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ICL Group Ltd. (ICL.IL)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the ICL Analyst Conference Call. Our presentation today will be followed by a question-and-answer session. [Operator Instructions] I must advise you that this conference is being recorded today. [Operator Instructions]

I'd like to hand the call over to the first speaker today, Ms. Peggy Reilly Tharp, Vice President of Global Investor Relations. 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, Vice President of Global Investor Relations. I'd like to welcome you and thank you for joining us today for our quarterly earnings conference call. The event is being webcast live on our website at icl-group.com. Earlier today, we filed our reports with the securities authorities and the stock exchanges in both the US and in Israel. Those reports as well as the press release are available on our website. There will be a replay of this webcast available after the meeting and a transcript 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 on slide 2. Our comments today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance. The company undertakes no obligation to update any information discussed on this call at any time.

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We will begin with a presentation by our CEO, Mr. Raviv Zoller; followed by Mr. Kobi Altman, our CFO. After the presentation, we will open the line for Q&A session. Raviv, please?

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

Thank you, Peggy, and welcome, everyone. I'm pleased to report yet another quarter of strong results driven by our specialty businesses which reported record results again and represented 53% of total EBITDA. This exceptional performance was augmented by commodity price upside as our sales in the quarter were equally supported by increased demand and higher prices. We are currently well on track to achieve our strategic goals.

On slide 3, you can see some highlights from each division. Industrial Products' record quarter was driven by increased demand for our specialty product offerings, and supported by long-term contracts as some of our customers would rather purchase bromine compounds from us versus producing their own. For potash, during the quarter we successfully completed both our one week annual maintenance shutdown at the Dead Sea and the ramp project in Spain. Phosphate Solutions delivered a record breaking quarter across the board with strength in both specialty food phosphates and industrial salts combined with higher commodity prices. Innovative Ag Solutions showed sales growth across all product lines with higher prices and volumes.

We also completed the acquisition of Compass Minerals South American Plant Nutrition business, and while I'll talk more about this exciting news a bit later, I'd like to turn to slide 4 where you can see just how important this acquisition is to our leadership strategy. While our acquisitions in Brazil will help to provide seasonal balance between the Northern and Southern hemispheres and provide opportunities to expand our product reach, they will also firmly establish our agriculture business as a leader in the specialty plant nutrition and move us even closer to our 2025 targets. Our food business is also expanding as we continue to focus on food specialties. In the second quarter, alternative protein sales were up significantly as we are seeing organic growth from existing customers and also have a strong pipeline of new customers we are working with.

Our new alternative protein plant in St. Louis which we expect to become operational in the fourth quarter of this year will help provide the means to meet this increased customer demand for our innovative products, which is yet another part of our 2025 leadership strategy. For our industrial business, which is more than just Industrial Products while we continue to benefit from long term contracts in that division, we are also investing in innovative new products and looking to grow our capacity to meet existing demand. Our research and development efforts are targeting the creation of new sustainability applications which will help us reach the 2025 targets I shared with you at our Investor Day last September.

Turning to slide 5, you can see our progress over the past four quarters with sales of $1.6 billion in the second quarter, up more than 30% year-over-year. Adjusted EBITDA of $351 million was up more than 40% over the prior year. In total, we've already delivered more than $3 billion of sales this year with adjusted EBITDA of well over $600 million, and we expect to be ahead of our pre-COVID profitability for this year. In the second quarter, we continued to report strong cash generation with operating cash flow of $242 million, up $65 million year-over-year. Free cash flow of $94 million was also very strong and up more than 350% with all divisions contributing.

Our complete second quarter results are on slide 6, where, once again you can see growth in every single financial metric. This continued improvement is a reflection of the success we are seeing as we focus on providing specialty solutions, while benefiting from a strong upcycle on commodities post COVID-19. Moving on to slide 7, let's begin our segment review with Industrial Products where we had an all-time quarterly sales record of $410 million, up 44% versus the second quarter of 2020, and record EBITDA of $128 million which was up 45%.

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The business delivered record results for both bromine and phosphorus-based products with continued strong demand for flame retardants driven by the electronics, automotive, textiles and construction end markets.

