



**balchem**<sup>®</sup>

Investor Presentation

Q1 2021

# Safe Harbor Statement

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- During the course of this presentation, management may make forward-looking statements regarding financial performance and future events.
- We will attempt to identify these statements by use of words such as expect, believe, anticipate, intend, and other words that denote future events. You should understand that, even though our forward-looking statements are based on assumptions we believe are reasonable when made, they are still subject to uncertainties that could cause actual results to differ materially from those in the forward-looking statements.
- We caution you to consider the important risk and other factors as set forth in the forward-looking statements section and in Item 1A risk factors in our Annual Reports on Form 10-K as filed with the U.S. Securities and Exchange Commission that could cause actual results to differ from those in the forward-looking statements as contained in this presentation.
- Forward-looking statements made herein are summaries of previous public disclosures, do not represent revised guidance, and we do not undertake to revise or update them from the date or dates of previous disclosure.
- In the case of any presentation delivered during the company's prescribed black-out periods, there will be no discussion or questions addressed regarding the current quarter's expected performance.

# Balchem Corporation

*Balchem develops, manufactures, and markets specialty ingredients that help make the world a healthier place*

## Highlights

- NASDAQ: BCPC
- Founded in 1967
- Headquarters: New Hampton, NY
- Approximately 1,400 Employees
- 21 Manufacturing Sites:
  - 17 in North America
  - 3 in Europe
  - 1 in Asia
- 5 Technology Centers
- 2020 Revenues of \$704M
- 2020 Adj. EBITDA of \$174M or 25% of sales
- 2020 Cash Flow From Operations of \$150M



A Global Health And Nutrition Focused Company With A 50+ Year History

# Leadership



## **Ted Harris, Chairman and CEO**

- Joined Balchem in May 2015
- Prior to Balchem was a Senior VP of Ashland Inc. where he held a series of senior leadership roles over 10+ years
- Independent director and member of the Board of Directors of Pentair plc.
- MBA from Harvard University and bachelor's degree from Lehigh University in chemical engineering

