Nutrien Ltd.

Q2 2023 Earnings Conference Call

August 3, 2023

10:00 AM ET

Operator: Greetings, and welcome to Nutrien's 2023 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. As a reminder this conference call is being recorded.

I would now like to turn the conference over to Jeff Holzman, Vice President of Investor Relations. Please go ahead.

Jeff Holzman: Thank you, operator. Good morning and welcome to Nutrien's second quarter 2023 earnings 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 quarterly report to shareholders as well as our most recent annual report, MD&A, and annual information form filed with Canadian and US 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 thank you for joining us today as review our Q2 results and the outlook for our business. Fertilizer industry has gone through a period of unprecedented volatility over the past 18 months, driven by a series of unique events. However, we are encouraged by the continued improvement in demand as the year has progressed. This is most evident in North America, where we had a strong spring season, relative fertilizer price stability, and a significant reduction in channel inventories.

The positive sentiment is carried into the second half with solid customer engagement on all fertilizer products. The process has been slower in certain offshore fertilizer markets with a lack of consistent buying, but we believe the most significant period of volatility is now behind us.

Moving forward, we know there will be fluctuations in the market, requiring Nutrient to maintain a flexible approach and focus on controlling what we can control. The strategic actions we announced yesterday reflect our commitment to disciplined capital allocation and a focus on initiatives that enhance free cash flow through the cycle.

Before I speak more about the outlook and specific actions we are taking, I will turn it over to Pedro to review our Q2 results.

Pedro Farah: Thanks, Ken. Our second quarter performance illustrated the contrast between how the market has progressed in North America compared to certain offshore markets. Nutrien delivered adjusted EBITDA of $2.5 billion in the second quarter and $3.9 billion through the first half of the year. This represented the second highest earnings total for both respective periods, but was down significantly from the record prior year due to lower fertilizer prices, offshore potash sales volumes, and retail margins.

Nutrien Ag Solutions results in the quarter were supported by strong grower demand in North America and the relative stability of our business in Australia. North America retail crop Nutrien margins largely normalized as higher cost inventory moved through the channel. Sales volumes were up 16% compared to the prior year and would have been even higher if not for the extremely dry conditions throughout the US Midwest.

We ended the quarter with fertilizer inventories at a multiyear low, down more than 40% from the prior year. We expect this is generally indicative of retail inventory levels across

North America, setting up the potential for large purchasing requirements in the second half.

Crop protection gross margins were impacted in the quarter by lower prices for certain commodity products, higher cost inventories, and reduced demand as a result of the dry conditions in the US Midwest.

We recognized a non-cash impairment primarily related to the goodwill of our South American retail business. This region has been impacted by volatility in crop input markets and a sharp increase in local interest rates among other macroeconomic factors. The long-term prospects for agriculture in South America remain strong, and we see opportunity for future growth. However, in the near term, we are pausing additional investment in this region until there is further market stabilization.

Now turning to our fertilizer segment, still impacted in the quarter by lower benchmark prices compared to the exceptionally strong period in 2022. In potash, we increased sales volumes in North America and achieved relatively stable pricing compared to a trailing quarter. This outcome was in line with our expectations.

Offshore demand was weaker due to a lack of consistent engagement in spot markets and a delayed contract settlement with China. Our offshore net realized price was impacted by lower benchmark prices and additional logistical costs associated with an unplanned outage at Canpotex's export terminal in Portland.

North American nitrogen prices were down from the prior year, but strengthened during the quarter as supply tightened, following the start of the spring application season. Global ammonia markets were pressured by lower European gas prices and weaker industrial demand.

Second quarter nitrogen sales volumes increased by 10% from prior year, driven by strong fertilizer demand. Our nitrogen gross margin as a percentage of sales was about 35% in the quarter, highlighting the advantages of our strategically positioned assets.

The performance of our supply chain and order book positioning allowed us to capture incremental value associated with the in-season premiums that emerged in North America during the quarter.

Phosphate benefited from the strength of industrial and feed product lines, partially offsetting the impact of lower fertilizer prices. We completed maintenance and reliability initiatives and are targeting utilization rates above 90% in the second half of the year.

During the quarter, we recognized the non-cash impairment charge to our White Springs phosphate assets. This facility has a short mine life than our Aurora site, therefore near-term fluctuations in fertilizer prices and margins have a greater impact on carrying value of its assets. Under IFRS accounting, this has resulted in the recognition of both impairment losses and reversals in recent years.

To summarize, our first half results were below the record prior year. However, we saw a number of positive market developments, in particular in North America, that provide opportunities for Nutrien as we look forward to the second half of 2023 and beyond.

And now, I'll turn it back to Ken.

Ken Seitz: Thanks, Pedro. I will start with the outlook for the business and our updated full year guidance assumptions. Weather and geopolitical challenges continue to prevent a replenishment of global grain and oilseed supply and is providing support for ag commodity prices. Futures prices for corn, wheat, and soybeans are 15% to 20% above the 10-year average and fertilizer affordability has improved significantly over the last year.

North American crop development is tracking ahead of the historical average pace, which could support an early harvest and extended fall application window for fertilizer. The combination of low channel inventories and prospects for a strong fall season has contributed to increased demand for all fertilizer products in the third quarter.

We had a very positive response to our North American potash fill program and have closed the order book for third quarter deliveries with a targeted $30 per short ton increase for the fourth quarter.

