FMC Corporation

4Q23 Earnings Webcast

February 6, 2024

As Prepared for Delivery

Thank you and good morning everyone. Welcome to FMC Corporation's fourth 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 fourth quarter performance as well as provide an outlook for first quarter and full-year 2024. Andrew will then 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.

Q4 2023 Results *(Slide 3)*, Q4 2023 Regional Revenue Drivers *(Slide 4)*, Q4 2023 Adj. EBITDA Drivers *(Slide 5)*, Full Year 2023 Results *(Slide 6)*

Details on our fourth quarter and full year 2023 results can be found on slides 3 through 6.

Market conditions and buyer behavior were pretty much as we had expected in the fourth quarter with North America, EMEA and Asia performing to our plan. The one exception was Latin America. In addition to the ongoing channel correction, our results were negatively impacted by drought conditions in Brazil. This was somewhat offset by stronger sales of our more differentiated products which are showing continued resilience despite market conditions. Branded diamide sales in the quarter were up 5% with sales essentially flat or higher in all regions, while products launched in the last five years out-performed the overall portfolio and comprised 14% of our total revenue.

The channel inventory correction is running its course at varying rates through the regions and we’re expecting this to continue through the first half of 2024. However, the underlying fundamentals of our business and this industry remain solid. Based on input from third party data and our own commercial teams, crop protection products continue to be applied at steady rates.

Looking at fourth quarter sales on a regional level, North America revenue was down 37% versus prior year from lower volume, as expected, after a record Q4 in 2022.

In Latin America, sales were down 38%, 41% excluding FX, due to lower volumes and low-double digit pricing decline. Branded diamides were essentially flat to the prior year aided by the successful launch of Premio® Star in Brazil. In addition, we had solid growth in Mexico supported by higher sales of new products.

Fourth quarter sales in Asia were flat to prior year period as growth in fungicides and biologicals effectively offset inventory destocking, particularly in India where channel inventory remains elevated. Branded diamide sales in the region were in line with the prior year period.

Revenue in EMEA was down 24%, or 22% lower excluding FX, due to lower volume, mostly in herbicides. Price was a low-to-mid-single digit benefit as the region continued to effectively implement price initiatives. Branded diamide sales experienced strong growth of more than 20% driven by the launches of Verimark® in Spain and Presticor® in Turkey.

Shifting to EBITDA, fourth quarter results were 41% lower than the prior year period due primarily to lower sales. Costs were a strong tailwind with contributions from lower input costs and diligent spending control in SG&A and R&D.

Our full year 2023 results are listed on slide 6. EBITDA margin of nearly 22 was lower by approximately 240 basis points but remains at industry-leading levels. This was accomplished through effective spend management and by holding or raising price in many geographies, especially in EMEA, which benefited from a price increase of low double digits for the year. We had substantial cost favorability for the year that was more than offset by the decline in sales volume. Operating cost actions we took in the second half of 2023 in response to lower demand delivered spend reductions well in excess of our $60 million to $70 million target.

Diamide sales for the full year were $1.8 billion, a decline of about 15%. However, sales of our branded diamides outperformed, and were only down 7%. Across our portfolio, the new and more innovative products showed much greater resilience even in a weak demand environment. NPI sales were down only 2% and made up a little over 13% of our total revenue, a new annual record, up from 10% in 2022. New products that drove this performance include:

- A number of products in Brazil such as
  - Premio® Star insecticide for soy
  - Boral® Full and Stone herbicides for sugarcane and soy
  - and Onsuva™ fungicide for soy based on our new active ingredient fluindapyr
- We also benefited from sales of
  - Coragen® Max insecticide for canola
  - Altacor® Evo insecticide for fruits and vegetables
  - And Overwatch® herbicide for cereals

Before we move the discussion to 2024, I would like to highlight some of the actions we have taken to enhance visibility into channel inventory.

In Europe, we have put surveys in place in nine of our most important countries and covering hundreds of distributors and growers to gain insight into their inventory, and especially of our products. In Asia, the larger countries, including India, are utilizing proprietary digital platforms to track inventory movement in real-time across the channel as it passes from distributor to retailer and then to grower. In Mexico, we are in the final stages of integrating our systems with those of our retailers, which will also give us real-time visibility of inventory sell-outs. We are also piloting this same system and approach in Brazil. In Argentina, we have increased the frequency of data updates to our inventory tracking system. Finally, in the U.S., we are expanding our forecasting process beyond distributors to now include retailers. This expanded data set will then be incorporated into our demand forecasting processes.

