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ICL

Moderator: I work in the chemicals team based in Europe, in London. It's my great pleasure to introduce Mr. Charles Weidhas. He has been serving as ICL's COO since May 2016. Mr. Weidhas joined ICL in 2007 and served in various senior leadership positions, including President and COO of ICL's Industrial Products and President and COO of ICL's Performance Products. Mr. Weidhas holds a BS in Chemical Engineering and an MBA from Northeastern University in Boston.

And just a quick introduction on ICL for those of you who are not yet familiar with the Company. ICL is a diversified global fertilizers and specialty chemicals company. It is currently the largest producer of bromine and the sixth largest producer of potash; it is also a major player, as you will see, in flame retardants and specialty phosphates.

Charles, if you want to make a presentation [thank you], the stage is yours.

Charles: Good afternoon, everybody. After lunch on the last day competing with the beach is formidable competition for people's attention here. First, let me give you the details of Safe Harbor. I'm sure you know about all this.

But ICL at a glance, by the numbers. First, we're about \$5.5 billion in sales. Free cash flow is a little bit north of \$400 million. These are 2017 numbers. Market cap about \$5 billion and dividend yield of 3.3%. We are managerially structured the way the slide is. We have two operating divisions. On the left-hand side is our Essential Minerals or Plant Nutrition business. And on the right-hand side is our Specialty Solutions or Specialty Chemical business.

If you look at the lower left-hand pie chart, you'll see that about 54/55% of our sales are coming from plant nutrition. But the operating income it's the opposite, about 60% of our income is coming from our specialty chemical business. And of course, the primary reason here being the low prices in potash and in phosphates.

We have a very experienced management team at ICL and in fact, on Sunday we announced the nomination of our new CEO. His name is Raviv Zoller. He was selected to by our Executive Chairman and the Search Committee of the board. Raviv's background is not in our industry. He comes from the IT business, as well as the insurance business. But he has a strong track record of basically leading those companies to very impressive growth.

So ICL, what do we look like? It's a company where we believe in back integration and going forward into the value chain. On the left-hand side of the slide you'll see potash and Polysulphate or polyhalite. Phosphates and bromine – we have the assets in the ground that we mine to get these minerals. We sell those, of course, but we also use those as raw materials going downstream or upstream in the value chain. Or all the way over to the right-hand side which is our specialty chemical businesses. So back integration gives cost and having a good portfolio downstream gives value.

If you look at our strategic direction very simplistically, on the upper left-hand side, mineral assets. This is the potash and the phosphate and the Polysulphate. This is our business which is our large commodities and this is what requires for excellence here is operational excellence. We typically are a price taker. In potash, for example, we don't sit at the negotiation table in China and whatnot. We follow the prices there. And this is a business where we ship our products in ships and barges in very large quantities.

The red is our specialty business, which is very different. Here, this is a commercial excellence driven by business. We do tend to be the pricing leader here and instead of shipping barges and ships and whatnot, we're shipping 25 kilo bags to thousands of customers. And the bottom circle is just an area of focus for growth and that is in the specialty fertilizer space. This is a business, again, that is not shipped and whatnot, it's 25 kilo bags or liquid or adjuncts and whatnot going into the specialty chemical – I'm sorry, the specialty fertilizer space.

A little bit more about ICL. The Dead Sea, I call the Dead Sea the heart of our Company, it's the source of the majority of our potash, as well as all of our bromine. And the key advantage here is that it operates under evaporation ponds, which means the sun, which is free, provides the majority of the energy required to do the processing.

A second important factor here is that Israel is about the size of New Jersey, which means in order for us to get our products to the port, you have maybe a one or two-hour drive or train ride. And this gives us a very good cost advantage in terms of freight in our commodity business. So when you're looking at what a competitor's cost curves look like, what's really important isn't the FOB cost, it's the delivery cost to the customer. And because if you're in Canada you need to ship hundreds if not thousands of kilometers – same in Russia. So against many of our competitors, we have a \$10 or \$30 cost advantage per ton, simply because of our location close to the port and Israel's convenient location to ship from the Red Sea to Asia and through the Mediterranean to Europe and the Americas.

