

FMC Corporation

Cautious about earnings recovery; Downgrading to Underperform

Rating Change: UNDERPERFORM | PO: 57.00 USD | Price: 58.21 USD

Outlook has increased uncertainty

We are downgrading FMC to Underperform due to a lack of conviction about a near-term earnings recovery. We estimate FMC's volume contraction in 2023 at 20%, more than offsetting the prior 2-yr volume gain of 18%, assuming global inventory levels of crop chemicals are now approaching normal levels, which suggests flattish underlying demand. The lack of visibility about monitoring and managing channel inventory levels will need to be improved. We also have concerns that the relatively undisciplined global crop chemical industry (vs seed producers) could lead to aggressive price actions in 2024 in response to cautious inventory rebuilds. Our \$57 PO is based on a 10x EV/EBITDA, below the 12-13x range we have used in prior years as the robust sales volumes from 2021-2022 were not sustainable.

Diamide franchise could remain firm

While generic diamides are certainly in development, we expect share gains for this class of insecticides, due to regulatory scrutiny of older chemistries like the neonics and organophosphates, which are being phased out in many jurisdictions. Thus, we expect steady volume gains for FMC, its commercial partners, and new generic entrants, which could offset steady price declines. As we illustrate in Exhibits 1-3, the historical patterns of patent expiries within insecticides, herbicides, and fungicides do not generally include revenue cliffs, but rather revenue trajectories tend to be flattish post patent expiries (dashed lines in Exhibits), but the share of this revenue shifts away from the original registrants, representing a volume/price risk to FMC for Rynaxypyr (chlorantraniliprole).

Pipeline of new products will be important

At their recent investor event, FMC highlighted their product pipeline, which includes eight synthetic products, four biologicals, and six pheromone-based products. The biologicals (biocontrol products for insects and diseases) have the potential for streamlined regulatory pathways and could be used in combination with synthetic and pheromone products (inhibit insect mating resulting in lower egg densities). These products have meaningful potential as resistance development among insect, fungal, and weed pests can be rapid. Assessing the present value of this pipeline is challenging but could drive a recovery in our valuation multiple.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	6.93	7.41	3.84	4.20	5.15
GAAP EPS	5.70	5.81	2.90	4.20	5.15
EPS Change (YoY)	11.8%	6.9%	-48.2%	9.4%	22.6%
Consensus EPS (Bloomberg)			3.76	4.42	5.45
DPS	1.92	2.12	2.32	2.32	2.32
Valuation (Dec)					
P/E	8.4x	7.9x	15.2x	13.9x	11.3x
GAAP P/E	10.2x	10.0x	20.1x	13.9x	11.3x
Dividend Yield	3.3%	3.6%	4.0%	4.0%	4.0%
EV / EBITDA*	9.3x	8.7x	12.3x	11.6x	10.3x
Free Cash Flow Yield*	10.9%	7.1%	-9.3%	10.1%	10.4%

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

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Timestamp: 16 January 2024 06:01AM EST

16 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-3-7
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	60.00	57.00
2024E Rev (m)	4,641.2	4,605.6
2025E Rev (m)	4,873.2	4,835.9
2024E EPS	4.30	4.20
2025E EPS	5.30	5.15

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Stock Data

Price	58.21 USD
Price Objective	57.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-3-7
52-Week Range	49.49 USD - 133.37 USD
Mrkt Val (mn) / Shares Out (mn)	7,294 USD / 125.3
Free Float	99.4%
Average Daily Value (mn)	100.05 USD
BofA Ticker / Exchange	FMC / NYS
Bloomberg / Reuters	FMC US / FMC.N
ROE (2023E)	14.2%
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".

iQprofileSM FMC Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.2%	13.9%	8.4%	8.8%	10.3%
Return on Equity	29.6%	29.1%	14.2%	15.0%	16.9%
Operating Margin	22.9%	21.3%	17.9%	19.1%	20.8%
Free Cash Flow	799	518	(677)	737	762

