FMC Corporation

4Q20 Earnings Webcast

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As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's fourth 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 fourth quarter and full year performance and provide our outlook for 2021 and the first quarter. Andrew will provide an overview of select financial items. 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.

Let me start by saying the fourth quarter was an unusually difficult one for our company, and we are disappointed in our earnings results.

We exceeded the midpoint of our guidance on EPS and EBITDA for a long stretch of quarters – principally because of the strength of our portfolio and our geographic balance, combined with strong execution in the face of extreme weather events and significant industry-specific supply chain disruptions. This quarter was an anomaly, and we will be as transparent as always to explain what happened.

We experienced significant logistics and supply chain constraints in the U.S., reduced demand in the U.S. on some lower-value herbicides, lower demand in Brazil and Argentina following the drought-related delay to the start of the season, and products that were held up in Argentine customs. On the positive side, we saw strong growth in EMEA and, once again, broad growth in Asia.

We had a very strong quarter from a cash flow perspective, which led to full-year free cash flow of $544 million, an *80 percent* increase over 2019. We also posted very solid 2020 overall results, despite numerous challenges related to the COVID-19 pandemic and $280 million in revenue headwinds from foreign currencies. Our organic revenue growth of 7 percent, and our 2 percent EBITDA growth shows how we aggressively managed cost and implemented price increases to offset as much of that FX headwind as possible.

The guidance for Q1 reflects our view of the environment in Brazil as well as continued logistics and supply chain disruptions occurring around the world. We believe these COVID impacts are perhaps as severe as at any point over the last year. In addition, our very strong Q1 2020 makes this quarter year-over-year comparison a particularly difficult one.

All of FMC's manufacturing facilities and distribution warehouses remain operational and fully staffed, despite the ongoing pandemic. However, one of our U.S. toll manufacturers was disrupted in Q4 because of COVID-related staffing issues, illustrating just one of the ongoing business risks during the pandemic.

We successfully completed the implementation of our new SAP system in November. We now have a single, modern system across the entire company for the first time in our history, which is enabling significant efficiencies in our back-office processes.

And finally, we gave a thorough technology update to investors on November 17, highlighting the increasingly positive impact new synthetic and biological active ingredients will have on our business over the next decade and the ways in which we are driving to be the leader in crop protection innovation. We plan to launch 7 new active ingredients and 4 new biologicals in this decade, which we expect will contribute a combined $1.8 billion to $2.1 billion in incremental sales by 2030.

We recently announced a new collaboration with Novozymes – a world-leader in enzymes discovery and production – to research, co-develop and commercialize biological enzyme-based crop solutions for growers around the world. This adds to research collaborations and partnerships signed in 2020 with Zymergen and Cyclica and continues our trend of investing in new and innovative technologies that will enhance our long-term competitiveness.

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

Turning to our Q4 results on slide 3. We reported $1.15 billion in fourth-quarter revenue, which reflects a 4 percent decrease on a reported basis and 2 percent organic growth. Despite those headwinds, we posted double-digit sales growth in Asia – led by India, China, Japan and Australia – and in EMEA, with double-digit growth across a broad set of countries.

Adjusted EBITDA was $290 million, a decrease of 9 percent compared to the prior-year period. EBITDA margins were 25.2 percent, a decrease of 150 basis points compared to the prior year.

Adjusted earnings were $1.42 per diluted share in the quarter, a decrease of 19 percent versus Q4 2019. This year-over-year decline was primarily driven by the decrease in EBITDA, an increase in tax rate compared to the very low tax rate in Q4 2019, and slightly higher D&A, partially offset by lower interest expense and lower non-controlling interest.

Q4 2020 Revenue Down 4%, Up 2% Organically ***(Slide 4)***

Moving now to slide 4. Q4 revenue decreased by 4 percent versus prior year, driven by a 5 percent FX headwind and a 3 percent volume decrease. Price increases contributed a positive 4 percent impact and offset 80 percent of the FX headwind, the highest in the past few quarters, to deliver positive 2 percent organic growth.

