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ICL Group Ltd. (ICL.IL)

Q3 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, 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 the call at any time.

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We will 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 Q&A session. Raviv, please.

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

Thank you Peggy, and welcome everyone. Once again ICL delivered outstanding results driven by our specialty businesses and as we also benefited from continued commodity upside. As you can see on slide 3, we delivered our fourth consecutive quarter of bottom line improvement. A strong performance was supported by increased demand and higher prices in most markets.

We also worked to overcome higher overall costs and global supply chain challenges during the whole quarter. All four of our businesses contributed and each reported at least double-digit growth in sales and EBITDA driven by our strengthening specialties product portfolio and commodity tailwinds.

For Innovative Ag Solutions, our recent Brazilian acquisitions helped balance the traditional seasonality of this business. Due to all of these factors, we are raising guidance expectations, and Kobi will provide more details in his comments.

Our third quarter results are on slide 4, and as you can see, once again, we demonstrated improvement in each key financial parameter.

On slide 5, you can see year-over-year sales were up nearly 50%, while adjusted EBITDA was up nearly 90%. We also added $70 million of operating cash flow and nearly $90 million of free cash flow.

Each of our four businesses on slide 6 contributed to our third quarter success, and together, we were able to break an eight-year quarterly profit record. For Industrial Products, strong end market demand remained unabated, which drove higher sales and profit. For Potash, we had record third quarter production at the Dead Sea. Our Phosphate Solutions business once again delivered a record sales and EBITDA quarter as we benefited from both higher sales volumes and prices. Innovative Ag Solutions showed very significant improvement year-over-year, resulting from both our existing organic business and our two recent acquisitions in Brazil. As a matter of fact, our organic IAS business delivered double-digit growth in sales and EBITDA in the third quarter, as did Industrial Products, Potash and Phosphate Solutions. Including our recent acquisitions in Brazil, IAS results were up triple digits in the quarter.

Our teams delivered these outstanding results despite very turbulent times across the global landscape. While ICL benefited from commodity upside, raw material prices continued to soar around the globe, as did energy costs. Not only have transportation rates continued to increase, but there have also been significant disruptions to the global supply chain.

For ICL, this has provided both challenges and opportunities. Thanks to our advantageous production locations and global supply chain capabilities, we have been able to maintain our position as one of the world's lowest cost producers. These advantages span several of our businesses, including our bromine production, and I would like to begin our segment review with Industrial Products on slide 7.

Sales of $387 million were up more than 40% versus the third quarter of 2020, and EBITDA of $121 million was up 75%. This business continued to see strong end market demand and pricing and also delivered record

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quarterly cash flow. Higher demand for flame retardants was driven by the electronics, automotive, and construction end markets and we were able to leverage our recent expansion of TBBA capacity.

We also saw continued improvement in clear brine fluids, as higher oil prices resulted in renewed oil and gas drilling activity. Our specialty minerals business also benefited from higher demand as the supplement and pharmaceutical end markets remained strong.

On the pricing side, elemental bromine realized record high prices in China due to strong demand for bromine compounds and limited local supply. Environmental regulatory restrictions impacting P4 production has triggered tight supply and rising prices of phosphorus-based products resulting in higher prices for our phosphate-based products.

On the production and logistics side, freight and raw material issues continued to impact the business during the quarter, even as we shipped a record number of containers in August. While the majority of our production is at full capacity and sold through, input costs remained inflated and raw material and transportation availability continue to limit our delivery capabilities.

In order to meet increased customer demand, we have procured additional ISO tanks for our fleet and we are also expanding production including TBBA capacity. We expect to be able to supply an additional 7,000 metric tons of product beginning in the second half of 2022 and we plan to announce other additional capacity expansions in the months to come, based on new long-term agreements.

For the fourth quarter, we expect a general continuation of these trends. However, there will be some impact from the 10 days of planned maintenance we completed at the end of September, as was in the third quarter.

Nonetheless, we expect continued strong end market demand and the benefit from the recent record high bromine prices, which should begin to flow through to ICL beginning in the fourth quarter and continuing into 2022 as contracts begin to reflect these higher prices.

