FMC Corporation

Third Quarter 2016 Earnings Call Script

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3Q16 Conference Call

Introduction – Brian Angeli

Thank you and good morning. Welcome to FMC Corporation's third quarter 2016 earnings call. Joining me today is Pierre Brondeau, President, Chief Executive Officer and Chairman and Paul Graves, Executive Vice President and Chief Financial Officer. Pierre will begin the call with a review of FMC's third quarter performance and discuss the outlook for Q4 and full year 2016. Paul will provide an overview of select financial results.

The slide presentation that accompanies our results, along with our earnings release and 2016 Outlook Statement are available on our website and the prepared remarks from today's discussion will be made available at the conclusion of the call.

As with our prior calls, Mark Douglas, President, FMC Agricultural Solutions; Eric Norris, President, FMC Health and Nutrition; and Tom Schneberger, Vice President and Global Business Director, FMC Lithium will join to address questions.

Before we begin, let me remind you that today's 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 release and in our filings with the Securities and Exchange Commission. Information presented represents our best judgment based on today's information. Actual results may vary based upon these risks and uncertainties.

Today's discussion will focus on adjusted earnings for all income statement and EPS references, and pro forma revenue and segment earnings for FMC Agricultural Solutions. 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 Pierre.

Business Review – Pierre Brondeau

General Comments & 3Q Reported Results

Thank you, Brian, and good morning everyone.

Q3 2016 was another strong quarter, reflecting the continued execution of our strategy. FMC reported revenue of $808 million, Adjusted Operating Profit of $134 million and Adjusted EPS of 67 cents. Adjusted EPS increased approximately 60 percent compared to the third quarter of 2015, exceeding the top end of our guidance range of 53 to 63 cents.

Our performance in the quarter was driven largely by the results of Ag Solutions and Lithium, both of which reported a significant year-over-year increase in segment earnings. In Ag Solutions, compared to last year, we saw an improved start to the season in Latin America, especially in Brazil, and stronger performance in both Asia and North America. Lithium continued to benefit from higher prices, improved mix and lower operating costs. Third quarter segment earnings in Health and Nutrition were slightly below 2015 levels, but in-line with our expectation.

A lower tax rate in the quarter contributed approximately 3 cents to our Adjusted EPS. As noted in our Outlook statement, and as Paul will discuss later in the call, we expect to continue to report a lower tax rate for the remainder of the year and into 2017.

Based on our performance in the third quarter and on our outlook for Q4, we are revising the range for our full year Adjusted EPS guidance to $2.76 to $2.86 per share. At the midpoint, this represents an increase of 6 cents per share compared to our prior guidance, and an increase of 14 percent compared to Adjusted EPS for 2015.

I will provide more detail on the outlook for Q4 shortly. But first, I will discuss third quarter results for each of our three segments, starting with Ag Solutions on Slide 2.

Agricultural Solutions

For the third quarter, Ag Solutions reported revenue of $559 million and segment earnings at the top of our guidance range of $90 million.

Compared to the third quarter 2015, revenue declined three percent, as lower sales volume in Brazil more than offset the benefit of higher prices in that country and volume growth in other regions. Year-over-year price increases were largest in Brazil, where we continue to recover pricing in U.S. dollar terms.

Segment earnings increased over 50 percent and margins improved 600 basis points, as higher realized prices, improved mix and favorable foreign exchange more than offset the impact of lower volumes and slightly higher costs in the quarter. Costs were higher principally as a result of the timing between quarters of certain expenses. For the full year, we remain on track to achieve our integration cost savings target.

Turning to Slide 3, I will provide additional comments on Ag Solutions regional performance and discuss the outlook for Q4, starting with Latin America.

Revenue in the region declined 18 percent in the quarter, driven largely by lower sales volumes in Brazil. General market weakness, ongoing product rationalization efforts, and our decision to allow channel inventory levels to reduce each contributed to the decline in sales volume in Brazil. The elimination of low margin third party products accounted for over 50 percent of the volume decline in the quarter.

Revenue in the rest of Latin America was roughly flat compared to 2015. In Argentina, we continued to see increasing demand for FMC's 'Authority' herbicides. In Mexico, our focus on high value crops is helping to offset the impact of a broader market decline.

