FMC Corporation

Fourth Quarter 2016 Earnings Call Script

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4Q16 Conference Call

Introduction – Brian Angeli

Thank you and good morning everyone. Welcome to FMC Corporation's fourth quarter 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 fourth quarter and full year performance, and then discuss the outlook for 2017. Paul will provide an overview of select financial results.

The slide presentation that accompanies our results, along with our earnings release and 2017 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

Thank you, Brian, and good morning everyone.

In 2016, FMC continued to focus on execution. We consistently produced earnings in-line with our expectations and delivered 14 percent growth in our EPS. The actions taken over the last two years have improved our visibility into the business and position FMC to deliver significant earnings growth in 2017.

In Ag Solutions, we focused on maintaining price and terms and took a disciplined approach to volumes in the face of elevated channel inventory levels, matching sales to market demand.

Despite headwinds from Omega 3, Health and Nutrition delivered another year of strong margins and cash flow. Lithium increased its earnings by 200 percent by executing on its downstream-focused strategy and taking advantage of favorable market conditions.

As we enter 2017, we expect each of our businesses to deliver growth in segment earnings and for FMC to deliver adjusted earnings per share of between $3.20 and $3.60, an increase of 20 percent at the mid-point of the range. I will provide details regarding our outlook later on the call, but first I will review our fourth quarter and full year 2016 performance, starting with FMC's full year results on slide 1.

4Q and FY 2016 Reported Results

FMC reported revenue of approximately $3.3 billion in 2016, roughly flat to reported revenue for 2015. However, Adjusted EPS increased 14 percent to $2.82 as a result of a 180 basis point improvement in adjusted operating margin, which was driven by a combination of higher prices, favorable mix and lower operating costs.

Fourth quarter revenue was $866 million, a decrease of 4 percent compared to the same period last year, as revenue growth in Health and Nutrition and Lithium was offset by lower revenue in Ag Solutions. Adjusted earnings per share for Q4 was 88 cents, 14 percent higher than Q4 last year, largely driven by the significant increase in segment earnings across the businesses.

As you can see on slide 2, FMC delivered significant growth in reported segment earnings and adjusted earnings per share in 2016. Segment earnings increased by $79 million, driven largely by Ag Solutions and Lithium. The increase in segment earnings more than offset higher corporate expenses and taxes in 2016, driving the 14 percent increase in adjusted EPS. I will comment further on each segment's fourth quarter performance, starting with Ag Solutions on slide 3.

Agricultural Solutions

Fourth quarter 2016 revenue declined 6 percent to $618 million, in-line with the market and mainly due to lower sales in Latin America and Europe. Despite the decline in revenue, Ag Solutions delivered a 25 percent increase in segment earnings, to $127 million in the quarter. The increase in segment earnings was driven by regional mix, with higher sales contribution from North America and Asia, and by our ability to defend pricing in Latin America despite strengthening of the Brazilian Real.

Segment earnings margin improved by over 500 basis points to 20.6 percent in the quarter. This marks the first quarter since we closed the Cheminova acquisition that Ag Solutions segment earnings margin has exceeded 20 percent. We remain confident in our ability to return segment earnings margin to above 20 percent on a full year basis.

Overall, we continue to execute very well in the context of a strategy that focuses on maintaining discipline on price and terms and limiting credit risk, while pursuing top-line growth only where it makes sense for our business.

Turning to slide 4, I will provide additional comments on Ag Solutions regional performance, starting with North America. Revenue increased 8 percent in the quarter, but declined 6 percent for the full year. The quarterly and full year performance in North America was in-line with our expectations at the start of the year. The increase in Q4 revenue was driven largely by strong early-season demand for FMC's Authority brand pre-emergent herbicides. The timing of sales in 2016 is consistent with the trend that we have seen emerging over the past two years. Growers in North America are generally purchasing pre- herbicides earlier, while deferring other purchases until later in the crop season.

In Latin America, sales declined 13 percent in the quarter and 21 percent for the full year. Lower volumes in Brazil and F/X headwinds from the Mexican Peso drove the reduction in revenue in both the quarter and the full year. The lower volume in Brazil was a direct result of two decisions made by FMC, rather than lower end-user demand for FMC products. First, we allowed inventory in the channel to reduce. Second, we were very disciplined with regard to credit exposure. As expected, the discipline exercised on volumes allowed FMC to defend price and maintain terms, despite F/X movements. Combined with lower operating costs, we delivered a significant increase in segment earnings in the region for the both the quarter and full year.

In Europe, revenue declined 17 percent in the quarter, as a result of F/X headwinds and lower volumes. Sales activity in Q4 is generally limited as the primary sales season in Europe is the first half of the calendar year. For the full year, sales were down 12 percent. The shift in timing of sales caused by our move to a direct market access model across Europe and product rationalization each contributed to the decline in full-year revenue.

