The Mosaic Company
Second Quarter 2019 Earnings Call

Moderator: Gagnon, Laura
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Operator

Good morning, ladies and gentlemen and welcome to The Mosaic Company’s Second 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 The Mosaic Company. Mrs. Gagnon, you may begin.

Laura Gagnon

Thank you, and welcome to our second quarter 2019 earnings call. Presenting today will be Joe 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 this
morning 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 and performance data attached as exhibits to today’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.

**James O'Rourke**

Good morning. Thank you for joining our second quarter earnings discussion. As you know, the spring planting season in North America was challenging. It was the wettest and latest season on record. In fact, we believe U.S. farmers were prevented from planting at least 10 million acres.

We now have seen two consecutive application seasons negatively impacted by weather, which in turn has driven grain prices to multiple year highs and incented farmers to make sure they are prepared to take advantage of those prices in 2020. Clearly, these same events have also impacted our first half results and tempered our full-year financial outlook.

Clint will give you the details to understand the factors that drove our second quarter earnings. I will focus on the actions we are taking to adapt, the progress we are continuing to make across the business and our longer-term outlook. Our key points today are; first, we expect the current North American inventories to be reduced sharply through an anticipated strong fall application season and we see much stronger fundamentals for agriculture and fertilizer emerging in 2020.

Second, our success in ramping up Esterhazy K3 combined with our inventory position has given us the flexibility to curtail our highest cost potash mine and focus on our lowest cost operations. This
action is expected to drive potash cost even lower in the second half of 2019 and save $40 million to $50 million in cash expenditures.

Third, we expect to have all our Brazilian phosphate mines running in August ahead of schedule and we are lowering the dam related costs by $20 million from our previous estimate. Last, we've announced the permanent closure of our Plant City phosphates facility, which will improve our overall phosphate cost position and cash flow going forward. The transformation we have driven across our business units has increased Mosaic’s across-cycle potential and has allowed us increased flexibility to adapt to a changing environment. The impact of our actions to increase our operating leverage is expected to coincide with improving market conditions.

The North American crop, which received much less fertilizer than usual will leave fields in serious need of nutrient replenishment. At the same time, higher grain prices will provide strong incentives for farmers to plant more acres and to maximize yields next spring.

Of course, North America is just one market, demand remains strong in Brazil where the farmers are seeking to maximize output in response to favorable market conditions and as we move into their peak planting season.

In India, the monsoon is picking up and the recent government decision to leave phosphates subsidies unchanged is strongly positive for the long-term demand picture. In China, phosphate demand was down, offsetting some of the strong growth elsewhere. While the slower demand originally drove exports, we're now seeing phosphate exports decline as lower prices impact phosphate producer economics.

While today's lower phosphate prices are challenging in the short-term, we believe they can accelerate the restructuring of the Chinese industry. Year-end 2019 represents a milestone with investment required for many producers to maintain environmental compliance and current lower prices are likely to prevent some of those
investments. It is our belief that marginal producers will cease production as we move into 2020. The larger Chinese producers have announced a coordinated curtailment of production, which we are closely watching.

Now I will turn to our execution, which is driving important benefits across the organization. I will start with Potash. Our new Esterhazy K3 mine is performing exceptionally well. We believe it will produce 400,000 tonnes of Potash in 2019 and will approach a million tonnes in 2020. This incremental production at Esterhazy helped to facilitate the decision to temporarily idle Colonsay and allows us to begin to realize the benefits of one of the most efficient mines in the world.

We continue to drive cash costs of production lower in the Potash business. In the second quarter of 2019, our cash cost of production excluding brine fell to $69 per tonne and we expect cost to continue to improve as operating rates increase.

With the savings related to an idle Colonsay mine, we expect these costs to fall to approximately $60 a tonne in the fourth quarter. That said Colonsay will remain in a position to deliver 2.5 million tonnes of annual surge capacity if necessary to meet market demand.

Our business in Brazil also continues to perform very well and we are seeing momentum for the second half of the year and beyond. Mosaic Fertilizantes is on track to achieve its $275 million synergy target ahead of schedule and we expect to drive significant transformational savings after we complete the deal related synergy work.

In addition, we have made tremendous progress towards meeting the new mine tailings dam regulatory standard. Mosaic has completed the first phase of dam remediation at the Tapira mine and has restarted mining at roughly 60% capacity.
The mine is expected to resume full operations by the middle of August after completing remediation activities on a second dam. The Company has also received an operating license for the B6 dam at Araxá, which is expected to allow that mine to start operations this month.

