

Chemtrade Logistics Income Fund

Q1 2023 Results

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Operator: Good morning, ladies and gentlemen, and welcome to the Chemtrade Logistics Income Fund first quarter 2023 earnings call. At this time, all lines are in the listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call, you require immediate assistance, please press * 0 for the operator. This call is being recorded on Thursday, May 11, 2023. I would now like to turn the conference over to Rohit Bhardwaj, Chief Financial Officer. Please go ahead.

Rohit Bhardwaj: Thank you, operator. Good morning and thank you for attending Chemtrade Logistics Income Fund's earnings conference call for the first quarter of '23. With me on today's call is Scott Rook, President and CEO of Chemtrade.

Please note that this call has accompanying presentation available on our website, chemtradelogistics.com. On today's call, I will start by discussing our strong first quarter, after which I will walk you through the 2023 updated guidance that we announced yesterday. I will then hand the call over to Scott, who will provide an update on the market fundamentals for our key products and the organic growth projects that we're undertaking.

Scott will conclude by providing a high-level recap of the items that give us continued confidence, and our updated outlook for '23, and beyond, after which we will open up the call for your Q&A. Before proceeding, please note that our presentation contains certain forward-looking statements that are based on current expectations and are subject to a number of risks and uncertainties, and actual results may differ materially.

Further, information identifying risks, uncertainties, and assumptions and additional information on certain non-IFRS and other financial measures referred to on this call, can be found on the disclosure documents filed by Chemtrade with the securities regulatory authorities available on sedar.com. One of the measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude only non-cash items that have unrealized, foreign exchange gains and losses.

Although our accompanying presentation will refer to Adjusted EBITDA, we will refer to it simply as EBITDA in our remarks. Non-IFRS and other financial measures are fully defined our MD&A. The first quarter of 2023, we experienced a very strong start to the year. In fact, EBITDA of \$131.7 million represented a record level for Q1 for Chemtrade and was our second highest quarter EBITDA ever.

If not for an elevated amount of maintenance turnaround activity for our Regen customers, we believe EBITDA would have surpassed the record quarterly level set in the first quarter of '22. On a year-over-year basis, revenue increased by 21%, EBITDA increased by 22%, and distributable cash increased by 38%. Our balance sheet has ended the quarter in a strong position.

We achieved a Net debt to EBITDA ratio of 2.2 times, compared to 3.5 times at the end of Q1 '22, and our \$0.05 per month distribution equates to a distribution yield of approximately 8%, based on yesterday's closing price, and remains very well covered by our cash flow generation, with a payout ratio on our last 12-month basis of only 28%.

There were a number of factors that contributed to our strong quarterly performance, which we'll elaborate on during this call. Our water chemicals is performing very well and achieved some modern expansion. Pricing in merchant acid has been stable, and sodium chlorate has finally turned the corner and achieved significant improvement in pricing.

Caustic soda pricing has fallen from its '22 highs, as we anticipated. However, chlorine and hydrochloric acid fundamentals remained robust and has reported strong, year-over-year improvement in pricing on a MECU basis. So, while caustic soda pricing can have a meaningful impact on results, Chemtrade's other diversified businesses are helping offset the weakness that we have seen in the caustic market.

Additionally, our focus on operational reliability and productivity continues to position us to capitalize on the attractive market opportunities we have seen. Our strong, Q1 results and updated outlook for 2023, have given us the confidence to increase our full-year '23 guidance. We are confident that '23 will be another successful year for Chemtrade, not only financially, but also operationally and strategically.

We continue to progress on our organic growth projects, which we anticipate will further bolster our results in the coming years. And we continue to remain focused on maintaining a solid balance sheet and returning capital to our unit holders. Turning now to our segmented performance -- in the first quarter of '23, our sulfur and water chemicals, or SWC segment, generated revenue of \$262.5 million, representing an increase of 15% over the fourth quarter of '22.

EBITDA for the quarter was \$55.4 million, a decrease of 11%, compared with the first quarter of '22. The decline in EBITDA for period was primarily due to an increase in the number of refinery turnarounds by several of our large Regen acid customers. The refineries we serve typically take a prolonged turnaround once every five years, which occurred during this period.

In addition, two of our Regen sulfuric acid plants had higher maintenance costs in the quarter related to maintenance turnarounds around at these facilities. The reduced earnings for acid products were partially offset by significantly stronger results for water solutions products. As we have commented, we expect margins to expand once raw materials decline.

