FMC Corporation

Third Quarter 2020 Earnings Call Script

November 3, 2020

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 Mark Douglas, President and Chief Executive Officer, and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Mark will review our third quarter performance, followed by a review of our business in Asia and the outlook for the rest of the year. Andrew will provide an overview of select financial results. Following the prepared remarks, we will take 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.

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 as used in today's discussion, "earnings" means "adjusted earnings" and "EBITDA" means "adjusted EBITDA". 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 Mark.

Business Review – Mark Douglas

Thank you, Michael, and good morning everyone.

The third quarter was an exceptional quarter for our company. Even in the face of persistent challenges posed by COVID-19 and severe headwinds from foreign currencies, we grew our revenue by 15 percent organically, EBITDA by 20 percent, and EPS by 30 percent. This performance highlights our portfolio strength, balanced geographic and crop exposure, as well as a sharp focus on execution and costs.

On the latter point, as we progressed through the quarter, we saw the Brazil season was getting off to a very slow start due to hot, dry weather, which, in turn, made it difficult to get the pricing we had planned to offset the FX headwinds. To counter this situation, we aggressively managed costs in the quarter and were able to achieve the strong overall performance.

Let me now turn to the impact of the COVID-19 pandemic on our business. As we said last quarter, all our manufacturing facilities and distribution warehouses remain operational and fully staffed. The majority of FMC's other employees continue working from home, but some have returned to certain offices and laboratories where permitted by local authorities. We have had zero COVID-19 transmissions in our facilities and continue using a variety of best practices to address risks.

While we saw very strong demand for our products in all four regions of the world in the quarter, there were pockets of demand reduction related to the pandemic. This impacted certain cotton and fruit & vegetables markets. We expect this level of localized disruption to continue in the fourth quarter and potentially into 2021.

Following the outperformance in Q3 and with our outlook for Q4, we are raising the midpoints of our EBITDA, EPS and free cash flow guidance and tightening these ranges.

Underlying demand for our products remains healthy, supplemented by market access expansion, new registrations and an increasing impact from our pricing actions as we enter Q4.

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

Turning to our Q3 results on slide 3. We reported nearly $1.1 billion in third-quarter revenue, which reflects a 7 percent increase on a reported basis and 15 percent organic growth. After removing the FX impact, our business saw double-digit growth in India, Australia, Pakistan, Brazil, Germany, Italy and Canada.

Adjusted EBITDA was $263 million, an increase of 20 percent compared to the prior-year period. EBITDA margins were 24.2 percent, an increase of 260 basis points compared to the prior year, driven primarily by cost control measures.

Adjusted EPS was $1.22 in the quarter, an increase of 30 percent versus Q3 2019. This year-over-year performance was driven mostly by the increase in EBITDA, while much smaller impacts from D&A, interest expense, tax rate, non-controlling interest and share count largely offset each other. Similarly, relative to our Q3 *guidance*, the 12 cent beat was driven almost entirely by our $18 million EBITDA outperformance versus the midpoint.

<u>Q3 2020 Revenue Up 7%, Up 15% Organically</u> ***(Slide 4)***

Moving now to slide 4. Q3 revenue increased by 7 percent versus prior year, despite an 8 percent FX headwind, as higher volumes contributed 12 percent to growth and pricing another 3 percent.

In Asia, revenue increased 16 percent year over year, and 19 percent excluding FX, partially due to favorable weather conditions in both India and Australia. Sales in India grew over 20 percent organically, as the good monsoon drove demand from growers of rice, soybeans, pulses, sugarcane and fruit & vegetables in the south and central markets. Herbicide sales in Australia were up over

50 percent, led by cereals and canola. Pakistan also grew in double-digits, driven primarily by insecticides in rice and cotton.

In North America, sales increased 8 percent year over year, driven by increased planted acres in soybean, corn and rice, as well as continued market expansions of our fungicides Lucento® and Rhyme®. Sales in Canada were robust, driven by cereal herbicide blends from our patented PrecisionPac® technology as well as insecticides. We broke a record in Canada this year for acres using PrecisionPac® products. Elevest™, a formulation based on Rynaxypyr® insect control and bifenthrin, is doing very well in its launch year. Heading into the winter, our U.S. channel inventories are in a better position compared to a year ago, which should lead to good re-stocking later in the fourth quarter.

