FMC Corporation

First Quarter 2019 Earnings Call Script

May 7, 2019

As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's first quarter earnings call. Joining me today are Pierre Brondeau, Chief Executive Officer and Chairman; Mark Douglas, President and Chief Operating Officer; and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Pierre will review FMC's first quarter performance and provide the outlook for 2019 and the second quarter. Andrew will provide an overview of select financial results. All three will then address your questions.

The slide presentation that accompanies our results, along with our earnings release and 2019 Outlook Statement are available on our website and the prepared remarks from today's discussion will be made available after the call.

Finally, let me remind you that today’s presentation and 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 press 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 and the supporting materials will include references to adjusted EPS, adjusted EBITDA, adjusted cash from operations and free cash flow – all of which are non-GAAP financial measures. Please note that “earnings” shall mean “adjusted earnings” and “EBITDA” shall mean “adjusted EBITDA” for all income statement 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.

As you saw in our earnings release, FMC continued to outperform the market, as we have for the past six quarters. We are especially pleased with our strong volume growth. This is in addition to our price increases in all regions, as well as cost control, which led to strong top and bottom line results. Our outperformance relative to the market is driven by three key elements: our balanced geographic exposure, the strength of our product portfolio and finally, our diverse crop exposure.

FMC Reported Financial Results

Turning to Slide 3, FMC reported $1.2 billion in first quarter revenue which reflects a year-over-year increase of

8 percent on a reported basis and 14 percent excluding FX headwinds. This increase was driven by strong commercial execution that enabled growth in every region. Adjusted Company EBITDA was $343 million, an increase of 4 percent compared to recast financials from the year ago period and $13 million above the midpoint of our guidance. Company EBITDA margins were nearly 29 percent, despite $95 million in combined headwinds from raw material costs and foreign currencies.

Adjusted EPS was $1.72 in the quarter, an increase of 9 percent versus recast Q1 2018 and 9 cents above the midpoint of our guidance. The strong EPS was driven by higher volume, price increases and product mix.

Q1 2019 Revenue Increased 8% with Strong Growth in all Regions

Moving now to first quarter revenue analysis on Slide 4. Q1 revenue grew by 8 percent, with volume contributing 9 percent growth and price/mix another 5 percent growth, for a total of 14 percent organic growth. This was offset partially by a 6 percent headwind from FX. Performance in the quarter was driven by strong commercial execution and demand for our products, which led to above-market growth.

The strongest growth came from Latin America at 30 percent, followed by North America at 7 percent, EMEA at 3 percent and Asia with 1 percent. Excluding foreign currency headwinds, our organic growth was even stronger, with Latin America up over 40 percent, EMEA up 11 percent and Asia up 8 percent.

Although Q1 is a seasonally smaller quarter of the year in Latin America, the outperformance was broad-based. A boll weevil infestation and increased acreage drove strong demand in Brazil for our cotton insecticides. Demand for herbicides and insecticides in sugarcane, as well as robust demand for our insecticides in soybean applications were also key contributors to the growth. Our price increases in the region offset nearly all the impact of FX on both the top and bottom lines.

Over the past three years, we have implemented a disciplined channel inventory management system in Brazil so that we can maintain visibility on inventory levels of FMC products throughout our distribution channels. The FMC sales team conducts monthly checks of all 3rd-party warehouses, retailers and growers, and then captures that data in our inventory tracking system. This data indicates that channel inventories of FMC products are low and in line with levels typically expected during this time of year, despite very strong growth in 2018 and in Q1 2019.

In North America, despite the weather issues in the quarter that caused a late start to the season and an expected shift in acreage away from soybeans, demand for pre-emergent herbicides remains one of our growth drivers, as glyphosate resistance continues to spread. We saw good customer uptake for our pre-emergent herbicides, especially Authority® Supreme herbicide that was launched last year. We saw robust sales of Rynaxypyr® insect control for fruit and vegetable applications, including Altacor® insect control for tree nuts. Our Anthem® herbicide and TopGuard EQ® fungicide also had strong sales.

Also, in North America in Q1, we launched our first new active ingredient from the legacy FMC R&D pipeline – Lucento® fungicide. It is gaining traction already in corn, soybean and peanut applications, and the successful launch suggests we can reach peak sales of $30 to $50 million sooner than previously expected.

Growth in EMEA was driven by favorable weather, with very strong sales in Turkey and southwestern Europe, as well as new direct market access in Belgium and The Netherlands. Our diamide products, including Coragen®, Altacor® and Prevathon® insect control, had robust demand across the region, and pricing actions helped offset a significant portion of the FX headwind.

In Asia, we saw double-digit growth in Pakistan, China, Japan and southwest Asia. China growth was led by diamide products, including Coragen® and Benevia® insect control. In India we are seeing the benefits of our commercial restructuring last year, as we are gaining sales traction across more of the portfolio.

