FMC Corporation

Third Quarter 2019 Earnings Call Script

October 30, 2019

As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's third 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 third quarter performance and provide the outlook for the remainder of 2019. Mark will take an in-depth look at our Latin America business, followed by Andrew who will provide an overview of select financial results. 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 understanding. 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.

FMC continued to deliver strong financial performance in the third quarter and navigated difficult market conditions, particularly in North America and Europe. This performance is consistent with prior quarters, due to our unique blend of balanced geographic exposure, strong sales in specialty crops and a technology-advantaged portfolio. A good example of how all these elements drive strong growth is our diamide franchise that has grown 35 percent since we acquired the business two years ago. This growth was enabled by the previously mentioned elements, in addition to a robust commercial approach that has led to volume demand in previously untapped markets. We believe that our business is well positioned to consistently deliver strong growth.

<u>FMC Reported Financial Results</u> ***(Slide 3)***

Turning to slide 3, FMC reported more than $1 billion in third quarter revenue which reflects a year-over-year increase of 10 percent on a reported basis and 12 percent organic growth excluding FX headwinds. This increase was mostly driven by double-digit organic growth in Brazil, Argentina, Mexico, France, India, China and Pakistan, as well as price increases across all regions. Adjusted Company EBITDA was $219 million, an increase of 18 percent compared to recast financials from last year and $19 million above the midpoint of our guidance. Company EBITDA margins were 21.6 percent, up 140 basis points year over year, despite $42 million in combined headwinds from raw material costs and tariffs.

Adjusted EPS was $0.94 in the quarter, an increase of 32 percent versus recast Q3 2018 and 14 cents above the midpoint of our guidance. The strong outperformance versus our guidance was driven primarily by higher volume and pricing, which led to a 12.5 cent beat on the EBITDA line.

<u>Q3 2019 Revenue Increased 10%</u> ***(Slide 4)***

Moving now to third quarter revenue on slide 4. Q3 revenue grew by 10 percent versus prior year, with volume contributing 8 percent growth and pricing another 4 percent growth. This was offset partially by a 2 percent headwind from FX. This was the third consecutive quarter that we posted year-over-year price increases in every region of the world. Our growth in Q3 was stronger than expected due to unforecasted demand opportunities. We saw no shift of demand from Q4, as the growth in the third quarter was due entirely to Q3 demand.

As expected, Latin America made up 45 percent of our third quarter revenue. Sales in Latin America grew 21 percent year over year, or 22 percent organically, continuing the trend from the first half of 2019. We posted very strong growth across the region, driven by higher volumes and price increases. Our pricing actions more than offset the impact of FX. Demand was high for applications on cotton and sugarcane in Brazil. It is important to note that we continue to monitor channel inventory levels in Brazil, which are well controlled and in line with expectations for this point in the season. Our market access continues to improve in Argentina, which allows us to take advantage of increasing demand for our products, specifically for Rynaxypyr® insect control and Authority® herbicides. Growth in Mexico came from more normal weather conditions compared to earlier in the year. Year to date, our sales in Latin America grew 29 percent organically.

In EMEA, herbicide and insecticide demand drove year-over-year revenue growth of 4 percent, despite another very hot summer and fall. Demand for our new Battle® Delta herbicide benefitted from a stronger-than-predicted cereal market across Europe, led by France and Germany.

Cyazypyr® insect control continued to benefit from new country registrations. Price increases more than offset a 4 percent FX headwind. Organic growth was 8 percent in the quarter and stands at 10 percent year-to-date.

In Asia, revenue increased 5 percent overall and 9 percent organically year over year. Following a strong Q2, India again delivered commercial outperformance driven by demand for our insecticides to combat fall armyworm as well as share gains in the rice granule market with our Rynaxypyr®-based Ferterra® insecticide. Cyazypyr® insect control was also strong on fruits & vegetables. We continue to benefit in India from our new commercial organization structure, which we put in place about a year ago. We also had significant revenue growth in Pakistan, driven by strength in diamide demand and new product introductions. Year to date, our sales in Asia grew 7 percent organically, excluding significant FX headwinds across many currencies.

