Raviv Zoller, ICL's CEO, at a Fireside chat at Morgan Stanley's Chemicals, Agriculture & Packaging Conference
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Vincent Andrews: Now we will move to ICL. We have here Raviv Zoller, President and CEO, and Limor Gruber, Head of Investor Relations is there in the back. I thought the best place to start just because, you know, you've been CEO now for enough time that you've had time to be under the hood and sort of had a complete review operationally, strategically, and maybe you just want to talk to us about what your strategic priorities are and what sort of the action plan is that you've put in place since you became CEO.

Raviv Zoller: Okay, sure. Thanks Vincent. Morning everybody. First things first, so first, I wanted to make sure that we align our business structure, organizational structure with our strategy. So we looked at each one of the divisions. We looked at the various P&Ls and tried to shed off the non-profitable businesses or non-core businesses and look at the future strategy from a leadership position.

So, for those that don't know ICL, ICL is a fertilizers and specialty chemicals company, based on resources from Israel. So we aligned the company according to three mineral chains. One is potash, where we have a leadership position on our cost structure. We're among the three lowest costs-positioned companies in each one of our territories, the territories that we sell to. So, for India, we're number one in terms of cost position. For China, we're number one. For Brazil, we're currently number two. For Europe, we're number three. So the strategy in potash is simple: be cost effective. We are a price taker in potash, so we can sell as much quantity as we produce. So that's our potash business.

In bromine, we are the global leaders. We have all the excess capacity in the world. Bromine is a great, great business, very profitable, very cashflow generative. And what we're doing in bromine is, we're strengthening our leadership position by creating a growth strategy and growth strategies being created by adding to the current market. The market has relatively stable demand growing at about the population growth. But some of the market is with our customers, which means that our customers produce some of the bromine compounds, and our aim is to move some of that compound production from our customers to the bromine market and to produce for our customers. A situation that presented itself to us is in China, where the resource of bromine is depleting. There's significant regulatory pressure, and as a result, we've decided to persuade our customers to do some of the production with us as a sole supplier. And, fortunately for us, we've had some strategic wins this year, which have opened the market for us and caused a new growth source that didn't exist before, which is quantitative growth, so our bromine

business is well positioned for growth and accelerated profitability.

Our third business is our phosphate business. ICL in the past had three P&Ls in phosphate, and what we did is we consolidated the P&Ls, and we streamlined our whole business towards specialty products, high-end products. And like in the bromine, in a specialty phosphate business or in the high-end part of the market, we're global leaders, about 24 percent market share. And that business is, even though commodity prices have gone down very significantly this year, this business has still done well, so our profitability is about the same as last year.

Our fourth and final business is the only business where we're not yet global leaders, which is our specialty fertilizers business, what we call Innovative Ag Solutions, where we're basically taking some of our assets, bundling them together, creating new products and new offerings for agriculture and by that creating a successful diversified specialty fertilizer business.

So, we structured the business into our four divisions. We closed a couple of losing plants in Mexico and in Austria. And in each one of the divisions, we took care of the softer parts of the business. So in the potash division, we had a potash mine that ran out of resource in the UK and we transferred it into mining of polyhalite and came out with a new organic fertilizer, polysulfate, which we're ramping up for the past couple of years. And we're turning that into an important operation as part of our potash business. In the bromine business, like I said, we created a new growth strategy, and we're also developing new applications in order to grow the market in the future.

In phosphate, as I said, we're focusing on specialties and we had some breakthroughs this year, one of them in the meat alternatives business, which we see high potential for growth and significant margin expansion, but also in additional applications that are industrial applications like special coatings, non-scratch coatings and other special products.

And in specialty fertilizers, we're developing new products that have unique attributes, and we're also developing a new digital platform that will be our offering for agriculture in the future. So, we solidified our strategy, organized our business into four clearly focused divisions, with each of them having a target of being a global leader. We took care of some of our more problematic businesses, and as a result, we currently have no businesses in ICL that we view as losing businesses.

We also had a losing joint venture in China, in the phosphate business, which we also turned around this year and is now a very profitable business, and we're also taking it to a specialty business next year. And the result of all that is a significant EBITDA margin expansion. So we went from18 percent in 2017 to 21 percent EBITDA margin in 2018, and now 24 percent in the first nine months of 2019.