Turning to Brazil, where growers have purchased a lower-than-normal proportion of inputs for their upcoming spring planting season, which we anticipate will lead to solid demand over the next few months. Brazil fertilizer prices have strengthened in recent weeks with potash prices up around 10% since early June.

We expect Canadian potash exports will be constrained in the third quarter by logistical challenges related to the strike at the Port of Vancouver and the outage at Capo Texas Portland terminal. It could take several more weeks until the backlog is cleared and the supply chain returns to normal. As a result, we have lowered our estimate for global potash shipments to a range of 63 million to 65 million tons in 2023.

Nutrien's full year adjusted EBITDA is now projected between $5.5 billion to $6.7 billion. As disclosed in our news release on July 11, the revision largely reflects factors impacting offshore potash sales through Canpotex and lower offshore realized prices than previously anticipated including the impact of higher logistics costs. We reduced our potash sales volume guidance to a range of 12.6 million to 13.2 million tons and have adjusted our production plans accordingly.

We lowered our nitrogen adjusted EBITDA guidance range slightly due to a decline in global ammonia benchmark prices in the second quarter. Urea prices have strengthened in the third quarter, and we anticipate a recovery in ammonia markets driven by low inventories and ongoing production curtailments. Our revised retail guidance reflects greater margin pressure in South America as we sell through higher cost inventory and the impacts of dry conditions in North America during the growing season. We expect a strong fall fertilizer application season and per ton margins above historical average values, which is in large part due to growth in our proprietary nutritional products.

Based on the change in projected earnings and cash flow for 2023, we have taken a number of actions to reduce controllable costs and provide additional flexibility for future capital allocation. We are indefinitely pausing our potash ramp-up following the completion of in-flight projects in the second half. These projects are primarily related to the procurement of new mining machines that support further automation of our fleet. We will maintain operational flexibility in our potash business, preserving the ability to quickly respond to changes in the market while ensuring we maintain our low-cost position.

We have also made the decision to suspend work on our Geismar clean ammonia project and to defer the timing of capital spend on select brownfield expansions. We previously stated that a final investment decision on our Geismar project was contingent on obtaining a greater degree of certainty on capital cost estimates. And as engineering work progressed, we have seen some escalation in costs. Therefore, at this time, we expect to have higher return alternatives for our capital. We believe emerging uses for clean ammonia will provide a long-term growth opportunity for the nitrogen industry, but there continues to be uncertainty on the timing of this demand. We will monitor how this market evolves and evaluate future options with the objectives of preserving value and optionality for the project.

In retail, we are reducing expenditures across a number of smaller investment projects as we prioritize capital across the business and maintain flexibility on future allocation opportunities. The focus of the retail team will be to integrate recently acquired businesses in Brazil, drive supply chain and operating efficiencies, and enhance the free cash flow generation of the business.

In aggregate, these initiatives are expected to lower our 2023 capital expenditures by $200 million and reduced associated capital by $2.5 billion to $3 billion over the next five years. We will also take in measures to reduce operating expenditures by approximately $100 million in 2023 to offset some of the impacts from extraordinary events that occurred this year.

Looking ahead, we believe structural market shifts are supportive of higher average fertilizer benchmark prices through the next cycle. This view is driven by the expectation for continued tightness in global crop markets, higher energy prices. and other inflationary impacts on the global cost curve. Based on the changes to our capital plans, we have revised our mid-cycle earnings scenario to reflect lower anticipated potash and nitrogen sales volumes.

For potash, we assume a return to trend line global demand growth and Nutrien sales volumes in the range of 14 million to 15 million tons. We now expect a mid-cycle adjusted EBITDA scenario in the range of $7 billion to $7.5 billion, which is highlighted on slide 18 of our Q2 earnings presentation along with the comparison to our previous mid-cycle assumptions.

In closing, we expect to generate strong cash flow through the cycle and are committed to a balanced and disciplined approach to capital allocation. We will leverage the advantages of our integrated business and continue to position the company to serve the needs of our customers and deliver long-term value for our shareholders.

We would now be happy to take your questions.

Operator: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press star followed by the number one on your touchtone phone. You will hear a three tone prompt acknowledging your request. If you would like to cancel your request, please press star two. Please ensure you lift the handset if you're using a speakerphone before pressing any keys.

Your first question comes from the line of Joel Jackson from BMO Capital Markets. Your line is now open.

Joel Jackson: Hi. Good morning. Can we talk about potash capability? So now that you paused or deferred adding more machinery and people, what is the maximum potash production that you'd be able to produce this year and next year to run rate? And then maybe balancing out one of your competitors, your Canpotex partner suggests that potash demand -- potash shipments will not get back to a 70 million ton level until 2025, and they base that on a lot of supply constraints, but you have excess supply that you could run if you wanted to. So a bit of confusion over how much of that is a demand story getting back versus constraints out of Belarus. Can you talk about sort of your own views on that story on that theme? Thanks.

Ken Seitz: Yes. Good morning, Joel, and thanks for the question. So yes, for 2023, based on some of the challenges shipping Canadian potash, we reduced total global shipments to

63 million to 65 million tons, and we were guided this year, as you've seen 12.6 million to 13.2 million tons. Next year of customers, we're calling for 15.5 million tons, we would be able to supply into that. So, by the end of this year, as mentioned in the commentary, we'll have procured mining machines, we'll have completed in-flight projects, and have the ability to meet customer needs to that level.

