FMC Corporation

First Quarter 2017 Earnings Call Script

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As Prepared for Delivery

1Q 2017 Conference Call

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's first quarter earnings call. Joining me today are 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 first quarter performance, and then discuss the outlook for the remainder of 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.

Mark Douglas, President, FMC Agricultural Solutions, and Tom Schneberger, Vice President and Global Business Director, FMC Lithium, will then 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. 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

Thank you, Michael, and good morning everyone.

FMC has had a strong start to 2017. Our previously announced transactions with DuPont, which will transform FMC into the fifth largest AgChem company globally, and significantly enhance our R&D capabilities, remains on track for a Q4 close. And we are pleased to announce solid performances of both our Ag Solutions and Lithium businesses in the first quarter, reflecting FMC's competitive position. I will focus on the performance of these two segments today, and will also provide a few more thoughts on the acquisition; in particular what we expect from the business immediately after the transaction closes.

1Q 2017 Reported Results

Turning to slide 3. FMC reported revenue of approximately $600 million, which excludes $177 million of revenue attributable to Health and Nutrition. Adjusted EPS was 43 cents, which excludes approximately 21 cents attributable to the reporting of Health and Nutrition in discontinued operations. On a like basis with our initial guidance of 50 to 60 cents per share, Adjusted EPS would have been 64 cents, which is 9 cents, or 16 percent, above the midpoint of our guidance range. Later on this call, Paul will walk through how the move of H&N to discontinued operations impacted Adjusted EPS in Q1, and how it impacts our full year guidance assumptions.

For the full year, we have amended our Adjusted EPS guidance to reflect the removal of Health and Nutrition, and now expect to report Adjusted EPS of $2.20 to $2.60 per share. To be clear, this guidance excludes any earnings from the acquisition of the DuPont business that we may benefit from in the last few months of the year.

Agricultural Solutions

Before I get into specifics regarding our Ag Solutions results, let me start with a market update. As you may recall when we gave guidance in February, we talked about how we saw the markets performing by region.

We saw North America down from the prior year and Europe flat to slightly up. For Asia, we expected an improving market, with mid-single digit growth, and in Latin America we expected to see improved market performance, primarily benefitting the second half of the year.

We expected the bulk of the revenue and earnings from the two northern hemisphere regions to be delivered in the first half of the calendar year, and noted that the timing of sales between Q1 and Q2 was difficult to predict.

North America remains a difficult market and our view of the market has not changed. Europe has gotten off to a slow start, especially in the large northern markets where the weather has been poor. We now expect the European market to be flat to slightly down in 2017.

In Asia, we have seen even more favorable conditions than expected in Australia so far, which we expect to continue, and are now slightly more bullish on the region as a whole than we were 3 months ago.

In Latin America, we are pleased with what we have seen in the region, with a large soybean crop enhancing grower finances, improved fundamentals in areas such as sugarcane and cotton, and lower inventory in the channel compared to the same period last year. We are therefore confident today that this market will grow as we head in to the second half of 2017.

In the context of these market conditions, let me now move onto FMC's performance on slide 4. First quarter revenue of $530 million was down 3 percent compared to the same quarter last year, and earnings of $83 million were up 1 percent. This is a significant improvement over where we guided for the quarter, however it appears to us to be mainly a shift in timing, from Q2 to Q1. As I will discuss later, we feel confident confirming our full year guidance as a result of this strong quarter, an overall solid market in Asia and expectations of a strong Latin America season in the second half of the year.

Overall, we believe that our strategy of maintaining discipline on price and terms and limiting credit risk, while pursuing top-line growth only where it makes sense for our business, is the right one. We see opportunities in Asia and Latin America and we will act responsibly in pursuing those opportunities, continuing to balance earnings growth with earnings quality, credit risks and cash flow generation.

Turning to slide 5, I will provide additional comments on Ag Solutions regional performance, starting with North America. Revenue increased one percent in the quarter, ahead of our expectations. This reflects a shift of demand from Q2 to Q1 rather than an improvement in conditions for the market as a whole. Distributors and retailers in North America continue to purchase pre-herbicides earlier, and we have seen this in the strong performance of our Authority brands.

