FMC Corporation

4Q21 Earnings Webcast

February 9, 2022

As Prepared for Delivery

Introduction – Zack Zaki

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 performance as well as provide an outlook for full-year 2022 and the first quarter of 2022. 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, Zack, and good morning everyone.

Despite being one of the most challenging operating environments that we can remember, FMC delivered strong financial performance in the quarter. As previously indicated, we set Q4 up to be a very strong quarter by taking deliberate actions earlier in the year. In Q4, we grew our revenue by 23 percent, EBITDA by 30 percent and EPS by 52 percent, and importantly, expanded our EBITDA margins by approximately 150 basis points while confronting continued cost pressures, supply disruptions and emerging currency headwinds.

North America and Latin America contributed significantly to our growth in the quarter, not only regaining lost sales from the prior year period, but also driving above-market growth with volume and price. New product launches, continued growth of our biologicals platform and strong pricing gains contributed to the expanded profitability in the quarter. Acreage increase in key geographies and robust soft commodity prices created a positive backdrop for gains.

Rising input costs, inconsistent raw material availability, increasing logistics expenses, long lead times for ocean freight, labor cost inflation and resurging currency headwinds are some of the key challenges we faced in 2021 and we are prepared to navigate them again in 2022. Building on the positive sentiment in the ag market, we expect to drive growth this year through a combination of volume expansion and strong price increases across all regions.

Record Q4 2021 Results ***(Slide 3)***

Turning to Q4 results on slide 3. We reported $1.41 billion in fourth-quarter revenue, which reflects a 23 percent increase on a reported basis and 25 percent organic growth. This increase was driven by strong volume growth and pricing gains across all regions, as well as double-digit revenue gains in US, Brazil, Argentina, Mexico, France, Russia, Germany, India, Australia and Indonesia. Growth was broad-based across all of our product categories, led by herbicides. Insecticides and the Plant Health business both grew more than 15 percent.

Adjusted company EBITDA was $377 million, an increase of 30 percent compared to the prior year period. Company EBITDA margins were 26.7 percent, up approximately 150 basis points year-over-year, despite steep headwinds in the quarter from cost inflation. This margin expansion was driven by mix improvement and strong pricing gains in all regions, especially in North America and Latin America.

Adjusted earnings were $2.16 cents per diluted share in the quarter, an increase of 52 percent versus Q4 2020.

The year-over-year gain was primarily driven by an increase in EBITDA, while a lower-than-projected tax rate, as well as share repurchases, also contributed to the result.

<u>Q4 2021 Regional Revenue Drivers</u> ***(Slide 4)***

Moving now to slide 4. North America posted an all-time record quarter for the region with 80 percent revenue growth versus the fourth quarter of 2020. Adjusting for lost sales in the prior year period, the region still grew over 30 percent driven by strength in selective herbicides, higher prices, new product launches and continued market expansion of Rynaxypyr® active and Cyazypyr® active Our U.S. business has made great progress in revitalizing its portfolio, with more than 20 percent of the quarter's sales coming from products that were launched in the last 5 years.

Revenue in Latin America increased 30 percent year-over-year driven by volume and price increases. Growth in the region was led by strong performance in Brazil, Argentina and Mexico. Brazil experienced robust market conditions with acreage increasing for several crops, especially soy, cotton and corn. We grew our business in these key crops driven by Talisman® and Hero® insecticides for stink bug control. We also saw strong growth in specialty crops, mainly coffee and fruits and vegetables. And, finally, in Latin America, diamides, herbicides, fungicides and Plant Health each grew at least 25 percent or more in the quarter.

In EMEA, our branded business grew 9 percent driven by diamide and herbicide volumes, as well as price increases partially offset by the weakening of the euro. Growth was driven by our diamide brands such as Coragen® insecticide for corn and top fruit applications as well as herbicides for use on cereals, potatoes and sugar beet. Overall, EMEA sales decreased 8 percent year-over-year and 7 percent organically due to the shift of diamide global partner sales in the quarter from EMEA to Asia.

In Asia, revenue was down 3 percent compared to the fourth quarter 2020, primarily due to weather challenges in a number of countries, most notably China. Australia grew more than 40 percent in the quarter driven by the continued momentum of our new launches including Vantacor® insect control based on Rynaxypyr active and Overwatch® herbicide based on our Isoflex® active. Agronomic conditions remained positive in the country and a strong start to the summer cropping season resulted in very good demand for our diamides for rice and cotton applications. India, a key pillar of our Asia business, delivered greater than 10 percent year-over-year revenue growth driven by demand for our portfolio in rice and pulses in the south and in sugarcane in the north.

