FMC Corporation

First Quarter 2020 Earnings Call Script

May 6, 2020

As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's first quarter earnings call. Joining me today are Pierre Brondeau, Chairman and Chief Executive Officer; Mark Douglas, President and CEO-Elect; and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Pierre will review our first quarter performance, Andrew will provide an overview of select financial results and Mark will discuss the outlook for the rest of the year. We will then address your questions.

Our earnings release and today's slide presentation are available on our website, and the prepared remarks from today's discussion will be made available after the call. Please note we published an updated slide presentation this morning to add a slide on the fluindapyr acquisition.

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 earnings 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, free cash flow and organic revenue growth – 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 delivered another very strong performance in the first quarter, with 9 percent organic revenue growth. Despite all the challenges posed by the COVID-19 pandemic, underlying demand for our products remained very healthy in the quarter. These results were driven by the exceptional work of our global supply chain, operations and commercial teams.

Before going into the details on our Q1 results, we felt it was important to provide a high-level view of the state of our company in this uncertain global economic environment. We are an agricultural sciences company, and our products are critical to the global food supply chain.

Since agriculture is considered an “essential” industry in the countries where we operate, we have avoided significant plant closures and all our facilities are operational. In fact, all our key plants in China operated through the Chinese New Year holiday and continue to do so today.

The wellbeing of our employees is FMC’s top priority. Although most FMC employees around the world have been working from home during these last several weeks, we have hundreds of employees who continue operating our manufacturing sites, blending and packaging facilities, and distribution warehouses. These sites, as well as certain non-manufacturing locations with limited employees in the office, are using a variety of best practices to address COVID-19. These include the use of facial PPE, social distancing protocols, expanded cleaning procedures and other precautionary measures recommended by leading health authorities.

Due to the stay-at-home orders around the globe, our commercial teams used a variety of digital technologies including workshops, webinars and virtual field days to continue working closely with our customers and generate demand.

We successfully mitigated the impact of COVID-19 in Q1, but given the spread of the pandemic in March and increased FX headwinds, we are conscious of potential risks in the rest of the year. Therefore, we have already implemented price increases and cost-saving measures across the company. Mark will describe the potential headwinds, as well as our pricing and cost-containment actions in more detail later.

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

Turning to slide 3, FMC's strong financial performance from 2019 continued in the first quarter, against an industry-leading comparison. Last year, our business grew 14 percent organically in Q1. This year, we reported $1.25 billion in first-quarter revenue, which reflects 5 percent year-over-year growth on a reported basis and 9 percent organic growth. This increase was driven by double-digit growth in India, Pakistan, France, UK, Russia, Brazil, Mexico, Argentina and Canada.

Adjusted EBITDA was $357 million, an increase of 4 percent compared to the prior-year period. EBITDA margins were 28.6 percent, essentially flat with prior year, despite $52 million in combined headwinds from FX and costs in the quarter.

Adjusted EPS was $1.84 in the quarter, an increase of 7 percent versus Q1 2019. This year-over-year performance was driven largely by the $14 million increase in EBITDA, reduced share count and the benefit of a lower tax rate, partially offset by higher interest expense.

<u>Q1 2020 Revenue Increased 5%</u> *(Slide 4)*

Moving now to slide 4. Q1 revenue grew by 5 percent versus prior year, with volume contributing 7 percent growth and price adding 2 percent, offset partially by a 4 percent headwind from FX. We achieved higher pricing in all regions.

New product launches this year generated 1.5 percent of the 5 percent top-line growth we posted in Q1, offsetting half of the 3-percent headwind from products that were discontinued either because of registration cancellations or rationalizations that we had planned for and discussed on our last earnings call.

Latin America sales grew 26 percent year over year and 38 percent excluding FX, driven by double-digit growth in Brazil, Mexico and Argentina. Insecticides were particularly strong in Brazil – on cotton, sugarcane and soybeans – and herbicide growth in Brazil was driven by sugarcane replanting. As we have commented for many quarters, we monitor our products in the channel in Brazil very closely, and our channel inventories continue to be at low levels as we come to the end of the season. In Argentina, solid demand for our insecticides drove new sales, and in Mexico, fruit & vegetable exports continue to present increased opportunities for our diamide portfolio.

