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ICL Group Ltd. (ICL.IL)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

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

... third quarter once again saw benefit from our strategic focus on our differentiated long-term specialty solutions, which was in addition to upside from commodity prices. We delivered record third quarter results on a consolidated basis for sales, operating income and EBITDA, as did all three of our specialties businesses. This quarter strong performance reinforces our recent Investor Day message as it reflects the significant contribution from our specialties businesses, which are expected to help us deliver long-term sustainable shareholder value. Well, we expect the road to get a bit rougher in the future. We know we have the right fundamentals in place to build on our strong momentum and to leverage the significant opportunities ahead of us.

On slide 3, you can see an overview of the quarter, which includes the records I just mentioned and also highlights one more as our Dead Sea operations achieved production records for the third quarter and on a year-to-date basis. In addition, we've had a record year-to-date operating cash flow totaling $1.6 billion, and our focus on long term cash generation resulted in very strong quarterly free cash flow of $429 million, which was up nearly 200%. Our year-to-date, adjusted net income was a record $1.9 billion, and our adjusted earnings per share for the quarter of $0.49 was up nearly 200% year-over-year, resulting in record year-to-date EPS of $1.55. We continue to return value to our shareholders through our policy to pay out 50% of annual adjusted income, which resulted in a third quarter dividend of approximately $0.24 per share. In total, ICL pay out $314 million dividend for the quarter.

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Now, please turn to slide 4, where you can see once again significant year-over-year improvement. Sales of $2.5 billion were up more than 40%, while adjusted EBITDA of $1 billion was up nearly 140%. EBITDA margin for the quarter increased to approximately 42%, up from approximately 24% in the third quarter of last year. We also generated more than $600 million of operating cash flow during the third quarter of 2022.

There's an overview of our third quarter results on slide 5, which really speaks for itself and Aviram will discuss in more detail later in the call. I now like to begin our segment review with industrial products on slide 6. Record third quarter sales were $437 million and up 13%, while record third quarter EBITDA of $170 million was up 40% year-over-year. We continue to achieve margin expansion as EBITDA margin improved to 39% from 31% in the third quarter of last year. This business continued to benefit from a strategic focus on value over volume, especially as end market demand remained mixed.

As a reminder, our bromine and phosphorus-based solution is going to almost everything from computers, appliances and cell phones to automotives, textiles and pharmaceuticals. Our products also represent key components in installation for homes and offices and are used as solutions for the oil and gas industry. It's difficult to find an end market where we don't make up a piece of the final puzzle, and this helps diversify our overall exposure.

During the quarter, we saw some softness in consumer electronics, as we've discussed on our previous call and from the construction industry as well as interest rates have continued to rise. We expect both of these markets to continue to moderate in the fourth quarter. Conversely, the oil and gas and specialty minerals end markets are expected to stay healthy in the fourth quarter. Clear brine fluids remain in demand, especially in the Middle East, which is a region that has become more significant for us following the signing of the Abraham Accords.

In the US, there is expected to be strong demand for magnesium chloride for the icing, as inventories, there are low and winter is approaching. Overall, our industrial products business saw higher prices, which helped to offset higher raw material costs, while bromine prices in China have declined from the peaks we saw at the end of last year and the higher prices we saw in the first half of this year. Third quarter prices were relatively in line with the third quarter of last year and have risen somewhat in recent weeks.

Turning to slide 7 and our potash business, where sales of $854 million were up more than 100% year-over-year. EBITDA of $537 million was up nearly 350% and EBITDA margin of 63% was up significantly over the 30% margin we reported in the third quarter of last year. As I just mentioned, our operations in the Dead Sea delivered record production for both the third quarter and the first nine months of the year. And as expected, our average potash price in the third quarter moderated from the second quarter.

