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S&P Global Market Intelligence Estimates

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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the ICL analyst conference call. [Operator Instructions] 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.

Peggy Reilly Tharp
Vice President of Global Investor Relations

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 website at icl-group.com. Earlier today, we filed our reports with the securities authorities and the stock exchanges in the U.S. 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.

We will begin with a 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 & CEO

Thanks, Peggy, and welcome, everyone. Today, we're proud to report record annual results for 2022 with sales of more than $10 billion and EBITDA of more than $4 billion. All 3 of our specialty solutions businesses delivered record performance in 2022 as we benefited from the results of our long-term strategy. We also saw very significant commodity upside at several macro events collided.

First, the Ukraine-Russia conflict greatly impacted global agriculture in 2022 and resulted in elevated grain prices, which in turn drove prices higher for crops and livestock. The global grain stock-to-use ratio ended in 2022 at its lowest in more than a decade and is forecasted to remain tight into 2023. Due to global concerns, increases in fertilizer prices accelerated in the first half of 2022, but moderated in the second half. There was an estimated 5% decline in global fertilizer consumption in 2022 and farmers who skip treatments will need to reconsider their decision in 2023.

Farmer affordability and sentiment improved towards year-end. And as there is rising concern over global food prices, fertilizer volumes are likely to trend upward in 2023. In December, the Purdue University Ag Economy Barometer jump and the biggest improvement came from farmer's assessment of their current conditions. Farmers were more positive about the future in December and showed improved sentiment regarding their financial conditions. Meanwhile, consumer spending batters shifted as inflation and interest rates reduced buying power. While the effects has varied originally, they impacted some key end markets for ICO such as electronics, housing and automotive.

The recent reopening of China will influence developments in the months to come as will the increased momentum in ESG-related spending. The electric vehicle revolution remains a bright spot as countries continue to invest and compete in mobility transformation technologies. Finally, supply chain issues eased in recent months, and current trends indicate additional improvement in 2020.

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Let's turn to ICL's results on Slide 3, where you can see an overview of our record year, which was capped by a record fourth quarter. In addition to the annual sales and EBITDA achievements I mentioned, we also saw record annual production of more than 4 million tons of Dead Sea. We delivered record cash flow for the year of $1.3 billion, which was up more than 180%. Operating cash flow for 2022 of more than $2 billion was up 90% versus the prior year. In 2022, adjusted diluted earnings per share of $1.82 was up more than 180%. We also delivered cash directly to our shareholders in 2022 as we declared $1.2 billion of dividends and $0.91 per share for 2022. Importantly, we took advantage of our record year and resolved several outstanding challenges, which Aviram will discuss in more detail later in the presentation.

Now please turn to Slide 4, where you can see historical trends for some of our key financial metrics. Literally, 2022 was a remarkable and somewhat abnormal year just as 2020 was during COVID. While we appreciate the good fortune we experienced in 2022, we remain focused on our long-term transformation. We believe our growth trajectory going forward, especially for our specialties businesses will be more in line with the longer-term trends seen on the slide. While we do not have control over commodity markets and prices, we do know that our specialty solutions provide us with a level of normalcy amidst the external noise. This is the benefit of our strategy, and we look forward to delivering stable and consistent growth over the long term by executing against our recently presented 5-year plan. But improving our results will not only be financial [indiscernible] 0:05:58.

On Slide 5, you will see that sometimes it is a good thing to report a downward trend. Sustainability remains a critical part of our mission and our future. I'm very pleased to report we have seen significant improvements across the board in the areas of safety and the reduction of GHG emissions. With safety, our incident rate continued its downward path for the fourth straight year in a row. Going back a bit further to 2018, we have achieved an 18% reduction in GHG emissions since that time, ahead of our stated target calling for a 30% reduction by '23.