Our teams in Brazil have done remarkable work to get us to this point, reducing the expected impact by $20 million for the full-year.

In the phosphates business, we are continuing to exert pressure on factors that we can control. The transformation of our phosphates business is ongoing and it is driving significant operational and financial efficiency while simultaneously delivering excellent safety and environmental results.

To be clear, our focus will remain on meeting the needs of our customers and maintaining our market position - that will not change. External factors have impacted our results and near-term expectations and have led us to reduce our 2019 EBITDA guidance to $1.8 billion to $2 billion.

However, we've retained our keen focus on execution and controlling what is within our power. Our ability to improve efficiency, lower costs and optimize assets has created significant operating leverage in our business. Our outlook for the second half remain strong and we continue to expect broad strength in our markets and our business in 2020 and the years ahead.

Now I'm going to turn it over to Clint to provide further detail.

Thank you, Joe, and good morning, everyone. As noted earlier, adjusted EBITDA and adjusted EPS for the second quarter totaled $349 million and $0.12 per share, respectively, as solid results at the Potash and Fertilizantes business units were offset by a difficult quarter in phosphates.

Potash adjusted EBITDA totaled $254 million for the quarter, up 27% from $199 million last year as a modest reduction in sales
volume resulting from the weak spring fertilizer application season in North America was more than offset by much stronger margins.

Mosaic Fertilizantes adjusted EBITDA totaled $38 million during the quarter compared to $60 million for the second quarter of 2018. Results this year include $36 million in non-recurring costs to supplement rock and finished goods supply as our team worked to bring our Brazilian mine tailings dams into compliance with the new regulatory standard. Except for that, adjusted EBITDA would have been $74 million, up 23%.

The Phosphate segment generated adjusted EBITDA of $74 million during the quarter, compared to $251 million in the same quarter last year as sales prices, sales volume and mix, idle costs and raw material costs, all pressured results. Additionally, equity earnings associated with our investment in Ma’aden, flow through the Phosphate segment and, for the quarter, were a loss of $11 million.

While the segment’s cash gross margin before D,D, and A and accretion was a positive $47 per tonne, reported adjusted gross margin per tonne for the quarter was negative $5, considerably lower than expected, as a number of dynamics came together to impact results. As a result of weak spring demand and a high level of imports trapped in the lower Mississippi river, market prices remained under pressure and the seasonal price improvement we typically see in the second quarter did not materialize.

Additionally, while the Midwest warehouse premium in North America remained high, we didn’t capture as much of that as anticipated as North American sales, including MicroEssentials products, were 350,000 to 400,000 tonnes lower than expected. Lower market prices along with the change in the mix of sales during the quarter and lower than expected production and sales volumes impacted margins by $45 per tonne.

The volume and mix shift includes the impact of redirecting approximately 150,000 incremental tonnes of fertilizer to our
international distribution businesses, primarily Brazil, and these intercompany international sales had lower margins than in North America. In addition, with overall production volumes below expectations as a result of the opportunistic extension of two planned maintenance outages, we saw higher conversion cost per tonne and slower declines in raw material costs during the period.

These factors taken together led to the quarter’s results. However, it's important to note that the volume and mix impacts in the second quarter gross margin are transitory and are not expected to impact third quarter results. Additionally, as sales accelerate in the third quarter, we expect approximately $12 per tonne in raw material cost improvement relative to the second quarter. Offsetting a portion of these benefits is a decline in average selling prices compared to last quarter reflecting recent market pricing levels.

Third quarter gross margin per tonne expectations for the Potash business reflect the $25 per tonne discount offered to customers as part of our North American summer fill program, as well as expenses associated with scheduled turnaround activity during the period.

And while we expect to realize significant cash savings from the idling of our Colonsay facility as Joc mentioned earlier, we expect only a small portion of that to impact the Company's third quarter earnings as we sell down existing inventory at the facility. Margin benefits from migrating production to our lower cost K3 facility should be more significant in the fourth quarter of this year and into 2020.

Finally, our margin guidance for Mosaic Fertilizantes reflects the higher cost associated with purchased rock and finished product as part of our dam remediation activities. However, as mentioned earlier, we expect these to be transitory as operations return to normal. As we look out to the balance of the year, our expectations are for a robust fall application season given depleted soil nutrients
in North America and higher grain prices benefiting farmer economics.

Outside of North America, we expect to see continued strong demand, particularly in Brazil, where farmer economics remain solid. As a result, we see total second half volumes for potash in a range of 4.7 million to 5.1 million tonnes, which would equal or break Mosaic’s previous record second half sales levels. Phosphate shipments in the second half are expected to be 4.4 million to 4.8 million tonnes, the highest level since the idling of Plant City.

