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ICL Group Ltd. (ICL.IL)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the ICL Analysts Conference call. Our presentation today will be followed by a question-and-answer session [Operator Instructions] I must advise you that this call is being recorded today. [Operator Instructions]

I'd like to hand the call over to your first speaker today, Peggy Reilly Tharp, Vice President of Global Investor Relations. Please go ahead, ma'am.

Peggy Reilly Tharp
Vice President-Global Investor Relations, ICL Group Ltd.

Thank you. Hello, everyone. I'm Peggy Reilly Tharp, Vice President of Global Investor Relations. I'd like to welcome you and thank you for joining us today for our quarterly earnings call. The event is being webcast live on our website at icl-group.com. Earlier today, we filed our reports with the securities authorities and the stock exchanges in the US 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 the 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 & Chief Executive Officer, ICL Group Ltd.

Thank you, Peggy, and welcome, everyone. In the fourth quarter, ICL delivered significant growth in both sales and EBITDA as we benefited from our continued strategic focus on growing our long-term specialty solutions and from commodity upside momentum. In fact, all three of our specialty businesses delivered all-time record fourth quarter and annual results. Fourth quarter sales came in at more than $2 billion, up more than 50%, while adjusted EBITDA of $575 million increased by more than 100% and was an all-time fourth quarter record. This was a remarkable end to 2021, and for the full year we delivered $7 billion of sales, our second highest ever, as well as $1.6 billion of adjusted EBITDA.

As you know, the fourth quarter is traditionally one of our slower quarters. However, as you can see on slide 3, we delivered our fifth consecutive quarter of bottom line improvement. All four of our businesses contributed with double-digit growth in sales and EBITDA, and this includes Innovative Ag Solutions which delivered on both an organic basis and via our recent Brazilian acquisitions. Performance in the quarter was supported by increased demand and higher prices in most markets which helped us deliver record free cash flow of $166 million in the fourth quarter, a nine-year record, and free cash flow of $465 million for 2021. For the fourth quarter, we also delivered a dividend distribution of $13.18 per share, up more than $0.10 per share over the fourth quarter of last year.

While we saw continued success in the quarter, we also faced many of the same challenges we had throughout 2021. Once again, the teams worked tirelessly to overcome higher overall costs and global supply chain challenges. Most importantly, the global relationships our supply chain, procurement, and logistics teams have built over the years served us well during the past 18 months. The teams recognized imbalances in prices and supplies well in advance and worked to ensure consistent quality and quantity of supply. They strengthened partnerships across the supply chain, managed through the tough times, and helped keep ICL on track almost seamlessly for the benefit of our extensive global customer base.

Now, please turn to slide 4 for a snapshot of our fourth quarter results. As you can see, once again we demonstrated improvement in each key financial parameter. On slide 5, you can see year-over-year sales were up more than 50% while adjusted EBITDA was up more than 100% and margin increased by more than 780 basis points. We also added nearly $90 million of operating cash flow.

I would now like to begin our segment review with Industrial Products on slide 6. Quarterly sales were a record $422 million while EBITDA was $129 million, and both were up approximately 25% year-over-year. This business benefited from strong product demand across key regions and from continued strategic shift to long-term contracts. Our customers place a premium on knowing they will consistently receive the quality and quantity of product they need to meet their requirements, and this is across all of our end markets. The electronics market remained undersupplied and the construction industry also remained very healthy in the quarter as the market took advantage of unseasonal weather which has since turned. Clear brine fluid sales returned to more normalized pre-COVID levels in the fourth quarter as higher oil prices were maintained. We also saw significant contribution from our phosphorus-based flame retardants and our specialty minerals businesses as the latter benefited from the higher demand from the supplement, pharmaceutical, de-icing, and oil drilling end markets.

Our ongoing capacity expansions remain on track and are expected to be operational in the second half of 2022. In addition, Industrial Products is about to launch a growth acceleration investment plan which is expected to expand capacity and deliver additional improvements in sales and profit. We will provide more details on this initiative when we update you on our progress toward achieving 2025 targets later this year. For fiscal 2021, Industrial Products delivered record sales and profit for the division, with significant contribution from its bromine and phosphorous-based flame retardants as well as from its specialty minerals products, allowing us to achieve record cash flow for this business in 2021.

