FMC Corporation

Fourth Quarter 2019 Earnings Call Script

February 6, 2020

As Prepared for Delivery

Introduction – Michael Wherley

Thank you and good morning everyone. Welcome to FMC Corporation's fourth quarter earnings call. Joining me today are Pierre Brondeau, Chairman and Chief Executive Officer; Mark Douglas, President and CEO-Elect; and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Pierre will review FMC's fourth quarter and full-year performance, Andrew will provide an overview of select financial results and Mark will discuss the Company's 2020 outlook. We will then address your questions.

The slide presentation that accompanies our results, along with our earnings release and 2020 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 earnings release and in our filings with the Securities and Exchange Commission. Information presented represents our best judgment based on today's understanding. 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.

FMC's strong financial performance continued in the fourth quarter, capping an excellent year for the company. Our performance was marked by volume growth across all regions and once again highlighted the benefit of our balanced geographic exposure, the strength of our portfolio and the impact of new product launches.

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

Turning to slide 3, FMC reported $1.2 billion in fourth quarter revenue which reflects a year-over-year increase of 9 percent on a reported basis and 11 percent organic growth, excluding FX headwinds. This increase was driven by double-digit organic growth in Argentina, Canada, France, Russia, India, China, Indonesia and Pakistan, as well as price increases across all regions except North America. Adjusted company EBITDA was $320 million, an increase of 17 percent compared to the prior year period and at the top end of our guidance. Company EBITDA margins were about 27 percent, up 180 basis points year over year, despite $28 million in combined headwinds from raw material costs, tariffs and FX in the quarter.

Adjusted EPS was $1.76 in the quarter, an increase of 21 percent versus recast Q4 2018. The year-over-year performance was driven largely by a 34-cent increase on the EBITDA line and the benefit of reduced share count, partially offset by higher interest expense. Compared to our most recent guidance, adjusted EPS was also much higher, due to very strong operational performance – as higher volume and solid cost control drove 7 cents outperformance versus guidance – while a much lower than forecasted tax rate in the quarter resulted in 21 cents of the beat versus guidance.

<u>Q4 2019 Revenue Increased 9%</u> ***(Slide 4)***

Moving now to slide 4. Q4 revenue grew by 9 percent versus prior year, with volume contributing 11 percent growth, offset partially by a 2 percent headwind from FX. Overall price was flat as increased rebates in North America offset strong pricing in the other three regions.

Given the start of the southern hemisphere season, Latin America made up over 40 percent of our fourth quarter revenue. Sales in Latin America grew 10 percent year over year, or 13 percent organically, driven by very strong growth in Argentina and single-digit growth in Brazil and Mexico. Argentina posted significantly higher volumes for our pre-emergent herbicides on soybeans. We are very pleased with this result in Argentina; as you may recall, we talked about the significant changes we made to improve our market access in Argentina, which are now delivering on our expectations.

As forecasted, following four quarters of very strong double-digit growth, Brazil growth slowed in Q4, but continued to deliver increased volume. Channel inventories of our products in Brazil remain at normal levels for this point in the season and are well under control heading into 2020.

In North America, revenue increased 10 percent year over year, driven by strong demand for Rynaxypyr® insect control in specialty crops, growth in Ethos® XB – a combination insecticide and fungicide for in-furrow applications – and our new Lucento® fungicide. Herbicide sales in Canada were also strong. Our overall volume was above what was expected in the quarter, resulting in higher than forecasted rebates. These rebates are accounted for in our pricing line, which offset price increases in other regions. We continue to closely monitor channel inventories of our products in the U.S. as we head into the spring. To ensure a reduction of those channel inventories on a year over year basis, we proactively sold less of our Authority® pre-emergent herbicides into the channel in the second half of 2019 than we did in the same period in 2018.

In Asia, we had very strong fourth quarter performance with a revenue increase of 9 percent, and 10 percent organic growth year over year in an otherwise down market. India, China, Indonesia, and Pakistan all recorded double-digit growth rates driven by insecticide volumes. Following a very strong Q2 and Q3, India delivered over 20 percent revenue growth in Q4, driven by rice and sugarcane applications and new product launches. China's strong revenue growth was driven by diamide demand and fungicide sales in citrus and vegetable applications.

In EMEA, sales grew 5 percent overall, as France, UK, Russia, Italy and Romania all posted double-digit year-over-year growth. Q4 organic growth in the region was 7 percent and was driven largely by sales in France and Russia, which more than offset difficult drought conditions that impacted cereal plantings in central and eastern Europe.

