FMC Corporation

2Q23 Earnings Webcast

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As Prepared for Delivery

Introduction – Zack Zaki

Thank you and good morning everyone. Welcome to FMC Corporation's second 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 second quarter performance as well as provide an outlook for the rest of the year. 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, net debt 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.

Q2 2023 Results *(Slide 3)*, Q2 2023 Regional Revenue Drivers *(Slide 4)* and Q2 2023 Adj. EBITDA Drivers *(Slide 5)*

Thank you, Zack, and good morning everyone. Our second quarter results are detailed on slides 3, 4 and 5.

Sales in the quarter were significantly impacted by a substantial decline in volumes across all four regions. During our first quarter earnings call we had already reduced our outlook for the crop protection market and thought that it would decline by low-single digits this year.

We now believe this is no longer a valid assumption.

Considering the abrupt and intense destocking by growers and the distribution channel in the second quarter, we now expect the global crop protection market to contract by high single digits to low double digits, even as on-the-ground consumption by growers remains at levels similar to last year and planted acres continue to grow in key geographies.

Channel feedback indicates the destocking actions are a result of three factors. First: Higher interest rates have increased the carrying costs of inventory. Second: there is increased confidence in product availability as the supply chain disruptions of the past few years have eased. And third: price reductions in fertilizers and non-selective herbicides have led to a ‘wait-and-see’ approach to ordering. As a result, growers and the distribution channel are placing orders as close to application as possible.

For FMC, the reduced volume led to second quarter revenue that was 30% lower than the prior-year and 28% lower excluding FX. Despite the challenging market conditions, sales of new products introduced in the last five years remained resilient and were at levels similar to last year, which aided product mix and illustrates the value of our innovative portfolio. Branded diamides also outperformed the rest of the portfolio. Price increases were broadly implemented in the quarter with an average gain of 3%. While our newer products generally performed better on a relative basis, nearly every country reported lower volume compared to the prior-year period, which illustrates the widespread nature of current channel dynamics.

Turning to the regions, North American sales declined 25%, 24% excluding FX, versus second quarter prior-year. Overall volumes were down, however, new products introduced in the last five years grew 43% and comprised 28% of total revenue, a record for the region. Branded diamides, including Coragen MaX®, also showed strong growth primarily due to elevated insect pressure in Canada.

Sales in EMEA declined 26% year-over-year and were down 24% excluding FX. Stronger pricing in the quarter was more than offset by lower volume as destocking was compounded by adverse weather across Europe.

Shifting to Latin America, revenue declined 38% versus the prior-year period as the region faced additional headwinds to volume from a historic drought in southern Brazil and Argentina.

In Asia, sales declined 29% and were down 23% organically. In India, excess rain in the north and delayed monsoon season in the south added to volume challenges from continued high channel inventory. Australia and parts of ASEAN were also impacted by adverse weather.

Overall, EBITDA was $188 million in the quarter, down 48% compared to the prior-year period primarily due to the volume decline. Pricing momentum continued in the quarter. Costs became a year-over-year tailwind for the first time since 2020 as input costs continued to decline and we closely managed spending. FX was a headwind to EBITDA in the quarter.

Improving Costs and New Products Expected to Drive Adjusted EBITDA Growth in Second Half *(Slide 6)* and Q3/Q4 2023 Financial Outlook (*Slide 7)*

Moving to the outlook for the rest of the year, slide 6 shows our expectations for the second half.

Overall, our second half EBITDA guidance is in-line with the guidance provided during our first quarter earnings call as we expect the negative impacts from lower volumes to be mostly offset by lower costs.

We expect second half revenue to be slightly below the prior-year period at the midpoint and are assuming that the channel's active inventory management will continue, especially in Q3. However, we expect destocking headwinds to be partially offset by new product launches and higher volume in Latin America in the fourth quarter. We are assuming growers will continue to order products closer to the planting season. Business fundamentals remain solid as grower consumption and product applications are expected to remain steady and planted acreage is projected to increase. We are expecting a low single digit pricing benefit in the second half with the majority of pricing actions already in place. FX impact is forecasted to be minimal.

We are guiding EBITDA for the second half of the year to be $801 million at the midpoint, which is 16% higher than the prior year result. The main drivers are expected tailwinds from lower input costs, improved mix from new products and a modest pricing tailwind, partially offset by volume headwinds. This is expected to result in EBITDA growth and healthy margin expansion.

Slide 7 provides the quarterly guidance for the second half of the year. Volumes are forecasted to be more heavily weighted toward the fourth quarter as the recent “hand-to-mouth” inventory management is expected to result in growers and the distribution channel making purchases closer to the timing of applications, especially during the start of the planting season in South America.

Our third quarter revenue guidance at the midpoint is 11% lower than the prior year as destocking is expected to continue resulting in a volume decline in the low teens percentage. However, we are still projecting slight EBITDA growth at the midpoint as favorable input costs are anticipated to offset the revenue headwind from the volume decline.

Fourth quarter revenue is expected to be 6% higher at the midpoint versus the prior year driven by the timing of orders shifting from the third quarter, product launches and additional acreage in Latin America. EBITDA and earnings per share are both expected to be 24% higher than the prior year at their midpoints primarily from higher volumes and the positive mix impact from new products.

Potential Factors that can Impact H2 2023 Adjusted EBITDA *(Slide 8)*

Slide 8 provides the second half assumptions for the outcomes at each end of our guidance range. The largest variable in the range is volume, which is closely tied to the duration of channel destocking. We are assuming a high single digit volume decline and a low single digit price benefit. Across the guidance range, we are confident in our cost discipline and we still expect input cost tailwinds. However, we are aggressively managing our working capital in response to the current trend of order patterns including adjusting production levels across our manufacturing lines. Many of our lines are currently not operating, which will result in some unabsorbed fixed costs.

