Laura

Thank you, and welcome to our first quarter 2020 earnings presentation. I’d like to start by reminding you that the Q&A portion of this call will be available beginning at 11 am eastern Tuesday, May 5th, and our full slide content, including modeling assistance, is available on our website.

SLIDE 2: SAFE HARBOR

Forward Looking Statements & Non-GAAP Financial Measures

This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about proposed or pending future transactions or strategic plans and other statements about future financial and operating results. Such statements are based upon the current beliefs and expectations of The Mosaic Company’s management and are subject to significant risks and uncertainties. These risks and uncertainties include but are not limited to: the economic impact and operating impacts of the coronavirus (COVID-19) pandemic, the potential drop in oil demand/predation and its impact on the availability and price of oil, politics and economics instability in Egypt or changes in government policy in China, each of which is associated with the risk of mining costs or the implementation of new mining rules, the predictability and variability of, and customer expectations about, agriculture, farmers, new material energy and transportation methods that are subject to competition and other pressures and expenses and credit market conditions; the level of indebtedness in the distribution channels for crop nutrients, the effect of future product innovations or development of new technologies as demand for our products, changes in foreign currency and exchange rates, international trade risks and other risks associated with Mosaic’s international operations and theories of joint ventures in which Mosaic participates; the performance of the Westco Atlantic Hapehac Project, (also known as MASP), the timely development and commencement of operations of production facilities in the Kingdom of Saudi Arabia, and the future success of current plans for MASP and any future changes in those plans; difficulties with navigation of the benefits of our long term natural gas-based pricing ammonium supply agreement with CF Industries, etc.; including the fact that the cost savings initially anticipated from this agreement may not be fully realized in the near term or that the price of natural gas or ammonia during the term of the agreement or in 2021 may not be as anticipated; future developments in political or administrative proceedings, or conditions that Mosaic’s operations are adversely impacted by severe storms, business operations or properties difficulties or delays in receiving increased costs or challenges to achieve governmental permits or approvals or increased financial assurance requirements, resolution of global tax audit activity, the effectiveness of Mosaic’s programs for managing its strategic priorities, advance weather conditions affecting operations in Central Florida, the Mississippi River Basin, the Gulf Coast of the United States, Canada or Europe, and including potential hurricanes, excess heat, cold, snow, rainfall or drought, actual costs of various items differing from management’s current estimates, including, among others, cost of energy, environmental remediation, reclamation or other environmental regulation, Canadian resources lease and royalties, or the costs of the MASP; reduction of Mosaic’s available cash and liquidity; and increased leverage, due to its use of cash and/or available debt capacity to fund financial assurance requirements and strategic investments; costs related to Mosaic’s heavy rain, floods, weather, seismic events, wildfires or releases of hazardous or volatile chemicals, and risks associated with cyber security, including ransomware attacks, as well as other risks and uncertainties reported from time to time in The Mosaic Company’s reports filed with the Securities and Exchange Commission. Actual results may differ from those set forth in the forward-looking statements.

We will be making forward-looking statements during this presentation. 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, 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.

Joc

Thank you for listening to our first quarter results discussion. Because we are all working from home due to the coronavirus pandemic, we’re taking a different approach this quarter. We’ve made this script and all our earnings materials available at the same time, and we’ll record answers to questions you submit to Laura. As always, Laura and Lucy will be available to answer your questions.

SLIDE 3: AGENDA

Agenda

Strengthening Markets

Strong Operational Performance

Strategic Progress

I’ll start by expressing my hope that all of you and your families are safe and healthy. By now the pandemic has touched—and taken—a great many lives, and we all know people who have been affected, whether by the virus directly or by its huge economic impact. Mosaic has been fortunate, with COVID-19 having had minimal impact on our employees, operations or suppliers.
I will cover three topics today: first, the current strong conditions in the fertilizer markets; second, COVID-19—its impacts on our markets and agriculture, now and going forward; and finally, our continued progress on our strategic initiatives.

SLIDE 4: STRENGTHENING MARKETS INTO SPRING

Fertilizer markets are strong, and we continue to expect a good year. We expect growth in global shipments for both phosphate and potash this year. While our expectations have been modestly lowered due to the pressure on grain and oilseed prices, we expect good growth – in line with the steady growth in demand we’ve seen for decades. We are in the peak spring season in the Northern Hemisphere, and demand is running high. In fact, our retail customers are reporting that demand is outpacing even their high expectations. Our April shipment volumes were robust, and prices are beginning to respond. While sentiment around biofuels and low grain and oilseed prices have dampened fertilizer price increases, Midwest DAP is up $36 per metric tonne from the beginning of the year. Corn Belt MOP prices softened in the quarter, as the market awaited a new China contract, but we’ve seen a significant change in sentiment with the signing of the China contract. Last week Brazil’s cfr MOP price was up $20 per tonne following the contract announcement. The impact of
COVID-19 in North America has pushed our customers to accelerate deliveries where possible, but otherwise the season is playing out like a normal spring. Several factors have brought phosphate and potash markets into better balance:

