10.6 percent in 2021, BASF Group's growth was 4.5 percentage points above global chemical production.

Let's now look at the volume development in the regions: With 14.4 percent our volume growth was most pronounced in Asia excluding Greater China. In North America, sales volumes grew by 10.6 percent and in Europe by 10.1 percent.

In Greater China, we increased volumes by 8.7 percent compared with an already very strong prior year. Volume development in the fourth quarter of 2021 was burdened in particular by lower demand for mobile emissions catalysts. This was a result of overall lower automotive production due to the semiconductor shortage. The electricity cuts for energy-intensive industries had only a minor impact on BASF's operations in China.

**[Slide 6: BASF Group with strong full-year sales and earnings development]**

We now look at our sales and earnings development by segment in 2021. Hans will comment later on the specific development in Q4.

At BASF Group level, sales increased by 33 percent to 78.6 billion euros due to considerably higher prices and volumes in all segments. Currency effects had a slightly negative effect and were mainly related to the U.S. dollar.

BASF Group's EBIT before special items reached 7.8 billion euros – an increase of 118 percent compared with 2020. All segments, with the exception of Nutrition & Care and Agricultural Solutions, increased EBIT before special items in 2021. The rise in earnings was driven in particular by the Chemicals and the Materials segments.

For detailed explanations of the 2021 earnings development by segment, please refer to the BASF Report 2021 published this morning.

**[Slide 7: BASF Group 2021: Financial targets achieved across the board; progress in achieving nonfinancial targets]**

Let's now look at our financial and nonfinancial targets.

We achieved all our financial targets in 2021; and we have taken important steps to deliver on our mid-term CO<sub>2</sub> emission target:

- As mentioned before, our sales volumes growth was well above global chemical production.
- EBITDA before special items increased from 7.4 billion euros to 11.3 billion euros and thus by 53 percent.
- Our 2021 ROCE of 13.5 percent was considerably above the cost of capital rate of 9 percent.

- For 2021, we will propose a dividend of 3 euros and 40 cents per share to the Annual Shareholders' Meeting, thus delivering on our progressive dividend policy.
- We want to reduce our absolute CO<sub>2</sub> emissions by 25 percent by 2030 compared with the baseline 2018. In 2021, our CO<sub>2</sub> emissions amounted to 20.2 million metric tons – a decrease from the 20.8 million metric tons emitted in 2020. This is remarkable given the strong growth in volumes.
- We also set a target of 22 billion euros in sales with Accelerator products by 2025. These are products that make a substantial sustainability contribution in the value chain. In 2021, we generated sales of 24.1 billion euros with Accelerator products compared with 16.7 billion euros in 2020. We thus achieved our Accelerator sales target much earlier than planned. We will therefore adjust this portfolio steering target in the course of 2022.

**[Slide 8: Attractive shareholder return – clear commitment to progressive dividend policy]**

Ladies and gentlemen,

Creating value for our shareholders is a top priority for us. This is why we aim to increase the dividend per share every year based on a strong free cash flow.

At this year's Annual Shareholders' Meeting, the Board of Executive Directors and the Supervisory Board will propose to pay a dividend of 3 euros and 40 cents per share, an increase of 10 cents. In total, we would pay out 3.1 billion euros based on the number of shares at the end of the year. This amount is more than covered by our free cash flow in 2021. With our dividend proposal, the BASF share offers an attractive dividend yield of 5.5 percent based on the share price at the end of 2021.

Since we have already received several inquiries, I would like to provide a short update about this year's Annual Shareholders' Meeting: The Board of Executive Directors and the Supervisory Board have decided to hold a virtual Annual Shareholders' Meeting on April 29. The pandemic and the expected number of participants will not yet permit a physical meeting in 2022. The invitation with detailed information will be published in mid-March.

Now I would like to hand over to Hans.

## **Hans-Ulrich Engel**

Good morning, ladies and gentlemen.

