FMC Corporation Announces Acquisition of Significant Portion of DuPont's Crop Protection Business; Simultaneous Sale of Health and Nutrition to DuPont

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As Prepared for Delivery

Introduction – Michael Wherley

Good morning everyone. Thank you for joining us to review FMC Corporation's definitive agreement with DuPont. Joining me today is Pierre Brondeau, President, Chief Executive Officer and Chairman; Paul Graves, Executive Vice President and Chief Financial Officer; and Mark Douglas, President, FMC Agricultural Solutions.

This morning's press release and the slide presentation that accompanies this conference call are available on our website, and the prepared remarks from today's discussion will be made available at the conclusion of the call.

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, EBITDA 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, Michael, and good morning everyone.

Earlier this morning, FMC and DuPont announced the signing of a definitive agreement for FMC to acquire a significant portion of DuPont's crop protection business and for DuPont to acquire FMC Health and Nutrition and also receive a payment of $1.2 billion from FMC.

This is a pivotal transaction for FMC, as it transforms the company into a tier-one, innovation-based crop protection company – the 5th largest in the world by revenue once all the current consolidation is complete. But this transaction is not exciting simply because it increases our size. We are equally excited that we are acquiring a portfolio of *market-leading* products and a *world-class* R&D organization. Together, the performance of our Ag Solutions business will be transformed in both the near- and long-term.

Before getting into the details of the transaction, I would like to describe in a little more detail the financial characteristics of the portfolio we are acquiring. First of all, most of the commentary we have seen following the European Commission announcement of the remedy has underestimated the profitability of the products we are acquiring. Our diligence confirmed that the gross margins on both the insecticides and the herbicides are very close to each other, and are significantly higher than the typical gross margins in the crop protection industry. This reflects the strong intellectual property protections that the vast majority of these products enjoy today, and will continue to enjoy under FMC ownership.

A second core element of the portfolio is the R&D capabilities. For the last couple of years the spending on the R&D included in the business has been around 11 percent of the acquired revenue, and this spending level, will continue under FMC ownership. Finally, the assumption as to selling and general admin costs of this business are in line with what you would expect based on industry benchmarks, that is in the mid to high teens percent of revenue.

On this basis, we estimate the business FMC is acquiring will generate revenue of around $1.5 billion and adjusted EBITDA of $475 million in 2017. This implies an EBITDA margin around 32 percent. And to be clear, this EBITDA estimate does *not* include any future synergies or cost savings under FMC ownership.

Paul will walk through this in more detail shortly, so I would now like to move to Slide 3 and give a little more detail on the business we are acquiring.

Slide 3: Transaction Overview

FMC is acquiring the portion of DuPont's crop protection business that it must divest to comply with the European Commission ruling related to its merger with Dow Chemical.

This acquisition will significantly expand our commercial portfolio, including the market-leading insecticides Rynaxypyr®, Cyazypyr® and Indoxacarb. We expect these three products will generate revenue of almost $1.2 billion in 2017, with the IP-protected active ingredients, namely Rynaxypyr® and Cyazypyr®, generating over $1 billion of this revenue. In fact, we believe Rynaxypyr® is the single largest IP-protected crop protection molecule on the market today.

Equally important to us is the acquisition of DuPont's global cereal broadleaf herbicides. These products generate over $300 million in revenue today, with strong IP-protections around formulation and delivery technology, resulting in class-leading margins.

The world-class R&D capabilities we are acquiring include DuPont's crop protection discovery facility located in Newark, Delaware, 14 regional field biology or development sites, and full regulatory capabilities, as well as all the related research and support personnel. It includes DuPont’s discovery pipeline of 15 synthetic active ingredients, covering a broad portfolio of insecticides, herbicides and fungicides, and a library of 1.8 million synthetic compounds.

In supply chain, FMC will gain global manufacturing and operational expertise related to the acquired businesses. In total, approximately 2,000 DuPont employees will come to FMC with this acquisition.

It is important to note that all registrations, data and product-related intellectual property rights will be transferred to FMC as part of this transaction.

The second part of today’s announcement is the sale of FMC Health and Nutrition to DuPont. This business will become part of DuPont’s Nutrition & Health segment.

The FMC Health and Nutrition segment is a highly profitable business with leading positions across its portfolio. We recognize that the enhanced market access, development capabilities and global scale of DuPont's business will create significant opportunities for FMC Health and Nutrition, and we believe this is a great opportunity for the business to thrive within DuPont.

We expect that these transactions will close at the same time, most likely in the fourth quarter of 2017. At the time of closing, FMC will also pay $1.2 billion in cash to DuPont.