Volume growth in EMEA and Asia was more than offset by weakness in North America and Latin America. Sales in EMEA increased 45 percent year over year and 42 percent organically. We saw particularly strong demand for Rynaxypyr® insect control applications for specialty crops as well as herbicides for cereals, especially in France, Spain, Russia and Germany. We also had significant growth in the UK, as customers secured orders in advance of Brexit. In Asia, revenue increased 11 percent year over year, driven by broad volume growth in India, China, Japan and Australia. India saw strong demand in rice and pulses in the south and in sugarcane in the north, in addition to the growth from our recent market access expansion activities. Last earnings call, we highlighted India as a key pillar of our growth in Asia, and the strength we saw in Q4 exemplifies this potential with India growing over 25 percent organically in the quarter. China saw robust demand for diamide insecticides and fungicides on fruits and vegetables. Growth in Australia was driven by demand in herbicides for cereals and oilseeds, while Japan's strength came from a variety of insecticides.

Moving now to Latin America. Sales decreased 9 percent year over year but grew 4 percent excluding significant FX headwinds. Pricing actions across the region offset about 50 percent of the currency headwind at the earnings level in Q4, substantially more than in the prior two quarters.

The Brazil season was delayed by at least 30 days due to hot, dry weather, and this delay meant numerous crops missed applications that will not return. The drought persisted throughout Q4, resulting in lower than expected demand across many crops, and it also impacted Argentina and other countries in the region. For Latin America overall, we estimate the drought reduced sales by about $30 million. In Argentina, we also had about $10 million of product held in bonded warehouses that was not released by customs officials in a timely manner. Although these factors reduced Q4 growth in Argentina, 2020 was still our best year ever for the country.

In North America, sales decreased 34 percent year over year. Roughly $40 million of this decline was due to supply chain disruptions, including COVID-related factors associated with logistics and a toll manufacturing partner, impacting our ability to meet demand late in December. An additional $30 million of the decrease was due to reduced volume in some lower-value pre-emergent herbicides. Our newer herbicides – such as Authority® Edge, Authority® Supreme and Anthem® Maxx – continue to add value and grow well.

We should also note our biologicals business had a very strong Q4, with sales up in all regions by at least a high-teens percentage, including very strong sales of Quartzo® bionematicide in Brazil and successful launches of

Accudo® biostimulant in EMEA and Ataplan™ biological and Nema™ CS biological in South Korea.

Q4 2020 Adj. EBITDA Decreased 9% ***(Slide 5)***

Turning now to the fourth quarter EBITDA bridge on slide 5. We had a $50 million contribution from higher pricing, which was nearly double what we realized in Q3. We also aggressively managed costs to offset nearly all the $30 million year-over-year headwind we had anticipated. However, the FX headwinds were more severe than expected and the late volume misses in North America and Latin America were too large to overcome.

Full-Year 2020 Financial Results ***(Slide 6)***

Moving to slide 6 for a review of our full-year results. We reported $4.64 billion in revenue, which reflects a 1 percent increase on a reported basis and a 7 percent organic growth rate.

Adjusted EBITDA was $1.25 billion, an increase of 2 percent compared to 2019, even with nearly $270 million in headwinds from FX. EBITDA margins were 26.9 percent, an increase of 40 basis points compared to the prior year.

2020 adjusted earnings were $6.19 per diluted share, an increase of 2 percent versus 2019. This increase was driven by the increase in EBITDA, as well as lower interest expense and lower share count, offset partially by a higher tax rate compared to the very low tax rate in the prior year, and higher D&A.

Full-Year 2020 Revenue Up 1%, Up 7% Organically ***(Slide 7)***

Turning to slide 7, for some of the drivers behind the full-year revenue growth. Overall, volume contributed 4 percent to revenue growth, while price increased sales by 3 percent. About $50 million of 2020 revenue growth came from product launches within the year.

In Asia, sales increased 6 percent year over year and 9 percent organically. Market expansion and share gains in

India, coupled with the very strong market rebound in Australia were the primary drivers. Our diamides were in high demand throughout the region in 2020, as we continued to grow on specialty crops such as rice and fruits & vegetables.

Sales in EMEA grew 4 percent versus 2019 and 6 percent organically. Demand was driven by diamides on specialty crops, Battle® Delta herbicide on cereals and Spotlight® Plus herbicide on potatoes.

Latin America posted 1 percent year-over-year revenue growth, but high-single digit volume growth and solid price increases led to 17 percent organic growth. Brazil had robust demand for our products for soybeans and sugarcane, while there was reduced acreage for cotton.

North America sales decreased 8 percent, as we had channel destocking in the first half and then a tough Q4, as described earlier. Of note, the Lucento® fungicide launch had a strong second year and Elevest™ insect control had a good launch year.

FY 2020 Adj. EBITDA Increased 2% ***(Slide 8)***

Moving to slide 8, where you can see our full-year EBITDA bridge. Volume contributed 9 percent to the growth, while a combination of stringent cost controls and price increases offset 70 percent of the impact of foreign currencies.

