

The Mosaic Company

Moderator: Gagnon, Laura

November 5, 2019

08:00 AM CT

OPERATOR: This is Conference # 8433517

Operator: Good morning, ladies and gentlemen, and welcome to the Mosaic Company's third-quarter 2019 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 Mosaic Company. Ms. Gagnon, you may begin.

Laura Gagnon: Thank you and welcome to our third-quarter 2019 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 third-quarter press release and performance data attached as exhibits to yesterday's Form 8-K filing also contain important information on these non-GAAP measures. Now I'd like to turn the call over to Joc.

Joc O'Rourke: Good morning, everyone. Thank you for joining our third-quarter earnings discussion. Yesterday, after the market closed, we released third-quarter results, which continue to reflect known challenges with fertilizer prices impacted by high-channel inventories in North America and slowing potash shipments into Asia. With that said, we are beginning to see developments in the market that are constructive on both these points.

First, fertilizer is now being applied in North America. We expect a shortened, but aggressive application season, which is needed to reduce channel inventories and set the stage for a strong spring season. Second, India recently settled its potash agreement, which sets a benchmark price and opens the door for product shipments to start moving. In the US, delayed harvest and below-trend crop yields have pushed corn and soybean prices higher, improving farmer economics for the next year and making fertilizer application more attractive.

In addition, soils are depleted as weather has prevented farmers from applying the appropriate amounts of fertilizer. This is a combination of factors that bodes very well for fertilizer demand heading into 2020. Clint will provide details on our third-quarter earnings along with an explanation of some abnormal expenses running through the period, including a tax accrual, which by itself impacted adjusted earnings by \$0.10 a share. I will focus on our outlook as well as the actions we are taking to maximize our free cash flow.

One key trend to note as we look forward to prices recovering is that phosphates and potash prices behave very differently with potash moving more slowly and phosphates correcting sharply. Price increases lag volume movements, especially when we are starting from high-inventory positions. In phosphates, we expect prices to rise as strong demand reduces North American inventories, and we have positioned product strategically to capture timed-place premiums in key Midwest growing regions.

We also expect phosphate demand to remain strong in other regions, including Brazil, where our production assets give us a meaningful advantage.

On the supply side, Chinese phosphate exports are slowing as environmental regulations and economic pressures take effect. At the same time, we have curtailed production, and the ramp-up of new supply from Saudi Arabia and Morocco is largely complete. Potash demand was similarly impacted by high North American inventories and a delay in contract settlements pressuring potash prices. Large potash producers have curtailed production to match supply to demand.

Throughout 2019, Mosaic has continued to focus on strengthening the business creating additional leverage to market improvement and financial returns. We've managed cash and capital prudently and have maintained our strong financial position. We have lowered sustaining capex for the year and have reaffirmed our commitment to shareholder returns by repurchasing \$150 million in Mosaic shares year-to-date. We have demonstrated our long-held commitment to market discipline curtailing both phosphate and potash production during periods of market weakness.

We have retained our ability to resume production quickly as markets strengthen. In Brazil, our Mosaic Fertilizantes business has completed all the actions required to reach its \$275 million synergy target in 2019, a year ahead of schedule, and we believe we can achieve up to \$50 million more in excess of what the target was this year. We have also kicked off a new program to generate an additional \$200 million of EBITDA contribution after 2019 through a mixture of operational improvements, further cost reductions, and additional revenue. Finally, our Esterhazy K3 project is ramping up well.

At our Analyst Day this past March, we announced that we were accelerating development of the project by a full year, and momentum toward that goal has been better than anticipated. As a result, we see an opportunity to pull the project forward by an additional year, allowing us to end all brine management spending and realize the full benefits of significantly lower production costs by mid-2022. All this work clearly has strengthened our foundation and positioned Mosaic for success in a cyclical, seasonal business. Initially, harvested yields in North America were coming in line with modest expectations.