Slide 6 goes into more detail about our substantial year-over-year financial improvement. Throughout 2022, we continue to drive growth and cash flow generation. Notably, I'm pleased we were able to share our record year with all our stakeholders, including the communities where we lived and worked. I'm proud to include this data as well as point out that we managed to keep our overall expenses flat. Please notice that we incorporated some other nonfinancial metrics and track regularly.

On Slide 7, there's a stellar overview of our fourth quarter results. We saw a return to more traditional fourth quarter seasonality in 2022 with many of our suppliers and customers also seeing similar trends at year-end.

I would now like to begin our segment review with Industrial Products on Slide 8. Record annual sales of $1.766 billion were up nearly 10%, while record annual EBITDA of $689 million was up nearly 40% year-over-year. We continued to achieve margin expansion as EBITDA margin improved to 39% for the full year and 32% for the fourth quarter. Fourth quarter sales and EBITDA were down year-over-year as the fourth quarter of 2021 did not experience more traditional seasonality due to -- out of the ordinary abundance of mid-COVID demand in the electronics and construction end markets, as well as out of the ordinary production constraints of competitors.

Throughout 2022, higher prices helped offset higher raw material costs as industrial products maintain its strategic focus on value over volume. As 2022 progressed, end market demand diverged. Weakness in electronics accelerated in the second half of the year as [indiscernible] 0:08:26 struggled with inflation, while the construction market suffered from both inflation and higher interest rates. As a result, our customers ended 2022 with increased inventory. The oil and gas industry saw significant demand since the Ukraine Russia conflict, which benefited our clear brine fluids business. Our Specialty Minerals business remained stable throughout 2022.

Turning to Slide 9 in our Phosphate Solutions division, where we reported record annual sales and EBITDA of $3.106 million and $966 million, respectively, with record specialty sales and EBITDA for both our Food and Industrial Solutions. For 2022, Specialties made up nearly 60% of sales and 45% of EBITDA. We also saw record annual sales and EBITDA for our phosphate commodities business and had another record year at our YPH joint venture [indiscernible] 0:09:21.

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Throughout 2020, higher price and demand helped offset significant increases in the prices of raw materials. Another trend for 2022 included the persistent supply chain challenges, which did not ease in the fourth quarter and are expected to linger into 2023. Finally, the big news for Phosphate Specialties in 2022 was when the U.S. Department of Energy awarded ICL $197 million to invest in developing [indiscernible] 0:09:50 materials plant for high-quality LFP batteries. This is part of a new sustainable supply chain for energy storage solutions.

On Slide 10, you will see our potash results, where annual sales of $3.313 million were up nearly 90% year-over-year, while EBITDA of nearly $2 billion was up significant. Clearly, we benefited from commodity upside in our Potash business, but we also maximized our opportunities throughout 2022 and added long-term contracts. As I previously mentioned, our operations of dead sea delivered record production for 2022 of more than 4 million tons as our team overachieved in terms of operational excellence, and we also saw improvement in our Spanish operations.

Our average Potash realized [indiscernible] 0:10:40 came in at $643 for 2022, which was up more than 90% over 2021. For the fourth quarter, we achieved $564 per ton, which was up 16% or more than $75 versus the fourth quarter of 2021. Our metal magnesium operations delivered record sales and profit as this business like the rest of ICL, shifted to more long-term contracts and also benefited from higher prices.

Turning to Slide 11 in growing Solutions, which delivered record annual sales of $2.422 million and EBITDA of $448 million. These results were achieved in part as we successfully integrated our Brazilian acquisitions. Our Fertilizer Plus products, which are based on organic polysulphate delivered on all fronts, record annual production, sales and profit. We are pleased to see all of the hard work of this team over the past few years come to fruition.

Throughout 2022, our growing solutions division introduced multiple sustainable new products, and these efforts helped us increase our sales in Brazil and Asia. Nevertheless, EBITDA was lower in the fourth quarter due to a decrease in fertilizer demand during the latter part of 2022.

