FMC Corporation

Third Quarter 2018 Earnings Call Script

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As Prepared for Delivery

Q3 2018 Conference Call

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's third 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 third quarter performance and provide the outlook for 2018 and the fourth 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 2018 Outlook Statement are available on our website and the prepared remarks from today’s discussion will be made available after 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. 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.

Q3 was another strong quarter for both businesses at the revenue and earnings level. It also was a quarter for executing on our commitments.

The Ag Solutions business performed very well in a seasonally weak Q3, driving 5 percent pro forma sales growth, which was about 300 basis points higher than our forecast despite an estimated 4 to 5 percent headwind from foreign currencies. Revenue synergies continued to boost results, and demand in Brazil was very strong in the quarter. As a reminder, we do not have precise data from DuPont in 2017 to calculate exact year-over-year impact from FX, pricing or volume, but we base our FX estimate on what we saw in our legacy business.

In Q3, we successfully transferred to FMC delayed sites and countries from the DuPont acquisition, as discussed on our last earnings call. These transfers did result in a shift of revenue into Q4 that was in-line with our expectations, but they will not result in any ‘missed’ sales for the full year. There remains one more delayed transfer – a small formulation site in India – that will occur in the second half of 2019; we expect no impact on business results.

Our business integration is on schedule, and we have begun the systematic rollout of the new SAP S/4HANA system, starting with our corporate finance function. The complete rollout will be implemented by the end of 2019.

On the technology front, we are on track to launch our first new active ingredient from the legacy FMC R&D pipeline in North America in the first quarter of 2019. This fungicide will be branded Lucento and is based on the active ingredient Bixafen.

Our Lithium segment performed strongly in Q3, and we successfully completed the IPO of approximately 15 percent of Livent Corporation on schedule last month to begin the separation of that business. Last night, we announced our intent to spin off the remaining 85 percent to FMC shareholders, in the form of a dividend of Livent shares, on March 1, 2019. The spin will complete the full separation and is expected to be tax-free to FMC shareholders. FMC Lithium will remain a reporting segment of FMC in the fourth quarter of this year but will be reported as discontinued operations when we report first quarter results next year, assuming the spin is completed in March.

We have significantly reduced debt this year, having paid down nearly $600 million of debt through October. Andrew will expand on this topic later on the call and describe the rationale for our announcement to buy back $200 million of FMC stock by year end.

Our 5-year strategic plan is complete and being implemented. We will share it with you at our Investor Day on December 3.

We are proud that we have been able to make significant progress on all our major initiatives that we set out to accomplish at the beginning of this year – including the DuPont integration, our SAP S/4HANA implementation and the completion of the Livent IPO – while delivering strong quarterly results.

Q3 2018 Reported Results

Turning now to slide 3 and our third quarter results. FMC reported third quarter revenue of just over $1.0 billion, which was 60 percent higher than Q3 2017. Adjusted EPS was $0.98 in the quarter, which was 6 cents above the midpoint of our guidance and up 40 percent versus the same period a year ago. The guidance beat was due to the strong performance of Ag Solutions, a 7-cent beat, plus a cent from Lithium and 3 cents from a lower tax rate, offset somewhat by a 5-cent headwind from higher than expected corporate costs and other costs. Andrew will address the higher corporate costs in his section.

Moving to slide 4 and Ag Solutions. Revenue of $924 million in the quarter increased 67 percent year-over-year on a reported basis and increased 5 percent on a pro forma basis. This was driven by 17 percent growth of our acquired insecticide portfolio and 8 percent growth in our selective herbicides. We continue to capitalize on cross-selling opportunities, and our global sales force delivered another impressive performance in its third full quarter with the combined portfolio. On a pro forma basis, we delivered strong top-line growth in both Latin America and North America, which more than offset lower sales in Asia and EMEA.

Third quarter segment EBITDA of $216 million increased 57 percent versus the earnings from the year ago quarter and was $11 million above the midpoint of our guidance. Segment EBITDA margin was 23 percent, which was in line with expectations. As previously discussed, Q3 is the lowest margin quarter for many reasons: first, it is our lowest revenue quarter, yet SAR spend is flat; second, product mix shifts to a higher percentage of FMC legacy product; and third, geographic mix shifts to a lower contribution from our highest margin regions. These elements were expected and will be seen each Q3 in the future.

Turning now to slide 5. Q3 revenue growth was strong, on a pro forma basis, but it was mixed across the regions; North America revenue increased 32 percent and Latin America revenue grew 9 percent. Revenue in Asia dropped 4 percent and in Europe revenue contracted 17 percent. North America and EMEA are in the low season in Q3, and therefore, a relatively small absolute dollar increase or decrease creates a disproportionate percentage swing.