In Latin America, sales were down 6 percent compared to last year. Mexico has performed well, despite the challenges from the movements in the Peso against the dollar. We continue to grow in Latin America outside Brazil, and our move to direct access in Argentina has been a success. In

Brazil, we continue to be encouraged by the benefits of our decisions to focus on collections and drawing down customer inventory. Compared to the same time last year, we believe channel inventory of FMC products has declined by 35 percent, and by over 50 percent since the end of 2015, which sets us up well for the Q3 and Q4 selling season. And as Paul will comment on later, we are seeing strong cash collection performance in the region. However, I would remind you that Q1 and Q2 are relatively quiet periods in Latin America for us, and we remain focused on conditions heading into Q3 as the predictor of our performance in this region.

In Europe, revenue declined from last year by 14 percent in the quarter. Much of this was timing, as northern Europe started slowly, as well as some impacts from the strengthening of the Euro. For the first half of the year we expect revenues to be slightly down, largely due to this currency headwind. European markets are an important focus for FMC, and we are very happy with our performance, given our country, crop and product mixes.

In Asia, revenue increased 19 percent in the quarter, due to favorable conditions in Australia driving strong demand for herbicides and successful launches of new rice herbicides in China. In Indonesia, we saw increased demand for rice insecticides, as favorable weather extended the rice growing season.

Ag Outlook

We continue to expect that Ag Solutions 2017 revenue will be between $2.2 and $2.4 billion, which is roughly flat to 2016. Our view on segment earnings is also unchanged, with segment earnings of $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 high-teens margins for the full year.

We expect second quarter segment earnings in the range of $80 to $100 million, with mid- to high-teens segment earnings margin. This will result in a first half of 2017 that is slightly down compared with the first half of 2016, with earnings declines in North America and Europe offsetting increases in Asia and Latin America.

Our implied guidance for the second half of 2017 is for year-on-year earnings growth in the high teens percent. This reflects the improvement in conditions in Brazil that we have already discussed, as well as improved pricing and lower costs, particularly with regard to factors such as hedging, bad debts and product returns. In addition, the restructuring of our market access model in Argentina will continue to deliver significant additional opportunities in the second half of 2017, compared to 2016.

Lithium

As you see on slide 6, Lithium delivered another strong quarter. Revenue of $66 million was up 9 percent, as lower volumes were offset by improvements in prices and both product and customer mix.

Segment earnings increased 45 percent from Q1 2016 to $22 million in the quarter, as significantly higher prices and improved mix offset headwinds from lower volumes. The lower volumes were caused by reduced carbonate sales, as we continued to divert carbonate to China for the ramp up of our new lithium hydroxide facility. Segment earnings margin was 33 percent.

Approximately 11 percent of Q1 revenue was generated from the sale of upstream products, i.e., chloride and carbonate, and this will decline to around 8 percent of second half revenues. As you know, we have built two new 4,000 ton lithium hydroxide units in China this year, and we are well into customer qualification processes. Our quality and application testing shows the hydroxide we are producing in China is equivalent to the hydroxide that we produce in Bessemer City. We believe that our customers will reach the same conclusion, allowing us to move to commercial sales by the start of the third quarter. It is these additional hydroxide sales that will drive most of the growth in the second half of the year, when hydroxide is expected to represent over 50 percent of segment revenue, compared to about one third of first half revenue.

Lithium Outlook

We expect Lithium segment revenue in 2017 to be between $325 and $365 million, an increase of over 30 percent at the mid-point, driven by a combination of increased volume and higher prices.

The combination of increased hydroxide volumes, higher prices and improved mix, as well as greater confidence as to the timing of full commercial operations for our hydroxide expansion, gives us the confidence to increase our guidance for full year segment earnings to $100 to $120 million. This represents over 55 percent growth at the mid-point of the range. We also expect to achieve a low-30's earnings margin percentage for the full year. We expect second quarter segment earnings in the range of $19 to $23 million.

