



ICL – Credit Suisse 31st Annual Basic Materials Conference

September 13, 2018

1:00 PM EDT

Chris Parkinson: We have Mr. Kobi Altman, the CFO. Kobi has been the CFO for some time and I'm sure is very eager to update us on specialty fertilizers, potash and phosphates, as well as bromine. And with that, I'll turn it over to the presentation and then we'll do some Q&A.

Kobi Altman: Thank you, Chris, and good afternoon, everyone. Thanks for coming. So I'll go for a quick introduction of ICL. Many important and exciting things are happening in the company right now. And we also try to reflect some changes in this new presentation. We have this presentation also in our website so you can follow that.

Okay. So ICL at a glance. We are just over \$5 billion of sales. 49 plants. We probably need to find one more to build or to buy somewhere so we can round the number... Around 11,000 employees. And we are among the top-three supplier in most of our businesses. And since we are exposed to commodity, for us, this is something that is very important because if we want to be exposed to commodities, we need to make sure that we have a competitive asset base, and this is something that strategically is very, very important for us. We want to continue to be exposed to commodities. So to be in the top three in every area that we are competing in is something that, for us, has a strategic importance.

Around \$7 billion market cap. We are offering to our investors a nice dividend yield, over 3% for quite some time, and this is among the highest in our industry. We have an Investment-grade rating by two investment rating agencies. And we are the number two, second largest Israeli exporter.

Global presence, you can see here where our plants and sales offices and where are we selling. So you can see that most of our sales, more than 30% are in Europe. This is our main hub. 22% here in the U.S. As a single country, we are selling the most into the U.S. Asia, mainly China and India, is about 25%. And the rest are relatively small. The growing part goes to our Latin America, mainly on the fertilizers part.

DNA of leadership, I started to talk about our being the number-three, at least among the top three in each area that we are working in. We are the number-one global leader in bromine. This is our main asset today and this is also the business that contributed the highest profit in ICL over the last 2 years. Now as potash is coming back, it might be a close competition. Number one in specialty phosphates, and I will elaborate on our phosphate value chain in a minute as well as our strategic aim and targets to the specialties there, not as a commodity business. Flame retardant phosphorous space is also

number one, not only in the bromine. So the flame retardant franchise of ICL is something that is important. And I already mentioned number-one in Europe, in the Western Europe. Here we just put the PK fertilizer and the specialty fertilizer and the soluble phosphate-based fertilizers.

So where we are today and where we want to go. I'll start with the way we are structured. And we recently structured the company in four divisions. Our new CEO has done that recently. And the figures that we gave you are for the first six months of 2018. In the appendix to this presentation you can find over three years historical comparison of the four divisions by quarter so that you can realign your models accordingly. But in general, three main minerals, the bromine, the potash, the phosphate and in addition the innovative Ag solutions. This is currently the smallest leg in ICL, but I will elaborate on that further as we believe that this can be a significant growth engine for the company.

In terms of sales, you see here the figures. The largest mineral chain of ICL is the phosphate one. We sold over \$1 billion over the first six months of 2018. Bromine, \$650 million. This is currently delivering the highest profit margins and you see very nice growth year-over-year from those two segments. Potash is the third mineral and that's around \$700 million sales in the potash area. Usually, the second half of the year is stronger than the first half of the year so we believe that we will see even better results in the second part of the year in our potash franchise and very, very nice growth year-over-year. Finally, in the innovate Ag solutions, we had over \$400 million in sales in the first half of the year. Usually, the second part of the year is weaker because of the seasonality of this business, but also here, very nice growth year-over-year.

Moving to our strategic advantage in a high level, in the company level, before we dive into the divisions. We have unique assets based in Israel, in the Dead Sea area. We have phosphate mines in China, in the southern part of China. And the potash mine that we have in Spain. And the polysulphate mine that we have in the U.K., northern part of U.K. So we have unique assets that are helping us to be in our leadership situation.

The strategic location of Israel and Spain is very, very important for us. In Israel, it's a very good location for shipping into the Asian region as well as into Europe. And our location in Spain, next to the Port of Barcelona, is also a good location to ship into the rest of Europe as well as to the Americas market, South America and North America.

A lot of know-how, unique know-how that we have developed over the years. 25 years we are playing already in specialty fertilizer. Significant know-how around the bromine franchise. We have the largest facility of bromine compound. That is located in the southern part of Israel. And this significant know-how is also a significant advantage for us. But also the proximity to the Israeli specialty agriculture area as well as the high-tech startup nation, the high-tech industry in Israel gives us a unique position to benefit from the combination of technology and advanced agriculture.

