FMC Corporation

Fourth Quarter 2018 Earnings Call Script

February 12, 2019

As Prepared for Delivery

Q4 2018 Conference Call

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's fourth 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 fourth quarter performance and provide the outlook for 2019 and the first 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.

2018 was a critical and very successful year for FMC. In Ag Solutions, we delivered tremendous performance in both Q4 and the full year that significantly outpaced our peers and the broader ag market. Our sales teams aggressively pursued revenue synergies made possible by the limited customer overlap and the strength of our broader product portfolio. They delivered 11 percent pro forma sales growth for the full year, posting gains in all geographies. Our entire organization executed well against our growth goals.

We achieved this performance in 2018 while taking great strides toward integrating the largest acquisition in FMC's history, separating our lithium business, which included a successful IPO, and advancing the implementation of the SAP S/4HANA platform. We also reduced debt by $500 million and completed a $200 million share repurchase program.

FMC Reported Financial Results ***(Slide 3)***

Turning to Slide 3, FMC reported over $1.2 billion in fourth quarter revenue – including Lithium – which reflects a year-over-year increase of 24 percent on a reported basis and 17 percent on a pro forma basis. This increase was driven by strong commercial execution that enabled broad-based growth in every region in Ag Solutions, along with 6 percent sales growth in Lithium.

Adjusted EPS came in at $1.69 in the quarter, an increase of 54 percent year over year. This was two cents above the high end of our pre-announcement from January 31st, 2019 and 31 cents above the midpoint of our guidance given on our last earnings call.

<u>Drivers of Q4 Outperformance Versus Original Guidance</u> ***(Slide 4)***

Slide 4 will shed some light on this outperformance. The guidance beat was due to very strong operational performance in Ag Solutions, which drove 8 cents of the outperformance, and lower taxes, which drove another 21 cents of the gain. The lower tax was primarily driven by more favorable earnings mix by jurisdiction, and to a lesser extent, by the clarification of certain international tax provisions of the 2017 U.S. Tax Cuts and Jobs Act.

We also gained 2 cents of incremental EPS from a lower share count due in large part to the repurchase of 2.4 million shares.

Q4 2018 Agricultural Solutions Reported and Pro Forma Results ***(Slide 5)***

Moving on to Ag Solutions financial results on Slide 5. Revenue of nearly $1.1 billion increased 27 percent year over year and 18 percent on a pro forma basis. Excluding an estimated 5 percent headwind from currency, the pro forma organic growth was a very strong 23 percent and far ahead of the market.

Performance in the quarter and the year was driven by strong commercial execution and robust demand for our industry-leading products. Our sales organization has leveraged valuable cross-selling opportunities – due to minimal customer overlap between FMC and DuPont – to deliver significant sales synergies. Additionally, we reduced expected operating costs for the acquired business through accelerated functional integration, leveraging FMC back-office capabilities and reducing manufacturing costs in legacy DuPont plants.

Fourth quarter segment EBITDA of $302 million increased 35 percent versus the year-ago period and was $13 million above our original guidance. Our EBITDA margins for Q4 increased 160 basis points year over year to 27.4 percent, and full-year margins increased 560 basis points to 28.4 percent.

<u>Q4 2018 Agricultural Solutions Pro Forma Regional Performance</u> ***(Slide 6)***

Turning now to fourth quarter regional financial results on Slide 6. Q4 revenue growth was sharply up on a pro forma basis, led by strong commercial performance in Latin America at 27 percent, followed by North America at 21 percent, EMEA at 13 percent and Asia with 4 percent.

In Latin America, price increases more than offset the effects of currency headwinds. The outperformance in the region was driven by strong demand from cotton growers in Brazil – with acreage expected to be up 25 percent year over year – and wheat farmers in Argentina – where acreage is forecasted to grow by 5 percent. Robust demand for insecticides in soybean applications was also a key factor in the region.

In North America, despite an expected shift in acreage away from soybeans, strong demand for pre-emergent herbicides remained a key to our growth, as glyphosate resistance continues to spread. We saw strong customer uptake of our pre-emergent herbicides, especially Authority® Supreme that was launched last year, in addition to strong sales of insecticides and new fungicides.

