ICL

Q1 2017 Conference Call

May 10, 2017

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the ICL Analyst Conference Call.

Our presentation today will be followed by a question and answer session, at which time, if you wish to ask a question, you'll need to press star one on your telephone. I must advise you that this call is being recorded today. And if you require any – if you experience any technical difficulties please press star, zero on your telephone.

Now, without any further delay, I'd like to hand the call over to first speaker today Dudi Musler. Please go ahead, sir.

Dudi Musler: Thank you.

Hello, everyone. Welcome and thank you for joining our First Quarter 2017 Conference Call. Earlier today, we filed our reports with the securities authorities and the stock exchanges in the U.S. and in Israel. The reports, as well as the press release are available on our Web Site. For your reference, this meeting is being webcast live at www.icl-group.com. There will be a replay available a few hours after the meeting, and a transcript will be available within 48 hours.

The presentation that will be reviewed today was also filed to the securities authorities and is available on our Web Site. Please don't forget to review the slide number two with the disclaimer.

Our comments today will contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance.

We will begin with a presentation by our Acting CEO, Asher Grinbaum, followed by Kobi Altman, our CFO. In addition, ICL executives are either here or on the line and will be available for questions following the presentation.

Thank you, everyone for joining us today. We will be happy to discuss further. Looking forward to talk to you and see you soon.

Asher, please.

Asher Grinbaum:

Thank you, Dudi. Good morning or good afternoon to all of you around the world.

Before we discuss the quarter, I would like to start the call with **slide 3**… where we would like to take the opportunity to introduce you to our highly experienced management team who are working together with me to shape and execute the Company's strategy and lead ICL forward.

Now turning to the summary of the quarter as shown on **slide 4**, the first quarter of 2017 demonstrated our operational capabilities, as well as our ability to improve our profitability and generate strong free cash flow, against a challenging commodity backdrop. While our specialty businesses continue to show both top and bottom line growth, the business environment in commodity fertilizers, and especially in phosphate fertilizers, remains challenging. As a result, we have continued to reduce our G&A expenses, our CapEx and working capital, while focusing our attention on improving our generation of free cash flow. This will improve our capital position and will serve to strengthen our balance sheet and support our growth plans, primarily in our specialty businesses.

Turning to **slide 5**, despite external factors beyond our control, several positive developments occurred in ICL during the quarter. Despite being negatively impacted by the delay in signing potash contracts in China, the strengthened Israeli shekel against the dollar, rising seaborne transportation costs and declining commodity fertilizer prices, we continued to see the rewards from operational improvements we made over the past several quarters. Efficiency measures we implemented, along with steps we have taken to reduce our exposure to commodity phosphates, enabled us to improve our position at our YPH JV in China. Although this was not fully reflected in the first quarter, we made significant progress in reducing the Joint Venture's loss compared to the first quarter of 2016 as well as sequentially. This is a trend that we expect will continue during the remainder of 2017.

Our operating income was negatively impacted by a production outage we had in our UK mine due to technical problems which were resolved at the beginning of the second quarter and the mine is again operational. The first quarter loss of production will be compensated throughout the remainder of the year and therefore we do not expect any negative impact to our overall 2017 performance.

Moving to **slide 6..**.

Within our Specialty Solutions business, we saw sales and operating income increase over the prior year period. This was driven by continued strong performance in our bromine business, which is successfully executing its pricing strategy, reducing costs and increasing long-term commercial engagements with customers. Our Advanced Additives businesses also demonstrated operating margin improvement and increased sales. Our food businesses were negatively impacted by a dairy protein customer's destocking activity. This was partially offset by increased sales in other food related business lines.

Our Essential Minerals business saw higher revenue in the quarter as a result of higher potash volumes and despite lower average selling prices compared to the corresponding quarter in 2016. However, during the quarter spot market potash prices increased moderately compared with Q4 2016**,** and are currently stable. Our operating income was negatively impacted by the outage I referred to, at our ICL UK mine in December 2016, as well as an increase in seaborne transportation costs.

The challenging business environment in the commodity phosphate fertilizer markets continued to negatively impact our YPH JV's performance, but, as I mentioned previously, we have taken steps to reduce our exposure to commodities and implemented efficiency measures which are bearing fruit as we reduce our operating expenses.

Moving now to **slide 7**… In the current economic environment it is important for us to maintain strict control over our operational and capital spending. So as you can see here and as I mentioned before, we are making significant progress in managing our working capital and CapEx, driving stronger cash generation and improving our financial position.