In addition to these strong sales volumes, we expect inventories in North America to be substantially drawn down. One of the key things to watch as we get into the fall is the length of the application window in North America given the late spring planting and resulting later harvest.

In Brazil, we continue to expect Fertilizantes to deliver full-year sales volumes of 9.4 million to 9.8 million tonnes, reflecting continued market strength and our successful remediation of the issues created by the regulatory driven closures of our Brazilian mines. With this strong demand as backdrop in both North America and Brazil, keeping in mind existing inventory levels, we would expect market prices to remain stable if not improved somewhat over the balance of the year.

So, taking first half results into account and our expectations for the balance of the year, we've updated our adjusted EBITDA guidance range to $1.8 billion to $2 billion and earnings per share range to $1.10 to $1.50.

In addition to the volume assumptions outlined earlier, there are a number of factors that are incorporated into our forecast, including first, from a pricing standpoint, the low end of our guidance range assumes market pricing at the beginning of the third quarter for all remaining unpriced tonnes this year, while the top end of the range reflects an average price increase of $25 per tonne across both
phosphates and potash. Next, we expect raw material costs to improve, as noted earlier, as we realize the benefits from recent market price declines.

Next, as Joe mentioned, we now expect our mines in Brazil to be back to full operation this month, reducing the total cost of managing through the dam issue this year from our original estimate of $100 million to $80 million. With Ma’aden slowly ramping up production, the weaker phosphate pricing environment coupled with the project’s interest costs are now expected to result in equity earnings to Mosaic of approximately negative $50 million for the year.

And finally, expectations of cash taxes have declined from $75 million to $50 million. Our effective tax rate, excluding discrete items, is expected to remain in the mid-to-high 20% range. The biggest impact of our effective rate is earnings mix. So that remains the item to watch going forward.

Turning to our CapEx plans for the year, we've reduced our 2019 sustaining capital program by $80 million to $640 million in light of market conditions. We are, however, continuing to invest in modest high return opportunities like the modifications to our dock in Louisiana that will allow us to use more of our own internally produced ammonia in our Florida operations and generating an unlevered after-tax return of over 40% and payback of right at two years.

With that, I'll turn the call back over to Joe for his closing comments.

James O'Rourke

Thank you, Clint. There was no question the market conditions have been difficult for the first half of this year and that the impact on the full-year will be real. We have solid strategic momentum; markets notwithstanding; we have improved our cost base and our operating efficiency; we have successfully integrated and transformed a compelling acquisition in the world's most promising agricultural
market; we are just beginning to realize the very long-term benefit of the new Esterhazy K3 potash mine and we are performing at a very high level across the organization. We expect the current supply and demand situation will come into balance and as it does Mosaic will remain in excellent position to benefit.

Now we will take your questions.

**Operator**

At this time if you would like to ask a question please press star then the number one on your telephone keypad, that is star one on your telephone keypad. Your first question comes from Stephen Byrne.

**Stephen Byrne**

Yes. As to whether you're seeing a behavior change down in Brazil with the improving corn market. Are you seeing expectations of maybe a bigger second corn crop? Any increased buying patterns on fertilizer earlier than normal or a little more aggressive on volume?

**James O'Rourke**

Thank you, Steve. Welcome. Well, I'll hand this to Rick. We have the privilege of having Rick McLellan here in the room today and he manages our Brazil business. But I can tell you, I think the motive in Brazil to take advantage of some of the issues, higher corn pricing and some of the trade issues that are now occurring. We expect we will be very positive for Brazil. Rick, do you want to talk about the season coming up?

**Richard McLellan**

Yes. Good morning, Steve. So, the season coming up, if we look across the main crops, if you look at corn, soybeans, cotton and citrus farmer returns are very, very good. And so, we see a really good sales book now for our distribution business and we expect a very good main application period. Your question was about safrina, the second crop. And yes, we're seeing farmers in the last two to three weeks step in and start to buy their fertilizer for the
second crop corn. And that's a very positive indicator, but it also tells you that there is a market there for that corn and the farmers are reacting and the market is working.

**James O'Rourke**

And let me just remind you that we're going to be bringing back Tapira and Araxá just in time for the big season coming up. So we think our B2B business is going to be in very good shape as well to take advantage.

