The Mosaic Company

Moderator: Gagnon, Laura
February 26, 2019
08:00 AM CT

OPERATOR: This is Conference # 7873929

Operator: Good morning, ladies and gentlemen, and welcome to The Mosaic Company's Fourth Quarter 2018 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode. After the Company completes their prepared remarks, the lines will be open to take your questions. Your host for today's call is Laura Gagnon, Vice President, Investor Relations of The Mosaic Company. Ms. Gagnon, you may begin.

Laura Gagnon: Thank you, and welcome to our fourth quarter and full-year 2018 earnings call. Presenting today will be Joc O'Rourke, President and Chief Executive Officer; and Clint Freeland, Senior Vice President and Chief Financial Officer. We also have other members of the senior leadership team available to answer your questions after our prepared remarks. The presentation slides we are using during the call are available on our website at mosaicco.com.

We will be making forward-looking statements during this conference call. The statements include, but are not limited to statements about future financial and operating results. They are based on management's beliefs and expectations as of today's date and are subject to significant risks and uncertainties. Actual results may differ materially from projected results. Factors that could cause actual results to differ materially from those in the forward-looking statements are included in our press release issued yesterday and in our reports filed with the Securities and Exchange Commission.

We will also be presenting certain non-GAAP financial measures. Our first quarter press release, performance data, and earnings slides available on our website contain important information on these non-GAAP measures.

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

Joc O'Rourke: Thank you, Laura, and good morning to you all. Mosaic delivered another strong quarter to wrap up a year of good results and accelerating momentum. We accomplished a great deal in 2018. We transformed the business in Brazil, improved our cost base in Phosphates, made major strides toward completing our Esterhazy K3 potash mine, delivered record potash production, and reached a new milestone in premium product sales.

All these accomplishments allowed us to capture the full benefit of improving market conditions. Overall, we are pleased with the progress we've made and we're optimistic regarding 2019. Our announcement today that we will double our annual dividend target reflects our first step toward increasing capital returns to shareholders.

For the fourth quarter, Mosaic reported earnings of $0.29 per share and adjusted earnings per share of $0.77 per share, which represents over a 100% increase compared with the fourth quarter of 2017. Adjusted earnings for the quarter include a $21 million benefit, approximately $0.05 per share from the reduction of the full year estimated tax rate for 2018. Net sales increased by $429 million to $2.5 billion over a year ago.

Our full-year 2018 results reflect positive market dynamics and solid execution across the business. For the year, revenues increased by 29% to $9.6 billion. We reported net earnings of $470 million and adjusted EBITDA of $2 billion, a 68% increase over a year ago. Net earnings per share were $1.22 compared to a loss in 2017. And adjusted earnings per share increased over 90% to $2.12 per share.

I would like to provide some detail on our 2018 accomplishments. We successfully integrated and substantially transformed the Vale

Fertilizantes business. in fact Mosaic Fertilizantes delivered $227 million in operating earnings and $410 million in adjusted EBITDA in the year, compared with pro forma adjusted EBITDA of $81 million in 2017. One of the primary factors driving this turnaround is the pace at which the team in Brazil is realizing synergies. We realized $158 million of net synergies in 2018, with a run-rate exceeding $280 million at year-end. We now expect to reach our net synergy target in 2019, a full year ahead of schedule.

The Potash team delivered record production for both the quarter and the full year. We made major progress on the new Esterhazy K3 project, including the recent commissioning of the first production hoist and conveyor to the K2 mill. Our engineers have developed a path to accelerate development at K3 by a full year and now we expect to be able to eliminate brine management costs entirely by 2024.

In Phosphates, the transformation of the business is delivering meaningful financial and operational benefits as well as creating significant savings and deferral of capital spending, without sacrificing safety, mechanical integrity or reserve life.

We shipped a record 3 million tonnes of MicroEssentials including over 1 million tonnes to Brazil. Our sales of MicroEssentials continues to grow. In fact, companywide, our sales have grown at a compound rate of 18% over the past 10 years and Brazil sales have grown even faster with a compound annual rate of 41% albeit from a smaller base. We expect to add capacity through debottlenecking and potential additional facility conversions as demand continues to grow.

We announced another important milestone during the fourth quarter. We received the final permit for our Ona mine site. The mine gives us access to a large reserve and helps to extend Florida Phosphate mining for decades to come. We plan to mine these reserves with existing assets, including the South Pasture facility, minimizing the need for new capital spending and highlighting one of the primary benefits of our acquisition of CF Industries' phosphate business.

Finally, and perhaps most importantly, we generated another year of record safety performance. Even as we push to reduce cost and integrate our largest acquisition ever, all of us at Mosaic are proud of the trajectory of our safety performance, steady improvement year-by-year for the past eight years.

Overall, 2018 was a year of remarkable progress and strong results and we expect to realize further benefit from our strategic successes and good markets in 2019. We expect global supply and demand to remain balanced for both phosphates and potash in the year ahead. While the channel appears to be well stocked around the world, in part due to a weak fall application season in North America, we expect inventories to be draw down quickly and strong demand to emerge as we move through North American spring and as the season picks up in Brazil.

New supply in both phosphates and potash has been slow to come to market and that trend is continuing in 2019. This slow global supply ramp-up has allowed demand to catch up and keep potash and phosphate markets balanced. We continue to watch political and trade developments around the world as well as Chinese phosphate exports, which we believe will continue to follow the economics.

Now I will turn the call over to Clint to discuss our segments, capital, and our guidance for the first quarter and for the year.

