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ICL Group Ltd. (ICL.IL)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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. [Operator Instructions] I must advise you the call is being recorded today. [Operator Instructions]

I'd like to hand the call over to the first speaker today, Ms. Peggy Reilly Tharp, Investor Relations Manager. Please go ahead, ma'am.

Peggy Reilly Tharp
Vice President-Global Investor Relations, ICL Group Ltd.

Thank you. Hello, everyone. I'm Peggy Reilly Tharp, and I recently joined ICL as VP of Global Investor Relations. I will be based out of the United States. And my contact information is available in today's press release. I'd like to welcome you and thank you for joining us today for our third quarter 2020 capital call. This event is being webcast live on our website at iclgroup.com.

Earlier today, we filed our reports with the securities authorities and the stock exchanges in both the US and Israel. These 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 thereafter. The presentation which will be reviewed today was also filed with the securities authorities and is available on our website. Please be sure to review the disclaimer as on slide 2.

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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. The company undertakes no obligation to update any information discussed on this call at any time.

Finally, I would also like to remind you of the new interactive data tool we have implemented under the Investors Section of our website which will enable you to easily access our financial and download customize data using multiple periods and parameters. We'll begin with the presentation by our CEO Mr. Raviv Zoller, followed by Mr. Kobi Altman, our CFO. After the presentation, we will open the line for the Q&A. Raviv, please.

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

Thank you, Peggy, and hello, everyone. Turning to slide 3 of our earnings presentation, ICL's business remained resilient and we continue to generate strong operating cash flow and free cash flow despite the impact of COVID-19 on some of our end markets and as commodity prices remain low. All of our operating divisions delivered positive profitability and operating cash flow $203 million was up 15% over the second quarter.

Free cash flow of $60 million was up significantly versus the $20 million we delivered in the second quarter of this year. The diversity and breadth of our products as well as our continued cost reduction initiatives partially offset the impact that COVID-19 and lower commodity prices had on our operations in the third quarter of 2020. Despite ongoing market challenges we remained focused on executing our growth strategy across all divisions and are pleased with the progress we are making. To that end we achieved record potash production at the Dead Sea during the first nine months of the year.

We also reported record operating income from our phosphate specialties business and from our YPH joint venture in China. The continued focus on growing our specialty business is reflected in record operating income from phosphate specialties which increased by 13% compared to the third quarter of 2019 and was led by strong sales volumes. Furthermore, our recently announced agreement to acquire Fertiláqua one of Brazil's leading plant nutrition company is an important step towards achieving the crop nutrition growth targets we set forth in our recent Investor Day. We expect this acquisition to be highly accretive and to unlock immediate synergies for the distribution of our specialty and commodity fertilizers in Brazil. It also further expands our product portfolio with higher growth and higher margin products.

Finally, we're also pleased to announce a $29 million quarterly dividend in accordance with our dividend policy. Due to our strong financial position and balanced capital allocation we have been able to navigate the current global market challenges, execute on our growth strategy and return value to our shareholders. As you can see on slide 4, our key financial parameters have been relatively stable over the past several quarters. EBITDA, net income and profit margins have remained balanced during the COVID-19 related global turmoil over the past three quarters and our ability to generate cash has improved. The third quarter marked the second consecutive quarter with an increase in operating cash flow and I believe this speaks to our ability to navigate and overcome the current market backdrop.

Please note that Q4 2020 revenues were lower due to the facility upgrading due to the storm prior to the COVID-19. Let's move on to the business performance of our divisions starting with industrial products on slide 5. Sales and EBITDA decreased by 20% and 34% respectively as the global economic slowdown caused by COVID-19 continue to impact short-term demand for clear brine fluids and bromine based flame retardants. The sharp decline in demand for oil and gas for land and air transportation caused by the COVID-19 pandemic led to a decline in drilling activities and resulted in a significant decrease in both demand and sales Significant decrease in

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both demand and sales clear brine fluids compared to the third quarter of 2019. Sales of elemental bromine and bromine-based flame retardants decreased compared to the third quarter of 2019 mainly due to lower demand for printed circuit boards. This is partially offset by higher demand both sequentially and when compared to the third quarter of 2019 for bromine-based flame retardants for the building and construction industry.

Market prices of elemental bromine in China gradually increased to a 12-month high in US dollar terms towards the end of the quarter. The increase was due to a combination of higher resources taxes imposed by the Chinese government, continued relatively lower bromine production by several producers and a favorable impact of the appreciation of the Chinese Yuan against the dollar.

