FMC Corporation

Second Quarter 2019 Earnings Call Script

July 31, 2019

As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's second quarter earnings call. Joining me today are Pierre Brondeau, Chief Executive Officer and Chairman; Mark Douglas, President and Chief Operating Officer; and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Pierre will review FMC's second quarter performance and provide the outlook for the rest of 2019. Andrew will provide an overview of select financial results. Mark will then address the long-term sustainable growth for Rynaxypyr® and Cyazypyr® insect controls. We will then address your questions.

The slide presentation that accompanies our results, along with our earnings release and 2019 Outlook Statement are

available on our website and the prepared remarks from today's discussion will be made available after the call.

Finally, let me remind you that today's presentation and discussion will include forward-looking statements that are subject to various risks and uncertainties concerning specific factors, including but not limited to those factors identified in our press release and in our filings with the Securities and Exchange Commission. Information presented represents our best judgment based on today's information. Actual results may vary based upon these risks and uncertainties.

Today's discussion and the supporting materials will include references to adjusted EPS, adjusted EBITDA, adjusted cash from operations and free cash flow – all of which are non-GAAP financial measures. Please note that "earnings" shall mean "adjusted earnings" and "EBITDA" shall mean "adjusted EBITDA" for all income statement references. A reconciliation and definition of these terms, as well as other non-GAAP financial terms to which we

may refer during today's conference call, are provided on our website.

With that, I will now turn the call over to Pierre.

Business Review – Pierre Brondeau

Thank you, Michael, and good morning everyone.

As you saw in our earnings release, FMC continued to outperform the market, as we have for the past seven quarters. We delivered results in line with our forecast and adjusted to specific local conditions in the quarter.

FMC Reported Financial Results ***(Slide 3)***

Turning to slide 3, FMC reported $1.2 billion in second quarter revenue which reflects a year-over-year increase of 4.5 percent on a reported basis and 9 percent organic growth excluding FX headwinds. This increase was mostly driven by strength in Brazil, India and EMEA.

Adjusted Company EBITDA was $338 million, an increase of 6 percent compared to recast financials from last year and $3 million above the midpoint of our guidance. Company EBITDA margins were 28 percent, up year over year despite $64 million in combined headwinds from raw material costs and foreign currencies.

Adjusted EPS was $1.66 in the quarter, an increase of 11 percent versus recast Q2 2018 and 1 cent above the midpoint of our guidance. The strong year-over-year EPS growth was driven by price increases, higher volume and a lower share count.

Q2 2019 Revenue Increased 4.5% ***(Slide 4)***

Moving now to second quarter revenue on slide 4. Q2 revenue grew by 4.5 percent versus prior year, with volume contributing 5 percent growth and price/mix another 3 percent growth. This was offset partially by a 4 percent headwind from FX.

Although Q2 is a seasonally smaller quarter of the year in Latin America, sales in that region grew 29 percent year over year, or 34 percent organically, continuing the trend from Q1. Drivers include strong revenue growth in Brazil across the portfolio, with high demand for applications on cotton and sugarcane, and price increases that more than offset the impact of FX on both revenue and earnings. Following such a strong first half in Latin America, it is important to note that we continue to monitor channel inventory levels of FMC products very closely in Brazil. They are at an all-time low for this point in the season.

In EMEA, improved market conditions in Russia and Ukraine, good demand in Southwest Europe and new country registrations for Cyazypyr® insect control drove year-over-year revenue growth of 4 percent. Organic growth was 10 percent.

In Asia, revenue was down 2 percent overall, but increased 4 percent organically year over year. We were especially pleased with the strong performance in India,

where our sales grew over 20 percent, driven by growth in herbicides for sugarcane and the benefits of our new commercial organization structure, which we put in place about a year ago.

In North America, revenue was down 2 percent year over year, as the well understood weather issues in the quarter caused a reduction in demand from our row-crop customers. This low demand was offset in part by strong sales of Rynaxypyr® insect control, especially in niche crops in California, and our new fungicide, Lucento®.

Q2 2019 Adj. EBITDA Bridge *(Slide 5)*

Turning to slide 5, second quarter EBITDA was $338 million. Price increases in all regions and strong volume demand everywhere but North America combined to more than offset the headwinds from raw material costs and FX, leading to 6 percent growth versus recast results from Q2 2018.