EMEA experienced strong growth in France, Germany and Russia, with the combined sales of those three countries growing 45 percent year over year. This growth was driven by our range of SU herbicides and Rynaxypyr® insect control.

In Asia, we continued to benefit from our commercial integration and strong demand in Pakistan, Vietnam, Philippines and Malaysia. If we exclude the India restructuring, which included the discontinuation of certain products, and the lost sales from the required anti-trust divestiture in India, sales in the region would have grown 14 percent on a pro forma basis.

<u>Q4 2018 Lithium (Livent) Reported Results</u> ***(Slide 7)***

Moving now to Lithium results on Slide 7.

Lithium fourth quarter revenue was $120 million – up 6 percent year over year. Segment EBITDA came in slightly above the midpoint of guidance at $46 million in the quarter.

As you most likely saw in our separate press release yesterday, FMC's Board of Directors has officially declared the spin of our remaining stake in Livent to FMC shareholders, which will occur on March 1, 2019. This will complete the separation process. Please refer to that press release, posted on fmc.com, for details.

<u>FY 2019 and Q1 Earnings Outlook</u> ***(Slide 8)***

Looking ahead at our 2019 outlook on Slide 8.

As we disclosed in the pre-release on January 31st, our 2019 earnings per diluted share are expected to be $5.55 to $5.75. This represents growth 8 percent at the midpoint over recast 2018, excluding Lithium and the impact of any share repurchases in 2019. All comparative values from 2018 will now exclude the Lithium business entirely. Shortly after the spin on March 1st, we will file an 8-K with recast 2018 results that strip out the Lithium business.

We expect 2019 revenue for FMC will be in the range of $4.45 to $4.55 billion – up 5 percent at the midpoint year over year versus 2018 recast sales. Excluding an expected 3 percent FX headwind, our organic sales growth estimate is 8 percent at the midpoint.

We also expect total company EBITDA of $1.165 billion to $1.205 billion, which represents 7 percent growth at the midpoint versus 2018 recast results. As a reminder, in 2019 our EBITDA guidance includes all corporate expenses. We will no longer delineate between Ag segment results and corporate expenses as we had in the past when we had multiple segments.

For FMC, first quarter revenue is expected to be in the range of $1.18 billion to $1.21 billion, which represents growth of 8 percent at the midpoint. Excluding an expected 6 percent FX headwind, our organic sales growth estimate for Q1 is 14 percent at the midpoint. We are also forecasting EBITDA of $320 to $340 million in Q1, which would be flat year over year at the midpoint. This is despite significant FX and raw material cost headwinds. We expect first quarter EPS to be in a range of $1.58 to $1.68, up 3 percent versus recast results from Q1 2018.

Our 2019 expectation for the overall global crop protection market growth is that it will be flat to up low-single digits.

We expect North America, EMEA and Asia will also be flat to up low-single digits – driven by a variety of factors – and Latin America will grow in the low- to mid-single digits. In North America, growth will come from an increase in corn acreage and normalized pest pressures. In Latin America, Brazil is experiencing dry weather in important soybean and corn areas to start the year, but we expect this will be offset by favorable climate conditions in Argentina and another strong soybean season across the region next fall. In EMEA, we expect recovery of the winter and spring cereals area and strong cereals pricing. Asia is expecting strong growth driven by a more normal monsoon season in India, as well as a recovery from the drought in Australia.

We expect that FMC's above-market growth in 2019 will be driven by the continued strength in global demand for our diamides, pre-emergent herbicide growth, sales expansions in Brazil, SU herbicide growth in key European countries as well as new product introductions. These new products will account for approximately $60 to

$70 million, or 1.5 percent, in incremental sales growth in 2019.

In our third largest country, India – which had over $300 million in sales in 2018 – we are expecting strong top-line growth in 2019 from our insecticide portfolio as well as new applications of our herbicide portfolio in sugarcane. Our well-structured super distributor network in India drives increased market access and demand generation, further lowers our credit risk and requires less working capital while increasing profitability.

Earlier this year, we launched our first new active ingredient from the legacy FMC R&D pipeline – Lucento™ fungicide – in time for the 2019 growing season in North America.

