

ICL Q1 2018 Conference Call

10 May 2018

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. If you experience any technical difficulties please press star zero on your telephone.

I'd like to hand the call over to the first speaker today, Ms. Limor Gruber, Head of IR. Please go ahead.

Limor Gruber: Thank you. Hello, everyone, welcome and thank you for joining us today to our first quarter 2018 conference call. The event is being webcast live on our website at ww.icl-group.com. Earlier today, we filed our reports to the securities authorities and the stock exchanges in the U.S. and Israel.

The reports as well as the press release are available on our website. There will be a replay for the webcast available a few hours after the meeting and a transcript will be available within a few days. The presentation that will be reviewed today was also filed to the securities authorities and is available on our website. Please don't forget to review the disclaimer on Slide #2.

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 the presentation by our acting CEO, Asher Grinbaum, followed by Kobi Altman, our CFO. Following the presentation, we will open the line for the Q&A session. Asher, please.

Asher Grinbaum: Thank you, Limor. Good afternoon or good morning to all of you joining this call today.

Let's begin on slide 3, 2018 started with a strong momentum, continuing the improvement trend we demonstrated in 2017. The main drivers were higher prices across all of our business lines, with the highest contribution coming from potash and the bromine value chain. In addition, we benefitted from higher potash production and sales volumes as well as from the growth of our specialty agriculture business.

Another notable achievement this quarter is the closing of the sale of our Fire Safety and Oil Additives businesses. The net proceeds, in the amount of \$931 million, reduced our net debt. This provides us with the necessary financial flexibility for our strategic infrastructure investments and for our growth plans as outlined in the strategy we launched a couple of months ago.

Another major event in the quarter was the sale of the shares held by Nutrien to Israeli and foreign institutional investors. The fast and smooth process, with a relatively small discount, is a vote of confidence in ICL by the capital markets.

Let's go over the performance of our business lines on slide 4.

Industrial Products continues to demonstrate the strong operating margin level achieved last year, much of it following the value-oriented pricing approach the business line adopted since 2015, and despite a significant reduction in the sales of clear brine fluids.

Prices also contributed to the strong performance of Advanced Additives, which also benefitted from demand from new customers and higher market share for our YPH JV in China.

Our Food Specialty business benefitted from a recovery in the sales volumes of dairy proteins, as well as from higher pricing in Food Phosphates which compensated for higher raw material costs.

Improved conditions in the potash market, which drove higher prices for potash as well as for polysulphate, together with an increase of about 10% in sales and production volumes, were the main contributors to the growth in our Essential Minerals segment.

Specialty Fertilizers, a key driver of our strategic efforts, increased profit by 25%, to a record level for a first quarter. Growth was driven by higher prices, volumes and favorable exchange rates.

A few months ago, during the Q4 2017 presentation, I listed some of the challenging goals we have set for 2018. As you can see on slide 5, we are on track to meet our ambitious goals for the year.

The completion of the business divestments, allowed us to both reduce our net debt to EBITDA ratio, thus securing our investment grade rating, and to secure funds for potential future growth, whether it is through bolt-on M&A, joint ventures, collaborations or investing in organic growth. Our operational excellence, cost cutting and efficiency measures have successfully resulted in positive operating margins for ICL Iberia and YPH JV. Our focus on Specialty Agriculture is already bearing fruits with Specialty Fertilizers business line hitting a record first quarter profit. We continued to grow our Specialty businesses, with ALL three business lines performing favorably in the top and bottom lines and we are on track to complete the transition of our potash mine in the UK into a pure polysulphate site, with a significant reduction of the loss this quarter.

2017 was mostly about stabilizing the Company and thinking about the strategic directions we want to set. All the measures that we have taken and outlined on slide #6, have provided us with a solid base to design our strategy, which we have started to implement. Our strategy is focused on enhancing ICL's mineral chains alongside accelerated growth in advanced crop nutrition solutions. We will continue to focus on innovation, strengthening and leveraging on our R&D capabilities and will look to invest in new technologies and Ag-related start-ups.

I will leave you now with slide #7, which summarizes the quantified targets we have set in our strategy. I have full confidence in ICL's future. Our excellent management team, led by Mr. Jochanan Locker, our Executive Chairman of the Board, and ICL's incoming CEO, Mr. Raviv Zoller, and our dedicated employees, will work hard to achieve these targets and even exceed them.