However, average potash realized price per ton came at $652 or nearly $700 CIF, which was up $335 year-over-year. During the third quarter, we signed a long term potash agreement with a customer in Europe to supply 300,000 metric tons annually. We're also shifting our metal magnesium business to long term supply agreements and we already have approximately 50% of our production under contract for the years 2023 and 2024. This business delivered record third quarter and year-to-date profits as an enjoyed both higher prices and increased production. We've firmly established our position as a global partner of choice for mineral magnesium as our customers for this business have been looking for reliable and consistent supply, something we strive to leverage across all of our ICL.

Turning to slide 8 in our phosphate solutions division, where third quarter sales of $766 million were up nearly 30% year-over-year, while EBITDA of $239 million was up 70%. Once again, this business is saw record quarterly

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results for both commodities and specialties. We continue to maintain our strategic, long-term focus on driving specialty sales and profitability and are shifting to more long-term supply agreements.

For the third quarter, specialties made up nearly 60% of sales and more than 45% of EBITDA. Overall, significant EBITDA margin expansion was achieved, improving to 31% from 24% in the third quarter of last year. As phosphate specialties margin increased from 15% to 24%. For the quarter, higher prices helped offset significant increases in raw materials. Food solutions had a record quarter as we saw both higher prices and strong demand across all regions. Phosphate specialties for industrial applications were mixed by region, with lower demand in the EU and China, while paints and coatings did very well in the US.

The big news for phosphates specialties came after the quarter ended. In late October, we were awarded $197 million by the US Department of Energy to invest in our efforts to develop a sustainable supply chain for energy storage solutions. In total, we're building a $400 million plant in St. Louis, where we will produce high-quality lithium-ion phosphate material for the energy storage industry. This plant is expected to be operational by 2024 and to have two production lines with each capable of producing 15,000 metric tons of LFP material per year. This represents a significant expansion of our energy storage portfolio and demonstrates our commitment to being a key participant in the electric vehicle and energy storage solution markets.

We made our first entry into these markets in China through our YPH joint venture. While this business was somewhat challenged during the quarter due to a planned overhaul and unexpected export limitations. Demand for our food solutions and LFP battery materials remains strong.

Turning to slide 9 and growing solutions, formerly known as innovative ag solutions. This new name reflects how this business has changed over the past few years and how we expect it to continue to expand and grow. It better represents our growing portfolio of solutions and the fact that our business encompasses many different specialty categories as well as services. Our new identity also pairs us with our ultimate customers, the farmers who use our specialty products.

Growing solutions delivered a record third quarter with sales of $629 million, up 25% over the prior year. And EBITDA of $127 million, which was up 90%. EBITDA margin expanded to 20%, an improvement over 13% rate in the third quarter of last year. This record quarter also demonstrates the strong performance of our Brazilian acquisitions. We're very pleased with the seamless integration we've seen over the past two years and are looking forward to driving additional synergies as we continue to expand our product offerings both to and from this region.

Third quarter results also reflect a record setting quarter for our fertilizer plus products, which are based on organic polysulphate. ICL Boulby set new daily production records and has exceeded its 2021 production quantities. The site remains on track to achieve its 1 million ton target in 2022.

Our turf and ornamental results were slightly ahead of last year, with both businesses showing positive improvement in most regions. And like all of grown solutions, this business had to contend with both higher costs and lower availability of raw materials in the quarter. However, we have been able to offset these increases across growing solutions with premium price. During the quarter, we also made some announcements in the area of new products, R&D and for our digital ag offerings. Our investment in Lavie Bio, a leading ag biologicals company focused on microbian-based products, addresses all three of these aspects. Lavie Bio's unique approach leverages big data and advanced artificial intelligence and our collaboration with them focuses on developing novel biostimulant products to enrich fertilizer efficiency. Combining Lavie Bio's ag biologicals

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experience and cutting edge technology with our advanced knowledge of fertilizer use and farmers needs will help facilitate the development of new and innovative products for the agriculture industry.

Now, if you would turn to slide 10, I would like to update you on additional progress we've made in the areas of sustainability, innovation and leadership. For sustainability, we were once again cited for our human resources efforts. In Israel, we were included in the Economy Ministry's Diversity and Inclusion Index. And in Brazil, we were recognized by the Great Place to Work global consultancy.