Now if you will turn to Slide 12, I would like to quickly remind you about the progress you made in the areas of sustainability, innovation and leadership during 2022. This was an amazing year with an array of new products, third-party recognition and achievements. I cannot say enough about our team at ICL, constantly working towards the next level and their efforts do not go over.

Finally, I would like to draw your attention to Slide 13 and our outlook for 2023. For our industrial products business, which covers a vast and varied number of end markets, we expect to see a stronger second half of the year. For phosphate solutions, we expect to leverage our LFP expansion in St. Louis to build partnership with some of the premier automotive names in the world. In our potash business, we expect to see improving affordability benefit both farmers and suppliers.

This will extend to our growing solutions business where we plan to continue growing our market share in more diverse end markets. As we formally wrap up 2022, I want to thank the entire ICL family of employees all around the world for their hard work and contributions. While I'm proud of this record year, I'm also very excited about the challenges and opportunities ahead in 2023.

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

Aviram Lahav
Chief Financial Officer

Thank you, Raviv, and to all of you for joining us today. Let us get started on Slide 15. While Raviv already addressed some market trends and our outlook, I would like to call out certain macro highlights impacting ICL [indiscernible] 0:13:34 suppliers and customers. While inflation has moderated somewhat, it remains high. The cost of living sold in 2022 and consumers ended the year paying more of food and energy, especially in Europe. Across the many regions and end markets where we do business, trends diverge in 2022 and the variances became more pronounced as the year progressed.

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In general, growth has tempered on a worldwide basis with conditions expected to continue in the first half of 2023. While commodity prices are moderating from the peaks we saw in the first half of 2022, fertilizer prices remained elevated when compared to recent history. On the sentiment recovered as 2022 came to a close and affordability also began to improve. Supply chain disruptions appear to be easing for the most part, but there are some remaining constraints. Our phosphate specialties business is still facing challenges, and these are expected to continue in the near term.

Finally, the geopolitical situation remains uncertain with no resolution to the Ukraine-Russia conflicting site after nearly 1 year. Meanwhile, as Raviv discussed, the recent reopening of China is going to influence developments, demands to come and how this will evolve is yet to be seen.

On Slide 16, you can see the chain in commodity trends with prices moderating but still ahead of previous levels. Potash prices are back in line with the third quarter of 2021 as the prices for phosphoric acid rate continued to stabilize and has returned to pre-COVID rates. Sulfur prices return to levels not seen since early 2021. Throughout 2022, we were able to offset higher prices of raw materials. However, like many of our bills, we are now working through higher-priced inventory, and this trend is expected to continue into early 2023.

Turning to Slide 17, where you can see that while crop prices declined somewhat from recent [indiscernible] 0:15:43, they remain ahead of pre-COVID levels. The grain price index was somewhat stable throughout 2022, while the fertilizer price index rose sharply in the first half and declined rapidly in the second half of the year. As Raviv already mentioned, the global grain stock-to-use ratio ended 2022 at its lowest in more than a decade. Finally, while still elevated energy prices came down at year-end.

On the left side of Slide 18, you can see the improvement in annual sales came from all 4 of our segments, and we delivered more than $10 billion in total sales, a record-breaking year. On the right side of the slide, you can see the impact of higher prices for our year-over-year sales, which helped us offset a negative $353 million exchange rate impact. While potash benefited from significantly higher prices, our specialties businesses also delivered improvement versus the prior year.

Turning to Slide 19 and our annual adjusted EBITDA, which was more than $4 billion, also a record. Once again, you can see the impact of higher Potash prices on the left side of the slide and higher prices overall on the right side. On a segment basis, all 4 of our businesses contributed to the year-over-year improvement.

Turning to our fourth quarter results on Slide 20 where the picture is a little different. On the left side, you can see industrial products experienced a year-over-year decline in sales when compared to an extraordinary quarter in 2021. Some end markets, such as consumer electronics and housing were impacted by inflation and higher interest rates. For 2022, we also saw a return to more traditional fourth quarter seasonality and in other businesses as many of our suppliers and customers also returned to more historical trends at year-end.

