Chemtrade Logistics Income Fund

November 15, 2023

10:00 A.M.

Operator: Good morning, and welcome to the Chemtrade Logistics Income Fund Q3 2023 conference. I will now turn the call over to Scott and Rohit. Please go ahead.

Rohit Bhardwaj, Chief Financial Officer: Good morning, and thank you for attending Chemtrade Logistics Income Fund's earnings conference call for the third quarter of 2023. Joining me on today's call is Scott Rook, President and CEO of Chemtrade. Scott and I will begin today's conference call with some prepared remarks during which we will discuss our strong third quarter results, the latest update to our guidance, and our current outlook. Throughout the call, we may reference our accompanying presentation, which is available on our website chemtradelogistics.com. Following our prepared remarks, we'll open the lines for analyst Q&A, and we'll be happy to address any questions you may have.

Turning to slide three. Today's call will contain 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 from expectations. Further information identifying risks, uncertainties, 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 Authority available on sedarplus.ca. One of the measures that we will refer to in this call is adjusted EBITDA, which is EBITDA modified to exclude certain non-cash items, such as unrealized foreign exchange gains and losses. While our accompanying presentation refers to adjusted EBITDA, we will refer to it as simply as EBITDA in our remarks.

The third quarter of 2023 was yet another very strong quarter for Chemtrade in what we expect will be a record year for the company. On a consolidated basis, revenue declined by 7% with lower prices for sulfur and caustic soda more than offsetting higher prices for water products, sodium chlorate, Regen acid, and chlorine. However, despite the lower revenue, we were able to achieve a 4% growth in consolidated EBITDA and a 5% increase in distributable cash. Our outstanding performance stems from the focus and execution of our employees across the entire organization. Their collaborative efforts were pivotal in driving commercialization and profitability initiatives across our product portfolio. Our sustained commitment to reliability over recent years also remains a key driver of our results, allowing our businesses to fully capitalize on favorable market conditions. Furthermore, our diversified product portfolio has proven strength with notable outperformance in our Water business, Regen acid, chlorine, hydrochloric acid or HCL, effectively offsetting areas of weakness, including a significant year-over-year reduction in caustic soda pricing.

In the Sulfur and Water Chemicals, or SWC, segment, strong performance in our Water business was the biggest driver of our 19% EBITDA improvement in Q3 of this year over Q3 of last year. The robust results we have been generating in water solutions stem from a combination of lower raw material costs and improved pricing. This highlights the success of the commercialization initiatives we've been undertaking. Regen acid was another bright spot in SWC during the quarter, experiencing both higher volumes and pricing. Lower sulfur prices in the third quarter led to lower pricing and revenue for merchant sulfuric acid in Q3. As a reminder, we have risk-shared supply contracts in the merchant acid business that helped to soften the downside of the commodity cycle. These contracts adjust the amounts we pay for acid based on selling prices realized for acid. The manner in which we have structured our merchant acid business has allowed us to maintain fairly consistent margins despite significantly reduced selling prices.

In the Electrochemicals, or EC, segment, EBITDA declined by 8% in Q3 due to significantly lower selling prices for caustic soda. Improved pricing and margins for sodium chlorate, chlorine, and HCL, in addition to a weaker Canadian dollar, helped to partially offset the impact of lower caustic soda pricing. Our EC segment in particular, sodium chlorate continues to benefit from our advantaged energy position, which is due to our access to regulated renewable hydropower. This advantage is particularly valuable as elevated energy costs globally continue to put pressure on operating rates in overseas markets. Our Brazil business also continued to perform well during the quarter and remains on track for a record year.

Turning to corporate costs. Corporate costs in the third quarter were $25.8 million, an increase of $5.2 million year-over-year due to provisions we took for certain non-income tax related audits, higher incentive compensation costs, and to a lesser extent, higher discretionary spending during the period.

Looking at our balance sheet, the robust EBITDA and cash flow we generated in Q3 '23 enabled us to continue to de-lever and strengthen our balance sheet. Our net debt-to-EBITDA ratio as of the end of Q3 stood at 1.7x compared to 2.2x at the end of '22. We ended the third quarter with USD 404.1 million undrawn on a revolver and CAD 35.8 million in cash on hand.