Other end markets also showed resilience, including the supplements and pharmaceuticals end markets, which resulted in record results for our magnesia-based products. We also saw improvement in some oil and gas markets which resulted in year-over-year sales growth in clear brine fluids. But however, overall demand trends remain under pressure and have not returned to pre-COVID levels, and such is unlikely to occur in 2021. Elemental bromine prices continued to rise hitting record spot prices in China where higher demand for flame retardants is facing limited local supply. While we are benefiting from the exuberance in the market, we expect prices to stabilize going forward. Nonetheless, we are currently facing higher input and logistics costs, as well as some raw material constraints.

With TBBA production at capacity, we are pursuing expansion opportunities and planning to bring on additional capacity through debottlenecking and other efforts. However, this will take a few more months. This is an addition to the TBBA capacity we added last year, which as you know, is already sold out. Turning now to slide 8 and a review of Potash. We successfully finished our annual one week maintenance shutdown at the Dead Sea in early April and completed approximately 80 projects during that time. As I mentioned during our first quarter call, the ramp project in Spain which connects our Cabanasses mine and Suria plant was also completed in April, and is now operational and ramping up to capacity.

This mine is expected to reach production run rate of approximately 1 million tons by the beginning of 2022. The positive potash environment continued in the second quarter with prices increasing across all key markets. Sales of $412 million were up 21% over the prior year's second quarter, while EBITDA of $85 million was up 6%. Grain prices continued to increase due to strong global demand and supply remain tight with pressure from higher freight rates. We now expect to see significantly more benefit from recent price increases in the second half of this year with improvement also driven by the expected increase in production in Spain.

Turning to slide 9 and our Phosphate Solutions division, which reported record sales for specialties, commodities and our YPH joint venture. In total, sales of $623 million were up more than 40% year-over-year. Phosphate Solutions recorded EBITDA of $134 million which was up nearly 125% and was the highest of all of our divisions. For specialties, both food phosphates and industrial salts saw strong demand, with higher prices across most regions and industries. Food specialty saw strong momentum in North America with product innovation contributing as food service demand began to recover. Industrial salts benefited from the institutional cleaning solutions' end market showing signs of improvement.

For commodities, price improvement continued in the second quarter along with increased prices for raw materials, mainly sulfur and higher freight rates, combined with supply chain challenges. YPH sales were up on higher prices and volumes with continued improvement in efficiency. Growth in our white phosphoric acid business was universal across all regions, but with a particular significant increase in South America.

Finally turning to slide 10 in our Innovative Ag Solutions where all product lines showed sales growth and total sales reached $237 million, up 20% year-over-year. Record second quarter EBITDA of $27 million was also up more than 20% on strong performance. Specialty agriculture sales were up on increased volumes of straights, liquid and controlled-release fertilizers with growth in all key regions. Our turf and ornamental business is having a great year and once again delivered record sales as all geographies showed improvement but with new markets are doing especially well. New categories also performed well, specifically liquids, biostimulants, water conservation and grass seeds.

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Of course, the big news which I already mentioned is the completion of our acquisition of a specialty plant nutrition business of Compass Minerals, which was finalized on July 1st. We're delighted to have this business join our plant nutrition portfolio and to welcome its team and its customers to ICL. As I mentioned, this important step delivers on our stated strategy of achieving leadership positions in high growth specialty plant nutrition markets, and accelerates our progress towards long term global leadership of our Innovative Ag Solutions division. This acquisition will significantly expand our product portfolio and profitability and allow us to deliver the critical mass we have been seeking in Brazil. It will also provide further seasonal balance between Northern and Southern hemispheres and make us the leading specialty plant nutrition company in Brazil, one of the world's fastest growing agricultural markets.

If you turn to slide 11, I'd like to walk through just a few key highlights before turning the call over to Kobi for a review of our financials. To achieve balanced long term growth, we will continue to expand the profit contribution from our specialty businesses, while taking advantage when possible of commodity upside.

This approach has benefited us in 2021 as we have seen consistent strength in all our businesses with each contributing to our improvement in EBITDA. We will also remain focused on value over volume in our Industrial Products business by partnering with our customers to supply specialty products based on long-term partnerships. We will maintain and optimize our potash operations so we can continue to benefit from this very foundational part of our business.

