



**ICL Q3 2019 Conference Call
7 November 2019**

Operator: Ladies and gentlemen, thank you for standing by and welcome to the ICL Analysts and Investors conference call.

Our presentation today will be followed by a question and session. At which time, if you'd like to ask a question, please press star then one on your telephone keypad. I must also advise you the call is being recorded today. Should you experience any technical difficulties today, please press star then zero on your telephone.

I'd now like to hand the conference over to your 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 Third Quarter 2019 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. The presentation that will be reviewed today was also filed with the Securities authorities and is available on our website as well. Please don't forget to review the disclaimer on Slide number 2.

There will be a replay for the webcast available a few hours after the meeting and a transcript will be available within a few days.

Please note that 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.



And now, we are ready to begin with a 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: Thank you, Limor. And hello everyone.

I'd like to open with a review of this quarter's highlights on **Slide 3**.

Our solid third quarter and year-to-date results with strong quarterly cash flow were achieved despite headwinds in the commodity markets. The 3 percent reduction in sales is attributed to the delay in signing of potash supply contracts to Asia and phosphate commodity headwinds as well as to the negative impact from exchange rates following the devaluation of the Chinese yuan and the euro against the dollar.

Nevertheless, our operating income and EBITDA as well as our profit margins demonstrated resilience to market headwinds and increased quarter over quarter owing to our diverse and balanced business model, our increased focus on specialty businesses, that benefited from higher margins, a stable business environment and our focus on cost controls and cash generation. The year-to-date comparison is even more impressive as adjusted operating income increased by 25 percent and EBITDA by 18 percent.

Operating cash flow for the quarter reached a six-year record of \$368 million. Year-to-date cash flow nearly doubled compared to the same period last year. The increase in operating and free cash flow will more than support our CapEx needs as well as a dividend of five cents per share for the quarter, implying a solid dividend yield of over 4 percent.

I'm also very pleased with strategic milestones achieved during this quarter. Our Industrial Products division signed several long-term agreements with customers in Asia for the sale of bromine compounds and our Phosphate Solutions division signed agreements for the supply of solutions for the alternative meat market and I will elaborate on these agreements shortly. Furthermore, we're on track to complete the construction of our new pure



phosphoric acid plant in China, which will further boost our especially products operations in Asia and drive our margins higher.

Slide 4 demonstrates our solid performance this quarter and more so during the first nine months of the year, which show impressive growth in all key financial measures. Most notable, apart from the significant growth in cash generation, is the year-to-date increase in adjusted operating income, EBITDA and adjusted net income.

The slight reduction in adjusted net income in the quarter is a result of high financial expenses and an increase in non-controlling interest, resulting from the improved results of our YPH joint venture in China.

The following slides provide a review of the business performance in our divisions, starting with Industrial Products on **Slide 5**.

Our Industrial Products division continued to increase its profit margins, benefiting from higher prices throughout the bromine value chain as well as in our phosphorus-based flame retardants business line. Moreover, the depletion of bromine resources in China coupled with increasing environmental-related regulatory pressure, led to higher demand and sales of elementary bromine in China, while significant drilling activities in the coast of South America and in the North Sea contributed to higher sales volumes of clear brine fluids. We're increasing our bromine production in order to capture demand gaps caused by lower Chinese production and we anticipate 2019 to be a record year in sales of clear brine fluids.

We also continue to implement our value-based pricing initiatives in phosphorus-based flame retardants and successfully increased sales in the U.S., more than offsetting a decrease in sales in European markets. This is due to the duties imposed on Chinese phosphorus-based flame retardants imported to the U.S., forcing Chinese producers to export more material into Europe.

We recently announced the signing of major long-term strategic supply agreements of bromine and bromine compounds with customers in Asia. This



strategic milestone lays the foundations for the division's future growth and further strengthens its leading position in the global bromine market.

In order to deliver on these agreements and the ones that are expected to follow, the division will invest about \$50 million in expanding its compound production capacity and its isotank fleet. These agreements are expected to generate additional annual revenues estimated at \$110 million, beginning in 2021.

Let's turn to **Slide 6** to discuss our Potash division. The delay of supply contracts in China and India resulted in lower sales volumes and in a change in product mix, shifting to higher production of granular over fine and standard-grade potash, which is mostly shipped to these markets. That presented some operational and logistical challenges resulting, along with some mechanical failure in equipment, in lower production of almost 80,000 tonnes at the Dead Sea compared to the same quarter last year.