As it relates to the return to historical trend line demand in potash, when we talk about our new mid-cycle, it's in that 70 million to 75 million ton range. And our assumptions are getting back to that sort of level over the next few years.

Operator: Your next question comes from the line of Steve Hansen from Raymond James. Your line is now open.

Steve Hansen: Yes, good morning, everyone. Thanks for the time. Just wanted to follow-up on the potash expansion strategy or at least the halting of it. Can you just give us a rough sense for the capabilities after the in-place projects are completed? I'm not sure if that was delineated exactly. And then as we think about sort of the year-over-year improvements in export capabilities, both in Vancouver and in Portland, how do you feel about moving the amount of volumes that you're talking about here in the next year, you still feel confident that that's doable. Thanks.

Ken Seitz: Yeah, Steve. So when we talk about sort of global trend line demand of 70 million to 75 million tons and our new mid-cycle assumption for Nutrien of that 14 million to 15 million tons and allowing ourselves some surge capacity to flex into the market and when customers are calling for it. That's what we're planning for this, if customers were calling for 15.5 million tons next year, we would be able to supply into that. Having completed this year, our in-flight projects in expanding some potash capability. So it's in and around that range. As it relates to export capacity, I mean, we have expansion capability in -- at Neptune. We have some expansion capability. This is all via Capitec at Portland. So, we have line of sight across at least certainly our five-year plan to be able to be able to ship potash into a market that's growing and hence, our plans around the new mid-cycle.

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

Andrew Wong: Hi. Good morning. Thanks for taking my question. So in the mid-cycle adjusted EBITDA scenario, can you talk about what you use or assume for retail. Obviously, it's been under pressure for this year, but we also saw a very high number last year. So what would you consider as a normal run rate, or maybe put another way, what would retail look like this year under normal conditions? And then just secondly, on retail

SG&A, it is down a little bit this year, but not down as much as what the overall segment profitability was. So the operating coverage ratio has gone up. What's your expectation on how that trends going forward? Thank you.

Ken Seitz: Thanks, Andrew. As it relates to our retail assumption for mid-cycle earnings, yes, last year was an interesting year in terms of margins being quite strong and then obviously talking about the reset for 2023, which we're experiencing, and we're experiencing that really across our retail business and probably more than anywhere in Brazil with the extreme volatility we've seen there. But our assumption prior to this current view of mid-cycle and as we've described in slide 18 of our presentation, our assumption was $2.1 billion out of our retail business. And we're now saying about $1.9 billion to $2 billion when margins do normalize to -- yeah, so it's $1.9 billion to $2.1 billion is our assumption. Jeff, maybe I'll pass it over to you to talk about Andrew's question regarding SG&A.

Jeff Holzman: Yeah, Andrew, thanks. When we look at SG&A and we look at this year on a year-over-year basis from that perspective, a lot of our increased costs have come from a standpoint of our expansion into Brazil. And 60% of our cost in a sales and customer-focused organization comes with people and people are our largest cost. And so we've obviously seen some wage inflation in that area. But with that said, we have started early in the year, taking some very targeted actions this year to reduce headcount where it isn't absolutely an essential. In particular, we're very focused on reevaluating our organizational needs in Latin America to ensure that we have the right scale to operate efficiently and properly for the size of my current operations.

Ken mentioned in his comments, and I think Pedro as well, that we've been very deliberate about controlling our controllables and we're taking out discretionary costs across our network. If you look at it on a percentage basis, we've managed to hold our cash expenses below 10% of revenue for the quarter, which is actually just slightly better than last year despite an overall reduction in revenue. And in dollar terms, adjusted cash expenses are down year-over-year on a year-to-date and quarter basis. So that's something I'd like to think that we're doing continuously in controlling our controllables, and we're certainly going to put a lot of effort on in the back half of the year and going forward as we continue to drive efficiency in our organization.

Operator: Your next question comes from the line of Christopher Parkinson from Mizuho. Your line is now open.

Christopher Parkinson: Great. Thank you so much. So when we take a step back and just look at the potash markets with the recently signed Chinese contract and a little bit of the rebound in Brazilian spot it seems like Southeast Asia is a bit out of whack and due to the recent declines over the last, let's say, four to six weeks. At what point in time would your team or Canpotex expect a fairly robust demand response? Obviously, there are a bunch of other moving factors, inventories, weather, crop outlooks, so on and so forth. But in terms of the eventual rebound of the potash market, how is your team currently thinking about that as a response to lower prices? Thank you so much.

Ken Seitz: Yeah. Great. Thanks, Chris. And so you're absolutely right. We have seen sort of illiquid trade in Southeast Asia for some time for standard grade potash. And part of that was held up by drawing down inventories. Part of it waiting on the China contract and setting that benchmark. But here we are. So maybe I'll hand it over to Mark just to provide some more detail.

Mark Thompson: Yes. Thanks, Chris. Good morning. So look, I think first above all else would just say we're very encouraged by the continued stabilization and recovery of demand, particularly in North America and Brazil, which are obviously really important markets for Nutrien. So I'll just maybe say a few words about North America and then talk internationally as it's all part of the bigger picture here.

So as you heard Ken say in our commentary, we saw a record Q2 for domestic sales. And really strong and rapid customer engagement as spring activity unfolded in the US. As we talked about previously, Q2 was more a just-in-time basis. But following Q2 in North America, we really did see most of our major customers with inventory levels that were at least at multiyear lows if not the lowest levels they've ever had following the spring season.

