ICL Q2 2020 Conference Call

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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the ICL Group Analysts and Investor Conference Call.

Our presentation today will be followed by a question-and-answer session. If you'd like to ask a question at this time, please press "star" then "1" on your telephone keypad. I must advise you the call is being recorded today. Should you experience any technical difficulties today, please press "star" then "0" on your telephone keypad.

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

Dudi Musler: Thank you. Hi, everyone. Welcome, and thank you for joining us today on our second quarter 2020 conference call. The event is being webcast live on our website at www.icl-group.com. Earlier today, we filed our reports to the securities authorities and the stock exchanges in the U.S. and in Israel. The reports as well as the press release are available on our website. 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 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 second quarter, I would like to once again acknowledge ICL's employees globally for their perseverance in light of the challenging conditions brought about by the COVID-19 pandemic that have affected all of us personally and professionally. Due to the efforts of our committed team, we have been able to maintain continuity of our business globally, with zero disruptions to our customers while ensuring the health and safety of our employees.

Turning to Slide 3 of our earnings presentation. In the second quarter, we generated positive operating income in each of our segments as well as positive free cash flow amid a very challenging operating and market environment. I'm pleased to report that these results were actually ahead of our internal forecasts. In fact, they were more or less in line with our results in the first quarter when our business was not materially impacted by COVID-19. Our results this quarter were also supported by record first half potash production at the Dead Sea as output didn't suffer as a result of increased health and safety measures that remain in place today. I will discuss our operating performance in greater detail shortly, but I'd like to briefly discuss how our strategy drives our performance and provide context for some of the actions we took in the second quarter.

As we have stated before, ICL is far from a pure-play commodity company with performance tied to commodity and business cycles. While performance within some of our segments can certainly be impacted by these factors, our business is highly diverse and growing more so. Also, while certain of our end markets, like oil and gas, are cyclical, the vast majority of our revenue is derived from the very durable agriculture and food markets as well as from other various value-added specialty products that ICL produces.

We are continuously emphasizing R&D and innovation to drive growth across our value chains and growth opportunities remain significant. In our more commoditized businesses, we are continuously focused on cost efficiency. If we can continue to be one of the lowest-cost producers, we can generate operating cash flow even in weak commodity markets and maintain significant exposure to periods where prices are stronger. To that end, we continue to execute on our global efficiency plans and initiatives across all of our segments in the second quarter.

Specifically, we reduced head count in all of our segments, primarily through early retirement programs, and took important actions to optimize the footprint of our commodity businesses. We discontinued the production and sales of phosphate rock to third parties from Israel, which does not contribute to the Phosphate Solutions segment's downstream product value chain. We will continue to produce phosphate rock in order to deliver higher-value products to our customers globally, but our cost base will be lower.

We also accelerated the closure of potash production in the Vilafruns mine at ICL Iberia and Spain. This was originally scheduled to occur in 2021. But given the potash price environment, we decided not to wait since our cost per tonne of production will decrease and the savings will drop right to the bottom line. These actions resulted in charges totaling $297 million in the second quarter, most of which are noncash charges, and the balance will be spread over a number of reporting periods. Importantly, on an ongoing basis, the actions will ultimately result in annual cash savings and enhanced profitability of approximately $50 million commencing next year.

Finally, as we announced in June, we have consolidated our crop nutrition sales and marketing infrastructures into a single commercial organization facing the agriculture market. We believe that this structural change, which will not impact our segment reporting, will allow ICL to better leverage region-specific knowledge, agronomic and R&D capabilities, logistical assets and customer relationships as well as enhance the global operational scale of our crop nutrition business.

Our strong financial position and balanced capital priorities provide us with the flexibility to make decisions that we think will maximize our cash flows and create the most value for our shareholders. Our capital allocation priorities remain unchanged, and our dividend for the second quarter amounts to about $36 million. The summary of our financial results, shown in the table on Slide 4, clearly shows the decline across all financial metrics compared to the second quarter of 2019. This should come as no surprise.

