ICL
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Unidentified Participant: Good morning. Welcome, everyone, to the -- this is probably our sixth annual Boston Chemicals & Agriculture Conference here in Boston, so thank you, everyone, for coming. Our first presenter in this track is going to be ICL, and we have Charlie Weidhas, the COO, as well as Limor Gruber, the head of IR, who's in the front row. Charlie, I think you wanted to give some opening comments and then we're going to do some Q&A.

Charles Weidhas: Okay. Good morning, everyone. Thanks for coming. If you would, please look at the booklet we left, and what I will do is I will just cover just a couple of pages to give a very high-level overview of the company without too much specificity. So if you please would go to page number 4, which is ICL by the numbers, these numbers are from 2016 which shows sales of mid-5 billions, operating income, our dividend yield. And if you look at the pie charts, it gives you an idea of how our sales look in terms of our businesses, and the pieces of pie on the left that are the green colors, these are our business units that focus on the ag market, primarily fertilizer. And if you look at the colors -- the orange, the red, and the blue -- this is our specialty chemical areas, and on the left-hand side we're talking about sales revenue. On the right, same color code, but talking about operating income by business line.

Go to page 6. Page 6 shows how we're structured internally and we're actually structured along the same way, which means we have a person -- his name is Ofer Lifshitz -- who is in charge of the Essential Minerals division, the green. This is the area focusing on Ag, and there's three different business units, each one with a business unit P&L owner. And on the right-hand side, Mr. Eli Glazer is the president of the specialty solutions business, again split into three different business units.

And then on page 7 very quickly is almost what is the shape of ICL. If you go back in history, we started off as a mineral base company, mining minerals, and on the left-hand side of this chart you'll see potash, phosphates, and bromine. This is basically what I consider to be the backbone of our company. We're back-integrated in each one of these elements. Beside selling them, however, what we do is we go downstream, and as you move further and further to the right on this page you'll see that in the middle you're in more or less what I would call the commodity still in terms of fertilizers and even elemental bromine, but then very quickly it gets segregated into many, many different specialty chemical businesses.

So in essence I would say on average our specialty chemical businesses are back-integrated to our mineral businesses, and so we have what I would consider to be the best of both worlds, which is low-cost back integration and then you add that to having a very good segmented end market with our specialty products.

So that concludes what I would call the overview of the company, and we'll open it up to any questions you might have.

Unidentified Participant: Maybe I'll start things off. Why don't we just go through the individual segments and maybe just give us a high level of your strategy in that particular segment. Maybe we'll start in potash and then do phosphate and then do specialties.

Charles Weidhas: Okay. So even at a higher level than that, when you look at our Ag business, our essential minerals, the strategy here primarily is operational excellence. In other words, low cost, good logistics, good quality, selling into the marketplace. We're not a price leader here, so in the phosphate market and in the potash market, which are two big fertilizer end markets, we're a price taker. So we don't have the ability to influence price, but -- so therefore, our tactic and our strategy in this business is to make sure that our cost structure is such is that we can live under any type of pricing world that comes up. If the Canadians or the Chinese or the Saudis or anybody, the Moroccans, decide that they either want to raise prices, which we would love of course, or if they decide to lower prices, we need to be a survivor. So that's what I would call the high-level strategy for that.

There's a second part, which is to incrementally expand our capacity, but not by doing something like going out and spending a couple billion dollars to buy a potash company. I'm talking about the incremental, de-bottlenecking types of capacities where we take our existing plants and instead of making 100, you figure out how to make 105, which does two things. One is it improves your top line, but of course the second is it improves your bottom line.

On the chemical side, it's a completely different game. Here, Instead of having a handful or a couple dozen large customers, you have thousands of smaller customers. We're talking about end markets as diverse as food ingredients, selling to the Coca-Colas and the Nestles of the world, all the way to making fire retardants which go into plastics, which go into electronics. Here, the name of the game is commercial excellence, which is having the right product line, developing new solutions for customers, and of course pricing discipline. And here, in many of the markets, we are the price leader. We can have an influence on which way pricing goes, depending on what our actions are. This is especially important in the bromine business and its downstream, and especially important in the specialty phosphate business in going downstream.

