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BASF Investor Update
Transcript Q&A
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Christian Faitz (Kepler Cheuvreux): First of all, can you elucidate current demand trends, particularly pertaining to China? Is there any improvement in China in your chemical activities?

The second question would be on your mentioning the potential use of IRA. Is there any danger that, with a potential change in government in the US per early 2025, the IRA program might not be fully used if and when you come to a decision to go into an IRA-benefiting project with or without Yara?

Dr. Martin Brudermüller: On the China numbers, I would say that we can confirm what we said on the Q3 call – that the volume development in China is positive. If things continue like this to year end, I would say that we will roughly finish with the same volumes we had last year, which, I think, is good because it is really an improvement, given that the first half was quite lousy on volumes. So, that is a positive sign. It looks like there is also certain restocking going on in China.

If you go into the details of the numbers, they are still far away from being normal. I would not say that consumers have really kick-started their behavior. Let's see whether this is now only restocking and that it then collapses or weakens again or whether this is really the beginning, maybe also a new start. I would say, usually it is after Chinese New Year when you have a more sustainable pattern then from retail and from consumer behavior.

So, it is still soft, but it is definitely a big step forward which we benefited from. Some of our plants are quite highly utilized. But I have to say – and this is reflecting that it's not yet sustainable – that we don't have pricing power yet. There is a huge supply over there that squeezes the prices and with that the margins. But let's say: The first step is to get the volumes back.

The second part is on the IRA. It is highly speculative to say that the Republicans would go backwards if they were to win the election. I think this depends also on how the economy is over there. Now we all read: "Is the US really going into a recession or not?"

I would doubt whether a new government would cancel the IRA if the US were to be in a recessionary environment because I think that would have also a quite destructive impact on investing in the US.

We currently discuss that everything that was once planned for Europe now goes to the US. Two remarks on that: In the chemical industry, they are now building capacities the US market doesn't need. You know that the US market in 2030 will by only 13% of the global market. So, they are building the capacities over there because it's competitive. But they have to export to China. Given the trade frictions and the geopolitical conflict between the White House and Beijing, it's also quite risky to build capacities in the US if you don't know whether you will be able to export into China. If not, the US will be oversupplied.

The second remark I want to make is: You now hear that investment costs for this long list of projects that have been announced are going through the roof because the capacity of construction companies and engineering capabilities are limited. It's not an industry in which you can now suddenly digest three or four times as many investments as normal.

With that, the price for investments goes up. I would say, those who are early might have a good business case. But I would say also, those who are late might see that investment costs ruin the business case. Nevertheless, you have tax incentives. So, that relativizes certain things. I think that not everything that was announced as going to the US with the IRA will really be built.

Sebastian Bray (Berenberg): I have two questions. The first is on a technical point. The Other segment, from what I can see, BASF will not provide guidance on it on a going-forward basis. It hasn't done to date anyway.

Given that EBITDA is going to become the new base of reporting for the company at the segment level, what is a normal EBITDA negative result for the Other segment to assume on a going-forward basis?

The second question is related to politics, on the European side of the equation. Would BASF expect any substantial new government support at the German or European level to materialize over the next six to eight months? What's the base case assumption for European politics, as it relates to both German budgetary discussions and the potential passage of a Net-Zero Industry Act in Europe?

Dr. Dirk Elvermann: I will start with Other. Indeed, we did not provide guidance ranges on Other in the past; we are not going to provide guidance on Other in the future.

You ask about what's the normal level of Other in the future. I'd say, this will be seen in the course of the first year. We will provide the guidance on the basis of the new metrics for all the segments then in February as normal. I think in summer, autumn, you will see then also the residual, which is then equivalent to Other. So, no guidance going forward and no guesstimate right now, but I think it will not be a big surprise.

Dr. Martin Brudermüller: The second question is certainly a little bit more difficult to answer. But let me start with this: I think, as citizens, we should be happy about the decision in Karlsruhe. Nevertheless, it is certainly clear that this will have an impact on how Germany can position itself and on what will be invested in infrastructure that was insufficiently developed over the recent decades.

I think it is much too early to make any prediction of where they save and what the final budget is. When I'm in Berlin, the lowest number I hear is €18 billion, the highest I heard is an €82 billion gap. At the very end – and I think this is a positive signal – we have a government that did not prioritize anything. All the project ideas got through because every party had its own agenda. So, all were followed and were given money.

Somehow, we knew that this was far beyond what is coming in as money. I think now they are forced into a reprioritization which, I think, is primarily good. How they will decide, I don't really know.

Let me also generally say: We benefit from some funding when we go for innovation. We got some money for the electrolyzer. We also got some money for the e-furnace. I think this is also justified because if we take an entrepreneurial risk and we try out a technology that has no business case, but we still do it because we want to prepare ourselves for the future, then I think it is okay that there is a certain amount of funding.

But at the very end, we also have to see whether subsidizing each and everything we do in this country is the right policy. I would much more prefer to have a regulatory framework that allows us to be entrepreneurial. That was actually how our company got big: by taking risks, by developing technology, by doing the right investments, and then earning money with it.

That is a little bit lost in Europe because we are too overregulated. As a result, we basically lack a business case for the whole transformation. So, it would not be bad if things settle a little bit – and these are also the signals I hear from Brussels – and if there is a little bit more consideration about European competitiveness and the need to review regulation. This might allow industry to achieve the targets of the Green Deal in a pragmatic manner.

Just a couple of weeks after the decision by the German Federal Constitutional Court, I think it’s very early to decide. But I would expect that the one or the other thing will be off the table. I truly hope that they focus on the stuff that is really important to develop our country because doing nothing is the other extreme and that, I think, is not possible.

So, we are somewhere in-between. We have a lot of dialogues. They also come to us, not to BASF only, but to the industry in Europe to discuss how priorities should be set and what is really crucial and what is not. I think that’s a good development.

Peter Spengler (DZ Bank): I have two portfolio questions. First on your Wintershall business. You said the carve-out is going on until mid of 2024. Can there be an agreement reached before mid of 2024? Can it be sold before?

The second question is on your agri business. Could you think of strategic options for the agri business as well, like a float participation or so in the near future? Or is it an integral part of your business?

