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Speech

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Presentations by

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The spoken word applies.

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Martin Brudermüller

Good morning ladies and gentlemen,

Dirk Elvermann and I would like to welcome you to our conference call presenting our results for the second quarter of 2023 and providing further details about our business development.

But before we start, we would like to observe a moment of silence. Because this is the anniversary of a sad day in the history of BASF. Today we remember the victims of two explosions that occurred in 1943 and 1948 at our Ludwigshafen site. On this date 75 years ago, there was an explosion of a tank wagon and 207 people lost their lives. 3,818 people were injured, around 500 of them suffered serious injuries.

And almost exactly five years earlier, in the middle of the Second World War, another catastrophic explosion took the lives of 64 people, including 17 forced laborers, and 526 people were injured. Both these disasters are deeply embedded in the collective memory of the region and of BASF.

[Slide 2: Global chemical production stagnated compared with the prior-year quarter]

Ladies and gentlemen,

On July 12, we adjusted our full-year outlook and released preliminary figures for the second quarter. Before we discuss BASF's performance, I would like to first look at the development of global chemical production.

Based on currently available data, global chemical production stagnated compared with the prior-year quarter on account of weaker global demand. Only China recorded growth – but this was largely due to the low baseline resulting from the COVID-related lockdowns in the second quarter of 2022.

In Europe, on the other hand, chemical production again declined strongly compared with the prior-year quarter. This was due to significantly lower demand resulting from high inflation, but also because many consumers frontloaded their durable goods consumption during the COVID years. Another reason was the high natural gas prices: In the second quarter of 2023, these prices were still around twice as high as the average between 2019 and 2021 and five times higher than the Henry Hub quotation for the quarter. In some cases, this has already led to temporary or permanent shutdowns of production capacities in the European chemical industry.

In North America, chemical production also declined compared with the prior-year quarter in an environment of weak demand for consumer goods. Lower demand and increased energy prices were also the main reasons for the decline in chemical production in Asia excluding China. There was one exception: India recorded moderate growth.

We do not expect a further weakening in demand at the global level for the second half of 2023, despite recessionary developments in Europe and the United States and a subdued economic development in China. Inventories of chemical raw materials in most customer industries have already been greatly reduced.

[Slide 3: Stock levels in manufacturing below average and within range of past inflection points in Western Europe and North America]

On this slide you can see the current and historical levels of indicators for inventories in the manufacturing industry by region. Values below 50 indicate declining inventories, values above 50 indicate restocking.

In Western Europe and North America, these indicators are already below their long-term averages. Furthermore, indicators in these two regions are now in the range of historical inflection points from destocking to inventory build-up. From this perspective, we should have likely reached the trough. Inventory indicators for Asia Pacific are above the long-term average but have to be interpreted in the context of somewhat higher growth momentum in industrial production.

Overall, these observations and statistical data are in line with the current development of order entries in our operating divisions. Some customers are recognizing that they cannot expect purchase prices to fall further. This should also support gradual demand recovery combined with a cautious rise in consumer confidence.

[Slide 4: Q2 2023: Compared with the strong prior-year quarter, BASF's earnings declined in a tough market environment]

Now, we move on to BASF's performance. In the second quarter of 2023, we faced low demand from our key customer industries, except for automotive.

Overall, BASF Group sales declined by 25 percent to €17.3 billion in the second quarter of 2023. This was mainly on account of lower prices and volumes. Negative currency effects also lowered sales.

Compared with the extremely strong prior-year quarter, EBIT before special items decreased by €1.3 billion and amounted to €1.0 billion. The decline was especially driven by the upstream segments. Dirk Elvermann will go into more detail on the development of the segments.

[Slide 5: Preparing for the future: BASF's new Verbund site project in Zhanjiang is progressing well]

Ladies and gentlemen, we are looking ahead!

I would therefore like to give you updates today on our most important projects, which will play a decisive role in shaping the future of BASF. I will start with our new Verbund site in South China. By 2030, we expect the Zhanjiang site to considerably bolster the BASF Group – with sales of between €4 billion and €5 billion and an EBITDA of between €1 billion and €1.2 billion.