As more acres are harvested, we're seeing yields come in lower. There are a lot of acres yet to harvest, but our expectation is that yields will continue to slip lower and commodity prices will continue to rise. In the US, for 2020, we're forecasting 93 million acres of corn planting and 85 million acres of soybeans. The combination of nutrient-depleted soils, more planted acres, and excellent affordability of crop nutrients bodes well for fertilizer demand into 2020.

The risk in 2019 continues to be the length of the application window. It's possible, like in 2017, that fall application extends past year-end. We believe farmers will make every effort to apply fertilizer in the fall with memories of spring 2019 challenges so fresh. What farmers can't apply this fall will be applied in the spring.

Our outlook remains bullish as we expect strong demand to pull down excess inventories and prices to improve as we move into 2020. Now, I will ask Clint to provide more insight into our third-quarter results and our outlook for fourth quarter and next year.

Clint Freeland: Thank you, Joc. Good morning, everyone, and thank you for joining our call. Adjusted EBITDA for the quarter was \$366 million and adjusted earnings per share were \$0.08. The company generated close to \$500 million in cash from operations with half of that cash being reinvested in our business and the majority of the balance being returned to shareholders through dividends and share repurchases.

Cash balances ended the quarter at \$641 million. On a segment basis, solid performance in Potash and Mosaic Fertilizantes was offset by continued weakness in phosphates primarily due to downward pressure on market prices. The Potash business unit performed well. Volumes were at the midpoint of the range, and adjusted gross margin per tonne came in strong as both prices and costs were better than expected.

While we were pleased with third-quarter results in potash, we do see challenges in the fourth quarter, specifically around volumes as we await completion of the China contract. In phosphates, while volumes were on the low end of our range, adjusted gross margin per tonne remained at negative \$6 as a \$13 per tonne benefit from lower raw material cost was offset by declines in average sales prices.

Mosaic Fertilizantes continued its strong performance with adjusted gross margin per tonne of \$39, reflecting strong distribution margins and favourable product mix. Global phosphate price pressures did not impact Mosaic Fertilizantes as much as our Phosphates segment as the Brazilian product mix is more diversified and its distribution business generates more consistent margins.

Sales volumes during the quarter were initially delayed due to dry weather, but are now progressing well, and we expect to finish the year strong. We continue to expect Brazil to set another record for total fertilizer shipments this year. And finally, there were a few items worth noting that impacted results beyond segment performance, starting with our effective tax rate. As we've discussed in the past, earnings mix plays a large role in our tax rate.

And as phosphate results have continued to weaken, our expected tax rate for the year has risen as a higher proportion of earnings are expected to come from Canada and Brazil, both of which are higher tax jurisdictions than the US. As a result, we now expect our effective tax rate for the year to be in the mid-30% range compared to the mid to high-20% range we discussed last quarter.

Given this, we booked a catch-up accrual during the third quarter as well as a required interim period accrual that will reverse when we close the books at year-end. These two third-quarter accruals totalled \$39 million, impacting third-quarter EPS by \$0.10 per share.

In addition, we recorded \$62 million of other operating expense, \$48 million after notables, which is approximately twice what we would expect in the normal quarter. \$23 million of the total adjusted expense is due to increases in legal reserves in Brazil and nonrecurring reclass of prior operating costs. The higher-than-normal legal reserves negatively impacted our adjusted EPS by \$0.02 per share at our estimated full-year effective tax rate. These were not treated as notables to be consistent with past practice.

Excluding these tax and other expense items, Mosaic's adjusted EPS for the quarter would have been \$0.20. The Mosaic Fertilizantes segment has

realized \$230 million of net synergies in its P&L through the third quarter of this year, and we expect to finish the year strong.

As many of the synergies flow through our cost of goods sold, ultimate realization depends on sales volumes. Based on current sales forecast for the fourth quarter, we expect to exceed our \$275 million target for this year by up to \$50 million demonstrating the continued acceleration of synergy recognition on a per tonne basis quarter over quarter.

Earlier this year, we announced the next phase of business improvement in Brazil with a target of achieving an additional \$200 million in adjusted EBITDA by 2022. This program is not simply an extension of our synergy program, but new initiatives that will build on our accomplishments to date.

