



ICL

Credit Suisse 29th Annual Basic Materials Conference

September 14, 2016

Mikhail Priklonsky: Good morning, everyone. The next company to present is ICL. ICL is a major fertilizer producer, globally. The Company is a large producer of potash fertilizers, phosphate fertilizers, as well as bromine. Production assets allocated primarily in Israel, but as well as in Europe and China, which were recently acquired. The Company continues to diversify vertically into downstream, high evaluated products. Right now, the Company is engaged into quite extensive cost-cutting program, as well as continues to invest into growth. So with that, let me welcome Kobi Altman, CFO of ICL.

Kobi Altman: Thank you, Mikhail, and after we skip this very important slide (safe harbor), let's talk about ICL. ICL is focusing on three end markets, the agro, which is the largest one, the food and the engineered materials. But more importantly, we are focusing only where the integrated value chain of the minerals, the commodities, and the specialty solutions, all the way from the minerals into the downstream product, is adding value. So we are not acting in all the spaces of those end core markets, we are just focusing on where the integrated value chains is bringing value.

We recently restructured the organization in a way that is more strategy focused. We created a division of essential minerals, where the main focus is driving operational excellence in our commodities business, the potash and the phosphate. In a space where you cannot control the price at the market, the main focus that you should have in order to grow your business is to make sure that you have the best cost structure in the industry, and this is the main focus and the activities that we are doing there, constantly improving our assets, cutting costs, improving the service to our customers, and as such, growing the business.

The specialty solution division is capturing all the downstream products under four business units. We'll go over it later on in the presentation, and you will see the main focus there - and this is why we combined it under this one roof of the specialty solution division - is on commercial excellence. It's very, very different than the commodity business. You need to have the right infrastructure, you need to know your customers, and you need to tailor your solutions to the customer needs. It requires an infrastructure for sales and marketing. In our Food Specialties BU we have agronomists that are working at the field, meeting the customers, providing them with the right product and the right solution. And this is why there is also a significant amount of cost barriers to enter into this space. ICL is a very long-time player in this area, and this is why we believe we have a unique advantage in that space.

So what do we do? We start with the minerals, and the process of converting minerals to basic fertilizers is what most other companies in the commodity space are doing. But this, for us, is just the start. We use our significant expertise to convert those basic minerals that we have, the potash, the phosphate, the bromine, and a few other smaller ones, into a series of downstream products that are serving those three end markets I mentioned earlier—the agro, which is still the biggest one, but also the food and the engineered materials.

You have here a color code, and we will not go obviously into all of the products that we do, but this is the main concept, and this is why it's also important for us to maintain this integrated value chain. This is where we bring the value and make the difference compared to a pure commodity company, but also, from the pure specialty companies, as we are backward integrated into the raw materials. Seventy percent of our phosphate chain is going into our specialty businesses, the three business units that are dealing with phosphate ingredients, and this is a significant advantage that ICL has.

This is our organizational structure. The name at the top is only updated as of Thursday, but other than that, nothing has changed in the structure of the company and in our strategy. We are, again, structured under two divisions and six major business units. The two business units under the essential minerals are potash and phosphates, and the four business units under the specialty solutions division are Advance Additives, serving the Engineered Materials market, Industrial Product which is the bromine based business unit, Food Specialties, focused on texture and stability solutions using phosphate-based ingredients, but due to the recent acquisition last year of Prolactal/Rovita, we added whey proteins to our portfolio, and this is a very nice growing business unit. And Specialty Fertilizers business unit where we produce special types of fertilizers aimed at specialty Ag markets such as vegetables, fruits, turf, and other type of more specified solutions, a space we believe the world is going to. You have here the total amount of sales of last year and the first half, in order to give you the magnitude of where we are in each of those business units.

Where are we headed?

So in 2015, already more than half of the sales of the company were in specialties. We want to maintain it, and even grow it a little bit, so to be around 60/40% by the end of the decade. But the main change is around the profitability. If, in the past, two-thirds of our profit came from the commodities and especially from potash, ICL today and in the future, is not going to be any more like that. We are going to be, more or less 50/50, at the end of the decade.

In the last two quarters, due to the weakness in the potash and phosphate markets, and in general the in the commodity space, we were already more than that. More than 70 percent of our profit came from the specialty. This, we believe, is a temporary thing but conceptually, the way we are building the company towards is on a healthy and a sustainable basis, where half the operating income will come from our commodity division and the other half from our specialty division. We believe is the right balance for us, and this is where we are headed.

Those are the key areas of where we generate our minerals. The main site that is generating most of the minerals, mainly the potash and the bromine, is the ICL Dead Sea in Israel. We have in Europe two mines of potash today. ICL UK is a mine in a northern part of the UK, and we are shutting down the potash production there, converting it into a polysulphate mine. Polysulphate is a very attractive new fertilizer that we have there. It's a unique fertilizer that we have with a good combination of few minerals, and we are converting this site to be a long-term polysulphate mine.

