

FMC Corporation

Destocking not FMC-specific, Volume reset provides buying opportunity, reit Buy

Reiterate Rating: BUY | PO: 118.00 USD | Price: 90.99 USD

Widespread volume reset globally in crop chemicals

While FMC's volume shortfall in 2Q was certainly disappointing and unflattering on the industry, it was clearly not FMC-specific. The entire crop chemicals industry has incurred a massive channel destock, seemingly caused by prior year double-ordering prompted by supply concerns and from the steep rise in short-term interest rates prompting retailers to destock back to normal levels. Bayer already flagged challenges to its crop chemicals business, Corteva saw a 29% volume decline despite its blockbuster Enlist herbicide, and BASF saw Ag Solutions (~80% crop chems) vols down 17%. However, Nutrien's Retail business reported normal crop chemical application rates, driven by favorable farmer returns for crop protection and pest resistance. No change to underlying demand.

Attractive valuation, reit Buy

While we are cutting our 2023-25 EBITDA/EPS estimates, we believe FMC's shares look attractive as they trade at ~10-11x FMC's 2023 guidance, which in our view is too low for a trough. With the volume challenges not being FMC-specific, we view the company's long-term business model is intact, reflecting FMC's commercial acumen to expand product reach and R&D investment to refresh product line-up. As such, over the next few years we expect FMC's EBITDA to grow at a double-digit annual rate, topping its long-term 7-9% target, powered by volume recovery, marginal price increases, and some cost tailwinds. Nonetheless, we are taking a bit more conservative approach to valuation given increased uncertainty. As we roll over our valuation to 2024 we lower our EV/EBITDA multiple to 11x our 24 from 13x our 23E, resulting in a PO of \$118 vs \$122 previously. We reiterate our Buy rating.

Trimming our estimates further, partial recovery next year

FMC's 2H23 guidance is even more 4Q-weighted than we expected, creating some additional risk to estimates. Thus, our 2023E EBITDA is lowered to \$1,336mn from \$1,357mn. We expect another double-digit decline in volumes in Q3 (-13%), followed by +2% in 4Q. Our 2024E EBITDA is trimmed to \$1,552mn from \$1,636mn as we slightly pull back pricing expectations and forecast just a 5% rebound in volumes (from +8% previously). We expect that volumes will return to 2022 levels in 2025.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	6.93	7.41	6.20	7.95	9.50
GAAP EPS	5.70	5.81	5.73	7.95	9.50
EPS Change (YoY)	11.8%	6.9%	-16.3%	28.2%	19.5%
Consensus EPS (Bloomberg)			6.56	7.87	8.78
DPS	1.92	2.12	2.32	2.52	2.64
Valuation (Dec)					
P/E	13.1x	12.3x	14.7x	11.4x	9.6x
GAAP P/E	16.0x	15.7x	15.9x	11.4x	9.6x
Dividend Yield	2.1%	2.3%	2.5%	2.8%	2.9%
EV / EBITDA*	11.7x	11.0x	11.6x	10.0x	9.0x
Free Cash Flow Yield*	7.0%	4.5%	1.6%	11.2%	10.3%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 04 August 2023 06:47AM EDT

04 August 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	122.00	118.00
2023E Rev (m)	5,292.2	5,277.5
2024E Rev (m)	5,834.7	5,633.8
2025E Rev (m)	6,097.2	5,971.8
2023E EPS	6.50	6.20
2024E EPS	8.75	7.95
2025E EPS	10.15	9.50

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Stock Data

Price	90.99 USD
Price Objective	118.00 USD
Date Established	4-Aug-2023
Investment Opinion	B-1-7
52-Week Range	88.77 USD - 134.38 USD
Mrkt Val (mn) / Shares Out (mn)	11,437 USD / 125.7
Average Daily Value (mn)	130.50 USD
BofA Ticker / Exchange	FMC / NYS
Bloomberg / Reuters	FMC US / FMC.N
ROE (2023E)	21.9%
Net Dbt to Eqty (Dec-2022A)	79.4%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CPC = crop protection chemicals

iQprofileSM FMC Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.2%	13.9%	12.0%	13.9%	15.6%
Return on Equity	29.6%	29.1%	21.9%	25.1%	26.6%
Operating Margin	22.9%	21.3%	21.9%	24.3%	25.9%
Free Cash Flow	799	518	180	1,284	1,174