Clint Freeland: Thank you. Joc. Good morning, everyone. As noted earlier, Mosaic finished the year with a strong fourth quarter generating $590 million in adjusted EBITDA and $0.77 a share in adjusted earnings per share, bringing full-year adjusted EBITDA to $2.029 billion and adjusted earnings per share to $2.12, both of which exceeded the top end of our guidance ranges. All three business units performed well and contributed to this outcome.

And Mosaic Fertilizantes' adjusted EBITDA for the quarter totaled $133 million compared to pro forma fourth quarter 2017 adjusted EBITDA of $13 million as the business continued to benefit from strong selling prices, synergy realizations, wider distribution margins and favorable foreign exchange rates. Gross margin per tonne for the business during the quarter was $56, well above the top end of our expected range of $35 to $45 as the distribution business not only exceeded sales expectations, but delivered a higher margin mix of sales during the quarter, in part due to high MicroEssentials sales volumes.

As demonstrated in the results, the team in Brazil has made great progress and its synergy capture program. In addition to the $158 million in net realized synergies noted earlier, Mosaic Fertilizantes realized an additional $21 million in benefits from executing its business-to-business marketing strategy, which allowed us to keep our selling prices at or above replacement costs. As revenue synergies were not included when we set our original synergy targets and ranges, we wanted to remain consistent in our reporting and note them separately. But make no mistake, these benefits are real and they are contributing to the financial results of the business.

Similar to Mosaic Fertilizantes, the Phosphates segment delivered a very strong fourth quarter with adjusted EBITDA of $219 million versus $182 million in the fourth quarter of 2017. While sale volumes were down compared to last year as a result of the Plant City idling, results improved as higher average stripping margins offset the sales decline. Gross margin per tonne for the Phosphates segment totaled $81, comfortably exceeding our guidance. These higher margins were driven primarily by product mix. We sold more product to higher netback regions and a higher proportion of premium MicroEssentials products than we originally forecasted. Margins also benefited from several relatively small normal course but infrequent items that together added approximately $5 a tonne during the quarter.

The Potash segment also generated strong results for the quarter with adjusted EBITDA of $256 million compared to $155 million in the same quarter last year as higher market prices and continued cost management efforts led to the improvement. Of note, during the quarter was the extraordinary operational performance of the potash fleet, which recorded a 99% operating rate during the period.

The Company continues to focus on managing costs and has made tremendous progress when measured by SG&A per tonne. To further enhance our focus in this area and better align reporting cost with accountability and decision-making, we've determined that certain corporate costs that are not controllable by the business should no longer be allocated to the operating segments and should instead be reported in the Corporate segment. Not only should this increase visibility and improve accountability for managing these costs, but it should also give investors a clearer view of true segment level cost and margins. We will make this reporting change beginning in the first quarter and we'll recast prior quarters and updated performance data that we'll post to our website before our next earnings.

Before moving on to our expectations for 2019, there is one more financial reporting topic, I would like to comment on. As noted in our press release, we completed our year-end close process which went relatively smoothly. However, because of the size and complexities of the purchase accounting related to our acquisition of Vale Fertilizantes, which included 54,000 assets, we are continuing to work on the allocation of value, the documentation related to that allocation process, and our evaluation of internal control effectiveness. Since we need additional time to complete this work, we will file a Form 12 b-25, which would allow us an additional 15 days to file our 2018 Form 10-K with the Securities and Exchange Commission. Upon filing within the prescribed deadline, the Company's Form 10-K will be deemed to be timely filed. We do not expect that the results reported to you today will differ in any material respect from those presented in our 2018 Form 10-K.

Our outlook for full-year 2019 reflects our expectation for continued strength in our core markets and progress on the various transformation efforts around the Company. As reflected on Slide 11 of the presentation, we are initiating our full-year 2019 guidance with an adjusted EBITDA range of $2.2 billion to $2.4 billion, and an adjusted earnings per share range of $2.10 to $2.50.

There are many assumptions that have gone into our estimates, some of which we've outlined on Slide 14 in the appendix of this presentation. There are a few others that I would note. First, finished product and raw material product pricing expectations are based on visible and anticipated prices as of mid-February. Second, as Joc noted earlier, we expect to achieve our full synergy target in 2019. So we have included $275 million in net synergies in our guidance. Turning to K3, the commissioning of the first hoist and conveyor at the site means that the mine is now being accounted for as a production facility.

As a result, some costs of underground development are no longer capitalized but are being added to operating cost. These costs total $25 million to $30 million in 2019. Given the relatively modest incremental tonnage being produced in this development phase, we expect our production cost per tonne for the business segment to be approximately $3 per tonne higher than it otherwise would be. This is transient however, and is expected to be de minimis by 2021.

Next, based on a comprehensive peer review comparing our definition of adjusted EBITDA to those used by both competitors and others more broadly, we have decided to update our definition to exclude both non-cash ARO accretion expense and equity settled incentive compensation beginning January 1st 2019. Our guidance for 2019 includes an estimated $60 million benefit from this change. For comparative purposes, the historical performance data will be republished to reflect this change as well as the SG&A allocation change I mentioned earlier.

And finally, as is normal in our business, we expect to see a degree of seasonality in our business this year with more modest earnings in the first quarter and more robust earnings in the second, third and fourth quarters. With the weak fall application season and the impact that has had on phosphate inventory channels and finished product prices, we expect a more pronounced seasonal effect on earnings in this first quarter than in prior years. While we've also seen a reduction in raw material prices, which should provide an offsetting benefit, this is expected to take one to two quarters to be realized through our cost of goods sold, ultimately benefiting results in future quarters.