So you've got an attractive crop price backdrop, the potential for early fall activity, and this really has set up for what we've seen be an exceptionally strong fill program that we've just laid out. As Ken said, we saw really strong demand. In fact, we’d call it overwhelming demand for customers on the fill.

We closed the order book on Q3 at the 370 per short ton level and have upped our reference price for Q4 by the $30 per short ton. And in fact, just in the last 24 to 48 hours here, we've seen customers come back for some small volumes and transacted at that $400 per short ton level in the Midwest. So we're encouraged by what's going on in North America.

I think moving internationally just to talk about a couple of the markets that are important to Canpotex, all of which you mentioned.

Let's start with Brazil. Brazil really has led the demand recovery internationally. It's been the strongest overseas market since the signing of the Chinese contract. I think there was an anticipation that contract would put a floor under some of these markets, and we've seen that in Brazil from a low of 310 or 320 around the time of the contract to today the industry publications would call the market 350 to 360. And as Ken said, the pace of crop input demand, we think, is a little behind last year. So that sets up well for more normal consumption through the second half of the year. So we see things as being on track in Brazil.

In China with the signing of the contract, we actually saw goods in the first half of the year into China, and the contract has kept those moving. So as you would have seen in our materials, we've upped our demand estimate for China this year to 15 million to 16 million tons, and we've seen strong consumption domestically in nitrogen and phosphate. And we also think that bodes well for shipments into China in the second half of the year. So again, consumption in China looks on track.

The other important market to Canpotex, as you mentioned, is Southeast Asia. And Southeast Asia is the market that has been a little more varied and more protracted in its recovery versus other markets. This was likely due to a few factors in our view, one being the delayed timing of the Chinese contract, buyers wanting to see some stability in global benchmark pricing and then some volatility in palm oil pricing and key crops.

Just in recent weeks, we have seen some signs of demand reemerging in those markets. And even within Southeast Asia, it's a mixed picture. So in markets like Vietnam and Thailand, we've seen prices anywhere from the $330 level up to almost the $400 level with more stability. And I think Indonesia and Malaysia are taking a little longer to recover. But we do see demand picking up in Q4. And Chris, as we move into 2024, we would expect some recovery and stabilization in Southeast Asia generally. So as I said to start in my comments, I think we're generally encouraged by the direction of the potash market and the rebound in demand.

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

Ben Isaacson: Thank you very much. And good morning. One more on the potash expansion, if I may. So I actually really like it. I think it's a good move to pause the potash expansion, but I don't fully understand the decision-making process. When you talked about a strong Q2 in North America, Brazil is starting to come back, but that's all short term in this year. And even if there is weakness, you're dealing with it by curtailing your production. When we think about long term, structurally, nothing has really changed. The demand growth trajectory is the same. We haven't seen any meaningful change out of Belarus or Russia. BHP is kind of still on track, etc. So what actually has changed from a long-term outlook to pause increasing capability to 18 million tons.

And if I can just sneak in a clarification question. You took a $400 million to $500 million impairment on Latam retail, and one of the things you referenced was moderating long-term growth assumptions. Does that change your strategy in Brazil retail in terms of your investment spending over the next few years? Thank you so much.

Ken Seitz: Yes. Great, Ben. Thank you for the question. And I'll maybe say a few words on the potash piece and hand it over to Mark and Jason to expand on that. But we do see demand to sort of trend line -- return to trend line growth in demand in potash, is a 2.5% 3% average annual growth rates. And again, returning to that 70 million to 75 million ton range over the next few years. And if you look at the market share that we've picked up over the last few years and expect to maintain, that has us at that mid-cycle of 14 million to 15 million tons.

There still continues to be quite a bit of uncertainty on the supply side of the equation. And the reality is that while we have seen Russian and Belarusian volumes coming out of the region, the region is still down 30%-ish from 2021 levels, about 8 million tons. And that's a little bit more than we had forecasted at the start of this year, about one million tons. That said, that's also being offset by some of the challenges for Canadian producers off the West Coast.

So our assumption today is we looked at 18 million tons and the ability of the Russian, Belarusian producers to get to export markets. Some of that volume is coming back. That's certainly happening, but it is also true that there is a significant volume that's still challenged, and again, this year, about 8 million tons. We see that volume returning to the market over the next few years, we do. But that has us completing in-flight projects to the end of this year. And again, with the capability to supply that 15.5 million tons, meet the needs of our customers, but always preserving some flex capacity to surge tons into the market, which we've done in the past and created immense value when we do that, because there continues to be this really significant uncertainty on the supply side of the equation.

Mark, Jason, did you want to provide more color?

Mark Thompson: Look, I think Ken covered it really well, Ben. I think the only thing I would add is maybe just to put a few numbers to the equation. I mean, obviously, we responded quite quickly last year when we saw an unprecedented global disruption in supply at the time we were talking about this last year. We probably saw on a run rate basis, volumes out of the former Soviet Union, on a run rate annualized basis, we're probably down about 13 million tons.

And so in that type of environment, we obviously look to quickly mobilize and understand what we could do from a supply perspective. I think one of the other things that we did see in that environment was that in a higher than normal price environment because of the panic buying, we did see demand be temporarily impacted. And we mentioned there's going to be some period of time to rebuild back in the trend levels.