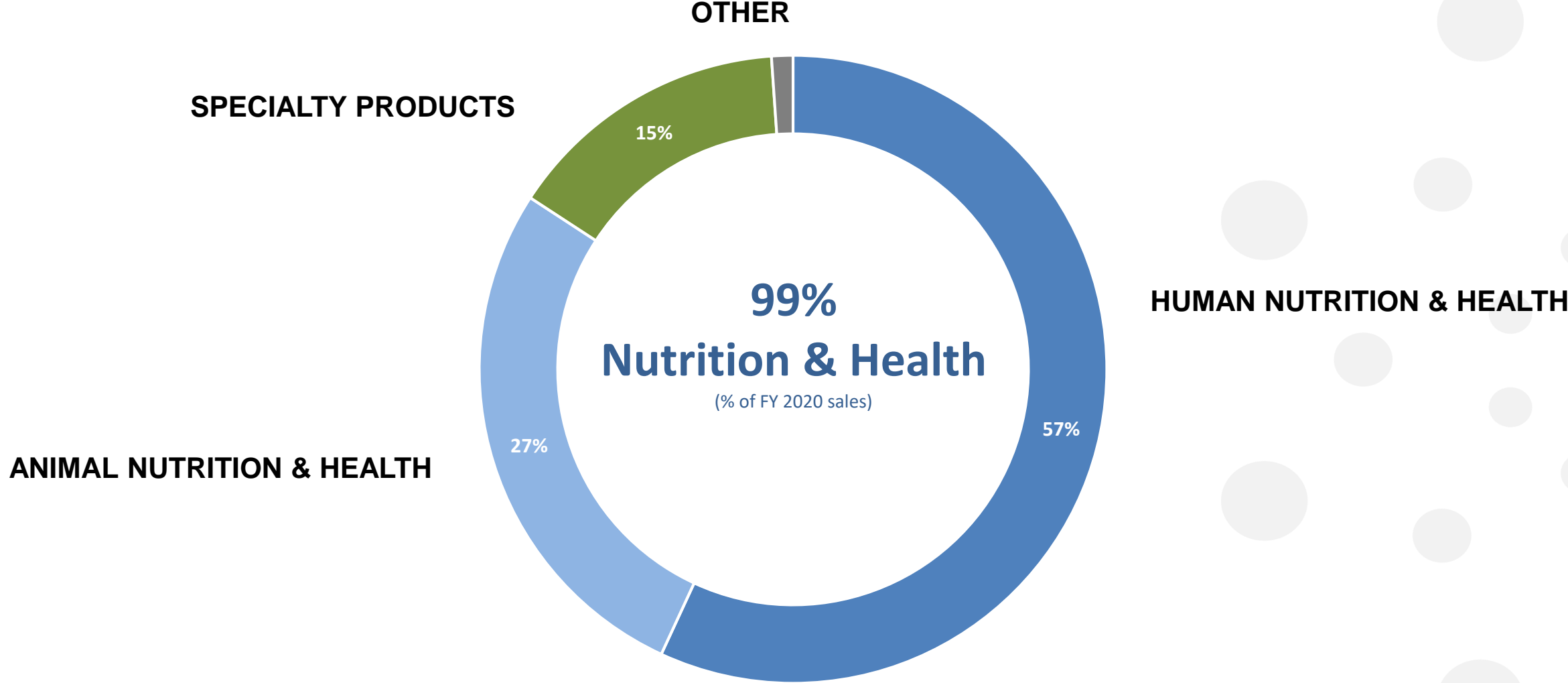
## **Martin Bengtsson, CFO**

- Joined Balchem in February 2019
- Prior to Balchem had a 15-year career at Honeywell and most recently was CFO for the \$11B Performance Materials & Technologies segment
- Bachelor's degree from Northwestern University in economics and began career as Senior Auditor for Deloitte



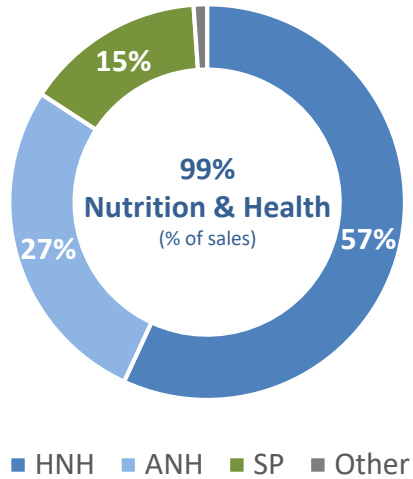
Executive Leadership

# Balchem at a Glance



99% Of Revenues Focused On Nutrition And Health

# Segment Overview



Segment	Markets Served	Solutions
Human Nutrition & Health	<ul style="list-style-type: none"> <li>• Nutritional Supplements</li> <li>• Food and Beverage</li> <li>• Infant &amp; Toddler Formula</li> <li>• Organic Cereal</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Microencapsulation</b></li> <li>• <b>Choline</b></li> <li>• <b>Chelated Minerals</b></li> <li>• Powder, Flavor, &amp; Cereal Systems</li> </ul>
Animal Nutrition & Health	<ul style="list-style-type: none"> <li>• Dairy</li> <li>• Poultry and Swine</li> <li>• Companion Animal</li> <li>• Aquaculture</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Microencapsulation</b></li> <li>• <b>Choline</b></li> <li>• <b>Chelated Minerals</b></li> <li>• Amino Acids and Other Nutrients</li> </ul>
Specialty Products	<ul style="list-style-type: none"> <li>• Medical Device Sterilization</li> <li>• Nut and Spice Fumigation</li> <li>• Plant Nutrition</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Chelated Minerals</b></li> <li>• Ethylene Oxide and Propylene Oxide re-packaging</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Oil and Gas Fracking</li> <li>• Other Industrial Markets</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Choline</b></li> <li>• Choline Derivatives</li> </ul>

Leveraging Solutions Across Segments

# Vision and Mission

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Our vision is clear; ***to make the world a healthier place***

