ICL Q4 2018 Conference Call

6 February 2019

Operator: This is Conference # 7391727

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the ICL Analysts 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 and one on your telephone keypad.

I must advise the conference is being recorded today.

If you require -- if you experience any technical difficulties, please press star, zero on your telephone.

I'd like to now hand the call over to the first speaker today, Ms. 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 fourth quarter and full year 2018 conference call. This event is being webcast live on our Web Site at www.icl-group.com.

Earlier today, we filed our Q4 2018 and full year press release to the securities authorities and the stock exchanges in the U.S. and in Israel.

The press release is available on our Web Site. There will be a replay for 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 also available on our Web Site. Please don't forget to review the disclaimer on Slide number 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 a presentation by our 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: Thank you, Limor. Good morning, and good afternoon, everyone.

Starting from Slide 3, 2018 was an excellent year for ICL, and our fourth quarter reflects that as well. During this quarter, as well as the entire year, we demonstrated strong financial results with a positive top- and bottom-line contribution from all 3 mineral value chains -- bromine, potash and phosphate. The main driver was, of course, higher prices. We benefited not only from the improvement in the commodity markets, but also from our value-over-volume initiatives in specialty businesses, which contributed over $30 million to operating income in Q4 and about $120 million for the full year, allowing us to more than compensate for the 2017 contribution of the Fire Safety and Oil Additives and Rovita businesses we divested early in 2018. We will continue to focus on optimizing our pricing also going forward.

Higher prices across the board, combined with strong potash sales volumes - a result of the late signing of contracts with China and India, led to an increase of over 20 percent in Q4 adjusted EBITDA, excluding divestments. Our annual net income more than tripled compared to 2017. On an adjusted basis, and excluding the divested businesses, net income increased by 48 percent. These strong results are reflected in Q4 being the fourth consecutive quarter to mark a sequential growth in adjusted operating income, in adjusted EBITDA and in operating cash flow, and continue to support our above-average dividend yields.

Overall, 2018 was a transition year for ICL. We enjoyed improved market conditions in most of our businesses, that we are able to capitalize on due to the implementation of our focused leadership strategy. Our progress on streamlining our businesses should continue to drive positive business momentum into 2019.

Let's move to Slide 4 to review some key financial metrics. Our strong operating results this quarter were somewhat offset in net income, mainly due to unusually high financial expenses and an unusually low effective tax rate in Q4 2017. Nevertheless, we were able to grow almost every single financial metric on an annual basis, with a 42 percent increase in our adjusted operating income, excluding divestments, and a 48 percent increase in our adjusted net income, excluding divestments.

Operating cash flow increased sequentially, but was lower than in the same quarter last year and was lower on an annual basis. The main reason was the timing of the contract signing in China and India, which pushed the collection of trade receivables into 2019, and a cash payment of $47 million to the government of Israel for prior periods' royalties.

Most notably, we have significantly reduced our net debt to EBITDA ratio by 34 percent to only x1.9, granting us the financial flexibility to execute on our growth plans through organic investments and M&A.

Slide 5 discusses the performance of our bromine business. The business had another strong quarter, which led to an all-time record annual profit of $350 million, up 16 percent from 2017. This remarkable achievement was supported by higher prices across the entire bromine value chain, increased sales volumes of clear brine fluids to the oil and gas industry and by higher prices and volumes of our phosphorus derivatives.

Our value-over-volume strategy, supported by continuous regulatory pressure in China on local producers, resulted in a price contribution of $17 million to operating profit in Q4 and $70 million for the full year.

Our potash division, on slide 6, reached several important milestones during the year, including record annual production of 3.8 million tonnes at the Dead Sea, a shift to profitability in our potash operations in Spain following a successful implementation of efficiency measures, the transition of ICL Boulby to exclusive Polysulphate production and initiation of commercial operations of the new power plant in the Dead Sea.

In addition, we signed for the first time a 5-year framework agreement with our largest potash customer in India, solidifying our relationship and enhancing our leading position as the most competitive potash supplier to the strategic Indian market.