Well, it is always a pleasure to be acknowledged for our efforts, it is especially gratifying when it comes to our own employees. During the quarter, we also became an early adopter of the United Nations Global Compact Communication on Progress. We are pleased to show our commitment to the UN's 10 principles and sustainable development goals and to be able to receive insights to help us identify any gaps in our sustainability efforts and improve our performance. We also once again improved our Sustainalytics and MSCI scores.

Finally just this week, we formally launched FruitMag a food grade magnesia product which replaces the toxic fungicides currently used to protect citrus fruits from decay. This product will help with post-harvest citrus preservation in a natural and safe manner.

FruitMag is also an innovative solution and enjoys several other products we've recently developed. This includes our exciting eqo.x product which is a groundbreaking rapidly biodegradable release technology designed for open field agriculture. It not only increases nutrient use efficiency, it also allows for similar or increased yields with reduced fertilizer rates. eqo.x is the first offering of its kind in the market to provide a controlled release fertilizer which biodegrades rapidly and was specifically designed to meet future European fertilizer standards set to go into effect in 2026.

This product joins Keep Green, our first biofertilizer which was developed in Brazil. Keep Green provides protection for coffee tree leaves against excessive solar radiation, and its use has been shown to result in a 9% increase in coffee tree productivity. Also in Brazil, we recently received accreditation for a second research institute from the Ministry of Agriculture. This accreditation is unique as it is exclusively in the area of plant nutrition, and allows us to expand our innovation efforts for new fertilizers and for the production of biofertilizers, among others.

We are pleased to be working with the Ministry to promote sustainable development and competitiveness in agri business for the benefit of the Brazilian society. We also announced several digital innovations over the past few months, including ICLeaf. This revolutionary diagnostic tool rapidly provides farmers with a personal prescription for maximizing yields, and allows them to make quick and data-driven decisions with immediate in-season improvements. Our Agmatix digital startup partnered with the Consortium for Precision Crop Nutrition to launch a unique global platform designed to drive international research collaboration and extend open access to crop nutrient data to farmers, their advisors and global policy makers. This platform serves as a critical open data resource for agriculture researchers and professionals to conduct field trials on soil fertility in crop nutrition, and will enable users to both contribute to and benefit from the data sets.

As we discussed during our Investor Day, we continue to focus on strengthening our leadership position across our specialties businesses. Foremost was our expansion into the energy storage solutions supply chain in the US, which I already discussed. However, this opportunity goes beyond our expansion in St. Louis to include one of the most significant innovations we're working on, the development of solid-state electrolytes based on bromine. We've already partnered with some of the world's leading technology companies and research institutions to try to bring this vision to fruition. In the meantime, we see new potential in liquid electrolytes, which are currently

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produced in China and based on phosphorus. As Europe and the US are looking to expand their supply chains in this area, we have been presented with a unique opportunity as a leader in phosphorus-based specialty solutions in both regions. We have production capacity available in Europe, and are building additional capacity in the United States in order to produce PCl3 and PCl5 for LiPF6 electrolytes. We believe we're well-positioned to become a leader in this space as we have the know-how, the capacity and the capability to develop the solution necessary.

This puts us in a unique position where we have the potential to be a significant part of the liquid electrolytes market in Europe and the US at the same time, and also work as a disruptor in the area of solid-state electrolytes. So, in the short- and mid-term, we're working on liquid electrolytes and raw materials for batteries, and in the long-term on electrolytes based on bromine solutions. In China, we inaugurated our new water-soluble NPK plant, which was completed in August after only eight months. The plant was designed to produce 30,000 tonnes of soluble fertilizers annually, of which approximately 5,000 tonnes of liquid fertilizers representing a new product for YPH joint venture.

During the quarter, we gathered our employees together to celebrate the 100th anniversary of ICL. The story of our humble beginnings is a remarkable one, with more chapters yet to be written. That would include the story of what ICL will look like as a company five years from now. And this brings us to slide 11 and a summary of our recent Investor Day and an overview of our updated five-year plan, which we believe puts us firmly on track to become a global leader across all three of our specialty businesses.

