

ICL Group Ltd NYSE:ICL

FQ1 2026 Earnings Call Transcripts

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Call Participants

EXECUTIVES

Aviram Lahav
Chief Financial Officer

Elad Aharonson
President & CEO

Peggy Reilly Tharp
Vice President of Global Investor
Relations

ANALYSTS

Benjamin M. Theurer
Barclays Bank PLC, Research Division

Laurence Alexander
Jefferies LLC, Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us and welcome to the ICL First Quarter 2026 Earnings Call International. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I would now hand the conference over to Peggy Reilly Tharp, Vice President of Global Investor Relations. Peggy, 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 for ICL Group. I like to welcome you and thank you for joining us today for our earnings conference call. This event is being webcast live on our website at icl-group.com and there will be a replay available a few hours after the live call and a transcript will be available shortly thereafter.

Earlier today, we filed our reports and our presentation with the securities authorities and the stock exchanges in both Israel and the United States. Those reports as well as the press release and our presentation are also available on our website. Please be sure to review the disclaimer on Slide 2 of the presentation.

Our comments today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are not guarantees of future performance. The company undertakes no obligation to update any information discussed on this call at any time.

We will begin with a presentation by our CEO, Mr. Elad Aharonson, followed by Mr. Aviram Lahav, our CFO. After the presentation, we'll open the line for a Q&A session.

Now I'd like to turn the call over to Elad.

Elad Aharonson
President & CEO

Thank you, Peggy, and welcome, everyone, to a review of our first quarter 2026 earnings. We delivered a strong start to the year with sales of \$2 billion, up 14% year-over-year, as you can see on Slide 3. ICL delivered solid sales growth for each business segment in the first quarter and reported a 26% increase in adjusted net income. We also reported a 15% increase in adjusted EBITDA and an improvement in adjusted EPS of 22%. This successful performance was achieved as the company demonstrated exceptional execution and operational resilience.

We also benefited from our distinctive global presence with regionally diversified operations. In the first quarter, we continued to execute against our strategy to drive growth in specialty crop nutrition and specialty food solutions. We completed the acquisition of approximately 50% of Bartek ingredients, and we established our first specialty fertilizer production facility in India.

For the first quarter, we delivered good growth across key financial measures. Adjusted net income was \$139 million which translates to \$0.11 of earnings per share. Consolidated adjusted EBITDA of \$412 million improved year-over-year. This growth was despite higher costs for raw materials and more than \$20 million of impact from currency exchange fluctuations. As a reminder, as a dollar-dominated company, a stronger shekel makes it more costly for our operations in Israel.

Operating cash flow of \$195 million improved 18% on an annual basis, and free cash flow was \$61 million in the first quarter. While we benefited from higher prices for bromine, potash and commodity phosphate, we also had to manage higher raw material costs mainly for sulfur, but also for other inputs used by our specialty fertilizers. Let's review some of these pricing benefits and cost impacts in relation to our business segments and begin with industrial products.

On Slide 4, you can see first quarter sales of \$349 million were up slightly year-over-year, while EBITDA of \$86 million was up 13%. Bromine prices had their best quarter since the end of 2022, even as some end markets such as building and construction remains soft. For flame retardants, overall sales increased. Bromine-based products benefited from higher prices and improved electronics end market demand. Sales of phosphorus-based flame retardants were impacted by continued softness in the construction end markets. Sales of clear brine fluids, which are used by the oil and gas industry during well completion, decreased as some activity in the Gulf of America shifted from the first quarter to the second.

Specialty Minerals, which includes magnesia, calcium carbonate and salt products delivered higher sales year-over-year. This growth was due to increased demand from the food and pharmaceutical end markets. Significant winter weather in North America in both the fourth quarter of last year and first quarter of this year resulted in strong deicing sales for the season.

