FMC Corporation

Second Quarter 2018 Earnings Call Script

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As Prepared for Delivery

Q2 2018 Conference Call

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's second quarter earnings call. Joining me today are Pierre Brondeau, Chief Executive Officer and Chairman and Andrew Sandifer, Executive Vice President, Chief Financial Officer and Treasurer. Pierre will review FMC's second quarter performance and provide the outlook for 2018 and the third quarter. Andrew will provide an overview of select financial results.

The slide presentation that accompanies our results, along with our earnings release and the 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 and Chief Operating Officer, and Paul Graves, CEO, 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.

Q2 was another strong quarter for both businesses at the revenue and earnings level.

For Ag Solutions, the demand for our products, revenue synergies and costs were very much in line with expectations we laid out a quarter ago. The business integration is on schedule, and the commercial teams continue to perform very well.

The strong global performance through the first half of 2018, combined with a high percentage of orders in hand for the rest of the year in Latin America, gives us great confidence for the second half.

Beyond the immediate future, we continue to see very strong growth potential for our acquired portfolio, especially for Rynaxypyr® and Cyazypyr® insect control.

On the technology front, the integration of our R&D organizations is progressing very well and is confirming the strength of our expanded pipeline. We remain on track to launch our first new active ingredient from the legacy FMC R&D pipeline, the fungicide Bixafen, in North America later this year.

The Lithium business – which we recently announced will be named Livent Corporation – continues to perform strongly, with demand for our differentiated performance products continuing to grow. Realized prices and delivered volumes are in line with our previous expectations. We remain on track to list Livent in an

October 2018 IPO, which will be followed by a direct spin to FMC shareholders within 6 months.

Q2 2018 Reported Results

Turning to slide 3. FMC reported second quarter revenue of just over $1.25 billion, which was nearly double the revenue from Q2 2017. Adjusted EPS was $1.78 in the quarter, which was 8 cents above the mid-point of our guidance and up 270 percent versus the same period a year ago. The guidance beat was mainly due to stronger operational performance, driven by revenue growth in Ag Solutions and a combination of higher pricing and favorable customer mix in Lithium.

Moving to slide 4 and Ag Solutions. Revenue of about $1.15 billion in the quarter nearly doubled year-over-year on a reported basis and increased 8 percent on a pro forma basis, with zero net impact from foreign currency. We continue to capitalize on cross-selling opportunities, and our global sales force delivered another impressive performance in its second full quarter with the combined portfolio. You can see in the bridge on the right side of this page that we saw top-line growth, on a pro forma basis, in every region for the second consecutive quarter.

Stepping back and taking a look at first half revenue, we delivered a very strong performance, with 11 percent pro forma growth. This was led by the acquired insecticides, Rynaxypyr® and Cyazypyr® insect control, which grew 24% and continue to gain market share on demand across every region.

Second quarter segment EBITDA of $344 million was triple the earnings from the year ago quarter, and was $14 million above the mid-point of our guidance. Segment EBITDA margin was 30 percent, on strong mix and our continued focus on cost control. This performance was achieved despite the broader challenges faced by the chemical industry. The Chinese government has been shutting down facilities and industrial parks as part of their environmental strategy. These shutdowns have limited the supply of certain active ingredients and intermediates, causing shortages of materials, and in certain cases, rising raw material costs. FMC has been able to mitigate and manage the impact on our ability to supply our customers, thanks to our global diversified supply network.

We are very pleased with our margin performance in today's environment, and believe this will grow in future years, as the portfolio continues to shift to higher-margin products.

Turning now to slide 5. Q2 revenue growth was strong, on a pro forma basis, in every region; North America revenue increased 8 percent, Europe revenue grew 3 percent, Latin America revenue grew 21 percent and Asia revenue increased 6 percent.

In North America, we performed well compared to the broader crop protection market, which we estimate was down low- to mid-single digits. We saw very strong volume growth for our insecticides, mostly driven by

Rynaxypyr® and Cyazypyr® insect control. We are also seeing strong demand for our latest Authority-branded herbicide, Authority Supreme, as the market for pre-emergent herbicides continues to grow, due to increasing weed resistance.

