



We create chemistry

# **Analyst Conference Call Q3 2023**

## **Speech**

### **October 31, 2023**

**Martin Brudermüller**

Chairman of the Board of Executive Directors

**Dirk Elvermann**

Chief Financial Officer

The spoken word applies.

**Martin Brudermüller**

Good morning, ladies and gentlemen,

Dirk Elvermann and I would like to welcome you to our analyst conference call on the third quarter of 2023.

**[Slide 3: Q3 2023: Global chemical production still subdued in most regions]**

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

Based on currently available data, the chemical industry was under further stress in Q3, as all regions exhibited a decline in production versus the prior-year quarter with the exception of China. The development in China was driven by recovering domestic demand for a broad range of chemical products in association with low sales prices. Whereas global chemical production in total grew by 4.8 percent including China, it decreased by 4.4 percent without China.

In Europe, chemical production slowed considerably compared with the prior-year quarter. This was due to lower demand resulting from high inflation, increased interest rates, a renewed rise in natural gas prices as well as frontloading of durable goods consumption during the COVID years. In Q3 2023, European natural gas prices were still around 40 percent higher than the average between 2019 and 2021 and four times higher than the Henry Hub quotation for the quarter. Consequently, European chemical production continued to decline in Q3 2023 and shrank by 6.6 percent compared with the prior-year quarter.

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

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

**[Slide 4: Indicators for stock levels in manufacturing improved slightly in Q3 2023]**

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

In our Q2 2023 conference call, we mentioned that these indicators were below their long-term averages and in the range of historical inflection points from destocking to inventory build-up for Western Europe and North America. The figures for Q3 2023 broadly confirm our expectations. The indicator for Western Europe improved marginally, signaling a slightly lower decline in inventories. The indicator for North America has moved further towards neutral. In Asia Pacific, the inventory indicator is continuing to edge up, pointing to increasing inventories amid the ongoing slow recovery of industrial production.

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

**[Slide 5: Q3 2023: BASF's EBIT before special items of €575 million is in line with average analyst estimates]**

We now move on to BASF's performance.

Overall, BASF Group sales declined by 28 percent to 15.7 billion euros in Q3 2023, mainly due to lower prices and volumes.

Prices fell particularly in the Materials, Chemicals and Surface Technologies segments, but we were able to increase prices in Agricultural Solutions.

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

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

Compared with the prior-year quarter, earnings in the Agricultural Solutions and Surface Technologies segments increased, while the remaining segments recorded considerably lower earnings. Overall, EBIT before special items declined by 772 million euros compared with Q3 2022 and amounted to 575 million euros. This is in line with the average analyst estimates of 601 million euros compiled by Vara on behalf of BASF in October 2023.

With that to Dirk for more financial information.

**Dirk Elvermann**

**[Slide 6: BASF Group Q3 2023: Key financial figures]**

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

EBITDA before special items decreased by 34 percent and amounted to 1.5 billion euros.

EBIT before special items declined by 57 percent to 575 million euros. I will go into the details at segment level on the next slide.

Net income amounted to minus 249 million euros, compared with 909 million euros in the prior-year quarter. Besides the lower EBIT, this decline was driven by the overall negative earnings of Wintershall Dea due to special items. In Q3 2023, Wintershall Dea recognized impairments on assets in the Middle East and also booked provisions for restructuring measures relating to the adjustment of the company structure that they announced in September.

BASF's cash flows from operating activities increased by 17 percent to 2.7 billion euros, mainly due to considerably higher cash inflows from changes in net working capital. This resulted particularly from reductions in inventories.

**[Slide 7: Q3 2023: Earnings in Agricultural Solutions and Surface Technologies increased; remaining segments recorded a decline versus PYQ]**

Now let's take a look at EBIT before special items in the segments in Q3 2023 compared with the prior-year quarter.

The Agricultural Solutions and Surface Technologies segments increased EBIT before special items compared with Q3 2022. The considerable increase in Agricultural Solutions mainly resulted from higher prices and a one-time effect from insurance payments. The slight increase in Surface Technologies was driven by considerable earnings growth in the Coatings division on account of higher prices and volumes. This more than compensated for significantly lower EBIT before special items in the Catalysts division.

Overall, BASF's earnings reflected significantly lower EBIT before special items in the Chemicals, Nutrition & Care, Industrial Solutions and Materials segments.

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

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

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

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

While earnings in the individual segments diverged from average analyst estimates, EBIT before special items at Group level was in line with consensus.

**[Slide 8: Strong cash flow generation in Q3 2023]**

I will now continue with our cash flow development, again focusing on our performance in the third quarter.

Cash flows from operating activities increased by 384 million euros to 2.7 billion euros. This is a remarkable improvement in view of the significantly lower net income.