Dr. Dirk Elvermann: I start with the oil & gas question. As you rightly said, we are continuing with the separation of the Russian and the non-Russian related parts. That is truly important because we want to reach a point where the non-Russia-related part is fully fungible and transactional. That is going on.

The timeline that we have given until mid of 2024 looks pretty accurate. “Why does it take so long?”, you might ask. It is simply because you cannot take the Russian part away from the non-Russian part. You have to do it the other way round in order to get the approvals that you need because you would not get approvals from the Russian government to do any transactional split.

So, it’s quite a lengthy process. At the same time it’s a straightforward process. There is no doubt that we will get there, but it certainly takes its time.

We want to have these two business strings separated because we and the Wintershall Dea management have clearly announced a strategic exit from Russia. So, this restructuring project stands on its own.

Then for the portfolio options. We have never stopped looking into that and making preparations. We are doing this in parallel, and you are right: In order to finally sell the non-Russian part, you need to have that separation done. But this does not mean that you have to stop thinking about the transaction.

We said very clearly when we merged Wintershall and DEA that the prime goal was an IPO. That was obviously not possible in 2021. It was almost possible at the end of 2020; it was almost possible at the end of 2021. Then the war in Ukraine broke out and we now have this setback.

But the monetization intention remains. What will it be then? Will it be an IPO? In these days, it's more unlikely than likely. Will it be a straight transaction? This remains to be seen. But a very short answer: We are working on both things in parallel.

On the Ag business. What we want to do with this differentiated steering approach is: We want to profile the business. We are not doing that as a preparatory step to monetize the business, to lose control or to generate sales proceeds. We are doing that in order to have a really clearly defined business that can better compare itself with the competition, that has its own steering KPIs and that is also doing hard benchmarking.

With that come changes in the legal entity setup and changes in the IT and reporting systems. But we are doing all of this in order to profile the business, not in order to get rid of it.

Martin Evans (HSBC): Following up on this differentiated steering: I don't really fully understand what it means. If I was a BASF employee, for example, on January 1st next year, with the same colleagues, the same business groupings: What would it in a meeting physically involve in real terms, in terms of achieving ultimately the better margins? Because when Martin took over, I remember five years ago at an Investor Day, you had a lot of enthusiasm for making the Group more flexible and responsive to customers and getting closer to the end markets, which, I'm assuming, is a similar thing to steering of the businesses as well.

So, what's the difference? What has been achieved? Why will it be different this time?

Dr. Martin Brudermüller: I think the one slide was showing this. It's actually a longer journey and that's why we said this is the last conclusive step. We had the relatively slim operating divisions, which basically had sales and marketing and production, and R&D was in the central platform, and all the services were in the platform.

The first step we did is embedding the business-critical services. We integrated around 16,000 people, if I remember the number right, into the divisions; that was the first thing to digest.

They then started to organize things totally differently in the Group and in the management meetings, for example for supply chain. It went from a one-size-fits-all approach to something more specific.

The next step we did is that we took around 6,000 people from research & development into the divisions, who were then integrated in terms of how they work with the customer in the marketing interaction. The researchers are basically on the payroll of the division. This was, I think, the next very important step.

Since 2020, we also introduced Salesforce as a tool all our people use to much better interact with their customers. And we have also introduced NPS, the Net Promoter Score. That was something, which, I think, was very valuable for BASF.

We also saw how the numbers went up from the very beginning with the feedback of the customers who said: It’s a different BASF. Also, the primary loops, how fast you respond, you can measure that. And we have the numbers that show that we really made an improvement.

I’ll give you just one example to explain what is still limited: If you look at an average master data set at BASF, it is huge because it has to cope with everything: for the plant protection business, for the coatings business, for petrochemicals. Everything is reflected. But as you can imagine, a lot of divisions actually move data they don’t need for their business.

SAP will stop supporting R/3 at the end of the decade and we will anyway have to move from R/3 to S/4HANA. So S/4HANA will be a good opportunity to give the businesses an opportunity to shrink their master data set to what they really need and then also to hardwire the business-specific processes rather than reflecting the needs of everyone in BASF.

It is no surprise that we have one of the largest SAP systems in the world because it is reflecting the compromises for each and everything. In the R3 logic, this was also the right thing to do. But S/4HANA offers now the opportunity to provide freedom on the process side while still offering integration with the ledger for the financing and the reporting and the risk management and everything like that.

That is why this is a next step. It’s not something in contrast, but it’s just the next step. I think, looking at the environment that Dirk described, things are getting fierce in our industry. We have to do more.

The fact that we anyway have to do something on the SAP just happened to coincide timewise. It’s not that SAP is the justification for what we are doing. It’s just a tool that helps us.

I think the signal to the teams is that they now do not always have to compromise on what they do in BASF. We are saying: Build your process according to your needs and to ensure your agility exactly like your pure-play peers do.

With this we are making another big step forward because the businesses will be able to shed what they don’t need and really focus on the business. But – and this is important – they stay part of an integrated BASF because they will be connected with the service bench and also with the Corporate Center and all these issues. That’s maximum freedom, but also giving them the advantage to be part of an integrated company.

I hope I could frame a little bit to show that this is just now the last logical step in the strategy we announced in 2018.

Dr. Dirk Elvermann: Martin, if I may add one thing: What changes immediately is that the KPIs for the businesses will change. The incentives for the people running the business are changing. And the next step is putting the colleagues in separate legal entities in order to facilitate what Martin described: the own ERP system, the agility that you need to run such an industry-specific, customer-specific business. The first step is KPIs, incentives.

Charlie Webb (Morgan Stanley): Two questions from me, one on the competitive landscape in Europe; you touched on it already. You've already taken steps at the start of the year to take out capacity and people obviously here in Ludwigshafen, across Europe and globally.

Do you feel there's more to be done? Where is the European chemical industry competitiveness today? Do you see others addressing this more seriously than perhaps they have so far? Do you think you need to do more there to get the industry more competitive here in Europe for Europe? That's the first part of the question as it relates to the chemical industry.

How do you see your customer industries in Europe? Are they also addressing some of these similar challenges when you're speaking to them? I suspect it probably varies sector by sector, but I am interested to hear your thoughts on the competitiveness of the customer base.