The business enjoyed favorable market conditions, which were reflected by an increase of 20 percent in our average potash realized price in Q4 versus Q4 of 2017 and of 17 percent in 2018 versus 2017.

The ongoing delays in new global capacity expected from Russia and Canada, along with solid demand, were major contributors to the positive market momentum.

Potash sales volumes in the quarter was flat, but annual sales volume was lower than 2017 due to the transition of ICL Boulby in the U.K. to Polysulphate in mid-2018.

Due to the strong shipments in Q4 following the Indian and Chinese contracts, we ended 2018 with the lowest inventory level in over a decade.

As you can see on Slide 7, our phosphate solutions segment recorded a modest growth in sales, but higher commodity prices and our continuous focus on value creation led to significant growth in operating margins, both for the quarter and for the year, marking a 10-year record in specialty phosphates profit. The smooth and successful consolidation of our phosphate commodity and specialty businesses, together with the synergies we can now utilize, resulted in significant margin expansion despite an increase of $62 million in raw material prices.

We continue to build the segment for future growth, optimizing the phosphate value chain by gearing up our specialty operations.

An additional significant milestone achieved this year is the transition of the YPH joint venture into operating profit for the first time since it was formed in 2015 and reaching production records of pure phosphoric acid in both Rotem and YPH as well as production records for fertilizers in Rotem and green acid in YPH. We intend to continue to shift more of the JV's production into specialties through the expansion of our technical grade white phosphoric acid capacity next year.

Moving on to Innovated Ag Solutions on Slide 8. The performance of the segment, as we noted in Q3, is highly impacted by seasonality and by our continuous investment in future growth by laying out the adequate infrastructure in existing and new markets, resulting in the erosion of our profit margins.

The global specialty fertilizer market is growing faster than traditional commodity markets, and our 7 percent annual growth in sales reflects that.

Our sales in the growing emerging markets of Brazil and China increased and with time, we expect the market in the Southern hemisphere to grow and somewhat balance the seasonality which characterizes our operations. The decrease in Q4 sales is attributed to longer-than-usual downtime in Israel for maintenance in the quarter, our focus on upgrading product quality in the YPH joint venture in China, lower sales in Turkey due to currency risk management and a particularly strong Q4 in 2017.

As you can see on Slide 9, prices of main products throughout our value chains continued their upward trend. Nevertheless, prices of potash as well as green and white phosphoric acid are just now nearing their mid-cycle levels of 2015 after recovering from their low levels.

Potash prices, shown on the upper-left graph, continue to rise, although moderately in Q4, and are at the same level of the same quarter in 2015, implying the market is far from overheating.

The increase in phosphoric acids prices highlights our backward integration advantage as the increase in prices is only partially offset by the increase in raw materials, mainly sulphur. Higher prices of phosphoric acid are further supported by the tariffs imposed on imports from China to the U.S. and by the increase in transportation costs.

Finally, bromine prices in China continue to demonstrate an upward trend during 2018. As we have access to the largest, most efficient and lowest-cost resource for bromine globally, we benefit the most from that positive trend.

Our strong financial results in 2018 are demonstrated by impressive sequential growth throughout the year in several key operational metrics, as shown on Slide 10. We made progress each quarter during the year, performing better in terms of adjusted operating income and EBITDA excluding divested businesses, and operating cash flow.

As I stated in my opening remarks, 2018 was an excellent year for ICL, in which we had a long list of achievements, the most notable presented on Slide 11.

I would like to add a couple of more comments. First, we reached an understanding with the Israeli authorities leading to an agreement that puts an end to most of our disputes on past royalties.

Also, the Naveh Committee, which was established by the Ministry of Finance to review the government's actions required towards the expiration of the concession 2030, has published its final recommendations.

While we have some reservations on several issues in the report, we believe the committee's recommendation to continue the industrial activity in the Dead Sea, preferably by the private sector, to be an important first step in our preparation process towards 2030. The report acknowledges ICL's significant advantages over other potential bidders, including the asset base, ownership of know-how and the right of first refusal.

Before I hand it over to Kobi, I would like to thank ICL's over 11,000 employees worldwide on their excellent work, dedication and commitment, which were a crucial factor in making the list in front of you a reality.