Additionally, sodium nitrite, Regen acid, and merchant acid achieved higher pricing in Q1 '23, compared to the same period of last year. If not for the significant turnaround activity, we estimate that EBITDA in the SWC segment would have been higher than Q1 '22. It is important to note that this level of turnaround activity was confined to Q1 '23, and we do not expect any material impact for the rest of the year.

Switching forward to our electro-chemicals, or EC segment -- in Q1 '23, EC had another strong quarter, with revenue of \$208.7 million, representing an increase of 29% over Q1 '22. EBITDA was \$99.9 million, representing an increase of 52% over the prior-year period.

This growth effect improved fundamentals across our EC portfolio, which includes chlor-alkali chemicals and sodium chlorate. The caustic soda pricing in the first quarter was higher than the prior period, but it was lower than the 2022 peak. Despite this, our realized, NECU netbacks still increased by \$550, year-over-year, with higher pricing for both chlorine and hydrochloric acid being the main contributors.

The stronger U.S. dollar, relative to the Canadian dollar, also contributed to the higher, realized MECU netback, accounting for roughly 20% of the improvement. Roughly 60% of the increase in the MECU was attributed to higher chlorine pricing and, to a lesser extent, HCL. The improvement in the merchant chlorine market in North America reflects the reduced industry supply that has occurred over the past three years, as the larger chlor-alkali producers have rationalized capacity.

Meanwhile, the higher HCL pricing is largely due to improved demand, resulting from increased fracking activity in North America. As we have previously indicated, we expected a significant improvement for sodium chlorate in '23. In the first quarter, we have seen a significant increase in pricing for sodium chlorate. This was driven by contract renewals that reflected the global shift of operating rates that resulted from higher energy costs for overseas producers.

Our Brazil business also delivered improved performance in Q1, with gains achieved across multiple products. Scott will provide an update on our outlook shortly, but we remain confident that the tailwinds we are seeing in the EC segment, stemming from higher energy costs globally, are likely to persist for years to come.

Our corporate costs in the first quarter of '23 were \$23.7 million, reflecting an increase of \$3.4 million over the prior year period. The increase in corporate costs can be attributed to a few factors. First, we had a realized, foreign exchange loss of \$600,000 this quarter, versus a gain of \$2.1 million in Q1 '22.

Additionally, short-term incentive compensation costs increased by \$1.6 million on a year-over-year basis. This was partially offset by lower legal costs, relative to '22, when a reserve for \$800,00 for legal proceedings was recorded. Excluding these items, corporate costs were consistent with the prior year period, and aligned with our expectation.

Moving now to our balance sheet. Our balance sheet remained strong at quarter end, with our net debt to trailing EBITDA ratio decreasing to 2.2, compared to 3.5 times at the end of Q1 '22. This improvement reflects a strong EBITDA growth and related cash flow generation.

In addition, we raised capital from an equity sale that we completed in Q3 '22. And we also had a small asset sale that we completed in Q2 '22. We exited the quarter with approximately U.S. \$393.1 million undrawn on our revolving credit facility in addition to CAD \$132.7 million of cash on hand.

During the quarter we issued \$110 million of debentures and used the proceeds of this debenture financing to partially redeem the debentures we have coming due in May of '24. We announced yesterday

that we will redeem the remainder of these May '24 debentures, totaling \$101.1 million, using a combination of cash and liquidity on our revolving credit facilities.

This will bring the aggregate principal of outstanding debentures to approximately \$426.3 million, which is a reduction of roughly \$91 million from the level at the end of the year. Following this redemption, we continue to maintain significant available liquidity, and our net-debt maturity is not until September of '25.

As a result, we remain in a very strong position, financially, and have adequate financial flexibility to invest in growth. Despite an elevated level of growth CAPEX planned this year, we expect our leverage will remain below three times target.

Turning now to our guidance, yesterday we announced an increase to our '23 guidance which we had initially release in January. We now expect adjusted EBITDA at or above last year's record level of \$430.9 million. This increase to our guidance is attributed to our strong Q1 results and the continued strength we see across the majority of our product portfolio.

When we issued our guidance, we were pursuing a number of aggressive commercial initiatives to significantly boost earnings and we were unsure as to the likelihood of their success. These have been largely successful and therefore we have now revised our outlook for '23 and we now expect this to be a record year for Chemtrade.

On balance, we expect another great for the business. While we acknowledge the possibility that certain areas of our business, that are more economically sensitive, could weaken in a slowing economy we also see the potential for additional improvements in other areas. Furthermore, our confidence is bolstered by the defensive nature of many of our products.

The key assumptions underlying our updated '23 guidance are provided in our disclosure documents.