With adjusted EBITDA of $2.2 billion to $2.4 billion, the Company expects to generate significant cash flow in 2019. Cash interest expense is estimated at approximately $160 million, and we anticipate paying roughly $60 million in cash taxes, primarily in Brazil and Canada. Sustaining CapEx is targeted at $720 million and is in line with historic guidance of $500 million to $600 million per year for the phosphate and potash businesses and approximately $150 million for Mosaic Fertilizantes. Longer term, we would expect consolidated sustaining capital to remain consistent with these historic ranges at around $650 million to $750 million annually.

Assuming that working capital nets out over the course of the year, the Company should have $1.26 billion to $1.46 billion in allocable cash during 2019. Current capital allocation commitments to-date include, first, the stock common stock dividend, which we are targeting at $0.20 a share, up from $0.10 per share. Second, K3 Mine development and acceleration. It's important to note here that the capital budget for the mine remains unchanged, but that annual spend has increased due to the accelerated schedule. In addition, these numbers include increasing compaction capacity to allow us to achieve higher margins from our production.

Third, Florida mine life extension projects that will not only extend the resource life for our phosphate business, but will also allow us to avoid over $1 billion in future capital spend previously thought necessary.

Fourth, approximately $50 million in low-risk, high-return organic investments, 70% of which pay for themselves within two years. In total, $560 million in capital has been allocated to these items, leaving $700 million to $900 million in cash available to be allocated this year.

With that said, it's important to note that the vast majority of this cash will be generated in the second half of this year given the seasonality of the business and that we would anticipate being somewhat measured in our capital deployment in the near term as we monitor developments in Brazil with respect to the recently passed new rules and regulations and assess how they may affect us. And as we've said in the past, our objective is to execute a balanced capital allocation program that promotes the growth and resiliency of the business through continued strengthening of the balance sheet, investments in projects that generate appropriate risk-adjusted returns and provides a regular return of capital to shareholders.

With that, I'll ask Joc for his closing comments.

Joc O'Rourke: Thanks, Clint. I will close by reiterating our premise for today. Mosaic delivered strong results in the fourth quarter and for the full year because markets improved and most importantly because the actions we have taken to create a resilient and efficient franchise that has built substantial earnings leverage.

We are proud of our progress and we will not stop pushing for further strategic improvements. I would like to note that we will host our Analyst Day in Tampa on March 28. We plan to provide you with more detail on our strategy and outlook as well as more specifics on Esterhazy K3, Mosaic Fertilizantes and our domestic phosphate rock strategy.

Now, before we open it up to Q&A, I would like to address a question that maybe on many of your minds. What are we doing in Brazil and what are the implications to our business following the Vale's Feijao iron ore mine disaster? First of all, I'd like to share our deepest sympathy with those impacted by this catastrophe. Our immediate reaction upon hearing of the dam failure was to offer medical teams and other assistance to Vale. We have a close relationship with Vale. Many of our Brazilian employees are former Vale employees, and Vale is one of our largest shareholders. Our thoughts are with them as they deal with this very difficult situation.

Now, I will briefly discuss Mosaic's efforts following the dam collapse. On Monday, February the 18th, new regulations went into effect in Brazil to address the safety of tailings dams and other mining and processing waste storage structure. Mosaic has 22 such structures in Brazil, 11 of which are tailings dams. In light of the new regulations and after conferring with independent experts, we believe that 21 of our 22 structures are compliant with the new safety regulations, although, two of these dams have upstream lifts that require remediation plans.

One tailings dam at our Araxa facility does not appear to meet the new safety standard for undrained resistance. While the dam was in compliance under the old criteria, we had already been making improvements to the dam to increase our margin of safety. We proactively reported the potential issue to the ANM, the agency that regulates dams in Brazil, and after consultation with the ANM, we've agreed to keep the line out of operation until we can improve the dam's undrained safety factor.

All of our other 21 structures have current certificates of stability issued by external consultants. In addition, the Company has arranged for an independent third-party assessment of all of our dams, which is expected to be complete in approximately 90 days. I would also note that none of our tailings dams utilize the upstream method of construction that was apparently used in the construction of dams that failed in the Samarco and Feijao incidents. We have two dams at our center line construction, but have small final upstream lifts. We are assessing remediation requirements for those dams.

While there is uncertainty about the future requirements that the Brazilian Government may impose on miners and on tailings dams, we believe change is necessary and will only make mining in Brazil safer and more sustainable for the future. At Mosaic, we have made the safety of our employees, our communities and the environment, a very high priority and we will continue to do so, no matter where we operate.

Now, let's turn the line over to take your questions. Operator?

Operator: At this time if you'd like to ask a question please press star one. Your first question comes from the line of Steve Byrne with Bank of America.

Steve Byrne: Yes. Good morning and thank you. Just wanted to drill a little bit more into the Fertilizantes business. Your near-term gross margin per tonne expectations are roughly the same for your phosphate business and the Fertilizantes business in this $40 to $50 a tonne range. Is it fair to assume that the legacy distribution business that you have that's in that Fertilizantes business is kind of in that range of $20 to $30 a tonne margins that you had historically and therefore is your -- the domestic phosphate operation down there is now significantly more profitable, maybe closer to $80 a tonne margins?

