Chemtrade Logistics

Q2 2023

August 15, 2023

10:00 AM

Operator: Welcome to the Chemtrade Logistics Income Fund Q2 2023 Conference and Webcast. For the first part of this call, all participants will be in listen-only mode, so there's no need to mute your individual lines. And afterwards, there will be a question-and-answer session. I'm now pleased to present Rohit Bhardwaj. Please begin your meeting.

Rohit Bhardwaj, Chief Financial Officer:

Thank you, Mark. Good morning and thank you for attending Chemtrade Logistics Income Fund Earnings Conference Call for the second quarter of '23. With me on today's call is Scott Rook, President and CEO of Chemtrade. I will begin this morning's call by discussing our second quarter results and the current 2023 guidance. I will then hand the call over to Scott to provide more color on our outlook for the balance of this year and beyond. We will then open the call for analyst Q&A. Please note that this call has an accompanying presentation available on our website, chemtradelogistics.com.

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. 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 in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities available on sedarplus.ca. One of the measures that we refer to in this call is adjusted EBITDA, which is EBITDA modified to exclude noncash items, such as unrealized foreign exchange gains and losses. Although our accompanying presentation will refer to adjusted EBITDA, we will refer to it as simply EBITDA in our remarks. Non-IFRS and other financial measures are fully defined in our MD&A.

The second quarter of 2023 continued to build on our recent track record of strong performance. EBITDA for the period was $144.2 million, which is our best quarter ever. The strong results reflect ongoing strength across many of our key products as well as increased focus we have placed on an operational reliability and productivity in recent years. Some areas of particular strength this quarter included sodium chlorate, Water Solutions products, and regen acid, each of which we will provide more commentary on shortly.

In Q2 '23, our consolidated revenue increased by 5%, while EBITDA increased by 76% and distributable cash increased by 268% compared to the prior year period. However, when comparing our

Q2 results year-over-year, it is important to note that the prior year period was affected by two unique items. First, we had our biannual maintenance turnaround at North Vancouver, which we previously quantified as having a negative impact on EBITDA of approximately $17.1 million. Second, we also had approximately $3.9 million of costs in Q2 '22, related to the decision to close our Beauharnois sodium chlorate facility. Additionally, results for Q2 '23 benefited from a weaker Canadian dollar relative to the U.S. dollar, resulting in an $8.6 million benefit to EBITDA. Therefore, more than half of the improvement in EBITDA was due to significantly better performance across a few product lines and the balance due to the items I just mentioned.

Net of these items I just mentioned, revenue for the quarter was $12.6 million lower than Q2 '22. Higher pricing for Water Solutions products and sodium chlorate as well as higher sales volumes of Regen acid in the SWC segment were not enough to fully offset lower selling prices for merchant acid in the SWC segment and lower sales volumes of sodium chlorate in the EC segment. Again, net of the above-mentioned items, EBITDA for the period was $32.9 million higher than Q2 '22. This was attributed to higher gross profit for sodium chlorate, water solutions products, and Regen acid.

In addition, while caustic soda pricing has come down from its '22 highs as previously communicated, this impact has been more than offset by continued strength in chlorine and hydrochloric acid. We believe this is noteworthy as some investors continue to view Chemtrade as a caustic-driven story even though we are delivering record results while realizing softer caustic soda pricing. On a year-over-year basis, realized MECU netbacks are up $45 while realized caustic soda pricing has declined during that period. In what is a challenging market for many chemical companies, the strength of our diversified portfolio is coming through.

Given our record first half results and improved visibility for the second half of the year, in June, we announced an increase to our full year '23 guidance to have EBITDA greater than $450 million, another record for Chemtrade. We remain confident in this outlook. It takes into account recent declines in the Northeast Asia spot price for caustic soda and we'll speak more to this guidance momentarily.

At the conclusion of the second quarter, our balance sheet remains strong. The net debt-to-EBITDA ratio stood at 1.8 times compared to 2.2 at the end of '22. Our distribution of $0.05 per month provides a very attractive return for unitholders, representing a distribution yield of approximately 7% based on yesterday's closing unit price. And the distribution remains well covered by our cash flows with the payout ratio on the last 12-month basis of only 22%. In our future capital allocation plans, we remain dedicated to the 3 essential pillars: maintaining the strength of our balance sheet, providing returns to unitholders, and investing in growth to generate long-term value for our unit holders. We expect our year-end leverage to be below 2.2 times.

Moving to our segmental performance. In Q2 '23, the Sulfur and Water Chemicals or SWC segment generated revenue of $280.3 million, an increase of 4% over the second quarter of '22. EBITDA for the quarter was $73.2 million, an increase of 34% over the second quarter of '22. The weaker Canadian dollar had a positive impact of $12 million on revenues and $3 million on EBITDA. Adjusting for foreign exchange, revenue declined by less than 1% and EBITDA increased by 29%.

Revenue benefited from higher pricing for Water Solutions products and higher volumes of regen acid but was offset by lower merchant asset selling prices, primarily due to lower sulfur costs. However, the lower merchant acid pricing had a limited impact on EBITDA. The increase in EBITDA was driven by higher selling prices and improved margins for our Water Solutions products. Pricing for these products has caught up with raw material costs, as we have previously discussed. We also realized higher regen acid sales volumes, reflecting strong refinery demand following our customers' turnaround activity in Q1.

Our Electrochemical or EC segment generated revenue of $189.7 million in Q2, an increase of 7% year-over-year. EBITDA was also up 84% year-over-year to $93.3 million. As I previously noted, the biennial maintenance turnaround at North Vancouver last year, and the expense related to the Beauharnois plant closure had a combined negative impact of $21 million on EBITDA in Q2 '22. In addition, the EC segment benefited from a weaker Canadian dollar that improved EBITDA by $6.3 million in Q2 '23. After adjusting for these items, EBITDA for the EC segment still increased by 21% year-over-year.

The strong results for the quarter were achieved even though caustic soda prices were lower. In fact, despite the lower price of caustic soda, unrealized MECU netbacks were still up by $45 year-over-year. Realized net back for these 2 products was significantly above the prior year quarter and more than offset weaker caustic soda prices. Chlorine continued to benefit from favorable market dynamics compared to recent years, including reduced industrial supply, while HCl continued to benefit from improved North American fracking activity.

The EC segment has also benefited from significantly higher selling prices for sodium chlorate compared to the prior year period. This was due to price increases implemented earlier in the year, reflecting tighter North American industry supply and a global shift in operating rates caused by the higher overseas energy costs. Improved margins for sodium chlorate accounted for approximately 80% of the improvement in gross profit for the second quarter of '23 relative to the second quarter '22.

Our Brazil business also continued to perform well in Q2 supported by strong results from chlorate, chlorine, and HCL. As a result, the Brazil business is on track for a record year in '23.