Towards 2027, we're targeting sustainable double-digit growth and continuous margin expansion. As you know, we executed on our 2020 plan, and delivered results much sooner than expected and with strong momentum. We plan to use this momentum to leverage the significant opportunities we see arising from the global sustainability challenges which impact each and every one of us. We have the right fundamentals in place, and are well-positioned to achieve our growth and margin expansion plans.

Finally, I would like to draw your attention once again this quarter to slide 12. We remain focused on the future, and are committed to growing our specialties impacts to the next level. I recognize it can become repetitive to say the same things each quarter. But there are three areas I would like to reinforce. First, we will continue to focus on the future and our long-term specialty strategy as this allows ICL to strengthen its leadership position in comparison to its more commodity-based peers.

Second, our performance in the quarter once again reaffirms our specialty strategy, and we expect to leverage our strong balance sheet to focus on the right business expansion opportunities. Finally, as we have passed the peak of the current commodity cycle, we now more than ever need to continue to keep our eye on the ball, remain focused on the future long-term cash generation and value creation for our shareholders.

Now as always, I want to thank the entire ICL family of employees all around the world for their hard work and contributions as we delivered record results once again. On a very sad note, the day after our last earnings call, the ICL family lost two members when Anat Tal and Nitzan Moshe died in a tragic car accident in Southern Israel. Anat was President of the Industrial Products Division and Nitzan was our EVP of Operations. Beyond their invaluable contribution to the company, Anat and Nitzan were first and foremost our friends and were always there to help and support us, managers and employees alike. They contributed significantly to building our strong foundations and will be sorely missed, forever part of ICL family. May they rest in peace.

I would now like to turn the call over to Aviram.

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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 14, I would like to call out a few additional highlights. Third quarter adjusted operating income of $928 million was up nearly 200%, and adjusted operating margin of 36.8% was up dramatically from 17.6% in the third quarter of last year. For the quarter, adjusted net income of $628 million was up more than 180% year-over-year.

If you will turn to slide 15, you will see an overview of the macro trends impacting ICL, our peers, suppliers and customers. Trends continue to evolve, and general uncertainty persists. Inflation remains high, due in part to soaring energy prices globally. The cost of living is higher overall, and this includes food prices. Global forecasts are being slashed for 2023, with slower growth expected into 2024.

Governments and central banks around the world are reacting to inflation, which is leading to rising interest rates. Many currencies are seeing a significant disparity versus the US dollar, which has for now maintained a position of strength. Supply chain disruptions remain an issue for ICL and our customers. We have continued to leverage our advantageous production locations and global supply chain capabilities, which have enabled us to provide our customers with consistent and reliable supply and to extend our relationships through long-term contracts. In the regions and end markets where we do business, we are seeing divergent trends. However, one factor remains in common, a continuation of geopolitical tensions. Despite this persistent theme, we've seen some moderation in commodity prices down from the peaks we saw in the second quarter of this year, and these trends are shown on slide 16.

Prices for potash are still elevated year-over-year, but have declined quarter-over-quarter. Phosphoric acid prices were stable from the second quarter to the third, while freight rates continued their downward trend, and are now in line with the first quarter of 2021. The biggest gap is for sulfur, which also declined to first quarter 2021 rates, but with a much more rapid and pronounced downward trajectory. While we were still able to offset high prices raw materials in the third quarter, you can expect we will see some pressure in the fourth quarter as we work through some higher priced inventory, especially for sulfur.