We will target long-term Phosphate Specialties growth through our focus on food products. And in Innovative Ag solutions, we will look forward to new opportunities in Brazil as we expand our product offerings and take on a leadership position in specialty plant nutrition. Finally, we remain committed to meeting our 2025 goals in our focus markets of sustainable agriculture, food and industrial solutions by means of expansion, innovation and plain old hard work. Once again, this has been a fantastic quarter for ICO. And as always, I would like to thank the truly talented family of employees we have across the globe and also extend a very warm welcome to our newest members in Brazil. We're glad to have you join us.

With that, I'll turn the call over to Kobi.

Kobi Altman

Chief Financial Officer, ICL Group Ltd.

Thank you, Raviv, and to all of you for joining us today as we report significant improvement in year-over-year results which Raviv just reviewed. On slide 13, you can see that in addition to our continued operational outperformance, we also maintain our financial strengths and delivered continuous growth in cash generation. Operating cash flow of $242 million was up $65 million over the second quarter of last year, and up $105 million for the first part of this year. Free cash flow also improved significantly in the quarter, up $74 million year-over-year and also up $105 million for the first half of 2021. Our net debt to EBITDA ratio improved to 2.1 times from 2.4 times in the first quarter of this year and second quarter of last year. This is good improvement and we expect to make further progress even as we make strategic acquisitions.

During the second quarter, our investment grade credit ratings were reaffirmed. On June 21, Fitch reaffirmed our senior unsecured rating a BBB minus and provided a stable outlook of our long-term issuer default rating. Just a few days later on June 23, S&P reaffirmed our international credit rating and senior unsecured rating of BBB minus. Specifically, Fitch called out our strong business profile which stems from our strategic assets in the Dead Sea, stable earnings due to our leadership in bromine, our focus on increasing sale of specialty products, and our efficient diversification of geographies and end markets as well as our strong liquidity.

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For the second quarter our liquidity increased slightly over the first quarter, and on June 30, we had approximately $1.2 billion available. As you know, we closed the acquisition of Compass Minerals South American Plant Nutrition business on July 1, and funded the purchase through our cash generation and through the monetization of some non-operational assets from our balance sheet, including the sale of some YTH shares and also the divestment of a business in China. Turning to slide 14, while we all know commodity prices and freight rates have been going up, this visual representation helps tell the story. While we have benefited from increases in potash and phosphate prices, we've also been impacted to a lesser degree by higher freight rates and raw material prices.

For the second quarter, transportation cost had a negative impact of approximately $30 million, as we saw a net increase of nearly $20 per ton shipped. You can see these amounts on slide 15. As Raviv mentioned earlier, our sales in the quarter were equally supported by increased demand and higher prices. On the right side of the slide, however you can see the impact higher raw material and freight rates had on our adjusted EBITDA. If we net the $175 million of positive price impact for our product against the more than $50 million increase in cost of raw materials and energy, and the $30 million increase in transportation cost, you can see we received a tailwind of approximately $90 million.

If you'll turn to slide 16, we have the same results broken out by division. Clearly phosphate specialties was a big contributor to our growth in the quarter, coming in with record sales and EBITDA. And it's evident we are executing our strategic goal to create a more balanced contribution from our four growth engines. With another solid quarter behind us, and as we have continued to see improved market conditions, we have re-evaluated our adjusted EBITDA guidance for the full year, which you can see on slide 17. We now expect an adjusted EBITDA range of between $1.350 billion and $1.375 billion, and this amount includes our recently completed South American Plant Nutrition acquisition.

In addition, we are in the process of adopting the recommendation of the Taskforce for Climate Related Financial Disclosure known as TCFD. In the standout put forward by the Sustainability Accounting Standards Board, is the benchmark frameworks for our disclosure of climate related risk beginning with our fiscal 2021 annual reporting. Before Q&A I would like to talk a little bit about slide 18 and our sustainability report which will be published next week. ICL's vision includes ambitious goals aimed at addressing major challenges facing society and the global environment, and we are committed to becoming carbon neutral by 2050.

