ICL

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Steve Byrne, BAML Analyst: It's my great pleasure to host Mr. Raviv Zoller, ICL President and CEO. Since 2018, Mr. Raviv Zoller has been serving as ICL President and CEO, since May 8. Prior to joining ICL, Mr. Zoller served as the CEO of I.D.I Insurance Company, which is listed on the Tel Aviv Stock Exchange. In 1999, he founded Ness Technologies, which began trading on the NASDAQ in 2004 and served as its President and CEO until 2007. Mr. Zoller, you have the stage.

Raviv Zoller: Hi, everybody. I want to introduce you to ICL. You know the drill, public company, traded on Tel Aviv Stock Exchange and on New York Stock Exchange. Company has been active in various ways for about 90 years and $5.6 billion in sales in 2018, $477 million net income. The company has about 11,000 employees and global presence with 49 operational sites.

We're also investment grade, BBB- investment grade rating based on a ratio of up to four net debt to EBITDA. In the end of 2018, we're actually 1.9. So our rating situation is very positive, balance sheet is very strong. And these are the locations. The special things about ICL. First of all, we have a unique asset with the major one being minerals from the Dead Sea where we have highly efficient resources, especially potash and bromine. And we also have phosphate mines in the Negev Desert in Israel. Strategic locations, Israel is about in the middle between China and the Far East and U.S. and the Americas.

We also have very close production sites and our minerals are very close to the ports, so we have low transportation cost, low shipping cost to our strategic markets. We have unique know how, coming from 90 years of experience, great agronomic capabilities and know how in the State of Israel, and great ecosystem of technology, academic and high-tech startups coming from Israel.

The way we look at our business is, we have four business lines, which I'll introduce to you in a second. And the way we look at our business is, we like to keep things simple. And we want to lead in everything we do. Our philosophy is, if we can't find a way to lead, then maybe we don't want to be in the business. And therefore, we spend most of our time solidifying our leadership positions in our various businesses, which I will introduce to you now.

The first business is the bromine business. And actually, we will focus on that today, and that's why I've brought with me my colleague Anat Tal, who's the President of the bromine business. We are the global leader in bromine, which means we have about a 30% market share, about 40% of the global capacity. Most of the unutilized capacity belongs to us. We also have a world leading specialty phosphate business, which means that specialty products for phosphate business, we have the most significant market share of any other company in the world.

And we also consider ourselves leading in potash, not because we're the largest supplier, we actually the #6 supplier of potash, but we feel ourselves as leaders because we have the most cost-effective business coming out of the Dead Sea, which means that to our strategic markets, China, India, we are #1 in terms of cost effectiveness, in terms of cost structure. We're #2 to Brazil and also #2 to Europe.

And last but not least, the final business is our Innovative Ag Solutions division, which is based on Specialty Fertilizers business, a business that was built with extensive R&D, which has a very wide portfolio of products. And we're in the process of building leadership in that business. That business was $740 million in 2018, and we're targeting growing that business and turning it into a leading global business for Specialty Fertilizers, and for that we're going to develop that business in the coming years, add to our product portfolio and add to our geographical distribution.

So as I mentioned, in bromine we have leading capacity, 40% of the market. Specialty phosphate, we're 24% of global market, and in the Dead Sea we're among the top three most important potash producers, but we're actually #1 to our strategic markets, to the markets we sell into. And to expand and speak more about the bromine business, which we're targeting today, we want to hear about, please, Anat, go ahead.

Anat Tal-Ktalav: Hello, everyone. So today we're going to present the Industrial Products division. We're going to talk about bromine, but not only bromine. In the Industrial Products division, around 70% is bromine, but we're also going to talk about phosphates that we are producing and Dead Sea salts.

We sell in this division around $1.3 billion a year, with an operating income of $350 million. We have 11 manufacturing sites worldwide, 1,620 employees, and three R&D centers. We're split quite evenly between the territories. This is our sales split. So you can see, we're more or less 1/3, 1/3, 1/3. This is very important to keep this balance. 66% of our sales is actually bromine and bromine compounds. Around 20% is phosphorous compounds, and around 14% are specialty minerals.

Of all our sales, bromine and phosphorous, 40% are flame retardant that go into the electric applications. We have manufacturing sites all over the world. Three of them are in China, three of them in Europe, one in the US and all the rest are in Israel as well.