Turning to slide 17, where you can see crop prices remained high, reflecting the ongoing situation in Ukraine, and decades-low grain stocks. Farmer affordability also remains high, but uncertainty around high input cost inevitability, combined with rising interest rates is weighing on overall sentiment. During the first quarter, we saw fertilizer prices begin to decline from second quarter peaks, which followed the Russian invasion of Ukraine. It appears that approximately 80% of Russia's annual potash production should make it to market this year. And while it is taking a bit longer than it used to, it looks like roughly 40% of Belarus's products will find a home this year. This means a good portion of the global potash supply is still not getting to market, resulting in reduced fertilizer consumption, which raises the risk for significantly lower crop yields. This potential, combined with very low grain stocks, increases the risk for a global food crisis. Unfortunately, this outcome will impact the poorest among us, a scenario no one wants.

In addition to higher prices for food, consumers and businesses are being impacted by high energy prices. These increases have interrupted some industrial operations in Europe and other regions. While the situation in Europe may not be as dire as initially projected, markets remain mild and uncertainty going into the winter and next year.

On the left side of slide 18, you can see an improvement in sales coming from all four of our segments. On the right side of the slide, you can see the impact of higher prices on our year-over-year sales. For quantities, we saw a decline as we continue to focus on the value of volume for our specialties businesses. We have actively worked to expand our long-term agreements and maintain our premium positioning, while offering consistent and reliable

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supply to our global customers. One example of this strategy at work is apparent in our Phosphate Solutions business. Once again, we maintain our focus on specialty sales, which represented 59% of total Phosphate Solutions sales in the third quarter.

Turning to slide 19, higher prices also made a significant contribution to adjusted EBITDA. And once again, on a segment basis, all four of our businesses contributed to the year-over-year improvement with significant margin expansion and cash generation across the board. For Phosphate Solutions, phosphate specialties comprised 46% of the EBITDA for this segment.

I would now like to review a few highlights on slide 20. For the third quarter, our net debt to EBITDA ratio improved to 0.5 from 2 times in the third quarter of last year. As Raviv mentioned, we saw substantial improvement in both operating and free cash flow. We also continued to deliver sustainable shareholder value. For the third quarter, our annual dividend yield was 9.2% at the high-end of our group. One final note, our effective tax rate for the third quarter was 30%, and as we mentioned last quarter, following our settlement with the Israeli tax authorities, we expect our annual tax rate to be in the 30% range.

Turning to slide 21, I would like to call your attention to our 2022 guidance as we now expect our results to be at the upper-end of our previous ranges, which called for adjusted EBITDA of between $3.8 billion and $4 billion in total. And for our specialty business to contribute approximately $1.5 billion to $1.6 billion of that amount.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today will come from the line of Joel Jackson from BMO Capital. Please go ahead.

Joel?

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

Q

Can you hear me?

Operator: Yes. Go ahead.

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

Q

Oh, great. Thanks. I have a few questions. I'll try to ask them one by one. My first question has got multiple parts. In the Potash segment, can you talk about where you see potash prices – your realized potash prices shaping up in Q4? What's your comment on potash inventories around the world, including Brazil? Yourself, you've been building inventory in potash now for a couple of quarters. Would you expect you would also build potash inventory across Q4 at the ICL level? Thanks.

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

A

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Okay. Good morning, Joel. First on potash prices, we see in the US that the market is leveling out, and it seems that healthy demand is emerging now with price being about $600 currently. We see in Brazil that destocking has happened, and stock levels are returning to close to normal. There's still not abundant demand, but we see shipping lines gone down from 11 to 12 weeks to 1 to 2 weeks, and we see things normalizing there again around the same price level. Currently, Brazil and the US are the lowest price destinations for potash. And as we know around the world, things tend to level out over time. All-in-all, the deliveries this year are going to go down by about 8 to 9 million tonnes relative to last year, and we expect next year that they'll go up by about 5% relative to this year.

In terms of – so I talked about the price and inventory, we are not growing our inventory levels in ICL, so it's relatively marginal if we end up a quarter with operating levels of potash stocks. So, it's transitional, so nothing – and we're not building up inventory. We're – as you know we're a price taker, so we place our product where the best opportunity is, the best opportunity in the first half of the year was Brazil. So, we placed about 90% of our annual allocation in Brazil in the first half of the year. So, we continue to be opportunistic, and we'll sell where the price opportunity is the best and we don't intend to build up stock. Hope that answers.

