FMC Corporation

First Quarter 2018 Earnings Call Script

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As Prepared for Delivery

Q1 2018 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 review FMC's first quarter performance and provide the outlook for 2018 and the second quarter. Paul will provide an overview of select financial results.

The slide presentation that accompanies our results, along with our earnings release and 2018 Outlook Statement are available on our website and the prepared remarks from today's discussion will be made available after 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.

In the first quarter this year, Ag Solutions benefitted from higher revenue synergies and lower operating costs. Both of these factors will continue to deliver stronger earnings in the rest of 2018. The rapid progress we have made on integration is creating a very strong platform for 2018 and beyond, and the early traction we are seeing on revenue synergies will enhance 2018 performance and accelerate in the years to come. We will talk about these areas in more detail today.

In addition, while we do not believe the overall crop protection market outlook has changed from three months ago, we see significant pockets of opportunity that are a very good fit with FMC's portfolio. For example, a late planting season in the US has the potential to lead to a greater shift to soybeans from corn, which could be a large benefit for FMC given our Authority pre-emergent herbicides. The fear of Chinese tariffs on US soybean imports is leading to South American growers looking to expand soybean acreage, again a shift that will benefit FMC. Higher re-plantings of sugarcane in Brazil, plus expanded acreage of cotton due to higher cotton prices, will create greater demand for FMC products in these markets, where we are particularly strong. Asian rice growing conditions are very favorable, and we are seeing very rapid growth in demand for the acquired insecticides as a result. Overall, market-driven opportunities in the next two or three quarters are perhaps the best FMC has seen in multiple years.

A critical component of the growth strategy of the business is new product registrations and label expansions. We have over 200 of them coming for Rynaxypyr® and Cyazypyr® insect controls over the next 4 years.

Beyond the immediate future, FMC has a very strong technology pipeline. We launch our first new active ingredient from the FMC R&D pipeline, Bixafen, in North America later this year and will launch new fungicides and insecticides in multiple regions in 2020 and 2021.

What you will hear today is that FMC has started the year very strong, due largely to a very successful initial integration of the acquired portfolio; that FMC is operating in market conditions over the rest of the year that are a very good fit with its strengths, leading to above average growth through the rest of the year; and FMC's growth potential beyond 2018 is extremely high, driven by revenue synergies, technology launches and wider and deeper market penetration of the combined portfolio.

The Lithium business also continues to perform strongly, as demand for our differentiated performance products remains very high. We are on track to list the Lithium business, targeting an October 2018 IPO, which will be followed by a direct spin to FMC shareholders within 6 months.

Q1 2018 Reported Results

Turning to slide 3. FMC reported first quarter revenue of just over $1.2 billion, which was double the revenue from Q1 2017. Adjusted EPS was $1.84 in the quarter, more than four times the EPS from the same period a year ago and 32 cents above the mid-point of our original guidance range. Ag Solutions EBITDA was $51 million above the mid-point of our guidance range. The outperformance relative to our guidance was mainly due to strong revenue growth and lower operating costs in our Ag Solutions business.

In Lithium, the strong year-over-year performance was due to a more favorable customer mix and higher pricing, combined with higher volumes and good operating performance.

Moving on to slide 4 and Ag Solutions. Revenue of $1.1 billion in the quarter more than doubled year-over-year on a reported basis and increased 13 percent on a pro forma basis. Following the close of our acquisition, we gave high priority to training the two sales organizations on all products, which has allowed us to quickly capitalize on cross-selling opportunities. Our global sales force delivered an impressive performance in its first full quarter with the combined portfolio.

First quarter segment EBITDA of $356 million increased 250 percent year-over-year, and were $51 million above the mid-point of our guidance. Segment EBITDA margin was over 32 percent, 270 basis points above the mid-point of our guidance. Higher revenue contributed about two-thirds of the earnings beat in the quarter and lower costs contributed the final third.

We have been able to leverage FMC's existing sales and back office infrastructure to limit the number of new positions added. We also incurred lower operating costs as a result of savings across procurement and plant services.

On slide 5, you see we delivered double-digit Q1 revenue growth, on a pro forma basis, in every region; North America revenue increased 16 percent, Latin America revenue grew 15 percent, Asia revenue increased 13 percent and Europe revenue grew 11 percent. There were several broad themes that drove revenue synergies, which led to this strength in the quarter.

