



We create chemistry

Analyst Conference Call Q2 2023

Speech

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Chairman of the Board of Executive Directors

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The spoken word applies.

Martin Brudermüller

Good morning, ladies and gentlemen,

On July 12, we adjusted our full-year outlook and released preliminary Q2 figures. Today, Dirk and I will provide you with further details.

[Slide 3: Global chemical production stagnated compared with the prior-year quarter]

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

Based on currently available data, global chemical production stagnated compared with the prior-year quarter on account of weaker global demand.

Among the large chemical markets, only China recorded growth. However, this was largely due to the low baseline resulting from the COVID-related lockdowns in Q2 2022.

In Europe, chemical production again declined strongly compared with the prior-year quarter. This was due to lower demand resulting from high inflation, frontloading of durable goods consumption during the COVID years as well as elevated natural gas prices. In Q2 2023, gas prices were still around twice as high as the average between 2019 and 2021 and five times higher than the Henry Hub quotation for the quarter. In some cases, this has already led to temporary or permanent shutdowns of production capacities in the European chemical industry.

In North America, chemical production also declined compared with the prior-year quarter in an environment of weak demand for consumer goods. Lower demand and increased energy prices were also the main reasons for the decline in chemical production in Asia excluding China – with the notable exception of moderate growth in India.

Despite recessionary developments in Europe and the United States and a subdued economic development in China, we do not expect a further weakening in demand at the global level for the second half of 2023. Inventories of chemical raw materials in most customer industries have already been greatly reduced.

[Slide 4: Stock levels in manufacturing below average and within range of past inflection points in Western Europe and North America]

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

In Western Europe and North America, these indicators are already below their long-term averages. Furthermore, indicators in these two regions are now in the range of historical inflection points from destocking to inventory build-up. From this perspective, we should have likely reached the trough. Inventory indicators for Asia Pacific are above the long-term average but have to be interpreted in the context of a somewhat higher growth momentum in industrial production.

Overall, these observations and statistical data are in line with the current development of order entries in our operating divisions. Some customers are recognizing that they cannot expect purchase prices to fall further. This should also support gradual demand recovery combined with a cautious rise in consumer confidence.

[Slide 5: Q2 2023: Compared with the strong prior-year quarter, BASF's earnings declined in a tough market environment]

Moving on to BASF's performance. In Q2 2023, we faced low demand from our key customer industries, except for automotive.

Overall, BASF Group sales declined by 25 percent to 17.3 billion euros in Q2 2023, mainly on account of lower prices and volumes. Negative currency effects also lowered sales.

Compared with the extremely strong prior-year quarter, EBIT before special items decreased by 1.3 billion euros and amounted to 1.0 billion euros. The decline was especially driven by the upstream segments. Dirk will go into more detail on the development of the segments.

[Slide 6: Preparing for the future: BASF's new Verbund site project in Zhanjiang is progressing well]

We are looking ahead! Therefore, I will now give an update on the projects we are undertaking worldwide to prepare BASF for the future. I will start with our new Verbund site in South China. By 2030, we expect the Zhanjiang Verbund site to generate sales of between 4 and 5 billion euros and an EBITDA of between 1 and 1.2 billion euros.

The project execution is on track. The first plant for engineering plastics successfully started up in August 2022 – as planned and despite all COVID-related challenges. As part of the initial phase, first BASF products made in Zhanjiang were already delivered to customers in the second half of last year. The plant for thermoplastic polyurethanes will come on stream in the third quarter of this year.

In mid-2022, we started the construction of phase 1. This is the heart of the Verbund. It comprises a world-class mixed-feed steam cracker, several value chains for petrochemicals, intermediates and specialty chemicals for consumer products as well as related infrastructure. This core complex is planned to start up as of the end of 2025. Pre-marketing is ongoing. Several contracts for future sales have already been signed.

We are building the new Verbund site in South China to serve the Chinese market. Further expansion and diversification of the value chains is already in preparation and is expected to go on stream from 2028 onwards. This will enable us to meet the growing demand of local customers, also for products used in special applications.