So I think the simplest explanation for the company is really this is an optimization of capital deployment, how we deploy our resources and how we staff our operations. Our long-term belief in the fundamentals of the potash business have really not changed, but it's really a decision on the timing of how we deploy that capital, what resources we carry at the assets.

And ultimately, our go-to-market strategy hasn't changed. We're going to supply what our customers need. And so as Ken said, we'll respond to market conditions. But we think the capacity we've built through the work that we've done provides us ample flexibility, at least for the foreseeable near-term to meet that market demand.

Ken Seitz: Yeah, great. So thanks, Mark. And with respect to the question about Latin America, I mean the reality is that the Brazilian market continues to grow. It continues to be one of the most exciting agricultural markets on the planet, and we have a meaningful presence there.

As it relates to our plans, I'll pass it over to Jeff, but really it is about pausing on further acquisitions as we integrate these nine acquisitions that we have done and get our cost model and our operating model right, therefore, certainly in these times where we've seen this extraordinary volatility, compression in crop margins and movement in interest rates.

But Jeff, over to you.

Jeff Tarsi: Yeah. And Ken, I'll just reflect the comments you made. I think we mentioned several times this morning the factors, and there were several factors that led up to our impairment volatility, much more severe volatility across the fertilizer segment and chemistry segment than we saw in North America and Australia. And again, the rise in interest rates were much more abrupt there as well, which led to a lot of devaluation in inventory and such.

And again, as Ken said, we still see long-term. We still believe in the long-term growth prospects for Brazil, and it's expected to be the fastest-growing ag market in the world, but if we look at where we are to-date. In the near-term, we are going to pause additional investments as we really focus hard on integrating the nine businesses that we bought over the last three years.

And when we say integrate, and that's from a system standpoint, that's from a standpoint of procurement, and that's the standpoint of integrating the LPI businesses into that base business. We're going to focus on driving down our costs, and we're going to focus on growing our business organically as this market stabilizes. And I might add that we have seen positive signs over the last several weeks of growers back engaging into the marketplace as we go into their very heavy spring season for planting.

Pedro Farah: Ben, maybe I'll just add, Pedro here, that Brazil is a market characterized by very long cash conversion cycles. And as we accelerate growth, we actually accelerate the investment in working capital and the carrying cost at this point in time is punished by the highest real interest rates in the world, which is in Brazil. So therefore, as we see now interest rates starting to abate, I mean, there was a Central Bank -- Brazilian Central Bank decision we're ready to reduce that in the future of pricing further reductions. It is good to wait a little bit until that becomes less punishing because otherwise, we're going to be growing and all the carrying costs and working capital is going to erode all of our margins. So that's a little bit of what's in our mind as well as we think about growth in Brazil.

Operator: Your next question comes from the line of Jacob Bout from CIBC. Your line is now open.

Jacob Bout: The suspension of the clean ammonia plant in Geismar, is this just a cost issue? Maybe just talk a bit how strategically important the clean nitrogen is to Nutrien? And what needs to change for further investment in that area?

Ken Seitz: Yes, Jacob. The reality is that we do believe there will be an opportunity in the ammonia business -- the clean ammonia business in the future. And of course, that's where we talk about marine field, that's where we talk about energy, hydrogen economy. But it is also true that the timing of the evolution of that demand is unknown. It's a bit in question. So we're watching that very closely. And that could be something that has us return to that conversation at some point in the future.

In the meantime, I think we have been fairly -- quite clear that we were heading towards a final investment decision in the latter part of this year and working towards a Class III engineering cost estimate for the project. And as we did that, we did see some cost escalation through that Class III estimate, about 15% to 20%, which when we rounded up all those numbers, we came to the conclusion that at this point in time from a capital allocation point of view and preserving flexibility into the future, that now wasn't the time. And so while we'll continue to monitor that those markets for clean ammonia and certainly that opportunity, we came to the conclusion just the way costs were going, that we'll have better opportunities for that capital in the near term.

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

Steve Byrne: Yes. Thank you. So your outlook for potash supply this year is nearly a 10% cut from 2021. You had a greater than that cut in global supply in 2022. And yet pricing right now is pretty underwhelming given two years of that level of supply cut. What I'm wondering from you is you've just cut your expected demand for potash capacity expansions and you're halting your project. Do you have a view that the old adage of, oh, you can skip potash one time, and that's it. And that it's not as discretionary after that. Has that changed? Do you think that the world really doesn't need 70 (ph) million tons of potash on the ground, or are we really facing potentially some yield impacts from this? It's a bit of a head scratcher.

Ken Seitz: Right. Steve, thanks for the question. And absolutely, what you're describing when we talk about extraordinary events, and I think that's what you're describing here in terms of the volatility that we've seen in inventory levels and buying behaviors and that also therefore culminates in price. Our view has not changed that potash is an essential crop nutrient engine and we have a lot of people to feed on this planet and that's why we talk about a return to historical trend lines growth in potash demand. But maybe I'll hand it over to Jason, just talk about yield impacts and the agronomy side of it.

Jason Newton: Yes, good morning, Steve. I think it's really difficult to nail down the precise yield impact of changes in potash application rates over time. But what we do know is where yields are at, and we know that weather has played a pretty key role in driving yields on a global basis and key growing regions around the world, below trend levels over the past year. We also know that potash applications are important towards drought resistance and for nitrogen use efficiency and a whole number of factors that are important for the growth of the crop.

