ICL
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Moderator: …is ICL, Israel Chemicals. And representing ICL is Charlie Weidhas, Chief Operating Officer. So, Charlie, welcome and walk us through the story.

Charles: Good afternoon, everyone, and thank you for coming, especially since it's at the very end of the day. Everyone's trying to get home. I'm going to spend some time to talk about ICL and really from a higher level and then we can open it up for some questions.

So by the numbers, we are a company with about $5.5 billion worth of sales, operating cash flow about $350 million. And you can read the market cap on that, but a couple things to focus on. One is we are a dividend stock, have been for a long time. I'll talk about that a little bit later. And the second is even though we're a company that's an Israeli company, of the 13,000 employees we have, only about 4,500 are inside of Israel. So we're actually quite a diverse company. And you won't see this on any slide, but when you look at our revenues, roughly a third of our revenues are coming from the Americas, a third from Europe/Africa, and a third from Asia. So we have a pretty balanced portfolio in terms of where our sales are around the world.

Typically people have thought of us as a fertilizer company, and if you look at the charts down below, what you'll see that the green is the agro business, fertilizers, and on revenue at the lower left-hand side you'll see that we do have a little bit more revenue selling ag products than we do specialty chemical products. But if you look at the right-hand side, the colors are the same, you'll see that our operating income, we actually make more money in the chemical side of our business than we do on the ag side. So we're more than just a fertilizer company.

Now a little bit about ICL management. We've had some changes over the past couple of years. We have an Executive Chairman and we have an Acting CEO. And to say why we have an Acting CEO, previously Stefan Borgas resigned a little over a year ago and I have been with the company for 10 years, was – I've managed the specialty chemical businesses in our company. And I was nominated to be the COO because Asher Grinbaum was retiring. He had been the COO for the past, about 10 years. And literally as he was walking out the door is when Stefan Borgas resigned from the company and so our Chairman grabbed Asher and said, nope, stay to be Acting CEO, which allowed for continuity of the management team, which has a lot of years of experience; over 300 years of combined experience of our management team. And it basically gave our board time to do a search for a new CEO without any type of what I would call crisis. So from a management point of view, there's a very good level of stability.

Okay, organizational structure. We manage our company in two sides. Each one of these boxes represents a person. So essential minerals, this is really the ag side of our business, the fertilizer side, and on the right-hand side, specialty solutions, which is our specialty chemical business. And you can see how we break it down; potash, fertilizer phosphates, and then specialty fertilizers. And on the right-hand side, industrial products, which is primarily our bromine business, advanced additives, which is primarily phosphates and food add specialties which is phosphates plus proteins. And if you look at the year-to-date September sales, you'll see that same pattern. Slightly over half of our sales come out of ag and a little bit less coming from industrial chemicals.

So why are we in these two different, very different types of markets? The history of ICL is that we started as a mineral company starting in Israel, and the key minerals are potash, phosphate, and bromine. And over the years, and when I say over the years, this is starting 20+ years ago, we made a strategic decision to go downstream. So not just sell commodities, but take those commodities as key raw materials and go down the value chain. And we do that. So if you look in the middle, you'll see this area where it's not really quite specialties yet, but these are products that we sell primarily into the fertilizer business. But once you get to the right-hand side of this chart, what you see very clearly are businesses that are in the specialty chemical business that would look like an Innophos or an Albamarle or a Lanxess or companies much like this.

So the strength here is back integrated cost position, going all the way through to very good market segments with broad customer base. So these two different parts, what do we do? On the essential minerals side, the fertilizer side, the key skills here is commercial excellence; cost reduction, big plant operation, big freight, things of this nature. On the right-hand side, specialty chemicals, this is much more value to the customer, smaller customers. On the left-hand side, we primarily are selling ships and trucks. On the right-hand side we're primarily selling 25 kilo bags to thousands of end customers.

And if you look at our sales on the bottom, this shows the progression on sales starting in the early 2016 through current, and then what's happening to operating income. And you'll see increasingly the percentage of our business' operating income is coming from specialty chemicals, primarily because potash and phosphate prices have been going down. But this is also an opportunity for us as these markets change, it should also help our bottom-line quite strongly.

