



**ICL Q1 2020 Conference Call
May 12, 2020**

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the ICL Group Analysts and Investors Conference Call. Our presentation today will be followed by a question and answer session, at which time, if you'd like to ask a question, please press star then one on your telephone keypad. I must advise you, the call is being recorded today. Should you experience any technical difficulties, please press then zero on your telephone.

I would now like to hand the conference over to your first speaker today Mr. Dudi Musler, Investor Relations Manager. Please go ahead.

Dudi Musler: Thank you. Hello, everyone. Welcome, and thank you for joining us today to our first quarter 2020 conference call. The event is being webcast live on our website at www.iclgroup.com.

Earlier today, we filed our reports to the securities authorities and the stock exchanges in the U.S. and in Israel. The report as well as the press release are available on our website. There will be a replay of the webcast available a few hours after the meeting, and a transcript will be available shortly after. The presentation that will be reviewed today was also filed to the securities authorities and is available on our website. Please don't forget to review the disclaimer on Slide number 2.

Our comments today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance. We will begin with a presentation by our CEO, Mr. Raviv Zoller; followed by Mr. Kobi Altman, our CFO. Following the presentation, we will open the line for the Q&A session.

Raviv, please.



Raviv Zoller: Thank you, Dudi, and hello, everyone. Before discussing ICL's highlights for the first quarter, on Slide 3, I would like to take a moment to acknowledge ICL's employees global for their perseverance in light of the challenging conditions brought about by the COVID-19 pandemic that has affected us all personally and professionally. ICL responded swiftly to make sure measures were in place to ensure the health and safety of our employees and are very grateful for the efforts and commitment our team has put forth in order to maintain continuity of our business globally with zero disruptions to our customers.

Now turning to the highlights. Our results in the first quarter provide a snapshot of some of the factors that help make ICL so unique. Despite the current ag inputs market environment, in which potash and phosphate commodity prices fell to what we believe are cyclically low levels, we achieved operating income of \$132 million, EBITDA of \$250 million and operating cash flow of \$166 million. These results reflect the diversity and resilience of ICL's business portfolio, as well as the effectiveness of our strategic focus on value-based specialty products.

In particular, the strong performance in phosphate specialty stands out as this helped to mitigate some of the sharp year-over-year decline in commodity phosphate prices. We believe our phosphate specialties business is an important differentiator, contributing to our overall resilience. We also achieved record performance in our Industrial Products division, driven by strong sales in most products, including record sales of clear brine fluids.

The successful Dead Sea facility upgrade in the previous quarter led to record first quarter potash production at the Dead Sea, offsetting the COVID-19 related decline in production in Spain.

The COVID-19 pandemic had a limited impact on ICL's results in the first quarter, although our near-term could be effective, as I will discuss shortly. While there will be challenges in the short term, ICL is very well positioned financially with over \$1.1 billion of available liquidity and no significant principal payments due on our debt in 2020.



Our strong financial position and balanced capital priorities provide us with the flexibility to continue to grow our business as well as to return value to our shareholders. Our dividend for the first quarter amounts to about \$30 million in the aggregate or approximately 50 percent of net income recorded in the quarter.

Slide 4. From the onset of COVID-19 pandemic, ICL worked rapidly to ensure the health and safety of our employees. Our global response was informed by the experience we acquired in our facilities in China in early January. Safety measures were implemented at all company production facilities and offices, and we were able to arrange for the immediate delivery of medical and protective equipment to all ICL sites globally. We have also tried to do our part to assist local communities in which we operate by donating medical and protective equipment as well as services. We strongly believe in our responsibility to protect those around us, and we are fortunate to be able to do so.

As mentioned, our operations incurred very limited impact from COVID-19 in the first quarter. ICL's operations are essential to critical industries and supply chains. Thus, all our manufacturing facilities have remained fully operational other than brief disruptions to our operations in Spain and the U.K. These sites are now operational, although they are both not at full capacity due to social distancing requirements.

Although our financial performance was minimally impacted by COVID-19 in the first quarter, we expect to experience more of an impact in the second quarter. While there is inherent uncertainty around the duration of the impact of COVID-19 on the global economy, it is expected that a recovery will begin in the third quarter of the year.

As a direct response to the pandemic, we drew on our credit facilities and increased our cash balances in order to ensure the company would have significant flexibility to operate in this complex environment. As of March 31, ICL had total liquidity of \$1.1 billion, including \$524 million in cash and deposits and \$590 million in unused credit facilities. We are taking the



appropriate measures to mitigate the COVID-19 impact on our business by implementing cross-segment efficiency and cost-reduction initiatives.

COVID-19 has certainly brought about a challenging business environment for most companies globally. ICL is not immune to the impacts of the pandemic, but the strength of our business model and the critical role our products play in the food supply chain will help us weather the storm better than others.

Turning to **Slide 5**. The chart on the slide very clearly shows the impact of commodity prices on our results in the first quarter. Almost all of the decline in sales was caused by a \$44 per tonne decrease in average potash selling prices and the decline of over 25 percent in phosphate fertilizer prices. We're encouraged though by increase in volumes sold, including phosphate fertilizers, clear brine fluids, phosphorus-based flame retardants and acids.

If you look at **Slide 6**, a similar picture is shown in the EBITDA segment contribution chart. While the strong sales of our Industrial Products segment positively contributed to EBITDA, the sharp decline in commodity prices accounted for approximately 85 percent of the decrease in consolidated EBITDA from the first quarter of last year.