Joc O'Rourke: Okay. Thank you, Steve. Certainly, the legacy distribution business had the margins in the range of $20 to $30 per tonne. And so, yes, the production business would be expected and certainly does have higher margins. We're not separating those out per se anymore, but what I can tell you is the synergy capture not only involved improving the production business or the B2B business, but there was also a great deal of synergy between those two, which we wouldn't be able to attribute specifically to either one of them. But what we have seen is improvements in gross margin for that distribution business because of the synergies and the go-to-market strategy that we've undertaken.

Steve Byrne: Okay, thank you. Does that combination of synergies benefiting both sides of that business warrant further expansion in capacity in either the domestic production or in distribution given the increased profitability?

Joc O'Rourke: Certainly, we will look at that very carefully as one of our opportunities for growth. We believe, we've built a platform there, but it does have long-term growth potential. As you are all aware, the Brazil growth in agriculture has been one of the best in the world and it continues to be one of the most attractive areas and so we believe we can grow with that market.

Steve Byrne: And then just lastly on that is this the key driver to those synergies, just simply headcount reduction or is it really more process-related where you can modify the operations down there based on partnering your knowledge from your North American operations?

Joc O'Rourke: The synergies come from a number of areas. Certainly headcount is one of them, but the use of -- more effective use of contractors, supply chain and logistics, procurement, and as I say, just the taking advantage of Mosaic's market strategy has improved the ability of both to capture new margin.

Operator: Your next question comes from the line of Vincent Andrews with Morgan Stanley.

Jeremy: Thanks for taking my question. This is Jeremy on for Vincent. I just want to dig a bit deeper in the first quarter guidance. Seems just a bit light at first glance. Are you expecting to gain back any of those applications lost in the fall in the first quarter? Are you kind of expecting some of that back in the second quarter? And just maybe as a follow-up to that, is that kind of leading to the discussion in the press release about the need to sort of export more product to kind of move away from that North American market? I'm -- just more color there would be helpful. Thank you.

Joc O'Rourke: Okay. Thank you, Jeremy. Good morning. Look, I'm going to tag team this with Karen. But the Q1 guidance -- look, I think there's a couple of things that are at the top of my mind. The first is, we had a great sales season or a good sales season in the fall from the Mosaic perspective in that we sold the volume we expected to sell. However, we do not think there was a great application season in North America because of the weather and the product that we -- that is likely in customer warehouses today.

So what that means is that at least our winter-fill will likely be weaker than usual. The other thing that happened to us in the fourth quarter I think is prices held better through the fourth quarter than probably our original guidance would have expected. So now that that prices decreased, we expect we will see the next wave of selling at a lower -- a slightly lower price, which is why that first quarter is slightly weaker. We fully expect that the spring season will make up some of the fourth quarter application loss, and so by the end of the first half, we feel we will largely be whole. Karen, do you want to add anything to that?

Karen Swager: Sure. Jeremy, see, it looks like the prices take a negative turn almost every winter season, as we've noted before. This year's price declines occurred a little bit later than usual, as Joc said, but they were more significant for a couple of reasons. We had that disappointing fall application season in North America due to weather although we had shipped a normal amount of product into the system and that resulted in the North American distribution channel, that is really quite full.

On top of that, we received an excessive level of imports into the US River System and so there's quite a bit of product available for spring. We do think that you'll see this normalize through first half of '19, but potentially not in the first quarter. Demand is strong and we think that at least 80% of what was not applied in the fall will get applied in the spring. So we're anticipating really strong shipments for spring season. And as long as we get normal weather and can avoid any logistics hang-ups with that big of a season, we believe we should see a recovery by the end of the second quarter.

Jeremy: Karen, I think the other thing is the cost of goods sold and the raw materials movement. Can you may give us some color on how the raw materials, particularly sulfur and ammonia, are moving through our products right now?

Karen Swager: Yeah, absolutely. I think that's another good point for first quarter. So we have seen our industry benchmark stripping margin, which you've heard us talk about before, is down. Our actual margins that are anticipated in the first quarter that we've guided to are a little bit more negatively impacted and that's due to the raw materials. Given the level of inventories in the system, it will take a little bit longer for these raw material price decreases to work through the system and impact overall margins.

Operator: Your next question comes from the line of Jonas Oxgaard with Bernstein.

Jonas Oxgaard: Hi, close enough. Thank you. Good morning. I was curious about your capital allocation. It looks like you're projecting a pretty sizable pile of cash burning out a hole in your balance sheet there. How are you thinking about deploying that? And can you talk a little bit about the trade-offs between buybacks, more dividends and M&A?

Joc O'Rourke: Sure. Thank you, Jonas, and yeah, I'm going to hand this over to Clint in a second here, but what I would like to start by saying is our approach to capital allocation is unchanged. We will continue to have a disciplined and balanced approach to allocating capital in a way that helps grow our Company and invest in high-return investment opportunities, both internal and external, balanced with strengthening the resiliency of our balance sheet, and of course, returning money to shareholders, our doubling of our dividend is actually a very good example of that this year. Clint, you want to talk a little about that?

Clint Freeland: Sure. Good morning, Jonas. You know, first, as you noted, I think we expect to generate a significant amount of cash this year based on our guidance, we pegged that at $1.26 billion to $1.46 billion of allocable cash -- excuse me, and based on kind of what we've outlined between the dividend in K3 and other things, we've allocated about 40% of that leaving about 60% of that cash available for allocation later in the year. I would note though that given the seasonality of our business and how we expect things to play out that the vast majority of that cash would be generated in the second half of this year.