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

Kobi Altman: Thank you, Raviv, and good day to you all. As Raviv mentioned, 2018 was a great year for ICL, and our financial results reflect that. During my part, I will discuss both the quarter as well as the annual performance.

Let's begin with our annual sales on Slide 13. 2018 sales recorded a growth of 3 percent. But if we exclude the divested Fire Safety, Oil Additives and Rovita businesses, sales of ICL remaining businesses grew by 8 percent with a remarkable positive contribution from all 4 divisions.

Analyzing our annual results highlights higher prices in the amount of $419 million to be the major contributor for the increase in sales, together with $99 million contribution from exchange rates due to the strengthening of the euro against the dollar. These were only partially offset by lower sales volumes, mainly of potash, commodity and specialty phosphates.

When reviewing the 2018 operating income on Slide 14, we see a similar picture. Within less than a year since we divested significant businesses, we were able to achieve adjusted operating income that was over 15 percent higher than in 2017. If we compare the remaining businesses only, the adjusted operating income grew by over 40 percent.

Here as well, all 4 divisions positively contributed to adjusted operating income with higher prices more than offsetting higher raw material prices, higher marine and land transportation costs.

The comparison to last year demonstrate the strong results in 2018 that were able to absorb also lower sales volumes, an income from insurance in Israel, which was recorded in 2017, and other operating expenses such as high royalties due to higher potash and bromine prices, provision for slow-moving inventories and depreciation.

Turning to Slide 15. Our Q4 2018 sales exceeded last year by 4 percent. if we exclude the $60 million sales contribution of the divested Fire Safety, Oil Additives and Rovita businesses in 2017, Q4 2018 sales increased by over 8 percent. This impressive growth came from 3 of ICL's 4 divisions, supported, as shown in the bottom graph, by $133 million contribution from higher prices in all our value chains, slightly offset by lower sales volumes of potash, specialty phosphates and Specialty Fertilizers.

The unfavorable exchange rate is attributed to the weakening of the euro against the dollar during that period.

Our Q4 operating income analyzed in the graph of Slide 16 resemble the annual operating performance. Adjusted operating income grew by 27 percent compared to the same quarter in 2017, demonstrating our achievement to compensate within less than 1 year for the exclusion of the businesses we divested. If we compare the performance of the remaining businesses only, adjusted operating income exceeded last year by 40 percent, with operating margin expanding from 12 percent in Q4 '17 to 15 percent this quarter.

Three of our 4 divisions contributed positively to operating income. As in sales, prices accounted for the largest contribution, deriving from more than $50 increase in the average realized price for potash and higher prices across the bromine and phosphate value chains.

Exchange rates had a positive contribution to operating income, reversing the negative impact on sales, as the devaluation of the Israeli shekel, the euro and the Chinese yuan against the dollar supported a decrease in production cost in dollar terms.

The increase in raw material costs derived mainly from sulphur prices, impacting costs throughout the phosphate value chain, as well raw materials to produce bromine and phosphorus-based flame retardants. However, the increase in our selling prices significantly exceeded the increase in raw material and transportation costs. This was driven by market conditions, our backward integration advantages, our pricing initiatives in the specialty businesses and our logistic advantages. The negative impact of sales volume is mainly because of different product mix versus 2017.

We increased our electricity surplus following the completion of our power plant in Sodom, with significantly lower margin than potash. We also recorded higher sale of Polysulphate, currently still a loss-making product. Other items negatively impacting this quarter's adjusted operating income include a $17 million provision for inventory in China, Israel and the U.K. and insurance income of $11 million we recorded in Q4 '17, as well as higher depreciation expenses.

The table on Slide 17 illustrates the increase in our finance expenses. As I mentioned, our net interest expenses decreased compared to Q4 '17. The main item that fluctuate this quarter was the mark-to-market provision on our hedging transactions due to the devaluation of the Israeli shekel against the dollar toward the end of the quarter and a decrease in interest rates and energy prices. This reflects the timing issues in hedging activity: while in Q4 '18 we recorded expenses, in the following periods we will benefit from the impact of the devaluation of the Israeli shekel and lower energy prices on operational costs.