### **[Slide 9: Recent portfolio measures: Acquisitions and divestitures]**

I would like to start with a brief overview of BASF's most relevant portfolio measures:

- In August 2021, **BASF and Shanshan** formed BASF Shanshan Battery Materials. BASF owns a majority stake of 51 percent in this company. With the completion of the transaction, we have reached a significant milestone in executing our strategic roadmap to build up a global battery materials value chain, equipped with an industry-leading annual CAM capacity of 160 kilotons by 2022.
- In June 2021, we closed the divestiture of our **global pigments business** to the fine chemical company DIC. The purchase price on a cash and debt-free basis amounted to 1.15 billion euros.
- In November 2021, BASF and Clayton, Dubilier & Rice sold **Solenis** to Platinum Equity. With the divestiture of our 49 percent share in Solenis, we benefited from the value creation that was achieved by combining Solenis and BASF's paper wet-end and water chemicals business in 2019.

Our share in the purchase price amounted to 1.1 billion euros. The disposal gain of 589 million euros is reported as a special item below EBIT, in net income from shareholdings.

- In June 2021, we announced the postponement of the IPO of **Wintershall Dea**. Strategically, and in line with the original agreement with LetterOne, we remain fully committed to achieving an IPO of Wintershall Dea. You may have seen that representatives of LetterOne have now questioned this objective contrary to the originally agreed strategy. Given the significant strategic relevance of the IPO for BASF and our stakeholders, we will use all available means to protect our rights and interests, including legal remedies and the right to unilaterally pursue an IPO in 2023.

In 2021, Wintershall Dea generated an EBITDAX of 3.8 billion euros, an increase of 133 percent compared with 2020. EBITDAX is defined as earnings before interest and taxes, depreciation, amortization and exploration expenses; it is a common indicator for financial performance in the oil and gas industry. Wintershall Dea's free cash flow improved considerably from 159 million euros in 2020 to 2.1 billion euros in 2021.

**[Slide 10: Excellence Program successfully completed: €2.1 billion annual EBITDA contribution achieved by end of 2021]**

Let me also give you a final update on our Excellence Program.

We concluded the program within budget and on time and exceeded the targeted annual EBITDA contribution, reaching 2.1 billion euros by the end of 2021. The associated costs amounted to around 140 million euros in 2021.

On top of this Excellence Program, we have implemented specific efficiency programs in our service units and operating divisions. For example, the realignment of our Global Business Services unit will result in savings of more than 200 million euros per year from 2023 onwards. We expect savings of a similar magnitude from efficiency and optimization measures in our Global Digital Services unit from 2023 onwards. Furthermore, the operating divisions are continuing to drive forward their unit-specific efficiency programs.

**[Slide 11: BASF Group: Financial figures Q4 2021 and full year 2021]**

In the following, I will turn to the financial figures of BASF Group in the fourth quarter of 2021 compared with the prior-year quarter in more detail:

- Overall, the fourth quarter was characterized by higher raw materials prices and logistics costs as well as a steep increase in energy costs, particularly in December. Some of these increases can only be passed on to our customers with a certain time lag.
- I will start with **sales**, which increased by 24 percent to 19.8 billion euros. Despite the comparison with the strong prior-year quarter, BASF was able to increase volumes in all segments except for Materials in Q4 2021.
- **EBITDA before special items** increased by around 100 million euros to reach 2.2 billion euros. **EBITDA** amounted to 2.3 billion euros, compared with 2.0 billion euros in Q4 2020.
- **EBIT before special items** came in at 1.2 billion euros compared with 1.1 billion euros in Q4 2020.
- **Special items** in EBIT amounted to plus 1 million euros compared with minus 181 million euros in the fourth quarter of 2020.

- **EBIT** came in at 1.2 billion euros in Q4 2021, compared with 932 million euros in Q4 2020.
- At 97 million euros, **net income from shareholdings** improved slightly in the fourth quarter of 2021. This improvement was mainly driven by the disposal gain from the divestiture of Solenis, while impairments on our shareholding in Wintershall Dea had a negative impact.
- **Net income** amounted to 898 million euros, compared with 1.1 billion euros in the prior-year quarter.
- The **tax rate** was 19.9 percent compared with 24.7 percent in Q4 2020. This decrease resulted mainly from the tax-free disposal gain from divesting our share in Solenis.
- **Reported earnings per share** declined from 1 euro and 15 cents in the prior-year quarter to 98 cents in Q4 2021. Adjusted EPS increased to 1 euro and 17 cents in the fourth quarter of 2021; in the prior-year quarter it was 1 euro and 10 cents.
- **Cash flows from operating activities** increased by 1.2 billion euros to 3.3 billion euros in Q4 2021. This increase was mainly driven by a higher cash inflow from changes in net working capital because of lower accounts receivable and higher accounts payable. **Free cash flow** came in at 1.8 billion euros, an increase of 84 percent compared with Q4 2020.