Sales in EMEA increased 10 percent year over year and there was no FX impact. We saw strong demand for Rynaxypyr® insect control applications for specialty crops as well as Battle® Delta herbicides for cereals, particularly in France and Germany.

Latin America sales grew 1 percent year over year and 18 percent excluding FX. Grower sentiment is strong, but the season started very slowly due to hot and dry weather in Brazil, Argentina and Paraguay. Pricing actions across the region offset some of the currency headwind, although we expect pricing to have a larger positive impact in Q4 than it did in Q3. In Brazil, sales grew double digits organically, led by our growth in the soybean market. Due to the late start in Brazil, channel inventories are higher than normal for this point in the year – for us and the industry. We fully expect this will be worked down as planting catches up now that rains have returned. Mexico sales grew organically but were still impacted somewhat by COVID-19 related pressures on the growers that export fruit & vegetables. Sales in the Andean zone grew significantly as conditions in that sub-market improved.

<u>Q3 2020 Adj. EBITDA Increased 20%</u> *(Slide 5)*

Turning now to the third quarter EBITDA bridge on slide 5. We had very strong operational performance, as a $70 million contribution from volume, a $34 million contribution from lower costs and a $26 million benefit from higher pricing more than offset an $86 million FX headwind. The volume contribution was double what we had forecast, partially due to robust market growth in India and Australia. In addition, stronger than anticipated volume growth in Brazil was also a key driver. However, this drove an increase in the FX headwind in the quarter. We had significant cost savings in the quarter, well above guidance given on our last call. Approximately $8 million of the $34 million costs savings you see on this bridge are costs that were delayed into Q4. We had excellent cost discipline, including additional, accelerated SAP synergies.

Focus on Asia Region

FMC Is #4 in Asia Region Driven by Diverse Mix of Countries and Crops ***(Slide 6)***

Taking a step back now, we will turn to slide 6. As we did for Latin America last year, I am going to highlight a region where we are seeing significant growth. Asia may be the most diverse of our four regions, and therefore it is the most complicated to understand.

We are currently the fourth largest crop protection chemical provider in the region, with sales of around $1.1 billion expected in 2020 in a $16 billion market, for about 7 percent market share. This region is the most seasonally balanced of the four, mainly because it has significant markets in both the northern and southern hemispheres.

We manage the Asia business in 5 sub-regions, with India and North Asia significantly larger than the other three, but we have aggressive goals to grow in all of them.

Not surprisingly, rice makes up about 35 percent of our sales in this region. In addition, fruits & vegetables are a large and diverse set of crops spread across all countries. Our crop diversity in Asia provides numerous opportunities to grow, and it also mitigates the risk of our results being overly impacted by a poor season in any single crop.

Similarly, our geographic mix in the region is also very diverse.

<u>FMC Presence in Asia Has Expanded Dramatically Since 2014</u> ***(Slide 7)***

Moving to slide 7 for a look at how our Asia business has expanded since 2014. We have made two large acquisitions since then – Cheminova in 2015 and the DuPont crop protection business in 2017. Through these acquisitions, we added a large active ingredient manufacturing plant in India, and two AI manufacturing plants in China, along with several formulation plants, R&D labs and field trial sites across the region.

Total sales were about $350 million in 2014, while this year we expect about $1.1 billion. This is in part due to a fundamental restructuring of our India business we implemented in 2018 that enabled increased market penetration and efficiencies that improved profitability significantly.

I will walk you through some sub-region highlights to provide color on the crop diversity, country exposure and recent commercial activities we have in the region.

The five subregions include: Australia-New Zealand, Southwest Asia, North Asia, ASEAN and India.