With that, I will now hand over the call to Scott, who will walk you through our outlook and our organic growth projects, before we open the call up for Q&A. Scott?

Scott Rook: Thank you, Rohit. And good morning, everyone. Thank you for joining us on today's call. We are incredibly pleased with the results we have delivered in the first quarter. These results reflect the operational excellence culture we have built, with the support of our employees and our leadership team. The strong results also reflect the supportive market fundamentals across most of our key products.

We believe the improved fundamentals we are seeing will remain in place for many years to come, instilling us with confidence, not just for this year, but also for 2024 and beyond. We also believe our diverse portfolio of products provide a natural defense against a slowing economy, should that occur. And our ongoing, organic growth projects will put us in a position to continue to grow for years to come.

Moving to the outlook for our products, I will begin with Regen acid. Our Regen sales volumes in the first quarter were impacted by elevated turnaround activity and our refinery customers, and in our own facilities. However, expect Regen volumes to rebound in Q2 and remain strong for the rest of the year as driving activity and refinery utilization rates remain high in North America.

Refinery utilization rates also tend to see a limited impact in a recession which gives us confidence that Regen will continue to perform well should the economy slow down.

For Ultrapure acid, we continue to maintain a positive outlook for the medium and long-term, despite the recent slowdown in the semiconductor industry. The United States Strategic Initiative to become self-reliant on chip manufacturing is expected to increase demand for Ultrapure acid by two to three times over the next five years. We don't expect that the recent slowdown in this industry will deter the U.S.

focus on adding industry capacity in North America. I will provide an update on our two, Ultrapure acid projects shortly.

Merchant acid pricing has been stable, as North America's supply continues to remain balanced with firm demand. Market demand has returned to pre-pandemic levels driven by demand from North American fertilizer and mining segments. If the economy were to slow down, we expect that merchant acid demand would soften, given the broad, industrial end markets it's used in. However, we have not seen any noticeable softening of demand for merchant acid so far this year.

Moving now to our water treatment chemicals. In recent quarters, we have discussed our outlook for water chemicals and we now expect to benefit from margin enhancement, as raw materials stabilize and decrease. We are now seeing this happen, as lower raw material costs have led to our margin improvement. We expect to benefit from this tailwind for several more quarters.

In 2022, we added capacity for our PACl and ACH product lines. We expect these expansions to contribute more meaningful in the coming quarters. Chemtrade is well positioned to benefit from the growth in this industry which further supports our positive outlook for the foreseeable future. I would also like to emphasize that water treatment chemicals are essential for clean water making them largely non-discretionary. As a result, we expect there would be minimal impact, if any, to our sales volumes in a recession. In fact, these chemicals are often counter-cyclical as raw material prices tend to fall in a recession driving improved margins.

Turning to the outlook for our EC segment. This segment has continued to benefit from strong market conditions and we anticipate many of the factors that supported this strong performance in the first quarter will continue through 2023 and beyond. Both chloro-alkali chemicals and sodium chlorate have a significant portion of their variable costs tied to energy. Our plants in British Columbia and Manitoba

benefit from access to low-cost, renewable, hydro-electric sources. This puts Chemtrade at a significant advantage to overseas producers.

With the ongoing crisis in Ukraine, Europe has shifted its energy supply away from Russia to other higher-cost sources. This shift drove a significant spike in energy costs starting in 2022 and has continued into this year. And in particular, certain European regions that were net-exporters of sodium chlorate, have idled some of their capacity, in favor of lower-cost imports. This has opened export opportunities for North American producers. While Chemtrade does not export EC chemicals, the shift has taken excess supply out of North America and helped to re-balance supply and demand for sodium chlorate.

With this new, American export demand for sodium chlorate, North American supply has tightened in the domestic market. As a result, Chemtrade's sodium chlorate has been able to benefit from higher pricing and expanding margins. Since most of our sodium chlorate contracts are negotiated annually, we had to wait until Q1 of this year to begin to see the benefit. We expect this business to continue to perform well over the balance of the year.

I would caution that demand for sodium chlorate from industrial end markets could soften if a recession were to take hold. But we believe the favorable energy backdrop should help to offset this impact. Since our chlorate plant in Brandon, Manitoba is the largest and lowest-cost sodium chlorate plant in the world, we are really well positioned to benefit from this shift in global energy pricing. And we expect this cost advantage will remain for the foreseeable future, as there is no easy fix for Europe's energy challenges.

