FMC Corporation

1Q21 Earnings Webcast

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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 Mark Douglas, President and Chief Executive Officer, and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Mark will review our first quarter results and provide our outlook for 2021 and the second 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.

Our first quarter results were in-line with our guidance and expectations. Revenue and earnings were down, as forecasted, though earnings were modestly above the midpoint of our guidance. We continue to expect a good second quarter and a strong full year.

We had two important product launches in the quarter – Overwatch® herbicide based on our Isoflex™ active in Australia and Xyway™ fungicide in the U.S. Isoflex™ is one of 11 new active ingredients we plan to launch this decade. Both launches have exceeded our expectations and have delivered approximately $50 million of Q1 sales.

In March, we announced an important agreement with UPL to toll manufacture Rynaxypyr® insect control in India and to distribute products based on the active ingredient in select markets. In the future, FMC will supply Rynaxypyr® active to UPL for use in product formulations developed and marketed by UPL around the world. This agreement is the next step in growing our important diamide franchise and accelerating FMC's long-term plans to expand the franchise in diverse geographies and crops with differentiated formulations. It also reaffirms the strength of our patent portfolio that protects our diamide franchise, far beyond just the composition of matter patents.

We returned over $135 million to shareholders in the quarter through our recently increased dividend and share repurchases.

Our guidance for Q2 indicates an expected return to mid-single digit growth on the top line, with slightly lower earnings growth because of higher costs compared to Q2 2020. These higher costs are principally related to increases in raw materials and logistics. Additionally, we will be spending more on SG&A and R&D compared to the abnormally low spend in Q2 2020.

I’d like to take a moment to provide a COVID-19 update on our business. All our manufacturing facilities and distribution warehouses remain operational and properly staffed. Our research laboratories and greenhouses also have continued to operate throughout the pandemic. While many of FMC’s other employees continue to work from home, plans are in place to resume in-office operations where permitted by local authorities. Finally, we are all aware of the challenges India is facing with significant increases of COVID cases across that country. Last week, FMC announced it will donate seven pressure swing adsorption oxygen plants to hospitals across five states in India to help address the rapidly increasing demand for medical oxygen. This program focuses on rural areas where we are providing further community support.

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

Turning to our Q1 results on slide 3. We reported $1.2 billion in first-quarter revenue, which reflects a 4 percent decrease on a reported basis and a 5 percent decrease organically. As planned, we saw slower sales in Brazil as we drew down channel inventory levels in the country, as well as the shortfall in EMEA due to Brexit-related sales that occurred in Q4 2020. In North America, we saw very good demand based on strong fundamentals in row crops and commodity prices, offset by a shift of diamide third-party partner sales to Latin America. In Asia, double-digit sales growth in Australia, Japan and our ASEAN sub-region drove revenue performance in that region.

Adjusted EBITDA was $307 million, a decrease of 14 percent compared to the prior-year period and $2 million above the midpoint of our guidance range. EBITDA margins were 25.7 percent, a decrease of 290 basis points compared to the prior year.

Adjusted earnings were $1.53 per diluted share in the quarter, a decrease of 17 percent versus Q1 2020, but also 3 cents above the midpoint of our guidance range. The year-over-year decline was primarily driven by the decrease in EBITDA, partially offset by lower interest expense.

Q1 2021 Revenue Down 4%, Down 5% Organically *(Slide 4)*

Moving now to slide 4. Q1 revenue decreased by 4 percent versus prior year, driven by a 4 percent volume decrease and a 1 percent pricing decline. Foreign currencies were a modest tailwind in the quarter on the top line.

Sales in Asia increased 18 percent year over year and 13 percent organically, driven by double-digit growth in Australia, Japan, the Philippines, Thailand and Vietnam. We had strong Overwatch® herbicide sales for cereals, and sales of our diamides were robust for fruit & vegetable and rice applications. Insecticides also performed well in Indonesia, helped by our recent expanded market access in that country. Improved weather helped sales across the ASEAN sub-region.

EMEA sales were down 4 percent year over year and 8 percent organically. We had strong sales of diamides and other insecticides and fungicides, but these were more than offset by headwinds from the Brexit-related UK sales in Q4 that we described a quarter ago as well as discontinued registrations.

In North America, sales decreased 8 percent year over year. Our herbicides business grew double digits, partially due to the timing of some sales that shifted from Q4 to Q1, as well as the continued strength of Authority® Edge and Authority® Supreme herbicides. We also had a strong launch in the U.S. of Xyway™ fungicide for corn and Vantacor™ insect control for specialty crops. These were offset primarily by a shift of diamide third-party partner sales from North America to Latin America, as one of our key partners adjusted the way it purchases from FMC globally. This was simply a move of purchasing location and not a change in demand. Excluding this shift, our North America sales were up low-double digits.