<u>Q4 2021 Adjusted EBIDTA Drivers</u> (Slide 5)

Turning to slide 5, EBITDA in the fourth quarter was up 30 percent driven by volume and price increases in all regions. Let me remind you that FMC's definition of the volume driver includes quantity growth, mix improvement and the financial benefit from new launches. Volume was up $184 million in the quarter driven by selective herbicides in the U.S., insecticides for fruits and vegetables in Mexico and insecticide sales for corn and soy applications in Brazil. Price was up $47 million with pricing actions in all regions. The biggest pricing gains were from the U.S. and Latin American countries with mid-single digit increases. We expect similar pricing actions in other geographies as we approach the new seasons. Raw material, logistics and packaging costs remained elevated, contributing to the $112 million in cost headwinds. FX was a $32 million negative factor in the quarter, primarily in Latin America.

FY 2021 Financial Results ***(Slide 6)***

Moving to full-year results on slide 6. We reported $5.05 billion in revenue, which reflects a 9 percent increase on a reported basis and 8 percent organic growth.

Approximately $400 million in sales came from products launched in the last 5 years.

Adjusted EBITDA was $1.324 billion, an increase of 6 percent compared to 2020, even with over $180 million in cost headwinds. We continued to deliver industry leading EBITDA margins of 26.2 percent.

2021 adjusted earnings were $6.93 cents per diluted share, an increase of 12 percent versus 2020. This increase was driven primarily by the EBITDA increase, as well as lower interest expense, improved tax rate and lower share count offset partially by higher D&A.

As Andrew will detail in his remarks, we delivered record cash flow of $713 million in 2021, an increase of 31 percent over the prior year period, and our cash conversion of 80 percent for the year was also an all-time record.

I have mentioned the excellent growth of our Plant Health business a number of times. Before moving on to 2022 and Q1 earnings outlook, let me quickly share more detail on this business, which includes FMC's biologicals platform.

Plant Health (Slide 7)

Moving to slide 7. FMC's Plant Health business has approximately $220 million of revenue today and consists of our biologicals, crop nutrition and seed treatment technologies. Biologicals can be used to improve nutrient uptake, while providing insect control, disease protection and improving yields. At the same time, these technologies generally have reduced residue and more favorable environmental profiles when compared to synthetic alternatives. These characteristics make the Plant Health business an integral part of FMC's commitment to sustainable innovation. Regulatory pressures around the world, resistance management challenges as well as evolving food chain requirements are some of the factors driving double digit market growth for biologicals. FMC's Plant Health business has demonstrated margin accretive growth at approximately one and a half times the market over the last five years.

We entered the biologicals space in 2013 with a small acquisition and a strategic alliance with Chr. Hansen. In 2016, we established the headquarters for Plant Health at our European Innovation Center in Denmark, and most recently, entered into a collaboration with Novozymes to research, co-develop and commercialize enzyme-based crop protection products. We have also made early investments in emerging technologies such as pheromones with BioPhero and peptides with Micropep through FMC Ventures.

We utilize a tailored business model for Plant Health, with a dedicated R&D center in Copenhagen, specialized contract manufacturers and an integrated downstream commercial organization that leverages our synthetic crop protection market access throughout the world. All four regions are actively growing the FMC biologicals portfolio, with Asia and Latin America making up two-thirds of the current business. Our Plant Health business is targeting a goal of $500 million in sales by 2025 driven by our internal pipeline, external partnerships as well as strategic M&A.

<u>2022 FMC Growth Outlook</u> ***(Slide 8)***

Moving to slide 8 and FMC's growth outlook. We are projecting 7 percent topline growth in 2022 with gains across all four regions, leveraging the full breadth of our synthetic and biological portfolios as well as price increases. New product growth is anticipated to accelerate in 2022 with approximately $600 million in sales coming from products launched in the last 5 years – this would represent more than 11 percent of our total projected sales as well as a 50 percent increase for the category versus 2021.

Our North American business will drive the growth of recently launched products such as Xyway fungicide for corn and Vantacor insect control targeting worm pests in a range of crops including soy, corn and cotton. Biologicals and other Plant Health products are expected to grow double digit due to new registrations. We recently announced in-season price increases in the U.S. and expect pricing momentum to help offset cost headwinds.

