



ICL Q3 2018 Conference Call

1 November 2018

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the ICL 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 will 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 your first speaker today, Miss Limor Gruber, Head of Investor Relations. Please go ahead.

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

The reports as well as the press release are available on our website. There will be a replay of the webcast available a few hours after the meeting, and a transcript will be available early next week.

The presentation that will be reviewed today was also filed with 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 President and CEO Raviv Zoller, followed by Kobi Altman, our CFO.



Following the presentation, we will open the line for the Q&A session. Raviv, please.

Raviv Zoller: Good morning, or good afternoon, everyone. I'm pleased to present you ICL's Third Quarter Results. This is the first quarter in which we present the results according to our newly aligned organizational structure. In line with our strategic plans, the organizational alignment is around our 3 core mineral value chains; bromine, potash, and phosphates and Innovative Ag Solutions, which we intend to develop into future growth engine by creating new solutions for our customers. We believe that the structure will serve you well, as it serves us, by providing clear visibility to our business drivers and our performance.

Q3 was another quarter of strong results supported by continuously improving business momentum, consisting of both positive external market conditions and more importantly, as far as I'm concerned, our continued focus on cost controls, value chain optimization and value-over-volume initiatives.

I'm pleased to share with you that our business performance was not interrupted by the organizational change we executed in August with impressive immediate impact achieved already within 2 months.

Late signing of supply contracts in India and China resulted in lower potash sales volumes versus last year, yet we managed to show flat sequential sales. The new supply contracts represent a \$50 and \$60 increase, respectively, and provide us with good visibility to our business performance all the way through made 2019.

Our reported operating income grew by 9 percent, reported net income by over 50 percent and operating cash flow by 11 percent compared to Q3 of 2017.

It's important to note that the strong results were achieved despite the notable contribution from the strong cash generating divested Fire Safety and Oil Additive businesses in Q3 of 2017 and are highlighted in the pro forma



figures that show significant improvements in both top and bottom lines, including a stunning 43 percent increase in pro forma operating income.

The quarter's strong results also gave rise to our growing dividend payout, which will increase by 20 percent to just over \$0.05 per share. Our dividend yield of approximately 3.5 percent is among the highest in the industry.

Another achievement we are proud of is on the sustainability and corporate responsibility front. We attained a silver ranking in the EcoVadis sustainability assessment. EcoVadis monitors sustainability and CSR activities of companies with global supply chains, ranking ICL in the top 7 percent of over 33,000 suppliers.

We also recently announced that we joined the TfS - together for sustainability - global supplier initiatives, an organization that assesses and improves sustainability practices within supply chains in the chemical industry. These are all steps that prove our commitments to remain dedicated to sustainability and corporate responsibility.

Let's go to Slide 4. The take on Slide 4 demonstrates the key financial metrics. I would like to emphasize the sequential growth we see this quarter in all parameter highlighting our positive business momentum.

I already noted in previous slide, that our operating cash flow grew by 11 percent, exceeding the 9 percent increase in operating income, and our net debt continues to decrease, enabling us more financial flexibility for future growth.

Moving on to Slide 5 to discuss the business performance of the bromine business. Last quarter, we said, was an exceptional quarter for Industrial Products. Yet, the segment was able to achieve another very strong quarter that was driven by higher prices and sales volumes.

Claire Brine Fluid sales, which were among the major drivers behind last quarter's results, continue to be positively affected by strong demand into July and August, before settling back to normal levels in September and October.



Regulatory pressures stemming from environmental-related issues in China continue, resulting in lower local production and higher demand for our high-quality bromine and phosphorous-based flame retardants coupled with higher prices.

Moving on to Slide 6 and our potash segment. Our potash segment enjoyed favorable market conditions, which were reflected in higher-than-expected contract prices and firming spot prices.

As a result, our average realized price per tonne increased by 22 percent compared to Q3 of 2017 from \$235 to \$287 per tonne this quarter.

