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ICL Group Ltd. (ICL.IL)

Q2 2022 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 call is being recorded today.

I'd like to hand the call over to our 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 call. The event is being webcast live on our Web site at icl-group.com.

Earlier today, we filed our reports with the securities authorities and the stock exchanges in the US and in Israel. Those reports, as well as the press release, are available on our website. There will be a replay of the webcast available 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 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 financial information discussed on this call at any time.

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We will begin with the presentation by our CEO, Mr. Raviv Zoller; followed by Mr. Aviram Lahav, our CFO. Following the presentation, we will open the line for the Q&A session. Raviv, please.

Raviv Zoller

President & Chief Executive Officer, ICL Group Ltd.

Thank you, Peggy, and welcome, everyone. In the second quarter, our focus on long-term specialty solutions benefited the company once again, along with additional upside from commodity prices. The company's strong performance was supported by increased demand and higher prices in most markets and was achieved even as raw material costs remained inflated and as global supply chain challenges continue.

To begin with slide 3, ICL delivered all time record sales and EBITDA in another consecutive quarter of profit and margin growth. We saw record results from all specialties businesses; Industrial Products, Phosphate Solutions and Innovative Ag Solutions as well as from our commodity businesses. We also achieved multiple production records as we focused on efficiency and productivity. While we've recently benefited from commodity market upside, these cycles come and go. However, the investments and improvements we've made in our production will benefit us over the long term. In the second quarter, ICL delivered record sales of nearly $2.9 billion, an increase of more than $1.2 billion and ahead of our expectations. Adjusted EBITDA of nearly $1.3 billion was also an all-time record.

Once again, our focus on long-term cash generation helped deliver strong free cash flow of $410 million, which was up more than 300%. Our policy to return to our shareholders up to 50% of annual adjusted net income resulted in a dividend of $0.2918 per share, up more than 450% versus $0.0526 in the second quarter of last year. In total, ICL will pay out a $375 million dividend for the quarter. And last but certainly not least, we settled a significant tax dispute with the Israeli Tax Authority regarding the surplus profit levy on natural resources. By settling, we finalized all disputes regarding previous years and gain certainty regarding the future. While Aviram will have more specifics in his portion of the today's call, I would like to note that I strongly believe this agreement helps provide clarity and will improve our risk management position and public profile with regard to regulatory, as well as concession related challenges.

Now please turn to Slide 4 where you can see once again, significant improvement over the past five quarters. Sales were up nearly 80%, while adjusted EBITDA was up nearly 250%. EBITDA margin for the quarter increased to approximately 44%, this was up from approximately 22% in the second quarter of last year. We've also added nearly $300 million of operating cash flow, since the first quarter.

On Slide 5, there's an overview of our second quarter results, which shows triple digit improvement for all but one of these key financial parameters. Clearly, the second quarter was impressive, including our adjusted diluted earnings per share of $0.58, which were up more than 450% year-over-year.

I would now like to begin our segment review with Industrial Products on Slide 6. Quarterly sales were $486 million and up 19%, while all-time record quarterly EBITDA of $206 million was up more than 60% year-over-year. This business continued to benefit from our strategic shift long-term contracts, as more than 70% of Bromine compound sales are under long-term agreements. The Industrial Products business also benefited from higher prices, and while Bromine prices in China have eased somewhat this year, they are still higher year-over-year. End market demand in the quarter was mixed and we expect to see this trend continue into the third quarter. The oil and gas industry maintained its momentum in the second quarter, resulting in strong, clear brine fluid sales. Consumer electronics continued to moderate as consumer demand shifted away from devices and toward experiences as the world reopened post-COVID. Automotive demand was also subdued as automakers continue to face global production and supply challenges. Demand from the construction industry also showed a slight

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reduction, with some products performing better than others. Good demand for our specialty minerals was supported by the dietary supplements and pharmaceutical end markets in the second quarter. We also saw higher sales of magnesium chloride and potassium chloride for industrial applications. During the first half of the year, we continued to invest in and to upgrade our supply chain capabilities with the addition of 34 more isotanks, we expect to bring on 65 more isotanks in the second half of the year as we look to maintain the efficiency and flexibility of our unique logistic capabilities.

Turning to slide 7 and our Potash business, where sales of $951 million were up 150% year-over-year. EBITDA of $616 million was up 670%, and we achieved quarterly profit records at the Dead Sea in Spain and for our magnesium business. At Dead Sea works, our team set a number of production records, including, among others, an all-time quarterly production record, an all-time semi-annual production record, and an all-time quarterly granular production record. In Spain, production improvements advanced at the Cabanasses mine with additional progress expected in the second half of the year. We continue to benefit from operational improvements and efficiencies at both sites. And at our Dead Sea site, we strengthened our leadership position, both from a logistical perspective and in terms of lower energy cost. In the quarter, both Potash and metal magnesium prices were higher and our average Potash realized price per tonne came in at $750, which was up $469 year-over-year and up $149 from the first quarter of this year. We expect our average Potash price in the third quarter to moderate due to the recent trend of price convergence in the global market and as we are scheduled to increase shipments to India and China. In our metal magnesium business, sales in the second quarter increased on higher prices as a competitor faced continued production constraints.