- First, while last fall’s North American application started late due to weather, it lasted longer than usual, which brought down fertilizer inventories.
- Second, inventories across the channel are low for the first time in a couple years, and our tonnes on barges in the river are down by 80 percent compared with a year ago. We’re refilling warehouses quickly to meet very strong, fast-paced spring demand in North America, driven in part by high application rates to replenish nutrient-depleted soils.
- Third, phosphate supply from our competitors has been impacted by COVID-19 and unrelated operational issues. In fact, compared with last year, we believe phosphate production is down by over 500,000 tonnes, excluding changes in China.
- Fourth, demand in China remained strong during its spring season, and India continues to import record amounts of DAP. Much of India’s domestic production declines have been offset by finished product shipments into the country, but total global supply is down, while Chinese exports are down almost 500,000 tonnes compared with a year ago. We expect China to make up some of—but not all of—those tonnes in the second half of the year.
- And finally, phosphate imports into North America are down year-over-year by approximately 250,000 tonnes through April. After the severe demand shock resulting from bad weather in Spring of ’19, importers seem to be finding homes for tonnes elsewhere.
Last week, the signing of a new potash contract with China helped form the base on which global prices can build given strong demand. The published contract price of $220 per tonne is for red standard, and prices are higher for white and granular. As is typical, we believe the granular price is a $15 premium to current Brazil spot prices. We believe we will continue to see potash volume and price increases from here; slide 5 in our presentation shows the strongly positive market reaction to the contract signing in 2016, in a similar pricing environment.
Much of North American spring was planned and executed before the full effect of COVID-19 occurred, and the pandemic is clearly impacting sentiment in every sector of the economy. I’ll spend a few minutes providing insight into impacts on our markets and our best view of how the seasons ahead will play out, broadly and for Mosaic. As you can see on slide 6, we’ve highlighted not only risks that we are actively monitoring but also opportunities that we expect and have seen.

USDA planting expectations—currently at 97 million acres of corn and 84 million acres of soybeans this year—are likely to be revised as growers adjust to shifting markets, and especially to ethanol production expectations. We believe that the reduction in biofuels demand may be up to the equivalent of 5 million acres of corn. Some of the actual acres that would have grown corn will migrate to soybeans—and Mosaic, we are agnostic: Corns and soybeans both require significant amounts of potash and phosphate.

There is potential for much of the biofuels-related demand destruction in North America to be balanced by increased corn demand from in China, as the nation continues to rebuild herds following the Africa Swine Fever outbreak last year.
Elsewhere, we could see impacts to potash demand resulting from weak palm oil prices, which could take longer to rebound.

As it relates to our business, to date, we’ve seen very little direct impact of COVID-19 on our financial performance, with the total combined margin impact of outages at Miski Mayo and Patrocinio under $10 million in the quarter. That said, we have seen more cautious sentiment from our buyers.

We are closely monitoring the very dynamic situation in our markets, as well as logistics and supply chain risks. Our goal is to be ahead of potential scenarios, to be flexible and to quickly adapt to any changes. This means maintaining a high degree of optionality in our logistics and sourcing, and constant communication with our teams, suppliers and service providers. Some of the actions we are already taking include finding alternative sources for phosphate rock to protect against the Miski Mayo outage extending longer than currently expected, as well as finding new sources of sulfur and sulfuric acid to ensure we can continue to meet our production needs through this period of uncertainty.

It is important to note that we are finding opportunities as well. For example, we’re seeing more rail and truck availability as other industries’ demand has fallen, which increases our flexibility and capacity to move product to market and lowers our fuel and freight costs. Also, while the availability of sulfur around the world is being impacted by lower refining activity, we have taken advantage of opportunities to purchase inexpensive sulfuric acid shipments that were in-transit to other buyers who no longer have a need for it.

In addition, we are seeing reduced G&A expenses as we’ve curtailed travel, and we expect a more moderate level of spend longer term as employees, over the last couple of months, have embraced various tools and technologies that promote face-to-face collaboration without having to travel. We’ve also seen positive developments in cash taxes. Recently passed legislation will accelerate cash tax refunds that we had anticipated collecting over the next few years. As a result, we have updated our cash tax expectations for the year to reflect a net inflow of approximately $15 million from refunds versus a net outflow previously.
When it comes to our operations, we’ve been fortunate. Our supply chain partners continue to operate well, and we maintain the ability to move product by rail, truck, barge and ship.