In North America, the key driver was volume growth for Rynaxypyr® and Cyazypyr® insect control. We saw continued overall expansion of the diamide portfolio. Of note was the late season growth in California on tree nuts, combined with growth in our herbicide portfolio.

In EMEA, our business contracted 17 percent in a seasonally light quarter, which only represents about 15 percent of annual sales for the region. The decline was due in large part to lower herbicide application on oil seed rape because of dry weather. In addition, we saw orders move into Q4 on the back of a distribution change we are making in Belgium and Holland; this change is a timing move and will not result in any lost sales. We are consequently expecting strong double-digit growth in the fourth quarter in EMEA.

In Latin America, our business grew 9 percent on a pro forma basis, despite strong FX headwinds. This performance was primarily due to strong demand in Brazil, which grew 17 percent on the strength of our acquired products due to our expanded market access. We have taken advantage of increased exposure to co-ops in the south and more broadly to existing distributors. We are cross selling our new portfolio with an emphasis on crops such as coffee and citrus. In addition, we expect that cotton acreage will increase 25 percent this coming season, driving stronger sales of our insecticides and herbicides portfolio, which started in Q3. We also successfully implemented significant price increases across the board in Brazil.

In Asia, revenue declined 4 percent. However, excluding our proactive restructuring of our India business, we grew revenue 2 percent despite significant headwinds from foreign currencies. We had strong sales of our acquired insecticide portfolio in rice and soybean in India and in rice and fruits & vegetables in Japan and Korea.

FMC Lithium / Livent

Moving now to Lithium on slide 6.

Lithium delivered a strong third quarter, with revenue up 19 percent compared to Q3 last year and segment EBITDA of $49 million, 21 percent higher than a year ago.

As a reminder, we will continue to include FMC Lithium in our segment results for the fourth quarter because FMC still owns approximately 85 percent of Livent Corporation, but we will limit our comments as Livent is reporting its quarterly earnings separately. When we issue fourth quarter results, you will see 15 percent of Livent's earnings deducted in the 'non-controlling interest' line of our income statement, and this is reflected in our guidance.

Outlook

Turning to slide 7, which highlights the impact of the Livent IPO on our EPS guidance. Excluding the adjustments for Livent, the midpoint of our guidance would still be $6.05, exactly where it was a quarter ago. However, we now must account for the full standalone costs of Livent, which are a 3-cent headwind, as well as the approximately 15-percent minority interest deduction for Livent post-IPO, which is a 4-cent headwind. Incorporating those factors, we expect adjusted earnings per share for full-year 2018 to be between $5.93 and $6.03 per share, or $5.98 at the midpoint, which represents an increase of 121 percent versus 2017 EPS.

Turning to slide 8, which summarizes our outlook for the full year and for the fourth quarter.

We expect 2018 Ag Solutions revenue will be in the range of $4.2 to $4.26 billion. On a pro forma basis, this equates to a nearly 10 percent year-over-year increase at the midpoint. We also expect Ag Solutions EBITDA will be in a range of $1.195 to $1.215 billion, which is a raise of $5 million at the midpoint, relative to prior guidance.

Our expectations for the overall crop protection market are slightly improved from what we said in August. On a U.S. dollar basis, we now expect the global crop protection chemical market to be up low-single digits in 2018. The two regional outlooks that have improved are North America, which we expect will be up low-single digits due to more pronounced strength in herbicides, and Latin

America, which we expect to be up high-single digits, with the change in forecast primarily due to recent FX-driven price increases. We still expect the market in Asia to be flat to up low-single digits, while our European forecast is slightly more conservative; we expect it to be up low-single digits, on a U.S. dollar basis, and down low-single digits in local currencies.

FMC is growing considerably ahead of the market in 2018. Increased market access in many parts of the world is one of the largest factors: First, this includes new and enhanced distribution and co-op access in Brazil – particularly in the south; second, full utilization of our new super distributor model in India, resulting in more coverage; and third, full direct market access in Europe, with growth in Eastern Europe and improved access in France and Benelux countries. Another growth driver is the launch of new formulations developed by the regions to respond to local customer needs. In 2018, we launched 30 formulated products, which we expect will contribute 1 percentage point of the overall growth rate.

For FMC, fourth quarter Ag Solutions revenue is expected to be in the range of $1.015 billion to $1.075 billion. This revenue forecast represents a pro forma growth rate of 12 percent, at the midpoint, for the quarter, and implies 9 percent pro forma growth for the second half of 2018. Segment EBITDA is forecasted to be in the range of $280 to $300 million in Q4. This outlook includes an estimated $3 to $4 million headwind for the quarter from the recent trade tariffs. We are confident in our Q4 forecast largely due to visibility in Brazil, with 85 percent of expected revenue in that country already booked as orders. This is a much higher level heading into the period than in previous years. We are also confident we will manage the FX headwind in Brazil with pricing and hedges.