In addition to strong execution in Brazil, the company is executing very well on the K3 development in Canada, which we believe is one of the best-performing potash projects in the world. We announced a one-year acceleration of the project at our Analyst Day earlier this year and now believe we can accelerate the project by an additional 12 to 18 months as minor assembly times have been reduced to three months compared to four months under the first acceleration and six months in the original plan.

While this acceleration, we will pull capex forward. We expect to remain below budget for the total project. Faster project execution will allow us to increase total brine management cost savings to \$225 million and accelerate \$75 million in operating cost reductions by more quickly migrating production from K1 and K2 to K3.

This \$300 million of cost savings is significant. It's roughly equivalent to 10% of gross capital spending on the K3 project and one-third of net capital spending and helps generate an unlevered after-tax IRR in excess of 25% on all accelerated capital spend.

As we look to the balance of the year, we have adjusted our full-year guidance to reflect results through the third quarter as well as sales expectations and more recent pricing levels for both potash and phosphates. Based on these factors, we now see adjusted EBITDA at \$1.4 billion to \$1.5 billion and adjusted EPS at \$0.50 to \$0.60.

Some of the key assumptions in our forecast include the following. First, over 50% of our phosphates and potash sales are priced, reducing our exposure to changes in market prices.

Second, we expect potash sales volumes for the fourth quarter of 1.7 million to 1.9 million tonnes and gross margin per tonne of \$60 to \$70. Our previously announced 600,000-tonne curtailment was in response to changing near-term demand expectations and is now reflected in the sales volumes we expect for the quarter.

This assumes no China and minimal India tonnes and market prices as of October 24th. For the Phosphate business unit, we expect sales volumes of two million to 2.3 million tonnes and adjusted gross margin per tonne from negative \$10 to 0, which assumes market prices as of October 24 approximately \$15 lower than third-quarter averages.

Mosaic Fertilizantes is expected to sell a total of 2.2 million to 2.4 million tonnes of finished product, most of which is already committed. Gross margin per tonne is expected to be in the range of \$40 to \$50 as we recognize the last of the higher costs related to the tailings dam regulatory changes.

Lastly, we expect Corporate and other to deliver \$10 million to \$20 million of gross margin and our equity loss from the Ma'aden joint venture to be approximately \$20 million. As is our custom, we intend to initiate 2020 financial guidance on our year-end earnings call in February.

As we prepare for that, we're mindful of the fact that over the past couple of years, we have adjusted guidance multiple times each year primarily due to either strengthening or weakening market prices. With that in mind, we're evaluating alternative approaches that focus more on costs, operating targets, and sensitivities. So that investors can more easily forecast results as market prices change.

You'll hear more about this on our year-end earnings call. But as you start to think about 2020 and what should be different compared to 2019, I would call your attention to four things which are expected to total \$225 million in incremental earnings compared to 2019 before any changes in market prices.

First, Mosaic will incur approximately \$80 million in costs this year to manage the Fertilizantes business during dam remediation efforts. We would obviously not expect that to reoccur next year. Second, \$20 million in idle costs for Plant City in the first half of the year will not reoccur as that facility has now been closed and asset retirement work has begun.

Third, our Esterhazy K3 facility is expected to produce one million tonnes of potash in 2020, 600,000 tonnes higher than in 2019, leading to an additional \$70 million to \$80 million in adjusted EBITDA.

And finally, realizing a full year of run rate synergies in Brazil together with new initiatives being executed is expected to improve results by at least \$50 million. So in total, we see a clear path to an additional \$225 million in adjusted EBITDA next year before any changes in market prices. With that, I'll turn the call back over to Joc.

Joc O'Rourke: Thank you, Clint. Clearly, 2019 has been a challenging year for fertilizer markets which once again demonstrates that Mosaic is in a business that is both cyclical and subject to weather-related and other short-term disruptions. To succeed in this business for the long-term, we know that we need to be efficient, we need to adjust quickly, and we need to preserve our ability to benefit from periods of strong demand and prices. We are aggressively managing costs across the enterprise.