Our employees have been exceptional. Only a handful of our employees have tested positive for the virus, and none have been critically ill. We responded to the pandemic by adapting quickly to keep our people healthy and safe: We managed shift schedules to keep people at safe distances from each other; we kept office workers engaged while working from home; and we ensured we were equipped with appropriate supplies of personal protective gear. We fundamentally shifted how we work, in just a few days.

We also are doing our part to help society deal with the pandemic. We’ve invested over $1.5 million in the communities where we operate to help with those communities’ most urgent needs, including medical supplies and food relief.
Beyond COVID-19, Mosaic continues to execute well and responsibly so that we can maximize the benefit from improving markets. Our plants and mines are operating efficiently and at high production rates, and our safety performance continues to improve.

- In Brazil, we’ve achieved transformational savings of $17 million in the quarter, and we are well on our way toward our new $50 million additional savings target for 2020.
- Our K3 project continues to gain momentum, with the third miner placed into operation in March and the fourth miner due to be completed within the next month.
- Our newly combined North American business is identifying significant cost and other efficiency opportunities.
- And our SG&A expenses are down considerably, primarily from lower long-term performance based incentives.

Now I will turn the call over to Clint to discuss the quarter, how we think about our liquidity and financial strength, and the scenarios we’ve considered. Clint?
As we look back on the first quarter, there were a number of dynamics that we saw in the business, specifically around sales volumes, finished product prices, and currencies. First, volumes in our three operating segments were up 14 percent compared to the first quarter of 2019 as an extended North American fall application season benefitted Potash and Phosphate volumes, and market strength led to higher activity at Mosaic Fertilizantes. The combination of this strong demand and industry curtailments led to a rebound in phosphate spot prices during the quarter, and this dynamic has accelerated into the North American spring season. Recall, however, that there is a lag between market price changes and realizing those prices in our results, so we would expect to realize more of these market price improvements in the second quarter and beyond.

Global currency volatility also had an impact on our business and financial results. In Brazil, the real depreciated by 22% versus the dollar during the first quarter, and as we’ve discussed in the past, depreciation of the real is directionally a benefit to Mosaic and Brazilian farmers as it lowers our production costs in dollar
terms and improves farmer margins. With that said, we are mindful that this may create credit risk for certain customers with U.S. dollar obligations, however we have seen minimal impact from this to date.

While the currency volatility has been less than Brazil, the same dynamics apply to our business in Canada where the Canadian dollar depreciated by 8% during the quarter. Recall, however, that we have a rolling currency hedging program that smooths out short term volatility, so the effect of the currency movements on our financial results, will be somewhat delayed.

As a result of these currency movements, we recorded $295 million of unrealized foreign currency losses during the quarter. Of this amount, $239 million is related to accounting for U.S. dollar denominated liabilities, including intercompany balances, at our foreign subsidiaries. When those liabilities are converted from U.S. dollars to local currency as part of the normal accounting process, that impact is reflected on the income statement. However when the subsidiary balance sheets are subsequently translated back into U.S. dollars as part of the normal consolidation process, there is an identical and offsetting adjustment to the balance sheet in the Other Comprehensive Income account. The remaining $56 million is the unrealized mark-to-market on our normal course hedging program. We treat all of this as notable in calculating our adjusted earnings and adjusted EBITDA. I would also note that approximately $30 million in realized gains that relate to balance sheet hedges have been treated as notable items as the benefit of these hedges had no corresponding offset on the income statement.
As outlined on slide 10, Mosaic’s reported net loss for the first quarter of 2020 totaled $203 million, or $0.54 per share, which included $295 million in non-cash foreign currency losses I just mentioned and normal FX hedging, particularly in Brazil. Adjusted EBITDA for the quarter was $214 million and adjusted EPS was a loss of $0.06.

At our Potash business, adjusted EBITDA for the first quarter was $175 million, down from $256 million in the first quarter of 2019. Sales volumes during the period were up 2 percent compared to the previous year, as improving North American sales were mostly offset by lower international sales due to the lack of a China contract. Adjusted GM/tonne totaled $69 during the quarter compared to $100 per tonne last year as the reduction in average sales price more than offset the improvement in cash costs of production. It is notable that, during the first quarter, cash costs of production were $70 per tonne, including $11 per tonne of cash brine management costs. This brings our cash costs of production, excluding brine costs, to $59 per tonne, which is below our 2021 target of $62 per tonne while operating at a reasonable and sustainable 85% operating rate. While depreciation of the Canadian dollar contributed $1/tonne to the benefit, most of the cost improvement has resulted from active portfolio management and the success of the K3 project.
In the Phosphates business, first quarter adjusted EBITDA totaled $8 million compared to $168 million in the first quarter of 2019. Finished product sales volumes were up 7 percent year over year, reflecting the surge in late fall applications in January and a strong start to the spring season, however these higher sales and lower sulfur costs were more than offset by weaker average sales prices. With that said, we have seen average realized at-the-plant DAP prices strengthen by $8 per tonne in the first quarter and would expect that to accelerate in to the second quarter as more recent pricing trends are realized in to results. While some of this improvement is masked in results by the normal shift away from higher margin MicroEssentials sales in the first quarter, we expect this to correct itself in the second quarter as strong MicroEssentials sales into North America are occurring.