The Dead Sea also is the source of all of our bromine. And a couple of important points here. Number one is, we basically have an unlimited supply of bromine in the Dead Sea. And the second, it's really a byproduct of our production of potash. After the potash is taken out of the brine, the brine contains a very high level of bromine, of which we extracted. And the reason that's important – and I don't think you can read the little things on the bar chart there – the Dead Sea is the right-hand bar, which means it's the highest concentration of bromine in the raw materials. And why that's important is because the higher the concentration of bromine, the lower your costs. So from the Dead Sea we have the lowest cost bromine in the world and we also have basically an unlimited supply.

But ICL is more than just the Dead Sea. We have potash resources and polyhalite resources in Spain and in the UK and we have phosphate resources in the Negev Desert of Israel and also via our joint venture in China in the Yunnan Province with YPH.

What I'm going to do today is focus a little bit more on our specialty businesses rather than talking about, for example, potash. We have four specialty businesses and each one of them is operated by a person who runs, for example, the P&L. Specialty Fertilizers, Industrial Products, which is primarily our bromine business; Advanced Additives, which is phosphate based; and Food Specialties which is a combination of phosphates and protein. And the thing in common here is, again, it's this back integration from cost going down to the specialty portfolio which gives you the value. And here we're looking at growing our business, both organically, as well as bolt-on acquisitions. And what I'll do is for each one of those, I'll give you a very brief highlight one at a time.

The first is Specialty Fertilizers. Here, what I'm talking about is not potash or phosphate, it's talking more about controlled release or time release, via our Osmocote brand; water soluble phosphates that go into foliar or things of that nature; Custom MPKs depending on the crop that might be farming and servicing, and a lot of service from agronomists. So here is where the precision agriculture and whatnot is focused on. It's an area for high growth. It grows 8 to 10% per year, even though it's just a small sliver of the entire fertilizer marketplace.

Now in addition to this, I'm going to add our polyhalite business, what we call Polysulphate. In our UK mine for potash, we're going to actually phase out of potash production this year, to go down to zero, and convert that mine to 100% polyhalite. And polyhalite is basically a mineral that's 50% sulfur, about 14% potassium and the rest being magnesium and calcium. But it's a product that it's new to the market, so when you're selling it, you actually need to be selling it as if it's a specialty fertilizer. Because you just don't replace KCL or potash with this because you're talking about ratios of different minerals.

So for example, in 25 countries on 40 different types of crops and 300 trials, we have very steadily grown this business, from zero tonnes a few years back to 300,000 tonnes in 2017, with a target of going to one million tons in 2020 and going above that.

So another way to look at our specialty business is to say, if you added that into the number here, you would see we have the business close to \$1 billion in the specialty fertilizer space.

The next is our industrial products segment. This is the area that is bromine, primarily, but it also contains magnesium, calcium and organophosphorus compounds. Here we're selling into the industrial space for flame retardants or rubber additives or just a lot – for farm intermediates, a lot, a lot of different end applications. It's a very profitable business for us and it grows more or less with GDP in the countries that we do business. A lot of the consumption for electronics, for flame retardants, for example, is in Asia. And a lot of the consumption, for example, of pharma is in Europe, the US and in India. So it's a pretty global business for us.

This business is strategic to ICL. Again, bromine comes from the Dead Sea, and it's an area where we're investing quite a bit of R&D in order to develop the new applications and new products that are needed in the industry.

The next is our Advanced Additives business. This business is about \$900 million in sales. Its base, its backbone is purified phosphoric acid and purified phosphate salt going into dozens and dozens and dozens of end-market applications globally. We have a global footprint here with manufacturing in North America, South America, Israel and China and Europe. And in terms of growth here, because it goes into so many markets, a lot of these markets are mature in the West, but via our joint venture in China, China is a growth market for us where we invested in a – we basically bought 50% of a fertilizer business, a phosphate fertilizer business in China, but our intention was never to be a commodity phosphate fertilizer player. Our intention was always to go downstream into the purified acid and into phosphate salt. And that transition is starting now in 2018.