ICL Spain is the second mine that we have in Europe. This is the solid mine. We have there enough potash reserves. Cost is around the middle of the cost curve. Our investments in Spain are aimed at cost reductions, and this is a good mine that will continue to serve mainly Europe, but also South America.

ICL Rotem is our phosphate operations in Israel, where we produce the phosphate into our specialty businesses. So again, more than 70 percent of the production of this is not being sold as a commodity, but serves our specialty businesses, and we ship it to Europe and the US, where we have our specialty plants.

And the last one is the joint venture we initiated last year, in October of 2015. We created this joint venture because we wanted to have phosphate as a significant second leg of our commodity businesses, on top of potash. It's a commodity site that we are going to convert into a specialty site, much like the Rotem model in Israel. We have the experience and we have the people to do that. We put people on the ground, and this joint venture is working well under very severe market conditions as commodity prices are shrinking or has been reduced in the last year. But we still have a significant amount of opportunities there, because the main strategy for this site is to move it into the specialty, like we did with ICL Rotem, and this is the future of this operation, and this is why we are so excited about this joint venture, even under the current phosphate market condition.

We get a lot of questions around our specialty operations now, because people see in the last three or four quarters that the specialty solutions division has a significant contribution to ICL's performance, so we try to give here some data into what is happening in the specialty businesses. The division contains four business units. We are targeting a CAGR of 5 to 10 percent by 2020 for the top line. But we target much more than that in terms of profitability. We will achieve that with a better cost structure and a better portfolio, and we are doing a lot in taking out old products with lower profitability and adding more and more new products into this business, and this is why we are excited about the performance of this division.

As I said, this division is focused on four main business units. The main concept of this division is the commercial excellence. Cost of growth is not as high as in the commodity business as it doesn't consume a significant amount of CapEx. In food specialties, we are focused on texture and stability. The whey protein business from our ProLactal acquisition of last year added a significant contribution to this. And the joint business of phosphate-based ingredients and whey protein-based ingredients helped us to create a whole range of new solutions that we can now offer to our customers, whether it's energy drinks, baking, meatless meat, mead industry, and others.

Advanced Additives is a solid business unit that is growing nicely, with a good margin of profit, and is focusing mainly on engineered materials and wildfire prevention, which is a very nice business for us, and we have few brands there that are well recognized.

Industrial Product business unit produces bromine and phosphorus-based solutions, and the main strategic element of this business unit is price increases of bromine. We are the largest producers of bromine on earth, so we have the ability to manage according to market conditions. The BU's strategy relies on pricing, cost saving - we put a lot of effort into reducing our cost structure - and new products.

Specialty fertilizers, the world is moving more and more into specialty fertilizers and growth in that space is expected to surpass the growth in commodity fertilizers, especially

in China. We are very, very strong in this market and we believe that the growth rate here, as well, is very, very attractive.

Few words on the second quarter financials. The second quarter of 2016 was a solid quarter in a very, very challenging market environment. We were able to demonstrate sequential growth in most of our parameters over the first quarter, due to the contribution of our specialty businesses that helped us to compensate for the further price reduction you'll see here, \$119 million of price erosion that is coming mainly from the commodity phosphates and potash.

We tried also to demonstrate here why we believe that the specialty story is so important for ICL, by trying to give you those graphs on slide 13. The blue line represents the commodity businesses, and red line represents the specialty division, on both sales and profit. And you'll see here that the huge volatility on the commodity side has been offset by the increasingly solid performance of the specialty businesses. And this is why it puts us in a very unique place and gives us a significant amount of leverage and ability to be able to act in those severe market conditions in the commodity space.

Few words around our debt structure and where are we here. You'll see that we don't have any significant debt payments up to 2021. Total net debt of the company is \$3.4 billion. We have \$800 million of available credit facilities. So we did, recently, a restructuring of our debt to allow us a very stable and no pressure debt map, and this is also extremely important for us. And we look at that all the time.

In terms of cost saving activities, we want to end up with \$400 million of cost saving by the end of the year, compared to our base of 2013. And the components of these cost saving programs, the largest part is operational excellence. Operational excellence is a series of activities, essentially designed at doing better from our existing assets, and a lot of contribution is coming from that. The second-largest component is procurement. We buy a lot of materials for our various businesses, and a central procurement organization was established in order to drive synergies there. And the third element is cost of labor, and this is the smaller one, but we did a lot, also, around restructuring and workforce optimization.

So those were the cost saving programs, but how do we see it? Where is it reflected into the real numbers? We tried to give you here on slide 16 some examples of the potash cost per ton, and the green phosphoric acid, which is the main basic product of the phosphate base. And you see here a significant reduction over the last two and a half years from where we were, and this has really been evident in our income statement quarter after quarter.

Capital allocation is also something that is very important under, again, very challenging market conditions in the commodity space. So what do we do with the money? So obviously, the basic layer is to ensure the financial stability, and I showed you the debt map, and this is something that we—obviously, this is the foundation. But with excess cash, what do we do? We are trying to optimize our excess funding in three angles of a triangle. First to make sure that we continue to develop those growth engines that will take the company for years to come. We are investing in CapEx. About one-third of our CapEx investment is into growth projects, not only to maintain our sites. So this is something that is very important for us to keep, even under the current market conditions.