The actions we have taken throughout the past year in Brazil enabled us to realize significant increases in U.S. dollar-based prices, improve operating margins and drive collections in the quarter. Price actions increased operating earnings in Brazil by approximately 30 percent year over year, which, combined with lower operating costs returned operating margins to 2014 levels.

Our actions in Brazil also enabled the business to reduce accounts receivables in the country and generate cash collections of over $200 million, a significant improvement over our performance in the same quarter last year.

Moving on to Asia. Revenue in the region grew by 9 percent in the quarter compared to 2015, driven primarily by increased sales volume throughout the region. Improving weather conditions in Australia created strong demand for our 'All Graze' herbicide and for our fungicide portfolio. A return to a more normal Monsoon season in India and Southeast Asia supported increased demand for insecticides and fungicides, with strong growth in Indonesia for rice applications.

In Europe, revenue increased 6 percent in the quarter. Increased sales synergies and higher volumes in Eastern Europe as we expanded our direct market access, coupled with strong herbicide sales in the U.K., more than offset challenging conditions in Northwest Europe.

In North America, revenue in the quarter increased 46% compared to 2015. We saw higher sales volumes related to new product introductions for winter and spring wheat, and increased demand for herbicides.

Looking ahead to Q4, we expect market conditions to remain largely unchanged. We are cautiously optimistic regarding Q4 in Latin America given the start to the selling season in Brazil and strong demand for FMC products elsewhere in the region.

However, we are more cautious on market conditions in North America, where we expect weak market conditions into the 2016 / 2017 crop season.

For the fourth quarter we expect segment earnings to be between $117 and $137 million. At the midpoint, this implies segment earnings growth of approximately 25 percent compared to the fourth quarter of 2015. Improved U.S. dollar pricing in Brazil and lower costs, year over year, are expected to drive a meaningful increase in segment earnings margin in the quarter, from 15 percent in 2015 to closer to 20 percent.

We are pleased with the progress made by Ag Solutions to drive margin improvement in the business. Prior to the acquisition of Cheminova, Ag

Solutions consistently delivered consolidated operating margins between 20 and 25 percent, and we are well on our way to returning margins to that level.

We are tightening our full year segment earnings guidance to $390 to $410 million, with the midpoint of our range unchanged, and continue to forecast full year revenue of approximately $2.3 billion at the midpoint.

Health and Nutrition

Turning next to Health and Nutrition on Slide 4.

For the third quarter, Health and Nutrition reported revenue of $179 million and segment earnings of $45 million.

Revenue declined 9 percent year over year, largely as a result of lower volumes. Timing of sales to certain pharma customers in Asia and Europe and headwinds from Omega 3 each contributed to the volume decline.

Segment earnings of $45 million declined 4 percent compared to 2015. However, operating margin improved 120 basis points to over 25 percent in the quarter. The negative impact of lower volumes and product mix was largely offset by lower operating costs as a result of ongoing operating excellence programs.

For the fourth quarter, we expect segment earnings of between $53 and $57 million and for the full year, forecast segment earnings to be in the range of $190 to $194 million. At the midpoint, Q4 segment earnings are expected to increase almost 20 percent compared to Q4 2015. The bulk of the increase in segment earnings is due to the timing of certain favorable cost variances from prior periods, which will drive segment earnings margin to between 29 and 30 percent in the quarter. For the full year, we expect margins of approximately 25 to 26 percent.

Lithium

Moving on to Lithium on Slide 5.

Lithium delivered another outstanding quarter. Revenue increased 22 percent to $70 million on the back of increased pricing and more favorable mix. Segment earnings rose to $18 million, from just $2 million last year.

Market conditions remain favorable with demand increasing ahead of supply. As a result, prices across the portfolio were higher compared to last year. These price increases, combined with a more favorable sales mix, lower costs, and a benefit from foreign currency, drove the improvement in segment earnings and margin in the quarter.

We expect the positive momentum in Lithium to continue, with fourth quarter segment earnings between $16 and $20 million, approximately 60 percent higher year over year, at the midpoint of the range. Based on Lithium's performance to date, and our expectations for Q4, we are increasing full year guidance for segment earnings by $5 million, at the midpoint, to a range of $65 to $69 million. Full year segment earnings margin should be approximately 25 percent, compared to 10 percent in 2015.

