



ICL

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Joel Jackson: All right, so our next presenter is Israel Chemicals, ICL, of course a leading global producer of potash, bromine, and specialty phosphates. Presenting today is Kobi Altman, the CFO.

Kobi Altman: Thank you. Good morning, everyone. Nice to be here in New York to get some rain. In Israel, it's really getting very, very hot this time of the year.

So, ICL at a glance, and this is kind of the first slide that speaks about ICL from a very, very high level. And I think that what is important to talk about in this slide is our decision to put two parameters right in this first slide, which is our dividend yield and our rating. And this is because we put a lot of emphasis on the capital allocation in the company and the optimization within a kind of a triangle between, on one hand, to make sure we invest the right investment for our future growth engine, and we are investing this year, for example, in our potash segment, significant investments to make sure that our Spanish operation, as well as the Dead Sea, are established and are positioned to capture the growth and the market need for the years to come.

So, we are investing in the growth engines of the company. On the other angle, we need to make sure that we maintain a very strong balance sheet. So, we decided that being an investment-grade company is something that is strategically important for us, so we are kind of following the guidance of S&P and Fitch in what they tell us about net debt to EBITDA ratios that we need to maintain. It also allows you to think about how much we can devote to inorganic moves, because we are following their guidance, and we want to maintain this investment grade. The third angle is obviously the shareholders' return and the dividend yield that we are paying, which is among the highest in our industry.

A company at our size, which is a kind of small to medium-sized company, also needs to put a lot of emphasis on how we want to lead the market, how do we define leadership, what is the DNA of leadership in our company and in each of the areas where we are operating. So, also here, the way we define leadership in each of our segments is likely different because of the various characteristics of the various industries that we are playing in and the various mineral chains that we are operating. So, ICL, as you know, we are maintaining and we are working in three main mineral value chain. It is the bromine, it is the potash, and the phosphate. And we have a small operation, which is the innovative ag solution, that our target is to grow this one, as well.

So, in terms of the leadership, we'll go one-by-one. Here you have it in a glance, and we'll go through it in a minute. In the bromine, it's very, very simple. We are the world's largest producer of bromine. We have the largest market share. We also have the largest available capacity. So, if more or less the other players in the market are running flat-out, we are the ones that have the additional capacity. So, here the leadership story is very,



very simple, but I will elaborate in a minute what are we doing in order to maintain that and to leverage on that.

In the potash, it's a very, very different story. In the potash, we are not leaders in terms of volumes. For us, this is a commodity play. We are price takers. We have no ability to influence the prices in the market. And as a result of that, the way we define leadership in the potash area for us is to be among the most competitive players in terms of the cost structure of our company and our mineral potash assets. And if we will be among the highest, most competitive players in delivering our product into the market to our customers, we will always make money. When the cycle will be up, we will make more money. When the cycle will be down, we'll make less money. But we can secure the leadership position in returning shareholders' value.

Phosphate, which is the third mineral value chain where we play, is also different in the way we define leadership. In phosphate, we have no intention to be a leader in the commodity play of the phosphate. Our leadership story in phosphate is around the specialty phosphate play, and here you can see it's a very, very diverse market. We are already pretty big in the phosphate specialties, but it's also very, very fragmented market. We have a lot of room to grow and to move more and more from our basic commodity phosphate into the specialty play.

You can see here the numbers for 2018. We recently published also the Q1 '19. I will show at the end of the presentation some figures and trend line on the Q1 '19, as well. And what you can see in terms of size, our biggest value chain is the phosphate. We are selling about \$2 billion in this segment. But, generally speaking, the profitability level is relatively low compared to bromine and to potash, and this is because we still have way to go in the transformation into more and more specialty businesses in the phosphate. Bromine and potash are the more profitable businesses that we currently have, and we have a very nice competition between those two segments.

Who is taking the lead? For the last two years, the bromine was pretty much in the lead, until Q4 2018. And again, in Q1 '19, we had a great quarter of bromine, and bromine took the lead again. So, very nice competition between these two. And the innovative ag solution, we are still not leaders. This is still something that is more of the longer-term growth engine for the company, and it's currently not contributing too much to our bottom line.

So, this is ICL now. If you'll fast-forward two, three years from now, what we want to do is to take this innovative ag solution and create a fourth leg for ICL out of this through innovation and through digital transformation that we believe the entire ag market will experience over the next decade.