Alright, the Dead Sea. In Israel this is the heart of our company. And from the Dead Sea comes potash and bromine. And focusing on potash, one of the things is you need to have a good cost position, especially with the dynamics in that market. And part of your cost is your freight to get your product to the markets. We're located to ship either from the Mediterranean Sea or the Red Sea and our inland freight – Israel is the size of New Jersey – so our longest trip we have of a railcar getting to the port is only a couple of hours. And this is compared to maybe if you're in Canada where you're thousands of kilometers and in Russia. So we have a definite cost advantage regarding freight as we get products to either Asia through the Red Sea or Europe and the Americas through the Mediterranean Sea.

In addition, at the Dead Sea Works, we have the solar energy there. We have giant evaporation ponds and the potash that we produce there is on the left-hand side of the cost curve and is in a good position to withstand any foreseeable market that could come up. Also coming from the Dead Sea is bromine. Completely different kind of market, specialty chemical market, but what's important here also is our cost position, and if you're producing from the Dead Sea, you're producing from the highest concentration brine in the world for bromine. And your cost of bromine and also your quality is a function of the concentration of your source. The Dead Sea is on the right-hand side with 11 or 12 basically PPM of bromine and you compare this versus our competitors. For example, on the very left-hand side is China. So this is an industry where China does not have a low-cost position or even the largest quantities. It's located with ICL and at the Dead Sea, a definite competitive advantage.

But we are more than the Dead Sea. We have minerals, resources outside. So for example, in potash and in polysulphate we have assets in the UK and in Spain. And in phosphates we have assets not at the Dead Sea but in the Negev Desert as well as in China via our joint venture.

We also have a specialty fertilizer business and you hear a lot about new technologies in fertilizer. We are in this business and we have been in this business for many years and we have made investments to acquire new technologies. So here is where your end customers are not soybeans, farmers, wheat, corn, things like this. What you're talking about is fruits and vegetables and nuts and coffee and cocoa and dates and things of this nature. And increasingly, especially when you talk about precision agriculture, we're in the business here and it's a target for us to grow. And when I say grow, the way that we will grow is either organically because this business grows about 8 or 10% per year, or it would be a bolt-on acquisition, where you would pay something probably with a high multiple because we're looking for good technology, but not giant. Smaller company that we would plug into our global network and then grow organically once we have it.

Just another viewpoint. Again, we're more than fertilizers, and that is, when you look at our specialty chemical business, the top bar chart shows the blue as our food ingredient business, the orange as our industrial phosphate business, and the red as our brominated business. And we've had good top-line growth, but more importantly we've had good bottom-line growth as well in terms of operating income. On the bottom, starting 2014 through 2016, and you could actually predict 2017 income, you'll see nice growth year-over-year here in terms of margin expansion and profitability.

Okay, a very quick financial overview. I'm not going to spend time here because you guys look at these numbers often on a quarterly basis. But our last quarter was a pretty good quarter. Lots of greens versus reds and with a continued focus that we have in terms of operating cash flow. In the next few slides I'll talk about that in a little bit more detail.

Capex, our specialty chemical business is not heavy in capex, but our fertilizer business is. And one of the key things, especially when you have a market where prices have become lower over the years is managing your cash flow. And two messages from this slide. First, we've reduced significantly the amount of cash flow; and the second, we're still investing above depreciation, which means we're not wasting our assets. We still have, even this year of 2017, about $80 to $100 million of growth capital built into these numbers. So we're not starving our plants whatsoever.

One more comment. We have some large projects at the Dead Sea which are infrastructure for 2018 and '19 and so I would guess that our capex for next year will look closer to what we see in '16 rather than what you would see in 2017.

Cash flow: so this, from an operating point of view, this is not the sexy marketing stuff. This is payables and receivables and inventory and capex and things of this nature. But it's been an important focus for us. And over the past seven quarters we have been cash positive in each quarter, as opposed to before when potash prices were $350, $400, where we had some larger investments going on and we saw the market changing, it was more of this issue in terms of cash. S&P just gave us a BBB- rating with a stable outlook, but I want to talk about where we allocate our cash or our capital.