**Stephen Byrne**

And how do you look at the growth potential for Fertilizantes down there? You have 14 blending facilities. Would you prioritize expanding that particularly as more rails get constructed in Brazil or could you envision a diversification of the product offering at these facilities such as, moving in the more distribution of other products, crop chemicals, seed treatments, et cetera?

**James O'Rourke**

Thanks. I think both of those are really good opportunities for us. First one, expanding our distribution platform itself and capturing a bigger piece of that overall market is a really good opportunity for us. But obviously expanding and using those platforms for other commodities is another growth opportunity. We got into Brazil on this basis. We believe it's one of the best agricultural regions in the world, growing at a great rate and we fully think we're a first-mover in there and we're going to take advantage of that first-mover advantage.

**Operator**

Your next question comes from Vincent Andrews.

**Vincent Andrews**

Thank you. Joc, maybe I could just ask you how you're thinking about sort of the bridge from 2019 to 2020 in terms of volume. And
I guess what I'm asking is, obviously we saw reduced usage in the U.S. this year and maybe in Europe as well. So, are you thinking we get that back and then you get normal growth on top of what should have been the underlying demand growth this year? Or have we re-based 2019 volume or shipments and we'll just get normal growth off of that?

James O'Rourke

Thanks Vincent. I'll start this and hand it over to our market analysis people. But I think everyone understands that we had an unprecedented North American spring, but that's behind us today. And what's it left? It's lead to prevent planting up to 10 million acres, so we expect coming out of the season grain-to-stock to use ratios, maybe as low as 10%. Well, that's going to really push grain prices and really going to push planting intentions up for the spring.

So, our expectation is we're going to have a big spring in North America and we fully expect big volumes coming out in 2020. So, if we bridge from 2019 to 2020, we expect to have a much higher acreage and we expect to have higher application to support that and then the rest of the world will follow. Anything from you, Corrine or Andy?

Andy Jung

I think just from a specificity standpoint, we won't make up all of the tonnes that didn't go down last year or in 2019. We'll make up some of them. But we'll just return to a more broad-based linear demand growth pattern in 2020 and beyond.

Operator

Your next question comes from John Roberts.

John Roberts

Thank you. How should we think about the Fertilizantes earning split between the third and fourth quarter? The third quarter is, I think normally seasonally bigger, but you still have – you don't have your full capabilities back in the third quarter. So, should we think
about earnings being roughly equal between third and fourth quarter for Fertilizantes rather than the normal seasonality?

James O'Rourke  
Yes. Thanks, John. Look, the split between the third and fourth quarter, as you said, normally we would expect them to be just as last year, which is a third quarter, slightly bigger than the fourth. But I think this year, we have still another somewhere around $40 million of raw material pricing for rock and whatnot that we had to import for the dams. So overall, volumes are going to be up. But we're going to still be absorbing a little bit of the dam cost for another quarter.

Operator  
Your next question comes from Jonas Oxgaard.

Jonas Oxgaard  
Good morning, guys. A question in the first quarter, both you and your big African competitor shutdown some capacity in phosphate. Just the market didn't seem to need it. In Q2 that it didn't seem that anyone did and I haven't heard any announcements that's happening in Q3 either, yet pricing is continuing to be weak. Can you talk a little bit about the strategic backdrop of why not taking out capacity in Q2 and how you think about it going forward?

James O'Rourke  
Yes. Thanks, Jonas. Let me hand this to Corrine in a second here. But just let me give you the high level. Obviously, we did take capacity out in Q1 and into Q2, which you see in our sales results. And as such, our inventory build probably isn't as big as some of the others and, also means that we want to be ready for, what comes up in a big third and fourth quarter.

So we think, for ourselves, at least in our market position, those tonnes are needed. We don't believe that the demand picture is a long-term demand issue. It was a short-term thing driven by a bad U.S. spring.
Corrine Ricard

Yes. Well, I would add, Jonas, that the logistics complications that we faced during spring season have been – were significant - and Mosaic's operating rate was maintained with lots of rail shipment and shipment to upcountry warehouses that was difficult for others to replicate based on barge positions.

I think we have some of the same risks in a very large fall season, that getting product up into the markets that need it for fall is going to require rail loading, and the kind of logistical capability that Mosaic is going to have. And so, I think we'll be operating at full rates for the very large fall season that we anticipate.

Operator

Your next question comes from Andrew Wong.

Andrew Wong

Hi, good morning. So maybe just following on that a little bit more on phosphates. I think it's fair to say that the prices in the market have been weaker this year than expected. So maybe just first, can you talk about what's kind of been the main factors driving that weakness? Is it supply? Is it demand? Maybe go through some of the various supply and demand situations in the main regions like China, India, Brazil, as we know about U.S. obviously.