Let's move on to the business performance of our divisions, starting with Industrial Products on **Slide 7**. The Industrial Products division achieved record operating income of \$103 million in the first quarter, with an operating margin of 28 percent. These results were driven by strong sales in most products, including record clear brine fluid sales, a 29 percent increase in sales of phosphorus-based flame retardants and an increase in the selling prices of specialty minerals to the food and pharma markets.

Overall segment sales increased by 4 percent year-over-year. Notably, our performance was achieved despite a year-over-year decline in bromine prices in China. Bromine prices and sales were unchanged from the prior quarter, but down compared to the first quarter of 2019 when prices were exceptionally high. Nevertheless, the segment's strategic shift to long-term



contracts, the breadth of its product portfolio and an increase in the selling prices of specialty minerals to the food and pharma markets led to a \$3 million contribution from prices, adding to the \$10 million contribution from sales volumes compared to the same quarter last year.

Phosphorus-based flame retardant sales increased from the first quarter of 2019, mainly due to a decrease in supply from China, following the shutdown of chemical plants due to the COVID-19 pandemic.

We continue to build on our strong market position and long-term customer relationships and signed additional new long-term contracts with customers in Asia, adding to the large-scale multiyear contract signed last year.

Due to the ongoing impact of COVID-19 pandemic, Industrial Product sales are expected to decrease in the second quarter of 2020. This is primarily due to a decrease in demand for clear brine fluids used in the oil and gas industry, as well as decreased demand for flame retardants by the automotive and construction industries.

Turning to **Slide 8**. We achieved record quarterly potash production at the Dead Sea after the 3-week production shutdown in our facilities for capacity upgrade in the fourth quarter of 2019. Polysulphate production also increased by 34 percent year-over-year to 177,000 tonnes as capacity at ICL will be increased. Strong production, of course, could not offset the impact of a very weak commodity price environment, and the division's sales and operating income declined by 18 percent and 82 percent, respectively, compared to the first quarter of last year.

Potash spot prices continued to decrease during the first quarter of 2020 across global markets due to high availability and due to the delay in signing of new contracts in China and India. The recent signing of our 2020 potash supply contracts in China testifies to our leading position in one of the world's largest consumers of potash and to the strong, long-lasting relationships with our Chinese customers. However, the current contract price led to a \$12 million



price adjustment on open contracts and consequently decreased first quarter operating income.

Potash sales quantities were just slightly lower than last year due to a decrease in potash sales to China and the U.S. But a 15 percent year-over-year decline in average realized potash prices was the primary driver of the division's year-over-year decline in performance.

While the division's results were not materially impacted by COVID-19, production in Spain was halted for 3 weeks out of concern for the health and well-being of our employees. Production has since resumed, but the facilities in Spain are currently operating at reduced capacity of about 60 percent.

Logistical and operational restrictions were also implemented at ICL site in the U.K., starting in the last week of March, and production is currently at 70 percent capacity. We estimate that the impact of COVID-19 on the division's operating income will be between \$10 million to \$20 million in the second quarter.

I should also note that ICL's new port facility in Barcelona started operations during the quarter, and the first vessel was loaded in February 2020.

Turning to our Phosphate Solutions division on **Slide 9**. The division once again demonstrated the strength of a diverse portfolio focused on a growing specialty business. The decline of over 25 percent in phosphate commodity prices was partially offset by strong phosphate specialties performance and continuous positive performance of our YPH JV, despite market headwinds and challenges in China during the quarter related to COVID 19. Our new white phosphoric acid food-grade plant, which is ramping up and is scheduled to begin producing commercial food-grade asset in the second half of 2020, is expected to add about 70,000 tonnes of production capacity once it is fully ramped. We're pleased that the segment generated a positive operating profit of \$9 million despite phosphate commodity prices reaching 12-year lows.

The robust and diversified customer portfolio and wide geographic reach of ICL's phosphates specialties business helped to prevent a material impact



from COVID-19 on the business performance in the first quarter of 2020. Revenues from phosphate salts increased moderately year-over-year, driven by higher prices of food-grade phosphates and strong global demand for food and others phosphate specialties.

We do not expect a significant impact from COVID-19 in the second quarter on Phosphate Solutions division. All production sites globally are fully operational, and demand is healthy across multiple geographies.

At this time, we are also increasing our efforts to accelerate discussions with the State of Israel regarding decision-making on future phosphate rock sources. This is in order to secure long-term certainty for Rotem.

Finally, as part of our strategy to divest low synergy in noncore business, in April 2020, we entered into an agreement to sell 100 percent of the shares of Hagesud. Hagesud is an entity with noncore business activities as well as real estate. As at March 31, 2020, the net book value of Hagesud's assets is about \$36 million. The closing date of the transaction is expected to occur during the second quarter of 2020, and we expect no material impact on financial results from this transaction.

Slide 10. The Innovation Ag Solutions segment sales decreased by 3 percent year-over-year, driven by lower sales volumes due to unfavorable weather conditions, decreases in demand in the turf and ornamental markets due to COVID-19 and unfavorable dollar-euro exchange rates. However, operating income increased by 8 percent to \$14 million year-over-year due to the lower cost of raw materials as well as internal cost efficiency initiatives.