In addition to reviewing our regional business, I would also like to highlight our Plant Health business, which is globally managed with financial results embedded in all the regions. It consists of biological, micronutrient and seed treatment products, and continues to grow over 20 percent per year. This part of our portfolio is approaching revenues of $200 million in 2019.

Regional and Crop Balance

Slide 5 shows the balance of our revenue across geographies and crops.

From a geographic standpoint, our revenue is spread nearly equally in our four regions, which provides a natural hedge against the effects of macroeconomic and weather events in a region or country. These types of events impact our industry on a regular basis. Our geographic diversity provides a certain amount of insulation from specific events, as we have demonstrated during the recent flooding in parts of the U.S. and the drought in Australia.

As you can see on the right side of this slide, the spread of FMC revenue in each region across the four quarters of the year is relatively balanced in North America and Asia, while the seasonality in EMEA and Latin America are complementary. This means we have a meaningful revenue contribution from 3 regions every quarter of the year, which also gives us some protection from adverse events in one region or country.

When considering crop exposure, 60 percent of FMC revenue is in a wide variety of higher-value niche crops, with the remainder of our revenue on row crops.

FMC does not rely too heavily on any one crop or any one region, making our performance more predictable and sustainable.

<u>Q1 2019 Adj. EBITDA Bridge</u>

Turning now to Slide 6. First quarter EBITDA was $343 million, up 4 percent versus recast results from Q1 2018. Strong demand led to a year-over-year volume increase of $55 million of EBITDA. We achieved price increases in all regions, which contributed $53 million to year-over-year EBITDA growth, with the strongest contributions from EMEA and Latin America. Volume and price together more than offset the headwinds from raw material costs and FX, which totaled $95 million in the quarter.

<u>FY 2019 and Q2 Earnings Outlook</u>

Looking ahead to our 2019 outlook on Slide 7.

Given the strong performance in Q1 and more clarity on the outlook for the year, we are raising our guidance for 2019 revenue, EBITDA and EPS.

We expect 2019 revenue for FMC will be in the range of $4.5 to $4.6 billion – up $50 million at the midpoint versus prior guidance and reflecting 6 percent year-over-year growth at the midpoint versus 2018 recast sales. Excluding a forecasted 3-percent FX headwind, our organic sales growth estimate is now 9 percent at the midpoint.

We also expect total company EBITDA of $1.18 to $1.22 billion – up $15 million at the midpoint versus prior guidance and representing 8 percent growth versus 2018 recast results. As a reminder, in 2019 our EBITDA guidance is for the total company and includes all expenses.

We are also raising our guidance for 2019 earnings per diluted share to a new range of $5.62 to $5.82, an increase of 7 cents at the midpoint compared to our prior guidance. This represents growth of 9 percent at the midpoint over recast 2018, and only includes the impact of the $100 million in share repurchases completed in Q1.

For the second quarter, we expect revenue to be in the range of $1.185 to $1.215 billion, which represents growth of 4 percent at the midpoint. Excluding an expected 4 percent FX headwind, our organic sales estimate is 8 percent growth at the midpoint. We are also forecasting EBITDA of $325 to $345 million in Q2, which would be an increase of 5 percent year over year at the midpoint. This is despite significant FX and manufacturing cost headwinds. We expect second quarter EPS to be in a range of $1.60 to $1.70, up 10 percent at the midpoint versus recast results from Q2 2018.

For 2019, we expect the overall global crop protection market will be flat to up low-single digits. We expect Latin America to grow in the mid- to high-single digits, North America and Asia to be flat to up low-single digits, and EMEA to be flat to down low-single digits. All these estimates are in U.S. dollar terms.

In Latin America, continued strength in cotton in Brazil, recovering conditions in Argentina and an expected strong soybean season across the region next fall will drive the market growth. In North America, market growth will come from an increase in corn and wheat acreage and more normalized pest pressures. In EMEA we expect recovery of cereals acreage, but the strength of the U.S. dollar relative to the Euro is likely to reduce the market growth rate in the region by 200 to 300 basis points. We expect growth in Asia to be driven by more normal weather conditions across the region. FX is expected to be a headwind in Asia, which is embedded in our outlook for the market.

Projected FY 2019 Adj. EBITDA and Revenue Drivers (YOY)

As you can see from this full-year 2019 EBITDA bridge on Slide 8, the headwinds from FX and higher manufacturing costs are significant factors in 2019. The full-year negative impact from FX is expected to be 7 percent at the EBITDA level, plus another 13 percent headwind from higher raw material costs, representing a total of about $220 million. We expect price increases will offset $145 million of these combined headwinds, or approximately 65 percent.

As was widely reported in late March, there was an explosion in an industrial park in China. One plant operated by one of FMC's contract manufacturing tollers is located near the explosion. That plant has been shut down temporarily, as the government shut the entire park down to investigate the root cause of the blast. It is important to note, however, that FMC's global manufacturing network provides us with significant supply chain flexibility. Due to the strength of our partnerships and our alternate sourcing options, we are confident that we can continue to secure supply of the FMC active ingredients normally manufactured at the impacted toller location, as needed. We have already included the impact of this situation in our guidance.