Then maybe short term looking into the crystal ball into next year: We're hearing about some deterioration in some of the headlines around autos, in terms of more cracks appearing on pricing and a potential slowdown of EV in Europe, having again possibly too much supply around, not enough demand.

How do you see autos into next year? Obviously, it has been good with the backlog, having worked through supply chain issues being solved. But into next year, do you see any risk there building, that we might get a slightly more challenging year, whether that's mix or volume-wise?

Dr. Martin Brudermüller: Let me start this way: If you look at the situation since the breakout of the Ukraine war, the European chemical industry lost about 25% of its volume. That's a lot. That means, the capacity utilization is not very high. That is certainly also mounting on the cost and is bothering in terms of competitiveness.

If you try to analyze the data – we have also done this in Cefic – I think a good rule of thumb is: Maybe half of that is a lost position that the European chemical industry was exporting and cannot export anymore because others offer it more cheaply. That has very much to do with the energy costs. And the other half is that actually our customers are ordering less and have a problem with their competitiveness.

It is very difficult to predict how and when this is all coming back. I would assume that not everything is coming back because it will not be possible to regain some of the export positions because there's a lot of capacity in other places and regions that have better cost positions. We all know that energy prices will never come back to what they were prior to the Ukraine war because pipeline gas is simply cheaper than LNG; three to five times higher gas costs compared with the Henry Hub is probably a good rule of thumb.

So, some volumes will be lost in Europe. The hardest part is to predict the competitiveness of the thousands of customers you have. How do they prepare? What is important for them?

From talks in the industry and if you look a little bit into the sector via Cefic, I would say: A lot of companies are hesitating still to take a measure because the last thing you do is to shut down a capacity. Because when you do that, there is no way of return. That is why people wait until the pain point and the evidence is so clear that it will not come back. Then you close it.

What I want to say is: I would expect that capacities are lost for good in the European chemical industry. We lose world market position; there is no question in that regard.

On the other hand, there will also be some streamlining. There will most probably also be some consolidation. The sector is in movement, I would say. The key question is: What is the volume growth in the future? That is hard to predict because that has a lot to do with industry policy in Berlin and Brussels: Do they deregulate? Ursula von der Leyen, Madam President, said: 25% of the regulations will be called off. If you talk to them, they say: I have no clue how to do that.

So it’s very hard to predict this environment. But if we look at BASF, we have been early and we started this exercise much earlier. We clearly saw that there are some products where there is no chance that volumes and competitiveness really come back.

We explained this. This was not a one-dimensional analysis. We were looking at the age of the assets. How high is the maintenance cost? Because, you know, if you are higher, that percentage point is higher. We looked at the cost of decarbonization. We looked: What is the replacement value? What do we have to put in as capex? What is the cost position with higher energy prices, etc., etc.?

We have then made decisions. You say: Might there be something more coming up? – I think so. That can happen. That’s why it is a continuous job to look into this. I think we have a good data basis for doing this. I think we have also shown that even a Verbund offers flexibility despite people always saying that it’s totally inflexible and that you cannot change anything. We have shut down plants in the Verbund and still run it.

But I think, the industry is still lagging a bit behind reality. I would expect that we will see some movement in the industry in 2024.

Without giving guidance now, we have said that the start to 2024 will not be easy. I think that the closer we get to 2024, the more likely it looks that 2024 will be another difficult year.

Dr. Dirk Elvermann: With that, Charlie, turning to automotive. Automotive and Agricultural Solutions, these were the two strong businesses in BASF 2023, and this is going to be sustained.

Auto is sustained for 2023. The Coatings business has one of, if not the strongest year in its history. Also for the carved-out ECMS business, so for the automotive catalysts, we can confirm very strong results.

Now looking a little bit into the Q4 current trading, I also don’t see that falling off a cliff at all. I think for 2023: very strong auto.

The pent-up demand from the bottlenecks that we had beforehand is more or less made up now. So, in 2024, I would expect to lose a little bit of steam, but, again, not falling off a cliff. So, again, we will rely on a strong auto business. That goes again for coatings, that goes for the catalysts, but also for the lightweight plastics and the others. So, auto is certainly one of the industries that we see as “okayish.”

Also, let’s remember that in the meantime significant auto is also coming in China, which is the growth region. Luckily, we are also very much in these customers from China, in the OEMs, so that also from a regional footprint perspective, I'm quite confident for auto. But it will not be, of course, a year increasing significantly again as it was the case in 2023.

Oliver Schwarz (Warburg): My first question is in relation to the steering of the Verbund businesses. The 17% over the cycle target: What would you define as a cycle?

If you say, it's probably five to seven years or something, would we then have to measure the performance versus the target by mostly using historic data? So, let's say, if we look at 2023, we would look six years into the past and one year, 2023, into the present to gauge whether you did or did not achieve that target?

Probably interwoven with that: I saw that the Verbund businesses are without the catalyst business, with the part that is Coatings having moved to the non-Verbund business, and there's no mentioning of the remaining catalyst business in that Verbund business anymore.

So, if you take the historic data, where would you be at the moment in relation to your 17% target as we have to exclude obviously the performance of the catalyst business, which is always held down by the metal trading part of the business?

Dr. Dirk Elvermann: I give it a start. First of all: How do we measure the mid-cycle? What we typically do is, we are compounding the CM1 margins of the big upstream products. That helps us to define where we are in the chemical cycle. First information.

Second: If we talk about cycle mid-term, we would typically regard it as three to four years, not six to seven years. Then, of course, you are right: It is difficult if you just stay on the margin level to steer that, because the volatility obviously is quite significant.

This is why, of course, for the Chemicals businesses and the business pertaining to the Verbund, we will not only steer by the margins over the cycle. We will also, particularly for the short term, have absolute EBITDA targets to steer these businesses. This will also be part of the guidance because the guidance will be different. It will not be only one figure anymore, but it will be short term – that is more the absolute – and it will be mid term. That is then also pertaining to the margins.

Last information piece here: Currently, we are obviously at the bottom of the cycle.

Oliver Schwarz (Warburg): Yes, I expected that. But if I'm taking the results of the last three to four years without the impact of the earnings of the catalyst business: Where would you be? Below or above or at the 17% at the moment?