So, let's go one-by-one. In bromine, as I said, we are the largest player in bromine, and we are balancing between selling bromine as elemental bromine or as compounds. We have the largest fleet of isotanks that allows us to sell elemental bromine throughout the world. But we also have the largest facility of bromine compounds. That allows us to optimize between selling the bromine as elemental form or in the bromine compound.

In terms of the long-term strategy of the company, we prefer to sell more and more compounds. It is easier to handle, easier to ship. It also creates for us longer-term relationship with our customers. You can customize your solutions around the product in an easier way so we can offer our customers something that is beyond just selling them the specific product that we have. We can offer them solutions. We can offer them services around those products. Just one example for this is the clear brine fluids. It is used for Deepwater wells of gas and oil. And we can offer there the full service of, for



example, keeping our inventory on their facilities, and in terms of emergency, they can use that, and obviously they pay for services like that. So, this allows us to optimize.

Why will we continue to be the leaders here? The main reason is because we are using the best source of bromine on earth, which is the Dead Sea. It is us and our colleagues on the Jordanian side of the Dead Sea that are producing bromine from the Dead Sea. The concentration of bromine in the Dead Sea is so much higher than any other sources, and this is why we believe that this will be the ultimate solution and the ultimate source of bromine for years to come.

Chinese resources are depleting, and this is part of the reason why the Chinese producers are slowly going out of the market in bromine. We actually saw an accelerated pattern of that over the last two years, but they're still there. And actually, we feel that it's very important that we will continue to have Chinese players also producing bromine, but the availability of their resources is becoming more and more challenging.

As a result of that, and also as a result of our very clear value over volume strategy, we saw a significant increase in prices in China for elemental bromine. This is just a chart that shows you something that is publicly available, but obviously this is kind of showing the trend in the overall bromine industry, what is happening elsewhere, and also in the bromine compounds. And this is why we were able to show an increasing amount of performance over the last few years. As a result of that, we believe that this trend will continue. Obviously, us as the world leader in bromine, we are trying to be what we call a responsible leader in making sure that we are not creating a market that is overly heated, and we are balancing the demand with the supply into the market.

So, our main goals and the leadership strategy here, we want to continue to see increased demand and try to find more and more solutions that are bromine-based. And obviously, as the biggest player, we will benefit from that the most. So, we have interaction with R&D institutions and we are trying to find new things to do with bromine. Value over volume strategy is a very clear strategy. We are not producing to our maximum capacity, and we are trying to make sure that the demand in the market is supplied in a careful way.

And this is why we believe that we will continue to see, over the next few years, a nice growth in the top line a little bit from quantities, more from prices, but a nice growth of the top line. And we would like to see, like in any other businesses of ICL, the bottom line growing at least twice the top-line growth. This is our internal target.

Moving to potash. Demand is very healthy. We also heard it in the last presentation here. We see healthy demand coming from our customers. We are serving mainly India, China, and Brazil, and to some extent also Europe, but those are the main markets for us. And we see very nice and stable demand for our product. We believe that the need to increase the yield of any farmer, and especially the farmers in the places that got the heat lately even more, like in the U.S., we believe that this pressure will continue to drive more and more usage of fertilization in a way that will be efficient, more and more efficient. And this will drive potash demand, because what we currently see is still that, in developing markets, there is under-utilization of potash if you compare that to other nutrients and fertilizers. So, demand is very healthy, and this is obviously very important for us.

What is our position? We have more or less five million tonnes of potash capacity. We stopped producing potash in our U.K. facility almost a year ago, and we moved there to polysulphate only. We are building this mine on this business of polysulphate. And we are about to be down from four locations of potash, one in the U.K., two in Spain and one in the Dead Sea, into two in about a year, a year and a half from now, toward the summer



or the end of 2020. We will be down to two sources of potash, one in Spain and one in the Dead Sea. We don't have plans to grow more than that. We are happy with the five million tonnes that we have. We will be able to increase it slightly over time, a little bit in Spain, maybe also a little bit in the Dead Sea, but not significant expansions. We are happy with these quantities that we have. Our leadership strategy is to be the most competitive player in terms of our cost structure.

And in terms of the cost structure, the main reason why our Dead Sea operations are very competitive is not only because the Dead Sea, the way we extract potash is through evaporation form. That is a very efficient process if you compare it to underground mining. The second, and not less important reason, is the logistic advantage. We are more or less 100 miles from the port in the Mediterranean Sea that goes into Europe, Brazil, the Americas, and from the Red Sea that goes into the Asian market, China, India, and the rest of the market. So, logistics expenses compared to our peers in Saskatchewan, for example, the land transportation is a very significant advantage.