Turning to slide 7 and our Potash business where sales of $698 were up more than 80% year-over-year and EBITDA of $288 million was up nearly 250%. For the quarter, our average realized price per ton of $487 was up nearly 115% year-over-year driven by strong global crop demand and allocation optimization. Corn, soybean, wheat, and rice prices were all up double digits year-over-year as supply remain tight and countries remain concerned about food security. For our potash production sites, work was completed on our P-9 pumping station in the Dead Sea during the fourth quarter, and operations commenced early this year. In both the Dead Sea and in Spain, we maximized our granular potash production through debottlenecking efforts which resulted in higher realized prices. This shift not only meant granular comprised approximately 50% of our production, but it also added roughly $35 million to operating income in 2021.

At ICL Boulby, we saw an increase in both polysulphate production and sales volume in the fourth quarter, up 36% and 42% respectively. During the quarter, we also announced the approval of Boulby's application to continue mining and production through 2048. Beginning in 2022, our Boulby operations will be moving from the Potash segment to our Innovative Ag Solutions segment, and this change will better align Boulby's specialty products as we continue to focus on targeting long-term growth through specialty solutions.

Turning to slide 8 and our Phosphate Solutions division where we reported fourth quarter sales of $609 million or up more than 20% year-over-year while EBITDA of $146 million was up nearly 100%. Of note, December, traditionally one of our slower months, was our strongest for 2021 as we were able to supply new and existing customers at higher market prices. Phosphate specialties delivered record quarterly sales and profit as both food and industrial sales increased, with higher demand across all regions. Also, as we mentioned last quarter, we inaugurated our new alternative protein plant in St. Louis in December.

Our food specialties business saw mixed impact from the resurgence of COVID, with food service weakening as it had during COVID peaks. However, retail was able to offset this decline once again. Industrial customers also provided strong demand, and this business saw continued improvement in volumes across all end markets at higher prices in the quarter. Our YPA subsidiary capped off record 2021 sales and profit with a great fourth quarter driven by higher volumes and prices as well as improved efficiency. This business also continued to supply increasing demand from the lithium-ion phosphate battery market which drove higher specialty monoammonium phosphate sales.

Overall, we saw a significant increase in phosphate fertilizer sales and profitability driven by record production and continued healthy demand. Throughout the quarter, supply remained tight due to export restrictions in China and Russia and other shifting global dynamics. Just before the end of the year, we announced the extension of our phosphate mining concession in Rotem which has been approved for an additional three years through the end of 2024. For fiscal 2021, our phosphate specialties business delivered record sales and profit and also reported production records spanning multiple sites across three continents as the team worked to meet higher new and existing global customer demand. This business saw strong volume increases and higher prices across food and industrial specialty phosphates and for specialty acids.

Turning to slide 9 and Innovative Ag Solutions. In total, fourth quarter innovative ag sales of $380 million were up more than 130% while EBITDA of $48 million was up more than 330%. This segment saw record organic growth in addition to outstanding performance from both of our recent Brazilian acquisitions. For the quarter, organic sales and EBITDA were up 37% and 82% respectively. Positive momentum continued across IAS due to its strong demand and higher volumes across most regions and product lines. Our turf and ornamental business saw robust growth as this business benefited from a global increase in sales volumes and higher prices as distributors stocked up in advance of the spring gardening season in the Northern Hemisphere. Specialty fertilizer sales reached record levels for both the fourth quarter and full year, with increases across all regions led by higher volumes of straights, liquid, and controlled release fertilizers, and strong performance in Brazil. For overall 2021, our Innovative Ag Solutions business reported record organic and total sales and profit.

Now, if you will turn to slide 10, I would like to walk you through some of our recent impactful events before turning the call over to Aviram for a review of our financials. Throughout the year, we have targeted innovation, sustainability, and service excellence through valuable partnerships, and we expect this to continue into 2022. You heard me discuss our internal innovation efforts. And in 2021, these efforts delivered approximately $40 million in annual efficiencies. In addition, our internal accelerator continued to deliver and achieved a run rate of more than $100 million of additional annual operating income. This program succeeds by challenging employees to be creative and innovative in finding all types of solutions from the everyday to the next big product. Our employees have really made a difference.

While América do Sul is still very new to ICL, they're already blazing a trail when it comes to innovation. The team in Brazil was ranked as one of the five most innovative agribusiness companies in the country by business newspaper Valor Econômico as part of its annual Valor Innovation Awards. We're proud of their efforts especially since innovation is such an integral part of our identity and our future growth. At ICL, innovation is happening every day. It's part of our DNA, and I would be remiss if I did not point out two other 2021 efforts. First, our expansion into the electric vehicle and energy storage space through our production of specialty MAP for the LFP battery market and, second, the launch of our ICL Planet Startup External Innovation Hub.