Sales volume decreased by 145,000 tonne to 1.2 million tonne due to the late signings to contracts with our customers in India and China. The segment recorded a 10 percent increase in sales and an impressive 50 percent increase in operating income compared to Q3 2017. The strong results are despite the volume headwinds and the negative impact of the discontinuation of potash mining and transition to exclusively mining Polysulphate in the U.K.

Potash prices in the market are driven by stronger demand than initially expected, mainly in Brazil, but in other spot markets as well, while supply continues to be tight due to slower-than-expected ramp-up of new projects together with the usual logistic bottlenecks. Our competitive advantage was also supported by the appreciation of the ruble versus the dollar and by an increase in transportation cost. The continuing trend of increasing transportation cost is highlighting ICL's logistic advantages and increases our competitiveness in our strategic markets.

According to the latest cost report by CRU, which I assume many of you are familiar with, ICL which is already the most competitive potash supplier in India, is now seem to be the most competitive importer to China.

Let's now Slide 7 to discuss Phosphate Solution. I'm pleased with the successful consolidation of our phosphate commodities and specialties business. The process is smooth with no interruption to the day-to-day activities.



We're focusing on optimizing other value chain and executing on our strategy to be a leading provider of value-added Specialty Solutions. This strategy will drive the performance of this segment going forward based on the higher growth rates and margins of specialty phosphate.

The segment's performance demonstrates significant improvement with operating income growing sequentially by 11 percent and by 19 percent, year-over-year excluding the Rovita business which was sold in late Q2 2018.

This improvement was driven by favorable market conditions in both commodities and specialties, further enhanced by our global footprint, supply chain capabilities and solid competitive position in specialty phosphates market segments in Europe and the Americas.

Sulphur prices continued to increase during the quarter, also contributing to the end-product price increases. That, coupled with our strategic shift towards specialties, supported the increase in segment profitability.

It is important to note that sulphur prices continue their upward trend, while commodity prices are stabilizing and according to market researchers, may even moderate, possibly eroding margins further down the road.

Let's go to Slide 8. The performance of our Innovative Ag Solutions segment on Slide 8 is impacted not only by seasonality, but also by the realignment of the business, preparing it for future long-term growth.

We are setting this foundations by streamlining sales and marketing, logistics and digital capabilities in our strategic end-markets, while at the same time, adjusting presence in smaller markets.

We have a very solid foundation with our well-established Specialty Fertilizer business, our vast agronomic experience, R&D capabilities, strong brands, global footprint, backward integration, as well as chemistry know-how.

However, we still have a long way to go to become a global leader. The building process will take time, but we expect this segment to become an important future growth engine.



The business is still characterized by very clear seasonality with the first half of the year, the higher season of the North American and European ag markets significantly stronger than the second half, which is mainly dedicated to preparing the ground for the Northern Hemisphere application season. Increase in raw materials prices and transportation cost as well as developments in the NOP market further impacted profitability for the quarter.

Our sales increased by 5 percent but were impacted by an intentional reduction on sales to Turkish customers in Q3 due to the currency risks. On a year-to-date basis, our performance is on track with sales growth of 11 percent and operating income growth of 15 percent.

If you look at Slide 9, prices throughout our value chains continue to be trending higher, as you can see here. Potash prices shown on the top left continue to increase. However, a 3-year view reveals that the recent increases are merely bringing prices back to the levels of Q4 2015, which implies the potash market is not overeating.

We already discussed bromine prices in China, and the graph here demonstrates the continuing upward trend during the third quarter and during October as well, despite the usual seasonal fluctuations.

Green phosphoric acid prices are also on the rise, as a major commodity player recently signed fourth quarter phosphoric acid contract with Indian customers at an increase of \$10 per tonne, following an increase of \$28 per tonne agreed in the third quarter.

The price trend of green phosphoric acid also drives price of purified phosphoric acid. Here also, you can see the prices are still not at the level of 2015. ICL's backward integration to green phosphoric acid is a major advantage in such market environment. We benefit from these higher prices while our backward integration results in a more moderate increase in production cost, mainly of raw materials. Higher prices are also supported by decreased attractiveness of Chinese imports to the U.S. due to tariffs imposed on imports from China and due to the increase in transportation cost from



China. Additional tariffs are actually expected to come into effect in January 2019, which could further increase ICL's competitiveness due to our backward integration.