And the last is our Food Specialty business. This is a business that is a combination of phosphate salts, as well as milk protein. When I say food ingredients here, what I'm talking about are products that are used in the meat, poultry and seafood market, in bakery and dairy and in beverages. So it's either doing something like acting as a baking powder in baking applications, or it's adding proteins and minerals into beverages, or it's basically helping with the processing of things like yams and sausages and bacon, so things of that nature. It



has a good growth potential around the world. Again, we're focusing in China, just like I said in Advanced Additives with the YPH joint venture being the back integration part and adding new facilities to grow our specialty phosphate and food additives business in China.

When you take it altogether and look at the trend between 2014 and 2017, the bar just stacks the four specialty areas, or actually the three specialty areas, because the specialty fertilizers is out of this picture. You'll see there's been nice top-line growth and also nice bottom-line growth. All are candidates for bolt-on acquisitions and from the opinion of an investor point of view, we believe that when investors look at our ICL shares, they tend to under-value the specialty chemical aspects of our shares and tend to focus more on the potash stuff.

Very quickly, we divested a couple of our businesses over the last six months. We had targeted selling \$500 million, or getting closely to \$500 million dollars, by selling businesses that are away from our core minerals, in order to improve our balance sheet. And I guess I can say along the way, we ended up, at one point, \$1.2 billion. And the reason was because in the discussions, we found that we got full value for a couple of our businesses. One is phosphorus pentasulfide which is an oil additive intermediate product. And the second is, the business that fights the forest fires that you see, for example, in California. The red stuff that comes from the airplanes, that is the product of ICL. So we sold those two businesses for a billion dollars and we got really full value for it and took advantage of those transactions. And I'll talk in a little bit about so what are we going to do with greater than a billion dollars.

The reason it's 1.2 on the slide, by the way, is because a few months earlier we had sold our 50% joint venture in a desalination technology company for just under \$200 million.

I'm not going to spend too much time on this slide, other than to say focus on cash flow. And our company over the past two years has really focused there, especially because of the downturn in pricing and commodity. And I'll spend a couple of slides and a couple of minutes talking about some details here.

The first is, in our business, especially – not on the specialty chemical side, but on the side of our commodity phosphate and potash, is they're very capital intensive. And this graph starts in 2013 and ends in 2017, the dark blue, and this is the amount of CapEx that we've spending over the year. And so what you've seen is us being much more focused on when and if we will spend CapEx. The red line is our depreciation. So we haven't starved our sites for maintenance. What we have done is we have slowed down some of our investments, especially in some expansions we had planned previously in the potash space. The dotted bar is our

2018 forecast. It's not an exact number, but we anticipate that our capex will look more like 2016 or 2015 and it should look like that also in 2019.

Below is our free cash flow. And so the interesting thing about the slide to me is as the prices of potash and phosphate have gone down, our free cash flow has actually gone up. And that's because we're focused on things that we can control, such as CapEx, inventories, receivables, payables, all of the boring kind of stuff that is required in order to manage cash flow in any company. And the focus will continue.

But, what do we do with the cash? So this is the capital allocation slide. As a company, we have a dividend policy. The dividend policy is not cents per share, but we pay 50% of our adjusted net income after tax as a dividend payment. So the higher our net income, the higher the dividend and of course, vice versa.

The second is our debt level. Today we have an EBITDA to net debt ratio of about 3.5. We're BBB minus, we're still investment grade, but we prefer to be closer to 3. So a big chunk of the proceeds from these asset sales will go to sure up our balance sheet to give us a little bit more headroom. Because at some point in the future comes a recession or something where we will need the cash.

The third is investing in our businesses. So our commodity businesses, our focus is on cost. Operational excellence to improve the bottom line. So you won't see us doing a major acquisition or a major expansion of a million tonnes of potash or something like that. What you will see is cost reduction and incremental debottlenecking in our potash and phosphate line. Where you will see M&A is bolt-on M&A in the four specialty chemical business that I mentioned before.

So our goal is to maintain investment grade, to pay our dividend and to invest in the top line, and the bottom line.

And finally, our key takeaways. We are a diversified company, back integration to a value-added portfolio. The Dead Sea is the heart of our company. We're focused on the downstream activities in our specialties. And finally, we will maintain this viewpoint of managing our cash and prudent capital allocation.

And with that, I'll take questions.

Moderator: Thank you very much, Charles. Maybe we can start with a couple of questions from the floor, if they're all ready.