(**Slide 8**) During the quarter we continued to strategically align our organization into a more market and customer-oriented structure. To this end, we moved our ICL Specialty Fertilizers unit into our Essential Minerals division, enhance value through synergies and creating a more defined and specific Agro division. Operating Specialty Fertilizers in the Essential Minerals division is expected to create synergies with other business lines in the Agro division given their related businesses and customer bases.

To summarize, we continue to make strategic choices which we thoroughly evaluate. These decisions are crucial to driving our earnings growth, which in turn is a function of shareholder value. We are confident with the steps we are taking and proud of the contributions that our employees have made in implementing them.

With that, I would like to turn the call over to Kobi to review our financials.

Kobi Altman: Thank you, Asher and good day, everyone.

I will begin with our financial results on **slide 10**. Overall we had a solid performance this quarter in light of the continued external challenges we face, especially in our Essential Minerals agro division. Despite the fact that sales are usually weaker during the first quarter, sales in Q1 2017 were up compared to last year, our operating income was stable, and we achieved yet another quarter of strong cash generation.

The price pressures that we face, particularly in the commodity markets, continues, especially in the commodity phosphate fertilizer market. However, we experienced a sequential increase in potash prices and expect this trend to be sustained over the rest of the year. Our bromine business, as Asher noted, continued its strong performance, and along with Advanced Additives' margin expansion, contributed to ICL's solid performance this quarter.

Our net income was affected by increased tax expense this quarter. The increased tax expense was mainly a result of timing differences recorded, relating to measurement differences between book and tax due to the strengthening of the shekel against the dollar. The effective tax rate, without the impact of these differences, is about 30%, compared with an effective tax rate of about 24%, in the corresponding quarter last year. The increase in the effective tax rate stems primarily from the application of the Israeli Natural Resources Tax to bromine and potash activities in Israel, and this is the effective tax rate we expect from now on.

Measures that we implemented in 2016 and will continue to implement through 2017 are reducing our costs and working capital. These, along with our disciplined approach to Capex, made it possible to record another strong quarter of free cash flow. Cash flow generation will continue to be a priority for the Company for the rest of the year, with actions taken in order to reduce our debt ratios and enable us to further invest in growth projects.

Turning to **slide 11**, you can see how the Specialty Solutions division's operating income has increased compared with Q1 2016 in line with our strategy to decrease dependence on our commodity businesses and create a stable balance for ICL's income and margins. Our specialty businesses showed solid performance and operating margin improvement, highlighted by our bromine business line which continued to benefit from the implementation of its value oriented pricing strategy, cost reductions and long-term commercial engagements with customers. These positive results were partially offset by a decline in dairy protein sales due to destocking activity of a customer, despite an increase in phosphate-based food additives in Europe and significant growth in sales of new products.

On **slide 12,** you can see that after successfully achieving our 2016 CapEx goal of reaching below a level of $650 million, we are implementing our plan to further reduce CapEx in 2017, while still leaving room for assets improvement and growth, as demonstrated by the depreciation line. As we indicated before, most of the maintenance CapEx is directed to our agro businesses in order to maintain and further improve the competitiveness of our existing assets. On the other hand, most of the growth-oriented Capex is directed to our specialty businesses as we plan to continue to develop these businesses.

Turning to **slide 13**, despite a continued challenging business environment in some of our specialty businesses, which translated to a negative pricing impact, the increase in sales volumes and a better product mix, primarily in the bromine and Advanced Additives businesses, more than offset this, driving a 5% increase in sales.

Moving to Essential Minerals, **on slide 14**, you can see that during Q1 the division experienced a moderate increase in potash volumes compared to Q1 2016. In addition, despite being at a lower level compared to the first quarter of 2016, potash prices during the first quarter of 2017 increased moderately in spot markets such as Brazil, the US and Europe, compared with Q4 2016 and they are currently stable. However, the operating income of our potash operations was negatively impacted by a production outage at the division’s ICL UK potash facility resulting from technical difficulties in the mine in December 2016 (subsequently resolved after the end of the quarter), as well as by maintenance expenses and increased seaborne transportation costs.

The commodity phosphate fertilizer market continues to operate under a challenging business environment, offset somewhat by a sequential decrease in the operating loss at the division’s YPH JV resulting from continued efficiency and cost reduction efforts. The division’s Specialty Fertilizers business unit, benefited from strong growth in Latin America and China, as well as from operational efficiency and cost reduction initiatives.