In North America, revenue was down 3 percent year over year in the seasonally smallest quarter. As expected, we saw reduced demand for our herbicides in the Midwest and Canada, as the weather issues this spring resulted in higher channel inventories of those products. This was partially offset by continued price increases and by share gains for our diamides for specialty crop applications. Despite the extreme weather-related challenges in this region, our year-to-date sales in North America are up 1 percent.

Q3 2019 Adj. EBITDA Bridge ***(Slide 5)***

Turning to slide 5, third quarter EBITDA was $219 million – a year-over-year increase of 18 percent compared to recast results from Q3 2018. Price increases in all regions and volume demand in Latin America, Asia and EMEA were drivers of this very strong performance.

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

Looking ahead at the full-year earnings outlook, we are raising our full-year guidance for 2019. Revenue is now expected to be in the range of $4.58 billion to $4.62 billion. Total company adjusted EBITDA is now expected to be in the range of $1.2 billion to $1.22 billion. We are also raising our guidance for 2019 adjusted earnings to a range of $5.80 to $5.90 per diluted share. EPS estimates include the impact of $300 million in share repurchases completed year to date through September 30, as well as an additional $100 million in share repurchases expected in Q4 2019.

Fourth quarter revenue is now expected to be in the range of $1.17 billion to $1.21 billion, representing 8 percent growth at the midpoint compared to recast fourth quarter 2018. Total fourth quarter company adjusted EBITDA is now forecasted to be in the range of $300 to $320 million, representing a 13 percent increase at the midpoint versus recast Q4.

We expect adjusted earnings per diluted share to be in the range of $1.46 to $1.56 in the fourth quarter, representing an increase of 3 percent at the midpoint versus recast Q4 2018 and assuming diluted shares outstanding of approximately 130.5 million. Year-over-year EPS growth will be constrained by the very low tax rate in Q4 2018.

Market Outlook

Looking at the global market for crop protection products, we continue to expect 2019 will be flat on a U.S. dollar basis compared to 2018. We expect the Latin America market to grow in the high-single digits and the North America market to be down in the mid-single digits. We expect both EMEA and Asia markets to be flat to down low-single digits. Our forecast for the Asia market is slightly reduced, due to the strengthening of the U.S. dollar over the past few months. This market forecast does not change our expectations that FMC will continue to deliver 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. The main driver of the improved forecast is volume gains, which now contribute 17 percent year-over-year EBITDA growth. Pricing actions around the globe are expected to offset about two-thirds of the combined cost and FX headwinds. Supply from China has improved throughout the year, but some challenges remain. The last of our strategic tollers that was impacted by the recent shutdowns in China is set to restart its production in two weeks.

I would also like to highlight the full-year revenue drivers. We now expect revenue growth of 7 percent overall and 11 percent organically. Both the volume and pricing gains have been consistent throughout the year. As a reminder, this full-year growth in 2019 follows organic growth of approximately 13 percent in 2018, on a pro forma basis.

Projected 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 Q4. As stated earlier, we saw no shift of demand from Q4 into Q3. In fact, we raised our Q4 revenue guidance by $15 million at the midpoint. However, we reduced our EBITDA guidance for the quarter by $10 million at the midpoint due to higher costs and less favorable FX benefit, as compared to our July guidance. The positive combined impact on our Q4 EBITDA from volume and price/mix is exactly the same as we showed in our prior guidance.

Fourth quarter performance will be driven by strong volume growth in all regions. Included in this volume are new product launches, which are expected to deliver about $20 million of our total revenue growth of $90 million in the quarter. These launches include Lucento® fungicide, Ethos® insecticide/biofungicide in North America and Cyazypyr® insect control in South Africa, Malaysia and

Vietnam. Pricing actions are expected to fully offset the FX headwinds at the revenue level.

We would also like to highlight the rapid growth of Cyazypyr® insect control which has become our fastest growing molecule and is now our fourth largest by revenue. Forecasted 2019 sales of Cyazypyr® insect control are expected to be around $300 million, driven by registrations in new countries and crops.

I will now turn the call over to Mark to take an in-depth look at our Latin America business.