Looking now at our corporate costs. Our corporate costs for Q2 '23 were $22.3 million, $1.5 million lower than the prior year period. The decline is attributed to lower long-term incentive plan costs of $2 million year-over-year and $1.4 million of higher realized foreign exchange gains year-over-year. This was partially offset by higher short-term incentive compensation costs of $0.5 million year-over-year. Overall, these corporate costs were broadly in line with expectations.

Switching over now to our balance sheet. We continued to reduce our financial leverage and strengthen our balance sheet in Q2. Our net debt-to-EBITDA ratio at the end of the period decreased to 1.8 times from 2.2 at the end of '22. This improvement reflects the strong EBITDA growth and related cash flow generation we have realized. Reflecting our updated growth capital expenditure guidance for '23, we now expect net debt to EBITDA to remain below 2.2 times for the balance of the year.

During the second quarter, we redeemed the full principal amount of the debentures that were set to mature in May '24. This reflects our strategy to reduce debentures as a proportion of our capital structure moving forward. We have reduced the outstanding principal amount of debentures on our balance sheet by 18% since '22 year end. We funded this recent redemption through a combination of a debenture issuance we completed in Q1, our revolving credit facilities, and cash on hand.

Chemtrade ended the period with USD $358.1 million undrawn on our revolving credit facilities in addition to CAD $34.3 million of cash on hand. Our net debt maturity is not until September '25. The company remains well positioned with significant financial flexibility moving forward.

Turning now to our guidance. Yesterday, we reiterated the '23 guidance that we provided in June, which calls for '23 EBITDA of greater than $450 million. If we're able to achieve this result, Chemtrade's '23 EBITDA would surpass the previous record earnings set in '22 by more than $19 million. The biggest factors that have led to this guidance increase are the robust results we generated through the first half of '23 and improved visibility for our performance for the balance of the year.

We have updated the assumptions that underlie the updated '23 guidance in our disclosure documents, including for MECU and sodium chlorate sales volumes, MECU pricing and caustic soda pricing. I would like to reinforce again that we expect to generate record EBITDA this year despite lower cost caustic soda pricing, which is reflected in our updated assumptions.

Overall, 2023 is shaping up to be another great year for Chemtrade. Our portfolio has remained resilient, and we continue to generate strong results. We believe the defensive nature of our portfolio positions us well for any potential upcoming economic weakness and we have a strong balance sheet in place that positions us with significant financial flexibility moving forward. Meanwhile, we continue to return capital to our unitholders through our $0.05 per month distribution, which we believe is very sustainable and highlighted by an implied payout ratio in '23 of over 30% or lower based on our updated guidance. I will now turn the call over to Scott, who will provide more commentary on our outlook. Scott?

Scott Rook, President and Chief Executive Officer:

Thank you, Rohit, and good morning, everyone. It's great to be with you all today. As Rohit just highlighted, we had another very strong quarter. I'm really pleased with how this year is looking, and I want to take a minute to thank all Chemtrade employees. I'm extremely proud of the Chemtrade team. Their focus and execution have helped drive the impressive results we have generated in the first half of this year. Across all levels of the organization, our employees have been executing at a very high level. So, thank you for all the hard work.

Our results have also been supported by several favorable global macro trends that we expect to continue for the coming years. We have spoken to these dynamics before, but I'd like to spend a couple of minutes discussing Chemtrade's advantaged position in three areas of our business.

First, our Electrochemicals business is benefiting from elevated energy costs overseas. Chemtrade's access to regulated renewable hydroelectric energy puts us in an enviable position relative to competitors and higher energy cost regions. We've seen improving pricing across chlorate, chlorine, and hydrochloric acid, as well as improved North American demand for chlorate in HCL because of this dynamic.

Second, as the top North American supplier of ultra-pure acid to the semiconductor industry, we are well positioned to capitalize on the incredible demand growth for ultra-pure acid anticipated over the next five years. The semiconductor industry is focused on building production in North America, and this will result in the 2 to 3x growth in ultra-pure demand and an upgrading of ultrapure quality in North America. We have previously announced two projects to further strengthen our market position in North America and capitalize on this opportunity, which I will provide an update on shortly.

Third, Chemtrade is the top supplier of water chemicals to municipal drinking water plants in North America. Increasing regulations and population growth are supporting increased demand for the coagulants we produce. We also continue to evaluate and pursue opportunities to capitalize on higher growth areas of the water chemicals market as well, such as PAC and ACH. None of these market trends are short-term in nature. Rather, we believe they'll support organic growth at Chemtrade over the medium and long term. And we, as an organization, are ensuring that we take the necessary actions to take advantage of these trends in a capital responsible manner.

Turning now to the outlook for our SWC products specifically. In sulfuric acid, Regen acid demand remained strong, supported by high refinery utilization rates and driving activity. We do not anticipate any material changes to this dynamic during the remainder of this year. In addition, refinery utilization rates tend to remain high in a typical recession, and we would, therefore, expect regen demand to see limited impact if a recession were to occur.

Merchant acid demand is down slightly. Pricing for merchant acid has begun to weaken tracking lower sulfur prices. However, we expect any softening to be mitigated by the risk sharing agreements we have in place for our merchant acid and lower input costs for merchant acid that we manufacture. Recently, the strength we've seen in the Regen has more than offset any weakness in the merchant acid market, and we expect this will remain true through the end of the year.

I have already spoken to the favorable tailwinds we are seeing in ultra-pure acid over the medium and long term. It will, admittedly, take time for the additional semiconductor production to come online in North America, but this is a significant opportunity over the coming years that we will be well positioned to take advantage of.

For our Water Solutions products, as Rohit noted, Chemtrade is now seeing the impact of pricing catching up to the higher raw material costs we incurred last year. This is one of the key drivers of the strong SWC EBITDA results in Q2, and we will continue to benefit from this trend in the second half of this year. If a recession occurs, we believe we will see further improvements in Water Solutions margins if raw material costs continue to fall. In addition, Water Solutions products are essential for clean, potable water and are, therefore, largely nondiscretionary. If an economic recession were to take hold, we expect demand would not be impacted.

Over the medium term, we anticipate continued organic growth in Water Chemicals, given the macro trends I highlighted earlier. Overall, given the strength we've seen in regen demand, the margin improvements we've realized in Water Chemicals, the organic growth outlook for the segment, we believe the outlook for our SWC segment remains positive for the second half of this year and beyond.

Moving now to the outlook for our Electrochemicals segment. We continue to benefit from favorable market conditions in our EC segment, supported in part by our advantaged energy position relative to competitors in higher energy cost regions. We are extremely pleased with our results in the first half of this year, and we're confident in the long-term prospects of our business in general in this segment in particular. However, as you would no doubt infer from our 2023 EBITDA guidance, we are anticipating a softer second half of 2023 relative to the record results achieved in the first half. This is due to market softness for the pulp mill market in Western Canada, which has led to curtailments and thus reduced demand for sodium chlorate. We are assuming that there's no recovery in Northeast Asia spot index price for caustic soda in the third quarter, which will set our fourth quarter pricing. While we expect strong market conditions for chlorine and HCL, we expect that they will not be quite as strong as they were in the first half of this year.