So I think we certainly want to be measured in the timing of decisions, but -- of actually deploying that cash. But as we've talked about in the past, I think what we want to do is to execute a balanced capital allocation program, very similar to what Joc just said, where we continue to put downward pressure on our debt levels over time. We invest in high risk-adjusted return opportunities as they present themselves. But then also continue to return capital to shareholders and the dividend increase this morning is again just the first step in that.

As we think about dividend share buybacks and M&A, you know one of the things that I think we always need to keep top of mind is particularly around M&A versus share buybacks is that we need to be sure that any type of M&A investment beats the share buyback, and we need to be sure that we always have that tension in that analytical approach. So I would say, as we think about returning capital to shareholders, there are obviously different options that are available, we'll continue to evaluate that, and then again as we look at any type of M&A, we also want to be sure that that's a better alternative for us than buying back shares.

Operator: And your next question comes from the line of Jeff Zekauskas with JPMorgan.

Jeffrey Zekauskas: Thanks very much. I have two questions. China exports of phosphate were 11 million tonnes in 2018. What do you think they'll be in 2019? And in your potash slide, you have Other Asia going from 5.2 million tonnes of demand 5.5 million tonnes to 5.8 million tonnes. Which countries are you thinking of to encompass that increase in demand?

Joc O'Rourke: Okay. Thank you, Jeff. Hey, I'm going to hand this straight over to Mike, but before I do, I just would like to acknowledge, Mike, this will be his last Mosaic's earnings call. He will -- he has announced his retirement and will retire in April of this year. As many of you know, Mike has served Mosaic and its predecessors for over 33 years and I think it's fair to say that he is a real industry icon. He has been an invaluable resource for many of you, and of course, a very invaluable resource to all of us here at Mosaic. So, Mike, I want to thank you and wish you all the best for the future and retirement. And this is also the first Mosaic's earnings call for Andy Jung.

Andy came to Mosaic in 2013 to bolster our Market & Strategic Analysis function and he is an accomplished agricultural economist and he has a long history of analyzing this industry. Prior to Mosaic, he spent a decade at a leading industry analysis firm. So you can look forward to his insights on the market and the industry in the years ahead. So Mike and Andy, can you talk about this question?

Michael Rahm: Sure. Thank you, Joc. One comment I would make before answering the infamous China export question is that I'm very pleased with our succession plan. I think all of you know, Andy, you know that he's a lot taller, a lot thinner and a lot smarter than I am. So I'm very pleased that the Market & Strategic Analysis function at Mosaic is going to be in very good hands. And the other thing I would say about retirement is it's a bit bittersweet in the sense that I think Mosaic's future is extremely bright and I guess bright for three reasons; one, I think we've made some great strategic moves over the last five or six years. Secondly, the transformation or optimization initiatives are really taking hold and delivering results to the bottom line. And I think there are a lot more results to come. And then finally, when we look at the market outlook, I'm still very constructive on the medium, and long-term outlook for this industry. So I won't be in the game, but I'll be on the sidelines cheering all of you on.

So let's get to the China question. As Jeff indicated, the numbers you know the numbers that China exports of DAP, MAP and TSP were up about 900,000 tonnes last year. MAP was up 1.1 million tonnes -- or DAP was up 1.1 million tonnes, MAP was down a couple of hundred thousand tons. If you look at the trade flows, Indian DAP imports were up 2 million tonnes. So the increase in China's DAP exports directly related to the big increase in Indian imports. And then secondly, despite the fact that exports were up, we do think there are some real significant transitions taking place in the Chinese industry. We know that new taxes and regulations took hold last year, we think that has increased production cost $10 to $15 per tonne. So it's lifted the entire industry cost curve.

Secondly, we know rock production this year is down 25% to 30%. As a consequence, a lot of the formerly integrated producers are now non-integrated producers, so you've really had a big increase in the upper end of the cost curve. So there are a lot of changes taking place, and we do think current prices in China are close to marginal cost. So with all that said, I'll get to your question, how much do we think they will export? We think it will be less in 2019 than 2018. I think I'm going to dish off the second question to Andy, in terms of the increase in Other Asian imports.

Andy Jung: Thank you, Mike. So it's fairly broad-based across Asia, there are a few pockets of weather concern, but by and large expectations are for a fairly normal monsoon season throughout Australasia. So you -- looking across or going down the list, Thailand, Vietnam, Indonesia, Malaysia, especially with the recent -- rebound in palm oil pricing, so we are fairly confident that Other Asia, which has really shown, albeit from a relatively smaller base than some of the big countries in Asia, has shown very strong growth over the last several years and that growth will continue into '20 -- or through 2019, also assisted by a relatively low carrying inventory levels in that region.

Operator: Your next question comes from the line of Duffy Fischer with Barclays.

Duffy Fischer: I was wondering if you could give a little bit more -- I think it was Clint talked about the $5 a ton in phosphate, was that truly a one-time fourth quarter only issue and so kind of it stops Jan 1 or does some of that bleed through into the first half of this year?

Clint Freeland: Yeah, hi, Duffy, this is Clint. I think as we look at it, that $5 a tonne, we're not forecasting any of that to come into first quarter. Just to give you a flavor for kind of what makes that up. We look at -- we have kind of this category that we call other sales, but it's a little bit of sulfuric acid, a little bit of extra ammonia, and some scrap, kind of things that are kind of in the ordinary course relatively small, but we saw that in the fourth quarter, we also had some insurance proceeds that came back to us for the sulfur enterprise work, we had previously had some, some expense associated with some fire damage that did run through gross margin per tonne in the previous quarter, we got a little bit of insurance proceeds back in the fourth quarter. So again, that wouldn't reoccur. And so there are a couple of -- just a handful of kind of small things that happened in the ordinary course of business, but we really would not expect them to flow through to Q1.

