

## Conference Call Full Year 2020 Transcript Q&A February 26, 2021



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## 1 BASF Group

### 1.1 Current trading

**Andrew Stott (UBS):** Around the guidance for Agricultural Solutions, considering how important Q1 is in the context of the whole year, is the message that you've had a reasonably lackluster start when you also consider the FX imprint or is there a degree of conservatism?

**Dr. Hans-Ulrich Engel:** We had a good start to the year. We had a strong January. So, no complaints there at all. A degree of conservatism? Yes, maybe, but certainly also an effect that will come due to FX. If you think about the first half of 2020, the US\$/€ exchange rate was almost set at US\$1.10. We are currently at US\$1.21, US\$1.22. This is first-half northern-hemisphere business. The US\$ can have a significant impact here. And this is something that we're factoring into our guidance, but operationally a good, strong start into the season.

**Christian Faltz (Kepler Cheuvreux):** Can you please update us on current capacity outages, namely how your operations in Texas were affected by the freeze and how your isocyanate units globally are presently running?

**Dr. Hans-Ulrich Engel:** On the outages: As everyone else, we were hit by the freeze in the U.S. Gulf Coast, a number of plants that are down, a number of sites that are down, some of them back up, some of them in the process of coming back.

This is based on the experience with the freeze in 2018, where it came four weeks earlier, in the middle of January, and then 2012, where it was in the first week of February. It will take, based on that experience, about two to three weeks that the situation there shakes out, that supply chains are stabilized. You know how closely interlinked and intertwined the production network is in the U.S. Gulf Coast. That's what we're currently expecting. Other than that, no major outages in January or in February.

But you asked specifically with respect to isocyanates: Yes, the isocyanate plants in Geismar were affected but, based on what I heard yesterday, are back up and running smoothly. So that's the current situation there.

**Thomas Wrigglesworth (Citi):** On the kind of exit rate and the run rate for the first quarter, obviously noting your comments on Ag Solutions, but focusing on the non-ag business. Can you give us a little bit of a color there as to how strong it is? Obviously, at kind of peak levels BASF has been able to achieve €2 billion plus levels of EBIT as a group. It looks like the spreads are commensurate with that kind of level of performance. Is that how we should be thinking about the first quarter?

**Dr. Martin Brudermüller:** You asked about the guidance and where we stand with current trading. Let me very clearly say: The full momentum which we had in the fourth quarter, we have also seen so far this year. We had an exceptionally strong January. Also in February, business holds on very, very strong. This is throughout the businesses. I would say, it is also fairly well distributed between the regions.

If we look at our orders at hand, they are at a double-digit increase, both compared to Q4 last year as well as compared to Q1 2020. If we look at our customers and the outlook we have, I would say, it is all positive. And with this, I clearly say: We are very confident that we reach the consensus level for Q1 2021. I also think, if you look at Q2, which was a disastrous quarter last year, it should be definitely higher. Hence, I would say, there should be full confidence for the first half of the year.

Where our broad range comes from is actually: Is it really fair to assume that everywhere in the world we will not see any more waves of infections, any lockdowns? At the moment, no one can really say how it develops, what the new mutations of the virus do, how the vaccination progress is. So, I think there is high uncertainty that something might happen. We just reflected that with the lower part of the range.

I repeat that here: If that is not going to happen, that we see these interruptions in one of the major markets or in more than one market, we are confident to be at the upper range of the corridor we gave you, which is actually also the consensus you have given us at the moment.

**Andreas Heine (Stifel):** I basically have a question on all the prices we can see in chemicals and also in materials. *[Line briefly interrupted]* ... looks to be very transparent, then you would clearly exceed what the consensus has on its mind in Q1. But I'm not sure how real these prices are. Maybe you can elaborate on what you see from Q4 to Q1 in your upstream portfolio as margin improvement and what you have in your books and what you see in prices compared to what these agencies report every week on price increases.