Our mission is to ***build a global nutrition and health company delivering trusted, innovative, and science based solutions to our customers***

Committed To Building A Global Nutrition And Health Company

# Strategic Focus

- **Strengthening Positions in Attractive, Growing Markets**
  - Building scale, adding adjacent capabilities, expanding market and geographic reach, broadening our portfolio of solutions, investing in new science, enabling market awareness
- **Driving Organic Growth**
  - Creating new demand through innovation, market penetration, new product launches, geographic expansion, and expanding addressable markets
- **Augmenting Organic Growth through Strategic Acquisitions**
- **Maintaining a Healthy Margin Profile, Strong Cash Flow, and Solid Balance Sheet to Execute**

Staying Focused



# Balchem Growth Platforms

## Human Nutrition & Health

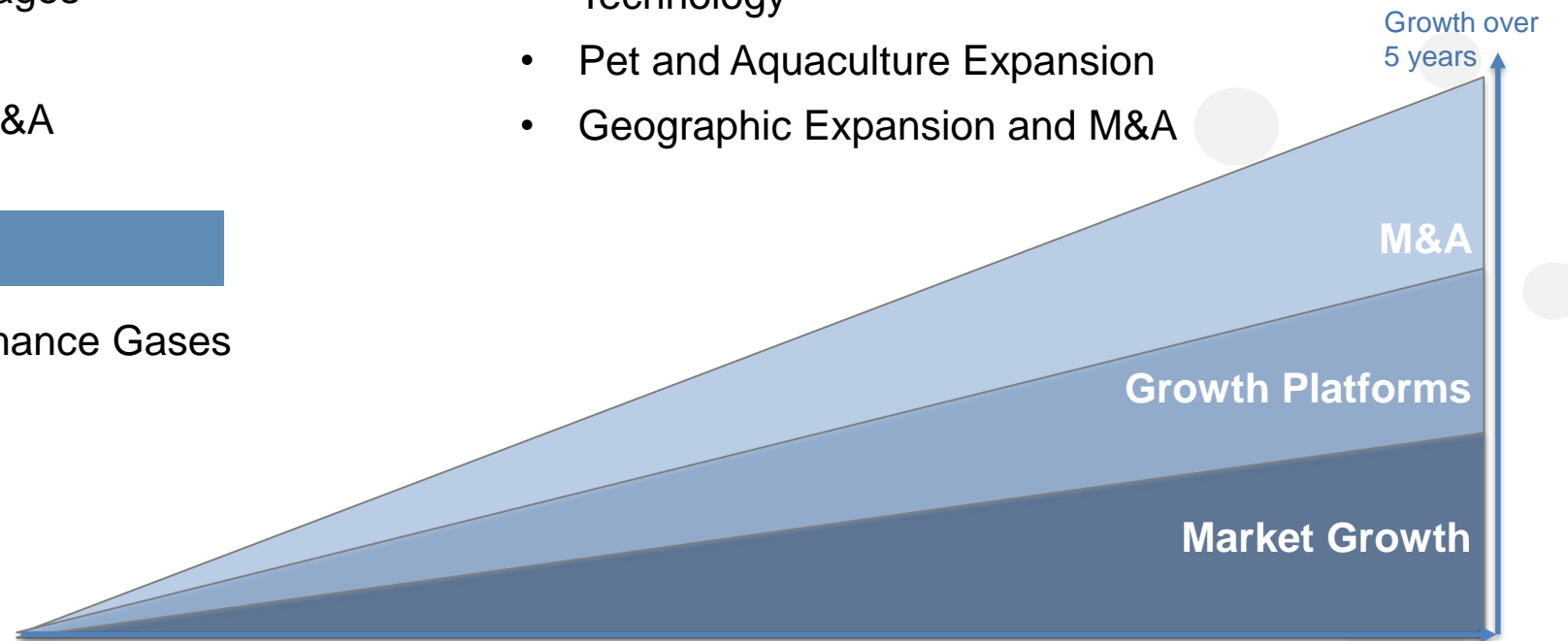
- Leveraging Synergies Across Segment
- FDA RDI for Choline and Expanded Choline Awareness / Science
- Mineral Nutrition
- Systems for Nutritional Beverages
- Curemark® Delivery System
- Geographic Expansion and M&A