Latin America Discussion – Mark Douglas

Latin America Is the Largest Region for FMC in Revenue and EBITDA ***(Slide 9)***

Thank you, Pierre.

Turning to slide 9, it has been some time since we reviewed our regions in depth. We thought it would be appropriate to start with Latin America, since that is one of our key markets in the second half of the year. It is our largest region by annual revenue and has margins in-line with the rest of the world.

Over the next few minutes I will walk through the business and highlight our country exposure as well as crop diversity. In addition, I will review our go-to market strategies and market shares as well as discuss growth drivers for the coming years. And last of all, I will explain some of the key factors that are driving much higher margins than we had 5 years ago in this region.

In the Latin America North sub-region, our annual revenue is approximately $130 to $140 million, with Mexico delivering the vast majority of that revenue. In a market that has only grown 1 percent over the past few years, we have increased our market share to approximately

9 percent as we have grown our business by double digits over the same period. Our route to market is generally through local distribution and retail companies. We have a strong presence in the corn market, and we are a market leader in several specialty crop markets, where our innovative products help protect fruits and vegetables that will be exported to the U.S. and Europe. We sell the full range of crop protection products in Mexico, but we have a leading market position in insecticides. Our portfolio is also complemented by a growing plant health business – particularly biologicals – which represents approximately 5 percent of our business in the country. Our Mexican organization also supports our team in Central America, where we work with distributors in all the countries for sales into specialty crops such as bananas.

Moving south, we come to the Andean sub-region, comprised of Ecuador, Colombia and Peru. This sub-region is our smallest and least penetrated in Latin America, with revenues of only $15 to $20 million. We have less than 5 percent share of this market, which is mainly focused on a variety of specialty crops, including bananas, flowers, rice and avocados. Our growth is coming from new distributor relationships, which are improving our grower reach and exposure.

Turning to the Southern Cone sub-region, where we have revenue of approximately $200 million from Argentina, Chile, Paraguay, Bolivia and Uruguay. We have a market share of approximately 6 percent. Argentina is the most significant contributor of revenue in the sub-region, and in 2019 it is expected to be FMC's fourth largest country globally.

Our Argentinian business is focused on row crops with a major emphasis on soybeans, which account for about 70 percent of our revenue in the country. Over the last three years we have undertaken a major transformation of the business, moving from an exclusive distribution partnership, to now, a wholly owned subsidiary that sells to multiple distribution and retail companies. Today our sales and technical representatives are present in all the major production areas in the country.

Our Authority® brand pre-emergent herbicides are market leading and continue to show strong growth as glyphosate resistance builds across the country. We also sell a broad range of insecticides and fungicides into these markets. Our products are also used on corn, sunflower, wheat and specialty crops such as the growing vine segment.

Chile is an important country for fruit and vegetable crops. Similar to the U.S., the key to access the Chilean market is to partner with the few large national distributors, a model we have successfully transitioned to over the past few years.

Finally, Brazil, our largest country from a revenue perspective, represents about 20 to 22 percent of our total company sales and remains extremely important to our long-term growth plans. We have about 9 percent share in this market, which was approximately $10.5 billion in 2018.

We have had a direct commercial presence in Brazil for decades, covering all the major regions. Today we have approximately 700 employees in the country, of which 300 are agronomists. These agronomists focus on demand generation – both directly with growers and by partnering with retailers – to help growers find solutions for their problems.

We have leading positions in the sugarcane and cotton markets and serve growers and sugar mills either directly or through alliances with co-operatives. We are also one of the top three players in citrus, rice, coffee and tobacco. As we expand our market access, we have seen soybean and corn become our fastest growing segments. We have developed multiple routes to access these large yet fragmented markets in Brazil. This access enables direct sales to very large growers in the Cerrado area – mainly Mato Grosso and Bahia. We also have partnerships with regional retailers throughout the country and long-lasting relationships with virtually all the leading co-operatives. These co-ops started in the South, serving soybean, corn, coffee, wheat and sugar crops, but are also expanding to the Cerrado area. They are very important relationships for our growth.