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

Q

And then would you be able to give an idea – you must know your book for Q4 for potash. Would your average selling price be north or south of $600 a tonne maybe?

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

A

It'll be close to $600.

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

Q

Okay. That's helpful. Can you talk about the magnesium business, which no one ever talks about until last couple of years when it's always kind of been a loss leader, but now it's maybe a nice little kicker. Looking into 2023 and the way your different contracts work, do you have an idea of what magnesium earnings might be in 2023 versus 2022 and versus what we call mid-cycle?

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

A

Right now, we've contracted about 50% of quantities for 2023 and 2024. It's a little more than 50%, that's around 60% for 2023 and it's less than 50% for 2024. Those 60% are at a higher average price than this year. Magnesium business in the first nine months of the year has made $56 million operating income. It used to – I mean, the year before, it made a loss of over $30 million.

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

Q

Okay. That's really helpful. I think that's my questions Thank you very much.

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

A

Thanks, Joel.

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Operator: Thank you. Our next call will come from the line of Alexander Jones from Bank of America. Please go ahead.

Alexander Jones
Analyst, Bank of America

Q

Great. Thanks very much for taking my questions. Two, if I may, mainly around the LFP investment. I guess the first question is that you're already making raw materials for LFP cathodes in China. Can you give us some details on the profitability and returns of your activities, specifically in LFP in China? And then the second question is sort of translating that to the US. I suppose the difference at the moment in the US for you is you don't have captive source of raw material domestically. Do you see a risk that some of the domestic US phosphate players move into this space? And what barriers to entry do you see to protect your return in that scenario? Thank you.

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

A

It's a very good question. I'll start from the basics. Our profitability in China is around 20% in this business. Looking forward, the opportunity is higher, because we're leveraging the situation now that new supply chains are being built, and we're going further downstream, getting closer to customer and getting more value on our side. We have the right partnerships lined up, both on the raw materials side and on the customer side. So, it's sort of a closed-loop operation where when we go into it, we know the input and the output, and that takes into account the plans of some of our competitors, ultimately.

Some of our competitors are going to go into this business, because it's a relatively huge business, and it increases significantly everything that's based on white phosphoric acid. So, our competitors are also going to get into this business. We have not only a first-mover's advantage, but we're also at the next level where we're at downstream. So, it wouldn't be a surprise if we partner with one or more of our suppliers. Today also for our current specialties phosphate business, a huge chunk of our product comes from nutrient.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

And just to add for China, it's China for China.

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

A

Yes, China. China for China.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Because if we're doing in China, it's not export. It's to local battery manufacturers, LFP manufactures actually.

Alexander Jones
Analyst, Bank of America

Q

Thank you. Just a follow-up on your comment where you've got a huge chunk coming from Ukraine, are you able to give us a split for the specialty phosphate business of what share of your raw material is internal versus externally sourced? Thanks.

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

A

The internal – the overall internal is about 55%. But in North America, it's much less than that. Over 50% of our supply in North America is based on third party, and a huge chunk of that is nutrient.

Alexander Jones
Analyst, Bank of America

Q

Right. Thank you.

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

A

Thank you.

Operator: Thank you. Our next call comes from the line of Ben Theurer from Barclays. Please go ahead.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Hey. Good afternoon. You can hear me?

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Yes.

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

A

Yes.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. Well, thank you very much for taking my question. Wanted to follow up a little bit on the outlook you've presented and the challenges to overcome and the price environment, and obviously, with – in light of what you've talking about some of the long-term contracts you're targeting for with your customers. Can you talk us through how you think about 2023, maybe early stages, just given what we're seeing on the crop economics being very favorable, but then at the same time we're seeing some of the prices coming down? So, how flexible or what does that mean for some of your long-term contracts and relationships with your customers? Thank you.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Okay. Hi, Ben. It's Aviram. You asked I think quite a wide question. The answer to that is I have to go by the different markets. First of all, I think in the agricultural world, it's one picture going into 2023. And again in the agricultural, it's – I think there will be quite some difference between let's say our stimulants side to the potters side to all sorts of things that make up the agricultural, and the other markets it's a different story.