Last week, we announced the signing of an updated supply agreement with IPL, the largest importer in India, at a \$10 per tonne price reduction through the end of March 2020. The volume in this six-months' supply agreement is in line with our five-year supply contract with IPL.

Despite the reduction in sales, a decrease in energy cost due to the activation of our new power plant station in Sodom, lower production costs, mainly due to the shift to Polysulphate in the U.K., a mild increase in Polysulphate and magnesium selling prices and a decrease in operating expenses, led to a 6 percent increase in operating income, expanding quarterly operating margin to 22 percent compared to 19 percent in Q3 of 2018.

Production of Polysulphate at our Boulby mine in the U.K. continues to ramp up and has doubled compared to the same quarter in 2018, on track to achieving a production run rate of 1 million tonnes by the end of next year.

The Dead Sea facility upgrade project we announced earlier this year is scheduled to take place during Q4. While resulting in a temporary production shutdown and an expected loss of about 200,000 tonnes in Q4, which is a one-



time event, this plant upgrade will enable us to increase production by about 5 percent as early as in 2020.

Following the antidumping duties that were imposed on magnesium imports to the U.S., we continue to vigorously defend our position. We strongly believe that no material injury or threat with material injury has been caused, hence such duties should not be applicable.

Our Phosphate Solutions division on **Slide 7** continued to face very challenging market conditions, with benchmark phosphate commodities dropping by 25 percent from the beginning of the year, to a 10-year low. Nevertheless, the division's performance demonstrates the advantages of our strategic focus on specialty phosphates, our diverse portfolio and the resilience of the specialty businesses amid the weak commodity markets. Unlike the commodity markets, specialty businesses did not face major changes in the business environment. Furthermore, our phosphate commodity business experience a relatively better pricing environment for TSP and SSP compared to DAP and MAP.

In addition to the negative impact of commodity pricing, the decrease in the division's sales was attributed to a significant decrease in the sales volumes of commodity fertilizers and lower customer demand for dairy proteins in China, together with the devaluation of the euro and Chinese yuan against the U.S. dollar.

Our YPH JV in China continued to deliver improved results with higher operating profit driven by operational efficiencies, as well as by lower rock and sulfur costs.

During the quarter, we withdrew from a potential sale of Prolactal, our dairy protein business. We believe the business carries a higher value than the offers we received and we'll therefore continue to enhance Prolactal's position as a leading producer of premium dairy ingredients for the major infant formula players globally.



The division's phosphate-based food business continued to show improved results, successfully implementing value-based pricing initiatives, mainly on tailor-made downstream solutions.

I'm also very pleased with strategic agreements we recently signed for the supply of solutions for the fast-growing meat alternative market, based on a proprietary ROVITARIS™ technology. Following these agreements, we expect to invest approximately \$20 million in manufacturing capacity and R&D capabilities. Return on investment is expected to be very high with anticipated high operating margins.

Our Innovative Ag Solutions division on **Slide 8** has entered into its offseason period, which will last through the fourth quarter as well. Unlike previous quarters, this quarter we were able to match revenues to last year's level despite continued lower sales of low margin third party products. Negative impact of exchange rates and higher energy and raw material cost due to lower production of pure phosphoric acid, potash and phosphate rock, were partially offset by continuous growth in sales in emerging markets. Furthermore, promising investments in R&D and in our digital activities have weighed on the division's profit.

We're focusing on increasing operating cash flow through reducing the sales of third-party products, which bear low margins, and results were evident this quarter with free cash flow of \$18 million.

As you can see on **Slide 9**, our solid performance continues to fuel the growth trend in most main operational parameters since the beginning of 2018. Indeed, operating profit and EBITDA margins this quarter were slightly lower consecutively on the back of increasingly challenging commodity markets conditions. However, as I mentioned earlier, operating cash flow has significantly increased with a six-year quarterly record.

The growth trend in the graphs in front of you is evident but our strong results were even more impressive in the year-to-date view on **Slide 10**.