Dr. Dirk Elvermann: Here, I have to ask a little bit for your patience because what we did not do is to disclose the margins on a divisional level. So, when we come out next year with the guidance, you will also get the transparency on this. But today is not guidance day, it is the concept day today.

Oliver Schwarz (Warburg): But isn't that the data of the four segments which was disclosed quarterly in the past on EBITDA before exceptionals level, that has to be compounded to come to an idea whether the EBITDA margin is 17% or more or less? So, that's basically all.

Dr. Dirk Elvermann: And we also showed the excluding metals margin; this we also showed on the EBITDA level. But we did not disclose the EBITDA margins for the specific businesses.

Oliver Schwarz (Warburg): You just excluded one segment as such. That's not a divisional thing, that's a segmental thing, isn't it?

Dr. Dirk Elvermann: Yes.

Oliver Schwarz (Warburg): And you disclose the data on the segments, right?

Dr. Dirk Elvermann: We disclose the data on the segments, exactly.

Oliver Schwarz (Warburg): So why are you not able to provide a margin for the compounded four segments? I'm a bit confused, sorry.

Dr. Dirk Elvermann: We will be doing that.

Oliver Schwarz (Warburg): Yes, but you could do it already using the historic data.

Dr. Martin Brudermüller: You ask basically: Is the guidance going forward for, let's say, the next four, five years containing something backwards or do you see the average cycle going forward?

Oliver Schwarz (Warburg): No, it's even simpler than that. I just wanted to know: If you say, okay, we are now in 2023 and we take the, let's say, past three years for that in addition to get a full cycle, to come to four years – we know the data for Chemicals, for Materials, Industrial Solutions and Nutrition & Care –: Where would we be basically by the end of 2023 in regard to the 17%, give or take? No exact number, obviously.

Dr. Martin Brudermüller: So, you basically use a projection of the four years backwards to get an idea whether this is on the low or the high end?

Oliver Schwarz (Warburg): Yes.

Dr. Dirk Elvermann: We are currently below; that's clear.

Dr. Martin Brudermüller: But the question was whether they get the numbers. I think we have to discuss about what is really needed. The very clear message we want to send here is, first of all: Over the cycle, the upstream part is a damn good business.

But what we also cannot deny is that it has a certain cyclicality. And that's exactly what we also see now. That is also what we want to reflect over the cycle. We had years – you remember them – not many years ago where we had, for example, for the isocyanates the best years ever and it was really like printing money. Then you have also periods where this is exactly the opposite.

Give us a little bit more time. I know now what you want and we can see when we give the guidance in February how we actually do this. Because you can also make it overcomplicated: two years back, three ahead, four back and today. So, we have to see what makes sense. Because, at the very end, we will give you a mid-term guidance. Then let's see how we do that.

Andreas Heine (Stifel): I'd also like to discuss the targets, but for the other part, not the Verbund part.

Coatings, you said, had a very good year and you were describing the automotive industry as very healthy; at the same time raw material costs were declining. So, that's quite a good environment for Coatings.

If I look now at that margin, is that already above the 15% so that you're trying to defend the 15% margin in a more difficult environment? That's the first question.

Agro is actually a little bit the other way around. It's only 100 basis points below your target for this year if my forecast is reasonable. In former days, you had a target of 25% and now it's 23%, despite the fact that you have strengthened your business with the Bayer acquisition and with the integration and synergies of that. So why is there the margin less?

I'm not talking about each and every division to get to the 17%. But as long as I follow the Care Chemicals & Nutrition, it was never really good and this year it was really pretty bad. How is your strategy to change this? Because this nutrition part especially was a tough one and it looks like, if I look at the prices of these products and the Chinese competition, that won't get easier.

Dr. Dirk Elvermann: I start maybe with the present and then hand over for the future.

For Coatings, Andreas, I think you are right. This year benefited extraordinarily from the automotive industry. So, the 15% margin is something which is not a high ambition on top of, but is rather an ambition that we have to sustain.

For Ag, it's different. We are below. We had a very strong first half of the year with a very strong EBITDA margin. But the second half of the year, as we all know, is softening and also the margin is going down a little bit, also, again, not falling off a cliff, but going down. On average for the year, we expect below 23%. So, this is an ambition that has to be reached again. This is what we have today.

Dr. Martin Brudermüller: Let me add this on the margin for the Ag business. First of all, you have to look in detail at how much seed and how much chemical crop protection you have. That also varies the threshold actually for the competitors.

The more seed you have, the higher also the EBITDA margin usually. We have bought a seed business; we are happy about this. But our seed business is still comparatively small compared with those of the peers. That's, I think, the first thing you have to take in mind.

I think it is a good example. I would say, all the peers have reduced the margin they have achieved over the recent years, which only shows that this is a good example of fiercer competition. This is also why we take all these measures: to keep the business at the very top.

We have not done great in this business over the last two or three years, I have to say. That's why we have encouraged them to improve their performance. I can only say: I'm very proud of the Ag team. They have done a super job this year and they have also helped – that's what we talked about – having a broad portfolio and being resilient. They have definitely helped to stabilize BASF in this very difficult period where the biggest pain is upstream.

I think you have to see it also in that context. We give them, I think, a very good challenge to achieve that target. That is the orientation, that's the bar that they have to reach in the long term. There will be better and worse years, which is always the case. But that's where they have to orientate themselves.

With this new differentiated steering, we will also dramatically step up the benchmark exercise. So, we certainly do that regularly. We are not running blindly through the world. It will also be much more part of their incentives that you really measure them: What are the peers doing? Then you will see the industry sometimes flowing up and down as industry as well and then seeing the company is going up and down against the trend. But that's how we want to get the maximum out.

In that respect, I think: Yes, Coatings might have a super good year this year, but we are all clear: That is not a normal year for all time. That's why I think you have to give them a threshold and an ambition that is a stretch, but also doable. I think, in that respect it's a good target.

With Nutrition & Care, I think there are two components. You know that we had some problems with some of our facilities in the past that impacted BASF in terms of market share. We are now coming back because we have new facilities. We have the new dryer for the powders, and we also have the additional capacity for vitamin A. I was previously in that business; we do a regular benchmark, we have really a super cost position here, particularly on the vitamin A.