In Europe, despite difficult growing conditions, our business grew 3 percent, which was ahead of the crop protection market that we believe was down low-single digits, on a U.S. dollar basis. The market conditions were aligned with the strength of our portfolio – the insecticides and herbicides markets performed better than the fungicides market, which was weak. Consequently, we have seen strong growth of Rynaxypyr® and Cyazypyr® insect control.

In Latin America, our business grew 21 percent on a pro forma basis, which is a very positive indicator of underlying demand for our products, even in a seasonally lighter quarter. This strong performance is primarily due to our low channel inventories in Brazil and our crop exposure across the region. The Brazilian crop protection market is healthy – FMC sales in Brazil grew an impressive 35 percent in Q2, driven by strong demand for our legacy FMC herbicides and insecticides. Mexico also delivered a strong performance, driven by expansion of niche crop applications.

In Asia, we saw strong pro forma growth in nearly all countries. In India, we have made a significant change in our market access model, as we highlighted on the last call. This change to the super distributor model is going extremely well and delivered mid-teens revenue growth, on a pro forma basis, led by strong demand for Rynaxypyr® and Cyazypyr® insect control. In China, our legacy rice herbicides drove a double-digit sales increase, on a pro forma basis, as we continue to gain traction in a market that is trending toward higher-value crop protection products. Growth in these two major markets, along with a host of smaller ones in the region, was more than enough to offset the impact we felt from significantly weaker demand in Australia, due to the severe drought.

Lithium

Moving now to Lithium on slide 6. Lithium delivered another strong quarter, with revenue up 46 percent compared to Q2 last year and segment EBITDA of $51 million, 85 percent higher than a year ago. We continue to see very strong customer demand for FMC's performance products. Higher realized prices remain the primary driver of year-over-year growth, with Hydroxide, Carbonate and Lithium Metal prices each up at least 20 percent. Volumes were also higher in all major products, as increased production in Argentina, increased hydroxide production and higher demand in BuLi all contributed to the year-over-year growth. Our Q2 EBITDA margin of 48 percent was higher than our full-year margin forecast of 45 percent, at the mid-point, due mainly to favorable customer mix in the first half of the year.

Outlook

Turning to slide 7, which summarizes our outlook for the full year and for the third and fourth quarters. We still 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 123 percent versus 2017 EPS. Third quarter 2018 adjusted EPS is expected to be between $0.87 and $0.97, and fourth quarter 2018 adjusted EPS is expected to be between $1.41 and $1.61.

We expect 2018 Ag Solutions revenue will be in the range of $4.1 to $4.3 billion. On a pro forma basis, this equates to a 9 percent year-over-year increase at the mid-point. We also expect Ag Solutions EBITDA will be in a range of $1.17 to $1.23 billion.

Our expectations for the overall crop protection market remain unchanged from what we said in May. 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. We expect North America to be down mid-single digits, Europe to be up low- to mid-single digits, Latin America to be up mid- to high-single digits and Asia to be flat to up low-single digits.

For FMC, third quarter Ag Solutions revenue is expected to be in the range of $870 to $930 million and fourth quarter segment revenue is expected to be in the range of $980 million to $1.1 billion. These revenue forecasts represent pro forma growth rates of low-single digits in Q3 and low-double digits in Q4.

The third quarter is a low season for the majority of our markets, and it will be the lowest sales quarter for FMC from now on. In 2018, this is magnified by internal events which are moving sales into Q4. In any major integration process, there often are delayed closings of countries and sites due to legal entity, registration and permit transfers under local laws. Since the close of our transaction with DuPont, we have known and planned for delayed closings.

DuPont is operating certain countries and sites on our behalf, under our direction, and we are receiving the economic benefit. The majority of these delayed countries and sites – along with the related permits, licenses, and registrations – are being transferred to FMC in Q3, thus creating a temporary sales "black out" period in Q3. These sales will occur in Q4.

FMC's outperformance versus the crop protection market in the first half of 2018 will continue, as we expect second half Ag Solutions revenue to grow 7 percent on a pro forma basis. We have very high confidence in our forecast, as our visibility into Latin America, which represents roughly 40 percent of expected revenue for the period, has increased versus previous seasons. In particular in Brazil, we have over 70 percent of our orders in hand to reach our full-year target, which is meaningfully above what we have seen in past years.