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	0.7x	-1.1x	1.6x	1.4x
Asset Replacement Ratio	0.6x	0.8x	0.8x	0.7x	0.8x
Tax Rate	12.7%	13.7%	15.0%	14.5%	14.5%
Net Debt-to-Equity Ratio	87.0%	79.4%	113.1%	95.1%	76.6%
Interest Cover	8.8x	8.2x	3.3x	3.5x	4.1x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,046	5,802	4,573	4,606	4,836
% Change	8.7%	15.0%	-21.2%	0.7%	5.0%
Gross Profit	2,172	2,327	1,903	1,885	2,016
% Change	5.8%	7.2%	-18.3%	-0.9%	7.0%
EBITDA	1,324	1,407	1,001	1,060	1,190
% Change	5.8%	6.3%	-28.9%	5.9%	12.2%
Net Interest & Other Income	(131)	(152)	(245)	(253)	(243)
Net Income (Adjusted)	895	939	483	527	647
% Change	10.5%	4.9%	-48.6%	9.2%	22.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	895	939	483	527	647
Depreciation & Amortization	171	169	183	183	183
Change in Working Capital	(235)	(425)	(1,213)	133	56
Deferred Taxation Charge	10	(53)	2	0	0
Other Adjustments, Net	58	30	8	20	25
Capital Expenditure	(100)	(142)	(140)	(125)	(150)
Free Cash Flow	799	518	-677	737	762
% Change	19.3%	-35.2%	NM	NM	3.3%
Share / Issue Repurchase	(392)	(100)	(77)	0	0
Cost of Dividends Paid	(247)	(268)	(291)	(291)	(291)
Change in Debt	(98)	114	857	(400)	(400)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	517	572	288	254	234
Trade Receivables	2,584	2,871	2,876	2,849	2,955
Other Current Assets	1,837	1,995	2,371	2,355	2,237
Property, Plant & Equipment	817	850	859	801	768
Other Non-Current Assets	4,827	4,883	4,762	4,762	4,762
Total Assets	10,581	11,171	11,156	11,021	10,956
Short-Term Debt	441	541	1,093	693	293
Other Current Liabilities	3,080	3,259	2,498	2,587	2,631
Long-Term Debt	2,732	2,733	3,023	3,023	3,023
Other Non-Current Liabilities	1,277	1,238	1,159	1,079	989
Total Liabilities	7,529	7,770	7,772	7,382	6,935
Total Equity	3,052	3,401	3,384	3,640	4,020
Total Equity & Liabilities	10,581	11,171	11,156	11,021	10,956

* 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 \$5.8bn in sales in 2022. The company is a leading supplier of insecticides, herbicides and fungicides.

Investment Rationale

While FMC sales are under pressure in 2023 from channel destocking, we expect only a modest recovery in demand in 2024. We also see potential for price pressure in 2024, driven by sustained low channel inventory levels. The shares have been under pressure from risks of generic competition, as the diamide insecticide platform is reaching patent expiries. This concern could be magnified if there is broader pricing pressure in 2024.

Stock Data

Average Daily Volume 1,718,834

Quarterly Earnings Estimates

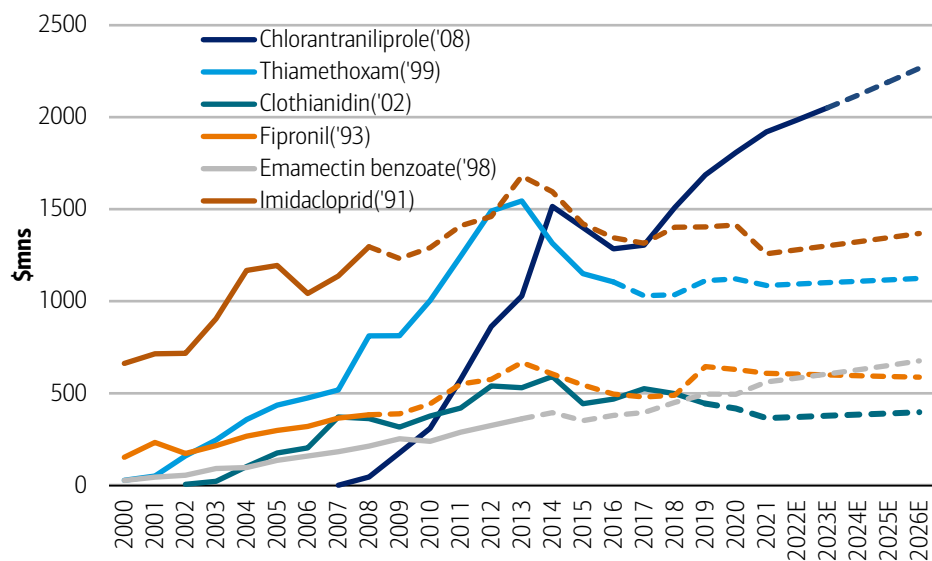
	2022	2023
Q1	1.88A	1.77A
Q2	1.93A	0.50A
Q3	1.23A	0.44A
Q4	2.37A	1.13E

Crop Chemicals lack patent cliffs

We have included historical sales starting in 2000 along with projections for the next few years from AgbiolInvestor for insecticides (Exh 1), fungicides (Exh 2), and herbicides (Exhibit 3). The dashed lines in the charts illustrate when an active ingredient goes off patent. Note that leading crop chemicals generally don't displace pharma-like patent cliffs. FMC's leading insecticide Rynaxypyr (chlorantraniliprole) has been gaining share in the global insecticide market, which is expected to continue post patent expiry. But FMC's share of this revenue is uncertain.

