

BASF conference call on second quarter 2021

# News Release

P270/21e  
July 28, 2021

Q2 2021:

## **BASF with very strong second quarter supported by higher prices and volumes**

- Sales growth of 56 percent to €19.8 billion
- EBIT before special items increased significantly to €2.4 billion
- Cash flows from operating activities of €2.5 billion, up €295 million versus prior-year quarter
- 2021 outlook for sales raised to between €74 billion and €77 billion and for EBIT before special items to between €7.0 billion and €7.5 billion

Presentations by

Dr. Martin Brudermüller, Chairman of the Board of Executive Directors, and  
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

**Martin Brudermüller**

Good morning ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call presenting the results of the second quarter.

We experienced tailwinds at the start of the year. The strong growth momentum of the previous two quarters continued: Thanks to higher prices and volumes, we can present very strong second-quarter results to you today.

On July 9, we published our preliminary figures for the second quarter and raised our outlook for the full year 2021. Today, we will provide you with further details.

**[Chart 2: 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.

We achieved volumes growth and price increases across all regions and all segments compared with the second quarter of 2020. 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.

Compared with the second quarter of 2020, EBIT before special items rose by more than €2 billion to €2.4 billion. This was also considerably higher than the pre-pandemic level of €1 billion recorded in the second quarter of 2019.

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

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

**[Chart 3: 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 countries have not yet published their figures.

According to the currently available data, global chemical production increased by almost 10 percent in the second quarter of 2021 compared with the prior-year quarter. With volumes growth of 28 percent, BASF Group significantly outpaced 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 China, chemical production was already growing again in the second quarter of 2020.

#### **[Chart 4: BASF Group Q2 2021: Volumes growth across all regions]**

Ladies and gentlemen,

On this slide, I want to briefly look at our volume growth by region: The sales volumes are compared with the 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 the second quarter of 2021, the volume growth in China was less pronounced due to the early recovery in the prior-year quarter, but it was still strong at 10 percent.

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

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

Let's move on to the volume development by segment. In the second quarter of 2021, we increased volumes in all segments. The volume increase was strongest in the Surface Technologies and Materials segments. Volumes also grew considerably in the Industrial Solutions, Chemicals and Agricultural Solutions segments.

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

**[Chart 6: BASF Group Q2 2021: Sales increased considerably due to higher prices and volumes]**

Let us now look at our sales development compared with the second quarter of 2020. BASF Group's sales increased by 56 percent to €19.8 billion, driven by considerably higher prices and volumes. In total, organic sales growth amounted to 63 percent in the second quarter of 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 7: BASF Group Q2 2021: Very strong earnings growth]**

As I already mentioned, EBIT before special items came in at €2.4 billion. 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 today.

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

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

**[Chart 8: Nutrition & Care and Agricultural Solutions: Main drivers for EBIT before special items development in Q2 2021]**

Ladies and gentlemen,

Let me now discuss the performance of the Nutrition & Care and Agricultural Solutions segments in the second quarter of 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 attributable to the Nutrition & Health division. The strong prior-year quarter was fueled by exceptional demand during the pandemic. Compared with that baseline, margins declined on account of negative currency effects, lower prices and higher variable costs due mainly to higher raw material costs. The

earnings decline was most pronounced in the animal nutrition business. The main drivers here were lower volumes in vitamin A, particularly due to the tie-in and startup of the vitamin A capacity expansion in Ludwigshafen, as well as higher costs from several turnarounds in the second quarter. As announced, we plan to bring our vitamin A plant expansion on stream in the second half of this year. 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 due to 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 earnings in the Nutrition & Care segment to improve.

In the Agricultural Solutions segment, 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 currency headwinds, mainly for our major businesses in the United States 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 Engel.

### **Hans-Ulrich Engel**

Good morning ladies and gentlemen,

#### **[Chart 9: Major portfolio measures: Acquisitions]**

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

In May 2021, we agreed to establish a joint venture with Shanshan, a leading Chinese supplier of lithium-ion battery materials. BASF will hold a majority stake in this joint venture to produce cathode active materials and precursors in China. The purchase price for BASF will be in the mid-triple-digit million-euro range.