In North America, sales increased 3 percent year over year, driven by strong demand for Rynaxypyr® insect control, as well as fungicides and our new pre-emergent herbicide, Authority® Edge. In Canada, our Authority® herbicides continue to gain adoption, driven by weed-resistance concerns.

Over the past couple of years, we have invested in upgrading our Authority® herbicide franchise to focus on newer, more effective formulations to combat changing weed resistance. This has allowed us to reduce sales of less effective, older formulations and lower our channel inventories. Those channel inventories in North America continue to improve, and with a new season starting, we do not see a reason for concern going forward.

Sales in EMEA grew 1 percent year over year and 4 percent excluding FX, due to robust demand for newly introduced fungicides and solid growth in herbicides for cereals. We saw growth in over 10 countries, and new products drove a 2-percent increase in overall revenue. Registration cancellations and product rationalizations were a headwind.

In Asia, revenue decreased 3 percent year over year, but was flat excluding FX. The decline was driven primarily by foreign currency headwinds and product rationalizations, as well as COVID-19 related challenges in China, which impacted both supply and demand. These were partially offset by broad-based, double-digit growth in India and Pakistan, along with a return to growth in Australia, as weather improved.

<u>Q1 2020 Adj. EBITDA Increased 4%</u> ***(Slide 5)***

Turning to the first quarter EBITDA bridge on slide 5, you see a $40-million volume contribution, which drove the year-over-year growth. We also realized price increases of $26 million against $45 million in FX headwinds.

I will now turn it over to Andrew.

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

Thanks, Pierre.

Let me start this morning with a few brief highlights from the income statement.

The U.S. dollar strengthened against virtually all major currencies important to FMC during the first quarter, reducing revenue growth by 4 percent, twice the level we anticipated when we last gave guidance. It is important to note that the BRL represented only half of the Q1 FX headwinds on revenue, with a broad set of European and Asian currencies accounting for the remainder. As Mark will discuss further when he shares our outlook, we now expect these FX headwinds to continue at an elevated level throughout 2020, with pricing trailing FX impacts in Q2 but catching up during the second half of the year.

Interest expense for the first quarter was $40.8 million, up $6.3 million from the prior-year period, primarily due to the impacts of our third quarter 2019 debt offering and higher foreign debt balances, partially offset by lower term loan and commercial paper balances. With the decrease in interest rates since the beginning of the year, we now anticipate interest expense between $155 and $165 million for the full year, somewhat better than our prior guidance.

Our effective tax rate on adjusted earnings for the first quarter was 13.5 percent, consistent with our expected full-year tax rate of 12.5 to 14.5 percent.

Moving next to the balance sheet and liquidity.

Global credit markets saw significant disruption and volatility in March, driven by the COVID-19 pandemic. Despite this, FMC had, and continues to have, more than ample liquidity to support our operations.

FMC has historically relied on commercial paper to finance working capital – U.S. commercial paper markets are the most cost-efficient source of working capital financing in the world. Additionally, we also have a $1.5 billion revolving credit facility that serves both as a backstop to our commercial paper program and as a direct source of borrowing, when needed.

As COVID became a more clear crisis in the U.S. in mid-March, out of an abundance of caution, FMC drew down $500 million on our revolver to ensure we had sufficient liquidity regardless of near-term volatility in commercial paper markets. However, we continued to place commercial paper to stay active in the market.

That market has now returned to more normal conditions. As such, we have reduced our revolver borrowing to $250 million through mid-May, when we anticipate taking them to zero, presuming commercial paper market conditions remain stable.

Gross debt at quarter end was $3.8 billion, including the $500 million in revolver borrowing. Because of this revolver draw, we had surplus cash on the balance sheet at quarter end in excess of $300 million. Considering this surplus cash, gross-debt-to-trailing-twelve-month EBITDA was 2.8 times at the end of the first quarter, above our targeted 2.5 times annual average leverage and reflecting the seasonal working capital build intrinsic to our business in the first quarter.