Turning to slide 6. These are some examples that highlight synergy opportunities we are seeing all around the world.

Expanded market access is the simplest way to look at where the synergies are coming from, and this is driven by two things: cross-selling to customers that didn't have access to the products before and leveraging the expanded portfolio to address more of the available market.

Brazil is a good example of this, which we show on the left side of this slide. You can see that 975 of the customers previously served by FMC were also served by DuPont, but nearly 700 customers – over 40 percent of the total – only had access to either FMC or DuPont products. Let me remind you that the product portfolio that we acquired has very little overlap with our existing portfolio, so every customer that didn't have access to one or the other's products is a cross-selling opportunity for us.

The second part of expanding our addressable market is through a broader portfolio of products. This is not totally distinct from the cross-selling, but it is another way to look at it. We believe that with our new portfolio of products, our addressable market in Brazil has increased from 53 percent to 62 percent. This equates to an additional $1 billion in a $10 billion market.

When you look at the different channels to market in Brazil, dealers are an important piece, and we believe we now have access to about two-thirds of all dealers across the country, compared to 50 percent before the acquisition. We now sell to nearly all the co-ops in the South, and these co-ops provide significant access to growers of niche crops, which supports the growth of the acquired portfolio.

But Brazil is not the only country where we believe our addressable market has expanded. In China, agricultural practices and policies are changing. The entire crop protection market is evolving toward higher technology products, and growers are aligning with suppliers they see as technology providers. We have an example where one of the largest Ag Chem distributors in China is expected to triple its purchases of FMC product in 2018, due to our expanded portfolio and pipeline of new products on the way. We believe this is evidence of a customer that is perceiving FMC differently. Beyond the quality of our products, this customer truly values our service and business model. In addition, they now see us as a technology provider, one with which they want to build a closer, long-term relationship.

In Europe, our expanded commercial organization has much broader and deeper access into all parts of the region. In Italy, for example, we have doubled our total customer base and, with more retail outlets, we have more shelf space and expanded access. The acquired business had better market access than FMC in Eastern Europe. In Romania, for example, we increased the number of distributors we sell to by 5 times and quadrupled our sales of legacy FMC products in Q1. We are seeing opportunities in multiple countries in Europe, and together we expect they will deliver significant growth in the future.

In India, our new super distributors give us much better access to the overall market, as well as the ability to sell FMC's herbicide portfolio into new segments such as sugarcane.

Another opportunity for further sales synergies is in crops where either FMC or the acquired business had a very strong market position, and we can now aggressively sell a broader portfolio to these specific groups of farmers. For example, we can sell the acquired insecticides to our long-time sugarcane and cotton customers in Brazil, and we can sell FMC legacy herbicides to the super distributors in India. We are also seeing opportunities in specialty crops in Eastern Europe as well as rice, fruits & vegetables in Asia.

Lithium

Moving now to Lithium on slide 7. Lithium delivered another strong quarter, with revenue up 57 percent compared to Q1 last year and segment EBITDA of $50 million almost double that from a year ago. The business continues to benefit from a favorable environment, with demand growth continuing to outpace supply growth for key battery-grade lithium products. Prices continued to climb, with realized Hydroxide and Carbonate prices around 30 percent higher than Q1 2017, and Butyllithium prices also up 8 percent. Volumes were also higher in all areas, as debottlenecking in Argentina, new hydroxide capacity in China and higher demand in BuLi all contributed to the year over year growth. Our EBITDA margin was 49 percent in the quarter, as these factors combined with a better than normal customer mix all drove stronger financial performance. Our product mix continues to migrate towards performance products, with basic carbonate and chloride accounting for only ten percent of revenue in the quarter.

We continue to see very strong demand. Customers are increasingly seeking long-term supply commitments, demonstrating that they are expecting a very tight market for lithium hydroxide for several years to come. The performance of our hydroxide puts FMC on a very short list of companies that can provide the necessary grade of product for high-end EV battery applications.

We took an important step in March, when we announced Paul Graves will become the CEO of the new lithium company, and Gilberto Antoniazzi will become its new CFO. As you know, Paul has been FMC's CFO since he joined the company in 2012, while Gilberto has been CFO for our Ag Solutions segment the past 4 years, and has been with FMC since 1993. We would like to thank Paul and Gilberto for the exceptional work they have done for FMC.