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	0.7x	0.4x	1.5x	1.2x
Asset Replacement Ratio	0.6x	0.8x	0.7x	0.9x	1.0x
Tax Rate	12.7%	13.7%	15.0%	14.0%	14.0%
Net Debt-to-Equity Ratio	87.0%	79.4%	79.1%	56.8%	45.9%
Interest Cover	8.8x	8.2x	5.0x	6.5x	7.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,046	5,802	5,278	5,634	5,972
% Change	8.7%	15.0%	-9.0%	6.8%	6.0%
Gross Profit	2,172	2,327	2,255	2,459	2,689
% Change	5.8%	7.2%	-3.1%	9.1%	9.3%
EBITDA	1,324	1,407	1,336	1,552	1,736
% Change	5.8%	6.3%	-5.1%	16.1%	11.9%
Net Interest & Other Income	(131)	(152)	(230)	(210)	(200)
Net Income (Adjusted)	895	939	781	989	1,153
% Change	10.5%	4.9%	-16.9%	26.8%	16.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	895	939	781	989	1,153
Depreciation & Amortization	171	169	182	184	187
Change in Working Capital	(235)	(425)	(691)	247	(19)
Deferred Taxation Charge	10	(53)	(2)	0	0
Other Adjustments, Net	58	30	46	33	33
Capital Expenditure	(100)	(142)	(135)	(170)	(180)
Free Cash Flow	799	518	180	1,284	1,174
% Change	19.3%	-35.2%	-65.2%	612.2%	-8.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	517	572	624	824	1,108
Trade Receivables	2,584	2,871	2,977	2,973	2,986
Other Current Assets	1,837	1,995	2,044	1,793	1,884
Property, Plant & Equipment	817	850	838	824	817
Other Non-Current Assets	4,827	4,883	4,807	4,807	4,807
Total Assets	10,581	11,171	11,290	11,221	11,601
Short-Term Debt	441	541	561	161	161
Other Current Liabilities	3,080	3,259	2,814	2,806	2,891
Long-Term Debt	2,732	2,733	3,022	3,022	3,022
Other Non-Current Liabilities	1,277	1,238	1,152	1,082	1,012
Total Liabilities	7,529	7,770	7,548	7,070	7,085
Total Equity	3,052	3,401	3,742	4,151	4,517
Total Equity & Liabilities	10,581	11,171	11,290	11,221	11,601

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Chemicals-Major

Company Description

FMC is a leading producer of crop protection chemicals that generated \$5bn in sales in 2021. The company is a leading supplier of insecticides, herbicides and fungicides.

Investment Rationale

We view FMC as a well-managed company and well diversified in the global crop protection chemical industry and see favorable fundamentals in 2022 and beyond from robust farmer income levels and increased pricing discipline within the crop chemical industry. We see the risk reward as favorable, given robust demand drivers and defensibility in spite of global uncertainty

Stock Data

Average Daily Volume

1,434,192

Quarterly Earnings Estimates

	2022	2023
Q1	1.88A	1.77A
Q2	1.93A	0.50A
Q3	1.23A	1.08E
Q4	2.37A	2.85E

Exhibit 1: FMC Income Statement Summary

We expect EBITDA to rebound in 2024

	2021	1Q22	2Q22	3Q22	4Q22	2022E	1Q23	2Q23	3Q23E	4Q23E	2023E	2024E	2025E
Net Sales													
Agricultural Solutions	5,046	1,351	1,452	1,377	1,622	5,802	1,344	1,015	1,212	1,707	5,278	5,634	5,972
Total Sales	5,046	1,351	1,452	1,377	1,622	5,802	1,344	1,015	1,212	1,707	5,278	5,634	5,972
Change y-y	9%	13%	17%	15%	15%	15%	0%	-30%	-12%	5%	-9%	7%	6%
EBITDA													
	1,324	355	360	261	432	1,407	362	188	264	522	1,336	1,552	1,736
Operating Income													
Agricultural Solutions	1,153	312	317	220	389	1,238	317	140	220	477	1,154	1,367	1,549
Subtotal	1,153	312	317	220	389	1,238	317	140	220	477	1,154	1,367	1,549
Corporate and Other	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Inc. Before Special Items	1,153	312	317	220	389	1,238	317	140	220	477	1,154	1,367	1,549
Change y-y	6%	18%	4%	-12%	16%	7%	1%	-56%	0%	23%	-7%	18%	13%
Operating Margin	22.9%	23.1%	21.8%	15.9%	24.0%	21.3%	23.6%	13.8%	18.2%	27.9%	21.9%	24.3%	25.9%
Net Interest Expense	131	30	35	42	45	152	51	65	60	54	230	210	200
Pretax Income	1,022	283	281	178	344	1,086	266	75	160	423	924	1,157	1,349
Pretax Margin	20.3%	20.9%	19.4%	12.9%	21.2%	18.7%	19.8%	7.4%	13.2%	24.8%	17.5%	20.5%	22.6%
Income Tax Expense	130	40	39	25	45	149	40	11	24	63	139	162	189
Tax Rate	12.7%	14.0%	14.0%	14.0%	13.1%	13.7%	15.0%	15.0%	15.0%	15.0%	15.0%	14.0%	14.0%
Noncontrolling Interest	(3)	4	(3)	(3)	(0)	(2)	3	2	1	0	5	6	7
Net Income Before Special Items	895	239	245	156	299	939	223	63	136	359	781	989	1,153
Special Items	(158)	(31)	(111)	(35)	(25)	(202)	(27)	(32)	0	0	(59)	0	0
Net Income from Continuing Operations	736	207	134	121	274	737	196	31	136	359	721	989	1,153
Diluted EPS Before Special Items													
	\$6.93	\$1.88	\$1.93	\$1.23	\$2.37	\$7.41	\$1.77	\$0.50	\$1.08	\$2.85	\$6.20	\$7.95	\$9.50
Change (Before Special Items)	12%	23%	7%	-14%	10%	7%	-6%	-74%	-12%	20%	-16%	28%	20%
Special Items	(1.23)	(0.25)	(0.87)	(0.27)	(0.20)	(1.59)	(0.21)	(0.26)	0.00	0.00	(0.47)	0.00	0.00
Earnings Per Share	\$5.70	\$1.64	\$1.06	\$0.95	\$2.17	\$5.81	\$1.55	\$0.24	\$1.08	\$2.85	\$5.73	\$7.95	\$9.50
Diluted Shares Outstanding (Mil)	129.2	126.8	126.9	126.9	126.4	126.8	126.1	125.7	125.8	125.8	125.9	124.4	121.3
Sales Growth													
Agricultural Solutions	9%	13%	17%	15%	15%	15%	0%	-30%	-12%	5%	-9%	7%	6%
EBITDA Margin													
	26.2%	26.3%	24.8%	19.0%	26.6%	24.3%	26.9%	18.5%	21.8%	30.6%	25.3%	27.5%	29.1%
Operating Margins													
	22.9%	0.0%	21.8%	0.0%	0.0%	21.3%	0.0%	0.0%	0.0%	0.0%	21.9%	24.3%	25.9%