As I mentioned, our performance compared to the first quarter of this year was impressive even if our results were not materially different. On an adjusted basis, our results were close to flat quarter-over-quarter, and our operating cash flow and net income actually increased. Commodity prices didn't increase quarter-over-quarter, they went down.

And COVID-19 brought about operational challenges and a severe disruption in demand from the oil and gas market. I think this is a pretty clear demonstration of the effectiveness of our strategy, our continuous focus on execution and innovation and the diversity of our business. Like many other companies, ICL has been impacted by the COVID-19 pandemic, but the strength of our business model and the critical role our products play in the food supply chain help us weather this storm better than others. Let's move on to the business performance of our divisions, starting from Industrial Products on Slide 5.

Segment sales and EBITDA in the second quarter of 2020 decreased by 15 percent and 19 percent year-over-year, respectively, due to lower demand for flame retardants and clear brine fluids, resulting from the negative impact of the COVID-19 pandemic on global industrial activity and demand for oil and gas. Despite the large drop in sales volumes, the segment generated a healthy EBITDA margin of 31 percent due to an ongoing strategic shift to long-term contracts, a diverse product portfolio and an increase in sales of specialty minerals to the resilient pharma and supplements markets.

The impact of COVID-19 pandemic on the segment is expected to continue through the third quarter of 2020 and result in lower demand for clear brine fluids and brominated flame retardants. At the same time, a slight recovery in certain flame retardants for the electronics market and the European building and construction industry could partly offset the overall negative impact on the segment.

Turning to Slide 6. We achieved record first half potash production at the Dead Sea following the 3-week production shutdown in our facilities for capacity upgrades in the fourth quarter of 2019. However, production gains were offset by lower production at ICL Iberia in Spain, caused by disruptions to operations due to the COVID-19 pandemic. Based on our prior production forecasts, we measure the negative impact of COVID-19 on the potash division to be about $23 million in the second quarter, mainly in ICL Iberia and ICL U.K. Currently, our sites are operating as planned, and we do not see a very significant impact from the COVID-19 pandemic on the segment's results in the third quarter of 2020.

The potash segment sales and EBITDA decreased in the second quarter of 2020 by 21 percent and 43 percent, respectively, compared to the same quarter in the prior year. Business performance was primarily impacted by a $63 decrease in the average potash realized price per tonne and higher operational costs resulting from COVID-19 pandemic, partly offset by a reduction in certain costs as a result of the segment's efficiency initiatives and increased production in Israel. COVID-19 also negatively impacted the global end market demand for magnesium primarily in the automotive and aviation industries. As I mentioned earlier, we moved forward the consolidation process of activities of ICL Iberia into one site.

As a result, production operations at the Vilafruns mine were discontinued towards the end of the second quarter. The decision allows us to speed up the Suria mine development and to improve our future cost per tonne. Sales to our customers will not be affected due to the closure of Vilafruns as the Suria mine is already stepping up production, and with support from ICL dead Sea, we'll continue to meet the demand of our customers.

Production of Polysulphate increased by 38 percent to 184,000 tonnes and sales volumes increased by 27 percent to 131,000 tonnes compared to the second quarter of 2019. These increases were achieved despite some operational challenges presented by the COVID-19 pandemic. Nevertheless, we are still on target to reach our annual production capacity run rate goal of 1 million tonnes by the end of the year.

Subsequent to the end of the quarter, we announced the expansion of our Polysulphate distribution network with long-term distribution agreements. Following the signing of these agreements, we have contracted an aggregate of 1.1 million tonnes of Polysulphate as part of our strategy to enable and expand the adoption of Polysulphate globally. Turning to our Phosphate Solutions division on Slide 7. The division once again demonstrated the strength of a diverse portfolio focused on growing specialties business. The segment sales and EBITDA decreased by 15 percent and 23 percent, respectively, year-over-year, mainly due to a sharp decrease in phosphate commodities market prices, partially offset by lower raw material prices.