Exhibit 1: Leading global insecticides

FMC's chlorantraniliprole is expected to continue to gain share

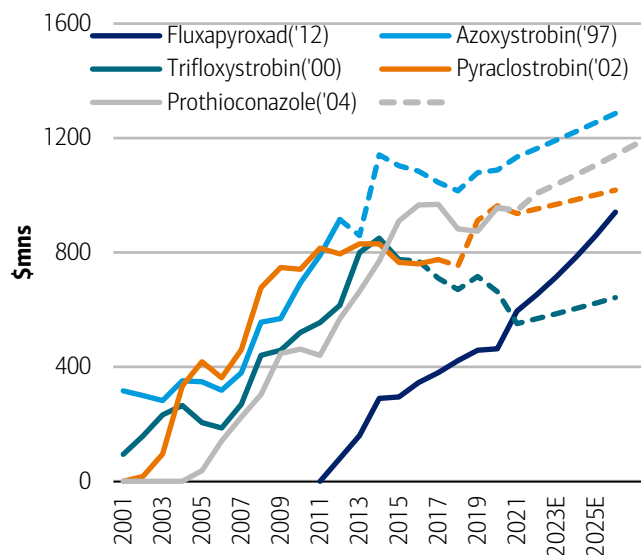


Source: AgbiolInvestor

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Exhibit 2: Leading global fungicides

The "strobins" are the leading fungicides, and all off-patent

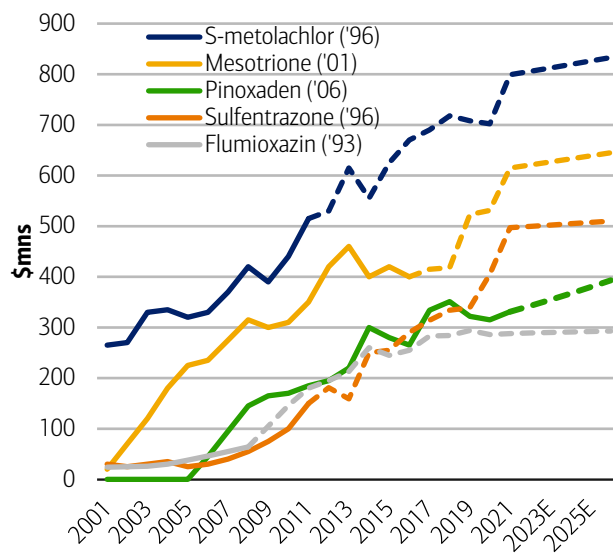


Source: AgbiolInvestor

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Exhibit 3: Leading global herbicides

Herbicides have steadily increased sales



Source: AgbiolInvestor

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Price objective basis & risk

FMC Corporation (FMC)

Our \$57 PO is derived applying a 10x multiple on our 2024E EBITDA estimate. We opt for a multiple of 10x, on the low end of the historical 5-year range of 9-14x, given increased risks to both the crop chemical market and FMC's own diamides franchise.

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	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
NEUTRAL				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
UNDERPERFORM				
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK 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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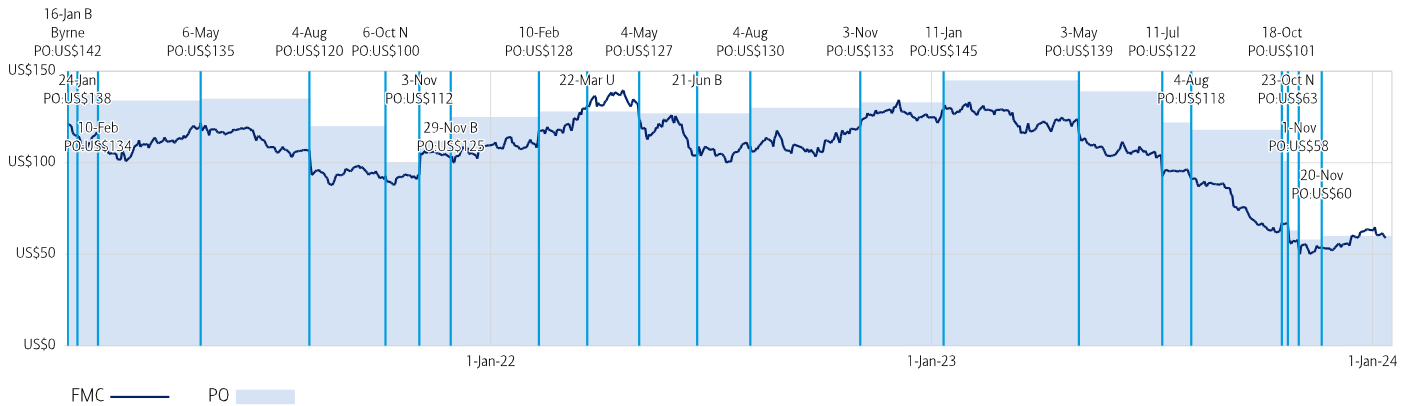
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Disclosures

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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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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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