Now, the way we look at it is the following. First of all, when we look at 2023 for now, generally speaking, the issues that haunt or bug the world in late 2022 don't seem to find a solution. It can be the, I would say the sticky

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inflation, the energy prices, the geopolitical issues going all the way to currencies. I think the macro side would suggest that for now, for lack of more clarity or any change in direction, it'll be similar to what is with us in let's say the second half of 2022. What can be different, and again going by the markets, is I think generally the world is learning to cope with the new reality. It was a novelty in the first half of 2022 leading to a lot of, I would say exaggerations on multi things. And later on came second half in a way which you can look at it, there's some correction to the first half. 2023 should be at least analytically less volatile.

Going by markets, on the agricultural side, there were some things that were not done in 2022 and will have to be done in 2023. We'll have to wait and see how the yields behave. Generally speaking, there is a belief that they will be impacted, which means that quantity-wise, there will be some return to higher quantities.

The price should be, I think, Raviv answered this to – previously to linger around let's say around the 600 – I'm talking potash now, which means that if commodities are high – agricultural commodities and potash is more affordable usage should be higher, I think this is the general opinion of the big companies that make up this space. When you look at the – and this is the agricultural side. When you look at the industrial product side, again, as we reported now, there are some areas which are doing extremely well and some still are impacted by high interest rates and or lower demand. I think that for the electronics side that it is destined to continue for quite some time, for the building side. Again, high interest rates will lead to a tapering there. So I don't think there will be much change on that front.

Moving over to the phosphate specialty side, I think we have a very good story and this continues in most things that we do, I would say apart from things that have to do with the more, let's say novel part, the proteins, et cetera, which it seems that in this environment the appetite of our big customers to go into new things will be somewhat diminished and we put it all together. I can go basically on and on. We are seeing a year, a 2023 as a solid year, however, with not as explosive as the beginning of this year and with less, hopefully volatility next year. That, of course can change by very quickly with the external factors, especially the geopolitical one affecting us. On China, by the way, one last thing, the restrictions that are being imposed from what I basically read. Generally there is no – nothing to suggest that this will be sort of relaxed next year. So I hope I did the total result of things that we believe are there.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Perfect.

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

A

Maybe to sum it up by minerals, I think that on potash and phosphate, we expect the markets to continue to be tight next year with basically Belarusian product missing on potash and some of the Chinese products missed on phosphate. On the bromine side of things, since we're significant – since we're market leader. We don't expect a significant fluctuation of prices on the renewals of contracts next year.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV

Q

Okay. Perfect. And then just one last one. And thank you very much for all that. I mean, clearly, it's a strong year. And you showed this on the cash flow side and the specialty business being growing a lot. Do you still consider and would you think of looking into opportunities maybe to accelerate the growth by focusing maybe some M&A capital into the specialty business, just taking advantage of the commodity environment, good cash flow. And

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we've seen it in the quarter to just reinvest that maybe into growing pieces within specialty, is that's something on the table for next year, you think there are some opportunities?

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

Of course, Ben. There's a growing amount of opportunities given two things that are happening. One is the very high level of liquidity, even though we already returned a $1 billion to shareholders this year. We have growing liquidity and a strengthening of the balance sheet and at the same time, the world is going a little nuts and opportunities are coming by, by the day. So that doesn't mean that we're going to buy everything that comes by. But we want to be very focused and go to the right accretive acquisition, just like we did when we took advantage of an opportunity during COVID and acquired to excellent Brazilian companies that have become a significant part of our growing solutions DNA. And we want to – that made us even – that made us – our appetite even bigger. And we definitely are looking at M&A and hopefully it's in the cards.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV
Q

Perfect. Thanks.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Just if I may Ben. Just to add that, if you think about this analytically, what's going on the story of the very much tightening of the capabilities and the abilities in the financial side is I'm not sure it is yet well understood by a lot of bodies that tend to think that times are as in the past. As time passes and that's why for us it's critical because we've a very strong balance sheet with very, very focused strategy. It analytically – it would seem that there would be more opportunities in the near future rather than less, because I think still multiples are things people are not exactly realistic on valuation. And I think this is coming, it's going to be more and more clear in the coming period.