As we advance our market access initiatives, we have also paved the way for future launches of new products out of our pipeline, especially for row crops. Finally, we are also a leading player in the biological segment, particularly bionematicides. Quartzo® bionematicide has quickly taken substantial market share in sugarcane, and most recently, in coffee, since it was launched for the 2018 growing season. Presence® bionematicide was launched at the same time and has grown very fast as a seed treatment on soybean and cotton. Combined, Quartzo® and Presence® bionematicides cover a broad range of crops and provide nematode control in both in-furrow applications in permanent crops and seed treatment in annual row crops – completely replacing older synthetic chemistries. We have a growing pipeline of new biological products that will allow further growth opportunities.

Latin America Is FMC's Fastest Growing Region Since 2017 *(Slide 10)*

Turning to slide 10, you can see in the table in the upper left that FMC's Latin America business is expected to grow revenue by about $400 million – from $1.0 billion in 2017 to approximately $1.4 billion in 2019. The map on this page highlights the breadth of coverage we have across the region. In addition to FMC being a much larger company in Latin America than we were a few years ago, we believe we are a market leader in the way we pro-actively address structural market challenges, particularly in Brazil since 2015. Our disciplined business practices are driving our outperformance and position FMC to continue to thrive in the region.

As you may recall, we took four broad actions in 2015-2016 to better position our business in Brazil and to raise profitability. First, we reduced our cost base and restructured our business to better match market conditions at the time. Second, we became more disciplined in our sales process, mainly with sales terms and cash collection. Third, we eliminated sales of low value products from our portfolio, selling only products where FMC was able to achieve acceptable financial returns. And fourth, we significantly reduced the amount of FMC product in the distribution channels. These actions dramatically improved the performance of the business, beginning in 2017.

When you layer in the significant benefits that came with the recent acquisition – from portfolio enhancements, to customer access, to R&D capabilities, and a deeper pipeline – you can understand why we are confident about our potential to continue to grow in this region.

As you know, Latin America can be a volatile region in terms of markets and currencies. However, we have put in place several pro-active levers to ensure our business growth is sustainable. These include:

- Diligently tracking channel inventory on a monthly basis in Brazil to keep it at a low level;
- Implementing a layered hedging program to mitigate FX risk in Brazil;
- Borrowing in local currency, where practical, to reduce currency exposures;
- Robust pricing process to react quickly to local currency volatility;
- Building a team of credit specialists to assess credit worthiness of potential customers and to limit sales when necessary;
- And utilizing more collateral and barter arrangements to mitigate collection risk.

All these factors help to create a Latin America business with earnings margins that are comparable to our earnings margins in other regions.

I will now turn the call over to Andrew.

<u>Selected Financial Results – Andrew Sandifer</u>

Thanks, Mark.

Let me start this morning with a few specific income statement items.

Interest expense for the quarter was $5.5 million higher than implied by our prior full year guidance, primarily due to higher than anticipated foreign borrowings, additional interest resulting from the refinancing completed in September, as well as slightly higher than anticipated commercial paper balances and rates. Interest expense for the full year is now expected to be in the range of $153 to $157 million.

We revised our expected adjusted effective tax rate for the full year to 14 to 15 percent, reflecting our updated expectations for earnings by jurisdiction. With this change in full-year expectations, the resulting adjusted effective tax rate for the third quarter was 12.6 percent.

Weighted average diluted shares outstanding for the third quarter was 131.6 million, down nearly 5 million shares versus the prior year period, reflecting the benefit of the $500 million in share repurchases we have made over the past four quarters.

EPS growth was particularly robust in the third quarter. Lower share count, taxes, and minority interest more than offset higher interest expense to expand EPS growth to 32 percent versus the 18 percent growth in EBITDA.

As Pierre outlined earlier, we are expecting very strong financial performance in the fourth quarter, with revenue growing 8 percent and EBITDA growing 13 percent at the midpoint of our guidance ranges. Expected EPS growth of 3 percent is muted by a very low tax rate in the prior year period, which resulted from a year-end true-up of the full-year tax rate last year.