In Latin America, we expect growth across the whole region driven by a range of insecticides including diamides as well as selective herbicides and biologicals. We anticipate acreage to remain supportive in our key crops of soy, corn, cotton, sugarcane as well as specialty crops. Significant market expansion opportunities still exist for Colombia, Peru, Paraguay and other Latin American countries in which we remain under-represented. Our diamide product line is particularly suitable for specialty crops in these countries. Pricing will be a key lever in the region to help offset costs and FX headwinds. We are also launching Onsuva® fungicide, based on our

Fluindapyr active, in Argentina and Paraguay this year. Onsuva® is an innovative broad-spectrum fungicide targeting diseases in soy and peanut crops.

Our Asian business is expected to grow across several countries driven by diamides, new products and biologicals. India will continue to be an important market for our diamides as well as the broader portfolio, especially in sugarcane, rice and specialty crops such as pulses. Australia is expected to continue its growth trajectory with recent launches including Overwatch Fluindapyr herbicide, which targets annual ryegrass and select broadleaf weeds on cereals and canola. New registrations in Asia will drive double-digit growth for our Plant Health products. We expect to continue expanding market access in countries such as India, Indonesia, Philippines, Vietnam and Malaysia. FX volatility will be important to watch, especially for India and Pakistan.

Finally, the EMEA business is projecting volume growth across the region led by Spain, Germany, the U.K., and

Middle East and Africa. Cyazypyr® brands such as Benevia®, Verimark® and Exirel® will continue growing volumes on vegetables, top fruit, olives and citrus. Rynaxypyr® brands such as Coragen® are projected to grow in corn and cotton. Herbicides including Spotlight Plus®, which is used for desiccation in potatoes, are expected to grow in the U.K. and other countries in the region. Biologicals and other Plant Health products will also maintain their growth trajectory. In terms of new launches, we are introducing a herbicide for grass weed control in wheat and barley in new countries in the region. Registration losses will be a headwind similar in magnitude to previous years. FX volatility is projected to be a headwind with the euro, Turkish lira and other currencies weakening against the U.S. dollar.

2022 FMC Cost Outlook ***(Slide 9)***

Turning to slide 9 and FMC's cost outlook. With respect to cost of goods sold, we continue to see elevated costs across our supply chain. Higher input costs are driven by inflationary pressures as well as lack of availability.

Logistics remain tight with ocean, air and ground transportation costs at elevated levels. Packaging costs also remain high and availability remains tight; however, we are seeing initial signs of price alleviation. Overall, we expect supply chain-related challenges to persist through 2022. We have better visibility into costs for the first half of the year and will have a clearer view of the second half once we move through the second quarter.

Increased SG&A investments are anticipated to be driven by commercial expansion activities, especially in support of recently launched products and market access opportunities, as well as labor cost inflation. R&D spend will grow as we continue to advance our discovery and development pipelines. Overall, SG&A and R&D spend will be maintained in line with historical ratios and managed closely.

FY 2022 and Q1 Financial Outlook ***(Slide 10)***

Turning to slide 10 and the review of our full-year 2022 and Q1 financial outlook. We expect full-year revenue in the range of $5.25 billion to $5.55 billion, representing 7 percent growth at the midpoint compared to 2021. Adjusted EBITDA is forecasted to be in the range of $1.32 billion to $1.48 billion, reflecting 6 percent year-over-year growth at the midpoint. We expect adjusted earnings of $6.80 cents to $8.10 cents per diluted share, representing an 8 percent increase at the midpoint. This assumes a share count of approximately 127 million and does not factor in the benefit of any potential share repurchases in the year.

Looking at the first quarter, we forecast revenue to be in the range of $1.22 billion to $1.34 billion, representing 7 percent growth at the midpoint compared to first quarter 2021. Adjusted EBITDA is forecasted to be in the range of $300 million to $350 million, representing a 6 percent increase at the midpoint versus the prior year period. We expect adjusted earnings per diluted share to be in the range of $1.50 to $1.90, representing an increase of 11 percent at the midpoint versus Q1 2021 and assuming a share count of approximately 127 million.

<u>Range of Outcomes for 2022 Adjusted EBITDA</u> ***(Slide 11)***

Moving to slide 11, I want to highlight some of the potential factors that could drive our results to either end of the guidance range. For the midpoint of our adjusted EBITDA guidance, we are assuming input costs remain elevated and any further inflation is mitigated. If cost inflation becomes more severe and cannot be mitigated through further price increases or internal efficiencies in the calendar year, our results would trend towards the lower end of the guidance. Alternatively, realizing mid-to-high-single digit price increases and/or easing of FX headwinds would drive our results towards the high end of the range. Weather events and supply disruptions are variables which would also influence the final outcome.