Turning to our Potash division on Slide 5. For the first quarter, sales of \$503 million were up nearly 25% year-over-year. EBITDA of \$172 million was up more than 45%. Our average potash price for the first quarter was \$362 CIF per ton. This amount was up more than 20% year-over-year and up 4% sequentially. Potash production volumes came in at 1,177,000 metric tons in the first quarter and were up 11% versus the prior year. These gains were achieved at both the Dead Sea and our operations in Spain as we continue to improve equipment availability and shorten downtime amongst other efforts.

During the first quarter, we continued to maximize our potash sales by prioritizing the best global markets. We also benefited from higher prices in the quarter. While potash remained much more affordable than nitrogen and phosphate, farmers require all 3 nutrients.

Now turning to a review of Phosphate Solutions division on Slide 6. For the first quarter, sales increased 18% to \$679 million. Higher commodity phosphate prices helped drive sales growth, while Specialties results were in line with market dynamics. First quarter EBITDA came in at \$131 million and was impacted by higher raw material prices especially for sulfur, which was up more than 100% in the quarter.

For commodity phosphates, demand varied by region with significant price volatility as the escalation of the Middle East conflict accelerated price momentum. For specialty phosphates, customers in all regions focused on secure and reliable global supply chains. This is something ICL can uniquely provide as with specialty phosphate production in 6 key regions.

For our growth engine, Specialty Food Solutions, sales increased in the first quarter, reflecting the addition of new customers, continued growth in China and the acquisition of Bartek Ingredients. In North America, Specialty Food sales were strong in the first quarter. These were led by our Dairy plus products with growth driven by new business conversions, which were up double digits.

We continue to target higher-growth Food Specialty products and to focus on plant and protein-based beverages in key regions. We also launched a new digital marketing campaign targeting high-protein dairy and dairy alternatives.

For emerging markets, especially Asia, we also saw good growth. In China, we saw improvement in the processed meat category and an overall increase in sales of our specialty food solutions. For our YPH joint venture in China, sales increased year-over-year on higher prices. We also saw improved efficiencies with reduction in fixed costs.

This brings us to our growing solutions business division on Slide 7. Sales for the first quarter increased 11% to \$551 million. EBITDA of \$49 million was up 4% versus the prior year, even as higher raw material costs impacted most regions. Sales of specialty fertilizers increased on both higher volumes, mainly in China and India and higher prices. In Europe, overall sales and profitability increased on higher prices and volumes, driven by continued mix optimization. For Asia, results were robust with growth from all major products. Sales growth was driven by higher prices and volumes and favorable exchange rates.

Gross profit, however, was flat. For North America, profitability was stable versus prior year. However, due to a slow start to spring planting, sales were flat in this region with higher prices and lower volumes. For Brazil, global uncertainty and market competition impacted results. Sales decreased on lower volumes and gross profit also declined with a less profitable product mix.

As I mentioned earlier, in India, we opened a new specialty water soluble fertilizer facility. With 30,000 metric tons of annual capacity, these operations will help to expand our local manufacturing capabilities. This new facility also supports growing market demand and strengthen our supply chain. Finally, the sales process of our Boulby operation in the U.K. remains ongoing.

Before turning to Slide 8, I would like to provide a brief update on the situation in the Middle East. While we faced some operational challenges in the first quarter, which were caused by the war, our efforts to minimize disruption and maintain good production levels were successful.

Now for some first quarter key takeaways. We delivered a strong start to the year with good growth across all key financial metrics. This success was despite events outside of our control. Nonetheless, we swiftly navigated changes in market conditions and demonstrated operational resilience with exceptional execution. We also focused on what we could control and made production improvements to help drive efficiencies across our operations, while the teams have made great strides, some of this success is being masked by exchange rate fluctuations.

In addition to currency headwinds, which could potentially linger throughout 2026, we have seen higher raw material costs across several of our business segments. We will continue to manage these inputs and, if necessary, work to offset any impact through efficiency efforts.