FY 2019 and Q3/Q4 Earnings Outlook *(Slide 6)*

Moving to our 2019 outlook on slide 6. We are maintaining our guidance for 2019 revenue and EBITDA. We expect full-year 2019 revenue to grow 6 percent at the midpoint, or 9 percent organic growth excluding a forecasted 3 percent FX headwind. We expect total company EBITDA to grow 8 percent. We are increasing our 2019 EPS guidance to a range of $5.68 to $5.88, which represents a gain of 10 percent at the midpoint over recast 2018. Our EPS guidance now reflects the $200 million of buybacks completed in the first half of 2019, as well as an additional $200 million of buybacks anticipated in the second half. We continue to plan to make $400 to $500 million in total share repurchases in 2019, but our EPS guidance reflects the lower end of this range.

For the third quarter, we expect revenue to be in the range of $960 to $990 million, which represents year-over-year growth of 6 percent at the midpoint. We are also

forecasting EBITDA of $190 to $210 million in Q3, which would be an increase of 7 percent year over year at the midpoint. As expected, the impact from FX will be more muted in the second half of the year. We expect third quarter EPS to be in a range of $0.75 to $0.85, up 13 percent at the midpoint versus recast results from Q3 2018.

The third quarter is the seasonally smallest quarter for FMC, which is in-line with the quarterly pattern from 2018, as Q3 is not a high season in any of our regions. The healthy growth we forecast is in-line with our full-year growth expectations, and our Q3 guidance is essentially in-line with the prior year period as a percent of annual sales, annual EBITDA and annual EPS.

Guidance for Q4 implies a very strong quarter with sales growth of 7 percent, EBITDA growth of 17 percent and EPS growth of 10 percent, all at the midpoint of the ranges versus recast Q4 2018 results.

Q4 performance will be driven by Latin America. In Brazil, similar to last year, we have already received nearly 70 percent of the orders needed to deliver our second half forecast. This is giving us a very strong confidence in our ability to deliver our financial targets for the second half. However, we are carefully monitoring the North America market and channel inventories.

For 2019, we now expect the overall global crop protection market will be flat – on a U.S. dollar basis – down slightly from our previous outlook. We expect Latin America to grow faster, in the high-single digits, and North America to be weaker, down mid-single digits. This adjustment in market forecast does not change our overall outlook for FMC's financial outperformance relative to the market.

Projected FY 2019 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 7)***

Turning now to our full-year EBITDA bridge and revenue drivers on slide 7. Our full-year cost headwind is higher

than our prior forecast, mainly due to increased tariffs in the U.S. and a delayed re-opening of a key tolling partner in China. However, strong pricing is now expected to offset over 70 percent of the $220 million in combined headwinds from cost and FX.

Projected Q3/Q4 2019 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 8)***

Moving to slide 8, we provide the key drivers for EBITDA and revenue growth in Q3 and Q4. Volume growth and price increases are expected to be consistent drivers of our revenue and earnings performance.

I will now turn the call over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Pierre.

Let me start this morning with a few specific income

statement items. Interest expense for the quarter was $4 million higher than implied by our prior full year guidance, due to higher interest rates on foreign borrowings and higher than anticipated commercial paper balances. Interest expense for the full year is now expected to be in the range of $144 to $148 million.

The adjusted effective tax rate for the quarter was 15 percent. We are maintaining our full-year tax rate guidance of 14 to 16 percent.

Weighted average diluted shares outstanding for the second quarter was 132.3 million, down nearly 4 million shares versus the prior year period, reflecting the benefit of the $400 million in share repurchases we have made over the past 3 quarters.

Moving on to the balance sheet and cash flow. Gross debt as of June 30 was $3.2 billion, up roughly $100 million from the end of March. Gross debt to trailing 12-month EBITDA at quarter-end was 2.8 times. This is

above our targeted leverage of 2.5 times due to the seasonality of our cash flow and the timing of share repurchases. We continue to expect to see leverage drop to 2.5 times or lower for the full year.

2019 Cash Flow Outlook ***(Slide 9)***

Turning to slide 9. Adjusted cash from operations was negative $174 million dollars in the first half of 2019, below the prior period. Non-recurring impacts that benefitted working capital in the prior year period, as discussed in our last earnings call, remain the largest contributor to the year-on-year change. Additionally, cash from operations in the second quarter was also impacted by credit term accommodations made to certain North American customers in light of extreme market conditions, more than half of which has already been paid to us in Q3. We also had higher sales in Latin America and India where normal terms extended beyond quarter end. These additional factors will unwind over the following two quarters, and as such, we are maintaining our full year guidance for

adjusted cash from operations at $750 to $850 million, with strong operating cash generation in both the third and fourth quarters.

