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Presentation

Peggy Reilly Tharp
Vice President of Global Investor Relations

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 report to the securities authorities and 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. Earlier today, we announced our second quarter results, which are compared to an all-time record quarter last year. As you can see on Slide 3, second quarter sales of $1.83 billion were in line with revised expectations, but down as expected versus an extraordinary second quarter in 2022 when commodity prices peaked. While the year-over-year decline in prices impacted all of our businesses and we generally saw lower volumes, our Potash segment volumes increased in the second quarter as we sold more product to China, India and United States.

Lower prices in the second quarter also significantly affected our adjusted EBITDA, which was $441 million. However, we did see some benefit from lower raw material and transportation costs. We continued destocking throughout the second quarter and proactively adjusted production as needed. Also, we adapted our savings and efficiency plans to react to the challenging near-term macro conditions. As a result, we were able to reduce costs, including through production improvements at our Industrial Products and at Growing Solutions in Brazil and through additional G&A cost reduction efforts.

While the cyclical decline was more rapid than expected, ICL delivered a well-executed quarter, as we quickly adjusted to current market conditions, ensuring continued strong cash generation while adhering to our long-term strategy. We delivered operating cash flow of $391 million in the second quarter and free cash flow of $221 million, which was identical to the first quarter this year. We continued to return value to our shareholders in the second quarter as we reported diluted earnings per share of $0.13 and declared a quarterly dividend of $0.06 per share.

We also remain committed to our long-term specialty strategy through our investment in lithium iron phosphate battery materials production. Just yesterday, our Board of Directors and executive leadership were joined by Jennifer Granholm, Secretary of the Department of Energy; and Mike Parson, Governor of the State of Missouri to break ground for this exciting project at our manufacturing campus in St. Louis. Our St. Louis facility will be the first large-scale battery materials manufacturing plant in the United States and is expected to help meet growing demand from the energy storage, electric vehicle and clean energy industries for U.S. produced and sourced essential battery materials. In addition, we remain committed to introducing new technology and additional capacity to enhance this unique and timely opportunity.

Let's turn to a 3-year look at some of our key metrics on Slide 4. Again, while sales were down year-over-year as expected, they were up versus the second quarter of 2021. While we had anticipated the second half of this year to progress at a more normalized rate, we recognized some negative near-term developments and announced a change to our expected guidance in late June. At that time, we provided an update to the framework agreement with our potash customers in China. We also cited the delayed recovery in flame retardants, and I will speak more about these in our segment reviews.

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On Slide 5, you can see second quarter and year-to-date specialties sales, which followed a trend similar to our consolidated results. As expected, earnings per share were down versus an extraordinary 2022 and up when compared to 2021. Also, as I just mentioned, we saw significant year-over-year growth in both operating and free cash flow versus the second quarter of 2021.

I would now like to begin our segment review with Industrial Products on Slide 6. Second quarter sales were $300 million, while EBITDA was $74 million or 25%. The recovery in demand for flame retardants, which was expected in the second half of the year, has not materialized. For the second quarter, lower demand resulted in increased competition and lower prices. In addition, elemental bromine prices hit lows not seen since 2008 and 2009 and low-priced flame retardant supply remained in the market.

Once again, results varied significantly by end market. Weakness in electronics continued and was magnified by a slower return to growth in China than had been projected, while the building and construction end markets remained soft as well. Meanwhile, demand for clear brine fluids and for our specialty minerals was stable in the second quarter. As the recovery in flame retardants looks to be delayed until the end of this year, we expect the $200 million EBITDA reduction we estimated in June will negatively impact our 2023 results. During the first half of the year, we targeted cost savings and inventory reduction efforts, and we will continue to do so in the third and fourth quarters. Despite this temporary setback, our Industrial Products business remains on track for the long term. We continue to work with our partners to improve our competitive position and to develop innovative flame retardants and other solutions.