The year-over-year and quarter-over-quarter increases in phosphorus-based flame retardant sales were mainly due to higher demand from the building and construction industries in Europe and the US and as we increased our market share in this product category.

This also coincided with constrained Chinese supply, as Chinese regulatory authorities required the shutdown and potential relocation of several production facilities located in densely populated areas.

We expect many of the same dynamics to play out in the fourth quarter, with continued lower demand for clear brine fluids and certain brominated flame retardants for the automotive industry. However, we are seeing a gradual recovery in the demand for certain flame retardants for building and construction and for the electronics industries, as well as positive pricing momentum for elemental bromine in China.

Turning to slide 6. I'm very pleased with the record potash production we achieved at the Dead Sea for the first nine months of the year, despite operational challenges caused by COVID-19. And we remain on track to achieve record annual potash production at the Dead Sea for this year.

This helped to offset lower production at ICL Iberia in Spain related to the early closure of the Vilafruns mine towards the end of the second quarter of 2020, which was induced by COVID-19 challenges.

As a reminder, ICL is expediting the consolidation process at ICL Iberia, which was originally scheduled for 2021 as part of our strategic decision to concentrate production at the Syria site. The decision will allow us to speed up development in Syria, and to improve our cost per tonne in the future.

In the short-term, however, we will incur certain costs related to the site closure and higher operating costs due to the decreased production in Spain; and both costs are expected to continue into the fourth quarter.

At our UK facility, we saw 10% growth in the production of polysulphate. For the third quarter of 2020, we produced 191,000 tonnes and delivered a year-over-year sales volume increase of 49% to reach 113,000 tonnes.

Potash segment EBITDA was down 42% for the quarter, while sales decreased by 17% year-over-year. These declines were primarily due to a $64 per tonne year-over-year reduction in average realized potash prices related to higher sales volumes to the low-priced contract markets of China and India. In the fourth quarter, we expect a higher average realized sales price for potash due to an improving geographic sales mix.

Turning to our Phosphate Solutions division on slide 7. This division, once again, demonstrated the strength of its diverse portfolio, which is focused on a growing specialties business. The strength is reflected in the record operating income from phosphate specialties, as well as from the YPH JV in China.

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EBITDA for the segment increased 9% year-over-year despite unchanged sales due to continued cost reduction initiatives, a better sales mix, lower costs and improved performance of commodity phosphates. Compared to the second quarter, EBITDA in the third quarter was up 38%, while sales were up 15%.

The global phosphate specialties and commodities markets were not significantly disrupted during the third quarter. ICL's robust and diversified customer portfolio and the wide geographic reach of its phosphate specialties business, coupled with strong demand for food products, prevented a material impact from the pandemic on the segment's results.

I'd like to take a few minutes to walk you through some segment specifics. First, higher sales volumes of food-grade phosphates were partially offset by a decrease in sales volumes of industrial salts. The positive trend in food-grade phosphates was driven by strong sales volumes in South America and Europe. This was partly related to a shift of sales from the food service sector to the retail sector, including supermarkets, which was caused by COVID-19.

Second, white phosphoric acid revenues in the third quarter of 2020 increased slightly year-over-year, due in part to the successful launch of the new white phosphoric acid plant in China. This plant is expected to add up to 70,000 tonnes of food-grade acid production capacity once it reaches full capacity, and is now ramping up sales of commercial food-grade acid towards the end of the year.

Third, dairy protein revenues in the third quarter of 2020 were significantly higher compared to the third quarter of 2019, mainly due to strong sales of new goat milk powders and other new products. We continue to focus on expanding our global leadership position in the organic cow and goat ingredients markets for high end applications.

Finally, phosphate fertilizer prices recovered significantly across most markets during the third quarter of 2020 compared to the second quarter due to tightened supply. The US market registered the sharpest price increases following Mosaic's petition to the US International Trade Commission and to the U.S. Department of Commerce to impose countervailing duties on phosphate imports from Morocco and Russia.

The positive momentum in phosphate commodity market is further strengthened by fourth quarter phosphoric acid supply contracts signed in India at $689 per tonne, a $64 per tonne increase compared to the third quarter price. The accumulated price increase of $99 per tonne since the first quarter of 2020 reflects the positive global sentiment in the phosphate commodity market. We see price increases in Brazil and in Europe as well.

