

Nutrien

2022 Q3 Earnings Conference Call

November 18, 2022

10:00 AM

Operator: Good morning, ladies and gentlemen and welcome to the Nutrien 2022 Q3 Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session.

If at any time during the call you require immediate assistance, please press "*", "0" for the operator.

This call is being recorded on Friday, November 3, 2022. I would now like to turn the conference over to Mr. Jeff Holzman, Vice President of Investor Relations. Please go ahead.

Jeff Holzman: Thank you, operator. Good morning, and welcome to Nutrien's third quarter 2022 conference call. As we conduct this call, various statements that we make about future expectations, plans and prospects contain forward-looking information. Certain material assumptions were applied in making these conclusions and forecasts. Therefore, actual results could differ, materially, from those contained in our forward-looking information.

Additional information about these factors and assumptions are contained in our current quarterly reports to shareholders,

as well as our most recent annual report, MD&A and annual information form filed with Canadian and U.S. Securities Commissions.

I will now turn the call over to Ken Seitz, President and CEO; and Pedro Farah, our CFO, for opening comments before we take your questions.

Ken Seitz: Good morning and welcome to Nutrien's third quarter earnings call. 2022 has been shaped by geopolitical events that have heightened the world's focus on food and energy security.

Nutrien has responded by taking a number of strategic actions that position our company to meet the demands of our customers and deliver superior long-term value for our shareholders.

We expect to generate record earnings in 2022 but acknowledge that potash market conditions in the second half of the year have been more volatile, than previously anticipated.

Potash demand in North America and Brazil declined in the third quarter, as far as work through inventory that was built early in the year. These regions represent the two largest markets for Nutrien's potash. Therefore, the decline in demand and prices had a more significant near-term impact on our business.

However, we view this as a temporary lull. And our confidence in the outlook for the fundamentals of our business has not changed.

Global grain supply remains very tight, with the stocks to use ratio projected to fall to a more than quarter century low, this crop year. High energy costs and export restrictions continue to impact global fertilizer production and trade, most notably in Europe.

And we believe these supply constraints will persist, well beyond 2022.

We maintained in a supply constrained environment; no other producer has an ability like Nutrien to bring on additional low-cost potash and nitrogen volumes to meet pent-up demand.

Therefore, we continue to advance our strategic growth initiatives that are based on a positive multi-year view of the fundamentals. Pedro will speak more to our capital allocation plans for the remainder of 2022. But I will first provide a review of our third quarter results and outlook.

Nutrien delivered a record adjusted EBITDA in the third quarter and through the first nine months of the year, supported by higher realized fertilizer prices and record results from our retail business.

Retail had a strong third quarter, as growers were incentivized to invest in their crops. This led to increased

demand for our proprietary nutritional products, which partially offset a delay in purchases for commodity fertilizer products.

Demand for crop protection products was strong, and we delivered higher margins driven by growth in proprietary product sales and tight supply for many crop chemistries.

We closed the Marca Agro and Casa do Adubo acquisitions in Brazil, substantially increasing our national presence in this large and rapidly growing agriculture market. We're on track to exceed for our target of \$100 million in annual EBITDA from Brazil in 2023.

In potash, Canpotex increased volumes sold to Southeast Asia and delivered higher contract volumes to China.

Shipments to Brazil slowed in the third quarter, as buyers were to down inventory that was built in the first half, which included significant purchases that were made in advance of export restrictions on Belarus and Russia.

North American potash sales declined due to higher-than-expected carryover from the condensed Spring season, buyer deferrals as prices moved lower during the quarter and higher carrying costs.

Our average realized potash price was well above the previous year, but declined from the second quarter, tracking the reduction in spot prices in Brazil and North America.

Over the last few weeks, the pace of decline in Brazil has slowed, and the U.S. inland prices have been supported by restricted barge movements and a strong start to the Fall application season.

Nitrogen benchmark prices strengthened due to higher European gas costs and associated plant curtailments, as well as continued supply restrictions on Chinese and Russian nitrogen products.

However, our realized prices were down from the trailing quarter, as summer field programs were impacted by the seasonal reset that occurred late in the second quarter.

We increased exports of nitrogen solutions to higher netback offshore markets in the third quarter, but experienced gas supply curtailments in Trinidad that primarily impacted our production and exports of urea.

Our phosphate business delivered solid results supported by having a more diverse product offering including our high value feed and industrial products.

Over the past two quarters, we have recognized non-cash impairment reversals totaling \$780 million associated with our phosphate operations, which is driven by improved market fundamentals and a more favorable view of phosphate margins.

Now, turning to the outlook. As mentioned in the opening, global grain stocks to use is projected to decline to the lowest

level in more than 25 years. This would mark the sixth consecutive year that stocks have declined.

Crop futures have moved higher in recent weeks and are indicative of multi-year strength in the market fundamentals, with corn futures trading above \$5 per bushel out to December 2025.

Prospective crop margins are well above historical average levels, which provides an incentive for growers to increase acreage and push to maximize yields.

The weather has been favorable in North America, and we anticipate that the rapid pace of harvest will support a large Fall ammonia application season and normal application rates of potash, phosphate and crop protection products.