The strict execution of our value-based strategy was also reflected in continuous reduction in sales of lower-margin third-party products. The impact of COVID-19 on sales to the turf and ornamental market will likely continue as sports grounds and garden centers remain closed. On the other hand, our opportunity pipeline in emerging markets remains robust, reflected in a continuous growth in sales.



In February, we announced the acquisition of Growers Holdings, a U.S.-based precision agriculture company that is an innovator in the field of process and data-driven farming. We are delighted and excited about this acquisition, which will enhance ICL's digital capabilities and accelerate our global development road map.

Slide 11. Overall, we're very fortunate to have suffered minimal operational impact as a result of COVID-19. These are unprecedented and challenging times and the pandemic has very rapidly affected the global economy. ICL's business will be affected as well, but we expect it to be resilient due to its diversification and underlying strength. Over the near term, we expect commodity prices to lag, but not much further. Potash prices, in particular, should find support following the signing of supply contracts in China and India. The agriculture season is also underway, and we're seeing strong demand for our commodity and specialty fertilizers. These are, of course, businesses that are less sensitive to global economic disruptions.

We expect our Industrial Products division, on the other hand, to see some weakness over the next several months, due to a near-term decline in demand for clear brine fluids and flame retardants. The outlook for our specialty phosphate business remains strong, and our strategic focus on value-added specialty business will provide some stability amid a weaker commodity environment.

Finally, while our business is diversified and not excessively dependent on commodity prices, we manage our balance sheet as if our business had a higher level of commodity price exposure than it actually does. This affords us a significant degree of flexibility to execute on our strategic initiatives in order to manage the growth of our business safely and consistently in the long term.

Before I hand it over to Kobi, I would once again like to extend my appreciation to the great efforts put together by our 11,000 employees all over the world during these challenging and unprecedented times. I'm confident that with their professionalism and dedication, ICL will remain well



positioned to overcome any and all challenges in our business environment and resume its growth path.

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

Kobi Altman: Thank you, Raviv, and good day, everyone. As Raviv already mentioned, we entered the abnormal economic environment in a solid financial strength that enables us the needed flexibility at times like this and the ability to capture opportunities.

The summary of our financial results shown in the table of **Slide 13** reflects the year-over-year decline in the financial metrics due to the negative impact of commodity prices. The sequential performance as compared to the fourth quarter of 2019 has improved. The improvements came despite a continued decline in potash and phosphate commodity prices. As Raviv mentioned earlier, the difference in our results compared to the first quarter of 2019, stems from the sharp decline in commodity prices. Our results for the first quarter of this year very clearly demonstrate the underlying value of our specialty businesses and the effectiveness of our value-based approach.

Looking forward, after the recent signing of potash supply contracts to China, we believe that both potash and phosphate commodity prices have fallen to cyclically low levels.

As we can see on **Slide 14**, commodity prices have recently reached very low levels. While our business has significantly less commodity price exposure than a pure-play producer, we still manage for commodity cycles and maintain a conservative financial profile as a result of this exposure. Raviv mentioned earlier that the new supply contract signed in China and the expected contracts to be signed in India, should help to reverse the downturn trend in potash prices as we saw in mid-2016.

Slide 15 would ordinarily be found in the appendix, but we brought it forward this quarter given the impact of the quarter. Net financing expenses in the first quarter amounted to \$52 million compared to \$35 million in the same period last year, an increase of \$17 million. The increase relates mainly to a



change in the fair value of hedging transactions of \$46 million. The fair value of hedging transactions was affected by sharp decreases in energy and dry bulk shipping prices, a decrease in the U.S. dollar interest rate curve and exchange rate fluctuations. The reversal of such impact is expected in future periods but will not necessarily be in this line item. The impact of exchange rate fluctuations led to a decrease of \$25 million in expenses related to long-term employee benefits provisions and long-term lease revaluation according to IFRS 16, mainly due to the Israeli shekel depreciation against the dollar.

In addition, interest expenses decreased by \$5 million due to a lower average debt balance and average interest rate.

Please turn to **Slide 16** for a brief overview of our liquidity position. ICL maintains a healthy balance sheet, backed by liquidity of \$1.1 billion as of the end of the quarter. This includes cash and deposits of over \$500 million and available credit facilities of \$590 million. As we mentioned in our March 25 press release, we decided to increase our cash balances as a prudent action and a response to a highly volatile and uncertain situation.

We do not have major principal repayments of loans until 2024. The oversubscribed 15-years bond offering of about \$110 million on the Tel Aviv Stock Exchange we completed in December, while not significant in size, enabled us to more evenly spread our long-term debt and increased our financial flexibility even further.

To conclude, in **Slide 17**, we are generally pleased with our solid performance for the first quarter, especially in light of the weak commodity price environment that highlights the differentiation in ICL business, and how we have been able to build our specialty products over time. Absence the impact of COVID-19, we would be expecting increasingly strong results in the near-term as commodity prices are expected to start a recovery from cyclical lows. The pandemic has pushed our expectations out in time, but we maintain our positive long-term outlook for our end markets as well as for our business. In the meantime, we will continue to execute our strategy of growing our value-based specialty. Our strong balance sheet and healthy liquidity profile will



provide us with ample flexibility to do so and the ability to capture business opportunities in a volatile and changing economic environment.

With that, I would like to thank you for listening to our call and open up the line for any questions you may have.