I would also like to mention that the normalization agreement between Israel and the United Arab Emirates has opened up commercial and economic opportunities for both countries. ICL signed its first contract to buy 35,000 tonnes of sulfur from the UAE, and this will result in lower transportation costs and shorter delivery time compared to deliveries from Russia, Canada or Kazakhstan.

While we expect the overall positive pricing momentum to continue in the short-term, we also expect the usual seasonality to impact the segment's results in the fourth quarter.

Slide 8, for the third consecutive quarter, the IAS segment reported a year-over-year increase in operating income. The third quarter 2020 increase was mainly due to higher sales volumes, lower costs for raw materials and continued cost reduction initiatives. Notably, operating cash flow of $38 million marked a 60% increase over the third quarter of 2019.

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Sales in the third quarter of 2020 increased by 8% year-over-year. The growth was driven by higher sales volumes of both Specialty Agriculture and Turf & Ornamental products mainly in Europe and North America, as well as favorable exchange rates, partially offset by lower prices.

For the fourth quarter, results are expected to follow the usual seasonal patterns. Sales for the Specialty Agriculture market increased compared to the third quarter of 2019 mainly due to increased demand for street fertilizers and controlled release fertilizer products as well as the positive impact of exchange rates. Sales of Specialty Agriculture products continued to increase in fast growing emerging markets. We are working to continue to grow our sales of specialty fertilizers in these fast growing emerging markets such as Brazil, India and China. As I mentioned earlier and in accordance with our crop nutrition growth strategy, we signed an agreement to acquire Fertiláqua, a Brazilian specialty fertilizers company and you can find more details on slide nine.

Subsequent to the end of the third quarter, we announced an agreement to acquire Fertiláqua, one of Brazil's leading specialty plant nutrition companies for approximately $120 million. This acquisition will expand our specialty plant nutrition product portfolio and significantly enhance our customer base. It will also provide on ground presence across all agricultural regions in Brazil, one of the world's fastest growing agriculture markets. Fertiláqua has over 100 different products, a presence in 24 Brazilian states and over 500 customers. It offers a complete portfolio of plant lifecycle solutions. The products address plant nutrition and stimulation, soil revitalization, seed treatment and plant health across all key Brazilian crops including soybean, corn, sugarcane, cotton, coffee, fruits and vegetables. As we stated the fruits and vegetables.

As we stated during our recent Investor, Day the expected growth of our plant nutrition business will be supported in part by increased demand for organic fertilizers and bio stimulants and through our focus on growth markets. Fertiláqua gives ICL a significant foothold in a market where demand for specialty plant nutrition products is increasing very rapidly. In addition, it further expands ICL's product portfolio with higher growth, higher margin products and partially balances the seasonality of our plant nutrition sales between the northern and southern hemispheres. Following the closing of the acquisition, which is expected to occur early next year and is subject to the fulfillment of customary closing conditions, ICL expects to leverage Fertiláqua's strong market presence and distribution capabilities to increase the sales of its organic fertilizers controlled release fertilizers and other specialty plant nutrition products to the Brazilian market.

Turning to slide 10. I would like to summarize both the quarter and our outlook. Although many market challenges remain, I'm happy with our overall performance which is indicative of a balanced and resilient business. Milestones are harder to achieve in times like these however we achieved quite a few of them as I mentioned in my introductory remarks. We're certainly pleased to see performance records. But above all our continued solid cash generation is what matters most. Thanks to our strategic execution of efficiency and cost savings plans across all of our operating segments we have further enhanced the resilience of our businesses.

Importantly, many of the internal initiatives that are delivering efficiencies and cost savings began prior to the start of the pandemic and will have an enduring impact on our business and lead to further improvements in cash generation. Although COVID-19 will continue to impact our results in the near-term we are increasingly well positioned for the future. While performance within some of our segments has been impacted by COVID-19 and cyclically low commodity prices as well our business is highly diverse and growing more so. The pandemic was and continues to be disruptive to end markets, in particular we expect to see continued weakness and demand for clear brine fluids and to a lesser degree flame retardants and industrial products segments performance will ultimately fall the recovery and industrial demand.

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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. Commodity prices have stabilized recently albeit at lower levels. However, we expect prices to continue firming over time. We are also beginning to see improvements in some of our end markets that have been impacted by the pandemic. While certain end markets like oil and gas are cyclical the vast majority of our revenues derived from the very durable agriculture and food markets as well as from ICL's various other value added specialty products. We have continuously emphasized R&D and innovation to drive growth at ICL across our value chains and these growth opportunities remain significant.

