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Introduction

FMC Corporation (NYSE: FMC) is a company that provides agricultural solutions, focusing on crop protection. There are three major classes of crop protection: insecticides, herbicides and fungicides. Insecticides are used to kill insects by prohibiting the growth of eggs and larvae. Herbicides prevent and kill weeds. Fungicides are chemicals that inhibit the growth of parasitic fungi and their spores. FMC corporation was established in 1883 at its headquarters in Philadelphia, PA. FMC Co. conducts businesses globally operating in Asia Pacific, Europe, Middle East and Africa (EMEA), Latin America and North America. In November of 2017, DuPont's global crop protection business was sold to FMC, expanding their market share in the crop protection subsector and making FMC Corporation monopolized in the North America and Latin America regions.

Stock Chart



The stock price has been generally rising, only taking a few drops in the last three years. In 2017, the drop is due to the company announcing the split between their chemical agriculture sector and their lithium sector. The next drop was in March of 2018, which is the day that they executed the split. The last drastic drop was in December of 2018, when the entire market dropped. Besides those declines in stock price, the stock is following an upward trend in price.

Recommendation

We recommend a BUY for FMC Corporation. We are expecting FMC to have a better year than the analysts are predicting because analysts are still bearish because of the split between Livent and FMC. However, FMC's acquisitions and release of advanced products are preparing them to perform well in the next two years. Their current stock price is \$79.34 and the target price for the company is \$95.07. This would give us a 20% upside.

Excellence. Our Measure. Our Motto. Our Goal.

Investment Thesis

There is an optimistic outlook for the next year for FMC Co. There are numerous drivers that will positively impact the company's forecasted performance, such as:

Population Growth

- The current world population is around 7.5B and is expected to reach 8.6B by 2030. The growing population will increase the demand of food production. Crop chemicals play a vital role in food management by ensuring the quality and quantity of food production. Farmers can use the chemicals to monitor production and maximize the use of land.

Introduction of New Products (Lucento & 3RIVE 3D)

- Lucento
 - In the United States, where FMC is monopolized, corn, soybeans, and wheat are the top three U.S. field crops in planted acreage, production, and gross farm receipts. FMC's newest product released, Lucento, is a fungicide for these three crops. It outperformed key competitors in field studies, providing notable yield advantages. The product allows increased production in healthy crops. When compared to other popular fungicides, it gave the highest crop yield. Crop yield is a measurement of the amount of agricultural production harvested per unit of land area.
- 3RIVE 3D
 - 3RIVE 3D technology is a technology invented by FMC which aims to provide a more efficient and sustainable method of applying pesticides. This technology allows the mixture of water and pesticides at an optimum ratio, allowing one fill to cover 500 acres. This technology minimizes labor, water use, fuel and time. FMC plans to incorporate its biological component into the system which will create a more sustainable product in the future.

Stock Buybacks

- FMC bought back \$200M of shares in December of 2018. They also announced a \$1B share repurchase program which will be executed through mid-2020 as part of a five-year capital allocation plan in which the goal is to return \$4.5B to the company's shareholders. This means that buying the stock now will result in increasing dividends over the next five years. Considering the company's market value is so large, the share buyback will not greatly impact the financial ratios, so the action is solely for the benefit of the shareholders. Not only is the buyback slightly boosting financial metrics, it is also an indicator that the company is doing well and focusing their efforts on maximizing shareholder wealth.

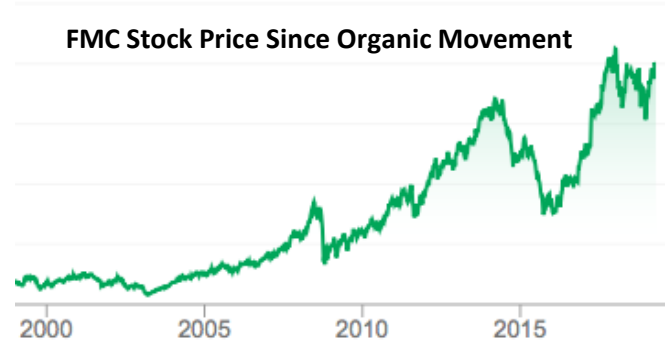
Sustainability (Biologicals)