## Specialty Products

- Leveraging our global Performance Gases platform
- Plant Micronutrients
  - New Applications
  - New Products
  - Geographic Expansion

## Animal Nutrition & Health

- ReaShure® Penetration
- NRC Recommendation on Choline
- Rumen Protected Nutrients for Dairy
- Next Generation By-pass and Release Technology
- Pet and Aquaculture Expansion
- Geographic Expansion and M&A



Multiple Platforms To Drive Growth

# COVID-19 Pandemic Response Update

- Our focus has been on employee safety first, keeping our manufacturing sites operational, and satisfying customer needs. To date;
  - all of our manufacturing sites are operating at near normal conditions,
  - our research and development teams continue to advance our innovation efforts in our laboratories,
  - and our typically office-based employees are effectively carrying on their responsibilities and functions remotely
- Sales challenged by weaker demand in;
  - food services,
  - medical device sterilization due to fewer elective surgeries,
  - and lower fracking activities
- Largely offsetting strengthening demand in;
  - retail food products,
  - functional technologies aiding food preservation needs,
  - and immunity strengthening minerals and nutrients
- Global supply chain and logistics disruptions impacting costs as we manage through the uncertainties

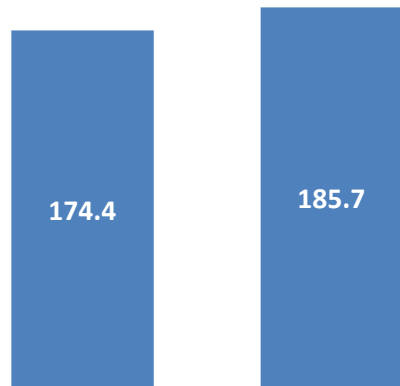
COVID-19 Pandemic Still Having An Impact

# Q1 2021 Financial Summary

## Sales

(\$M)

↑ 6.4%



1Q20

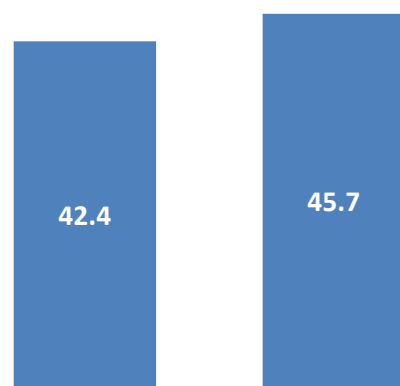
1Q21

- Strong Growth YoY
- HNH – High demand for Minerals and Nutrients
- ANH – Monogastric and Ruminant growth
- SP – Signs of recovery

## Adj. EBITDA

(\$M)

↑ 7.9%



1Q20

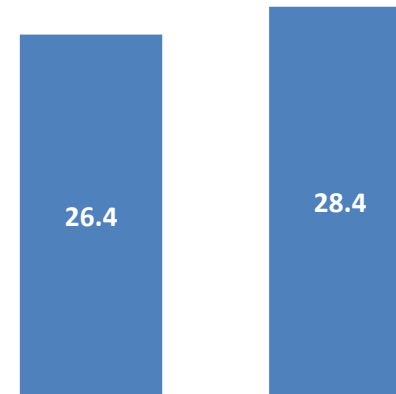
1Q21

- Driven by Sales growth
- Raw material inflation largely offset by manufacturing efficiencies
- Lower operating expenses

## Adj. Net Earnings

(\$M)

↑ 7.6%



1Q20

1Q21

- Higher tax rate in Q1'21 compared to Q1'20, partially offset by lower interest expense
- Lower transaction costs

## Adj. EPS

(\$/share)