Let's take a look at our fourth quarter EBITDA on Slide 21, which demonstrate the trends similar to say specifically on the right side, I would like to call out the pricing was able to offset not only the no volume, but also increases in raw materials, energy and transportation and a negative exchange rate impact.

I would now like to review a few highlights on Slide 22. At year-end, our net debt-to-EBITDA ratio remained at 0.5x. As Raviv mentioned, we saw substantial improvement in operating a free cash flow both for the year and the quarter. We also continued to deliver sustainable shareholder value with our annual dividend yield at nearly 10% at the high end of our peer group.

Additionally, we took advantage of the favorable market conditions in 2022 to set an outstanding dispute concerning this really low for taxation of profits from natural resourcing. As we've previously discussed, we expect our annual tax rate to be in the 30% range going forward.

Finally, turning to Slide 23. I would like to call your attention to our 2023 guidance. We are targeting adjusted EBITDA of between $2.2 billion to $2.4 billion in total and for our specialty business to contribute approximately $1.1 billion of that amount.
And with that, operator, we can begin the Q&A.

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Question and Answer

Operator

Thank you. [Operator Instructions] Our first question today comes from the line of Alexander Jones from Bank of America.

Alexander Jones
BofA Securities, Research Division

2, if I may. The first on the balance sheet, I guess, you mentioned net debt EBITDA at 0.5x. Have you thought about using that to create additional shareholder distributions, either in the form of extra dividends or even share buybacks?

And then the second question on industrial products. I guess volumes down 30% year-on-year this quarter. Was there any element there of you sort of somewhat curtailing volumes to give support to the market prices as we might have seen in the past? And if so, how long do you think that might last? And what does that tell us about sort of the price outlook for your industrial products business in 2023?

Raviv Zoller
President & CEO

So, I'll start from the second question and then I'll go back to the first because Aviram will want to add to that. In terms of industrial products, the seasonality is the usual seasonality that we see every end of year. Last year, in the fourth quarter of 2021, we had an out of the ordinary quarter for a few reasons. One reason was, it was the peak of the hike of buying TVs and other home appliances that require certain flame retirements, building and our customers building inventory to get through supply chain challenges. So there was an extraordinary demand even beyond our annual contracts.

At the same time, our competitors had some production issues, everything from a hurricane bad weather effect and force majeure on chlorine production. And the result was an outstanding quarter. If you look at the previous years, you'll see that every year, there was a seasonality in the fourth quarter. Coming back to the curtailments, I wouldn't call it curtailments, I would call it value over volume strategy. Our strategy is that at a certain price, it makes more sense for us to keep our product because we feel that we can sell it at a higher price later.

So we don't -- we're not looking to increase our market share. We're looking for maximum value creation. And what we expect is that in the first few months of next year, we'll see some softness around flame retardants for electronics and construction, some somewhat balanced by a peak in demand for clear brine fluids and some flame retardants that have to do with electric vehicles. And that's why we're saying that after a few months in the first half of the year, we expect that the normal cyclicality will bring a stronger second half. Second half, not like 2022, which was an exceptional year, but a second half that will bring this year's industrial products division performance to somewhere around the 2021 performance. So that's on industrial products.

In terms of capital allocation, dividend and buyback, we said on the last conference call that we came to a conclusion that 50% to 60% is what we feel that we can distribute safely in a way that will allow us to execute on our 5-year plan with the resources we need for M&A and other needs, capital expenditures, et cetera. Every end of the year, we debate in our Board of Directors about what the right kind of distribution is and we are debating the issue of a buyback and whether to bring that into the potential 60% distribution. So as soon as we'll have news that we can formally communicate then we will communicate either way, of course. Do you want to add to that?