2024 Market and FMC Outlook *(Slide 7, 8, 9, 10)*

Moving to 2024 expectations, our full year guidance and commentary have been provided on slides 7 through 10.

Having closed 2023 and established a starting point for 2024, we now expect revenue of $4.5 billion to $4.7 billion, an increase of 2.5% at the midpoint.

We are anticipating the full year global market to be flat to down low-single digits as a softer first half is expected to be followed by the resumption of historical, low-single digit percentage growth in the second half. The exception to this forecast is India, where we expect the market to be down for the full year primarily due to high channel inventory that the entire industry is carrying as a result of multiple seasons of unfavorable monsoons.

Revenue growth for FMC in 2024 centers on volume growth led by NPI, which, after posting sales of $590 million in 2023, we expect to grow by approximately $200 million in 2024. Almost half of the NPI growth is expected to come from products launched in 2024.

Major products driving higher NPI sales include

- Coragen® eVo insecticide in Argentina and the US
- Premio® Star insecticide in Brazil
- Overwatch® herbicide in Australia
- As well as Onsuva™ fungicide in Brazil and Argentina

We expect moderate pricing pressure in the year, with the largest impact in the first half. FX is also expected to be a minor headwind for the year.

EBITDA is expected to be between $900 million and $1.05 billion, flat to 2023 at the midpoint. Growth of new products and benefits from our restructuring are expected to be offset by higher cost of inventory carried forward from prior year, lower fixed cost absorption and modest pricing pressure.

The updated sales range is $150 million lower at the midpoint than our preliminary outlook presented in November. This range now reflects our actual 2023 results. The EBITDA range midpoint is $100 million lower than the preliminary outlook mainly due to the reduced revenue expectation for 2024 and minor additional headwinds to gross margin.

Adjusted earnings per share is expected to be between $3.23 and $4.41 per share, an increase of 1% at the midpoint from lower interest expense and D&A.

At our November Investor Day, we acknowledged that, although FMC had responded aggressively to market challenges in the second half of 2023, broader actions were needed to better align our business operations with the current realities in the marketplace.

We are moving quickly on a global restructuring plan that will fundamentally transform our operating model, including how we are organized, where we operate, and the way we work. This is a multi-pronged approach that focuses on shorter-term expenses and longer-term structural costs as we restructure the operating model.

These structural changes will position us for success as we move beyond 2024 and toward our 2026 goals.

Slide 9 provides some additional detail on the actions we're taking.

- The global restructuring program is currently underway and will largely be completed in Brazil by the end of Q1. We have also made strong progress through a voluntary separation program in the U.S. with preparations for additional workforce reductions company-wide. Combined, approximately 8% of our workforce will be impacted as we begin to consolidate roles and adjust team structures.
- Reducing indirect spend is another place where we have accelerated our actions on many critical areas, including non-essential spend and implementing a new strategic sourcing strategy.
- We already announced plans to sell our non-crop Global Specialty Solutions business. We have been

preparing for this over the last two months, and we are now ready to begin marketing.

And lastly, we are examining the company's global and regional footprint. Our location strategy is a critical pillar in FMC's overall transformation, and we've made good progress in our analysis so far. This includes examining office locations, manufacturing sites, and research centers. Although this is a longer-term workstream, there will be milestones that we will announce throughout this year.

As a reminder, we expect this restructuring plan to result in $50 million to $75 million of cost savings in 2024. It is important to note that these savings are net of inflationary and other cost headwinds that we are forecasting for the year. We expect $150 million of run-rate savings by the end of 2025. We plan to complete this restructuring and deliver lower costs while continuing to prioritize investments in critical growth areas such as our plant health business, further engagement with growers and R&D including new product innovation.

Slide 10 lists some of the factors that would lead to varying EBITDA outcomes in our guidance range. The pace of recovery in the market is still the largest determining factor. Our base assumption is that by mid-year every region will have had one full growing season to manage inventory to desired levels, aided by steady application rates by growers. Recovery may vary by region, but we expect to see overall market growth in the second half of the year.