So, to sum up, half of our company is looking at commercial excellence as the top line, and the other half is looking at operational excellence as the top issue.

Unidentified Participant: Maybe we could just dig in a little bit on the potash cash cost evolution that you anticipate. A couple things going on, obviously, with the transition of potash to Polysulphate in the UK and then you're consolidating your site in Spain.

Charles Weidhas: Right.

Unidentified Participant: How should we think about that flowing?

Charles Weidhas: Okay. So, focusing on potash, think about three different locations. The first location is the Dead Sea, which is our biggest, about 4 million tons of capacity there. This is a low-cost site. It's relatively unique in the world and what we do there. We have giant evaporation ponds and we take full advantage of solar energy to do a lot of the work for us. So here, if you look at the cost curve, we're on the left-hand side of the global cost curve for potash.

The second thing to look at is in the UK. The UK is the opposite of the Dead Sea works, and that is it's our high-cost potash location. It's located in Cleveland, which is in the northeastern part of England. Here, we're actually phasing out of potash. It's our high-cost potash site to begin with, but any type of cost-effective ores really run out within the next year, year and a half, something like this. So we'll be out of the potash market there, but we're converting that entire site to a new product called Polysulphate, and Polysulphate is a natural mineral that exists in exactly the same location, which allows us to use exactly the same ore infrastructure to mine.

And what Polysulphate is -- the technical word actually is polyhalite, but we call it Polysulphate -- is it's a mineral that contains potassium, sulfur, calcium, and magnesium. And literally what you do is you just have to dig it, grind it, and sell it. And it's a new product to the world; it's a new product to us. We will sell something on the order of 4-plus hundred thousand tons this year, and our -- 400,000-some-odd tons this year, with our goal in 2020 to have that up to a million tons. So in the UK, we're going out of potash into Polysulphate, and we're well on the road to that.

The third location for us is in Spain, in Catalonia, where there's a lot of political intrigue going on right now. And there, we have two potash mines, each with about 500,000 tons of capacity. And what we're doing there is we're actually going to close one of the mines because the potash there is economically being depleted, consolidate it to one mine, which has huge amounts of reserves, but expand that one mine from about 500,000 tons to a million. So we'll keep the overall capacity, which is about a million tons, but instead of having two factories, we'll go to one factory. And along the way what we do is we take a site which is more on the right-hand side of the cost curve, which is the wrong side of the cost curve, and get it more towards the middle. So that's our potash story.

Unidentified Participant: Where do you think your cash costs are today on a blended basis for -- you know, how much do you think they'll decline by the time you've done this transition?

Charles Weidhas: Yeah. I'm not quite sure that we publish that kind of information, but I would say that when you look at the Dead Sea, our cash costs and our capacity, if you just look at some averages, about 4 out of the 5 million tons that we have come from the Dead Sea, which is low cost, and about 1 out of the 5, almost, today, effectively, is coming from Spain, which is more of the higher cost.

Unidentified Participant: Okay. Thinking about it that way.

Charles Weidhas: Yeah.

Unidentified Participant: And then just in terms of developing the Polysulphate business, you're talking about going from 400,000 to 2 million tons over the next three years

Charles Weidhas: 1 million tons.

Unidentified Participant: Sorry, 1 million tons. How do you have to develop that market? Is it new customers, is it new uses, and are there different prices depending on the use and depending on the customer, and so how does that take shape?

Charles Weidhas: Okay. By the way, we have plans to go beyond 1 million tons after 2020, but right now we're focusing on the one. So Polysulphate is a new fertilizer to the market, and customers, farmers, are very conservative. So in the ramp-up of this -- in other words, a few years ago there were zero sales -- we basically are treating this product almost like a specialty fertilizer, which we're in, which means you need to take the product to the customer, do lots of field trials on a lot of different types of crops, see the results and then you slowly start building the demand. I'm sorry, what was the question again specifically?