We are on a mission transforming from a company that extract minerals to reduce absolute greenhouse gas emissions by 30% by 2030, to increase our share of renewable energy consumption to 50% by 2040, to increase our circular economy and water savings impact by an additional 3% annually, to support community initiatives by contributing 1% of pre-tax income, and to promote personal environment responsibility and volunteering among our employees. These are ambitious goals, but as you can see on this slide, we have made our commitment to sustainability a priority over the past few years, as we believe these efforts benefit our communities, our employees, and new our shareholders.

On final note before we turn the call back over to the operator, I would like to recognize our CEO Raviv Zoller who has been named Chairman of the International Fertilizer Association Sustainability Committee. This is a fantastic and well-deserved honor, recognizing ICL as a sustainability leader among its fertilizer peers, and on behalf of ICL, I congratulate him.

And with that operator we can begin the Q&A.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Alexander James of Bank of America. Please ask your question.

Alexander Jones
Analyst, Bank of America Merrill Lynch

Q

Great. Thanks very much, good afternoon. Three questions if I may, please. First on potash in the context of the guidance, clearly guidance has gone up and potash prices arguably have gone up even further. So could you give us a bit of color behind what potash price you're assuming in your guidance or what average selling price you're assuming for the second half so we can contextualize that versus the spot market? The second question also on potash is around the cost side. I think costs perhaps slightly higher than had been expected this quarter. Is that just a freight issue or is there anything else you'd like to call out there, and how should we think about the evolution of costs in potash going into the second half of the year? And then final question on Industrial Products. Raviv, you mentioned that the Chinese market has been exuberant and you would expect some normalization there over time. In your pricing this quarter, how much of that pricing benefit reflects that exuberance, or should we not expect much downward correction in your pricing even if the Chinese market normalizes a bit? Thank you.

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

A

Okay. Thanks Alexander for the questions. I'll ask you to repeat the third question because I couldn't hear at all. In terms of potash prices, last quarter as we spoke to you, we were sold out through almost August. Now, we are sold out through October. So we actually know the realized price for Q3, and it's coming in at about $297 per ton in comparison to $251 per ton in the second quarter. So that's on third quarter potash. In terms of cost, you have the breakdown in the presentation in the appendixes so you can you can see everything. Other than higher freight costs and energy costs, there is nothing out of the ordinary to call out. And could you repeat the question about exuberance in China, just so I am sure I answer the right question.

Alexander Jones
Analyst, Bank of America Merrill Lynch

Q

Yes. Just on your pricing benefit in Industrial Products, how much of that is reflecting the significant rise in Chinese spot prices, or how much is that just sort of gradual innovation mix benefit over time, just to get a sense of if the Chinese market does correct as you think it might, should we expect pricing to come back down a little bit for that division?

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

A

Okay. Great question. The spot market prices are going up. Most of our businesses are not spot. In fact, 90% of our business is compounds. So even if it comes down, there will be very, very little effect on the results in coming months.

Alexander Jones
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

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

A

Thank you.

Operator: Thank you. Your next question comes from the line of Vincent Andrews from Morgan Stanley. Please ask your question.

Will Tang
Analyst, Morgan Stanley

Q

Hi, guys. This is Will Tang on for Vincent. Thanks for taking my question. I'm just wondering, if you guys can talk about your raw material costs. I'm wondering if any of these raw material constraints have impacted you on the volume side in any of your segments thus far, and how has that raw material picture kind of developed into the second half of the year so far?

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

A

Okay. So the raw material issues are related mainly to our Phosphate and Industrial Products division. On Phosphate the issue is sulfur and you're all familiar and their market prices of sulfur. So sulfur prices were going up and they're not at this point. So we pretty much we've consumed the effect. There were some issues regarding our ports in Israel that the sulfur got held up coming in. So we had some logistic issues, but in terms of pricing everything is well known. On the side of Industrial Products and raw materials for bromine and phosphorus, the current increases that we experienced in the past few months have been passed on to our customers. The market is such that there's excessive demand.

And in fact as I mentioned in the last conference call, unfortunately we could not supply all of the demand, and we had to turn down customers in the second quarter to an extent that we don't like. We've debottlenecked a little and got through some complex logistic issues, and we have a little more capacity in Q3. So we hope that we don't need to turn down customers. It's never good to turn down customers. But raw materials pricing is not an issue for Industrial Products because of the market dynamics, the demand dynamics. The issue was actual availability because of force majeure of certain raw materials. And fortunately that's behind us. It created some issues for second quarter logistics, but we're past that right now. I hope that answers, and thanks Will.