- Traditional chemical crop protection can be very harmful to the environment as the toxins will be absorbed by the plants and remain in the soil. Therefore, FMC is eager to invest in their Research and Development (R&D) to expand their biologicals portfolio. Biologicals are materials that are derived from renewable plant or microbial sources, providing a safer, more environmentally friendly option that leave no residue in the soil. Biologicals also improve the soil health, foster seed germination and allow better management of nutrients. In 2015, FMC managed to release its first biological fungicide, Fracture. FMC is shifting their focus to produce Ethos 3D, a product that combines insecticides and fungicides using biologicals to help seed treatments.

Risks

Organic Movement

- The organic movement took off in the early 2000's. Organic foods are free of any chemicals or toxins. Since FMC is a chemical agriculture company, this poses as a risk to the company. However, since the early 2000's when the movement gained popularity, FMC's stock has continued to raise in price, indicating that the movement is not affecting the company greatly. There has been little policy movement that would push the organic movement. Policy surrounding the movement is likely not to happen over the next few years.



Interest Rate

- Interest rate is considered a risk that FMC corporation is facing. The recent interest rate hikes have affected the farmers, as the agriculture sector requires high capital intensity in terms of getting equipment, chemicals and seedling.

Expiration of Patent

- FMC Corporation recently got downgraded by RBC Capital due to its expiration of patent on two of its leading insect control products: Rynaxypyr and Cyazypyr. However, the expiration date of both patents is 2022 and 2024 respectively. The expiration of the patent might reduce the competitive advantage of FMC Corporation.

Climate Condition

- FMC Corporation is affected by climate conditions as it can impact crop pricing and pest infestations which drought will decrease the demand for fungicides while excessive rain will increase plant disease, thus, increase demand for pesticides.

Peer Analysis

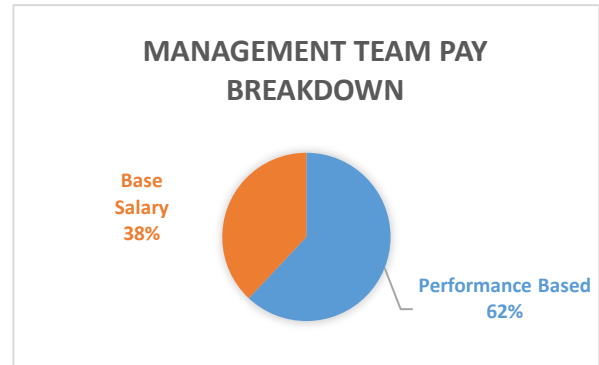
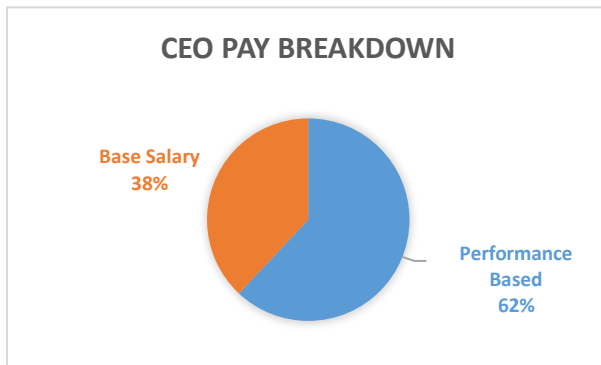
	Market Cap (M)	ROE (%)	EV/EBITDA	Div Yld
<i>FMC Corporation</i>	10,494	21.0	9.53	2.00%
<i>*Adama</i>	4,280	11.2	4.80	0.55%
<i>*UPL</i>	6,230	21.6	11.57	0.82%
<i>*Nufarm</i>	1,742	- 1.71	9.42	1.12%

**All foreign currency adjusted to USD on 4/26/19*

In comparison to its competitors, FMC Corporation has the largest market cap. FMC Corporation increase its dividend yield from 1% to 2% in year 2018 and in compare to its other competitors' average dividend yield of 0.83%, FMC Corporation generate the highest shareholder returns.