And finally on **slide 15**, our disciplined balance sheet management during 2016 has continued into 2017 and is reflected in our quarterly cash flow generation and a stronger free cash flow compared to Q1 2016. For the remainder of 2017, our target is to maintain the positive improvements we made in managing our working capital and generating cash flow. After successfully achieving our 2016 CapEx targets, we plan to further reduce our CapEx in 2017, with an expected target range of $500 to $550 million, while still leaving room for assets improvement and growth, as Asher mentioned earlier. The combination of our disciplined balance sheet management with lower CapEx and costs should help us to achieve another year of meaningful cash flow generation. This will further strengthen our balance sheet and support our goal of ending 2017 with lower debt ratios. We continue to be committed to a responsible capital allocation approach driving growth, managing debt levels and providing solid returns to our shareholders.

Thank you for your time and we will be happy to take your questions now.

Operator?

Operator: Thank you very much.

We will now begin the question and answer session. If you would like to ask a question, please press star and 1 on your telephone and wait for your name to be taken. If you wish to cancel your request, please press the hash key.

Thank you. And your first question comes from the line of (Andrew Benson). Please ask your question.

(Andrew Benson): Yes, thanks very much. On potash, you talk about high Chinese inventories, strong shipments from Russia into China and around the startup of the K +S mine. What gives you confidence that – in your comment that you think the potash price will continue to go up in the second half, that's the first question.

Can you talk through why the transportation costs are going up? And where you think they will go and whether that's just a temporary phenomenon? And can you explain the announcement you put out today on the Ethiopia situation? And is that – is that a meaningful potential cost? Thanks.

Asher Grinbaum: Hello, Ofer please…

Ofer Lifshitz, President ICL Essential Minerals:

We'll start with the prices and the increasing capacity, as you mentioned by K+S in Europe. And our estimation is that if this increased capacity will grow gradually to the market, according to the natural growth of the potash market, then we don't see a reason that the prices will not continue to be stable at the level that they are currently and maybe even slightly even increase. But this is

– as we assume, that the increased capacity will go to the market, according to the market natural growth.

Second question was about – ah shipment of flotation, yes we see increase in the shipment transportation, marine transportation, during the first quarter. This will continue to be the situation in the second quarter. Our cost increased – the logistic costs increased due to these transportation costs. Also, it was because different locations where we send the raw material – where we shipped the raw material and so this is the situation right now. Actually, we see price increase in the logistic cost for all over the place.

Now, regarding Ethiopia…

Kobi Altman: (Andrew), this is Kobi, I will answer about Ethiopia, yes we are filing a BIT claim against the government of Ethiopia to recover the cost that we had there, and we believe that due to their actions, we suffered a loss that is something that we can claim under the BIT laws. Our European subsidiary that is the holding company of the Ethiopian subsidiary is filing this claim, and we will continue to monitor this action.

(Andrew Benson): OK. So, it's not an outflow from you or potential – it's a potential inflow if you're successful?

Kobi Altman: Exactly, yes.

(Andrew Benson): OK, thanks. Thanks.

Operator: Thank you very much.

And your next question comes from the line of (Joel Jackson). Please ask your question.

(Fahad): Hi, this is (Fahad) on for (Joel). My first question is on potash cost. It looks like the costs were a little elevated this quarter versus the past – the past quarter sequentially, so can you talk a bit about were there any one time issues with costs? You know, what was it – what was the cause of the elevated cost?

And what should we be thinking about in terms of cost – potash cost for the rest of the year?

Asher Grinbaum: Kobi, please?

Kobi Altman: Yes. The cost per tonne has increased in the first quarter indeed, due to the outage in our UK facility that was not producing potash this quarter. Since we moved back to full operation of the potash from April, we expect the cost per tonne for the rest of the year to go back to the level of Q4 and even a little bit less. I would just mention that our UK mine is in a transformation move to polysulphate. Polysulphate was continuing to be in full production this quarter and the technical issue we had in the potash production did not affect the polysulphate. The potash production in the U.K will finish in the next few years.

(Fahad): Great. And the other question I had was on the YPH phosphate joint venture in China. It looks like it was a $6 million loss in the quarter. What would – and that was excluding G&A – what would be the cost, including G&A? And how many quarters of losses is ICL willing to – you know, accept before considering perhaps walking away from the joint venture? Thank you.

Kobi Altman: The loss with G&A is $10 million. It is much less than the loss we experienced in the fourth quarter of 2016. Obviously, we are still not satisfied with even this lower level of loss. And we will continue to work on that. Many activities that we were doing started to bear fruit, and we expect to see further improvement in the results of the joint venture.