And then just secondly, like when do you expect prices to maybe, start seeing a little bit of a bottom and in a rebound and what are some of the catalysts that we can watch for ahead of that? Thanks.

James O'Rourke

Okay. That's a bit of a doozy, Andrew. I'll get through it and I'll get Corrine to help me here. But let me at a high level say, look, we've had 10 years of relatively linear growth in our phosphate markets.

And for the first time, I think in – probably half a dozen years- the issue with the supply and demand has been about demand and it really is predicated mostly on a U.S. bad spring, somewhat on a
lowering Chinese demand. But really, other than that, pretty much a normal linear growth for the demand for phosphates.

So what that's meant is the equivalent of, probably, about a new mine coming on all of the sudden. New production is not great. It's only about 1 million tonnes this year I believe. And so, if not for this displacement of the U.S. spring, I think the market would have continued to be quite balanced and we do expect it to rebound as early as this fall and into the spring. Corrine, do you want to add any detail to that?

**Corrine Ricard**

In terms of what happened this spring, I think Joe has covered it. We had a poor fall season and then we had a disappointing spring season, probably about 800,000 tonnes of demand was lost. At the same time though, we had 1 million tonnes more imports into the U.S. and so that really exacerbated the problem along with the flooding along the river. So, these tonnes were trapped in the lower Mississippi and traders started liquidating those positions very aggressively when they couldn't get tonnes up-country in time for spring season.

And so that really caused very small amounts of trade prices to drop quickly. But that fundamental demand issue is really going to be largely overcome, as Andy noted, with what we think will be a large fall season and going into 2020. And so, when we see prices turning, we'll work through the inventory levels that have been carried out at the end of the spring season and we should see things tightening up as we get into 2020.

**James O'Rourke**

Yes. If I can just add, I mean we were hearing numbers of a corn plant of maybe 95 plus million acres next spring. If we're going to have that level of planting, it'll suck up the inventory very quickly.

**Operator**

Your next question comes from Adam Samuelson.
Adam Samuelson

Yes. Thank you. Good morning, everyone. So, a couple of questions continuing in phosphates, first, on the – as we think about the price declines that we've seen year-to-date, I think talking about Russian and Moroccan tonnes - are there cargoes that have been going un-priced into NOLA and into Brazil and has there been an important contributing factor? Can you talk about just market structure? Just any visibility that distribution patterns have changed here, it seems like some of those cargoes are being pretty disruptive to the market.

And then secondly, can you talk about the cost curve a little bit? Just with the magnitude of the price declines we've seen today and even with sulfur having come down, the fact that the Chinese kind of kept producing up until quite recently and even then the cuts remain to be seen, but just kind of how your view of the cost curve has evolved as the years progressed? Thank you.

James O'Rourke

Okay. Thanks, Adam. Let me say, yes, first of all, the cargoes from some of our competitors kept coming into NOLA. I suppose some of that might be a misunderstanding or a missed prediction of what the spring would do, but there's no question these unpriced tonnes that were just shipped into these markets are pretty disruptive. And I think that's kind of the nature of that beast. So, it really will take the tightening of the market to reverse that. But hopefully the tightening will come soon and that's good.

In terms of the cost curve, we don't have – I don't think we have a good cost curve in this business, but let me give you a couple of benchmarks so I can kind of touch on. First of all, our main North American competitor reported a couple of weeks back or a week ago that they had in their Phosphate business cash margin of zero. The Chinese players our calculations; are that they have negative cash margins right now.
At least on Ma’aden II, I think Clint mentioned our equity earnings will be negative to about $50 million this year. I don't have information on the North Africans or the Russians, but clearly a big chunk of the cost curve is either breaking even or losing money in this market. So that really tells you that the pressure upwards on price is not far away.

**Operator**  
Your next question comes from Mark Connelly.

**Joan Tong**

Good morning.

**James O'Rourke**

Hello.

**Joan Tong**

Good morning. This is actually Joan Tong on for Mark Connelly. How are you guys doing? A question on Potash, obviously pretty strong results and performance there? I'm just wondering, given the outlook on potash, how long you're going to idle the Colonsay mine, do you have an estimate there?

**James O'Rourke**

Sure, Joan. We didn't really give a time frame on how long we would idle Colonsay for - clearly it's a temporary idling and it's really more than anything, let's call it a cash preservation opportunity. Esterhazy K3 is ramping up very successfully, which will give us incremental tonnes. We had some inventory and so we felt with existing predictions we would make this year without needing any incremental tonnes from Colonsay.

