

BASF conference call on the third quarter 2021

# News Release

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## **BASF with continued strong performance in Q3 2021**

- **Considerable sales growth of 42% to €19.7 billion**
- **EBIT before special items increases significantly to €1.9 billion**
- **2021 outlook for sales raised to between €76 billion and €78 billion and for EBIT before special items to between €7.5 billion and €8.0 billion**

Presentations by

Dr. Martin Bruder Müller, Chairman of the Board of Executive Directors, and  
Dr. Hans-Ulrich Engel, Chief Financial Officer of BASF SE

The spoken word applies.

**Martin Brudermüller**

Good morning ladies and gentlemen,

Hans Engel and I would like to welcome you to our conference call. Thank you for your interest in BASF's third-quarter results.

**[Slide 2: BASF with continued strong performance in Q3 2021]**

I would like to begin with the highlights of the most recent quarter.

Demand remained solid over the summer, enabling us to continue to grow profitably. Compared with the third quarter of the previous year, we increased prices by 36 percent and volumes by 6 percent. Increases were realized especially in the Chemicals, Materials and Industrial Solutions segments.

EBIT before special items rose by around €1.3 billion compared with the weak third quarter of 2020 to reach €1.9 billion. This is also considerably above the pre-pandemic level of €1.1 billion in the third quarter of 2019.

With strong earnings contributions from the Chemicals and Materials segments, the earnings mix in the third quarter of 2021 was comparable with the preceding quarter. Overall, margins in the upstream businesses remained at a high level but softened slightly compared with the second quarter of 2021.

Our downstream businesses are still confronted with further rising raw material, energy and freight costs. Price increases in most downstream businesses could only partially offset these higher costs. In addition, higher fixed costs weighed on earnings.

The semiconductor shortage severely hampered the global automotive industry in the third quarter. Shutdowns and lower run rates in production have negatively impacted our automotive-related businesses, particularly in the Surface Technologies segment. At the beginning of the year, the market analyst LMC Automotive projected global light vehicle production would reach 87.6 million units in 2021. In the meantime, LMCA has revised its forecast down to 76.7 million units. We also cannot rule out the possibility of production of only 75 million vehicles this year. The overall production level in 2021 will thus be nearly at the low level of the previous year. We expect the semiconductor shortage to persist, at least in the first half of 2022. It is interesting to note that the production cuts are predominantly

related to vehicles with internal combustion engines and not battery electric vehicles.

**[Slide 3: Q3 2021: Global chemical production negatively impacted by various shortages]**

Let's now briefly turn to the macroeconomic data.

According to the currently available estimates, global chemical production increased by around 4 percent in the third quarter of 2021 compared with the prior-year period. All regions recorded growth; it was most pronounced in Europe and in Asia excluding China. However, several temporary factors – such as the global semiconductor shortage, hurricanes Ida and Nicholas in the United States and power cuts in some provinces of China – led to overall lower growth rates compared with the second quarter of 2021. The slowdown was particularly evident at the end of the quarter.

Ladies and gentlemen,

With an increase in sales volumes of 6 percent, BASF Group again grew faster than global chemical production in the third quarter of 2021.

**[Slide 4: BASF Group Q3 2021: Volume growth in all major regions except for China, where the recovery was already in full swing in Q3 2020]**

This slide shows our volume growth by region. Sales volumes are compared with volumes in the respective prior-year quarters.

In the third quarter of 2021, volumes grew considerably in North America and in Europe. The prior-year quarter in these regions was still heavily impacted by pandemic-related restrictions.

In Greater China, we recorded a slight volume decline compared with the very strong prior-year quarter, when we had achieved growth of 17 percent. The decline was almost entirely due to lower volumes in our mobile emissions catalysts business in Greater China associated with the decrease in automotive production. In the third quarter of 2020, the introduction of China 6 emission standards for light-duty vehicles had supported volume growth.

**[Slide 5: BASF Group Q3 2021: Volume growth across most segments; Surface Technologies impacted by semiconductor shortage]**

I would now like to look at volume development by segment.