For sodium chlorate, higher energy costs have led to the idling of some European producers supply and generally higher cost to produce sodium chlorate. This has led to significantly higher pricing for sodium chlorate in North America. We expect to continue to benefit from the higher pricing and margins through the remainder of this year despite some lower sales volumes. Should a recession occur, we may see some industrial end market softening for sodium chlorate. However, we anticipate that our favorable energy position will help to mitigate that downside. Our Brandon Manitoba sodium chlorate plant is among the largest and lowest-cost sodium chlorate plants globally, positioning Chemtrade very well into the future.

For chlor-alkali, I would first like to begin noting that we were pleased to see a resolution of the labor strike at the BC port. While the strike itself was not prolonged, the threat of a looming strike can cause disruptions. This can happen as various parties prepare for the potential impact and put curtailments in place. Fortunately, they were able to resolve the labor dispute quickly, and we expect any impact on our results in Q3 to be minor.

Looking at the outlook for chlor-alkali markets, as highlighted by the price improvements on an MECU basis that we realized in the second quarter, the improved pricing we have seen in chlorine and HCL will more than offset the softer pricing in caustic soda. For merchant chlorine, the North American market remains tight following capacity rationalizations that larger domestic chlor-alkali producers have implemented over the past few years. As a result, merchant chlorine demand has remained relatively solid. In HCL, increased natural gas export demand resulting from higher overseas energy cost has further bolstered the North American industry while also contributing to higher prices. Rig counts have remained relatively stable on a year-over-year basis and well above 2020 and 2021 levels signaling continued strong demand for HCL entering the second half of this year. In our updated guidance assumptions, you'll see that we expect 2023 MECU sales volumes to be slightly lower than in 2022.

On the other side of the chlor-alkali chain, caustic soda pricing has weakened in 2023 from historically high levels we saw last year. Industry experts have attributed this dynamic to buyers overstocking inventory last year and destocking through the first half of this year. Encouragingly, industry experts believe that caustic soda pricing has now reached a trough and will increase during the remainder of this year with additional pricing improvements over the next several years. Taiwan contract prices for caustic soda, which are an indicator for the Northeast Asia spot index, tell a similar story of stabilization and improvement from current levels. I would like to reiterate Rohit's point that our 2023 guidance reflects the lower caustic soda pricing we have seen in the market. With our sales prices for caustic in Q3 based on Northeast Asia during Q2, we already have visibility into our pricing for caustic in the third quarter. Our updated guidance assumptions for caustic soda pricing in 2023 implies a Northeast Asia spot index of USD $340 per ton for Q2 and Q3. This will influence our realized pricing for the second half of this year.

As a reminder, every USD $50 per ton change has a roughly $13 million impact to our annual EBITDA. If a recession were to occur, the ultimate impact on our chlor-alkali business would be determined by the relative impact on demand between caustic and chlorine, which could prove to be a net benefit to Chemtrade. In addition, should Northeast Asia caustic soda prices increase as expected in the coming years, Chemtrade would stand to benefit significantly. However, as we have shown with our results to date, Chemtrade can deliver strong consolidated results, irrespective of caustic soda pricing, given our strategic and diversified business model and the varied macro trends across our business.

Moving along, I would now like to provide you with a brief update on our organic growth projects. As part of the updated guidance assumptions we disclosed yesterday, Chemtrade now plans to allocate CAD $70 million to CAD $100 million for growth capital in 2023. These funds will be primarily directed towards our Cairo expansion, number one; second, quality upgrades and ultra-pure acid at our other plants and also some water organic growth projects. This is below our previously communicated growth CapEx of $110 million to $140 million and reflects the delay to our Casa Grande ultra pure acid project that we announced in June.

To provide a little more detail on the Casa Grande project, based on our front-end engineering design or FEED study that we completed in the first quarter, we determined that the updated capital cost for our joint venture is USD $300 million to USD $380 million. That updated estimate is approximately 50% higher than the initial estimate of $175 million to $250 million.

About half of this increase is due to higher estimated labor costs to build the plant with the remaining increase attributable to higher costs related to equipment and changes in scope to ensure regulatory compliance. So after reevaluating the economics of this project with our joint venture partner, we made the decision to put this project on hold temporarily. This will allow us time to make sure that commercial agreements negotiated with our ultra-pure customers will ensure the project will generate an acceptable level of return. We expect to have additional information to share on this project in the months to come.

Our Cairo, Ohio ultra-pure expansion and quality upgrade project continues to move forward on schedule and on budget. As a reminder, this project is estimated to cost USD $50 million to USD $55 million and will generate an IRR of over 25%. Construction is expected to be completed in the first quarter 2024 with startup of the plant later in the year with commercial ramp-up expected in 2025. The

Cairo facility will be the first in North America to meet the new higher quality standards required for the smaller node chips, which the fabs are currently being constructed will demand.

We have limited updates to provide on our other organic growth opportunities at this time, including those for water chemicals and hydrogen. We will provide an update on those projects when we have something more material to share. We continue to be prudent with respect to our investments in organic growth to ensure that any capital invested will generate an adequate return on investment.

Before opening the call to questions and answers, I would like to conclude by highlighting some of the characteristics that make us different from many other chemical manufacturers and instills us with confidence moving forward. Our product portfolio remains a key significant strength. We have a diversified product portfolio with significant regional market share across most of our key products and many of these products exhibit some resistance to economic downturns.

Chemtrade has unique opportunities for organic growth. The combination of defensiveness and growth puts us in an advantaged position, we believe. If a recession were to take hold, we anticipate that many of our key products would see a limited impact on demand. This includes water solutions as well as Regen acid that are typically less sensitive to consumer discretionary spending.

From a macro perspective, our Electrochemicals products and ultrapure assets are benefiting from the global trends that we expect will continue and could mitigate the impact of a recession. These are tailwinds that we anticipate will last years, not months, and we're investing to capitalize on these opportunities where economic returns justify doing so.

To position Chemtrade to take advantage of attractive investment opportunities while also positioning the company for a potential economic downturn and an environment of higher interest rates, we have materially strengthened our balance sheet. Our leverage ratio of 1.8 and our financial flexibility give Chemtrade significant optionality moving forward.

We also continue to return capital to unitholders. Chemtrade remains or maintains our $0.05 per unit monthly distribution, which equates to a 7% distribution yield. This distribution remains very well covered by our cash flows with a payout ratio for the last 12 months of only 22%. We'll continue balancing our capital allocation priorities of investing in growth, returning capital to unitholders, and maintaining balance sheet strength moving forward.

Finally, we strive to be a leader in the industry on ESG. I would point you to our recently released Sustainability Report available on our website for our latest progress on this front.