Q1 2024 Outlook *(Slide 11)*

Slide 11 provides our outlook for the first quarter. Expected revenue of $925 million to $1.075 billion is lower than the prior year by 26% at the midpoint which is consistent with the revenue declines of the last three quarters. Volume is expected to be the primary driver of lower sales with pricing pressure in Latin America and Asia a smaller, secondary headwind.

EBITDA guidance for the quarter is between $135 million and $165 million, with the decline versus prior year primarily driven by lower sales, as well as higher cost inventory carried forward from 2023.

2024 FY EBITDA Bridge with Q1 Guidance *(Slide 12)*

Taking into account the first quarter guidance that is lower than the prior year period, Slide 12 provides a bridge for how we plan to achieve our full year guidance over the remaining quarters. The largest component of EBITDA growth over the second to fourth quarter period is higher sales volume of new products. Not only do these products have a strong track record of delivering sales in difficult market conditions, but they also contribute higher margins which will positively impact mix. We expect NPI sales to grow by over $200 million in 2024 with the majority of the growth occurring after Q1. Market recovery in the second half will also contribute to EBITDA growth, as will benefits from our restructuring program, which will build through the year as initiatives are implemented. As you can see, we have built a plan primarily based upon elements we control and are not reliant on an out-sized market recovery to achieve our guidance.

With that, I'll now turn the call over to Andrew.

Selected Financial Results – Andrew Sandifer

Thanks, Mark.

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

FX was a 1% tailwind to revenue growth in the fourth quarter, with the strengthening of the Brazilian Real, Mexican Peso, and Euro only partially offset by weakening of the Turkish Lira. For full year 2023, FX was a 1% headwind overall, with the most signficant headwinds coming from Asian and European currencies, offset in part by a strong Brazilian Real and Mexican Peso.

Looking ahead to 2024, we see continued minor FX headwinds on the horizon. For the first quarter of 2024, these headwinds stem primarily from the Turkish Lira and Pakistani Rupee, offset in part by a strengthening Euro.

Interest expense for the fourth quarter was $56.7 million, up $11.9 million versus the prior year period, driven by both higher interest rates and higher debt balances. Interest expense for full year 2023 was $237.2 million, up $85.4 million versus the prior year. Substantially higher US interest rates were, by far, the largest driver of higher interest expense for the year, with higher balances a secondary factor.

Looking ahead to 2024, we expect full year interest expense to be in the range of $225 million to $235 million, down slightly to the prior year, driven by both expected interest rate reductions and lower borrowings as we reduce leverage through the year.

Our effective tax rate on adjusted earnings for full year 2023 came in slightly better than anticipated at 14.5%, driven by a somewhat more favorable mix of earnings across principal operating companies than expected. The fourth quarter effective tax rate of 13.3% reflects the true-up to the full-year rate relative to the 15% rate accrued through the third quarter.

As you may have noted from our earnings release schedules, there were two extraordinary events that impacted our GAAP provision for income taxes in the fourth quarter. First, our Swiss subsidiaries were granted new OECD Pillar 2 compliant tax incentives. As a result, we recorded deferred tax benefit assets of approximately $830 million, net of valuation allowances, to reflect the estimated future reductions in tax associated with these incentives. These incentives will allow FMC to maintain our advantaged tax structure for at least 10 additional years despite the implementation of Pillar 2. Second, changes in Brazilian tax law allowed us to release a long-standing valuation allowance position in Brazil, generating a tax benefit of approximately $220 million. Along with other items, this resulted in a GAAP income tax benefit of roughly $1.2 billion.

For 2024, we estimate that our tax rate should be in the range of 14% to 17%, up 1 percentage point versus the prior year at the midpoint. The increase in midpoint and broader guidance range reflect uncertainty associated with changes in tax laws related to the implementation of Pillar 2 and transitionary impacts related to the new Swiss tax incentives.

Moving next to the balance sheet and leverage.

Gross debt at year end was approximately $4 billion, down $158 million from the prior quarter. Gross debt to trailing twelve month EBITDA was 4.0 times at year end, while net debt to EBITDA was 3.7 times. On a full-year average basis, gross debt to EBITDA was 3.6 times, while net debt to EBITDA was 3.2 times.