The project in Zhanjiang is on track. The first plant for engineering plastics successfully started up in August 2022 – as planned and despite all COVID-related challenges. First BASF products made in Zhanjiang were already delivered to customers in the second half of last year. Another plant will come on stream in the third quarter of this year: It will produce thermoplastic polyurethanes.

In mid-2022, we started the construction of key large-scale plants within our Verbund. This building phase comprises a steam cracker, several value chains for petrochemicals, intermediates and specialty chemicals for consumer products as well as related infrastructure. This core complex is planned to start up as of the end of 2025. Further expansion and diversification of the downstream value chains is already in preparation and we expect to begin operations from 2028 onwards. Once fully built, the site's portfolio will include many of our value chains. We are thus responding to the growing demand from local customers, also for products used in special applications.

Ladies and gentlemen,

We are building the new Verbund site in South China to serve the Chinese market. Pre-marketing is underway – with success: Customers have already signed several contracts to acquire our future production output.

We are financing the investment with a combination of equity and various debt instruments that are mainly issued directly in China. Local bank financing is expected to be supported by Chinese and international banks. Overall, we are making the best use of cash generated by our existing Chinese Group companies and thus minimizing cash injection into China.

The new Zhanjiang Verbund site will also be a lighthouse project in terms of sustainability: When the core complex starts up in 2025, we aim to operate it with 100 percent green energy. Last week, we achieved an important milestone in this regard, in addition to the already signed or planned PPAs (power purchase agreements) with partners for onshore wind and solar energy. Together with Mingyang, the largest private wind turbine manufacturer in China, we want to construct and operate an offshore wind farm in South China. Mingyang will hold 90 percent of the shares in this joint venture and BASF will hold 10 percent. The majority of the power generated will be used to supply renewable electricity to our Verbund site in Zhanjiang.

The wind farm will have a total installed capacity of 500 megawatts. Subject to approval from the relevant authorities, the wind farm is expected to be fully operational in 2025 – in line with the start of production for the main expansion phase of the Verbund site.

This is the first Sino-German offshore wind farm project in China involving development, construction and operation.

[Slide 6: Preparing for the future: BASF's major projects in the United States]

We are not only investing in China; we are also pursuing new projects in the United States. For example, the third and final phase of the MDI expansion project at our Verbund site in Geismar, Louisiana. By 2026, we will increase production capacity to approximately 600,000 metric tons per year to support the ongoing growth of our North American MDI customers.

We are investing around $780 million in this final expansion phase from 2022 to 2025. In total, including the first and second phases, the investment volume is around $1 billion. This makes the MDI expansion project BASF's largest wholly owned investment in North America.

For future investments in the United States, we will evaluate incentive schemes provided by the Inflation Reduction Act.

Together with Yara, we are planning a study on the development and construction of a world-scale low-carbon blue ammonia production facility in the U.S. Gulf Coast region. By the end of 2023, we want to conduct a joint feasibility study for a plant with a total capacity of 1.2 to 1.4 million metric tons per year to serve the growing global demand for low-carbon ammonia. We would like to participate in this market.

The aim is to capture approximately 95 percent of the CO_2 generated from the production process and permanently store it in the ground using CCS (carbon capture and storage) technology. BASF would like to partially use the new capacities for backward integration, thus reducing the carbon footprint of our ammonia-based products. This project is another example of how BASF is driving the transformation of the chemical industry.

[Slide 7: Preparing for the future: BASF is the first company to establish a co-located battery materials and recycling center in Europe]

Finally, some details about a project that is strengthening our position in a fast-growing market: our investment in battery materials in Europe. At the end of June, we celebrated the opening of Europe's first co-located center for battery material production and battery recycling in Schwarzheide, Germany.