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

The first question we have today comes from the line of Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson: Hi, good morning, Raviv and Kobi. Maybe I'll ask a few questions, one by one. Just higher level, in the last couple of years, you've seen a really strong bromine and IP business. It's maybe offset some challenges in the other commodities, the other businesses. With the oil price environment and the lower economic activity environment, bromine is going to take a step down here. And hopefully, we'll see some potash and phosphates price recovery, hopefully, I'm not sure.

So my question is, if bromine has been doing the heavy lifting, and now that's coming down and the other businesses may not come back to offset that, how does that change your strategy? What you want to acquire? What you want to do in your capital allocation?

Raviv Zoller: Hi Joel, thanks for the question. Actually, for the past couple of years, every quarter, we look at sales of clear brine fluids, and we always ask ourselves, when is this going to end? When is this going to go lower? And actually, a year ago, in the first quarter of last year, we had a record quarter and sort of all the stars were in the right place. And we thought, hey, probably it's going to take a really long time until we see that happen again.

And here we are in the first quarter of 2020, and we have another record, including clear brine fluids. The bromine business, as a whole, is very, very



solid. We have, as you know, the most significant market share. And our strategy has been to protect the future growth of that business by signing long-term contracts, which we started to achieve last year. And you can see that, that strategy is already paying off as the first quarter of this year was not necessarily a growth quarter for the bromine market. You can see that some of our competitors actually went down in the market.

So, we think that we've secured a huge part of the business, and the prospects going forward look very positive.

On clear brine fluids, clearly, there will be an influence of oil prices. But at the same time, most of our product goes to deep water drilling. And those drillings are usually state regulated, they're not short term, they don't stop the drilling from one day to the next, they require government permits. So typically, it's a cycle of almost a year until there's actual real change in deep well drilling. At the same time, once prices go down so significantly, obviously, there's an immediate response. And that means that inventories at our customers are going down significantly. This won't necessarily be a critical change in that piece of the market, it could be, but it could be a short-term effect if oil prices rebound.

Typically, in terms of drilling, you see shale drilling and drilling in Texas go down immediately as soon as oil prices go down, but not necessarily the deepwater well drilling.

So that's on the clear brine fluids. We don't think that – I mean, we think that the business, both short-term and long term, is going to be strong. We think there is going to be a near-term effect on flame retardants as some of our customers in electronics, car industry, and some of the other industries that have been affected by the pandemic will definitely see a change in market dynamics. But at the end of the day, that should bounce back relatively quickly, especially in electronics, because electronics is driven by personal computers, cell phones and other types of screen gadgets. Some say that those types of demand will actually go up once the pandemic is over because of the things that people discovered during the pandemic.



So, all in all, we are still positive about that business. And again, we have a growth strategy and the growth strategy is built on new products and new offerings coming in, as well as long-term contracts that secure demand. And actually, as we speak, we're growing capacity, but we're not growing capacity in hope of future demand, but we're growing capacity with actual orders for future demand. I'm trying to reflect to you that we feel rather confident, even though we think we will see some contraction during the next few months. So that's bromine.

In phosphates, we're building a very strong specialty products business, and that business is adding products such as alternative protein products that we added in recent months. We just launched a very unique product on the industrial side. It's called Scratch-X, and it's basically a coating that doesn't show any scratching. It's a product that should be very significant for future sales. Our innovation is allowing us to release new products into the market. And we see a very good future and growth prospects for that part of the business.

I do think that we're more exposed on the commodity phosphate side. At the end of the day we don't control the market. The market is driven very much by Morocco and China and it depends on what kind of discipline they show to the market on the commodity side. But the fact that our specialty business is growing in resilience and profitability, and actually the growth from Q1 last year was about \$4.5 million of additional operating income, I think it was \$28 million in the specialty products operating income in phosphates, means that we have a good foundation there.

And then on potash, while prices have reached low that we actually did not expect, not only is the momentum changing, but remember that we have 3 businesses that are being improved, as we speak. One of them is the business in Spain, which has taken quite a long time because of the ramp that we're building there that's taken longer than we'd like. But we're consolidating the mines by the end of this year. And so, we expect some positive results from that. We're also growing our polysulphate business out of the U.K., so that's



also growing into profitability. And finally, after winning a lawsuit – not exactly a lawsuit, but the regulatory claim in the U.S., our magnesium business now has a stronger foundation for sales in the U.S. So, we have 3 businesses that, in the past, were losing businesses, that we've turned around. And just like the joint venture in China in the specialty phosphate business have caused our phosphate division to be very resilient in bad times, the work that we've been doing in Spain and the U.K., and now with the magnesium, give us additional upside on the potash momentum.

So overall, we can expect growing positive results coming out of the Potash division. We can expect bromine to be growing over the long run, even if we have some short-term weakness, which we're not sure of, of course, but we can definitely see some weakness in the future months. And we have a strong phosphate business based on our specialty products offerings.

Finally, we have a specialty fertilizer business, which we're turning into a more unique and technologically based business. We're building commercial excellence, we're doing away with some of our third-party products that we're selling, we're improving profitability that way, adding additional products to our portfolio. Hopefully, we'll be able to complete some M&A that's escaped us because of valuation considerations in the past, and now in this new era of COVID-19, where our liquidity is very high, we have opportunities there.

So, I can see potential improvement in each 1 of our 4 divisions: Potash, because of the 3 improving units within the Potash division; phosphates, because of the continued growth of the specialty business; bromine, because of long-term contract and new products that we're introducing to the market, as we speak; and Specialty Fertilizers, or our IAS (Innovative Ag Solutions) division, because of the new product offerings M&A and also the technology that we're building, the digital technology that we're building, which will be very significant for future growth.