The continued positive operating income of the segment, despite the weak commodity price environment and market headwinds, reflects strong phosphate specialties performance and ongoing positive operating profit from the YPH JV in China. For the first time, we have broken out operating income for phosphate commodities and phosphate specialties in our earnings report.

Phosphate specialties recorded an operating income of $30 million, 20 percent higher than the second quarter of 2019, driven mainly by lower raw material costs and strong sales volumes of food phosphates. Sales of phosphate commodities were approximately 31 percent lower than in the second quarter of 2019, mostly due to a significant decline in market prices and lower sales volumes of phosphate fertilizers. This resulted in an operating loss of $22 million compared to operating income of $7 million in the second quarter of 2019.

As I mentioned, our focus on cost efficiency in our commodity businesses drove our decision to discontinue the unprofitable production and sales of phosphate rock from Israel, an activity that does not contribute to the segment's downstream value chain and is consistent with our ongoing focus on growing our value-add businesses. Overall, ICL's robust and diversified customer portfolio and wide geographic reach of its phosphate specialties businesses, coupled with the strong demand for food products, prevented a material impact of the pandemic on the segment's business performance. Currently, we do not see a very significant impact from the COVID-19 pandemic on the segment's results in the third quarter of 2020, although the full effect of the pandemic is still difficult to assess.

Slide 8. The IAS segment sales decreased 3 percent year-over-year, driven mainly by unfavorable dollar-euro exchange rates. EBITDA increased by 29 percent year-over-year to $22 million, and EBITDA margin increased to 11 percent compared to 8 percent in Q2 of 2019. This was primarily due to lower cost of raw materials and the successful implementation of efficiency and cost reduction initiatives. Sales to the specialty agriculture market slightly decreased year-over-year, mainly as the negative impact of unfavorable exchange rates was partly offset by strong sales of straight fertilizers and higher sales to China. Sales to the turf and ornamental market were lower compared to the corresponding quarter last year, mainly due to the impacts of COVID-19 pandemic as a decrease in sales in the turf business were only partly compensated by higher sales to the ornamental horticulture market.

The reopening of sports fields and golf courses in Europe resulted in a slight recovery in sales towards the end of the quarter. Turning to Slide 9. As previously noted, ICL announced that it has consolidated its crop nutrition sales and marketing infrastructure, creating a unified commercial platform facing the agricultural end markets in order to drive internal synergies and optimize distribution channels of commodity, specialty and semi specialty fertilizers.

We previously had multiple internal sales organizations across dozens of locations, selling portions of our product portfolio to their own base of customers. These organizations were siloed from one another, including with respect to their back office and reporting systems. This was both inefficient from a cost perspective and not optimal for marketing reasons. The company expects that this new operating model, which will be managed on a regional basis, will serve to achieve commercial excellence, increase the efficiency of its global operations and better leverage its region-specific knowledge, agronomic and R&D capabilities, logistical assets and customer relationships.

To summarize on Slide 10. I'm very happy to say that overall, we are fortunate to have suffered minimal operational impact as a result of COVID-19. And all of our production is back online and operating under all applicable health and safety regulations related to COVID-19. The pandemic was and continues to be disruptive to end markets. In particular, we expect to see continued weakness in demand for clear brine fluids and to a lesser degree, flame retardants, and the Industrial Products segment's performance will ultimately follow the recovery in industrial demand.

By contrast, there is inherent stability in our agriculture and food end markets, where our performance has been impacted by commodity pricing rather than end market demand. Recently, commodity prices have stabilized, albeit at low levels, and we expect prices to continue firming over time. Overall, the diversity of our business provides stability, resilience and continued cash generation amid a weak commodity and business environment. We firmly focused on executing our business strategy and increasing efficiency and cost savings across all our operating segments, which not only protect our performance against downside scenarios, but also positions ICL to generate significant cash flow when underlying demand in commodity prices are stronger.