Turning to slide eight and our Potash business, where sales of $436 million were up nearly 40% year-over-year and EBITDA of $125 million was up nearly 80%. During the quarter, potash market prices continued to accelerate as global demand remained strong.

Corn, soybean, wheat and rice prices were all up double digits year-over-year and supply remained tight. Prices also recently accelerated for other commodities, including magnesium, which reflected higher demand from aluminum and automotive end markets due to energy-related production cuts in China in recent weeks.

To give you a little background on our [ph] middle (00:08:02) magnesium business, the Potash segment produced approximately 18,000 tons in 2020 and our current annual potential production capacity is around 23,000 tons. While we are increasing our magnesium production, there will be a lag between current market prices and the realized prices, likely into the first quarter of 2022.

Also, on the production side we achieved another record in the third quarter at the Dead Sea as mentioned. We saw an increase in production at ICL Boulby as well and significant higher polysulphate sales volume, which was up more than 90%.

Just last month, our ICL Iberia plant was awarded the [ph] S Agua Gold (08:45) for its involvement and commitment to water resource management and we are proud of the team's commitment to the sustainable use

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of water. During the third quarter, we continued to optimize the consolidation of our Cabanasses mine and this effort will continue into the fourth quarter.

Just after the quarter ended, we came to an agreement to terminate our partnership with Nobian for the sale of salts from our mining operations in Spain. As part of this agreement, ICL will pay a net amount of approximately $17 million, which will include Nobian's 51% of the Sal Vesta plant, its share in the joint venture and the net settlement of all additional disputes. We expect this to result in a significant improvement of annual contribution from the Spanish operations of ICL.

At the Dead Sea, we continue to work on completing the P-9 pumping station in the northern basin and expect commissioning to be concluded by early 2022. We are also looking at other projects to help control costs and increase efficiencies.

Also at the Dead Sea, we recently received confirmation from the water authority that an appeal we made regarding changes in the water law has been successful and ICL will not be charged for water production within the concession area.

Turning to the logistics side of our Potash business, marine transportation costs continued to increase in the third quarter and showed no signs of easing. However, we should see additional benefit from continued higher potash prices in the fourth quarter and into 2022.

For all our agriculture-related businesses, we are tuned to concerns around farmer affordability which are beginning to crop up. While we are monitoring the situation, we are also actually aware of other dynamics in the marketplace, including certain global sanctions and the need for distributors to continue restocking due to global supply chain issues.

Turning to slide nine, our Phosphate Solutions division which reported another record quarter for specialties, commodities, and our YPH joint venture. In total, sales of $655 million were up approximately 30% year-over-year, while EBITDA of $148 million was up nearly 80%.

For phosphate specialties, both food phosphates and industrial salts saw higher demand with higher volumes and prices. Our food specialties business continued to benefit from our strong global supply chain organization and our ability to assure customer supply.

Our industrial salts business also saw higher sales with increased demand in most regions and industries, along with higher prices. As we previously discussed, we are further expanding our food specialties business, and in December we will be commissioning our new alternative protein plant in St. Louis. I'll be on hand for this event and hope many of you can join us, if travel permits.

For commodities, phosphate fertilizer sales were up on tight supply and healthy demand. Profitability was also up, as we were able to partially offset increases in raw material costs and freight costs.

As you know, a significant amount of our phosphate mining occurs in Israel, where we recently received some good news. Specifically, the Supreme Court has rejected motions to revoke the approval of the Barir field mining site as an area for phosphate mining. The ministries of health, environment, finance, and energy have agreed that the plan will now move forward to the next step.

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Moving on to China, where our YPH joint venture once again delivered record results due to higher prices and increased volumes. The [ph] JEP (12:29) also continued to implement efficiency measures and to maximize production of food grade WPA, and this work is ongoing into the fourth quarter.

Turning to slide 10 and our Innovative Ag Solutions business where earlier this year we made two acquisitions in Brazil. The first, Fertiláqua closed in January, while the second now known as ICL América do Sul, or ADS, closed on July 1st. These acquisitions contributed to the significant improvement we saw in ICS [sic] [ICL] (12:58) this quarter as they balance the traditional seasonality of this business.