As many of you may be aware, our maximum leverage covenant was set to tighten from 4.0 times debt to EBITDA at March 31 to 3.5 times on June 30. As the COVID crisis became more pronounced during March, we assessed a wide range of potential downside scenarios for the company. We did not see any of the scenarios resulting in greater than 3.5 times leverage as being likely, and were confident that we had levers we could pull to further conserve cash if the situation really began to deteriorate.

However, out of an abundance of caution, we decided to reach out to our bank group to discuss a covenant amendment. Our bank group was very supportive, and we quickly aligned on moving our Debt / EBITDA covenant to 4.25 times for the remainder of 2020, stepping down to 4.0 times on March 31, 2021 and 3.5 times on June 30, 2021.

2020 Cash Flow Outlook ***(Slide 6)***

Moving on to slide 6, and specifically cash flow and cash deployment.

Free cash flow for the first quarter was negative $371 million. The primary driver of the variance versus the prior-year period was increased working capital, which was partially offset by positive cash benefits in other operating assets and liabilities. Net receivables increased on higher sales, partially offset by the catch up of collections delayed from Q4. Inventories improved somewhat. Payables, however, were significantly lower than the prior year period, which benefited from elevated payables related to the delayed site transfer activities.

Looking ahead to the full year, we are maintaining the Free Cash Flow guidance range of $425 to $525 million. Due to increased uncertainty in the global business environment, we are taking several prudent steps to reduce cash outflows in 2020, such as deferring all discretionary capital investment and aggressively managing the balance of collections and payables to protect our cash position.

While we continue to expect to generate substantial free cash flow in 2020, we are temporarily suspending share repurchases until we have more clear line of sight to a normalization of COVID-related disruptions. Our board remains committed to the dividend, as evidenced by the dividend declaration made last week, and we do not anticipate any change to our dividend policy. We will also continue to fully fund our growth plan, including making smaller technology-driven investments, such as the transaction we announced this morning. Mark will describe this compelling investment in more detail in a few moments.

To be clear, our capital deployment policy has not changed. We are only pausing share repurchases given the current environment. Over the mid- and long-term, we are firmly committed to returning cash – beyond what is required to fund the growth of the company – to shareholders through share repurchases and growing dividends, while maintaining solid investment grade credit metrics.

Finally, let me also give an update on progress in implementing our new SAP S/4HANA system. At our last earnings call, we were literally in the midst of going live across the business acquired from DuPont, which represents roughly 40 percent of FMC. That go-live has been extremely successful. This quarter's close was the first quarter-end where we closed with 60 percent of the company on the new S/4HANA system. Additionally, due to COVID-related workplace restrictions, this close process was completed with nearly all our finance team working remotely, reflecting the agility of the organization. We are focused on completing the implementation of the new SAP system across the remainder of FMC by year-end, which will give us a thoroughly modern system across the entire company and will enable further efficiencies in our back-office processes.

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

Market and FMC Outlook – Mark Douglas

Thank you, Andrew.

Shifting to the global crop protection market, we previously forecasted the global market to be up low single digits in 2020. We now project the markets will be flat versus the prior year due to the various impacts from COVID-19 and the strength of the U.S. dollar. All these forecasts are for the market – not FMC – and are in U.S. dollars.

We forecast that the North America market will grow in the low-single digits – same as we thought 3 months ago – based on the assumptions of increased acreage for row crops and a recovery in Canada after two years of dry conditions. We expect the market in Europe will grow a little faster than we thought before, but still low single digits, driven by strength in Eastern Europe and in the cereals and corn markets.

We now expect the Asia market will be down slightly, versus our prior estimate of low-single-digit growth, based on the impact we have already seen from COVID-19 in China, India and other countries, in addition to FX headwinds. We also lowered our forecast for the Latin America market significantly, as we now expect it to contract by low- to mid-single digits, versus slight growth in our prior view. This decline is driven by weaker currencies rather than lower demand.

FY 2020 and Q2 Earnings Outlook *(Slide 7)*

Moving to slide 7 and the review of our full-year 2020 and Q2 earnings outlook. Factoring in certain potential challenges brought on by the COVID-19 pandemic and FX headwinds, the company is widening guidance ranges to incorporate more risk to the downside of our prior guidance.