Will Tang
Analyst, Morgan Stanley

Q

Got it. Yeah. Thank you.

Operator: Thank you. The next question comes from the line of Geoff Haire of UBS. Please ask your question.

Geoff Haire
Analyst, UBS AG (London Branch)

Q

Good afternoon. I just had a couple of questions. First of all, I was wondering if you could help us with what the contribution from Compass Minerals will be in the second half or on a full year basis going forward. And also, can I just ask, high the ESG targets that you've outlined today are the sustainability targets are linked into management compensation?

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

A

Okay. So on Compass, Geoff, and thanks for the questions. On Compass we modeled the $45 million of adjusted EBITDA contribution for the second quarter. I don't want to talk about 2022 at this point because it depends on the synergies that we will target for 2022. And we're going to build our model based on the first few months. We're more focused on clean integration and not disrupting the existing business. So that's the model for the second half of the year. And it's not linear model. So that doesn't mean it reflects about 90% for the year. Brazil is second half oriented, second half of the year. So 45% means about 55% or 60% for the year. That's in terms of this year. In terms of next year, again, it depends on synergies and we'll get back to you on that.

On ESG, we have quite a few targets. Of course, we've adopted zero neutral policy for 2050. We also adopted a policy of 40% renewable energy by 2040 and 30% decrease in greenhouse gas emissions by 2030. We also have some other ESG targets regarding diversity, regarding water savings and circular economy, regarding safety and some others. All of these, we have nine KPIs altogether, have annual targets and they're part of management compensation. Each one of the GEC, which is the executive management committee in ICL, each one of us has those KPIs in their renumeration. It's a different component of the bonus schedule for different people. But we each have those as team goals, and we each get compensated based on achieving those goals, and we intend to achieve those goals.

Geoff Haire
Analyst, UBS AG (London Branch)

Q

That's great. Thank you.

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

A

Thank you.

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

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

Q

Hi, good morning, everyone. I had a few questions, I'm going to ask them one by one. Raviv, I thought you said on a earlier question on this call that the potash realized price for you is $251 per ton in Q2 and things are trading to be about $297 per ton in Q3, but you reported $281 per ton for potash in Q2. Can you just reconcile that please?

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

A

Yeah, $251 per ton is FOB. It's FOB, it's a realized price, and $281 per ton is price before freight and others.

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

Q

Okay. So if we expand upon that, you're saying that before freight, pricing is now averaging about $45 to $50 per ton higher in Q3. That's right?

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

A

Right.

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

Q

And then what would be other higher freight costs you see in Q3 that might scrape away some of that?

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

A

No. The $297 per ton is after freight cost. We already know the realized freight costs which is about $39. So it's $336 per ton before the freight costs.

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

Q

Okay. Fair enough.

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

A

Coming to $297 per ton. So the first quarter was $238 per ton, the second quarter $251 per ton. Not a big change. As I mentioned in April, we were sold out through July. And in the third quarter it's $297 per ton which is net of $336 per ton. And fourth quarter we expect obviously higher numbers.

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

Q

Okay. That's perfect. Okay, that's good on that. Can you talk about polysulphate in the first half of the year, you gave some volume, volume is up a lot now, what's the contribution on earnings and when you think you'd be profitable in that business?

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

A

It's a good question, and as we stand right now, our production level in the second quarter was a little less than 200,000 tons which is behind budget. We were planning to produce about 220,000 tons in the quarter. The good news is that, we sold more than we expected in the quarter. We sold about 180,000 tons which was well above our original target. Unfortunately, some of those sales were fixed in the beginning of the year at lower prices than we currently realize. And so unfortunately, we didn't have a good result in the second quarter. We lost over $10 million in that business in the second quarter.

We're still ramping up. We're still looking at the improvements on two dimensions; one, increased production which we're pretty sure of; and the other is demanding a higher premium on the product. The problem with the contracts that were settled early on in the year is that we of course didn't expect such high transportation costs. And when you have low price per ton and the transportation costs per ton is fixed no matter what the pricing of the product, then it hurts low priced products. So that'll give you a little bit of color, and of course we'll report on progress in the continuation of the year.

