FMC Corporation

3Q23 Earnings Webcast

October 31, 2023

As Prepared for Delivery

Thank you, Lydia, and good morning everyone. Welcome to FMC Corporation's third quarter earnings call. Joining me today are Mark Douglas, President and Chief Executive Officer and Andrew Sandifer, Executive Vice President and Chief Financial Officer. Mark will review our third quarter performance as well as provide an outlook for the fourth quarter and full-year performance, followed by an update on FMC's diamide franchise. Andrew will provide an overview of select financial results. Following the prepared remarks, we will take questions.

Our earnings release and today's slide presentation are available on our website, and the prepared remarks from today's discussion will be made available after the call.

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, free cash flow and organic revenue growth – all of which are non-GAAP financial measures. Please note that as used in today's discussion, "earnings" means "adjusted earnings" and "EBITDA" means "adjusted EBITDA." 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 Mark.

Business Review – Mark Douglas

Thank you, Zack, and good morning everyone. During Q3 we observed a continuation of industry-wide destocking activity as the value chain resets inventory levels in response to increased security of supply and higher interest rates. This led to significantly lower volumes versus the prior year and, in the case

of Latin America, the decline was much more severe than we had estimated at our last earnings call.

As a reminder, due to the timing of its growing season, Latin America is typically the strongest contributor to our Q3 results, which amplifies the region's impact on our overall Q3 numbers. We had assumed that the destocking we had observed in Latin America during Q2 would be sufficient to allow for more normal order patterns to resume. As Latin America entered its main growing season in September, it became clear that we underestimated the depth and duration of the destocking to come.

It is our view that when the global destocking ends and channel inventories have been reset, there will not be a "snap-back" restocking period. Rather, we expect that the crop protection market will grow from that reset inventory base at more historical growth rates. As a result, and as we noted in our pre-release, we are taking significant actions with regards to our company cost structure with an announced restructuring of our Brazilian operations as well as a review and adjustment of our total company cost base. We are right-sizing our cost base to better reflect market conditions, protect our margins and position us for

future success. We will provide more details about our restructuring programs at our Investor Day.

Our Q3 results are detailed on slides 3, 4 and 5.

Q3 2023 Results *(Slide 3)*, Q3 2023 Regional Revenue Drivers *(Slide 4)* and Q3 2023 Adj. EBITDA Drivers *(Slide 5)*

Q3 revenue was 29% lower than the prior-year, both including and excluding FX, driven primarily by lower volumes from channel destocking and, to a lesser extent, dry weather conditions in some countries. We had price increases in North America, EMEA and Asia which were more than offset by price decreases in Latin America.

While our sales were down significantly versus prior year, we need to be clear that grower application of crop protection products has been steady and even trending higher than the prior year in some key countries, such as Brazil and the US. In addition, sales of our newer and more differentiated products, including branded diamides and Plant Health, outperformed the overall portfolio. Products launched in the last five years grew 4% and represented 10% of total sales in the quarter, demonstrating

robustness in the current environment. New product launches accounted for more than 4% of total company sales in the quarter.

Looking at our revenue by region, North America sales were lower than prior-year by 34%, as anticipated destocking activity was the main driver of lower volumes. Dry weather in Canada was a smaller volume headwind.

Sales in EMEA were relatively flat with a revenue decline of only 1% and 4% excluding FX. We encountered volume pressure from channel destocking, as expected, particularly in Germany. This was mostly offset by a combination of higher prices, strong diamide sales that outperformed the overall portfolio and a modest FX tailwind.

In Latin America, sales were down 33%, 36% excluding FX, due to lower volumes and, to a lesser degree, pricing pressure. Destocking, particularly in Brazil and Argentina, was the driver of the results in the region. At the same time, we had a very successful launch of our patent-pending diamide insecticide Premio® Star in Brazil. The strength of that launch was one reason branded diamides strongly outperformed the rest of the region's portfolio.

Shifting to Asia, sales were down 28% and 23% organically. As expected, and like the other regions, volumes were negatively impacted by destocking behavior, particularly in India, where elevated channel inventory continues to be actively managed. Pricing was up slightly with an FX headwind. Products launched in the last five years showed greater resilience than the rest of the portfolio and grew 16% versus prior year driven by sales of Isoflex™ herbicide.

The outperformance of new products in most regions demonstrates how our technology differentiates FMC in the marketplace and why our new product pipeline is a key contributor to our growth at consistently superior margins.

We reported EBITDA of $175 million in the quarter, down 33% compared to the prior year period due to the volume decline along with a smaller pricing headwind partially offset by lower costs. Sales of new products, including launches, and sales of differentiated products such as our branded diamides and biologicals, positively impacted mix.