I mentioned sustainability a great deal in the past couple of years, and you'll be hearing more of the same in 2022 as we're beginning our year of sustainability within ICL. I'm looking forward to what is to come this year and would like to mention a few fourth quarter milestones. At the end of this year, we launched what we are calling our Green Sdom project. This is an innovative effort designed to leverage renewable energy for our largest production site. It will help us reach our goal of being carbon neutral by 2050, and we will be sharing more about this exciting initiative in the coming months. Also in the fourth quarter, we were awarded the prestigious Gold Medal rating by EcoVadis for the first time. This means ICL is ranked in the top 5% out of 75,000 rated suppliers, and we are thrilled to be recognized as a global supplier that demonstrates sustainability standards aligned with our customers.

As I discussed earlier, we opened our alternative protein plant in St. Louis in the fourth quarter, and this investment represents just one part of our efforts to develop healthier, more sustainable food products. We're excited about the consumer trend toward more sustainable lifestyle and diet choices and look forward to offering additional sustainable, functional, and nutritional alternative food solutions going forward. I would like to mention our commitment to developing and driving a more circular economy which we are doing through new and innovative products like Fibagro Advance. This unique and superior peat alternative is made from a byproduct of timber industries and allows a much lower carbon footprint compared with use of peat and other peat alternatives, a true sustainable step forward. Like innovation, ESG is an integral part of our day-to-day work at ICL, and I would like to highlight two additional achievements in 2021. We set in place measurable environment targets through a sustainability-linked loan, and we established a new climate and sustainability committee to help direct and guide our progress.

In terms of partnership, once again, the positive developments in Israel's foreign relations have opened up the opportunity for us to build new relationships and create new collaborations. As a result, for the first time, we shipped Israeli clear brine fluids to the United Arab Emirates this past December. We welcome the opportunity to supply our products and are proud to be part of this historically significant moment. Earlier this year, we announced a number of other partnerships, including our collaborative efforts with Columbia University's Electrochemical Energy Center to jointly explore strategies to address energy storage and conversion via next-generation batteries. We're also teaming up with PlantArcBio, an Israeli ag bio company, and have filed a joint patent to develop a novel biostimulant technology platform for improving crop yields while having a minimal impact on the environment.

If you will turn to slide 11, I would like to wrap up by reviewing some of the key takeaways from 2021. Our strategic long-term focus on specialty solutions, which continues as commodity upside persists, benefited us through the year as we delivered all-time record profitability from all of our specialty businesses with a year-over-year increase of more than 50%. In 2021, we benefited from some of the additional production capacity we continued to bring online in our Industrial Products and Phosphate Solutions businesses. The agriculture portion of our business was strengthened by our strategic acquisitions in Brazil which provided additional sales, profitability, and a seasonal balance between the Northern and Southern Hemispheres.

Our food strategy was executed according to plan as we added alternative protein capacity and invested in a food tech startup through our ICL Planet Hub, and you can expect to see more of these types of investments in 2022. Our industrial businesses, specifically our Industrial Products segment, benefited from its commitment to focusing on long-term customer partnerships and on delivering in a reliable fashion, and we also added capacity to meet new commitments. From a financial perspective, there were many achievements, which Aviram will review. Still, I would like to highlight the significant acquisitions we made in 2021 while maintaining our net cash position as we continue to strengthen our solid cash flow generation.

On slide 12, you can see our outlook for 2022. We expect commodity prices to remain firm through at least the first half of the year and supported by strong demand relating to food security concerns, higher food and crop prices, and supply constraints. For our specialty businesses, we will maintain our strategic focus and we expect overall good visibility for the year due to our emphasis on long-term contracts and a very healthy demand pipeline. We will continue to invest in additional capacity to help support our continued growth with higher growth CapEx in 2022 focused on supplying our long-term contracts through additional infrastructure. We will also maintain our company-wide focus on innovation as we look to generate new opportunities and efficiencies. Our sustainability plan is on track and we are gaining momentum as we continue to receive third party accolades for our efforts. Finally, we expect to maintain our disciplined approach to cost management to support our strong cash flow and increase dividend payouts. And of course, we will continue to execute on our strategic leadership goals in the areas of sustainable agriculture, food, and industrial solutions.

As always, I want to thank the entire ICL family of employees spread out across the globe for all their hard work and contributions in 2021. We appreciate that our record profitability is a result of your tremendous efforts. And with that, I will turn the call over to Aviram.

Aviram Lahav

Chief Financial Officer, ICL Group Ltd.