Now that could change if the markets in the fall are better than we think. Colonsay may come up earlier, but we had planned somewhere around the end of the year being kind of our target for where we felt comfortable that with plants today, that that plant could be shutdown. But let me highlight, Colonsay is a 2 million
tonne, $100 a tonne cash cost producer, and at 2 million tonnes it should be much better than that. We've been running at less than capacity. So that represents an incredible level of flexibility in the surge that we have available for us in a better market.

**Joan Tong**

That's great. Thank you. And then just looking at our questions on China, and what are you seeing in China in terms of grain demand? Just want to understand, like the African swine flu, obviously there are a lot of different views about how it's going to affect the grain demand, but we haven't seen grain demand falling off the cliff. And just wondering what you're seeing there. And also, for China, E10 program, how realistic they are really going to move forward with that? Thank you.

**James O'Rourke**

Let me leave that one straight over to Corrine and Andy.

**Andy Jung**

All right. So, what we've seen on a grain demand standpoint in China is, like you said, it hasn't fallen off a cliff and we wouldn't expect it to. I mean, there's still a lot of people and those people still demand food. What we have seen is some switching, so a big increase in animal protein imports. For the month of June, both beef and pork imports were up about 60% year-over-year. So, while we might see some switching out or product mix changes there, we don't expect that to be particularly meaningful to the global S&D in total.

And then from a E10 program, I think it's been relatively slow to be adopted, but it appears that they're continuing down that road. It just might take a little bit longer time horizon than one may have hoped for in the past.
Operator

Your next question comes from Christopher Parkinson.

Christopher Parkinson

Thank you. So, there's been a lot of movement in ammonia and sulfur prices for North American producers over the past few quarters, but there's obviously going to be a delay in the realization of lower inputs. Can you just comment on your outlook for strip margins for the balance of the year and the cadence of realizing those benefits? And then just any quick update on your longer-term efforts to further reduce rock costs will be incredibly helpful. Thank you.

Clint Freeland

Okay. Thanks Chris. Let me start with both the price of ammonia in the market and the price of sulfur in the market have come down significantly. One of the challenges for us today is with the market being slower, it takes longer for that raw material to move through our product into goods for sale, and then finally into our sales and cost of goods. So that takes time. At the best of times, we figure that takes at least six weeks for ammonia and probably more like three months for sulfur. In this case, it's probably three months plus for both of them. So, it’s taking quite a while.

If we look just at next month's prices or sorry, next quarter’s prices that we have seen today, I think we're expecting to be down in the range of $20 to $25 a tonne just on flow through of these cost of goods. But that's going to take some time and that's going to take when the consumption comes through. So overall, we expect stripping margins to improve because of raw materials. But luckily that won't – likely, that won't come till the end of the third quarter or even into the fourth quarter before we see the meaningful drop translated into cost of goods.

Operator

Your next question comes from Duffy Fischer.
**Patrick Fischer**

Yes. Good morning. Two questions about – or two subjects on your shutdowns. So one, I thought I heard you say that the Plant City shutdown helps your cash flow, but because it's been idled for over a year that that struck me as strange. So, can you just walk through how shutting down Plant City impacts your P&L going forward? And then what are the shutdown costs? How would it affect the cash flow? And in just on Colonsay, you said you'd been running under the 2 million, what is the LTM production for Colonsay and when was that shutdown affected?

**James O'Rourke**

Okay. Let me start with Plant City. I think the issue there as we've been holding Plant City a while not in hot ready. We've been holding it in a ready mode and we've continued to have it ready to be brought up if required. The decision to finally move it into shutdown mode does two things.

One, it reduces and stops those costs, obviously from a non-cash perspective and stops the depreciation because the depreciation was moved into a write-down. And then while we will have ARO costs, or asset retirement costs, those will not be P&L based costs. So hopefully that helps on that one. And I'll hand it to Clint to give you maybe more detail on that.

And then Colonsay P&L, an effective date – effective date I think is mid-August and then the P&L impact, I got a separate P&L impact. It's going to depend on when things are sold, but we do know it will be about a $50 million cash savings. Clint, do you want to…?

**Clint Freeland**

Sure. Hi, Duffy, this is Clint. So, on Plant City, as that facility has been kept in idle status, the total idle cost associated with that has been about $50 million a year, about half of that is depreciation, half of that is cash. Now that it has been formally closed and now we're going into ARO work and that $50 million running through the P&L
will be reduced to about $10 million, again about half of that on depreciation, about half of that in cash.