Outlook

Turning to Slide 8, which summarizes our outlook for the full year and for the second quarter. We expect adjusted earnings per share for full-year 2018 to be between $5.90 and $6.20 per share. At the mid-point of the range, this represents an increase of 12 percent from our February guidance. Second quarter 2018 adjusted EPS is expected to be between $1.65 and $1.75.

We expect 2018 Ag Solutions revenue will be in the range of $4.05 to $4.25 billion, an increase of 2.5 percent, at the mid-point, compared to our February guidance. On a pro forma basis, this equates to a 7 to 8 percent year-over-year increase. We also expect Ag Solutions EBITDA will be in a range of $1.16 to $1.24 billion, up 9 percent, or $100 million, compared to the mid-point of our prior guidance; this increase is being driven by both higher revenue and lower costs, with about half of the impact coming from each. Second quarter segment revenue is expected to be in the range of $1.1 to $1.16 billion, which represents a year-over-year increase of 6 percent at the mid-point, on a pro forma basis. Segment EBITDA is forecasted to be in the range of $315 to $345 million in Q2.

Our guidance implies that nearly 60 percent of 2018 Ag Solutions EBITDA will occur in the first half of the year. This is a reversal of the ratio in previous years, when 40 percent of segment earnings were generated in the first half. The shift is driven by the acquired business, which is more heavily weighted to the first half.

We are also raising estimates for our Lithium business, reflecting our strong Q1 performance. We now expect full-year revenue for Lithium to be in a range of $430 to $460 million, a year-over-year increase of 28 percent at the mid-point. Full year EBITDA is now expected to be in a range of $193 to $203 million, which represents an increase, at the mid-point, of 40 percent year-over-year and $8 million versus our February guidance. We expect price/mix and incremental volumes to each contribute approximately half of the year-over-year increase in earnings. The volume increase is largely due to the 4,000 tons of incremental capacity coming online from debottlenecking projects. We expect second quarter segment revenue to be in a range of $110 to $120 million, a year-over-year increase of 55 percent at the mid-point. EBITDA is forecasted to be between $47 and $51 million, which represents a year-over-year increase of 77 percent at the mid-point.

Moving now to slide 9, and the key drivers for the Ag Solutions business in 2018 & Beyond. Our expectations for the overall market remain unchanged from what we said in February. We continue to expect the global crop protection chemical market – on a U.S. dollar basis – to be flat to up low-single digits in 2018.

However, we expect Ag Solutions revenue will grow 7 to 8 percent, on a pro forma basis, which is up from the 5 percent growth forecast we presented in February. This includes the impact of revenue synergies, which were not in prior forecasts.

The growth factors we cited on our February call still hold true, and they are driving most of the growth in 2018. It is the sales synergies from a larger addressable market that we saw in Q1 that are accelerating our growth forecast. The most important driver we mentioned 3 months ago was the strength of the acquired insecticides. As we said earlier, we believe Cyazypyr® insect control is far from its peak in annual sales. Volumes are expected to grow because of expanded sales into cotton and soybean in Brazil and because of new product registrations in EMEA as well as fruits & vegetables in many Asian countries. Rynaxypyr® insect control will continue to gain market share in our crops and geographies – such as rice and sugarcane in India – and further grow in Southeast Asia, China and Japan.

New products, in the form of new active ingredients coming from FMC's legacy pipeline and new formulations of the acquired products, will be another leg of growth starting in 2019. Our first new active ingredient, the fungicide Bixafen, will be introduced near the end of this year in North America.

These growth factors will have a multi-year impact, and we are only starting to see the benefits of the synergy opportunities. FMC will continue to outperform the global crop protection market for many years to come.

As I said earlier, the integration process is progressing very well. After 6 months of ownership, we are finding that the business requires lower spending than was forecasted by the acquired management team. We are seeing significant savings on the SG&A line, which I outlined earlier, and lower costs in our manufacturing facilities. We expect these cost savings will continue through the rest of 2018 and beyond, helping to drive EBITDA margins of approximately 29 percent at the mid-point of our full-year 2018 guidance. As the DuPont transition service agreements roll off, and as we implement our new SAP system at the end of 2019, we expect to realize further cost savings and another meaningful step-up in EBITDA margins in 2020.

