FMC Corporation

3Q22 Earnings Webcast

November 2, 2022

As Prepared for Delivery

Introduction – Zack Zaki

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 and provide an outlook for the rest of the year as well as an early view of 2023. 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, net debt 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, good morning everyone.

FMC's strong growth continued in the third quarter with a robust start to the Latin American season as well as solid pricing actions across all regions driving our results. New products gained momentum in the quarter, growing 26% year-over-year. As expected, Q3 saw the highest year-over-year cost inflation for 2022. Looking to Q4, we are seeing sequentially lower inflation across the supply chain. With this in mind, we expect a strong finish to the year and remain confident in our ability to deliver our fourth quarter and full-year forecast.

Solid Q3 2022 Results *(Slide 3)*, Q3 2022 Regional Revenue Drivers *(Slide 4)* and Q3 2022 Adjusted EBITDA Drivers *(Slide 5)*

Our Q3 results are detailed on slides 3, 4 and 5. Revenue was up 19% organically, EBITDA down 11% and EPS down 14%. As expected, these declines in the quarter were driven by the highest cost inflation this year, which more than offset the good start to the Latin American season and average global price increases of 7%.

Adjusted earnings were $1.23 per diluted share in the quarter, $0.13 above the midpoint of our guidance range, with the vast majority of the outperformance driven by higher EBITDA.

We delivered double-digit year-over-year growth across the portfolio, including 23% growth in herbicides, 19% in fungicides and 10% in insecticides.

Third-quarter sales were $1.38 billion, led by volume growth in Latin America and North America as well as price increases across all regions. In North America, sales increased 21% year-over-year. Fungicides grew rapidly in the quarter, especially on corn in the Midwest. Overall performance in the Midwest across corn, soybeans and other crops more than offset lower diamide sales in the West due to drought conditions.

In Latin America, sales increased 35% year-over-year, led by Brazil and Argentina. With a backdrop of strong commodity prices and increasing acres, grower confidence in the region is high. Our results were driven by a robust start to the new season with strong selective herbicide and insecticide sales, price increases and expanding market access. FMC has been investing in expanding market access by adding commercial resources and developing new, broader relationships with large co-operatives and distributors. These investments are focused on key row crops such as soybean and corn and we are starting to realize the resulting benefits from these increased sales. As an example, bifenthrin-based insecticides, including those used to control stink bugs in soybeans, were the largest growth driver in the region for the quarter. We also successfully launched Onsuva® fungicide, our Fluindapyr-based fungicide, for soybeans and peanuts in Argentina and Paraguay during the quarter.

This is the second new molecule from FMC's pipeline following the successful introduction of Isoflex™ herbicide in Australia last year.

Turning to EMEA, third quarter sales were down 12% versus prior year and were up 1% organically. In addition to strong pricing, results were driven by increased demand for diamides on Fruit and Vegetables and herbicides on cereals and oil seed rape. FX was a significant headwind in the quarter. FMC's decision to exit the Russian market—the first major crop protection company to do so earlier this year—had an approximately $8 million negative impact on EBITDA in the quarter.

And finally, Asia was down 6% versus the third quarter last year, and up 2% organically. Pricing gains were more than offset by FX headwinds. Floods in Pakistan and erratic weather in India and other countries impacted performance in the quarter. However, demand remains strong for new products based on diamides and other chemistries, and FMC continues to make significant progress in improving our market access in geographies where we are under-represented, such as Indonesia, Vietnam and Thailand.

Investments to expand market access have not been limited to Latin America and Asia. We have also invested in market expansion in the US, Turkey and several other countries. This is an important element of our growth strategy that includes scaling up FMC's technical service organization, expanding our sales force, pursuing new collaborations with distribution partners, and other steps that are beginning to deliver market share gains. These initiatives become even more important as we continue to introduce novel technologies that require close engagement with growers.

Overall, Adjusted EBITDA for the third quarter was $261 million, a decrease of 11% compared to the prior-year period but $6 million above the high-end of our guidance range primarily due to somewhat lower cost inflation than we previously anticipated. As forecasted, cost and FX headwinds more than offset price increases and volume gains. Average price increases of 7% contributed $85 million in the quarter. We are seeing initial signs of decelerating inflation and we are confident that cost headwinds in 2022 have peaked in the third quarter.

FX was a $25 million EBITDA headwind in the quarter due to weakening of several currencies around the world.

FY 2022 and Q4 2022 Financial Outlook ***(Slide 6)***

Moving to slide 6 and FMC's full-year 2022 and fourth quarter earnings outlook.

With continued strength in market demand and the success of pricing actions to help offset cost increases and FX headwinds, we are raising full-year 2022 revenue to a range of $5.6 billion to $5.8 billion, representing an increase of 13% at the midpoint versus 2021. Sales growth will be driven by volume and price in all regions, partially offset by foreign currency impacts.