In our more commodities businesses we are continuously focused on cost efficiency. We will continue to be one of the lowest cost producers in order to generate operating cash flow even during the bottom of commodity cycles. Finally, while our businesses 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 as we work to innovate bring new products and applications to market and manage the growth of our business over the long term.

Before I hand it over to Kobi, I would like once again to acknowledge ICL's employees globally for their perseverance in light of the challenging conditions brought about by COVID-19. This pandemic has affected all of us personally and professionally, but due to the efforts and commitment of our team, we've been able to maintain continuity of our business globally with zero disruptions to our customers while ensuring the health and safety of our employees. Thank you all.

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

Kobi Altman

Chief Financial Officer, ICL Group Ltd.

Thank you, Raviv. Good day, everyone. And, Peggy, welcome to ICL. We're excited to have you onboard. Despite being significantly impacted by market challenges our third quarter results remained relatively in line with the previous quarter, although as expected they were down compared to last year. Third quarter external challenges include the global potash and phosphate commodity market prices and also short-term lower demand for bromine and bromine compounds due to the impact of COVID-19 on a globally industrial activity.

As Raviv referenced earlier, our results have been remarkably stable over the last several quarters despite these headwinds. Our ability to consistently generate solid operating and free cash flows testifies to this disciplined execution of our strategy and our financial strength and reflects the diversity and resilience of ICL business portfolio as well as the effectiveness of our cost reduction initiatives.

Turning to slide 13. We mentioned during our last two earnings calls that we believed commodity prices were at cyclically low levels and would soon begin to recover. The chart on this slide show the recovery is underway, of course our mineral value change which is reflected with price increases toward the end of this third quarter. Continued solid demand for both potash and phosphate fertilizers was fueled by good agricultural season, a decrease in grain stock, and the subsequent increase in grains prices and we expect this to continue at least in the short term. Bromide prices in China are steadily increasing as local production is decreasing. That coupled with the recovery in demand for brominated flame retardants in some industrial sectors is expected to result in improved performance for the Industrial Products Division in 2021.

Moving to the sales analysis on slide 14. You can see that lower commodity prices were the main cause for the declining surge compared to the third quarter of 2019. Nonetheless, the recent improvement in pricing momentum

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as they just showed on the previous slide is expected to reduce the negative pricing impact in the coming quarters. The impact of COVID-19 during the quarter is reflected in lower quantities of salt primarily in the Industrial Product segment. Higher sales volume of commodity and specialty phosphate as well as specialty fertilizers testifies to the positive momentum in these divisions and to the resilience of our business across commodity cycles and even so-called black swan events.

The negative impact of commodity prices is even more apparent on slide 15. And you can see it flows all the way to the profit line. The negative impact of lower sales volumes on our EBITDA was more than offset by lower cost of raw materials and by low operating expenses, some of which were the direct results of the implementation of our cross-company efficiency and cost reduction plans.

Please turn to slide 16 for a quick snapshot of our financial position. ICL maintains a healthy balance sheet, backed by immediately available liquidity of over $1.2 billion as of at the end of the third quarter. During the quarter, we also renewed a five year $300 million securitization facility, and extended our $900 million credit facility to 2025. With no major principal repayments of loans due until 2024, we are well-positioned to continue to focus on executing our strategy and to pursue growth opportunities. Our net debt to EBITDA ratio of 2.6 times remains in the lower part of our targeted range, and we expect it to decrease and industrial demand picks up and as commodity prices recover in the coming quarters. Our liquidity position continues to be supported by strong cash flow generation, which funds our quarterly dividend and speaks to the underlying stability of our businesses.

To conclude, given the challenging market environment we have weathered during 2020, ICL has demonstrated its resilience, its cash generation capabilities, and its ability to successfully execute on its strategic goals. Among the notable achievements we had this quarter, we delivered an increase in potash production at the Dead Sea, our most cost competitive site to record levels. We also achieved record operating income from both specialty phosphate and from the YPH joint venture in China. Additionally, the performance within our IAS division continues to improve and we expect further positive momentum in future periods once the Fertiláqua acquisition closes.

On the market side, momentum seems to be driving commodity prices higher, which we believe will be indicative of a longer term trend. In the short term, challenges to demand caused by COVID-19 remain although we are beginning to see improvements in some of our end markets. For the fourth quarter, we expect to see the regular impact on seasonality, mainly in our IAS and phosphate solutions divisions due to the end of the season in the Northern Hemisphere and a slower December for specialties.