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

Q

It was really good color on that, Raviv. Thanks. And just to my final question, so I look at your potash inventories, they are quite low. Obviously you had some downtime in Spain. Are you going to build inventory in potash here, or are you going to try to run really low to add a bit more capacity into Spain as 2022 comes on?

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

A

First of all, we have to prove the 1 million tons towards the end of this year, and then we have the next ramp up is 1.3 million tons with all-time low level of inventory in the Dead Sea, because the market is undersupplied and there's excess demand, and the pricing is very, very attractive. You know about Brazil. Our last sale in Brazil I believe was $620 per ton, in the US our last sale I think was $540 per short tons. So that translates into about $600. And just this over the weekend our last sale in Thailand was also $600. So at $600 for potash we don't intend to hold inventory. There's nothing to wait for. And so that doesn't mean that the price won't go higher. It just means that as long as we have enough inventory to operate we'll go as low as we can.

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

Q

Thank you very much.

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

A

Thank you.

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

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. This is Sean Gilmartin on for Duffy. Just a couple of questions from me. I guess, first one tagging on to I guess an earlier question. Is there any way you can give a sense of how much production and IP you guys had to kind of curtail because of raw materials?

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

A

I'm not sure I can give you an exact answer in tons. I can say that the missed opportunity in sales was around $40 million in sales, which comes out to over $10 million in operating income on average, which means on margin is higher.

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

Got it. That makes sense. I appreciate that. And then, second question, just around generally your take around the phosphate market as we sit here today. If I asked you to give kind of a 12-month view looking out into the middle of next year, do you get a sense that we're at peak stock pricing now, or how do you see that market unfolding over the next 12 months?

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

A

Honestly, I don't know better than you guys do. Everybody's looking at the current state of the market and not seeing any reason for prices to go down at the same time. The prices are highest they've been for many years and sulfur is not going up any more. And sulfur is a catalyst for prices going up. So I think the marginal catalyst now is freight costs. Freight costs are still going up. And as long as they go up there's sort of a demand orientation in the atmosphere in the market. So I can tell you that everybody around me is talking about prices stabilizing to going up. I don't hear people talking about prices going down. Analysts are revising their assumptions. So analysts that thought that the second half of the year there would be a significant downturn have moved up their predictions. But the short answer is, I really don't know. I can tell you that we're sold out on phosphate until the end of October.

Sean Gilmartin
Analyst, Barclays Capital, Inc.

Q

I appreciate it. I'll turn it over. Thank you so much.

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

A

Thank you.

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

Daniel Rizzo
Analyst, Jefferies LLC

Q

Good morning. This is Dan Rizzo on for Laurence. Have customers' supply chain constraints affected demand or delayed sales in any way particularly in the industrial segment?

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

A

Yes. As I mentioned before, we had some raw material issues due to force majeure and some other logistic challenges. That didn't last for very long. We found alternative supply. But that sort of comes into the missed demand or missed sales that I referred to earlier.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then, you mentioned I think to be some debottlenecking, I was just wondering how much capacity you expect that to.

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

A

We are going to add a few thousand tons. It's going to be north of 5,000 tons and south of 10,000 tons, but that's what we're talking about within about one year, some time.

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Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And thank you. And then finally, have you given what your synergy targets are overall for the CMP acquisition?

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

A

No, we haven't. It's too early. And the big question is not what the total synergies could be, but rather the timing of the synergies in terms of their effect on our results in the coming couple of years. So we will give transparency on that at the later part of the year.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. Thank you very much.

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

A

Thank you.

Operator: Thank you. Your next question comes from the line of Kyle Caunt of Citigroup. Please ask your question.

Kyle Caunt
Analyst, Citigroup Global Markets Ltd.

Q

Hi, there. Thank you for the opportunity to ask questions. Just got a couple if I may. On the Industrial Products, I wonder if you'd be able to give me an indication of the weighting between sort of bromine based products and phosphorus and magnesia based. Just give an idea of relative weight and that'll be great. And then secondly on Phosphate Solutions, you stated aims to become a more specialty based, aim to be a bit more specialty based. But with commodity prices where they are, you actually results in a bit of a higher margin actually. And would you – when you pause that to move for now, focus a little bit on commodities whilst commodity prices are as high as they are. Thank you.