Unidentified Participant: We were just trying to figure out how do you ramp from 400 to a million, which crops --

Charles Weidhas: Yeah. So it appears as if this product can be used in a lot of different applications, anything from corn and rice and wheat on a pure commodity basis, all the way to specialty stuff where you're doing things such as tomatoes and vegetables, which require low chlorine. There's no chlorine in this Polysulphate, which is important. Also, where there's sulfur deficiency, where customers are actually putting sulfur on the ground, this is a good substitute, for example, SOP in that particular market.

But the way we're growing the market is basically by, if you're from Missouri, it's the Show Me State. We have trials, it works, we price it accordingly, and it creates its own demand. From the production side, we are basically ramping up slowly, from zero a couple of years ago up to about a million tons in our factory, and it's more of what I would call typical mining kind of stuff. Nothing really special there.

And then on the pricing side, the pricing really is a mix. Today, we make too much of what we call a powdered product , we call it standard. And in order to sell that, it's less desirable, you end up selling it at a lower price. The granulated is the product we're sold out of, and you can sell that at a higher price. But if you look at average pricing -- when I say pricing, not to the customer, but on an FOB basis -- you're in the low hundreds, and we anticipate that that will go up as we improve the mix away from the lower-valued powder to the higher-valued granular.

And from a profitability point of view, once we're outside of the potash business there, I would expect that this product could have something on the order of a 30% gross margin going forward, and that's assuming this 1 million ton. But we have the ability to expand to 2, you could go to 4, because it's a very, very large reserve there. So it really will be a function of market acceptance.

Unidentified Participant: Maybe we turn to phosphate. You could talk a little bit about the YPH JV and what your ambitions are there, and what you're seeing.

Charles Weidhas: Okay. We bought YPH about two years ago, and our strategy then is our strategy today, which is we bought into a commodity phosphate enterprise in Yunnan province near Kunming. We actually own as part of a joint venture the mineral rights there. But our strategy was never to be a commodity fertilizer player in China, in other words DAP -that is not our game. Our strategy is to take that infrastructure and migrate it to look like what we do in Israel, which is where we take more commodity phosphate rock and turn it into more of specialty products, either as specialty fertilizer or into the specialty phosphate product lines.

We bought it and as soon as we bought it the market collapsed. And when I say the market, I'm talking about pricing, so if you follow the phosphate markets, you know what's happened there over the past couple of years. And we had pretty heavy losses in the first year of ownership.

I'm happy to say that based on a lot of very heavy-duty restructuring, which we're able to do because we're a foreigner, by the way, because if we were a state-owned enterprise, you probably -- very difficult in order to do that. But we have closed some production lines, we laid off a lot of people, we pulled ourselves out of a large part of the commodity, and now we're more or less on a balance. In other words, we're at a break-even point. And we haven't really started the specialty part yet, which is an investment to put in some purification units in downstream phosphates.

So we're on our way. It was more of a rocky start than I would have hoped, but things are looking up there.

Unidentified Participant: And what are you seeing as sort of the overall Chinese environment? There's a lot of discussion about environmental reform and increasing checks. What are you seeing at your facilities, what are you seeing at competitors'?

Charles Weidhas: Yeah. Are you talking about just China in general?

Unidentified Participant: Just China in general.

Charles Weidhas: We see very, very clearly and directly in our bromine business in China, where we have three factories and a good size market there, where the government has really upped their game in terms of environmental compliance, to the tune of closing our competitors' factories. Now, because we're a western company, all of these things we'll have already done. All these investments are in our rearview mirror. But for almost every one of our Chinese competitors, it's actually in front of them. And many of them don't make much money.

And so, what we've seen is some short-term displacement, some shortages of things like bromine and bromine compounds in China. And on the longer term, I would expect that it would become more of a normalized industry where the players have to do it in an environmentally responsible way.

On the phosphate side, there's a lot of talk which basically says the same thing. You might have heard of what they called a six plus two, which is the big state-owned -- actually, most of the phosphate fertilizer business in China is state-owned, by the provinces, not by Beijing. And they know that there is overcapacity, they know there's no profits, and they know there's real pollution issues. And so, I think it's just a matter of time. The talking is right, but it's a little bit too early to see the actual actions going on, except for some smaller elemental phosphorous producers that look like the bromine producers where you've seen some of the factories closing down or rapidly raising prices because of increased demands from the government.