FMC full-year 2020 adjusted earnings are now expected to be in the range of $6.05 to $6.70 per diluted share, a year-over-year increase of 5 percent at the midpoint. EPS estimates do not include the benefit of any share repurchases in 2020, which the company is suspending, as Andrew indicated.

2020 revenue is now forecasted to be in the range of $4.65 billion to $4.85 billion, an increase of 3 percent at the midpoint versus 2019, and 8 percent organic growth. We believe the strength of our portfolio will allow us to deliver high-single digit organic growth, continuing a multi-year trend of above-market performance.

Adjusted EBITDA is now expected to be in the range of $1.23 billion to $1.34 billion, which represents 5 percent year-over-year growth at the midpoint.

We believe Q2 will represent the most challenging and uncertain conditions related to COVID-19 and currencies. Adjusted earnings per diluted share are expected to be in the range of $1.58 to $1.74, flat at the midpoint versus Q2 2019.

We forecast Q2 revenue to be in the range of $1.17 to $1.23 billion, which is flat at the midpoint compared to second quarter 2019. Excluding the significant FX headwinds, revenue is expected to increase 5 percent organically, driven primarily by an improvement in Western Europe, strength in Latin America, and new products gaining traction around the world. Adjusted EBITDA is forecasted to be in the range of $317 to $347 million, representing a 2-percent decrease at the midpoint versus the prior-year period.

Projected FY 2020 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 8)***

Turning to slide 8, and full-year revenue drivers. Revenue is expected to benefit from 4-percent volume growth, with the largest growth expected in North America and Asia. New products are driving about 1.5 percent in total revenue growth, with the largest contribution coming from EMEA. With the significant shift in global currencies, you can see that FX is now forecasted to be a 5-percent top-line headwind. For reference, in February, we were only forecasting a 2-percent revenue headwind from currencies. However, we expect to offset most of these headwinds with price increases throughout the year.

Regarding EBITDA, we are expecting COVID-related impacts to supply chain costs, pockets of demand and global currencies. To help mitigate these, we quickly implemented proactive cost-saving measures to offset approximately $60 million of the anticipated headwinds, in addition to significant price increases. When you net out the expected COVID-19 impacts – including currencies – with our cost-saving measures and price increases, COVID-19 could still reduce EBITDA by a range of $0 to $70 million. Therefore, the midpoint of our current EBITDA guidance is $1.285 billion, or $35 million lower than our prior guidance. I should note that if we see the headwinds pushing the net impact toward the high end of the range, we will implement further cost-saving measures in the second half the year, which have already been defined.

Foreign exchange is obviously a critical factor in our outlook. We now foresee an impact of $170 million for the full year, driven by numerous currencies including the Euro, Indian Rupee, Indonesian Rupee, Brazilian Real, Mexican Peso, etc. This broad-based movement is an important factor in the timing for how we will recover price versus FX.

In the second quarter, we expect an FX impact of $45 million, with price recovery of $15 million, or 33 percent. This price-to-FX gap is driven by two main elements:

- First is the relative lack of pricing power in the second quarter in LatAm, specifically in Brazil. This is driven by the fact that it is the tail end of the season in Brazil and historically very little pricing changes are made in the season at this time, as volumes tend to be lower and growers are focusing on the harvest.
- Second is our approach to the market in Asia. In markets significantly impacted by COVID-19, we do not feel that it would be appropriate to increase prices at this time – and as such we will be looking to

recover pricing over the latter part of the year rather than in Q2.

Looking at the full year, pricing actions of $160 million are expected to cover approximately 95 percent of the FX headwind. This change in coverage is mainly the recovery of price in Latin America as we set prices for the new season in Q3 which will reflect the exchange rates we are seeing and is a normal pattern. Pricing recovery in Asia in the latter part of the year is another element as previously discussed.

Supply chain is also an important factor for our outlook, as we have already seen some temporary shutdowns around the world. As you know, we and the industry have been managing plant shutdowns in China over the past two years, and FMC has successfully met the demands of our customers. The same teams that helped us successfully navigate those situations are now very active in managing COVID-19-induced restrictions.

In addition, we are taking a conservative approach that we may see pockets of reduced demand, due to food chain dislocations and labor availability.