We are managing capital effectively. We are maintaining our market discipline, and we have taken necessary actions this year to adapt to the temporary challenges in the market environment. Volume leads price and volume has started moving. Product is moving to the ground in North America. In fact, it's moving to the ground globally.

We expect supply and demand will move into better balance as we move into 2020, and we expect strong fertilizer markets next year and beyond given appealing market fundamentals. Mosaic is poised to take advantage of these improving opportunities. Before I open it up for questions, I would like to note that Rick McLellan, who has led Mosaic Fertilizantes since we began integration efforts, will return to the U.S. to lead the commercial organization.

Leadership of Mosaic Fertilizantes has been transferred to the very capable hands of Corrine Ricard. I would like to thank Rick for the remarkable

work that he has led to remake the Brazil business and reach our synergy targets. Corrine has more to do, and I have every confidence that she and our Brazilian team will have similar success.

Now we will take your questions. Operator?

Operator: We will take one question per analyst. You may re-queue again and add an additional questions that you might have.

Your first question comes from the line of Christopher Parkinson from Credit Suisse. Your line is open.

Lucas Beaumont: Good morning, guys. This is Lucas Beaumont on for Chris. Could you please walk us through your strip margin outlook for '20 and 21, all of the moving parts? And what's the best way to think about your margin outlook heading into next year, especially given the lower sulfur pricing?

Joc O'Rourke: Sorry. Good morning Lucas, early mic problem. Welcome. I'm going to hand this over to Corrine to give you some information on that, but our expectation is as the market starts moving that, that indeed, prices will follow the volume.

And as we move into the year, we're going to see the lag on our sulphur and ammonia plant prices catch up. And so we expect an inflection in our pricing, which really will move over better margins for next year. Let me give this to Corrine to answer.

Corrine Ricard: Sure. Thanks, Joc. I think it's important to note while we have a decrease in margins today, these are largely on published prices based on extremely low volumes. Literally, one barge is affecting price trades, so don't really reflect the market.

That being said, I think it's probably most productive for us to talk about what are the things that indicate an inflection in pricing that will cause a movement in the other direction and get prices moving again. Historically, those inflection points have come when you see market prices that reach the marginal cost for producers or cash cost that's currently happening today and you see idling as a result.

We've certainly seen closures, such as Mosaic's Plant City; but also Nutrien; the Sinochem plant, Fuling; and others are taking curtailments. You see a second cause of major inflection is a demand resurgence. And given the weather results from last year and what we believe will be a high corn crop this next year, we expect to see strong demand.

We're seeing that in other markets as well now, India, China. China has stabilized in Brazil. And then third, you'll often see market consolidation or discipline in the industry, and we're seeing that with some curtailed production as well as some consolidations that are happening in rationalization in China.

So overall, the three things that primarily drive these inflection points are happening today. And so we really do believe the bottom is in, and we should see a resurgence to the normal seasonal pattern of upswing in margins as we get into the spring season and see volume moving.

Operator: Your next question comes from the line of Adam Samuelson from Goldman Sachs. Adam Samuelson.

Adam Samuelson: Yes. Thank you. Good morning, everyone. So a question on the phosphate market, and maybe it's keying off with something, Corrine, you just said in your response there about market structure.

And you've seen this big import flow into NOLA, and you're seeing these indexing of OCP and Saudi tonnage to barge prices, which can be influenced by traders. And just from a market structure perspective, I mean just can you talk about what Mosaic can do to combat this?

And then on the marginal cost, I mean, Corrine, I just want to be clear. I mean are you actually seeing capacity closures in China? Just from a marginal cost perspective, it doesn't seem like there's actual supply rationalization happening among major exporters. Just a little bit more colour there would be helpful.

Thank you.

Joc O'Rourke: I'll hand this to Corrine, but I will make a couple of comments. First of all, let me say, what's going on in the NOLA market is quite disconnected from

either what's going on up country or what we're selling for. So it is a market manipulation play. And I guess it takes two to tango, but the importers are allowing it.

So that is that piece. But in terms of the up-country market, it really isn't what we're playing with. It's a very low-volume market that's being a single barge or a couple of barges being traded to set an index price. Once real volume starts moving, that goes away very quickly as it has in the past.