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 actual does. This affords us a significant degree of flexibility to execute on our strategic initiatives in order to innovate, bring new products and applications to the market and manage the growth of our business safely and consistently over the long term. Before I hand it over to Kobi, I would like to briefly highlight recent recognitions we have received with respect to our ESG practices.

First, ICL was recently included in the FTSE4Good Index Series, which is designed to measure the performance of companies demonstrating strong ESG practices. These indexes are used to create index tracking investment products focused on sustainable investment. Additionally, ICL was awarded the highest platinum plus ranking by MALA, a leading professional nonprofit corporate membership organization, comprised of over 110 of the highest impact companies in Israel. We try to display our commitment to the highest ESG standards in our strategy and everyday practices, and we are very grateful that third parties continue to validate our efforts.

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

Kobi Altman: Thank you, Raviv, and good day, everyone. 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 adjusted EBITDA of $246 million, adjusted net income of $72 million and operating cash flow of $177 million. You can see that as a percentage of sales, we show increase versus Q1 in all those parameters. Compared to the second quarter of 2019, our results were impacted by a significant year-over-year decline in commodity prices. Nonetheless, the stability or improvement in our results, depending on which metric you look at, reflects the diversity and resilience of ICL's business portfolio as well as the effectiveness of our strategic focus on value-based specialty products.

Our resilient results were achieved in a very challenging environment that presented both operational challenges and decreases in both commodity prices and COVID-19-related demand from industrial end markets. Turning to Slide 13. The chart on this slide very clearly shows the impact of cyclically low commodity prices and COVID-19-related softer demand on our results in the second quarter. As Raviv mentioned, average potash selling prices declined by $63 per tonne or 22 percent compared to the second quarter of 2019. Phosphate commodity prices also declined significantly. The decrease in quantities comes mainly from the bromine value chain, and we expect this demand to pick up as the global economy recovers.

A similar picture is shown in the adjusted EBITDA segment contribution chart on Slide 14. Both our potash and Phosphate Solutions segments were negatively impacted by lower prices. Here, you can see that quantities had much lower effect compared to the top line chart. As Raviv mentioned, performance in our Phosphate Solutions segment was driven by strong operation results in phosphate specialties. On Slide 15, we provide additional details on the non-GAAP adjustment we made this quarter before and after the tax impact. The non-GAAP adjustments comprises of $187 million noncash impairment and write-down of assets in Rotem sites and in Spain. As part of the saving program we initiated that includes a global workforce reduction of about 250 employees, we booked provisions for early retirement of over 200 employees in the amount of $78 million.

We also increased provision for asset retirement obligations in the amount of $32 million. The table on this slide shows how those adjustments are distributed by operating sites. Please turn to Slide 16 for a quick snapshot of our financial position. ICL maintains a healthy balance sheet backed by immediately available liquidity, including cash, deposits and unutilized credit lines of $1.15 billion as of the end of the quarter. Our balance sheet was bolstered by an additional $110 million issuance of our Series G bond in May. With no major principal repayments of loans until 2024, we are well positioned to focus on execution and also to pursue growth opportunities.

Our net debt-to-EBITDA ratio of 2.4 remains within an acceptable range, although we expect it to decrease as industrial demand picks up and commodity prices rebound. S&P and Fitch Ratings acknowledge ICL's strong financial position and credit metrics as well as the actions we have taken that will further improve our liquidity over the coming years. Each rating agency recently reaffirmed our BBB- rating, both with a stable outlook.

Each rating agency stated that its rating reflects ICL's strong business profile stemming from our unique and strategic assets in the Dead Sea, our market, our cost leadership position, the resilience of our specialty chemicals and bromine businesses, the synergetic profiles of ICS specialty chemicals production, our strong liquidity and prudent financial policy and our solid fund from operations net leverage. Slide 17 provides the view of the commodity cycle we face.