↑ 7.1%



1Q20

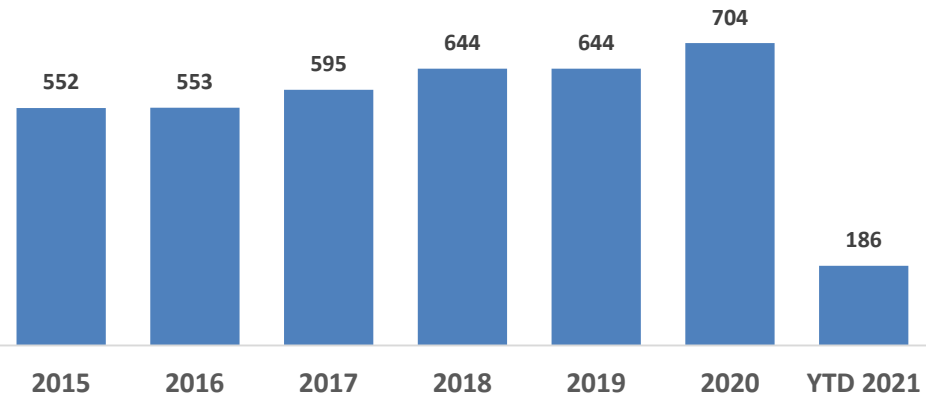
1Q21

- Growth in earnings
- Small increase in diluted outstanding shares (+0.4%)

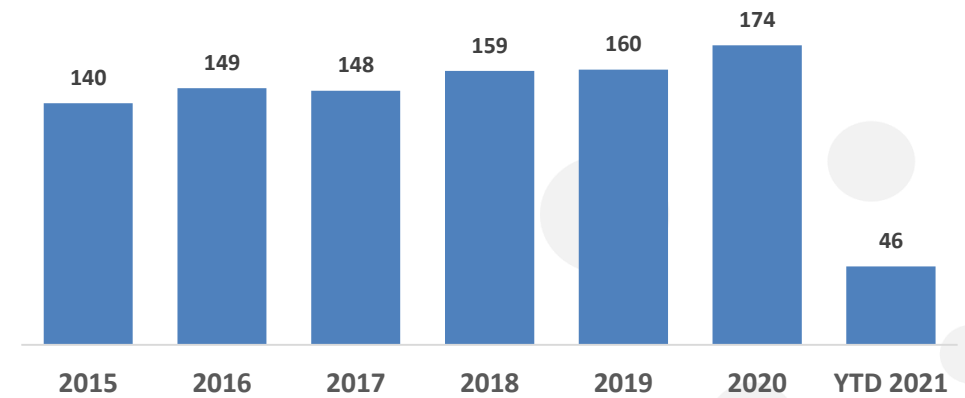
Strong Quarter In Challenging Environment

# Historical Financials

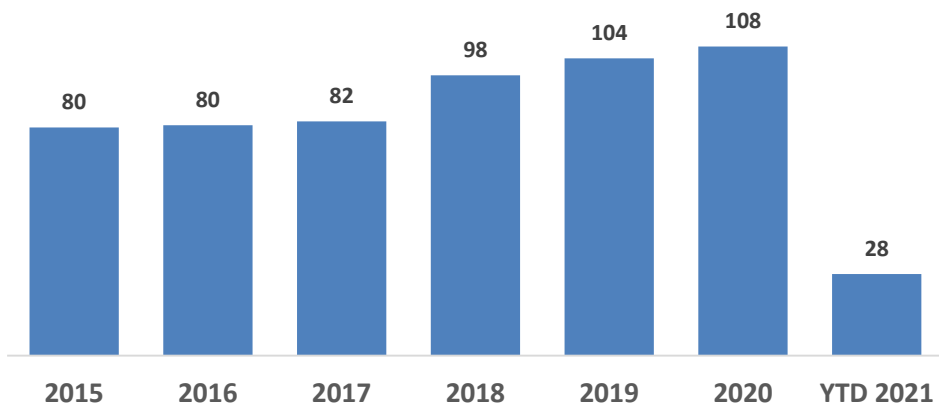
## SALES (\$M)



