



We create chemistry

Analyst Conference Call Q1 2023
Speech
April 27, 2023

Martin Brudermüller

Chairman of the Board of Executive Directors

Hans-Ulrich Engel

Chief Financial Officer

The spoken word applies.

Martin Brudermüller

Good morning, ladies and gentlemen,

Hans Engel and I would like to welcome you to our analyst conference call on the first quarter of 2023. Two weeks ago, BASF released preliminary figures as we had a better start to the year than expected on average by analysts. Today, we will provide you with further details regarding our business development in the first three months of the year.

[Slide 3: Global chemical production stagnated in Q1 2023]

Let's start with the development of global chemical production. Based on currently available data, global chemical production stagnated in Q1 2023 compared with the prior-year quarter. Compared with Q4 2022, chemical production recovered by around 2 percent globally, excluding seasonal effects.

From a regional perspective, chemical production grew only in China – at almost 8 percent. However, this was due to a low baseline in Q1 2022. Chemical production declined in all other regions. The decline compared with Q1 2022 was most pronounced in Europe, followed by Asia excluding China, and North America. From the second quarter of 2022 onward, high inflation and record energy price levels reduced consumer demand, particularly in Europe.

Globally, demand from BASF's key customer industries in the first quarter of 2023 was rather disappointing with two exceptions: Global light vehicle production grew by an expected 5.7 percent compared with Q1 2022. Global agricultural production also continued to grow moderately in the first quarter of 2023.

[Slide 4: Q1 2023: Sales decreased considerably, mainly due to lower volumes]

Moving on to BASF's sales development, sales decreased by 13.4 percent in Q1 2023 to around 20 billion euros. This was mainly due to a decline in volumes by 12.8 percent. All segments recorded lower volumes, except for Agricultural Solutions, where volumes remained stable.

Sales prices decreased by 0.7 percent overall. While prices in the Chemicals, Surface Technologies and Materials segments declined, we increased prices, especially in the Agricultural Solutions segment, but also in the Nutrition & Care and Industrial Solutions segments.

Portfolio effects had a slightly negative impact on sales and were mainly due to the sale of the kaolin minerals business. Until the end of September 2022, this business had been part of the Performance Chemicals division.

Currency effects were slightly positive and mainly related to the U.S. dollar.

[Slide 5: Q1 2023: Earnings declined, mainly due to lower contributions from upstream businesses compared with a strong prior-year quarter]

Let's move on to our earnings development by segment.

The decline in BASF Group's EBIT before special items largely resulted from considerably lower contributions from the Chemicals and Materials segments. In Q1 2023, these two segments contributed 484 million euros to BASF Group's EBIT before special items compared with 1.6 billion euros in the prior-year quarter. This decline was mainly due to considerably lower volumes and margins on the back of significantly lower demand overall.

In Nutrition & Care and Industrial Solutions, earnings also decreased considerably. In both segments, EBIT before special items declined mainly due to lower volumes resulting from lower demand. The Surface Technologies segment recorded EBIT before special items almost at the level of the prior-year quarter. The Agricultural Solutions segment achieved considerably higher earnings, reaching around 1.3 billion euros in the first quarter, an increase of almost 400 million euros.

[Slide 6: Agricultural Solutions segment records strong earnings growth]

Let me provide you with further details regarding the very strong performance of our Agricultural Solutions segment.

We had a good start to the season in the northern hemisphere and showed a strong presence in South America. In the first quarter of 2023, sales increased by 14.5 percent to 3.9 billion euros.

We increased prices across the portfolio, in particular for fungicides and herbicides. All regions contributed to the positive sales development, especially North America and Europe. Overall, volumes remained stable compared with Q1 2022. This was due to lower volumes in Europe compared with the strong prior-year quarter volume growth in this region. We raised volumes in all other regions.

As already mentioned, EBIT before special items increased to almost 1.3 billion euros. The sales growth more than compensated for high raw material and energy prices.

Crop commodity prices are trending lower than in 2022 but remain higher than the average of the last five years.

[Slide 7: BASF's automotive-related businesses developed well]

The automotive-related businesses of BASF also developed well. As mentioned earlier, global light vehicle production increased by 5.7 percent in Q1 2023 according to IHS Markit. Volume growth was most pronounced in Europe and North America with 17 and 10 percent, respectively, while the market in China declined by 8 percent due to weak demand.

In the first quarter of 2023, BASF's sales with the automotive industry – excluding sales in precious metal trading and precious metal sales in the mobile emissions catalysts business – amounted to 1.9 billion euros, again an increase of 5.7 percent.

Excluding precious metal trading activities, EBIT before special items in the Surface Technologies segment increased considerably. This was driven by significantly higher earnings contributions from the automotive catalysts business and a strong increase in EBIT before special items in the Coatings division. In Coatings, this was mainly due to price-driven higher margins.

The 2023 outlook for the automotive industry remains favorable. For the full year, global light vehicle production is expected to grow by 3.8 percent according to IHS Markit.

Now I hand over to Hans for further details on our financial performance.