As I said before, the pandemic had a short-term impact on our bottom line results. But we maintain our positive outlook for the recovery in 2021 as industrial demand rebounds. We also expect that our specialty businesses will continue to positively impact our results. Moreover, our strong balance sheet and healthy liquidity profile continue to provide us with ample flexibility to capture business opportunities in a volatile and changing economic environment.

Before I turn the call over to the operator for Q&A, I would like to draw your attention again to the interactive data tool we implemented last quarter under the Investors section in our website, which will enable you to easily access our ESG figures and financial data. You can also download customized data with multiple periods and parameters. We have prepared this data following discussions with several prospective shareholders. And I hope you will find the information helpful and transparent.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from the line of Vincent Andrews of Morgan Stanley. Please ask your question.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Wondering if you could just give some more comments on bromine. And there seem to be some puts and takes, with certain parts of the market getting better and maybe some price momentum on the elemental side of the equation. But when do you think that momentum will be enough to offset the weakness in clear brine fluids or when do you just even envision that coming back? And is it dependent on oil prices or do you have the ability to divert some of that raw material to other parts of the business? Thanks.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

Q

Okay. Hi, Vincent, and thanks for the question. In terms of clear brine fluids, we think that it's going to take some time until we see demand returning to what it was. Currently, we're selling at about 50% of the levels of last year; meaning, we sold about $140 million of clear brine fluids last year. And I think until the end of third quarter, we were a little bit above 70%. But, of course, third quarter was much weaker than third quarter. So I would say we're at about 50% of the demand now.

Oil prices are okay, at the moment. The issue is that quantities have gone down significantly because of air traffic and automotive traffic. And until demand returns to higher levels, we don't see that changing. So that's going to take quite some time. On an annual basis, it means $50 million to $70 million less sales on an annual basis.

At the same time, from a flame retardant perspective, most of the activity is coming back and also the dynamics of the market and our value over volume strategy are allowing us to compensate and mainly in – I'd say from the end of August into September and now we saw strong October and still strong in November. Flame retardants are doing well in building and construction. There's a lot of renovation going on.

So demand is extremely strong both for brominated flame retardants and also for our phosphorus-based flame retardant and also the electronics segment that was weak in previous months as the demand has come back. And so, that's in good shape also. There's a certain shift in the mix, in the types of flame retardant. So some types are more in demand than others. But, all-in-all, the demand has been strong. So we see it remaining strong at least until December. December, traditionally, the level of activity is lower.

So flame retardants we see things returning to normal or almost normal would be more accurate. And clear brine fluids, it really depends on the length of the pandemic situation and the underlying demand for oil and gas products.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

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Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

I hope that answers your question, Vincent. You're welcome.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Yes. No, it does. It's very helpful. Thank you very much.

Operator: Thank you. The next question comes from the line of Joel Jackson of BMO Capital Markets. Please ask your question.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Good afternoon, Raviv. And welcome, Peggy. I thought we could dig a little bit on the Fertiláqua acquisition a little bit more. You paid $120 million. Should we assume roughly like a high-single digit EBITDA multiple to acquire those assets? What are kind of the margins of that business versus what you already have in innovative ag solutions? And earnings, I guess, would be weighted heavily towards the second half of the year. Can you give us some modeling help on it? Thanks.

Kobi Altman
Chief Financial Officer, ICL Group Ltd.

A

Yes. Thanks for the question, Joel. The Fertiláqua acquisition is a multiple of EBITDA that's one digit. The company is very profitable and the level of EBITDA is well above 20%. So on average, it's much higher profitability level than our existing business. And like you said, second half of the year is the strong half of the year for this company, which is also strategically important for us because our sales to the Southern hemisphere are much, much lower than the Northern Hemisphere. And that's why Fertiláqua is not our only target in Brazil. And we hope that it will lead to the next deal soon.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