So how does it happen? We take bromine from the Dead Sea. This is actually coming from the end brine, after we produce potash. We take the bromine out, we put it into isotanks, and around 70% of this bromine goes to the production of bromine compounds. These compounds we sell to our customers. Some of the bromine we sell directly to our customers. Phosphorus, on the other hand, we are not back-integrated to elemental phosphorus. We purchase P4 and from that we make our compounds.

Why is it important to be back-integrated into bromine and less important to be back integrated into phosphorus? Phosphorus, is only around 10% of the compound, while if you talk about bromine, bromine is between 50% to 90% in the end product. So it's really, really important from a cost point of view to be backward-integrated into bromine. We also have some salts from the Dead Sea, the bath salts that we sell under this division.

We have several applications, the biggest one, as I said, is flame retardants. They go into plastics in order for them not to burn. These flame retardants, they go into electronics, they go into construction, they go into automotive.
We also have, in the automotive industry, we have bromine that goes into the rubber used for tires production. We have bromine biocides that use. Bromine is also used in pharma. Not know if you know, but if you take a cold pill, it has bromine inside in order to stop your cough. And we sell clear brine fluids into the oil and gas drilling industry.

The bromine concentration in the Dead Sea is the highest globally. It's between 10 to 12 grams per liter. And actually, you can see here the concentration. The lowest concentration is in underground wells in China. And this is becoming even lower. So they have between 0.1 to 0.2.

When we produce our bromine, we take the end brine after the potash, and we return whatever is not used back into the Dead Sea. So our waste, so-called, is six grams per liter, higher than all the others. The cost of producing bromine is 1-to-1 with the concentration.

If we look at market capacities, we see that ICL has the highest capacity, with 280,000 metric tonnes of capacity. After that, there is Albemarle on the Jordanian side with 120,000. There is in the U.S., 170,000 capacity. In China in 2018, we see around 70,000 metric tonnes of bromine. This has gone down in the last 10 years from around 140,000. This is important. And what we see, there is a depletion, and it's going to keep on going down. And we think it will even reach 50,000. It can even reach 40,000 metric tonnes in the next few years.

Another thing about China, because of this depletion, their quality is becoming worse. And some of our customers, they cannot use any more of the Chinese material as is, and they need to actually mix it with our bromine. Due to the depletion in China, and due to environmental and safety issues in China, their cost has gone up. And you can see what happened to the bromine prices. So since 2015, which the bromine price was around $2.20 per kilo, it went all the way up to around $4.30 per kilo, which is the current price.

We're a leader. We are a leader in a few things. We are a leader in flame retardants. We are a leader in bromine capacity. We have the biggest bromine compound plant in Israel. We have the largest isotank fleet. In order to take bromine and to transfer to our customers, you need isotanka. One isotank can take only 60 metric tonnes per year, that's it. It can do three round trips per year. Each round trip is 20 metric tonnes. So we have the biggest isotank fleet by far compared to our competitors. And you can see here, we're a leader in many other things, such as clear brine fluids as well.

At the end of 2014, beginning 2015, we changed our strategy to a four pillar strategy. I want to go over each one of them. The first one is value over volume. We were selling to the customers and we were trying to make the volumes and not the value. And what we found out is that when we were selling bromine, we were making value. But when we were selling the compounds, we were not making any money of it. We were even losing the value that we have under bromine. And in 2015, we decided to change that strategy. And we looked at profits more than the volumes that we are selling.

In addition, in 2015, we decided to change from spot sales to longer-term agreements with our strategic customers. This was hard in the beginning, but in 2017 and '18, we already managed to sign long-term agreements for at least one year, some of them for two and three years. Some of them are even seven and eight years. And we signed these agreements in 2018. We are going to sign additional agreements, and we are working on few of them right now.

Because of the depletion in China, what we want to do is instead of them purchasing elemental bromine from us, we want them to shift to a direct purchase of bromine compounds. So we are working on something like that as well.
We are looking for new applications of bromine. There hasn't been a new application in a long time, and we want to have new applications. And what's happening in the computer and the artificial intelligence, we are working with a company now for a few months to try to find new applications for bromine. And how does that work?
So the bromine has around 30 characteristics. We want to see if there is a need in the market on the other side that can use these characteristics and doesn't know that it can use it. So we are doing this through AI program that will find new applications for bromine. Hopefully, next year when I stand here, I can tell you that we have succeeded and we do have a new application.