Considering our current leverage and available liquidity coupled with our next debt maturity not occurring until September '25, we are confident in our ability to withstand any potential economic weakness, and we remain committed to our strategic growth investments and to returning capital to our unitholders. We anticipate that our leverage levels will remain below 2x exiting '23.

I would also like to take a moment to highlight a recent development. We completed the sale of our Phosphorus Pentasulphide or P2S5 business on November 8, 2023. This business was sold for gross proceeds of approximately USD 43 million, which consisted of cash of approximately $39.4 million and the assumption of indebtedness, as defined in the sales agreement, of approximately USD 3.6 million. An estimated pretax gain of approximately USD 14 million on the sale of this business will be recorded during the fourth quarter of 2023. We would like to thank all of the employees of the P2S5 business for their hard work and dedication and wish them continued success under the new ownership.

Looking at guidance, given our record performance in the first nine months of the year and based on our visibility for the fourth quarter, we now expect 2023 EBITDA to exceed $490 million. This is compared to the prior guidance update we provided on October 10 for EBITDA to be at least $475 million. The updated assumptions underlying the latest updated guidance are available in the accompanying presentation slides and disclosure documents.

We're incredibly proud of what we have achieved so far in 2023 and expect to close out the year with the same level of diligence that has become ingrained across our business. EBITDA above $490 million would represent a high watermark for Chemtrade, which is well above the previous record level of EBITDA we generated last year. As a matter of fact, in just the first nine months of the year, we have generated EBITDA of $480 million compared to record EBITDA for the full year of '22 of $430.9 million.

Many positive factors have contributed to our impressive EBITDA performance in 2023. However, as Scott will elaborate, we have seen a moderation in demand and price across several products as the year has progressed. While we will not announce 2024 guidance until early in the new year as usual, it is important to recognize that the record level of EBITDA we expect to generate in 2023 is unlikely to represent our ongoing EBITDA run rate. In 2024, in addition to the economists' expectations of some economic softening in North America, we also have our biennial maintenance turnaround at our North Vancouver chlor-alkali plant schedule. While we have emphasized that Chemtrade is more defensive than a typical chemical company, we are not immune to an economic downturn.

Our updated guidance for 2023 implies a distribution payout ratio for the year of approximately 25%. This, once again, highlights the sustainability of an attractive $0.05 per month distribution with an implied yield of 7% based on yesterday's unit price. We recognize the importance of this distribution to our unitholders and remain committed to a balanced capital allocation strategy moving forward.

I'll now turn the call over to Scott to provide some additional color on our business and outlook. Scott?

Scott Rook, President and Chief Executive Officer: Thank you, Rohit, and thank you as well to everyone who has joined the call this morning. We appreciate your continued interest in Chemtrade. I would also like to extend my sincere gratitude to each of our 1,400 employees across the organization who are the real drivers of our continued strong results. The effort and fortitude that I witness daily is impressive and I am incredibly proud of our team. My thanks to you once again for all your hard work and your commitment to make Chemtrade great.

As Rohit just highlighted, 2023 is set to be another record year for us. This is a testament to the entire team and a reflection of the many strategic initiatives undertaken in recent years to position Chemtrade for sustained excellence. As Rohit also noted, given the current macroeconomic outlook, it's unlikely that we will repeat this level of record earnings next year in 2024. However, as we have spoken about in the past, there are three main long-term global trends that we expect will continue to benefit our business in the coming years.

First, our electrochemical business is benefiting from its access to regulated, low-cost renewable hydropower against a backdrop of elevated energy costs globally. Second, our ultra-pure acid business is positioned to benefit from a significant increase in the North American production of semiconductors in the coming years. And third, growing demand and increasing regulations in water treatment are contributing to growth in our Water Solutions business.

Beginning in the SWC segment with our Water Chemicals business. As Rohit mentioned, our Water Chemicals business was a strong performer in the third quarter. A combination of factors has contributed to this robust performance and instilled confidence in the outlook for this business moving forward. The commercial initiatives, along with a focus on operating performance, have played a pivotal role in driving improvements in pricing and profitability.