Joc O'Rourke: And I just emphasize that normally in the fourth quarter, you see these same small items tend to be negative. And this year, surprisingly they were positive.

Operator: Your next question comes from the line of Mark Connelly with Stephens.

Mark Connelly: Thanks. You talked about Miski Mayo rock driving your costs up a little bit. Can you give us a sense of what the opportunity looks like to get those costs down and what needs to happen or what targets you have there? And maybe related to that, you signed an MOU with a Chinese buyer, and it's not clear whether that's going to be geared toward rock or finished goods. Can you give us any sort of sense of how meaningful you think that's going to be in 2019 or going forward?

Joc O'Rourke: Okay. Mark, let me start by saying, I think you're referring to the increase in cost because the proportion of Miski Mayo rock was higher in our COGS this quarter. And you have to understand that when we bring Miski Mayo rock and we have not only the operating cost but the added cost of transport from through into our existing business, but if I look at Miski Mayo itself, I think there is a really great story there in terms of the integration as we take over the joint venture. This year, we had record low costs at Miski Mayo, record volumes at Miski Mayo, and a record safety performance at that operation. So over time, we believe that we can make material improvements to how that Miski Mayo works. In terms of our China MOU, I'm going to hand that over to Karen to give a couple of comments about our ongoing relationship there.

Karen Swager: Thanks, Joc. Yes, we signed an MOU with Sinochem organization this fall. And there are no specific volumes stated, we do believe that there will be future opportunities for rock imports into China given the rationalization of the rock mining that is starting to occur as we said about 25% to 30% rock production has decreased in China and over time, some of that rock maybe replaced at plants that are not relocated or closed in the future. So that's the intent of that agreement, but there are no specific volumes listed for 2019.

Operator: And your next question comes from the line of Alex Falcao with HSBC.

Alexandre Falcao: Thanks for the question. Just going back to Brazil, if you may. So we saw that there is this deadline for August 15th for to -- for other dams to be adopted to the new regulation. It seems like the industry is fighting back a little bit that be it all those -- those data points or at least that date. Can you -- what happens -- first, can you -- can you have a plan in place and have all your dams adopted to that point? First question.

Second question is, what happens if -- there is -- if some of the players are not able to do that and what do you expect in terms of shutting down some of these upstream dams and what is the impact of those closures if they were to happen? Thank you.

Joc O'Rourke: Okay. Alex, look, I'm going to hand this over to Rick. Rick is on the phone from Brazil right now, Rick McLellan, our business leader in Brazil. But before I do that, just I think the first clarification is by August 15th, the new legislation requirement, if I understand it correctly, and I will get Rick to clarify further, is that we need to have a plan in place or that anybody who has an upstream dam needs to have a plan in place. I do not believe that's the adoption date. I believe the adoption date is a couple of years later, but I will allow clarification from Rick and I will get him to give you the -- what he would expect to be the impact if they can't comply. Rick, can I ask you guys to look at this?

Richard McLellan: Yeah Joc, well, first things first. You're right that the plan has to be in place and presented in August and then there's a time schedule for it to take place. I think from an industry standpoint, people believe this needs to take place, this -- these type of changes need to take place. I think there will be a question about the time allowed to make it happen. But to be honest, the new legislation came into place last Monday, and yesterday, there was a new set of state legislations for the state of Minas

Gerais. And so, the industry is trying to work its way through it as are we. And it -- and if -- my sense is, if you don't meet the agreed upon criteria, those dams are -- have to be decommissioned and taken out of -- taken out of operation. I'm not sure I fully answered, but that's -- that's about what everybody knows today.

Joc O'Rourke: Thank you Rick, I'm just going to highlight again all that, because of the recentness of this event, I think the legislative impacts will be in somewhat flux for a period of time, Alex. I don't think we're going to have final answers for a period of time, and look, when we do understand what the legislation is, we will make sure that as a Company, we fully comply and that we follow whatever the highest standard to protect the employees, the communities, and the environment around and where we work.

Operator: Your next question comes from the line of Andrew Wong with RBC Capital Markets.

Andrew Wong: Hi, good morning. So I just want to go back to phos rock costs. Earlier in 2018, they were down to about $35 per tonne, but looks like they're back up a little bit to around like to $40 per tonne range. So how much of that is Miski Mayo versus like other operating items and what can we expect going forward for overall phos rock costs?

Joc O'Rourke: Okay, Andrew. Thank you. The $35 a tonne rock cost you referred to is the -- I believe you're referring to the cash cost of Florida mined rock. That varies and I think it is up this quarter because we're in areas that maybe have a little lower grade, a little further to pump, and that's normal variance, which we expect to see in our business as we move from deposit to deposit, mine to mine and in different areas. The overall rock cost then would include the Miski Mayo cost.

But what I can say is, overall and allowing for that variance, our transformation efforts have given us great success. I think those rock costs have been held relatively flat for eight years now. And so I think that is a great testament to the amount of work that's done. Now I think as we go forward, we expect to see some increases at least with inflation and longer pumping distances, but we are looking at how we mitigate those costs every year. Thanks.