<u>Q4 2019 Adj. EBITDA Increased 17%</u> ***(Slide 5)***

Turning to the fourth quarter EBITDA bridge on slide 5, you see a $75 million volume contribution, which came from all regions and which drove the year-over-year growth. Relative to our guidance, both volume and cost management led to the strong outperformance.

<u>Full-Year 2019 Financial Results</u> **(*Slide 6*)**

On slide 6, full-year revenue was $4.6 billion – an increase of 8 percent compared to the prior year. Excluding FX headwinds of 3 percent, this represents 11 percent organic growth. Full-year adjusted EPS increased 85 cents year over year – or 16 percent – driven largely by EBITDA growth and the benefit of share repurchases.

FMC Outperforms CPC Market in All Regions in 2019

(Slide 7)

On slide 7 you can see that FMC growth rates for 2019 were well ahead of the crop protection market in every region. These percentages shown are all in US dollar terms. Despite the extreme weather and trade challenges in the year, our full-year sales in North America were up 3 percent, which was ahead of our forecast and 900 basis points ahead of the market. FMC full-year sales in Latin America grew 19 percent – 600 basis points ahead of the market – and 23 percent organically. In EMEA, our sales grew 4 percent in the year, which was 700 basis points ahead of the market, and 10 percent organically. FMC revenue growth in Asia was 3 percent on a reported basis – 800 basis points ahead of the market – and 8 percent organically, excluding FX headwinds across many currencies.

Globally, FMC grew sales 8 percent in 2019 in US dollar terms, versus a flat global market. We believe our outperformance in every region was due to the strength of our portfolio, our crop balance and our strong commercial presence around the globe.

FY 2019 Adj. EBITDA and Revenue Drivers (YOY)
(Slide 8)

Moving to slide 8, where you can see our full-year EBITDA and revenue drivers. Volume was the main driver of revenue growth, while price increased sales by 3 percent. Almost 20 percent of this year's revenue growth came from 2019 product launches. And our vitality index, which we calculate as the proportion of *total* revenue coming from products introduced in the last 5 years, was roughly 10 percent of total sales.

The diamides grew in the low-teens in 2019 and the rest of the portfolio grew in the mid-single digits. On our Q2 earnings call, we outlined our plans to profitably grow our diamide franchise well beyond the expiration of key patents and all the way through the end of this decade, via the engagement of third parties. We indicated we had in place or were negotiating 15 such commercial agreements. Six months later, we have expanded the number of agreements to cover 4 global partnerships and 41 separate local-company agreements covering 11 countries. A number of these new agreements are active and commercial sales are occuring. We will continue to expand the franchise through more of these commercial agreements.

These partnerships are important, and in most cases, allow us to access markets we are not selling into today. This is a key extension of our commercial reach.

2019 adjusted EBITDA of $1.22 billion was up 10 percent year over year, despite $228 million in combined headwinds from higher costs and FX. Our revenue and the EBITDA growth rates in 2019 are both above the high end of the 5-year growth targets we provided in December 2018.

I will now turn it over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Pierre.

I'll start this morning with a few highlights from the income statement, then move to the balance sheet, cash flow, and share count. I will also give a quick update on progress in implementing our new SAP S/4HANA system.

Interest expense for full year 2019 was $158.5 million, $3.5 million above our most recent guidance, primarily due to higher than forecasted foreign debt and commercial paper balances. For 2020, we anticipate interest expense between $160 and $170 million, with the increase largely attributable to higher foreign debt balances, particularly where we utilize local borrowings to reduce currency exposures.

Our effective tax rate on adjusted earnings for the full year 2019 was 11.6 percent, 290 basis points lower than anticipated. FMC's corporate structure, particularly the principal operating companies that were created as part of the DuPont transaction in 2017, provide FMC with a structurally low tax rate. With this structure, profit outside the United States is taxed at lower statutory or negotiated tax rates than profit in the U.S., resulting in a weighted average tax rate well below the U.S. statutory rate. To be clear, even at this lower overall rate, FMC does incur a significant amount of U.S. tax on these non-US profits under the Global Intangible Low Taxed Income or "GILTI" provision. The structural elements that drive our low overall effective tax rate are highly sustainable, and we expect a low rate for many years to come. However, the effective tax rate in any period is sensitive to swings in profitability between geographies, most notably the amount of profit earned in the U.S. The significant contributors to our lower-than-expected tax rate in 2019 were lower-than-forecasted earnings in the U.S. due to the factors in our North America business Pierre mentioned earlier, combined with stronger-than-forecasted earnings that flowed through our principal operating companies outside the U.S.