In total, third quarter Innovative Ag Solutions sales of $387 million were up nearly 125%, while EBITDA of $55 million was up more than 300%. It is also important to note that organic sales and EBITDA were up approximately 20% and 70% respectively. In the third quarter, specialty agriculture sales were up across all product lines and our turf and ornamental business also continued to trend positively.

Overall IAS has benefited from good, continued momentum due to higher crop prices. However, we also experienced challenges related to continued raw material cost inflation and ongoing global logistic issues. For the fourth quarter, while we expect to see year-over-year improvement due to higher pricing and the addition of our recent Brazilian acquisitions, we also expect growth to moderate versus the third quarter.

If you turn to slide 11, I'd like to walk you through some of our recent impactful events before turning the call over to Kobi for a review of our financials. Throughout the year, we have continued to target sustainability and recently announced a few innovative efforts.

First, from an industrial perspective, we are now supplying the lithium iron phosphate battery market from our YPH joint venture in China through our specialty monoammonium phosphate offerings. The market for LFP battery technology, which offers superior safety at a lower cost and with a longer life is expected to grow at a 25% rate through 2030 for a market value of up to $5 billion. We expect our future sales to grow significantly from a base of about $30 million in 2021.

We consider the strong demand for electric vehicles and energy storage as a significant source of potential growth for ICL and are committed to creating additional capacity to meet rapidly increasing customer demand including, but not limited to, specialty MAP products.

From a food specialties perspective, this summer we announced the launch of ICL Planet Startup Hub, an innovation platform designed to help introduce FoodTech and AgriTech startups to the marketplace. The hub's first investment was an AI-driven startup called Protera, which is designing and developing new sources of protein, an effort which is complementary and synergetic with our food specialties growth strategy. While both of these innovative efforts are centered on sustainability, we recently made three more specific announcements.

As we discussed briefly last quarter, we reaffirmed our overarching commitment to sustainability by pledging to be carbon-neutral by 2050. In September, we announced a new €250 million sustainability-linked loan, which Kobi will discuss in a few minutes.

We also continue to help our customers in their sustainability efforts and to meet the world's changing food needs by gaining organic status for our one-of-a-kind polysulphate fertilizer based products. These products are now recognized by both the EU and the USDA as organic, and these standards are also accepted in other regions around the world.

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As you know, sustainability cannot exist independently. It requires many people and companies to join together. ICL did just that last month when we partnered with the OCP Group from Morocco to fund sustainability programs at Ben-Gurion University of the Negev and Mohammed VI Polytechnic University in Morocco.

The positive developments in Israel's foreign relations opened up the possibility for us to build new relationships and create new collaborations like this one. We are thrilled to be taking this historic step forward with OCP to advance sustainability research and support our local universities and their efforts to make a difference in their communities and beyond.

When it comes to sustainability, we also work with our suppliers to maximize our impact, and an example of this is our expanded business partnership with Haldor Topsoe. Beginning in the first quarter of 2022, we will be taking additional potassium nitrate from Topsoe, which will then be fully and efficiently used to fertilize much needed crops on a global basis. This arrangement not only expands on our existing relationship, but also allows both companies to advance their sustainability efforts.

If you'll turn to slide 12, we can review some of the key takeaways from the third quarter. As I just discussed, we are progressing against our sustainability targets across the company. I want you to know that for me personally, sustainability is one of our greatest challenges; but it also has the potential to be one of our greatest opportunities and achievements.

In order to deliver you on our sustainability promise, we need to first deliver as a business, and our long-term focus on driving specialties growth is key to that success. In the more near-term, we expect the recent positive momentum across all of our businesses to continue. Market dynamics have remained strong. And while there is uncertainty regarding overall global logistics, we have confidence in our strong global supply chain and in our ability to deliver results despite these somewhat turbulent times, as we have been able to prove in recent months. As a team, we've made good progress executing against our strategic plan and expect to continue to do so.

As always, I want to thank the entire ICL family of employees spread out across the globe for their contribution to the quarter, as your everyday actions make a difference.