Our retail fertilizer sales volumes in October were up from the previous year, which is a good early indicator of robust grower demand.

Results of Spring planting season is proceeding with favorable conditions, and soybean acreage is projected to increase by 3% to 4%. We anticipate a similar increase in Safrinha corn acreage and strong input purchases, over the next few months.

We expect robust agricultural fundamentals will drive increased fertilizer consumption in 2023. And pent-up demand for potash will emerge, as inventories are drawn down and prices

stabilize. However, the current situation is unique in that global potash supply remains constrained.

Potash production and exports from Eastern Europe continue to be impacted by sanctions on Belarus, and restrictions on Russia that are related to the war in Ukraine. For 2023, we forecast exports from Belarus to be down 40% to 60%, compared to 2021 levels, and Russian exports to be down 15% to 30%.

Global potash shipments are projected to be between 64 million to 67 million tons in 2023, which is up from 2022 but still well below our unconstrained demand forecasts of over 70 million tons.

We expect increased demand in North America and Brazil, following the destocking that occurred in the second half of 2022. Based on this supply and demand outlook, we anticipate Nutrien sales volumes of approximately 15 million tons in 2023.

Global nitrogen supply remains tight, and benchmark prices are projected to remain strong through the fourth quarter and into next year.

Despite a recent decline in European gas prices, more than one-third of Europe's ammonia production is curtailed, and European gas prices are expected to remain high and volatile, through the winter.

We also anticipate a tight North American nitrogen supply and demand balance, due to record exports and lower import volumes in the second half of 2022.

I will now turn it over to Pedro to review our guidance and assumptions and capital allocation plans for the remainder of the year.

Pedro Farah: Thanks, Ken. And starting with retail, our annual EBITDA guidance range increased to \$2.15 billion to \$2.25 billion, which is a record year for our retail business.

The most significant factor impacting our guidance range is the extent to which we continue to have a wide-open fall application season in North America. Our revised potash guidance assumes that spot prices stabilize around current levels and that we see limited restocking of supply chain in the fourth quarter.

We have adjusted our potash production plans in the near-term and have brought forward maintenance activities during this downtime that position us, well, for increased volumes in 2023.

We narrowed our nitrogen guidance range as ammonia and urea benchmark prices have been generally in line with our previous forecast. We anticipate a strong fall ammonia application season in North America but have lowered our nitrogen sales volume guidance to reflect the impact of recent gas curtailments in Trinidad.

Cash from operating activities is projected at approximately \$8 billion in 2022, which is down from our previous outlook, but still roughly double the operating cash generated in 2021.

As Ken mentioned, we remain confident in the long-term outlook for the business and intend to invest \$1.4 billion on high return strategic growth and sustainability initiatives in 2022.

In retail, we have invested approximately \$500 million this year on acquisitions to grow our network in core geographies and continue to make investments to enhance our proprietary products offerings and digital capabilities.

We are enhancing our low-cost nitrogen network through brownfield debottleneck and decarbonization projects. The nitrogen team has completed projects at three sites this year that are expected to reduce annual CO2 equivalent emissions by more than 500,000 tons.

We are advancing the front-end engineering work for our 1.2-million-ton Geismar clean ammonia project, and recently signed an agreement with Thyssenkrupp Uhde to be the technology provider.

This is a key milestone for the project and anticipate making a final investment decision in 2023.

And in potash, we continue to progress the ramp up of our low-cost potash production capability. The projected global supply and demand balance supports Nutrien's case for increased production as a valuable and low-cost option to close the projected supply gap.

These projects come with a very low capital cost of 150 to 200 per ton, and the investment is spread across multiple sites.

Therefore, we believe that there is low execution risk and asymmetric upside potential, given the incremental margin opportunity and short expected payback period.

Finally, on our plans for return for returning capital. Last quarter, we announced our intention to return approximately \$6 billion in capital to shareholders in 2022, including \$5 billion in share repurchases.

While some of these repurchases may now extend into the first quarter of next year, due to lower forecast operating cash flows in 2022, we'll still intend on completing our existing 10% share repurchase program, prior to expiry in February 2023.

As we target sustainable and growing dividends over time, the significant reduction in share count will be included in the decision criteria for future per share dividend increases.

Now, I'll pass it back to Ken.

Ken Seitz: Thanks, Pedro. I would just make a few final comments. The longer-term fundamentals for our business remain

very strong, and the challenge of feeding a growing world has not abated. In fact, over this past quarter, we have seen further pressure on global food supplies that will need to be addressed, over several growing seasons.

In meeting with stakeholders over the past year, my optimism for the opportunity that's ahead for our business to serve the growing and evolving needs of our world has only strengthened. As our business evolves, so will our people, and I wanted to introduce a few new members of our executive leadership team that are on the call, today.

Chris Reynolds is our new Executive Vice President and President of Potash. Chris was previously leading our global sales organization and also served as Interim President of Potash, since the start of the year. He has been with Nutrien for over 18 years and is extremely well positioned to lead our potash business.

Trevor Williams has taken on the role of Interim President of Nitrogen and Phosphate. Trevor has been with Nutrien for over 11 years, most recently as our Senior Vice President of Nitrogen Operations. He has diverse global experience leading large chemical operations and strategic growth initiatives.