Aviram Lahav
Chief Financial Officer

Just one thing. It's about like we check ourselves as we constantly look at the market and we find ourselves at really the upper part of the companies that pay back to shareholders already at 50%. If

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we had to stretch that beyond that, that would be something quite exclusive, so. But we are constantly monitoring this, and it's not off the table for sure.

Raviv Zoller
President & CEO

And maybe one more thing I would add is that you see we created free cash flow of $1.3 billion this year, and we distributed about $1.2 billion. The realistic free cash flow was a little more than that because we used over $250 million to take care of some previous year items, namely the tax dispute that we had for many years. The [indiscernible] 0:24:53 profit levy in Israel as well as we closed some environmental issues that we had from 2017 and before. So we had some other use for cash in 2022. And at the same time, we're starting 2023 in a much better place, very, very, very strong balance sheet and also a clean slate with some challenges that we had in the past. Hope that answers.

Alexander Jones
BofA Securities, Research Division

Just maybe to follow up on the buyback discussions you're having? Do you have any time line that we should bear in mind for hearing about that either way?

Raviv Zoller
President & CEO

Yes. The time line is before we report -- well, let me put it another way. Latest, we will report back to you on this when we report our first quarter results, latest.

Operator

Our next question today comes from the line Ben Theurer from Barclays.

Benjamin M. Theurer
Barclays Bank PLC, Research Division

And first of all, congrats on a record year in 2022. As well, 2 questions, if I may. First, just looking into 2023 and some of the demand drivers you're seeing out there and what you're seeing on the contracting side, can you share a few insights or maybe anecdotes what you're seeing for demand in the different segments? You've laid out a little bit of trajectory on the industrial side, but also more on the commodity piece, but also just the seasonality you used to have. How should we think about the cadence into 2023 from a demand perspective? That would be my first question.

Raviv Zoller
President & CEO

Okay. Thanks for the question. Since I discussed industrial products, I'll say that on phosphate specialties and growing solutions, we'll see the same kind of seasonality that we have every year, which means pretty flat all through the year with a little bit of softness on the fertilizer side in the fourth quarter of next year. In terms of commodities, lately, I would say since November, we see healthy demand in some markets. namely in Brazil, there's very strong demand. And even now, which is the 15 of February, we already sold over half of the annual allocation of potash to Brazil to be delivered in the first half of the year, which means that there's ample room to sell a lot of commodity.

We're pretty sold out for first quarter. We're sold out on potash for the first quarter. We're still down on phosphate until the end of the second quarter. If we look back to previous years, that's more robust than in the past. The lowest price in the world right now is in the U.S., which is why we're not selling in the U.S. I think we sold only a few thousand tons that we had commitments to the U.S., but we have no reason to sell in the U.S. at this point. Brazil very healthy.

India needs product. China, there's still inventory contract in India is going to be soon. Contract in China, I honestly don't know. I don't think anybody is in a rush at this point since, like I said, they're healthy markets to sell in. In terms of India, even though I said this very soon, we're in no rush because we don't

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have any product left for the first quarter. So we don't mind if it takes a few more weeks. But I think that it will be relatively soon because I think India needs products. I hope that gives a little color.

Aviram Lahav
Chief Financial Officer

I would maybe Ben, just to add one thing. If you look at a few things, first of all, at the price of commodities, agriculture commodities, they are high, and they remain high. You couple it with the reduction that happened in fertilizer prices, both the sentiment that's being tracked by [indiscernible] 0:29:32 among others, and also the affordability for the farmers is much better. And if you couple it with the fact that some of them in certain areas have omitted to commit fertilizers, then you have the ingredients that will make quantity-wise, 2023 may be significantly more robust than 2022.

So you'll have more quantity somewhat lower prices than we were used to before. And ultimately, this should pick up closer to the agricultural season to the height of the culture seasons. If it makes sense to you.