Our steps to create additional savings are also bearing fruit with more to come. We do not expect recent developments, which are predominantly external, to have a material impact on the execution of our 5-year plan. We also expect demand for flame retardants to keep in pace with the traditional electronics replacement cycle over the long term and to accelerate as the global conversion to electric vehicles continues and as the artificial intelligence trend materializes.

Turning to Slide 7 and our Phosphate Solutions division, where we reported sales and EBITDA of $605 million and $130 million, respectively. For the quarter, phosphate specialties represented 65% of sales and nearly [65%] of EBITDA. Food demand remained resilient with higher prices in North and South America as well as in Europe. For industrial end market, prices were slightly higher in North and South America, but offset by generally lower volumes in most regions. Overall end market demand in the U.S. remained stable, but competitive [price] pressures continue to impact other regions. And while conditions are below those we experienced in an exceptional 2022, the base phosphate specialties business remains very healthy. As I already discussed, we broke ground yesterday for our new battery materials manufacturing facility in St. Louis in partnership with the Department of Energy, which provided ICL with a $197 million grant.

On Slide 8, you will see our Potash results, where sales were $556 million (sic) [$546 million], and EBITDA came in at $213 million. In late June, we agreed to supply our customers in China with an aggregate amount of 800,000 metric tons of potash during 2023 at an agreed-upon price of $307 per ton, which was the prevailing rate. For the second quarter of this year, our potash price per ton was $403, down from $801 in the second quarter of last year, but nearly $115 higher than in the same quarter of 2021. Potash prices have recently stabilized. As mentioned earlier, our volumes increased over the past quarter, led by supply to China and India, and we benefited from decreases in energy and transportation costs.

Turning to Slide 9 and our Growing Solutions business, which delivered second quarter sales of $481 million and EBITDA of $22 million as prices in the specialty fertilizer market declined overall, due in part to destocking of high-priced inventory. In addition to a later start to spring in some countries, weather-related issues caused farmers to maintain a wait-and-see strategy even as affordability remained above average. Despite these challenges, Growing Solutions delivered record free cash flow of about $100 million. The division remains focused on reducing working capital and destocking inventory, while executing against its saving and efficiency plan with more to come in the second half of the year.

Some products like FertilizerpluS were impacted by the decline in potash prices, as well as the delayed start to the season, especially in Europe, where demand was weaker than expected. In other areas like India and China, the division made headway against its strategic plans and has been launching customized efforts to advance its digital outreach and increase its share of wallet. We expect gradual improvement in the third quarter as we work through these short-term challenges and remain focused on M&A opportunities and investments in innovative new product offerings, targeting long-term specialties growth.

I would now like to draw your attention to Slide 10 and a review of the key areas where we are focused. We are, of course, maintaining our commitment to our long-term strategy, notwithstanding the short-term highs of 2022 and some unexpected challenges in 2023. All of our businesses are committed to enhancing efficiencies and competitiveness, which helped us deliver strong cash flow in the second quarter. We remain dedicated to growing our specialties product portfolio, while targeting M&A and strategic partnership opportunities.

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As I do every quarter, I want to thank the entire ICL family of employees all around the world for their hard work and significant contributions. I'm proud to lead this team of more than 12,500 global partners.

And with that, I would now like to turn the call over to Avian.

Aviram Lahav
Chief Financial Officer

Thank you, Raviv and to all of you for joining us today. Let us get started on Slide 12, where you can see a review of the external macro pressures we have been discussing for several quarters now with many of these remaining unchanged. Inflation rates started to decline year-over-year, but prices remained elevated for the end market consumers in the second quarter. As we've previously discussed, this forces families to make choices about their discretionary income. For example, home improvement and curb appeal projects are being delayed, while food demand remains resilient as seen in our phosphate specialties results. In addition, these trends are further impacted by interest rates, which remain elevated on a global basis. In general, global growth continues to be subdued, which is why it is important for companies like ICL to have a varied geographic footprint. We also benefit by participating in a wide array of end markets, not only across our 4 segments, but within each line of business as well.