Now before turning the call over to Aviram, I would ask you to turn to Slide 9 and a review of our guidance for 2026. After a successful first quarter that benefited from higher bromine and potash prices, which are expected to remain elevated, we are raising our guidance by \$100 million. For 2026, we now expect consolidated EBITDA to be between \$1.5 billion to \$1.7 billion. For potash sales volumes, we continue to expect this amount to be between 4.5 million and 4.7 million metric tons as we continue to benefit from the operational improvements made at the Dead Sea and in Spain in 2025. Finally, we expect our annual adjusted tax rate to be approximately 30%.

For 2026, we plan to remain on our current path. To operate with resilience, execute against our plans and deliver shareholder value. In addition, we will continue to monitor the exchange rate between the shekel and dollar and higher raw material prices.

And with that, I would like to turn the call over to Aviram for a brief financial overview.

Aviram Lahav
Chief Financial Officer

Thank you, Elad, and to all of you for joining us today. Let us get started on Slide 11 with a quick look at quarterly changes in key market metrics. On a macro basis, global inflation rates for the first quarter were down slightly versus the prior quarter, with the exception of India, which was up 200 basis points.

Turning to interest rates, which were also relatively stable across all regions at the end of the first quarter, including for Brazil. Looking to exchange rates, the shekel has strengthened versus the U.S. dollar in the first quarter. As Elad mentioned, as a dollar-denominated company, this makes it more costly for operations in Israel. While we use hedging tactics to help reduce some of this exposure if the shekel remains strong into the second half of the year, this effect will become more pronounced. Wrapping up our macro metrics you can see that U.S. housing starts trended up slightly by the end of the first quarter.

For fertilizer metrics, the picture was more mixed. On the positive side, the grain price index improved on a quarterly basis with corn, rice, soybeans and wheat all trending up. However, when compared to previous first quarters, most prices are down significantly. In the U.S., for example, farmers are facing one of the widest gaps in a decade between what they pay to produce food and what they earn from selling it. Not surprisingly, farmer sentiment in the U.S. declined in the first quarter as global affordability for fertilizers dropped to its lowest nearly 5 years, due to fertilizer price spikes following the advent of war in the Middle East.

Farmer sentiment dropped again in April with 46% of farmers stating high input costs at their biggest concern while 14% cited input availability is the biggest concern, up from 11% at the end of the first quarter. According to Argus, nutrient affordability fell to 0.57 points in March, the lowest since November of 2021. As I just mentioned, while crop prices have improved they have not strengthened enough to balance out the increases in fertilizer prices.

In the first quarter, spot potash prices in the U.S. declined nearly 6% on a sequential basis. However, ICL's first quarter average Potash price was \$362 per CIF ton, up 4% sequentially and 21% on an annual basis.

During the first quarter, prices for TSP, urea and sulfur all increased. And as we are consumers of these three inputs, we experienced higher raw material costs in the quarter. In addition, there was a mid-single-digit increase in ocean freight rates over the same time frame.

Beyond agriculture indicators, we also track other metrics, including those that are relevant to our phosphate solutions and Industrial Product segments. Our phosphate specialty solutions are an important part of the food and beverage end markets, and this is an area we are targeting for growth both organically and via M&A.

In the U.S., retail trade and food services improved in the first quarter. For P2O5 prices remained stable.

For our Industrial Products segment, we track the consumption of durable goods and in the U.S., these expenditures ticked up in the first quarter. The spot bromine price in China is clearly an important metric for this segment. Bromine prices continued to increase in the first quarter and reached another peak in April. Although prices have moderated somewhat since then, we expect they will remain elevated throughout 2026.

If you will now turn to Slide 12 for a look at our first quarter sales bridges. On a year-over-year basis, sales were up \$256 million or approximately 14% with all 4 segments demonstrating growth. Turning to the right side of the slide, you can see a \$159 million benefit from higher prices this quarter, which was enhanced by higher volumes. Exchange rates also had a positive impact on sales in the first quarter.

On Slide 13, you can see our first quarter adjusted EBITDA, which improved approximately 15% versus the prior year, with Industrial Solutions, potash and growing solutions all contributing. Prices had a positive impact of \$159 million, which was partially offset by exchange rate fluctuations. As a reminder, this trend is expected to continue if the shekel maintains its strength versus the dollar.