So, we have a leadership strategy. We strive to be a leader in whatever we do: we are leaders in bromine, we are leaders in specialty phosphates, we're close



to being leaders in cost base for potash, and we will be leaders in technology and product portfolio in specialty fertilizers.

So long answer but it's strategies, so I took the opportunity.

Joel Jackson: OK. That's helpful. And I want to follow-up on potash. So last year, you said you had some downtime in the fourth quarter, Dead Sea works stopped for some improvements, turnaround work. This year is an interesting year for potash because demand growth is expected to be up, hopefully, but you have a lot of new capacity from other players and inventory from other players, a lot of companies like yourself that have lower production last year seeking volume gain this year. Everybody can't get what they want. Do you expect that your potash volumes will be down this year when you consider all of that? Or will you grow?

Raviv Zoller: No, absolutely not. We're going to grow significantly because not only are we not losing the product that we had to lose last year to make a onetime capacity increase, but we're also producing more this year. So, we will be 400,000 or more of additional production this year relative to last year, and that's based on our capacity upgrade last year. So actually, if everything works out well, it could be more than 0.5 million. So, we're going to be up this year. Remember, we are a price taker in this market, so we are going to sell all of our products, there's no question that we're going to sell the product. We're going to sell the product where the price makes more sense. We are not selling any product in Brazil at this point. Obviously, we will keep our relations with Chinese and Indian customers, which are our foundation. And the rest of the product will go to those markets that pay a premium at this point, the highest premiums in Europe.

Joel Jackson: And just finally, doesn't that concern you that a lot of your peers in potash speak like you do as you have your volume objective this year, you're going to sell it where it makes sense? Does that not concern you that the price can't recover? Like how do you reconcile price recovery if you all want to have big volume growth?



Raviv Zoller: It's very simple. The market is basically an oversupplied market, which means that there's more capacity than there is demand on the base. And if the excess demand is \$7 million or \$8 million or \$9 million, it doesn't matter that much. The reason is that the excess capacity is controlled by 2 or 3 players. And the amount of discipline that they exercise will determine what the price levels will be.

I think that last year, they made a certain plan, but unfortunately, that didn't meet reality because the actual demand was much lower due to the conditions in the U.S., the weather conditions and also the African Swine Fever in China, which also caused a significant decrease of demand for last year. And what happened is that they were going to supply in a way that would be more supportive of the market, but what happened is that there wasn't enough buying in the U.S., there wasn't enough buying in China, and the dynamics of the market took control. Also, even towards the negotiation with China, there was a lot of product in bonded waiting in China, and that didn't do too much good for the negotiation with the Chinese. I think probably in the future, it won't happen in this way.

But what happens is that as soon as there are markets that can absorb the product, the regular product that everybody is producing, then those players that have the excess capacities and can exercise discipline have an opportunity to do their job or to get their results to a better place. And once the fundamental assumptions don't work, then they start to chase after finding the places to place product.

The smaller players in the market, we consider ourselves a smaller player, we're the number 6 producer in the world currently, will place their product. We do not look at total demand and total supply because we don't have the means to control that. In the bromine market, we're the largest player so we're in a different situation. That would be my answer. You should ask Nutrien and they would give you a much better answer than me about what's going to happen in the market.

Joel Jackson: That was very helpful, Raviv. Thank you very much.



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

Jeremy Rosenberg: Hi. This is Jeremy Rosenberg on for Vincent. I wanted to start out on industrial products. I saw in the press release, and I heard your comments on the lower clear brine fluid sales expected, as well as the flame retardant sales. I'm just wondering, is that mainly concentrated in the second quarter? Or do you expect to see those impacts in the back half of the year as well? And maybe just a little more color as to kind of the magnitude of the declines you expect.

Raviv Zoller: The honest truth is that we don't know. Because we know that the car industry has shut down for a while. It's coming back in China, it's coming back in Europe now, but it's still not really coming back in the U.S. So, the car industry has shut down, obviously electronic stores and distributing has slowed down. So, we look at the final market demand, and we understand that's going to translate down the supply chain. We're seeing a little bit lower levels of demand in certain types of products. It's still not to a point that we can really forecast the future. Currently, we estimate that most of the effect is going to be over the next few months, because we see electronics coming back and car production coming back, and construction is coming back and will come back.

Oil is a little bit of a mystery because we don't really understand the dynamics of the market, and we don't know how long sub-\$40 oil prices are going to stay. If oil goes back to \$40 or \$45 within the next month or 2, then we don't really expect too much of an effect. If oil prices stay below \$40 for more than 5 or 6 months, then it could be longer.

I was afraid to give an estimate. We really want to give as much transparency as possible. That's why we gave an estimate of \$10 million to \$20 million, the effect on our potash division from lower capacity in Spain and U.K., et cetera. We would love to give a good estimate, the only thing I can say is that our bromine competitors gave an expectation of 20 percent lower in the second



quarter. If I had to base my forecast on April, it would be less than that. But to be safe, I would say that given that April is too close to the actual event, then what my competitors gave is as good as anything I can give at this point.

We don't really forecast a significant effect beyond the second quarter. But it's too early to put us in a position to feel confident about any kind of forecasting.