Costs were a $137 million tailwind with contribution from inputs and, to a lesser degree, operating costs. Input cost benefits were especially pronounced compared to the prior year period that represented the peak of inflationary headwinds. Combined SG&A and R&D costs were favorable to prior year and we are on track to deliver our commitment of $60 million to $70 million cost control in the second half, keeping those operating costs in line with prior year.

Q4 2023 Outlook *(Slide 6)*

Shifting to our outlook, slide 6 shows our latest expectations for Q4 and the full-year. We are expecting revenue in Q4 to be 22% lower than the prior year driven by a high teens percentage volume decline as destocking continues. Similar to Q3, we expect a low-to-mid-single digit pricing headwind in Q4 driven by Latin America. FX impact is forecasted to be minimal.

Adjusted EBITDA in Q4 is expected to be between $246 million and $306 million which is a 36% year-over-year decline at the midpoint primarily due to lower volumes. We expect positive mix impact as sales of new products, including launches, continue to show growth. Operating costs are expected to be in-line with the prior-year as cost controls remain in place.

I'll now turn the call over to Andrew who will cover cash flow and other financial topics.

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

Thanks, Mark.

I will start this morning with a review of some key income statement items.

FX had essentially no impact on revenue in Q3, with headwinds among Asian currencies, particularly the Pakistani rupee and the Indian rupee, offset by tailwinds in Latin American and European Currencies, particularly the Brazilian Real, the Mexican Peso, and the Euro.

EBITDA margin in the quarter was down 120 basis points versus the prior-year period. While favorable input costs and positive mix led to a gross margin percent that was over 400 basis points higher than the prior-year period, the severity of the volume decline resulted in a decline in EBITDA margin.

EBITDA margins in Q4 are expected to be meaningfully below

prior year and prior guidance. Gross margin is anticipated to be challenged by pricing pressures in Latin America and Asia due to current market conditions. Despite continued operating cost discipline, the expected decline in volume is anticipated to further pressure EBITDA margin as SG&A and R&D expenses are supported by a lower revenue base.

Interest expense for Q3 was $65 million, up $23 million from the prior year period. The significant increase in US interest rates year over year was the main driver. Higher overall debt levels also contributed to increased interest expense as working capital remains elevated. Relative to guidance, elevated interest expense was entirely attributable to higher debt balances.

We now expect full year interest expense to be in the range of $240 million to $245 million, with the increase versus prior guidance due to elevated working capital levels resulting in higher debt balances.

Our effective tax rate on adjusted earnings for Q3 was 15%, in line with the midpoint of our full-year expectation for a tax rate of 14% to 16%.

Moving next to the balance sheet and liquidity.

As of September 30, Gross Debt to EBITDA was 3.6 times while Net Debt to EBITDA was 3.3 times, reflecting the sudden deceleration of our earnings beginning in Q2 and elevated debt levels due to higher working capital resulting from this deceleration.

The covenants to our revolving credit facility evaluate our leverage using a metric that includes adjustments to both EBITDA and debt as reported. With these adjustments, covenant leverage was 3.8 times as of September 30, relative to a maximum allowable of 4.0 times. We do not view this as an acceptable leverage level relative to our covenant. In light of this and the reduced outlook for Q4, we are currently in advanced discussions with our bank group to further amend our covenants to provide additional headroom for the company as we adjust our cost structure and debt levels to current market realities. Our bank group continues to be highly supportive of the Company and recognizes the transitory nature of the current industry-wide channel inventory correction. We expect to complete this

amendment in the next 7 to 10 days, and will provide further updates at that time.

Q2 & FY 2023 Cash Flow Generation and Deployment *(Slide 7)*

Moving on to cash flow generation and deployment on slide 7.

FMC generated Free Cash Flow of $32 million in Q3, down from $360 million in the prior-year period. Cash from operations declined $316 million with lower EBITDA and substantially lower payables as we adjust our operations to match current demand. Capital additions and other investing activities were slightly lower than the prior year period, while Legacy spending increased $14 million due to timing of expenses.

Year-to-date cash flow through September 30th was negative $790 million, $651 million lower than the prior year period. Nearly all of the reduction stems from lower cash from operations, which was down substantially due to lower EBITDA and lower payables.

We returned $73 million to shareholders in the quarter via dividends. There were no share repurchases in Q3. We expect

full-year weighted average diluted shares outstanding to be 125.7 million.