Our cost-saving measures will help offset these headwinds. We began implementing them in early March and will realize savings in each quarter this year. The cost savings are focused on two elements: SG&A and R&D. We are eliminating or delaying all non-essential expenditures and have frozen hiring. In R&D, we are not cancelling any projects, but we are phasing some differently to allow lower costs this year without fundamentally impacting long-term timelines.

These cost-saving actions will be temporary – most of these costs will return in 2021 – and we can confidently say that we will not impact the growth of our company.

Projected Q2 2020 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 9)***

On slide 9, you see the main reason EBITDA is expected to fall 2 percent in the second quarter is due to the significant FX headwind, as discussed previously. New product launches in Europe, North America and Asia will all contribute to solid overall volume gains in Q2, and we expect organic revenue growth of 5 percent.

FMC to Acquire All Remaining Fluindapyr Rights to Expand Key Fungicide in Pipeline ***(Slide 10)***

Turning to new technologies and our strategic intent to expand our fungicide portfolio on slide 10. Please note this is the slide we added to the updated deck this morning. Earlier this morning, we announced a binding offer to acquire the remaining rights for fluindapyr fungicide – for geographies we didn't already control – from Isagro for €55 million.

You may recall us talking about fluindapyr as one of the first active ingredients coming out of our R&D pipeline. We have been co-developing this broad-spectrum fungicide with Isagro for several years and are set to launch the active ingredient in Paraguay this Fall and in the U.S. next Spring. With the full global rights, we now believe peak sales will be in the range of $350 to $400 million, including estimates for Isagro's key European, Asian, and Latin American territories. As a carboxamide, fluindapyr belongs to one of the newest classes of fungicides, targeting a broad range of plant diseases – including Asian soybean rust – in row crops, specialty crops and turf applications. Following the launches in Paraguay and the U.S., we expect to launch fluindapyr in China in 2022, Europe and Argentina in 2023, and Brazil in 2024. We expect to close the acquisition by the end of the third quarter of 2020.

Additionally, the second new active ingredient from our R&D pipeline, bixlozone, now branded as Isoflex™ active, is also progressing toward a launch. We recently received full registration for Overwatch® herbicide with Isoflex™ active in Australia, and it is set to launch in the 2021 winter crop season. It offers a new mode of action for grass weeds in cereals. We intend to launch Isoflex™ active in all four regions by 2025, and we anticipate peak sales of $450 to $500 million. Isoflex™ is an exciting addition to our herbicide portfolio and will serve as a centerpiece to many of our herbicide crop segment and mixture strategies.

Finally, in the U.S., we recently received EPA approval for a new diamide-based formulated product. Elevest™ insecticide allows growers to upgrade to the superior residual control of Rynaxypyr® insecticide, while keeping the rapid action of bifenthrin. It will play an important role in our plans to expand the diamide franchise. While the U.S. is the first country to receive the registration, we expect to launch this product in all key geographies.

Before I close, I would like to highlight FMC's recent recognition as the American Chemistry Council's Responsible Care® Company of the Year for the third time since 2017. This annual award is the highest ACC distinction for excellence and leadership in environmental, health, safety and sustainability. While FMC has undergone many changes over the past few years, our commitment to operating safely and sustainably remains steadfast.

I will now turn the call back to Pierre.

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

Thank you, Mark.

We realize that forecasting and guiding is a difficult process in such an uncertain environment. Even if the forecast range is broader that what we usually show at this time, we felt that it was important to share our views on the business and markets.

Underlying demand for our products is strong and our ability to recover the adverse impact of FX with price remains intact despite the difficult situation we are facing today. FMC will face challenges through the year, but we believe that our company will continue to adapt quickly to what comes at us and once again deliver another strong year of growth above the market.

Even with the challenges we are facing in 2020, we expect to close the first two years of our 5-year plan solidly within our long-term targets for revenue, EBITDA and EPS growth.

This is my last earnings call as CEO of the company. I am proud of the transformation we have accomplished over the last 10 years. FMC is stronger than ever, and the transition to new leadership is in place. Thank you for your support, questions and challenges over the years.

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

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