And 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 another outstanding quarter. While you have already seen slide 14, I would like to call out just a few additional highlights. Sales of nearly $1.8 billion were up approximately 50% year-over-year. Our EBITDA was up nearly 90% and our EBITDA margin of 23.5% was up nearly 500 basis points. Adjusted diluted earnings per share of $0.17 was up $0.12, or approximately 270%.

Operating cash flow of $273 million was up $70 million over the third quarter of last year and more than $30 million from the second quarter of this year. We have seen good cash flow contribution from each of our business segments with Industrial Products delivering record cash flow this quarter.

In the third quarter, our results continue to be driven by our specialty businesses and as we also benefited from commodity upside. If we look at our commodity Potash business on slide 15, you can see that while there was a significant year-over-year improvement in sales and average realized price per ton, we are actually in line with the year-to-date potash prices of 2019, a year we characterized as mid-cycle. And for EBITDA, we still have room to grow to reach 2019 rates, mainly due to higher logistic cost, currency headwinds, and our consolidation work in

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Spain. We expect to see additional upside from recent high potash prices to flow through in the fourth quarter and into 2022. There is still room for additional industry upside, as prices are still below levels seen in 2008 and 2009.

On slide 16, you can see that potash isn't the only commodity [ph] hitten (21:00) recent record high prices. While many prices are reaching rates not seen for 10 years, the acceleration of marine transportation cost is fairly recent. While pricing has lingered below $20,000 per day for nearly a decade, they have more than doubled since the first quarter of this year. At ICL, we have been able to leverage our advantages, production locations and global supply chain capabilities to maintain our position as one of the world's lowest cost producers. However, this does not mean we have been immune to raising transportation rates.

Slide 17 shows the impact of higher pricing on our year-over-year sales growth on the left side with our Brazilian acquisitions, and higher quantities also positively contributing. For Phosphate Solutions, sales have continued to shift more towards specialties, which now comprise 53% of sales. For Innovative Ag Solutions, the organic portion of our business represented 54% of our sales in the quarter while our Brazilian acquisitions contributed 46%. On the right side of the slide, you can see each of our four businesses added more than $100 million in sales in the third quarter.

Turning to slide 18, you can see the significant contribution that higher prices made to EBITDA. Although like everyone else, we experienced higher raw material, energy and transportation cost, this only diluted our product price upside by approximately 50%, which the balance goes to the bottom line. On a segment basis, all four of our businesses contributed to the year-over-year improvement in EBITDA.

Our net debt and EBITDA ratio improved to 2 times from 2.6 times in the third quarter of last year, as you can see on slide 19. Our net financial liabilities amounted to $2.6 billion, an increase of approximately $200 million from fiscal 2020. And this is after we invested over $0.5 billion in our Brazilian expansion. This improvement was driven by both our cash generation and through the monetization of some non-operational assets from our balance sheet. We already discussed operating cash flow. But as you can see we also saw continued growth trends in free cash flow, which was $146 million in the third quarter, a year-over-year increase of nearly $90 million.

And finally, I would like to speak a little bit about the sustainability-linked loan we announced in September. This loan is an innovative step forward in ICL ongoing sustainability efforts and includes three sustainability performance targets. These targets have been designed to align with our sustainability strategy and goals, and each will be assessed at specific times during the term of the loan by third-party certification.

As part of this effort, we are targeting an annual 4% to 5% reduction in direct and indirect Scope 1 and Scope 2 CO2 emissions resulting from ICL global operation. We are also planning to expand our participation in Together for Sustainability and are committed to adding a significant number of qualified vendors each year.

In addition, we will continue to focus on inclusion, equality and expanding our representations of women among our senior management. We have set a target for women to hold at least 25% of senior management roles by the end of 2024. This is also good opportunity to remind everyone that our continued focus on ESG practices as well as our increased transparency regarding all sustainability issues have driven us to adopt TCFD reporting beginning with our 2021 fiscal year.