- Q: A couple quick questions. On the NPK side, what's the general capital cost for an NPK asset in your guy's fleet? Are these tens of millions of dollars investment or hundreds of millions of dollars investment?
- Charles: So first when we look at NPK, we're not looking at it from the commodities side. We tend to look at it from the specialty side. So here is that the incremental CapEx is pretty small. Because what we're doing is we have our own P, we have our own K and then we're buying in the nitrogen and we're doing blending. But we're not blending ships. Yeah, we're blending compounds.
- Q: Gotcha. And then second question was on the polyhalite or halite...
- Charles: Polysulphate is our brand name.
- Q: Sorry.
- Charles: Easier to say.
- Q: What crops are those going on for the 300,000 acres and the million acres, I'm sorry? For the million tonnes.
- Charles: Just about any crop that you can think of. So obviously the big ones, the wheat, corn, soybeans, but it's going to alfalfa, cocoa, asparagus. I think there was 25 plus types of crops that we're doing tests on. So it will end up in the end being a fertilizer used really in all applications. But, don't think about it as a replacement for potash, because you have the different minerals. And in fact, our tactic with this product is, we will sell some straights, but more and more we're going to do what we sometimes call a semi-specialty, which is you take the Polysulphate and you might put in some phosphate and you might put in some potash and then you're tailoring it for the end application.
- Q: Well, to some extent it sounds like MASZ. I mean the Mosaic guys did a terrific job getting a premium on their brand but it was just because of what's coming out of the reserves.
Last question and we talked about it on the panel just a little bit, but just given your guys location and the venture capital community and a lot of innovation occurring in Israel, do you guys do anything there to somewhat advance these strategies or initiatives? Or is it pretty much all in-house?
- Charles: So two answers to that. Number one is, Israel itself actually is a pretty dynamic agricultural country. And it's in a desert. So you have a built-in laboratory to do a lot of things. And it's where a lot of the – what do you call it – the drip irrigation technology was born there. And so we're surrounded by people who are in the

industry, but in a different space to then what we are. And in Israel, we have a specialty fertilizer business in Haifa. So we get to use our own facility and our customers there to do a lot of experimentation. But we also use outside resources. So for example, there is the Volcani Institute in Israel which does a lot of ag things and we do things with universities, actually around the world. So we're pretty active outside of Israel with what I will call the agronomy experts.

Q: Just a quick one on polyhalite. Do you have any thoughts on the impact, the Sirius Project will have on that market?

Charles: So today the entire market – because I think we have maybe all of the market share – is 300,000 tons. And we believe that it will grow to a million tons in 2020. The Sirius Project contemplates putting, I believe, 10 million tons, which is a lot. So I don't think – I don't know what year they're planning to start up, but let's say it's 2021. I don't think that there's a market of 10 million tons in 2021 to sell into. Because a farmer's demand, as you would expect, results based on trials, that they're not going to just take a risk by taking something out and putting something back in. And so I mentioned during my remarks that when you sell polyhalite or Polysulphate, the sale is actually much closer to a specialty fertilizer sale. But once you lock in on the formula or whatnot, then the actual shipments of the product can be more like a commodity, because you do end up potentially selling in ships in large quantities.

We believe that the market can get to probably 3 million tons, as you move out further. It just remains to be seen whether the market will accept 10 million tons, which is a lot. Now earlier today on a panel discussion, one of the fellows on the panel brought up a sulfur deficiency in soil, because of cleaner air around the world. And Polysulphate is 50% sulfur. So it could be that there is a pretty large application because of the sulfur content in the mineral itself.

But at least from our point of view, the quantity that Sirius is bringing on the market, it's not clear to us how that's going to get played. It doesn't mean it's not going to get played, it's just not clear to us.

Moderator: Any other questions? I'll kick off with one on my side. In relation to your market share on the commodity grade versus the more specialty grade of potash, how do you think about your strategy here?

Charles: So our capacity of potash is about plus or minus 5 million tonness. And the vast, vast majority of that is shipped as bulk potash going to the big-end users in India, China, Brazil, Europe and things of that nature. We do have a very small specialty – we don't even call it potash, it's specialty KCL business, where it's going into

nutrition and even some medical applications. But this is a tiny, tiny part of that business.

Moderator: Is that something that you would be looking to grow going forward?

