

Analyst Conference Call Q1 2024

Transcript Q&A

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1 BASF Group

1.1 Current demand environment

Samuel Perry (UBS): On upstream volumes, clearly recovering from low levels: Where are utilization rates currently and how far away from the point of which you think you might be able to drive some pricing?

Dr. Dirk Elvermann: Utilization rates are recovering for now. You know we came from a low level in 2023. We are now again crossing the 70s. There is still obviously further room for improvement, but alone by the fact that we had our crackers in Europe all running, you can already infer that there is higher demand, certainly, than we had in 2023.

Matthew Yates (Bank of America): You note in the release that there was some benefit from the Red Sea disruption in Q1. Should we think of this as just a one-time benefit and the environment so far and in Q2 is not as good? Or are you seeing a continued positive development of the order book in recent weeks?

Dr. Martin Brudermüller: We have been happy with the development in the first quarter, particularly also on the volume side. But you saw also that we are a little bit cautious as to whether this is a solid foundation that things really have improved. I think there are some effects that helped in Q1. That is for sure that the inventory level was extremely low at the turn of the year. I think people are getting a little bit more confident and, with that, are also starting to order a little bit more. They want to be prepared that their inventory situation is more normal.

And there is indeed this effect which we see in some of the businesses that people are reconsidering their supply chain strategies because there have been interruptions due to the long sea routes for materials. So, they are worried about that, and I think they ordered higher volumes, also from European suppliers, and we clearly benefited from that.

With that also, I would be cautious to include this in the baseline because I would expect that this problem will not be gone tomorrow. But I would also not expect that this is a long-term problem, because, I think, that the world is coming to terms with it. For that reason, we are also a little bit cautious. We are very positive, but with all these special effects we are still cautious to say whether this development will continue in Q2 and Q3.

Chetan Udeshi (JP Morgan): Dirk, last time you were to some extent happy to confirm Q1 consensus. Just looking at the consensus today for the second quarter, would you say you are still happy with the consensus? Because, to some extent, you need that level of earnings to come to the full-year guidance, one would say. But I am just looking for that confirmation if you can.

Dr. Dirk Elvermann: Indeed, I think the confirmation for Q1 that we provided was quite accurate. So, what do we see in Q2? We see that Q2 is also following the trend in Q1. Talking to all our businesses, there is not the feeling that anything is now falling over the cliff, but it is rather a continuation.

Is it a further recovery? That is too early to say because whenever we are talking about demand patterns, we still are in the phase of saying, this is mainly restocking, still cautious buying behavior. Yes, there is some demand, but it is not now completely changing to the positive.

I would rather say, it is a continuation of what we see in Q1, in other words, solid. This is also the reason why, in terms of our guidance, we completely stick to it. We see for Q2 exactly this continuation and this is fully in line with our guidance – not worsening, not improving dramatically, but holding the line.

Tony Jones (Redburn Atlantic): Maybe you could give a little bit of color about how you see the divisional outlook as we go into the second quarter.

Dr. Dirk Elvermann: Starting with Chemicals and Materials, I said already that the first quarter was good. Here, we also benefited from the one or the other special effects – the Red Sea was already mentioned, and there was the one or the other turnaround or outage at a competitor from which we benefited. I would say that the second quarter fundamentals are more or less unchanged. But now also we will have some turnarounds. So, I'd tend to see that as flat.

Then, for Industrial Solutions, we are forecasting a considerable increase for the full year and have nice trends in both businesses. It's a volume play to a large extent right now. Dispersions are, for instance, benefiting from that. So, a positive trend going forward.

Surface Technologies comprises catalysts, batteries, but also the coatings business: Here, for the entire segment, we see us rather sideways, on the prior-year level. It also depends a little bit on the development of precious metals prices, which are, again, at a very low level.

Nutrition & Care: We see a positive trend also going forward with the measures that we have taken now gaining traction.

Agricultural Solutions: We said early, after a record year last year, that this will be lower, volumes-wise certainly. Prices are also coming more under pressure. But we have a more favorable mix now with the higher portion of seeds in our sales. So, I'd tend to say, a slight decrease and nothing dramatic happening there. So, that would be my short summary of the outlook.

Peter Clark (Bernstein Société Générale): Obviously, you've seen some restocking in that chemical production growth and what you've said in Europe. I am just wondering how you feel about any risk of destocking going forward. I've heard all your comments about no real change in trends, but clearly inventory levels are still much lower than they would have been, I guess, a year ago in 2023 when we had that phase of aggressive destocking.

Dr. Martin Brudermüller: If you look at the volume growth in Europe, which was quite solid in the first quarter, that does not fit with the overall industrial strength of the region.