Jeremy Rosenberg: OK. Got it. Yes, that's helpful. Maybe I'll just ask one more on the potash side of things. Looking at the China contract. I know there's been a lot of discussion on the price side, but I wanted to focus on the volumes. If I look at the contract volumes this year versus the last contract, it seems like the amount of tonnage is pretty similar. And I'm just wondering, just given how late China signed, how much tonnage they've, I guess, signed on for until the end of the year and where bonded warehouse inventories were and things like that, is there any concern that we're going to get into a similar situation where they're basically going to be stockpiled, and they don't need all the potash they've contracted for?

Raviv Zoller: I don't really see that. The quantities are actually until the end of the year. It's not until next April, it's until December. So, it's going to be a significant challenge to supply all those quantities until the end of December, at least for us.

Jeremy Rosenberg: OK, thank you.

Operator: The next question today comes from the line of Patrick Rafaisz from UBS. Please go ahead.

Patrick Rafaisz: Thank you and good afternoon, everyone. I have 3 questions, please. The first one would be a follow-up on the question just now on the contracts with China. How should we think about the quarterly shipments here for the 900,000 or 910,000 tonnes? And since you mentioned that it will already be a challenge to fulfill this, how should we think about that optionality you mentioned in the release?



Raviv Zoller: Right now, what I can say is that we haven't supplied any product to China in the first quarter. Actually, we provided, I think, it was 29,000 tonnes, just an emergency product, but that's negligible. So, it's close to 0 in the first quarter. So, all this needs to be supplied in 9 months, if you take an average per quarter, it's about 300,000 per quarter.

In terms of the options, right now it doesn't look like we're going to want to use those options and our customers probably aren't going to either, but it gives us flexibility to help each other out, if necessary. I would say that my best guesstimate is that we will be shipping a little less than 910,000, just because the placement of our product to other regions puts us pretty much at the limit. It's also about half of our non-granulated production, so that's quite a lot.

I would say that my best – I'll repeat that my best guesstimate is that we will get close to 910,000, maybe a little less.

Patrick Rafaisz: OK. That's very helpful. And then also a follow-up, I guess, on Industrial Products and bromine. One of your competitors was also talking about some pull forward demand, especially for flame retardants from the auto industry. Is that something you would confirm? So, was the strong performance in Q1 maybe also helped by some stockpiling of customers worried about potential supply bottlenecks or supply chain disruptions due to the corona outbreak? And if so, any way of quantifying this?

Raviv Zoller: I can't speak of any kind of substantial loading of stock. There are some dynamics such as, for example, the lockdown in India has caused some disruption in bromine production and some pressure on the bromine market in China. Also, the competitors, facilities in Jordan, were either shut down or producing at less than full capacity for a while because of the lockdown in Jordan, that also may create some apprehension of customers in China or maybe in the U.S. and maybe they needed to protect themselves. But we don't really see that it affected us in any meaningful way, at least not in the first quarter. Maybe April looked better to us than to our competitors because we didn't have that.



Patrick Rafaisz: OK. And the last question would be on cash flow and your working capital outflow was significantly lower than last year. And there were some big swings, right, in receivables and payables versus last year and also in other payables. How should we think about the working capital in the next 1 or 2 quarters and for the year? What do you – do you expect the performance as a ratio to sales to be in line-ish with last year or maybe improve further? Any extraordinary items in there that are worth highlighting?

Raviv Zoller: Well, first of all, typically, our working capital is at its highest levels in March, just because of the dynamics of the fertilizer season. This year was a little bit different in a sense that in the fourth quarter, we sold less because of the production shutdown in the Dead Sea for the capacity increase, so we had less receivables on December 31. That affected our cash flow in the first quarter and maybe even a little more than the first quarter in a bad way. But despite that, the cash flow was really, really good. The improvement in working capital is going to continue. It's not going to be as significant as last year because last year, we put in place a new program to really discipline us on cash flow management, and we've improved the cash flow management in the company significantly. And obviously, it's easier to create significant improvement in the first stages, and after that, it becomes harder and harder to get to the same levels of improvement. So, we will see our working capital continue to improve, it's not going to improve as much as it did last year, and it still would have been more significant had we started the year with higher receivables, because we started this year with lower receivables because of a onetime event, which was less sales because of our capacity upgrade in the Dead Sea in the fourth quarter. I hope that answers.

Patrick Rafaisz: Yes. Thank you very much.

Raviv Zoller: Thank you.

Operator: The next question today comes from the line of Duffy Fischer from Barclays. Please go ahead.



Sean Gilmartin: Hi, good morning. This is Sean Gilmartin on for Duffy. Thanks for taking the question. First off, I was just curious if there was any consternation, I guess, on your part, signing the China contract at the \$220 price point?

And secondarily, now that the contract is signed, how quickly can we get the Spanish operations up and running to full capacity?

Raviv Zoller: OK. Obviously, the two things are not related. I can tell you the marketing story or the true story. The true story on China is that we were disappointed with the price, but we're not in a position to do anything to change it, I'd like it to be different, but that's the honest truth.

As far as Spain is concerned, we have pretty much confidence that we will be at full capacity by the end of the quarter. Just to make things clear, what the issue is – the issue is social distancing. So, going down in a shaft, going down the shaft to the mine, you can't have more than a certain number of people in an elevator and things like that, that's what's holding us up. As the authorities grant us a little bit more flexibility, and we do want to stay safe and want to adhere to all the requirements, as soon as the authorities give us a little bit more flexibility, then we'll be able to return to full capacity. There are no other issues there.