Corrine, do you want to talk a little more on that?

Corrine Ricard: Sure. We have seen a lot of imports come in. There's no doubt about that. And the index pricing that Joc and all of the publications have talked a lot about are a clear indication that there are a lot of games being played on pricing.

I think it's important to note, the only one who's selling a lot of tonnes at these kind of prices are our international competitors. Our domestic customers at this point have their inventories full. They have got a regular supply of product, and our sales largely are happening out of places like our Pine Bend warehouse, rail delivered into other markets. And so while these index prices do have an impact on sentiment overall and general market trend, they don't really reflect what we're selling at, but more what others are selling at.

In terms of your China question, I would say that we are seeing closures in China. We have talked before about the depressed economic environment that they're facing as well as the environmental and regulatory decisions that are having an impact on those Chinese producers. We see rock production year-to-date is down 9.2% in China. Their costs are up on gypsum disposal.

Their ammonia costs are up because of environmental air quality requirements. And with the currency corrections that you're seeing, their cost thresholds on average today are about \$3.10 to \$3.15 on an FOB basis for exports. So we're trading today below those cost levels, and I think that it's absolutely going to have an impact. We are seeing producers facing decisions about whether or not they will close and relocate those plants more than a couple of kilometres off the river.

And at these economics, those are tough choices to make. We just saw an announcement by Sinochem about the closure of the Fuling plant, which is about 1.5 million tonnes of capacity. And while they may decide to relocate or reconfigure that plant, those plans are more than three years away. And right now, what's happening is the closure of that plant. So yes, we are believing -- we do believe that economic factors as well as these environmental pressures are pushing for rationalization in the phosphate industry in China.

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

Jonas Oxgaard: Good morning. Can you talk a little bit more about the expectation of volumes next year? How much pent-up demand do we actually have in the soil at this point? What can we expect out of North America and China, particularly?

Joc O'Rourke: Well, I think in simple terms, for North America, we're looking at a corn planting of 93 million acres next year. We're looking at a soybean planting of 85 million acres, which should bode well to taking North American demand up to at least where it was in previous years. And then beyond that, to make up what might have been missed. And I think in both nutrients, there's been up to one million tonnes of missed product going on the ground.

So I think in both those cases, we should see very good demand in North America. In terms of China, we're seeing good internal demand starting, and we see that sort of balancing off at 15 million tonnes of demand of phosphates internally in the domestic market. And the other one we expect is we expect good potash imports next year into China. So overall, we're expecting a big jump or a good jump in overall potash around the world up to, let's say, an average of 67 million tonnes and probably around 69 million tonnes for phosphates around the world.

So both of those are a big jump up and really should drive the inventory out of the system as it exists today. I'm going to hand it over to Corrine for a few extra detailed comments.

Corrine Ricard: Sure. Thanks, Joc. Yes. I would say that we have a real step-up we expect in global shipments. Demand is solid in most all regions. We've seen a good recovery in Malaysia, Indonesia with palm prices and expect to see good potash demand there.

Our single-point estimate, you can see in the presentations on potash, our single-point estimate is more like 68 million tonnes for global shipments, but that could be as high as 69 million tonnes. And then that is up about three million tonnes on potash shipments for the year.

And then on phosphates, we have a single-point estimate of about 70 million tonnes, could be as high as 71 million tonnes; up a couple of million tonnes on phosphates as well. So good demand expectations, Jonas.

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

Joel Jackson: Hi. Good morning, everyone. Your phosphate margins have obviously been negative for the last few quarters. How long are you willing to let the business run at kind of that level before you want to take different actions here? It doesn't seem like a lot of your offshore competitors are taking the same kind of downtime and pain that you've been willing to do to try to balance inventory.

Joc O'Rourke: Good morning Joel and thank you. Look, the way we're looking at this today is we have capacity for what we believe is the demand coming up in the next year, and so we expect that capacity to be fairly well utilized. So we believe our Louisiana operations are basically essential to meet that new demand in 2020.