<u>Projected FY 2022 Revenue and Adj. EBITDA Drivers</u> ***(Slide 12)***

Turning to slide 12, and full-year revenue and EBITDA drivers. Again in 2022, strong volume expansion and price increases across all regions will drive revenue growth. FX volatility is expected to be a negative factor on our outlook.

Our EBITDA guidance reflects the benefits of high incremental margin volumes and price increases partially offset by cost and FX headwinds.

<u>Projected Q1 2022 Revenue and Adj. EBITDA Drivers</u>

(Slide 13)

Moving to slide 13 and the Q1 drivers. On the revenue line, volume growth is expected to continue, especially in North America and Latin America where momentum is strong. As noted earlier, we have already announced in-season price increases in the U.S. Price increases in all regions will be an important driver for the quarter. We're anticipating FX headwinds principally from European currencies.

Regarding EBITDA drivers, long supply chains in the ag chem industry provide us some visibility into costs and so far, inflationary pressures have not subsided and remain at elevated levels. The higher costs driven by raw materials that we saw in the second half of 2021 will continue in the quarter, as well as growing FX headwinds that will partially offset the EBITDA benefit from high margin volumes and price increases. Overall, we are forecasting year-over-year EBITDA growth of 6 percent in the quarter.

I will now turn it over to Andrew.

Selected Financial Results ***(Slides 14 – 16)***

Thanks, Mark.

Let me start this morning with a review of some key income statement items.

FX was an unexpected headwind to revenue growth in the fourth quarter, principally driven by late quarter volatility in the Brazilian real and to a lesser extent by the euro. For full year 2021, FX remained a modest tailwind overall, with the late year currency volatility more than offset by tailwinds in major European and Asian currencies.

Looking ahead to 2022, we see increasing FX headwinds, a significant shift in our expectations as compared to the initial outlook for 2022 we provided on the November call. For the first quarter of 2022, the headwinds are primarily in Europe, driven by the euro and the Turkish lira. For full year 2022, we anticipate broad-based FX headwinds as the US dollar is expected to appreciate against nearly all currencies of importance to FMC.

Interest expense for the fourth quarter was $33 million, down $1.2 million versus the prior year period. Interest expense for full year 2021 was $131.1 million, down $20.1 million versus the prior year, due to lower US interest rates and lower foreign debt balances.

In 2022, we expect full-year interest expense to be in the range of $115 to $135 million, with higher short term interest rates in the US offset by the benefits of the refinancing completed in the fourth quarter of 2021.

Our effective tax rate on adjusted earnings for full year 2021 was better than anticipated at 12.7 percent, driven by a more favorable mix of earnings in the fourth quarter across principal operating companies. The fourth quarter effective tax rate of 10.8 percent reflects the true-up to the full-year rate relative to the 13.5 percent rate accrued through the third quarter.

For 2022, we estimate that our tax rate should be in the range of 13 to 15 percent, with the increase driven by certain provisions in the Tax Cuts and Jobs Act of 2017 that are effective beginning in 2022.

Moving next to the balance sheet and liquidity.

Gross debt at year end was $3.2 billion, down roughly $200 million from the prior quarter. Gross debt to trailing twelve month EBITDA was 2.4 times at year end, while net debt to EBITDA was 2.0 times. Both metrics are below our targeted full-year average leverage levels, as intended, given our higher leverage earlier in the year. We expect to maintain full-year average leverage in our targeted 2.4 to 2.5 times gross or 2.3 to 2.4 times net ranges in 2022.

As I briefly mentioned a moment ago, we refinanced the $700 million outstanding balance on our 2017 term loan as well as $300 million in senior notes that matured this month with a new $1 billion term loan in November. The new term loan has improved pricing which will reduce our interest expense by approximately $8 million in 2022 compared to 2021. We continue to believe prepayable debt, like the new term loan, provides valuable flexiblilty in our capital structure.

<u>2021 Cash Flow Results</u> ***(Slide 14)***

Moving on to cash flow and slide 14.

FMC delivered record Free Cash Flow of $713 million in 2021, up more than 30 percent versus the prior year. Adjusted cash from operations was up more than 100 million dollars compared to the prior year. Significant improvement in working capital and higher EBITDA were only partially offset by growth in cash used by non-working capital items. Receivables net of rebates, vendor financing, and advance payments was the primary driver of improved working capital, supported by improved accounts payable. I note that advance payments from customers were very strong in North America, as were collections around the world in the fourth quarter. Higher inventories were a headwind to operating cash flow, driven by our choice to build inventory to help manage continued supply chain volatility and to be prepared to fulfill strong demand in early 2022, as well as reflecting higher input costs.