Concurrently, the steady growth in demand for these chemicals, coupled with our strategic investments in additional production capacity, namely for PAC and ACH, has allowed us to capture an incremental share of the market. These capacity expansions are now running well and further contributing to results. Furthermore, the recent reduction in raw material input costs, particularly sulfur prices, has further bolstered our margins.

As we look forward, it's prudent to assume there will be some normalization to our Water Chemicals margin from current levels as our predominantly annual contracts come up for renewal. However, it's important to emphasize that our Water Chemicals are largely non-discretionary in nature, meaning we expect minimal impact on volume, even in an economic downturn. In addition, should economic weakness cause raw material cost to fall further, we could see further improvements in margins.

In our sulfur products, Regen acid continues to be a strong performer, both on pricing and volume. The demand for Regen acid is closely tied to driving activity and refinery utilization rates used in gasoline alkylate production. These factors tend to experience minimal impact during a standard recession. As a result, we anticipate continued strong performance in our Regen business in the near term.

For merchant acid, which is widely used in industrial chemicals, we have begun to see some softening of demand. We believe merchant volumes could decline further should industrial activity slow. Concurrently, merchant acid prices have been tracking sulfur prices, which are lower. However, recall that this business has risk sharing agreements in place with our byproduct suppliers, significantly mitigating the impact on margins of lower pricing.

For ultrapure acid, the favorable medium and long-term outlook remains intact with demand expected to increase materially as additional semiconductor production capacity comes online in North America. Given the United States' strategic focus to support onshoring semiconductor production and the announced fabs that are currently under construction, we remain very bullish on the macro conditions for this business. I will provide an update on the projects we have announced to capture this incremental demand shortly.

Moving over to our Electrochemicals business. As mentioned earlier, our EC segment continues to benefit from an advantaged energy cost position relative to overseas competitors. In sodium chlorate, the elevated overseas energy costs have led to increased opportunities for North American producers to export volume to Europe and Asia.

In conjunction with capacity rationalization in the industry in recent years, this has led to a tighter market, improved pricing, and significantly higher margins in 2023. We expect energy cost or our energy cost advantage to remain a positive factor in the coming years. While demand in Western Canada might be soft going into next year, we expect pricing to remain elevated due to strong export markets.

Chlorine and HCL both continue to be strong performers for Chemtrade. We have generated improved margins in these business on the back of solid demand and higher pricing. Market supply for merchant chlorine remains tight, supporting a continued favorable near-term outlook and demand for HCL used in fracking remained strong with rig counts in Canada at record highs and forecasted to remain strong, signaling continued good near-term demand.

In addition, higher energy costs in Europe have led to increased natural gas exports from North America, further contributing to HCL demand. Ultimately, however, the impact on our chlor-alkali chemical profitability from an economic downturn will be determined by the relative impact on demand of chlorine versus caustic soda. This could prove to be a net benefit for Chemtrade if chlorine demand is disproportionately impacted, resulting in the curtailment of industry chlor-alkali production and improved caustic soda pricing.

Encouragingly, after record high Northeast Asian soda prices fell in 2022 and steady declines in pricing through the first half of this year, Taiwan contract pricing and industry consultants suggest that caustic soda pricing has now hit a trough. The current expectation is that Northeast Asia caustic soda prices will now begin the upward trajectory, which will continue into 2024 and '25.

Our updated guidance for this year assumes an average Northeast Asia caustic index price of USD 455 per ton. This implies index pricing of USD 365 per ton for the fourth quarter of this year compared to USD 580 for the fourth quarter of 2022. While we do anticipate that realized caustic soda pricing will begin improving in the coming quarters, there's still a gap to close between current index pricing and the average price realized over the course of 2023. This is particularly true given our pricing tracks the index with roughly one quarter lag, with our Q1 '24 pricing already set.

To reiterate, 2023 is set to be the second consecutive year of record EBITDA for Chemtrade. With macroeconomic conditions and market fundamentals for several key products now beginning to soften, it is not appropriate to take this year's EBITDA as representative of the run rate for Chemtrade moving forward.