Unidentified Participant: And then maybe just closing the loop on phosphate and potash, you know the equity market has a lot of concern over new capacity coming in both markets over the next couple of years. We've seen demand better than expected this year, so how are you guys thinking about the transitioning to '18 and how this capacity's going to be digested?

Charles Weidhas: Okay, so both phosphate and potash?

Unidentified Participant: Yeah, take one at a time.

Charles Weidhas: So let me do phosphate first. The market for phosphate globally continues to grow in fertilizer, and we don't see that stopping. It's not 25% growth, it's 2 to 3 percent. So if the only issue I think were the Saudis and the Moroccans, I really don't think that that would be too disruptive into the entire marketplace. Historically, past 10 years, Morocco has been what I would call a good price leader. They're the biggest guy.

The issue has been the amount of exports coming out of China, and so for quite a few years that number was relatively small, relatively predictable. Then, the behavior changed with a lot of more exports coming out of China, with a huge amount of overcapacity. And finally, I think the Moroccans and probably the Saudis, but primarily the Moroccans said enough is enough, we're going to guard our market share, and this is what has created the lower prices in the phosphate market.

So, at least my opinion is that global phosphate prices I think in the end come down to the behavior of the Chinese. And the Chinese producers don't make money, and it's only a matter of time where the governments are going to allow them to continue to be money losers. You see this story over and over in other marketplaces. So, again, I think the restructuring is coming.

It's a little bit different on the potash side. On the potash side, what we've seen is some new capacity coming in primarily in Canada and in Russia. And this new capacity coming on tends to be very good -- once it's up to speed, it should be good low-cost production. And historically, what we've had is we've had the Canadians via Canpotex and the Belarusians and the Russians via their cartel, BPC. So you had these two large cartels basically determining what the market pricing really looked like.

Then there was the divorce between the Belarusians and the Russians, and began the rush for market share coming from both the Belarusians and the Russians, which caused prices to go down. But I'm assuming that there are some financial people in their companies who discovered that after selling more, they make less, right? So the mathematics didn't work out in their favor.

So I think that in the potash market, really the trick is going to be how much room will the Belarusians and the existing Russians and the Canadians allow for this new capacity to come into the market. If it bleeds in in a way that everyone can live with it, then I don't see much impact on pricing. But if there's a large belligerence that says no way, I'm going to protect 100% of my market share, then the new guys are going to figure out a way to sell, and the way to sell, it's a commodity market, is to lower their prices.

So from our point of view, our issue is we have to survive in that worst case, because the best case, of course, is the best case. It's upside. But for us, our strategy is our costs have to survive in all cases.

Unidentified Participant: All right. Why don't we talk about bromine quickly. Just sort of give us an update on where the market is, where the demand's coming from, how that's evolved over the last couple of years. And you did talk a little bit earlier about sort of what's happening with Chinese production. Do you think that Chinese production is truly out of the market or is there a risk that it comes back after they've solved their environmental issues?

Charles Weidhas: Okay. So first let me talk about the demand side. The demand for our brominated products is actually pretty steady. If you were to go back into 2011 through 2013, 2014 time period, what was happening was the shrinkage of the electronics market. In other words, the PC this way, this big, going to something smaller. Actually, we just reduced the demand. But that miniaturization actually is over. And in fact, if you look at a television, televisions are getting bigger and bigger. But so, on the demand side for us, and flame retardants and the other major areas, we see demand being very stable and perhaps even now growing a percentage or two, but not much more than that.

In terms of pricing, what's unique about bromine pricing around the world is in China, elemental bromine is almost a complete spot market, which is different than outside. And there are now shortages in China of bromine because of the regulatory things I said earlier. And I don't expect that the current production at the low rate now will continue, but I also don't expect that it will go back to what it was before it started.