Moving to chloro-alkali. Our strong position on electricity costs is benefiting not only our chlorate products but also our chloro-alkali business. The high natural gas prices in Europe have led to increased exports of natural gas from North America resulting in an increase for hydrochloric acid particularly for use in the fracking industry. North American rig counts remain higher than in recent years signaling

continued robust demand for hydrochloric acid in the near term. Meanwhile, merchant chlorine demand remains very strong across all end markets. Industry supply remains tight following moves by larger suppliers in North America to rationalize capacity over the past few years. As a result, pricing for both hydrochloric acid and chlorine have remained strong early this year. While we expect both chemicals to continue to benefit in the coming years from our advantaged energy position, we do reserve some caution as a recession could impact demand. However, as I have stated in the past the ultimate impact for our chloro-alkali business and MECU pricing in an economic downturn will be determined by the relative impact on caustic demand versus chlorine demand.

Turning to caustic soda, after reaching record-high levels in 2022, the Northeast Asia spot index declined steadily through the second half of last year and into early 2023. This was attributed to inventory destocking after buyers overstocked in 2022. The good news is that caustic soda Taiwan contract prices, which are indicator for the Northeast Asia spot index, suggest prices will likely stabilize and improve over the course of 2023, followed by further pricing improvements in '24 and '25. It is important to note that our realized pricing in Q1 this year was based on the index price in late 2022. So, the full extent of the lower pricing has yet to flow through to our results. Our Q2 realized pricing will be largely based off of index prices in Q1, and the average index price was approximately U.S. \$478 per ton. As a result, our pricing for Q2 is already known and is reflect in the updated guidance that we issued. For the full-year guidance, we assumed an average Northeast Asian index price of U.S. \$465 per ton which has an implied Northeast Asia spot index price of \$390 for the second half of this year. These estimates are based on industry forecast. As a reminder, every \$50 U.S. per ton change has a roughly \$13 million impact to our EBITDA.

I would now like to provide you with a brief update on the various organic growth projects we have underway. To provide some background, the biggest organic growth opportunity for our company over the medium-term is Ultrapure acid. Over the next five years we expect demand for Ultrapure to increase

by two to three times reflecting the onshoring of semi-conductor manufacturing in North America. Furthermore, the new chips that will be manufactured in the U.S. will be much smaller and will require greater purity level of Ultrapure acid that is not produced in North America today. To meet this new demand we have two projects currently underway that will add significant production capacity and enable us to meet the new quality standards required.

The first project is an expansion at our facility in Caro, Ohio which will be the first in North America to meet the newer higher-quality standard required for the new semi-conductor fabs being built. This project is progressing on schedule and on budget and construction will be completed in Q1 2024, with a start-up later in the year. The project is estimated to cost U.S. \$50 to \$55 million and is expected to generate an IRR of over 25%.

Our second Ultrapure project is a joint venture with KPCT Advanced Chemicals to construct and operate a new 100,000 ton facility in Casa Grande, Arizona. The front-end engineering and design or FEED study for the project was recently completed and we are now reviewing the details with our joint venture partner. We expect to share an updated timeline and cost estimate for the project mid-year. While we are not in a position to share revised estimates at this stage, we can say that we are seeing the same inflationary pressures on capital equipment and commercial construction as being experienced at a macro level across the U.S. As a result, we now expect the aggregate capital costs to be significantly higher than the top-end of the previous estimated range which was U.S. \$175 to \$250 million. As previously communicated we expect to provide an update on this project towards the middle of this year.

With respect to our other organic growth opportunities we have limited updated to share at this time. The water chemicals projects completed in 2022 are expected to contribute more meaningfully to results as this year progresses and we continue to evaluate other water chemical projects. We are also continuing to

assess options to monetization the hydrogen we produce at our EC facilities and progress on these initiatives will be provided when there are material updates to share.

Finally, we continue to invest in productivity and reliability across our footprint. One area in particular that we are investing in this year is to improve the reliability of our sulfuric acid facilities. We are targeting at least \$15 million of incremental savings each year from productivity and reliability improvements to help mitigate the impacts of inflation across our business.

To support these organic growth projects, we intend to allocate \$110 to \$140 million to growth capital expenditures this year with the majority of this growth capital going towards our two Ultrapure acid capacity expansion projects. We are purposefully prudent and thoughtful with respect to the organic growth projects that we elect to undertake. We invest in opportunities where we can generate attractive returns on our investment, where we can build upon or establish competitive advantages, and where we see a long-term opportunity. Ultimately, we strive to generate incremental value for our stakeholders in a disciplined manner and we remain confident that the organic growth opportunities we are undertaking will accomplish that goal.