We are financing the investment with a combination of equity and a mix of various debt instruments mainly issued in China. Local bank financing is expected to be supported by Chinese and international banks. Overall, we are making the best use of cash generated by our existing Chinese Group companies and minimizing cash injection into China.

The new Zhanjiang Verbund site will also be a lighthouse project in terms of sustainability: We aim to operate it with 100 percent green energy right from the start of phase 1 production. Last week, we achieved an important milestone in this regard, in addition to the already signed or planned PPAs with partners for onshore wind and solar energy. BASF and Mingyang have agreed to jointly construct and operate an offshore wind farm in South China. Mingyang is the largest private wind turbine manufacturer in China. It will hold 90 percent of the joint venture shares, BASF 10 percent. The majority of the power generated will be used to supply renewable electricity to BASF's Verbund site in Zhanjiang.

The windfarm will have a total installed capacity of 500 megawatts. Subject to construction approval from the relevant authorities, the wind farm is expected to be fully operational in 2025 – in line with the startup of the heart of the Verbund.

This is the first Sino-German offshore wind farm project in China involving development, construction and operation.

[Slide 7: Preparing for the future: BASF's major projects in the United States]

We are not only investing in China. We are also pursuing new projects in the United States.

Already in January 2023, BASF broke ground on the third and final phase of the MDI expansion project at our Verbund site in Geismar, Louisiana. We will increase production capacity to approximately 600,000 metric tons per year by 2026 to support the ongoing growth of our North American MDI customers.

We are investing 780 million U.S. dollars in this final expansion phase from 2022 to 2025. Including the first and second phases, the investment volume totals around 1 billion U.S. dollars. This makes the MDI expansion project BASF's largest wholly owned investment in North America.

For future investments in the United States, we will evaluate incentive schemes provided by the Inflation Reduction Act.

In June 2023, BASF and Yara announced a joint study to develop and construct a world-scale low-carbon blue ammonia production facility in the U.S. Gulf Coast region. Together, we are looking into the feasibility of a plant with a total capacity of 1.2 to 1.4 million tons per year to serve the growing global demand for low-carbon ammonia. The feasibility study is planned to be completed by the end of 2023.

Approximately 95 percent of the CO₂ generated from the production process is aimed to be captured and permanently stored in the ground using CCS technology.

For BASF, the new capacities would partially be used for backward integration, thus reducing the carbon footprint of our ammonia-based products. Therefore, this is another project that underlines BASF's commitment to drive the transformation of the chemical industry.

[Slide 8: Preparing for the future: BASF is the first company to establish a co-located battery materials and recycling center in Europe]

Finally, some details about a project that is strengthening our position in a fast-growing market: our battery materials investment in Europe. At the end of June, we celebrated the opening of Europe's first co-located center for battery material production and battery recycling in Schwarzheide, Germany.

The state-of-the-art production facility for high-performance cathode active materials (CAM) and the battery recycling plant to produce black mass are important steps in closing the loop in the European battery value chain. The CAM plant has been gradually commissioned since the end of 2022 and is fully sold out for the coming years. It will supply products tailored to the specific needs of cell manufacturers and automotive OEMs in Europe. The construction of the battery recycling plant to produce black mass has already started, and production is expected to begin in 2024.

With these investments in Schwarzheide, BASF is supporting the European market for e-mobility and at the same time enabling faster growth for our global business. Overall, we aim to build a global battery materials business with sales of more than 7 billion euros by 2030. We strive for an EBITDA margin before special items of more than 30 percent excluding metals.

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

Dirk Elvermann

[Slide 9: BASF Group Q2 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 second quarter of 2023 compared with the very strong prior-year quarter.

As Martin already mentioned, sales declined by 25 percent – primarily on account of lower prices and volumes. Prices declined particularly in the Chemicals and Materials segments because of lower raw materials prices and lower demand. All segments recorded lower volumes. However, excluding precious metals, the Surface Technologies segment increased volumes.