Moving on to the balance sheet and debt. In September, FMC raised $1.5 billion of new debt, equally weighted across 7-, 10- and 30-year maturities. We used the majority of the proceeds to immediately reduce both term loan debt and commercial paper balances. We will use the remaining proceeds to redeem $300 million in senior notes maturing in the fourth quarter. As all proceeds are being used to pay off other debt, this offering will be leverage neutral. However, we successfully extended the maturity profile of our debt at attractive rates. Further, the offering was 4.5 times oversubscribed, which, as the company had not been to the bond markets in some time, was a strong endorsement of FMC's strength in the eyes of fixed income investors.

Gross debt as of September 30 was $3.6 billion, up roughly $360 million from the end of June. After adjusting for the $300 million in remaining proceeds from the September debt offering held aside for the retirement of our 2019 senior notes in the fourth quarter, 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 some shifts in working capital across quarters versus our initial forecasts and the timing of share repurchases. We continue to expect to see leverage drop to 2.5 times or lower at year-end, a level at which we would expect to remain at or below on average through 2020 and beyond.

<u>2019 Cash Flow Outlook</u> ***(Slide 11)***

Turning to slide 11.

Adjusted Cash from Operations was $301 million for the third quarter. Despite strong earnings and collections, cash from operations was somewhat lower than expected due to payables. Payables were negatively impacted in the quarter by purchases made from alternate suppliers to limit the impact of disruptions from Chinese suppliers. Payables terms with our Chinese suppliers are generally longer than the temporary terms with these alternate suppliers. This situation will naturally reverse in the fourth quarter as we rebuild payables with Chinese suppliers and enter into longer-term arrangements with alternate suppliers.

Capital spending accelerated in the quarter as expected, while Legacy & Transformation spending was largely in line with expectations, resulting in Free Cash Flow before Dividends and Repurchases of $198 million.

We are maintaining our full-year guidance for Free Cash Flow of $375 to $475 million. This implies very strong cash from operations in the fourth quarter, given our cash generation year-to-date and our expectations for capital spending and Legacy & Transformation costs. Cash from operations will be driven by robust profitability and working capital release, including the expected improvement in payables.

We continue to explore a smaller product line acquisition and may accelerate the start of 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 3.7 million FMC shares year-to-date at an average price of $80.95, for a total of approximately $300 million, including 1.1 million shares purchased in the third quarter. We intend to be a regular purchaser of FMC shares. Although we have not purchased any shares since quarter end, we intend to purchase an additional $100 million of FMC shares during Q4, bringing the full year total to $400 million. Our full-year EPS guidance reflects the benefit of anticipated repurchases in the fourth quarter, though this benefit is modest given the limited remaining time in the year.

Before turning the call back to Pierre, let me also give a quick update on progress in implementing our new SAP S/4HANA ERP system. After a successful go-live in Brazil in July, the third quarter was the first quarter we closed with roughly 20 percent of the company on the new system. The close was uneventful, and our Brazil team is excited about the many new tools and capabilities of S/4HANA. We expect to exit the TSAs in February, when we will go-live with S/4HANA across the acquired business. The remainder of the company will migrate to S/4HANA later in 2020. The new system will thoroughly modernize our business process environment, delivering meaningful near-term benefits and providing a platform for driving further improvement in the future.

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

<u>Concluding Remarks – Pierre Brondeau</u>

Thank you, Andrew.

In December 2018 we shared our 5-year plan with annual sales growth of 5 to 7 percent, EBITDA growth of 7 to 9 percent per year and EPS growth above 10 percent per year. Based on our guidance for Q4, we expect to deliver at the high end of the range in the first year and expect to meet our objectives in the remaining 4 years of the plan.

We continue our focus of driving strong growth through technology. In 2019, we expect about $60 million of our total revenue growth of $315 million will come from new products. Our discovery and new product pipelines are advancing as expected. Two new molecules have moved from discovery to development in 2019, including an insecticide in January and a herbicide in October. These are significant steps in advancing products toward commercial launch.

We are pleased with the performance of the company. We delivered another strong quarter and are expecting a strong year. Our technology-advantaged portfolio, geographical balance, crop exposure and diversified product sourcing continue to drive our financial outperformance.

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

Thank you for your attention.

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