This quarter, we also adjusted $7 million interest expenses related to the royalty agreement for the years 2000 to 2017 we signed with the Israeli government.

On Slide 18, you can see the income taxes and effective tax rate's calculations. Q4 2017 had an exceptionally low provision for tax expenses. The basic average tax rate we pay on our global businesses decreased in 2018 due to the tax reform in the U.S. as well as the lower tax rates in Israel.

The shift to profit of our YPH joint venture also reduced the losses that are not recorded for tax purposes.

On the other hand, the lower part of the table shows very significant offsetting figures in 2017. It came last year from adjustment of deferred taxes due to the change in the tax rate in the U.S. in the fourth quarter of 2017 and a decrease in tax provision in Israel related to natural resources tax law shown in the table under "other items".

The list of our 2018 major achievements Raviv presented, include the divestment of our Fire Safety and Oil Additives businesses and the optimization of our debt structure, which shifted significant debt payments to 2038. Slide 17 demonstrate the results of these actions.

Our strict capital management and our strong financial result in 2018 have sharply decreased our net debt-to-EBITDA ratio to below 2 compared to over 3 times just 2 years ago. This is consistent with our strategy to maintain our investment-grade rating and provide us with the financial flexibility to support our growth aspirations.

I'd like to conclude this presentation with the key takeaways of the fourth quarter and the year on Slide 20. The combination of improving market conditions and our continuous and strict focus on our leadership positions and Value over Volume strategy, resulted in a year of strong financial and operational performance and notable achievements. We will continue to execute on our strategy, delivering growth, margin expansion and value to our stakeholders in the coming years as well.

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

Operator: Thank you.

Participants, as a reminder if you do wish to ask a question please press star and one on your telephone keypads.

And we'll take our first question today from the line of Joel Jackson.

Joel Jackson: Hi, good morning, Raviv, Kobi. I had a few questions. Maybe I'll just start one by one. So in the potash segment, looks like you had a pretty large increase year-over-year in the quarter, maybe $65 million in other products that aren't potash. Can you just talk about what drove kind of other things in potash?

And then how much of that was a tailwind for earnings? So was that largely all hitting the bottom line or some of it?

Kobi Altman: Yes. Hi, Joel. This is Kobi. The other products are mainly Polysulphate, electricity we sell, and magnesium in this division. So, we try to make it easier for you to track our overall division performance and that is the potash stand-alone only. So all the other things that are not directly potash sales are in this line.

Joel Jackson: And I was asking, sorry, how much of that extra $55 million year-over-year in the quarter in the other basically hit the bottom line? Was it almost all in the bottom line? Or some of it in terms of like profits or existing profit.

Kobi Altman: Yes, the profitability here is very, very low. Some of the products, as you know, are still loss-making like Polysulphate. We still need to ramp up this mine. So, you can count on, actually, a negative contribution from this line at this point.

Joel Jackson: OK, that's helpful. So I had a second question. It's kind of 2-part, but your potash costs, segment costs were quite low in the quarter. Can you give some insight? Is maybe that a suitable cost per tonne or cost base we can expect to cost 2019? And on pricing for potash, should we expect a similar price -- average price in Q1 versus Q4? Or are there some factors moving it either way?

Raviv Zoller: Hi, Joel, this is Raviv. On the expected prices for 2019, for the first half of the year, most of our production is going to the Chinese and Indian contracts. So it's pretty predictable. As of second half of this year, it depends on developments in various markets. Right now, prices are relatively stable. In terms of cost per tonne, we broke our production records in Dead Sea Works with over 3.8 million tonnes of production. So as long as we continue with that kind of productivity, we expect staying at the same levels of cost per tonne.

Joel Jackson: So were your Q4 levels, how should I put it, close to the best you can do in the current environment and you're trying to hold that? Or is there more you can get?

Raviv Zoller: No, we can still grow our efficiencies. We're expecting sometime within the framework of 2019 to 2020 to go through plant maintenance that is over twice as long as the usual week of plant maintenance we have per year. We have a plan of 30 different projects that will be executed at the same time and will actually allow us to increase efficiency in the Dead Sea by about 5 percent.