Before we move on to Q&A, I want to emphasize some of the key attributes that we believe set Chemtrade apart from others in the chemical industry and give us confidence for the years to come. Our product portfolio is a significant strength, as we have demonstrated this quarter by delivering strong results, even when some of our key products face challenges such as lower caustic soda pricing or significant maintenance turnaround activity at our Regen acid customers. Our diversified product portfolio combined with the focus and dedication of our 1,400 employees, who embrace our philosophy of operational excellence, has enabled us to fully leverage opportunities in the marketplace.

Moreover, our portfolio consists of many products that have historically exhibited defensiveness during periods of economic turbulence. Demand for products like Regen acid and water treatment chemicals typically see limited impact in a recession. For our other products like Ultrapure acid and our EC chemicals, we expect to continue to benefit from favorable market conditions that could mitigate the impact of any economic weakness.

We are well positioned to capitalize on growth of Ultrapure acid over the next few years, given our existing leadership position in Ultrapure in North America and the high returns projects we are undertaking.

Our global advantage on energy is contributing to improved pricing and demand for both chloro-alkali chemicals and sodium chlorate and, again, this is a trend we believe will last for many years to come.

Chemtrade is stable and growing in the chemical industry. We have a strong balance sheet. We pay a monthly distribution of \$0.05 per unit. We are a leading example of ESG initiatives. We invite you to see our 2022 sustainability report.

We are admittedly surprised that our valuation remains low. However, we are confident that as we continue to execute and build a track record of success, our value will continue to be more widely recognized. With that, we will now open the call for Q&A and Rohit and I would be happy to address any questions you may have at this time. Thank you.

Rohit Bhardwaj: Operator, before you do that, just one comment. We understand there were some issues on the webcast. We apologize for that. But we would like to continue with this call, because we have analysts on the telephone line, that is working fine. So we apologize for people who joined by webcast. Unfortunately, they were unable to hear us or follow the presentation. But I'm sure we'll have a recording

available later for you, for the phone line. And the slides are now up on the webcast, so you can access the slides there. And again, we apologize for this, but we will just continue this call, because we do have analysts on the telephone line. So operator, you can now open it up for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press *, followed by the number 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you would like to withdraw your request, please press the *, followed by the number 2. One moment, please for your first question. We have our first question from Gary Ho with Desjardins. Please go ahead.

Gary Ho, Desjardins: Thanks. Good morning, gentlemen. I think my -- yeah, I just want to dig in to the project increase. I know you can't give numbers. But this is a JV, but KANTO has a 51% stake. So, can you provide a bit more color? Do both parties need to agree on the go-ahead before the project starts? And how is KANTO thinking about the project price increase?

Scott Rook: Sure, Gary. This is Scott. So, the answer is yes both parties have to agree. And so, as I've shared, as we have shared, we plan to give a project update around mid-year. We, obviously, shared that as the FEED estimates are coming in, they are significantly higher than what we shared one year ago. So what we are doing, our joint venture with our partner and Chemtrade, we're working aggressively right now to look at the FEED estimates and to see where could lower those costs. So that's number one. Number two, we are discussing the new commercial agreements that we would need to put in place as a joint venture to go to the market with higher prices. And those discussions are happening right now with the semi-conductor producers. And we're having discussions about the higher prices that would be needed to justify the higher costs of production. So that's happening right now and we expect to issue an update around mid-year.

Gary Ho: Great. And then my section question I guess relates to a piece that you just talked about. So, you did not put any language around the \$45 million adjusted EBITDA from the growth projects and then the 75 for looking out. So those are unchanged. But the cost of the project has gone up. Does this mean you'll be lowering your IRR? How should we think about the return threshold? And then, sorry, maybe a tangent to this, at what point would be un-economical to go ahead and maybe just, I always thought the Ultrapure is a small piece of the chip manufacturing process and not very price sensitive. So, why can't you negotiate for a much higher price? Just wanted your thoughts there please.

Rohit Bhardwaj: Sure, Gary. So, first thing I'll clarify is that the numbers that you referenced were what we shared at the Investor Day. So, we have not gone back and re-done the numbers. As Scott said, we are in the process of, I mean this is all unfolding in real time. We are giving you information as it's coming to us and we are working on new commercial agreements. So, it didn't make sense for us to try and change those numbers. But, we are looking at as Scott said both the cost side and the revenue side and we can give the update towards the middle of the year. And I'd don't think we'd want to answer the question as to what's the minimum. Obviously, we are running a business and this thing has to make sense. And we agree with you that this is a not a big cost element for semi-conductor manufacturers. But we'll give you more information when we can share it in the middle of the year.