Thank you, Raviv, and to all of you joining us today. I must tell you that I'm pleased to be a part of reporting this outstanding quarter. And while you've already seen slide 14, I would like to call out just a few additional highlights. Sales crossed $2 billion and were up more than 50% year-over-year. Our adjusted EBITDA, a fourth quarter record, was up more than 100% with margin of 28%, up more than 780 basis points. Adjusted diluted earnings per share of $0.26 were up $0.21 or approximately 400%. Operating cash flow of $344 million was up nearly $90 million over the fourth quarter of the last year and approximately $70 million from third quarter of this year. As Raviv mentioned, we delivered free cash flow of $166 million in the fourth quarter. And while each of our business segments contributed, Industrial Products delivered record cash flow for the second consecutive quarter. In the fourth quarter, our results were driven by both our specialty solutions and commodity upside momentum. While our specialty business, including Industrial Products, Phosphate Specialties, and Innovative Ag Solutions had record quarters, we also saw significant year-over-year improvement in commodity prices.

On slide 15, you can see how potash, phosphoric acid, and sulfur prices have trended, with each reaching levels not seen over the past 10 years. So, not only are commodity prices higher, but so are the prices for the raw materials which go into our specialty solutions. Also, as we have shown in previous quarters, you can see the acceleration of marine transportation costs over the past four quarters. While this cost appears to be stabilizing, we're still seeing higher rates than at any time over the past decade. Nonetheless, our teams will continue to work to overcome supply chain challenges and higher overall costs. We will also continue to leverage our advantageous production locations and global supply chain capabilities to maintain our position as one of the world's lowest cost producers and to continue to deliver the consistent supply our customers rely upon.

On the left side of slide 16, you can see the impact of higher prices on our year-over-year sales growth and also the positive contribution from slightly higher fourth quarter quantities and from our recent Brazilian acquisitions. I would like to point out the organic portion of our Innovative Ag Solutions business represented 59% of the segment sales in the quarter, and both our existing business and acquisitions helped drive fourth quarter growth. For Phosphate Solutions, we continued our strategic shift towards increasing specialty sales which represented 61% of sales in the fourth quarter, an increase from 53% in the third quarter of this year. On the right side of the slide, while you can see improvement from all four of our segments, the impact of higher potash prices over the past few months has clearly begun to flow through to our results.

Turning to slide 17. You can see the significant contribution that higher prices made to adjusted EBITDA. But once again, on a segment basis, all four of our businesses contributed to the year-over-year improvement. For Phosphate Solutions, the sharp increase in commodity prices drove this portion of the business to represent 60% of EBITDA. However, we also prioritized our phosphate specialties focus which drove significant increases in sales volume.

On the next two slides, you can see the same sales and adjusted EBITDA charts for our full year. Slide 18 shows prices was still a significant contributor to 2021 sales. However, our Brazilian expansion and increased quantities each contributed more than $300 million to sales. For IAS, organic sales represented 73% of total 2021 while the Phosphate Solution specialty sales comprised 55%. On a segment basis, once again, all four segments contributed to the significant year-over-year growth in sales, bringing our total for 2021 to $7 billion, the second highest in company history.

Turning to slide 19 where prices had the biggest influence on more than 60% improvement in adjusted EBITDA. The organic contribution to IAS was more than 60% while commodities came in at exactly 60% for our Phosphate Solutions, again as commodity prices increased over the course of the year. On a segment basis, each business contributed to $1.6 billion of annual adjusted EBITDA as all three of our specialty businesses delivered record quarterly and annual results.

Before we turn the call over to the operator for Q&A, which I am looking forward to, I would like to review a few highlights on slide 20 from both the fourth quarter and the full year. For the fourth quarter, our net debt to EBITDA ratio improved to 1.38 times from 2.3 times in the fourth quarter of last year, and we have already discussed we have continued to drive growth in cash flow generation with cost controls and efficiencies. For the full year, we completed approximately $450 million (sic) [$550 million] (00:25:41) in acquisitions, monetized our YTH investment in China and delivered strong operating cash flow, thereby maintaining our existing debt levels. For Industrial Products, we exited two non-core assets over the course of the year, including the divestment of our [indiscernible] (00:26:00) site in the third quarter.