Market and FMC Outlook for 2021 ***(Slide 9)***

Turning now to slide 9 and a look at overall market conditions for 2021. We expect the global crop protection market will be up low-single digits – on a U.S. dollar basis. Commodity prices for many of the major crops are higher and stock-to-use ratios have improved compared to this time last year. All regions are seeing some benefit from better crop commodity prices, while the impacts from COVID on crop demand appear to be lessening.

Growth in Asia is expected in the low- to mid-single digits, driven by India, Australia and ASEAN. Favorable weather should contribute in many countries. The weather-related recovery in Australia is expected to continue.

The other three regions are each projected to grow in the low-single digits. Growth in the Latin American market will be strengthened by price recovery of FX headwinds from 2020 in Brazil, continued strength in the soybean market, an increase of fruit & vegetable exports from Mexico, and more normal weather patterns that are forecasted across the region.

In the EMEA market, we are seeing a solid market for cereals and specialty crops, which should be helped by improved weather in several parts of the region.

The market in North America is projected to have a firm foundation from crop commodity prices, but we are seeing a trend of distributors and retailers looking to strategically reduce their own inventory levels. The specialty crop market is stable, but a more significant change in demand will depend on the pace of the economic recovery.

Taking all the above into consideration, we view 2021 as a more positive ag macro environment than we did this time last year. Having said that, we are well aware of potential disruptions that COVID and weather can cause in any quarter.

FY 2021 and Q1 Earnings Outlook ***(Slide 10)***

Turning to slide 10 and the review of FMC's full-year 2021 and Q1 earnings outlook.

FMC full-year 2021 earnings are now expected to be in the range of $6.65 to $7.35 per diluted share, a year-over-year increase of 13 percent at the midpoint. Consistent with past practice, we do not factor in any benefit from planned share repurchases in our EPS estimates.

2021 revenue is forecasted to be in the range of $4.9 to $5.1 billion, an increase of 8 percent at the midpoint versus 2020, and 9 percent organic growth. We believe the strength of our portfolio will allow us to deliver this organic growth, continuing a multi-year trend of above-market performance.

EBITDA is expected to be in the range of $1.32 billion to $1.42 billion, which represents 10 percent year-over-year growth at the midpoint.

Guidance for Q1 implies year-over-year sales contraction of 7 percent at the midpoint on a reported basis and 5 percent organically. We are forecasting an EBITDA decline of 15 percent at the midpoint versus Q1 2020, and EPS is forecast to be down 18 percent year-over-year.

Projected FY 2021 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 11)***

Turning to slide 11, and full-year EBITDA and revenue drivers. Revenue is expected to benefit from 7 percent volume growth, with the largest growth in Asia, and a 2 percent contribution from higher prices. FX is forecasted to be a 1 percent top-line headwind.

We are expecting broad growth across all regions. Asia has the best overall fundamentals, but we are also seeing the benefit of better weather in Europe, strong soybean outlook for both Latin America and North America and a cotton recovery in Brazil next fall. Because of these factors, we are expecting a very strong second half of 2021, relative to the first half.

New products like Overwatch® herbicide in Australia – based on our Isoflex™ active – and Xyway™ fungicide in the U.S. are expected to make meaningful contributions and we are also launching Fluindapyr fungicide in the U.S. for non-crop applications.

We are forecasting a strong year for each of our product areas. In addition to continuing strength of Rynaxypyr® and Cyazypyr® insect controls, insecticide growth is also expected to come from products such as Talisman®, Hero®

and Avatar®. Herbicides should see growth in several of our top brands – including Authority®, Gamit®, Reator®, and Spotlight® Plus – in addition to the Overwatch® launch. Growth in fungicides is forecasted to be driven primarily by the Xyway™ launch in the U.S.

Our EBITDA guidance reflects strong volume and pricing benefits, offset partially by increases in R&D spending as well as the reversal of some of the temporary cost savings from 2020.

We are forecasting a $40 million increase in R&D to bring us to a level of funding that keeps all projects on a critical path to commercialization.

Additionally, we are making growth investments in Arc™ farm intelligence and other precision ag initiatives, new product launches like Overwatch® as well as FMC Ventures. We are also expecting some supply chain cost increases, including logistics and pockets of raw materials. These headwinds will be partially offset by the realization of the final $15 million of SAP synergies, which will give us cumulative SAP synergies of approximately $65 million.