In the Australia/New Zealand sub-region, our annual revenue is about $100 to $130 million in a $2 billion market. Our market access model is via large distribution and retail companies supported by our own sales groups. Australia is predominantly a cereals market, and we are therefore very excited to be preparing for our launch of Isoflex/Overwatch® herbicide in the 2021 crop season; earlier this year, we began engaging retailers with a large-scale demonstration plot program. Isoflex is a new mode of action in cereals, and it delivers high performance on weeds that are developing resistance to other herbicides in the market.

The Southwest Asia sub-region, encompasing Pakistan, Bangladesh, Sri Lanka and Myanmar, is the smallest market of the five, but our annual revenue of approximately $110 to $140 million equates to a market share of 30 percent. In Pakistan, we have a unique market access model comprised of FMC-owned retail outlets selling our full range of products. This model has facilitated our growth to be the market leader. We see rapid Rynaxypyr® insect control expansion on sugarcane and corn.

Moving to the North Asia sub-region, which includes China, Japan, Korea and Taiwan. We have annual revenue of approximately $290 to $320 million in a $9 billion market. In Korea, we successfully launched Accudo® biostimulant in 2019 for use in fruits and vegetables, and we are preparing to launch two new microbial biopesticides later in this year. In Japan, we have seen strong demand for diamides, particularly in the Rice Nursery Box segment. In China, the market is highly fragmented. Our business is focused on rice and fruits &

vegetables. Due to the customer fragmentation, we go to market via local distribution and retail companies.

The ASEAN sub-region includes Indonesia, the Philippines, Thailand, Vietnam, Cambodia, Malaysia and Singapore. In all these countries, we work through local distribution and retail companies. This is especially important in the large Indonesian market, given its fragmented geographical nature. In 2020, we also expanded our market access to additional parts of Indonesia, similar to what we have done in India. In this sub-region, we have annual revenue of about $110 to $140 million in a $2 billion market. We see strong Rynaxypyr® insect control sales for rice as well as growth of Cyazypyr® on fruit and vegetables, driven by label extensions.

Fundamentals Show India Is a Significant Growth Opportunity *(Slide 8)*

Moving finally to the India sub-region, which generates approximately $370 to $400 million in annual revenue for us.

On slide 8, we take a deeper dive into this $3 billion market, which has significant structural opportunities for agricultural growth. To start, it has more arable land than any other country in the world. In fact, India has 30 percent more arable land than China and nearly twice as much as Brazil. This presents incredible growth opportunities for FMC, with our very strong footprint and market penetration.

You can see in the center of this slide that yields are very low in India, driven by low usage of crop inputs. On rice, for example, India's yield per acre is half that of Brazil and less than a third of the yield in China. On corn, India's yield is half that of Brazil and less than 20 percent of the yield seen in the U.S.

The market is dominated by small growers, who do not have the scale to mechanize their operations. That being said, there are meaningful growth opportunities as these small growers recognize the benefits of investing more in crop inputs.

Crop Demand / Exports Driving a $3B India Market Growing at 6% ***(Slide 9)***

Moving to slide 9. India today is about a $3 billion market for crop protection, and we see market growth of 6 percent through 2025 to nearly $4 billion by that time. Insecticides make up about 45 percent of the market today, with herbicides and fungicides about 20 percent each and plant health / biologicals making up the remaining 15 percent.

As you can see on the right side of this slide, the crop mix is similar to that of the Asian region, with rice and fruit & vegetables making up nearly 60 percent of the market. In a market that is highly fragmented by both geography and a multitude of crops, there are significant opportunities to grow.

In India, we have a unique market access model. We have exclusive distribution with 5 major companies that are supported by sales & marketing resources to drive geographical and portfolio growth. This model is currently under expansion, as we look to service all of the India market.

FMC has developed commercial initiatives in India to expand our market share. This includes crop and geographic expansion of our diamide brands like Coragen® and Ferterra®, as well as eight new herbicide and fungicide launches since 2018 that are expected to drive sales of $70 million by 2023.

I will now turn it over to Andrew.

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

Thanks, Mark.

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

FX was a larger than anticipated headwind to revenue growth in Q3, at 8 percent versus our expectations of a 6 percent headwind. The Brazilian Real was the vast majority of this headwind, followed by the Indian Rupee, Argentinian Peso, Pakistan Rupee, and Turkish Lira. We took substantial pricing actions and were able to recover about one third of the FX headwind in the quarter. We continue to expect FX headwinds to remain at an elevated level throughout 2020, with pricing covering about half of the FX headwind at revenue in the year.

