BASF Media Telephone Conference on third quarter 2023

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 third quarter of 2023 and providing further details.

[Slide 2: Q3 2023: Global chemical production still subdued in most regions]

Let’s start with the development of global chemical production.

Based on currently available data, the chemical industry remained under further stress in the third quarter, as all regions – with the exception of China – exhibited a decline in production compared with the prior-year quarter. In China, on the other hand, there has been a considerable recovery in domestic demand for a broad range of chemical products in recent weeks, albeit accompanied by low sales prices. Whereas global chemical production in total grew by 4.8 percent including China, it decreased by 4.4 percent without China.

In Europe, chemical production slowed considerably compared with the prior-year quarter. This was due to lower demand resulting from high inflation, increased interest rates and a renewed rise in natural gas prices. Moreover, there has been a slowdown in consumer spending due to the frontloading of durable goods consumption during the COVID years. In the third quarter of 2023, European natural gas prices were still around 40 percent higher than the average between 2019 and 2021 and four times higher than the Henry Hub quotation for the quarter. Consequently, European chemical production continued to decline in the third quarter of 2023 and shrank by 6.6 percent compared with the prior-year quarter.

In North America, chemical production also declined compared with the prior-year quarter in an environment of weak domestic demand from industries and end consumers.

Compared with the same quarter of the previous year, chemical production was also weaker in Asia excluding China. Subdued consumer spending and strong import competition from China were the main reasons for this.

[Slide 3: Indicators for stock levels in manufacturing improved slightly in Q3 2023]

However, there are also positive indicators: Let's again take a closer look at current and historical levels of indicators for inventories in the manufacturing industry. On the slide, values below 50 indicate declining inventories and values above 50 indicate restocking.

In our second-quarter conference call, I mentioned that these indicators were below their long-term averages and in the range of historical inflection points from destocking to inventory build-up for Western Europe and North America. The figures for the third quarter of 2023 broadly confirm our expectations. The indicator for Western Europe improved marginally, signaling a slightly lower decline in inventories. The indicator for North America has moved further towards neutral. In Asia Pacific, however, the inventory indicator is continuing to edge up, pointing to increasing inventories amid the ongoing slow recovery of industrial production.

Overall, these observations and statistical data remain in line with the current development of order entries in our operating divisions. Particularly in China and India, we see firmer demand, while order entries are stabilizing in the other regions.

[Slide 4: Q3 2023: BASF's EBIT before special items of €575 million is in line with average analyst estimates]

We now move on to BASF's performance.

Overall, BASF Group sales declined by 28 percent to €15.7 billion in the third quarter of 2023, mainly due to lower prices and volumes. Prices fell particularly in the Materials, Chemicals and Surface Technologies segments, but we were able to increase prices in the Agricultural Solutions segment.

Sales volumes were considerably lower than in the prior-year quarter across all customer industries – with the exception of automotive. In the Surface Technologies segment, which supplies most of its products and solutions to the automotive industry, volumes excluding precious metals were fairly stable.

In the course of the year, the sequential volume decline slowed down. In the third quarter of 2023, volumes declined by 3 percent compared with the second quarter of 2023.

Compared with the prior-year quarter, earnings in the Agricultural Solutions and Surface Technologies segments increased, while the remaining segments recorded considerably lower earnings. Overall, EBIT before special items declined by €772 million compared with the third quarter of 2022 and amounted to €575 million. This is in line with the average analyst estimates of €601 million compiled by the investor relations service provider Vara Research on behalf of BASF in October 2023.

With that, I will hand over to Dirk Elvermann.

[Dirk Elvermann]

[Slide 5: BASF Group Q3 2023: Key financial figures]

Thank you, Martin. And good morning, ladies and gentlemen. I will now provide you with further details of BASF Group's key financial figures in the third quarter of 2023 compared with the prior-year period.

EBITDA before special items decreased by 34 percent and amounted to €1.5 billion. EBIT before special items declined by 57 percent to €575 million. I will go into the details at segment level on the next slide.

Net income amounted to minus €249 million, compared with €909 million in the prior-year quarter. Besides the lower EBIT, this decline was driven by the overall negative earnings of Wintershall Dea due to special items. In the third quarter of 2023, Wintershall Dea recognized impairments on assets in the Middle East and also booked provisions for restructuring measures relating to the adjustment of the company structure that they announced in September.

Compared with the third quarter of 2022, BASF's cash flows from operating activities increased by 17 percent to €2.7 billion, mainly due to considerably higher cash inflows from changes in net working capital. This resulted particularly from reductions in inventories.

[Slide 6: Q3 2023: Earnings in Agricultural Solutions and Surface Technologies increased; remaining segments recorded a decline versus PYQ]

Now let's take a look at EBIT before special items in the segments in the third quarter compared with the prior-year period.