We believe that both potash and phosphate commodity prices have fallen to cyclically 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. If we zoom in, we see that the new supply contract signed in China and India should help to reverse the downward trend in potash prices that has impacted our results lately. To conclude, our performance in the second quarter in a market environment without precedence is directly relates to ICL differentiated business model. We are continuously focused on executing our strategy to increase the cost efficiency of our commodities businesses and to grow our specialties products businesses by entering new product categories and expanding our geographical distribution network.

Absent 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 outlook and believe that industrial demand will rebound from second quarter levels and our specialty businesses will continue to positively impact our results. At the same time, our strong balance sheet and healthy liquidity profile will provide us with ample flexibility to capture business opportunities in a volatile and changing economic environment.

Finally, I would also like to turn your attention to the new interactive data tool we have implemented under the Investors section in our website, which will enable you to easily access our financials and download customized data with multiple periods and parameters. 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. As a reminder, if you'd like to ask a question over the phone today, please press "star" then "1" on your telephone keypad and wait for your name to be announced. You can cancel the request by pressing the "hash" key. Once again, "star" then "1" if you'd like to ask a question today.

The first question we have today comes from the line of Vincent Andrews from Morgan Stanley.

Vincent Andrews: Wondering if you can just give us a little more color on the bromine outlook. I know that you noted the price has stabilized towards the end of the quarter. But I'm trying to assess volumetrically, whether you think that there's – volumes are going to be down sequentially 3Q versus 2Q, just as maybe the clear brine fluids – maybe that's still a little bit weaker in 3Q. And then if you could just help us understand the moving pieces on the electronics uplift you think you might see, in which areas that is as well as what we need to see in Europe from a construction perspective in order to get some favorability there.

Raviv Zoller: OK, thanks for your question. Last quarter, we were asked the same question, and it was more difficult to predict, so we said that our best guesstimate is to say that we don't have any different assessment from our competitors. And at the time, the competitors said that they expect EBITDA to be down 20 percent. And I want to salute them because it came out 19 percent, and we said we don't have a better assessment, so I owe them that. The third quarter looks very much like the second quarter, so far. What we see is, on the one hand, of course, clear brine fluids have bottomed, and we also see that the electronics-related flame retardants are still weak.

But at the same time, bromine prices that went down in China over May and June have come back to rising, and we see a stronger demand for home appliance flame retardants. So, these are flame retards that are used for air conditioning units, television sets, appliances etc. PCB boards still weak, but not as weak as a few weeks ago. And on construction, we also see the demand is getting stronger. Still very low on automotive related. So, all in all, it looks like we've bottomed, and now we see some signs of improvement. But the net of it all is that we expect that the third quarter should be very similar to the second quarter.

Vincent Andrews: Similar to the second quarter in terms of the year-over-year decline or the absolute level of EBIT?

Raviv Zoller: The absolute level of EBITDA.

Vincent Andrews: OK. And if I could just ask a follow-up on the phosphate rock that you're no longer selling to the merchant market. Are you doing something else with it downstream? Or are you just not selling it?

Raviv Zoller: No, we're just discontinuing the sales of phosphate rock. Given labor union issues and regulatory issues, it was difficult for us to make this decision in the past. And because of the weak markets and a new approach by regulators and healthy negotiations with unions, we're now in a position to save about $20 million out of $30 million loss that we had to live with for the past few years.

Operator: The next question today comes from the line of Joel Jackson from BMO Capital Markets.

Joel Jackson: I have a few questions. Maybe we could start with potash. Could we talk about what you expect your potash production and sales to be this year in '21 and '22, considering different things like inventory levels and some of the stuff you're doing in Spain? to 2021 and '22.

Raviv Zoller: Joe, we expect – in 2020, we expect sales to be around 4.55 million tonnes. And we expect next year's sales to be about 150,000 to 200,000 tonnes north of that. Those are the numbers on the potash.

Joel Jackson: And then you would probably be holding inventory levels about flat?