This will enable BASF to further strengthen its position in Asia, building up an integrated, unique global supply chain for our customers. 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, 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. Including BASF's contribution to fund the wind farm construction, our total commitment amounts to around €1.6 billion.

We intend to sell around 50 percent of our share in this project to a financial co-investor and to subsequently consolidate our participation at equity.

The wind farm is expected to become fully operational in 2023 with the 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 10: Major portfolio measures: Divestitures]**

We have also been successfully working on some divestitures:

In June, for example, 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. 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. Following the divestiture, the name of the BASF division was changed to Dispersions & Resins as of July 1.

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, which includes net debt of around \$2.5 billion. We thus expect our share in the disposal proceeds to amount to around €1 billion. 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.

Ladies and gentlemen,

In June, we announced the postponement of the IPO of Wintershall Dea to a later point in time. While oil and gas prices on 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 11: BASF Group Q2 2021 and H1 2021: Financial figures]**

Let us now take a more detailed look at the financial figures of the BASF Group compared with the prior-year quarter.

Martin Brudermüller already discussed the sales development, so let me start with EBITDA before special items, which increased by 162 percent to €3.2 billion. EBITDA amounted to €3.2 billion compared with €1.1 billion in the second quarter of 2020.

EBIT before special items came in at €2.4 billion compared with €226 million in the prior-year quarter.

Special items in EBIT amounted to minus €39 million compared with minus €167 million in the second quarter of 2020. EBIT came in at €2.3 billion in the second quarter of 2021, compared with €59 million in the same period of 2020.

At minus €44 million, net income from shareholdings improved by €744 million in the second quarter of 2021. In the prior-year quarter, BASF had incurred a non-cash-effective impairment of its shareholding in Wintershall Dea.

Net income amounted to €1.7 billion compared with minus €878 million in the prior-year quarter.

The tax rate was 18 percent.

Earnings per share increased from minus €0.96 in the prior-year quarter to €1.80 in the second quarter of 2021. Adjusted earnings per share increased to €2.03 in the second quarter of 2021, as compared to €0.25 in the prior-year quarter.

### **[Chart 12: Cash flow development in Q2 2021 and H1 2021]**

I will now move on to our cash flow development in the second quarter of 2021:

Cash flows from operating activities increased by €295 million to €2.5 billion in the second quarter of 2021. The improvement was mainly driven by the considerable increase in net income.

Cash flows from investing activities amounted to plus €323 million – an improvement of about €1 billion compared with the prior-year quarter. This was mainly due to the proceeds from divestitures, particularly the divestment of BASF's pigments business.

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

And now I will hand back over to Martin Bruder Müller.

### **Martin Bruder Müller**

Thank you. 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 13: 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. BASF supports these objectives with its plastic additives under the new global brand VALERAS™, building on our extensive experience in stabilization, protection, technical and regulatory support.

VALERAS™ includes additive solutions that reduce VOC emissions in foams, enhance biodiversity in plastic greenhouses and reduce energy consumption during PP nonwoven fiber production.

We offer another key solution with our expanded portfolio for mechanically recycled plastics and applications. In this way, we help our customers work towards reaching the global recycling targets, which range from 25 to 100 percent in the packaging industry.

We believe these applications represent an important step towards a circular economy for plastics.

#### **[Chart 14: Outlook 2021 for BASF Group]**

Ladies and gentlemen,

Now we come to the outlook for the BASF Group.

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 to €77 billion.

EBIT before special items is anticipated to reach between €7.0 billion and €7.5 billion.

The return on capital employed (ROCE) 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.

We now expect Accelerator sales of between €21 billion and €22 billion 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 per euro and an average annual oil price of \$65 per barrel of 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 Hans Engel and I will be happy to take your questions.