As I hand over the management of the Company in the coming days, allow me to take the opportunity to express how proud I am of ICL's many accomplishments, despite market and other challenges, during the past two years in which I have served as Acting CEO. I am deeply grateful for having had the opportunity to serve the Company for 45 years in a variety of roles and to have worked with ICL's talented and dedicated management team and employees in Israel and throughout the world. They are the strength of this Company, and I am confident that under Mr. Zoller's leadership, ICL will continue to grow and flourish.

Thank you all, and with that I will hand it over to Kobi to discuss the financials.

Kobi Altman: Thank you Asher and good day everyone. Beyond the excellent results, Q1 2018 was characterized by 3 major events which will have a long term impact. The first one is the launch of our strategy which Asher just described. This is our path to ensure ICL's growth and sustainability. The second was the completion of the divestment of low-synergy assets which significantly reduced our net debt and provided us with the resources to implement our plans, and finally, a removal of a serious overhang from our share with the successful sale of the full Nutrien holding.

I will begin with our financial results on slide 9. We opened 2018 with a strong first quarter, with overall sales up by 8% and gross profit, adjusted operating income and adjusted net income up by 20%, 30% and 56%, respectively. Our potash, specialty fertilizers and specialty phosphates contributed to the growth. Significant price contribution from all business lines, but mainly from the potash and bromine value chains, surpassed the negative impact from increased costs of marine transportation, energy, and Sulfur, as well as exchange rate impacts mainly due to the strengthening of the Israeli shekel against the dollar. Despite the negative effect lower sales quantities had on our sales, this was reversed in the operating income due to improved mix, mainly as a result of:

1. Better site mix in potash
2. Lower commodity phosphate fertilizers sales as we exited losing activities in our Chinese JV and continued the shift to specialty, and
3. Lower commodity phosphate fertilizers sales due to the prolonged winter in Europe.

As we already disclosed, the sale of our fire safety and oil additives, was completed at the end of the quarter and we recorded an \$841m capital gain.

As we told you last quarter, the negative free cash flow in the quarter derived mainly from increase in our working capital due to seasonal effect and from the growth in our businesses. I will elaborate on that shortly.

Turning to slide 10, here you can see the increased contribution of each business line to adjusted operating income for the quarter compared to Q1 2017. This is the first time we are providing a breakdown of the business lines profit and additional data on a quarterly level, previously this was only provided in our annual reporting. We believe this will give you a better understanding of our individual business lines and will help you to better evaluate ICL and analyze our results during the year.

As you can see, all business lines, except phosphate commodities contributed to the positive results of the first quarter. The phosphate commodities benefitted from insurance payments of \$10 million last year. The operational improvement this year mainly comes from the YPH JV in China. In Q2 we are entering into a

maintenance period in Rotem and in YPH, which will negatively impact results compared to this quarter. The review of our phosphate business should take into account the full chain, and here you can see the major contribution from the downstream part of the chain. Advanced Additives had a solid quarter with volume and price growth in our continuing core phosphate specialty businesses, and despite slightly lower profit from the businesses we divested at the end of the quarter.

The food specialties business has recovered towards its 2016 levels after a difficult year in 2017 in our dairy protein sales which suffered from destocking activity of a customer. In Q1 2018 we benefitted from the return of this customer to healthy purchases and from the customer diversification measures we implemented during 2017. Specialty Fertilizers had its best first quarter in profit ever benefitting from strong growth in Europe, North America and Asia-Pacific, higher prices and the strengthening of the main transaction currencies against the dollar. Finally, Industrial Products continued its strong and stable performance, maintaining its 25% margin level. The increase in G&A expenses is mainly due to timing of expenses and should not affect the annual trend.

The main reason for the negative free cash flow in the quarter was, as you can see on slide 11, the increase in working capital. The main reason is the growth in our business activities. In addition, the first quarter is usually characterized by a seasonal increase in inventories in preparation for the main season, especially in the fire safety business which was sold towards the end of the quarter, only after we replenished inventories. It is responsible for a \$30 million of the increase. The main increase in working capital was in trade receivables due to higher sales. Nevertheless, cash flow generation will continue to be a priority for the Company, and we expect it to return to positive in Q2 and continue to be positive for the remainder of the year, although at a lower level than 2017.