We also took certain tax actions during the fourth quarter of this year which caused our effective tax rate to increase to 30% versus 24% in the fourth quarter of last year. These actions took advantage of a temporary tax provision which resulted in the release of trapped earnings. The related tax impact accounted for the majority of the difference between our reported and adjusted net income for the fourth quarter. The adoption of this temporary provision will result in lower tax payments on dividend distributions in the future. Our lower adjusted tax rate of 17% for the quarter versus 19% in the fourth quarter of 2020 also reflects the increase on profitability of our YTH subsidiary in China following several years of losses in which a deferred tax asset was not created for these losses.

As we begin 2022, we are pleased to be entering our second year of providing adjusted EBITDA guidance which you can see on slide 21. We expect to deliver a range of between $1.850 billion and $2.050 billion in 2022. Given our strategic focus on the growth of our specialty businesses, we are expanding our guidance to provide more clarity, and we anticipate our specialty business will provide approximately $875 million to $925 million of this amount of annual EBITDA. Finally, as a reminder, we have adopted TCFD reporting for our 2021 annual report, and we appreciate all of the hard work our internal teams have done to help us take this giant step forward towards more transparent sustainability reporting.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And we have quite a few questions. The first question comes from the line of Joel Jackson. Please ask your question. Joel is from BMO Capital.

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. This is Bria Murphy on for Joel. Thanks for taking my questions. So, you're guiding to $300 million of EBITDA growth in 2022. How much of this is expected to come from potash price increases and how much is from other drivers? I guess, can you please be as granular as possible in helping us bridge the different buckets of earnings growth next year?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Can you hear me? Yes, okay. So, the potash price is based on existing Q4 average price. Actually, the realized price was $471 and our guidance for next year is based on about $425. The difference – we are basing on Q4, but we're basing Q4 prices and the distribution, geographical distribution of sales according to our adjusted plans for 2022. So, we're not taking into account the expected change in Chinese prices and we're still modeling India prices according to our Q4 price which was $445. So, you can do the math from there.

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Great. Thanks, that's helpful. And I do note the magnesium byproduct earnings are a small negative for ICL. What are you expecting for magnesium [indiscernible] (00:30:25) in 2022 in your guidance? And how does that fit between first and second half?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Okay. So, there's been a hike in magnesium prices or, rather, magnesium prices are much higher than usual. They're running around $8,000 a ton in China now, which is much higher than their average price. When magnesium prices spiked a couple months ago, we closed most of the sales for next year. So, we will see our magnesium business profitable for the first time ever and basically, the projection is a relatively conservative projection even though we have annual contracts because we're taking into account that if drastic change happens in price the other way, then we may not be able to actually execute the contracts as they are today. At current prices, we would have a swing of over $50 million. We're modeling less than that in order to be more conservative.

Bria Murphy
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thank you.

Operator: Thank you. The next question comes from the line of Alex Jones of Bank of America. Please ask your question.

Alexander Jones
Analyst, Bank of America

Q

Good afternoon. Thanks very much for taking my questions. Two if I may, the first on CapEx. You talk about higher growth CapEx to capture some of the opportunities you're seeing. Could you give us some quantification of the CapEx spend in 2022 and the particular projects that you're accelerating spending on? That'll be my first question, please.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thanks, Alex. Yeah, we're going to see about $100 million of additional CapEx next year for growth, and this is going for or some of it is going to Industrial Products additional capacity as we are signing additional long-term contracts and have to provide the capacity for that, so we're sort of growing in concurrence with the new business coming in. We're also building additional capacity for MAP for the LFP industry; we're doing that in China. We're also looking for investments in other regions but specifically, the plans are currently in China. And we're also building additional specialty fertilizer capacity in a few countries, including in Europe, for biodegradable-coated fertilizer. We're building new capacity, we plan to build new capacity in Brazil, in India. And so, between Brazil, India, and Europe, there's a significant investment in our specialty fertilizer business, and so those are the significant components. In phosphate, it's for MAP for LFP batteries; the three geographies I mentioned for specialty fertilizers; and the additional capacity needed for our expansion on the Industrial Products flame retardant business that's coming in. Hope that helps.

Alexander Jones
Analyst, Bank of America
Q

That's great, thank you. And just one other question on the EBITDA guidance, and specifically the specialties guidance. If I'm correct in thinking that that includes Industrial Products, Innovative Ag, and the Phosphate Specialties, then I think at the midpoint, it's only implying 4% year-on-year growth in EBITDA in those divisions which is a significant slowdown on the growth rate that you've been doing in the past couple of years. Could you comment on what might be driving slower growth in those divisions or is that just a particularly conservative forecast to start the year? Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

The forecast implies about 10% growth. It's inhibited a little bit by a change in the specialty fertilizer business as we are shifting the polysulphate business from the potash division to the specialty fertilizer division as we recognize that given that we are now able to demand a premium, and we've developed some specialty products that are based on poly, it makes sense to treat that business as a specialty business. And since we're adding it this year and since it's still not a profitable business, then the actual growth in the specialty fertilizer business will be inhibited by that component of the business. If you back that in, then we'll have an average of about 10% growth in the specialty businesses.