The last thing among those strategic initiatives is that we're upgrading our potash facility in the Dead Sea, and as a result, creating an additional 5 percent capacity in the Dead Sea for next year. So that's pretty much it.

There are some other aspects having to do with our relationships with the surroundings. There were many significant issues between ICL and the Israeli government, and there

was a lot of tension in the past. And we've worked very hard in the past year to diminish those tensions and get in a good working relationship with the government, which is very important for us because we pay royalties, taxes, we have concession. So that's also something that was taken care of this year, as well as taking care of legal disputes and issues from the past of ICL that burdened management focus and we wanted to get away from.

So that's pretty much in a nutshell what's been going on in the past year.

Vincent Andrews: Okay. maybe let's, let's talk about bromine first and just sort of the general market dynamics, and then also, the new agreement you signed, and the CapEx investment associated with it. But, you know, bromine I think has had a very strong past couple of years after sort of troughing, you know, earlier in the decade from sort of changes in the electronics market and so forth. So what changes do you see in the market and, you know, you talked about sort of population-based volume growth going forward. You know, how does that shift us into 2020 before we start thinking about the new agreement you signed, and what are the drivers of that demand? Is it servers now, or what is making the market grow?

Raviv Zoller: Okay, the bromine market is very stable, so there are many different types of applications from Laminates, electronics, PCB, construction, clear brine fluids for energy. There's a nice diversification there, so we've seen stable demand. Even if one of the components went down, the other went up. We see a stability with growth. We expect that the electric vehicle era will bring a significant growth to bromine demand. And also, energy explorations are becoming significant, because there's significant long-term explorations that have visibility going into '23, '24, '25, so there's a nice, strong long-term demand.

Also, we've significantly invested in discovering new applications and we feel that based on our current pipeline, there will be quite a few new applications of bromine in the next few years. So we see nice long-term demand, and a relatively stable regulatory environment worldwide. At the same time, like I said that we were looking for short-term growth during the next two, three, four years, and that's when we came up with an idea to bring to our customers' value by giving them stability, security in the supply, and in quality service combined. So that's bromine, in brief.

Vincent Andrews: And so, what's the sort of size, scale, and scope of the investment that you should make in bromine, and what are you doing in order to sort of meet the needs of these customers?

Raviv Zoller: Well, the first couple of agreements that we signed required investment of about $30 million in new capacity. But the reality is that since the major agreement was signed, there are a lot of other companies knocking on our door for the same kind of arrangement. So it's clear to everybody that, given the scarcity of the resource and the uncertainty that exists from the customer's standpoint, it makes a lot of sense to get into a long-term agreement. And if a major customer of ours took the plunge into working with us as a sole supplier, then maybe it's safe for others, also.

So, we see a lot of demand knocking on our door. We will need to make additional capacity increases if we sign significant additional contracts. At the same time, we want to be very careful. We want to make sure that the level of customer service doesn't go down, that we don't go down on quality, that we manage everything responsibly. The

return on investment is very quick. It's less than two years, so it's clear that there's something big going on. But at the same time, given that it's new and we haven't been a sole supplier of compounds for Chinese customers before, it's something we want to make sure we never do less than perfect, so that's going to control the timing.

Vincent Andrews: So you think you're probably going to get this one underway, sort of perfect the process, and then replicate?

Raviv Zoller: Yeah, I think we will be signing additional couple of agreements before this gets underway, because with a small uptick in investment, we can actually increase capacity more than originally planned. But, additional significant deals in the future, we'll wait until we feel comfortable that everything is in control.

Vincent Andrews: Okay. shifting gears to potash market, you know, it's kind of a tale of two halves this year, right? The first half of the year got off to a good start. There was still some price momentum. Shipments were strong globally and then, I don't know whether it was sort of the weak US season that we had because of all the well-documented weather challenges, but the market seemed to sort of, you know, sort of slowing down. Then we started to see some price weakness in the third quarter, and then the Chinese and Indian contracts, which really haven't been a factor in the market for a number of years, I don't want to say they've reasserted themselves, but they're worth talking about again, whereas in the last maybe two or three years, they sort of had been just, you know, transactions that took place and nobody's spent any time thinking about them. So, how do you assess where the market is today?