And if we look at corn yields, for example, in last year, we're the second lowest level versus trend in the past 20 years. And definitely could say that a part of the struggle with drought resistance over the past two years could be the new (inaudible) uses taking place. And so it's difficult to nail down the impact of potash applications, and you don't know what you're losing, but we do know that yields have been below trend and definitely impacted by weather conditions.

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

Vincent Andrews: Thank you. Good morning, everyone. Wondering if you could just bridge your nitrogen expectations for the back half of the year in terms of what you were expecting three months ago in the prior guidance versus what you're expecting now, just given some of the changes in the market and pricing dynamics between then and now? Thanks.

Ken Seitz: You bet. Thanks, Vincent. Yes, a lot of moving parts there, but I'll hand it over to Mark to just walk through how we're seeing it.

Mark Thompson: Yes. Good morning, Vincent. So first, just bridging from last guidance to this guidance, I would say, obviously, we've got one more quarter behind us in terms of actual. So the actuals versus expectations at that point would play a part of the factor. But maybe I can just talk about what's embedded in the guidance for the second half of the year as we look forward.

So as Ken mentioned in his comments, we have seen very good participation on field programs not only on potash, but obviously, nitrogen and phosphate as well. So across the board, we were part of that. We rolled out a typical field program schedule in Q3. A lot of those programs took place between late-June and early-July, and we've layered in some spot tons since that time. So when you think about our ag nitrogen book for the second half, we are about 65% to 70% sold at this point as a result of those programs. So that is embedded in our guidance.

And then on price, I would say that today, on urea and UAN, we are above, on a spot basis, what's implied at the midpoint of our guidance. But on ammonia, we do have a view that we're going to see some firming from current spot levels into the back half of the year. So from a general price in terms of our commitments, that's where we sit relative to our guidance.

Operator: Your next question comes from the line of Jeff Zekauskas from JPMorgan. Your line is now open.

Jeff Zekauskas: Thanks very much. Two-part question. In the quarter, your crop chemical revenues were about flat year-over-year, but your gross profits were maybe down $125 million. There was a similar pattern in the first quarter. Can you talk about that?

The second part of the question is you say your mid-cycle EBITDA is $7 billion to $7.5 billion. And in, I don't know, May of this year, I think that's where consensus estimates were for Nutrien. And so you were trading at a mid-cycle multiple on mid-cycle earnings. So how does the company create value over time when it seems that there's like a normal fair value calculation at the current price?

Ken Seitz: Great. Thanks, Jeff. So maybe I'll hand it over to Jeff Tarsi, to talk about crop chemistry, and then we'll get on to your second question about our mid-cycle assumptions.

Jeff Tarsi: Yeah. Thanks, Jeff. And you're correct. If you look at revenue line on our crop chemistry, particularly across the first half of the year, it's about flat, compared to a year ago. And keep in mind, that we've seen a drastic reset in valuations across four major commodity active ingredients, glyphosate, glufosinate, clefodim (ph) paraquat, from a revenue standpoint.

If we look at the margin side of it, we actually saw -- we came into the year predicting there would be a very sizable reset on crop protection margins from a year ago. The margins we saw in ‘22 were unprecedented because of the supply chain issues and tightness with inventory in the market.

Obviously, that supply chain issues have eased up quite a bit today and much more normal. If I look at our Crop Protection margins in the second quarter, they were 23%. And if I look back to historical crop protection margins before we saw this run up, this is slightly elevated to what we would consider normal crop protection margins. So we just brought ourselves back to a more normalized margin as it relates to that crop protection segment.

Ken Seitz: Thanks, Jeff. And then, Jeff, with respect to your second question, so earlier this year, the industry was facing this extraordinary volatility and now as we see demand stabilize and we've talked about that and looking at our new mid-cycle assumptions and our growth factors within those mid-cycle assumptions, it really is, when we talk about potash volumes, this return to trend-line global demand growth 70, 75 million tons. And our ability to supply into that 14 to 15 million tons, maintaining a 20% market share.

We are completing around of nitrogen brownfield expansions, Geismar will be done this year and several others over the next couple of years. We have an assumption of 11.5 million to 12 million tons of nitrogen with operating rates of 92% to 94%. So there's opportunities to grow there. We assume some curtailments -- ongoing curtailments in Trinidad, but nevertheless, growth in nitrogen.

Then in retail, we continue to focus on growing our Loveland Products business. We continue to focus on our supply chain. Nutrien Financial has been a growth vector for us. And our digital investments as well. So we have a number of opportunities to grow this company. But importantly, as we talk about capital allocation and maintaining flexibility there, we've also demonstrated certainly since the inception of Nutrien over the last five years, significant redistribution of cash to shareholders. If we look at what we've done, it's been a 23% reduction in the share count and a 33% increase in dividends per share. And we'll continue to sustain our assets. We'll continue to high-grade our investment portfolio, but we'll also continue to return significant cash to shareholders via the dividend and then opportunistically looking at share buybacks.

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

Adam Samuelson: Yes, thank you. Good morning, everyone. I was hoping to dig in a little more on the retail assumptions in the back half of the year and just make sure I'm clear on what is assumed from a market and gross margin perspective in South America, that still some higher cost inventory to work through. What is assumed from a sell-through perspective on the crop chem side, especially as you think about producer rebate programs that I imagine won't be hit given what the sales of many of the crop chem producers have looked like in the second quarter and justifications that would have as we think about moving into ‘24 outside of some of the margin noise you experienced this year?