Update on Plans for Lithium

Let me spend a few minutes on where we see the Lithium business going in the near future. As we stated in March, it is our firm intention to separate Lithium into a standalone public company, and we will continue to assess the appropriate timing. There are two factors driving our decision on timing. First, practically speaking our organization is focused on the successful integration of the DuPont acquisition and we do not believe it would be wise to distract ourselves from this in the next 12 months or so. Second, we believe that we need to further develop key areas before pursuing a separation.

The first of these areas is the Phase 2 expansion of our lithium hydroxide operations. Our first phase has gone extremely well; the units have come online quicker than planned, and at lower capital cost. And as I mentioned earlier our tests show that the product produced is equivalent to that produced in Bessemer City. So we have very high confidence that we can pursue Phase 2 when market demand warrants it. And in this regard, the rate of growth in hydroxide demand continues to be greater than the rate of increase in capacity. As a result, we expect that in Phase 2 we will add a further 12,000 tons of capacity, across three separate units. All three of these units will be on line before the end of 2019. We will give more details on the timing, the cost and the locations of these additional units later this year.

The second key area is securing the carbonate supply we need to serve our downstream operations. Today, we are not exposed to the market price of carbonate in any meaningful way. In the second half of 2017, when the two additional hydroxide units are in full commercial operation, only about 5 percent of our revenue will be generated by sales of carbonate, as we will use the majority of our production internally.

As we look to continue to grow our hydroxide capacity we recognize the need to secure reliable, cost-effective supply of lithium carbonate, and we have always stated that we will pursue multiple paths to do this. Our agreement with Nemaska to buy 8,000 tons a year of carbonate starting in late 2018 is an example of one path we will continue to explore. A second path is to produce more carbonate from our existing facility in Argentina. We have therefore initiated a program of debottlenecking and other small capital investments that will increase our carbonate production by 4,000 tons a year by the end of 2018. These investments will require less than $30 million in total capital. The third path we are considering is a significant expansion in capacity at our Argentina location; this location is one of the lowest cost producers in the world, and we have started the process of assessing a doubling of capacity through a major expansion there. We are progressing the engineering work and are in discussions with the local authorities regarding this investment. We expect to complete our analysis on the economic merits of such an investment this year, and would expect to announce our plans, including timing, capital cost and total capacity to be added, before the end of 2017.

2017 Outlook

Moving briefly to slide 7, which summarizes our outlook for the second quarter and the full year.

On a consolidated basis, our guidance for second quarter adjusted earnings is a range of 40 to 50 cents per share. And as I mentioned previously, we are maintaining full year earnings guidance for Ag Solutions, while raising it by 10 percent at the midpoint for Lithium.

I will now turn the call over to Paul.

Selected Financial Results – Paul Graves

Thank you Pierre.

Clearly our results this quarter are impacted by the move of the Health and Nutrition segment to discontinued operations. The Health and Nutrition segment itself delivered operating earnings in line with our prior guidance range.

The move of these results to discontinued operations impacts our results in three primary ways; first, the segment operating income is excluded from our adjusted earnings per share, and will be excluded for the entire year. Second, a portion of the interest expense, around a quarter of it, will be allocated to discontinued operations until the transaction closes. And third, the tax rate now reflects only the tax rate on the earnings of continuing operations, that is Ag Solutions and Lithium. This tax rate on continuing operations earnings is much lower, since the Health and Nutrition earnings are taxed at a higher rate. We expect it to be in the 12 to 15 percent rate for the full year.

For those who wish to reconcile our Adjusted EPS back to the guidance range of 50 to 60 cents per share for the quarter, then on the same basis as that guidance, our Adjusted EPS would have been approximately 64 cents per share for the quarter or 16% above midpoint guidance range.

Moving on to cash flow on slide 8. As with the income statement, there is a large impact of the move of H&N to discontinued operations embedded in here. In the first quarter we lose around $50 million of reported operating cash flow as a result of the reclassification. And for the full year, compared to our prior guidance, almost $250 million of the $350 million reduction is related to the move of the business out of continuing operations. To be clear, the majority of this cash will still be received by FMC during our ownership of Health and Nutrition through the end of October, and our net debt balances will reflect that cash collection.