Benjamin M. Theurer
Barclays Bank PLC, Research Division

And then the other question really just a more long-term strategic. And if we take a look at the cadence and if we were to just exclude '22 for a moment, it's a very abnormal year, as it's been described, when we take a look at the cadence of the growth of EBITDA over the last couple of years from what we had pre-pandemic, particularly the specialty business, basically expected to be close to double where it was prior to the pandemic.

If we think about what you need to achieve your 27 targets you've laid out just a few months ago. Is it fair to assume that just as markets continue to work out that with the assets you have and the focus you have and the investments you do organically, that's enough to achieve the targets? Or should we think of the need to add on a little bit on the M&A side to really drive this business to the profile you are looking for in about 3, 4 years' time?

Raviv Zoller
President & CEO

Well, thanks for that question. I think the way to model it, and again, we gave the numbers in our 5-year plan that we presented, like we doubled in the last 5 months, we're looking to double in the last 5 years, sorry, we're looking to double over the next 5 years. In terms of profit margin, the profit margins that are reflective of the long-term business or more like the profit margins in 2021 than they are in 2022. But the double-digit growth in specialty sales will continue, and there will be some margin incremental increase every year. Of course, there will be some movements that are not controllable. But over the long run, there will be some margin expansion in the specialties businesses.

So if you model special -- if you model specialty phosphates and the growing solutions based on middle double-digit margins with the sales growth that we've seen in the past, you will get to the numbers. If you add to them, M&A that will account for about 30% of the revenue growth in growing solutions and about 15% in the growth of phosphate specialties. I hope that's not too much information. As far as industrial products is concerned, the growth will be organic, unless there is some unexpected development. We don't need M&A to hit our targets. We have a relatively aggressive target for industrial products, but we have a very detailed outline plan that we feel confident about.

So our R&D is in place, their operations in place. The plans that need to be built are either in planning or being built. We have tremendous new opportunities in specialties because of what's happening in the electric vehicle space. And other than commodities, which will be cyclical, and we'll be happy to get -- we'll be happy to get same conditions as 2022, but we're definitely not counting on them. So long term, margins will go back to 2021 margins for now. They will incrementally increase every year until 2027. And the growth will be organic other than 30% M&A and growing solutions and 20% in phosphate specialties.

Aviram Lahav

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Chief Financial Officer

Ben, if you think about M&A especially in the agricultural side, it can come by 1 of 2 ways. It's either portfolio, all geographies or both of them. So we speak a lot about portfolio, but we also have massive plans about geographies. And it might be that we will opt to shortcut and do some M&As in order to support geographies as well. So very little mind, we have -- it's a new 5-year plan but definitely looking and we're looking in all directions. As long as it's synergetic, as long as we can add value to the acquisition of an acquisition per se.

Operator

Our next question comes from the line of [indiscernible] 0:35:04 from Citi.

Unknown Analyst

Firstly, on your specialties guidance, $1.6 billion this year, 1.1 billion next year. Can you give us an idea on the bridge breakdown between the different specialties divisions, that would be great. And then my second question, on the flip side, obviously, that implies a commodities contribution of $1.1 billion to $1.3 billion. What is your potash ASP that you're baking in to arrive at that guidance?

Raviv Zoller
President & CEO

Okay. So like I said before, when you look at industrial products, then we're looking at numbers that are almost identical to 2021 with the exception that the seasonality will be different, given that we're starting the year with a slow start, second half to be higher. On specialty phosphates and growing solutions, we'll see a growing trajectory through the year, but we'll go back to the 2021 margins for the year. So that's the way to think about specialties, and that's how we got to the $1.1 billion, which is a conservative estimate for the modeling that I just talked about. And again, some of the upside will be in the second half of the year because of industrial products.