In addition, Mark Thompson, who many of you have met in the past, is taking on the newly created role of Executive Vice President and Chief Commercial Officer.

Mark has been with Nutrien for over 11 years and will utilize his extensive experience working across all our business units to advance our global commercial strategy.

With that introduction, we would now be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the "*", followed by the "1" on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your question will be pulled in the order they are received. Should you wish to decline from the pulling process, please press "*", followed by the "2". If you are using a speaker phone, please lift the handset, before pressing any keys.

One moment please for your first question. Your first question comes from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson: Hi, Ken. So interesting year has shaped up and potash. Can we--I mean, when you just made the decision to expand potash, it's an obvious reason why you were going to do it, right, what's going on with some of your competitors and the restrictions and tension. But you must have known in June that the market, the demand in the spring wasn't as good as thought that inventory was going to build, that the situation could

possibly happen. You have to make a decision, based on multiple years.

While Belarus and PPC (INAUDIBLE) story have issues, need to have capacity for the world and for the market. But can you talk about, how maybe Nutrien got this wrong on understanding what demand should be this year and on what the right production will be for this year?

Was that more Russian tons leaked out than you thought? Was that demand elasticity at higher prices was worse than you thought? And then what will be your entering production rate for January 1st, 2023? Is that 50 million tons? Thank you.

Ken Seitz: Yes, good morning Joel, and thank you for the question. So yes, if we look at 2022, and what's happened in the market it's really two things. And we can talk about North America. And we can talk about Brazil. Starting with North America, we had a strong fall application in the fall of 2021.

And so, heading into the spring, looking with the backdrop of ag fundamentals, looking at a very strong 2022 for growers, and certainly all the incentives there to lay down the appropriate crop nutrients to maximize yields.

But we're in agriculture and, of course, weather in the spring of this year, a late start to the planting season, which led to a compressed planting season. And so, at the end of the planting season, as we said, we saw prevent planned acres.

We saw crop switching and we saw and have talked about just fewer crop nutrients going to ground in the spring in North America and therefore, larger carryover volumes through the summer than we had anticipated.

And so, now heading into the fall, what we've seen is farmers again, incentivized to lay down the appropriate crop nutrients, I mean, with just corn and wheat at 50% above the 10-year average. And again, the backdrop has been very strong. We see farmers incentivized to lay down crop nutrients.

But over the summer and into the fall, the start of the application season here, farmers looking at their bins and seeing fertilizer in their bins and also looking at the potash price and holding off on those purchases until the last minute, until they have to purchase.

And so, in North America, again, as we've seen inventories coming down now, in fact, we are starting to see movement with Midwest pricing at about the \$640 per short ton.

And in fact that again, with through this destocking period, and now into the fall application season getting ready for the spring, we'll see--we're going to we're going to start to see that replenishment of those inventories. So, that was in North America and Brazil interesting year as well, because again, the Brazilian farmers having a strong year. And what we

saw in the first half of the year was imports coming into Brazil at 37%, above the previous year.

And really that was the Brazilian farmer and the Brazilian distributors looking to shore up volumes, knowing that there could be supply side challenges with the sanctions on Russia and Belarus. And so, we're able to get those volumes into the country prior to really those sanctions starting to take effect.

Building those inventories so that the Brazilian farmers prepared for their big Spring planting season, which they're in the midst of now. But similar behavior. And of course, we saw through that big purchasing period, Brazilian prices fly up to over \$1,000 a ton.

But now again with their planting season underway, those inventories being drawn down, but the farmer again watching price and reluctant to step into the market, as prices come down. And look, only really going to step into the market, when those inventories need to be replenished.

And in the case of Brazil, through this application season, and looking forward to this Safrinha corn crop, those inventories again, will need to be rebuilt.

Those two markets, for us, are some of our biggest largest export markets so that, we feel that when liquidity in terms of potash trade and again over the course of the summer is constrained. And again, that's what we saw. Now heading into

2023, again, we see a very strong backdrop for the Ag fundamentals, and we see a very challenged supply situation.

Through 2022, the export levels out of Belarus and Russia played out, are playing out as essentially as we had expected, and that is somewhere around 50% of the volume is coming out of Belarus, export constrained and 20% out of Russia. These are big numbers. And frankly, heading into 2023, we see a similar situation.

We know that sanctions are in full effect, but also that the mines in those parts of the world, they're having trouble sustaining that production, getting hands on maintenance parts and those sorts of things. So that again, heading into 2023, we've been through a destocking period.

Those inventories are going to need to be replenished, and they're going to be need to be replenished in a market where the supply side continues to be constrained.

And again, as those inventories are rebuilt in places like North America and Brazil, big export markets for us again, we'll see that, feel that disproportionately.

With respect to our decision to increase potash volumes, Joel, I would just say that our view has not changed. We had a lull in demand here in the third quarter. But again, the backdrop for the Ag fundamentals remain strong. The supply side, it continues to be challenged. We see that continuing into

2023. We know that 60% of the new production that was going to come to the market over the next five years, over and above Nutrien's production, was going to be coming from Russia and Belarus.