Raviv Zoller: I think that since the difficult season in the US, it's been a buyer's market, and the capacity from the supplier side hasn't adjusted fast enough to the demand. I think many were surprised by how weak the season was in the US, and that was coupled with issues in China coming a little bit from local production, but also from the swine fever issue. And of course, we also had the very weak palm oil prices. So all those things coming together at the same time I think were very surprising. We were very negatively surprised. In the beginning of the year, we saw a trajectory that would have allowed prices to go up in Brazil coming May or June, but the US weather just never recovered.

And so, it has very much been a buyer's market since. The Indian contract is relatively stabilizing news, if you will. The price is something that buyers and sellers are looking at. It's not clear yet that the price has stabilized; people are still looking at a future Chinese contract. We don't see a Chinese contract being signed this year, probably a first-quarter event. But the potash suppliers have curtailed some of their production capabilities, so it looks like we're getting into a matched supply/demand situation where prices should stabilize.

Vincent Andrews: And maybe talk a little bit about, you know, you're doing a facility upgrade and sort of your mine plan.

Raviv Zoller: Okay. So, as I said, we have a great potash business, very profitable, very steady, very cashflow generative, as is our bromine business, which is even more cash generative. And our capacity at the Dead Sea is set about 3.8 million tonnes. For the past year and a half, we've been planning a de-bottlenecking project, which requires stoppage of the plant for three weeks and that will be happening, I think about a week and a half from now.

And what that will give us is, it will give us additional capacity of about 200,000 a year, so the capacity of the plant will actually go up from 3.8 to 4 million post this stoppage. An additional 200,000 tons a year, which is very significant, could add a little over $40 million to our operating profit a year.

Vincent Andrews: And maybe also on the, the polysulphate opportunity set and, you know, what sort of brought that on, what your goals are with it and what the signposts are on the way to those goals.

Raviv Zoller: Okay, so polysulphate, like I said, when the potash resource ran out, it was an option. It was a risky option because polyhalite as a fertilizer has never been sold to the market, so it required a lot of field trials and R&D investment and infrastructure investment. And all the time, there was a potential competitor, Sirius Minerals, who are digging a mine close by. And all that together actually created a pretty risky event, a risky product, because the actual size of the market, in our view, is a smaller than what the potential competitors are seeking. And therefore, given that we don't have control on what they're actually going to accomplish, if they come into the market, then that could make our business a non-valuable business. Right now, it seems that they don't have what they need in order to move forward, and as a result, we have an interesting product that is an organic product with no chemical processing. Field trials are amazing. Demand is picking up, and it looks like we will have a product that we will be the only ones selling and that will command a premium in the future. And so, it looks like, as long as we're the only players in the market, we have a very, very nice business.

And this business, keep in mind that in the past three years has generated losses of about $150 million in total, which were really an investment in building up the business, just last year about $60 million. So, given that we expect that this business is going to break even next year and then turn into a profitable business in 2021, it's an additional upside to our potash division. So, like I said, we have a $40 million regular upside for the potash division, and another $40 or $50 million coming from polyhalite next year, so we're poised to start 2020 in very good shape.

Vincent Andrews: And the product itself, maybe help people understand, which crops does it go into? Is it a complement to regular potash and to phosphate and nitrogen, or is this used differently, or how does it fit into the customer landscape?

Raviv Zoller: Okay, so polyhalite has potassium, magnesium, calcium, and sulfur, so you get four in one, four nutrients. They're used for row crops as well as cash crops. Like I said, as time goes by and we add additional field trials, and we've gone through over 300 field trials, there is mounting information demonstrating that there's real added value in the product, and our customers that are using the product are very happy with it. And like I said, it's organic, so as time goes by and there's more premium to organic for sustainable agriculture, I think the demand for the product will keep growing.

So, like I said, Polysulphate is something that started out of, I would say, reality. Reality gave us a product instead of a product that didn't exist anymore, and we stuck with it. I'm not sure that I would've made the decision to stick with it at the time, but given that I inherited this product, I was probably lucky to inherit the product because we're in a position to take it from a significant loss to being a premium product that could actually help improve the offerings of ICL to our agricultural customers.

Vincent Andrews: Okay, maybe we switch gears to phosphates and, you know, just sort of your sense of where the market is, and then sort of the impact of the new phosphoric acid facility that you're building, how that will impact your portfolio.

Raviv Zoller: Okay, so I'll start from the latter part. The new facility that we're building is not for additional capacity. It's a purified acid plant in China, and basically, the intention is to move from commodity products to specialty products in China. So it's basically just diversifying and moving up the value chain.