Portfolio effects had a slightly negative impact on sales and were mainly related to the sale of the kaolin minerals business. Currency effects negatively impacted sales as well.

EBITDA before special items decreased by 41 percent and amounted to 1.9 billion euros. At 1.0 billion euros, EBIT before special items declined by 1.3 billion euros. This decline was mostly due to lower earnings in the Chemicals and Materials segments.

Compared with Q2 2022, net income from shareholdings declined by 341 million euros to 92 million euros. This was largely due to lower earnings from Wintershall Dea, which in the prior-year quarter still included major contributions from activities in Russia.

Net income amounted to 499 million euros compared with 2.1 billion euros in the prior-year quarter.

In Q2 2023, the tax rate was 35 percent compared with 18 percent in the prior-year quarter. This increase is mainly related to the fact that deferred tax assets for tax loss carryforwards in Germany are currently not recognized for accounting purposes.

Cash flows from operating activities significantly improved by 950 million euros to 2.2 billion euros in the second quarter. At the end of June 2023, the equity ratio was 47.1 percent and thus slightly below the figure at the end of 2022.

[Slide 10: Q2 2023: Earnings declined, mainly due to lower contributions from upstream businesses compared with a strong prior-year quarter]

With that let's now take a look at the segment performance in more detail.

Almost all segments contributed to the decline in EBIT before special items. Chemicals and Materials, which posted very strong earnings in the prior-year quarter, were responsible for around 80 percent of the decline in BASF Group's EBIT before special items. In both segments, EBIT before special items decreased mainly due to lower volumes and margins.

In Industrial Solutions, EBIT before special items also decreased considerably compared with Q2 2022. In this segment, lower volumes and margins were again the main drivers. Furthermore, the prior-year quarter still included earnings contributions from the kaolin minerals business divested in September 2022.

Surface Technologies achieved slight earnings growth, driven by the Coatings division and the mobile emissions, chemical and refinery catalysts businesses. Compared with Q2 2022, global light vehicle production grew by 15.5 percent, according to S&P Global. This strong increase particularly resulted from the base effect in China

following the lockdowns there in the prior-year quarter. The 2023 outlook for the automotive industry, which is most relevant for our Surface Technologies segment, remains favorable. For the full year, global light vehicle production is expected to grow by 5.3 percent, according to S&P Global.

In the Nutrition & Care segment, EBIT before special items was considerably below the prior-year period. The main reasons were lower margins and volumes. In the Nutrition & Health division, margins in the vitamins business were particularly weak given the historically low vitamin A prices.

In the Agricultural Solutions segment, EBIT before special items decreased slightly in the second quarter compared with the prior-year period. This was mainly due to lower volumes resulting from cautious buying behavior, as crop commodity prices softened compared with Q2 2022; higher channel inventories also played a role. However, we had a very good start in Q1 2023, and our Agricultural Solutions segment performed strongly when looking at the full season in the northern hemisphere.

Finally, Other remained a negative earnings contributor but posted considerably improved EBIT before special items year-on-year. This was mainly due to a higher contribution from our insurance companies.

[Slide 11: Cash flow development in Q2 2023 and H1 2023]

I will now continue with our cash flow development, again focusing on the Q2 performance.

Cash flows from operating activities increased by almost 1 billion euros to 2.2 billion euros. This was largely driven by cash inflows of 0.8 billion euros from changes in net working capital. In the prior-year quarter, there had been cash outflows of 1.7 billion euros.

Payments made for property, plant and equipment and intangible assets rose by 43 percent compared with the prior-year quarter to 1.3 billion euros. This increase was mainly related to our growth projects, particularly our investment in China.

Free cash flow increased by 569 million euros compared with Q2 2022 and reached 905 million euros.

[Slide 12: Strong balance sheet]

Turning to our balance sheet at the end of June 2023 compared with year-end 2022.