Being a global company means reacting swiftly to conditions around the world, which we did in the second quarter. Still, many geopolitical obstacles persisted as the situation in Ukraine remains unbalanced, the food insecurity crisis in Africa threatens to expand, and uncertainty regarding China's recoveries have increased. Just 3 months ago, China's economy appeared to be rebounding faster than anticipated. However, recent indicators suggest otherwise. Sluggish domestic demand in China, which represents the second largest economy in the world, is being compounded by ongoing concerns around the country's housing and construction markets. In terms of global agriculture demand, crop prices remain elevated above pre-COVID levels as farmer affordability continues to be resilient, especially in the U.S. While fertilizer prices have declined from the peaks we saw in 2022, they are beginning to show signs of stabilizing.

On Slide 13, you can see some of the trends I just discussed. While inflation rates generally trended down versus the second quarter of last year, they remain elevated on a historical basis. When this is combined with higher interest rates, it results in consumers being forced to prioritize their spending. In China, while the economy expanded by 6.3% in the second quarter, this was below expectations. Quarter-over-quarter GDP growth in China slowed from 2.2% in the first quarter of this year to just 0.8% in the second quarter.

Turning to Slide 14, where we have a collection of key agricultural metrics. Commodity crop prices have stabilized in the second quarter with the exception of rice, which is seeing prices moving even higher in recent days, following India's recent export ban. In the U.S., farmer sentiment continued to improve, and the Purdue Ag Economy Barometer for July indicated that farmers remain cautiously optimistic about the agriculture economy. This improvement came after 1 month soon in May, which was followed by an upswing in June as farmers took a more optimistic view of the future.

On Slide 15, you can see expected trends for electric vehicles over roughly the next decade. As Raviv already discussed, yesterday, we broke ground at our battery material plant in St. Louis. As a reminder, this new facility will be able to support not only electrical vehicles, but also the infrastructure behind them, including energy storage.

If you will now turn to Slide 16, where on the left side, you can see the sales bridge from the second quarter of last year to this year. For Industrial Products, sales of flame retardants remained weak. In Potash, sales volumes to China, India and the U.S. increased, however prices were lower year-over-year. For Phosphate Solutions, higher prices for specialty food phosphates and lower raw material costs were unable to offset lower phosphate fertilizer volumes and prices. At Growing Solutions, we saw lower volumes and prices for our FertilizerpluS and specialty agriculture products, while higher prices in our turf and ornamental business were unable to offset lower volumes. On the right side of the slide, you can see a year-over-year breakout of our second quarter sales by quantity and price.

Turning to Slide 17 for our adjusted EBITDA, which was $441 million and down year-over-year as expected but up more than 20% versus the more normalized second quarter of 2021. A significant reduction in potash prices year-over-year had the biggest impact, which you can see on both the left and right-hand side of the slide. We have maintained our preferred cost position for our target potash markets and remain in an excellent location on the cost curve.

As you can see on the left side of Slide 18, we are in the first quartile. In addition to leading from a cost curve perspective, we are also leading from a price perspective, as you can see on the right side of this slide.

I would now like to review a few highlights on Slide 19. At quarter end, our net debt-to-EBITDA ratio was at 0.72x. Each of our businesses strived to reduce working capital and inventory during the second quarter, while executing against the savings and

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efficiency plans. We remain tightly focused on cost reduction and recorded a significant improvement in this area in the second quarter. Our prudent cash management resulted in strong cash conversion in the quarter, and we delivered operating and free cash flow of $391 million and $221 million, respectively. At quarter end, our available cash resources totaled $1.7 billion. For the second quarter, our dividend was approximately $81 million or $0.06 per share. This brings our dividend yield for the past 4 quarters to 7.4%, an industry-leading rate. Also during the quarter, Fitch and S&P reaffirmed their ICL credit ratings with both firms maintaining senior unsecured ratings of BBB-.