And I agree that it's a little conservative. One of the reasons for that is that some of the capacity that's needed for growth, if we don't build in additional price increases above what we already know, we need the additional capacity to come in. It's not enough to start making the investment; the investment has to be built in order to be able to create the revenue. So, some of the growth could have been captured if we would possibly be able to build the capacity faster. But unfortunately, we're building it as fast as we can. It's conservative, it is a conservative forecast in terms of pricing because we don't want to build in any additional pricing increases above and beyond what we already know.

Alexander Jones
Analyst, Bank of America
Q

Thank you. That's very helpful.

Operator: Thank you. The next question comes from the line of Mubasher Chaudhry of Citi. Please ask your question.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.
Q

Hi. Thank you for taking my questions. Just going back to the guidance, I think you said that the guidance for next year is based on $425 or selling price of $425 a ton for potash, which is around $100 higher than what you did in 2021. So, just on a volume-neutral basis, I get to kind of $400 million of incremental EBITDA, assuming the price drops and there's no change in cost which is quite conservative. Your guidance compared to that is quite conservative. So, just some comments around that, as to are you seeing a significant slowdown in other divisions or kind of what your assumptions are there, that would be helpful. And the volumes for potash in the fourth quarter were down quite strong. Can you provide some comment around what drove the low sales to China and India and whether you see that persisting into 1Q 2022? Sorry, just finally, how sold out are you? Are your volumes kind of confirmed for 1Q and 2Q and you have relatively good visibility on your price and volumes in potash? Thank you.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Okay. Thanks for that. I'll try to go through the more difficult part of the question, and that would be the product distribution in terms of sales. So, we typically sell between 1.2 million to 1.5 million tons to India and China. The current plan is around 1.3 million tons for the year, which is a little bit more than 25%. Those 25% are built into the model according to existing Q4 prices which admittedly do not build in the expected new pricing for the new contracts in China; and of course, following that, we expect new contracts in India. So, that is the component that gets affected once these contracts are done. In terms of your analysis on the additional EBITDA coming from potash, then given the change in distribution and the relevant transportation and other costs, the additional EBITDA is a little lower than $400 million. And then again, there's about $80 million coming from additional EBITDA on the specialty side, so that pretty much explains the additional EBITDA that we expect for next year. I hope that helps.

Mubasher Chaudhry
Analyst, Citigroup Global Markets Ltd.

Q

That's very helpful. Thank you.

Operator: Thank you. The next question comes from the line of Geoff Haire of UBS. Please ask your question.

Geoff Haire
Analyst, UBS AG (London Branch)

Q

Actually, all my questions have been answered – sorry, asked and answered. And so, I don't have any more.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Thank you.

Operator: Thank you. In that case, the next question comes from the line of Duffy Fischer of Barclays. Please ask your question.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning, good afternoon. If you start with the $575 million of Q4 EBITDA and just do a bridge to Q1, can you just talk about, puts and takes, what gets better and what might be getting worse as we go from Q4 to Q1 with that number?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Okay. Maybe I'll add to the question that was asked before that I didn't actually answer. We are pretty much close to sold out for Q1, not beyond that. We're holding on some of the sales until there's more clarity on Chinese contracts as well as the Belarusian situation that you all know. In Q1, what changes is the distribution of sales. What happened in Q4 is that we sold much less to China and also to India. In fact, in our previous call we expected about $100 to $110 of additional potash price average for the quarter, and it ended up being over $150 I think, close to $160 because we upgraded our India contract. And as a result, we were able to better our intake. We're talking about an additional $50 million for Q4 after the adjustment. So, when you go from Q4 to Q1, obviously pricing has not changed much from Q4 to Q1 at this time, and the Chinese contract could affect to a very small extent Q1. It could be very meaningful for Q2 and afterwards.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Well, I guess my question was the whole company, not just potash. I mean, that $575 million number, I don't see anything in that number that really shrinks from Q4 to Q1. So, kind of at that level or above I would assume is where most people [indiscernible] (00:43:09). Is that fair?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