Turning to Slide 8 in our Phosphate Solutions division where record sales of $915 million were up nearly 60% year-over-year, while EBITDA of $315 million was up more than 130%. This business saw record results for both commodities and specialties and maintained its strategic long-term focus on driving specialties profitability despite the surge in commodity prices. It also benefited from higher prices and stronger demand across all regions for food and industrial specialties as well as for fertilizers which offset cost increases in raw materials, production and logistics. In Europe, our Ludwigshafen site in Germany returned to full production following a fire related shutdown last year. Also in Germany, we invested in new equipment at our Ladenburg site, which resulted in improved quality and helped make us more energy efficient. In China, our YPH joint venture saw higher prices for both specialty products and commodity fertilizers, combined with increased production efficiency. Demand also continued to grow for our specialty mono ammonium Phosphate Solutions destined for LFP batteries used in electric vehicles and other energy storage offerings.

Turning to slide 9 and Innovative Ag Solutions where positive fertilizer momentum continued as we expanded on our strategic execution and delivered all time record sales of $700 million, up 110%, and EBITDA of $155 million was also an all-time quarterly record and up 356%. Organic sales were up nearly 60%, while EBITDA was up more than 230%, with both representing approximately 75% of total IAS sales and EBIDTA respectively. Our Brazil expansion strategy delivered both synergies and robust results as this business contributed $177 million in sales in the quarter, up versus the prior year and beyond our expectations even during this traditionally slower season. Overall demand remains elevated in Brazil and we expect continuation of this trend as we enter the key planting season in the southern hemisphere. For the quarter, organic Polysulphate was a big winner, both in terms of price and market penetration. Our fertilizer plus products have continued to gain recognition and are now the preferred product for many farmers due to their additional nutrients and organic composition.

In addition to growth in Europe, India and China, Polysulphate gained new business with expansion into Indonesia. ICL Boulby achieved a significant quarterly profit contribution for the second time and a new monthly production and hoisting record as the site remains on target to achieve its 1 million ton target in 2022. Our turf and ornamental business remains solid, but these products, like all of our specialty fertilizers contended with higher

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costs and lower availability of raw materials in the quarter. However, we have been able to offset these increases across IAS with higher pricing.

Now, if you will turn to Slide 10, I would like to read you some recent progress we have made in the areas of sustainability, innovation and leadership. For sustainability, this was the fourth year in a row where we were awarded the highest ESG in its Platinum+ rating by MAALA, the most comprehensive index for corporate responsibility in Israel. We also received the AA score and ranked first among industrial, chemical and pharmaceutical companies for our sustainability efforts.

Our site in Spain was awarded the prestigious 2022 Green Leaf Award for Excellence in Safety, Health, and Environment by the International Fertilizer Association. Our plant was selected out of a record 25 applicants in the Phosphate and Potash producer category for its actions to reduce greenhouse gas emissions. This award confirms we are on the right track when it comes to achieving sustainable mining practices.

In China, our YPH joint venture received green mine certification from the Ministry of Environment in recognition of its work as a leader of developing green, circular economy and ecological protection. YPH also joined a prestigious list of five A ranked companies, which is comprised of only six companies in China. In terms of innovation, we've made several advancements, including in the area of LFP battery production, and we were looking to expand our footprint into the United States.

While we currently produce numerous materials central to the production of lithium-ion battery cathode materials, we are also advancing our efforts to develop product offerings for liquid and solid electrolytes. We are already a leading manufacturer of phosphorous chemicals for a range of different applications and are now putting extra focus on allocating such raw materials for the production of lithium-ion battery electrolyte solutions and exploring several possible routes for developing these opportunities in both Europe and the US. We've also partnered with PlantArcBio to boost crop yields through RNAi. The technology we collaboratively developed shown to improve yields while having a minimal impact on the environment and without any genetic modification. In India, we rolled out a unique solution to the market through our digital Ag startup, Agmatix. This offering will drive crop nutrition optimization by leveraging state of the art technology and ICL India field agronomists are already providing digital nutrition prescriptions to more than 900 farmers and creating digital touchpoints to support their yield targets and optimize their carbon footprints. We also strengthened our leadership position in India as we signed a long-term agreement with India Potash Limited to supply organic Polysulphate through 2026. As you know, since Polysulphate is available in its natural state, it has the lowest carbon footprint available globally making it a cost effective organic answer to crop nutrition and it is expected to help boost the government of India's organic agriculture program.