The Agricultural Solutions and Surface Technologies segments increased EBIT before special items compared with the third quarter of 2022. The considerable increase recorded by the Agricultural Solutions segment mainly resulted from higher prices and included a one-time effect from insurance payments. The slight increase in the Surface Technologies segment was driven by considerable earnings growth in the Coatings division on account of higher prices and volumes. This more than compensated for significantly lower EBIT before special items in the Catalysts division.

Overall, BASF’s earnings reflected significantly lower EBIT before special items in the Chemicals, Nutrition & Care, Industrial Solutions and Materials segments owing to a weaker macroeconomic environment.

In the Chemicals segment, both divisions recorded significantly lower EBIT before special items, mainly due to lower margins and volumes. In the Petrochemicals division, the unplanned outages of the crackers in Port Arthur, Texas, and Nanjing, China, in September additionally burdened earnings.

In the Materials segment, the considerable decline in EBIT before special items was driven by significantly lower earnings in the Monomers division, particularly as a result of lower prices. Earnings in the Performance Materials division fell slightly, mainly due to lower prices and volumes.

The Industrial Solutions segment recorded considerably lower EBIT before special items in both divisions, particularly on account of lower volumes and margins.

EBIT before special items in the Nutrition & Care segment declined significantly. In the Nutrition & Health division, EBIT before special items was negative, mainly because of currently very low prices in the vitamin industry. This was partly offset by positive earnings in Care Chemicals. These were, however, also significantly below the level of the prior-year quarter due to lower margins on account of lower prices.

[Slide 7: Strong cash flow generation in Q3 2023]

Ladies and gentlemen,

We will now look at our cash flow development, again focusing on our performance in the third quarter. Cash flows from operating activities in the third quarter increased by €384 million to €2.7 billion. Let me state clearly: This is a remarkable improvement in view of the significantly lower net income.

The cash flow generation was largely driven by cash inflows of €1.9 billion from changes in net working capital; this is an increase of €1.2 billion compared with the third quarter of 2022. Lower inventories resulted in a cash release of €488 million, while in the prior-year quarter inventory build-up of €834 million had tied up cash. This reflects our high discipline in inventory management as part of our self-help measures in the currently difficult economic environment.

Compared with the prior-year quarter, payments made for property, plant and equipment and intangible assets rose by €215 million to €1.2 billion. This increase was mainly related to our growth projects, particularly our investment in China.

In the third quarter of 2023, free cash flow increased by €170 million compared with the prior-year period and reached €1.5 billion.

[Slide 8: Strong balance sheet]

Let's now look at our balance sheet at the end of September 2023 compared with year-end 2022.

Total assets declined by €1.9 billion and amounted to €82.6 billion. This decline was driven by lower current assets, mainly on account of lower other receivables and miscellaneous assets, reduced inventories and lower trade accounts receivable. Overall, current assets decreased by €3 billion. Noncurrent assets increased by €1.1 billion because additions to property, plant and equipment exceeded depreciation.

On September 30, 2023, net debt amounted to €18.9 billion. This was an increase of €2.6 billion compared with year-end 2022, but a decrease of €1.4 billion compared with June 30, 2023. Compared with September 30, 2022 – one year earlier – net debt was slightly lower. The equity ratio at the end of the third quarter of 2023 was slightly higher than at year-end 2022 and stood at 48.8 percent.

Overall, this demonstrates BASF's financial strength with a strong balance sheet and good credit ratings, especially compared with peers in the chemical industry.

[Slide 9: Together with initiatives in global service units on track to reduce annual costs by ~€1.1 billion by end of 2026]

And that brings me to our ambitious cost savings programs: We are consistently working on our cost structures to improve BASF's competitiveness, particularly in Europe. As announced at the end of February, we are executing a cost savings program focusing on Europe. And we are adapting our Verbund structures in Ludwigshafen. By the end of 2023, we will achieve the run rate of more than €300 million from our cost savings program with a focus on Europe as already indicated in our second-quarter reporting.

We now expect annual cost savings in non-production areas to reach more than €600 million by the end of 2024 and more than €700 million by the end of 2026. These figures include measures related to Europe in the Global Business Services and Global Digital Services units.

Additional measures in these two service units in other regions will contribute a further €200 million. Together with the €200 million in savings from the adaptation of the Verbund structures in Ludwigshafen, we will reach total annual savings of around €1.1 billion by the end of 2026.

And now I'll hand back over to Martin Brudermüller.

[Martin Brudermüller]

[Slide 10: Increased focus on capex efficiency: Capex will be reduced by ~€4.0 billion in the period from 2023 to 2027]

We are adjusting our capital expenditures (capex) in response to the current conditions: In light of the macroeconomic environment, we have significantly trimmed our capex for 2023 by €1 billion to €5.3 billion, as compared to the figure of €6.3 billion announced in February. In addition, we will reduce capex further by a total of around €3 billion in the next four years. Thus, for the five-year period from 2023 to 2027, we are planning capex of €24.8 billion, which is €4 billion lower than our original budget of €28.8 billion. Let me make a clear statement on this: We are reducing the overall investments for BASF Group, but we remain fully committed to our growth projects and our transformation towards climate neutrality.