We expect that that new production will continue to be challenged, and that we're maintaining our ramp up schedule to be at 18 million tons by 2025 and have conviction around that.

So, that to your question about entering 2023, Joel, we mentioned that we expect volumes and sales for Nutrien to be around that 50-million-ton level. We'll get more refined on guidance, as we head towards February. But again, with that restocking in 2023, we expect to have a strong year.

Operator: Your next question comes from Andrew Wong, RBC Capital. Please go ahead.

Andrew Wong: Thanks. Good morning, I guess you could call me wrong because we were all wrong on a quarter, I guess.

Looking at potash sales this year, it'll be around 12.5 million tons, based on guidance. Capacity is set to be 15, 16 million tons, next year.

There's a lot of moving parts right now on both supply and demand side. And I'd say also, it's fair that we also have a lot less visibility on both. So, does it make sense to kind of for Nutrien to see sales and demand kind of catch up with

capacity and just to see some more confirmation on the more positive view here, before continuing to ramp-up some more?

Ken Seitz: Yeah, thank you for the question, Andrew. And what I'll say is that these investments that we make in our ramp-up capability and our production capability are incremental.

So, we're not jumping from 14 to 15 to 18 million tons all in one leap. And so, we'll be prudent with how we allocate capital in light of what we see going on in the market. But Andrew, I do go back to and ground ourselves in the fundamentals.

And again, to say that the backdrop for agriculture is strong, and all we need to do is look at where Ag commodities are today and where futures are trading out for the likes of corn, as I mentioned, even though it's at 2025 at above \$5 a bushel. And so, those are the strong pricing and again, corn and wheat 50% above the 10-year average.

So, we've got this strong backdrop, but then we know that we're in a supply constrained market. And so when we say 64 to 67 million tons in 2023, that's because it's a supply constrained market. In an unconstrained view, you'd say it's somewhere around 70 million tons, especially in an environment where inventories are being rebuilt.

So, for our part, we have been, I would say, prudent about expanding capacity pacing it with the market. But looking at 2023, 2024, 2025, we believe, we continue to believe these supply side challenges are real, and that there's going to be a home for our volumes in the market.

Operator: Your next question comes from Christopher Parkinson with Mizuho. Please go ahead.

Jeff Holzman: Operator, we will move to the next question, please.

Christopher Parkinson: Hello. Yes, I'm here. Hello.

Ken Seitz: We can hear you.

Christopher Parkinson: Are you going to hear me now? All right, sorry, I'll ask it again. I was just asking, given just all the puts and takes and now that the dust has settled, since the initial reaction to the Ukraine war and trade flows have adjusted on the potash side, we have a little bit of a better idea of what the Russians and Belarussians are capable of.

There's a little bit of volatility on nat gas prices on the natural--on the nitrogen side. Can you just give us any additional framework on your specific way of thinking on a segment basis, as it pertains to your \$9 billion normalized EBITDA estimate, just any thought process would be very helpful. Thank you very much.

Ken Seitz: Yeah, I think what I'll do is provide a few opening thoughts, and then I'll pass it over to our Chief Commercial Officer, Mark Thompson, to provide some color.

Bu, suffice it to say that, given what we've seen with the conflict in Ukraine, the challenge that that's going to present over the medium term, both in terms of the energy complex in Europe and just challenged exports for crop nutrients out of Russia and Belarus, and then export restrictions in other parts of the world, that we've seen a structural shift in our industry that that makes us think differently about what midcycle pricing and the price strip there looks like.

And of course, we've talked about that in the past. That hasn't changed for us, we continue to believe that we are experiencing a structural shift in our industry. But Mark, I'll pass it over to you to provide some more color.

Mark Thompson: Yeah, thank you, Ken. Good morning, Chris. Look, so just to reiterate what Ken had said, I mean, fundamentally, we don't see any different view around the projection for normalized midcycle earnings in and around that \$9 billion range for EBITDA.

And I think there's two components to that. One is on the volume side. And when we look at potash for our business, again, I think Ken has stated very clearly here this morning that we continue to see the market needing the additional tons

from Nutrien and potash that will come in the years to follow. And so, we see that firmly intact.

And then from a pricing standpoint, as Ken has said, there's a variety of fundamental factors here from a supply demand standpoint that we believe will result in structural changes in these markets that, ultimately, support that view that leads to that \$9 billion level of normalized earnings.

When we look at potash, specifically, and double click on the situation in Belarus and Russia, as Ken had said, ultimately, 2022 from a supply constraint standpoint as a result of the conflict in Ukraine, has played out much the way we've said.

And we see that continuing in 2023 in much the same way, and ultimately, the same surge of imports that we saw in the first half of 2022, we don't believe will be possible in 2023, as the constraints take full effect.

And then on a nitrogen standpoint, again, despite some warmer weather here we've seen over the past month or so, the forward strip for TTF gas and European gas prices would indicate, again, that Europe will be the high-cost producer in these markets.

And that, again, is a result of the conflict in Ukraine and reduced energy supply from Russia that we see continuing for the foreseeable future. So, those are the major factors that were

supporting our outlook in that view of structural change in these markets. And we're very of confident that view as we move forward.