**Dr. Hans-Ulrich Engel:** Prices, I think it's fair to say, in chemical upstreams have gone up across the board in all regions. They are following, to a large extent, oil price development because oil and its derivatives are part of the raw material portfolio there. We've seen that. We've seen that as a result also of the strong demand improvement that we have experienced.

The key question that you're asking is obviously the right one for upstreams, which is: What does that all mean for margins? I can say, also as a general comment: So far, we are able to pass on the raw material price increases and maybe in certain product lines do also a little bit more than that. But that is also required if you think about the price development that we've experienced from, let's say, the second half of 2019 on, the steep drops that we have experienced there. So, we need to come back, bring prices further up, because that then will also have, obviously, the required impact on profitability. So, a lot to be done.

But overall – and I think that's the key point – demand has given us the support to actually implement the price increases.

## 1.2 Dividend and capital expenditures

**Laurent Favre (Exane BNP Paribas):** Around the dividend framework. It sounds like you are structuring the framework around exceptional capex and base capex. So, when we look at capex of €2.9 billion last year, €3.6 billion this year and, I guess, something around €5 billion for the following years, can you give us a sense of what that exceptional capex was last year and if it is going to be in that €3.6 billion budget for this year?

**Dr. Martin Brudermüller:** Laurent, let me start with the dividend framework. That we propose a dividend of €3.30 per share, given the difficult year of 2020, I think it radiates confidence for the future. This is also why we gave you this explanation where this confidence comes from.

We have to look operationally at the BASF Group with its core businesses. You know that we have cost discipline and we go for more agility with customers. I think we progress very well on that.

If you look at that and our projections going forward, we really see that the operational cash flow should be strong enough to pay for the capex, the restricted capex for the ongoing business, as well as for the dividend.

We wanted to make clear: If you have an extraordinary investment like we have now in China, if you finance that from the normal cash flow in that order of magnitude, you have to look differently into this. That's why we outlined that this is part of the portfolio management.

We divest businesses we don't want to be in anymore, that do not fit to BASF. And instead of getting proceeds from divestitures and acquiring new companies, we go for a different approach, which is actually organic investment. I told you many times that I think organic investment done very well and executed well is more profitable than an acquisition.

So, for that reason, we have to consider that we have to spread out the capital over several years. It will come basically on top of what we spend for our ongoing businesses. This is why we have to separate this a little bit and wanted to give you that outline.

If we look at 2020, there was not so much money in there yet, because what we do is ramping up the team. That is cost. But there is no big expenditure yet. It starts now this year. The part that was last year in the capex, but it's in the ongoing part, is the two first plants which we have started to build in China. They are on the site, but they are anyway in the normal program we have.

So, it starts. It will ramp up with first costs this year and then certainly will go up. The order of magnitude in the peak which you have outlined is right. That will then most probably peak in 2023 and 2024 because in 2025 we will already be going towards completion.

I think that should give you an idea how we connected on the one hand the growth aspirations and the capital we need for that and, on the other hand, our confidence which we radiate about the dividend. I hope that answers your question.

**Laurent Favre (Exane BNP Paribas):** Sure. Martin, on that basis, you would expect the start-up of the main cracker when? During 2025 or earlier than that?

**Dr. Martin Brudermüller:** Yes, in 2025.

**Matthew Yates (Bank of America):** I'd just like to come back to the dividend point. I apologize, I haven't followed the company for that long, but has the group ever distinguished in the past between maintenance capex and growth capex when looking at dividend affordability? Maybe China is just a truly outsized investment or is this telling us something about how dependent the credit rating has become on extracting capital from Wintershall? And if those market conditions don't allow an IPO in September, how would you be thinking about a plan B?

**Dr. Hans-Ulrich Engel:** Matthew, I'm trying to take that one because Martin had the pleasure to talk about the dividend already. I think everything is said. We have a dividend policy in place. And if you think about what we are doing for a year like 2020, which is a crisis year: We are paying out a dividend at the level of the dividend for the year 2019. I think that is an important thing to keep in mind.