Looking ahead to 2020, we expect a full-year tax rate of 12.5 to 14.5 percent, based on our current estimates of taxable earnings by geography.

At year end, gross debt was $3.3 billion, down roughly $300 million from the end of the third quarter. Surplus cash on the balance sheet at year end was in excess of $225 million due to timing of receipt of end-of-year payments, which prevented us from using this cash to further pay down debt prior to year end. Considering this surplus cash at year end, gross debt to trailing twelve month EBITDA was just under our 2.5 times target. We remain committed to solid investment grade credit metrics, and expect full-year average leverage to be in line with this commitment in 2020.

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2019 Cash Flow Results and 2020 Cash Flow Outlook

(Slide 9)

Moving to slide 9 and cash flow. Free cash flow for 2020 was $302 million, up $172 million from the prior year. Higher adjusted cash from operations, driven by higher EBITDA and lower use of cash for working capital, and lower Legacy & Transformation spending more than offset an increase in Capital Additions compared to the prior year.

We are pleased with the improvements made in trade working capital. Trade working capital as a percentage of sales at year-end decreased 210 basis points to 32.5 percent in 2019.

Free cash conversion relative to adjusted net earnings was 38 percent for full-year 2019, more than twice the prior year on a like-for-like basis, with free cash flow growing 10 times as fast as earnings. However, free cash flow came in below the low end of our outlook range of $375 to $475 million.

Two factors largely contributed to this. The first was much slower than expected collection of refunds of value added and similar taxes, especially in India. The delays were driven primarily by the complexities of operating in multiple SAP and non-SAP systems around the world.

The second factor was delayed collections in Pakistan and Indonesia, where weather conditions impacted grower liquidity late in the fourth quarter.

Both factors are execution related and will reverse. We fully expect to collect this cash in 2020. In the absence of these two factors, our free cash flow for 2019 would have been solidly in our guidance range, with free cash conversion of roughly 50 percent on higher than guided earnings.

We know we have more to do to continue to improve free cash flow. Moving to a single instance of SAP S/4HANA this year will give us a different level of visibility across our entire business and will provide us with state-of-the-art tools to continue to drive improvement in working capital and cash flow.

Looking ahead to 2020, we are forecasting free cash flow of $425 to $525 million, with free cash conversion from adjusted earnings of 55 percent at the midpoint of our guidance ranges.

We continue to believe we can drive free cash conversion substantially higher over the coming 2 to 3 years as we finalize our SAP implementation, ending the period of high cash spending on transformation activity, and as we drive further improvement in working capital performance.

We repurchased over 4.7 million FMC shares in 2019 at an average price of $84.73. This included $100 million in repurchases completed in the fourth quarter, for a total of $400 million of repurchases in the year.

Considering the $210 million paid in dividends, FMC returned over $600 million in cash to shareholders in 2019. We are committed to returning excess cash to shareholders, consistent with our long-range plan. Further evidence of this commitment is the 10 percent increase in our quarterly cash dividend announced in December.

We intend to purchase between $400 and $500 million of FMC shares in 2020. In light of the seasonal working capital build in the first quarter and ongoing product line acquisition discussions, we do not expect to make any meaningful share repurchases in the first quarter, but fully intend to remain a regular purchaser of shares through the rest of the year.

Before turning the call over to Mark, let me also give a quick update on progress in implementing our new SAP S/4HANA ERP system. We successfully closed full-year 2019 with roughly 20 percent of the company on the new system and are already seeing many benefits. Today, we are going live across the acquired business, which represents roughly 40 percent of FMC. This will allow us to exit the transition services agreement at the end of this month, delivering annual cost savings of $20 million, which is incorporated in our earnings guidance for 2020.

And with that, I will turn the call over to Mark.

FY 2020 and Q1 Earnings Outlook ***(Slide 10)***

Thank you, Andrew.

Moving to slide 10 and the review of our full-year 2020 and Q1 earnings outlook. We expect full-year adjusted earnings of $6.45 to $6.70 per diluted share, representing an 8 percent increase at the midpoint. This outlook for EPS does not include the impact of share repurchases in 2020. Revenue is expected to be in the range of $4.8 billion to $4.95 billion, representing 6 percent growth at the midpoint and 7 percent organic growth compared to 2019.

Total company adjusted EBITDA is forecasted to be in the range of $1.3 billion to $1.34 billion, reflecting 8 percent year-over-year growth at the midpoint.