In the first quarter, we also saw a significant increase in raw material costs, especially for sulfur, as previously mentioned. We are aware that concerns over higher prices for raw materials, energy availability and fertilizer supply are expected to continue until the situation in the Middle East is peacefully resolved. But no matter what comes next, we plan to continue on our current path to operate with resilience, execute against our plans and deliver shareholder value.

Turning to Slide 14, and a few more first quarter financial highlights. Our balance sheet remains strong with available resources of \$1.5 billion. In the quarter, we delivered operating cash flow of \$195 million and an increase in free cash flow. Our net debt to adjusted EBITDA rate is at a stable 1.5x. In Fitch and S&P, both reaffirmed ICL's bond rating at BBB- with a stable outlook. Once again, we are distributing 50% of adjusted net income to our shareholders. This translates to a total dividend of \$69 million in the first quarter and results in a trailing 12-month dividend yield of 3.7%.

Before turning the call over to the operator, I would like to honor the occasion of my final earnings call with ICL. It has been a remarkable 4-plus years, and I want to thank all of my colleagues who have been great partners and friends. Over the next few weeks, I will be assisting with the transition to our new CFO Asaf Alperovitz, and I'm confident that I'm leaving you in good hands upon my retirement.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Ben Theurer with Barclays.

Benjamin M. Theurer
Barclays Bank PLC, Research Division

First of all, congrats on a very good first quarter results, and Aviram, congrats on retirement. So my first question really is about the phosphate business. And you've highlighted a few things, obviously, as it relates to the cost headwinds, et cetera. So I was just wondering where prices are and what you're seeing in the different areas, be it on the specialty side or more on the commodity side. How is demand currently shaping up? Because obviously, we're seeing all these high costs and you've called out sulfur.

So I was just wondering what demand looking like both on the more industrial side of it? And then obviously, on the ag side. Are there any signs of demand destruction, where are we right now in phosphate? That would be my first question.

Elad Aharonson
President & CEO

Okay, Ben. Thank you very much for the question, which is a very valid one. So as you know, the sulfur prices are skyrocketing now, continue to increase. And also, there is an availability issue. We heard that some of the other players reduced their production volumes all across the board. For us, by now, we see a solid demand, but I cannot guarantee that it will continue like that, as we have to increase prices because of the -- mainly because of the sulfur prices.

I don't know it's fortunately probably for us that were less in the business of DAP and MAP, which requires also ammonia, which also has very high prices nowadays. So we are suffering from the sulfur prices but less from the ammonia prices. Having said that, I would expect demand to be lower than usual in the rest of the year for phosphate fertilizers.

Aviram Lahav
Chief Financial Officer

I just want to add, Ben, one thing. It's the phosphate. We're basically facing two situations. One is obviously the issue of the sulfur and the rising prices. But at the same time, there's another phenomenon, which is China and basically blocking exports in the latest. I'm aware of is that it's probably going to happen for the remainder of '26. They are not forecasted to -- I mean every year in the last few years, they've delayed it. They are actually the #1 factor before the world, before the sulfur that kept phosphate prices actually high and basically diverge from the product side.

But at this time, with China basically blocking exports, it will become an issue of tight supply and probably some demand damage, but overall, there will be demand out there. Somebody has to fulfill it. It might be the case that for ICL as a player, we will not face an issue to sell the stuff that we have. Prices side and how much they can go up, that's a different topic. I believe this is sort of paint a picture of where we are.

Benjamin M. Theurer
Barclays Bank PLC, Research Division

Okay. Perfect. And then my follow-up, just for clarification purpose. Is it fair to assume that the increase in EBITDA for the year that give or take, \$100 million that you're looking at that, that is predominantly coming from very solid potash business where you have the volume, but actually now you get some momentum on the pricing side, which obviously flows right into EBITDA. Is that fair to assume?

Elad Aharonson
President & CEO

Yes, yes. And also, I think bromine prices will be higher than expected. Maybe less than the -- there was a spike at the beginning of the war and now prices are a bit down, but still, it's higher than the next.