Also, the marine transportation from the Red Sea, we are going directly into India and to China. If you compare that to our colleagues from Russia, for example, that need to go from the Black Sea into the Mediterranean through the Suez Canal, pay a little bit to pass through this canal, and then go through the Red Sea. The logistic advantage for us is very evident. Since there are projections that cost of shipments will increase over the next few years due to new regulations, this advantage will become more and more relevant for us.

So, our goals are, again, the goal we gave kind of officially is to be among the top three most competitive players. Obviously, we want to try to reach the number one position. Five million tonnes, more or less. This is what we are planning on. We can grow gradually, but not much more than that. And we need to reach one million tonnes in our Boulby mine for the polysulphate in order to make sure that this will become a profitable business as well and will stand on its feet. Currently, this is still a mine that is not making money, and this is, by the way, why we believe that our performance not only this quarter and 2018, has improved quarter-after-quarter. Also in the next few quarters, as we progress on our plan, our performance and our bottom line should improve again and again.

Moving on to the phosphate value chain, where we also have about five million tonnes of rock production in the southern part of Israel and in the southern part of China with a joint venture that we have created. As I said before, we are not looking to be a player in this commodity market. We are selling today almost half of our sales, I said around \$2 billion this entire segment, around half of that is still kind of a commodity sales, some basic acids and basic fertilizer. But our strategy is to move more and more into the more sophisticated product, the white phosphoric acid. We are building now a production line in China that's supposed to become operational toward the end of this year. And this will help us to grow more and more and to change the balance between commodities and specialties into something that we would like to be, in about five years from now, something like 75% of specialties versus the 50-50, more or less, that we have today.

As I said before, this is very, very fragmented market. We see many, many more companies that are playing in this specialty phosphate market, and we believe that we have significant opportunities to grow organically, or also marginally inorganically in order to bring more and more product, specialty products, that can use the backward integration that we have into rock.

So, our goals here are, again, we want to maintain the five million ton of phosphate rock. We are not looking to grow the amount of rock that we have, but we want to grow as



much as we can from these basic rocks, to channel it through our specialty operations. This phosphate operation is mostly a regional one. Our phosphate rock and the production we have in Israel and Europe serves more or less the European region. China, the joint venture, that recently also became balanced after losing for the last two years, and this is now also becoming profitable, which is something that is obviously very, very important for us. We put a lot of effort in making this joint venture working, and we really start to see the fruits of this effort. And this joint venture should serve the Asian market. Our specialty phosphate business in the U.S. is taking the rock, or the basic acids from players in the U.S. And this is kind of a regional play from the way we look at that.

In terms of the innovative ag solution, as I said today, we are not the leader. What we have today is a sizable business. We sell about \$750 million already. We do have experience that is coming mainly from Europe, slightly in the U.S., Israel and Spain - these are the largest places where we sell our specialty fertilizer. But we believe that this gives us a very good foundation to take this entire space and to grow it into a fourth growth engine for ICL. That is becoming an independent unit for ICL.

We are not building this innovative ag solution platform, the digital platforms or the R&D that we put into this just to sell our product in the potash or the phosphate or the bromine space. We would like to create this as an independent play. We are using the many years of experience that we have in the specialty fertilizer, the proximity to the Israeli high-tech community, and trying to leverage our R&D. We put under the umbrella of this new division all our R&D activities. We put the specialty fertilizer business. We put also a new digital unit that we are now building, and we are trying to find the right space for this, taking leverage on a huge way with technology that we believe is going to approach the industry.

In terms of specialty fertilizers, you see where we are playing right now. We also see that we are not everywhere where we need to be in order to become a leader in specialty fertilizers. We are missing some of the products, mainly the nitrogen ones. And we are also not present enough in the southern hemisphere globally. We are hardly playing in Brazil. We have almost nothing in Australia, South America, South Africa, India, Brazil. We are very, very small there. So, we believe that we have significant growth opportunities that we need to put some thoughts into that. If we are trying to think of inorganic moves in ICL, this will probably be in this space. We don't see any need for inorganic moves, not in the potash, not in the bromine, obviously not in the phosphate commodities. The main thing, or the main place where we believe that inorganic moves can happen in order to be faster into the leadership position in this space.

So, what we want to do is really to take leverage on a big technology boom that is approaching the agriculture. We see it everywhere, and we believe that we are really uniquely positioned to take advantage on this and to benefit from that, then creating our new fourth growth engine.