However, having said that, we believe we are much better positioned than most chemical manufacturers for a potential recession, given the defensive attributes of many of our key products, as I've just highlighted. Our strengthened balance sheet and the long-term global trends that we are benefiting from further enhance this defensiveness.

Switching over to our organic growth projects, we disclosed that we now expect growth capital expenditures this year to total between $50 million and $75 million. I'm pleased to report that our Cairo, Ohio ultrapure expansion and upgrade project continues to progress on schedule and on budget. As a reminder, this will be the first ultrapure acid plant in North America that will meet the more stringent requirements for ultrapure acid needed by the next-generation semiconductors. And it will further bolster our position as the top North American supplier of ultrapure acid. Construction at the plant is expected to be completed in the first quarter of next year with commissioning and start-up expected later in the year and commercial ramp-up expected in 2025.

In our Water Chemicals business, as we mentioned, the new capacity that we put in place in 2022 is now all running smoothly. With those small projects now behind us, we are planning additional small expansion projects next year in '24. As with all of our organic growth projects, we are being prudent in making these investments, ensuring that they meet attractive return thresholds. We will provide additional details on these opportunities as they progress. Given our strengthened balance sheet, we are in a strong position to make these and other attractive investments in growth, while still maintaining significant financial flexibility and keeping leverage within our targeted levels.

To conclude, I would like to reiterate how thankful I am to the whole Chemtrade team as these results are really a reflection of their grit and determination to continue driving Chemtrade to greater and greater heights. It is because of these team members that we are generating the record results you have been seeing, and I am supremely confident in our ability to manage through any environment. We expect to close out this year and enter 2024 with the same level of focus and execution that has driven our recent success. As I look across the organization, I am incredibly proud of what has been built to date and look forward to continuing to build on the strong track record that we have established. Chemtrade is becoming increasingly known for its diversified product portfolio and its operational reliability. At the same time, we have long-term tailwinds at our back that should propel some of our key products to new heights in the coming years. We have been delivering ongoing efficiency improvements across our footprint and we're taking a prudent approach to capital allocation, selectively investing in organic growth projects that will generate an attractive rate of return. With our strong balance sheet, conservative payout ratio, industry leadership on ESG, and defensive attributes, we believe the future remains incredibly bright for Chemtrade. With that, I'll turn the call back to the operator to open the call for analyst questions.

QUESTION AND ANSWER SESSION

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the one on your touch tone phone. You will hear a three tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the star followed by the two. If you're using a speakerphone, please lift the handset before pressing any keys. Your first question comes from Jacob Bout of CIBC. Please go ahead.

Jacob Bout, CIBC: Good morning. Maybe just to start off, just a question on the sustainability of the improvement in SWC margins. When you look at it on a year-on-year basis, I think revenue was actually down, but margins were up quite sharply. And maybe you can help us just, in buckets, what was the driver there as far as operational improvement, what was that versus lower raw material prices? And then, as you go forward, what part of that margin improvement would be sustainable in your mind? And really how does -- you talked about water contracts coming up for renewal. How does that play into your margins?

Rohit Bhardwaj: Okay. So, Jacob, I'll give you a couple of things here. One, if you look at the quarter, you look at the EBITDA dollar improvement over last year. The Water business accounted for all of that. It's actually a bit more than that. There are a few offsets in the rest of SWC. So water was extremely strong. If you look at -- if you talk about margin percentage, the one thing to be careful of is that because we have risk shared contracts and we are able to -- on the acid business, we're able to offset sulfur, when sulfur goes up, we're able to get higher pricing, when sulfur goes down, prices come down.

So bizarrely, what happens is, when revenue goes down, our margin percentage actually goes up because we are protecting a dollar per ton kind of margin on the acid business. And so when the revenue is down, that dollar per ton represents a higher percentage. You've got to be a bit careful with our percentage margins in this segment, but I hope that helps. But water was definitely strong in terms of when you're looking at next year, in terms of it continuing, I think the water is on track for a record year this year, and we'll maybe see some easing off next year, but we'll have to wait to see how the year unfolds.