As BASF, we made a commitment. We strive to stick to that commitment. Looking at what we expect the business to deliver, I think we are in a good position to put our money where our mouth is. I guess that's all that I can say. And I hope this helps.

**Chetan Udeshi (J.P. Morgan):** Just looking at the 2020 to 2024 capex budget, it still seems to be the same as was communicated previously, despite the fact that you guys have decided to not invest in the acrylic acid plant in India. So can you maybe help us understand why that number hasn't gone down?

Related to the capex guidance of €3.6 billion in 2021. I am just reading the Annual Report. It says it doesn't include capex on intangibles and right-of-use lease expenses. So can you maybe help us understand what is the additional capex on right-of-use lease expenses and intangibles?

**Dr. Martin Brudermüller:** Chetan, I make this very short on the capex. If we look at the five-year outlook 2021 to 2025, this is actually lower than we had outlined for 2020 to 2024. Part of that is the Indian project that is not going to come, at least at the current point in time, and certainly some other decisions. You know that this is always a sum-up of many, many line items. So, you see it actually is a lower number outlined for 2021 to 2025.

**Dr. Hans-Ulrich Engel:** With respect to capex for property, plant and equipment and what's not included in there, in the €3.6 billion figure: That's predominantly IT projects out of which part will be capitalized. That's not included in there. That depends, obviously, on the year.

To give you a rough figure there, I'd say, if you calculate with an order of magnitude of €150 to €200 million of capex projects to be capitalized, that should be a good figure.

### 1.3 Guidance

**Markus Mayer (Baader Bank):** This buffer you've baked in for the significant supply chain disruptions: Is it correct to read that basically from the mid-point of the guidance to the upper end of the guidance, i.e. the €500 million, this is the kind of security buffer you have baked in?

And the second part of the question on the guidance would be: These considerable higher earnings of the Other division, could you give us the moving parts and also the magnitude of the effects there?

**Dr. Martin Brudermüller:** On the guidance, let me clearly say: That does not necessarily mean that it's always about the mid-point. You know that market risks and market opportunities or upsides and downsides are not equally distributed here.

As I said earlier, what is behind that, from the lower end: First of all, no one can say from today's point of view whether there will be further lockdowns. Just imagine that the corona mutations create more severe and more infections overall, then I think the governments will react. You can also not see anywhere in the world from any government, let's say, creativity. They are locking down. So, the current question is: Should it be four more weeks of lockdown? No one really knows this.

Then you also have to keep in mind, when looking at GDP: What are people doing now in the first half when they are locked down? They order stuff. So, after the lockdown, it could happen that there is a reshuffling of some spending from investment to more services. People will travel, they will go to restaurants, they will enjoy leisure time. That could have an impact also on our business. I think no one is able to predict all of that at the same time.

On the other hand, for example, in automotive, where you have now the semiconductor issue in the first half, we expect that the second half will be rather stronger than the first half. So, there are many effects of this.

We just wanted to illustrate: In a worst case scenario, if we will have further waves where the governments simply react with harsh lockdowns, it will have an impact on our business. It can just not be that it continues so strong as it is now in January all over the year. This is what we wanted to express: When everything goes bad, we can be at the lower end of the range. But I think I made very clear in the speech and also in the comments afterwards: We are confident that we will be at the upper end of that range and we will not face those severe lockdowns anymore going forward.

**Dr. Hans-Ulrich Engel:** Why do we guide for an improvement in Other? As you know, Other is a hotchpotch of activities. Among other things, you have in there our raw material trading business. The raw material trading business, as you can also see in the significant sales decline that we have of more than half a billion, didn't generate too much profit in 2020. We are expecting that this will change in the year 2021. So, there's a big driver there.

You are aware of the various cost reduction measures that we have in the BASF Group. We will see a contribution coming out of that. Among other things, we have corporate center cost in Other, which is a factor. We have the corporate research in there. There is the expectation to see some improvement in that.

In Other, we also have our captive insurance activities where the returns weren't as high in 2020 as they were in 2019, for obvious reasons. And we are expecting some improvement there. All of that leads then to the guidance that we gave.