Finally, on Slide 20, you can see our 2023 guidance calling for adjusted EBITDA of between $1.6 billion to $1.8 billion in total and for our specialties businesses to contribute between $0.8 billion and $0.9 billion of that amount, which we indicated back on June 22. As a reminder, this guidance reflects the impact of the lower-than-anticipated potash price in China and the delay in the recovery of global demand for flame retardants.
And with that, Peggy, we can begin the Q&A.

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Question and Answer

Peggy Reilly Tharp
Vice President of Global Investor Relations

[Operator Instructions] Our first question will be from Alex Jones at BoA.

Alexander Jones
BofA Securities, Research Division

The first one on [indiscernible] dynamics, you talked about destocking and lower demand in Growing Solutions. Can you give us a little bit of color on how that's evolved into the third quarter? I guess some of the spot prices indicate that demand is improving. It would be good to hear your thoughts on that and how it differs by region.

And then the second question, if I may, on Industrial Products. I know that pricing in the division has turned negative for the first time since 2020. And I think, Raviv, you cited lower elemental spot prices. Can you talk a little bit about how you expect that to evolve in the second half, or that pricing will recover or turn more negative, and maybe even into '24, if you have any early thoughts?

Raviv Zoller
President & CEO

Sure. I'll start with Growing Solutions. We've been going through destocking now for almost 3 quarters. And the dynamics of the market are that the farmers were in wait-and-see position, given prices going down for such a long time. That has halted. So, now we're seeing prices stabilize and even go up. But at the same time, we're still selling product with raw materials from the past at least two quarters. So still, there is some high-cost inventory that's flowing through. So, we're not completely normalized in the third quarter, but at the same time, we're in much better shape because prices are not going down anymore. They're going up. And the raw materials were in a downwards trend. So, we expect to see an improvement already in Q3, especially in Brazil. Please note that in terms of overall sales, sales were actually pretty positive. B2C sales were very positive. B2B sales, we actually pulled a little bit because of profitability reasons. So, it was a conscious decision. So overall, going forward, we'll see better third and better fourth quarter also because of seasonality in Brazil as well.

As far as our IP division is concerned, yes, prices have trended downward, and we're seeing the lowest prices in the last 15 years or so. We don't see prices trending further down for a simple reason that they're below the cost levels of some of our Chinese competitors. We've actually seen a first bankruptcy of a small producer in China, and we expect that most of the Chinese producers are in bad shape at this point. So, there could be some -- and we expect some supply balancing and some supply capacity coming out of the market, which is -- as far as we're concerned, it won't be too terrible if prices keep relatively low for a few more months because we have some unstable supply that is good for us not to have in the future. Of course, we can't control the direction of the wind. We can only adjust our sales. And, unfortunately, our discipline was not enough in the first half of the year because there wasn't enough demand to exercise our Value over Volume strategy effectively enough.

Now that we think that the market has gone through the downward process, we're actually keeping our market share in terms of actually exercising the volumes in our long-term contracts. In the first half of the year, we sent some of our customers to buy cheaper product on the market rather than take volume from us. And in fact, if you look at the overall ICL results, most of the volumes that we lost or most of values of the volumes we lost and the value attributed to lower quantities comes from the IP division. Well, at the same time, had we insisted on selling those volumes, then the prices would have gone down faster or further. And so, we would have seen the same kind of results, but more price effect and less volume effect.

So, the short answer is, we don't foresee prices going down further. We don't see them correcting very fast because the demand is still not back. The supply chain is not full of stock anymore. So, there has been plenty of destocking, but there's not enough front-end demand to take prices up quickly. At the same time, supply is strained. Some of the suppliers are strained. So we think that we're reaching a new balance and expect that once demand picks up a little bit, the prices will pick up as well, and we'll return to a normalized situation. It is important to note that in this kind of business where in the worst times, we can still achieve 25% EBITDA says a lot about what -- how great this kind of business is. And we're sure that over the long term and over the cycle, we'll do a lot better, of course. Hope that answers.