We have said for about half a year that we see a kind of bottoming out. I think this is very clear. If you look at the PMI in Europe, which increased a little bit from 46 to 46.5, it's still below 50. So that means the shrinking really has come to a halt. But we are not yet in positive mode in Europe. That looks a little bit different in some of the other regions. For example, particularly also in South America, you are positive, you are also positive in China; the PMI was at 51.1 in March. So it increased above 50.

You see that the dynamic is coming back. But it's also not really as fully dynamic and vital as it was before.

And inventory policies are following a similar pattern. Inventories have been extremely low over the recent months. And, as I said, also with the supply chain constraints, people are looking to see that they are a little bit more in healthy territory. But it's not that they are restocking because they need more materials to ramp up production. That's why we are still cautious. We are cautiously optimistic, I have to say, but we are still cautious.

Sebastian Bray (Berenberg): I can see that the composite freight rates have dropped substantially since the peak of the Red Sea crisis in early Q1. Are there any observable trends toward customer propensity to start resourcing material from China yet, or that hasn't been observed as we move into April, into Q2?

Dr. Dirk Elvermann: There is an element of a cost decrease in it. Is that also a matter of negotiations in procurement? Yes, that's the case; sometimes, in terms of costs to be passed on. There is no clear pattern, and it's a mixed picture, I have to say.

Andreas Heine (Stifel): On the oil price, which is now in the 90s. That will obviously impact upstream first by getting through the value chain. Do you see, with the utilization rates you have right now, already enough pricing power to push the higher raw material costs from the higher oil price in the upstream business on short notice?

Dr. Martin Bruder Müller: In terms of oil prices, I think the major worry for us is that these very cautious dynamics that are coming back in worldwide economy are actually hampered by high oil prices, because that increases costs and makes everything a little bit tighter.

As I said earlier, pricing power is not yet fully back. So, it is still also a play on raw material prices. Raw material prices were going down and were also dragging down the prices. We could secure margins relatively well. But with increasing oil prices, the situation has changed.

The logical consequence would be that raw material prices are going up. With that, we also have to push our prices up. Whether we are also able to expand the margins, I don't know. It's not very probable, but let's see how sustainable that is.

I think there is a component that is definitely from the Middle East crisis. If this normalizes and the overall assumption is that this will not end in a war, then I think it will also help to keep oil prices at least at a level which is not going further up and then giving more confidence.

So, it's a little bit early to say. But there are the normal mechanisms which you know very well. How that translates into margins, depends on demand.

1.2 China

Chris Counihan (Jefferies): Thanks for providing the segment cash flow. Now I am looking forward to this going forward. I just had a longer-term question on this one. Martin, given you spearheaded the ramp-up of the China Verbund project over the next five years, obviously you have staged the ramp-up of production. What year would you expect that project to become free cash flow positive for BASF?

Dr. Martin Brudermüller: If you start a project like this, you have to have the long-term development in focus. That you really hit the right timing when you start up such a site, that this is the best market moment, I think, you cannot plan for this. We saw this also when we opened Nanjing.

I think that the fundamentals are more important than really focusing on the timing. So, I would say we expect to load the plants very quickly. Nevertheless, there are overcapacities in the one or the other area, but not so much on our lines. I would expect that we will be positive in 2026 and already have a good contribution because the products are really broadly used in the industry. A lot of the products are currently imported, and we will substitute from local production. That's why we are really positive. I think we will already have a good contribution in 2026.

Chetan Udeshi (JP Morgan): We've seen a lot of volatility in Chinese pricing, throughout Q1 a slight increase, then a big collapse, if you will, in the second half of Q1, especially in March and early April.

Can you just confirm what you see in China? Is it still a recovery mode or are you starting to see the trends actually starting to worsen? Because that would be the implications based on what we see from the pricing side.

Dr. Martin Brudermüller: If you look at Q1, basically the global growth of chemicals has again been carried by China, because it is about 10% growth in China versus global chemicals growth of 5.4%. So, it's basically pulled along from there. But we also said that pricing power is still relatively low. The plants are quite well filled, I have to say, but pricing power is lacking, which also shows you that things are getting more dynamic but are not booming.

I think that people are still cautious in terms of buying behavior. I have also to say that people are not super happy with the Chinese government overall. So, like every human being, they hold back a little with their money. You can see that also in the retail area. You see that in car production, which is not really growing dramatically in China.

So, things are coming back, but it's not that we would say that the next quarters will be booming and that China will again be pulling the world.

I think this is one of the reasons, why we are a little bit cautious. But we are definitely out of the hole in China. That is very clear. And the load of our plants is on a relatively high level.

1.3 Measures to increase competitiveness

Tony Jones (Redburn Atlantic): Only a few months ago, Martin, you talked about the need to review your production network, particularly in Germany, given high costs and low growth. How are you thinking about this now with the stronger start for the year?