Our cost is very, very important. So part of our strategy was to reduce cost. We reduced the number of people that we have within IP from 2,100 to 1,650 more or less and we did a lot of changes in our plants to improve production. And the last thing is advocacy. We started being proactive instead of just protecting our products.

Here, we can see the results in 2018 compared to 2017. So our sales grew from $1.2 billion to around $1.3 billion and you see that our profit grew from $300 million to $350 million. This one is even a better slide. So since we changed our strategy, we can see that the sales dropped and little by little, went up. Why was this? Because we were not going for volumes anymore. We were going for the value. But look what happened to the profit. We were with $194 million when we just started and we went all the way up to $350 million. And this is here to stay because our strategy is not going to change.

Trends for the future. So there are electrical cars. There are autonomous cars and this will need more electrical parts. Because of this, we are developing with our value chain, new flame retardants for the future. The current flame retardants that are used in the market cannot be used in autonomous cars. They're not good enough. We need different features for the flame retardants that are going to be used in the future. We are doing this with the whole value chain, not just with our customers but also with the car makers.

Renewable energy. So imagine that in your house you had a battery, more or less, on a size of a refrigerator that you can put panels on your roof, you're in Florida, it's really nice to do that. You have panels on your roof, and then you can disconnect completely from the electricity company. You can be by yourself just with these panels and with this battery that is bromine based that is in your house. Today this is not economic. But 60 years ago, also refrigerators were not economic and not everyone could afford it.

So if we're looking at the price of the panels, they're going down sharply. And this battery, when it's going to be -- when we're going to use it in large amounts, and produce it in large amounts, we're not the producer, we're just the chemical providers, when it's going to be produced in big amount, the prices will drop as well. And then it will be economic in each house. So you'll have a refrigerator on one hand and another battery that is the size of a refrigerator.

We also have a mercury cleaning from coal. This is also growing, especially in China, India and in Europe. Today, it's only in the U.S. Home automation, and the last thing is the water shortage that is happening all over the world, and we have biocides that can clean the water and then you can reuse the water.

And that's it. Bromine is all around us. By the way, in this room, there's bromine compounds that we don't even know that they exist. They keep us alive. So in your computer, you have bromine compounds that we don't even know. In this projector, there are bromine compounds. When we drove here, we used fuel. This fuel in order to take it out had to use clear brine fluid. So these bromine products are all around us on our everyday life. We just don't know it.

Thank you very much. Thank you. Are there any questions?

Unidentified Participant: Do you want to come sit here and maybe we will see if -- yes, just ask the floor if there are any questions. Otherwise, if not, I'll kick off with a couple. Please.

Unidentified Audience Member: Just keeping the focus on the future, just talk to us about your R&D and how that develops over time?

Anat Tal-Ktalav: I couldn't hear you. Again.

Unidentified Audience Member: The R&D, your spent, how you expect that to develop over the next couple of years.

Anat Tal-Ktalav: Okay. So we were spending in our R&D and doing everything internally. We saw three years ago that this is not benefiting us, and we decided to go out and to see whether there are unmet needs in the market. We did a training, and we went out to ask our whole value chain, what are their needs, future needs, also. And from this we developed together new products. So now our R&D is more focused, new products that actually the market needs and not that just what we thought it needs.

We see already two new products that are being now in a pilot phase. They are flame retardant. One of them is for, as I said, for automotive. And we think that it will pick up in the next few years.

Unidentified Audience Member: Just a question on your phosphate business. How much of your sales are in specialty versus commodity?

Raviv Zoller: Our specialty sales are about 50% of sales. The potential going forward is to reach between 70% to 75%. It will take us six to seven years to get there.

Unidentified Audience Member: And how would you expect the Chinese JV to progress?

Raviv Zoller: The Chinese JV is actually selling only marginal amounts of specialty products because the main plant for purified phosphoric acid is being built as we speak and it will be constructed by the end of 2019, perhaps the beginning of 2020. Only after the plant is constructed, the specialty sales will grow in China.

Unidentified Audience Member: One question on bromine prices to China. Bromine prices have been very strong over the last year or two. And that is I think driven by some of the capacity closures in China. But as the prices are strong, are you seeing some of these Chinese resource bring back the capacity? Or is there a possibility for these producers to bring back some of the capacity?

Anat Tal-Ktalav: So it all starts from the resource. They don't have the resource. They have a depletion. So they have used up their resource too fast, and they do not have the resources today. So even if they put money and they put capacity, it's not going to help. They need the element of bromine, their resource from the brine.