But you also saw that additional capacity came up. It is a very slow-growing industry. It's not one with high growth rates. Also, during the COVID pandemic, demand fell significantly for meat consumption and everything for animal nutrition. I think these two effects basically brought the problems to everyone. I don't want to quote any of our competitors. But there are some good names in this field who have big problems as well. There is a big share, I would say, in the supply and demand of this industry. The more that is the case, whoever has the strongest cost position will have the best prospects going forward.

At least for a significant part of the business, vitamin A and also the aroma chemicals, we have an excellent cost position. That is why I think we are well positioned now. But there is also some work to be done to get back to where we want to be.

Dr. Dirk Elvermann: Martin, I think, for vitamin A, this is on historic low-price levels right now.

Dr. Martin Brudermüller: Absolutely.

Dr. Dirk Elvermann: You can be sad about this, but you can also say there's a lot of upsides because we have now a plant in place and when prices go up, we will definitively benefit.

Peter Clark (Société Générale): It feels very much like 2018 in terms of an evolutionary strategy, not a revolutionary strategy. There are clearly some positive things in here. But if I take restructuring first, I was surprised we didn't get a slide on why you think the current restructuring plan makes the business competitive, particularly the Verbund restructuring, the €200 million. I picked up that earlier you said that that, of course, can change. On the face of it, it doesn't seem enough to make these assets competitive in Europe.

Then on the reshaping: Obviously, you've spent a lot of time looking at the pure plays in the businesses that compete against them. But again, coming on Coatings, your target for the mid-term of 15% EBITDA margin, whatever, 12% EBIT margin, doesn't look demanding compared to them in terms of where they are.

So, how does the best-owner test work for a business like Coatings? I hear it's integrated in BASF today. You are determined to keep it, but how does the best-owner test work in a business like that?

Dr. Martin Brudermüller: Let me start with the first one. We did not take much time because we had so many other topics today. I think there's not so much new. At the beginning of the year, we reported in detail on the assets and gave you insights into how much we actually shut down, in which areas and on what it saves in CO_2.

I can only say: Given the situation we are in, with an extremely unfavorable supply and demand – that is why the volumes are not there and the pricing is not there – I'm actually happy that we already did this. That's why I also said: You have to continuously look into this going forward and also look at the projections for our customers. You cannot exclude that you need even to look another time and yet again.

Certainly, we know which areas would be the next critical ones. But that's, I think, the job we have to do.

We did not give additional information now because there is nothing to add. I can only say that the majority of the plants are not producing and have already stopped operations. And I'm happy that this is the case and that we can use the people from these plants in other operations we are anyway short. You don't get people anymore from the market. So, yes, the positions have been reduced due to the plant closures. And with that, we have savings. But we still need the people who have vast experience, and we are happy that we have them. For that reason, I think, it makes all sense.

On the other hand, I'm not only happy with the restructuring. In the past, we have also talked about our vulnerability concerning natural gas, which we have dramatically reduced. I think more than a year ago when we talked, there was speculation that we might have to shut down Ludwigshafen if there is no gas. That's basically off the table. We can manage the situation very well.

However, if we have a cold winter, I would not exclude we are talking about gas shortages in Germany in a couple of weeks. That is not off the table, very clearly.

Some politicians are running around and saying, we saved as a nation so much gas and it's great. But the majority of the savings are due to production being down, not only in our industry; glass, aluminium, etc. They are all basically at a reduced level because of the low demand. So, celebrating this as a great restructuring success is maybe a little bit too much.

We will report continuously on this topic. But I have to say that I'm super happy that we took these measures and really proved that we are proactive here because competitiveness in Europe is an issue and it will not go away over the next years.

Dr. Dirk Elvermann: First of all, thanks for the appreciation for the approach that we are taking to profile the coatings business and crystallize the value more.

I would say: give us a little bit of time for the margin. We looked into that. We find that it is reachable in the midterm. The Coatings division now has lots of work to develop the even more distinct business model on the tail end and on the front end. We think this is demanding enough for the time being.

Can we also change this guidance again in the future? It's midterm and, as I said, mid-term is three to four years. So, there will be a new mid-term target after this mid-term target; this is dynamic.

Dr. Martin Brudermüller: I think it's fair to say, Dirk, they have had a stellar performance this year. If we take the comparison to last year, they have really done everything right, I would say.

Dr. Dirk Elvermann: Absolutely.

Dr. Martin Brudermüller: They have the right products. They have taken market share from competitors. They have put the prices up. They reduced their raw material costs. They have been restructuring. They have really pulled on all the levers. I think it came together extremely well. It's a record earnings which they provide.

Michael Schäfer (ODDO BHF): Coming back to Ag Solutions and elaborating on what Andreas asked before: Previously, you had also something like a 50% sales growth target back at a CMD for Ag and a 5% annual EBITDA growth target. There's nothing found now in the key KPI for the segment.

Has this changed? Have you let them off the hook basically in terms of growth potential? Or how should we read this?

A related question, sneaking into next year: You had a very strong H1 2023 as you elaborated on. How would you describe the challenges heading into 2024 in Ag? This would be the first question.

The second is coming back to your steering model; I try my luck. Battery Materials: What's the starting point in terms of EBITDA margin? A 2022, 2023 indication would be a good one.

The third one is also to the steering model. On the segment level, you are also guiding for cash flow going forward. How are you dealing with net working capital volatility? Because obviously, in the past, it has been rather volatile at Group level. So, obviously, it's also very volatile on segment level. How should we deal with that one?

Dr. Dirk Elvermann: I start with Ag. First of all, nobody is let off the hook, also not the Ag business. We are proud of the Ag business this year. The Ag business is expected to be strong next year in a more difficult environment. So, it's more demanding.

We have the soft commodities becoming a little bit softer and the competition is also becoming, I would say, quite aggressive on prices and customers. It will not become easier for them. Nevertheless, we will not let anybody off the hook.

Growth will stay important. But what we are focusing even more strongly on is the profitability of the growth – it's not about growth per se – and it has to be accompanied by a good cash performance.