The state-of-the-art production facility for high-performance cathode active materials (CAM) and the battery recycling plant to produce black mass are two important steps in closing the loop in the European battery value chain. The CAM plant has been gradually commissioned since the end of 2022 and is fully sold out for the coming years. It will supply products tailored to the specific needs of cell manufacturers and automotive OEMs in Europe. The construction of the battery recycling plant to produce black mass has already started, and production is expected to begin in 2024.

With these two investments in Schwarzheide, BASF is supporting the European market for e-mobility and at the same time enabling faster growth for its global business.

Ladies and gentlemen,

Overall, we aim to build a global battery materials business with sales of more than €7 billion by 2030. We strive for an EBITDA margin before special items of more than 30 percent excluding metals.

Now I will hand over to Dirk Elvermann for further details on our financial performance.

[Dirk Elvermann]

[Slide 8: BASF Group Q2 2023: Key financial figures]

Thank you, Martin. And good morning, ladies and gentlemen, from me as well.

Let’s take a look at BASF Group’s key financial figures in the second quarter of 2023. Right off the bat, I would like to note: These figures are being compared with a very strong prior-year quarter.

As Martin Brudermüller mentioned, sales declined by 25 percent – mainly on account of lower prices and volumes. Prices declined particularly in the Chemicals and Materials segments because of lower raw materials prices and lower demand. All BASF segments recorded lower volumes. However, excluding precious metals, the Surface Technologies segment increased volumes.

Portfolio effects – mainly related to the sale of the kaolin minerals business – had a slightly negative impact on sales. Currency effects negatively affected sales as well.

EBITDA before special items decreased by 41 percent and amounted to €1.9 billion. At €1.0 billion, EBIT before special items declined by €1.3 billion. This decline was mainly due to lower earnings in the Chemicals and Materials segments.

Compared with the second quarter of 2022, net income from shareholdings declined by €341 million to €92 million. This was mainly due to lower earnings from Wintershall Dea, which in the prior-year quarter still included major contributions from activities in Russia.

Net income amounted to €499 million compared with €2.1 billion in the prior-year quarter. Cash flows from operating activities improved by €950 million to €2.2 billion. At the end of June 2023, the equity ratio was 47.1 percent and thus slightly below the figure at the end of 2022.

[Slide 9: Q2 2023: Earnings declined, mainly due to lower contributions from upstream businesses compared with a strong prior-year quarter]

Now we will take a look at the performance of BASF's segments in more detail.

Almost all segments contributed to the decline in EBIT before special items. The Chemicals and Materials segments, which posted very strong earnings in the prior-year quarter, were responsible for around 80 percent of the decline in BASF Group's EBIT before special items. In both segments, EBIT before special items decreased mainly due to lower volumes and margins.

In the Industrial Solutions segment, EBIT before special items also decreased considerably compared with the second quarter of 2022. In this segment, lower volumes and margins were also the main drivers. Furthermore, the prior-year quarter still included earnings contributions from the kaolin minerals business, which was divested in September 2022.

The Surface Technologies segment achieved slight earnings growth, driven by the Coatings division and the mobile emissions, chemical and refinery catalysts businesses. Compared with the second quarter of 2022, global light vehicle production grew by 15.5 percent, according to S&P Global. This strong increase resulted mainly from the base effect in China following the lockdowns there in the prior-year quarter. The 2023 outlook for the automotive industry, which is most relevant for our Surface Technologies segment, remains favorable. For the full year, global light vehicle production is expected to grow by 5.3 percent, according to S&P Global.

In the Nutrition & Care segment, EBIT before special items was considerably below the prior-year period. The main reasons were lower margins and volumes. In the Nutrition & Health division, margins in the vitamin business were particularly weak given the historically low vitamin A prices.

In the Agricultural Solutions segment, EBIT before special items decreased slightly compared with the prior-year quarter. This was mainly due to lower volumes resulting from more cautious buying behavior as crop commodity prices softened compared with the second quarter of 2022. However, we had a very good start in this segment in the first quarter of 2023, and our Agricultural Solutions segment performed strongly when looking at the full season in the northern hemisphere.