In Israel, ICL was recently named one of the best companies to work for by BDi, the largest business information group in Israel. We rank first among all companies in the industrial sector and also made impressive improvement overall, moving up to 21st place from 38th place in the prior year. The company also received the highest possible corporate governance rating for the publicly traded companies from Entropy, a leading Israeli ESG rating firm. ICL's ranking improved to advanced in the category of corporate governance, making us one of only three companies and the first outside of the banking industry to receive this honor. In the US, ICL was ranked as one of the top workplaces in St. Louis by the St. Louis Post-Dispatch, with the award based solely on employee feedback. The team also demonstrated leadership in the area of community giving and was named a finalist by the St. Louis Business Journal for its 2022 Corporate Philanthropy and Innovation in Philanthropy Award. One item in common for all these endeavors and achievements is the fact that [ph] it's span the globe (00:16:32). From Israel to Spain and on to China, India, US and beyond, ICL employees are leading, innovating and improving conditions on Earth through their sustainability efforts.

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Finally, I would like to wrap up my portion of today's call by reviewing slide 11. While this has been an unusual year so far, we've continued to focus on the future and our long term specialty strategy, and we will continue to do so as this allows ICL to strengthen its leadership position in comparison to its more commodity based peers. Our performance in the quarter reaffirms our specialty strategy, and our strong balance sheet allows us to focus on business expansion opportunities in this area, including the ability to grow through M&A, investments in R&D, capacity and new products, among others. We do not have clarity as to how the global macro environment will play out for the remainder of 2022. However, for the second half of the year, we expect to continue to leverage our position as a global provider of specialty chemical solutions and to reap additional benefit from our Brazilian business as the Southern Hemisphere enters its key planting season. We also expect to see continued profitability from our businesses such as our YPH joint venture in China and our Polysulphate operations in the United Kingdom as well as our metal magnesium business, all which had a negative contribution in the past. We will also continue to innovate in areas like production for LFP batteries and across the food and agricultural end markets. Especially during this time of food crisis, it is important for us to do our part to help innovate and find solutions for the challenges around the world. While we are currently at the top part of the commodity cycle and are seeing great results, we must remember that this is a temporary high and that we need to keep our eye on the ball and continue to focus on a strong future of long-term cash generation and value creation for our shareholders. As always, I want to thank the entire ICL family of employees spread out across the globe for all of their hard work and contributions as we delivered record results once again. This quarter, we are celebrating 100 years of history of our company and feel proud that we broke our all-time sales and profitability records once again.

And with that, I will turn the call over to Aviram.

Aviram Lahav

Chief Financial Officer, ICL Group Ltd.

Thank you, Raviv, and to all of you for joining us today. While you've already seen slide 13, I would like to call out a few additional highlights. Second quarter adjusted operating income of $1.139 billion was up more than 380% and adjusted operating margin of 39.5% was up dramatically from 14.6% in the second quarter of last year. For the quarter, adjusted net income of $751 million was up more than 450% year-over-year.

If you will turn to slide 14, you will see that many of the macro trends we saw in the first quarter continued into the second. Global growth remains strong even as inflation continued to soar in most countries and both commodity and grain prices remained high. The situation in Ukraine has not been resolved and it seems as if each day brings changes and in some cases even greater uncertainty. There have been limited relief from the supply chain disruptions for ICL and others around the world. However, our supply chain procurement and logistics teams have worked tirelessly to overcome these challenges, and we have continued to leverage our advantageous production locations and global supply chain capabilities. In addition, currencies have continued to fluctuate with the US dollar surging to its highest level in nearly two decades, at times [ph] hovering at parity (00:20:36) with the euro.

On slide 15, you can see prices for Potash and sulfur continues to trend higher during the second quarter, while phosphoric acid prices, [ph] paper (00:20:47) and freight rates declined slightly. While we were able to offset the increase in prices for raw materials in the quarter, this is expected to become more uncertain in the second half of the year.

Turning to slide 16, where you can see the trends for crop economics also remained elevated throughout the first half of this year. Prices for rice and soy, so small increases in the beginning of the quarter with rice declining as the quarter progressed, while soy moderated, corn prices increases were higher but leveled off towards the end of

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the second quarter. Understandably, wheat prices were the most sharply elevated as Russia and Ukraine combined export nearly 30% of the world's wheat. However, prices declined beginning in June, and just last Friday, the two countries agreed to resume exports of millions of tons of Ukrainian grain via the Black Sea for the first time since the Russian invasion.