And it's also worth noting that while our Louisiana operations are our highest cost, its location on the Mississippi River, its integrated ammonia operations and access to low-cost, high-quality sulfur from the Gulf really make it pretty competitive on a delivered cost basis and make an integral part of our potash -- our phosphate portfolio. So the other thing is Louisiana makes a lot of our MicroEssentials.

So as we look at this going forward, we think this is a temporary seasonal thing, and we expect we're going to need that production in the near-term. In terms of how our competitors are responding, I'm not going to comment on their actions.

I will say Mosaic, though, takes the approach that we always follow value rather than volume, and we're matching what we think is our customer's demand. And we don't intend to go below that, but we do intend to make sure that we don't oversupply a market that doesn't need it.

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

Mark Connelly: Thank you. Joc, early in the K3 project, Mosaic said that under certain conditions, it would continue to operate the old mine at reduced rates. Are you going to be keeping any of K1 and two on a maintenance schedule for potential use? Or is that going to be shut for good?

Joc O'Rourke: Yes. Thanks for that, Mark. Let me start off by saying the K3 project has been a real execution win for Mosaic. Our Canadian team has just found incredible new ways to modularize the assembly of underground miners and other equipment, and this is really what's allowed us to accelerate this project.

As such, what we're looking at today is a very successful project that will reach its total capacity a couple of years ahead of our original schedule. As such, we don't see a need for the K1 and K2 mines after 2022. And the reason for that is we have capacity for milling, but we will be constrained by that milling capacity with the capacity of K3. So it really -- the acceleration has changed the need for any increase or lengthening of the K1 and K2 mines.

Operator: Your next question comes from the line of John Roberts from UBS. Your line is open.

John Roberts: Thank you. On Slide 20 where you gave selected items to 2020, do you have any early thoughts on Ma'aden for 2020?

Joc O'Rourke: Yes. Yes. So -- yes, thanks, John. Ma'aden is a little more difficult to predict for 2020.

Their capacity will go up in 2020, driving their overall costs down. But really, it depends on the phosphate market on how much the contribution is going to be on Ma'aden. We really don't expect a lot of equity earnings in 2020, if any. And that's because if you look at this at a run-rate this year, their loss will be probably in the \$200 million range.

So even if you take that to a new capacity, they've got to improve their efficiencies before we're going to see any real equity earnings.

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

Andrew Wong: Good morning. So just going back to phosphate. I'm just trying to understand how the phosphate cost curve looks today versus pricing. And maybe just focusing on DAP, we've heard about phosphate rock price cuts in China.

Obviously, sulfur ammonia prices are lower. I know those are pass-throughs, but that affects that pricing. Maybe could you just help quantify where you see the marginal cost curve today because it obviously moves a lot?

Joc O'Rourke: Okay, thanks, Andrew. Let me go back to Corrine. I mean, I think Corrine said that the average cash cost in China today is about \$315 a tonne, and that's taking into account the RMB moves, the ammonia move, sulfur and rock costs.

What that means, though, is that's an average. That means 50% of all Chinese production is basically underwater at these prices. I just mentioned Ma'aden. And while Ma'aden will be cash positive with their high level of debt repayments, that project is not making money, which would mean their overall breakeven is more in the range of \$350 plus.

So if you look at it, where is the marginal cost producer? I'm saying the marginal cost producer is probably certainly above that \$350 and \$320 range and likely well up into the \$400 range for a non-integrated Indian

producer, maybe the Mexican producers and some of the Chinese producers.

Operator: The next question comes from P.J. Juvekar from Citi. Your line is open.

P.J. Juvekar: Yes. Hi. Good morning, Joc. Miski Mayo is one of your high-cost mines, to some extent.

As phosphate sales have slowed down, is that a mine that you could potentially slow down? I know you have some contractual tonnes there, but what can you do there? And what's the opportunity to lower costs?

Joc O'Rourke: P.J., let me say Miski Mayo is probably disadvantaged on a delivered basis because of the transport, obviously, to Louisiana. But again, it tends to give us a good opportunity to keep Louisiana going and preserve rock in Florida. And if you worked it out overall, it's a pretty good asset for us. Now what I will say there, though, is they're making -- since we have taken over that joint venture, we've made great progress on reducing costs.