In the third quarter of 2021, we increased volumes in all our segments, except for Surface Technologies. The automotive industry, which is currently strongly affected by the semiconductor shortage, is the dominating customer sector for this segment.

The volumes growth was most pronounced in the Chemicals, Industrial Solutions and Materials segments. Volumes in the Nutrition & Care and Agricultural Solutions segments grew by around €100 million each.

Overall, volumes increased by 6 percent or €872 million in absolute terms compared with the prior-year quarter.

**[Slide 6: BASF Group Q3 2021: Sales increased considerably, mainly due to higher prices and volumes]**

We now come to our sales development as compared with the third quarter of 2020.

BASF Group's sales increased by €5.9 billion to €19.7 billion. Considerably higher prices and volumes were the main drivers for this. In total, organic sales growth amounted to 42 percent compared with the prior-year quarter, which was weak due to the pandemic.

Currency effects of plus 1 percent were mainly related to Asian currencies. Portfolio effects influenced sales by minus 1 percent; they mainly resulted from the sale of the pigments business.

**[Slide 7: BASF Group Q3 2021: Strong earnings in upstream business, while price increases in downstream business were not yet sufficient]**

This slide shows the growth in EBIT before special items by segment.

As already mentioned, we achieved considerably higher earnings in the Chemicals, Materials and Industrial Solutions segments. In the downstream businesses, price increases were not yet sufficient to compensate for the higher raw material, energy and freight costs.

Compared with the third quarter of 2020, EBIT before special items in Other improved considerably. This was mainly due to the adjustments of bonus provisions, as they were allocated to the divisions.

**[Slide 8: Surface Technologies, Nutrition & Care and Agricultural Solutions:**

**Main drivers for earnings development in Q3 2021]**

Ladies and gentlemen,

I will now provide you with further details regarding the unsatisfying earnings development in some of our downstream businesses.

In the Surface Technologies segment, we were confronted with unexpectedly low demand from the automotive industry. According to LMCA, global light vehicle production declined by 16 percent compared with the prior-year quarter. Sales in the Surface Technologies segment increased on account of higher prices, despite lower automotive volumes. These price increases, however, were mainly related to the precious metals trading and mobile emissions catalysts businesses.

EBIT before special items declined due to significantly lower earnings in the Coatings division. Higher fixed costs and increased raw material prices could only partially be passed on in such a deteriorating OEM business environment. The Catalysts division was able to slightly increase EBIT before special items on account of higher margins. These resulted from, among other things, a favorable product mix.

In the Nutrition & Care segment, sales rose because of higher volumes in both divisions and price increases in the Care Chemicals division. By contrast, prices were flat in the Nutrition & Health division. EBIT before special items declined due to significantly increased raw material, energy and freight costs, which could only be partially passed on to customers, as well as higher fixed costs.

I would also like to provide details about an underlying challenge in our Nutrition & Health division: Our vitamin A plant expansion successfully came on stream in late summer. Still, we are struggling with production challenges for vitamin A 1000. We need time to ensure stable operations, since the ramp-up of the animal nutrition formulation plant is ongoing. As a result, commercial volumes are not yet available from this plant. Therefore, we expect to be volume-restricted for several months to come, with a stepwise return to the market.

The Agricultural Solutions segment was severely hit by supply chain constraints in combination with higher input factor costs due to various shortages. Nevertheless, sales increased compared with the prior-year quarter, mainly in the seeds & traits business in South America but also in the fungicides business in Europe and South

America. EBIT before special items decreased as a result of considerably higher fixed costs, in part due to higher bonus provisions, as well as higher raw material and logistics costs and an unfavorable product mix. The higher costs could only partially be passed on to customers since prices had mostly been negotiated prior to the season.

At this point, I will hand over to Hans Engel.

**[Hans-Ulrich Engel]**

Good morning ladies and gentlemen,

**[Slide 9: Portfolio measures concluded in Q3 2021]**

I would like to start off by giving you an update on our recently concluded portfolio measures.