So, in general, bromine production in China is depleting. Their natural resource is actually very -- it's not so great, and is depleting. You also see that in the US to a lesser extent, and from an ICL point of view, our bromine's coming from the Dead Sea, which is basically an unlimited supply of bromine for all practical purposes. So from our point of view, we're optimistic about the bromine market in China as it relates to ICL.

Unidentified Participant: Okay. Maybe if we transition more specialty-specialty products in the portfolio. You want to sort of help us think about the top line growth, dynamics there, and what you're trying to do from a margin perspective, what end markets you're going into, what geographies you're going into?

Charles Weidhas: Okay. All right, so I really need to break this up into the various markets. Let me first talk about specialty fertilizers. So even though we're on the commodity fertilizer, which is, you sell products in boats, Panamaxes and stuff like this, we're also in the specialty fertilizer business. And the specialty fertilizer business is when you're selling products that you sell in small packages, you know, 25-kilo bags and sometimes even smaller. And you're selling it to people doing fruits and vegetables and sugar cane and cocoa and coffee and things like this. Ornamental shrubbery, golf courses. This is the specialty fertilizer market.

Here, we anticipate two things. One is, the top line growing with the market, which is plus 5 to 10% annual growth there. And the second is, this is a prime area for us to do some targeted M&A where we would buy most likely a smaller specialty fertilizer company that might have either fertilizer or growth regulators, or what someone calls the vitamins for plants. Not fertilizer, but the other stuff. And plug it in to our global selling network. We sell around the world here. So, for us, we see organic growth there as well as M&A growth in that area.

The second area is our bromine business. Here, antitrust makes it really difficult for us to do any M&A. I would have loved to have purchased Chemtura instead of LANXESS, but no government would have allowed us to do that. So here, where I see our growth is going to be more along the lines of global GDP. We already sell into all of the end markets. And the growth here is more in the bottom line, which is retiring older products and replacing them with newer products that basically have more profitability. And a very recent example of that is our new FR-122P, which I think's not such a great product line for a group like this, but for the technical people, they know what it means. But basically, it replaced another product called HBCD, another well-named product. But HBCD profitability wasn't so great. Lots of overcapacity. FR-122P -- better product, better profitability, better performance. So that's more along the tactics in that market.

And then the third is our phosphate business, and our phosphate business is split into two larger end markets. And when I say phosphate, I mean specialty phosphate. One is technical. This is where we sell into just about any end market that you can think of -- paints and coatings and lights and carpeting and just a lot of different things. Here, the growth rate is more along what I would call industrial GDP, but there's a good growth opportunity for us in China. We're expanding via our YPH business. And here, again, buying some small M&As would be nice. Larger M&As are difficult because, again, of antitrust.

On the food side, China also is an opportunity for us. Asia is an opportunity for us, because this is where you see the growth occurring in these product lines. And again, here is another area where a targeted M&A bringing in maybe a non-phosphate ingredient that would work nicely with what we have today, to increase our portfolio to sell to customers such as General Mills and Nestle and PepsiCo and companies like this.

Unidentified Participant: Okay. Maybe we just have a capital allocation discussion on the 50% dividend payout policy. You're looking to de-lever a bit. You talked about maybe doing some M&A. Are there any parts of the portfolio that you're considering divesting?

Charles Weidhas: Okay. Let me start with our dividends. Our dividend policy is that we pay as a cash dividend up to 50% of our adjusted net income after tax. And even though our policy says up to 50%, we basically pay 50%, and our plan is to continue that. It's something that our shareholders expect.

If you look at our balance sheet, we have a little bit more debt than we feel comfortable with. The ratio between debt and EBITDA is about 3.5, and we'd prefer to see that a little bit closer to 3. S&P just reaffirmed those as triple B minus, right? Yeah, triple B minus with a steady outlook. But for us, I think we'd be more comfortable being closer to about a 3. This gives us a little bit more wiggle room in the case of a black swan event coming up or in the case you want to do another M&A and you want to finance it with debt.

