ICL Presentation at
BMO 13th Annual Farm to Market Conference
May 17, 2018

Joel Jackson: Okay. Our next presentation is from Israeli Chemicals, obviously a large producer of potash, bromine, and specialty phosphates.

Here to give an update on the company is Kobi Altman, the CFO.

Kobi Altman: Good morning, everyone. Thanks for coming. After we'll continue with this very important slide, let's start with a quick overview of ICL, and then we'll dive into the various businesses.

So, you can see $5.4 billion company; $650 million was our operating profit; and $400 million of free cash flow we have generated last year.

We are organized under two divisions. One division looks after our agriculture business, and one division looks after our industrial businesses. And each of those divisions have various business units. We will go over it later on.

The split of sales is more or less even between agriculture and industrial.

And in terms of specialties versus commodities, in the commodities, as Joel just said, we are mainly playing in the potash commodity area. When commodities are weaker, the specialty takes the lion's share of our profit and provides for us the solid performance, underlying performance, and growth of the company. So, last year about two-thirds of our profits came from the specialty businesses, both on the industrial part as well as the specialty fertilizer, and about one-third came from the commodities. As the commodity now starts to ramp up, this mix can change, even in the near future, to around 50/50.

So, what do we do? We take three minerals – the potash, bromine, and phosphate – out of five sites where we mine those minerals. We have the Dead Sea for potash and bromine. We have Spain for potash. We have the U.K. for a specialty fertilizer specific mineral, polysulphate, that we are the only producer today that is producing and selling this product. It used to be a potash mine, and we are transforming it now to be a fully polysulphate mine. And we have two sites of phosphate rock: one in Israel and one in the southern part of China.

So, three main minerals: the potash, the bromine, and the phosphate. And coupled with our specialties and capabilities around building brands, creating pipeline through our R&D facilities, we go all the way into the two divisions and to two end markets: the agriculture and the industrial. So, this is the company, starting from the three main minerals and going into the downstream and into the more specialties and more sophisticated products in the agriculture and in the industrial.

Let's dive now into the various divisions. The first division is the essential mineral division. It looks after our agriculture businesses, as well as the production of our basic minerals. So, this division has currently basically two hats: one is taking care of the operations, the basic minerals into the basic products, and then in the agriculture go all the way until the end products that goes to this space. So, about $3 billion of sales, $359 million of profit, and about 53% of our sales. You have the mixture here between the various business units.

In terms of quantities – I think this is important because it's also part of our strategy – we have about five million tons of potash. This is the quantities that we like. We are not planning to grow in these quantities. As part of our strategy, we are targeting more the specialty businesses. We are not looking to enter into new minerals, and we are not looking to buy additional capacity or to have any greenfields. So, we are happy with our five million tons of potash.

More or less now that we are closing the U.K. and ramping up Spain, this amount might go down a little bit this year and next year, and in the future will go back to the five million tons, but we currently don't plan to expand that.

Phosphate fertilizer, there's 2.3 million tons that we are producing today. We are not a phosphate commodity strategic player. We are playing from time to time. We also sell some commodity products in the phosphate but just as a complementary to our specialty businesses. Most of our rock is channeled into our specialty businesses, both in the agriculture space as well as into the industrial and food businesses.

Polysulphate is the product that we are growing. We started about three years ago with close to zero, and we ramped up very nicely, into 300,000 last year. And we are targeting one million tons by 2020. This is a semi-specialty fertilizer and is the core of our semi-specialty businesses that I will elaborate on it shortly.

You can see here also the production and the amount of employees.

Spending a few minutes on our base sites of where we mine our minerals, we'll start with the Dead Sea. It's the hub for our potash and bromine. This hub has unique characteristics that are basically due to two factors. The first one is the production processes. We are using evaporation ponds to produce potash. This is the only place that this is the way to produce potash. And due to the energy profile of this – we are using the sun basically to help us in this process – we are able to be a very low cost producer in this site for potash.

In the bromine, we are the #1 bromine player. We produce out of the Dead Sea, and the Dead Sea is going to be the ultimate source of bromine on earth because of the concentration of bromine in the Dead Sea.

The second element that gives us a key advantage is the logistics channels. We are about 100 miles from the Ashdod Port and the Eilat Port, versus thousands or 1,500 miles from Canada and other places where there is a need to ship the product, and this land transportation gives us a very significant marketing and cost advantage. Also, shipping lines from Israel into Asia, India, China is very competitive.