Raviv Zoller: About flat, yes. Obviously, most of it is coming from the Dead Sea. So, we expect about 3.9 million tonnes from the Dead Sea this year and probably about 4.0 million tonnes next year from the Dead Sea.

Joel Jackson: That's really helpful. When we talk about Polysulphate, what was the earnings contribution or loss in the second quarter in Polysulphate, what will it be in 2020? And what do you have to do to make it profitable?

Raviv Zoller: OK. I'll start from the last part, which is easier to answer. In order to be profitable, we need to cross 1 million tonnes in production, and we need to also sell 1 million tonnes at a certain price level, which we are achieving today, but not on all of our products. So, we still have way to go. In terms of the results on the second quarter, the result was a loss of about $7 million. It was negatively affected by COVID-19 because of social distancing restrictions, we had to lower production during the quarter from the end of March, and gradually picking up until June 1. We were back to full production in June 1st. So, our production for the quarter was about 80 percent of what was originally planned. And also, in terms of sales, we sold less than we expected.

We ran into some issues. One of them, versus plan, was the fact that we were late with some sales to India. We've been working on an import license to India, and it took us much longer than we expected. I'm Happy to report that that's been settled this month during July. But of course, we sold some of them last year. We sold 131,000 tonnes this quarter. We plan to sell about 160,000 tonnes this quarter (Q3 2020), 2/3 of the difference comes from our plans in India. So again, that was the result for this quarter with some headwinds from COVID-19. They shouldn't last into the second half of the year. But in order to become profitable in the U.K., we have to surpass the 1 million tonnes, and we have to be able to sell 1 million tonnes a year. It's a new product. We're introducing it into the market. Our run rate of loss is going down, obviously, and will come to zero when we cross that line of 1 million.

Joel Jackson: And what percent of your sales in the second quarter and third quarter are being done at the minimum price you need to breakeven or better?

Raviv Zoller: You got me there. I can't be accurate, but I would guess that about 3/4 of the sales are on premium. And we reported towards the end of the quarter, we reported that we were successful with signing some long-term contracts, and all of them are at the right prices. So, we're not doing any long-term business and pricing that is not appropriate.

Joel Jackson: And just finally for me, you talk about your cost reduction program and efficiency programs leading to $50 million a year of annual savings. Is that net or gross of inflation? And does that breakdown – I guess it's mostly – it sounds like it's kind of divided half and half between potash and phosphate, roughly, is that right?

Raviv Zoller: Yes, it's roughly a little over $20 million in phosphate and about a little less than $20 million in potash. And the balance is between other businesses, coming mainly from early retirement programs, OK? Actually, if I – since the magnesium is part of potash, then let me go back on what I said. It's a little more than $20 million in each of potash and phosphate. And the balance, which would be around $7 or $8, is in our other 2 business sectors that also did some early retirement planning.

Kobi Altman: A little bit on G&A as well.

Raviv Zoller: Yes. Thanks, Kobi.

Joel Jackson: And is that gross or net of inflation, the $50 million?

Raviv Zoller: I'd have to understand the question to answer.

Joel Jackson: $50 million cost savings, but you also have inflation in the different businesses, cost inflation. So like is that $50 million we're going to see? Or there's actually some cost inflation in the business, so you may not see it?

Raviv Zoller: Agreed. That's of today's cost. So, $50 million today, if there's a wage inflation the next year, it would be a little more.

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

Sean Gilmartin: This is Sean Gilmartin on for Duffy this morning. I guess just a quick one for me, again, just on the clear brine fluids business. I mean no secret that that's been a real tailwind, I guess, to the IP segment throughout 2019 and even into Q1, where you had kind of a record quarter. I'm just trying to get a sense or see if you could provide a sense of what you would consider the normalized percentage of segment sales or EBIT, if you would prefer, that comes from the clear brine fluids business, that would be super helpful.