Operator: Your next question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews: Thanks. And I wanted to follow-up on that, Jason, in terms of the nitrogen price and what you think the price setting mechanism is these days and what you think it might be in 2023.

There's a lot of debate, as I'm sure you're aware in the investment community about that European TTF price and those European production costs, and whether those should actually be setting a floor for nitrogen prices, or not.

And I, personally, can't tell over the past three or four or five months what exactly has been setting the price. So, maybe you could just give us your thoughts.

Ken Seitz: Great. Thanks, Vincent, for the question. I'll pass that one over to Jason Newton, our Chief Economist and talk about the moving parts there, Jason.

Jason Newton: Yeah, good morning, Vincent. I think it depends a little bit to when you look at marginal cost on the product and the time of year. We've just come through the third quarter, which is a seasonal low point, in terms of global demand. And if we look at where European production costs were

in that quarter, obviously, they're well above where prices were and saw over 50% of the ammonia capacity idled in Europe at that time.

And so I think, as we look on a long-term sustained basis, we need to at least have prices in line with where marginal costs are and for ammonia and especially for ammonia and for nitrates that that's in Europe at the moment.

As we get into 2023, that production that was lost in Q3 of 2022. And still, there's a third of the ammonia capacity offline today; that's gone. And we expect to get into more of a demand driven environment, in which case, it's really that demand that's going to drive pricing and move above where marginal cost is.

We know we're at near full operating rates, globally. And we expect that to continue over the medium term, given the production that's on stream. And so, as we get into a tight supply demand environment, realistically, the cost curve is less important than it has been in the low demand period of time.

Operator: Your next question comes from Jacob Bout with CIBC. Please go ahead.

Jacob Bout: Good morning. Historically, we used to talk about the balance of pricing versus new supply in the potash industry. In your view, what is the sweet spot on pricing? How

focused are you on market share? And what incentivized buyers to step in?

I know you've talked about inventories in the U.S., but what does that look like in Brazil, India, China? Is it just primarily price?

Ken Seitz: Great. Thank you, Jacob, for the question. So, as we approach the market, we have built our customer base over decades, now. And so, we look at it as meeting the needs of our customers, and our customers continue to grow. And we go along with them.

So, in terms of pricing today in the sweet spot for pricing, I mean, ultimately, we--the health of the farmer is at the center of everything that we do. And so, affordable crop nutrients that, among the backdrop of ag fundamentals that provide incentives for producers to provide that high quality potash, which we do.

I mean, for us, that's kind of the sweet spot on crop nutrient pricing. Obviously, with some of the supply side challenges that we've seen in the market--and we can really go across the crop nutrients--we've seen the volatility, over the course of 2022 that's been really quite dramatic. And again, that's just based on the supply and demand fundamentals.

So as we look forward now, and again, new supply that's coming to the market, of course, over the next five years, the

majority of that is going to be our supply, and again, given some of the challenges that we see with new supply that was supposed to come to the market out of Belarus and Russia. And so yeah, for our part, that's the way we think about it.

Today, I would say that what's incented farmers to come into the market is and coming into the market is really just the backdrop in ag fundamentals. Again, the incentives are there, Jacob, to maximize yields. And therefore, apply the appropriate crop Nutrien's.

As we've gone through this destocking period, as I say, the incentives will be there for the farmer to restock and get ready for what will be a big Safrinha season in Brazil and a big planting season in the northern hemisphere.

So, the incentives are there and really, that will be causing farmers and distributors to step into the market.

Operator: Your next question comes from Ben Isaacson with Scotia Bank. Please go ahead.

Ben Isaacson: Thank you very much and good morning, everybody. Question on potash prices and what it means for the retail business.

So, when I look back at the crop nutrients segment to retail, it looks like it generally earns about a billion dollars a year of gross profit. That went up to about a billion and a half last year and getting close to \$2 billion, this year.

Your EBITDA, however, your guidance is for around \$2 billion, a little bit north of \$2 billion this year and around \$2 billion in 2025. How--now that potash prices have retreated, how do you expect the impact of that to hit in retail EBITDA, as crop nutrient gross profit goes down? I mean, should we be thinking about 1.6, 1.7 next year, something like that? Thank you.

Ken Seitz: Great. Well, thank you for the question, Ben. And I'll pass that one over to Jeff Tarsi.

Jeff Tarsi: Good morning, Ben. And look, margins have been very attractive, obviously, and in a nutrient shift for us in retail, both in '21 and '22. And right now, as Ken mentioned just a little bit earlier, we're seeing a lot of momentum this fall, as well. Crops come out early. Growers are planning for '23. And our margins are still at a very attractive rate. And I think we talked about this, at some point in time, we'll see margins return to a more historical basis.

But even when I look at it from an historical basis, it'll be a step up from what we would have seen in 2020 and such like that.

And again, the returns for the growers are strong. They still see a tremendous amount of value. And when we talk about these things, again, it's a--these decisions are becoming science-based decisions. And growers are putting a lot of input

value into an acre of ground and they're going to give that crop, whatever it is, every opportunity to maximize from a yield standpoint.