So to recap, we have established a culture of operational excellence; we have a diversified portfolio with significant regional market share that's benefiting from multiple long-term tailwinds; our portfolio offers a compelling combination of defensiveness and growth; we have a strong balance sheet; we have an attractive distribution; and we are taking a leadership position in ESG, and we're generating record earnings. We believe that despite all these positive attributes, Chemtrade--we believe we are undervalued with investors as evidenced by our valuation. As an organization, we're focused on continuing to build the track record of strong performance and reliability that we have established in recent years. As we continue to do so, we believe the value we have established will be increasingly appreciated.

Thank you. Rohit and I would now be happy to take any questions you may have.

Q&A

Operator: Thank you. If you'd like to ask a question, please dial "*" "1" on your telephone keypad now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it's your turn to speak, you can dial "*" "2" to cancel. So once again, that's "*" "1" to ask a question or "*" "2" if you'd like to cancel. Now, our first question comes from the line of Ben Isaacson of Scotiabank. Please go ahead. One second. Please go ahead, your line is open.

Ben Isaacson, Scotia Bank: Thank you very much, and good morning, everyone. Congrats on the quarter. Three questions, if I may. They're brief. The first one is on caustic. Rohit, you mentioned that investors have a view that Chemtrade has been a caustic-driven story, and that's not the case today.

Can you just give us some numbers around that? How much of EBITDA, however you want to define it on a run rate basis, Q2, whatever it may be, is caustic soda? And where has that come from?

Rohit Bhardwaj: Okay. So, I don't think they're going to do exactly that, but I'll tell you what we have said in our public disclosure that will help you. So we disclosed where we think the Northeast Asia index is and what we are using for the current quarter versus previous quarters. And if you look at the difference there, you will see that that index has moved by about $300 per ton, and then we also disclose our MECU volume. And so if you look at what MEC volume we disclosed, if you multiply that by 1.12, it gives you your caustic volume.

So when you do those two things together, I'll tell you just how much of a negative delta there was in '23 versus '22. And given that our earnings are up, that tells you that the balance is coming from the other two sides of the molecules chloring and HCl.

And the other disclosure we gave you this time, which is the first done this, is that if you look at Q2 of this year versus Q2 of last year and you look at the gross profit generated by the EC segment, the entire segment, 80% of that came from sodium chlorate. So, while I won't dissect exactly how much EBITDA is from each molecule, this will, I think, give you enough data that you can kind of figure out the importance of the chemicals in the segment.

Ben Isaacson: That's perfect. That's helpful. Next question is, Scott, you mentioned, or actually both of you mentioned, that capital allocation, you're focused on preserving the balance sheet, investing in growth, and returns to unitholders. Scott, you also mentioned that you believe the valuation of the stock is low. And so given both comments about returns to unitholders, and I think you said that the trailing 12-month payout ratio was 22% and the midpoint of guide is around 30%, is it now--and then considering that you're pulling back on CapEx on one of your big growth projects, is now the time to start considering increasing distributions or potentially a buyback? How should unitholders think about enhanced returns going forward?

Scott Rook: Yes. So Ben, thanks. So those are discussions that Rohit and I have with the Board. And so we are focused on creating or maximizing value as we go forward. And the ideas that we consider are investments in organic growth. and then we'll also look at the distribution, we look at the number of units and consider all of those and then have that discussion with the Board and our Board gets to make the final call on that based on our recommendations.

Rohit Bhardwaj: But I think one thing I can add is while we have put the Arizona project on hold, we have put it on hold. So in the sense that we're not--we are saying we want to make sure we get an adequate return, but we have a number of growth opportunities in front of us. That was definitely one that we're excited about. So it's not like we are saying that that doesn't happen for some reason, we aren't going to grow the business. So at this stage, we think that we provide a decent return to shareholders. But as Scott said, it's something that's looked at.

Ben Isaacson: That's fair. And that actually is a good segue into my final question, which is can you--I mean, other than looking at commodity prices fluctuating every day, can you talk about what investors should expect as the key catalysts over the next 12 months? What should we expect that's going to move the stock forward beyond looking at commodity prices?

Rohit Bhardwaj: So moving the stock forward is a different--it's kind of not in our control, but what I can tell you on the catalysts for our business. We think that the global energy complex is important for our business. We think that some of the easing that took place in Europe in energy recently is transient in nature. I think Europe overstocked on natural gas last year, they had a mild winter, then liquidate that inventory. But when they replace that inventory, it has to be at a higher cost. So we think that that's a change that will start to get reflected some more.

In terms of our own, you know, the catalyst for our stock, all we can say is that we would like to get back into the index. I think we are not that far away from getting back to the index and that should be positive for the stock. And finally, we're trying to reinforce our messaging to institutional holders that we hope will find us more attractive because, since our payout ratio is so low, if we have investors who are focused just on the yield, they're missing out on the big story here, which is that more than 70% to 80% of our cash is being held by us to grow the business. So to just value it from the basis of our dividend is probably not the right thing to do. So I think those are some of the things that we're trying to communicate to investors and prospective investors.

Scott Rook: So the performance of Chemtrade is significantly different now than it was three years or so ago. And I think--and I would refer back to the macro trends that we talked about. And so the improved performance in addition to being our focus on reliability and productivity, is really the improved energy position that we have, and that will continue and so that will enable our business to remain strong. That's very important.

The growth in ultrapure and our ultra-pure business is significant. So if you think about the next 12 months, but also the next 3 years, the demand for ultra-pure acid should triple during that time. That's going to be very significant for Chemtrade. And then finally, the water, our Water Solutions business is growing nicely. We're very pleased with the results. We talked about the improvement in the Water business, and I think that's going to remain as well. So I think our results that we have shared, our strong results and those macro trends will remain in place certainly for the next several years.

Rohit Bhardwaj: And can I just add one thing, people who are worried about the short term and thinking there might be an economic slowdown or recession, we do like to reinforce two things. One is we have a lot of defensive attributes to our portfolio. And if we are entering an uncertain time, we're entering in from a very strong balance sheet. So if people are concerned about--because we know a lot of our chemical industry players have been taking down earnings while we are announcing a record year. So we are trying to also differentiate ourselves from the industry because their attributes to our business that are pretty unique to us.

Ben Isaacson: That's great color. Thanks so much. Appreciate it.

Rohit Bhardwaj: Welcome.

Operator: Thank you. Our next question comes from the line of Jacob Bout at CIBC.

Jacob Bout, CIBC: Good morning.

Scott Rook: Good morning.

Rohit Bhardwaj: Good morning.

Jacob Bout: So you're maintaining your EBITDA guidance of greater than $450 million. And it implies the second half could be, let's call it, approximately $100 million less in EBITDA. What are some of the--what are the buckets here that we should be looking at to account for that $100 million? I mean, it can't all be caustic, right?