In terms of the general phosphate commodity situation, it's really a matter of a lot of things that came together, including lower demand this year, record production in China, the Saudis coming into the market, and the Moroccans being relatively aggressive in the market. At the end of the day, OPC owns the market. They have 50 percent of the global raw material. They can exhaust it over 100 years, or they can exhaust it over 50 years; it's really their decision. So, I think I heard some of my counterparts said in their conference calls that, in terms of curtailment of a phosphate, how they behave doesn't necessarily impact the final result in the market, because somebody has most of the excess capacity of the world.

So, we've seen the curtailments, we've seen talk of Chinese reducing capacity in production. The reality is that that it's still very much a buyer's market. Prices are still going down. Nobody's sure where the bottom is. My personal take on it is, as soon as we see companies show a negative gross profit, it should be very soon because nobody can -- I mean Chinese product is leaving China at a loss, and some of the Western companies have a negative gross margin, so I think the bottom should be near. At the same time, we're not focused on commodity market. We're focused on building our specialty market and diversifying away from that. We were, before the downturn in the market. We don't think we have a competitive advantage in commodity phosphates. So our view is that we want to solidify and grow our leadership position, and there's a lot of innovation going on at ICL, and part of it has come through in the specialty phosphates business with our meat alternatives breakthrough and some other breakthroughs that we're working on.

Vincent Andrews: Yeah, I wanted to ask you about, I believe the product's called Ro --

Raviv Zoller: Rovitaris.

Vincent Andrews: Thank you very much. Rovitaris. And I think you signed an agreement on that recently as well. So help us sort of, you know, obviously that's an emerging growth story broadly speaking in the markets, but, so what role are you going to play in it?

Raviv Zoller: Yeah, there are a lot of technologies out there and a lot of producers that are capable in turning plant protein into meat substitutes. Our technology has three, or rather four components to it, and it has to do with taste, texture, shelf life, and stability. Each one is its own technology, and what it means is that we know how to take plant protein and to turn it into something that actually tastes, looks and feels like meat. We have solutions for chicken nuggets, for hamburgers and other beef, seafood, and the sausages. All of these are being introduced to the market through food producers. We're not a retail company.

The agreements that we signed, one of them is with a very, very top-notch US food producer, and most of the deal is around the chicken nuggets. A second deal that we did

is around veggie-based hamburgers in Brazil. We feel that the technology is superior to some of the other things that are being introduced in the market. There's a lot of hype in this market, so everybody's talking about it and everybody's dealing with it. We feel that we have a superior technology, and we're capitalizing on it now. We have our first successes. and we've brought our products to the market already, and based on the results in the markets we hope to grow this business significantly.

We're also investing in other food tech potential, because we already have a $600 million a year food business, mostly based phosphates. And we know all the large customers. We have three research and development labs on three continents. We work together with our clients to develop new products. There's a lot of demand for new technology in food, and we want to see that as one of the ICLs growth engines. And we'll see most of it through the specialty phosphates business.

Vincent Andrews: Yeah, this is maybe a good opportunity to transition to sort of how you allocate capital, both in terms of R&D, in terms of growth spending across your three businesses. We've obviously talked about, you know, growth projects in bromine and potash. You've got Polysulphate, Rovitaris. You know, how do all these different segments compete for capital internally?

Raviv Zoller: Okay, so based on some of the things I talked about, and based on the fact that ICL has always been a cash generator, we've been able to significantly increase our cash generation in the past year or so. And as a result, we create much more cash than we need for CapEx, dividend and organic growth. We are considering allocating a few hundreds of millions of dollars in the next few years for M&A, but targeted M&A towards a specialty fertilizers business, where we want to diversify our product mix and also diversify our geographic expansion. We're very much based today in the northern hemisphere, and we've just started pushing into Brazil, India and even China. So, we do intend to build up our specialty fertilizers business. We don't need to do any M&A in our three mineral chains because our potash business, we're very comfortable with our capacity, and like I said, we've increased it. Our polyhalite is going to turn into a cash-generating business, so we're okay on potash. Our bromine business is extremely cash generative, and like I said, now that it's going to be growing, it's going to be even more cash generative. Our phosphate business R&D is not going to grow by much. It's just much more focused. It's just much more focused now on specialty products.