Peggy Reilly Tharp
Vice President of Global Investor Relations

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Our next call is from the line of Joel Jackson with BMO. Joel?

Joel Jackson
BMO Capital Markets Equity Research

A few questions on the Potash business. So, can you give a bit of your expectation what pricing might be in the third quarter? And then it looks like potash production was a little bit lower in Q1 and Q2 than it has been last year. Can you talk about what the production run rate would be like for the rest of the year and 2024?

Raviv Zoller
President & CEO

Yes. So for us, the production in the first quarter was lower than last year. Second quarter was back to normal and even a 100,000 more than originally planned because there was a 100,000 tonnes deferred from the first quarter to second quarter. Going into the year, we expected that we'd be able to produce about 4.8 million. That's down a little bit because some issues that we had in Spain, and I won't go back into them, but the bottom line is that we're going to produce about 4.7 million. We expect that the sales volumes in Q3 and Q4 will be relatively similar to Q2.

In terms of the average potash price, that becomes easier for us now because we're completely sold out of granular product until the end of the year. We still have some standard product to sell because the shipments to India were halted and we haven't supplied all of our India contract. There's ample demand. So, if we need to sell outside of India, of course, we will. But given that we have clarity, then we expect the average potash price for the second half of the year to be around $340, maybe a couple of bucks more, but that's pretty certain from our perspective.

In terms of the dynamics, dynamics turned at the end of June. Right now, we're seeing strong inland demand in China. And the result is that the prices are actually moving up inland in China. We see Brazil prices rebounding from $310, $320 to over $350. Europe is relatively stable after somewhat of a downward spiral, for a few months. And the U.S. looks relatively healthy even though it's fluctuating. So I can't say that the prices have been established in the U.S. A little bit longer term, we do see some buying interest for January and February in Brazil, which is very positive because that was not happening last year at all. There was no spot buying last year in July and August. Like I said, we're not selling anymore this year, but we're starting to sell for next year. So, that's positive.

So I'd say the overall dynamics in the potash market, also given the new policy. it seems, of our Canadian competitors to curtail some of their production capacity, that also gives more stability from the supply side. So that's, in short, the potash dynamic at this point.

Aviram Lahav
Chief Financial Officer

Maybe to add that I think we are seeing the Russian-Belarus side stabilizing and not continuing to close the gap. So there is some volume that is removed from the marketplace on that account as well. You put it all together, and we do not have a situation, I believe, anymore where supply is significantly higher than demand, which will lead to constructive surroundings for pricing. Put it all together, I think that's the picture that we see. That's the picture our peers see. And I think it makes a lot of sense. That's it.

Joel Jackson
BMO Capital Markets Equity Research

Okay. And just finally, when you think about your current opportunities at Boulby or Cleveland Potash for Polysulphate and the different variants that you have with the product, now potash prices go a bit back to 300s, sort of the higher end of the mid-cycle range. What is that business like? You're doing great production of polyhalite, polysulphate. Is that business now generating a significant return -- a reasonable return to keep the business going? What do you need to -- what kind of earnings are you making on it this year? What do you need to make it a viable long-term business?

Raviv Zoller
President & CEO

Okay. So that's a great question. First of all, it's a profitable business, but it's not a very profitable business like it was last year. The potash price going down and the relatively weak demand all around for fertilizers in Europe has hurt that business. So yes, we're producing great, but we're not selling at the kind of global premium that we'd like. We're selling for a very nice premium in Europe because Europe appreciates the organic premium and the value of the product and has more experience with the product. Unfortunately, in Brazil and in China, customers still view this product, or this family of products actually because we've developed a whole family of products, still as too close to commodity and tend to negotiate taking into account the effect of the potash price. So

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the bottom line is, we're getting good business in Europe and not that great business in China and in Brazil. And we need to continue to educate the market and to demonstrate the value that the products bring to the table, and that will help us get from a business that has relatively normalized profitability to higher profitability. It's not a home run fertilizer with 30% EBITDA. But we believe that, over time, we could achieve 15% plus EBITDA this year. It will barely be double digits, whereas last year, we made a very nice 20-plus percent EBITDA. I hope that answers.