So, this is the tweak that we are seeing here. It's great to have sales and top line growth. It's great to have EBITDA, but we also want to see the cash. We cannot afford any business just to deliver on the P&L, but not on the cash.

On the net working capital: You assume that net working capital will be very volatile so that we can't properly steer. But I think this is not the right assumption.

First of all, the cash flow mid-term we will guide in a cumulative way; so there is still room for a little bit lower cash performance in one year and a higher cash performance in another year.

For working capital overall, we are targeting a lower level anyway and we have established a company-wide project to trim that down again because we had the feeling that the levels of working capital with which we are running the businesses are too high. And you will see also in our cash flow statement this year what the result of this project is, because, I think, relative to the earnings, the cash flow performance in 2023, year to date, and also what I see going forward, is exceptional.

So, we don't want to accompany increasing sales with ever increasing working capital.

Dr. Martin Brudermüller: Maybe one point also on the supply chain and inventories: This is a continuous topic in a company like ours and most probably at all the competitors. As leadership, these are the topics that you always discuss. I think it is fair to say that AI now also provides an opportunity to bring together all the different data you have on supply chain and consumption and raw materials through the whole chain in a totally different way.

This is why we think you can steer things even better and free up cash. This is also why we want to bring this into the focus of the divisions: that they don't look only at earnings where we push certainly very much because we have to deliver this prime KPI to you. But now we are saying that you have to look at both and we are also incentivizing this.

I think your last point was on the 30% margin on the Battery Materials. This is the largest chemical market, and it is also an incredibly dynamic one. You also read the news. Basically, there's almost no day without some news in this chain moving on, including shuffling around, let's say, rationale and realities in a way.

I give you one example because we were mentioning the IRA: For a long time, it looked as though the least attractive region to build a CAM plant is the US. But now, with the IRA, it's actually one of the most attractive places to do that. So, we have a long list of projects over there as part of our roadmap. What we do now is that we very much look into what is the right order and priority of the projects. That, I think, is then also where we will update you when the time is ready.

But we have looked into this, and independent of the priorities, we still think that the 30% EBITDA margin is a reasonable target if you exclude the metals. And that will also guide how much we will put into this business overall. But it is a very, very dynamic field, I have to say.

Samuel Perry (UBS): The first question is regarding the €3 billion capex cut that you recently announced for 2024 to 2027. What proportion of this is a slowing of capex into China and batteries projects versus the underlying business, and how much scope is there for a further reduction over this period if demand doesn't pick up?

And then, secondly, given you're moving towards more granular free cash flow guidance and the volatility in Chemicals and Materials, can you give any indication of what peak and trough cycle free cash flow is for these businesses?

Dr. Dirk Elvermann: With regard to the second question: Again, I have to beg your pardon and ask for your patience because guiding time is in February 2024.

As I said, what we will try to do and what we will do is to clearly differentiate between a one-year guidance and a cumulative guidance that will then also absorb the volatility through the cycle. You will see that. In order to make it very tangible for you for the short term, we will show the operating cash flow and the capex so that you can retrace exactly what we are doing, to see the capital allocation discipline that the management is applying. And the specific numbers are coming in February.

Dr. Martin Brudermüller: On the €3 billion capex reduction, you mentioned China and Battery Materials: First of all, we don't have big projects for Battery Materials in China. So we actually have different project lines. And if we look at the big project in Zhanjiang – I think we mentioned that also – we have been a little bit surprised how positive the environment is for investments over there. That has to do with several factors.

First of all, while we were talking about 6%, 7% inflation here, there was 0.9% inflation in China. So things did not get as expensive as outside of China. And with that steel and materials also did not increase in price. That surprised us rather on the low side with the contracts we signed. The second thing was the armies of workers from the construction companies. You know these huge companies; they have a large labor force. Because of the low economic activity in China, they were actually very eager to get contracts to employ their people. So, we also get these 15,000 workers at very good conditions to build the plants.

So, I would say, normally for such a project, partners would say "Sorry, this is getting a little bit more expensive than foreseen." I would dare to say that for Zhanjiang, we are most probably even a little bit lower than we expected because of the environment in China. That helps us a bit.

You optimize a little bit here and there in these two years of heavy investment coming in 2024 and 2025, but it will not change anything in that we have to finish the whole project as such. You cannot build 80% of a Verbund and leave the remaining 20%.

But I would say, we are very good on this big investment. And as I mentioned a little bit in the presentation, we are really now super critical. We have always competition for money in BASF. Thankfully, we have more projects than money, so that ensures a certain amount of competition. But that's now certainly increasing when we reduce the money available. So, there are more projects, and we look very clearly to see which are the profitable ones, where are some must-haves. Because you have also those when it comes to safety.

And then we are also looking and challenge to see if it is possible to come up with cheaper solutions. I think with all these elements, we are very confident that we actually can do that. I also mentioned the capacity side. If you have 25% of capacity not used in Europe, please fill it first before you build the next plant. I think this will all contribute, but there is no special chunk from China.

Riya Kotecha (Bank of America): My first question is on the EBITDA margin in Battery Materials being the same as the 2021 target. Yet over the past two years, we've seen a lot of industry supply coming in from China and Korea players as well as price pressure from cheaper LFP. So, what makes you confident that you can still achieve this margin despite the changes that you track as well? Other European cathode competitors target 25% EBITDA margins. What are the reasons that BASF might have a superior margin in the same product?

And then my second question is: What is the status on the Canada Battery Materials plant? The progress seems a little bit slower than other players who announced plants at the same time. So, when do you plan to commission it? And any updates on the contracting or orders?

Dr. Dirk Elvermann: On the margin, indeed we stay confident because we are positive on the supply/demand side. We see that demand curve going up.

I think the challenge for Battery Materials with the very high investment hurdles is really how much money you will have to deploy and whether you can do that alone or whether you need partners. But the business model and the margin assumptions, we feel they are still intact. Probably we are on the optimistic side there. But we also see not only the supply going up, but also the demand.

On the plant side: You're talking specifically about Europe. We have the CAM production in Schwarzheide where we have commissioned the two production lines, and that was according to plan. We still have the challenge of the precursor plant in Finland – this is in Harjavalta – where we obtained the permission to produce after court ruling and authority ruling at the beginning of September. Unfortunately, there was again an appeal by two NGOs in Finland, which is currently under debate and discussion. And as soon as this is done, we would also have the precursor plant in Finland readily available. But with the European production of CAM in Schwarzheide, Germany, we are according to plan.