Gary Ho: Okay. And then maybe just last question just on this Rohit while I have you. Regardless of the past, we should still think sub-three times leverage through the growth CapEx for next few years. That hasn't changed.

Rohit Bhardwaj: Yes. I mean, if you look at, we just upped our guidance for this year considerably. And so, we are generating a lot more cash. And yes, we do expect that we will be able to maintain it below three, through the construction phase.

Gary Ho: Okay. Got it. Those are my questions. Thanks.

Rohit Bhardwaj: Thank you.

Operator: Thank you. Next question, we have Ben Isaacson with Scotia Bank. Please go ahead.

Ben Isaacson, Scotia Bank: Hey, guys. Good morning, and congrats on the bid and raise. Just a couple questions, and I hope I'm not repeating the last question. So, with the \$175 to \$250 million previously announced, can you also say what the range of IRR expectations were, at that level? So what was the return at \$175 and what was the return at \$250?

Rohit Bhardwaj: I'll tell you, at the mid-point, the return was about 20% IRR. So, you can triangulate that, I think, with that information.

Ben Isaacson: Yeah, that's good. And then, why are we seeing, and maybe I'm misinterpreting this or read it wrong, but why are seeing CapEx creep at the Arizona project, but not the Ohio one?

Scott Rook: So, part of that is, we had an earlier start on Ohio. And so that project, we decided we were going to do that and move forward with that. And we already had a facility there. We weren't starting, let's say, with a complete greenfield facility. So we started that, and we put in place agreements, let's say, to basically to kind of fix our pricing some time ago. And I think that was a good move. And so, we feel confident, so far. We feel very confident in both the budget outlook and the schedule for Cairo.

Rohit Bhardwaj: And I think there are less unknowns in your de-bottlenecking an existing plant than when you start from scratch. So, the scope was much better defined for the Ohio facility, up front. And,

frankly we've done, not quite that scale, but similar stuff at a couple of our other sites. So, we went in with a lot more information than you would with a greenfield.

Ben Isaacson: And, so not to beat a dead horse. But was there not the opportunity to do fixed price EPC contracts for the Casa Grande?

Scott Rook: Well, so well, without getting into, I'll say, a great amount of detail with that, the Cairo expansion project started out of the gate sooner. And so what we've done in Arizona, with our joint venture partner, was really start with a blank sheet of paper and said let's build a greenfield site at this particular spot. And that takes a lot more time. And, at the same time, the joint venture -- had to pick out land and figure out how utilities were going to come in. There's a lot of infrastructure and lot of work -- a lot more work to build a greenfield plant.

Ben Isaacson: Got it. No, that makes sense. And just last question from me -- the sodium chlorate recovery, that is largely tied to electricity prices in Europe. Is that correct?

Scott Rook: Yeah, so what's been happening in the market, is that because of the high energy prices in Europe. Europe was a region that was exporting sodium chlorate. So in most of the years previously, Europe was exporting sodium chlorate. Because of the high energy costs in Europe, they are no longer exporting sodium chlorate. Instead, they've turned around and they're importing chlorate. And so, the regions where they're bringing it in from is North America. So that's creating new demand in North America to export over to Europe. And so that's tightened up the market quite a bit.

Rohit Bhardwaj: And if I could just add one thing to it? I'll just add one comment, which is prior to the energy crisis, the sodium chlorate industry in North America was already starting to display some more rational behavior. If you go back 10 years ago, the sodium chlorate market was quite rational. And then,

there was a lot of changes in the industry, with a couple of major players being bought and sold. And that caused some behavior in the marketplace, which was sub-optimal. And so, even prior to the crisis, things were starting to get more rational, with a couple of high-cost plants being closed. So, the operating rates remained pretty high. And so then, of course, the major change came afterwards. But they're starting to show signs of improvement, even just before the crisis.

Ben Isaacson: So just my very last question on that topic, and overall, is now we've seen natural gas prices in Europe crater from, \$50, \$60 last summer to \$12 today. So does that mean that the, all-else equal if nothing were to change, does that mean that the next round of sodium chlorate contract renewals will be a headwind?

Scott Rook: So, it's fair to say that, with sodium chlorate and with chlor-alkali, roughly 70% of the variable cost of those products is electricity. So, the regional electricity rates have a lot to do with the variable costs. So it is true, there has been a drop in natural gas prices, in particular, let's say, what we've seen in the outlook included in the first half of this year. But what we look at is second half of this year and look out for the next couple of years. And what is true, is that Europe will not be bringing in natural gas from Russia. That's already been established. That natural that they're bringing in, is going to be LNG gas that's being shipped in from North America and from the Middle East. And that natural gas that is going to get shipped in, the total cost of that delivered gas will be higher than what was coming in on the previous pipeline. There will be peaks and valleys, over short-term peaks and valleys based on supply and demand and inventory levels. But the fundamental is that the LNG that's going to arrive by ship will be higher cost than natural gas that was coming in on a pipeline. And just simply because of that, and if you look at the outlook, the outlooks are for electricity and energy prices to be higher for the next several years to come.