On commodities, the way to maybe look at it is that if you look at -- if you look at the fourth quarter, $700 million of EBITDA, and you multiply that by 4 and get to $2.8 billion for the year. And given that we expect a couple of hundred million upside on specialties, and that means that we get to the upper side of our guidance, you need to take out about $600 million, $600 million would reflect the downside on commodities and of course, about 80% of that comes from potash. So you get to close to the $500 number for sales price of potash.

Operator

Our next question comes from the line of Joel Jackson from BMO Capital.

Joel Jackson
BMO Capital Markets Equity Research

I have a few questions. The first one is technical. I'm confused by your specialties guidance for 2023. So you -- sorry, if I look at Slide 23 and Slide 19, but Slide 23. So I meant 2022. So you say that specialties was $1.6 billion EBITDA for 2022, correct? Slide 23.

Raviv Zoller
President & CEO

Yes, 1573 if I remember correctly.

Joel Jackson
BMO Capital Markets Equity Research

But when I add up the 3 segments, right, growing solutions, phosphate solutions and IP, I get to $2.1 billion EBITDA, which is what you're seeing in several places is specialties. Is there some part of those 3 businesses? Like are you excluding phosphate commodities?

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Raviv Zoller
President & CEO

You're adding the phosphate commodities. You have all the details in our press release.

Joel Jackson
BMO Capital Markets Equity Research

I do. So what -- can you just bridge me the $2.1 billion to the $1.6 billion? What is the $500 million coming out of it? Can you bridge that for me please?

Raviv Zoller
President & CEO

Phosphate commodities, it's in the phosphate --

Joel Jackson
BMO Capital Markets Equity Research

So, you did $500 million commodities.

Raviv Zoller
President & CEO

In the phosphates solutions business, yes. It's just phosphate commodities.

Aviram Lahav
Chief Financial Officer

I can do that for 2022, if you want to. We can do this off-line.

Joel Jackson
BMO Capital Markets Equity Research

That's fine. I just want to make sure it's understood. Okay. And then the other question on the potash segment. You talked about maybe averaging about $500 pricing in '23, which is what you're saying for -- is implied. What about volume for the potash segment? So what should we expect in '23? What kind of production can you do from the different assets?

Raviv Zoller
President & CEO

We're expecting production of about 4.8%, and we're assuming sales of 4.8%. We do have some capability to go down on inventory and go up to 4.9%. But in terms of modeling, we modeled 4.8%.

Joel Jackson
BMO Capital Markets Equity Research

And then you get over -- you get to what, 5.1% or 5.2% by 2024?

Raviv Zoller
President & CEO

Not by 2024. We get to 5. -- we get to 5.1 by 2026.

Joel Jackson
BMO Capital Markets Equity Research

2026. Okay. And then I know that you are -- you always saying you typically followers in some of these larger potash contracts that mixes get settled by the buying consortium in China and IFCO-PL, etcetera. In India, you typically follow, we're getting into [indiscernible] 0:40:33 approaching contract season. Anything that you can talk about from what you and your team here is about the Indian contract? Is it going to be -- do you think it's going to be fellow Russian settling something than the other suppliers

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coming in a different tier pricing? Do you think it's going to be [indiscernible] 0:40:49? I understand it's all conjecture and you're just sort of hearing what you hear. But how do you think the next couple of months are going to play out for these potash contracts?

Raviv Zoller
President & CEO

I think it's going to be settled soon. That's all I can say at this point.

Operator

Our next question comes from the line of Vincent Andrews from Jefferies.

William Tang
Morgan Stanley, Research Division

This is Will Tang on for Vincent. This is Will Tang on for Vincent. Just one quick question. You guys called out an elevated inventory levels at the end of 2022 in industrial products. Was that a comment specific to kind of the [indiscernible] 0:41:48 business or something that's broadly characteristic across all your end markets there, all your product categories?

Raviv Zoller
President & CEO

Are you talking about our inventory?

William Tang
Morgan Stanley, Research Division

Yes. Yes. I think all -- it was elevated inventories at the end of 2022.