Raviv Zoller: Well, last year was about 13 percent. Dudi is telling me it's 11 percent. So, I guess at the end of the year, it was 13 percent. So it was 11 percent for 2019. And for the second quarter, it was about 4 percent. Does that give you a sense?

Sean Gilmartin: Got it. That's really helpful. And then, I guess, can you just provide maybe your outlook on the phosphate fertilizer business? It seems like you're getting a little bit more positive. If we think generally about the market, maybe just a month or so ago, it didn't feel great, and that has seemed to reverse here somewhat over the last few weeks. So just trying to get a sense of what you're seeing on the ground and kind of the puts and takes there in the phosphate market.

Raviv Zoller: Well, definitely, there's been a rapid change over the past month or so. There are a few signs for that. One is prices going up in Brazil. Two is discipline from Chinese supply. And three, obviously, and that's the main catalyst, I think, now it's the phosphate, the Mosaic claim on antidumping, which has caused a positive price momentum in the U.S. and sort of has a halo effect to the rest of the market. So, we've seen about a 10 percent uptick over the past 6 weeks. And of course, from our perspective, it's a positive sign. And what we're seeing is that we're selling at higher prices. That's what we're seeing.

Operator: The next question today we have comes from the line of John Rider from Stephens Inc.

John Rider: I'm on for Mark this morning. First question from us. Could you just talk a bit about the relative performance of TSP and SSP prices relative to the movement we've seen in MAP and DAP? We've seen some divergence in the last couple of quarters, and we're curious whether you think TSP and SSP prices are reasonable in relative terms.

Raviv Zoller: I think the TSP and SSP have reacted a little less. But over time, we're sure that there will be a catch-up. Over the long term, there's almost 100 percent correlation between the prices.

John Rider: OK. And then just another one...

Raviv Zoller: And this was not market information, it's based on our sales.

John Rider: OK. That's helpful. And then just one other one. Do you think that COVID will slow any of your initiatives to push more phosphate production to the specialty side?

Raviv Zoller: Absolutely not. On the contrary, I think we've built a lot of innovation infrastructure in the company for internal ideation, effective R&D investments. We're taking some more risks on initial stages of new solutions. And our innovation has created some immediate success, some quick wins. And so, we have great pipeline of new products coming in. And even during COVID, we were able to launch new products through webinars, which honestly surprised me also. But we don't see any slowdown at this point.

The only area where we're moving a little slower than we hoped has to do with business development in alternative proteins, and the reason being that it's a new business for us. And we've signed some significant long-term agreements and a new product development with a food company, it takes about 18 months. And some of the food companies are inward focused and focused on existing products so have halted some business development. So that's going a little slower than we expected during COVID. It requires a little more personal engagement. And so, we think that post COVID, those initiatives on alternative protein will move much faster. The potential there is extremely huge, so it's something that we're very keen on.

Operator: Thank you very much. Once again, as a reminder, if you'd like to ask a question, please press "star" then "1" on your telephone keypad.

The next question we have today comes from the line of Laurence Alexander from Jefferies.

Kevin Estok: This is Kevin Estok on for Laurence. I just wanted to ask a quick question about, I guess, what you guys have seen and what your sort of maybe medium- to long-term expectations are for industry consolidation in both potash and phosphate?

Raviv Zoller: I'm not sure I understand the question. You're talking about industry consolidation?

Kevin Estok: Yes. Sort of based on like...

Raviv Zoller: In terms of M&A?

Kevin Estok: Current pricing environment.

Raviv Zoller: In terms of M&A?

Kevin Estok: Yes, exactly.

Raviv Zoller: OK. So obviously, in these times, there's more talk about potential M&A, and there are companies out there looking for financing or looking to deleverage their balance sheet. So as far as the large players are concerned on potash, obviously, everybody knows about K+S situation. In smaller companies, there are some phosphate assets that are for sale. We don't have any interest in increasing our phosphate capacity. I'm not sure what appetite there is in the market for those kinds of deals. On potash, there's not a lot of small players. So, I don't have anything to say about that. I don't see a reason for there not to be consolidation, but I'm not aware of any specific action that is happening other than K+S.