**Chris Counihan (Credit Suisse):** I was looking into my model this morning and the 2020 EBITDA on the Excel had a note next to it saying from the November 2011 Capital Markets Day, it mentioned a 2020 EBITDA target of €23 billion which, I think, was subsequently revised down to 22, with sales in the range above €100 billion. Now, I know there are lots of swings and roundabouts for long-term estimates like this, including an oil price that's come in half the expected level back in a day. I know you've revised those targets back in 2015 and 2018 again.

But I suppose if I even exclude a 2020 COVID-related demand, e.g., I don't know if there is any year throughout the 2010s you came within €10 billion or 50 percent of this EBITDA target. So, my question sort of surrounds the past and the future. Firstly, reflecting back upon these targets, what have been the greatest areas of variance relative to your expectations? But then looking forward, how can you future-proof BASF in the business against these issues? And do you ever foresee the targets detailed in 2012 as achievable for BASF?

**Dr. Hans-Ulrich Engel:** Chris, I'll give it a try. Yes, you're absolutely right. We had much higher expectations, but then there was a point in time – and thanks for referring to that – which was in 2015 when reality kicked in.

You followed us closely over the years, you followed in particular what we said in 2018, what we wanted to achieve strategically. I think that is the key point: You see us delivering, you see us exactly executing along the lines of what we said in 2018.

Did we foresee a pandemic in the year 2020? No, we did not, absolutely not. But I think what's important to see is: BASF put a strategy in place in 2018 and we deliver on that strategy step by step. The portfolio changes that we addressed, be it the cost reduction measures that we put in place with the excellence program, be it the change in the regional footprint with the new Verbund site in China, be it the growth projects for battery materials: We're delivering on that step by step.



I hope when you and I talk ten years down the road – I will most probably be in a different position then – the two of us will then come to the conclusion that, in fact, we did deliver.

#### 1.4 Regions and technologies

**Thomas Wrigglesworth (Citi):** Martin, I think at the third-quarter results call, you talked about the fact that you thought in China there might be some restocking element taking place. I wonder if your views have expanded on that now. How have the Chinese order books developed into Chinese New Year and now the week after? I'd be very keen to hear your thoughts on how you think China is going to progress through the course of 2021.

**Dr. Martin Brudermüller:** On China: Indeed, when we talked the last time, I was not yet sure whether the consumer confidence, the retail sales do fit with the industrial production scale. I would say, over the recent months this has really become very solid. If you look at the stats: Consumer confidence is really high and industrial production stabilized. We also saw that in January again, with a double-digit volume growth in China. It really holds on.

If I talk to our team, if you go to the people, our people in China, they say: Basically, life has returned to normal and the shopping malls are full. I would say, I'm very confident now that this really has stabilized and will carry further. That's why also GDP data as well as the chemical market growth data for China are high. We think there is a very high probability that this is also going to occur.

So, China is really stabilizing. And one of the factors is also evidently that they focus much more on their domestic market and their supply chains over there.

**Andrew Stott (UBS):** A longer-ranging question around the announcement two weeks ago with Siemens. Is that hydrogen alliance, I think, as you called it, purely to help decarbonize your sites and particularly Ludwigshafen, or is there a commercial side to that agreement in, for example, areas like catalysis?

**Dr. Martin Brudermüller:** The announcement with Siemens Energy is one of the partnerships, and others will follow over time, where they help us take the first steps on the decarbonization or Carbon Management agenda. It is, basically, that they help us with their technologies to establish certain pilot plants and first steps at the Ludwigshafen site.

We also agreed that we will look into the catalysis of water electrolysis together, which is kind of a joint development, which is, however, not exclusive. So that is mainly a partnership to establish the first steps in the decarbonization program here at the site in Ludwigshafen.