Moreover, we are not simply postponing investments. We are reducing the number of projects and will implement alternative measures that involve lower capex. We are also taking advantage of the subdued market environment to lower investment costs, as our procurement team in China is currently impressively proving.

On February 23, 2024, we will present to you the new capex budget for the planning period from 2024 to 2028.

[Slide 11: BASF's Verbund site project in Zhanjiang is well on track]

Ladies and gentlemen,

We are continuing to broaden the foundation for BASF's future profitable growth. In this context, I would therefore like to provide you with an update on BASF's Verbund site project in Zhanjiang in southern China. The investment project is fully on schedule and in budget. Last month, the second downstream plant for thermoplastic polyurethanes – TPU – successfully started up. After the completion of further parts of the underground infrastructure and the piling, which has been largely finished, construction activities are increasing significantly due to the construction of the chemical plants themselves and other infrastructure. There are currently more than 15,000 construction workers on the site every day. The photo on the slide shows the impressive progress of this project.

We are taking advantage of the attractive financing conditions in China and are financing the Zhanjiang Verbund site with a combination of around 20 percent equity and 80 percent debt. The equity is funded by dividends from BASF's existing Group companies in China, and the debt financing will be based on the Chinese capital market and local bank financing. We are proud that BASF is able to independently execute such a megaproject in these challenging economic times.

With that, back to Dirk again, who will now give you an update on Wintershall Dea.

[Dirk Elvermann]

[Slide 12: Status update on Wintershall Dea]

We continue to pursue our strategic goal of selling BASF's 72.7 percent share in Wintershall Dea, and we are working on various options for that. Wintershall Dea is currently in the process of legally separating its Russia-related business. This separation is planned to be completed by mid-2024 and marks an important milestone in the overall process. Significant federal investment guarantees are in place for the Russian assets. The related claims, however, are not accounted for as receivables in our balance sheet.

For the business year 2022, BASF already received around €290 million as common dividend from Wintershall Dea. We do not expect any further dividend payments this year.

Wintershall Dea has made strategic and structural adjustments to reflect the changing energy sector and particularly its exit from Russia. Currently, Wintershall Dea is reorganizing its company structure with the target of reducing administration costs by around €200 million per year. In the future, the Management Board will comprise three instead of five members. As part of the restructuring, the company plans to reduce around 500 positions.

That’s all from me, I’ll hand back over to Martin Brudermüller.

[Martin Brudermüller]

Ladies and gentlemen,

Before we conclude today’s conference call with the outlook, I would like to make a few more comments on our portfolio management.

Over the past weeks, there have been a number of media articles speculating about planned divestitures of parts of BASF Group during my term.

Referring to the businesses that were mentioned, I want to say:

We have a clearly defined and already known position on Wintershall Dea, which Dirk Elvermann has just confirmed and explained.

We are very satisfied that the carve-out of ECMS – BASF Environmental Catalyst and Metal Solutions – was successfully completed in July. The standalone structure prepares the business for the upcoming changes in the internal combustion engine market. This generally allows strategic options for the future, but we have no intention to sell this business at this time.

We are also particularly satisfied with the current very strong performance of our Coatings division and have no plans to divest this business or any parts of it.

As far as the Illertissen site is concerned, we have confirmed that we are examining strategic options for this rather small food ingredients business that has only limited synergies with the rest of our portfolio. Independent of Illertissen, the optimization of our site footprint with around 240 production sites worldwide is an ongoing task as part of our consistent portfolio management, which we usually do not talk about much.

Now I will conclude with the outlook.

[Slide 13: Outlook 2023 for BASF Group]

In the fourth quarter of 2023, we expect global chemical production to further stabilize. However, in the current interest rate environment and in view of increasing geopolitical risks, the macroeconomic outlook remains extremely uncertain. In particular, rising raw materials prices could weigh on demand and margins, since pricing power is limited in times of low demand.

As announced in July, we anticipate sales of between €73 billion and €76 billion as well as EBIT before special items of between €4.0 billion and €4.4 billion in 2023. We meanwhile expect sales and earnings at the lower end of the respective ranges.

If chemical production does not further stabilize, there are risks from a further decline in volumes and a sharper-than-expected price reduction. We are maintaining the underlying assumptions for the global economic environment at the levels presented in July.

Ladies and gentlemen,

Looking ahead, we do not expect an easy start to 2024. But we are firmly convinced: As soon as demand really picks up again, BASF will defend and expand its market shares with good competitiveness through leaner structures and good cost positions and provide powerful support to its customers worldwide..

To conclude, I would like to state once again: An attractive dividend is of high importance for the BASF Board. This also holds true in challenging times. Therefore, our practice of keeping the dividend at least at the previous year’s level remains unchanged. Our strong balance sheet, high equity ratio and good credit ratings give us the necessary financial strength in this regard.

Thank you. Dirk and I are now glad to take your questions.