Raviv Zoller
President & CEO

Okay. So our inventory levels in recent years have been tracking between 26% to 28% of sales, and we finished the year with 27.1%. In terms of where we see a higher inventory at this point, we see a higher inventory in industrial products. And again, because some of the flame retardants, some of our customers are stocking down, there's always a balance when you go down on production and reach lower efficiencies versus how much it costs to hold inventory. And in our case, it's better to not stop production to produce the inventory that we're sure we can sell. So in industrial products, the level of inventory we have is higher than we would probably like. But it's not unusual given the circumstances.

In our other businesses, we're pretty much where we need to be. In the phosphate specialties a major supplier had a force majeure situation. So that also caused us to have inventory a little higher than we would like at the end of the year. So we have 2 divisions that have higher inventory at the end of the year than we would have liked. But at the same time, we're well within our range, which again is 26% to 28%, actually 26% to 28.5% we had in 2018. We're 27.1% now. So we're still in a healthy place.

Aviram Lahav
Chief Financial Officer

Just to add, if I may, that we have deliberate plans in place to reduce that actively in every place where we have a liking excess inventory will probably take us anywhere from 1 to 2 quarters, maybe a little bit more than that, but we'll get it back in line. I think the typical phenomena that stems from what happened in 2022 and the sharp differences that we are seeing these days.

William Tang
Morgan Stanley, Research Division

Got you. And then I guess just a quick follow-up, if I may. Going back to an earlier question on your value over volume strategy there. Volumes down 30% in industrial products. Is that what the characteristic of

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kind of, I guess, the sell-through of the entire bromine market? Or is there somebody there who's kind of taking share from you guys from the [indiscernible] 0:44:42.

Raviv Zoller
President & CEO

Our position in the market is that we have no problem increasing market share if we want to, but the price we pay is the price level. So we try to be disciplined about the way we make decisions. And in some of the products, there's very, very healthy demand. So I mentioned the clear brine fluids. There's even some products that usually we don't sell very well that are suddenly a hit like we have a product that treats mercury emissions coming from coal. That's a product that actually was not very successful in recent years given that coal was almost outlawed.

But now given the energy crisis, suddenly, there's new demand. There's always some business that's doing well. And fundamentally, the most significant influencer in the foreseeable future is the electric vehicle industry, and we're very confident of the positive trajectory there. So seasonally, we always increase inventory in the fourth quarter other than maybe the onetime last year because of the reasons I mentioned. So it's not out of the ordinary to have higher inventory at the end of the year in bromine-related products.

Aviram Lahav
Chief Financial Officer

And looking forward to a rebound in electronics side, which we believe according to our discussions.

Raviv Zoller
President & CEO

And according to our experience.

Aviram Lahav
Chief Financial Officer

And our experience that it's coming and some more inventory around the phosphor side, which would see a rebound in housing as interest rates start coming gradually down. So basically, this is an issue that we are totally aware of working through it and [indiscernible] 0:46:34. That's the bottom line.

Raviv Zoller
President & CEO

But on electronics, it's going to take a couple more months. On construction, it will take much longer because the cycle there is longer. Hope that answers.

Operator

You have no further questions. Please proceed.

Raviv Zoller
President & CEO

Okay. So it's the end of the year for all of you guys as well. So thanks for being with us this year. Thanks for sharing your questions and listening to us. Thanks for allowing us to report. Thanks for believing in what we're doing, when you believe in what we're doing. We're very confident about the long-term plan that we took upon ourselves a few years ago. We've been successful in executing in the recent 5 years, and we're even more confident about the next 5 years. We kept even in the faith of lots of luck that we had this year. We kept our expenses intact. We were disciplined. We continue to be disciplined. We don't take ourselves too seriously, and we execute, execute, execute and we're looking forward to reporting back to you our first quarter results. Thank you very much for being with us, and have a great rest of the day.

Aviram Lahav

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Chief Financial Officer
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