On August 31, BASF and Shanshan formed the joint venture BASF Shanshan Battery Materials. The company is majority-owned by BASF, with a stake of 51 percent. With the completion of the transaction, BASF has reached a significant milestone in executing its strategic roadmap to build up a global battery materials value chain, equipped with an industry-leading CAM capacity of 160 kilotons by 2022.

On September 1, BASF completed the purchase of 49.5 percent of the offshore wind farm Hollandse Kust Zuid from Vattenfall. Construction work on the wind farm started in July 2021; it is expected to become fully operational in 2023. The electricity from the wind farm will enable BASF to implement innovative, low-emission technologies at several of its production sites in Europe, mainly at our Verbund site in Antwerp, Belgium.

Following the closing, we have started the process to sell around half of our shares to a financial co-investor and we aim to sign agreements in the first months of 2022.

**[Slide 10: BASF Group Q3 2021 and Q1–Q3 2021: Financial figures]**

I will now go into more detail on the financial figures of BASF Group compared with the prior-year quarter.

Martin Bruder Müller already covered the development of sales, so I will start with EBITDA before special items, which increased by €1.2 billion to reach €2.8 billion.

EBITDA amounted to €2.7 billion, compared with €1.0 billion in the third quarter of 2020.

EBIT before special items came in at €1.9 billion compared with €581 million in the prior-year quarter.

Special items in EBIT amounted to minus €43 million compared with minus €3.2 billion in the third quarter of 2020. In the prior-year quarter, special items were primarily related to non-cash-effective impairments in all segments due to the economic effects of the pandemic and to restructuring measures.

Consequently, EBIT came in at €1.8 billion in the third quarter of 2021, compared with minus €2.6 billion in the same period of 2020.

At €86 million, net income from shareholdings improved by €133 million in the third quarter of 2021. The improvement is mainly attributable to the €97 million earnings contribution of Wintershall Dea; in the prior-year quarter, its contribution was minus €3 million.

Net income amounted to €1.3 billion compared with minus €2.1 billion in the prior-year quarter.

Earnings per share increased from minus €2.31 in the prior-year quarter to €1.36 in the third quarter of 2021. Adjusted earnings per share increased to €1.56 in the third quarter of 2021, as compared to €0.60 in the prior-year quarter.

### **[Slide 11: Cash flow development in Q3 2021 and Q1–Q3 2021]**

I will now move on to our cash flow development in the third quarter of 2021:

Cash flows from operating activities reached €1.9 billion, a decrease of €204 million compared with the third quarter of 2020. The main reason for the decline was the higher net working capital requirement of our strong business in the third quarter of this year. In the prior-year quarter, almost €800 million was released from net working capital due to the weak business performance.

Cash flows from investing activities amounted to minus €1.8 billion compared with plus €1.9 billion. In the third quarter of 2020, cash inflows from acquisitions and divestitures amounted to plus €2.7 billion and were primarily attributable to the divestiture of the construction chemicals business. In the third quarter of 2021, we had a cash outflow of minus €627 million, mainly due to the acquisition of 51 percent

in BASF Shanshan Battery Materials. At minus €819 million, payments made for property, plant and equipment and intangible assets were €83 million above the level of the third quarter of 2020. At minus €56 million, cash flows from financing activities were almost balanced.

Free cash flow amounted to €1.1 billion, representing a decrease of €287 million due to lower cash flows from operating activities and higher payments made for property, plant and equipment and intangible assets.

**[Slide 13: BASF's natural gas supply and demand balance in Europe]**

Ladies and gentlemen,

Since we are currently receiving a lot of questions about the impact of recent natural gas price developments, I would like to provide you with further information on this topic.

There are three main factors responsible for the significant increase in gas prices, which have reached historic highs in Europe: We have a strong economic recovery, combined with overall lower gas production rates in Europe and relatively low gas storage levels.