Dr. Martin Brudermüller: I was not precise enough when I talked about the US. I should talk about North America because, in fact, there are also quite some attractive investment conditions in Canada. This is, I think, why this also attracted some investment decisions already. And this is definitely a location that we look into. It's no secret; you could read something about this.

But it is very clear that we have not yet finally decided what the right order is, because there is quite some demand on our side, both in Asia but also in Europe and the US, for CAM. And we have to see that we cannot do everything at the same time. You know it's capex-intensive and we are cutting capex. So we have to look closely into this.

Konstantin Wiechert (Baader Helvea): I would like to go back to the political questions if I may. Maybe starting with the Carbon Border Adjustment Mechanism: How important is the successful and comprehensive implementation of the Carbon Border Adjustment Mechanism for your European carbon reduction investments, such as the electrolyzer or also potential e-furnace in the future?

As far as I'm aware, this has now currently started with very commodity products. So, regarding this, what is your view on the potential risk that this will only accelerate the deindustrialization of Europe as the manufacturing outside Europe becomes even more attractive with that?

Then maybe another one on the progress the EU lately made on the prohibition of products made with forced labor: How would that impact your business, especially as it's discussed that this will, again, significantly increase the administrative expenses to ensure that your supply chain is forced labor-free?

And given that you have already invested into your supplier data set over the last years, should we assume that you already also collected this data and therefore are pretty much prepared for this already?

Dr. Martin Brudermüller: This is at the heart of my Cefic work. Let me start on the CBAM. First of all, I think it is a bureaucratic monster. You can also quote me by saying: It's a nightmare.

It is an instrument that I think will not do the job. Why? Because it basically has the idea that those who import have to pay for the CO_2 footprint they have. But it starts already at the question: What is the CO_2 footprint? I think I said this when I talked about Scope 3.1. They most probably start with an average footprint, so the company is lower. They will then go to court and say: My footprint is in reality much lower.

What do you do if a Chinese competitor comes in and they use mass balance and they allocate their wind energy to export products? They say, I don't have a CO_2 footprint. I produced everything with wind energy. So how do you deal with that? Do you take an industry average or do you really want to go for the real footprint?

So you see already from that example, if you start that with fertilizers and ammonia – these are the two products where it started – I predict they will make so much experience that they see that this is very, very difficult to handle.

I'm actually very happy that we could avoid that all the chemicals are included because that was one pledge that came out of the Parliament. I think we could convince them and said: Please go step by step. If you want that tool, try to collect some experience and then think about what you are doing.

I think in the ammonia case this will be very evident. If you look at blue ammonia from other regions, they have a lower footprint in CO_2. And then the EU plans to take the certificates away from the producers in Europe. That means the European producers pay for a high CO_2 footprint and have higher costs because the natural gas is already more expensive. And then you have those who come in from regions with low costs from natural gas and a lower footprint because the IRA paid for the decarbonization. I leave it for you to decide whether this is a useful instrument to protect the European industry.

And the third element is that actually there is no ruling for exporting. Do you get a credit for your CO_2 you paid in Europe when you export to somewhere else?

So there are a lot of open questions. I think it's a good step. It starts now. Let them collect data, and I'm quite sure they will realize that it is close to a nightmare, particularly if you then have thousands of chemicals in this scheme.

But let me also say: There are some companies promoting it and supporting it, and other industries. For example, the cement industry very much advocates for the CBAM. In the chemical industry, you have some companies against and some for.

From a Cefic point of view, the vast majority are actually against this instrument because it will not do the job, for the chemical industry at least.

Your other question was about forced labor. I guess you are referring to two smaller activities we have in China, where we have two joint ventures with around 120 people. We have our global Code of Conduct. We have installed all the mechanisms we have everywhere in the world. We have actually audited that. We have asked all the suppliers to document and to subscribe and confirm that they basically comply with our standards. So, I think, we do the utmost to ensure that this is okay – as we do everywhere in the world. Human rights are very high on our agenda. This is also part of the audits conducted worldwide.

I'm not so sure whether the new supply chain laws on the European and German level really add on that. I think the good companies have installed a lot of measures and processes to ensure that you are operating in the right corridor. I think if you clearly see that there is something significant that is not okay, then we would also take the consequences. So that's what I can say. It's very high on the agenda for BASF.

Martin Rödiger (Kepler Cheuvreux): It's a bit related to your statements about the competitiveness in Europe. And this is not a question; it is a request. When the cameras are off later on and you do your dinner speech tonight, could you talk about the energy policy of the German government and its impact on the future of BASF's production facilities in Germany?

And now, coming to my two questions, because we see several chemical companies talking about digitalization and artificial intelligence, and I have not heard much about that today. To which extent can the usage of artificial intelligence improve the efficiency of BASF?

And as a follow-up question: To which extent is your supercomputer Quriosity, which you have implemented six years ago, still up to date and delivers on your expectations?

Dr. Martin Brudermüller: I will start with your last question because I was the one who pushed for the supercomputer when I was CTO. That was a 1.75 petaflop. You might not have seen this but in the meantime we have replaced this by a better one. It's now 3.0 petaflop. I think that only shows you that actually the supercomputer has totally lived up to the expectations we had.

I think we have great results. The capacity was fully used. This is why we decided for an even bigger one that can handle more complex tasks. Over time, these facilities get a little bit old because they suffer from several years of running continuously at high level. If you think about material questions and also understanding properties, mechanisms, you need ever more capacity.

So, I would say, we are on a very good pathway. And I would say, we are leading in how the in-silico experiment in the computer goes together with the real experiments in the lab. In the meantime, a lot of research projects actually start in the computer and the computer allows you to narrow down the space where you find the solution. This makes it easier and shortens the research project for the researcher.

So, I would say, we're very happy about this. The fact that we have built a bigger supercomputer is actually proving that this is really working.

Energy policy is a long topic. I really cannot cover all the aspects. The one fact is that the energy-intensive industries suffer currently from the prices. I don't talk about the spikes we had. Now a lot of people say, well, this is back to normal. But if you look into the comparison with Henry Hub, natural gas is three to four times more expensive.