Ken Seitz: Thanks for the question, Adam. I'll hand it over to Jeff Tarsi.

Jeff Tarsi: Yes, we deal with the question around the second half of the year, look, the majority -- the greatest majority of anything we would have pulled back in the second half of the year is around the notion of continued softness in the Latin American market. There is still some high-priced inventory because growers buying patterns change there over the last 12 to 14 months, we're carrying, and I think most of the industry is carrying more inventory into the spring side season than they want to. So we've got to work through that. So that's where the majority of any pullback we have.

We also factored in a bit of weather into our assumptions for the second half of the year as well. As you would know, July would have been the hottest month on record, I think, across North America at a very key stage of crop maturity and such, especially as it relates to corn. So we kind of factored in some things, how that might affect fungicide and insecticide applications and such.

But we also, if I look at the back half, I also look at the fact that this crop is maturing very rapidly right now. And I think that leads to a very -- the possibility of a very open fall in North America. And so we're expecting some -- we're expecting heavy application. We think growers will find pricing on P&K very attractive for the fall as well.

As I think you asked the question, as it related to suppliers and inventory and look, we've worked hard to bring our inventory down. I think most of the industry has been in a strategy of destocking, whether it's on the nutrients or whether it's on crop protection. And from a crop protection that we ended the month of June down on our crop protection inventory year-over-year. We expect that to look even better as we get through the third quarter and we get through fungicide and insecticide applications.

As it relates to purchases for the remainder of the year, I think I mentioned earlier that the supply constraints have eased considerably over the last 12 months, and I don't see it that a lot of people are in a mood to add a lot of inventory in the back half of the year as it relates to crop protection. So we'll have to let the rest of the season play out. But I know that kind of be the frame of mind we would be in right now, and I don't think it will be different than much of the industry.

Operator: Your next question comes from the line of Richard Garchitorena from Wells Fargo. Your line is now open.

Richard Garchitorena: Great. Thank you. Just wanted to circle back on the Geismar plant deferral. Just wanted to make sure that in terms of the plant economics, this is probably more a function of timing as to when demand returns or that overall cash cost that's increased that's not economically attractive. Because I would have thought the IRA bill would have provided some support for that. And then also just a follow-up, is there interest from potential partners or maybe JVs that could potentially move this project forward? Thank you.

Ken Seitz: Good. Thanks for the question, Richard. And it is the combination of the evolution of those end markets, our view of capital and cost today, and looking at our capital allocation priorities in the near to medium term and creating that flexibility that we talked about earlier. But I'll hand it over to Trevor Williams, the president of our nitrogen business, and then Mark can provide to bit more color.

Trevor Williams: Yeah. So thanks for the question. In a couple of comments. Obviously, the IRA in the Q4, a bit of big improvement in terms of being able to try to justify some of these projects. But we look at an overall perspective in terms of the IRR that was built in when we looked at our capital allocation decisions. So really at this point, while that is obviously a bit of a tailwind or improvement, it really didn't get us over the hurdle in terms of the economics of the project at this point.

The second part is a great question, and that's something that we'll continue to do. We'll talk with our partners, both on the technology side as well as on the downstream side, and evaluate opportunities. But at this point, we really look at the delay probably being at least a minimum of 24 months. But to your point, we would continue to look at opportunities from a partnership perspective going forward. Mark?

Mark Thompson: Yeah. I think Ken covered it pretty well, Richard. I mean, what I'd say from an economic standpoint is that Trevor did mention earlier and Ken, that we did see some capital cost escalation relative to our original expectations. And obviously, that's something that deteriorated the economic somewhat. And then I think, obviously, a lot hinges on the view of the future and as Ken said, over the long-term, we do have confidence that these new sources of demand related to clean ammonia have a number of reasons why they should emerge. But today, the evidence wouldn't be sufficient to justify the assumption of a premium, at least not in the near term, emerging for clean ammonia.

So on the commercial side of things, we did an exceptional amount of work in terms of market development, talking to partners, and as Ken mentioned, we do see a day where this could potentially become more attractive and really the attitude at this point is to preserve value and optionality for the project and really just making a decision that there are higher return, better capital allocation alternatives over the near term and possibly medium term, but the option to revisit this at a later point

Operator: Your next question comes from the line of Michael Tupholme from TD Securities. Your line is now open.

Michael Tupholme: Thanks. Good morning. A question on the potash side. Can you provide an update on the production curtailments you announced last month at Quarry and Rocanville and what you're assuming in terms of bringing that production back online. And then as a follow-on, can you also provide an update on the status of the equipment issue at the Portland terminal and when you expect that terminal to be back up?

Ken Seitz: Great. Yes, absolutely. With respect to the curtailments, yes, we've talked about those and talked about some reduced potash volumes that are related to the challenges on the West Coast and hence having to bring down some production. But Chris -- I'll hand it over to Chris to talk about the curtailments and then with respect to Portland and how that's evolving in terms of getting that back in service over to Mark. So Chris?

Chris Reynolds: Yeah. Good morning, Michael. Thanks for the question. And yes, you're right. We did -- we're forced to curtail production at both our Quarry and Rocanville sites. And the plan as it stands today, is that we're hopeful that the strike is resolved here formally by the end of the week in Vancouver, and that would enable us to bring Rocanville back to normal production rates. But our plan at the moment is to keep Quarry a little curtailed, but if demand was to move up towards the end of the year, we could also remove that and bring some production back if the market needed it. But that's our plan as it stands today. And regarding the West Coast ports, I'll hand it over to Mark.