With another solid quarter behind us, and as we have continued to see improved market conditions, we have reevaluated our EBITDA guidance for the full year, which you can see on slide 20. We now expect an adjusted EBITDA range of between $1 billion and $450 million and $1.5 billion, and this amount includes our Brazilian acquisitions.

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And with that, I would like to turn the call back over to Raviv.

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

As we announced last month, Kobi is leaving ICL. And on behalf of the entire company, I want to thank him for his service and wish him the very best. Kobi is opening a new and happy chapter in his personal life, and I know he and his family will be blessed together. Thank you, Kobi, for all your hard work and dedication over the past six years. It has been a pleasure working with you.

I would also like to take this opportunity to welcome Aviram Lahav as the new CFO of ICL. Aviram brings more than 20 years of diverse experience from his former roles as both the CEO and CFO at various global companies, including most recently as CFO of ADAMA. Aviram has extensive familiarity with both the Brazilian and Chinese markets and we look forward to tapping into this experience.

Thanks to Kobi's guidance, Aviram is inheriting a strong financial organization, which I expect will continue to support our business growth as the value of ICL continues to increase.

And with that, I would like to turn the call back over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Alex Jones of BoA. Please ask your question.

Alexander Jones

Analyst, Bank of America

Q

Thank you very much for taking my questions. Two please. The first one is just around the full year guidance. I guess on a sort of EBITDA level it implies a slight deceleration in the mid-point quarter-on-quarter. Could you discuss the moving parts there, especially given you highlighted in the Potash division [ph] environment (27:28), the price environment is improving sequentially?

And then the second question specifically on bromine volumes, obviously down slightly versus 2019 levels this quarter whereas last quarter you were up 12%, if I remember [indiscernible] (27:45) correctly. You mentioned an impact of maintenance. And if you could help us sort of quantify that. But otherwise, is this a sort of sustainable run rate we should expect growth to be in this division until those new ISO tanks come in the second half of 2022, or is there anything else to think about that? Thank you.

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

A

Hi, Alex. Thanks for your questions. So, in terms of fourth quarter versus third quarter then, if you look historically, fourth quarter is a weaker quarter in the divisions other than potash, which means that typically the Industrial Product sector is lower in the fourth quarter as well as the Phosphate Solutions division and Innovative Ag Solutions, the latter two because of seasonality and the bromine business mostly because of end of year and –

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and contract relationships which get renewed in January, but sometimes the deliveries get pushed from the holiday season into January.

Specifically this year, on the Industrial Products side, because we're at full capacity and because of the dynamics of this year, the fourth quarter is going to be very similar to the third quarter, maybe just a wee bit less. The production – the maintenance in the third quarter meant that specifically the third quarter had lower production as the 10 days of maintenance at our Neot Hovav facility. So, the production was a little lower in terms of quantity and some of that spilled into the fourth quarter, a small portion. So, a typical quarter would be stronger than the third quarter because of that, and that means that when we enter next year we are going to start the first quarter with a higher production level and also with higher prices because the renewals of new contracts are going to be prices that reflect some of the elevation in bromine prices in recent months that don't come in online into the contracts.

So, bromine for fourth quarter somewhat similar to third quarter; next year, higher than third quarter; and the second half of the year, better because of new production capacity. Phosphate division and Innovative Ag Solutions division are going to be softer in the fourth quarter than in the third quarter because of seasonality issues. They're not going to be softer than the third quarter the same levels of last year. The effects were going to be smaller, because there is a lot of demand out there which is stronger than last year, and some of it even unanticipated. And also, the Brazilian acquisitions had sales and profitability that did not exist last year.

So, we're left with Potash. Potash is going to be significantly stronger because of higher pricing. So we're going to see about $100 of additional – addition to the average price of potash in the fourth quarter. Similar – almost similar fourth quarter in Industrial Products, and weaker quarters in Phosphate and in IAS. Having said all of this, like I said in the beginning of the year and during the year, this is the first year we're giving estimates. So, we are on the conservative side. So, things that still cannot change or materialize – or not materialize, we're more careful. And one of those things, for example it's been made publicly known that we're negotiating certain adaptations to existing contracts. We have not taken into account any changes if they happen. So, a little bit conservative. Fourth quarter is always lower than third quarter mainly in Phosphate and Innovative Ag Solutions or specialty fertilizers. I think that gives you more or less the guesstimate. Hope that helps.