Moving over to Livent, I am just going to repeat the guidance that Livent issued last night. We expect full-year segment revenue to be in a range of $440 to $450 million, a year-over-year increase of 28 percent at the midpoint. Livent has decreased its full-year EBITDA forecast by $5 million at the midpoint, to a range of $193 to $197 million, to account for $5 million of standalone costs. Q4 guidance for Livent revenue is in a range of $117 to $127 million, representing a year-over-year increase of 8 percent at the midpoint, and EBITDA guidance is between $43 and $47 million, due to about $4 million of standalone costs.

We now expect adjusted earnings per share in the fourth quarter will be between $1.33 and $1.43.

I will now turn the call over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks Pierre.

I will start this morning with a few specific income statement items, then move to the balance sheet and cash flow. I will also provide an update on the use of proceeds from the Livent IPO.

Corporate expense was $29.7 million, $7.6 million above the quarterly pace of expense implied by our guidance at our last earnings call. This increase in expense was driven primarily by foreign exchange impacts on intercompany fund movements. We are currently operating in a dual-IT system environment, which makes it more challenging to address currency imbalances on intercompany fund movements. While a large portion of the impact in the quarter was non-recurring, the system challenges are likely to cause some volatility in our Corporate expenses, on the order of plus or minus $1 to $2 million per quarter. This variability will go away as we exit the DuPont TSA in late 2019.

We estimate foreign exchange was a 4 to 5 percent top-line headwind in the third quarter for our Ag Solutions segment. Importantly, in Brazil, we estimate that we offset 100 percent of the impact of FX on earnings in Q3 through significant price increases, complemented by our hedging activities. For the Lithium segment, FX had virtually no impact on revenue and was a modest tailwind to earnings in the quarter.

We lowered our guidance for adjusted effective tax rate for the full year to a range of 16 to 17 percent, a reduction of 50 basis points at the midpoint of the range, driven by our updated forecast of the mix of earnings across various jurisdictions. The 14.6 percent adjusted effective tax rate for the third quarter brings our year-to-date provision for taxes in line with this updated guidance.

Moving onto the balance sheet and cash flow on slide 9, FMC generated adjusted Cash from Operations of $550 million in the 9 months ended September 30, 2018, up nearly 80 percent compared to the prior year period, driven by higher EBITDA. We also continue to benefit from lower working capital build for the DuPont acquisition than initially expected.

Looking to the full year, we are raising our guidance for adjusted cash from operations to a range of $700 to $750 million.

Using strong cash flows from Q3, we paid down $300 million of term loan debt, ending the quarter with $2.75 billion in gross debt. This is down nearly $450 million from the beginning of the year.

We completed the Livent IPO in October, and FMC received net proceeds of about $320 million from the sale of 20 million shares of Livent. On October 31, we used $150 million of those proceeds to further pay down term loan debt, consistent with our commitment to reduce leverage in line with the impending loss of Livent EBITDA early next year. This increases our cumulative debt reduction this year to nearly $600 million.

With debt to EBITDA – excluding Lithium – now below 2.5 times and consistent with our targeted solid investment grade credit profile, we will use the remainder of the Livent

IPO proceeds and other excess cash on hand to begin repurchasing FMC shares. We are launching a program to purchase $200 million of FMC shares, via open market purchases, by the end of this year, under our existing share repurchase authorization.

This initial $200 million share repurchase marks an inflection point in FMC's transformation, as we move past deleveraging from debt-funded acquisitions to generating substantial free cash flow going forward. You can expect that cash generation and its deployment are key topics we will cover at our upcoming Investor Day on December 3.

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

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

Thank you Andrew.

I could not be more pleased with where we are today. We are preparing FMC for a long period of growth while delivering exceptional results in the short term. We are delivering on every front:

A 10 percent global revenue growth rate for our Ag business in 2018 on a pro-forma basis – much above the market – with a strong EBITDA margin close to 29 percent.

We are flawlessly integrating the DuPont business and realizing early sales and cost synergies.

We successfully completed the IPO of Livent in challenging market conditions.

Our SAP implementation is on track.

Our cash flow is strengthening. We are paying down debt quickly and returning $200 million to our shareholders through a stock buyback.

More importantly we have a strategic plan firmly in place which leverages our core competencies, the strength of our current portfolio and our unique ability to develop short to long term technology.

As I said before, our team is delivering on every front. I cannot wait to discuss the future of our company on December 3rd with all of you.

I will now turn the call back to Michael Wherley.

Q&A Intro – Michael Wherley

Thank you, Pierre. As Livent has just had its own conference call, we will keep this Q&A session focused on our Ag business, other than to answer any potential questions you on the Livent separation plan.

Operator, you can now begin the Q&A.

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.