Rohit Bhardwaj: And they have come off their highs, but they're still much higher than they were prior to the energy crisis. So, yeah, while they be off the peaks, but they're still, maybe, double what they were. So that still makes it very positive for us.

Scott Rook: That's right. And so for Europe, again, which was an exporting region of chlorate in the past, because of our lower cost energy, our view is that it's unlikely that they would remain a region exporting significant amounts of chlorate in the future. We'll see how that plays out.

Ben Isaacson: Yeah, and I guess, to even add to support your point, I mean, gas futures in Europe were going up 50%, to \$18, by October, and they're going to stay there for all of '24. So, that makes a lot of sense. Thanks a lot and congrats, again, on the quarter.

Rohit Bhardwaj: Thank you.

Operator: Thank you. The next question, we have Steve Hansen with Raymond James. Please go ahead.

Steve Hansen, Raymond James: Oh, yes. Good morning, guys. I'll follow-up on the chlorate question. Is it possible to, perhaps, parse out the quarter-over-quarter change in Electrochem, and what that sort of delta could be attributed to the chlorate move? It's always hard for us to sort of see what's driving Electrochem's business, whether it's caustic to chlorate, etc. And to just kind of isolate that movement and what kind of change you think, from an EBITDA standpoint, that pricing reset has had?

Rohit Bhardwaj: We'll try and help you out. The one thing we walk a very careful line, is from an anti-trust perspective. We're very cautious with what comments we make, especially around chlorate, because it is a very competitive market and we're very mindful of not sending any signals and getting into trouble for things like that. So, that's why we're a little bit careful. But in this quarter, we can tell you, since it

was so significant, that the change in EBITDA was a little bit from Brazil and the rest was, almost evenly, between chlor-alkali and chlorate.

Steven Hansen: Okay. That's actually quite helpful. Appreciate that. Just trying to understand the cadence, going forward, as we contemplate caustic moving in the other direction. So that's quite helpful. And then, I think you said, go back to the plant question, posed on Arizona. As you look to make decisions, I'm sorry, as you look to clarify the costs, to better understand the levers you can pull, whether it's pricing or otherwise, is the 20% return threshold that I think you discussed earlier, still ultimately, the acceptable target from your side? Or you be willing to accept lower? Just trying to understand what the decision vectors might be, as you wrestle with some of these issues.

Scott Rook: Well, I will re-emphasize that our target remains 20% for the net project. And we could add some color to that, but our target --

Rohit Bhardwaj: Yeah, and I think, since we are negotiating things, we really don't want to get too public with anything. But that is our target.

Steve Hansen: Okay. That's helpful. I understand. And then, could we just maybe talk about the other facility, then, since it's actually not that far out, from start-up? I think you described first quarter, on startup Rohit. Did, maybe give a sense for the pace of ramps there. Is that something we should expect to be contributing in the second quarter next year? And just sort of rough magnitude of the incremental opportunity?

Rohit Bhardwaj: So, I think you should. I would not put it in the second quarter, just because there is sometimes qualifications that have to happen etc. So, really you start looking in the back half. And we

have said the IRR there is about 25%. So, you can assume that there is a bit of a ramp-up. It's not like you flip a button and you get the 25% on day one, so you kind of start ramping it up in the back half, yeah.

Steven Hansen: Okay. That's quite helpful. And then, just the last one, if I may? Is, going to the one segment we haven't talked about, on the water chem side. I think it was referenced that we'll see a couple of quarters of improvement, as we sort of settle through some of these input costs. Is that something that is got good visibility on at this point? We can see the raw material portions, of course. But I'm just trying to get a sense for that cadence and whether you've got strong visibility on the three or four quarters, for the balance of the year, in improvement?