**Jaideep Pandya (Onfield Research):** Regarding the carbon targets you have. Could you just tell us, if we just look at Europe: What sort of cut are you actually penciling in? Because, obviously, you are growing capacity quite a lot in Asia. So, I'm assuming that Europe will have to sort of make room for that. How much allowances do you have currently? Are you still positive on the allowances or are you going to have to buy carbon in the market in your sort of plan?

**Dr. Martin Brudermüller:** Jaideep, we will give you a much more detailed overview about CO<sub>2</sub> and where we're heading to and what the measures are at the Capital Markets Day on March 26. But let me take this up. If you look at the target to grow carbon-neutrally until 2030, it is exactly reflecting two effects. The one is continuous efficiency improvements and also switching purchased electrical energy to renewables and then also using increasingly renewables in our own setup where we clearly reduce our CO<sub>2</sub> footprint in absolute numbers.

But on the other hand, we have measures by which we increase CO<sub>2</sub>. You saw that in last year's performance. Basically, we made good progress and then the Solvay acquisition actually added quite a couple of hundred thousand tons of CO<sub>2</sub> to that balance.

And you're right, the China site will also add something. But we will explain there as well: We will build a petrochemical site with a significantly lower CO<sub>2</sub> footprint as of day one. But these are the two effects.

So, if you want to grow volumes, it is tough to actually, in absolute numbers, reduce your CO<sub>2</sub>. But still, we have plans, even with the growth, to reduce it further. But I would like to keep that for the Capital Markets Day.

You asked about the allocations. I think certificates currently are trading around €33 per ton. There are free allocations in the system. But here, we will see with the Green Deal several new designs of how the ETS develops, how they use that for housing and mobility, how that will be included. I think we have to expect that free allocations might go down more quickly than we think today. This is why the Carbon Management and why the active action to get CO<sub>2</sub> down are so important.

## 1.5 Portfolio measures

**Tony Jones (Redburn):** Any update on the timing of the Oil & Gas IPO would be great.

**Dr. Hans-Ulrich Engel:** Your question on Wintershall Dea. If you think about the lead time that you have for an IPO, we're talking here about the second half of the year – and second half means: beginning in September.

**Sebastian Bray (Berenberg):** I can't find the book value at which Wintershall is held in the BASF accounts. How much of the €10.8 billion of at-equity investments is Wintershall?

Could you give us an idea of the income contribution from this business that would be expected at the guidance price of US\$50 a barrel or any type of sensitivity around that?

**Dr. Hans-Ulrich Engel:** Sebastian, out of the €10.8 billion, more than 90 percent is Wintershall Dea. I can give you the exact figure, which is €10.2 billion.

On the guidance and what's factored in, I can tell you that since we show Wintershall Dea below the EBIT, there is no contribution of Wintershall Dea factored into our EBIT guidance and, with that, obviously also not into our sales guidance.



## 2 Segments

### 2.1 Chemicals

**Jaideep Pandya (Onfield Research):** Around upstream. If you can just give us some sense of how much capacity, in your opinion, currently is offline in cracker products regionally, that would be very helpful.

**Dr. Hans-Ulrich Engel:** On the outages in the upstream area. Now, I don't have the complete overview. What I can give you is the following: C2 capacity in North America, depending on where you look and which market intelligence you trust, looks like currently 60 to 70 percent of total capacity in North America are affected.

LG's cracker after the fire in Korea is back on stream. Eneos – starting with an E, not an I – in Japan had a cracker outage over quite some time. They are back into the system. So, predominantly, at this point in time, an issue with the C2 capacity in North America.

In isocyanates, which we are tracking closely, I look at the MDI planned outages and the TDI planned outages there around the globe, so, as to be expected after the freeze, all sites and, with that, the capacities in North America being affected. But our understanding is that they're coming back on-stream step by step.

EMEA, at this point in time, both for MDI and for TDI looks okay. A number of scheduled turnarounds during Q2. And in Asia Pacific, if I see that correctly, that also looks more or less okay.

I am aware of the situation with ammonia, where ten of the big global plants are at this point in time affected by either turnarounds or unplanned outages, again, also due to the freeze in North America.