On the left side of Slide 17, you can see the impact of higher prices on our year-over-year sales growth for quantities. We saw positive contribution from recent Brazilian acquisitions. And even during the traditionally slower season in Brazil, these acquisitions comprise 25% of Innovative Ag Solutions sales in the second quarter. For Phosphate Solutions, even as prices for Phosphate commodities soared, we maintained our long-term strategic focus on specialty sales, which represented 54% of total Phosphate sales in the second quarter. On the right side of the slide, you can see improvement in sales from all four of our segments with the impact of high prices continuing to flow through to our results.

Turning to Slide 18, you can see the significant contribution that higher prices made to adjusted EBITDA and once again, on a segment basis, all four of our businesses contributed to year-over-year improvement. For Phosphate Solutions, Phosphate Specialties made up 42% of EBITDA for this segment.

I would now like to review a few highlights on Slide 19. For the second quarter, our net debt to EBITDA ratio improved to 0.6 times from 2.1 times in the second quarter of last year. As Raviv mentioned, we have continued to drive growth in cash flow generation through cost controls and efficiencies. We also continue to deliver shareholder value and for the second quarter our dividend yield is nearly 8% at the high end of our peer group.

Before we move to Q&A, I would like to address our recent settlement with the Israeli Tax Authority. As previously discussed, we have settled a significant tax dispute regarding the surplus profit levy on natural resources. This settlement provides final assessments for the tax year 2016 through 2020, and also outlines the calculation of the levy for 2021 and onwards.

In the second quarter, we reported total tax expense of $540 million, which included tax expenses for prior years in the amount of $188 million, excluding this amount, our tax expense was $352 million, reflecting an effective tax rate of 31%. For the second quarter of last year, our tax expense was $64 million and reflected an effective tax rate of 30%. The total tax rate for the first half of 2022, excluding the $188 million of the prior year tax expenses was 28% versus 23% for the first half of last year.

The company's relatively higher tax rate was the result of tax expenses relating to the surplus profit levy and represent an approximation of the impact of the above settlement on the current tax rate. Going forward, we expect the ongoing tax rate to be in the 30% range.

Turning to Slide 20, I would like to call your attention to our updated guidance, which reflects our very strong results in the first half. We now expect to deliver an adjusted EBITDA range of between $3.800 billion and $4 billion in 2022, an increase from previous guidance of $3.500 billion to $3.750 billion.

Our specialty businesses are expected to contribute approximately $1.500 billion to $1.600 billion, up from previous expectations, calling for contribution of $1.300 billion to $1.400 billion.

One final note, before we turn the call back over to operator, I would like to recognize that our CEO, Raviv Zoller has been named an executive board member of the International Fertilizer Association, and this is in addition to his role as the Chair of the Sustainability Committee. This is a fantastic and well-deserved honor recognizing ICL as a sustainability leader among its fertilizer fields and on behalf of ICL, I congratulate him.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from the line of Mubasher Chaudhry. Please go ahead.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Hi. Can you hear me?

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

A

Yes. Thank you.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Okay, perfect. Hi, guys. Thank you for taking my questions. Just a couple to start with on the Potash market and then one on the Industrial Products. So, on the Potash side of things, we're hearing continued chatter around more tons coming out of Belarus. Can you provide your thoughts on how you see the market for the rest of the year and whether you see some of the supply pressures coming off? And then more specifically to your pricing, the ASP is still quite at a discount to the average spot price for the quarter. Should we expect this discount to remain given your contracted volumes to India and China? Or is there a potential to close the gap? So that's the first on Potash.

And then in Industrial Products, there was a comment around the Chinese phosphorus coming back to the market in the press release. Can you provide some thoughts on the size? And do you expect prices to be preserved for the remaining part of the year or you see them softening into the rest of the year. Thank you.

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

A

So first on Potash prices, I'm not sure I understood why you think [indiscernible] (00:27:51) market, maybe explain the question.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Sorry, you broke up a little bit, so on the Potash market, so we're seeing a lot more Belarusian tons coming out of the market – Belarusian tons coming into the market. And I was wondering whether that's having an impact on...

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

A

[ph] Through that part (00:28:13)...

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Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Okay.

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

A

From the very beginning, when sanctions were put in place, the expectation was that without the port of [indiscernible] (00:28:27) the Belarusians would be able to get about a third of their product to the market. And I think that they're not there yet. But according to what we're hearing, they're going up from about a little over 100,000 tons a month to 200,000 tons or better. According to the information that we have, about 250,000 is achievable through various small ports and rail to China.