Looking at the first quarter, we expect adjusted earnings per diluted share to be in the range of $1.76 to $1.86, representing an increase of 5 percent at the midpoint versus Q1 2019 and assuming a share count of approximately 131 million.

We forecast Q1 revenue to be in the range of $1.23 to $1.27 billion, representing 5 percent growth at the midpoint compared to first quarter 2019. Adjusted EBITDA is forecasted to be in the range of $346 to $366 million, representing a 4 percent increase at the midpoint versus the prior year period.

Projected FY 2020 Adj. EBITDA and Revenue Drivers (YOY) ***(Slide 11)***

Turning now to our 2020 EBITDA bridge on slide 11. Our EBITDA growth is expected to be driven by volume gains and continued price increases. We should note that we are also expecting to invest about $40 million more on R&D in 2020. This increase is driven by our continued success in moving molecules into development from discovery in 2019. Total R&D spend should be approximately 7 percent of sales, versus 6.5 percent of sales in 2019, as we continue to expand and progress 22 new active ingredients and 8 new biologicals toward commercialization. Tariffs will be higher in 2020, while raw material costs will not materially improve until the second half of 2020. We will realize about $20 million in annual savings as we exit the transition service agreement this month. Foreign exchange is also forecasted to be a headwind in 2020, as the U.S. dollar has further strengthened versus key currencies. However, if you exclude the incremental $40 million in R&D spend, our price increases will cover over 100 percent of the combined headwinds from cost and FX.

I would also like to highlight our revenue drivers. We forecast 2020 revenue growth of 6 percent overall and 7 percent organically. Volume is expected to contribute 5 percent to growth – including about 1.5 percent from new products launched in 2020 – and pricing is expected to contribute 2 percent growth. These are slightly offset by a 1 percent headwind from foreign exchange.

One aspect of our portfolio management that we do not often highlight is the change in the makeup of our portfolio. As is the case every year, in 2020 we will have an adverse impact from lost registrations on molecules as well as decisions to exit some product lines. This typically represents a drag of about 2 percent of our revenues, and yet, in 2019 we still grew volume 8 percent.

These portfolio impacts are factored into our long-term revenue growth targets. Our long-term product strategy of investing in an increasingly sustainable product portfolio requires that we continually replace older chemistries with newer, more sustainable technologies. As part of this effort, as of year-end 2019, FMC has stopped selling all carbofuran formulations, including Furadan® insecticide, globally.

Projected Q1 2020 Adj. EBITDA and Revenue Drivers (YOY) *(Slide 12)*

Moving to slide 12, where we will provide the key drivers for EBITDA and revenue growth in the first quarter. First quarter performance will be driven by strong volume growth including new product launches, which are expected to deliver about a third of our total revenue growth in the quarter. These launches include Authority® Edge pre-emergent herbicide for soybeans in the U.S. and Battle® Delta herbicide for cereals in Europe. Pricing actions are expected to fully offset the FX headwinds at the revenue level.

Market Outlook

Shifting to the global crop protection market, we project the total market will grow in the low-single digits in 2020, on a US dollar basis, with each region also growing by low-single digits. We forecast Asia will have the highest growth rate, assuming a partial rebound in Australia and more normalized weather conditions across the region. In North America, growth is expected to come from recovery in acreage for row crops, offset by higher than normal channel inventory levels heading into the year. In Latin America, growth in soybeans and corn are expected to lead the crop protection market in Brazil. In EMEA, growth will be driven by spring cereal herbicides following the challenging winter cereal seeding.

I will now turn the call back to Pierre.

Concluding Remarks – Pierre Brondeau

Thank you, Mark.

Our Company's outperformance in 2019 was the result of a very flexible and agile supply chain – limiting the impact of raw material shortages – and the delivery of market-driven technologies that offer exceptional value to growers around the world. We strongly believe that our investments in our discovery and development pipeline will continue to fuel long-term growth for the company.

In 2020, we will continue to effectively navigate through unexpected challenges that arise – such as weather or macroeconomic developments – and will deliver on the financial targets we set out for you today. We believe 2020 will mark the third year in a row that FMC significantly outperforms the crop protection market in terms of revenue growth and EBITDA margins.

We expect our outperformance will be driven by broad-based geographic growth, launches of new products and technologies, and the continued expansion of our diamide franchise, as we gain more registrations and labels as well as grow via commercial partnerships.

I will now turn the call back to the operator for questions.

Thank you for your attention.

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