The consecutive growth in operating income and EBITDA, both in absolute terms and in margins, as well as the impressive spike in cash generation this year after two years of decreasing cash flow, are a testimony to our ability to execute our strategy, grow margins and generate cash, even in challenging conditions with market and currency headwinds.

As always, I wish to conclude by recognizing and appreciating the hard work and dedication of our 11,000 employees around the world. I'm very confident that ICL is well positioned to overcome the challenges in our business environment and very well prepare to benefit from opportunities that are emerging in our businesses.

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

Kobi Altman: Thank you, Raviv, and good day everyone.

This was a very solid quarter in an increasingly challenging market condition. ICL is continuously proving its resilience and ability to deliver strong performance throughout commodity cycles. This quarter, it was demonstrated in higher gross and operating margins and the highest cash flow generation since 2013.

The contribution of our specialty businesses is demonstrated on **Slide 12**. We see it in pricing, where higher specialty products prices surpassed the negative impact of lower commodity prices. We also see it in sales volumes, where the decrease is attributed to commodity, while specialty volumes remained stable. This quarter, our sales were impacted by significant exchange rate headwinds, mainly from the devaluation of the euro against the U.S. dollar, which also resulted in a 1 percent reduction in our average realized potash price.

As you can see on **Slide 13**, despite the mild reduction in sales, operating income in the quarter slightly increased compared to 13 2018. We benefited from lower raw material costs, with lower sulfur and phosphate rock prices contributing \$9 million and \$4 million, respectively. This achievement was partially offset by higher cost of pure phosphoric acid we buy from third parties. The significant increase in marine transportation prices was almost



fully offset by lower energy costs owing to the activation of the new power plant at Sodom.

I would like to draw your attention to the fact that a \$22 million negative impact of quantities to sales was translated to only \$6 million reduction in the operating income. We strategically focused on higher margin products on the account of less profitable ones, especially in specialty phosphate, as well as in the bromine and phosphorus FR businesses. The increase in operating and other expenses is mainly a result of income we recorded in Q3 2018 due to changes in pension liabilities and from higher depreciation expenses.

Slide 14 demonstrates the impact of foreign exchange rates on our results this quarter and year-to-date with a \$22 million impact on sales for Q3 and over \$100 million year-to-date. As noticeable from the graphs shown, exchange rates of all major currencies worked against us, resulting in a negative impact of \$50 million to net income in Q3 in a similar amount year-to-date. Even with such a significant headwind, our Q3 earnings are similar to last year and our nine months adjusted net income is almost the same as the adjusted net income for the full year 2018.

Our finance expenses as shown in the table on **Slide 15**, increased by \$9 million versus last year. This comes mainly due to a \$5 million increase in interest expenses, attributed to the implementation of the new IFRS 16 accounting standard and change in interest relating to provisions for long-term employee benefits. In addition, an increase of \$7 million is attributed to the impact of exchange rates fluctuations on long-term employee benefits provision and liabilities related to the implementation of IFRS 16. The total negative impact of the IFRS 16 new accounting standard on our finance expenses year-to-date amounted to \$18 million.

Slide 16, graphically demonstrates one of our major strategic achievements this year. Despite the increasingly challenging market condition, ICL was able to outperform last year's cash generation in each and every quarter, bringing year-to-date 2019 cash flow to a six-year record.



As you can see, the year-to-date operating cash flow net of CapEx, which we sometimes call 'free cash flow', amounted to \$360 million, significantly higher compared to 2018, even in a year of larger CapEx investment, contributing to our healthy financial position. By the way, also, our tax payment this year more than doubled versus last year and this also attest to the important cash flow generation achievements.

Moving on to **Slide 17**, our net debt to EBITDA ratio continues its improving trend with the second consecutive decrease to a ratio of 1.8. That, along with our balanced capital allocation approach and our margin expansion, is adding to our solid financial position and our increasing financial flexibility to execute our strategy.

Before we end this part of the presentation and move on to your questions, I would like to summarize this quarter with some key takeaways on **Slide 18**. Despite facing challenging market conditions, mostly commodity headwinds, we were able to solidly perform, executing our strategy throughout cost controls, value-based pricing initiatives and aided by our balanced business model and our increasing focus on specialty businesses.

The successful execution of our working capital optimization plan is evident in a six-year record quarterly cash flow, with year-to-date cash generation almost doubled versus last year.