Joel Jackson: That's helpful. And just my last question is looking at Brazil. A lot of movement there in Brazil. Looks like phosphate's imports are strong, but inventories are building, a bit of weakness in product demand inland, maybe potash as well. We saw Heringer, one of the big distributors, declare bankruptcy. What's going on in the Brazilian market? How do you feel about it? Any headwinds or tailwinds you want to comment on?

Raviv Zoller: Other than the bankruptcy, there's nothing out of the ordinary that we see going on. In terms of seasonality, it's an off-season. So spot prices have been relatively stable, and the general level of activity has been lower. And we'll see developments within the next couple of months.

Joel Jackson: Do you think the Heringer bankruptcy will have an impact on the markets? Too soon to tell?

Raviv Zoller: It's way too soon to tell.

Operator: And your next question today is from the line of Vincent Andrews.

Jeremy Noah Rosenberg: This is Jeremy Rosenberg on for Vincent. Just want to circle back on potash production. When we think about next year, kind of the run rate exiting the year was kind of 4.8 million tonnes, is that a level we should be thinking about? Or given potential Dead Sea efficiency increases, could we see that...

Raviv Zoller: Yes. those are the levels we're talking about, running at a rate of about 3.8 in the Dead Sea and between 900,000 to 1 million in Spain. In terms of the new efficiencies in the ramp-up, that won't be this year because the plant maintenance that I talked about, the earliest it could happen is towards the end of this year. So we won't see the ramp-up until 2020.

Jeremy Noah Rosenberg: OK, got it. And then also a question on the phosphate side of things. It looks like there as well production is significantly higher year-over-year in the second half. What could we kind of expect for production levels next year in the phosphate solutions segment?

Raviv Zoller: Again, here we broke production records this year, and we're looking to break those records again next year. Half of our sales are specialty sales, and they're not very much affected by market conditions, at least not in the short run. In terms of our commodity products, those are affected by market conditions. So it depends on the market environment.

Jeremy Noah Rosenberg: OK, got it. And then if I could just sneak in one last one. Just on phosphate, as you're kind of trying to make more of a push into the specialty applications, how do you think about price next year overall in the phosphate, just directionally?

Raviv Zoller: In the specialty business, many of our contracts are annual contracts. Actually, over 50 percent of our sales are annual contracts. Most of the annual contracts were signed during the end of the summer period, mainly in September, last month, probably around beginning of October. So the visibility for the next year on the specialty side is very high.

Operator: Your next question today is from the line of Tom Wrigglesworth.

Thomas P Wrigglesworth: A couple of questions for me. Firstly, on bromine, you noted that volumes were a bit weaker. I just wanted to get some clarity. Do you think that higher prices are beginning to eat in demand? Is that some of the destocking we're seeing through the industrial chain? Any color there would be interesting. Second question on capital allocation. You mentioned, obviously, the stronger balance sheet, the prospects for inorganic growth. I'm wondering if you could provide a bit of color about which geographies would be better suited in your eyes for more capital allocations, which businesses where you want to drive growth with that lever now that it's available to you. And lastly, just a little one on NPKs. You said NPKs were weaker or at least waterborne NPKs. Any color on those specialties and the market dynamics there would be interesting.

Raviv Zoller: OK, let's start from -- I hope I remember all those questions.

Thomas P Wrigglesworth: Sorry. I'll repeat them if you want.

Raviv Zoller: Yes. Let's start from the bromine. On the bromine, if you look at Q4-versus-Q4, you'll see the same type of growth every other quarters. Q2 and Q3 were especially strong on the clear brine fluids side, and November and December were a little slower. Also, in December, we got a lot of sentiments coming out of China, but I can't say that the sentiment really affected the business. And looking at January, the year started full swing, very, very strong, both on clear brine fluids and also on China. So we don't see any kind of trend at this point. November and December seemed a little softer, but no trace of that in January. That's on the bromine.