And just my second last question on the potash markets, we've seen Brazilian prices come up, come down a bit. US market has been strong on some qualifications. Other markets have been pretty flat. What is your sense of the strength of potash market right now, inventory levels around the world? And then also just in general, you've heard that maybe fertilizer inventories so fertilizer not just potash in Europe are high. Can you comment on all that please?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Yeah. I'm much more bullish than I was two weeks ago and the reason was that we saw prices in Brazil ticking up very nicely for a couple of months. But now it's off season in Brazil and it's off season in Europe then there's really not a lot going on in those markets in terms of new transactions. And it's very hard to test the existing levels of pricing. But over the past two weeks, we've sold over 100,000 tonne to the US at above $230 price which was not something that was obtainable just three or four weeks ago which means that prices have come up over 10% in the past. I would say two weeks in the US and the fact that the US market is firming and levels of inventory in China are relatively comparable to the long-term levels. And we don't see the stock piling in China as we did last year and bonded in Chinese ports prior to contract negotiations. And the entrance into contract negotiations looks

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more positive for potash suppliers. So all in all I would say that the – and of course in land prices in China are going up at the moment. So all in all I'd say that the prospects look positive and they look much more positive than they did just a couple of weeks ago, because of the situation in the US.

Joel Jackson
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thanks, Raviv.

Operator: Thank you. The next question comes from the line of...

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

You're welcome. Thank you.

Operator: The next question will come from the line of Mark Connelly of Stephens. Please ask your question.

Mark Connelly
Analyst, Stephens, Inc.

Q

Hi, Raviv. I was hoping we could talk a little bit more about how Fertiláqua fits in from a, from an operational perspective. You talked about their distribution system and I'm curious. Are you going to be merging two different distribution networks, are you going to be, you know putting your stuff through theirs, just from the nuts and bolts perspective how does that work?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Right. There are two dimensions here. There is the logistics and supply chain which were merged in the past and we're just, you know tightening the bolts there. And on the on the actual sales side, we're merging, I'd say not two, but three distribution systems that have separate salespeople, separate marketing people, separate agronomists, sometimes going to the same clients. So on the logistics supply chain side, it's been – it's been there for quite a while. We're just, it's just easier in this new situation to do a little better. And on the front end side, on the client side, there's some significant consolidation going on because of the independent systems that are coming together. Again it's three distribution systems one for commodity, one for polysulphate, and one for specialty fertilizers all having their own salespeople, sales service, marketing infrastructure and not, weren't always working, were typically not working in coordination. Hope that answers your question.

Mark Connelly
Analyst, Stephens, Inc.

Q

Yeah. It does and how long do you think that integration process will take?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

I think that on the technical side it's just a couple more months because we're well into the process. But from my experience these types of processes that also have all kinds of behavior implications and process implications they typically take a year or two before everybody feels that the organization has really gone through the whole process. There's a whole implementation here. In some cases DNA change. The company is becoming much more client focused and much more aligned around the customer journey and it's something that that is not a two

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week exercise. So I think we're getting a lot of the benefits relatively quickly. But I think ultimately we'll get all the benefits within the next year or two.

Mark Connelly
Analyst, Stephens, Inc.
Q

Super. And if I could just come back to your comments about lower elemental bromine production by Chinese producers, that's obviously been a long term trend do you see what's happening now as a continuation of that trend or is any of this temporary?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

It's definitely a continuation and also you should note that in terms of dynamics of the market that also some of the producers of the compounds are not only going through more regulatory scrutiny but also at the current price of bromine it's less economical. It's less profitable for them to actually produce. So we're very happy with the current price level and the fact that we're not under any kind of pressure that we have to make more money in a typical quarter means that we can be much more disciplined and keep sheep on the value over volume strategy and protect our position for the long run. At the end of the day we're market leaders.

Mark Connelly
Analyst, Stephens, Inc.
Q

Super. Thank you.

Operator: The next question comes from the line of Tom Wrigglesworth from Citi. Please ask your question.

Thomas P. Wrigglesworth
Analyst, Citigroup Global Markets Ltd.
Q

Hi, Raviv, it's Tom here. A couple of questions if I may. Firstly, just on industrial products just kind of following on from the earlier question, I guess, there's really quite a difference between the stance of the third quarter and the end of the third quarter in terms of the – if you can give us some sense of the exit rate by margin or how much of that NIS 45 million of lost EBITDA that you've recouped that would be very helpful. Just so we can know where the market's at today. And then really ex the kind of potash business we can obviously see that there are positives in the bridge for operating expenses. I was just wondering if you could help us understand what if any of those gains might be temporary in nature and how we should think about those as hopefully COVID seizes and the world returns to normal? Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

Okay. Could you just repeat who is asking the question? Because I didn't get that.