In Europe, we require most gas for our Verbund site in Ludwigshafen. The second-largest gas consumer is our Verbund site in Antwerp. We use gas to produce electricity and steam in our combined heat and power plants. Furthermore, gas is used as a feedstock to produce, for example, ammonia, acetylene and hydrogen. As some of you have reported, we recently had to curtail our ammonia production in Antwerp and Ludwigshafen. Due to the recent rise of natural gas prices in Europe, it has become very challenging to economically operate ammonia plants in the region.

To secure our natural gas supply, we have long-term supply contracts with different suppliers in place. The pricing is predominantly based on spot prices. Part of our gas price exposure in Europe is compensated via our shareholding in Wintershall Dea. The remaining exposure is partly hedged through financial instruments.

For our European sites, the additional costs due to higher natural gas prices amounted to around €600 million in the first nine months of 2021, with a significant increase expected following the price hike in October. At BASF Group level, this amount is partly mitigated by the above-mentioned measures.



And now I will hand back to Martin Brudermüller.

**[Martin Brudermüller]**

Before we turn to the outlook, I would like to share one of the many examples that illustrate how BASF is using the transparency of product carbon footprints to reduce the carbon footprint of our customers.

**[Slide 13: Low carbon Neopor® BMB: Up to 90% CO<sub>2</sub> avoidance in the production process]**

Energy efficiency and especially the insulation of a building play a key role in achieving the CO<sub>2</sub> reduction targets connected with the EU Green Deal.

Since 1997, BASF's insulation panels made of Neopor® have been helping our customers avoid CO<sub>2</sub> emissions. An analysis performed by BASF showed that the volumes of Neopor® sold in 2019 helped our customers avoid 37 million metric tons of CO<sub>2</sub> emissions over the entire product lifecycle when used to insulate existing buildings.

To offer our customers products with an even better environmental profile, BASF has developed Neopor® BMB. Using the biomass balance approach, 100 percent of the fossil resources needed to produce Neopor® can be replaced by renewable raw materials. The use of renewable raw materials reduces the carbon footprint of Neopor® BMB by 90 percent compared with traditionally produced material.

Due to tighter regulatory requirements, demand for our product Neopor® BMB is strong. This example shows how we continuously evolve our innovative products. In this way, we contribute to sustainable development and combine sustainability with economic success.

**[Slide 14: Outlook 2021 for BASF Group]**

Ladies and gentlemen,

We will conclude with an updated outlook for the BASF Group.

Overall, we expect solid demand in the different businesses until year-end and beyond. The automotive business will remain challenging. Production levels are far below consumer demand for cars. The final number of cars produced will continue to depend on the availability of semiconductors. We expect the supply challenges to last at least until the middle of next year.

Margins in the upstream businesses are slowly normalizing from a very high level, with improving availability but largely stable demand. Throughout basically all value chains, our suppliers, our customers, and we ourselves continue to be confronted with numerous challenges: increasing raw material, energy and transportation costs, supply chain constraints and the related and largely unforeseeable issues with material availability. The situation requires an elevated level of coordination and close customer and supplier contacts to overcome these challenges. Despite the challenges, we express our confidence for the fourth quarter by increasing our outlook for 2021 in accordance with market expectations:

- We now expect sales in the range of €76 billion to €78 billion.
- EBIT before special items is anticipated to reach between €7.5 billion and €8.0 billion.
- The return on capital employed is expected to be between 13.2 percent and 14.1 percent.
- Accelerator sales are expected to reach between €21.5 billion and €22.5 billion.
- We maintain our forecast regarding the expected CO<sub>2</sub> emissions.

Our adjusted outlook is based on the following assumptions regarding the global economic environment in 2021:

- We now assume gross domestic product to grow by 5.3 percent.
- Industrial production and chemical production are now both expected to grow by 6.0 percent instead of 6.5 percent for the full year.
- Our assumption for the average exchange rate of the U.S. dollar per euro remains unchanged.
- With an average annual oil price of 70 U.S. dollars per barrel of Brent crude, we increased our expectation for 2021.

That brings us to the end of our presentation. And now Hans Engel and I will be happy to take your questions.