It's fair that there's nothing that's – it's fair that there's nothing that's particularly going down. So, the bromine business is not going down and the phosphate business is not going down. The specialty fertilizer Brazil is seasonal, so Q1 in the Brazilian part, which is rather significant, could be lower than the fourth quarter. And potash, I already explained it's a matter of distribution.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Sure. Okay. So, that would get me round numbers $0.6 billion of EBITDA for Q1, a seasonally light quarter generally for you guys. I mean, it would seem as logical that the year is $2.5 billion [ph] vis-à-vis (00:44:03) your guide of $2 billion. Would you push back on that?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

Like I said, we could get closer to your number depending on Chinese contracts because consider that we're modeling for China, for the China products, and I explained the quantities, we're modeling $249 at this point. So, keep in mind that 1.3 million tons, the rumor in China is that prices are going to be between $500 and $600 depending who you ask. If you ask some of those folks that are close to the suppliers, they'll tell you $600 and above. But if you model somewhere between $500 and $600, then we're talking more than doubling the price. So, take 700,000 tons and add that in and then add the relative addition to the India portion which would be also significant, another 600,000 tons or so, then it gets you close to your number. Still not there, but close.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. Terrific. Thank you, guys.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

Thank you.

Operator: Thank you. The next question comes from the line of Laurence Alexander of Jefferies. Please ask your question.

Laurence Alexander
Analyst, Jefferies LLC
Q

Good morning. Given the environment that you're sketching, can you give an update on your thoughts around your balance sheet management? How much you could flex the balance sheet for M&A? Secondly, with respect to the alternative protein and battery materials markets in particular, what do you see as the target for payback for investment in those areas given the kind of longer-term growth potential?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

Okay. So, batteries is easy; it's a one-year payback. Alternative proteins, probably between 2.5 to 3 years, relatively good paybacks. And on the balance sheet, I'll turn it over to Aviram.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

Yeah. The current debt that we have, if you benchmark it vis-à-vis the EBITDA that we have, it's practically a non-issue because the theoretical capacity that we have would vastly exceed the $1 billion mark if you do the math though, and that's not a limiting factor at this stage. If you want more specifics, we can go through the math, but I think that should cut it.

Laurence Alexander
Analyst, Jefferies LLC
Q

Thank you.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.
A

We've gone down all the way to 1.4 net over EBITDA, and think about this. And we've got really significant free capacity, not theoretical by calculation but real capacity that we can tap into as much as we need.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

And of course, given the strong balance sheet, given the right opportunity, then we're looking forward to increase our earning power and take advantage of the opportunities that make sense in the businesses that we're focused on. Again, subject to valuation, we're not in a rush to do anything. We want to get the right deal. We're very, very happy with the Brazil acquisitions that we did. Thanks.

Operator: Thank you. The next question comes from the line of Vincent Andrews of Morgan Stanley. Please ask your question.

William Tang
Analyst, Morgan Stanley
Q

Hi, guys. This is Will on for Vincent. Just had one quick one. You guys had previously talked about the potential renewals of some long-term contracts in your Industrial Products business. I'm just wondering how much of that pricing momentum you guys saw in this quarter was driven by record elemental bromine prices that you guys called out versus those contract renewals, and kind of what does that mean for pricing within your Industrial Products segment for the first half of next year or this year, I guess?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.
A

Okay. So, the record spot prices didn't really have any impact in Q4 other than a very small portion of our sales, which is sales of the elemental bromine that's less than 10% of sales from the growing part of the business. There is an effect in Q1. Some of our contracts have pricing reviews that depend on spot prices, not necessarily just bromine but also TBBA and other materials that have spot prices. And the pricing environment is good. And during the first quarter, we will see some price increases in existing contracts; all in all, positive. At the same time, there are also some raw material costs that increase, so the net effect is not going to be very significant. But still, there is going to be a positive effect on earnings even before additional capacity comes in which will happen sometime around July next year.

William Tang
Analyst, Morgan Stanley

Q

Got it. And then, I guess, just a quick follow-up. How are you guys looking at kind of EBITDA margins for Industrial Products in 2022 just given the elevated prices kind of offset by those higher raw material costs and logistics costs?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

We're working very hard to get some additional margin expansion next year. It's not going to be easy, but we're targeting some margin expansion next year. It won't be dramatic, but there is some room for margin expansion again due to the updated pricing which will be incrementally positive relative to the raw material and transportation costs.

William Tang
Analyst, Morgan Stanley

Q

Got it. Thank you.

Operator: Thank you. The next question comes from the line of [indiscernible] (00:50:31) Capital. Please ask your question.