Scott Rook: That's right. So Jacob, three things that we would call your attention to. The first, and this is pretty easy to calculate, is the drop that we've all seen in Northeast Asia caustic soda spot prices. So pretty easy to calculate looking at that index and seeing that. So as we look at the second half of this year, there's already--well, there's already insight into what Q3 is going to be because of our--Q3 is decided based on Q2. So we'd call your attention to caustic soda.

Next, number two on that list is sodium chlorate, and that's coming from--I talked about the weakness in the Canadian pulp industry. So a couple of months ago, there was an announcement that one pulp mill was closing, so that has already happened. Last week, there was an announcement from another pulp mill that they were going to close. And then our team, I think we feel that it's possible what we have built in is that there could be another pulp mill closure in the second half of this year. So that's how we've built that in.

Third, we have more turnaround activity in Q3 than we did in Q2. So our first half of this year results, we know, are exceptionally strong. It's the best performance that we've had in Chemtrade ever. As we look at the second half, we do see things being a little softer in the second half, and that's primarily due to those three things. It's caustic, the weaker pulp market as well as some more turnaround activity in Q3.

Jacob Bout: So then on the chlorate side, this lower production that you're forecasting in the likelihood of another shutdown, that means that these volumes are going to be--is how we should be thinking about that longer-term lower volume?

Rohit Bhardwaj: So let me jump in there. So I think if you look at our modified assumptions, and we disclose our volumes for chlorate that we've actually achieved, you will see that the half and half volume is not that different. But what's happened is there hasn't a shift in customer mix. So as we've lost or as there has been some higher priced or higher margin customers that have taken shutdowns, et cetera, we're able to replace that volume but not at the same attractive margins because there's freight you've got to take into account, et cetera.

So volume, I think, is probably not going to go lower. I think it's just a question of as we--because chlorate is not a spot business. So it takes time to kind of rebalance out the portfolio. So in the short term, you are able to find some business, but maybe not as nice a margin as you would like.

Jacob Bout: Got you. And then putting the Arizona ultrapure project on hold, what discussions are going on now? And is there a risk of losing market leadership for ultra-pure as a result of this decision?

Scott Rook: Yeah, so let me start with your second question first. The risk that we'll lose our market position is very, very low. We are committed. Chemtrade is committed to being the market leader, and I see--I don't see the risk of losing that at all. So I will say that as the--.

Jacob Bout: --Sorry, why don't you see that? I mean, is there no one else on the horizon or--.

Scott Rook: --Yes, that's correct. So as we look at the market, so we have our expansions, we have the joint venture expansions, and there are some other minor expansions taking place. But as we see the market, I believe firmly that we'll maintain our leadership position in this market.

So let me--I'll talk about the delay. What we've seen as the large fabs are being built in the U.S. right now. Every one of those fabs are experiencing delays and most of them are experiencing cost overruns. The delays, TSMC has been public with their expansion in Arizona is a year behind schedule.

We also think that many of the other fabs are going to be late as well. And so again, the delays that are coming, as we understand from what we read, are due to the same reasons that we have experienced with building the joint venture, labor. Labor is tight, it's expensive, and it's hard to come by. When we looked at building the plant in Arizona, coming up with labor to build the plant was actually a significant issue. And if read public reports from TSMC, I think TSMC have found the same thing, and I think that's happening at other places.

Now that doesn't mean that they're not going to build it. TSMC are moving forward, for sure. They will be finishing their first plant. And I think--and they've already made public that they've already broken ground and started production on their second fab. And you have Intel as well. So the fabs are getting built, but it's a reality in the U.S. that labor is an issue. It's expensive and it's hard to come by and so that's causing delays. And again, that's public.

So I think that--so we have delayed the project. We're working through, and we're having the discussions. We have a joint venture. We're having discussions with the joint venture partner that these costs are real, and its labor as well as the materials and those costs need to be passed through. And at the end of the day, the fabs will have to agree to those higher prices.

I believe that they will. We're the only company that has--the only joint venture that has announced expansions like this, I believe the market needs it. I think the market has to have it. And so I do think that the plant is going to get built, and we're working to, I'll say, to finalize the commercial agreement so that we can get started.

Rohit Bhardwaj: And Jacob, I just want to finish. I want to just add one comment on the chlorate because I think we went down the path of kind of look at volume. And while that's interesting, we're really focused on optimizing margin here. If you look at quarter-over-quarter, our volume in chlorate year-over-year is projected to be down by over 20%, and yet, we are generating a lot more margin. So really, I don't think this is a business where we necessarily will chase volume. We're really looking at optimizing margin in this business.

Jacob Bout: That’s helpful. Thank you.

Operator: Thank you. Our next question comes from the line of Joel Jackson at BMO Capital Markets. Please go ahead.

Joel Jackson, BMO: Good morning. Looking at 2024, can you talk about, one, what would growth capital look like in 2024, assuming that Arizona project doesn't come back? And then you've kind of addressed kind of the chlorate question for '24 going forward with Jacob. But on the chlor-alkali side, even with the turnaround in North Van, I mean, you did quite well in '22 to have pretty good volumes at North Van chlor-alkali, what could we expect in 2024 with the turnaround in North Van?

Rohit Bhardwaj: Okay. So let me first talk about the growth CapEx. So if Arizona doesn't go through, then we will probably not have a lot of growth CapEx in 2024, although we'll be telling you what we are planning to do. We may not necessarily spend that money early in the year, but we'll definitely have some--we’ll have some thoughts as to what else we could do, so we'll give you an update at the right time. But we're still hopeful that we will execute on Arizona. But if not, we have some other thoughts. And we wouldn't rule out kind of an acquisition that might make sense, too, but those are all things for down the road.

In terms of the North Van turnaround, we will have the normal turnaround. Last time, we quantified it at $17 million. A big chunk of that is lost sales or marginal lost sales so it really depends on where caustic is. We would love it to be a big number, frankly, because that means caustic is back up to being pretty high, and so are the other two sides of the molecule. So it'll be hard to, at this stage for us to quantify what the financial impact might be, but we don't expect the duration of the turnaround to be any different from last time. We did a good job last time. We expect to do the same this time around.

Joel Jackson: I mean you can't even tell from the results you even had a turnaround at North Van in 2022, would you expect the same thing in 2024 from a volume perspective?

Rohit Bhardwaj: Yeah. I mean the volumes you're running at right now, what we did in '22 was, yes, we took the few weeks out at, but we were able to run at high rates. So, it depends a little bit on seasonality and what's happened slowing demand and--but it is conceivable that with the turnaround, we would still have the same volume as '22.

Joel Jackson: Okay. Thinking a little bit longer term and staying with North Van, can you give us an idea of what is kind of the EBITDA ranges that North Van is earning like good years, bad years, average years? And then, as you start facing some of the restrictions coming into Vancouver in about 6 years, 6.5 years, what are some of the strategies you can do to kind of retain some of those earnings? What are you thinking about now given it's not that far away, but it's a bit faraway, it's not that far away?