In Spain, Spain is our second strategic site for potash. Today, we mine in Spain out of two mines, 500,000 tons every mine. And what we are doing now in Spain, we are closing one mine and we are ramping up the second mine, the largest one, which has more resources on the long term. We are ramping up this to be one million tons, with a significant reduction in the cost per ton. So, this site that under the current prices or the prices of summer 2016 was unable to be a profitable mine, once we will reach one million tons out of one mine – and this is planned to be around 2020 – this site will be very healthy, profitable, and a standalone site for the long term under any commodity market conditions.

The U.K. used to be a very old potash mine. Resources there have finished of the potash, and we are transforming this site into polysulphate. The next two months are going to be the last months where we produce potash in this mine, and this will become a fully standalone polysulphate mine.

Ramping up to one million tons by 2020 will enable us also to have here a very good site, profitable, with its own characteristics. Because unlike potash where there is a chemical intervention that we need to do above ground, in the polysulphate this is an organic mineral that we mine and ship. We don't need all the above-ground facilities that is needed for the potash. And as a result of that, this is going to be a very cost-competitive mineral production.

The two mines where we mine the phosphate rock, we have in Rotem and in the southern part of China, in Kunming, in a joint venture, and this rock is serving our specialty businesses already for many, many years in Israel, serving our also European specialty businesses. And we are now in a process of transforming also the Chinese site to be a specialty-only site.

The second division, the specialty solutions division, that looks after our industrial businesses: $2.4 billion of sales, $550 million of operating profit. And you'll see here the mixture between the various business units: Industrial Products business unit looks after the bromine and the bromine compounds value chain; Advanced Additives is industrial businesses and food additives; and Food Specialties. In terms of the sales, you see here the mixture and versus the amount of employees.

And our market position in all our segments of the industrial, we are very, very strong. Industrial Products, as I said already, #1 in the bromine and bromine compounds. We have the largest facility of bromine compounds on earth, and we are very strong there. We are #1 in clear brine fluids, and we are #1 in the flame retardants. Advanced Additives, we also have a #1 position in the acids that goes all the way into drinks and other industrial usages. And in the Food Specialties, a very segmented space, and we are also #1 in this space in the phosphate-based additive that goes into the food industry.

So, in terms of our strategy, we spent the last year taking a close look at the strategy, where we want to take the company forward and what are our core strengths, and we launched this strategy earlier this year. And the strategy is very simple. We are going to continue with the three main minerals. Again, we are not looking to expand to other minerals or to other sources of minerals. We are happy with the five sources, the sites where we produce those minerals.

We are going to focus our growth on the specialties. We will take those minerals – we will continue to work on the cost structure of those minerals in the U.K., in Spain, in the Dead Sea, and in China – and we will grow the specialty businesses. And the specific focus of growth will be in the agriculture space, the advanced crop nutrition, the most sophisticated agriculture where we are playing for many, many years already and we believe that we can take advantage of the global growth that we can experience in this space.

So, if we go into the specific areas of the strategy, first, we want to make sure that all of our sites are standing on their feet, they are profitable at any place of the commodity cycle. We are starting with operational excellence in the Dead Sea. This is our biggest site. U.K., the transformation into the polysulphate and the entire transformation of the site will significantly reduce the cost structure of this site. In Spain, the closure of the two mines, building a ramp that will take the ore all the way, using a belt, a conveyor belt, all the way from the underground place into the above-ground facility will significantly reduce our cost of operation there. And the joint venture in China, where we are restructuring this site from a commodity play where we bought it, and into a specialty site.

The overall targets that we put in front of ourselves and we want you to look at that and keep us honest with the way we are executing this plan. So, 10% to 15% further reduction to the cost per ton from the 2017 figures. After the last few years we have already reduced significantly our cost per ton. Over the next five years, we will continue to reduce the cost per ton.

The average of the company in the potash, five million tons is more or less going to be our capacity. Also you need to remember that today about 300,000 to 400,000 tons are going into our specialty business out of those five million tons. And as our specialty businesses will grow, they might consume even more potash. So, the potash that will go into the commodity play will be – today is about 4.5 million/4.7 million tons -it might reduce even further in the future as we grow our specialty businesses.