Alexander Jones
Analyst, Bank of America

Q

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

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

Alex Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. This is Alex Chen on for Joel Jackson. Thanks for taking my questions. I have two, if I may. Just to follow-up on your Potash comments, looking at the benchmark prices in Brazil currently around $800 a ton, is ICL booking any meaningful volumes at these benchmark prices for a few months out? Maybe you can comment a bit on your color book and what you see for Q1 and – Q4 and Q1 versus benchmark prices?

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

A

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The recent sales in Brazil were a few thousand here a few thousand there. The largest business that we signed at around $800 was about – few weeks back, if I'm not mistaken was about 40,000 tons. The market in Brazil currently is off-season. So, that's actually more than we would typically sell in any given year. I hope that helps. Usually, the market in Brazil from our perspective is relatively dormant in the first – in the last quarter and the beginning of the first quarter. So, we've sold more this year in Brazil than last year for example.

Alex Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Yeah. That helps. Thank you so much. And just one more question on the bromine markets. We're seeing volumes constrained from raw materials and produced from producers. How much visibility does Brazil have into this? Maybe you can give a bit of color on what you think the dynamic will be like for ICL in the first half of 2022?

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

A

Okay. So there was some force majeure in the industry, mainly around chlorine. That's not an issue for us. We produce our own chlorine, so we don't expect anything in the near future that will hamper our efforts to produce the capacity production that we need.

Alex Chen
Analyst, BMO Capital Markets Corp. (Canada)

Q

Perfect. Thanks.

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

A

Thank you.

Operator: Thank you. And your next question comes from the line of Mubasher Chaudhry of Citi. Please ask your question.

Mubasher Chaudhry
Analyst, Citi

Q

Hi. Thank you for taking my questions. Just a couple of comments around the overall potash and phosphate demand. And then kind of, there has been some chatter around some of your competitors talking – or on the earnings calls talking about farmers potentially curtailing or reducing their purchases as they try and prioritize nitrogen purchases. Just some thoughts around what you're seeing and what your view is on that, that'll be helpful.

And just secondly, on the chlorine force majeure, has that resulted in higher volumes from yourself? Are you operating in kind of geographically for the region to be able to take some market share? Just some thoughts around that would be helpful too. Thank you.

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

A

Okay. So I'll start from the latter question. Regarding chlorine no, that's not – it's not an issue for us. Like I said, chlorine, we produce for ourselves, and it's not geographically-based. There was some chlorine force majeure mainly in the U.S., so that's not affecting us. Unfortunately for us, although there was demand for additional

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capacity, we could not produce the additional capacity. So, we may have lost an opportunity there. But unfortunately we're fully booked. So that's regarding that.

It has of course affected the market prices, including for contract renewals. So just from basic physics we are – our new contracts are being signed at higher prices and there will be a price effect in 2022. But we didn't take on additional quantities because we don't have the capacity to take on additional capacity until mid-2022.

Let's get back to the dynamics of Phosphate and Potash. So first of all, we need to recognize that this year there are politics coming into the market and politics have to do with food security, and other – sustainability and other issues that cause governments to interfere. And some of the interference is causing a ban on exports in China, now also in Russia.

Phosphate market is currently very much undersupplied to an extent that there's – there are difficulties with farmers getting some of the product they need. And if you're following the situation in India then prices are going up, the government is lagging in terms of providing the necessary subsidy to protect farmers. That of course affects food availability and that becomes a political issue.

Other politics concern climate change. Obviously, American and European politics weigh on that. The effect on gas prices and oil prices, and also sanctions – or political sanctions affecting the potential supply of potash from Byelorussia. So all these things figure into the market that is tightly supplied and over demand.

Currently affordability is a question in some places like India for example and that will be determined by government subsidy. In most other regions there are additional acres being – coming into the system. And still there's positive affordability. So, still marginally it makes sense to apply more fertilizer in order to increase production.