2016 Outlook

Before turning the call over to Paul, I will comment briefly on the outlook for the fourth quarter and full year 2016 on slide 6.

We are tightening full year segment earnings guidance for both Ag Solutions and Health and Nutrition and increasing guidance for Lithium. Based on this segment guidance, and a lower tax rate, which Paul will discuss in a moment, we expect fourth quarter Adjusted earnings per share to be in the range of $0.82 to $0.92 and full year Adjusted EPS in the range of $2.76 to $2.86.

I will now turn the call over to Paul.

Selected Financial Results – Paul Graves

Thank you Pierre. I will start with the tax rate and non-controlling interest on the income statement before I move onto the impact of currency, cash flow and the balance sheet. First tax. Year to date, our adjusted effective rate is around 23.5 percent, slightly lower than we initially expected. This is driven by an increase in the contribution of earnings from our foreign entities compared to prior years. While this trend is most apparent in Ag Solutions, we are actually seeing it in all of our businesses. We expect the adjusted effective rate to be in the 23 to 24 percent range for the fourth quarter. Looking into 2017, we expect that rate may fall by as much as 3 percentage points, resulting in a full year adjusted effective tax rate closer to 21 percent. This further reduction is mainly the result of the operational integration of Cheminova, which will impact our supply chain and earnings mix globally.

Our non-controlling interest line continues to shrink. As part of the integration of Cheminova we have been taking advantage of opportunities to simplify the ownership structure of some of our international entities, and are taking, or have taken, steps to consolidate ownership in places such as Argentina, China and Eastern Europe. Largely as a result of these steps, we expect the non controlling interest line to fall to approximately $5 million this year and remain near this level next year.

Touching on currency next. This quarter saw none of the rapid movements in major currencies that we saw last year, and as a result F/X had a far smaller impact on our results. Across all businesses and regions, currency was a tailwind to earnings, with a large favorable movement in Brazil the biggest factor. The other major currencies to which FMC is exposed, namely the Euro and RMB, had no meaningful impact on our earnings in the quarter. For the year to date, currency has been broadly neutral to earnings.

Moving on to cash flow, and Slide 7.   The first thing I want to point out is our increase in cash flow guidance for full year, from a range of $450 to $550 million to a range of $550 to $600 million. The midpoint of this revised guidance reflects an increase in cash generation of almost 60 percent compared to 2015. Higher earnings, stronger working capital performance and tighter spending discipline will all contribute to the year-over-year increase and give us confidence that the higher level of cash generation we have seen through the first three quarters will continue through Q4.

Underpinning our confidence in cash generation is our success in reducing our Brazil exposure. Through September, we collected over $500 million of receivables in Brazil, reducing the outstanding receivable balance by over $200 million, before the impact of currency. By the end of 2016 we expect to have collected over $700 million of outstanding receivables in Brazil alone. Equally importantly, a significant proportion of the collections are coming from those accounts that were Past Due at the start of the year, improving the quality of the remaining receivable balance.

Our receivables balance in Brazil, however, remains higher than we believe it should be, and we expect to continue to reduce it over the coming seasons. Based on our current visibility, we believe that we have the ability to reduce the current balance by approximately $400 million. We will deliver this reduction over the next 18 to 24 months.

Our strong cash generation has helped us reduce our net debt by over $200 million so far this year, and we expect this to fall further by year end. Combined with higher trailing EBITDA, our adjusted net debt to LTM EBITDA ratio will fall into the 2.5x to 3.0x range as we enter 2017.   We will continue to manage our debt to a level that is consistent with our current credit rating. Looking into 2017, we expect our capital expenditure to remain similar to 2016, at or just ahead of depreciation, even allowing for our planned expansions in Lithium Hydroxide. We will continue to seek out opportunities to invest in technologies and products for our Ag Solutions business. And at an appropriate time in 2017, we would expect to revisit our ability to engage in share repurchases, while maintaining our other net debt, credit rating and investment objectives.

With that, I will turn the call back to Pierre.

<u>First Look at 2017 – Pierre Brondeau</u>

Before closing, I would like to share a few initial thoughts regarding 2017 on slide 8.