Regarding Q1, overall cash collection was seasonally strong for FMC. As you know, Q1 has historically seen a large cash outflow, driven by the Ag segment, and we have been working to reduce that outflow over the last few years. Last year we benefitted from a one-off early collection in North America, which we chose not to repeat this year. Once you adjust for this item our Q1 operating cash flow in Ag Solutions was roughly flat with Q1 2016. In Lithium, we saw a small reduction in cash flow, despite higher earnings, related to a build in inventory associated with the start up of the hydroxide units.

Our focus on Brazil collections continues to pay off, with Q1 cash generation in Brazil up over 50 percent compared to the same quarter last year. Equally important, the quality of the remaining receivables continues to improve. Total past due receivables continue to fall in dollar terms, while the collateral we hold against the receivables, whether in forms of crop liens or other legal claims, continues to climb as a percentage of total balances. Supporting the comments Pierre made earlier regarding the Latin American market, FMC is heading into the Brazil season in 4 or 5 months time with a far healthier balance sheet than in either of the last two years. For the full year, we expect to see continued benefits from the reduction in receivables in Brazil, reflecting the healthier financial condition of many of our most important customers.

However, against this we see two headwinds that will result in full year operating cash flow for Ag Solutions being lower, year over year. The first and largest factor is a planned build in inventory for sale. This reflects our view that there is a real possibility that demand will be greater in Latin

America and parts of Asia than we have seen in recent years, and given the long supply chains in our business we do not want to find ourselves short of product to meet that demand. This inventory build should be viewed as an insurance on our part in the event we are being overly cautious on demand in these markets. The second factor is our expectation that prepayments in North America may be lower in 2017 than 2016, reflecting the reality of the market conditions in North America. The net effect of these three items is a reduction in cash flow for the segment of around $100 million compared to 2016.

Foreign currency had a somewhat limited impact on our earnings in the quarter, with the Real particularly stable, compared to recent volatility. The one area that we did see some impact in the quarter was in Ag Solutions in Europe, as the Euro strengthened against the dollar, creating a small headwind to both revenues and earnings.

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

Concluding Remarks – Pierre Brondeau

Thank you Paul.

I mentioned at the start of the call that I would give you some more thoughts on how we view the performance of the business we are acquiring from DuPont. A couple of weeks ago Paul shared with you some modeling assumptions, and we thought it would make sense to update you on where we are on those assumptions today. As you can see on slide 9, we continue to refine each line item in our model, reflecting work our financial, commercial and integration teams are performing. We remain confident in the numbers we presented to you in late March, and our underlying assumptions as to what will drive the increased earnings have not changed. We are starting to look at wider range estimates to some of these numbers, particularly in areas such as the potential for earnings growth in 2018 over 2017. We also are starting to refine our estimates of the accounting treatment of certain items, particularly taxes.

Clearly, the item that we are most focused on refining is the year over year earnings performance of the acquired business. Given today's market conditions, we have been quite cautious in our assumptions as to earnings growth, and have assumed a lower rate of revenue growth than was presented to us by the seller. We believe this is the right approach to take until we own the business and can therefore develop our own views as to the near term growth potential. The same is true as to our assumptions on cost synergies, as we have not yet quantified the short-term cost synergies impact versus the acquisition spending model.

The end result remains clear, however; we expect an increase in earnings per share of over one dollar per share in 2018 as a result of this transaction.

In summary, we feel very good about where FMC is today. Our current Ag Solutions business delivered a good Q1 on the back of strong performances in Asia and North America. We are reaffirming our full year earnings guidance at $430 million at the midpoint, with the growth driven by a strong second half in Latin America and a strong year in Asia. Lithium also had a good first quarter, and is on track to deliver higher earnings in the second half of the year as the hydroxide units commence full commercial operations. We are therefore increasing our guidance for earnings for the full year by 10 percent to $110 million at the midpoint.

And we have received very positive feedback from our customers, shareholders and employees on the announced transactions with DuPont, which will fundamentally transform our position in the global crop protection industry, and bring greater clarity to the FMC investment story.

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

Closing – Michael Wherley

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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