So, our expectation is that 6 million to 7 million tons will stay absent from the market. So, that's regarding Belarus or Russia. That's, that's the existing information. In terms of average price on Potash, our average price is a mix of contracts and spot prices and we present realized price. So, in the second quarter, the average price in Brazil was over $1,000. Contract prices, $590. In the second quarter, we expect prices will soften a bit. So, they will still be higher than the first quarter significantly, but lower than the second quarter.

So, our expectation for third quarter is around $700 for the third quarter. Regarding your last question on Industrial Products, currently we see relative strength in some sectors such as oil and gas. In consumer electronics and also in automotive, we see a certain softness. Part of that has to do with the situation in China and lockages and temporary change in demand. We think that long-term automotive demand coming from electric vehicle is very strong and it's safe for the long-term, so we don't think that softness will hold. All in all, most of our Industrial Products business and Bromine-related business is contracted in long-term contracts. So, we don't see any significant effect.

On the phosphorus-based business, yes, there is Chinese product coming out, not like two years ago, but quite a bit of product is coming out. We see less quantities being sold, but the prices are holding. So, the overall results are still very, very good. We don't know what the policy in China will be going forward. On Phosphate, we know that there is quite strict restrictions now on export. So, on Phosphate from the beginning of the year, until mid-year, about 2 million tons have come out and then the second half of the year, it's expected about another 3 million. So overall, about 5 million compared to 11 million came into the market in 2021. So on phosphorus, it's not clear where we're going to be. On Phosphate, it looks like something like 6 million tons will be missing this year coming out of China. I hope that answers.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

That's very helpful. Thank you.

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

A

Yeah.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Just one note, Raviv, if I may.

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

A

Go ahead.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

That we're seeing, Mubasher, that the leaders in the market actually are upping the prices these days. So, I think there's quite a lot of volatility and position taking. And most probably the near future will sort that out. I think it's in a way, if I can say with this little amount that's actually happening, I think it's quite unsorted. Does that make sense?

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Yeah, maybe, [ph] I'll take (00:32:53) a follow-up. Just across Industrial Products and then across Innovative Ag as well, the performance has been quite strong. And I'm just wondering, as we head into the third quarter and you've had a month of it so far. Are you starting to see a little bit of a softening in demand? And therefore your ability to pass on pricing is not quite as strong as it was in the 1Q and 2Q to offset the rules. Just from a, slightly softer demand perspective, any thoughts around that would be helpful.

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

A

It depends what the softer demand means, because there are two things that come into play here. First of all, the seasonality, so there's seasonal softness, if you will. And second, remember that once the war started, there was a rush to stock and to make sure that supply would be available so distributors stocked up in Brazil that takes about 12 million tons a year, took 7 million tons in the first half of the year. So, there's still no need for immediate supply in June or July. But at the same time, Brazil is going to be taking 12 million tons, because Potash is needed for the soil, they can't skip. They [ph] can't (00:34:19) skip a year, which is different than different soil types. And in Europe, for example, we see about 20% demand disruption in Europe.

So, those 5 million tons are going to be acquired. There's some convergence of price because of price levels in different parts of the world have been quite at a significant difference. And what competition does is it makes prices even out. In our case, we sold to Brazil on the first half 85% more than we did in the first half of last year. We sold almost 750,000 tons versus 400,000 tons in the last year. So, it means that about 80% of our allocation to Brazil was sold in the first half because we were opportunistic, the prices were higher and we did what you do in competition. But it's very natural that prices converge. The fundamental of the market is that 6 million tons or 7 million tons are missing and the only way to balance supply and demand is demand destruction through prices going higher. Unfortunately, in today's world, there are geopolitical implications, because those that are not getting the product are maybe the ones that need it the most, but that's a secondary issue that we don't have enough time to discuss today. I hope that answers.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Thank you.

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

A

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Thank you.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Thank you.

Operator: Thank you. Our next question comes from the line of Joel Jackson from BMO Capital. Please go ahead.

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

Hi. Do you hear me?

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

Yeah. Go ahead.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Yes.

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

Hi, good morning or good afternoon, everybody. I want to start high level. Raviv, the guidance looks conservative for the year, even though you've raised it when you look at it from a different perspective. So, maybe I'll give you a couple of observations and then I'd appreciate your insight. So, you're describing a full year, where 42% of the EBITDA will come in the second half of the year. That's not at all typical for Israeli chemical – excuse me, excuse me – for ICL, I apologize. There's one year in the last 10 years that may have a [indiscernible] (00:36:40) describing a $600 million of lower EBITDA in the second half of the year than the first half of the year. I appreciate the $7 a ton Potash price that you're saying will happen in Q3, but that doesn't really explain it all. So, are you being conservative here or you're modeling in a lot lower commodity prices in the second half than the first half of the year? Are there margin issues, again [ph] are you (00:37:02) being conservative? Because it seems – it doesn't seem like – it seems like it'd be hard for you to get below [ph] $4 billion (00:37:07). Thank you.