Relative to our covenant, which measures leverage with a number of adjustments to both the numerator and denominator, leverage was 4.17 times as compared to a covenant of 6.5 times. As a reminder, our covenant leverage limit was raised temporarily to 6.5 times through June 30th. It will step down to 6.0 times at September 30th, and then again to 5.0 times at December 31st. We expect to have ample headroom under these limits as we progress through the year, with improving leverage as we shift to positive year-on-year EBITDA comparisons mid-year and as we reduce debt through free cash flow generation and through proceeds from the anticipated divestiture of our Global Specialty Solutions business. We expect covenant leverage to be below 3.5 times by year end.

We remain committed to returning our leverage to levels consistent with our targeted BBB/Baa2 long-term credit ratings, or better. As I discussed at our November Investor Day, our mid-term leverage target is now approximately 2 times net on a rolling-four-quarter-average basis. While we will still be meaningfully above this level at the end of 2024, we are confident that with EBITDA growth and disciplined cash management that we will reach our targeted leverage in 2025.

2023 Cash Flow Results ***(Slide 13)***

Moving on to free cash flow and slide 13.

Free Cash Flow was negative $524 million for 2023. Adjusted cash from operations was down $960 million compared to the prior year, driven by significantly lower payables and EBITDA, offset in part by lower cash used by receivables and inventory. Cash interest and taxes were also headwinds to cash from operations.

Capital additions and other investing activities of $144 million were up $25 million compared with the prior year, with continued spending on capacity expansion to support new active ingredient introduction. Legacy and transformation spending was essentially flat for the third year in a row, after excluding one-time proceeds from the divestiture of an inactive site in 2022.

Compared to our November guidance midpoint, Free Cash Flow improved by more than $225 million, with this improvement nearly entirely due to better than anticipated net receivables performance.

<u>2024 Cash Flow Outlook</u> ***(Slide 14)***

Looking ahead now to free cash flow generation and deployment for 2024 on slide 14.

We are forecasting free cash flow of $400 million to $600 million in 2024, a swing of more than $1 billion from 2023 performance at the midpoint of this range.

Underlying this forecast is our expectation of adjusted cash from operations of $670 million to 4850 million, up over $1 billion at the midpoint, with the increase driven by significant cash release from rebuilding accounts payable and reducing inventory, partially offset by higher accounts receivables due to revenue growth, and with modest improvement on other items such as cash interest.

Capital Additions of $95 million to $105 million are down roughly $45 million at the midpoint as we tightly manage capital investment in light of our current leverage. That said, we continue to fund needed capacity expansion to support introduction of new active ingredients over the next several years.

Legacy and transformation cash spending is expected to be between $155 million and $165 million, with underlying legacy spending generally in line with prior years and with spending of approximately $75 million for our restructuring program.

With this guidance, we anticipate free cash flow conversion of 104% at the mid-point for 2024.

In terms of cash deployment, we expect to pay $290 million in dividends at the current rate in 2024. The remainder of free cash flow, as well as any proceeds from divestments or disposals, will be used to pay down debt.

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

Closing Comments

Thanks Andrew.

Our first quarter guidance reflects the trend of volume declines and related impacts to EBITDA that we have seen over the last three quarters. The destocking trend is expected to level off and start inflecting after the first quarter.

Looking more broadly at 2024, we have a plan that is based largely on elements that we control:

- First, NPI sales are expected to drive revenue growth this year after already showing resilience in the prior years. We have a demonstrated history of growing this high margin segment of our portfolio over the past several years. We are not counting solely on market growth in 2024.

- And second, the restructuring program we initiated last year is well underway and this is another area in which FMC has demonstrated strong execution in the past.

We are also taking actions to increase visibility into inventories at the channel as well as grower levels through a combination of system implementations and strengthening our relationship with the grower.

This is going to be a transition year for the crop chemicals market and we are taking the actions necessary to position ourselves to achieve our medium- and longer-term goals. Despite the updated guidance for 2024, our outlook for 2026 has not changed. While it may take well into 2024 to start to rebound from the global channel inventory reset, the drivers for our industry and business remain strong and many of the challenges we are facing this year, such as working through high cost inventory, are temporary. With the anticipated return to more normal market conditions in 2025 and 2026, along with our portfolio and deep pipeline of innovative products, we see strong growth ahead.

We can now open the line for questions.