Operator: Your next question comes from the line of Don Carson with Susquehanna Financial.

Don Carson: Thank you. I just wanted to take advantage of Mike's last call just to get his views on potash supply outlook. I know on Slide 16 you've given your demand view. But how do you see some of these ramps of new capacity affecting the supply demand balances and prices in as we get into the second half of 2019?

Joc O'Rourke: Thank you, Don. And certainly in respect to you and both Mike, I will definitely allow that to go to Mike, although, I'm sure Andy could give an equally eloquent answer.

Michael Rahm: Thanks, Don. We haven't changed our view a whole lot. Obviously, there are a few puts and takes on the supply side. And before addressing those, I think you have to acknowledge the tremendous growth that has taken place on the demand side. And potash demand has been a great story. If you look at shipments in 2017, up almost 5 million tonnes; 2018, we followed that big step-up with another 1 million tonne increase. So we're talking about a very robust demand environment.

Flipping to the supply side, as we said, puts and takes. If you look at some of the takes, the Boulby mine closed mid year. In Chile, SQM is focusing very hard on maximizing lithium production at the expense of KCl. K plus S had a few problems in the Werra region. China production has flattened after tremendous growth over the past 10 years. So that -- in that context, we -- and going ahead this year, we'll see another mine closure at Saskatchewan(ph)and in the context of good demand growth, some few hiccups on the supply side, and the expectation of a normal ramp-up of new capacity, certainly, the situation for 2019 looks very well balanced to actually a bit of a deficit.

When we look at the changes in our S&D, we're showing a small deficit, which again, we don't think the world's going to run out of potash, but all it indicates is that we think producers are going have to run at high rates. And if you look at what's happened this past year, record production at Mosaic, record production Belaruskali, record production coming from some of the facilities at ICL. The supply side needs to respond to the robust demand environment, coupled with a few other changes on the supply side with other producers. No, no change in our view, I think the potash outlook looks -- continues to look very positive. Andy, any concluding comments?

Andy Jung: No, I think you summed it up well.

Michael Rahm: All right.

Operator: Your next question comes from the line of Chris Parkinson with Credit Suisse.

Chris Parkinson: Great, thank you. So, you touched on your view that new supply will come online at a moderated pace, enabling demand to keep up, but can you just further hit on your view of global trade flow evolution, just given the vast majority of the new suppliers from the Middle East and North Africa. Is it safe to presume that you'll be selling even less into Central Asia and more into Latin America over the intermediate to long-term? Thank you.

Joc O'Rourke: Thanks, Chris. I'm going to hand this back to Andy and Mike again to just discuss that.

Michael Rahm: Maybe Andy, why don't you give a first shot and I'll add any color.

Andy Jung: Well, we've stated before that we are certainly more Americas focused with our asset base that's located in the Americas and we took the decision several years ago to move away from supplying our Indian distribution business out of Florida and primarily serving it with MWSPC tonnes out of Saudi Arabia and we would expect that that pattern will persist.

In terms of new production capability in the phosphate space, one would expect that OCP and Ma'aden or derivation of joint ventures in Saudi Arabia will meet much of future demand growth and you won't see new capacity out of North America in particular. So servicing global demand in the Asian region is most definitely going to be serviced from North Africa and the Middle East.

Michael Rahm: Nothing to add here.

Operator: Your next question comes from the line of PJ Juvekar with Citi.

Daniel Jester: Good morning, everyone. It's Dan Jester on for PJ. So, in North America, today, where are inventories more challenged given -- compared to a normal year? Is it in potash or in phosphate? And then secondly, in your demand forecast for North America I think you have potash shipments falling for a second consecutive year. Any comments on that would be helpful too. Thank you.

Joc O'Rourke: Sorry, I missed the second half of your question, Dan. I got the inventory challenge in P and K but I missed –

Daniel Jester: North America potash shipments, you have been down for the second consecutive year in 2019(ph). Can you just maybe talk about what's driving that? Thank you.

Joc O'Rourke: I'm going to share this question with Karen, but let me say, if I look at North American inventory, both P and K were affected by the poor than average to the ground actual usage. But I think if you look at it, I think the potash impact was probably a little less than the phosphate. So there's a bigger buildup of phosphate inventory and with imports that's probably exacerbated a little bit. Karen, do you want to talk about that and the –

Karen Swager: Sure. I think the situation that Joc summarized is valid. There is a little bit more phosphate inventory potentially in the hands of distributors and a little bit more the potash inventory in hands of the producers. Both nutrients though suffered the same impact from the fall -- disappointing fall application season. And so it's more of an issue of in whose hands that inventory is held. Overall, globally, I think we have probably seen most of the price impact that we're going to see happen on the phosphate side because we're seeing some turnaround in some of the things such as production curtailments or shutdowns in Australia, Mexico, China helping phosphates and on the potash side, I think you've got less of a global buildup in inventories outside of North America.

On the second part of the question on North American K shipments, I'm going to turn it over to Andy.

Andy Jung: All right. Thank you. For North American potash shipments, frankly, we'd see the market as pretty flat, while we show a small decline, that's within the margin for error in our shipment forecast. We expect on-farm demand to remain robust, corn acres likely will be higher, 92 million acres is our current point estimate. So I would look at it more as a flat demand in North America.

Operator: Your next question comes from the line of Joel Jackson with BMO Capital Markets.