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

Okay. Well, thanks for the question, Joel. You know what, I don't think that we're being conservative. I think that we were conservative in the beginning of the year, because there were no contracts in place in China and India and at the same time, Belarusian sanctions were just being talked about. So, when we compared our model for this year, we were in a different reality. But since we updated our projections, I don't think that much has changed. The new guidance does not reflect any change in the view of how we see commodities, maybe a tiny bit in Phosphate, because it looked a little stronger than we expected. Again, because of the Chinese export limitations, almost all of our upgrade of projection has to do with specialties. In our specialties business, we've had some positive surprises and a very good execution in the first half of the year. So, we've been positively surprised by our prospects for this year. And you can see that most of the change in the projection has to do with the specialties.

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In commodities, I think we're very much where we were. We didn't get too excited about prices in Brazil going over 1,100 or even reaching a 1,200 at one point in Brazil. We were opportunistic, so we took advantage of those prices, but we didn't think they would hold for the long term [indiscernible] (00:38:52) concerns, so that [indiscernible] (00:38:59). On the 42%, it's pretty simple, I think that the third quarter on Potash prices, like I said, they're going to be a little softer. And most of the difference between the first half and the second half has to do with the fourth quarter. And if you check again on those 10 years, you'll see that two of our business divisions, actually, three of them all specialty businesses for seasonal reasons and in Industrial Products because of very soft December that we usually have. It was one year last year, it didn't behave that way, but every year we have a soft December.

So, in Phosphate, we have a seasonal weakness in the fourth quarter and Industrial Product in December, which hits the fourth quarter. The only change there is that Innovative Ag Solutions is going to be a little stronger this year because our newly acquired business in Brazil is performing very, very well and it's actually expected to do better than last year. So, Potash prices in the second half lower than in the first half. But in addition to that, fourth quarter will be softer in Industrial Products and Phosphate. In our Phosphate division, that's not an unusual thing and it was factored into our original forecast. I hope that helps.

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

Q

Kind of. Maybe I'll drill down a little bit more into details in each business. So if I go to IP and I think you mentioned in the last call, you thought that full year margins could be similar to the Q1 margin, I think [ph] they were (00:40:50) about 38%. Do you still see – [indiscernible] (00:40:53) 39% in Q2 – do you still see you'll be able to hold 38%, 39% in Q3, maybe dropping down seasonally in Q4, so [ph] you're going to (00:41:00) end up really high 30s percent margins in IP for the full year. Is that fair still?

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

A

It is fair, but we will go down somewhat on the revenue, especially in the fourth quarter, a little in the third quarter, but more in the fourth quarter. The reason we can still maintain our margin is that because one of the growing components is the oil and gas, clear brine fluids, which are very, very high margin. So, we'll have less sales that are little lower in margin and perhaps more sales and clear brine fluids and that will even out and allow us to stay at the higher margin that we talked about.

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

Q

Do you think that revenue decline year-over-year comp, which of course, you've had really strong revenue growth for many quarters, [indiscernible] (00:41:45) revenue contraction trend will continue into the first half of 2023?

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

A

We're not seeing that at all. In fact, one of the places where we see softness is automotive, which is becoming more and more significant for us. We don't see global demand for electric vehicles going down. We think there is a current situation where there are less deliveries than anybody understands, but we don't think that's going to stay the case because the demand is enormous, everybody wants to change to electric vehicles and the supply is coming out of China and the electric vehicles need components that need flame retardants. So, we think we're in a very good position.

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

Q

Okay. Then, Innovative Ag Solutions when you bought [indiscernible] (00:42:33) Compass. I think it hit the books for Q3 and Q4 of last year, a lot of it. So, should we see the second half of this year little to none, build [indiscernible] (00:42:46) growth organic in that business. That's great. But there's no acquisition growth increase in the second half [indiscernible] (00:42:55) that at all happened in the second half of last year, did you [indiscernible] (00:42:58).

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

A

It's all – you're correct it's organic, but consider that the organic pro forma growth was about 80% in those businesses in the first half of the year and we're realizing some synergies. So, we expect to see growth.

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

Q

Okay. And any margin contraction in that business in the second half [ph] versus (00:43:17) the first half margin in IAS was really strong, so do you see a bit of contraction or should you hold?

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

A

It's hard to say at this point. We're taking into account a little bit of a contraction because, again, we see a little softness in the commodity market and that typically influences the specialties market as well. So, we don't see any drama there, but we're taking into account a little bit of a contraction.