Interest expense for the third quarter was $35.5 million, down $6.1 million from the prior year period, with the benefit of lower term loan balance outstanding, lower LIBOR rates, and lower foreign debt balances. These were partially offset by higher bonds outstanding following the debt offering we completed in the prior year quarter. We now anticipate interest expense between $150 and $155 million for the full year.

Our effective tax rate on adjusted earnings for the third quarter was 13.5 percent. We now expect our full-year tax rate to be in the range of 13 to 14 percent, with the midpoint consistent with the tax rate through the first three quarters of the year.

Moving next to the balance sheet and liquidity.

Gross debt at quarter end was $3.2 billion, down $300 million from the prior quarter, with strong free cash flow leading to lower short-term financing needs. We continue to carry some excess cash due to heightened uncertainty caused by the COVID pandemic. Gross debt to trailing twelve month EBITDA was 2.5 times at the end of the third quarter, or 2.4 times if you consider the nearly $175 million of surplus cash on the balance sheet. This is consistent with our targeted annual average leverage of 2.5 times or less.

Q3 Cash Flow Results and 2020 Cash Flow Outlook

(Slide 10)

Moving on to slide 10 to cover cash flow and cash deployment.

Free cash flow for the third quarter was $315 million, up more than 50 percent from the prior year period. Adjusted cash from operations was up $75 million, with growth in trade working capital more than offset by higher EBITDA, lower change in other assets and liabilities, and lower cash interest. Collections continued to be strong in the quarter, surpassing our expectations. Capital additions were down $27 million, consistent with our updated expectations for full year investment. Legacy and Transformation spending was down $15 million due to timing of expenses and ramp-down of our transformation efforts.

For the nine months ended September 30th, free cash flow of $148 million is nearly $230 million higher than the prior year period. Change in other assets and liabilities, lower cash interest and taxes, lower capital investment, as well as growth in EBITDA above growth in trade working capital all contributed to the year-on-year improvement.

As we look to year-end, we are raising our full-year free cash flow guidance to a range of $475 to $525 million, an increase of nearly $200 million at the midpoint versus the prior year period.

We anticipate deploying more than $170 million of free cash flow in the fourth quarter. We paid $57 million in dividends on October 15th, closed on the $65 million acquisition of the remaining rights to the fungicide Fluindapyr in early October, and expect to repurchase $50 million of FMC shares. We resumed share repurchases at the beginning of October and have completed $20 million of repurchases to date.

By year-end, we will have deployed nearly $350 million of free cash flow while maintaining excess liquidity throughout the pandemic. This includes the $115 million being deployed in Q4 on the acquisition and share repurchases as well as the nearly $230 million that will be returned to shareholders this year via dividends.

FCF Growth Projections and Seasonality Trends ***(Slide 11)***

Moving next to slide 11. FMC is making good progress in both improving our free cash flow conversion from earnings as well as growing the absolute amount of free cash flow we generate. As you can see on the left-hand side of this slide, at the midpoint of our increased guidance range, we now expect to improve cash conversion by 21 percentage points compared to last year while growing cash flow by nearly $200 million.

We continue to believe we have substantial headroom to improve further on both free cash conversion and the absolute free cash flow we generate, particularly as we complete our SAP implementation and end the period of high cash spending on transformation efforts later this year.

On the right-hand side of this page you can also see the breakdown of free cash flow generation by semester for last year and this year. Note that the seasonality is similar in both years, with negative free cash flow in the first half of the year and strongly positive free cash flow in the second half, but with improvement in both semesters in 2020 versus 2019.

Finally, a quick update on progress in implementing our new SAP system. Our final 'go-live' is underway as we speak, with the remaining 40 percent of FMC moving onto the new system this month. Following this 'go-live', we will have a single, modern system across the entire company for the first time in our history, which will enable significant efficiencies in our back-office processes. As we have prepared for this final 'go-live', we have accelerated more synergies that were planned for 2021 into 2020. We continue to expect total synergies of $60 to $80 million from implementing the new system, but we now expect to capture $50 million in synergies in 2020, with the remaining $10 to $30 million to be achieved largely in 2021.