Total assets amounted to 83.5 billion euros. This is a decline of 1 billion euros, mostly due to lower current assets, which decreased by 807 million euros to 36.6 billion euros. Lower other receivables and miscellaneous assets and reduced inventories more than compensated the higher trade accounts receivable. The increase in trade accounts receivable was mainly caused by the strong sales performance of our Agricultural Solutions segment in the first half of this year.

Noncurrent assets were almost unchanged at 46.9 billion euros.

Noncurrent liabilities increased by 1.8 billion euros to 25.0 billion euros, in particular due to higher financial debt. Net debt increased by 4.0 billion euros to 20.2 billion euros at the end of June 2023.

The equity ratio at the end of Q2 was 47.1 percent.

[Slide 13: Increasing competitiveness: Focus on costs and cash]

In the following, let me summarize the measures we are implementing to improve BASF's competitiveness, particularly in Europe.

As announced in detail at the end of February, we are executing a cost savings program with a focus on Europe and are adapting our Verbund structures in Ludwigshafen. Together with the initiatives that were already underway in our global service units, we will reduce fixed costs by around 1 billion euros by the end of 2026. This is an annual run rate. By the end of 2023, we expect to be at a run rate of more than 300 million euros from our cost savings program with a focus on Europe.

In addition to these programs, we are rigorously controlling our fixed costs and managing discretionary costs on a permanent basis. We also have a strong focus on cash management to support our free cash flow. We will continue to improve cash conversion and we will reduce our inventory levels.

In the light of the current macroeconomic framework, we have also further trimmed our capex for this year. Instead of 6.3 billion euros announced as part of the full-year reporting in February, we now expect capex of around 5.7 billion euros for the BASF Group in 2023.

[Slide 14: Optimizing structures: Carve-out of mobile emissions catalysts and precious metals services businesses successfully completed]

Before Martin concludes with the outlook, I would like to give you a brief update on the carve-out of the mobile emissions catalysts and precious metal services businesses that we announced in December 2021. The carve-out has now been completed, as targeted, within 18 months. This was achieved while maintaining business continuity for customers, partners and employees. At the same time,

the team ensured that the business performed strongly and won several new platforms.

BASF Environmental Catalyst and Metal Solutions – abbreviated ECMS – is headquartered in Iselin, New Jersey. It now operates in its own legal entities, using a dedicated IT system landscape and services. With global operations in 15 countries, more than 4,500 employees and 20 production sites, ECMS is a global leader in catalysis and precious metals, offering a wide range of products and services. In the new setup, the team will focus on market opportunities in step with the more stringent light- and heavy-duty emissions regulations. ECMS will also further pursue growth areas in circular solutions and the hydrogen economy. The businesses will continue to be reported as part of the Catalysts division in the Surface Technologies segment.

And now I will hand back to Martin for the outlook.

Martin Bruder Müller

Thank you, Dirk.

[Slide 15: Outlook 2023 for BASF Group]

As announced on July 12, we expect weaker second-half sales and earnings than previously forecast. We adjusted our outlook for the full year 2023 accordingly.

We now anticipate sales of between 73 billion euros and 76 billion euros. EBIT before special items is now expected to reach between 4.0 billion euros and 4.4 billion euros in 2023.

Based on the expected weaker earnings performance, we now anticipate a ROCE of between 6.5 percent and 7.1 percent.

The forecast for our CO₂ emissions has also been reduced. CO₂ emissions are now expected to be between 17.0 million metric tons and 17.6 million metric tons in 2023.

Let me reiterate that for the second half of 2023, we do not expect a further weakening in demand at the global level, as inventories of chemical raw materials in most customer industries have already been greatly reduced. However, we are assuming only a tentative recovery because we expect that global demand for consumer goods will grow slower than previously assumed. Margins are therefore expected to remain under pressure.

On the slide with our outlook, you can also see the adjusted assumptions regarding the global economic environment in 2023. While the GDP growth assumption was increased due to the strong development of the service sector, we lowered our growth assumptions for industrial and chemical production.

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