And on the rest of the acid business, again, if there is economic downturn, the one risk we take in the acid business is volume risk, because we are pretty well insulated on pricing because we're able to -- through the risk share contract, share that with our supplier partners. But volume is a factor and if general industrial activity drops, we do take some hit on the volume. So we'll have to see how that plays out. And I think at this stage we'll probably leave it at that. I mean, we'll be giving guidance early next year, so we'll give a little bit more color at that point.

Jacob Bout: How about the operational improvement initiatives within this segment?

Scott Rook: Yes. So, I'll say we've seen continued operational improvements, particularly in our Water Chemicals business. And keep in mind that we have made several small capacity expansions with our PAC and ACH, and so those are running well. So particularly on the -- within the Water business what we've seen is for the last 18 months to two years in this business, our team has been pushing price hard as raw materials have continuously climbed.

And so, our pricing moves up in this business as well as -- tends to move up fairly quickly and then it's slower to come down. So I think that's in mind. And so, when raw materials fall like what's happened with sulfur prices, sulfur prices fell, that's a benefit in our Water business. And so we've definitely seen that improvement. But what's been happening is, is a lot of the improvement in pricing and then a fall in sulfur prices. But with that, better reliability and there is -- and we have the impact of the new capacity expansions in PAC and ACH, which will continue. So we remain optimistic about opportunities, in particular with that product lines.

Jacob Bout: And maybe just a quick second one here. Just, the full year guidance, you know raised it again. But when you actualize what you've done so far, it suggests that fourth quarter EBITDA would drop by 40% quarter-on-quarter. I know there's some seasonality here, but what level of conservatism are you baking in here?

Rohit Bhardwaj: So, I think, let's take a couple of things. One is we know that -- Scott actually outlined the caustic assumptions for you, and so caustic in Q4 this year is about USD 215 per ton lower than last year. So if you look at that that's, call it, $15 million right there. Seasonality is in a couple of places. Regen business, if you look at refinery utilization and driven miles in the U.S., Q4 and Q1 are a lot weaker than Q2 and Q3, the summer months.

In the Water business, you see a down -- a reduced demand for water products in Q4. You look at chlorine tends to drop off in Q4. Even HCL fracking tends to drop off in the last half of December. So there are many -- there is seasonality, it’s something that shouldn't be taken lightly. And then, combine that with the caustic difference, that's pretty significant reductions. And I think in terms of conservatism, we'd rather not get into that discussion.

Jacob Bout: Thank you.

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

Joel Jackson, BMO Capital Markets: Hi. Good morning. Thanks for taking my questions. Sorry if you hear any background noise. Maybe following up on Jacob's question, if you look at the implied Q4 EBITDA, if you do a $490 minimum, you're implying EBITDA margins are going to come down drastically and seems like in both segments. And caustic soda prices are generally hanging in, give or take, factor up a little bit now in October, although you set prices end of August, September, okay. But margins that you're implying, just huge margin drop, especially for Electrochem, when cost of prices are hanging in. Does that make any sense that that would happen in Q4?

Rohit Bhardwaj: So sorry, I'm not sure your comment on caustic, but I just said caustic is about $215. So, on caustic --

Joel Jackson: But it's quarter-over-quarter. I'm comparing margins between -- Electrochem margins in Q3 and Q4. So you're implying, if you get to $490 million EBITDA -- sorry to interrupt -- but you'd expect huge margin quarter-over-quarter implosion in Electrochem in Q4. Does that make sense?

Rohit Bhardwaj: So, I think -- so, we've talked about seasonality in that segment too. We've talked about reduced demand for chlorine in Q4. We've talked about HCL fracking going down in Q4. So, I would caution from going quarter-over-quarter because our business, it's hard to compare a Q3 with Q4. I'd rather compare Q4 last year with this year Q4, just because there is seasonality, so it's a little dangerous to go sequentially and we never talk sequentially for that reason.