Segment EBITDA is forecasted to be in the range of $195 to $215 million in Q3 and in the range of $275 to $315 million in Q4. Our guidance implies nearly 60 percent of 2018 Ag Solutions EBITDA occurred 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 much more heavily weighted on the first half.

Moving over to Lithium, we expect full-year segment revenue to be in a range of $430 to $460 million, a year-over-year increase of 28 percent at the mid-point. We are increasing our full-year EBITDA forecast by $2 million to a range of $195 to $205 million, which represents a year-over-year increase of 41 percent at the mid-point. Our Q3 guidance for the segment is for revenue to be in a range of $105 to $115 million and EBITDA to be between $45 and $49 million, each representing a year-over-year increase of 17 percent at the mid-point.

I will now turn the call over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks Pierre.

Let me start this morning with the income statement, specifically taxes and the impacts of foreign exchange.

We have lowered our guidance for adjusted effective tax rate for the full year to a range of 16 to 18 percent, a reduction of 50 basis points at the mid-point of the range, driven by our updated forecast of the mix of earnings across various jurisdictions. The 16.5 percent adjusted effective tax rate for the second quarter brings our year-to-date provision for taxes in line with this updated guidance.

Foreign exchange impacts on revenue were a net zero in the second quarter for our Ag Solutions segment, with Euro strength offsetting weakness in key Latin American currencies, aided by ongoing price increases. For the Lithium business, FX was a modest tailwind in the quarter.

Looking to the remainder of the year, we will, as always, be watching the Brazil Real closely. We manage our currency exposures throughout the year, and this year is no different. With the combination of price increases and our hedging activities, we expect to completely offset any FX headwinds in the Ag Solutions business in the second half and the full year.

Moving onto the balance sheet and cash flow.

Net debt at June 30th was $2.75 billion, down more than $150 million from the beginning of this year, reflecting solid cash generation and the pay down of $100 million of outstanding term loan debt in the quarter.

Turning to slide 8, FMC generated adjusted Cash from Operations of $287 million in the first half of 2018, up 34 percent compared to the prior year period, driven by higher EBITDA. We also benefitted from lower working capital build for the DuPont acquisition than was previously expected.

Looking to the full year, we are increasing our guidance for adjusted cash from operations by $100 million, to a range of $650 to $750 million. This increase is driven by our updated forecast for the build of working capital for the acquired DuPont business, supported by our continued expectation for strong EBITDA.

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

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

Thank you Andrew.

First, a comment on the lithium separation. We remain on track to IPO Livent this October. We made a confidential filing with the SEC in June, and we will file a public version of the S-1 in late-August. Securities laws require us to reduce the commentary we provide on the lithium business now that we are within 30 days of its public filing.

Therefore, we will not be able to undertake substantial Q&A on the lithium business today.

We feel very good about the direction FMC is headed, as we move to becoming a standalone agricultural sciences company. The business delivered another strong quarter, and we have high confidence in our second half estimates. Our full-year pro forma revenue growth will be significantly above the market growth rate in 2018, and our disciplined approach to costs will help drive an EBITDA margin approaching 30 percent for the full year. The integration of the acquired business is progressing very well, and our SAP implementation is on track for the end of 2019, which will drive significant margin improvement from 2020 and beyond. Growth synergies are being realized faster than we would have expected 9 months ago as our new portfolio is gaining wider adoption with our strategic customers. We expect to outperform the crop protection market for the foreseeable future.

Before moving to Q&A, I would like to remind you we are hosting an Investor Day in New York, on December 3rd, and we hope to see many of you there.

I will now turn the call back to Michael Wherley.

<u>Q&A Intro – Michael Wherley</u>

Thank you, Pierre. As we are in a quiet period for the Lithium business, we are happy to answer questions on the first-half performance of that business, but we are very limited in what we can say about the future, so we may choose not to answer some forward-looking questions at this time. Please frame your questions in that light.

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 questions you may have. Thank you and have a good day.