Rohit Bhardwaj: So I think firstly, I don't think we're going to give you the chlor-alkali range. But what we will do is in the next little while, we'll probably give an indication of what our aggregate range of EBITDA could be mid-cycle, high top cycle, bottom cycle. So we'll probably do it at an aggregate level.

In terms of your question on North Vancouver there are many options we are considering. I mean there have been many things that can be done in that business longer term. But at this stage, I don't know if you want to get into the options. I'll let Scott see if he wants to add some comments on North Vancouver.

Scott Rook: Yeah. So Joel, we're actually spending quite a bit of time thinking about the options at North Vancouver and having discussions along those. I will point out and say what we are sharing is that the chlorine that we produce in North Vancouver is used to treat either directly or through bleach, but it's used to treat 70% of the drinking water in Western Canada. And so we think that's a very important data point that it's important for government representatives as well as the district to know and realize. And so we don't think that Western Canada would have very good options for chlorine, let's say, if there were other options for that site.

Joel Jackson: Okay. Thank you for that. And finally, in water treatment, I mean, can you talk about any progress, any anecdotes you've made in any pushing some of the higher margin, higher value water treatment products that will help get the process better understood?

Scott Rook: So we're very happy with the results in water chemicals. So the results have been improving really nicely over the past three years. So it's really--there are several things going on. Number one is pricing. So we're happy with pricing the team has pushed prices. For the past two years, we've always been, let's say, a third of a step behind in rising raw material market, our Water business, as we communicate frequently sells to city municipalities under annual fixed price contracts. That's the way that this market works.

And so we take the raw material risk, so as raw materials go up, we're always playing catch up with that. So that has been going on. We've seen raw materials drop as well as our team has been very aggressive with pushing price.

Number two, we have been focused on improving reliability and getting greater output from our assets and that's happening. We have a productivity initiative that's going on. And then thirdly, we have been adding capacity with our PAC and ACH business. And so when we talk about market growth of city municipalities or the ALUM business, that's typically 1% to 2% volume growth a year. But with our more specialty products, PAC and ACH, that goes in also to cities but also industrial users in that market growth has been 10% or more.

And so at Chemtrade, we have been -- I'll say we have been working hard to keep up with growing demand for the past couple of years. So we've improved the performance of our plants. We've added to our capacity. And as we add to our capacity, we're seeing volume growth there and we're continuing to aggressively run our PAC and ACH plants better as well as make debottleneck improvements to our existing plants, and we think that's going to continue to happen. So we like the space, and I think there's--we've had nice improvements in this business over the past three years. And we're spending more time thinking about what we want this business to look like two to three years from now.

Joel Jackson: Thank you.

Operator: Thank you. Our next question comes from the line of Steve Hansen at Raymond James. Please go ahead. Your line is open.

Steve Hansen, Raymond James: Yeah. Hi, guys. Thanks for the time. Scott, a question for you. I appreciate your earlier comments on TSMC and the challenges the other semis are having in their fab construction. If we just take a step back for a moment, if your JV project does not go ahead, how feasible do you think it is for those parties to import international volumes? I'm just trying to understand here how important it is for your expansion to go ahead. You, of course, already have some domestic production, but I presume that's not enough to feed all these new fabs, even with your expansion?

Scott Rook: You're absolutely right. And that's something that we're looking at. We're looking at very closely. So how easy is it for them to bring in material. So here's what they have to do. First of all, there would have to be enough capacity available in Asia. And we think that that's kind of questionable. And so as we talk with the fabs themselves and then we also, we're working with industry experts, we understand that expansions are planned in Asia to meet local demand. So we have a good feeling for what's going on in Taiwan, in Korea, somewhat Japan. But there are expansions that are planned in those regions for the demand growth that's going to happen in Asia.

So and those expansions are seeing similar increases, I think, certainly in raw materials. They're not experiencing the same labor issues that we are here. So if there's acid that's going to be available there, next what would have to happen is it would have to be put on, let's say, on a shipping container, and then it's going to take at least 35 days for just 1 container to travel here, and then that would have to be emptied, there would be inland freight and then it would have to go back. And so the capital cost for putting that in place when we look at it is not too far from building a plant here.

And so the other way to think about it is if you're going to--if you're TSMC or your Intel, and you're going to spend $20 billion to put in a fab, and the main reason that you want to do that is because of geopolitical risk in the market from countries in Asia, would you really put that--would you put your $20 billion investment at risk on a supply chain for acid coming out of Taiwan or coming from Korea? I find it hard to believe that long term, that's the solution that--why would you spend $100 billion in the U.S. and put that entire thing at risk on one component coming in from Asia? So all of that, I think that the plants here are going to be built. And so I firmly believe that the plants here are going to get built.

Rohit Bhardwaj: And that's a point to be--to underscore that when chips are being made in the U.S., they are not being made based on cost considerations. There have been public statements by the big fabs, saying it's going to cost between 30% and 50% more to make chips in the U.S. than it does in Asia.

So there's got nothing to do with cost. It is definitely strategic for the national security of the U.S. And that what Scott was saying, we scratch our heads and say it doesn't make sense to us, but time will tell.

Steve Hansen: Understood. Okay. That's really helpful color. The second question is, is it too early to contemplate what next year might look like for chlorate pricing? It sounds like there's been a number of puts and takes here a little bit on the demand side given some of the pulp facilities you described. But I'm just trying to understand what has happened to the supply base overseas at the same time with some of the shutdowns in energy costs. Is there movement on that front? Can you expect to get similar pricing next year because it's been such an outstanding source of margin gains this year? I'm trying to get a bit of a window into next year.

Scott Rook: Yes. Yeah, we're not ready to, obviously, issue any guidance on next year, but here's what I'll say. As we look at the cost of energy in Europe, we believe and the industry experts are telling us that the cost of energy is going to be higher. It's going to be higher as we go into next year. So what we saw a year ago, we saw, after the Russian-Ukraine incidents, we saw electricity prices in Europe go up by 500%. Significant increases. The cost of energy has come down. You can look at our slides, you'll see that the cost of energy is forecasted to go up. We think that's going--that will likely happen. So we think that the cost of producing chlorate in Europe is definitely going to be significantly higher priced than what we see in Canada. That's number one. And so I won't speculate on whether the chlorate facilities that have closed will restart. I'm not in a position, let's say, to comment on that. It is true that pulp demand in Western Canada, in particular, will be impacted by pulp mills closing. And so that's a factor. I think I'm reiterating what you're asking. All of that, there's a lot of puts and takes going on. Possible demand volume could be--I would say it's not likely to be strong, but pricing is likely to remain strong.