I will now turn it over to Andrew to cover cash flow and other financial items.

Selected Financial Results – Andrew Sandifer

Thanks, Mark.

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

FX was a 2% headwind to revenue growth in the second quarter, with the most signficant headwinds coming from the Indian Rupee, the Pakistani Rupee, the Canadian dollar, and the Turkish Lira.

Looking ahead through the rest of 2023, we see modest FX headwinds in the third quarter with diminished impact in the fourth quarter. Third quarter headwinds stem primarily from Asian currencies, particularly the Indian Rupee and Pakistani Rupee.

EBITDA margin of 18.5% in the quarter was down more than 600 basis points versus the prior-year period. Gross margin percent was up 200 basis points year-on-year due to input cost tailwinds, higher prices and favorable mix, but the steep drop in revenue and moderately higher operating spend resulted in a lower EBITDA margin.

We are anticipating strong expansion of EBITDA margins in the second half, with continued input cost tailwinds, mix improvement, pricing, and operating expense discipline.

EBITDA margins are expected to be up roughly 270 basis points in Q3 and 460 basis points in Q4, with full year 2023 EBITDA margin forecasted to increase by roughly 120 basis points, despite the tough first half of the year.

Interest expense for the second quarter was $64.5 million, up $29.2 million versus the prior-year period. Substantially higher US interest rates were the primary driver of higher interest expense in the quarter, along with higher overall debt levels resulting from elevated working capital.

We now expect full year interest expense to be in the range of $220 million to $230 million, an increase of $15 million at the midpoint compared to our prior guidance. This increase is driven by higher debt balances due to elevated working capital levels.

Our effective tax rate on adjusted earnings for the second quarter 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.

On May 15th, we issued $1.5 billion in senior unsecured notes in equal tranches of 3-year, 10-year, and 30-year maturities. Proceeds from this offering were used to retire the 2021 Term Loan and pay down commercial paper balances.

After these financing actions and reflecting the results of the company in the second quarter, gross debt was $4.7 billion at June 30th, up $470 million from the prior quarter. Gross debt to trailing twelve month EBITDA was 3.8 times while net debt to EBITDA was 3.0 times.

During June, as the magnitude of the channel inventory reset and its implications on our business started to become apparent, we entered into discussions with our bank group to amend the leverage covenant in our revolving credit agreement. We signed the final amendment on June 30th, which raises our leverage ratio covenant to 4.0 times through March 31st, 2024 and 3.75 times thereafter. We believe this amendment provides us ample room to navigate through the current disruptions.

<u>Q2 & FY 2023 Cash Flow Generation and Deployment</u>

(Slide 10)

Moving on to cash flow generation and deployment on slide 10.

FMC generated Free Cash Flow of $93 million in the second quarter, down $72 million versus the prior year. Cash from operations declined $64 million, as substantially lower use of cash for receivables was more than offset by negative cash flow impacts on nearly every other line. Capital additions and other investing activities spending was up while Legacy spending was down.

With this result, year-to-date free cash flow at June 30th was negative $822 million, more than $300 million lower than the prior-year period. This reflects the year-on-year drop in EBITDA as well as the impacts on working capital of the current channel inventory reset.

We returned $123 million to shareholders in the quarter in a combination of $73 million in dividends and $50 million in share repurchases. Between May 10th and 17th, we purchased approximately 457,000 FMC shares at an average cost of $109.35. With these purchases, we now expect full-year shares outstanding to be approximately 125.8 million shares for the remainder of 2023.

We have reduced our free cash flow guidance to zero at the midpoint for 2023. This is a result of the decline in EBITDA, lower first half sales resulting in lower cash collections, and an expected pronounced decline in accounts payable in the second half of the year as we adjust production to balance inventory with demand.

Adjusted cash from operations is now expected to be between $40 million and $370 million, down substantially versus the prior year. We slightly lowered our plans for

Capital Additions and now expect to spend $125 million to $135 million as we continue to invest to support new product introductions. Legacy and transformation cash spending 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 47%, well below our targeted 70 plus percent, due entirely to the cash flow impacts of the channel inventory reset. While it is too early to comment in detail, we do expect cash flow to rebound as we move past the current disruptions.

With the current year free cash flow outlook, near-term cash deployment priorities have changed. Free cash flow generated in the second half will first be used to pay the dividend, with any remaining cash used to reduce short-term borrowings. We do not plan any further share repurchases this year. We will evaluate restarting share repurchases in 2024 as leverage levels return to targeted levels.

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

Concluding Remarks – Mark Douglas

Thank you, Andrew.

Before we open it up to Q&A I want to remind everyone that we will be holding our Investor Day at our headquarters in Philadelphia on Thursday, November 16th. In addition to interacting with our executive team and leaders, attendees will be updated on our new strategy going forward.

To close, it is very clear that the market is performing in a fundamentally different way than we had forecasted at the beginning of the year. We are adapting to control tightly what is critical at this time; namely, lowering our own inventories of raw materials and finished goods to match the short term demand; managing our internal costs while at the same time investing in our R&D pipeline for the future. And finally, focusing on selling our newly launched products which add real value to our overall profitability, as well as new products we have coming in Q4, especially in Latin America for soy applications.

While we have not seen this magnitude of volume change across multiple regions at the same time before, we have successfully managed through demand shocks in the past and have always emerged a stronger, more profitable business. I am confident this will happen again, especially as we have the benefit of good grower demand for our products around the world.

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

[After last question]

<u>Closing – Zack Zaki</u>

That is all the time that we have for the call today. Thank you and have a good day.