I think that these graph, all showing a clear upward trend of ICL's backward-integrated minerals and main raw material building blocks, are a perfect illustration of the drivers behind continuous improvement in market conditions.

At this point, I would like to thank our devoted ICL employees as well as the rest of our stakeholders for the continued support that allows us to achieve these results and to continue to get better.

Thank you, all. And with that, I'll hand it over to Kobi.

Kobi Altman: Thank you, Raviv and good day to you all. Indeed, as Raviv stated, we are happy to announce another quarter with strong financial results. I would like to start by showing you some of the key indicators of our performance since the beginning of the year.

Margin expansion, cost discipline and focus on cash flow generation and value creation for shareholders, resulted in a sequential increased in earnings per share, operating cash flow and dividends during this year.

Similar to the previous quarter, and as you can see on Slide 12, all our segments positively contributed to the top line. To better understand the performance of the quarter, and facilitate to you a better apples-to-apples comparison on of our remaining businesses, we also show pro forma figures.

The pro forma figures exclude \$160 million of top line contribution from the Fire Safety and Oil Additive businesses and the Rovita business we divested this year.

On a pro forma basis, our sales grew by 7 percent to \$1.37 billion as a result of higher prices across all segments that contributed \$130 million, partially offset by the negative impact of \$33 million from lower sales volume and a \$6



million negative impact from exchange rates, mainly due to that devaluation of the euro against the dollar.

The decrease in volumes originated from a 14 percent decrease in potash volumes sold in the quarter, and is solely a timing issue caused by the late signing of supply contracts in India and China, and from lower sales volume of green phosphoric acids due to our strategy to focus on specialties and on phosphate-based food additives, as a result of value focus strategy.

A similar picture is revealed with performance of operating income on Slide 13. Almost all segments had a positive contribution to the corporate operating income. Excluding the significant contribution from the divested businesses in Q3 '17 - \$75 million - operating income increased by over 40 percent. Here as well, prices contributed the most, \$130 million, with the potash and phosphate solution segments leading the way. Higher cost only partially offset the increase in operating income.

Raw material costs were mostly impacted by higher sulfur prices, which increased the cost throughout the phosphate value chain, as well as higher raw material prices used for bromine and phosphorous based flame retardants. An increase in marine transportation prices drove higher transportation costs. Higher prices in all our segments resulted in an increase in royalties and sales commissions, driving higher operating and other expenses. Adding to that, in the corresponding quarter, we recorded a \$9 million income from an insurance claim settlement.

Turning to Slide 14. Let's review our cash flow generation this quarter. Our depreciation remains around \$100 million per quarter, while our strategic infrastructure projects in the Dead Sea and Spain led to an increase in close to 50 percent in CapEx versus last year. We are pleased with the results of our strategic focus on cash flow generation. Despite an increase in working capital, operating cash flow increased both sequentially by \$32 million, and compared to the corresponding quarter in 2017 by \$20 million.

Going forward, one of our goals is to return to a downward trend in working capital. It is very important to note that the year-over-year increase was



achieved despite the divestiture of the Fire Safety and Oil Additives that were high cash-generating businesses.

Slide 15 summarizes this quarter results. We see yet another quarter with strong fundamentals and financial improvements, driven by the positive business environment and market conditions, by our disciplined focus on operational excellence and by the successful and consistent implementation of our value focus strategy.

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

Operator: (Operator Instructions). We will now take our first question from BMO the line of Joel Jackson.

Joel Jackson: Have a couple of questions. I thought, maybe, first, I'd start on Industrial Products on bromine. Looks like you've had a second quarter in a row of maybe above average earnings. What do you expect, do you think tailwinds in bromine to continue to the fourth quarter or do we step down to more normalized earnings? What's the outlook for that?