On slide 12, we are presenting ICL's overall effective tax rate. Compared to 2017, the decrease in normalized tax rate from 26% to 23% derived mainly from the tax reform in the US and the reduction in the Israeli corporate tax rate. Improved performance of ICL UK and the YPH JV in China, which generate losses that are not recorded for tax purposes, further reduced our effective tax rate.

On Slide 13 you can see how the Specialty Solutions division's sales and operating income has increased compared with Q1 2017.

We are starting to reap the rewards from our value-oriented pricing approach with an average price increase of 4% across the segment, which resulted in an improvement of 60 basis points in the segment profit margins towards a 20% level, despite a slight decrease in the margins of the businesses we divested at the end of the quarter, as you can see from the chart. \$15 million from the price contribution is attributed to Industrial Products and \$10 million to Advanced

Additives and Food Specialties, as in both businesses we have just recently started to implement our pricing approach. You can see that the price initiatives more than compensated for the increase in raw material and energy costs.

The divested businesses, and mainly the fire safety business, are very seasonal and most of the profit is in the summer months. So please bear in mind that most of their contribution to the segment profit in 2017 in the amount of \$127 million, was generated in the second and third quarters.

As shown on slide 14, in our Essential Minerals segment we benefitted from higher prices across all three business lines. Average potash FOB price increased by 13% while prices of our phosphate commodities, except for phosphate rock, increased by a double digit rate. Higher prices more than offset the increase in raw materials, transportation and energy costs. The increase in raw materials costs is mainly due to higher sulphur costs as well as the increase in commodity fertilizers prices which are used as raw materials for our specialty business. We expect a negative impact of sulphur costs in the second quarter as well and a reversal of the trend in the second half of the year. Volumes were up by 10% in potash but were down in phosphate commodities as we exited losing activities in our Chinese JV, due to the prolonged winter in Europe and due to unattractive phosphate rock prices. Sales volumes had a positive contribution to profit due to improved site mix in potash and lower sales of unprofitable phosphate commodity products, mainly in China. The positive contribution of exchange rates on sales turned negative in the operating profit as the revaluation of the shekel and euro against the dollar increased costs in dollar terms. In our potash stand-alone business, the reduction in costs due to improved production and sales volumes in Spain and Israel and the efficiency measures in the UK, were offset by an increase in transportation, energy and the strengthening of the shekel and euro against the dollar. For the year, we expect that our potash sales volumes will be close to the sales level of 2017, as long as we will meet our production targets, since we don't have a lot of excess inventory. I should remind you that out of our total production we also have to serve the internal needs of other ICL business lines, in a total amount of 300 to 400 thousand tonnes.

Turning to slide 15, our successful divestment has resulted in a significant reduction in our net debt levels, with a current net debt to EBITDA ratio of 2.3, based on the net debt calculation in our reports and last 12 months EBITDA, excluding the divested businesses. We will continue to be committed to a responsible capital allocation approach driving growth, managing debt levels and providing solid returns to our shareholders. This quarter we announced a dividend of 4 cents per share.

And finally, on slide 16, in the last couple of years, ICL has proven its ability to generate solid free cash flow due to a very strict capital management, reducing CapEx, expenses and working capital. Looking forward, we intend to continue with the same capital management approach. The cash flow generation from our

on-going operation will enable us to fund even the strategic infrastructure projects we are currently executing, designed to ensure the continuation of the low-cost potash production in the Dead Sea and to significantly reduce cost per tonne in Spain.

As we reduced significantly our debt ratios, we have the financial flexibility to capture growth opportunities while ensuring the competitiveness of our mineral assets. In the coming couple of years, we expect free cashflow, to be lower as we fund our strategic capex projects, yet we still expect annual free cash flow to be positive.

Before we will move to the Q&A session, I would like to summarize the key highlights for this quarter, as presented on slide 17.

Our robust performance this quarter was mainly driven by improved market conditions and our commercial excellence efforts, including our value oriented pricing approach. It should be noted that we expect additional increase in raw material costs in our specialty businesses in Q2, which may negatively impact the quarter. In Industrial Products, we still expect lower sales of clear brine fluids and finally, I should remind you again that we will not have the contribution from the fire safety and oil additives businesses which were divested.

The improvement in our financials together with the divestments resulted in a reduction in net debt and improved debt ratios. And therefore during the quarter Fitch Ratings affirmed our international corporate credit rating at BBB- with a stable outlook.

We have a clear strategic path which we presented to you earlier this year and we will continue to focus on the execution of our growth and efficiency plans.