Under the framework of our strategy, we continue to look ahead, building our future growth and market leadership and during the quarter, we achieved important strategic milestones as Raviv discussed earlier. During Q4, we will execute our pre-announced facility upgrade projects at our Dead Sea potash operation. While this project will have significant negative impact on our potash production and sales volume in Q4, it will enable us to increase our potash production at lower cost going forward.

This milestone achievements serve as the building blocks of our future growth, strengthening our financial and global leadership position and creating long-term value to our shareholders.



Three quarters into the year, we are pleased with our solid performance especially in light of the performance of commodity markets. We expect a challenging Q4 due to the regular end-of-the-year seasonality, the continuous weakness of phosphate commodity markets and to lower potash production and sales volume as a result of the upgrade project at the Dead Sea.

Yet, we believe we are on track to achieving a strong 2019 and a good start to 2020.

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

Operator: Thank you very much. As a reminder, to ask a question over the phone today, please press star then one on your telephone keypad and wait for your name to be announced. You can cancel the request by pressing the hash key.

Once again, star then one on your telephone to ask a question today.

The first quarter today comes from the line of Mark Connelly from Stephens Inc. Please go ahead.

Joan Tong: Good morning. This is actually Joan Tong, on for Mark.

A couple of questions. First off, I want to ask you about the phosphate business. When the commodity phosphate producers calling the bottom of the phosphate prices, at least on – in the depth prices. So, I'm just wondering, like, how you see this market, it looks like your realized prices has been like has not been falling as much compared to others.

So, obviously, you have a different mix, you're more in SSP and TSP. I'm just wondering, are your prices just lagging or the market has been holding up a lot better than (debt in that)?

Raviv Zoller: Hi, Joan, thanks for the question.

We really can't say at this point where the bottom is in terms of phosphate. I think what you're seeing in our results is not just SSP and TSP, it's the fact that we have the significant improvement in our YPH joint venture and a lot



of it has to do with the realized price. So, some of the negative effect of our other commodity business does not reflect because of the YPH joint venture.

So, it's not that we're seeing a very different environment, it's just that only part of our business's commodity and off that part of the business, we have the joint venture in China which has a significant improvement quarter over quarter, year over year.

Joan Tong: OK. Got it. And in terms of cash flow, obviously, you have very strong quarter for cash flow. Working capital is positive during the quarter after a pretty normal first half. Are there any big timing issues that cause that or should reverse in the fourth quarter which is something else that we'll keep the working capital from ending this year quite higher than 2018? And also, how should we think about next year assuming this year is a normal year in terms of cash flow?

Raviv Zoller: OK. We are running a significant initiative in the past year on working capital, on changing some of our processes and the net result of that initiative has been about \$70 million in the first nine months and we actually expect some more of that on the next couple of quarters.

So, cash flow has gotten to a new level in the company. We just a lot more focused and we're very disciplined and we expect the good cash flow creation to continue going forward. Having said that, like I said, \$70 million, you can view it as a one-time improvement, if you will, and in terms of the actual working capital at the end of the year, typically, there's a little bit of a rise at the end of the year because of seasonality.

So, on our phosphate specialty fertilizer business, we tend to accumulate more inventory towards the end of the year. At the same time, because we're going through a three-week facility shutdown of potash, we will have less potash inventory at the end of the year because of the sales we need to achieve by the end of December. So, there'll be probably a slight uptick in the net working capital, not significant.

Joan Tong: OK. Got it. Thank you very much.



Raviv Zoller: Thank you.

Operator: Thank you very much. The next question comes from the line of Joel Jackson from BMO. Please go ahead.

Joel Jackson: Hi. Good afternoon.

Raviv Zoller: Hi, Joel.

Joel Jackson: I have a few questions. I'll go through them one by one. Can you give us some more color on ROVITARIS? Maybe you can outline what the opportunity is here, the timeline, the peak sales opportunity, how it's going to play out, when we see inflection points? Anything you can would be really helpful here.

Raviv Zoller: Sure. It's a set of three types of technologies that have to do with texture, combination of taste and texture and process of turning plant protein into components of alternative meat.

Between those technologies, we have solutions for chicken product, fish products, and beef products. So, there's a nice diversity capability. It's proprietary technology and basically, the way to view it, is that we take our technology, put it into a powder, and that powder is processed and that gives texture, flavor and some other specific attributes that are unique.