So certainly it will be beneficial to the P&L. As we go into ARO work, I think what we've said historically is that it would be roughly an average of, call it $20 million a year over the first five years. So, I think from a cash standpoint, you're probably fairly flat and, from a P&L standpoint, you will see an improvement.

And then back to Colonsay, again I think you need to separate cash versus P&L impact. I think as we've talked about a little bit earlier, we will continue to sell down the inventory at that facility. And so, while we do expect to see, call it $40 million to $50 million in cash benefit this year, as it relates to the P&L, we’ll see it in the flow through of costs.

In the near-term, we only think that there will be about a $5 million P&L benefit. However, as that inventory is fully sold and then we switched to selling the inventory coming out of K3, that $40 million to $50 million cash benefit will now be a P&L benefit. But that'll be a little bit more delayed.

**Operator**

Your next question comes from Jeff Zekauskas.

**Jeffrey Zekauskas**

Thanks very much. Your ammonia costs came down a tiny bit. I think there were $337 a tonne. I think you've been buying in January. You were buying ammonia, $285 a tonne in the last couple of months have been $215. Is there something unusual as to why your ammonia costs are so high and they're coming down so slowly? I realized the volumes are a little bit light, but there's something more than that?
James O'Rourke  
Yes. Thanks, Jeff. I'll give the simple answer and hand it to either Corrine or Clint too. I think what you've got to take into account there is our CF ammonia contract is a fixed volume and basically think of it as a fixed price contract probably today in that $320 range.

So as the production goes down and ammonia consumption goes down, the ratio of CF contract ammonia goes up. So actually it can dampen the price decline by quite a bit. We do expect that to go to more normal one-third, one-third, one-third where we've been, but I think last quarter we were something like 40% of CF ammonia, which makes our cost structure a little – a little higher than it would have been on just market. Clint or Corrine?

Clint Freeland  
Yes. The one thing I would add to that, Jeff, and I think I alluded to it in my comments a little bit earlier. Is that one of the things that we're trying to do to improve that blended cost for ammonia is to be able to use more of our internally produced ammonia out of Louisiana.

And so, one of the things that we’re doing is we're making a modest investment, in a dock in Louisiana that will allow us to transport more of that ammonia from Louisiana to Florida to use in our operations. That again, should allow us to bring down that average cost because that is the lowest cost source that we have. And we would expect that project to be done by the end of this year. So, we should start to see benefits from that in 2020.

Operator  
Your next question comes from Joel Jackson.

Joel Jackson  
Hi, good morning, everyone. I want to talk a little bit about the bear case or the - sort of low end of your guidance range for the year. So, if I understand you've assumed flat pricing and P&K for all on price tonnes going on for rest of the year. And I wonder why that is the
low end of the range since, you know, the price trends in both those commodities have not reversed and have been falling for some months.

So maybe what's different now where you're expecting prices to rebound? You speak about Chinese production discipline, but those are the same statements made some weeks ago. We haven't seen anything really prevail yet. So maybe just a little commentary on what gives you conviction that now is the time for both commodities to rebound.

**James O'Rourke**

Well, let me give you two things that are necessary for prices to move up, which is our expectation. First of all, your mix will change if you think about it first half the year more focused on Asia, less on U.S. For potash, as an example, well potash and phosphates probably, but potash in particular, we're going to have a big North American fall and Brazil coming into season, those are premium grades or blend grade potash would sell for a higher price than phosphates.

We've just said 10 million are not planted. So, we expect the farmer to really be pushing for higher acreage and that will mean higher volumes, which really drives a positive price pressure forward. So, we, I felt that was a reasonable level between the bear case and the bull case. And we were transparent about the assumptions we used.

**Operator**

Your next question comes from Ben Isaacson.

**Ben Isaacson**

Good morning. Thank you. Two questions. First one is on your unallocated capital, which on your slide deck shows $300 million to $500 million down from $400 million to $500 million, down from $400 million to $700 million. And that's supposed to be weighted in the back half of the year. So here we are, and maybe
you can kind of run through how you're thinking about using that capital. Clint or Joc among balance sheet buybacks - you've obviously doubled the dividend - is there room for further increase there? Second question is on Plant City. Can you talk about the alternative uses that you're evaluating? What are they timing, CapEx, et cetera? Thank you.

**James O'Rourke**

Well, let me answer the second one first, Ben. No, I can't really talk about the alternative uses because we are in negotiation with other parties for what we might do with that. CapEx there would not be anything for us. It would be something for somebody else. The idea would be that rather than tearing down the plant, we would actually repurpose the plant and they're active negotiations there. In terms of unallocated capital, I think I'll just hand that straight over to Clint to give you a little background.