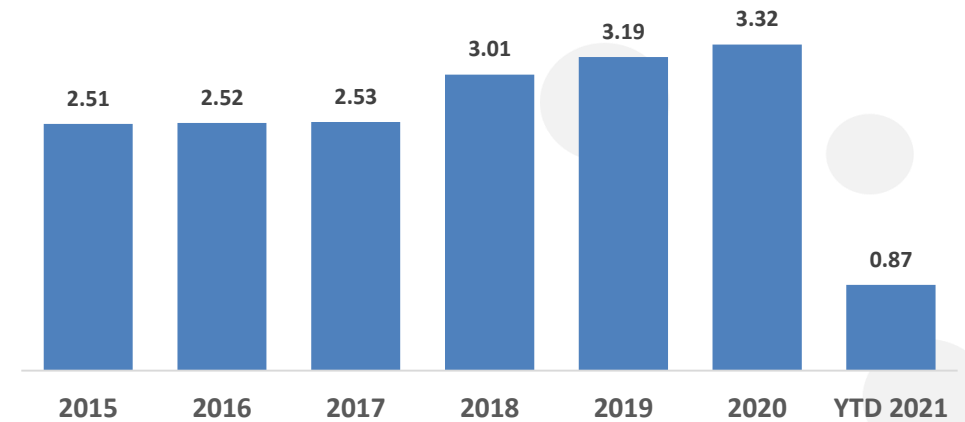
## ADJ. EBITDA (\$M)



## ADJ. NET EARNINGS (\$M)



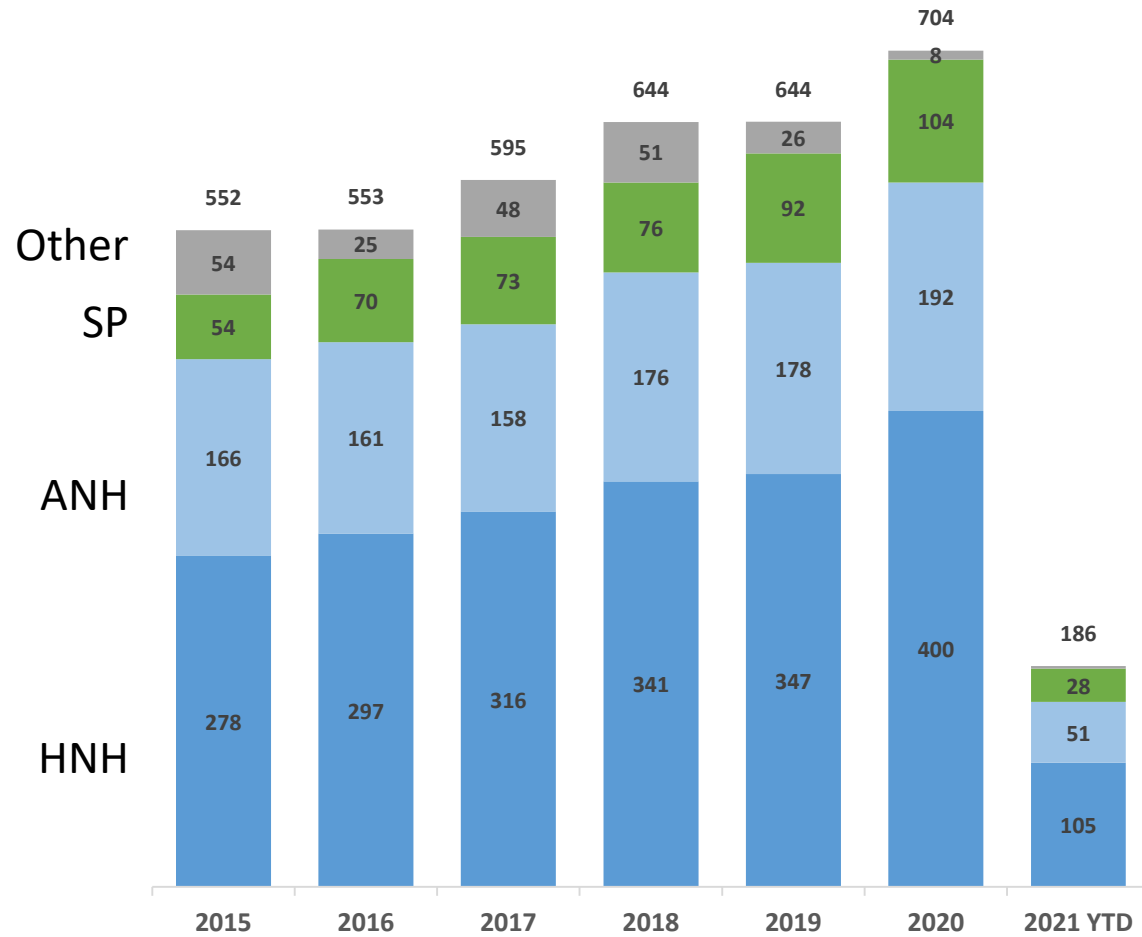
## ADJ. EPS (\$/share)