Our chairman, about six months ago, announced that we are considering selling up to $500 million or get $500 million of proceeds via selling some of our businesses, and taking that cash and basically putting it into debt reduction, which then begs the question what type of product line would you be looking to sell. If you look at our business, and as I mentioned on I think it was page 4 or 5 or 7, is you have the phosphate, the bromine, and the potash as the key minerals. The further away you get from that core means it's probably more likely you would be considered for sale. We have announced the sale of a joint venture called IDE, which is a desalination technology company, taking sea water and turning it into drinking water. And then there's either been rumors in the markets or even some things that we've said that we're considering divesting some of our smaller businesses, but that part isn't definite yet. But anyway, the story here is if we're going to sell an asset, take the cash and improve our balance sheet.

Unidentified Participant: Are there any questions here in the audience?

Unidentified Audience Member: Thank you. On the Polysulphate product and the 400,000 tons, you alluded a little bit to the pricing dynamics there. I guess right now it's a new market, so it's not necessarily indicative of longer-term pricing. But to what extent is pricing for that product a flow-through for some of the underlying nutrients or just NPK in general, and the correlation there longer term?

Charles Weidhas: Okay, so it doesn't really correlate to NPK. It's going to correlate more to SOP, maybe if you're needing some magnesium, maybe if you're needing some calcium. But you would look at it as a portfolio. But I think the fact of the matter is, there probably aren't a large amount of companies that are looking to buy those in the ratio that's in the molecule itself. And so, I would anticipate that it might be a product with a little bit more variable pricing than just a simple, the value of P plus the value of S is equal to the value of the product.

The second thing, though, is that we're looking beyond just selling this as a straight material. And in fact, today, we actually sell quite a bit that's not a straight material, so we take the Polysulphate and we blend it with KCL (ph), and call this potash plus, and this turns into a product that you can compete against some other, called semi-specialty fertilizers coming from companies like K+S, or even a little bit against some people who are selling SOP.

So, again, not such a simple answer. By the way, there's a second part here, is what is the actual physical characteristic? Are you selling a granule or are you selling a powder, because the applications might be a little bit different. So here, I think we're looking at a new product, figuring out how to sell it, and over time we'll also figure out how to price it, because it could be that we're undervaluing it now as we enter the market. It could be we're valuing it perfectly as we enter the market. But having more experience will make us a little bit smarter in trying to get exactly the right value coming out of that sale.

Unidentified Participant: Anyone else? Sure.

Unidentified Audience Member: Recently, the ruling came out for PotashCorp and kind of what the Indians are expecting from them in terms of the sale-down of their stake in your company and that 18-month window, and I'm curious in terms of your thoughts, is that a positive or a negative from your view. And what else -- do you have any thoughts about how much are existing shareholders interested in increasing Israel Corp or so on and just in increasing their shareholding. Can they, or what kind of happens there?

Charles Weidhas: Okay, I'll answer the last question first, which is could they, if they wanted to, increase their share. The answer is yes. Do they want to? I think the answer is no. Then you get to, what is the ICL opinion about having these PCS shares in the market. For us, it's positive because we would like to have more float of our shares in the market. Then you back up to, so what is the issue now between today and whenever PCS needs to do what they need to do. And the Chinese and the Russians have come out and basically -- I think it was really the Indians, not the Russians. And the Indians came out and said, look, you need to divest of the -- in our case, the ICL shares.

What's not so clear is, do they have to sell via a fire sale? In other words, you've got to get it done within, you know, 90 days or 180 days or something like this, and I think that this is an important question to understand because it'll have an impact on the value of our shares. But I don't think -- and it's not because I'm an expert on this -- but I don't think that there is this much time and you have to go from your current holdings to zero, because I think there might be a secondary way for PCS to basically be, call it out of the share business, but still not have the shares actually sold. So you could call this a blind trust. I'm not quite sure what you call it on a corporate entity, but I think that there might be some tools like that available, because otherwise it just doesn't make sense that, say -- you know, a buyer will just wait until the last minute to maybe try to buy some shares and see if there's a problem, and I just can't believe that that would make sense, either from a government saying that or from a corporation having to deal with something like that.

Unidentified Participant: Okay. Thank you very much, Charles.

Charles Weidhas: Okay. Thank you.