Scott Rook: So I would yes, we feel good about that. So there's really two things happening -- two to three things happening in water. So, number one, we've been coming off of at least an 18-month period with kind of steady increases in raw materials. And as you've heard us say many times before, with the municipal side of our water business, we sell our Alum to municipalities on an annual fixed price. So, for the past 18 months, we've seen raw materials going up and we have been negotiating prices or negotiating contracts at higher prices for that entire period of time. Now, we've been seeing raw materials fall. And so, that's expected to continue and so a lot of the prices are fixed for at least six months or a year or so. So we will have expanding margins. So that's going on. And we've got good visibility into that. We feel good about that, certainly, as we go through the rest of this year. The second thing going on in water business, is we have been adding capacity at our PACI and ACH products. And so, there's projects that we brought online the end of the last year and that we continue to. They are relatively smaller, but there are several of them. And we expect those to contribute more meaningful, as this year goes on, and as we move into next year, as well. So both of those factors, I think, make me feel good about the results in water.

Rohit Bhardwaj: And historically, what we've found in the alum business, is that, when you go through rapidly escalating raw materials and pricing catches up, it doesn't come down that quickly. It tends to persist for at least a couple of years, just because suppliers aren't rushing out to bring down pricing. So that's been the historic experience.

Steven Hansen: Okay. That's very helpful. And just one point of clarification, actually, on the chlorate side. Is all the business contracted on January 1st, or was it a series of contracts that's staged through the year?

Scott Rook: No, it's a series of contracts that go through the year. The majority of them though, re-set in January.

Steve Hansen: Okay. Understood. Okay. Thank you for the time. Appreciate it.

Operator: Thank you. Next question we have Joel Jackson with BMO.

Justin (for Joel Jackson), BMO: Hey, good morning, guys. This is Justin on for Joel. Could you just please refresh us on how much of pricing is locked in for chlorine and HCl for the rest of the year, and how those levels compare to Q1?

Rohit Bhardwaj: So we don't really lock in pricing. It's more of a quarterly kind of pricing in that business. So, I wouldn't say a lot of it is locked in. But we feel very confident that the high pricing will persist, which is why we raised our -- we elevated our MECU change in guidance assumption. We raised our average for the year by \$280, and then, we kept the Northeast Asia assumption unchanged. So, all of that is coming from chlorine and HCl.

Justin: Okay. Great. And then, in terms of EBITDA guidance. So, if the bear case is going to be 2022 levels, can you just given an idea, maybe, in percentage terms, on what the bull case would be and what assumptions you have to make to arrive at that?

Rohit Bhardwaj: Yeah, I don't want to get into that right now. I think we are comfortable with what we said there, in terms of -- what we told you. There's a reason we didn't give a range this time.

Justin: Okay. Fair enough. Thank you.

Rohit Bhardwaj: Thank you.

Operator: Again, ladies and gentlemen, if you wish to ask a question, please press *, followed by the number 1. Next question, we have Endri Leno with National Bank Financial.

Endri Leno, National Bank Canada: Hey, good morning. Thanks for taking my questions. Congrats on the great quarter and guidance. Just a couple from me -- the first one, just returning to the Casa Grande project. Just have a quick question there. Depending on how those costs go, is there any scenario where you or your partner can change the percentage of that JV. Saying if someone's going to take the cost and the other one doesn't, proportionately gets a higher part of the JV? Or is it set?

Scott Rook: So I don't want to share comments right now on the specific details of the joint venture agreement. I think we would consider those confidential. So I think what we can do is just share that the joint venture is a 51 to 49, and we'll just leave it at that for now.

Endri Leno: Okay. Fair enough. Thank you. And the other question I have, is in the SWC. Just kind of more directionally, with the turnaround presumably finished in Q1, should we expect at least Q2 and the rest of the year to be at least kind of stable-ish, year-over-year, or any improvements there?

Rohit Bhardwaj: Yeah, no, I think we should see, as we mentioned, most of the costs were in those turnarounds in Q1, so you should see the rest of the year improving. Now, keeping in mind, there's some seasonality in that business. But, subject to that, it should improve.

Endri Leno: Okay. Thank you. And then, just one follow-up there, Rohit. I think there are some times with refineries, there's some turnarounds in Q4, as well? Is there something that you expect for this year, in Q4, as far as you can see?

Rohit Bhardwaj: Nothing major, but Q4 is seasonally a weaker quarter, because Regen business tends to be a little bit lower and alum goes down a little bit, too. But we're not expecting any major turnarounds in Q4.

Endri Leno: Okay. Fair enough. That's it for me. Thank you. Congrats, again.

Rohit Bhardwaj: Thank you.

Operator: And there are no further questions at this time. I'll now turn the call over for closing remarks.

Scott Rook: All right. Well, we would like to say thank you to everyone for attending the call. I would like to, also, again thank all of the employees at Chemtrade for a very successful quarter, and look forward to everyone staying safe and have a good rest of the day. Thank you.

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