In Asia, revenue increased 8 percent in the quarter, due to a strong winter crop in Australia and strength in Indonesia. Full year revenue fell 6 percent, on the back of softer demand in China and our actions to reduce channel inventories in India, following two years of drought.

Ag Outlook

As we look forward to 2017, our expectation of market conditions remains unchanged from what we saw in November. We continue to expect, on a U.S. dollar basis, the global crop protection chemical market to remain flat in 2017, creating a more stable operating environment for FMC Ag Solutions than we have seen the last two years.

However, we expect the market in North America to remain challenging. Continued, elevated channel inventories combined with low commodity prices will result in more cautious purchasing decisions by growers. In Asia and Europe, more normal weather conditions should lead to an improved demand environment next year, although we expect F/X to be a headwind. In Latin America, we expect the market to be up slightly. Based on what we saw in 2016, we have higher confidence that the 2017/2018 season will see increased demand across the region.

We expect Ag Solutions revenue will be between $2.2 and $2.4 billion, which is roughly flat to 2016, as lower sales in North America will be offset by increased demand in other regions.

Segment earnings are expected to grow to $410 to $450 million, an 8 percent year-over-year increase at the mid-point. Earnings performance will be driven largely by improved mix, new product introductions, and lower operating costs, which will be partially offset by F/X headwinds. We expect continued margin improvement, with margins of approximately 19 percent for the full year.

We expect first quarter segment earnings in the range of $60 to $70 million, with mid-teens segment earnings margin. As we mentioned earlier, growers in North America are increasingly purchasing pre- herbicides earlier and delaying other purchases until later in the growing season. We anticipate similar buying patterns in 2017, and will remain disciplined around when we sell product, allowing sales to fall into the quarter in which growers demand it. As we have seen in recent years, Q1 will contribute the lowest revenue of any quarter, but we still expect sales over the 2016/2017 North American crop season to be roughly flat.

Health and Nutrition

Turning now to Health and Nutrition on slide 5, which delivered fourth quarter results that were in-line with our expectations.

Health and Nutrition reported revenue of $177 million. The 3 percent year-over-year increase was due to higher sales volume of health excipients in Asia and nutrition ingredients in both Asia and Europe.

Segment earnings increased 17 percent to $54 million, driven, as expected, by lower costs. This was largely the result of lower manufacturing costs, as noted on our Q3 call.

Health and Nutrition Outlook

For 2017, we expect Health and Nutrition to deliver full year segment revenue of $750 to $790 million, which is an increase of 4 percent at the mid-point. Increased volumes of MCC-based products are driving most of the year on year increase, as we ramp up production at our MCC plant in Thailand.

Segment earnings are expected to be in the range of $190 to $200 million in 2017, an increase of 2 percent at the mid-point. We expect segment earnings margin to be the same as 2016, at around 25 percent, as cost savings achieved in 2016 will offset the costs of bringing our new MCC plant on-line. For the first quarter, we expect earnings in the range of $45 to $50 million.

Lithium

As you see on slide 6, Lithium delivered another strong quarter. Revenue of $71 million was up slightly compared to the fourth quarter of 2015, as higher prices across all product groups were offset by lower volumes in the quarter. Our decision to direct lithium carbonate to our lithium hydroxide start-up process resulted in lower volume in the quarter.

Segment earnings nearly doubled to $21 million in the quarter, due to higher prices and improved mix. These factors combined to drive an increase in segment earnings margin to 30 percent.

In 2016, approximately 75 percent of our revenue was generated from the sale of downstream products. By managing our sales mix and capturing price increases across the portfolio, our revenue per LCE in 2016 increased approximately 25 percent compared to 2015.

Lithium Outlook

FMC Lithium is well positioned to deliver another year of significant earnings growth in 2017. Demand across our key downstream markets continues to grow, with most contracts in place for 2017. Sales of downstream specialty products will comprise about 90 percent of our 2017 Lithium revenue. This largely insulates us from volatility in prices for lithium carbonate and chloride.

We expect Lithium segment revenue in 2017 to be between $315 and $355 million, an increase of over 25 percent at the mid-point, driven by a combination of increased volume and higher prices. Our hydroxide expansion will result in a significant increase in volume in 2017. Our expansion remains on track. We have produced several trial runs of material and are putting this material through internal quality and performance tests. We expect to begin offering product to customers for qualification testing in the coming weeks. Based on the progress to date, we remain confident that we will begin commercial sales in July 2017.