Capital investment through mid-year, while lagging the pace implied by our full-year guidance, is in-line with project schedules.

We are maintaining our full-year guidance for free cash flow of $375 to $475 million. However, we are currently exploring a few product line acquisitions as well as certain capital investments to support the rapid growth of our diamides platform. These opportunities, if pursued, would reduce full year free cash flow somewhat, though they would further reinforce our growth trajectory.

We have repurchased 2.56 million FMC shares year-to-date at an average price of $78.11, for a total of approximately $200 million. It is our intent to remain a regular purchaser of FMC shares throughout the year. Though we have not purchased any shares since quarter

end, you should expect we will make further repurchases during the third and fourth quarters. As Pierre said, we intend to repurchase a total of $400 to $500 million of FMC shares in 2019. I note that our full-year EPS guidance reflects the benefit of repurchases at the lower end of this range, in light of the potential additional investment opportunities I just mentioned.

And with that, I will turn the call over to Mark.

Diamide Franchise Discussion – Mark Douglas

Thank you, Andrew.

Over the last few months we have seen numerous published reports discussing our diamide insecticide portfolio, speculating on the timing of patent expirations and the impact these may have on the long-term profitability and growth of these important active ingredients.

I want to take the time today to provide further clarity on not only our patent estate and the timing of key patent milestones, but also on other critical elements that will allow FMC to continue to profitably grow the diamide franchise well beyond the expiration of key patents. These other critical elements include registration and data protection, commercial strategies, brand recognition, as well as manufacturing and supply chain complexity.

Our diamide portfolio consists of two key molecules – Rynaxypyr® and Cyazypyr® insect controls – with current combined annual revenues of approximately $1.5 billion. It is important to note that Rynaxypyr® and Cyazypyr® are FMC's trademarked brand names for the active ingredients chlorantraniliprole and cyantraniliprole. These two molecules are class-leading in terms of performance, combining highly effective low dose rates with fast-acting, systemic, long residual control. These attributes quickly established Rynaxypyr® as the world's leading insect control technology and we expect it to continue on a strong growth trajectory.

Types of Patents for Rynaxypyr® & Cyazypyr® Active Ingredients *(Slide 11)*

Moving to slide 11 to begin our discussion of the diamide patent estate, let me first pause to recognize DuPont. Out of all the quality assets we acquired in 2017, the IP estate and thought that went into building the IP protection of these molecules was extremely well done.

I will largely confine my comments to Rynaxypyr® insect control though the same comments are generally true for Cyazypyr® insect control with timelines extended by 18 months.

The Rynaxypyr® insect control patent estate is made up of several different patent families which cover:

- Composition of matter – both AI and certain intermediates
- Manufacturing processes – both AI and certain

intermediates

- Formulations
- Uses
- Applications

For Rynaxypyr® insect control we have 21 patent families filed in 76 countries, with a total of 639 granted and pending patents. Together with Cyazypyr® insect control related patents, we have over 30 patent families and close to 1,000 granted and pending patents.

Composition of matter patents cover the structure of the molecule and are generally the patents that most observers have focused on.

Process patents cover the manufacturing processes for both active ingredients – chlorantraniliprole and cyantraniliprole – as well as key intermediates that are used to make the final products. In the case of Rynaxypyr® and Cyazypyr® insect controls, these process patents are extremely important.

Chlorantraniliprole is a complex molecule to produce. In fact, its production requires 16 separate steps, many of which produce an intermediate that's sole use is in the production of chlorantraniliprole. This is very important as it means there are no other commercial uses for these intermediates and hence no other commercial outlets for them. Importantly, FMC has many of these 16 process steps separately patented. Several of these intermediate process patents run well past the expiration of the composition of matter patents, and in some cases stretch all the way to the end of the next decade.

Third parties that intend to manufacture and sell generic chlorantraniliprole and cyantraniliprole and rely on FMC's product safety data will be required to demonstrate that their product has the same regulatory safety profile as FMC Rynaxypyr® and Cyazypyr® insect controls. To meet these stringent regulatory requirements for such difficult-to-manufacture molecules, the AI's will have to be made the way we are making it, which is protected by FMC

process patents.