The cash flow generation was largely driven by cash inflows of 1.9 billion euros from changes in net working capital; this is an increase of 1.2 billion euros compared with Q3 2022. Lower inventories resulted in a cash release of 488 million euros, while in the prior-year quarter inventory build-up of 834 million euros had tied up cash. This reflects our high discipline in inventory management as part of our self-help measures in the currently difficult economic environment.

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

In the third quarter, free cash flow increased by 170 million euros compared with Q3 2022 and reached 1.5 billion euros.

**[Slide 9: Strong balance sheet]**

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

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

On September 30, 2023, net debt amounted to 18.9 billion euros. This was an increase of 2.6 billion euros compared with year-end 2022, but a decrease of 1.4 billion euros compared with June 30, 2023. Compared with September 30, 2022, net debt was slightly lower.

The equity ratio at the end of the third quarter of 2023 was slightly higher than at the end of the year 2022 and stood at 48.8 percent.

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

**[Slide 10: Increasing competitiveness: Together with initiatives in global service units on track to reduce annual costs by ~€1.1 billion by end of 2026]**

We are also consistently working on our cost structures to improve BASF's competitiveness, particularly in Europe.

As announced at the end of February, we are executing a cost savings program focusing on Europe and are adapting our Verbund structures in Ludwigshafen. By the end of 2023, we will achieve the run rate of more than 300 million euros from our cost savings program with a focus on Europe as already indicated in our Q2 reporting.

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

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

With that back to you, Martin.



**Martin Brudermüller****[Slide 11: Increased focus on capex efficiency: Capex will be reduced by ~€4.0 billion in the period from 2023 to 2027]**

In light of the current macroeconomic environment, we have significantly trimmed our capex for 2023 to 5.3 billion euros – 1 billion euros less than the figure of 6.3 billion euros announced in February 2023. In addition, we will reduce capex further by a total of around 3 billion euros over the next four years. Thus, for the five-year period from 2023 to 2027, planned capex will be 24.8 billion euros – 4 billion euros lower than our original budget of 28.8 billion euros. While reducing the overall capex, we remain fully committed to our growth projects and our transformation towards climate neutrality.

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

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

**[Slide 12: BASF's Verbund site project in Zhanjiang is well on track]**

We are continuing to broaden the foundation for BASF's future profitable growth. In this context, let me provide you with an update on our Verbund site project in Zhanjiang.

The project execution is on time and in budget. Last month, the second downstream plant for thermoplastic polyurethanes successfully started up.

We are stepping up our construction activities according to plan, and there are currently more than 15,000 construction workers on the site every day. The photo on the slide shows the impressive progress that our team in China has achieved.

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

With that, Dirk, back to you for an update on Wintershall Dea.

**Dirk Elvermann**

**[Slide 13: Status update on Wintershall Dea]**

We continue to pursue our strategic goal of selling BASF's 72.7 percent share in Wintershall Dea and are working on monetization options.

Wintershall Dea is currently in the process of legally separating its Russia-related business. This separation is planned to be completed by mid-2024 and marks an important milestone in the overall process.

Significant federal investment guarantees are in place for the Russian assets. Related claims are not accounted for as receivables in our balance sheet. They thus provide an upside potential.

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

Wintershall Dea has adjusted its corporate strategy to reflect the changes in the energy sector and particularly its exit from Russia.

Currently, Wintershall Dea is reorganizing its company structure with the target of reducing administration costs by around 200 million euros per year. In the future, the Management Board will comprise three instead of five members. As part of the restructuring, the company plans to reduce around 500 positions.

And now finally back to Martin.

### **Martin Brudermüller**

Thank you, Dirk. Before we continue with the outlook, I will add a few more comments on our portfolio management.

A few weeks ago, you may have noticed some media articles speculating about planned divestitures of parts of BASF Group during my term. Let me be clear about the specific businesses that were referred to.

We have a clearly defined and known position on Wintershall Dea, which Dirk just reiterated.

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

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

As far as the Illertissen site is concerned, we have confirmed that we are examining strategic options for this rather small food ingredients business that has only limited synergies with the rest of our portfolio.

The optimization of our site footprint with around 240 production sites worldwide is generally an ongoing task.

Now I will conclude with the outlook.

**[Slide 14: Outlook 2023 for BASF Group]**

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

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

If chemical production does not further stabilize, there are risks from a further decline in volumes and a sharper-than-expected price reduction.

We are maintaining the underlying assumptions for the global economic environment at the levels presented in July.

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

To conclude, I would like to state once again: An attractive dividend is of high importance for the BASF Board. This also holds true in challenging times. Therefore, our practice of keeping the dividend at least at the previous year's level remains unchanged.

Our strong balance sheet, high equity ratio and good credit ratings give us the necessary financial strength in this regard.

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