We are narrowing the full-year adjusted EBITDA range to $1.37 billion to $1.43 billion, representing 7% year-over-year growth at the midpoint and reflecting the confidence in our order book and supply availability.

The range for 2022 adjusted earnings per share is narrowed as well and it is now expected to be $7.10 to $7.60 per diluted share, representing an increase of 7% year-over-year at the midpoint. Consistent with past practice, we do not factor in any benefit from potential share repurchases in our EPS guidance.

Guidance for Q4 implies year-over-year sales growth of 8% at the mid-point compared to the prior year period. Pricing momentum and volume growth are expected to more than offset FX headwinds in the quarter. We have good visibility into demand for the quarter with strong order books for both the Brazilian and US markets. Cost increases are forecasted to be lower in Q4 compared to Q3. The combination of sales growth and lower cost headwinds is anticipated to result in EBITDA growth of

15% at the midpoint with EPS up 9% at the midpoint year-over-year.

Updated Drivers of Outcomes for 2022 Adj. EBITDA *(Slide 7)*

Moving now to the updated drivers of 2022 EBITDA outcomes on slide 7. Market growth is expected to remain in the mid-to-high single digit range, and we are seeing cost inflation beginning to decelerate. We are successfully mitigating the impact of lost sales from our decision to exit Russia and have good visibility into supply to fulfill fourth quarter demand. Full-year price increases of mid-to-high single digit and strong volume growth are expected to more than offset cost and FX headwinds, keeping the mid-point of our guidance unchanged at $1.4 billion.

I will now turn over the call to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Mark.

Let me start this morning with a quick discussion of two accounting changes we implemented on July 1.

First, we changed our method for costing inventory in the United States from the last-in, first-out (or “LIFO”) cost method to the first-in, first-out (or “FIFO”) cost method, consistent with how we account for inventory across the rest of our global business. This is the primary change made and the only one that impacts prior year reported adjusted earnings and EBITDA.

Second, we changed our method of accounting for the determination of the market-related value for a class of assets within our qualified U.S. defined benefit plan, impacting our net periodic pension cost. This change only impacts our historical GAAP results, as we exclude non-operating pension charges from our adjusted results.

Certain prior-year amounts within the earnings tables included with our earnings release today have been recasted to reflect these accounting policy changes.

Impacts to our recasted Income Statement are not material.

Further detail on both of these changes are included in our third quarter 2022 Form 10-Q which will be filed later today. Additionally, we have included a table in the appendix of today's slides that shows recasted Adjusted EBITDA, Earnings and EPS for 2021 for easy reference. There were no impacts on reported results for Q1 or Q2 2022 from these changes.

With that, let's shift to a review of some key income statement items.

FX was a headwind to revenue growth in the third quarter, as expected, driven by weakness in European and Asian currencies, particularly the Euro, Indian Rupee, and Turkish Lira. We continue to anticipate FX headwinds for the remainder of 2022, driven by Asian and European currencies.

Interest expense for the third quarter was $41.8 million, up $8.7 million versus the prior year period, primarily due to higher short-term interest rates and to a lesser degree higher debt balances, partially offset by savings from the refinancing activity completed in the fourth quarter of last year.

With rapidly rising interest rates, especially in the United States, we now expect interest expense for full-year 2022 to be in the range of $148 million to $154 million, an increase of $6 million at the midpoint compared to our prior guidance.

Our effective tax rate on adjusted earnings for the third quarter was 14%, in-line with our continued expectation for a full-year tax rate in the range of 13% to 15%.

Moving next to the balance sheet and liquidity.

Gross debt at quarter end was approximately $3.6 billion, up nearly $390 million from year-end 2021. Gross debt to trailing twelve month EBITDA was 2.6 times at the end of the third quarter, while net debt to EBITDA was 2.4 times. We continue to expect full-year average leverage in our targeted 2.4 to 2.5 times gross or 2.3 to 2.4 times net ranges.

<u>2022 Cash Flow Results and Outlook</u> ***(Slide 8)***

Moving on to cash flow and slide 8.

Third quarter year-to-date free cash flow was negative $139 million. Adjusted cash from operations of $16 million was down $290 million compared to the prior-year period, driven by higher working capital. Strong sales growth was the largest driver of increased cash consumption for working capital.

Capital additions and other investing activities of $103 million were slightly higher than the prior year period. Legacy and transformation spending was down $6 million, with slightly higher legacy expenses more than offset by the absence of Transformation spending this year.

We are lowering the range of our full-year 2022 free cash flow guidance to a range of $440 million to $560 million, a reduction of $125 million at the midpoint.