**Clint Freeland**

Hi, Ben. I don't think our thinking on that really has changed. I think as we look out to the balance of the year and even into 2020. I think we are going to look to, certainly continued to look at, different investments we're going to take into consideration – where share prices and look to be sure that we're allocating capital to the highest risk adjusted opportunities that are available.

I think our balance sheet is in a pretty good spot as we've spoken about before. So, I think we can look at those other two alternatives. With that said, we have said that we want to have the cash on our balance sheet and available before we actually allocate it. So, at this point, I would say that we're not there yet, but when we are there, those are the things that we would be looking at.

**Operator**

**PJ Juvekar**

Your next question comes from PJ Juvekar.

Yes. Hi. Good morning. So, we've seen numbers that P&K application could be down as much as 6% this year. Do you agree
with that? And how much do you think it can bounce back next year? Or could it be more than 6%? And then secondly on China DAP exports, I think they were up about 10% in the first half. Where do you see them going especially with the weaker yuan? Thank you.

James O'Rourke

Thanks PJ. Let me touch on those and then I'll hand them over to Corrine again. Certainly, P&K applications were down. If it's 10 million acres, that's certainly down at least 6%, probably closer to 10% in terms of application. So, we do expect a bounce back, but I guess if you took the normal 95 million acres instead of 91 or 92, that would represent about a 3% to 5% bounce back. So, while there's been a loss, we expect to see half of that to come back in the spring.

In terms of China exports, we're seeing those quickly come down. I think we're about 1 million tonnes ahead of last year at the start and now in two months, we're down to where we're maybe 100,000 over. Anything you can add to that Corrine?

Corrine Ricard

No, I think that's right, Joc. We started the year at those higher margin levels. They were exporting a little more aggressively. They certainly started decreasing the pace of those exports in May and we saw further reduction in the pace of those exports in June. With the weaker currency, it does help a little bit in terms of their margins, but they are still down very close to what we believe to be their cash costs. And so, we expect that we'll see a continued decrease in the pace of those exports and we still do expect to see a lower number when the year ends from the prior year.

James O'Rourke

And recognize the weaker currency does help their cash cost slightly, but it also incents them to grow more in country, which should incent in country demand.
Operator

Your next question comes from Michael Piken.

Michael Piken

Hi. I wondered if you guys just provide an update, you guys mentioned that you actually lose about $50 million from Ma’aden. Just your thoughts as we move into 2020 and how much of that was markets conditions versus anything associated with logistics and ramp up?

James O'Rourke

Thanks, Michael. Look, I think in terms of Ma’aden, I believe the forecast this year is to be running somewhere in that 2 million to 2.5 million tonne mark from Ma’aden, and those are questions better asked of them obviously than us.

But I think with that lower volume that they're making this year, their cash margins or their margins will be a little more pressured as they ramp up. But obviously, the market is the other factor, I mean, the low ammonia price means their normal advantage in ammonia is much less than it would be under a more normalized market conditions.

Let me go back to a question from Chris Parkinson. I think we missed your rock cost question Chris. So, in the interest of helping out, let me, so rock costs are – we component those between, a couple of things. We have the idle costs of the South Pasture mine, which for now is down.

We've had a number of turnarounds that we've done, which have impacted the near-term rock hurdles that will come down. And the other thing is when we're using less, the ratio of Miski Mayo comes down or comes up and that tends to add to our overall consumed rock costs. Our 2021 targets that we set in the spring and talked about in the spring have not changed. And you'll see an
improvement in those rock costs as we move into the second half of the year.

Operator, are there any more questions?

Operator

There are no more questions.

James O'Rourke

Okay. If there are no more questions, I want to conclude our call. And let me emphasize a couple of key points. First, we are executing very well. We have transformed our cost structure and operating efficiencies in each of our business units and that work is delivering meaningful benefits regardless of the markets. Mosaic today is stronger and more resilient than any time in our history.

Secondly, we're making major progress on key initiatives. Our Brazilian mines will be back at full operations this month and our new K3 mine at Esterhazy is ramping up as expected and that has given us extremely good flexibility in our Potash business.

Finally, we expect much stronger market fundamentals to emerge as we move into 2020 and we expect Mosaic and its shareholders to benefit from our work to strengthen the Company as markets improve.

Thank you for joining our call today and have a great day.

Operator

Thank you for joining on today's call. At this time, you may disconnect.