And I intend on the -- in the future to set some real targets there for reduced cost. So we'd like to make Miski Mayo a real integral part of our overall production plans. And to do that, though, I -- we agree, we need to really work hard on reducing the cost of that operation.

Operator: Your next question comes from Ben Isaacson from Scotiabank. Your line is open.

Ben Isaacson: Good morning. Thank you. I'm trying to understand the difference between expected shipments and underlying demand. And I was hoping maybe Andy can talk a little bit about in key markets where phosphate inventories or stocks are versus where comfortable levels should be or have been historically, either in preserve --

Joc O'Rourke: I'll let Corrine answer a bit of that. But I would say, look, we know that North American inventories are high. We believe that in-country inventories for both potash and phosphate are reasonable in India. We believe both in-country inventories for phosphate and potash are below normal in China right now.

So while the port inventories for potash are high in China, we believe in-country inventories are actually quite low, which means that you will see the port inventories move into countries quite quickly.

So overall, across the globe -- I'm sorry, in Brazil, we're seeing phosphate inventories are down a couple of percent by the year-end and potash inventories up a little bit. So overall, we don't think the inventories are that out of whack. And what we will say here is -- as well is, with low prices, people tend to deplete their inventories.

And during rising prices, they tend to build up their inventories. So we believe the inventories are being depleted. So what's going on in the ground is probably exceeding what is actually being delivered in these markets right now. Corrine, do you have anything to add to that?

Corrine Ricard: Not too much to add, Joc. I think it's a good point that there's a natural tendency to destock when prices are falling. Nobody wants to try to figure out what that bottom price level is. And we -- so we are seeing some destocking in some markets.

Some got caught quite long with the weather changes, and they're working off those inventories. And we've seen some channel stuffing by some of the -- our international competitors, putting it into traders and markets trying to position. But in-country, places like China, the in-country potash inventory levels out of the NPK plants, etc., we believe are pretty low. And so there is some real movement for tonnage to go when we see that demand volume kick back in.

Joc O'Rourke: And just let me reiterate there as well. We have people on the ground with our distribution businesses and, clearly, in North America, Brazil, India and China, which are our major markets. So we have a pretty good handle on what's moving in-country compared to maybe some of our competitors.

Operator: The next question comes from Steve Byrne from Bank of America. Your line is open.

Matt DeYoe: So this is Matt DeYoe on for Steve, by the way. But your -- you talked a little bit about inventories. Clearly, in North America, they're bloated. But if we're looking into 2020, it looks like you're forecasting a pretty modest

increase for shipments into country despite what's been a pretty poor year for applications.

So again, is this just elevated channel inventories? Or why don't you foresee a better rebound to North American applications next year.

Joc O'Rourke: I think we do expect a big -- sorry, Matthew. Welcome. We do expect a big rebound in North American application. But I think you hit it on the head there.

There's a lot of channel inventory right now. Many of our customers are full. And it's not unusual to be full going into spring, but we're full for a couple of seasons now, so that is unusual. So we expect that, that inventory has to move out of the system first, and then the actual shipments from those producers can start.

Operator: Next question comes from Michael Piken from Cleveland Research. Your line is open.

Michael Piken: Yes. Hi. I was wondering if you could talk a little bit about how we should be forecasting your ammonia costs for the coming quarters given that Faustina is currently shut down, and how we should be thinking about that going into 2020 as well. Thanks.

Joc O'Rourke: Sure. Thanks, Michael. I'll touch this and maybe Corrine might touch it a little bit as well. But here's how our normal ammonia supply works. We buy about one-third on the open market. We receive about one-third with our CF contract, and we make about one-third with our own production. Now clearly, our -- in terms of cost right now, the lowest cost is our own production, and then our market cost is second. And CF is, in today's market, significantly higher than that.