Steve Hansen: Okay. Helpful. That's good in the context of a lot of uncertainty out there. And then, just lastly, it's just a clarification question, I think in your discussion or comments on chlorate margins being so strong and the 80% comments mentioned earlier on incremental gross profit, what were the other factors involved in the chlorate margins? Is there some production benefits that you have had on the operating cost side? Or should we just think about it all being price?

Rohit Bhardwaj: Two things. It's mainly price, but we did close one of the high-cost plants last year that has some benefits to us because we shed some costs. So there is some benefit coming from that, but the big one is pricing.

Steve Hansen: Okay. Thank you, guys. Appreciate the time.

Scott Rook: Just along those lines, last year, we closed the Beauharnois site and we basically consolidated that volume into our Brandon site, and we were able to do that without issue. And so that certainly helped us on the operations side.

Steve Hansen: That makes sense. Appreciate it.

Operator: Our next question comes from the line of Gary Ho at Desjardins. Please go ahead. Your line is open.

Gary Ho, Desjardins: Thanks and good morning. Maybe just going back to the previous line, the questions on kind of the run rate that's implied in the second half and kind of read-throughs for 2024. Maybe I'll tackle it maybe this way. It sounds like the pricing could be firm looking out to '24, et cetera. But what is the risk that the $174 million 6-month run rate could carry through into 2024? Is that a risk, or do you think that's not likely given what you're seeing on the pricing side?

Rohit Bhardwaj: So I don't think we will start previewing '24, but it's unlikely that the $174 million is a new run rate for us, just like we don't think the $275 million for the first half is a run rate. I mean that's probably towards the top of the cycle. But anyway, so I think we don't believe that the 174 is a new run rate for us, which is in the back half of the year.

Scott Rook: Hi, Gary. I will say with Chemtrade, Chemtrade had years ago, talked about a range of $300 million to $350 million, and that $175 million is a--would be a run rate of $350 million, which a few years ago would have been at the top of the cycle. I think the good discussion that we're having is looking at that saying, well, is that the bottom of the cycle? We don't think so, but neither is $275 million the top of the cycle. So as we're looking at it, I think you can look at numbers in between there.

Gary Ho: Okay. That's helpful. And then, Rohit, just going back to the Cairo project, you mentioned USD $50 million to USD $55 million. Can you remind me how much will be spent in '23 versus '24? And then it sounds like you guys can push through higher pricing just given the ultra-pure asset demand. Maybe just elaborate on that a little bit, too.

Rohit Bhardwaj: So mostly all the money will be spent in '23. We expect concluding construction of Ohio in '23 with the ramp-up and start-ups in '24. So I'd say, predominantly, the spending will happen in this year. And your next question was in terms of pricing. I think that's just something we have to see. I mean, when we announced our IRRs for this project, it was based on kind of close to market pricing. But you're right, maybe things would have changed now and perhaps we can get increased pricing there.

Scott Rook: Yeah, also, so Gary, we're absolutely looking at that. And so I think we feel confident with the returns. This will be the first plant. We've said that repeatedly. So this will be the first line in the U.S., in North America, capable of meeting the new quality demands. And so I think there will be significant value associated with this new line.

Gary Ho: Okay. And then just my last question, I just want to go back to the Arizona project. Since you provided the last update, I think it was in June, have you noticed a change in tone from the fabs and chip makers from their end?

Scott Rook: Yes. Yes, I will say, I want to tread a little lightly here, but the short answer is yes. And yeah, I think I'll just stop at that. But I would say, with our announcement, the discussion changed. Yeah, I will leave it at that. I won't get into specific comments. I don't think I should share specific comments coming from fabs. There are ongoing discussions, but the tone changed, the outlook in terms of whereas maybe previously, I think the fabs just assumed that this plant was going to get built. Our announcement made them, I'll say, now they are encouraging, and the tone has switched to, well, we really think this plant should be built. I'll leave it at that.

Gary Ho: Great. That's constructive. Appreciate your comments. That's it for me.

Rohit Bhardwaj: Thank you.

Operator: Thank you. Our next question comes from the line of Nelson Ng of RBC Capital Markets. Please go ahead. Your line is open.

Nelson Ng, RBC Capital Markets: Great. Thanks. Congrats on a record quarter.

Scott Rook: Thank you.

Nelson Ng: So just a follow-up on the Casa Grande project, so you mentioned TSMC is about one years delayed on their fab and they started construction or broke around on the second one. Can you just remind me when their two fabs will be completed? And also when Intel's facility will be completed? I was just trying to get a rough idea of when the additional asset is actually needed.

Scott Rook: Okay. So I believe this is public. So I'm going off of what TSMC has said publicly. So their first fab will start up second half of next year but will not reach full production. I don't think they have said when they will reach full production. Second fab, they--trying to think. I don't want to--I'm going to go off of memory, which I'm not going to do. So the second fab will take one to two years to get built and then it will go through a startup. And so it's probably going to come online into '25, '26.

Intel's expansion in Chandler, Arizona is up and running now, but I do not believe that they're at full capacity. They have--Intel has broken ground. They have cranes in place and they've broken ground in Columbus, Ohio. And I do not think that they have said that they've said publicly when they'll start production.

Nelson Ng: Okay. So like if you were to--so for the Cairo project, you started construction late last year and it won't be fully kind of ramped up until 2025. So if you start on this project, would it be like a two to three--like two-plus year--it would take over two years to build and ramp up, right?

Scott Rook: For Arizona?

Nelson Ng: Yeah, for the Casa Grande projects, for your asset project.

Scott Rook: That's exactly right, yes. We think it would take about two years. About two years to build and have initial start-up.

Nelson Ng: Okay. Then it will be like two to three years before it's fully wrapped up?

Scott Rook: Correct.

Nelson Ng: Okay. So it sounds like for you to hit like 2026 or early 2026, you'd probably have to start early next year, right?

Scott Rook: Correct. I think that's fair.

Nelson Ng: Okay. And then from a, I guess, cost or structure perspective, like are you looking at options to also build in, let's say, phase one and maybe like a phase two expansion? Is that one way to reduce costs now and to defer some costs later on? Or how are you looking at this project?

Scott Rook: Yeah. So we could do that. With an ultra-pure plant, there is what we call the back end and the front end. The back end is Oleum production, and the front end would be multiple ultra-pure lines. With the back end, with the Oleum, you kind of have to do it all at one shot. That's not something--so you put your reactors in --it's basically one set of reactors that you would put in built in size to what your final output would be. With the ultra-pure lines, you can stage those in over time to meet demand, but so with the front end, you can stage it in, but the back end you can't.

Nelson Ng: Okay. So it's only the front end that you can expand or at the back end, you have to size it correctly for the end volume?

Scott Rook: Exactly right.

Nelson Ng: Okay. And then moving to chlorates, you mentioned that, obviously, you're seeing really high prices and that you don't really sell in the spot markets mostly through contracts. Is that right for chlorate?

Scott Rook: Yeah.