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

A

Okay. So I'll start with Phosphate. Look, our strategy is to increase our specialties, if we can, above and beyond commodities. So if it's alternative proteins, we don't need additional phosphate capacity for that. And so we're growing that business separately. But for our given capacity of phosphate production, we would rather increase our specialty's component to 70%. We're very certain that in the long run on average specialties will be more profitable and also more stable. And we have unique value added products, we're creating tremendous amounts of new innovation. In fact our internal accelerator, which we call big in the past year-and-a-half has created additional future EBITDA at a run rate of $80 million, and about half of that is coming from the Phosphate division.

So we think that the right strategy is to be as competitive as we can where we are global leaders. We have about 25% of the global phosphate specialty market, and we want to increase that share, and we want to increase the value add of that share. So that's on Phosphate. That doesn't mean that if we have an opportunistic situation that we can leverage on, then we can take steps in the short run to benefit, and we do so. It's rather marginal, but we

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do so and we could consider. But the strategy specialties, we are very determined. On Industrial Products and the product mix, about 75% of the total business is bromine related, of which 10% of that is bromine and the rest is compounds. And then about 20% of the business, a little less, about 17% or 18%, is phosphorous related, and the balance is specialty minerals.

Kyle Caunt
Analyst, Citigroup Global Markets Ltd.

Q

Brilliant. Thank you.

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

A

Thank you.

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

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

Q

I just want to follow up on the Brazilian acquisition. So obviously you've covered Compass, I've covered Compass, so we've got that segment in our model. You didn't buy the chemical side. Did you misspoke or did you said that it is $45 million in Q2? Is that what you think it's going to be in the second half of the year?

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

A

Second half of the year, yes.

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

Q

Okay. And that business did about $60 million for Compass, of course you didn't buy the chemical side which is a smaller part of it. What's kind of the growth you're seeing in that business? Because [indiscernible] (43:29) question about Compass really struggled on that business to get any kind of growth there. There was some currency pressures. It wasn't a natural business for Compass. It might be more of a natural business for you. What can you do to get better results out of that business?

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

A

Okay. It's a great question. First of all, I think that the basic difference is that, for us the Compass Plant Nutrition business that we acquired, it's now is called the ICL América do Sul, is a part of our core business, and it was nowhere near any part of the core business of the previous owner. And I think that means a lot because it's an extension, it's a new extension of our product distribution capability. It's bringing into our organization additional expertise, additional R&D, additional relationships with customers. So given that some of our products we currently don't sell in Brazil not because there is a lack of demand, but because we don't have the right distribution system, and in some cases we don't have the ability to produce locally. That's definitely going to pick up.

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And in the case of our new business, it's an amazing business, it has direct distribution to 50% of its customers, which means that it allows us to get closer to the customer. and we're becoming a very customer centric organization that can create a lot of added value, and we want to get closer to the customer. So the synergies are everything from global procurement, which allows better procurement of raw materials, to information exchange on R&D, to direct distribution of some of the products that don't go to direct distribution today, in some cases don't even go to distributors, it goes to importers. So we can do better on that side. And of course, this is all just the beginning. We just acquired the company. The company is already growing. This year it's growing at over 20%.

I take that some of what you said has to do with the fact that the currency has fluctuated in a bad way over the years, and so their growth sort of disappeared because the local currency was weak. But we can't predict the future in terms of what happens to the currency. The company is growing very, very nicely in local currency, and like I said, over 20% this year. Their performance in the first half was above the budget and above the model that we used. And so we're very happy with the beginning. Again, it's M&A, integration needs to be seamless, it needs to be responsible, we don't want to disrupt something that's working very, very well. So we're working with the local team that we think are an amazing group together in order to figure out what makes sense in terms of potential synergies. Everybody is excited like any new adventure, and we want to do it carefully, responsibly and get the most out of the acquisition.

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

Q

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 now hand the call back to Dudi.

Dudi Musler
Director, Investor Relations, ICL Group Ltd.

Thank you. Thank you everyone for joining us. And we will be available, Peggy and myself will be available for any questions that you have any time. And we'll see you back here next quarter. Thanks.

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

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