Dr. Martin Brudermüller: Overall, let me say, I think that our decisions to shut down plants and to trim the Verbund to be more competitive and in line with the demand in Europe were correct. But there will be more to come because I think we will have a fundamental topic in Europe because base chemicals will be less competitive in the longer term due to structurally higher energy costs.

So, production will have to be trimmed more in line with European demand. In our case, at BASF, we will trim it more to our own internal consumption and will sell less to the market because you have also to take into account that the base chemicals are the CO₂-intensive products. That means we produce them and sell them to customers and then have to cut CO₂ emissions at high cost. That doesn't make sense any more. That's why we will really use our production structures to fuel our chains with the raw materials.

And there's a little bit more to come. This is what the new Board will do when they talk about the target picture for Ludwigshafen, which is being revised and renewed.

I would expect that, particularly in the upstream area, the European chemical industry will be weaker and softer and will have a smaller share of the global market than it had in the past.

Peter Clark (Bernstein Société Générale): Looking at the cost-cutting side, it's encouraging to see that most segments point to lower fixed costs; obviously a lot of work being done there. That momentum is continuing, and you should build from here. So just your confidence that we're going to keep reading about the lower fixed costs on the segment line as we go through 2024 and into 2025. Is this momentum built on the cost-cutting?

Dr. Dirk Elvermann: The estimate is completely right. Now we see the cost savings kicking in, and this will now accelerate because, at the beginning, you always have the one-time cost offsetting the savings. And now, going forward, we will enjoy the run rate of the already achieved savings.

As you have heard, we are adding more cost saving measures. You know from our Q3 call that we expect annual cost savings in non-production areas of 700 million euros by the end of 2026. Then we have further 200 million euros in savings coming from our global services in digital and business services and another 200 million euros in savings from the adaptation of the Verbund structures in Ludwigshafen. This is what we already have talked about. And then comes the additional Verbund measures that are in the pipeline.

The key takeaway: We are fully on track with our cost saving measures. The one-time costs are to a large extent realized already. So going forward, you will see the cost savings in our P&L.

Jaideep Pandya (On Field Investment Research): What is the one thing that you would tell Markus as he comes in to replace you?

Dr. Martin Brudermüller: First of all, let me say that BASF is in the very best hands with Markus and the Board team. Markus has been with the company for 25 years. He exactly knows all the details of the company. My one recommendation to him would be: Don't get distracted from the outside by politics and the media but do what needs to be done to develop the group and stay firm. This is because I think there is a very clear path forward in terms of what needs to be done. And it is important to do what can be done and not get distracted. That would be my advice.

Laurent Favre (Exane BNP Paribas): You said that there's a clear path forward for BASF. I guess, for years the path has been to go more downstream, and there was a lot of M&A. I guess that was before 2018. When we look back to 2018 and we think about your time as CEO, obviously there's been a lot of mess to deal with, decarbonization, Covid, etc. And the investments in China. My question to you is: What is that clear path going forward in terms of upstream versus downstream? Because it's certainly not clear to me.

Dr. Martin Brudermüller: First of all, let me say: I will not communicate the strategy of the new Board team. That will be happening in a couple of months when Markus and his team will tell you what they have in mind for the next years. It will be a kind of an evolutionary thing. This is very clear. That has, I think, always been the case with BASF. But there are also some considerations they have which differ from my views.

I can only say that when I started in 2018, I had hoped for a different six years than what we actually had. That we move from one crisis to the next was really not what I had in mind. Also, I would have hoped to present better results for 2023. But life is as it is.

I think what is important is that my team, which, to a large extent, is also Markus's team, has been working on trimming the structures at BASF. I think this is also the basis going forward. We have been looking at how we get closer to the customers, how we get more efficient, how we get costs down, how we differentiate between the businesses.

I think – and I am proud to say – that we made progress with all these targets despite the crises. We did not make compromises. That also included the decisions to close down plants. I think that's a great starting point but save your excitement for what is coming when Markus and the team present the new strategy update.

1.4 Wintershall Dea

Matthew Yates (Bank of America): On Wintershall, why has the disposal price of the weaker infrastructure assets not been disclosed?

Dr. Dirk Elvermann: The disposal price for WIGA is not disclosed, for the simple reason that confidentiality has been agreed. But what I can say is that we are very happy with this second deal, after the Harbour deal, now, the deal with SEFE, which is actually the German government.

As I cannot disclose the price, let me at least guide you a little bit by saying: The book value of WIGA Transport is 1 billion and 50 million euros. We would certainly rather sell higher than lower than the book value.

2 Segments

2.1 Chemicals

Sebastian Bray (Berenberg): I have one question on the equity shareholdings income in the Chemicals segment. This seems to have fared less well than this segment as a whole. But what happened to the contribution from shareholdings accounted using the equity method in Chemicals?