Nelson Ng: So is the chlorate you're selling like in the past quarter reflective of power prices that were less that were in place last year so that if you sign new contracts today, obviously, power prices are lower today, they would--can you just talk about like whether we should be expecting some roll-off of chlorate prices and how that roll-off looks like? Should we just assume there's--if we look at European power prices, we assume like a nine-month lag or a one-year lag and that's when we should see chlorate prices kind of come back down? Or any color would be great.

Rohit Bhardwaj: Sure. So firstly, there isn't a direct linkage because we don't have any contracts that are going to say that's priced off or a certain index or whatever. So really when we had the really big spikes last year in energy, we did not price--we're not able to price our volume based on that because it's really a question of what the expectations are. And last year, the expectation was that that was 500% higher energy costs are not going to last. So we didn't get the benefit of those massive spikes. Similarly or conversely, if energy has come down in Europe, the question really is, is that temporary, is that reflective over the rates are going to be next year? So this is not a business where there's kind of immediate reactions to current pricing. So I think more what the outlook for energy would be for next year. And also the risks involved with having a supply chain that's dependent upon those that energy market. So to answer your question, there's no direct linkage. Sure there's an influence there, but really it is on what the expectations are as to what the current rates might be.

Nelson Ng: Okay. So is it fair to say that if you're, like, obviously, you're constantly renewing contracts on a rolling basis, I presume. I presume the new contract prices are--would you say it's materially lower than what you've realized in Q2?

Rohit Bhardwaj: So firstly, this is not like our Water business where we have bids coming every day. There's more concentration of contracts here. So it's not like we have got contract every week, for example. They come up less frequently. And at this stage, we're not seeing any significant movement in pricing.

Nelson Ng: Okay. That's great to hear. And then one last question on chlorate is you talked about how volume is kind of not that big of a driver. You're obviously selling more volume at lower margins to kind of maintain your volume. But you flagged that, I think, chlorate volumes were down like over 20% compared to, I think, from Q1 and also from last year. Do you expect the Q2 volumes to be the new run rate or for it to drop a bit further as more.

Rohit Bhardwaj: When you look at this year, we are guiding towards 285,000 ton for sodium chlorate, we think that's in the ballpark. We don't necessarily think that that’s going to go any lower.

Nelson Ng: Okay. Got it. Great. Thanks. I’ll leave it there.

Rohit Bhardwaj: Okay. Thank you.

Operator: Thank you. And we have one further question in the queue. That's from the line of Endri Leno at National Bank. Please go ahead. Your line is open.

Endri Leno, National Bank: Hey. Good morning. Thanks for the question. Most of my questions have been answered, but I just wanted to talk a few more on ultra-pure. And we've seen some reports of manufacturers coming or wanting to come to North America as well. So I was just wondering if you can clarify whether, at least from what you see, those are attached to other fabs or those are just kind of freestanding ultra-pure manufacturers?

Scott Rook: So in terms of ultra-pure coming to North America, there's only one fairly small operation that we are aware of that's coming in. It’s not, let's say, attached, although it's going to be in Texas from what I think I can say that. That's public information. And it's a Korean company, but relatively small in size. And so that's the only one. There are numerous reports of other chemicals from other larger Asian companies coming here to make other products for the semiconductor industry, other chemicals. And so we're seeing those. But in terms of ultra-pure--so we have, obviously, the joint venture. And so anyone that comes here, I think, is going to face similar--will see similar costs that we have seen. And so you have to have the know-how you're going to--the costs are going to be similar to what we would see and you need to be in the--it would help to be in the vicinity of fabs so you wouldn't have to ship it halfway across the country.

Rohit Bhardwaj: And from what we know of this one plant that's in Texas, it will not be enough to satisfy all of even Samsung's demand in Texas. So it's a small--that's what we can tell-- it’s a small plant.

Scott Rook: Yeah.

Endri Leno: Yeah. No, that's great. That's what I was referring to, the Samsung plant in Texas. But the other question, and you touched a little bit upon it, Scott, but is there an opportunity to--I mean, this stuff gets shift across the Pacific. Would it be, if costs continue to maintain high and your negotiations drag, could you build it somewhere else in the U.S. we're, sure it's a bit further, but with rail or trucking access, you can still bring it to where it needs to be used?

Scott Rook: So Endri, the thing is--so the cost--so to answer to that, I mean, we continue to look at options and to look through--so I've shared that half of the overrun was due to labor in Arizona. And so there's not a large labor pool in Arizona, and that's what TSMC has found as well. And I believe Intel found the same thing, too. And so labor has to come in from other places. And so labor could come in from, let's say, from the West Coast, California, where labor could come in from the U.S. Gulf Coast. So to answer your question, have we looked at the U.S. Gulf Coast and the answer is certainly, we have. And we continue to look at that and to think, so if we moved much farther away from demand, let's say, were TSMC and Intel are, but we put that site in the U.S. Gulf Coast, we're looking at that analysis and we have continued to look at that and see the total--at the end of the day, it's going to be the total cost with material delivered to the customer along with the expectations on delivery from the customer. And with that in mind, where it sits now, we continue to believe that this site in Arizona is the right place for it. And I do believe personally that it's going to get built there.

Rohit Bhardwaj: I think the one--because one issue is you cannot just put this in a rail car like we do with the rest of our assets. You need special containers to move this because of its high purity. So whether you're getting from Asia, getting from North America, you have to invest in those ISO containers. Arguably, investments is lower in the U.S. because the transit time is shorter, but there is a pretty significant capital investment in the specialized containers.

Scott Rook: And so just to comment on that, so when you make ultra-pure acid, it would typically go in an isotainer. And so that ISO containers if we're in Arizona and we're delivering at 30 miles away, those isotainers are going to be fully utilized, and isotainers are expensive. If we put a plant hypothetically in Texas, now you're going to put that asset, you'll put it on a railcar and let's say it's going to take one to two weeks for it to get there. Maybe not two weeks, but less than that, but the railcar is kind of go there. It's got to get emptied and then it's got to go on rail and come back. There's a certain cost that we'll look at that. Now to take that isotainer and then bring it over from Asia. So it's got to go to the port. It's going to sit on the ship, come over. Let's say, the round-trip timeline coming over from Asia is well more than 60 days. We're probably closer to 70 days just for 1 isotainer that's going to be full for a while and then it's going to go back empty. That is a significant cost. It is a significant investment that's close to the cost of building a plant. That's how we see it.

Endri Leno: That's great color. Thank you. And congrats on a good quarter. That's it for me.

Rohit Bhardwaj: Thank you.

Operator: Thank you. And as there are no further questions, I'll hand the floor back to our speakers.

Scott Rook: All right. So we again, I'd like to thank our Chemtrade employees for a great quarter. Thanks to everyone on the call and have a great rest of the day.

Operator: Thank you. This now concludes the conference. Thank you all very much for attending.