<u>Slide 4: Strategic Rationale</u>

Now turning to Slide 4.

Our Ag Solutions business has grown significantly for more than a decade. Even in the face of recent challenging market conditions, the underlying fundamentals of the global crop protection market have remained strong.

However, the industry is witnessing important changes, as customer demands for greater innovation to solve their needs has led to the three pending mergers of industry leaders. FMC recognizes that if we are to deliver the same rate of success into the next decade and beyond we have to develop deeper technology and innovation capabilities.

We started the process a few years ago, and we are proud to have increased the pace of innovation, as reflected in our current pipeline of new products. But this acquisition accelerates this process in two important ways.

First, it brings us the scale we need, at almost $4 billion of revenue and industry-leading profit margins, to increase our investment in R&D spending. Second, it brings us immediately into the area of chemical discovery.

With future R&D spending approaching $300 million per year, FMC will have a powerful innovation engine to drive development across herbicides, insecticides and fungicides, as well as plant health. I will discuss this in more detail in a moment.

Even with this level of R&D spending, we expect our adjusted EBITDA margins to be amongst the highest in our industry today.

This acquisition also brings significant benefits to our supply chain and manufacturing capabilities, adding four active ingredient manufacturing facilities in China and North America, and 10 formulation sites located in key markets. These facilities will provide greater capability, along with our existing network of manufacturing and formulation plants, to support a business of this scale.

<u>Slide 5: Enhanced Portfolio</u>

Turning now to Slide 5

This transaction will immediately strengthen Ag Solutions commercial position. It will deepen our presence in multiple markets, particularly in Asia, bringing a regional balance to our operations that matches global market opportunities. This transaction will more than double our revenue in India and China, and increase the number of countries where we have revenue of at least $100 million, from 3 to 10.

It will also give us a meaningful position in cereals, and enhance our position in crops such as vegetables, rice and soybeans.

Slide 6: Enhanced Portfolio

While our insecticide portfolio will make up over half of our revenue, if you turn to Slide 6 you will see that our portfolio will include new modes of action, bringing selective insecticides to our already-deep portfolio of broad-spectrum products.

Our herbicide portfolio will make up just over a third of our total revenue, and it will have a better balance between pre- and post-emergent applications, as well as across broadleaf and grass applications.

All of these factors create new opportunities for FMC, while bringing greater diversity, and therefore stability, in sources of revenue.

Slide 7: Combined R&D Model

Turning to Slides 7 and 8, I will provide a closer look at the way this acquisition will transform our R&D capabilities and pipeline.

You can see on Slide 7 that our combined headcount across R&D will now be over 800 employees operating in 23 facilities.

One key aspect I would draw your attention to is how the acquisition completes our capabilities across the entire development timeline. Whereas today we are largely acquiring molecules that are already 3 or more years into the development process, we will be adding the capability to discover these molecules ourselves.

We will, however, continue to acquire additional technology from time to time, but we will no longer be reliant on others to add new molecules to our pipeline.

Slide 8: Combined R&D Pipeline for Synthetic AI's

On Slide 8, you can see FMC's pipeline of synthetic AI's at the top half of the page and the acquired molecules on the lower half. The fit between our pipelines has two important dimensions. First, FMC's pipeline of nine active ingredients is largely in the latter half of the development cycle, with several major product launches planned for 2018 to 2022. The 15 acquired molecules are nearly all early-stage, which will ensure we have a full and robust pipeline for the longer-term.

Second, you will recall from Slide 5 that over half of our pro forma revenue will come from insecticides. However, almost half of the combined pipeline of molecules are herbicides and a third are fungicides. This will help ensure we bring our portfolio balance closer to that of the global market in the coming decade.

I will now turn the call over to Paul Graves to discuss some of the financial implications of today's announcement.

<u>Slide 9 – Preliminary Financial Highlights</u>

<u>Paul Graves</u>

Thank you Pierre. I will cover two main areas for you today; first, the transaction economics themselves, including how you might think about the price we paid, and then a few thoughts on how to model the impact of the acquistion after closing. We have set out the numbers I'm about to go through on Slide 9.

As Pierre mentioned earlier, we estimate the business we are acquiring is currently generating around $475 million of Adjusted EBITDA, when you look at it on a standalone basis.

When we talk about "standalone basis", we are referring to what the entire package should earn if it were separated and operated as a standalone company, with all the costs necessary to operate that way. It is not meant as a proxy for its current contribution to DuPont's earnings, nor does it include potential cost efficiencies that FMC might deliver.