So again, I think we'll see margin stay strong, through the end of '22. As we get into '23, we'll reset ourselves because I think we'll be in a good position from an inventory standpoint, our inventories will be low. If we have a tight fall, it looks like we're starting with, and we'll return to something that's a bit more historical. But again, a step up from what we saw in 2020.

Operator: Your next question comes from John Roberts with Credit Suisse. Please go ahead.

Edlain Rodriguez: Thank you. So, this is Edlain Rodriguez, on behalf of John. Speaking of the inventory, this stocking that's going on right now, like how long do you think this will continue? And with the increased production from nutrient and more products coming out of Eastern Europe next year, any concerns that could put further pressure on product prices?

Ken Seitz: Great. Well, thank you for the question. I'll pass it over to Mark?

Mark Thompson: Yeah, good morning. Thanks for the question. So again, I think just to reiterate some of Ken's

comments. Ultimately, we do see the market going through a period of inventory destocking, currently.

And I think if we look at key markets for us, again, in North America, we are seeing movement of products in North America today, and seeing good engagement from growers and that product is going straight to ground. And we're not seeing a lot of inventory stocking at this point. And we would expect that to begin in earnest, as we enter 2023.

In Brazil, also, as Ken mentioned, we are beginning to see the destocking process take place. And I think, importantly, when we step back and look at markets like Brazil and look, globally, at the potash market, we believe that, as we exit 2022, we'll be at inventory levels that are at least the same or perhaps even lower than where we entered 2022.

And that sets up in combination with a demand picture that's very strong, in terms of attractive crop commodity prices for growers to really pick up again on the pause that we saw in the second half of the year and continue that momentum.

I think the fundamental factor, again here, is the fact that in the first half of 2022, we saw a surge of product out of the Former Soviet Union, in anticipation of sanctions and physical disruptions. And that product found its way into global markets, including Brazil, where imports were up significantly in the first half of the year.

And based on what we see today, in terms of the continuation of the conflict in Ukraine, the expectation that exports from Belarus remain down about 50% and exports from Russia remain down 20% to 25%. As we head into next year, that same type of supply situation and import situation in markets like Brazil, just will not be possible, as we enter 2023.

And so, we believe that the market will see the tightness in supply demand in a way that's not yet been seen. So, combined with our view on demand, we believe again, that the Nutrien volumes that we've talked about in terms of our ability to flex up production are going to be needed and that inventories are destocking, as we speak. And we'll begin to see that, as we enter 2023.

Operator: Your next question comes from Steve Byrne with Bank of America. Please go ahead.

Steve Byrne: Yes, so I'd like to drill into potash a little bit more. The shipments down into the U.S. corn belt just plunged in the quarter. Were they effectively zero in September? Was that what was unexpected by you, and is the retail business of yours characterizing competitor inventory levels in that retail channel as now high, normal, or are they low, now?

Are you seeing application rates that are actually going on the ground now normal, or is there a potential for some to

actually be above normal? And sorry, one more on potash. And that is, Ken you ran Canpotex in the past. I'm sure they would listen to your view, now. But looking ahead at the 2023 contract, you've got domestic pricing in China that's almost got a four in the front.

And you yet have this view that the 2023 potash market's going to be supply constrained. Would it be your guidance to Canpotex to hold off on setting a contract, until this recovery in demand is actually underway, rather than potentially near term?

Ken Seitz: Great, thank you for the question, Steve. Yes, it is quite a bit there. And so, maybe I'll start with, again, just what we saw in North America, as it relates to sort of the compressed spring and then carryover volumes. And I'll hand it to Jeff Tarsi just to talk about what we're seeing in the retail space, and then I'll come back on the Canpotex piece.

So yes, so just to reiterate, we will say that carryover volumes from the spring season in North America were larger than we had anticipated. And we announced our summer fill program in August at the beginning of August there. And as we look to place volumes, again, farmers were holding off with the inventories that had been carried over and, again, not wanting to catch a falling knife on price, watching prices soften.

That just buying at the last minute and, again, with the application season that we're seeing in North America, and Jeff will talk more about that. We'd call it a normal application season, so that those inventories have been drawn down. And we do see engagement in the market at this sort of \$640 per ton Midwest pricing.

So, I think the short answer is, Steve, yes, those carryover volumes were larger than anticipated. We call it a lull in the market, just given buyer behavior and buyer sentiments and that restocking now is going to have to take place.

Jeff, I'll pass it to you just to talk a little bit about what we're seeing on the ground and retail, and then I'll come back on the 2023 contract.

Jeff Tarsi: Yeah, good morning, Steve. And look, we've talked quite a bit about the fall of '21. But I always like to remind people we had two really big falls; '20 and '21 were big fall. And then when we got into the spring this year and got into a real compressed market, a lot of growers just decided to hook to the planters and plant and versus put some product down for the spring.

So, from a pure retail perspective, we came out of the spring, I wouldn't say with a big overweight position on potash. We carried a little bit more than we probably plan to carry.

But we also layered some more product in, as well, for this fall. And calling around yesterday, we're starting to run through that product, now.