The next stage, also of course higher oil and gas prices support corn price through ethanol. And the next stage which the market will be tested will be from food prices that are now going up globally. There's been some constraint on growth – on rise of food prices, again politics, maybe COVID-19 related.

Large food companies found it – made them unpopular to raise prices. But on the other hand, their input prices are growing. And if food prices grow and that affects the crop prices, and obviously it will affect affordability in a positive way, and that remains to be seen.

So, I would say that in our long-run view, if rising food prices result in higher affordability, obviously that will put pressure on prices in a way of growing prices. On the other hand, if oil prices come down, food prices don't go up, affordability goes down, then we won't see the same kind of growth as we did last year.

But on the other side, if we don't see demand growth, we still need to see what happens on the supply side. And right now, supply side on Phosphate is very tricky. Some may be transitory, but some is not because phosphate capacity has gone down in China, some of it for good including P4 capacity.

And then, Potash, there is the Byelorussian issue that I mentioned earlier. So there are moving parts. Right now, near-term, I think the main thing to look at would be the new contract prices in India and China.

China has been – has started using emergency reserves and has tendered out product at $469. So that becomes their base price for negotiating the new contract. To remind you, that means almost 100% increase from last

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year's price. So, the Chinese contract and the Indian contract will be very significant in determining the anchor price for potash.

Phosphate right now is on its way up. There's increasing demand from new applications such as LFP batteries. And the China constraints, everything together, without significant additional capacity coming into the market and ammonia prices where they are, I don't see phosphate prices stabilizing in the near-term. So, phosphate prices, we don't see them stabilizing in the near term. Potash price is very much dependent on contracts. With Byelorussian issue to be decided sometime in the beginning of December, the question is not how significant are the sanctions in terms of what, the kind of potash is included. The sanction I'm talking about, the European and the US it's more. What does it mean in terms of the ability of the Byelorussians to take product out of the Lithuanian port and what is their ability to deal with shipping and banking in order to deliver products. So those are the things I think that we need to be watch for. Hope that answers.

Mubasher Chaudhry Q
Analyst, Citi

That's very confident [indiscernible] (43:42). Thank you very much for your time.

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

William Tang Q
Analyst, Morgan Stanley

Hey guys. This is Will Tang on for Vincent. Thanks for taking my question. So, on your press release you mentioned limited local supply for bromine out of China. Is that a function of kind of the dual control mandate limiting production? And if so what is the magnitude of production that's been impacted? And then I guess more broadly, could you just comment on, like the local supply situation there?

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

Could you please just repeat the first part of your question because I couldn't hear?

William Tang Q
Analyst, Morgan Stanley

Yeah, sorry. You guys mentioned limited local supply for bromine in China. Is that a function of the dual control mandate? And then if so, what is the magnitude of production that's kind of been impacted by that?

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

Okay. So there are two combined elements here. One element is that there's a reduction of capacity that comes from a depleting resource. And that's happening at about 4% or 5% a year. And then there are shutdowns that are coming from regulatory scrutiny, environmental issues. So, I don't remember the exact numbers, but you can definitely get in touch with us and we'll be happy to supply.

William Tang Q
Analyst, Morgan Stanley

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Got it. And then I guess just one more question, if I could. Could you remind us what the path to profitability looks like for polysulphate? I think last quarter you mentioned that you guys had a headwind due to booking sales at lower prices and then kind of freight rates moving against you. Would the opposite be true, like if freight rates kind of move back to normalized levels and you guys see profitability earlier than previously expected? Thanks.

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

The short answer is yes. This was the first quarter in which we actually sold more polysulphate than we produced, which is a very good sign. We actually didn't produce as much as we wanted. We came up a little bit short, but we still sold more. The premium also went up. Unfortunately, transportation costs also went up. So, that doesn't help, but the market is accepting our products.

And also, in October for the first time ever, we crossed the 1 million ton run rate for poly. So that's also a milestone we look for. So all in all, the poly business looks like it's shaping up to be in a better place.

Operator: Thank you. And your next question comes from the line of Anne de Place of Burgundy. Please ask your question.