Hans-Ulrich Engel**[Slide 8: BASF Group Q1 2023: Financial figures]**

Thank you, Martin, and good morning, ladies and gentlemen.

In the following, I will provide you with further details of BASF Group's financial figures in the first quarter of 2023 compared with the strong prior-year quarter:

- I will start with **EBITDA before special items**, which decreased by 23.5 percent and amounted to 2.9 billion euros.
- **EBITDA** amounted to around 2.8 billion euros, a decrease of almost 900 million euros.
- At 1.9 billion euros, **EBIT before special items** declined by 31.5 percent.
- **Special items** in EBIT amounted to minus 65 million euros compared with minus 34 million euros in the first quarter of 2022. Special items were mainly related to the carve-out of the recently established BASF Environmental Catalyst and Metal Solutions unit and BASF Group's cost savings program with focus on Europe.
- **EBIT** decreased by 33.0 percent to 1.9 billion euros in Q1 2023.
- **Net income from shareholdings** increased from minus 797 million euros to plus 183 million euros in Q1 2023. In the prior-year quarter, net income from shareholdings was negatively impacted by non-cash-effective impairments resulting from the Russia-related business of Wintershall Dea.
- **Net income** rose by 27.9 percent to 1.6 billion euros in the first quarter of 2023.

[Slide 9: In Q1 2023, BASF incurred lower costs for energy compared with the very high level of the prior-year quarter]

Let's turn to the development of energy prices and the financial impact on BASF. Compared with Q1 2022, energy costs came down from very high levels, but nevertheless remained considerably above the level of the first quarter of 2021.

In the first quarter of 2023, BASF's global energy costs were around 700 million euros lower than in the prior-year quarter. Of this amount, 600 million euros were related to lower natural gas costs.

Most of the reduction in natural gas costs was achieved in Europe due to lower natural gas prices and lower production volumes compared with Q1 2022.

Let me add that in Q1 2023, European natural gas was still trading at 53 euros per megawatt hours – more than three times higher than the 2015 to 2020 average of 16 euros per megawatt hours. To mitigate these higher costs, we have implemented and will continue to implement measures to reduce our natural gas consumption. We already presented several such measures as part of our full-year 2022 reporting in February.

[Slide 10: Cash flow development in Q1 2023]

Let's now look at the details of our cash flow development in Q1 2023.

Cash flows from operating activities amounted to minus 1 billion euros, a decrease of 725 million euros compared with the prior-year quarter. Net income improved by 340 million euros compared with Q1 2022, which had included non-cash-effective impairments of 1.1 billion euros on the equity-accounted shareholding in Wintershall Dea. Excluding the equity results, which are corrected via miscellaneous items, net income declined by 579 million euros year-over-year. This was the main driver for the decline in cash flows from operating activities.

Cash flows from investing activities amounted to minus 703 million euros in the first quarter of 2023, after minus 579 million euros in the prior-year quarter. Payments for property, plant and equipment and intangible assets rose by 44 percent to 867 million euros in Q1 2023.

Cash flows from financing activities amounted to plus 1.8 billion euros, a decrease of 877 million euros compared with Q1 2022, mainly caused by lower net additions to financial and similar liabilities.

Free cash flow declined by almost 1 billion euros to minus 1.9 billion euros in Q1 2023.

The equity ratio remained strong and increased to 48.8 percent compared with 45.3 percent at the end of the prior-year quarter.

And now I will hand back to Martin.

Martin Brudermüller

[Slide 11: Outlook 2023 for BASF Group unchanged]

Thank you, Hans.

BASF's Group outlook for the full year 2023 published on February 24 remains unchanged.

We anticipate only moderate growth in the majority of our customer industries in 2023. We forecast BASF Group to generate sales of between 84 billion and 87 billion euros in 2023. EBIT before special items is expected to decline to between 4.8 billion and 5.4 billion euros. We continue to expect a weak first half of 2023 followed by an improved earnings environment in the second half of the year due to a recovery in the global economy, driven especially by more dynamic demand development in China.

Based on the weaker earnings and a slightly higher cost of capital basis forecast for BASF Group in 2023 compared with 2022, we anticipate a ROCE of between 7.2 and 8.0 percent.

We expect CO₂ emissions of between 18.1 million and 19.1 million metric tons as a result of moderate growth in production and slightly higher capacity utilization at emission-intensive plants.

I would like to provide you with one additional piece of information: We further trimmed our capital expenditures for this year compared with the figures we announced at the end of February. Instead of 6.3 billion euros, we now expect capex of around 6.0 billion euros for the BASF Group in 2023.

[Slide 12: Measures to increase competitiveness are being implemented]

Let me conclude by reiterating the measures we are currently implementing to not only safeguard, but also improve our global competitiveness.

We have launched a cost savings program with focus on Europe and are smartly adapting our Verbund structures in Ludwigshafen. Together with the initiatives already underway in our global service units, we will reduce fixed costs by around 1 billion euros by the end of 2026.

These measures are part of the continuous improvement BASF is driving. And we are convinced that this will position BASF well for profitable growth in the future.

Thank you, and now Hans and I are ready to take your questions.