Raviv Zoller: Hi Joel, thanks for your question. We think that the trend is going to be back to normal in terms of quantities produced. But at the same time, the trend is clearly an increase in price. So as of September and October, we had a little bit less sales of clear brine fluid, but we should trend lower in Q4 than Q2 and Q3 in terms of quality, but at the same time, some of that will come back to prices.

Joel Jackson: Turning to potash, what is sort of now your quarterly run rate for production? And then, should we-- we should expect, I imagine, sales increase in Q4 as you're now selling, again, China and India for the year?

And then I guess, it's a 3 parter and then, is this the right potash inventory levels you're comfortable with? You've been around the same level now and in Q2 and Q3?



Raviv Zoller: In terms of production we're at \$3.8 million at Sdom Dead Sea production and about 920,000 or 930,000 in Spain. The total production for next year is going to be around the same, which means, we're going to see similar amounts of production with no additional potash coming out of ICL Boulby in the U.K. as we shifted towards Polysulphate.

In terms of sales in the fourth quarter, obviously, since our shipments were a little lower in Q3 waiting for the new contracts, than shipments in Q4 should be higher. In terms of levels of inventory, the inventory is a little higher than steady state because of the delays in the shipment towards the end of the quarter.

Operator: We will now take our next question from Citi the line of Thomas Wrigglesworth.

Thomas Wrigglesworth: Couple of questions if I may. Firstly, just regards to bromine polymers, there's obviously concerns of consuming durables could be off in the fourth quarter. Would you see any impact from that? Or do you expect there to be no deterioration in the order books that you've seen thus far? Second question, more strategically focused, there was a Wall Street Journal article talking times to deal with Haifa Chemicals, maybe you can't talk about that explicitly, but could you give us a sense for what you're looking for in M&A? What's the maximum scale you think your balance sheet can currently allow you to go to? Can you give us a bit of color to that? I'd be interesting to hear thoughts about inorganic growth.

And thirdly, I just wondered, as you switch to Polysulphate in Boulby (UK), whether there's an actually a -- not only a lost of revenue, but actually a negative cost as ex-potash Boulby profits would have been higher in the quarter. Could you help us understand what the negative cost might be in Boulby as a result of the switch.

Raviv Zoller: OK. On bromine all I can say at this point is that our order book is full, so we can't even supply the existing orders at this point. Going forward, I don't have an outlook on polymers 2 years down the road. So that's about as much as I can say at this point. In terms of UK Boulby, sure, there is some negative



cost, but the bulk of it is simply we're not finished ramping up. And also, we're still not done in terms of marketing, infrastructure and sales on our steady-state basis. We're investing in field trials and licensing in various countries, we are using samples. So, it should take more than a year until we reach the point that Boulby actually has positive contribution to the business.

This year, the total investment in the change made in Boulby has added up to taking into account an additional quarter close to \$50, and the additional cost next year will probably be at least half of that, at least. But that's the schedule. We're not going to see profitability from Boulby in the next few years for sure. In terms of M&A and the way we see the world at this point is that our three mineral chains are very strong, meaning that we have everything we need in order to lead our perspective markets, and the only business that we have that is not a world leader at this point in time is Innovative Ag Solutions business or Specialty Fertilizers business, and so probably, any significant M&A will have to come from that division.

We are looking to both scale and grow the diversity of our product line. At the same time, we want to be disciplined and be careful about the kind of M&A we take on. We're looking only for potentially accretive transactions.

In regard to the deals that you mentioned, I can tell you that in the past, there have been all kinds of discussions between the 2 companies, between ICL and Haifa Chemicals, they are both a client and a supplier, and they have gone through certain challenges in the past 1.5 year. And once in a while, there could be a discussion, and there is potential synergies, but there is nothing going on in present. There is no deal at the table at this point, and anything that came out of the press is strictly rumors.

Thomas Wigglesworth: OK. And just in terms of how you think balance sheet capacity for the Innovative Ag, do you think you could do \$300 million deal maximum today? Or \$0.5 a billion? Can you try and quantify that for us is just scale in terms of what you can do?