Kevin Estok: OK. And I guess since most of my other questions were asked, maybe just a quick one on Scratch-X. I know you guys launched that a couple of months ago, I think maybe back in May or April. I think that you guys were hoping to capture like 5 percent to 10 percent of the market. I'm just curious if – it's been a couple of months, just any updates there?

Raviv Zoller: Yes, it's going very well. That's one of those products that were launched during COVID virtually, and we're very happy with the results, non-Scratch additive. So, it's been accepted well by the market. And right now, it's exceeding our plans, even though it's too early to say because we're just in the beginning of the process. We've had a few very successful launches of products, and that's been one of the successful ones.

Operator: The next question comes from the line of Patrick Rafaisz from UBS.

Patrick Rafaisz: I got disconnected at one point, so please forgive me if some of my questions have already been answered. There's 3, please. The first would be, can you talk about how we should split the $50 million cost savings in potash and phosphates?

Raviv Zoller: Yes, that was actually asked. And the conclusion is that a little over $20 in potash, a little over $20 in phosphate. And the balance of about $8 is between the other 2 divisions and G&A.

Patrick Rafaisz: Excellent. And then on fixed costs, in the second quarter, they were lower pretty much on all lines, if I exclude the other lines in the P&L, about $24 million lower year-on-year. Do you have a sense of how much of this was only temporary cost savings and – or how much of that would be sustainable, apart from the $50 million you're targeting for next year?

Raviv Zoller: Most of it is sustainable. There are a couple of items like the travel costs, for example, that we're saving about $0.5 million a month, and those are onetime. But on the other hand, we had additional costs because of COVID-19, for example, for personal protection equipment, for more transportation to bring employees to the sites with social distancing. So, the net of it is that there's very little onetime savings. Most of the savings have to do with the fact that immediately when the crisis started, then we closed our wallet.

We were very conservative. I can tell you that the senior management took a 10 percent pay cut until the end of the year. So, we wanted to be conservative. We wanted to save all discretionary expenses, and that's why our G&A is going down and our sales expenses are going down. Maybe because we're very careful, you can look at some of this as onetime. But my experience is that once an organization gets used to a leaner mentality, then it sticks.

Patrick Rafaisz: OK. And the third question will be on the site mix that improved in potash, and you show that in the EBIT bridge as well. If we now would annualize the closure in Spain, how much do you think your cost per tonne will improve going forward?

Raviv Zoller: We have a plan to go down from current levels, which are about potash market price, which means that we're not making money on potash, in other words, to about EUR 170 per tonne, and it's a long-term plan. The savings that we're showing here related to the closing of the mine is mainly short-term savings, short-term in a sense that they are immediate savings, such as, for example, the fact that we have 2 mines. Because of regulatory issues, we have to move salt by trucks from one site to the other site just in order to use that mine.

So, the mere fact that we closed that mine saves us immediate cost of moving that salt. It also saves us about 250 contractor employees, which gives us a net savings that will stay with us well beyond next year, but is something that we will realize now before our long-term plan to cut potash cost. In other words, since we're going down on our production, then our cost per tonne is not going to go down here, but we are going to save immediate costs because of the 2 items I mentioned, the movement of salt and the savings of the subcontractor. So again, we have short-term savings that do not affect our cost per tonne. But we have a long-term plan from next year going forward take our cost per tonne down, all the way down to EUR 170 per tonne.

Kobi Altman: Maybe just to add to that. Raviv was referring to our Spanish operation if combine the overall ICL division, including the Dead Sea. Because of our increased production in the Dead Sea, the balance on the entire division will look even better.

Operator: There are no further questions at this stage. Please continue.

Dudi Musler: OK. Thank you very much. Thank you for participating. If you have any questions, and you want to contact me, please feel free to do so. That's it. 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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