Peggy Reilly Tharp
Vice President of Global Investor Relations

Our next call is coming from the line of Rahi Parikh with Barclays. Rahi?

Rahi Parikh
Barclays Bank PLC, Research Division

Great. Well, I just have one question. So for IP, as you've seen, there's been some issues in the last quarters, though external. I'm just wondering is there any game plan to kind of help the sector besides what's been happening? Is there any strategy to go around the lower demand, the electronic slowdown? Just your thoughts on that.

Raviv Zoller
President & CEO

Look, the flame retardants for electronics and construction are a very significant component of our offerings. So it's not like we can circumvent that. We're suffering from the cycle like everybody else. It's a significant downturn because knowing when there's a slowdown, we produce a little less. We take a disciplined approach. We demonstrate the value to our customers and are able usually to effect strong pricing. Currently, the drop in demand is so significant, there was so much stock built into the supply chain, and it just has taken quite a while to get that stock out of the supply chain. And the demand still has not built back up. I'm talking about the demand for TVs, laptops, cellphones. Still the demand is not back. Construction, which is also a significant component, there, the cycle is longer. So electronics is expected to come back quickly for refill of products. On construction, given the interest rates and overall activity globally, it's going to take longer. But that, together with abundant supply that, as I said, due to the dynamics that have caused the pricing to go down below the cost of some of our competitors, supply is going to come down somewhat in the coming months. And as supply normalizes a little bit and as demand normalizes, we expect to go back to normal.

In the first half of the year, we thought that if we sold -- if we didn't participate in the lower pricing game, we thought that we would get a better result. Unfortunately, we didn't because the cycle was longer than we expected. We are keeping our market share with our long-term customers now. So we're going to lose less volume in the next few months. And we're going to allow the market to take its course for a few more months until we get back to normal. The endgame here is that we believe in the fundamental strength of the market. We believe that we're going through the bottom side of the cycle. Bottom hasn't happened for 15 years. And we were sure that the market is coming back. And the only question is how many more months we'll have to endure the current situation. Right now, we're positive that we're not going to see a significant return to normalized business in the third quarter. Fourth quarter, the jury is still out, but typically the fourth quarter is a weaker quarter and customers are not looking to build up stock towards the end of the year. So my guess is that we'll start seeing some more significant improvement in the beginning of 2024.

Aviram Lahav
Chief Financial Officer

Just as a reminder, in mid-June, when we came out with the new guidance, we did a pretty dramatic $200 million [we chopped off] directly on the bromine business because already at that time, and that's what we guided, we did not see a recovery most certainly in Q3 and maybe not even Q4. So it's -- in a way, it's covered by this. But again, it's a good question, and we're waiting for the recovery.

Rahi Parikh
Barclays Bank PLC, Research Division

Yes. Makes total sense, and thanks for clarification. And just so that we can get the clarity, the stock that's built up, it's all high-cost stock that you're trying to get through, correct? Because it's made probably in the first half of this year, last year.

Aviram Lahav
Chief Financial Officer

Sure.

Raviv Zoller

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President & CEO

Okay. So I understand that we don't have any more questions. So I want to thank you all for participating in this call and joining us as usual. We appreciate your questions and appreciate you following us and supporting us. And with that, thanks again to our employees at ICL. Thanks to my colleague, Aviram, for helping me on this call, and looking forward to coming back to you next quarter and reporting about our progress. Thank you very much. Take care.

Aviram Lahav
Chief Financial Officer
Thank you.

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