I also leave it for you to judge the energy policy of the German government with regard to electrical power. We have been shutting down the nuclear power plants and now the new headlines are that the gas-fired power plants are delayed again.

We actually need them as a backup for the renewable energies which are running more and more and with that we have a higher share of these extremes in demand and supply.

All that and a huge investment into the infrastructure – because the grid companies have to cope with all the solar roofs in the national grid – is driving up the electricity price in Germany.

That is definitely something which also the VCI (German Chemical Industry Association) and with that the chemical industry has called out very strongly. We have said that companies need some support now. Can this be a subsidy forever? I think this would not be the right thing. But coming from Covid, coming from the energy crisis, a lot of industries, a lot of companies, also the small and medium-sized, are actually in critical waters.

This is why they asked for government support in the form of the industry power price. How much will really materialize will then be seen with the new budget discussions. Let's see whether all this is then still on the list. So far, I think it was confirmed. But whether this stays I don't know.

It's definitely clear that something has to happen. If we really go into higher power prices, the industrial base in Germany and in Europe will be endangered. The only thing I can tell you is that from a competitiveness point of view, the wind park project HKZ (Hollandse Kust Zuid) was a fantastic investment. It has a very, very good power price. I will not tell you how much it is, but it's a good one. And also the new project is still attractive. But you can see clearly: The trend is going up. If you look at the German dynamic auction for three wind parks in the North Sea and one in the Baltic, they ended up with the oil companies who paid a lot, which is nothing other than making the kilowatt hour more expensive.

So, we need a political discussion about that – by the way, not only at the German level, but also at the European level, because we do not currently have any European energy policy or strategy. This is, I think, desperately needed. Connect the infrastructure, make connectors between the countries, make this truly European and then somehow stop the fight between the French, who want nuclear, and the Germans, who want wind power. We most probably need both.

I think there's a whole lot of work to do, and that will be a critical point for the level of industry we will keep in the long run.

Dr. Dirk Elvermann: I think there was one question left on digital AI. This is something we embrace. I think, as the biggest chemical company, you want to be also on the top of things here. We have our own chatbot. It's not openly available AI, but it's in a contained system and we are experimenting on top line and on bottom line projects with that.

Having said that, we have the most digital IP of a chemical company in the world. We have lots of people deployed there and we are continuing this. The final judgment call, whether all of this works out and whether you as a chemical company really can make that profit jump, is still to be tested.

So, we look at that confidently. But at the same time, we are also looking at it very critically in terms of capital allocation to digital and artificial intelligence, because at the end it also has to be seen in the P&L. There is some work to be done, but definitively we are on top of things.

Arne Rautenberg (Union Investment): You just highlighted the dynamic nature of the battery materials industry. My question would be: How technology-agnostic are you from a product offering side when it comes to solid state, semi solid state or some other technology? How technology-agnostic are you from a competitiveness side and also how technology-agnostic is your 30% EBITDA margin ambition when it comes to new technologies? So, if there will be a breakthrough in solid state, are you completely agnostic? Is it the same target or would you need some changes to your plans?

Dr. Martin Brudermüller: Only two or three remarks on that. The first one: I think it is a new reality for the sector that LFP came back. That was actually something people thought was dead, but that made its way back. I think they made a lot of improvements with energy density and the new battery stacks based on LFP.

For the lower-level cars, that is clearly the right answer because it’s much cheaper, but it’s difficult to get the reach on the high-performance side. So, this is why it has sneaked in. I clearly say: We don’t step into LFP. We stay with what we have planned. And this is really focusing on the NCMs. The market is still very big for NCMs. Even if you take out LFP, it’s still huge growth numbers and absolute growth.

And if you look at these different technologies on the cell side, it usually does not make an impact that the material for the cathodes is still the NCM. These are different types of products where we also certainly talk, and we are in discussion for all kinds of battery types. That is where also innovation kicks in. So, we are open to that, and we work on projects like that.

But, on the other hand, I have to say: The business is done also with some grades where you just have to deliver grades where the mass market is. So you have to do both: You have to deliver competitively on a few major grades, and then you have to be at the forefront with these special projects.

If you talk about the very expensive cars, where it’s about high energy density, where customers pay €10,000 more for a 100-kilometer reach because the battery is stronger, that is maybe not the mainstream part, but it’s an important one because usually the margin is higher. So we look into both. But I think you have to be competitive in the mass product grades.

I would leave it with that. And we are not tempted now to step into each and every other thing with a battery. We really stay with the cathode materials.

Rikin Patel (BNP Paribas): With the greater autonomy you’re now giving Battery Materials, Ag and Coatings, are there any upfront costs or exceptionals you may have to book next year, and could you maybe quantify those?

Dr. Dirk Elvermann: Nothing that is planned there. No.

Dr. Stefanie Wettberg: I would like to summarize two questions from the chat that are bit connected: One from Chetan Udeshi, JP Morgan, and one from James Hooper, Bernstein. It is about the less integrated Verbund businesses.

Chetan is asking: Are you ruling out a separation of any of the three businesses not integrated so deeply into the Verbund?

And James Hooper, Bernstein, asked: What about the plans for the carved-out ECMS catalyst business? Are they subject to targets?

Dr. Dirk Elvermann: Chetan, thanks very much for your questions on the three businesses that you mentioned. It is not part of our portfolio planning to separate them further. As we said, we now profile them in a new way. They stay within the BASF Group under supervision of the Board, with the governance from our corporate center units, with the services also provided from within. What we explained under differentiated steering is just about that. This is not about portfolio planning.

For ECMS, this is a different thing. Here we really performed a carve-out. They are now also running their own balance sheet and have their own governance framework. And for ECMS, we said very clearly, this is the business that we truly like because it's highly invested, it's very cash-generative. And we'd also say, the sunset for that business, which is truly there, is a very long sunset. We can still enjoy that business for a very long time.

It could still be that there is somebody who attributed more value to the cash flows than we do. But I think, for the time being, it sits well in our portfolio, and we are happy with the team, that the carve-out was performed so well, and we could show that we can also really single out one business out of the Group so well.