Our R&D organization also reached a second very important milestone since our Investor Day in December. We advanced one of our insecticide active ingredients out of the Discovery phase and into the Development pipeline.

Launch for this product continues to be expected in 2026. This means we still have six AI’s in our Development pipeline, after launching Lucento™ commercially. We will continue to update you with progress within our innovation pipeline on future calls.

FY 2019 Adj. EBITDA Bridge (YOY) ***(Slide 9)***

As you can see from this full-year 2019 EBITDA bridge on Slide 9, the headwinds from FX and higher raw material costs are significant factors in 2019. The full-year headwind from FX is expected to be 7 percent at the EBITDA level, plus another 10 percent headwind from higher costs for raw materials, representing a total of about $190 million. We expect price increases will offset $130 million of these combined headwinds, or approximately 70 percent.

<u>Q1 2019 Adj. EBITDA Bridge (YOY)</u> ***(Slide 10)***

Turning to Slide 10, the first quarter EBITDA bridge reflects the pressure on profitability as we begin the year. Q1 headwinds from FX are expected to be 15 percent at the EBITDA level, plus another 18 percent headwind from raw material costs, representing a total of about $110 million in headwinds. We expect price increases in Q1 will offset $65 million, or about 60 percent, of these headwinds.

We will absorb about half of the full-year impact from raw material costs in Q1 alone. The impact will diminish significantly in the second half of the year. Likewise, about two-thirds of the full-year headwind to EBITDA from FX is expected to occur in Q1, and this is also expected to diminish greatly in the second half.

Our plans to offset a large part of these adverse costs – with price increases throughout the year – are in place and execution is taking place as we speak.

I will now turn the call over to Andrew.

<u>Selected Financial Results – Andrew Sandifer</u>

Thanks, Pierre.

There is a lot to cover this morning, so let me start with a few specific income statement items for 2018. I'll then move on to the year-end balance sheet, cash flow, share count, and finish with a few comments on the 2019 outlook.

Foreign exchange had a meaningful negative impact on fourth quarter Agricultural Solutions revenue, estimated at approximately 5 percent. We believe this impact was more than offset by our price increases in the quarter. For the full year, we estimate FX was an approximately 2 percent headwind on Ag Solutions revenue. In the Lithium segment, FX was a modest headwind to revenue in the quarter and the full year.

Corporate expense was $28.4 million for the quarter, $4 million higher than implied by Q4 guidance from our last earnings call. There were several drivers of this variance, including a higher than anticipated year-end LIFO inventory valuation adjustment, reflecting continued raw material price increases; higher health & welfare benefits expense; and to a much lesser extent than in the third quarter, foreign exchange impacts on intercompany fund movements.

Interest expense was $1 million higher for the quarter than guided, with higher than expected commercial paper balances through the quarter due to higher working capital.

Our tax rate for full year 2018 came in much better than anticipated, at an annual effective rate of 13.7 percent. The primary driver of the outperformance was the earnings mix by jurisdiction that was substantially improved versus our forecasts, with more profit being earned in lower-tax jurisdictions than expected. Also contributing to a lesser extent to the lower 2018 tax rate was the impact of the proposed regulations released in the fourth quarter related to U.S. international tax provisions. This resulted in a less unfavorable impact than projected for tax on Global Low Taxed Intangible Income (also referred to as GILTI). The 5.1 percent effective tax rate in the fourth quarter is a result of bringing our full-year provision for income taxes in-line with the full-year rate.

We took a $106 million non-cash charge against GAAP earnings to adjust our environmental reserves to reflect the recent agreement in principle reached with the New York State Department of Environmental Conservation that would, among other things, settle past costs and govern remediation of historical contamination within a defined area attributed to FMC's Middleport, New York operations. Upon finalization, this settlement will resolve a significant portion of the issues related to the Middleport site, and provides FMC with certainty of the cash outflows require to support these liabilities. The cash outflows specified in the pending agreement will be capped and are well within the assumptions we have made for ongoing cash spending on legacy expenses.

Moving on to the balance sheet and cash flow.

Gross debt at December 31st was $2.7 billion, down more than $500 million from the beginning of 2018. Gross Debt to trailing twelve-month EBITDA, excluding Lithium, was 2.4 times, consistent with our long-term target of 2.5 or less.