In the specialties areas, we want to take leverage of the various global trends and to continue to see those businesses that were growing very nicely over the last few years, they will continue to grow, leveraging those mega trends -so, at the end of that, where our targets for those industrial business is to outgrow the growth of the market. And in terms of the profitability, we always want to see that it is growing even further beyond the growth in the top line, as we have delivered in 2017 and in the great quarter that we had in the first quarter of 2018. We want to continue this trend to see it also in the future.

The advanced crop nutrition, I want to spend a few minutes on that, just because this is the specific focus of growth for us in the company. So, I'll start with the polysulphate. This is the backbone of our semi-specialty businesses. This is a unique product that has a very interesting combination of sulfur, calcium, and potash. Today, we are at 300,000 tons. We want to be at one million tons by the end of the decade, with a long-term potential to grow this even further.

This is the pipeline of the semi-specialties. The polysulphate is one product, but it's a key product in this pipeline, because we are mixing the polysulphate with additional ingredients, creating a larger variety of products that we can produce. We also augment this product family with additional products that are not related to polysulphate, creating a space that last year sold $100 million. We want to reach $400 million in five years. And we are tracking the progress of this pipeline, as you can see on this slide.

So, the overall strategic target for this segment is to grow from $100 million to $400 million. Q1 sales were $29 million, and we are in line with this growth.

Moving now to the specialty fertilizers - in the specialty fertilizers, we are a player for the last 25 years. We started this play in Israel, where we started this business. The proximity to the high-tech industry in Israel and the sophisticated agriculture enable us, together with the potash and the phosphate that we have in Israel, to build this business. And through the complementary acquisitions that we have done over the years, we are now with a business that is selling $700 million and is continuing to grow, using those specific areas.

So, our strategic target here is to grow, to continue to be the leader in this space. We are today already the #1 leader in this space, but we want to continue to grow this space that is also pretty diverse into a business that will sell over one billion dollars over the next five years.

So, what we are doing in terms of the specific scope and the specific strategy that we have outlined, you see here the industrial part of the company and the agriculture, and we want to combine those agriculture basic businesses that we already have, to augment them with some bolt-on acquisitions, with some additional ideas that we will bring into this more sophisticated agriculture. And we believe that the agriculture industry is going to be transformed over the next few years, and we want to take leverage on that in growing our specialty businesses.

Quickly, on the financial overview, we have just released the first quarter results a week ago, and you can see with all the greens there that we had a great start to 2018 after a good momentum that was built already in 2017.

Three main good and important strategic things happened in the first quarter. The first one, we launched the strategy that I just mentioned. At the end of March, we have completed the divestment of a one-billion-dollar business that we have divested and we announced about six months ago, and this is creating for us also the financial flexibility to execute the strategy. The last event I would mention is that the Nutrien stake in ICL was sold in January in a very successful over-the-counter sale, and we got strategic shareholders. And this removed the overhang on our share that started to build at the second part of 2017.

So, great quarter that we had and a good start for 2018.

This is demonstrating the strategic move that we have done with the divestment and all the work that we have done on cost cutting, on working our working capital, and the reduction on the CapEx. So, from a net debt-to-EBITDA of 3.1x in 2016, in Q1 '18, just over a year later, one billion dollars of less debt that we have, now, we have the 2.3x net debt-to-EBITDA, and this gives us the flexibility to execute our strategy to capture opportunities when they come and to move into a good growth also in the future.

So, the key takeaways: we are a diversified company integrated into key minerals with very unique specialty businesses that are getting for us the right balance between the commodity play and the specialties, so when the commodities part is lower we are benefiting from the specialty, balancing impact, and when the commodity is ramping up we are also having this kind of an advantage to take advantage and benefit from that, as well; low-cost sites that are very competitive; focus on the minerals, with a specific focus on the more sophisticated agriculture; and a very prudent capital allocation management that helps to keep our, I would say, good and strong balance sheet and the ability to capture opportunities as they come.

Thank you, and happy to take questions.

Joel Jackson: Great. We have time for a bunch of questions. Any questions in the room, first? Raise your hand.

Kobi, ICL wants to increase their exposure in specialty fertilizer and food additives M&A. What exactly do you think are your gaps and your holes? What do you really want to go out there and try to achieve?