Aviram Lahav
Chief Financial Officer

And much better demand. [indiscernible]

Operator

[Operator Instructions] Your next question comes from the line of Laurence Alexander with Jefferies.

Laurence Alexander
Jefferies LLC, Research Division

Two questions. One, on the productivity front, can you give a sense for what levers do you think you have to pull over the next, say, 3 to 5 years? And secondly, with -- back to the phosphate, can you just give a rough rule of thumb for your sensitivity to sulfur costs? And it sounds from your comments, do you think that the margin headwind there is a lag issue and that pricing -- phosphate pricing should catch up to sulfur as the supply-demand balance tightens?

Aviram Lahav
Chief Financial Officer

Yes. I have to ask you again to repeat the first question, if I may, sorry for that, Laurence?

Laurence Alexander
Jefferies LLC, Research Division

So just wanted to ask about structural productivity gains. I mean, just how do you think about the net fixed cost savings you could generate over the next, say, 3 to 5 years? Like what are the levers that you pull across your portfolio now?

Aviram Lahav
Chief Financial Officer

Okay. So on the structural productivity side, let me say we rather like to show results when they are there. And the proof is in the pudding. However, since you asked this directly, I would answer that we do believe and we are currently engaged in significant structural productivity projects. And they -- over time, they should prove beneficial and importantly, so -- for ICL. I don't believe it is a good time yet to go into really deep down details as to what's happening. But suffice it to say, I believe that these projects are in motion, and they should basically give us a lot of wind. I will say that also on the productivity of the sites, what we are seeing is improvement.

As you've seen, Laurence, what's going on the potash side. We have basically increased the product -- production in both Israel and also Spain, and we continue to look into that. Other places are running -- our phosphate sites are running also at the capacity, which is a good sign. But generally speaking, we are looking into all these aspects, and this will be, as I said before, should prove to give us quite a lot of back wind going forward. We'll report on these things as they surface and then we can show solid improvement there. This was the first side. I don't know if there will be a follow-up. I may the answer that and you asked something which is a different question.

Second question was different. It was basically the sensitivity to sulfur, which is basically dependent on the product. But there is generally, obviously, there is a significant correlation between the price of sulfur and the ultimately either the price or the margin that we had out on phosphate.

The catch-up, this is the main question and this is a very good one is basically to what extent are we able to compensate fully or not so on the price of phosphate to basically to forgo this increase. I would say it is partial. It is not full. The prices of phosphate were already elevated when the price of sulfur was way below. It was around \$400, \$500 and already prices were high. And this was predominantly, as I stated to a previous question on the issue basically of China blocking exports.

At this stage, we do not see the prices rising up again to fully compensate. But at the end of the day, partially, at least it should be the case. So the forecast, I believe, and Elad, please add more, I do not see -- this is one of the issues that we are pointing out and the calls are straightforward in saying that this is quite a challenge going forward.

The big question is what will happen on the price of sulphur. Because not only prices, the extent the news keeps changing. I believe something like 50%, 5-0 percent of sulphur comes through the Gulf states. And this is something that can basically change overnight. So it's a good question to see how this will transpire for how long, what will be the effect. I can tell you that we continue to manufacture full speed. We are very careful with our purchases, thinking very carefully about how much we stack up, and this can change during the year. So we were taking all these things into account whilst raising our guidance, but this obviously needs to continue to follow up.

Operator

This concludes the question-and-answer session. I will now turn the call back to Elad Aharonson, President and CEO, for closing remarks.

Elad Aharonson
President & CEO

So thank you, everyone, for joining today. A strong start of the year for ICL. We believe also the rest of the year will be positive. Even though, as was mentioned, we will monitor raw material costs and also the exchange rate of shekel versus dollar. And you saw the guidance. I'll take this opportunity, and thanks once again of Aviram for 4.5 years as a friend and partner here. Huge contribution to ICL and good luck in the retirement.

Aviram Lahav
Chief Financial Officer

Thank you so much.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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