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

Operator: Thank you. We will now begin the question-and-answer session. If you wish to ask a question please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press the hash key. Once again that's star one if you wish to ask a question.

Your first question comes from the line of Joel Jackson of BMO Capital Markets. Please ask your question.

Fahad Tariq: This is Fahad on for Joel, thanks for taking my question. My first question is on bromine. You mentioned in your release that some of your customers are facing raw material shortages and production constraints. Interestingly, one of

your competitors also mentioned similar raw material shortages, can you give more color on what specific raw materials are being constrained?

Asher Grinbaum: Eli Glazer, the Specialty Solutions division manager will answer this question.

Eli Glazer: Can you repeat the question, please?

Fahad Tariq: Sure. So in your release you mentioned in bromine, under Industrial Products that some of your customers are facing raw material shortages and production constraints. Can you give more color on what specific raw materials are being constrained?

Eli Glazer: On caustic soda, NaOH in the market due to high demand and this was affecting some customers for their production. Therefore you've seen also in worldwide market costs goes up more and more in these products. In reality, from our perspective, it didn't affect us so much since you've seen our results.

We could fulfill our forecast, except some business in the clear brine, which was a different reason why we were selling less due to some reduction of one of our customers, which was losing some contracts in some areas. But all in all, this was the issue.

Fahad Tariq: OK. That's helpful. My next question, you signed 1-year agreements for bromine and bromine derivatives at higher prices. What kind of higher prices are we talking about? Is it mid-single-digit, high single digit? Any color on that would be very helpful.

Eli Glazer: If you look year-on-year, I would say, it's a double-digit difference.

Fahad Tariq: Like -- sorry -- like high double-digit? I'm just trying to get order of magnitude 10 percent, 20 percent?

Eli Glazer: It's double-digit.

Fahad Tariq: OK. Thanks. Just switching away from bromine to potash. Can you talk a bit more about higher potash cost in the quarter? It sounds like it was a mix of

higher transportation costs, but also FX. How should we think about cost through the rest of the year for potash?

Ofer Lifshitz: Hi, this is Ofer Lifshitz, I am the Essential Minerals Division President. What we saw in the first quarter regarding potash in prices is that the demand in the first quarter continued to be high as of last year. The additional material supposed to come from Canada and Russia didn't yet arrive in the market and it should present in the prices, mainly of course in the spot markets, like Brazil, United States and Europe, in which the prices went up.

Of course, in China and India, we're under the current contracts. Now if I refer to the total costs of the product, so we saw increase in the transportation, relatively big increase in the transportation with, of course, influenced this increase in the cost and was part of it. And this increase also, we saw it last last year, so it's continued also this year.

So overall, the price -- the increase in the price cover the increase of the transportation cost, mainly the transportation cost. So we see this price.

Kobi Altman: Joel, this is Kobi. I just want to add one more thing to give some more color on what Ofer just explained. Some of our -- or actually a large portion of our transportation costs are fixed expenses. All the facilities we have in the ports. And as a result of that, it is really influencing our cost per (ton), the amounts that we're selling.

So usually in the first quarter, when we sell less than the other end of the year, we see a higher cost per (ton). But then it is being changed in the second part of the year, as we start to shift the quantity mainly to the Asian markets and then you can expect to see a reduction in the average cost per tonne.

Again it's just a mix of fixed expenses that are allocated to different amount of quantities.

Fahad Tariq: Great. And my final question, you mentioned an operational breakdown at the U.K. potash mine. Can you talk a bit more about what the impact would be

on volumes and cost and transition to polysulphate? What's the fix to the problem? And what's the impact?

Ofer Lifshitz: As we already mentioned, we're going to stop the production of the potash in the U.K. during the midyear, end of June. Our intention is to produce this year the level of between between 170 -- around (170,000 to 180,000) metric (tons). And once we stop the production of the potash, we will, of course, increase the production of the polysulphate.

So total targets for the year are around the production of around the 500,000 and this is compared to the level of about 300,000 that we produced last year.

Operator: The next question comes from the line of Patrick Rafaisz from UBS. Please ask your question.

Patrick Rafaisz: Thank you and good afternoon. Three questions please. The first one will be on the maintenance shutdowns you mentioned for Rotem and YPH, can you give us quantitative guidance here? And then 2 questions on Specialty Solutions- first, the clear brine fluids - would you say that had an impact on the margins from a mix perspective having lower sales of clear brine fluids in the mix? And the second Specialty solution question is on the Food Specialty, where you had a very strong quarter now with customer returning and is that also restocking one of the impacts? Or would you say that there would be a new run rate going forward?