We have reduced our free cash flow guidance for 2023 to negative $750 million at the midpoint, down from breakeven in our previous guidance. The reduction in full year cash flow outlook is a direct result of lower than expected second half EBITDA, and the impacts of reduced volumes on working capital. Compared to prior year, the decline in free cash flow is almost entirely due to lower EBITDA and payables, with lower use of cash for inventory largely offsetting other items including higher cash interest, cash taxes, and capital investment.

Adjusted cash from operations is now expected to be between negative $635 million and negative $435 million, down substantially from prior guidance. Capital Additions are expected to be between $135 million and $145 million, including spending to support new product introductions which, as our most recent results illustrate, drive high value for our business even in challenging industry conditions. Legacy and transformation cash spending of $70 million to $80 million is expected to remain essentially flat at the midpoint after adjusting for the benefit from the disposal of an inactive site in 2022.

This guidance implies a rolling 3-year average free cash flow conversion of 21%, substantially below our targeted 70 plus percent. This is due entirely to the cash flow impacts from the inventory reset in 2023. I'll reiterate Mark's earlier point that end-market demand for our products is solid. The quality of our receivables is solid, with good performance on collections in key countries, including Brazil. Once this industry-wide channel inventory reset has finished and more normal order patterns resume, we expect a significant rebound in cash flow as EBITDA improves; inventory is converted to receivables which are subsequently collected; and, critically, as we rebuild payables ramping back up production.

Our near-term cash deployment priorities have not changed, with the dividend and debt reduction, including the redemption in Q4 of the $400 million in notes due in 2024, still the top priorities. Share repurchases will remain suspended until leverage returns sustainably to targeted levels.

And with that I'll hand the call back to Mark.

Bridge to Diamides

Thanks Andrew. I mentioned earlier that our more differentiated products were showing resilience in the current market environment. This includes the diamides, a very successful product franchise which has received renewed attention over the last couple of months. Today, I will give an update on the progress of our diamide growth strategy. This will be supplemented by a forward-looking view of the very robust growth plans we have for the diamides at our Investor Day.

We have owned the diamides for the past six years. Over this timeframe, we have delivered on every target we've set including growing the size of the business, expanding our partner base, accelerating registrations, expanding our geographic footprint and finally, introducing brand new patented formulations that allow us to explore and expand into new market segments. All of these results should provide confidence that we can continue to profitably grow the franchise into the future.

Diamides Continue to Gain Share in Global Insecticide Market ***(slide 9)***

Turning to slide 9 for some basic data on the insecticides market, which was valued at over $20 billion in 2022. Insecticides have grown at roughly 5% per year over the current timeframe. FMC

diamides Rynaxypyr® and Cyazypyr® make up more than 80% of the entire diamides class, which includes a few other smaller active ingredients. FMC's diamides have grown to about 12% of the total insecticide market. And, as you can see, diamides outperformed every other leading chemistry class in the insecticide market by growing at a 11% compounded annual growth rate and gained 5% market share as a result. Higher value technologies, such as the diamides, continue to take share from older insecticides, some of them being phased out by regulators.

***<u>FMC's Diamide Revenues are Diversified</u>* (slide 10)**

Turning to slide 10, we show the breakdown of our $2.1 billion in diamide sales in 2022. Cyazypyr® has grown more rapidly than Rynaxypyr® since our acquisition of the assets and made up more than 20% of total sales. This year, we estimate that this trend will continue with Cyazypyr® making up roughly 22% of total diamide sales.

Partner sales are a key element of our lifecycle management strategy. FMC sells either technical active ingredient or formulated products to our partners under these arrangements. We have long-term supply agreements with five key global

companies and over 60 local agreements in various countries with the potential to add more partners in the future. Many of these agreements go through the end of the decade. The partnership model has helped to expand the market for our diamides since our partners have access to customers, crops or segments that we do not currently serve. Moreover, partner sales are not margin dilutive and these sales made up roughly one-third of our diamide sales in 2022, while the remaining two-thirds came from our own commercial activities – which we refer to as Branded sales. In 2023, we have seen our partners actively manage their inventories, resulting in lower sales. Branded sales have continued to outperform the overall company.

We have also shown the geographic breakdowns of the branded sales as of 2022. Asia made up more than 40% of our branded sales, followed by Latin America at 28%, EMEA at 17% and North America at 12%. This year, we expect branded sales to outperform total sales in Latin America driven by new product introductions. Branded diamides in the other regions are expected to perform in-line with or better than respective regional sales.