Today, the joint venture is still suffering from the relative high ratio of exposure to the commodity business, and our plan that we are executing diligently is to move as fast as we can into a better ratio of production of Specialty products in this joint venture that should improve significantly the results of this joint venture.

(Fahad): I'm sorry, if I could just squeeze one more in, what was it – I just want to make sure I got it right, the tax rate that you had mentioned for 2017, is that 30 percent is the effective tax rate we should be modeling?

Kobi Altman: Yes, effective tax rate that you should model with all this kind of unique things that was in the first quarter should be around 30 percent.

(Fahad): Great. Thank you.

Operator: Thank you very much. Once again, if you do wish to ask a question, please press star, one on your telephone and wait for your name to be taken. If you wish to cancel your request, please press the hash key.

And your next question comes from the line of Patrick Rafael. Please ask your question.

(Patrick Rafael): Good afternoon. Thank you. It's Patrick Rafael, UBS, three questions please, first on your organizational change with the Specialty Fertilizers, can you please confirm that you were referring to only topline or cross selling synergies and not cost synergies from moving that division?

Then you mentioned in the 6K report you continue to seek for long term supply agreements for bromine based flame retardants in your Specialty Solution segment. Can you talk a bit more about that? And then the last question regarding the U.K. outage, can you confirm that this did not have an impact on your shipments in this quarter, only on your operating income?

Thank you.

Asher Grinbaum: Asher speaking. The organization changes, referring to combining the Specialty Fertilizers with the Essential Minerals basically is creating for ICL an Agro business – we have found that the synergies that we needed in the Agro business is much more important than to keep these business units – let's say alone. It would also save us by the synergies, costs, because some of the activities are the same activities. And the customers are located more or less in the same location, although they are buying different products, so we believe that this synergy would also affect our cost basis.

About the bromine – long term bromine agreement, I didn't understand exactly the question, but we always prefer long term agreements in all areas, including the bromine. The impact of the U.K. technical problem that we faced, will not affect the results of the year. First of all, we supply potash from the other sources, and we believe that during the rest of the year, we should produce and we should sell according to our budget.

(Patrick Rafael): Thank you. And just coming back to the – to the Specialty Fertilizer, can you give us an indication for the cost synergies you see from combining the operations?

Asher Grinbaum: We don't have yet these numbers. We should be very glad to give you once we should have it.

(Patrick Rafael): OK. Thank you.

Operator: And once again, it is star one if you do wish to ask a question.

And we just have one further question from the line of (Kevin White). Please ask your question.

(Kevin White): Yes, hello. Thank you. I would like to ask you about the – your outlook for the year in terms of CapEx and what projects you will be directing it towards?

Asher Grinbaum: Charlie….

Charlie Weidhas: Hi, this is Charlie Weidhas. We anticipate spending in and about $500 – maybe a little north of $500 million and the projects are going towards a, what I would call the normal portfolio. EH&S, we have some growth projects and of course maintaining our assets. So, there's really nothing too unusual about our CapEx spending for 2017.

(Kevin White): All right. Thank you.

Operator: Thank you.

You have a follow up question from the line of (Andrew Benson). Please ask your question.

(Andrew Benson): Yes, thanks operator.

Just on the – on the potash and – the potash price outlook, can you talk about the estimated – the settlement will occur in the second quarter, referring to the Chinese contract, and obviously we're in the second quarter because that's six weeks to go, so I mean what insights could you share with us as to the stage of the conversations between the parties at the moment and how involved are you, given it's quite an important market for you?

Ofer Lifshitz: Hi, it's Ofer again, what we know about the negotiation going on in China right now is that Belarus, who actually lead this negotiation – were asking for an increase of $30compared to the prices of 2016. This is still in negotiation. As we said, we expect it would be at the end of second quarter, but we faced it last year that it was even further to the second quarter, so we're all waiting for this to end.

(Andrew Benson): Do you know what the Chinese have come back with, if the Russians are taking that rise?

Asher Grinbaum: Can you ask again, please?

(Andrew Benson): Do you know, the sort of the counterbid from the Chinese is – have you got any idea of that?

Asher Grinbaum: We don't know the counter offer. We believe it's – we believe it's to stay at the level of 2016, but we are just assuming we don't know.

(Andrew Benson): OK. All right. Thank you very much.

Operator: Thank you. We have no further questions at this time.

Dudi, please continue.

Dudi Musler: Thank you.

Ladies and gentlemen, that concludes our conference for today. Thank you all for participating. And you may now disconnect.

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