Adjusted cash from operations is now expected to be in the range of $650 million to $710 million, a reduction of $150 million at the midpoint compared to the prior year, reflecting higher cash consumed by working capital than previously guided. The vast majority of the higher expected consumption of cash by working capital is due to the higher sales now expected in the fourth quarter, none of which will be collected in the current year. The remainder of the increased cash consumption stems from maintaining year-end inventory levels to support an anticipated strong start to 2023, despite the higher Q4 sales, as well as from other impacts of the current inflationary environment on working capital.

Our guidance for capital additions has been reduced by $25 million at the midpoint, with capital additions now expected to be in the range of $125 million to $145 million. Legacy and Transformation guidance is narrowed to a range of $40 million to $50 million, unchanged at the midpoint.

With this guidance, we anticipate free cash flow conversion from adjusted earnings of 54% at the mid-point, with conversion limited this year by the impact of rapid sales growth and inflation on working capital.

Rolling three-year free cash flow conversion is now expected to be 67% for 2020 through 2022, somewhat below our targeted 70% to 80%. We anticipate reverting to the targeted cash conversion range in 2023, as the impacts of this year's rapid inflation and price increases move through our working capital.

Moving on to cash deployment.

No shares were repurchased in the third quarter. We paid $67 million in dividends.

In the first several weeks of October, we repurchased 875,000 FMC shares at an average price of $114.22 per share for a total of $100 million.

Year to date, we have deployed roughly $490 million of cash – approximately $190 million for the BioPhero acquisition, $200 million in dividends, and $100 million in share repurchases completed in October.

We paid an additional $67 million in dividends on October 20th and we expect to return up to an additional $100 million to investors through share repurchases in the remainder of the fourth quarter, for a total of up to approximately $470 million in cash returned to shareholders and approximately $660 million of total cash deployed in 2022.

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

Early View of 2023 Market Dynamics and FMC Growth Outlook *(Slide 9) and* Early View of FMC's 2023 Cost Dynamics *(Slide 10)*

Thank you, Andrew. Turning to slides 9 and 10, I want to provide an early look at the key market and cost dynamics underpinning our emerging view of next year.

Soft commodity prices remain robust and stock-to-use ratios for key crops remain below the average for the past decade. Growers around the world will continue to rely on our advanced technologies to deliver higher yields, while they combat erratic weather and persistent drought conditions. As a result, we expect the overall crop protection market will grow in the low-to-mid single digit range next year on a U.S. dollar basis. This favorable backdrop combined with our continued pricing actions, strong demand for our newest technologies and further market access gains will provide solid support for profitable growth in 2023. There have been significant cumulative cost and FX headwinds to EBITDA over the past couple of years, which we intend to recoup through pricing and lower costs going forward. Clearly, all the recovery will not take place within a single year, but we expect a shift to improving margins in the second half of 2023.

Headwinds to the topline will come from FX volatility as well as a normal range of registration losses. Potential factors that could drive 2023 revenue higher include stronger market growth, better pricing or product mix, and a reduction in FX volatility.

On the supply front, we expect greater stability as we continue diversifying our raw material sources and experience fewer disruptions. Input cost inflation is expected to decelerate, and hence, input costs are expected to become a year-over-year tailwind in the second half of the year. In fact, we are already seeing improvements in the availability and costs of logistics.

Regarding internal costs – SG&A and R&D expenses will grow at or below the rate of sales growth. Investments will be focused on commercializing new products, expanding market access and developing new chemical and biological solutions. Potential factors that could drive 2023 EBITDA higher include faster-than-expected easing of input costs and the potential for improved SG&A leverage.

Taking all of this into consideration, we expect FMC's growth momentum will continue throughout next year with margin expansion in the second half of 2023.

Concluding Remarks

To conclude, the second half of 2022 is playing out largely as forecasted. We delivered solid results in the third quarter despite peak cost headwinds.

For full-year 2022, we expect to deliver another record performance. FMC has thrived in a year of unprecedented challenges. Our teams successfully navigated logistics bottlenecks around the world. We have made steady progress derisking our global supply base, which we will continue to do next year. We have maintained disciplined controls on discretionary spending. At the same time, we continued to invest in the future with the acquisition of BioPhero, which enhances our biologicals platform as well as increased investments in R&D. Finally, our continued investments to expand FMC’s market access in key regions and countries are producing strong results and market share gains.

Looking to 2023, we are optimistic based on what we see at this point. Crop protection fundamentals appear to be positive for next year, which bodes well for market demand across our existing portfolio. New product introductions based on our latest technologies, as well as new biological solutions that are doing extremely well, and they will drive mix improvement. We are seeing signs that raw materials, logistics and supply challenges will continue to ease next year, providing a positive tailwind to margins in the second half of 2023.

Once again, when we look at the full picture for 2023, we remain upbeat on market fundamentals and the performance we expect to deliver.

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

[After last question]

<u>Closing – Zack Zaki</u>

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