Managing the debt level is important for us. We don't want to increase further our total debt, and we are doing a lot of efforts to keep the debt in, to contain it, and to reduce it. And shareholder returns with an attractive dividend yield is something that is also very

important for us. For years, we are providing a very nice yield of dividends, and we plan to continue to do so. So we are balancing between those three angles, and we don't take any part of this triangle on top of the other two parts as keeping that balance is very, very important for us.

To summarize and before the Q&A, ICL has an attractive investment case. We are moving more and more towards specialties, and we want to get to a stable business environment at about 50/50 balanced operating income toward the end of the decade, and continue to have a very nice portfolio and dividend yield.

- Mikhail Priklonsky: Yes, thank you very much. Let me start with the first question on potash. Given the quite full first half of 2016, the companies have accumulated more than 1 million tons of potash in its stockpile. Maybe you can share your view on how—or your plans on how aggressive are you planning to dispose this quite significant part of the inventories.
- Kobi Altman: Yes, so we are shipping potash now, full steam ahead, mainly to China and India. Those are the key markets that were very weak in the first half of 2016. Most of the other markets, Brazil, Europe, US which is a small market for us, were more or less regular. We are now shipping a lot of potash into China and India, and we believe that we will finish this year with maybe less volume of sold potash than last year, but not very, very weak year. So the second half of the year is going to be much stronger in terms of volume versus the first half.
- Mikhail Priklonsky: Okay, then another question from me on the growth. So the 10 percent CAGR of the solution segment is a pretty good number. What is the next big project that we should expect, and do you see an additional risk or other risks to the timeline?
- Kobi Altman: Yes, so on the specialty part, we are focusing now a lot on China. The phosphate joint venture is an important enabler because we are starting with the mineral all the way to the downstream product. So we are very focused on our Advance Additive business unit, the food business unit, as well as the specialty fertilizer in establishing the sales infrastructure and getting the right products into the Chinese market. We believe that this will be a significant growth engine for the specialty business in the next few years.
- Mikhail Priklonsky: One more question on the dividend policy, because the company have recently reduced the dividend policy from 70 to 50 percent. What do you think what should happen with the financials over the industry so that the board, the shareholders who will return to discussion of increasing back the dividend payout to more than 50 percent?
- Kobi Altman: Yeah, so as I mentioned, in terms of the capital allocation of the company, this is something that is important for us. We do want to continue to be a high yield dividend-paying company. Yet, we want to balance it with managing our debt level, not to increase the debt level of the company, and even to start to see it going down in 2017 and afterwards, as well as creating growth engines for the company for years to come. So we felt that in the current year, with where the commodity prices, potash mainly are, we need to reduce the dividend payment from up to 70 percent to up to 50 percent. We are monitoring this every quarter, and we believe that we will be able to go back to our past payout ratio when the market condition will improve.
- Mikhail Priklonsky: And just in this respect, would the existing Ag cycle, when it will be completed, do you think it will be the phase of reducing debt, or maybe dividends, or there are another pipeline of projects that will just restart?

- Kobi Altman: Yes, so we do not plan to have any major cash needs or new projects in the next few years. Ethiopia, which is one of the projects that we are exploring as a pilot, we already said that if we are going to do that, we will do it only with a partner. And as a result of that, we don't see a significant cash need for a project like that. The specialty, the vision does not consume a significant amount of CapEx, and we don't have any significant—we also said we are not going to have any acquisitions that requires significant cash. We will do some bolt on acquisitions, but not something that—not a big cash deal. And as a result of that, we believe that the cash, we will be able to use it for regular CapEx, managing down the debt, and dividend.
- Mikhail Priklonsky: And just a final question from me, given that the CEO retired recently, maybe there is something you want to add on this topic, potentially on the timeline or something here.
- Kobi Altman: Yes, so our CEO resigned last Thursday due to personal reasons, nothing to do with business. So we do not do any change in the strategy. In the strategy direction of the company, we will continue to execute our strategy which is really starting to bear fruit, and we see it every quarter with further improvements. Stefan decided to leave, but everything else remained the same.
- We nominated Asher Grinbaum, who used to be, until two months ago, the chief operating officer of the company as an interim CEO. He was handling the main part of the operational excellence or cost saving initiatives program, he managed our procurement organization, so most of the cost saving activities were under his wing. And also, the growth opportunity, he used to manage our R&D organization, so he is very well familiar with what we are doing around our growth aspirations in the R&D field. Mr. Grinbaum was more than 40 years in the company, so he knows the company very, very well. He managed the two biggest subsidiaries of the company along the years, and so we felt that he's the right candidate to allow the board to have a very calm and organized search process for a permanent CEO that will come either from the outside or internally, and we are looking at all options and everywhere.
- Mikhail Priklonsky: Thank you very much. Maybe any questions from the audience. Good. Thank you very much.
- Kobi Altman: Thank you very much.