So if you look at last year, we did $105 million in EBITDA and like $15 million write-off in caustic itself. And then there are a few other factors that come into play as well. So I think rather than focusing on our one quarter results, I think we should maybe look at the second half of 2023. And we think the second half is probably more indicative of a run rate for Chemtrade than looking at this one quarter. And as Scott mentioned, while we're very happy with our '23 results, we don't think that is particularly indicative of a go-forward run rate. So, as I said, not focusing on one quarter.

Scott Rook: We wouldn’t. But just adding color to that, as we've talked about this, we do think that the run rate that we're seeing in the second half of this year is -- it's more indicative. We will be giving updated guidance in January. But, Joel, as you and others are thinking about the business, I think what's important to note is that the run rate in the second half is fairly indicative of what we see going forward. However, next year, we're going to have the turnaround at Vancouver, which is obviously going to have an impact on the business. And then there could be some softening in the economy depending on what happens with overall GDP.

Joel Jackson: My follow up is, okay, I think it's $214 million EBITDA, as implied by -- for the second half of the year, if I must take your minimum case this year. So let's call that $420 million run rate, consensus is $400 million. At that type of EBITDA level, your payout ratio is going to be 30 -- that is kind of a three handle something in the 30s. In this higher interest environment where we could all go to the bank, you get a 4.5% or 5% GIC on guaranteed money. Is the 7% interest rate -- excuse me, 7% dividend yield, the right dividend yield for this company with such a very attractive payout cushion?

Rohit Bhardwaj: I think, I mean, if we look at -- Board and us look at capital allocation all the time. And I think this dividend was set in March of 2020. It's one of the things we look at. We look at, obviously, we're looking at organic growth capital to be deployed. So, yes, it's something that's looked at and we'll make -- the Board and us will make the right call when we think it's appropriate.

Joel Jackson: Thank you.

Operator: Our next question comes from the line of Nelson Ng of RBC Capital. Please go ahead.

Nelson Ng, RBC Capital: Great. Thanks. Morning, everyone. Just on that question of run rate. So, in the beginning of the year, back in January, you had an EBITDA guidance range of like $360 million to $400 million. Obviously, a number of things have turned out better than you expected. Can you just go through some of the, I guess, permanent or longer-term improvements you've seen over the past year or since January? I presume sodium chlorate prices are kind of one of them in terms of more disciplined pricing from the sector. But can you just hit on a few other things, where you're seeing a permanent or more permanent improvement?

Scott Rook: So, Nelson, I guess, I'll shy away from talking about permanent. I would love to be able to look at it and say with confidence, here's exactly what's going to happen three, four, five, and 10 years out. But what I would say as the stronger changes in the business right now. Number one changes that we've seen in the chlorate market, and so it is true -- so volumes have been relatively strong this year, although what's happening is that chlorate demand in North America has been declining. And so we've seen that.

But demand for chlorate from North America getting exported, exporting to Europe and exported to Asia because of the difference in global energy prices, that has remained -- that's allowed this market to remain relatively strong and with that significant pricing. As we look forward, we do see that demand for chlorate in North America will be dropping slightly. And so that's concerning. We're watching that and thinking that will exports remain in place because of the difference in energy prices? And we think so. And so I would say that we feel pretty confident that those export volumes will stay in place. So that's number one.

Next, we've seen, I think, a fundamental change in the chlorine market. And so there's been strong demand. There has been some capacity rationalizations. And so I think the positive changes that we've seen there are impactful and will stay. We've talked a lot about hydrochloric acid volume, hydrochloric acid demand as well as pricing. And so I'll call your attention to the rig counts. So the rig counts in Canada are at all-time highs. And I think long-term, what's happening is that fracking activity, both in the U.S. and in Canada has been gaining steam. And in Canada, it's at record volume. And so that's -- particularly Canada is very beneficial for our business that we have. And so as North America continues to export natural gas to Europe, I think that demand will stay in place for the foreseeable future, and that's going to lead to strong demand for HCL. So that's there.

And then the Water business, we're -- our Water business has been very strong this year. Strong underlying demand, improvements in reliability. We've added capacity, good pricing, and then we've benefited, no doubt, from a drop in sulfur prices. And so that is a large boost that's kind of come in in the second half.