Lithium – Key Drivers for 2018 & Beyond

In Lithium, the key drivers for 2018 and beyond are unchanged from what we showed you in February. FMC is very well positioned to take advantage of our unique strategy, focused on high performance lithium hydroxide applications. We have demonstrated that our approach to expand our hydroxide capacity – in-line with market growth – is capable of meeting accelerating demand, with relatively low capital needs. Our low-cost production resource in Argentina provides us with the raw materials we need to make our downstream products highly cost-competitive.

Prices in 2018 will be higher than in 2017, across our product categories. The majority of our 2018 forecast revenue falls under multi-year contracts that have defined pricing, and we believe this trend will continue in 2019 and beyond. We expect that by the end of this year, we will have 80 percent of our 2020 lithium hydroxide capacity of 30,000 metric tons committed under long-term contract. To that end, our current expansions in both carbonate and lithium hydroxide are on track and progressing as expected.

I will now turn the call over to Paul.

<u>Selected Financial Results – Paul Graves</u>

Thanks Pierre. Since this is my last time delivering this section of the earnings call, I will keep it as short as possible!

Let me start with FX and its impact on FMC's consolidated results. The Euro has had the largest impact on our results in Q1, with the RMB and the Argentine peso smaller factors. We estimate that around 3 to 4 percent of the year-over-year growth in FMC’s pro-forma revenue was due to currency tailwinds, meaning that underlying top line growth for FMC as a whole was around 12 to 13 percent. We estimate that the Q1 benefit to EBITDA compared to last year was around $10 million. We do not have sufficient data on last year’s earnings from the DuPont portfolio to be more precise than this.

Looking at full year guidance, we are not expecting this FX tailwind to continue; we have far lower Euro revenue in the latter half of the year, and forward rates do not suggest the same tailwind will occur. We always watch the Brazilian Real carefully at this time of year. The forward rates for the Real, which are the rates at which we protect our revenues and receivables, are in line with the assumptions underpinning the guidance we have provided. Our estimate of the impact of FX on our full year revenue guidance is unchanged from our previous guidance, at 1 to 2 percent positive, meaning underlying revenue growth guidance of 7 to 8 percent across all of FMC.

Interest expense continues to tick a little higher as interest rates climb, however the impact on our guidance is muted by our expectations of cash generation going to debt pay down. Tax expense is in line with our estimates, but we continue to work through the interpretation of the new tax rules and will have more clarity on the overall impact on our tax rate and especially on our tax provisions by the end of the second quarter.

Cash generation in Q1 was another bright spot. Q1 is historically a cash outflow quarter, and the required build in receivables for the acquired portfolio was expected to make this pattern even more pronounced. However, a very strong collection performance in Brazil, with past dues falling by over $100 million compared to the same time last year, allowed us to largely offset this build and generate operating cash flow in our legacy Ag business that was stronger than prior years.

We did not increase our cash flow guidance, despite the EBITDA reforecast and the strong first quarter. However, we have greater confidence that we will deliver cash flow at the high end of the guidance range. We will revise our full year cash flow guidance at Q2 earnings if performance is confirmed.

We believe that 2018 will be an unusual year in terms of cash generation, and that once we are through the build in receivables we will generate significantly more cash from operations. When we normalize for this receivables build, and remove the non-recurring capital spending from our base, we expect that Adjusted Cash from Operations less capex will be at least twice that of 2018, assuming constant EBITDA.

A final comment on the lithium separation. We remain on track to IPO the business in October of this year. We will be looking to file with the SEC this summer, and will have a clearer view of the timing when we get our first set of comments back. It is important to be aware that as we get closer to the filing our lawyers have advised us that we will be expected to reduce the commentary we provide on the lithium business during earnings calls and investor meetings, as required by securities laws. You should therefore expect that this is the last quarter that we will give extensive comments or undertake substantial Q&A on the lithium business before we enter what will be effectively an extended quiet period on the business.

With that I will pass the call back to Pierre.

Concluding Remarks – Pierre Brondeau

Thank you Paul.

We feel very good about where FMC is today. Our Ag Solutions business delivered an exceptionally strong Q1, and we are set to deliver an outstanding 2018, with revenue growth significantly above the market growth rate. This trend of growth above market will carry on for the foreseeable future. The integration of the acquired business is progressing very well. Growth synergies are being realized and our costs will be lower than we were expecting a few months ago. Lithium had another strong quarter to start the year and is on track to deliver another exceptional year in 2018.

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

<u>Closing – Michael Wherley</u>

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.