As I said before, in the last ten years it's gone down from 140,000 to around 70,000. This is not because they don't have capacity or they're not investing. This is only because they don't have the resource. They don't have the elemental bromine.

Unidentified Audience Member: Can I ask one more question? You mentioned EVs as a potential demand driver for bromine. Can you size that opportunity in terms of, like, if EV penetration goes to, call it, whatever, say, 5% or 10% of total auto production, how much of the incremental demand that will drive for bromine? if you've done any sort of quantification?

Anat Tal-Ktalav: So we've done that. We're talking about -- for this industry, we're talking about around 10,000 metric tonnes in the first phase of flame retardants that would need to be used in this application. So if you take 10,000, and you multiply it by, I don't know, a price of some kind of compound, you will get to, let's say, $60 million, $70 million. And this is just for the initial stages. If it becomes - if all the cars are that way, then, of course, it's much bigger. We were doing just

assessment for the next five or six years. As part of this assessment, we're also investing in some of our flame retardant capacity and the flame retardants that we see that will be used in EVs. We will have this capacity within one or two years.

Unidentified Audience Member: Is it okay to ask you a question about the Innovative Ag Solutions division?

Raviv Zoller: Sure.

Unidentified Audience Member: What are you doing in the biologic sector? I noticed in this presentation booklet you do make reference to that. Is there anything you could comment on that?

Raviv Zoller: Yes. We're doing some R&D on bio-stimulants, if that's what you're referring to. And so it's internal R&D that we're investing in. We're investing about $5 million a year and we have some potential intellectual property that we're proud of, but I can't talk about future commercial numbers it's still too early.

Unidentified Participant: Any other questions?

Raviv Zoller: We're also working on biodegradable solutions, which a lot of our peers are working on.

Unidentified Audience Member: Just wondering your thoughts on the addressable market size for the polyhalite market?

Raviv Zoller: The addressable market for potential customers that would, in our mind, pay a premium for the product, premium meaning above the value of the components is probably about 3 million tonnes currently. There are different opinions. There are opinions of some of our competitors that give them the importance of sulfur to soil. It could compete with SOP and then the market would be higher. But as far as we're concerned from our market studies and where we're targeting, we're talking about a 3 million tonne a year market. So it remains to be seen whether the product can get a premium and higher volumes.

Unidentified Participant: Any other questions? Not at this stage from the floor, so I'll kick off with a couple. Raviv, I'm quite curious to -- so I think we've had the brand presentation in terms of the various products that you have, especially on the bromine side, which seems to be quite, let's say, which is becoming in scarcity, especially in China. On the potash side, what's your outlook really on -- what are you seeing currently on the market? What's your outlook in terms of supply-demand or maybe the key moving parts that you're seeing?

Raviv Zoller: The market is quite balanced. There is good balance between current supply and demand. There's about 1 million tonnes of new capacity coming online this year. At the same time, demand is growing by 1 million tonnes to 1.5 million tonnes this year. Prices are very stable for the first half of the year. Most suppliers are supplying into China and India. In Brazil the season hasn't started, but the prices have not gone down, which is actually a bullish sign. Prices of granular at $350 to $355, and given that there's very little activity, it's surprising that there's no price decline.

So it looks like the market is going to pick up from the end of March, beginning of April. And we're very positive about the market. I think some of our competitors that are more dominant from the supply side have come out with a positive outlook. So we're very positive about the market.

Another thing to consider is that there's no new capacity coming out of China. So the internal supply in China is very stable. At the same time, there's nice growth of demand in China. They

have a policy of zero growth for fertilizers, but since part of that strategy is that nitrogen needs to go down by 2% or 3% a year, it means that potash actually is given some tailwinds. And there's more growth of fruits and vegetables in China, which is also a very positive to potash.

Unidentified Participant: Very good. And on the side of consolidation in the potash industry, do you see opportunities fall out or not so much?

Raviv Zoller: I don't -- I can't think of anything in the short term. There's always possibility of consolidation in the long run. But I don't -- I am not aware of any consolidation that's currently planned.

Unidentified Participant: On the side of phosphate, in terms of supply/demand balance, how are things taking shape, just in terms of what you see in the market?