Just want to wrap up with some figures, both over the trends from the last few quarters. So, you see a very nice trend that we believe will continue also into the next quarters of our operating margins. We saw very, very nice growth in operating margin and operating profit, much more than the growth in the top line. We saw also very nice performance of the adjusted EBITDA, and also the cash generation power of the company is improving. We do see some seasonality in our businesses in ICL. Usually, Q1 is a little bit lower than the rest of the year, but you see a very clear trend from last year around the cash flow generation. And once we will finish those big projects for potash in Spain, as well as in the Dead Sea, most of them should be finished around summer of 2020. This will take a significant lift from the cash flow that we are currently putting into those operations.



So, to summarize with this last slide, we had a very strong start for 2019, continuing the good momentum that we have already created in 2018. We also start to see fruits from the big strategic investments that we are doing. Even though not all of them started to influence our financials, we are progressing well on our operation in Spain towards one mine that is profitable, that has a very good cost structure, more or less in the middle of the cost curve that will take this operation, and will become a strategic potash mine for ICL.

The investment that we are doing in the Dead Sea as well as in the joint venture in China in order to make sure that our phosphate operation will continue its growth trend into the specialties, and many other initiatives that we put in place over the last year and a half. And we continue to focus toward this long-term value creation. Thank you.

Joel Jackson: Any questions, please raise your hand or submit them on the app. Okay, I'll kick off, Kobi. It feels like bromine has been strong and it's been over-earning for some quarters now. Can this continue?

Kobi Altman: Yes. We believe it will continue, because what we see currently, we still see Chinese players going out of the market due to mainly two reasons. One is these regulations on environment that are now being enforced by the Chinese government, but not less important is the availability of their sources. Their sources are depleting. What we currently see some of our colleagues are buying bromine from the western players and mixing it with their bromine, because their bromine is not in the right quality right now. So, they somehow need to mix it in order to come to a reasonable quality in order to produce their bromine compounds.

We do see a lot of opportunity of moving customers to a long-term contract, to more buying from us bromine compounds with surrounding solutions and services. And as a result of that, yes, we do see growth in the bromine that can continue.

Joel Jackson: And if I follow up on that, I think that ICL is looking at an idea of trying to partner with some of your Chinese customers in building bromine compound derivative plant inside Israel, try to get around a lot of the Chinese dynamic. Can you maybe speak about that? How close are you to getting a customer to sign up with you?

Kobi Altman: Yes, it's a long-term journey. What we currently see, because of the spot market in bromine, that prices have increased very significantly. Some of our customers came to us and asked to sign with them long-term contracts of bromine or bromine compounds. We start to see this trend because the spot is very, very high there.

From our perspective, this is something that we encourage, obviously, because this gives us long-term visibility into the supply of bromine and keep the prices where we want them to be. The move into more and more compounds is something that we believe will be gradual. We don't want this to be too strong. We also need to get organized with our capacity in the bromine compound. But we do see quarter-after-quarter an increased demand to our bromine compound.

Joel Jackson: So, the company's been very clear for a long time that you really want to get more to specialty fertilizers, do more acquisitions. You laid out where are your holes in the portfolio, nitrogen, sulfur, Brazil, India, South Africa. Where do you think is the biggest hole you have on the specialty fertilizer side? Perhaps customers are telling you I could do more, I could bundle more, I could do whatever more if you had this one hole covered.



- Kobi Altman: Again, we are not in NOP and SOP. So, if I'm trying to think about holes that we have in our portfolio, this is around those type of products, as well as the geographical footprint. So, those are the main areas where we look at. Not a lot of global players in this space that are available, and this is why we might go into a strategy of starting to buy small -- very small players and accumulate this.
- Joel Jackson: So, if your biggest holes are non-chloride potash fertilizers, right, NOP and SOP, and hey, Haifa Chemicals in Israel, that's a big NOP producer, and they buy potash from you, and there's been lots of media stories that you're going to buy Haifa Chemicals. Why aren't you just buying Haifa Chemicals?
- Kobi Altman: Well, you also need the will from the other side, right? So, we'll see. It can happen. It can create some regulation issues within Israel because we are very big. They are very big there as well. So, it's not going to be an easy transaction. But it can be a nice fit, either through an M&A or through some kind of collaborations, or any other ways. By the way, also in the Innovative Ag Solutions, what we really see potentially in the future, that current competitors can collaborate on the new future, because the industry is going to look very, very different, and we do see a lot of potential for collaboration, not only through M&A.
- Joel Jackson: Thank you, Kobi, very much. Thanks.
- Kobi Altman: Thank you very much.