The combination of increased hydroxide volumes, higher prices and improved mix is expected to deliver segment earnings in the range of $90 to $110 million. This represents over 40 percent growth at the mid-point of the range. We also expect to achieve earnings margin of about 30 percent for the full year 2017. We expect first quarter segment earnings in the range of $18 to $22 million.

Outlook

Slide 7 summarizes the 2017 outlook for each segment that we discussed earlier, and shows we expect consolidated adjusted earnings to be between $3.20 and $3.60 per share.

We expect the 2017 quarterly earnings cadence to be similar to what we saw in 2016, driven by the timing of Ag Solutions sales in North and Latin America and the ramp-up in lithium hydroxide production. First quarter 2017 adjusted earnings per share is expected to be between $0.50 and $0.60.

I will now turn the call over to Paul.

Selected Financial Results – Paul Graves

Thank you Pierre. As usual, let me start with the income statement before I move onto cash flow and the balance sheet. First tax. Our adjusted effective rate for the year was around 22.8 percent, broadly in line with our expectations. Since we were accrued at 23.5 percent for the year to date, this resulted in a slightly favorable impact on our Q4 tax rate, although clearly not as large as we have see in prior years. While lower than guidance, the tax rate compared to Q4 2015 was a drag on our earnings of around 12 cents per share.

Looking into 2017 we expect that rate to fall into a range of 16 to 20 percent for the full year. As I discussed at our last call, this is mainly due to the impact of the full integration of Cheminova, a largely European business, into our supply chain, combined with our current view as to what our regional earnings mix will look like in 2017.

Touching on currency next. For full year 2016, across all businesses and regions, currency was a small tailwind to earnings compared to 2015. Favorable movements in Brazil were partially offset by the weakening of almost every other major currency in our business, most notably the Euro and Mexican peso. Almost all of the tailwind occured in Q4. Looking into 2017, we would expect, based on current forward rates, that currency will be a drag of as much as $45 million on our earnings, almost exclusively in Ag Solutions and spread across multiple currencies. This headwind is factored into our guidance.

Let me also give a few comments on the higher guidance for corporate expenses in our 2017 numbers. We are guiding corporate expenses to be approximately $10 million higher than in 2016. As you know, FMC allocates almost all centrally-incurred costs to the business results and therefore all of the savings we have achieved from Cheminova integration are reflected in the segment level results. The remaining corporate costs reflect only those costs which reflect the cost of managing a publicly listed company that we have historically not allocated to the segments. For 2017, we have approximately $10 million of non-repeating costs related to various programs which will give immediate benefits to either segment earnings, cash flows or the corporate tax rate. Some of these programs will be completed in 2017 and the benefits will start to accrue in late 2017.

Moving on to cash flow, on slide 8. We delivered Adjusted Cash from Operations of $561 million. However, this included a decision we made in the fourth quarter, as markets moved in our favor, to take advantage of an opportunity to annuitize our remaining UK pension obligation. By injecting $21 million into this fund, we have now removed all future funding requirements and eliminated a significant annual management cost of this exposure. Without this item, our full year Adjusted Cash from Operations would have been at the high end of our Q3 guidance range of $550 to $600 million. Even after this payment, we delivered a 55 percent increase in cash generation compared to 2015, with higher earnings, stronger working capital performance and tighter spending discipline all contributing to the year on year increase.

In 2016, we collected almost $700 million of outstanding receivables in Brazil. While this is solid progress, we saw no signs in Q4 that the credit tightness being felt by our customers is easing, and we remain cautious about extending further credit to some of our customers through additional sales. This lack of broadly available credit is the reason that the receivables balance in Brazil remains higher than we believe it should be, and we will continue to bring the same focus and discipline to collections in 2017 that we did in 2016. Based on our current visibility, we believe that we will reduce the current balance further in 2017.

We reduced net debt by almost $250 million in 2016, ending with an adjusted net debt to EBITDA of approximately 3 times. 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, just ahead of depreciation, allowing for our planned expansions in lithium hydroxide. This does not include any capital investment decisions that we may make with regard to a significant expansion of our lithium carbonate capabilites, which is something we are analyzing today.

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

<u>Concluding Remarks – Pierre Brondeau</u>

Thank you Paul.

Despite the challenging Ag market conditions, we believe that our 2017 plan is very achievable. It relies on things we control rather than on expectations of positive external events.

We expect to deliver earnings growth in each business and strong EPS growth of 20 percent for the whole company. The strategy of each business is aligned with its respective market conditions: We expect revenue and earnings growth in our Lithium and Health and Nutrition businesses, and we will continue a very disciplined approach in Ag Solutions to ensure earnings growth while positioning the business strongly for the eventual upturn in that market.

We expect in 2017 the same predictability of results for the company that we demonstrated in 2016.

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

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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