So going into from the present into the future, and I will go one by one over our divisions and elaborate a little bit of what are we doing in each of those divisions. I will start with the bromine where we are the global leader, as I said. So bromine, bromine is all over us, mainly in the flame retardant, but not only, and this business is growing and the needle there is very, very stable. We are also, you can see here, that the production capacity we have the largest capacity. The Dead Sea is probably going to be the ultimate source of bromine on earth for years to come because of the concentration in the Dead Sea. And you can see here, more or less, how the market is split between us and the other players.

So what do we have? We have around 180,000 tonnes that we have produced in 2017. It is less than our potential capacity. We have the largest ability also to expand capacity if and when demand is growing. We have the largest elemental bromine facility and we produce elemental bromine and the 230,000 tonnes of bromine compounds that we are producing. And the fleet that we have of isotanks enables us also to sell elemental bromine in a large scale, not only the bromine compound. And this combination that can help us to navigate between elemental bromine and bromine compounds is also something that helps us to manage and secure our leadership here.

The unique advantage, in the middle of the slide, of the Dead Sea is evident here. And this is why we believe that if we will manage it correctly, the Dead Sea will be the source for bromine on earth. There is no point to try to extract bromine from seawater, for example, because it's very, very costly. So if the prices are reasonable, then probably no one will take those huge investments and try to produce bromine out of seawater. And this is why, because other resources are depleting, this is why the Dead Sea will probably remain.

Prices are strong in this market. We have introduced some price increases since 2014. The chart that you see here is from the elemental bromine prices in China, just as an example. Other examples are less available publicly so we are using this one. And you can see although pretty volatile, and usually during the summer the prices are going down a little bit because Chinese players are starting to produce. But the trend is very, very strong and we believe that this will continue.

So what are we doing with this bromine and the bromine compounds? It is really going to many, many directions. The largest one is flame retardant; flame retardant that goes to electronics, to automotive. The autonomous cars will probably use significant amount of flame retardants in the future because the amount of electronics there is going to be very, very significant and to increase the safety level of those cars, they will use the flame retardants. Constructions also use significant flame retardant everywhere, in the walls, in carpets, in the furniture, et cetera. And other usages are for the energy industry. Deep oil wells are using clear brine fluids that are bromine-based to balance pressure. And biocides, just as an example, to treat water in the industrial usages.

Where we want to go. So our main goals for the next few years are to increase the demand through introduction of new bromine-based solutions. As a global leader, the more usages of bromine we will find, in the world, we find more and more, obviously we will be the largest beneficiary of that and this is why we are looking to find more and more ideas of doing that. Regulatory is something that is very important. We are focusing on the regulatory and we will continue to do the work that we are doing already in introducing standards around bromine that are helping us as a modern player and creating those barriers of entry also because others might not have invested in those standards. And since we are already done, this is something that creates for us a good advantage. Value over volume. This is our clear strategy and we will continue to maintain that. We are not producing to our maximum capacity. We are trying to manage the demand area with our supply. And complementary businesses. This is something that we are trying to look all the time.

Moving to the potash, the potash division. So potash, probably you all know, is one of the three basic nutrients in trying to help the world grow more food. And in our position, in terms of our cost structure of our facility, the Dead Sea facility is, we believe, is the number-three player in terms of the cost competitiveness of the cost per tonne of this manufacturing process. And the fact that we are using the sun as evaporation and not in

underground mine, gives us a significant advantage for long term for maintaining a facility with very low and attractive cost structure.

So the demand in the potash is coming because of the constant need to increase yields. The world needs more food and the biggest way to supply this food is from increasing the yield. 77% of the growth will come from increasing yields because the rotation or the additional land is not so much available. And this is why the boom of more and more fertilization, precise fertilization, and the usage of more specialty products, we believe that this demand and this pressure will continue to grow and we are well-positioned to benefit from that.

So where are we and what is our position? 4.8 million tonne, growing slowly to around 5 million tonne. Maybe next year will be slightly lower than that because of the shift in Spain from two mines into one. Next year is going to be a transition year in Spain for us. But over the next five years, we will see a long-term stabilization at around 5 million tonnes of production. About 80% of that is coming from the Dead Sea and 20% coming from Spain. In the past, we used to have four mines of potash; three less attractive, one in the U.K., two in Spain, and the Dead Sea, that was always attractive. We are moving strategically into two that will be attractive in terms of their cost structure. The Dead Sea about 80% and 20% in Spain. One big mine that we are now working on improvement, enhancement, the ramp that we are building in order to reduce the cost per tonne and to make sure that at any commodity prices, this site will generate significant profit.