<u>Projected Q1 2021 Adj. EBITDA and Revenue Drivers (YOY)</u> ***(Slide 12)***

Moving to slide 12, where you see the Q1 drivers. On the revenue line, volume is expected to drive a 6 percent decline, while a 1 percent contribution from higher prices largely offsets the FX headwind.

We expect the benefit of approximately $25 million in sales from Q4 supply and logistics delays to be captured in Q1. This is about half of that Q4 impact. In the U.S., this missed timing limits what we can recoup. In Argentina, ongoing customs delays in releasing products could cause us to miss application windows.

There are several headwinds in Q1 revenue that more than offset the flow-through from Q4. First, we are facing a particularly difficult comparison in Latin America, where sales increased 26 percent year-over-year and 38 percent organically in Q1 2020. Brazil's cotton business was very strong for us a year ago, this will not be repeated this season, as cotton acreage is down 15 percent. In EMEA, we are facing continued headwinds from discontinued registrations and the $15 million in Q4 sales related to Brexit that would normally have been sold in the first quarter.

Regarding EBITDA drivers, reduced volume is the biggest factor, while pricing is forecast to offset the FX headwind. Costs are expected to be higher by $12 million, driven primarily by the increased R&D investments we mentioned earlier.

I will now turn it over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Mark.

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

FX was a 5 percent headwind to revenue in the quarter as expected, with the impact of higher than anticipated local currency denominated sales in Brazil offset in part by a modest tailwind in the Euro zone. For full-year 2020, FX was a 6 percent headwind to revenue. The Brazilian Real represented the vast majority of the FX headwinds in 2020, followed by the Indian Rupee, Pakistan Rupee, and a broad number of non-Euro currencies in EMEA. Pricing actions offset slightly less than half of the currency headwinds in the year.

Looking ahead to 2021, we expect a more stable FX environment, with only a slight headwind at revenue. We will continue to take pricing actions in Brazil to recover the FX impacts from 2020, but overall pricing will be somewhat dampened by price-volume choices being made in our Asia business to drive higher growth.

Interest expense for the fourth quarter was $34.2 million, down $8.7 million from the prior year period, benefitting from lower debt balances and lower LIBOR rates. Interest expense for full year 2020 was down $7.3 million from the prior year, with the benefit of lower interest rates partially offset by changes in debt outstanding.

Our effective tax rate on adjusted earnings for 2020 was 13.7 percent, well within our expecations, and up from the very low 2019 rate, due to shifts in the geographic mix of taxable earnings and interrelated impacts on the US minimum tax on foreign earnings. The tax rate in the fourth quarter was 14.4 percent to true-up with the full-year actual rate. Tax was a headwind to earnings in the quarter due to the very low tax rate in the prior year period. We expect our effective tax rate to be in the range of 12.5 to 14.5 percent in 2021, similar to 2020.

Moving next to the balance sheet and liquidity.

Gross debt at year-end was $3.3 billion, essentially flat with the prior quarter, with nearly $600 million of cash on hand. We chose to hold cash on the balance sheet in advance of the seasonal working capital build we see in the first quarter to avoid having to take on as much commercial paper in the beginning of the new year. As such, gross debt to trailing twelve month EBITDA was 2.6 times at the end of the year, while net debt to EBITDA was 2.3 times. We are comfortable we are in the right leverage range given the excess cash at year-end. We do not expect to carry this level of cash on a steady-state basis going forward, so you should expect cash balances to decline through the coming year.

Q4 / 2020 Cash Flow Results and 2021 Cash Flow Outlook ***(Slide 13)***

Moving to slide 13 and a look at 2020 cash flow and the outlook for 2021.

Free cash flow for 2020 was $544 million with free cash flow conversion from adjusted earnings of 67 percent, both metrics up 80 percent from the prior year period. Adjusted cash from operations increased by about $170 million in 2020, with growth in working capital more than offset by lower non-working capital factors and increased EBITDA. Capital additions were down $60 million due to project delays and deferrals related to the COVID-19 pandemic. Legacy and transformation spending was down $14 million, with relatively stable legacy spending and transformation spending lower as we completed our SAP implementation program.

We anticipate full-year 2021 free cash flow to be in the range of $530 to $620 million, an increase of 6 percent at the midpoint, with free cash flow conversion of 63 percent at the midpoint. Growth in adjusted cash from operations and reduced legacy and transformation spending are expected to be partially offset by a significant year-over-year increase in capital additions. This increase in capital additions comes as we catch up on projects that were delayed or deferred in 2020 due to the pandemic.