Capital additions and other investing activities of $114 million were up $26 million compared with the prior year, as we continue to ramp up spending following deferral of projects in 2020 and to support continued growth. Capital additions came in meaningfully lower than anticipated as we were unable to spend at our targeted levels in the fourth quarter due to changes in project timing and availability of materials and contractors. Legacy and transformation spending was down substantially, due entirely to the completion of our SAP program.

Overall Free Cash Flow conversion from adjusted earnings was 80 percent, an all-time high for FMC.

This strong cash flow supported equally strong cash return to shareholders of nearly $650 million in 2021. We repurchased 3.95 million shares in 2021, over 3 percent of shares outstanding at the beginning of the year, at an average price of $101.14. We also paid $247 million in dividends.

2022 Cash Flow Outlook ***(Slide 15)***

Looking ahead now to free cash flow for 2022 on slide 15.

We are forecasting free cash flow of $515 to $735 million in 2021, a range reflecting not only the range of potential EBITDA outcomes Mark discussed earlier, but also uncertainty around a few critical assumptions.

Underlying this forecast is our expectation of adjusted cash from operations of $750 to $910 million, flat to 2021 at the high end of the range. Growth in working capital is anticipated to more than offset EBITDA growth with a modest tailwind from non-working capital items. Working capital growth reflects our current expectations of a return to more normal advance payment levels in North America among other factors negatively impacting net receivables in 2022.

We further expect to continue to ramp up Capital Additions as we expand capacity to meet growing demand, especially for our new products that are seeing rapid gains, as Mark noted. Legacy and transformation, however, is expected to be a tailwind with somewhat lower legacy spending and essentially no transformation expense expected in 2022.

With this guidance, we anticipate free cash flow conversion of 66 percent at the mid-point.

<u>Free Cash Flow Trends</u> ***(Slide 16)***

To put our 2022 free cash flow guidance in perspective, let's move forward to slide 16.

The left side of this slide shows free cash flow trends since 2018. As you can see, FMC has made tremendous progress in both the absolute dollars of free cash flow generated as well as the conversion of earnings to cash flow. And as we have said before, the definition of free cash flow we use is very comprehensive – it's essentially the cash that is left to pay dividends, buy back stock or make inorganic growth investments. As such there are numerous factors that can swing cash flow from year to year. The crop protection industry is working capital intensive, so year-to-year swings in working capital drivers like advance payments can move our cash flow from one year to the next. Additionally, other cash items like taxes, environmental payments, etc. can be lumpy. So, as we get to a more steady-state level of cash conversion, we believe it is important to look at trends over several years rather than focus exclusively on a single year's results. If you look at the 3-year rolling average trend for cash conversion, you can see FMC's performance has stepped up nicely and is maintained at above our targeted 70 percent through 2022 at the midpoint of our guidance. As discussed, there are some specific drivers that could depress free cash flow conversion somewhat in 2022, but we fully expect free cash flow conversion to be above 70 percent in 2023, and that we should sustain 70 to 80 percent free cash conversion on a rolling basis over the long-term.

Equally as important as improving our free cash flow is the discipline with which we deploy cash. The chart on the right side of this slide shows our cash deployment for 2019 – 2021, with essentially 100 percent of our free cash flow having been returned to shareholders through dividends and buybacks. As you saw in our earnings release last night, FMC's Board of Directors has authorized a new $1 billion share repurchase program, confirming confidence in our ability to sustainably generate strong cash flow in 2022 and beyond and reiterating our commitment to return excess cash to shareholders.

In 2022, we anticipate continuing to strongly reward shareholders with dividends of around $270 million and share repurchases of $500 to $600 million, a return of more than 100 percent of our free cash flow in the year at the midpoint of our guidance ranges.

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

Concluding Remarks (Slide 17)

FMC's performance in 2021 was the result of strong volume and pricing gains, as well as an overall favorable market backdrop. Our operations and procurement teams worked hard to overcome persistent supply chain and logistics challenges that continued to disrupt the global economy.

We expect 2022 will be another year of volatility. From a cost standpoint, second-half input costs are somewhat unclear at this time. We are closely monitoring any potential COVID-related impacts, particularly in China, as well as potential logistics issues around the world. However, it's important to recognize that these 2022 challenges are set against a backdrop of solid agricultural market fundamentals and strong demand for our industry-leading products and technologies. We remain confident in our 2022 guidance and another year of healthy growth, driven by pricing, new and recently-launched products from our synthetic and biological portfolios, appropriate cost controls, and continued investments to expand market access and broaden our technology platforms.

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

[After last question]

Closing – Zack Zaki

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