We are number-six producer, more or less, but since our capacity is stable, we are not looking to expand that. We are not looking to grow. We just want to make sure that we are competitive enough. Target markets for us, three main target markets. It's China. It's India, and it's Brazil. Those are the three main markets into which we are shipping. Our proximity from Israel to China and India is the main reason why we choose China and India as our strategic market, but also because they are growing very nicely as you can see in this chart. And Brazil is also a growth area for us and a very good shipment price that we can have from our Spanish operation as well as from Israel.

The lower cost of our facility in Israel is not only because of the production process. It's also because of shipment. We are very close, you see here, 90 miles from Dead Sea to the Ashdod Port that goes into Europe through the Mediterranean Sea and 120 miles to the Eliat Port compared to our peers in Canada that needs to ship their products for over 1,000 miles to the Port of Vancouver. So this is a significant logistic advantage that we have. Not only that, also the proximity of Israel to India and to China gives us the ability to introduce to the market, the end market, to our customers, the product in a very attractive cost structure, from our perspective.

So what is our target? To continue to be the top-three producer in terms of cost structure in the potash area. Again, we like the exposure here to commodities. Unlike in the bromine, or the phosphate that I will talk about in a minute, where we are targeting the specialties, in the potash, we are happy with the exposure to the commodity. And this is why we want to make sure that we have a competitive asset base. This is why we are significantly investing in Spain to make it ready for this and continue to maintain the Dead Sea. 5 million tonne, I already mentioned. Our target is to reduce by 10% the cost per tonne over the next five years so we will not only benefit from potential price increases that we have seen over the last year, and it looks like the momentum is there and continues to be until the end of the year at least and going into 2019. But not only the price impact, but also the cost structure is something that is important for us. And 10% reduction in our average cost per tonne is something that we put for us as a target for the next five years.

And we also want to transform our U.K. operation into a profitable fertilizer site of polysulphate, and our target is to reach, by the end of this decade, 1 million tonne. And once we reach the 1 million tonne, this site will stand on its own producing a nice semi-specialty fertilizer. Again, it's a niche fertilizer. It's not going to be a huge fertilizer. But a few millions of tonnes are something that, from our perspective, this is the target for this fertilizer.

Moving to phosphates. As I mentioned, the largest in terms of volume, in terms of sales. In our chain, it's the largest one. We are supplying the ingredients for various industries and for food. I will show you in a minute that phosphates are really going everywhere. And we are pretty large in our specialty phosphates area. You can see here the other players and how the market looks like.

So what do we have and where we want to go? We have around 5 million tonne of rock that we are transforming into fertilizer, basic acids and then going all the way into the more sophisticated acids and sophisticated fertilizers. And we have the largest facility of white phosphoric acids, for example, which is a specialty product and also the raw material for our specialty products. Market share, you can see here in the specialty phosphates where we are. And we are focusing on the add-on and continue to grow more and more into the specialty businesses that are using our phosphate-based and as a back-integrated phosphate chain.

So what do we do in food? Phosphate ingredients are in the texture and stability space in the food. So we are supplying the food companies those things that help various products of foods in the area of mainly texture and stability. And in industrial, the industrial usages of phosphates are really going everywhere from paint and coating, asphalt, constructions, oil drilling and many, many, many other areas. By the way, we are looking also, this is just a good example in the phosphate compared to the bromine, that is the more work and product that we can introduce into the bromine like there are in the phosphates, we will always benefit from that.

So our goals in the phosphate, the entire value chain, very, very focused strategy is to move as much as we can from commodities to specialty. We don't have any strategic need or desire to be a commodity player in the phosphate. We are targeting the 5 million tonnes of our phosphate rock that we are producing from our two mines in the southern part of Israel and in the southern part of China to our specialty businesses as much as we can. Today, we are still playing in the commodities to balance the operation and to make sure that we are covering fixed expenses, et cetera. But the target, the strategic target is to move into the specialties as much as we can and to find the innovative new applications that will help us to do that as well as geographical expansion, to do more in China, to do more in the southern part of America in order to grow our existing markets.

The innovative Ag solution, the last division, which is also the smallest one, but, from our perspective, can introduce a significant growth opportunity for the company both organically as well as inorganically. So I will start with what do we have today. What do we have today in this entire division is the specialty fertilizer unit, and in the specialty fertilizer unit, we have created, along the years, a significant asset. We are already today producing 850,000 tonnes of soluble liquid and controlled-release fertilizer. We have over 300 agronomists that are helping us to market our products. We have the number-one brand in Europe in specialty fertilizer. And this play is very, very different from the commodity play. In the specialty play, you need agronomists. You need the sales and market and infrastructure that help to sell and deliver our product.

And we have the fastest growing segment in the fertilizer industry, as is evident in the middle of the slide. You can see that the soluble fertilizer and the controlled-release fertilizer are those specific products that are growing the fastest. It's mainly the specialty agriculture that those products are targeting and specialty agriculture, the fruits, the vegetables, those are the areas in the agriculture that are growing faster than the average. And those products are looking after them.