Bria Murphy: Hi, this is Bria Murphy on for Joel Jackson. Thanks for taking my question. Just on MicroEssentials, it performed well over the last number of quarters, but you spoke in the past about production limitations there. I know you mentioned in your opening remarks that you're working on addressing these limitations. So if you could elaborate on that? And then how do you expect to continue to drive growth post the patent expiry there? Thanks.

Joc O'Rourke: Thanks, Bria. Let me say, first of all, we produced over 3 million tonnes of MicroEssentials and sold almost 3 million tonnes of MicroEssentials last year, which means we are getting very close to the 3.5 million tonnes of overall capacity. The way we will address that is, we are now looking at debottlenecking opportunities. And as you get close to 85%-90%, which is where we are of existing capacity, seasonality becomes more of an issue, so we are looking at how we can debottleneck and then we will after that look at what would be the next capital investment required to move MicroEssentials up.

I'm going to let Karen talk a little bit about the patent and growth after that.

Karen Swager: Sure. Thanks, Joc. Joc addressed the growth opportunities potentially debottlenecking to try and get that capacity expanded beyond the 3.5 million tonne capacity today. The other thing that we can do to get beyond the levels we're at is talk about impacting the seasonality for this product, and so we are working on a number of things, moving products into our distribution systems, into storage space to be able to spread out that production and help overcome that seasonality factor and potentially get that operating rate up all the way to its capacity, and then looking at the incremental debottlenecking opportunities.

Past the patent expiration, we're continuing to see strong demand and growth in these products and so while patent expiration might be coming up, we still see margins being maintained, price premium being maintained because of the long successful track record of this product. And so we haven't had any margin deterioration, for example.

Joc O'Rourke: Operator, we still have a couple of questions in the queue. And I would like to see us take both of them, if we can, please.

Operator: Okay. Your next question comes from the line of Michael Piken with Cleveland Research.

Michael Piken: Yeah. Hi, good morning, and congratulations, Mike, on your retirement. I just wanted to see your comments on Slide 17 with respect to Chinese phosphate demand and the declines that you've seen, is that something that you think is more structural and will continue to go down or they sort of level off from here? And what does that mean over time? Does that mean that China would just end up producing less. I know you talked about the reduction in exports, but just trying to figure out the whole balance of the Chinese market would be great.

And then the second thing is, is there a point in time that is two way for the spring demand to fully recover, in other words the weather forecast has been still pretty dismal here for the next few weeks, like how late can we go in the season before we might start to see some declines in applications? Thanks.

Joc O'Rourke: Okay, Mike, I'm going to answer the second one really quickly and hand the first over to Mike. But what I'd say on the first one is, yes, there is always going to be a point where logistics and supply chain may not be able to get enough product into the growing regions fast enough to meet a late spring. And so we could get squeezed a little bit there. But I'm very careful of crying wolf on that one, because I think every year we say that's a possibility. And every year, we find a way to get that product to market. So Mike, Andy, do you want to talk a little bit about Chinese potash and phosphate demand?

Michael Rahm: Sure. Let me start and I'll let Andy opine as well. Yeah, if you look at Chinese phosphate shipments of the high analysis products that they peaked a few years ago at about 22 million tonnes, I believe. They are down closer to 16 million tonnes. So we've had a real significant decline in Chinese phosphate shipments and I think the 22 million tonnes was inflated by the fact that there were concerns going back a few years about the security of supply and then whatnot and they did build some strategic reserves in their system and pipeline inventories or channel inventories were very high.

They have worked those down. In fact, we think -- we think the channel in China is pretty much completely empty at this point given the deferral that has taken place and we think that 16 million tonne mark that we're forecasting this year is kind of the structural, you know, the correct level and while China is trying to reduce or keep flat their overall nutrient use, we do think there's some substitution of low analysis and the K products and single superphosphates, fused magnesium phosphate that are being produced by these very small plants where there, you know, phosphate mine has been shut down for environmental reasons and so forth.

So we do think that even though phosphate use may stabilize or even go down a little bit, we do think the high analysis products will continue to be shipped at a rate of about 16 million metric tonnes per year. Andy any other comments? Okay. Andy says, no.

Operator: Your final question comes from the line of John Roberts with UBS.

John Roberts: Thank you, hopefully a quick one for Clint. Clint, the tax rate guidance for 2019 of low to mid 20s looks OK, but you highlighted volatility and you certainly saw that in the fourth quarter. What would swing you to the low end and what would swing you to the high end of your tax rate range for 2019?

Clint Freeland: Well, John, I think, excuse me -- I think the thing to keep an eye on is really the earnings mix in 2019. One of the things that drove the volatility in 2018 was not only the earnings mix between Brazil, Canada, and the US, but was also some of the adjustments around our valuation allowances, you know, as we became more profitable, particularly in North America, we were able to use more of the foreign tax credits than we expected and so we had to keep changing some of the valuation allowance levels. The valuation allowance for the general basket of those foreign tax credits has now been fully reversed. So I wouldn't expect that to create any volatility in '19. So I think going forward, the thing to watch really is the mix of earnings between Brazil, US, and Canada.

Joc O'Rourke: Okay. With that, I think we've well and truly used up our hour. So I would like to conclude our call by reiterating a couple of key points. This has been a very strong quarter to cap off a year of accelerating momentum for Mosaic. We are demonstrating the earnings leverage that we've created through business transformation across the company and we are well positioned to create meaningful value in 2019 and beyond.

Thank you for joining the call and thank you for your continued interest in Mosaic. Have a great day.

Operator: This concludes The Mosaic Company's fourth quarter 2018 earnings call. You may now disconnect.