We think we have very, very good products. We were actually considering getting out of the business about a year back and we saw a tremendously good reaction from potential clients and our first real significant contracts came in Q3.

There's a lot of hype around the alternative meat market. So, nobody has a crystal ball and knows how far this can go. I can say that we don't recognize better, more worthy products than what we have now. But at the same time, we are relatively new to the business. We're trying to be careful to go the right route, not to give anybody exclusivity and try to move up the value chain



because at current, in order to be able to supply some of our product, we're doing quite a lot of tolling.

So, we're going to look to invest in our own production capabilities and try to see how far we can go with these products. So, it looks like oil. There are a lot of signs of oil but we don't know how much oil we're going to find. That's the way to look at it at this point.

Joel Jackson: Order of magnitude, base case, is if in five years a \$20 million revenue opportunity or \$200 million revenue opportunity or something else?

Raviv Zoller: I'm not sure – I mean, I can tell you that it's not a \$20 million opportunity because otherwise, we wouldn't be deciding to invest \$20 million almost immediately. So, it's more than a \$20 million, but it's a little difficult at this point to give a responsible forecast. I don't want to create hype. I'd rather come back to you and report about the actual results.

Joel Jackson: Maybe another way to ask it is what's your ROIC right now, hurdle rate – excuse me – what's hurdle right now for investments, that 20 million would have been invested under, if that make sense.

Raviv Zoller: It's a difficult question because formally, it's 15 percent but the last investments that we made were over 25 percent. So, in terms of our internal procedure, investments that are over 15 percent can be approved but investments like this one and also in the bromine compound facility are over 25 percent.

Joel Jackson: Thank you. On potash, obviously, going for your turnaround now, but could you just give me some colors. So, what were your China and India potash sales in the third quarter of '18 and what were your sales in third quarter of '19. And then as part of that, as the potential of the potash contracts stretches out in China to maybe February or later, what would your strategy be here? Or are you – I guess we'll call it lucky because that turnaround, you don't really have a problem with inventory?



Raviv Zoller: Yes. I mean, first of all, we don't have a problem with inventory but the way we look at it is that in September, we didn't supply at all to the east. So, we supplied two-thirds, roughly two thirds of what we supplied last year. And probably, if there wasn't stoppage in September, we would have supplied an additional 80,000 or 90,000 tonnes of product to India and to China.

In terms of the rest of the year, given that we're shut down for three weeks, we basically have to optimize the product we have. We have enough or a little too much clients waiting for our product. So, the fact that we're not supplying to China is sort of timely this year because this year, we're a little more constrained on product.

Joel Jackson: I guess I'm asking also is because of the Chinese and Indian contracts were signed, late December, early fall last year, were your Q3 China-India potash had been similar both years?

Raviv Zoller: No. Like I said, they were about two-thirds this year relative to last year

Joel Jackson: OK. I didn't understand that. Two-thirds of the quarter ...

Raviv Zoller: From ...

Joel Jackson: In the third quarter.

Raviv Zoller: From September first, we didn't supply any potash to India or China.

Joel Jackson: Very clear.

Raviv Zoller: And we only resumed supply to India towards late October.

Joel Jackson: Very clear. Thank you very much.

Raviv Zoller: Thank you.

Operator: Thank you very much. The next question today comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead.



Vincent Andrews: Thank you and good morning, everyone. Just a follow up on the Indian contract, a couple of things, you referenced the price being down \$10 versus the prior contract. But can you clarify whether there's any change in the rebates that you might provide? There's trade press indicating that the rebate might be larger in this contract than on the past contract. Thanks.

Raviv Zoller: No. There's absolutely no change in the rebate. In fact, there's no change in the contract because in our case, it's a five-year contract, so the only thing that changed was the update of the price for the next six months. We update price. We don't really update quantities.

Vincent Andrews: OK. And then the comments about the phosphate feed market being weak because of ASF, what's your sense of where that phosphate backs up to because that market's obviously, going to be weak for a while until China can rebuild that herd. So, where will that product go to? Is it going into another market or will the producer shift in to a different downstream product or what's going to happen there?