Diversified portfolio can be evident from the table here. We listed here a few of the other players and what they have. And you can see, although we don't have everything, we have a pretty much most of the portfolio that is needed to be a player in the specialty agriculture.

So where are we heading? This is what we have today. We believe that we are in the beginning of a perfect storm in specialty agriculture. The pressure of the population growth, the fact that we must find more ways to produce more from the existing land and the fact that we believe that food companies will dramatically change over the years with what they are producing, what they are introducing to the market. And many, many technologies companies are starting now to look after the agriculture. We see a huge technology boom that is coming toward the agriculture, probably one of the latest industries that technology is coming. A lot of things are still manual in the agriculture space. A lot of machineries that pretty much didn't change over the last 50 to 100 years. And we believe that technology is going to change this completely.

We believe that the entire market will change. The players in the market will change. Probably the existence of retail chains, I'm not sure that they will exist too many years from now because the farmer can get directly what he needs from a technology-based delivery system like is happening in other industries. So this technology boom is approaching the agriculture. There are many, many players that are looking into how this will look like. I think that it's probably not so clear how this will look like five, 10 years from now, but the fact that this is changing is something that is evident. And we believe that we have a very unique ability to be benefitting from this technology boom with our existing capacity, the existing knowledge that we have in specialty fertilizer and our proximity to what is happening now in Israeli high-tech companies around this technology, and we believe that this is something that we can benefit from in the future.

So just to summarize the presentation, ICL is now on a kind of a verge of a tipping point through many, many things that happened in the company and around us in the industry over the last two years. Very positive business momentum that is coming from us. The market conditions are improving right now.

A very important event that happened last January where Nutrien sold their stake in ICL overnight, 15%, and this created an increased amount of free float of the company shares both here in the U.S. as well as in the Israeli stock exchange. This is something that is very, very important for us. And since January, we saw this, really, this overhang that has removed and the significant results to our share price due to that.

The growth strategy that I just outlined for you for the three mineral chains, as well as the innovative Ag solutions that is kind of the fourth leg. Debt optimization that we have done recently through a divestment that we have done in the end of March. We now have a very, very strong balance sheet that is enabling us also to capture inorganic opportunities if and when they are coming. Inorganic opportunities can come mainly, from our strategic point, probably around the phosphate value chain and the innovative Ag solution. We are not looking to expand further our potash asset base, mineral base,

and the bromine as well. So the focus of inorganic move can probably come in the phosphate and the innovative Ag solution.

Then we have aligned our organization recently to make it, I hope, clearer for you as well to track the company, to understand us better and to track our performance and to show you how are we delivering on our strategy. With that, that is finished and we can take a few questions if there is time.

Chris Parkinson: I'll kick it off. Over the last three years you -- and literally the last remark you said you've signed a new long-term labor contract so that's ironed itself out. There have been a few management changes. You were essentially the one who was constant throughout that process. Can you speak to how has the culture changed, if at all? How is the view of the portfolio? I see, myself, a lot of refocus on costs, product optimization, et cetera. But can you hit on just how you and management are thinking differently, if my perception is correct, than you were, let's say, a few years ago?

Kobi Altman: I think that the fact that we understood for ourselves that we are not looking to expand more our exposure to commodities. So we are not going, in the future, to invest in future capacity of potash, of phosphate. We are happy with what we have today. And our growth focus is changing toward the specialty. I think that this is something that is different from a few years ago.

In terms of, as you said, really significant changes that we have done to make the company ready over the last one-and-a-half years and now under the leadership of an acting CEO and now that we have a permanent CEO that is onboard since May. And he came in a kind of a perfect timing. The company is ready. We did everything that we had to do in order to make the company ready for the taking it for the next step.

Chris Parkinson: In terms of just the last question I have is; when we hopefully sit here next year, what do you think are going to be the key two or three things that we'll be talking about or investors here meeting with will be talking about one year from now? What's the most -- what are the most important variables that you've been talking about today?

Kobi Altman: Further improvement, significant improvement in the potash business both coming from external measures of prices, but as well as internal measures of significant reduction in our cost per tonne. So huge improvement is expected in the potash business a year from now, once we will finish the Spanish operation and we will be ramping up the one site to 1 million tonne. Significant improvement in the phosphate value chain as well. Phosphate value chain was, again, a value chain that in China we were bleeding last year. We fixed it now. And the improvement, significant improvement you will see next year. Maybe inorganic moves, but this is harder to tell if it will be one year or a little bit more than that. It's really based on opportunities.

Chris Parkinson: Thank you very much.

Kobi Altman: Thank you very much.