Thomas P. Wrigglesworth
Analyst, Citigroup Global Markets Ltd.
Q

I'm sorry, it's Tom Wigglesworth from Citi.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

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Yeah, yeah, I got it now. Thanks, Tom. On bromine, I'll make it simple for you since I have October numbers then the way to look at it is the average sales in the third quarter were about $90 million per month. October numbers is $105 million which is very close to what it used to be. And in terms of the outlook typically the fourth quarter has two strong months or two regular months would be more accurate and December is usually weaker because of the holiday shutdowns et cetera. So the only way to look at the fourth quarter is, as I said average for the first two months should be ticking up from $90 million to about $105 million. And December is yet very much unknown to us at this point. It's very difficult for us to predict how December is going to look like and that was you know as open as I can about it. In terms of potash, we still have potash in division.

The main headwinds that we have are definitely COVID-19. One of them is what's the most significant headwind has to do with the situation in Spain where we actually had – we had to shut down for about three months late March and beginning of April. And the situation was such that we came to a conclusion that if we have to shut down even once more, it'll be too expensive. It will be more expensive than if we just shut down earlier than expected. We were about to shut down in the – towards the end of the first quarter, beginning of the second quarter next year. Sorry I think I said three months of shutdown. I meant three weeks of shutdown. Anyway getting back to what I was saying. We came to a conclusion that it makes more sense just because just from a risk perspective to halt production in Vilafruns mine at quite a cost, I have to say quite a cost but it's eliminating risk and it's also forcing us to be to expedite the consolidation of the mines. The ramp project is about to be finalized.

We expect the final work to be done in February. So we're incurring costs that we're not expected. And they're directly and indirectly related to COVID because directly because we had to shut down for a few weeks and indirectly because it put us in a situation where we had to choose the less the less risk option of starting the consolidation much earlier. So that's one headwind. Another headwind it's not as significant is in our magnesium business. Our magnesium business sells mostly to the automotive industry and the automotive industry has been to an extent almost shut down. We are mostly exposed to the US industry and unfortunately we were going through an anti-dumping and anti-dumping suite last year, which we ended up prevailing. But the bad news is we lost a lot of orders because the orders usually happen in the last quarter of the year. And this year, because most of the automotive industry is shut down, then we've had to produce inventory which we haven't sold yet.

And so, that's another headwind which puts us in a situation where we have to work against our intuition, which gives cash priority and we're actually producing for inventory. And we will be selling that inventory much later than we expected. So that's another headwind.

And the third headwind is that there's a second wave in Europe, and that has additional implications, for example, in the UK, where we've made a lot of progress in our polysulphate mine. And actually, in October, we reached a level of production that translates into annual production of over 900,000 tonnes, close to our 1 million tonnes benchmark.

We have over 80 employees out of a little over 500 that are currently in quarantine. We have over 20 infected with COVID-19 and that puts us in a situation where we may have to lower production once again for the second time this year. And that's the kind of year we have to face.

Again, these are not monumental headwinds and they're temporary headwinds. In Spain, maybe we're even turning it into an opportunity. But all those three things together put us in a position where we have to incur costs that were unexpected. So I guess it covered everything. Did I miss anything, Kobi?

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Okay. So, again, the headwinds are Vilafruns in Spain, but that's I would call it a one-time expense that will go away; UK, which is progressing. But now that we're almost at the benchmark, we wanted to be at the end of the year. We can suddenly have to shut down for a while. I hope not. Right now, we're holding it up and magnesium where some of our sales have been delayed, but eventually of course things will get back to normal. So I hope I answered the question.

Thomas P. Wrigglesworth
Analyst, Citigroup Global Markets Ltd.

Q

Yeah. That's very helpful. Thank you very much.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thank you, Tom.

Operator: Thank you. The next question comes from line from Duffy Fischer of Barclays. Please ask your question.

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

Hi, everyone. This is Sean Gilmartin on for Duffy this morning. I hope everyone's doing well. Thanks for taking the question. I guess just digging a little deeper into the Spanish operations. Can you just remind us what the production level there is expected in 2020 and what the expectation is for 2021?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Yeah. Right now, we're producing at a level which comes to about 600,000 per annum. And that will continue to be the level through the first half of next year because we're producing in one mine. And we will need four to five months after the end of the ramp projects to get everything assembled in place and get to our next targeted level, which is 1 million tonnes a year. So in the second half of next year, we will be producing at a level of 1 million tonnes a year.

So the current estimation that we have and what we're going to budget for next year 800,000 based on 300,000 in the first half of the year and 500,000 in the second half of the year. Again, a lot of cost is coming out because we're closing one mine and all this production is going to happen in one mine instead of two.