Raviv Zoller: There are a lot of moving parts here because there are producer curtailments and there are announcements in China, the Chinese producers are going to cut production. And some of the major suppliers are saying this and that. The bottom line is that we don't have enough clarity at this point to really predict what's going to happen in the coming months.

It seems that like from the production side, there are all kinds of explanations why we're close to the bottom. My best explanation to our being close to the bottom is that some of the suppliers have negative gross margin and Chinese supply is leaving China at a loss.

So, I don't think that – I don't think that can be endured overtime. So, that's the only strong indication that I have. At the end of the day, there's one very, very dominant supplier in the phosphate market and probably between that supplier and the Chinese suppliers and the way they address the current market condition, that's what's going to cause the price to either stabilize or move down or move up.



Vincent Andrews: OK. Thanks very much.

Raviv Zoller: Thank you.

Operator: Thank you very much. The next question comes from the line of Tom Wrigglesworth from Citi. Please go ahead.

Tom Wrigglesworth: Thanks very much for the opportunity to ask questions.

First question, I'll go one at a time. Obviously, with the brominated polymers facility that you're building for 2021, how much of your total Chinese customer base will now be serviced through that facility?

I'm guess what I'm really trying to point out is do you expect more of your Chinese customers to outsource supply to you beyond – it is just a startup project or should we be thinking about more in the medium terms being added to this? Thank you.

Raviv Zoller: We expect that there will addition because this is sort of, I would say, no less than a strategic breakthrough. We targeted basically to convince our Chinese customers, actually a couple of them, that it makes a lot of sense to go ahead and produce compounds with us in Israel instead of purchasing bromine from Israel and producing the compounds in China.

Given the depletion of resources in China and given the importance of safeguarding future raw material and also saving logistic costs and enjoying economies to scale, and we knew that psychologically, it would be very difficult for the first customer to take the plunge. But now, there's more than one customer and it seems like more talking to us, looking at options, of course, it all depends on production capacity but we feel that the door is open. We feel that it makes sense for everybody given the dynamics of the market and we're hopeful that this trend will continue. What it does for us, basically, is that it increases our market because some of the competition in the market is actually our customers producing for themselves.

And when they decided it makes more sense to produce with us, then basically, the market as a whole grows. And as a result, our market share



grows. So, we think it's a breakthrough – these are breakthrough times and we think there's more on the way.

We're going to be very careful because it's critical that we deliver perfectly and we show everybody they made the right decision. And so, we're very optimistic about this.

Tom Wrigglesworth: Thanks, Raviv. Just on the short-term dynamics of bromine markets, in October, Chinese – sorry, in renminbi prices looked to be down around just over 5 percent year on year. Is that a valid index I'm looking at, showing that price? So, do you agree with that?

And B, what are the dynamics in the market for bromine at the moment? We've seen, obviously, very resilient prices over the last couple of years. And just when you probably think that actually things could get better from a demand perspective into next year, price look a bit softer. So, any insight there would be very helpful.

Raviv Zoller: There's a positive dynamic. There's usually a drop during the summer because of production dynamics of local Chinese producers. And also the yuan weakened against the dollars. So, some of the drop you're seeing has to do with that because the spot trading is yuan based. No, we think that the dynamic is – it means that the trend is pretty solid. And in fact, that's part of what is causing some of the customers in China to look for other strategic options in buying spot.

Tom Wrigglesworth: Thank you. And just a final one for me, the WPA plants in the YPH JV that's starting next year, what's the kind of sales of that – that that facility could achieve and over what kind timeframe should we be thinking about?

Raviv Zoller: First of all, we're inaugurating the plant on – in the first week of December and we will ramp it up during the next six months. The production for next year, I apologize, I don't remember the exact number but it's about 10 percent of total production for next year because it's coming from the second half of the year. So, it reflects about 20 percent of the production of the joint venture.



The way to look at it is we're not adding a lot of production. We're mostly converting commodity product to specialty product. Very much intended to go into the food business in China. And so, as time goes by, you'll see the plant ramping up in our production moving towards specialties. For the current investment, I think the potential is to reach about \$100 million a year.

Tom Wrigglesworth: OK. But we won't see that necessarily in the top line per se because it will just be a – some of it will be a switch from commodity sales, so specialty sales, but the margin will improve? Is that how we should think about that?

Raviv Zoller: That's correct.