And so, other than specialty fertilizers M&A, the only other M&A that we would consider is to enhance and accelerate some of the innovation that's already going on, be it the digital platform that we're building, be it food technology and other battery storage that we're investing in, and some of the other initiatives in in ICL. Next quarter is going to be the final quarter of a two-year dividend policy of 50 percent of our adjusted net income, so we're going to revisit that. We have plenty of cash to pay to our shareholders. In terms of CapEx, we don't need a lot more than maintenance CapEx, I would say we need up to $100 million a year. Our operating cash flow this year is going to be about $1 billion, so that means a free cashflow of about $500 million, which gives us plenty of room to consider all options.

Vincent Andrews: Are there any questions for anybody in the room? Maybe you could just tell us a bit about the digital investment that you're making and sort of what that's about and what the trajectory is.

Raviv Zoller: Okay, basically, based on what you heard about ICL, we basically service two industries. One is agriculture, with fertilizers and special products. And the other is industrial, which we service with our bromine and specialty phosphates businesses. In agriculture, we feel that the right thing for us to do is to be our own disruptor, and so we're building a digital platform for growers in the future that is targeting agronomists. And the reason that we're targeting agronomists is that we feel that currently, the farmers of the world are not waking up to check what is the coolest app available. They're basically trying to survive. And a lot of the companies that are creating data are creating tremendous amounts of information and capabilities, but by the time the farmers can use those capabilities in order to make decisions, the season is over. So we think that it will take quite a while until the farmers will be able to leverage digital the way the companies are creating it right now.

At the same time, a lot of the technologies of the future already exist, but they can't be actually used in farming. So, given that every farmer, whether it's a big farm, a small farm, whether it's in China, or whether it's in the US, have a common denominator that there's always an agronomist around that advises the farmer. And the agronomists, in contrast to most farmers in the world, agronomists are very internet savvy, looks for information, looks for scientific validation. So what we want to do is, we want to give agronomists the ability to be the best advisors possible, given the potential of consolidation of information and a lot of value add that we can bring to the table. We're developing our platform with an intent that is different from a lot of our competitors. Typically, in digital, in any business -- and it's no different in agriculture -- a lot of the new players in digital try to promote their product, which means that they look for e-commerce solutions, CRM solutions, internet sites that allow trade. And we are taking a different approach.

We're not approaching the digital platform, or the digital platform for agronomists, from the perspective of how to sell more fertilizers to our customers. But rather, we're trying to think what's going to happen 10 years or 20 years down the road. What are the agronomists, what are the growers of the world going to need? And we're trying to form a platform that will apply and will service those needs. So that means that we're taking an approach where we don't have to tie our hands to a ICL business, but rather, give the future growers of the world everything they need. And the agronomist is a consultant, the one that writes the recipes to the farmer, not just for fertilizers. They do it for seeds, for equipment, for pesticides, for timely harvesting, for field trials, for everything else. So we're going to consolidate information, but also help make the recipes, give advice on the recipes, because we have 90 years of agriculture experience, a lot of knowhow. We have very strong Israeli ecosystem with a very strong startup community, and we're going to leverage that in order to build a platform that we hope will be very sticky to the agronomist, which means that they will be spending a lot of time on it.

We're leveraging capabilities that we're getting from Amazon, and we're partnering with them on this initiative. The first thing we're talking about is a field trials module that's going to consolidate information that currently only exists in each of the companies or academic institutions or institutes that have made field trials and have their own information. There is no central database that allows access to this information, and we're signing partnership agreements with a lot of companies and academic institutions, including, by the way, some of our competitors, even those that sat here in the previous session. We're going to consolidate field trials information for use of agronomists and

growers. So that's something that we have talked about.

The rest we're trying not to talk about. It is best for us to do it under the radar. Because we are first movers, nobody is approaching it exactly the way we are, with agronomists and to future needs of growers and not just sell more fertilizers. And fortunately for us, it's a, I'd say a low-risk and a low-cost initiative. It doesn't cost a lot to build the platform we're building with the concept that we're using, so there's a marginal effect on ICL results, but we are getting a lot of benefit because even in the pilot stage, we're collecting a lot of insights on what our customers need. And it seems that as we move along, the amount of insights and the ability to access customers directly and not through distribution will be significant.

Vincent Andrews: Anything from anybody out front here? Okay, with that, thank you very much.

Raviv Zoller: Thank you, appreciate it.