Process patents can also include manufacturing processes that are not currently used but are alternative ways to manufacture our diamides. We hold patents on several alternate processes. It is important to note that these alternative processes do *not* match our diamide impurity profile.

Formulation patents cover the use of an active ingredient in specific formulations while use and application patents cover how the products are used and how they are applied.

In addition to the patent estate, various regulatory bodies around the world also offer added protection to the holder of patented molecules in the form of data protection and registration timelines that can extend after the composition or process patents have expired. This means that the patent holder is afforded a further period of exclusive use after the applicable patents have expired.

Over the coming slides, I will show by major country how the patent estate, registration timeline and data protection come together. These highlighted countries currently account for over 70 percent of our diamide revenue.

Rynaxypyr® Active Ingredient Patent Protection – Europe ***(Slide 12)***

Turning to slide 12, you can see how we view the entire timeline for Europe. We have two paths of protection.

First, we have patent protection for the composition of matter through August 2022, and later in certain EU countries. In addition, and importantly, we have patent protection through December 2025 for key processes that are required to manufacture Rynaxypyr® insect control. In effect, this means that no one will be able to manufacture or import chlorantraniliprole in the EU until December 2025, as they would be infringing our process patents.

Second, in Europe, owners of patented active ingredients are also granted exclusive data protection, which, for chlorantraniliprole, effectively means a third party cannot use the FMC data to gain a registration for a period of 13 years after the first registration of chlorantraniliprole. In addition, a further 2.5 years of data protection will be given at the initial re-registration of the active ingredient. Practically speaking, this means that no one seeking to register chlorantraniliprole can use FMC generated data to apply for a registration during the data protection period, which runs through end of October 2026. A third party can start to generate their own product specific data for registration purposes during this period, and after the data protection period has expired they could then apply for a registration, which under EU rules should take 18 months but generally takes 2 years. This multi-layered framework means that we will not see competitive sales of chlorantraniliprole until Q2 2027 at the earliest in the EU, unless it is sales of products sourced from or under license from FMC.

Rynaxypyr® Active Ingredient Patent Protection – U.S.

(Slide 13)

On slide 13, you can see a similar chart to what we had in the EU with regards to patent protection but with a different registration process. The U.S. does not have the same type of data protection as in the EU, however under U.S. patent law a third party cannot test or generate data or sell product in the U.S. prior to patent expiration. This means that any third-party company wishing to gain registration to manufacture and sell chlorantraniliprole cannot start the regulatory process until our main process patents begin expiring in December 2025. At that time, the third-party company can apply for a federal registration, which under normal circumstances will take about 12 months. After the federal registration has been granted, a state registration is also needed for each state where the product will be sold. These state registrations normally take an additional 6 months to be granted. In addition, the third party is legally required to compensate the data holder – in this case FMC – for using FMC's data to gain a registration.

This robust patent protection and regulatory timeline means that we do not expect a third party to be able to sell chlorantraniliprole in the U.S. until June 2027 at the earliest, unless they are supplied or licensed by FMC.

Rynaxypyr® Active Ingredient Patent Protection – China, India *(Slide 14)*

Moving to slide 14 which shows the timeline for two other key countries for diamides – China and India. Similar to other countries we've reviewed, you can see the AI composition of matter patents expire in August 2022, and the key process patents begin expiring in December 2025.

In India and China, a third party can start applying for a registration for a product during the timeframe that a molecule has patent protection. However, in both these countries, we have the key manufacturing processes patented, which effectively means that even if the registration is granted, a third party could not start selling

competitive chlorantraniliprole until Q1 2026, at the earliest.

Rynaxypyr® Active Ingredient Patent Protection – Brazil *(Slide 15)*

Finally, the last country I will cover is Brazil on slide 15. The patent timelines for Rynaxypyr® in Brazil are longer than most other countries. The composition of matter patent on the AI will expire in April 2023, and our key process patents will begin expiring in August 2026.

Under current Brazilian regulatory practices, a third party can apply for a registration before the patents have expired. However, Brazil has a law protecting the exclusive use of initial registrant's data for a period of time after the initial registration. FMC believes that any company that files for registration during the period of our continued data exclusivity falls foul of this Brazilian law. We have initiated a legal process with the Brazilian regulatory authorities to have FMC's data exclusivity

respected. Taking this into account means first competitive sales of chlorantraniliprole will not occur before September 2026.