And going back out into the market with Nutrien now for product. And when I look at application rates, and as I call and talk around, nobody's cutting back on application rates. I made this remark a bit earlier. These are science-based decisions. I was at Waypoint Analytical last week, which is our soil testing business. And over three days last week, they had record soil testing that was coming in.

So, we're out doing soil testing. We're looking at what was removed from the crop, this year. And looking at areas that we expected that crop to be good. It was as good, if not a little bit better than. There were some areas that were weak, but removal was very strong.

And these growers are going to replenish the soil with nutrients they need. If I'm looking ahead to next year and looking at our early seed book, it certainly appears that corn acreage is going to be, next year. And so, we would expect our volumes in '23 to return to where they were in '21.

Ken Seitz: Great, thank you, Jeff. And so Steve, just back to your question on Canpotex and contract settlements in the contract markets. So yes, it is true that the domestic price in China has softened, but the domestic price in China

does not dictate the settlement level that a supplier--and by the way, the suppliers that can negotiate a meaningful quantity under the contract is maybe just very few and far between.

In fact, we're probably talking about Canpotex and maybe just one or two other suppliers, but that negotiation is going to be based on what we are seeing in the global market.

And this is a supply and demand driven market. And you will not find whether, it's a spot market in Brazil, as we've said in North America, anywhere in the world that is below the current contract price of \$590 per ton. In fact, for standard grade products in Southeast Asia, we're certainly well above that.

We look at inventory levels in those parts of the world, and we know that India is, for all intents, out of potash and is going to have to step in and for their season renewal contract and get volume into the country and that we expect that, before their planting, spring planting season, they'll have to do the same.

And again, Canpotex will be looking at where volumes are trading at internationally, and certainly for standard grade markets, and we'll be negotiating, accordingly.

Operator: Your next question comes from Jeffrey Zekauskas with JPMorgan. Please go ahead.

Jeffrey Zekauskas: Thanks very much. Sort of a two-part question. In your potash forecasts for India for 2023, you're way below where you were in where demand was in 2019 and 2020.

Why is that? Is that a function of Belarussian and Russian shipments, or is it something else? And then in your Ag Solutions business, what is it that you can do about these inflationary costs that are eating away at your margins?

Ken Seitz: Good, thank you for your questions, Jeff. And so, we'll start with Jason Newton on what we're forecasting for India, as it relates to potash volume. And then over to Jeff Tarsi for the discussion of the inflationary pressures in our retail business.

Jason Newton: Yeah, good morning, Jeff. The major challenge with India is the regulatory control, within the domestic market and the profitability from both an importer standpoint, given where the Nutrien based subsidy has been relative to the domestic maximum retail price, in addition to the maximum retail prices have increased year-over-year, which has had a negative impact on grower demand.

And so, the policy environment within India, when we're in a high global pricing environment, makes import affordability and grower economics a challenge. And that's why we've seen that demand weaken in 2022, and we'd expect it to grow in 2023

but still remain well below, as you said, where it was back in 2020.

And from an agronomic perspective, optimal rates would be probably 2x to 3x what what they were, this year. And so, in a different policy environment, we'd expect strong growth in that market.

Jeff Tarsi: Yeah, and second part of that, as it relates to inflation, obviously, we see inflation like any industry does from that standpoint.

But I also think if you look through the third quarter and what we've done from a cash operating coverage ratio, we've improved 55 from 59. So, we're always focused on the expense side of our business.

Obviously, fuel is up this year. And we were very strategic in moving our application rates up or the rates that we charge to apply chemistry and nutrients, as we go into that market.

And I think we've done a fair job of trying to keep up with that, as it goes forward. And our margin structure, whether it's around crop protection, seed and fertilizer was very attractive this year.

I think our margins on seed were up 60 basis points, through the third quarter. On crop protection chemistry, our

up-front margins were up, roughly, 300 basis points from that standpoint.

So, we've worked hard to try to pass some of the costs through on that side of it. And I think our results show, today, that we've done a--I think we've done a pretty good job of that.

But we'll constantly staying attuned to that. Obviously, people are big costs but in our business, today. And we're constantly scrubbing that side of the business to control expenses, no matter what the environment that we're in.

Operator: Your next question comes from P.J. Juvekar from Citi. Please go ahead.

P.J. Juvekar: Yes, hi, good morning. A question on seeds. What are your expectations on seed pricing, based on the price cards that have been put out earlier this year? And then what is the market share of Dyna-Gro? And then one large U.S. based seed company has been saying that they have been gaining share for seeds in the retail channel. I was wondering if you had any comments on that.

Ken Seitz: Great, thank you, PJ. I'll pass it over to Jeff Tarsi.

Jeff Tarsi: Yeah, seeds, always a competitive arena. We just kicked off our '23 seed selling season. We start that kind

of as we go into the third quarter and through the fourth quarter only.

If I look at it from a price book standpoint, I'd probably characterize it as prices will be up from mid to upper single-digits. For the '23 season, those price books are out. And it's kind of going to lay somewhere in that range from let's say, from a 5% to an 8% price increase depending on with the supplier and the hybrid that's associated with it.

Look, our market share in seed this year across everything, was up 20 basis points.