Management

FMC has 16 management positions and 11 board positions. The average age of management is 53 years. The average age of the board is 64 years. The average tenure for the company is nine years. FMC Co.'s management team is paid based on the weights of the factors in the chart below. Their CEO is Pierre R. Brondeau. He has been CEO since 2010, and he is 61 years old. His annual salary for 2018 was \$1.2M, with a total compensation of \$9.99M. The table below summarizes Brondeau's performance for 2018.

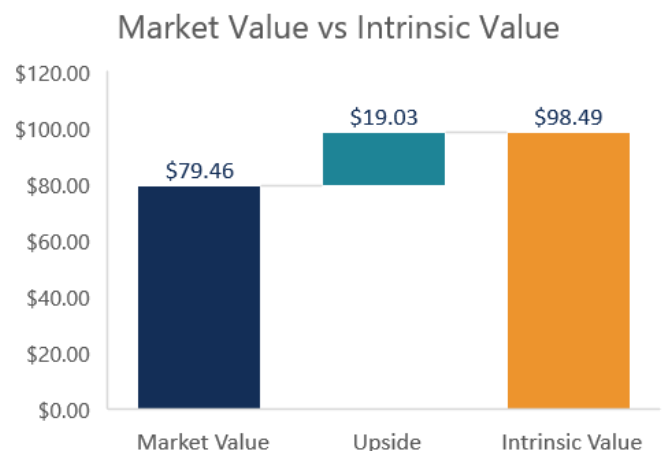


CEO Performance Overview
\$50M in cost savings better than 2018 plan; Agriculture Solutions sales growth of 11%, versus a plan of 4-6% and a market in the 2-3% range.
Successful Lithium IPO in October 2018
Successfully delivered strong financial performance for each business segment across the company.
Lead Business Process Modernization ("BPM") and on track consolidating three SAP systems into one

Valuation

In order to perform a valuation on FMC Corporation, we computed a target price using Discounted Cash Flow model and a multiple analysis model.

We started with DCF model where we used the WACC that is given by FactSet, 13%. We used a 12% growth rate for the first two years and 3% growth rate for the next three years as the crop chemicals sector in North America and Latin America has been monopolized by FMC and FMC is constantly expanding their market share in Europe and Asia. From this, we calculated a target price of \$98.49.



We performed a sensitivity analysis by taking into account two factors which are EV/EBITDA and Terminal Growth Rate. The reason we choose EV/EBITDA is due to this ratio allowing investors to compare the company with its peers and determine whether it is undervalued/overvalued. The use of terminal growth rate is due to the uncertainty of the future, since there is a possible incoming recession and it might affect the terminal growth rate of a company. The results of the sensitivity analysis show that given EV/EBITDA constant, the increase in terminal growth rate 1% will increase the share price by $\pm 4\%$.

EV/EBITDA	Terminal Growth Rate					
	98.49	1.00%	2.00%	3.00%	4.00%	5.00%
7.6		85.38	88.11	91.38	95.38	100.39
8.6		88.93	91.66	94.94	98.94	103.94
9.6		92.49	95.22	98.49	102.50	107.50
10.6		96.05	98.78	102.05	106.05	111.06
11.6		99.60	102.33	105.61	109.61	114.61

The next valuation model which is the multiple analysis model, where we compare FMC to its competitors in the global chemical agriculture sector, including Adama Agricultural Solution, United Phosphorus Limited (UPL) and Nufarm Limited. By using the average of EV/EBITDA, we got a target price of \$93.93.

In order to produce a target price, we decided to weigh DCF at 25% and Multiple Analysis at 75%. The rationale behind this weightage is due to 75% of the sales of FMC Corporation being generated out of the United States. This approach is able to capture the global aspect of FMC Corporation's revenue stream. The competitors from the Multiple analysis are from different countries such as China, India and Australia. By using this approach, we obtain a target price of \$95.07 and with the current price of \$78.99, it gives us an upside of 20%. The buy range that we will suggest is between \$75 and \$81.

Ownership of Shares

On April 22, ten of the board members for FMC purchased more shares of the company. This is a good indicator that the directors have a positive outlook on the company's future and maintain confidence in FMC Corporation's management team. The breakdown of ownership of shares can be seen in the two graphs below.