Kobi Altman: So, in the specialty fertilizer area, we want to increase our portfolio. There are a few parts that we are still missing. As an example, NOP might be one of them. A few geographies where we believe that we can grow even further: the U.S., maybe South America. And the significant growth that we believe is expected in China is also something that we are looking. And we are using now the site in the southern part of China to have the infrastructure, with a future aim to grow also, the Chinese specialty fertilizer, we believe that China will grow more and more into the specialties. They will – the growth rate in the semi-specialties, they started to buy our polysulphate, as well. Semi-specialties and the more sophisticated specialties is an opportunity there, as well.

Joel Jackson: That's interesting, because the YPH JV hasn't gone as good as expected for ICL. It's starting to pick up a little bit, but it's been a tough first few years. And you're talking about maybe going back into China to look at more investments. So, maybe talk about that. Have you learned some lessons from the first investment that maybe would lead to more success initially at another Chinese investment?

Kobi Altman: We are not looking to invest significantly into China. We probably will not do acquisitions in China. We want to grow it organically with a very small amount of spending there. So, for example, we might expand into white phosphoric acid capabilities in China, but we are talking here about something that is around $50 million. Our part will be 50%. So, we are talking about very, very small investments in this space. We are not going to invest significantly in China.

Joel Jackson: What needs to be done to really turn around the JV in China? You're going to be focusing more on specialty phosphates, moving away from commodities, a little more investment there. Maybe talk about how quickly it can be made profitable sustainably.

Kobi Altman: So, the joint venture in China, we got into an existing site that used to produce 100% of commodities, and we started this joint venture at the end of 2015. Since then, prices in phosphate commodities went down significantly. And as a result of that, this operation went into significant losses, and dozens of millions of dollars this operation lost in 2016.

At the beginning of 2017, we decided to change completely the way we operate this joint venture. We moved out from selling commodities into the open market. Today, we are producing commodities only for our partner based on what they need and in an agreed price that we fix at the beginning of each quarter. And we are building now the specialty capabilities and the infrastructure that we need.

As a result of this transformation, in the last three quarters of 2017 this joint venture was more or less balanced, as well as in the first quarter of 2018. But this is not enough from our perspective. We want to complete this transformation, and this site starting next year should start to bear and to be a profitable site. Still, this is not where we want it to be. We want this to be a much more profitable joint venture, but this will need to wait until we will be able to enlarge a little bit the capacity in the specialties in order to absorb the cost of this site.

Joel Jackson: Are there any more costs you can take out of the Dead Sea operation?

Kobi Altman: Yes, we are working all the time on that, and we have done significant operational excellence activities over the last few years. During the next few years, there will be some additional costs that will come from the harvesting project. And as a result of that, our main efforts over the next, I would say, three to four years will be to make sure that the cost per ton is not going up in this site.

The overall mixture and the overall commitment that we have to reduce the cost per ton in our entire potash operation between 10% to 15% is mainly as a result of what we are doing in the U.K. and in Spain. In the Dead Sea, it's going to remain a little bit more flat because of the increased costs on the salt harvesting.

Joel Jackson: As you ramp up the polysulphate business over the coming years in the U.K., what do you have to do to make that business profitable? You're trying to build demand. It's losing money a little bit now. You're hoping with more scale and convincing more customers to buy. Is it changing the product, physical product you're selling? Is it targeting different customers? What has to happen to make it profitable?

Kobi Altman: So, to have that as a profitable business we need to reach one million tons of polysulphate. Already today, the granular part, we are selling as much as we are able to produce. So, we need to continue to ramp up the production of that granular part.

On the fine products, this is going to be sold somewhat also as a standalone fine product, but the majority of that will go into the combination, the pipeline that I showed on the semi-specialties, the combination with the potash, creating the potash-plus products, going into our coated fertilizer in our more specialty fertilizer businesses. So, this is where this fine product will go.

And once we will reach one million tons, we will have a solid, nice – it's not going to be – we don't believe that this will ever be a huge product, but this is going to be a solid niche product that will go into the specific crops organic fertilizer. So, it's important for the organic space, that is growing nicely. But again, it's not going to be huge. I know that others might think that the potential of these products can be 10 million, 15 million tons. We don't believe that.

Joel Jackson: Okay. Any other questions from the room?

Thanks, Kobi.

Kobi Altman: Thank you.