Nelson Ng: Okay, that's great color. And then just switching gears a bit in your Cairo expansion. I just want to clarify, I guess, the timing. You say that construction completion is early next year. Does that mean it's like mechanically completed and then it's going to take some time to commission? And then for 2025, are you expecting it to go through a ramp-up stage in 2025? Or are you expecting it to be fully ramped in like for calendar 2025?

Scott Rook: Yes. So, a great question. Let me add this color. So we'll complete construction of this in first quarter of next year, and then we'll be up and running that plant in the second half of next year. And as we start running that plant, we will sell -- we're confident that we're going to sell material. So as we look at this market, there's -- we can sell that into the existing marketplace for semiconductors. There are other places where we can move this as well, but there's the existing older technology market for semiconductors that's in the U.S., think of that as the larger nanometer chip size.

And then, there's the small chip size from the fabs that that's what is currently being built by the new fabs. And so that's what's starting up. And so we'll be starting up and running and selling the plant in the next year, we'll be selling material. We'll be working on the qualifications. And so what will happen in '25 is we will be selling more and more of that into the small nanometer chip size. And eventually, that it's all going to be small nanometer chips material coming out of Cairo.

Nelson Ng: Okay. I see. So just to clarify, you'll be selling materials to the older technology as you certify your products so that it can be used in the smaller chips?

Scott Rook: That's exactly right. And so these -- and so what's happening, the timing of that is there are -- so there are fabs that are -- that I'll refrain from calling out which ones are which, but this is relatively public, I believe. So those fabs are getting built, and they will be starting up. And so many of the fabs that have added capacity will be starting up next year, but at different rates. Some will be -- we'll just say, starting up next year and into '25. So they'll be starting up and then ramping up their production. And then, for the next five years, there's more than a dozen fabs that are -- that will be built and started up.

Nelson Ng: Okay. And then just moving to the other project, Casa Grande. So like I'm thinking in terms of, like given that you'll be supplying TSMC. Like when do they actually need the acid and kind of working back? Like -- so, I think, there's articles out there saying they'll be completed in the first half of 2025. So sometime in 2025, they might need the acid. But I guess, do they actually need the acid from Casa Grande, or can they just import it from elsewhere? And then the other part of the question is, like how long does it take to construct Casa Grande if you were to move forward with it tomorrow, let's say?

Scott Rook: Yes. So let me put it like this. If we were to move forward with it tomorrow, it would take roughly 24 months to build. And then it would take more time, let's say, to start it up and get it run out and approved. So that's roughly the timeline, what we're talking about.

The -- it would be -- so the critical decision for us as we look at this would be having a very clear commitment from the fabs that we could ramp up to the volume that -- so if we're going to build this plant in Casa Grande, it needs to be world scale. It needs -- and we've said that would be roughly 100,000 tons. So we would need a very clear commitment from the fabs that we have a picture of that we could ramp up to close to 100,000 tons. And so, until we get that clear commitment that we could ramp up, then this project will probably stay on pause until we get that clear picture.

But the other thing that we have done is that we, as a joint venture, we have submitted the paperwork, and we have applied for government funding as parts of the U.S. CHIP Act. And we have inquired as to how long that's going to take and what's the probability and all that. We don't know at this time. I don't want to speculate. We're hoping that we'll hear something next year. That could have an influence on this project as well.

And I'll add that we have seen maybe a little slowdown in construction of the fabs, as it looks like the fabs are waiting to get money from the CHIP Act as well. And so, the pace of construction is a little bit slower than what the fabs had said it was going to be even 12 months ago. And we hear that's because they're also waiting to receive money from the CHIPS Act.

Nelson Ng: I see. And then you mentioned that there's going to be all these like -- or several fabs being coming online next year. So do you see a big shortage in domestic -- the domestic supply of ultrapure acid and are you expecting to see a lot of imports coming in?

Scott Rook: So the answer is, I think with -- over the next three years, yes, I think there's -- I think there's -- right now, there's going to be a shortage. And I think that's -- right now, the way the market is looking is that shortage would be met by imports.