Tom Wrigglesworth: OK. Very good. Thank you very much.

Raviv Zoller: More than half of it will be conversion of commodity into specialty.

Tom Wrigglesworth: OK. Great. Thanks again.

Raviv Zoller: Thank you.

Operator: Thank you very much. The next question taken is from the line of Patrick Rafaisz from UBS. Please go ahead.

Patrick Rafaisz: Thank you and good afternoon, everyone. Three questions from me, please. The first two are around the facility upgrades in potash.

Is the mechanical failure you mentioned you saw in Q3 related to this upgrade or is there something that will be addressed, and can you give us a bit more color on what actually happens? And the second quarter around the facility upgrade is can you remind us of your anticipated benefit on the cost per tonne for the facility?

Raviv Zoller: Sure. The mechanical failures we had are things that can happen in natural course of business. There were a few different things that happen. The most notable has to do with a malfunction of an oven and some of that may have to do with the fact that we actually changed our production plan because we



stopped production and shipments to China and India and we needed more granulated product.

We probably shifted our plan too quickly and took some chances. And that's the kind of thing that is going to be addressed in the stoppage because we're going to reduce the risk factor in cases of change in production.

In terms of what we're going to get out of the stoppage out of the facility upgrade, we're not really going to get too much cost per tonne value, it's very marginal because just of improving maintenance because this is planned maintenance versus other types of maintenance, so there is some improvement but the real improvement is that for the same fixed cost, we will be able to ramp up from a potential 3.8 million tonnes to 4 million tonnes a year in our Dead Sea facility.

And actually, we're currently planning and it's not final but we're currently already planning to do 3.95 next year. So, if everything goes well and we still have to execute, then we will have almost a full return of investment next year.

And of course, this will be every year because we're creating this capacity for good, not just one time.

Patrick Rafaisz: OK. Thanks. Very helpful.

Raviv Zoller: So, a lot of debottlenecking. Thank you, Patrick.

Patrick Rafaisz: Yes. And then final question. Actually, a follow-up on what you've discussed earlier around cash flow and inventories. You mentioned that in potash, inventories will be very low towards year-end due to the upgrade. Inventories are already low now in Q3, and actually throughout the year. What kind of inventory level in potash, you think is a sustainable level for you in the normal course of business? How much inventories will you have to add next year so that you're back in the normal operation?

Raviv Zoller: I think we're pretty much at rock bottom that we've ever been. So, I think you're not going to see the inventory any lower. It will be pretty similar at the



end of the year and next year, I foresee a little bit of growth in inventory just to give us more flexibility.

Patrick Rafaisz: OK. Thanks.

Raviv Zoller: Thank you.

Operator: Thank you very much. Once again, as a reminder, if you'd like to ask a question, please press star then one on your telephone keypad.

The next question comes from the line of Laurence Alexander from Jefferies. Please go ahead.

Adam Bubes: Hi. This is Adam Bubes on for Laurence today. I was wondering, can you touch on a little further on the long-term bromine agreements in Asia and what the length are and how does pricing work with these agreements?

Raviv Zoller: I didn't get the last sentence?

Adam Bubes: I'm wondering the length of the agreement and how pricing works?

Raviv Zoller: OK. The current agreements are five to six years. The price has guaranteed maximum and the formulation for a minimum. And so, it's basically a fixed price contract or contracts, one for five years, one for six years.

Adam Bubes: OK. Great. That's very helpful. And then my last question, I was just wondering, when we think about the 10 percent decrease in potash sales volume, can you help me understand better – how much of this decline was due to end-market headwinds versus the delay in timing of supply contracts in China and India?

Raviv Zoller: The fact that production was lower didn't impact the sales. They're two separate things. Had we produced all that we wanted we would have had more inventory at the end of the period. That would be the only difference. We would have had up to 80,000 or 90,000 more tonnes of inventory. It wouldn't have affected sales.



Adam Bubes: OK. Thank you.

Raviv Zoller: Thank you.

Operator: Thank you very much. There are no further questions. Please continue.

Limor Gruber: OK. Thank you. Thank you, everyone, again, for participating in our call during this busy earning day. We're looking forward to touch base soon. Goodbye.

Operator: Thank you very much. That does conclude the conference for today. Thanks for participating. You may all disconnect. Speakers, please standby.

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