Raviv Zoller: In phosphates, it's all about China. There's excess capacity in China, which is sort of an unbalance to the market. Now we're out of season, so prices of MAP and DAP have dropped by close to 10%. With season starting in Brazil and in India - I think that demand is going to come back up. It seems that the Moroccans and the Saudis are playing a disciplined game. So it seems to be balanced also. So I expect that over the course of the year, the prices will balance out and will return to the level that they were towards the end of last year.

Unidentified Participant: Very good. Any other questions from the floor? Yes, please.

Unidentified Audience Member: Can you give us some color on where you lie on the cost curve for phosphate and potash fertilizers?

Raviv Zoller: Could you repeat, please?

Unidentified Audience Member: Where does ICL lie on the cash-cost curve for phosphate production and potash production?

Raviv Zoller: According to external agencies, we're #1 on the cost curve, which means we have the lowest cost to China and India from the Dead Sea. Because of our unique logistics advantage, we come out first for both China and India. And in fact, because of an expectation for increasing transportation costs, our lead is supposed to even grow in the next five years.

So they also have a forecast five years ahead. So Brazil, we're currently #2 after SQM. So between those locations as you have most of our sales, with the balance being to Europe and some sales to the U.S. and other locations.

Unidentified Audience Member: Just on Brazil, with SQM focusing more obviously on the lithium side, does that mean -- is that opening the door for you now for further expansion there?

Raviv Zoller: Honestly, we don't have enough product to further expand. So I mean in potash. In phosphates, we're focused mostly on specialties in Brazil at the moment. So as far as SQM is concerned, SQM is a player in potash. Given our size, we don't really have a limit on how much we can sell. It's more a limit on how much we can produce. We're actually at historical lows in terms of inventory. We're at the lowest inventory ever in the history of the company, on January 1, on potash.

Unidentified Analyst: On the side of -- well, strategically speaking, what is on -- for the potash business, what is key for you? Is it to maintain your share in the commodity grade or to increase your share in the specialty grade?

Raviv Zoller: Given our current production capacities, we have the right balance, and it's just about execution of cost and breaking production records. We're proud that we broke our production records in Dead Sea this year, and we hope to repeat that next year.

Unidentified Participant: No question from the floor at this stage. Can we carry on maybe a little bit with the financials? In terms of financials, what is your ambition? I guess, what is your ambition maybe in terms of credit rating? Are you happy with where you are right now? You aim for further CapEx, and you have a limit in terms of leverage, in terms of net debt to EBITDA.

Raviv Zoller: Our leverage is very controlled. Our balance sheet is very strong. Credit rating is important, but it's not critical to us. We're not raising any debt, and we have plenty of capital, and we're generating cash. And our future needs, in the near future for M&A are probably covered by potential sales of existing nonperforming or nonstrategic businesses.

So at the current level, dividend, which is about 3% a year, and the current level of M&A, capital expenditures that we expect, we're not in need of any additional capital. We could be looking at a change in rating in the future because we've come a long way and we actually reduced our debt-to-EBITDA ratio by half. So we may see an improvement. It's always good to be rated higher, but it's not critical for our business or anything.

Unidentified Participant: And maybe one final question in terms of -- over the next five years, where do you see -- where is the biggest focus for you? I guess, bromine seems to have plenty of very interesting applications, especially with EVs, et cetera? What are the key -- let's say, the three key products for you?

Raviv Zoller: We have three globally leading businesses. Potash from a cost perspective, we want to keep our cost at the lowest and keep moving the efficiencies in the right direction. Bromine, we want to extend our leadership position and further grow our business in terms of both revenue and operating income.

On the phosphate, we want to increase the component of our specialty business from 50%, like I said, to over 70%. And last business, our Innovative Ag Solutions or our Specialty Fertilizers business, we want to focus there in order to turn it into a global leading business, into a fourth global leading business. For that, we will need to go through a little bit of M&A to complete our product portfolio, to become a one-stop shop for all farmers.

We need to invest a little bit more in R&D and complete some of the things that we've started. And hopefully five years from now, we'll be able to be proud of four globally leading businesses. So hopefully, we'll be able to keep the good trajectory that we have now growing both revenues and operating profit, and of course net profit, sequentially from quarter to quarter. And hopefully, five years from now, we'll be able to not only keep that trend, but also be proud of achieving a fourth globally leading business.

Unidentified Participant: Fantastic. If there are no further questions from the floor, thank you very much both for your presentation.

Raviv Zoller: Thank you.

Anat Tal-Ktalav: Thank you.

Unidentified Participant: Thank you, ICL.