The other issue we have in Spain has to do with the ramp project. We have a very long-term project that should have been finished quite a long time ago because we really needed to complete our efficiency plan in Spain. And because of sickness of employees, of a subcontractor, they declared force majeure and basically stopped working also on the ramp project. We have them back working since 2 weeks ago on the essential things that have to be done in order for us not to create another problem for ourselves, so we need that to get back online. It's at a point where we're past the critical parts of the project. We basically could decide to finish the project on our own. We'd rather not, but if, until the end of the quarter, we won't be back 100 percent on the ramp project then we'll probably take it on our own and finish it ourselves. We are finishing the consolidation of the 2 mines in Spain this year, one way or another.



I'm not sure if you asked about the U.K. The U.K. is also not at full capacity, but it's not potash. In any case, that also will be full capacity by the end of the quarter. Same kind of issues.

Sean Gilmartin: Excellent. And then just a quick follow-up. Capital expenditure expectations for you guys this year. Has there been any adjustments with the uncertain backdrop?

Raviv Zoller: Yes. We have some delays in projects, so in terms of cash flow, it could be a delay of, I would say, between \$30 million to \$50 million, which will be delayed into next year. That's about the effect. It's not a major effect, but that's another effect of COVID-19.

Sean Gilmartin: Got it, thank you very much.

Raviv Zoller: The only delay we're concerned about is the delay of the ramp in Spain. Otherwise, I would have mentioned it.

Sean Gilmartin: Thank you.

Raviv Zoller: Thank you.

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

Kevin Estok: Hi, this is Kevin Estok on for Laurence. I was just wondering how you guys expect higher cost inventories to impact your decremental margins in the second quarter?

Raviv Zoller: Can you repeat, please?

Kevin Estok: Sure, yes. Basically, how you expect higher cost inventories to impact your decremental margins in the second quarter, if at all?

Raviv Zoller: I'm not sure I understand the question. What is higher cost inventories?



Kevin Estok: Basically, can you just maybe talk about the dynamics behind your margins a bit? And maybe into the second quarter and sort of what we expect to see there?

Raviv Zoller: Sure. In potash, we expect increasing margin because we had the onetime price adjustment in the first quarter. And also the other nonpotash businesses are improving in results. Bromine, we already mentioned that we expect to see lower sales in the second quarter. We're not sure at this point what the effect will be. But obviously, if you take sales off the top, then your average margin goes down, so we expect the 28 operating margin we saw this quarter to come down. By how much, it's too soon to say.

On phosphate, it really depends on commodity prices. In terms of specialties, we expect another strong quarter in the second quarter, and because the dynamics of the market are good, we had a good product launch. The demand for food phosphate products, non-fresh foods is very high, so that works in our favor. So, the phosphate margins are dependent on commodity prices. The most important signal to phosphate price, commodity prices, sorry, was a few days ago when OCP Morocco concluded its new quarterly contract (phosphoric acid) with India at about 3.5 percent price increase. That hasn't happened in a very long time, and it's a very strong signal to the market, so we hope to see commodity prices going up. If they go up, it will improve our margins. If not, then our margins will suffer.

On our Specialty Fertilizers business, we expect results to be pretty much in line with the first quarter results, so no big surprises in any of the divisions, probably improving results in potash and a little softer results in bromine.

Kevin Estok: And my last question just has to do with your sales process. I guess, has that been affected at all by social distancing at all?

Raviv Zoller: It's interesting because a lot of unique things happening. I mean, the product launch that I mentioned was launched in multiple webinars. Our sales in China to the agriculture sector in March were concentrated on WeChat, which has never happened before. Of course, sales meetings are happening on Zoom



all the time. Also, training is happening – training, I mean, agronomist customers, is happening on Zoom. No travel really, we just approved internal domestic travel in China yesterday, I believe. It will take time until salespeople start visiting their customers again.

But a lot has been achieved by digital means, and I think it's good news, because I think that the agriculture industry is learning that there's a lot more room for digital, and we're investing heavily in our – in our digital future, and we think it will be a positive for us in the long run.

Kevin Estok: Thank you.

Raviv Zoller: Thank you.

Operator: Thank you very much. The next question today comes from the line of Mark Connelly from Stephens. Please go ahead.

Mark Connelly: Thanks, Raviv. Just 2 things. You mentioned lower sulfur prices. Have you seen any shifts in sulfur availability? And how are you thinking about the risk to either availability or pricing if crude does stay down?

Raviv Zoller: It's a great question. I'm not sure that I have a great answer. We're not seeing any kind of pressure at this moment from the market, and – we've sourced for the next quarter, so we're pretty much hedged against what we know are the prices today in the commodity in the phosphate commodity market. My assumption is that any sharp change in sulfur prices will also be reflected in commodity phosphate prices.

Mark Connelly: OK. That's fair. And just one more question on bromine. You saw flat elemental and over time, we're expecting that number to come down. Do you have any sense yet of whether this downturn would tend to accelerate or slow down that mix shift?

Raviv Zoller: The mixture between what? Compounds and ...



Mark Connelly: Between elemental and compound in the bromine business. I'm just curious whether your Chinese customers are more likely to accelerate or more likely to slow down or if you have any sense of it?

Raviv Zoller: Our percentage of compounds has gone up. It's inherent in long-term contracts, because long-term contracts are related more to final product than to elemental bromine. In our case, the mix is shifting towards compounds, and again, our contracts or long-term contracts that are like long-term orders, if you will. Also, it's in our interest to sell compounds, because we're more profitable on the compounds.