Beyond Patents: Growing FMC's Diamide Franchise *(Slide 16)*

Turning to slide 16. The second part of our growth strategy for the diamides is our commercial approach. It should be very clear that we have air-tight patent coverage for the process of manufacturing the diamides. However, we are also advancing a strategy of allowing others to sell Rynaxypyr® and Cyazypyr® insect controls, as long as they purchase the active ingredients or formulations from FMC and license the trademarks.

Selling active ingredients to third parties is a profitable way for us to grow our business, as it increases the market reach for the molecule. It is not EBITDA margin dilutive – at a reasonable gross margin, the absence of SG&A expense for FMC means incremental gross margin drops

straight to EBITDA. The third party bears all costs related to formulating the AI into a marketable product as well as selling and distributing the product to the customer.

As of today, we have commercial agreements already in place or are actively negotiating new agreements with more than 15 companies to supply Rynaxypyr® and Cyazypyr® on a global or country basis BEFORE patent expiration. We are continuing to explore opportunities with additional companies beyond the 15 we are already engaged with today. The duration of the agreements extends well beyond the patent expiration dates and are exclusive in nature. This means our third-party partners will be required to purchase a large majority of their diamide requirements from FMC over the lifetime of the agreement and ALL their needs prior to expiration of our process patents.

The number of companies where we already have signed supply contracts, or have ongoing negotiations, demonstrates that many competitors would prefer to

partner with us rather than attempt to manufacture a complex product that is highly protected by IP.

Our commercial strategy ensures that the diamide technologies will continue to gain market share. These new commercial partners will leverage different market access in diverse geographies and crops, with different formulations than FMC has today. These activities will be additive to the overall growth of the FMC diamide franchise. For years past the patent expiration dates, FMC will have a growing diamide business with a strong share of the market at the grower level and an even stronger share of the molecule at the manufacturing level.

Beyond our significant patent protection and commercial strategy, the complexity of manufacturing and scale economies FMC enjoys are further underappreciated aspects of the long-term strength of the diamides platform.

Today FMC manufactures all the required intermediates in the 16-step process, as well as the final Rynaxypyr® insect

control products, at our own active ingredient manufacturing plants or via partners under exclusive long-term agreements. For a third party to replicate this complex supply chain and manufacturing network would be a major undertaking with very large capital requirements.

In addition, given the know-how we have and the scale of our operations, FMC's manufacturing costs will be substantially lower than any new entrant. This explains why we are confident most companies that want to participate in the formulated diamide market will choose to do so in partnership with FMC.

In closing, I hope I have addressed any misperceptions about the long-term sustainable growth of FMC's diamide franchise.

Our deep patent estate, propriety regulatory data, manufacturing scale and knowledge, strong brand recognition, as well as commercial approach, will ensure

that FMC is the company of choice to supply diamides to third-party partners. This will further ensure that the diamides franchise continues to be a major driver of value for FMC through the end of the next decade and beyond.

And with that, I will turn the call back to Pierre.

Concluding Remarks – Pierre Brondeau

Thank you Mark for covering that important topic.

To conclude our prepared remarks, FMC delivered another quarter of financial outperformance – despite the challenging Ag environment in the U.S. Volume demand and price increases in other regions around the world are continuing to deliver strong revenue and EBITDA growth.

At the beginning of this month, we successfully launched our new SAP system with a pilot in Brazil. The new system is performing very well – 20 percent of FMC now operates on the new S/4HANA system – and we expect to

complete the full implementation in Q2 2020. The Brazil launch is a major milestone in the implementation process, which is giving us strong confidence that we will be able to implement the full system without disrupting our operations.

In May, we indicated that we would provide an update on the R&D pipeline on today's call, but we felt it more important to dispel misperceptions about our diamide franchise. Rather than squeeze an R&D update into a future earnings call, we will have a more comprehensive and in-depth R&D investor event in the first half of next year.

FMC remains well positioned to outperform the industry, and our focus on crop chemicals and biological products is an advantage. Short-term execution is delivering superior quarterly results, and we are confident that our current portfolio and technology pipeline will deliver long-term growth.

I will now turn the call back to the operator for questions.

Thank you for your attention.

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