Normalized FCF Shows Growth, On Track to Deliver 5-Year Plan ***(Slide 14)***

Turning to slide 14. We are pleased with our strong free cash flow growth and improvement in free cash conversion. There are a number of moving parts in our 2020 cash flow results and 2021 outlook that merit some further discussion and will help better explain this trajectory.

2020 free cash flow benefitted from a planned real estate asset sale that will not repeat, as well as the unforecasted delay of a lump sum environmental liability payment we had expected to be paid in December. Excluding these impacts, 2020 free cash flow would have been about $500 million and cash conversion about 62 percent.

Similarly, 2021 free cash flow is negatively impacted by the timing shift of the environmental liability payment. Adjusting for this timing shift, 2021 free cash flow would be about $600 million and cash conversion 65 percent.

So, on a more comparable basis, free cash conversion steps up from 38 percent in 2019 to 62 percent in 2020 and 65 percent in 2021, getting closer to our 70 to 80 percent target range for 2023.

I note that in this view of cash flow, we have not made any adjustments for the abnormally low capital additions in 2020 or the catch up to a more normal level in 2021. But this shift is in large part the reason why cash conversion steps up more slowly in 2021, as the increase in capital additions largely offsets the step down in transformation cash spending from the completion of the SAP program. You should expect that capital additions continue in a similar range to 2021 for the next several years to support our organic growth, including new capacity to support new active ingredient introductions.

Disciplined, Balanced Cash Deployment ***(Slide 15)***

Equally as important as growing our free cash flow is the discipline with which we deploy it. As you can see on slide 15, we continue our balanced approach to cash deployment. We are fully funding our organic growth and making modest inorganic investments to enhance our growth. We are then returning excess cash to shareholders through dividends and share repurchases, while keeping debt at our targeted leverage levels.

In 2020, we deployed nearly $350 million of cash flow while maintaining excess liquidity throughout the pandemic. We deployed $65 million to acquire the remaining rights to the fungicide Fluindapyr, we paid nearly $230 million in dividends, and we repurchased $50 million in FMC shares in the fourth quarter.

In 2021, we expect to accelerate cash deployment. We are planning to repurchase between $400 and $500 million worth of FMC shares in the year, with purchases in every quarter of the year, though more heavily weighted to the second half of the year. We expect to pay dividends approaching $250 million. And we will continue to look for attractive opportunities to make additional modest inorganic investments to complement our organic growth and expand our technological capabilities.

I'd like to close with a final update on our SAP S/4HANA ERP system implementation. We had a successful last 'go-live' in November and are now operating on a single, thoroughly modern, system across the entire company for the first time in our history. The go-live went better than expected, and we have smoothly transitioned to operating the company and closing the books in the new system. Our new SAP system has enabled significant efficiencies in our back-office processes. We captured over $50 million in synergies in 2020, having moved aggressively to accelerate 30 million dollars in planned savings from 2021 to 2020. We now expect to deliver $15 million in SAP-enabled synergies in 2021, the benefit of which is reflected in our full-year guidance, for a total of $65 million in synergies from implementing the new system.

There will certainly be additional efficiency gains in 2022 and beyond as we further leverage this generational investment in our business process infrastructure, but we will drive them as part of our 'business as usual' efforts to gain leverage on back-office costs as we continue to grow the company.

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

<u>Concluding Remarks</u>

Thank you, Andrew.

We had a number of issues in late Q4 that we are having to address. We do not expect all of them to be resolved in Q1. We do, however, see these issues as transitory and are focused on ensuring we can mitigate supply chain risks and continue to expand our market growth opportunities.

As you can see from our robust 2021 guidance, we are confident that 2021 will be another year of strong revenue and earnings growth for FMC. We continue to renew our portfolio, launching two new important products in Q1, we continue to invest in our R&D pipeline, and we remain fully committed to bringing new sustainable technologies to our customers. Our overall agenda on sustainability continues to advance, with the recent appointment of our first Chief Sustainability Officer and through new partnerships like the one recently announced with Novozymes. We plan to return about $700 million to shareholders this year through dividends and buybacks.

Finally, with our 2021 growth rates above the long-range plan, we remain firmly on track to deliver our five-year plan commitments.

Before I close, I'd like to highlight the press release issued yesterday regarding Pierre Brondeau's retirement as Executive Chairman effective April 27. I very much appreciate his leadership and look forward to his continued involvement as non-executive Chairman.

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

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