Other was a negative earnings contributor but posted considerably improved EBIT before special items. This was mainly due to a higher contribution from our insurance companies.

[Slide 10: Cash flow development in Q2 2023 and H1 2023]

I now come to our cash flow development, and I will focus on the performance in the second quarter.

Cash flows from operating activities increased by almost €1 billion to €2.2 billion. This was mainly driven by cash inflows of €0.8 billion from changes in net working capital. In the prior-year quarter, there had been cash outflows of €1.7 billion.

Payments made for property, plant and equipment and intangible assets rose by 43 percent compared with the prior-year quarter to €1.3 billion. This increase was mainly related to our growth projects, particularly our investment in China.

Free cash flow increased by €569 million compared with the second quarter of 2022 and reached €905 million.

[Slide 11: Increasing competitiveness: Focus on costs and cash]

Ladies and gentlemen,

We are implementing a number of measures to improve BASF's competitiveness, particularly in Europe. I would like to give you an update on these.

As announced at the end of February, we are executing a cost savings program with a focus on Europe and adapting our Verbund structures in Ludwigshafen. Together with the initiatives that were already underway in our global service units, we will reduce fixed costs by the end of 2026 so that they will then be around €1 billion lower annually. By the end of 2023, we expect to achieve annual savings of more than €300 million from our cost savings program with a focus on Europe.

In addition to these programs, we continuously and strictly control our fixed costs and avoid discretionary costs wherever possible. We also have a sharper focus on cash management to optimize our free cash flow. Over the course of the year, we will continue to reduce our inventory levels.

In the light of the current macroeconomic framework, we have also further trimmed our capex for this year. Instead of €6.3 billion announced as part of the full-year reporting in February, we now expect capex of around €5.7 billion for the BASF Group in 2023.

[Slide 12: Optimizing structures: Carve-out of mobile emissions catalysts and precious metals services businesses successfully completed]

Before Martin Brudermüller concludes with the outlook, I would like to give you a brief update on the carve-out of the mobile emissions catalysts and precious metal services businesses that we announced in December 2021. The carve-out has now been completed, as targeted, within 18 months. At the same time, the team ensured that the business performed strongly.

BASF Environmental Catalyst and Metal Solutions – abbreviated ECMS – is headquartered in Iselin, New Jersey, and now operates in its own legal entities, using a dedicated IT system landscape and services. With global operations in 15 countries, more than 4,500 employees, 20 production sites and a wide range of products and services, ECMS is a global leader in catalysis and precious metals. In the new setup, focus on the stricter light- and heavy-duty emissions regulations will be increased, while pursuing growth opportunities in circular solutions and the hydrogen economy. The businesses will continue to be reported as part of the Catalysts division in the Surface Technologies segment.

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

[Martin Brudermüller]

[Slide 13: Outlook 2023 for BASF Group]

Thank you!

Ladies and gentlemen,

As announced on July 12, we expect weaker second-half sales and earnings than previously forecast. We adjusted our outlook for the full year 2023 accordingly.

We now anticipate sales of between €73 billion and €76 billion. EBIT before special items is now expected to reach between €4.0 billion and €4.4 billion in 2023.

Based on the expected weaker earnings performance, we now anticipate a ROCE of between 6.5 percent and 7.1 percent. The forecast for our CO_2 emissions has also been reduced. CO_2 emissions are now expected to be between 17.0 million metric tons and 17.6 million metric tons in 2023.

Let me reiterate that for the second half of 2023, BASF does not expect a further weakening in demand at the global level, as inventories of chemical raw materials in most customer industries have already been greatly reduced. However, we are assuming only a tentative recovery because we expect that global demand for consumer goods will grow slower than previously assumed. Margins are therefore expected to remain under pressure.

On the slide with our outlook, you can also see the adjusted assumptions regarding the global economic environment in 2023. While the GDP growth assumption was increased due to the strong development of the service sector, we lowered our growth assumptions for industrial and chemical production.

Dirk Elvermann and I now look forward to your questions.