Dr. Dirk Elvermann: This is our joint venture in Nanjing, the so-called BYC. This is bringing in lower results this year, a little bit also in line with the overall performance of the Chinese chemical market, so nothing outrageous but in line with developments. Will the results get better again? This will definitely be the case.

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Surface Technologies

Christian Faltz (Kepler Cheuvreux): You saw a decline in emission catalyst volumes. How were volumes in automotive OEM paints? I assume they were likewise negative. Would you see volumes in your automotive OEM activities normalizing at some point this year? And also, was there a particular reason why you saw a considerable increase in automotive refinish?

Dr. Martin Bruder Müller: When we look at the automotive business, we have also to take into account the developments in BEV and ICE. We have seen, particularly in China, where the BEV development is quite impressive, that our volumes for catalysts have been significantly down. The major impact that we had came from the Chinese market.

Overall, we had a much better development in the Coatings division. Sequentially, it was only slightly down on the volume side. It was more or less a rollover from the business before. So, it is basically the change between the BEV and the ICE, where, I have to say, BEV is developing slower than expected all over the world. But the Coatings business is much more robust in this situation.

2.5 Nutrition & Care

Jaideep Pandya (On Field Investment Research): Could you tell us what are the main moving parts in terms of volume dynamic, pricing dynamic that you see in both sub-sectors in Nutrition & Care? What are the BASF-driven cost realignments that you have done, maybe on the capacity or on the product mix?

Dr. Dirk Elvermann: First of all, we are happy with the result in the first quarter for Nutrition & Care which turned very positive and showed the biggest improvement in EBITDA in Q1. This was supported by volume increases in all areas. So, it is aroma, it's pharma and it's also the nutrition part. The results are very much supported by the highly improved aroma business.

What we are still seeing in the nutrition part is low price levels. But as you know, we have addressed those particularly in regard of vitamin A with a new highly scaled plant that moves us quality-wise, but also in terms of cost competition to the right point here.

In a nutshell, aroma is a high contributor, pharma very much okay, nutrition still suffering from prices. But we're getting back on the road.

2.6 Agricultural Solutions

Samuel Perry (UBS): On Ag, can you talk through the moving parts on the margin improvement year over year here? I'm quite surprised to see stepping up year over year when volumes are down significantly and only low single-digit pricing. Is there any sort of cost phasing or something else in there and if so, any implications for Q2?

Dr. Dirk Elvermann: The volumes development is certainly as expected. Let's remind ourselves that this was the second best ever first quarter for Ag. It is lower compared with the strongest first quarter that we had last year, but it is still the second best quarter. So, volumes are down as predicted. The better margins predominantly come from the mix: We have less sales in the chemicals part, so from herbicides and fungicides, but this is pricing-wise then compensated by higher sales in seeds, which in our case are predominantly canola, soy and also cotton. So, the product mix makes the difference.

Andreas Heine (Stifel): You were talking about a positive mix in the first quarter via the seed business growing. The seed business is most seasonal. Actually, most of the business is done in the first quarter. So, I would assume that the picture looks in the second quarter much different before the year-on-year comparison levels in the second half. Is it right that crop protection in the second half will come through in volume decline to a much more extent than what we have seen in Q1?

Dr. Dirk Elvermann: First of all, the typical pattern of our Ag business is frontloaded. Q1 is typically the strongest, and I would not now expect a big contribution from the Ag business in Q2 due to the seasonality.

In Q2, we certainly see some buying behavior also from the distributors a little bit closer to their actual demand. In this regard, there is certainly still something also to come in the second quarter. But if you compare it to last year, this does not compensate by a long way for what we did not achieve in Ag in the first quarter 2024 compared to the first quarter 2023.

What we believe, though, is that there is business to come also in the second half of the year from the southern hemisphere, for which the team is already preparing.

So, all in all, the business development in the second quarter should not be a surprise in the Ag business.

2.7 Other

Laurent Favre (Exane BNP Paribas): On the "Other" line itself, I understand there was a higher provision for the LTI program mark-to-market in Q1. Is there also provision for higher bonuses that we should assume will be sent back to the divisions later this year?

Dr. Dirk Elvermann: You surmised right. It's provisions due to bonus accruals, due to the approach to take them result-proportional. But there's also the longer-term element in it, the LTI part. And then there are some things like the captive insurance payment that is booked here in "Other." And then there's typically also, to a minor extent, some consolidation effect. So that would be the four buckets that you find in "Other."

Laurent Favre (Exane BNP Paribas): Is this bonus provision just in line with, I guess, the guidance that you provided externally, or have you added to the bonus provision based on the better start to the year in Q1?

Dr. Dirk Elvermann: It's in line with the guidance, Laurent.