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

Q

And my last question is, I'm asking a lot, in Potash, given the $7 a ton or so Q3 ASP. So, would your margins in that – so I look at you $600 Potash price Q1, $750 Q2, would your Q3 margin in Potash be a lot lower than Q2? Would it be the same as Q1, some in the [indiscernible] (00:44:08) in Q1 and Q2 because a lot of things [indiscernible] (00:44:10) cost and freight? So, how much is your margin in Q3 for Potash compared to Q1 and Q2 at the $7 a ton price?

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

A

Great question. We kept everything. We kept everything stable and obviously not everything is stable because transportation prices are actually going down and our output is expected to be very, very good, which lowers cost per ton. But then again, there are some uncertainties here, including energy costs and including shifting from some geographies to others that will have a lot of deliveries to India and China in the third quarter. So, that requires [indiscernible] (00:45:00). But net-net we don't expect a big change in the components [indiscernible] (00:45:08-00:45:14) margin is lower.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

I may just add two things, Joel. One, if you look at our first half vis-à-vis the second half, if you take the upper [indiscernible] (00:45:25) point which is about $4 billion rightfully delivering 55%, 45%, not 42%. If you look at the $4 billion and if you sum it up, it comes from a significant [ph] part in (00:45:37) Q4, where, we have obviously a

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much less visibility, part of it seasonal, part of it because it is further out, part of it is because there is a lot of uncertainty about prices and we took all these things into account when we came out with this guidance. So of course, we follow it up quarter-by-quarter, and we may change that, it depends on the circumstances.

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

It's a bottoms up guidance.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Yeah.

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

Okay. [indiscernible] (00:46:08). Thank you very much.

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

Thanks, Joel.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Welcome.

Operator: Thank you. Our next question will come from the line of Will Tang from Morgan Stanley. Please go ahead.

William Tang
Analyst, Morgan Stanley
Q

Hey, guys. Hey, guys. This is Will Tang on for Vincent here. I know you touched on Brazil a little bit earlier, but I guess could you comment on [indiscernible] (00:46:37) inventories within the channel by geography elsewhere. Some of your competitors have kind of [ph] recently focused (00:46:44) on Potash, some refill offers in the US, which I think many would have considered improbable a few months ago. So, I'm wondering if you have a view [ph] on how backed up (00:46:53) the system maybe in the US and elsewhere?

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

I think all the other trends show, I mean, stock to use and actual inventories that you can view basically the global situation is that inventories are going down. But at the same time, keep in mind that there's a real change in that the global supply chains were very, very stressed. They're easing up a little bit, but it's a long process. And also consider that the cost of capital, the cost of holding inventories increased significantly because you have in Brazil, for example, in the beginning of the year, the interest rate was 2%, now you're at 13%. The real has lost almost 15% to the dollar.

So in terms of affordability and in terms of the risk taking that if you're a distributor and you have to hold inventory, you want to – you're willing to stretch yourself more and the conditions allow you to stretch yourself more because

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there were never any sanctions on Russian fertilizers, but there was some uncertainty in markets such as Brazil, whether the Russian product will get there this year. And now there's less uncertainty and the cost of capital is high. And other costs, such as labor cost inflation – inflation adjustment in labor cost of over 8%.

So, I think the supply chain is going to be more stressed and at one point buying is going to become [ph] more massive (00:48:40) than it currently is. I think that the North American or the Canadian leaders are probably in a better position to understand the full dynamics in North America and I guess they know what they're doing. We don't see any inventory buildup, we see inventory starting to get tight. It's very tight in India and even in China. And it's getting tighter where the world is changing quickly in terms of interest rates, inflation and certainty created by the availability of Russian product. At the end of the day, like I said before, there is – in Potash, there is 6 million tons missing, missing in the market. The only way for that to – the only way for the markets to clear is for prices to go up and demand destruction to happen. And the only question is where demand destruction is going to happen. We don't think there's going to be demand destruction in Brazil. That helps.

William Tang
Analyst, Morgan Stanley

Q

Got it. Thank you. And then, I guess, just given all the headlines around energy in Europe, I'm wondering how you would characterize ICL's [indiscernible] (00:50:01), particularly as we move into the winter months for your Phosphate facilities in Germany there.

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

A

So, ICL is in relatively good shape. The reason is that most of our business has long-term fixed price and non-Russian dependent gas for renewable energy. Actually, most of our European and US businesses are linked into renewable energy specifically and our Ladenburg site in Germany we do have exposure. In that site, we produce some acid and many [indiscernible] (00:50:51) product, but they're for the food industry and fertilizers and food are getting prioritized.

So, we feel that whatever the rationing of gas could be, we would be in better shape than others. At the same time, we have facilities in other countries, mainly in the US where some of the product, we can replace with products coming from the US. So, our – the main exposure we have is, in our site in Germany. We have some exposure in the UK, but overall a very small percentage of our revenues and EBITDA is at risk from gas disruption. And again, our main facilities are in Israel, where we have long-term fixed price gas supply agreement.