In terms of capital allocation, we're very comfortable with this level of debt. The only M&A that we're looking for is on the Specialty Fertilizers side. We're looking for additional product portfolio and also in order to leverage our scale and also for additional coverage, especially in the geographies in the Southern hemisphere, which means Australia, South Africa, Brazil, India, et cetera.

We would probably be looking at M&A in the next couple of years. In the case that the targets that we're looking at will successfully be acquired, then you can expect more of the same in terms of dividend distribution, et cetera. If plans linger on, then subject to staying at the same levels of debt more or less, we could consider other alternatives. So net-net, I would say that we like the current level of debt, plus/minus 10 percent. We expect a dividend distribution of 50 percent to remain and for some M&A to happen in the Specialty

Fertilizers segment coming in the next couple of years. So that's on capital allocation.

In terms of NPKs, in our case, the only weakness comes from loss of sales in Turkey that happened after the exchange rate fluctuated in a crazy way in Q3 and we basically exited the territory for a while. We came back after making some new kind of currency hedges. Other than that, we didn't really have a development in terms of NPKs in our markets.

Operator: And our next question is from the line of Jonas Oxgaard.

Jonas I. Oxgaard: I had a couple of questions as well. I was hoping to start at capital allocation. We covered the M&A side, but what about the CapEx side? What do you see your spending in 2019? And how much does it swing depending on when you put that maintenance?

Raviv Zoller: OK. I'll start, and I'll let Kobi complete my answer. Basically, as most of you know, 2019 and 2020, we have relatively large capital investments committed, especially 3 large ones. One is the P9 pipeline, which we need for future use of the resource in the Dead Sea, and it's a $250 million project. Then we have the self-harvesting agreement with the government of Israel, which is also a very significant project. And also we have the ramp and another significant projects in Spain towards the consolidation of 2 mines. So net-net, we will see capital expenditures in 2019 about the same levels of 2018, even could be $20 million to $30 million more.

The good news is that the cash flow generation is getting very, very strong. So despite the very high CapEx, we will still see strong free cash flow. And going to the second half of 2020, we'll start getting back to maintenance CapEx plus about $100 million for growth CapEx. Maintenance CapEx is about $400 million now. You want to complete, Kobi?

Kobi Altman: I think you covered it. So unless you have follow-up questions on the topic.

Jonas I. Oxgaard: No, I agree. I think it was covered very well. On the polyhalite, you said it's still unprofitable. You're ramping. Could you give us an idea of what is required, what is left to do in that mine? And what's the dream stake here? Once it's fully ramped, how should we think about production and profitability for this mine?

Raviv Zoller: OK. First of all, to put things in proportion, the business is generating a run rate of about $60 million right now. And the run rate is about 500,000 tonnes of production right now, and the idea is to ramp up to 700,000 by the end of 2019, 1 million in 2020 and 1.3 million in 2021. The breakeven point is a little over 1 million tonnes. But it needs to be noted that in this specific business -- this is probably the only business where our destiny is not only in our hands. And the reason is that there's a competitor that is trying to raise an additional $3 billion in order to come very strongly into the polyhalite market. And basically, if that happens, then what it means is that we become a price-taker.

And as a price-taker, our ability to demand a premium and capitalize on special patents, products that we've developed and are developing, becomes questionable. So that company is in the process of raising money as we speak and the next few months are very critical for them. So if they succeed, then it's an issue that we have to manage because it means that they'll be coming into the market within the next 3 or 4 years. If they're not successful, then we can go ahead with our stand-alone plans. So we're looking at that. We're trying to manage the risk in a responsible way, so we don't have any significant downside if things don't turn out our way.

Jonas I. Oxgaard: That make sense. And how should I think about polyhalite pricing? You mentioned a premium. Is that a premium over the potash weight equivalent?

Raviv Zoller: Yes. The premium is over the mineral value, there are 4 different minerals in polyhalite, and they all have a mineral market value. And the question is, does the combination, including various types of granulation and mix with other minerals, how can that demand a premium in today's market. There are certain attributes to polyhalite that are very positive. For example, carbon effects are the lowest of any other given fertilizer. So there are all kinds of advantages to polyhalite, slow release effect and other advantages. And eventually, we'll be able to commend a nice premium as time goes by if we have the ability to be dominant in the market.