Moving now to Latin America. Sales decreased 22 percent year over year and 13 percent organically. As a reminder, we were 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, which did not repeat this season, as cotton hectares were down 15 percent. We also proactively reduced channel inventory of FMC products, as planned in Q1, improving our inventory situation in Brazil. Our Andean Zone sub-region continued the momentum from 2020 with double-digit sales growth.

<u>Q1 2021 Adj. EBITDA Decreased 14%</u> ***(Slide 5)***

Turning now to the first quarter EBITDA bridge on slide 5. EBITDA in the quarter was down $50 million year over year due to a very strong Q1 2020 comparison. Volume headwinds in Latin America and EMEA were partially offset by new product launches in Asia and North America. In Latin America, we focused on reducing channel inventory to set ourselves up for a much stronger pricing environment in the second half of 2021. Cost headwinds were slightly higher than expected, while FX headwinds were far lower than in the prior four quarters.

Market and FMC Outlook for 2021

Turning now to our view of the overall market conditions for 2021. We continue to expect the global crop protection market will be up low-single digits – on a U.S. dollar basis. Relative to this time last year, commodity prices for many of the major crops are higher and stock-to-use ratios are much improved. All regions are seeing some benefit from better crop commodity prices, while the negative impacts from COVID on crop demand appear to be modest.

The only change to our regional forecast is that we now forecast mid-single digit growth in the EMEA market, versus low-single digit growth before. This improved view is due to the strengthening of currencies in that region, relative to the U.S. dollar.

Market growth in Asia is still expected to be in the low- to mid-single digits, driven by India, Australia and ASEAN countries, while growth in the North American and Latin American markets is still projected to be in the low-single digits.

Basic crop fundamentals remain strong, however, our overall forecast for the total crop protection market remains low-single digit growth due to signs of supply chain constraints in the industry, as well as modest channel inventory overhang for the industry in certain countries.

Although Brazil and India are facing significant increases of COVID cases, we are not seeing signs that this is impacting their respective agricultural markets at this time. This is, however, something we are continuing to watch closely.

FY 2021 and Q2 Earnings Outlook *(Slide 6)*

Turning to slide 6 and the review of FMC's full-year 2021 and Q2 earnings outlook.

FMC full-year 2021 earnings are now expected to be in the range of $6.70 to $7.40 per diluted share, a year-over-year increase of 14 percent at the midpoint. This is up slightly versus our prior forecast reflecting the share count reduction from our Q1 share repurchases. Consistent with past practice, we do not factor in any benefit from future share repurchases in our EPS guidance.

Our 2021 revenue forecast remains in the range of $4.9 to $5.1 billion, an increase of 8 percent at the midpoint versus 2020, and 8 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 still expected to be in the range of $1.32 billion to $1.42 billion, representing 10 percent year-over-year growth at the midpoint.

Guidance for Q2 implies year-over-year sales growth of 6 percent at the midpoint on a reported basis and 5 percent organically. We are forecasting EBITDA growth of 1 percent at the midpoint versus Q2 2020, and EPS is forecast to be up 3 percent year-over-year.

Projected FY 2021 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 7)***

Turning to slide 7, and full-year EBITDA and revenue drivers. Revenue is expected to benefit from 6 percent volume growth, with the largest growth in Asia, and a 2 percent contribution from higher prices. FX is now forecast to have no impact on the top line.

We continue to expect broad growth across all regions, and a very strong second half of 2021.

New products, like Overwatch® herbicide, Xyway™ fungicide and Vantacor™ insect control, are already making meaningful contributions. We are also planning to launch Fluindapyr fungicide in the U.S. for non-crop applications later this year. We expect new products to contribute $400 million in revenue this year. This includes all products launched since 2018.

We are forecasting strong growth in each of our product categories in the year. In addition to the continued growth of Rynaxypyr® and Cyazypyr® insect controls, we expect growth from other key insecticide brands in our portfolio including Avatar®, Hero® and Talisman®. Our herbicide portfolio is also expected to grow led by brands including Authority®, Gamit®, Spotlight® Plus and Overwatch®. Xyway™ is expected to lead growth of our fungicide portfolio, building on the successful launch of Lucento® fungicide a couple of years ago.

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

As we stated in February, we are forecasting an increase in R&D to bring us to a level of funding that keeps all projects on a critical path to commercialization.

We are taking cost control actions to limit the net cost headwind to an incremental $10 million versus what we showed in February. We also intend to offset the higher raw material costs with an additional $10 million in price increases, which will come primarily in the second half of the year.

Projected Q2 2021 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 8)***

Moving to slide 8, where you see the Q2 drivers. On the revenue line, we are expecting positive contributions from all categories: volume 4 percent, pricing 1 percent and FX 1 percent.