I mentioned earlier we are a dividend company. Our policy is we pay 50% of adjusted net income after tax. We don't pay a dividend based on price or dividend per share. And I've been with the company 10 years and we've always paid at the maximum of our policy. Now that's not to say we might not change that, but we are operating as a dividend company and it's important to us. Today our debt to EBITDA ratio is about 3.5, and it's a little bit higher than we want it to be. We're still investment grade and our plan is to remain investment grade; but we have announced that we are going to divest about $500 million; we're going to divest some of our businesses in order to get at least $500 million of cash coming in, in order to reduce our debt. We prefer to have our ratio closer to 3, and the reason for this is just to give us some breathing room in case of a recession coming along, a black swan event. We don't want to be in the situation where all of a sudden we need to be spending cash and go out and borrowing it and putting pressure on our rating.

And then in terms of where do we think we – not where do we think – but where are we focusing to grow, it's in primarily two ways. On the left-hand side it's via margin, so this is profit expansion and this is via cost reduction projects at our big sites. And here I'm talking primarily in the UK and Spain. A little bit less so in the Dead Sea. In terms of the top line, on the left-hand side, on the upper left-hand corner, there's a new product call polysulphate that we're bringing to the market. We think – we are new to the market starting a couple years ago. Next year we believe we'll be at about a half a million tons sold, and this is a new fertilizer into the market that contains potassium, sulfur, calcium, and magnesium.

And then other places to grow target would be specialty fertilizer, which on the right-hand side is the light green. This is via organic growth and acquisitions, bolt on acquisitions. And then also in food additives and industrial phosphates where we see some opportunities. If we find something in bromine we'll do it. It's a little bit tougher here to do acquisitions because from an antitrust point of view, where we're big and it's a relatively – it's a very consolidated market at this point in time. So therefore, top line, polysulphate, specialty fertilizers, food, and industrial phosphates, and then bottom line through cost reduction in our commodity products.

Thank you very much, and if you have some questions, happy to answer them for you. Yeah? I can hear.

Q: Potash Corp has a stake in you and with the merger with Agrium we are wondering what' going to happen to it?

I didn't turn it on, sorry. Was wondering if you could comment on that and then I will follow-up second question.

Charles: Okay. So our understanding is that the Agrium plus PCS deal from China and from India comes a requirement to divest their ownership in related companies.

PCS owns 13.7% of the shares of ICL, but they are an investor only. They're not on our board of directors. They have no management control of our company. So we expect that relatively soon PCS will start a process to do a placement for these shares. So it's coming.

Now PCS has been saying for years that they were going to divest ICL because originally they were probably going to try to buy us and that didn't work out. So the timing before was a little bit more cloudy and to me, the difference is now there's a clock that says you have to divest.

Now from the viewpoint of ICL, I mentioned our balance sheet and debt reduction. We're not in a position and we don't want to go out and buy those shares. Our preference is that these shares go into the market to increase liquidity, increase float, because we think that's more helpful from the investor point of view to have more movement of our shares.

Question: So are you saying it's likely to go out in the market or would somebody let's say from China or somebody to step up and buy that stake?

Charles: I don't have any insight into that at all. From our point of view, for example, if a large Chinese company came and bought it, that would not be as preferable as if it was just in the open market floating. But really in the end it's a PCS decision to go do it. So I'm assuming that they'll hire bankers and they'll look everywhere to try to place the shares.

Question: Okay. I have a question on the bromine market. The bromine market has been tough for the last four or five years. The electronics sales went down. Apple is bromine free and I follow Albamarle as well and I've seen that. And then you have the oil market go down, so clear brine business was down as well. What's your outlook in bromine? Are you seeing light at the end of the tunnel or what…

Charles: I actually think we left the tunnel. The bromine market today actually is a pretty good market. The demand has stabilized because what you were referring to in electronics was the miniaturization of things. Instead of a PC with a tower on your desk, now it's just a laptop. Instead of a bigger phone it's a small phone. But on the other side, televisions are getting bigger and bigger. So what used to be a big television now fills up this whole screen. So actually the decline in electronics, we're past that point. Actually you see a little bit of growth in there now. So the market from a demand point of view actually has stabilized. Clear brine fluids kind of goes up and down depending on the price of oil, but that's the smaller part of the market.

But an important thing that happened in bromine is two things. One is recent and the other is a little bit more than recent. The recent in China is there really is this enforcement of environmental regulations that is impacting the bromine producers and the compound producers. We see this. I mean, some are closed. So the overall amount of bromine being produced in China is down, which is good for us because we have excess capacity. But the second thing is China is a net importer of bromine in their best case, and in their best case, their production ability is going down every year as they deplete their resource, which means it has to come from outside, which it falls into our strength because we have excess capacity at the Dead Sea that we don't run for us.