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

Perfect. And so, just quickly following up on that, you'd start or you'd expect to see some of that cost per tonne improvement start to roll through in the back half of next year into 2022?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Correct.

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

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Perfect. Thanks so much, guys. I'm going.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thank you.

Operator: Thank you. The next question comes from the line of Laurence Alexander of Jefferies. Please ask your question.

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. Could you characterize the M&A pipeline in terms of activity level and how you're seeing sort of the trends of multiple expectations on the parts of targets?

And secondly, on the micronutrient side, can you characterize sort of the global number sort of acre touches that you have in your portfolio?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Okay. I'm not sure I can supply acre numbers, but most of our micronutrient activities are in Europe and I guess we can get that information out there, but I don't remember the numbers. We currently have very limited micronutrients activity outside of Europe and the US, other than our polysulphate fertilizer which is selling in China, India, other Asia Pac countries and also Brazil. And, of course, it has magnesium and calcium. But again, I don't know the acreage information. I don't have it here. So, I will write it down and get the information out there, okay.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you. And again just with respect to the M&A pipeline to the level of activity or how you're seeing expectations trending?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Oh, I'm sorry. I'm sorry. Look, I think that COVID-19 has created opportunities for M&A, which we, even Fertiláqua was an opportunity that probably would have slipped from our hands but sort of came back to us due to changing circumstances. And we see other opportunities in a specialty fertilizers arena. In some places, it's more competitive; and in some places, less. We're very determined to become leaders on specialty fertilizer business. So, we're very focused on it. We have, I would say, a very healthy pipeline. At the same time, we have been selective. So, we've looked at a lot of deals and we're not, we don't move forward unless we feel very comfortable. So, there are only a few deals that we're actually, that we've actually followed up past the initial steps and they're in the works. We're also working on M&A pipeline that relates to our food business. And those are the two areas where we're currently active in specialty fertilizers and food we're not in any kind of advanced M&A discussions in any other part of our business.

Laurence Alexander
Analyst, Jefferies LLC

Q

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Okay. Great. Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thank you.

Operator: Well. Thank you. [Operator Instructions] The next question comes from the line of Artem Vodyannikov of VT Capital. Please ask your question.

Artem Vodyannikov
Analyst, VTB Capital CJSC

Q

Yes, hello. My question is on phosphate segment. Could you please elaborate a bit on the negative impact of seasonality you expecting in the fourth quarter. Is it going to impact both specialty and commodity business this year? And on commodity market in India and US stocks are reported low. So, it seems these may support through the month in the off season and at the end of the day do you expect this volume is declined to offset increase in the average selling price? Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

I just didn't get the last part. Do you expect this to affect what?

Artem Vodyannikov
Analyst, VTB Capital CJSC

Q

Do you expect these volumes to climb that you mentioned in your presentation to offset increase in the average selling price?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

If it's going to offset? No. The seasonality in our phosphate business has to do with the fact that our specialty business is traditionally very low in December. There is very limited business during the holiday business – during the holiday season. So, our specialty business is usually lower. And in terms of fertilizers our main target markets are Our main target markets are Brazil and Europe and they tend to be off season in the fourth quarter in general, and there are fewer transactions at the end of the year. This year I guess maybe because of the strength, the relative strength in phosphates in the US it could be somewhat different.

Also, while we're seeing a relatively significant or high activity in China, so that may also help, but it has nothing to do with average price. We see the average price for the fourth quarter being higher than the third quarter. Obviously, some of the price increases in our products in TSP and SSP started, I would say, way after some of the price increases in MAP and DAP. So, we only realized part of the pricing, I would say, even a small part of price increases in the third quarter. So, no, price is a tailwind for the fourth quarter. But again, seasonality because we typically target Europe and Brazil, they're less sales to those territories and also our specialty business, and this we're sure of, there's much less activity in December because of the holidays. So, I hope that gives you a little bit of flavor.

Artem Vodyannikov
Analyst, VTB Capital CJSC

Q

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Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thank you.

Operator: We have no further questions at this time. I will hand the call back to Raviv for closing.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

Okay. Thank you very much. So, again, welcome, Peggy, and thank you, all, for participating in our call. We appreciate and we look forward to circling back with you next quarter and talking about the year summary and 2021. So stay safe everybody and thanks again. Bye, bye.

Operator: That concludes the conference call for today. Thank you for participating. You may all disconnect.

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