Mark Thompson: Sure. Thanks, Michael. So look, I'll start with Portland, but maybe just for completeness, talk about Neptune as well given that's all part of the picture on logistics constraints and your questions on potash production to Chris. So from a Portland perspective, repairs are progressing at the facility. And what we hear from Canpotex is that we do expect completion of that work in Portland to be back in service by the end of Q4.

From a Neptune standpoint, as Chris said, we're hopeful we see resolution in the next few days and a definitive asker that there will be no more strike action there. Today at Neptune, labor and productivity as we hear is about normal, but there is a meaningful backlog that exists from the two weeks or so of strike action that did happen. Canpotex does have numerous loaded trains at third-party sites and producer sites sitting in Western Canada that do need to be worked through. So there is a backlog and some time it's going to take, and right now, we assume that time period will be until the end of August, assuming no further disruption. So right now, that's our expectations on both Portland and Neptune.

Operator: The next question comes from the line of Josh Spector from UBS. Your line is now open.

Josh Spector: Yeah. Hi. Thanks for taking my question. I guess two quick ones for me, if I can. First, just to clarify on the Geismar clean ammonia facility. So I believe you had a letter of intent for some offtake of that. Did that partner change any of their willingness or time line to take any of that product in that play into your decision at all? And then just second, with CapEx, I think, Pedro, you mentioned 2.5 to 3 billion of the range of which you'd operate in, but you're still spending about $1 billion on growth this year. So could we see a number closer to $2 billion next year? Is that not realistic? Thanks.

Ken Seitz: Great. Thanks, Josh. Yes, with respect to the offtake and letter of intent, no, no, that was not part of the decision-making process, that was with Mitsubishi. We have a very strong relationship with Mitsubishi. That continues, but that was not part of the decision-making process. It really does boil down to the things that we talked about earlier, evolution of end markets, increasing capital costs, and better uses for capital in the near to medium term and wanting to maintain flexibility with disciplined capital allocation in the near to medium term. With respect to the CapEx assumptions, I'll hand it over to Pedro.

Pedro Farah: Yes. I think, Josh, I think just to clarify, our $2.5 billion to $3 billion is what we will be saving in both the ramp and the Geismar project into the future. So those are capital expenditures that will not happen that would have been in our five-year plan for the next five years. So in addition to that, we are looking at other potential actions to our capital plan for this year and next year, but I just wanted to make sure I clarified that.

Operator: Your next question comes from the line of Edlain Rodriguez from Credit Suisse. Your line is now open.

Edlain Rodriguez: Thank you. Good morning, everyone. Just one quick question on India and maybe this is for Mark. Like what are you seeing in terms of products? Like are they really paying 422 versus 307 for China? Like are they actually buying and paying that price?

Ken Seitz: Yes. Thanks for the question, Edlain. And we're not seeing volumes move at the agreed 422, but also, you may have seen the Canpotex pulled offers in India as a result of the challenges off the West Coast. But Mark, do you want to provide more color?

Mark Thompson: Yes. Good morning, Edlain. So upon the signing of the India contract at $422 I think right at the beginning of the second quarter, we did see some Canpotex shipments go into India, and we understand from other producers that’s at $422 price level. But subsequent to the signing of the Chinese contract, we have not seen meaningful volumes, at least from a Canpotex standpoint going to India. And again, we can't speak for other suppliers. But as of now, there's no new agreement with Canpotex in India.

As Ken said, Canpotex pulled all of its offers following the disruption at the Neptune terminal and really looking at the overall portfolio of tons available for the last half of the year, looking at the cost impacts from the outage, and really assessing where the best netbacks are. So it remains to be seen how the rest of the year evolves for India. We do know that because of the better-than-expected monsoon, we would expect there is going to be demand for potash in India and that India will need more potash for the remainder of the year.

Operator: Your next question comes from the line of Aron Ceccarelli from Berenberg. Your line is now open.

Aron Ceccarelli: Hi, good morning. Just a follow-up on India. How confident are you now with this India contract expire in September that this is not going to translate into a pause in the price recovery we see now in potash prices?

Ken Seitz: Yes. Thanks for the question, Aaron. And yes, really looking at the region and standard grade. I mean, obviously, the China contract had the effect of creating the stability in the market and that was reflected really, even almost immediately. Brazil bouncing off that floor and now strengthening, as we talked about earlier, 10% since June. And that risk market continues to strengthen. Southeast Asia, we talked about earlier, and really with the China contract and CPO prices, making potash affordable. So affordability has gone up and inventory levels being drawn down that we expect movements in Southeast Asia. And in India, inventories are very low, as Mark just said.

So heading into the fall here, strong monsoon, we do expect demand in India is always subject to the discussion about the subsidy in India, but we expect inventory replenishment in India as well. The India has been a case of demand rationalization because with some of these supply challenges over the last 18 months, simply not getting the volume, but a question earlier about yield impacts, I mean, India is a place where we could see yield impacts if some of these challenges persist.

Operator: There are no further questions at this time. I will now hand it over to Jeff. Please continue.

Ken Seitz: All right. Thank you for joining us today. The Investor Relations team is available for follow-up questions. Have a great day.

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