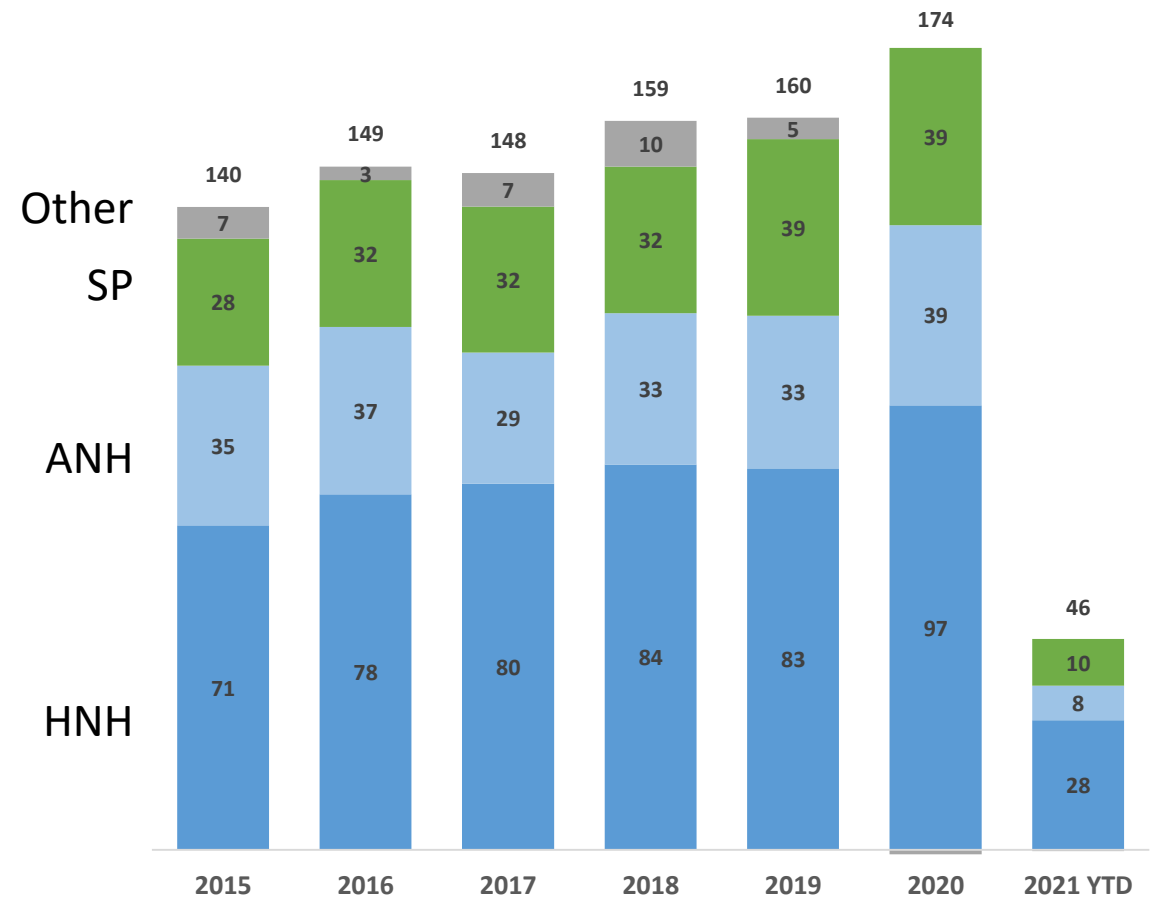
Consistent Performance Due To Resilient Business Model