We are expecting solid sales growth in Asia, EMEA and Latin America. Asia growth is expected to be broad-based across the region, with particular strength in India, Australia and China. Growth in EMEA will be driven by improved crop conditions for cereals and sugar beets. Latin America growth should be supported by improved conditions in both Brazil and Mexico, and a continuation of strong growth in the Andean Zone. We see good conditions in North America for row crops and a positive outlook for our new products.

Regarding EBITDA drivers, positive contributions from volume, pricing and FX more than offset the increased costs, which we previously discussed.

Implied H2 Adj. EBITDA and Revenue Drivers (YOY)
(Slide 9)

Turning now to slide 9. With the guidance for Q2 and the full year on record, we would like to also show the implied forecast for the second half. We have a very strong outlook for H2. Let me outline the key drivers for that growth.

We forecast year-over-year revenue growth of 15 percent in the second half, driven by five main elements:

- First, our expectations are strong for the U.S. and Brazil, following our weak Q4 2020 performance in those countries.
- Second, price increases – primarily in Brazil, with contributions from numerous other countries – will help offset the FX headwind from last year and the higher costs from raw materials this year.
- Third, new products will continue to be a major factor – Overwatch® herbicide in Australia, Xyway™ fungicide, diamide formulations – Elevest™ and Vantacor™ insect controls – and Fluindapyr fungicide for non-crop applications in the U.S. and Authority® NXT herbicide in India.
- Fourth, improved crop fundamentals – cotton in Brazil is the most obvious to us, as growers have indicated a 15 percent increase in hectares for next season, and we also expect a strong Q4 in North America and Latin America, driven by the good fundamentals for soybeans and corn.

- Fifth, improved market access and expansions into new geographies and crops – this is having a significant impact in Asia with recent initiatives in India, Indonesia, Philippines and Vietnam all forecast to drive high growth rates.

Our guidance also implies 30 percent year-over-year EBITDA growth in the second half of the year. Much of that will come directly from the volume and pricing growth I just described, but we also expect to limit the raw material and supply chain cost headwinds with sustained cost discipline in other areas.

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 modest tailwind for revenue growth in Q1, at 1 percent versus our expectations of a 2 percent headwind, as the U.S. dollar weakened against many currencies with the notable exception of the Brazilian Real.

Interest expense for the first quarter was $32.4 million, down $8.4 million from the prior year period, with the benefit of lower LIBOR rates as well as lower foreign debt and lower term loan balances partially offset by higher average commercial paper balances. We continue to anticipate interest expense between $130 and $140 million for the full year.

Our effective tax rate on adjusted earnings for the first quarter was 13.5 percent as anticipated, and in line with our continued expectation for a full-year tax rate between 12.5 and 14.5 percent.

Moving next to the balance sheet and liquidity.

Gross debt at quarter end was $3.6 billion, up over $300 million from the prior quarter with the expected seasonal build of working capital. Gross debt to trailing twelve month EBITDA was 3.0 times at the end of the first quarter, while net debt to EBITDA was 2.7 times. Both metrics were above our targeted full-year average leverage levels due to the seasonality of working capital. We expect this will improve throughout the year and we will return to target levels by year-end.

<u>Q1 Cash Flow Results and 2021 Cash Flow Outlook</u>

(Slide 10)

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

Free cash flow for the first quarter was negative $354 million. Adjusted cash from operations was similar to the prior year period, with improved working capital offset by changes in non-working capital items and lower EBITDA. Capital additions were somewhat higher as we ramped up spending following deferral of projects last year due to COVID. Legacy and transformation spending was substantially better, with the completion of our SAP program.

We continue to expect to generate full-year free cash flow within a range of $530 to $620 million, with the vast majority of this cash flow coming in the second half of the year.

We returned $137 million to shareholders in the quarter via $62 million in dividends and $75 million of share repurchases, buying back 696 thousand shares in the quarter at an average price of $107.73 per share. We continue to anticipate paying dividends approaching $250 million and repurchasing $400 to $500 million of FMC shares this year.

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

<u>Concluding Remarks – Mark Douglas</u>

Thank you, Andrew.

Our Q1 financial performance was in line with our expectations. We are now focused on delivering against our full-year forecast. COVID-19 continues to be a factor to watch, and we are closely monitoring raw material and supply chain costs.

We remain confident in our full-year forecast that builds upon the new technologies and improved market access that are driving our growth. The market demand for our most recent product launches is important, as it confirms the strength and value that our innovative R&D pipeline delivers to growers. We expect this momentum to continue to accelerate over the coming years with launches of new active ingredients and products – as well as outcomes from technology partnerships we have established in the past year.

Finally, we remain committed to our cash deployment plan. We are on track to deliver more than $700 million to shareholders this year – building on our trend since 2018 of improving cash generation and returning excess cash to shareholders.

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

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