I think the CF market is in the \$350 range today with natural gas prices where they are. So what you will see with the ammonia plant down is that we will have a higher weighting of the market price, which is in the mid-\$200s and a higher weighting of the CF price, which is in the \$350 range and a lower weighting of our own production. So that will increase our costs above market at this stage.

In 2020, at the start of 2020, we will have unloading or loading facilities at our dock in Louisiana, which will allow us to take the ammonia from Faustina and move it to our Florida operations, which will really give us a big cost advantage and allow us to utilize that ammonia much more effectively.

Operator: Your next question comes from Vincent Andrews from Morgan Stanley. Your line is open.

Vincent Andrews: Thanks very much. I think what I heard earlier was that you plan on starting the phosphate assets pretty much for the beginning of the year given the demand that you're forecasting. When do you think you'll bring the potash assets back online? Is there any risk that they remain off-line in the first quarter? Thanks.

Joc O'Rourke: Thanks, Vincent. Yes. Our intentions are at this stage that Louisiana would probably come up year-end or early in the new year depending on how the Fall season's going and what we see as a need there. In terms of the Colonsay and the potash, the trade-off there will be -- both -- will be twofold.

One will be how is the potash market developing? Do we have a Chinese contract? Has that shipment started? Have the -- we've seen good increases in pricing for palm oil. Do we see higher shipments into Malaysia and Indonesia from Canpotex? So if those Canpotex shipments start, that will lead us to favor bringing Colonsay up. At the same time, our K3, as we keep saying, is coming up faster than we expected. So if we can meet the need with the lower-cost K3 product, that will probably be where we would focus.

Operator: And the last question comes from Don Carson from Susquehanna Financial. Your line is open.

Don Carson: Yes. Thank you. Just a couple of questions on potash. One, can you talk a bit about potash pricing in the domestic market? I know you raised prices post the completion of summer fill.

Are you actually seeing any of those higher prices being realized currently? And, Joc, if you could just clarify, what's the future of Colonsay

once K3 is up and running given its cost structure relative to K3 and even K1 and K2?

Joc O'Rourke: Thanks, Don. Let me take the second question first. Look, Colonsay is a good asset in the potash markets that we had maybe even five years ago, Colonsay was a very good, profitable operation. Today, with the new structure in K3 coming up, Colonsay is going to definitely be our swing plant.

And as such, we want it there to be available when we need it. But at the same time, if we can supply from Esterhazy and Belle Plaine, we feel that's a more economic way to supply the market needs. So it really is going to depend on how far -- fast the market grows. I mean current projections from CRU and stuff says that probably Colonsay will be running intermittently in the next little while rather than steadily, but more to come on that.

And final decisions will be made probably in the early next year. In terms of potash pricing in the market, I think maybe Corrine is best to answer that.

Corrine Ricard: Sure. We did get good participation in our summer fill program and got a lot of products sold for that time period. We then posted prices higher as we normally do after a fill program. I would say it has been difficult to get those prices to stick.

We've seen a lot of pressure from our domestic competitors who seem to have accepted much lower prices, and we have continued to make sales. Today, Corn Belt warehouse price is in that \$270, \$280-ish kind of range.

Joc O'Rourke: OK. Well, with that, I'd like to conclude our call. I know you have a lot of other calls today. And I'd like to reiterate our key points.

While 2019 has been a challenging year for North American agriculture, Mosaic has maintained its focus on the things we can really control. We have made tremendous progress. We've accelerated K3 mine again, which will lead to significant savings in a highly efficient potash operation. We've idled production to help balance supply and demand.

The transformations of our potash and phosphate businesses as well as our corporate functions are ongoing, and they're delivering real bottom line results. And we're driving remarkable improvements in our Mosaic Fertilizantes business in Brazil. All these efforts have Mosaic positioned well to benefit from improving market conditions.

We expect agricultural fundamentals to strengthen further, and we expect strong global demand and rising prices for both phosphates and potash as we move into 2022. We're highly optimistic that business conditions will improve and that Mosaic will be there to deliver strong returns as that happens. Thank you for joining us this morning, and have a great day.

Operator: Ladies and gentleman, this concludes today's conference call. Thank you for participating. You may now disconnect.