On the right is the crop breakdown of overall diamide revenue sales, which includes branded and partner sales. The diversity of crops reflects the broad market potential as well as market access required to sell these products. This is an important fact to note as we have numerous products selling in more than 90 countries across dozens of crops. Our diamides are not a single, monolithic product and, as such, are defendable through various mechanisms including, most importantly, newly patented formulations, branding, value selling, agronomic support and grower education. Our Precision Ag offering, Arc Farm Intelligence, now helps support and defend over $700 million of revenue for our branded diamides – a unique and powerful tool in our diamides growth strategy.

<u>FMC's Diamides Lifecycle Strategy has Six Pillars</u> (slide 11)

Turning to slide 11, you can see that managing the diamide lifecycle has multiple strategic components. We will provide more color on these pillars at Investor Day in November, but I wanted to start framing the innovation and IP pillars today.

<u>Branded Diamides Portfolio is Segmented with New Patented Innovations Driving Growth</u> (slide 12)

Turning to slide 12. FMC has continued to significantly grow the diamides through innovation since acquiring them in late 2017.

At acquisition, sales were already segmented across dozens of formulations and brands spread across more than 80 countries. Since acquisition, FMC has increased the segmentation by developing new partner sales, launching new patented formulations and brands, obtaining new registrations, and expanding existing labels which have resulted in a diverse portfolio. This diversity minimizes reliance on any single formulation and instead relies on innovation to drive future growth. We have already started to see the benefits of recent innovation in diamides. This is evident from the increase in the total sales of branded diamides from 2021 to 2022, even though some of the core Rynaxypyr® products declined modestly in the same timeframe.

Coragen® MaX insecticide, powered by Rynaxypyr®, is one example of innovation that did not exist when we acquired the diamides. Coragen® MaX is a patent pending, higher concentration formulation of Coragen®, that provides targeted insect control in canola, pulses and cereals.

Premio® Star is another example of new technology that was developed primarily for application on Brazilian soy, corn, citrus, and received priority approval from Brazilian authorities. The patent pending combination of Rynaxypr® and Bifenthrin provides a differentiated formulation with extremely high performance for chewing and sucking insects. Premio® Star has a dual mode of action, it is broad-spectrum with both immediate and extended control.

FMC has developed and launched 4 new patented or patent pending formulations across 10 countries in the past few years. These new technologies are expected to make up 17% of branded diamide sales in 2023. Contributions from new products will further accelerate over the next few years moving FMC's portfolio away from older and less differentiated products.

Patent & Regulatory Timelines for Key Markets – Rynaxypyr® Active (slide 13) and Patent & Regulatory Timelines for Key Markets – Cyazypyr® Active (slide 14)

Slides 13 and 14 show an updated view of our patent and regulatory timelines. FMC has a patent estate of over 1,000 granted and pending patents filed in over 75 countries for the diamides. While we have not changed our overall outlook, we

have included additional commentary to reflect developments since we last shared these timelines.

One addition from our last version of this slide, is the inclusion of patented mixtures and patent pending formulations that can extend patent coverage, once granted, to 2040 and beyond in some cases.

Patents are often regulated by different government entities than the ones that issue crop protection registrations. Approvals of registrations do not have a bearing on patent validity. Generally speaking, legal actions must be initiated by the patent holder and can only start after a registration is received and a generic product enters into commercialization. Moreover, patent judgements in one country do not change FMC's patent rights in other countries, nor do these judgments give companies the freedom to operate in other countries with valid patents in place.

FMC will continue to enforce our patents and we view any infringing party as a seller of illegal product. In addition to our legal strategy, we also have a regulatory advocacy strategy that includes enforcement of our data protection rights and notifying regulators about companies that do not have permission to

produce, or have unknown or different impurities in their products, or otherwise do not comply with applicable regulatory law. This has been and continues to be a successful strategy. Numerous regulatory authorities have declined to approve registrations from such companies; in other instances, companies have voluntarily cancelled or withdrawn applications as a result of our efforts.

Hopefully, this overview has provided a more comprehensive understanding of the current state of FMC's diamides. At our Investor Day, we will provide a view of the next phase of growth for this franchise driven by innovation and other strategic levers.

Closing Business Comments

Finally, let me wrap up by saying that 2023 has clearly not turned out how we, or the broader industry, thought it would. However, we firmly believe the current channel destocking will run its course and I believe we have taken the right actions to reflect what is happening from a channel demand standpoint. Our new products, plant health products and branded diamides all continue to outperform the rest of our portfolio which shows the benefit of our technology investments.

We look forward to seeing many of you at our Investor Day where we will lay out our new strategic plan and provide an outlook for FMC's growth over both the near and long term.

We can now open the line for questions.