And look, I'm pleased with that, because from the standpoint, we had a couple areas that were hit with some really tough weather, where we have a substantial share of seed business, particularly the Texas market. And as it relates to-- and we had we had crop shift as well, from corn back to soybeans in some areas, again, where we have very large market share.

From a data growth perspective, we had a really good year. We saw significant share increases on cotton, rice and soybeans, for the '22 season. So, our Dyna-Gro brand remained very strong, as well as our proven brand in Canada, associated with canola.

Operator: Your next question comes from Steve Hansen with Raymond James. Please go ahead.

Steve Hansen: Yes, good morning. Just sticking to the potash theme. I can respect the decision to hold the line on the expansion strategy, given the backdrop you described. But can you just remind us how the incremental capital outlays will place down here as we contemplate the million tons a year effectively over the next three years?

Or are you making those investments predominately upfront, today, for all 3 million tons, or will it come in incremental chunks, as those capacity tranches come through?

Ken Seitz: Yeah, no. Great question, Steve, thank you for that. It's a little bit of both. We're ordering some long lead line items, but then saving capital as well, but I'll pass it over to Chris Reynolds, who is our President of Potash.

Chris Reynolds: Yeah, good morning, Steve. Thanks for the question. And yeah, we are looking just stage that -- that capital. To date, we've committed about \$200 million of that \$590 million investment to reach 18 million tons of productive capacity, by 2025.

And so yeah, it's going to be staged. But as Ken said, we have a lot of that sort of million was committed already, is to long lead items. And as you can imagine getting our place in queue with certain shops to make sure we can secure that equipment given some supply chain challenges, which actually remarkably, haven't been too bad to date.

So we still feel very good about this investment. As Ken and Pedro have mentioned, we take a long-term view, when making these investments. And despite the pause in demand, we saw in Q3 believe strongly that the market and the world is going to need that incremental volume. And really, making these investments allows Nutrien the opportunity to be in a position to meet that that demand, going forward. So again, temporary pause and demand we saw in Q3, not derailing our conviction, around this investment.

Operator: Your next question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson: Yes, thank you. Good morning, everyone. Maybe continuing in potash; really two parts. One, just get your sense on inventories in Southeast Asia. You talked about India being kind of, being pretty dry on the inventory side. But there are also discussions about cutting subsidies. So, just how do we get to up imports next year, if the affordability is going to get potentially worse?

And then, I want to just think about maybe the connection between the wholesale and potash business and retail. And just if we kind of reflect on how this year has progressed, where it would seem like there might have been different, differing signals in terms of how the retail business was acting in terms

of positioning its own inventory and buying, versus how the wholesale business was approaching the domestic market.

And just how do we--what lessons are there to be gleaned from that, as you've kind of reflected internally on where the forecasting this year was off; internally? Thanks.

Ken Seitz: Great. Well, we'll start with--thank you for the question, Adam. We'll start with Jason on just on the inventories in Southeast Asia. And then we'll move over to Jeff Tarsi. Just to talk about, you know, again, what we're seeing in retail and how it relates to our wholesale business.

Jason Newton: Yeah, good morning, Adam. We don't have great data in terms of the absolute number of volume of inventories in Southeast Asia, but we do know that they drew down on inventories to start the calendar year, which is one of the reasons why the shipments to that region are down.

We know that that markets' lagged the rest of the world, and the demand has remained relatively firm in the second half.

And as we look toward 2023, we've seen palm oil prices come back up and the vegoil market has certainly strengthened, which improves the economic outlook in that region. And we'd expect, just given the shipments and where we see consumption in that region, that the inventories will be down, year-over-year.

And just to reiterate what we've talked about already with India. The inventories there are at extremely low levels. And

so, while we don't see a huge increase in consumption, just the fact that inventories are so low is supportive of an increase in shipments in that region in 2023.

Ken Seitz: Yeah, and I'll add on, from retail perspective, and again, I don't want to sound like a broken record. But we got into the spring and, obviously, nobody can predict a late and compressed spring. And so, we saw growers, again, more incentivized to put a planter in the field, some of them new because of the two big falls that they had, that they had some product that they get mine out of the soil.

And then a lot of people were working hand to mouth, from that standpoint. And look, we've seen this thing back reengaged, as the fall has come in. And we started the season we were three weeks—no, it's something important to remember here, we started the year about three weeks behind, from a cropping standpoint. And the way the fall ended up and the way the summer ended and came into fall with a lot of hot, dry weather, those crops progress really fast.

And so now, if you look at where we are on harvest, we're back ahead of the five-year average. And I would, if I would have been a betting man earlier in the year, I wouldn't have bet on that. And so, because of that, we've gotten a really good open market for the fall, and we've talked a lot about P&K, but we've got a really high demand right now for nitrogen, as well.

Our NH3 book in Canada has been extremely strong, and our book for the U.S. market is extremely strong, as well. And so, as long as Paul is open now, I fully expect a lot of product to hit the ground between now and the end of the year.

Operator: There are no further questions, at this time. Mr. Holzman, I turn the call back over to you.

Jeff Holzman: Thank you for joining us, today. The Investor relations team is available for any follow-up calls. Have a good day.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.