**[Slide 12: BASF Group: Sales considerably higher than in Q4 2020, EBIT before special items with solid growth despite headwinds from higher costs]**

Here you see the sales and earnings development by segment in the fourth quarter of 2021. Compared with the prior-year quarter, BASF Group increased sales from 15.9 billion euros to 19.8 billion euros.

Considerably higher prices and slightly higher volumes as well as positive currency effects were the main drivers for this. Currency effects were primarily related to the U.S. dollar and the renminbi. All segments contributed to the sales increase in the fourth quarter.

EBIT before special items increased by 10 percent to 1.2 billion euros in Q4 2021. Considerably higher earnings in the Chemicals segment and in Other compensated for lower contributions from the remaining segments. For details on the earnings development by segment, please refer to the Reporting Factsheet we published this morning.

**[Slide 13: Natural gas prices in Europe further increased in Q4 2021]**

I will now give you an update on the impact of the natural gas price development in Europe.

Natural gas prices further increased in the final quarter of the year, reaching an all-time high in December. For our European sites, the additional costs due to higher natural gas prices in 2021 amounted to around 1.5 billion euros. The fourth quarter of 2021 alone accounted for 0.8 billion euros of this amount. The earnings of our operating divisions were directly burdened by these cost increases compared with the previous year.

**[Slide 14: BASF Group: Strong cash flow and free cash flow development]**

Let's now move on to our cash flow development, where I will comment on the full-year figures.

**Cash flows from operating activities** amounted to 7.2 billion euros, compared with 5.4 billion euros in the previous year. The considerable increase was primarily due to the improvement in net income. An offsetting factor was cash tied up in net working capital, which rose by 1.2 billion euros to 1.6 billion euros in 2021. This mainly resulted from

the significant increases in inventories and trade accounts receivable due to higher business volumes and prices.

**Cash flows from investing activities** totaled minus 2.6 billion euros in 2021, after minus 1.9 billion euros in the previous year. Payments received for divestitures and the disposal of the shareholding in Solenis in 2021 were below the figure from the disposal of the construction chemicals business in the previous year.

**Cash flows from financing activities** amounted to minus 6.5 billion euros. In addition to the payment of dividends in the amount of 3.3 billion euros, financial and similar liabilities were reduced by 3.1 billion euros.

**Free cash flow** amounted to 3.7 billion euros in 2021, after 2.3 billion euros in the previous year.

### **[Slide 15: Solid balance sheet]**

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

- Total assets increased by 7.1 billion euros to 87.4 billion euros. Noncurrent assets amounted to 52.3 billion euros, an increase of 1.9 billion euros, mainly due to additions to property, plant and equipment and currency effects. Current assets increased by 5.2 billion euros to 35.1 billion euros, primarily due to higher inventories as a result of higher raw materials prices and higher accounts receivable because of the increase in sales.
- Net debt decreased to 14.4 billion euros at the end of 2021.
- Equity amounted to 42.1 billion euros on December 31, 2021, representing an increase of 7.7 billion euros compared with the year end of 2020. This was driven by the considerably higher net income and other comprehensive income.

- The equity ratio was 48.2 percent compared with 42.8 percent at the end of 2020.

**[Slide 16: BASF Group: High capex discipline in existing business to support investments in growth projects]**

On this slide, we give you some more explanations on our capex budget. Between 2022 and 2026, we plan capital expenditures of 25.6 billion euros. Capex in the next five years will thus be higher than in the prior planning period from 2021 to 2025 with a budget of 22.9 billion euros. The main reasons for this are our two major growth projects: the new Verbund site in Zhanjiang and our battery materials activities. These two projects are key to drive BASF's future growth and the reason why the share of capital expenditures in the region Asia Pacific is rising to 45 percent of the BASF Group's capex between 2022 and 2026. The European share is budgeted to reach 37 percent and the North American share 15 percent.