So how did we calculate this? First of all, we took the actual gross margin earned by these products, and the actual R&D spending attributable to the capabilities we are acquiring, and we confirmed through detailed due diligence that these were complete and reasonable estimates of both historical and future margin and spending levels.

Next we looked at what we believed, based on FMC's experience and on industry benchmarks, this business would need in support costs, such as selling, admin,etc, and added those costs to our calculation. As Pierre mentioned earlier, that is around 16-18 percent of revenues. As many of you no doubt appreciate, the nature of the carve out of the business from DuPont means that they will transfer to FMC far lower support costs than we have assumed in this calculation, and in fact FMC's focus between now and closing this transaction is to make sure that we have the structure in place to support the business. This will entail *adding* costs, rather than removing them, which is a little different to most integration processes, since the actual costs transferred to FMC will be lower than the 16-18 percent selling and general admin cost assumed in our model. We believe we will not need to add the full amount of costs assumed in this model by leveraging FMC's existing capabilities, and this shortfall in added costs will effectively be "cost synergies" compared to the $475 milion EBITDA number.

Based on the midpoint of our guidance for the Health and Nutrition segment for 2017, we will be losing around $230 million of EBITDA. Even allowing for deal costs and other potential closing adjustments related to working capital, you can see that the *incremental* EBITDA of $245 million is being acquired at a mid-single digit EBITDA multiple.

Regarding the working capital adjustment, DuPont will be retaining approximately $400 million in working capital, based on our expected closing date. All related inventory will come to FMC, and the closing adjustment relates to the level of inventory actually delivered compared to the target level specified in the contract. Practically speaking, physically separating the receivables and payables was not possible, which is why we took this approach. And since more than half of this $400 million balance related to Latin American receivables, we preferred that they stay with DuPont for collection. It is important to understand that since we will likely miss a large part of the Brazil season in 2017 with this portfolio, we do not expect to have to rebuild this large part of the working capital until Q4 2018.

It was critically important to us to maintain our current investment grade credit rating, and this was a large factor in how we structured this transaction. The cash payment to DuPont of $1.2 billion, which is subject to adjustment at closing, depending on the actual working capital delivered to us, will be financed with new debt facilities, which were fully committed by our lead bank at signing. At closing, we expect our total debt to increase by about $1.5 billion.

As for modelling the impact on FMC EPS – assuming a November close – we've set out some parameters that lead us to conclude this transaction will increase our adjusted earnings by $1 per share in 2018. The $65 million toward the bottom of the page is our estimate for the year-over-year increase in profitability of the acquired business, on a standalone basis. It is a very preliminary estimate, and reflects underlying earnings growth of the acquired business, as well as a small amount representing cost reduction opportunies in areas such as back office and other support functions. On the matter of these cost synergies, we will be refining our analysis in this regard and will present a more detailed review of what we expect to achieve in the coming months.

With that, I'll transfer the call back to Pierre.

Concluding Remarks – Pierre Brondeau

Thank you Paul. I have a few additional comments before we go to Q&A.

Obviously, we are very excited about this transaction. The strategic fit is excellent, and the rationale compelling. The portfolio of products we are acquiring is world-class in its technology and margin profile. And the additional innovation capabilities we are acquiring allow us to advance our plans in R&D by many, many years.

Equally, we believe the financial terms of the transaction are compelling. Protecting our balance sheet was very important to us, and structuring the acquisition the way we have gives us confidence that we will retain the financial flexibility we need to continue to invest in, and grow, both our Ag business and our Lithium business. And of course, we expect the transaction to be meaningfully accretive to our Adjusted EPS.

This transaction also positions Health and Nutrition for a great future as part of DuPont's Nutrition & Health business. We strongly believe that the greater market access and innovation capabilities that DuPont can bring to the class-leading products of FMC's business means that the future of FMC Health and Nutrition also looks very bright.

Let me finish with some comments on Lithium. We recognize this transaction will result in pro forma FMC revenue that is over 90 percent crop protection, however we continue to be committed to maximizing the potential of our Lithium business. We will continue to invest in the business in order to take advantage of the significant growth opportunities the business presents, and that includes continuing to invest in capacity in both Hydroxide and Carbonate. We will operate Lithium as a standalone business within FMC, and our strategic intent is that at some point in the future we will spin off FMC Lithium as a separate, publicly traded company. Given the near-term growth potential in the business, and our focus on successfully integrating today's announced acquisition, we do not expect to announce any such spin-off before the end of 2018.

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

[After last question]

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.