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

<u>Market and FMC Outlook – Mark Douglas</u>

Thank you, Andrew.

Turning now to overall market conditions. With only a couple of months left to go in 2020, we continue to expect the global crop protection market will be flat to down slightly – on a U.S. dollar basis, although our view on the regions has changed slightly. The outlook for Europe continues to worsen, following a hot and dry summer, and we now believe that market will be down low-single digits year over year, versus flat in our prior forecast. Offsetting this, we expect the Asian market to be up low-single digits, versus our prior forecast of being down slightly, due to much better weather conditions in India, Australia and

ASEAN. Our forecasts for the Latin American and North American markets are unchanged at down low- to mid-single digits and up low-single digits, respectively. All these forecasts are for the market – not FMC – and are in U.S. dollars.

<u>FY 2020 and Q4 Earnings Outlook</u> ***(Slide 12)***

Moving to slide 12 and the review of FMC's full-year 2020 and Q4 earnings outlook.

As I said earlier, we are raising our guidance for the full year. We are still facing significant FX headwinds and impacts on both cost and demand from the global pandemic, but the underlying demand for our products and our ability to control costs led to our improved outlook.

FMC full-year 2020 earnings are now expected to be in the range of $6.45 to $6.57 per diluted share, a year-over-year increase of 7 percent at the midpoint and 6 cents above prior guidance. The $50 million in share repurchases planned for the fourth quarter will not impact our full-year share count, as the buybacks are too late in the year to alter the math for the EPS calculation.

2020 revenue is forecasted to be in the range of $4.72 to $4.78 billion, an increase of 3 percent at the midpoint versus 2019, and 9 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.

EBITDA is now expected to be in the range of $1.295 to $1.315 billion, which represents 7 percent year-over-year growth at the midpoint.

Guidance for Q4 implies year-over-year sales growth of 5 percent at the midpoint on a reported basis and 10 percent organically, led by continued strength in Asia, in addition to the global strength of our diamides business. We are forecasting EBITDA growth of 8 percent year over year at the midpoint. EPS growth is forecast to be flat year-over-year, limited by the large positive tax adjustment in Q4 2019.

Projected FY 2020 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 13)***

Turning to slide 13, and full-year EBITDA and revenue drivers. Revenue is expected to benefit from 6 percent volume growth, with the largest growth in Asia and Latin America, and a 3 percent contribution from higher prices. FX is forecasted to be a 6 percent top-line headwind.

We have raised our EBITDA guidance by $10 million at the midpoint, reflecting the outperformance in Q3 while recognizing the delay of $8 million of costs into Q4. We now expect a higher contribution from volume growth, and we are also generating higher cost savings, as well as the earlier realization of some SAP synergies. We now forecast an FX headwind of $247 million for the full year, versus $230 million in our prior forecast.

On an EBITDA basis, we now expect pricing to cover over 55 percent of the FX impact in the year. Pricing will come from all regions, led by Latin America.

Projected Q4 2020 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 14)***

Moving to slide 14, where you see the Q4 drivers. On the revenue line, pricing and volume are expected to drive the top line strength. Regarding EBITDA drivers, pricing will have a larger impact in Q4 than it did in Q3.

Concluding Remarks

To wrap up, we executed very well in the quarter, both from an external perspective in driving demand across all regions, but also, importantly, internally by focusing on cost control and delivering critical activities that will drive our future performance. This includes preparing our 'go live' of SAP, continuing to drive our R&D pipeline forward and keeping priority capital projects on track.

Q4 is an important quarter for cash and we are focused on cash generation as well as demand generation. We remain confident in our ability to drive above market performance once again.

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

<u>Closing – Michael Wherley</u>

Before I close, I would like to remind you all about our Investor Technology Update call on November 17 to provide an update on our R&D pipeline.

That is all the time that we have for the call today. Thank you and have a good day.

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