Operator: And our next question is from the line of Laurence Alexander.

Nicholas Cecero: This is Nick Cecero on for Laurence. So maybe we can just visit Innovative Ag Solutions. You called out sales in North America as continuing to be affected by competitive pressures. I was just wondering when you maybe expect them to kind of cease or when you expect to see a demand pickup.

Raviv Zoller: We don't expect the market to be less competitive. But because we're growing our business and making it more efficient in getting closer to the customer and creating advantages for the customer to work with us, as we grow, we'll be able to become more profitable. But the market is very competitive, and we expect it to be even more competitive.

Operator: Our next question is from Mark Connelly.

Mark William Connelly: Listening to a couple of producers in China, we've been hearing more talk about seasonality in their businesses. And I'm curious, as your production and mix shifts -- sorry, as your sales into China and the mix of business shifts, are you seeing more or less seasonality? I can't tell whether these companies that we're hearing from are significant to your overall business there.

Raviv Zoller: We don't really have too much of a seasonality issue in China, and the reason is that a huge part of our production is acquired by our partner, which means that their planning is to buy what we produce. So it's less of an issue for us. We basically sell just about all of the production that we're able to produce during the month, in any given month.

Mark William Connelly: OK, that's very helpful. Can you remind us of what the product ramp for WPA in China's going to be? And are we going to see a mix shift become apparent in '19? Or is that going to be more apparent in 2020?

Raviv Zoller: The mix is going to be more apparent in 2020. We are growing specialty products, but specialty products based on technical-grade white phosphoric acid is going to come to play only at the end of 2019. We started building our production plant for white phosphoric acid in September of 2018, and we plan to start going live with production for customers right at the end of 2019. So it'll only be significant in 2020.

Mark William Connelly: OK, that's helpful. Just one more question. Are there any further charges, cash or noncash, that come from this royalty agreement that you've now resolved with Israel? Or have you just taken all that?

Raviv Zoller: From the royalty agreement?

Mark William Connelly: Yes. Is that all resolved?

Raviv Zoller: That's resolved. We have additional issues with the government, which we will need to resolve in the future, so I can't promise for life. But in terms of the royalty issues with the government, I'm very happy to report that these issues have been around since 2012, and we've gone through very difficult arbitration process. And we worked very hard in the past few months to establish good trust and new working relationship with the authorities. And we were able to come to an agreement without the need of the arbitration, without the need for the arbitrators to make a judgment.

And that's a very, very good sign because it means that things that were stuck in the past or things that demanded huge transactions, expenses and lawyers and specialists and all kinds of management focus can be worked on in an amicable way. And Kobi led a team and did a great job on that. So after 7 years, we were able to negotiate an agreement, and I think it did a lot of good for our relationship with the government.

Operator: Your next question is from Patrick Rafaisz.

Patrick Rafaisz: I have 3 questions. I'll go one-by-one, if that's OK. The first one is a follow-up on Industrial Products and bromine, especially the clear brine fluids. They still benefited from a mix perspective in Q4? Now you mentioned that you had a strong start here as well in January. How much longer do you think Industrial Products can perform better than the usual run rate of around $75 million to $80 million of operating profits? Or in other words, how much longer will clear brine fluids benefit the mix in that segment?

Raviv Zoller: Honestly, if you'd asked me in June of last year, I probably would've said another 2 or 3 months. But as we gain more information and understanding in the past few months, it seems that there's not enough product around for the current needs. And what we see, even in January, is that new client that never bought from us are buying from us now. So it means that they're not getting product elsewhere. So I don't know what that means for the total market, but my guess is that the total market is growing, and probably there's some bleeding wells out there.

Patrick Rafaisz: OK. And then the second question, cash flow considerations in 2019. You sound quite optimistic on your cash flow generation and especially free cash flow generation. Can you talk a bit, maybe a question for Kobi, around the effects of the collections that were pushed out to the Indian and Chinese contracts as well as the inventory levels at record lows now year-end '18? What kind of effects should we expect here in 2019?