Investments in BASF's existing business remain stable at an average level of 2.6 billion euros per year. We will ensure a high level of discipline regarding the capex required to maintain and profitably grow these businesses. This will enable us to fund the growth projects with an average of also roughly 2.6 billion euros per year. Capex for our growth projects will peak in 2024 and decline thereafter.

For 2022, we plan total capital expenditures of 4.6 billion euros compared with 3.4 billion euros in 2021.

**[Slide 17: Use of cash – clear focus on long-term shareholder value]**

Let's now move on to BASF's priorities regarding the use of cash.

- BASF's corporate strategy is based on organic growth. Our annual budget for R&D activities amounts to around 2.1 billion euros.

- We are committed to increasing our dividend per share every year. Our solid balance sheet and strong free cash flow support this progressive dividend policy.
- We strive to strengthen BASF's portfolio through smaller, bolt-on acquisitions and further focus the portfolio with continued pruning measures.
- On January 4, 2022, we resolved on a share buyback program – our first since 2008. We have prepared an additional slide on the program.

**[Slide 18: First share buyback program since 2008 – to create additional value for shareholders]**

The program resolved and announced on January 4 amounts to up to 3 billion euros. We started it on January 11, 2022, and it will be concluded by December 31, 2023 at the latest, subject to a renewed authorization to repurchase own shares by the Annual Shareholders' Meeting on April 29, 2022. The repurchased shares will be canceled, reducing the share capital accordingly.

As of February 23, we have already bought back 6.2 million of shares for a total amount of 415 million euros. This illustrates that the program is being swiftly executed.

And now I will hand back to Martin for the outlook.

**Martin Bruder Müller**

**[Slide 19: Outlook 2022 for BASF Group]**

Ladies and gentlemen,

I am happy to tell you that we have had a very strong start to the year, with January figures above the prior-year month.

The macroeconomic environment that is the basis for our full-year outlook also looks positive from today's point of view. We are confident regarding our business development in 2022.

With 3.8 percent, we expect global economic growth to be somewhat more moderate in 2022 following the very strong recovery in 2021. As order backlogs in industry are high, we expect global industrial production to grow by 3.8 percent and chemical production by 3.5 percent. We anticipate an average oil price of 75 U.S. dollars for a barrel of Brent crude and an exchange rate of 1.15 U.S. dollars per euro.

Based on these assumptions, we are forecasting sales of between 74 billion euros and 77 billion euros for 2022. The BASF Group's EBIT before special items is expected to be between 6.6 billion euros and 7.2 billion euros. ROCE should be between 11.4 percent and 12.6 percent.

We expect our CO<sub>2</sub> emissions to be between 19.6 million metric tons and 20.6 million metric tons in 2022. No forecast has been made for Accelerator sales as we have already achieved our target and plan to update our portfolio steering target in the course of 2022.

Our forecast ranges take into account uncertainty resulting in particular from the effects of ongoing supply chain disruptions, the further course of the coronavirus pandemic and the development of energy prices. The impact of the escalation of the Ukraine conflict is not factored in and cannot be reliably predicted at this time. However, the war in Ukraine has the potential to significantly reduce growth of global GDP and industrial production.

**[Slide 20: Focus areas for 2022]**

Ladies and gentlemen,

To conclude, I will highlight our focus areas for 2022:

- We will focus on improving the performance of our downstream businesses. Price increases to restore and expand our margins are the key measure in our downstream businesses to compensate for higher raw materials and energy prices.
- Furthermore, we will work on maintaining the strong margins in our upstream businesses for as long as possible.
- To support future profitable growth of BASF, we will continue to execute our two major growth projects – the Zhanjiang Verbund site and our battery materials activities.
- We will remain disciplined regarding investments and costs, and we will put even more emphasis on effective project execution across our organization.
- Finally, we will vigorously prepare BASF for a low-carbon and circular economy. We will present the latest information on our progress towards net zero CO<sub>2</sub> emissions by 2050 at a virtual Investor Update on March 28.

And now, we are glad to take your questions.