Charles: Yes. Actually, it's almost not big enough to see on our slide, but we have a specialty nutritional mineral business that contains potassium, calcium and magnesium and these are minerals that we mine all at the Dead Sea, but we typically talk about bromine and potash. We don't talk about calcium and magnesium. But it is part of our business today.

Moderator: Understood. And in terms of the main growth areas that you're targeting over the next one to two years, could you describe those.

Charles: Yes. So here I'm talking about top-line growth. It would be bolt-on acquisitions in specialty fertilizers, or in any of our specialty businesses, and then organic growth on investments already made and a lot of that being in China. So I'm talking about growth greater than what a local GDP. So in China we made an investment in YPH, which is the back integrated phosphate business and you have much higher growth rates for our specialty phosphate products – food ingredients, industrial uses of phosphate, purified phosphoric acid and things of this nature. So China, and actually, Southeast Asia, is a target for this, and specialty fertilizers as well.

Moderator: And so on the China phosphate JV, in terms of the profitability, are you looking to increase it? What sort of levers can you resort to?

Charles: Yeah. So timing is everything. So when we made the investments in the joint venture, it's right when the phosphate markets collapsed. So on 100% basis – we have 50%, so everything I'm going to talk about is 100% basis on the joint venture – is a loss something like \$50 million in the first year. We focused the last year and a half on cost reduction, doing what I would call a Western-style restructuring into a plant that was state owned. Very difficult for a state owned to do a Western-style type of restructuring. We did it. Last year we lost \$10 million; we hope to be breakeven this year. But this is the year where we're making the incremental investments we need to go down to specialty – we need to build a couple plants in order to purify the phosphate to get it into specialty phosphates and then grow our specialty phosphate business, and specialty fertilizer.

Moderator: One question over there.

Q: Your rights to the Dead Sea, do those expire at any point?

Charles: Yeah. So there is what's called the Law of Concession that expires in 2030. And what the Concession Law basically says is, ICL has the sole right to the minerals from the Dead Sea. And it's about that thick, but to give you just a highlight, sometime between now and 2030, a decision needs to be made about do we keep the concession or does somebody else get the concession? So in the case of we keep the concession, it's a simple we just continue to operate. In the case that we lose the concession, it would be because somebody else bought it. But it's only the concession. In other words, it's the rights to the water. It's not the factory. So therefore, there's a requirement – and we have what is it, the last right of refusal or first right of refusal? We have the last look on matching the price.

But let's say that we decide that we don't want the concession anymore. The government, according to the law, is required to give us the value of the assets which are the factories and whatnot, as a cash payment. So that's technically how that law works. Our intention, of course, is to continue with the concession.

Q: What would that cash payment look like?

Charles: No, we don't know. Because at some point in time what I would call the professional government people or the bureaucrats, not the politicians, need to put together the mechanism on how they're going to do this deal of 2030. There was a Commission put in place last year. They're supposed to come out with a report sometime and that would be the first time that we see what is this mechanism going to be and then maybe we can start modeling what the economics look like. But it's something that happens in 2030, so not very many politicians are caring about 13 years in the future, or 12 years in the future. They're typically looking at the next six months or two years. Okay?

Moderator: One more from my side, if I may.

Charles: Of course.

Moderator: A quick one. In terms of the supply and demand balance for potash, obviously it's not always a – it can be a bumpy road. What are your levers to adjust to that? Is that something, for example, where you would be willing to stockpile some potash in the Dead Sea, waiting for more adequate time to sell?

Charles: So I'll answer the question coming from two directions. The first direction is at the Dead Sea. Most mines are underground mines for potash, which means you don't have any place to store the product when you mine it. And if you bring it up and it rains, it can really ruin your stockpile. In the case of us, when we don't – we don't mine it underground, we basically are evaporating water and getting potash. And we can actually store it outside at the Dead Sea because it doesn't

rain almost ever at the Dead Sea. So we have the ability to maintain production and we've used this tool very effectively over the past 10 years. So in 2008 when the demand just stopped, we continued to produce and basically built a mountain. And then when the markets opened up again, you ship from the mountain and you continue to produce.