Source: Company data, BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

FMC Corporation (FMC)

Our \$118 PO is derived applying a 11x multiple on our 2024E EBITDA estimate. We are opting for a multiple of 11x, more in-line with the historical 5-year range of 9-14x to balance still robust ag fundamentals with increasing risks to the CPC market..

Upside risks are higher application rates and pricing for crop protection chemicals as supported by macro and weather-related issues, a weaker dollar, a rally in grain prices.

Downside risks are a shift to generic crop chemicals and concerns about litigation risks.

Analyst Certification

I, Steve Byrne, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Matthew DeYoe, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LINGY	Steve Byrne, CFA
	Livent	LTHM	LTHM US	Matthew DeYoe, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Matthew DeYoe, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
	Tronox Holdings	TROX	TROX US	Matthew DeYoe, CFA
NEUTRAL				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Matthew DeYoe, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Celanese Corporation	CE	CE US	Matthew DeYoe, CFA
	Chemours Company	CC	CC US	Matthew DeYoe, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Matthew DeYoe, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA
UNDERPERFORM				
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	Huntsman Corp	HUN	HUN US	Matthew DeYoe, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization
Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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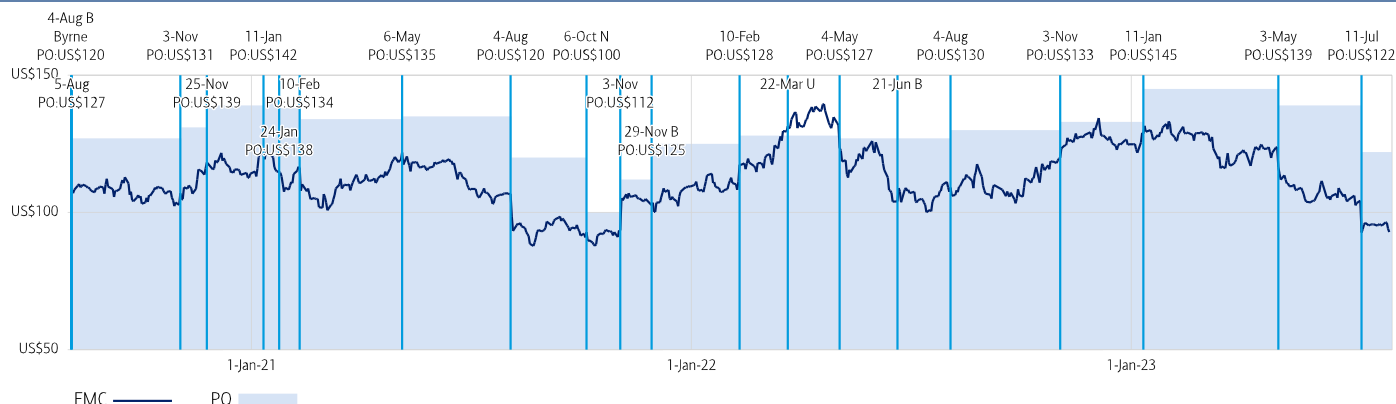
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Disclosures

Important Disclosures

FMC (FMC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	65	48.51%	Buy	31	47.69%
Hold	34	25.37%	Hold	19	55.88%
Sell	35	26.12%	Sell	20	57.14%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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