Projected Q2 2019 Adj. EBITDA and Revenue Drivers (YOY)

Turning to Slide 9, the second quarter EBITDA bridge reflects a $55 million cost headwind – similar to Q1 – but lower FX headwinds of $20 million, representing a total of about $75 million in headwinds. We expect price increases in Q2 will offset $60 million, or about 80 percent, of these headwinds.

I will now turn the call over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Pierre.

Let me start this morning with a few specific income statement items.

Foreign exchange had a negative impact on revenue of approximately 6 percent in the first quarter. Offsetting this were strong volume growth of 9 percent and price increases of 5 percent. For the full year, we continue to expect foreign exchange to be an approximately 3 percent headwind to revenue.

Interest expense was $1 million higher for the quarter than implied by our prior full year guidance, with higher commercial paper balances through the quarter due to the timing of share repurchases. Interest expense for the full year is now expected to be in the range of $137 to $143 million, reflecting primarily changes in the mix of foreign versus domestic borrowing as compared to our initial outlook for 2019. The higher levels of foreign borrowing will allow us to more cost-effectively manage currency risk in certain countries, in particular Argentina.

Adjusted effective tax rate for the quarter was 15 percent, in-line with the midpoint of our guidance range. We are maintaining our full-year tax rate guidance of 14 to 16 percent.

Moving on to the balance sheet and cash flow.

Gross debt as of March 31st was $3.1 billion, up roughly $450 million from the end of 2018, reflecting the expected seasonal build in working capital and our decision to continue regularly purchasing FMC stock across the year rather than waiting for the more cash-generative quarters later in the year.

Gross Debt to trailing twelve-month EBITDA at quarter-end was just below 2.8 times. This is above our targeted leverage of 2.5 times, again due to the seasonality of our cash flow and the timing of share repurchases, but we expect to rapidly return to leverage levels below 2.5 times in the second half of the year.

2019 Cash Flow Outlook

Turning to slide 10. Adjusted cash from operations was negative in the first quarter, as expected, reflecting a more normal seasonal build of working capital. Cash from operations was also substantially below the prior-year period, although this comparison is misleading due to several non-recurring impacts that benefitted working capital in the prior year period, including:

- A step-down in past due balances in Brazil which reduced cash used for receivables;
- Lower cash use for inventory, given inventory levels in the acquired business at the time of acquisition;
- And a significant increase in account payables associated with the ramp-up of the acquired business post acquisition.

Excluding these one-time items in the prior year period, the impact of working capital on cash from operations was generally consistent with the prior year and our expectations.

Capital investment and spending on Legacy and Transformation efforts in the quarter were at a pace consistent with our full-year guidance for those uses of cash.

As expected, free cash flow was negative for the quarter and well below the prior year period, due to the factors I just mentioned impacting cash from operations, as well as two additional positive impacts to Legacy and Transformation spending in the prior year period:

- First, the prior year period results include proceeds from a required antitrust divestiture;
- And second, the prior year period results reflect certain transaction true-up payments received following the closing of the acquisition of the DuPont business.

FMC continues to expect to generate Adjusted cash from operations of $750 to $850 million in 2019. With capital spending anticipated to be in the range of $140 to $160 million for 2019, as well as Legacy and Transformation spending in the range of $200 to $250 million, we expect to generate free cash flow before financing of $375 to $475 million for the full year.

We have repurchased 1.88 million FMC shares year-to-date at an average price of $79.70, for a total of approximately $150 million, including $100 million of repurchases made early in the first quarter as discussed on our last call, along with $50 million of repurchases thus far in the second quarter. It is our intent to remain a regular purchaser of FMC shares throughout the year, purchasing a total of up to $500 million of FMC shares in 2019, inclusive of the $150 million already completed as of today.

In summary, 2019 looks to be another year of exceptional financial performance for FMC with:

- increasing cash generation and improved cash conversion;
- 6 percent top line growth, despite FX headwinds and tepid market growth;
- 8 percent EBITDA growth, despite significant cost increases and FX impacts;
- 9 percent EPS growth, with potential further upside from additional share repurchases;
- And return on invested capital in the mid-teens percent.

And with that, I will turn the call back to Pierre.

Concluding Remarks – Pierre Brondeau

Thank you Andrew.

Following a very strong 2018, FMC delivered exceptional performance in Q1 and we expect this to continue for the forseeable future. The growth rate and EBITDA margins are at the very top of the industry and sustainable.

Additionally, we have a clear path to expand EBITDA margins another 200 to 300 basis points, with improving mix from new product introductions, exiting TSAs and finishing the implementation of our new SAP system.

Starting with our Q2 earnings call, we will provide an annual update on the R&D pipeline, which includes 6 synthetic molecules in the development phase, 15 synthetic molecules in the discovery phase, and 6 biological strains. We plan to do this every year on the Q2 call.

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.