I can tell you today we don't have a mountain because it's gone. And the second side, the second part of the answer, which is last year was a very strong year for potash shipments, and potash use. And from everything that we can tell, there's not a lot of potash sitting on the ground as inventory. So as we make it, we're shipping it. But one year doesn't make a trend. We really believe that the long-term growth rate for potash is about 2.5%. And if you take that number, multiply it by 65 million tonnes, you get about 1 or 2 million tonnes per year of new capacity you need coming into the market.

Now if you go back a couple years, people were really concerned about this new production coming online in Canada and in Russia. So what has happened is, the market does continue to grow, potash capacity is coming offline, so K+S has announced offline. We have announced offline. And there's a couple smaller ones, so there is at least 1 or 2 million tonnes maybe of capacity coming offline. And the market continues to grow. And this new capacity is a lot slower than people thought. The Eurochem was supposed to have already been ramped up and K+S or Bethune is also way behind their schedule.

And so when you take all of those dots and you line them up, what you see is, less likelihood of a supply glut and when you look at data points now, in Brazil we saw recently prices going up another \$10 per ton. So they're pushing the \$300 limit, or not limit, the \$300 price. And recently, I think it was Indonesia or Malaysia just closed a relatively sizeable shipment at \$275 or \$280. And that's well above the current contract price in China. So really, the next trigger, an important trigger for the market, is going to be what is the negotiated price for the next Chinese contract.

Moderator: I mean also with the over structuring measures that you undertook at the Dead Sea, how have you moved along with the cost curve? And is that something that allows you to take market share?

Charles: Well, first, we sell basically everything that we make. So we are not in a position to take someone else's market share because we don't have the excess capacity. So when I mentioned in my talk earlier is, when we're investing in the Dead Sea, there might be some small incremental things, another 50,000, 100,000 tonnes, which isn't very much, but we do focus on our cost per ton. And the Dead Sea is on the left-hand side, the good side of the cost curve, and we maintain to keep it

there. So really, regardless of any foreseeable potash marketplace, either better or worse, the Dead Sea will remain a very attractive potash production site for us in terms of generating cash and generating income.

Moderator: One question here.

Q: I realize you're not directly in the market because you're a specialty in China, but I was wondering if due to your participation there you had any insight on the Chinese phosphate market? I guess, specifically whether or not it's true that the environmental restrictions are impacting producer's ability to produce there.

Charles: Yeah. So we do produce phosphate and we mine phosphate ore in China, and we go downstream. But we don't produce DAP, we try to avoid the commodity phosphate. We do also have a large bromine business in China. The environmental impact coming from the government, in terms of enforcement, is real and we've started feeling that about a year and a half or two years ago on the bromine side, very strongly. Now the standards of our factories and our shipments are Western standards, so we really didn't need to do anything incrementally. But the enforcement officers were visiting a lot. And it made a lot of people nervous. And it did shut down a lot of capacity, either for the short term, just to put in pollution control or the long term because they just can't afford to do it.

On the phosphate side, on phosphorus, elemental phosphorus, you see the smaller sites actually closing and not opening up again. They are huge consumers of electricity and whatnot. But on the fertilizer side, there's been a lot of talk about restructuring the phosphate industry in China and have what's called a 5 plus 2 and a 6 plus 2 and other things like this. Our partner is a part of that and I guess I would characterize that until now as a lot of talk but not a whole lot of action that you can really feel. There's been this prediction that the phosphate exports will be reduced coming out of China, will be reduced, will be reduced. Now it's only March the 1st, so I don't know what the first quarter is going to look like. But so far we've been wrong in terms of phosphate exports coming out of China, which kind of wrecks the world's market price, because the Moroccans or whatnot fight back.

I think it's really just a matter of time, because there's no profits being made in the phosphate, DAP in China. There's no profit there. And they're state owned, but they're state owned I think from a provincial level. They're not state owned from a Beijing point of view. And I think that's maybe why it's taking a little bit longer. This is just my theory. I think that's why it's taking longer for some of these regulatory issues to have a bigger impact on these industries. They're all state owned, so you have the complication of employment there. But you see



industry after industry, even state owned, being restructured in China and so I think it's just a matter of time. So the talking is there, the action is a little bit late.

Moderator: Do we have any other questions? Well, with that...

Charles: Thank you very much.

Moderator: Please join me in thanking Charles Weidhas for being with us today.

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