Raviv Zoller: If you look -- I'm stepping in here for a second. If you look into the cash flow trajectory, you see that we're nearing the $250 million quarter rate from operating results. So we're talking about $1 billion or so in terms of operating cash flow generation. So given $630 million or $650 million CapEx expectation, it means that if working capital doesn't change over the year, we will generate over $300 million of free cash flow. But since you also asked about the receivables being pushed forward, Kobi will complete.

Kobi Altman: Yes. So just if you think about 2018, what was a little bit unusual in that year is that the Chinese and the Indian contracts were signed later in the year versus, I would say, regular years. And as a result of that, we shipped a lot during the last few months. But still, most, if not all, of those accounts are still on our balance sheet as customers' balances and yet to be collected in the first part of 2019. And this is why we believe that 2019 will be a stronger year of cash flow generation compared to 2018.

Patrick Rafaisz: OK, that helps. And then the last question. Should we already expect any unusual or exceptional items for your financial expenses in 2019 as well the way you saw now in Q4 from hedges or royalty interests? So anything you already see coming up? Or should we just assume something like $100 million, $110 million of net financial expenses as guided previously?

Kobi Altman: Patrick, from what we know, obviously, it's hard to predict things like that. But from what we know, interest expenses should be at around $100 million for the year. This is a more stable one, obviously, depending on the interest rate globally. But this is more or less should be stable. We are looking at ways to try to reduce the volatility of the other transactions around hedging and things like that, but this is highly dependent also on exchange rate valuations and things like that. So a little bit higher, more challenging to predict on a quarterly basis.

But if you see on an annual basis, this is usually more or less offsetting each other. So if you're going beyond the quarterly fluctuations, more to the annual ones, then the fluctuation is much, much smaller.

Operator: Your last question today is from the line of Roni Biron.

Roni Biron: I have 2 questions. First, following up on free cash flow, it has been trending higher from a low base since Q1. You mentioned that Q4 run rate is indicative for 2019. And I was wondering, how much room do you still have to improve working capital, overall cost in the company? Or is this already included in the $250 million run rate?

Raviv Zoller: On the -- on our payables, we're in good shape. On our receivables, we have some room based on technical correction due to the payments regarding to end-of-year sales. The place where we have most potential flexibility is on the inventories, and part of that comes from synergies, from a combination of our phosphate businesses.

We had 3 different P&Ls, and the reasons for holding inventory were not necessarily aligned between the 3 P&Ls. So as we streamlined the operations servicing the specialty industry, we have some significant room for improvement, and we're working diligently on creating and improving the working capital based, first and foremost, on inventory management and, like I said before, receivables, given a potential for a correction in the beginning of the year.

Roni Biron: So assuming similar CapEx level next year, shouldn't that translate into some improvement in free cash flow versus Q4?

Raviv Zoller: We're targeting an improvement of about $200 million on our working capital.

Roni Biron: OK. And the other question is regarding Spain. Can you walk us through the road map here? When do you expect to conclude the streamlining project? What kind of impact to production levels next year? And basically, once all of that is done, how do you see the single-mine profile in terms of the effective capacity and cost-per-tonne savings?

Raviv Zoller: The 2019 numbers are not going to change from 2018, which means that production is going to be a little over 900,000 tonnes. The ramp, which is the main investment, is going to be completed by the end of 2019. Given that it takes a few months until we'll go live in one mine, then somewhere in the beginning in 2020, we'll be working only in one mine. The first year of consolidated work will result in the very same production levels, maybe 1 million tonnes, no more than that. The potential ramp-up within 12 to 15 months is about 1.3 million tonnes.

And in terms of cost per tonne, we have significant leverage. Once we're working in one mine, we have double-digit potential in terms of decreasing cost per tonne. And that's before the ramp-up from 1 million to 1.3 million. So there's significant potential in lowering cost per tonne.

Operator: There'll be no further questions at this time. Speakers, please continue.

Limor Gruber: Thank you, everyone. Thank you for joining us today, and we look forward to touch base soon. Have a good day.

Operator: Thank you. That does conclude the conference for today. Thank you all for participating, and you may now disconnect.

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