Raviv Zoller: Maybe I'll let Kobi take that and talk about how we look in terms of our credit rating, in terms of our bank facility I think that we have a lot more flexibility than we need at this point. Go ahead Kobi.

Kobi Altman: Hi Tom, I think the way to look at that is not a capacity for a specific deal but a general capacity for inorganic moves. And since, it is very important for us to maintain our investment grade, we follow the kind of guidance that the rating agencies are looking at, and the ratio between our net debt-to-EBITDA will obviously, also as our EBITDA is growing, this can give us further flexibility. And this could give you the range where we are today and you can build your projection along the future.

The minimum that the rating agency would like us to show is something between 3 to 4 net-to-EBITDA and currently we are much lower than that. Obviously, some significant transformational deals we can always do also including an equity portion and not only in cash, but this is something that is too early at this point.

Operator: (Operator Instructions). We will now take our next question from UBS the line of Patrick Rafaisz.

Patrick Rafaisz: Good afternoon and thanks for taking my questions. The first one will be on Innovative Ag Solutions. You talked about the streamlining ongoing there with the operations, but you also mentioned the Turkey impact. Can you quantify these effects first? How much did the Turkey situation cost? And secondly, streamlining these operations, how much cost you think you can take out in the course of the next 1 to 2 years in this business?

Raviv Zoller: OK, first of all, in Turkey, we decided to cease sales in Turkey because of the currency risk. So we lost about \$5 million of sales in Turkey. We also had a little bit of collection issues in Turkey, which cost us few hundred thousand dollars, not because we didn't collect correctly, but we couldn't hedge ourselves with the Turkish currency, and therefore it wasn't a good quarter for us from the Turkish perspective.



In terms of the adjustments we're making to our organization, we're talking about just a few million dollars a year. But at the same time, we won't see too much of that coming into our bottom line, at least not in the next year or so because we're actually using some of that to make investments into our future digital platforms so you won't see any significant impact in that on the bottom line's in the next few quarters. This business is affected by seasonality and the second half is weaker than the first half of the year, but the business is growing and on target in terms of our long-term plans.

Patrick Rafaisz: OK, very clear. And then a question for Kobi. You talked about the net working capital increase and that the goal must be to return to downward trend. Can you add a bit more color that when you think the trend will reverse? And what kind of levels are you targeting? And within what time frame?

Kobi Altman: I think the way to look at that is maybe working capital as a percentage of sales or as a percentage of some operating parameter because as the business is ramping up, obviously, it's coming also with some kind of working capital.

But if you look at specifically at this quarter in our cash flow statement, you see that working capital has increased by \$100 million in this quarter, or if you take the first 9 months, by \$350 million and obviously, we want to start to see the collection and the realization of the inventories that we gathered throughout this quarter.

As an example, the preparation for our sales into the Asian market for potash caused us to increase somewhat our inventory level in this quarter but we will start to sell in Q4 and then, into the next year.

So, towards next year, we would like to start to see this level of working capital going down. But again, maybe, less than dollar terms and more in line with number of days to make sure that they are current and we don't see them going up.

Patrick Rafaisz: OK, thanks. And then, the last question just a follow-up on the Chinese contract. As in the past, and there is also an option right, for additional



volumes in 2019, I know this is very early days, but what are -- what is your thinking around those additional volumes? Do have a sense that they will be used or is it too early to say?

Raviv Zoller: We think that at this point, if they are used it actually does not benefit us given the current alternatives and given demand, but at the same time, when we look at China, we look at our long-term view and we want to have strong relationship and we want our customers in China to be able to rely on us.

So, we give them a priority option, the option is good for both sides and if the decision is made by them not utilize the option than that actually does us some good this year.

Patrick Rafaisz: Because you can then sell for higher price for example in Brazil? Is that correct?

Raviv Zoller: That's correct.

Operator: (Operator Instructions). And we appear to have no questions coming to at this time. So, we'd like to thank you all for participating and you may now disconnect.

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