Benjamin M. Theurer
Analyst, Barclays Capital Casa de Bolsa SA de CV
Q

Okay. Thank you very much.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Welcome.

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

Thank you.

Operator: Thank you. [Operator Instructions] Our next question today will come from a line of Mubasher Chaudhry from Citi. Please go ahead.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.
Q

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Hi. Thank you for taking my questions. The first one's on the potash side of things. Can you please talk about the Indian and the Chinese potash contracts? Assume you've been part of the discussions. Just interested in what level those contract prices are coming in at and what levels we should be expecting for 2023?

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

A

I don't – go ahead, sorry.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Sorry. The second question is, on the third quarter of volume declines in [ph] IP (00:44:23), I think it's from 1Q to 3Q. It's had volume declines every quarter. Just wanted to check up on the outlook both from an ICL's own production side of things and then how demand is progressing as we head into the fourth quarter and then in 2023?

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

A

Okay. So with contract prices, there's been initial discussions. We are not the major players in these discussions. So I have a limited amount of information. I don't think that there have been significant exchanges regarding pricing yet. But the schedule seems to be clear to everybody that it's shaping into first quarter contracts.

The Indian situation is a little more urgent, meaning that India doesn't have the required inventory that is needed for the next season. So that may accelerate things somewhat. There have been situations like last year when India signed contracts before China and also got a better price to an extent. So that may happen if not – if it's a Chinese contract first then we're looking at around the Chinese New Year. And if it's India led contract, it'll be beforehand. That was on potash contracts.

Regarding quantities, so first of all, potash quantities went up and so did phosphate quantities, phosphate specialty quantities went up significantly in the quarter. Where we see the lowering of quantities, there two places that I would call out, one is around bromine compounds where first of all, our view of the world is value over volume. And second, we're in annual contracts where – when there's a significant over demand in the first parts of the year, then there's less quantities left for the backside of the year.

And also seasonally, fourth quarter – third quarter and fourth are weaker with fourth quarter expected to be even less than third quarter. But it's perfectly normal cycle, Again value over volume. In phosphates, the quantity declined, this quarter has to do with situation in our joint venture IPH because of an overhaul of two weeks and also export restrictions which caused us to accumulate inventory but that's temporary.

I can tell you that we worked through the export limitations and it looks totally different than in October. So, overall if you look at the nine months – over the nine months we've had the significant increase in volumes and specialty phosphates and we haven't accumulated any phosphate commodity inventory. In potash, again totally transitional if there's a little bit of operational inventory.

And in bromine compounds like I said it's value over volume. So, overall we see quantity is increasing in all of our businesses, in growing solutions we've said in the past that part of our results improvement is that we're selling less third party products, so we're selling more of our own products and less third party products. And the result is that you can't really see the quantity increase – the quantity is increasing. So, it's increasing in three of our four

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businesses, the only place where there is no increase in – the only place where there is no increase in quantities this year is in bromine compounds and our industrial products division, again value over volume.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

That's very helpful. Just to coming back on the potash contracts, is there any kind of expectation on your side for what the president could be coming out of that? I mean I've seen headlines talking about the contract prices starting with a fall. So, yeah.

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

A

I don't think it would be prudent, but of course we don't even think of anything that starts with a four. We don't have that in our mine process.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

Understood. That's very helpful. Thank you.

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

A

Thank you.

Operator: Thank you. That concludes our question and answer session for today. Please proceed.

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

All right. Thanks all for joining us. We appreciate your attention and look forward to reporting back to you next quarter. Thank you very much. Have a great day.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

Thank you.

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