Anne Mette de Place Filippini
Analyst, Burgundy Asset Management Ltd.
Q

Hi, Raviv. Congratulations on the great results and thanks for taking the question and doing the call. My question was around bromine and just a bit longer term. Can you talk a little longer term to sort of what you see on supply and demand?

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

Okay. So first of all, I owe an answer from before. So I got the details that I needed. Two years ago, the Chinese market was producing about 65000 tons and it's down to less than 50000 tons now. So, it's been going down by more than 5%. In the long term, the bromine industry is not a prioritized industry in China. And that means that slowly but surely much of the compound business is flowing out of China and most of it is coming to us.

So, I think that the reduction in production of compounds is to – to some significant extent depends on how aggressive we'll be in growing our capacity. It makes a lot of sense, because we have the bromine available on hand. We don't depend on anybody else. And we're reliable – we are a reliable producer.

As we sign more long-term contracts, the meaning of them is that the compound production is transferring over to our facilities. What I can say for the long-term is that we are pretty far ahead of our five-year plan that we presented. So, once we're ready, then we'll present an updated plan with more ambitious results. I hope that helps.

Anne Mette de Place Filippini
Analyst, Burgundy Asset Management Ltd.
Q

Yeah. Thank you.

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

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Thank you.

Operator: Thank you. [Operator Instructions] Your next question comes from the line of Geoff Haire of UBS. Please ask your question.

Geoff Haire
Analyst, UBS AG (London Branch)
Q

Thanks very much. I just have two questions. Firstly, I was wondering, are you getting any inquiries about using phosphate for LFP production from outside China?

And the second question is, can you update us on where the status is for the renewal of the 2023 concession in the Dead Sea please?

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

The Dead Sea concession is 2030, so...

Geoff Haire
Analyst, UBS AG (London Branch)
Q

2030, sorry.

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

Yes, it's still far away. There's been no major development in terms of the concession. Israel in the past two years was busy with elections, recurring elections. And just I think today the government approved the first budget in three years. And I think in terms of the priority list, they have some other things to deal with, but we are in touch with government officials. And I think it's more a concern on their side than it is on our side. So I'm sure that in the coming few years, there will be progress on the concession.

But what was the first question, I'm sorry, but...

Geoff Haire
Analyst, UBS AG (London Branch)
Q

The first question was...

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

LFP outside of China?

Geoff Haire
Analyst, UBS AG (London Branch)
Q

Yes.

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

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Yes. Yes. We are – based on our business in China and our announcement, we are getting plenty of inquiries, but it's not just from LFP producers. It's from our technology partners. We're definitely looking to go up the value chain. So, we're getting inquiries from potential cathode producers and from technology innovators and we are spending time and we intend to spend some R&D resources into leveraging the opportunity, which we're very, very excited about.

Geoff Haire
Analyst, UBS AG (London Branch)

Q

Okay. Thanks very much.

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

A

Thank you.

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

Q

Hi. This is [ph] Mari Melena (51:31) for Laurence Alexander. I just have one question. Can you give a bit more color on your magnesium comment? With this recent price lay off, can you take advantage of it now or in 2022 and how meaningful it will be for your top or bottom line?

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

A

Yeah. Sure. There was a spike in magnesium prices due to the electricity issues and coal/electricity issues in China. So, prices spiked from about $2,500 to about $10,000 per ton in the recent months and we took the opportunity in order to contract a significant portion of next year's contracts magnesium.

That's contrary to what we had two years ago, we had – we were busy with claim in the US and were not able to contract on time for the 2020 year. And right now, it's exactly the reverse. So, we're entering 2022 in good shape on magnesium. Magnesium is typically not a profitable business for us. It's a result of production of bromine and potash. And in 2022, it's going to be a profitable business for us because of that spike in prices.

Q

Thank you. That's helpful.

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

A

Thank you.

Operator: Thank you. There are no further questions on the line. Please continue.

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Peggy Reilly Tharp

Vice President-Global Investor Relations, ICL Group Ltd.

We'd like to thank you all for joining us today, and we will speak with you again when we report our fourth quarter results. Have a good day.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may all disconnect. Speakers, please stay on the line.

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