So for us, we look at the bromine business as a margin business, maintain your margin, and flooding the market with cheap bromine works against us because we want to spend more time and effort selling the compounds than selling the elemental. So actually see today our bromine business with margins in the low to mid 20s, EBIT margins, which is very healthy, producing a lot of cash into a business that doesn't consume a lot of cash, with a stable if not slightly growing demand overall.

Question: Hopefully this one is turned on. Thanks.

Your specialty NPK business, that's been a good business for you. How do you intend to grow that and would you ever get into a sort of the bigger granulated NPK market like the Russians and Yara do?

Charles: We look at the NPK market more as a semi-specialty business rather than a larger commodity business because we don't have the N. We have to go out and buy it. So it's difficult for us to be competitive when you have to go buy your nitrogen versus people who are back integrated in the nitrogen. But we do have the P and the K and increasingly we have the polysulphate, which has sulfur and some other minerals. So we see that business as more on the specialty side and highly unlikely that we would go out and buy nitrogen or anything to be able to become much bigger in that.

Question: When do you think you're going to deliver a turn on your investment in China?

Charles: Well, we actually had a what I would call a pretty significant improvement year-over-year. Last year we lost $40 or $50 million there because we bought into joint ventures just in time for the Chinese market to collapse. So timing is everything. But just through restructuring on our own without any help from the Chinese market, we've been breakeven in Q3 and Q2. So we're reaching the end of what I would call considerable improvements on the operational excellence side.

Now it's changing our portfolio. We never bought that joint venture to be a DAP producer to sell commodity DAP. We bought it to be a back-integrated part of a specialty fertilizer and a specialty phosphate business and those investments to move us towards that is really starting in 2018. And so I would say that with 1.5 years, 2 years of putting these assets in, on the other side of it is when we should see a much improvement in terms of margins and whatnot.

Q: Would you be confident, again, of similar progress but perhaps not the same pace but what went into the black?

Charles: Yes, that's our anticipation because right now the Chinese phosphate market is tough in terms of making cash even, but that's not where we want to be. We want to be on the specialty phosphate and the specialty fertilizer side.

Question: What is the level of potash inventory that you have in the Dead Sea? Can you comment on that and what's your understanding of sort of the global inventories of potash?

Charles: I don't have that number in my head, and Limor who works with me…

Limor: Half a million

Charles: It's relatively low. It's relatively low because we've been shipping heavily and whatnot, especially in the second half of the year. And based on discussions with a lot of people, I think that the inventory level in general around the world, the supply chain, is relatively low now as well. I guess an indication of that is you see the spot price in Brazil ticking up just a little bit here as well as an indicator of that. So we're certainly not in a position that it looks like there's piles of potash all over the place just waiting to be shipped. That's not the case with us.

Question: I know you're not one of the companies that negotiates the annual Chinese contract, but what would be your views on 2018 on the likely timing of any signing?

Charles: Well, we were wrong last year and we were wrong the year before, but if you're looking at trying to connect the dots, the thing that's different between last year is there was a lot of potash on the ground at the customer side of the transaction last year – I'm sorry, for 2016. And then for 2017 people pre-placed the volume on the ground. It took any pressure off of that to get the timing along. So I'll make a prediction that says it will be closer to the Chinese New Year than it was in 2016 and 2017, only because the dynamic's a little bit different on inventories and where they are. But I'll probably be wrong.

Question: I think that's what they're shooting for.

Question: Just following up immediately on that question, one of your competitors today said that based on sort of the shipments to India and China and how they progressed so far in 2017, there's actually a very strong line-of-sight for how the first quarter or two of 2018 is going to look on sort of the global shipments of potash. Is that something that you would agree with and in terms of timing of your own shipments, how should we think that they're going to layer in over the next quarter or two?

Charles: Yeah, I would agree with that because there's not a lot of inventory sitting on the ground on that side of the transaction and so they're building pressure to ship from our side. So we don't plan to build inventory up in Q1 or anything else like that. We'll probably be shipping.

Okay, everybody, thank you very much.

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