William Tang
Analyst, Morgan Stanley

Q

Got it. Thank you.

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

A

Yeah.

Operator: Thank you. Our next question comes from the line of Alexander Jones from Bank of America. Please go ahead.

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Alexander Jones
Analyst, Bank of America

Q

Great. Thanks for taking my questions. I've got two, if I may. The first just on Innovative Ag Solutions, if you exclude the Brazilian M&A, then I think your EBITDA in the first half of the year is up about 3x compared to the first half of last year. How sustainable do you think that is if and when fertilizer prices fall, or is it lot of a sort of a pricing related component?

And then the second question on Industrial Products, you indicated that you will be down year-on-year in the third quarter. And just looking at the pricing that came through in the second quarter of 33%. Does that imply that you expect quite a big deceleration in pricing such that revenue falls? Thank you.

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

A

I didn't indicate that in IP, we were going to come out with pricing lower than last year. So, I don't know where that came from, but maybe there was a misunderstanding.

Alexander Jones
Analyst, Bank of America

Q

And so, that was a sequential comment.

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

A

Yeah, it was a sequential comment.

Alexander Jones
Analyst, Bank of America

Q

Understood.

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

A

And regarding Innovative Ag Solutions, it's not sustainable to triple your margin every year, by no means. But I think what's happening here is that we're enjoying economies to scale and good pricing related to new product lines and of course, the tailwinds coming from the market. So, like I mentioned earlier, we think that there would be some margin contraction if markets soften, but I don't think it's going to be dramatic. In the past, we had relatively, first of all, smaller business. And we've gone through significant organizational changes, including consolidating our sales teams with commodities and specialties and changing some of the way we do business using digital means and other incentive related issues that we put into place. And so, I think that our business plan is working and we're achieving the kind of margins that we look for. But our long term business plan talks about 15% in normal times. So, 20% is relatively high. And it has to do with the tailwinds in the market.

Alexander Jones
Analyst, Bank of America

Q

Great. Thank you.

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

A

Thank you.

Operator: [Operator Instructions] Our next question comes from the line of Rahi Parikh from Barclays. Please go ahead.

Rahi Parikh
Analyst, Barclays Capital, Inc.

Q

Great. Can you all hear me?

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

A

Yes. Thank you.

Rahi Parikh
Analyst, Barclays Capital, Inc.

Q

Great. I guess just following up on the energy cost. Is there any way to give the concrete number of percent of energy costs that are not fixed or contracts or related to renewable energies for your – renewable sources for your energy needs?

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

A

I don't have exact numbers with me. I think the amount of energy cost or the portion of energy costs that we're exposed to are less than 15% of overall. But we'd be happy to try to get you that information. I just don't want to give unaccurate information.

Rahi Parikh
Analyst, Barclays Capital, Inc.

Q

For sure, for sure. Thank you. And then also thanks for the ESG updates you provided earlier. We were also wondering how your progress is going on 30% decrease in greenhouse gases by 2030. How is that going on? And you also mentioned great results in the Dead Sea area. How are you keeping these Dead Sea workers safe, are there any additions to protocol or just any updates for that?

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

A

Yeah. So first of all, on – how we're doing on our target to 30%, we're well below our targets for the year. Some of the main efforts that were made this year have to do with the move to renewable energy. We moved 70% of our US sites into renewable energy this year. We also replaced shale, shale oil power generator with natural gas in a large site in Israel. We're finishing that in September. So, those are two big blocks for this year, but we have many, many other initiatives and if you're interested, they're on our corporate responsibility report in great detail. We're also developing new measurement capabilities that allow us to track each and every one of our sites in terms of progress. And we have KPIs for each of our sites. We have an internal system where every site gets a monthly reports of how it's doing towards its carbon emission targets. So, we are making a lot of progress.

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On safety in the Dead Sea, we're very much on track this year and in general, in recent years, we've had better and better safety results in the Dead Sea due to a lot of hard work of site management and a culture that is very much religious about safety. We have some sites that are not on their KPIs, but they are minority in ICL. And of course, we're putting the proper focus to make them all like the Dead Sea site, which is doing very well. It helps.

Rahi Parikh

Analyst, Barclays Capital, Inc.

Q

Yeah. That's it for us. Thanks so much.

Operator: This does conclude our Q&A session for today. Peggy, please go ahead.

Peggy Reilly Tharp

Vice President-Global Investor Relations, ICL Group Ltd.

Thank you. I'd like to thank you all for joining us today. And we look forward to speaking with you when we report our third quarter earnings in November. Have a good rest of your summer.

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