We continue to make significant progress on costs. For instance, our cash rock costs reached $36 per tonne, with our Florida mining operations delivering one of the best quarters in years, and below our 2021 target of $39/tonne. While our cash conversion costs rose to $67/tonne due to the impact of curtailments, these should return to more normal levels in the second quarter as those facilities are back up to full operation. And finally, we’ve seen substantial benefits in our raw materials costs, primarily sulfur. While sulfur prices have increased recently to $54/tonne under our second quarter contracts, they are still well below average 2019 levels.

Mosaic Fertilizantes had a strong first quarter in terms of volumes, gross margin and adjusted EBITDA, with adjusted EBITDA totaling $68 million compared to $62 million in the first quarter of 2019 despite the year-over-year finished product pricing trends, reflecting the impact of the company’s synergy and transformation programs.

Similar to the Phosphate operation, cash rock costs at Mosaic Fertilizantes improved meaningfully to 312 reals per tonne, down 9 percent compared to the fourth quarter of 2019 and below our 2021 target of 320 reals. In dollar terms, with the weakness in the local currency, cash rock costs were down 16 percent over the same period, to $70 / tonne. Cash costs of phosphate conversion were up 7 percent in reals from the fourth quarter, due to a shift in production from TSP to higher cost/higher margin MAP. However, reported costs in dollar terms
were down 8 percent over the same period after factoring local currency weakness.

SLIDE 11: NONMARKET DRIVEN EBITDA IMPROVEMENTS

We’ve shown Slide 11 before, and we are making progress toward achieving the $225 million in incremental EBITDA this year. In the first quarter, Plant City closure costs were $10 million less, potash production costs, excluding currency benefits, delivered $35 million versus the $70-80 million target, and Brazil transformation efforts realized $17 million of the $50 million total. For the $80 million benefit we expect to see related to dam remediation in Brazil, recall that those costs did not become material last year until the second quarter, so we would expect to see those benefits throughout the balance of this year.

SLIDE 12: BALANCE SHEET & LIQUIDITY
As reflected on slide 12, consolidated liquidity totaled $2.7 billion at March 31. As previously announced, we believe the current environment makes holding more cash than normal prudent, so during the quarter, we accessed both our committed revolver and uncommitted working capital facilities to raise the amount of cash on the balance sheet. At the end of the quarter, unrestricted cash stood at $1.1 billion with an additional $1.6 billion available under Mosaic’s committed revolver and $50-100 million available under uncommitted working capital facilities, depending on the available borrowing base. The company’s liquidity position improved further in the month of April as cash balances continued to build.

Cash from operations during the first quarter was positive $190 million, a $366 million improvement over last year as a result of continued management of both costs and working capital. As is normal for Mosaic, net debt rose during the quarter by $415 million, less than last year. I would also note that during the quarter, our structured payables balance in Brazil, which is not part of net debt, declined by $241 million.

As we look to the balance of the year, we are expecting up to $170 million in additional cash inflows from both domestic and international tax refunds in excess of our previous estimates and the unwinding of an interest rate swap. In
fact, we’ve already received over half of this amount in the second quarter. As we look to manage our liquidity, we view these kinds of cash enhancing steps as constructive and preferable to other options such as cutting CAPEX as it allows the company to remain on target with value enhancing projects such as K3 and the Brazil transformation. With that said, we do retain the ability to adjust our spend profile should circumstances warrant.

As we move forward in the year, we intend to maintain an elevated cash position, however should uncertainty around COVID-19 diminish, we would expect to return some, if not all, of the cash accessed under our lines and return to a more normal liquidity profile.

With that, I’ll turn the call back over to you, Joc.
Joc

Thank you, Clint.

Overall, we believe 2020 and the years ahead hold major promise for Mosaic and our shareholders. Our products are recognized globally as a priority, fulfilling a critical need for food security. Potash and phosphate markets are moving into better supply and demand balance, with very strong global demand and limited new supply coming to market. We expect the market strengthening to continue as we move through 2020 and into 2021. The spring in North America is shaping up to be the best in several years. And Mosaic is delivering across the organization—our plants and mines are running efficiently, we are maintaining our strong financial foundation, and we are reducing costs, all while adapting and managing the impacts of COVID-19 on our operations, supply chain and customers.

Most importantly, our ultimate market continues to grow. Demand for food will persist, and we will be there to help the world’s farmers meet that demand.

Thank you again for your attention. We wish you all good health.