Nelson Ng: Okay, got it. All right, thanks, Scott. I'll leave it there.

Scott Rook: Yep.

Operator: Ladies and gentlemen, as a reminder, should you have a question, please press the star, followed by the one. And our next question comes from the line of Gary Ho of Desjardins. Please go ahead.

Gary Ho, Desjardins: Thanks and good morning. Just wanted to maybe touch on the P2S5 business disposition. Kind of was that solicited, unsolicited? How did the disposition came about? Maybe you can disclose the EBITDA contribution on a trailing 12-month basis? And are there other kind of potential assets that you're looking to sell?

Rohit Bhardwaj: Okay. So this is a business that we acquired in 2005. It came along with our acid business. So was never really part of the portfolio -- a strategic part of the portfolio. And we did get some inbound calls on this business, and when we looked at it, there's not much synergy with the rest of our business. So it made sense to divest it. It's also an end market that was one that we didn't really participate in in any other way, and we're quite okay with exiting that end market.

And in terms of the EBITDA, it's actually not a material transaction. So you really won't see -- I would say, for your modeling purposes, I wouldn't even bother adjusting it. But to give you a rough idea, you can consider it over a 10x multiple. So obviously, it is attractive to somebody else's vehicle. It's a strategic fit for them.

In terms of your question on other parts of the portfolio, I mean, we look at that all the time, but there's no -- really not anything that's out there of any size that you should be thinking is something that make a meaningful difference. But having said that, we continue to be disciplined and look at the portfolio also.

Gary Ho: Okay, got it. Thanks for that. And then maybe a related question, but turning to capital allocation. So we kind of look at the pro forma, this transaction, kind of your leverage could grind down a little bit, but obviously next year, maybe your EBITDA profile drops a little bit as well. But when you look out and if the ultrapure acid project gets pushed out as well, any new discussions on capital allocation, buybacks? And are you comfortable in that 1.5x, 2x range?

Scott Rook: So, with capital allocation, it's a discussion that we have with our Board all the time. And as -- I'll just say, as we consider what to do with the cash that we're generating, the options that we have are to invest money in organic growth projects, number one, as well as any other changes that we could do to our capital structure. So those discussions do take place with our Board. We feel the optimal thing that we can do is put that money to work with growth projects and create value. And so where we see opportunities to do that, I think that will be our priority.

Rohit Bhardwaj: Yes. And in terms of the 1.5x to 2x, we wouldn't be comfortable with that in the long run because that's an inefficient balance sheet. But for a period of time, we're willing to be okay with it being there because we know that we have lots of ideas to grow this business, and we think that will be the best use of that money for the long-term interest of our unitholders.

Gary Ho: Okay. And would you look at any potential M&A, by any chance?

Rohit Bhardwaj: Yes. I mean, that's something --

Scott Rook: I'll just say that, that certainly, as we think about the ways to grow the company, those -- our ideas are build or we categorize them in terms of build or buy. And so, yes.

Rohit Bhardwaj: But unlikely, if you look at Chemtrade's history, the last couple of deals, we did about a $1 billion each. So it's unlikely we would do something of that magnitude because we now do have organic opportunities. Even if you park Casa Grande, there are other opportunities in the business. So it's unlikely to be something of that magnitude, but definitely something more manageable size that might make sense.

Gary Ho: Great. And then if I can just sneak one more in. There was some recent announcement from your Suzano partner in Brazil on expansion investment. Just curious if you can give us an update on that relationship and whether you expect to benefit from their investment?

Scott Rook: So our partner in Brazil is building -- actually, they have two plants that they are building. But we are not in a position to supply chemicals for those products. And, yeah, unfortunately, we're not in a position to do that.

Gary Ho: Got it. Okay. Those are my -- thanks very much.

Scott Rook: Yeah.

Operator: And there are no further questions at this time. So I'll hand the call back to Scott and Rohit. Please proceed.

Scott Rook: All right. Well, again, we'd like to thank everyone for attending the call, and hope you have a good rest of the day. Bye.

Rohit Bhardwaj: Thank you. Bye.