<u>2018 Cash Flow Results</u> ***(Slide 11)***

Turning to slide 11, FMC generated Adjusted Cash from Operations of $576 million in 2018, up 47 percent compared to the prior year. Adjusted Cash from Operations was lower than expected in the fourth quarter as growth in working capital as well as higher legacy and transformation expenses more than offset better than expected EBITDA.

Working capital was higher than expected in both Agricultural Solutions and Lithium. For Agricultural Solutions, higher working capital was driven by stronger than expected sales in the quarter and recovering inventory levels due to the faster than expected return to full production from our China toll manufacturing partners. We continue to monitor our inventory and safety stock levels very closely as we move past this period of uncertainty in China.

Transformation expenses were higher than expected due primarily to spending on our SAP implementation.

In early December, we completed the $200 million share repurchase program announced on our November earnings call, purchasing 2.4 million shares at an average price of $81.97 per share.

Looking ahead now to 2019, as Pierre mentioned, FMC expects meaningful FX headwinds to revenue growth, particularly in the first half of the year. Interest expense should be roughly in line with 2018. We expect our effective tax rate to be between 14 and 16 percent for 2019, based on our current forecasts for earnings by jurisdiction and our evolving understanding of the implications of the newly proposed regulations governing taxation of foreign income.

As Pierre also noted earlier, we anticipate full-year 2019 earnings per share to be between $5.55 and $5.75 with first quarter 2019 EPS to between $1.58 and $1.68. We are in the process of developing fully re-casted financials for 2018 to remove all impacts of the Lithium business to provide a clean year-on-year comparison for EPS and other metrics. Due to the complexity and evolving interpretation of the 2017 U.S. tax law, it will be March before we can provide fully re-casted financials for 2018. At present, we estimate that like-for-like earnings per share growth, removing all impacts of the Lithium business, is 8 percent for full-year 2019 and 3 percent for the first quarter.

<u>2019 Cash Flow Outlook</u> ***(Slide 12)***

Slide 12 shows a summary of our 2019 cash flow outlook, laid out in generally the same way we discussed cash flow at our December Investor Day. FMC expects to generate adjusted cash from operations of $750 to $850 million in 2019. With capital spending expected to be in the range of $140 to $160 million for 2019, as well as with legacy and transformation costs in the range of $200 to $250 million, we expect to generate free cash flow of $375 to $475 million. This suggests free cash flow conversion from adjusted earnings to be in the range of 50 to 60 percent, a significant improvement, though not yet at our target conversion rate of greater than 70 percent. This is due to continued legacy and transformation expenditures in 2019, in particular, costs to complete our SAP implementation.

With this growing cash flow and improving cash conversion, we will continue to regularly repurchase shares through 2019. Year to date, we have repurchased 1.25 million shares at an average price of $79.84 for a total of approximately $100 million. We intend to purchase a total of up to $500 million of FMC shares in 2019, inclusive of the $100 million already completed.

FMC expects to maintain gross debt at 2.5 times trailing EBITDA for full-year 2019. You should expect some variation quarter to quarter due to the seasonality of cash generation relative to our desire to be consistent purchasers of FMC shares through 2019.

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

Concluding Remarks – Pierre Brondeau

Thank you Andrew.

All is in place for FMC to deliver a strong 2019 as a pure-play, agricultural sciences company with above-market growth.

Quarterly earnings in 2019 will be atypical because of cost pressure in the first half of the year. The first quarter itself will see nearly 60 percent of the full year raw material cost increase and FX impact. Q2 will continue to see strong headwinds with relief in the second half of the year.

We are highly confident in our ability to recover a large part of these adverse costs throughout the year and deliver 5 percent revenue growth with 7 percent EBITDA growth. Our high confidence is driven by the current work on price increases which is going well and the fact that cost pressure from raw materials will decrease considerably in the second half of the year. We are also highly confident that we will deliver EPS growth of at least 8 percent.

I will now turn the call back to Michael Wherley.

<u>Q&A Intro – Michael Wherley</u>

Thank you, Pierre. As Livent has just had its own conference call, we will keep this Q&A session primarily focused on our Ag business. Operator, you can now begin the Q&A.

<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.