I hope that description and explanation help a little bit to put things in perspective.

**Tony Jones (Redburn):** On cracker products, propylene looks like it's going to be very short in the first half, even before the problems in the U.S., maybe also Europe and Asia.

Could you talk about what you think that might mean for the BASF supply chain, whether that could cause any problems? What do you think that might mean for margins across the division?

**Dr. Hans-Ulrich Engel:** Tony, thanks for your question on C3. What do we see currently? I could go back to what I described already with respect to ethylene. It's a North America situation because PDHs are down, in particular the enterprise PDH. Also due to the run rates of the refineries, there is less propylene output. It remains to be seen how this will develop as the PDH plants come back.

Other than that, I'm not aware of any major issues with respect to propylene outside of the U.S. Propylene prices, obviously, have increased sharply since the middle of last year, to be expected in the kind of environment that we are finding ourselves in.

You asked the question: What does that mean for your downstream divisions? Here is the general answer that I can give you, which is, yes, they have to cope with higher input prices. But at the same point in time, they are enjoying a significant increase in demand, which allows them to pass on these kind of raw material price increases, sometimes with a bit of a time delay. But overall, it's an environment where they can pass on the price increases that they get on the raw material side.

## 2.2 Materials

**Charlie Webb (Morgan Stanley):** Just a question on MDI and TDI, the isocyanates. Clearly, current spreads are pretty tight, and I guess the disruptions in Texas will keep things that way for now.

I am just wondering how you see those markets kind of moving into the latter half of the year. A peer of yours was fairly conservative in the potential normalization that we might see. I am just wondering whether you share that view or whether you have a slightly different view. I'm just interested in how you're thinking about those markets.

**Dr. Hans-Ulrich Engel:** On the isocyanates: Frankly, we were positively surprised by what we saw happening in Q4 and now also going into Q1, a very strong business in January, a very strong business in February. Our expectation is that during the course of the year, we'll see a normalization in the business. I guess that's all that I can say with respect to isocyanates where, frankly, we were surprised by the strong improvement in a very short period of time.

## 2.3 Industrial Solutions

– no specific questions –

## 2.4 Surface Technologies

– no specific questions –

## 2.5 Nutrition & Care

– no specific questions –

## 2.6 Agricultural Solutions

**Christian Faltz (Kepler Cheuvreux):** On Agricultural Solutions: A lot can happen until the summer. Yet, if my math is right, taking the current Brazilian real rate and comparing this to the average in the second half of last year, there's not much of a currency impact. Hence, the big forex number from 2020, at least in the second half for you, should not repeat itself. So, why, again, are you so cautious in significantly more robust agricultural markets that we currently see?

**Dr. Hans-Ulrich Engel:** On FX impacts on the Ag business: The predominant impact that we are expecting is resulting from the decline of the US\$. As I said, US\$1.10 in the first half of last year; we are now sitting at US\$1.21, US\$1.22. So that will have a significant impact.

On South America, you are absolutely right. That went through the system in Q4 with a significant impact there due to the Brazilian real, but also the US\$. Let's hope that that doesn't repeat itself. And with that, we came to the conclusion to guide for a slight increase. If it comes in better than that, I will be perfectly happy.

**Laurent Favre (Exane BNP Paribas):** On Agricultural Solutions: Regarding LatAm, two of your peers have talked about high inventory levels to finish the season, given the shortened season. I was wondering if you were taking proactive measures of destocking to have a better chance of getting pricing for the bidding of next season. Are you not seeing those issues on inventories as your peers?

**Dr. Hans-Ulrich Engel:** Laurent, I'm taking your question on the season-ending inventories in South America for Agricultural Solutions. Talking to Vincent Gros yesterday, who runs our Agricultural Solutions division, I did not walk away from that discussion with the impression that there are elevated levels of inventories at the end of the season. What he described to me are normal inventory levels for season-ending. So, the expectation is to go there into the 2020/2021 season with a normal inventory level for BASF products.