Mark Connelly: OK, very helpful. Thank you.

Raviv Zoller: Thank you.

Operator: Thank you very much. And the last question in the queue comes today from the line of Rahul Bhat from JPMorgan. Please go ahead.

Rahul Bhat: Hi, thank you. I just have quick small question, actually. On CapEx for 2019, you said \$30 million to \$50 million – sorry for 2020, you said CapEx, it will be delayed by \$30 million to \$50 million. But could you give a guide on where you see full year CapEx coming? Maybe I missed it earlier during the call.

And also on M&A, you said you could use your liquidity to do some M&A. Could you give any kind of guide on what kind of ballpark number? And is this going to be in the small double digit millions? Or are we looking at something in the triple-digit millions?

Raviv Zoller: OK. I'll start from M&A and then probably you'll have to remind me the first question. But in any case, on the M&A side, other than types of know-how, technology, digital, where we did a transaction like Growers, which was \$27 million, all the acquisitions that we're looking at are significant, which means \$100 million of revenues plus. I don't want to give any kind of projections, but I'm trying to reflect that they would be meaningful. The focus is on the



Specialty Fertilizers business, where we need, in order to build leadership, like in all our other business divisions, we need some more geographical diversification as well as product diversification. So, our targets are on certain products, as well as biostimulants, micronutrients, emphasis on the growing markets of Brazil, and you know the others. And as soon as we have any information we can share, then obviously, we'll share.

In terms of guidance for CapEx, I don't remember our exact guidance, but Kobi is it fair to say that we'll be a little over \$500 million for the year?

Kobi Altman: \$500-550 million.

Raviv Zoller: So Kobi says that we'll be anywhere between \$500 million to \$550 million. Our original assumption was a little bit more than that, and that will reflect delays of \$30 million to \$50 million due to COVID-19 related issues. We are looking at the industry as a whole, especially fertilizer companies. We're very proud that we're the profitable company in the fertilizer industry, with positive cash flow, with positive momentum in the business and also high liquidity. And all of those give us comfort that it's good that we were careful in terms of valuations in the past on acquisitions, and in some cases, those potential opportunities that we looked at in the past are coming back to us, and we'll be able to be more selective and make sure that we retain our position as the most profitable fertilizer company around.

Rahul Bhat: Understood. That was very helpful. On the M&A bit, can I just probe a bit more? And in terms of – when you do a transaction, how do you think of what – where do you want, which is what's the maximum level that you are OK to take leverage to? Because I think ag leverage this year is going to increase and how do you think about your ratings in that aspect? Is remaining IG one of the key things in your strategy as well? And how would you look to fund such an M&A?

Raviv Zoller: Yes. I think it's too early to talk about that. But the way to look at it is any kind of acquisition that we're looking at is accretive to earnings and has EBITDA and can basically finance itself, so the only reason we would use our



balance sheet is if we want to make the financing cheaper than using external financing for the acquisition based on EBITDA. We don't think that the size of the acquisitions that we're looking for are going to put any strain on our balance sheet.

Rahul Bhat: Understood. Perfect. And in terms of the license renewal with the Dead Sea works, is that something that you think we can expect some news on this year? Or is that still somewhere down the horizon?

Raviv Zoller: We have a very good relationship now with the Israeli government. It's a good basis for discussions. I know that they're interested in discussing with us. We just had a round of negotiations about rules of engagement regarding how we invest (in the Dead Sea) and how we look at 2030. Between the year 2020 to 2030, it's a process that we needed to go through, and I think we have a strong foundation at this point. Also, there may be an opportunity in the future where, for fiscal reasons, the government will decide to expedite the process and give both the government and us more uncertainty. But we're in no rush. We're in very, very good position. We have a right of first refusal. We have a right to get the full value of our assets in case we don't continue with the concession after 2030. So right now, all the options are on the table, and all the options are good options, so we have good options, we have very good options. No bad options really at this point.

Rahul Bhat: Understood. Thank you very much.

Raviv Zoller: Thank you.

Operator: Thank you very much. We do have a follow-up question here from the line of Joel Jackson from BMO Capital. Please go ahead.

Joel Jackson: Raviv, sorry coming one more time. I thought I'd ask for Polysulphate. What was the contribution margin of Polysulphate in the first quarter? I know there's a lot going on with – you had production up a lot in Q1, demand was only up a little. You've got some restriction because of social differencing.



So, what will the earnings contribution be for the full year? So Q1 and the full year.

Raviv Zoller: Well, you got me there. The sales were relatively low in the first quarter, they were just marginally above first quarter last year. The reason is we had some sales scheduled to go to China, and because of the COVID-19, the sales actually happened in April. So, I think the contribution was some kind of a ridiculous number, like 15 percent or something like that, but it's not a normal contribution. The normal gross profit that is supposed to come out of the sales of the Polysulphate need to be close to 40 percent on the annual level.

Joel Jackson: Thank you.

Raviv Zoller: And I'm looking forward to seeing you tomorrow at the BMO conference. I'm curious to see...

Joel Jackson: I hope you won't be sick of me by tomorrow, I hope. Thanks.

Raviv Zoller: OK, be nice to us tomorrow.

Joel Jackson: I'll try.

Dudi Musler: OK. Thank you, everyone, for joining us today. Feel free to reach out any time, and have a great day. Thank you.

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

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