Based on what we see today, we expect the global crop protection chemical market to be about flat in 2017, creating a more stable operating environment for FMC Ag Solutions. Market demand in Europe and Asia continues to grow and more normal weather conditions should lead to an improved demand environment in those regions next year. While it remains very early to predict the market for crop protection chemicals in Latin America, we are quietly confident that we will enter 2017 with better market fundamentals than either of the previous two seasons. In contrast, we expect market conditions in North America to remain challenging, as we do not believe that the market-wide destocking process has run its course, and that elevated levels of channel inventory combined with low commodity prices will dampen grower demand across the region.

In a flat market, and assuming stable currencies, we believe Ag Solutions is well positioned to deliver another year of growth in segment earnings. Revenue synergy opportunities in Europe and North America, planned new product introductions and continued cost savings will more than offset cost inflation. Our preliminary view is that Ag Solutions segment earnings will grow by high-single digit percent in 2017.

In Health and Nutrition, next year we expect growth rates for revenue and segment earnings to return to historical levels of low- to mid- single digit percent.

In Lithium, the combination of higher prices, increased lithium hydroxide volume and continued cost discipline should increase segment earnings by approximately 40 percent in 2017. We expect to realize higher prices in all major downstream products next year, with the most significant increase in lithium hydroxide. The majority of our lithium hydroxide contracts are negotiated in the fourth quarter, and based on the status of customer negotiations to date, we expect the average realized price to be significantly higher in 2017.

We also expect to see a meaningful increase in the production of lithium hydroxide next year, as a result of our previously announced capacity expansions. Construction of our hydroxide units is ahead of schedule. Based on the current construction timeline, we expect production of lithium hydroxide to increase by 4,000 metric tons in 2017, with total production capacity increasing to 18,000 metric tons per year by the middle of next year.

Feeding the growth in demand for FMC's downstream lithium products requires access to increasing volumes of lithium carbonate. Earlier this week, we announced an agreement with Nemaska Lithium to source 8,000 metric tons of lithium carbonate per year, beginning in mid-2018. This agreement represents only one element of our sourcing strategy and we are actively pursuing multiple paths to diversify our carbonate sources. In the near term, we will increase capacity at our Argentina operations by approximately 20 percent through low capital cost actions. We continue to evaluate long-term supply agreements and partnerships with other producers of lithium carbonate, and we retain the option of expanding our carbonate production operations in Argentina in order to ensure we have a secure, reliable and cost-competitive supply of lithium carbonate.

At the corporate level, we expect costs to remain roughly flat, and to continue to reduce debt. Combined with the lower tax rate for 2017, as Paul mentioned earlier, we expect to grow EPS at a faster rate than we grow operating earnings.

Consistent with prior years, we will provide more details and specific guidance for 2017 in February when we report our Q4 and full year 2016 results, as we first need to see how the year ends and assess business and market conditions at that time.

Concluding Remarks – Pierre Brondeau

To conclude, I am very pleased with our performance in the quarter and year to date. In volatile markets, FMC has continued to execute its strategy and deliver substantial growth in earnings. I believe we are positioned to continue this into Q4 and beyond.

We continue to invest in our technology pipeline in Ag Solutions and are launching new products that bring greater value to the grower. Last month, we announced that FMC has begun the registration process in North America for our bixafen fungicide, one of the nine active ingredients in our R&D pipeline. With our unique high return R&D model for active ingredient innovation and strong regional formulation capabilities, FMC is well positioned to deliver the technology and service that growers demand. We will provide additional information regarding our technology pipeline in the coming months.

Health and Nutrition continues to generate high margins and strong cash flow, and demand across our core nutrition and health markets continues to grow. We are in the process of commissioning our new MCC production facility in Thailand, which will serve the growing nutrition market in Asia.

Demand for our downstream lithium products continues to increase. FMC is well positioned to maintain its leading position in lithium hydroxide, butyllithium and lithium metals, and we continue to pursue multiple paths to diversify our sources of lithium carbonate to feed the expected growth in this business. Our agreement with Nemaska is just the first step, and we look forward to announcing more actions in 2017.

In closing, the actions we are taking will continue to drive performance across our businesses and position FMC to deliver increasing value to our shareholders into 2017 and beyond.

I thank you for your attention this morning. With that, I will turn the call back to the operator for questions.

[After last question]

Closing – Brian Angeli

That is all the time that we have for the call today. As always, I am available following the call to address any additional questions you may have. Thank you and have a good day.

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