Ofer Lifshitz: I will start with the maintenance. The maintenance in Rotem and in China- this is routine maintenance that we're doing in our plants. So nothing special in this regard.

Eli Glazer: Related to specialties, the clear brines -all in all, it's interruption which we're supplying to one of our customers which had some -- actually lost a contract and need to move to another most probably suppliers. But at the end of the day, we're recovering some of the business in other areas and in other places in the world, geographically, than it's not a significant change. Although, you see that we're mentioning that the clear brines have an impact on our business

on that part. But as I said, it's not significant and we're getting it in other areas and other products.

Related to your question about the Food Specialties -just to remind you, when we reported at that time about destocking and so on, the main problem was at that time the new regulations in China, which were imposed by the Chinese government about the proteins, in the quotas. And this was changed and the quotas are in place and we got the quotas and we return to the market. And the market is now running back normal.

On the same time, we diversified our number of customers in order to create less dependency on one customer. Therefore, it gives us more stability. Then all in all, our business now, as it's reported, back in normal.

Operator: The next question comes from the line of Tom Wrigglesworth of Citi.

Charlie: This is Charlie on for Tom. You mentioned briefly that the cold winter in Northern hemisphere. I was just wondering if you saw any negative impact on volumes in the first quarter because of that? And if you could give any kind of sense of whether you think that might impact overall volumes for all of the fertilizer products in 2018?

Ofer Lifshitz: This is Ofer, again. Yes, we saw the impact of the weather in the first quarter, mainly in Europe and mainly on our, I would say, semi-specialties and the phosphate commodities. But we don't see a major impact -- even not a major, we don't see actually an impact. And we would be able to recover those quantities in the second quarter and other quarters. And so it influenced the first quarter, but no special impact.

Operator: Once again if you would wish to ask a question please press star one on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press the hash key.

Your next question comes from Roni Biron from Excellence.

Roni Biron: Hi everyone. Most of my questions have been answered, maybe just on CapEx. You mentioned strategic CapEx of \$150 million to \$200 million, any color on what kind of run rate should we expect for the overall CapEx in 2018 and then onwards?

Kobi Altman: Hi, Roni, this is Kobi. I will take it. We said that those strategic CapEx projects, and again just to remind all of you we're talking about the pumping station in the Dead Sea, the harvesting project, also in the Dead Sea. We're talking about our large project in Spain that comes to reduce significantly the cost per (ton) there and make sure that it will be a long-term competitive site and much lower scale of the transformation of the U.K. into a full polysulphate sites. All those strategic projects, we're going to spend the money more or less over the next 2 to 3 years.

And so this gives us -- if our depreciation level is about \$400 million and this should characterize more or less what we need to maintain our CapEx -- ongoing CapEx needs, the regular activities of the site, so you can see that this means that we will see the increase to the levels of, more or less, \$650 million to \$700 million -- sorry, \$600 million to \$650 million in the next 2 to 3 years, which is more or less the level of spending that we had in 2015 and 2016.

Just also an opportunity for me to mention that the S&P just, I think, over an hour ago, issued a report on ICL following the divestments, when they reaffirmed our rating of BBB - with a stable outlook. There they also talk about their assumptions around our CapEx.

And the overall view of also the divestments that has reduced significantly our debt and it's kind of a triggering event also for us to look at our debt overall structure and may be thinking, if we can find ways to optimize the structure of our debt level.

Roni Biron: And just following up on the potash profitability. How do you see this evolving over the year? Should we expect improved margin in the next coming quarters?

Ofer Lifshitz: If you're talking about the margins of the potash, we expect, let's say, in the second half of the year, the price level at the market will be more or less the same as it is today. Although, in the past -- the second half was supposed to be lower than what is now. But at least this is a situation that we see for the -- till the end of 2018. We're working, of course, on our cost all the time and more or less as we see the next 2 quarters -- the next 3 quarters will be more or less the same as it is in the first one.

Operator: We have no further questions at this time. Please continue.

Limor Gruber: Thank you, everyone. Thank you for joining us again this quarter. We will be happy to take any follow-ups, if you need. And hope to be in touch. Goodbye.

Operator: That concludes the conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.

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