Q

Hey, guys. Thanks for taking my questions and congratulations for the quarter and the year. Kind of have a three-part question, if I may. What is your view on the whole Belarus situation, how it will affect available capacity of potash? And do you think can other players like Nutrien can offset the shortage if that will be the case?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Look, first of all, a lot of what we know we read like you guys. So, what we know about Belarus is that, first of all, everybody knows that there's 14 million tons that they bring into the market, they could bring to the market this year. 90% of their product goes through Lithuanian Railways to Klaipėda Port, and that's not happening anymore since February 1. From what we understand, there's no alternative that fixes the situation for them unless, of course, sanctions go away. So, we understand that some product has been pre-sold to Brazil. There's some talk that maybe given that they're somewhat blocked from the international banking system because of US sanctions, there's some talk that or we read like you guys that maybe India will buy in rupees a 1 million tons which we don't know how it gets to India but that's something that we've heard. There may be some product in some ports close to customers, but probably not very much.

So ultimately, it seems like millions of tons are either not going to get to the market or are going to get to the market late. And the day for certainty seems like April 1 when the formal date for sanctions or the end of the windup period arrives. So, again, this is why the way we view this year's guidance is that we have good clarity on specialties, good visibility. On commodities, we'd rather take into account what we know and then adjust the guidance according to developments in the market. Currently, the market is sort of holding on, looking to see what happens. If the Belarusian situation materializes and product doesn't get into the market, then we're talking about somewhat of a different market than we currently have now. If there's some solution or sanctions get lifted for any reason, then of course it's a different story. There's also political tension in that region, and nobody knows what's happening with Russia and Ukraine and is Russia going to come under sanction, so there's all kinds of uncertainty on commodities.

The underlying situation is that we're seeing food shortages in some countries. Some countries are building more emergency inventory. The soy prices have gone up by about 20% since November, so the overall situation is that the market is nervous and it's going to be interesting how things develop. But I think other than what we've heard about the alternatives because there are no port alternatives to Klaipėda, at least not for significant amounts of products, definitely not millions of tons, we don't see products coming out and any other regular alternative. Yeah, no meaningful product. There's no port that can take 3 million or 4 million tons of Belarusian products at this point. I hope that helps. That's about all we know.

Q

Yeah. That really helps. So, if I understand you correctly, you expect there will be about 10 million to 12 million tons shortage. Is that fair to say?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

I don't know if that's a number. I mean, if I had to give a number, then I give them credit that they'll find all kinds of solutions and get a little more into the market. But you asked me if Nutrien or anybody else can step up and bring products into the market, then the long-term answer is yes. Can they bring a meaningful amount of tons into the market in a short period of time? One, I don't think so, not more than hundreds of thousands of tons. And even if they could, I'm not sure that they would want to. So, again, you have to ask Nutrien that. Unfortunately, we're only price takers in the market, so we see the prices as they are and try to place them in the best place.

Q

Yeah. That's fair. Thanks for that. So, we see it as an upward pressure for the prices. But for the last part of my question as you say you're a price taker, so can you give more clarity or more color about your per ton costs for potash so we can model all kinds of potash prices?

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

Yeah. We're working on providing cost per ton data that will be meaningful for you, so we were hoping to have that done for you on our portal by reporting. But because of reasons having to do with taxation issues that we're still discussing with our government, we're deferring that a little bit. And hopefully, very soon, we'll give you all the details you need and more.

Q

Okay. That's great.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Excuse me, just one addition to this answer is that we took a look at it, and I think this comparison needs to be done with a pinch of salt because there are different definitions of cost per ton and you can easily see a range what you include inside, what you don't look inside. So, continuing to what Raviv just said, once we do that, we'll have to be very careful to make sure that it's apples-to-apples and not something different.

Q

Yeah. Of course. Even a range can help a lot.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Yeah, yeah.

Q

So, if you can provide a range right here, it would be very helpful. And if not, that also very helps. And thanks again for the answers.

Aviram Lahav
Chief Financial Officer, ICL Group Ltd.

A

Sure.

Raviv Zoller
President & Chief Executive Officer, ICL Group Ltd.

A

In our main Dead Sea facility, we're in a very good place on the global cost curve. And in our facility in Spain, our mine in Spain, we're in a not-so-good place on the global cost curve. So, most of our tons, 4 million of our tons are in a very good place, meaning that we can make significant profit in any kind of market.

Operator: Thank you. So, we're out of time and that does conclude our conference for today. Thank you all for participating. You may now disconnect. Speakers, please stand by.