# Segment Financials

## SALES (\$M)



## ADJ. EBITDA (\$M)



Resilient Business Models

# Capital Allocation Strategy and M&A

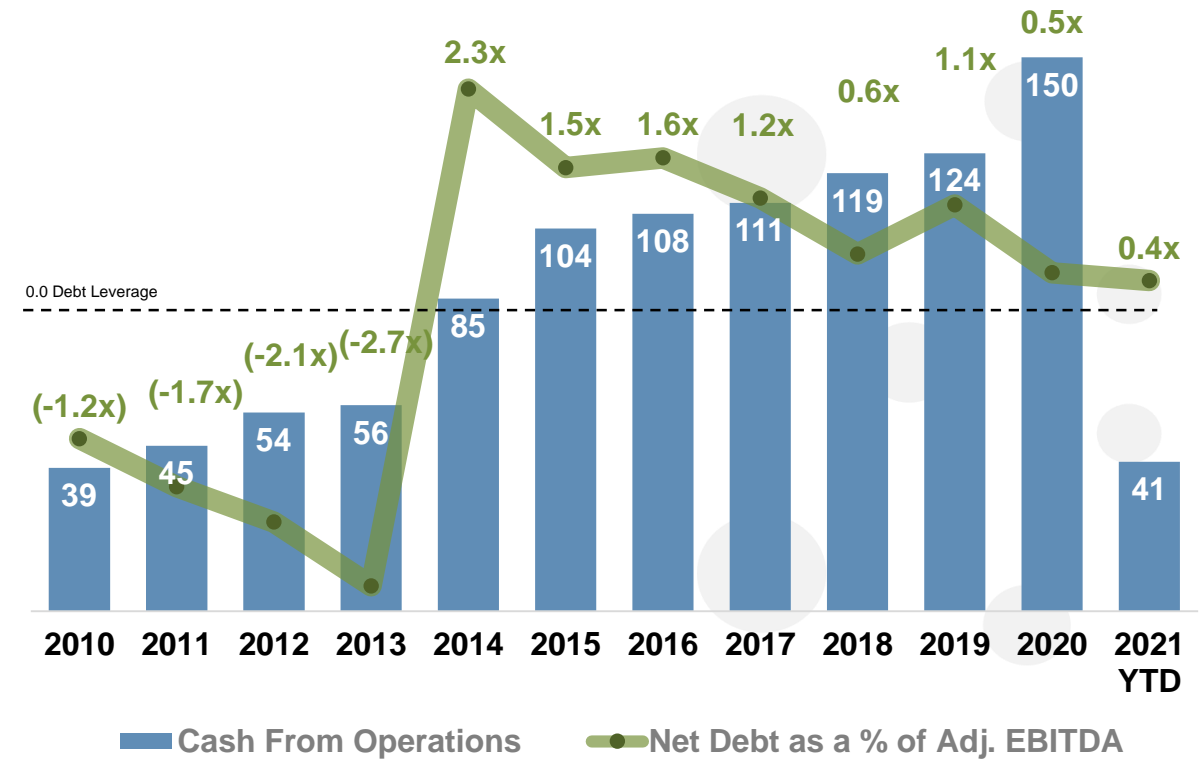
## Capital Allocation Strategy

- Prioritize organic growth investments
- Augment organic growth with targeted M&A
- Pay down debt
- Continue to pay and grow dividend
- Stock buy-backs for anti-dilution

## M&A

- Six acquisitions since 2016
- Focus on core Nutrition & Health
- Adding geographic reach, adjacent products/technologies, and market consolidation

## Annual Cash Flow (\$M) and Debt Leverage Ratio



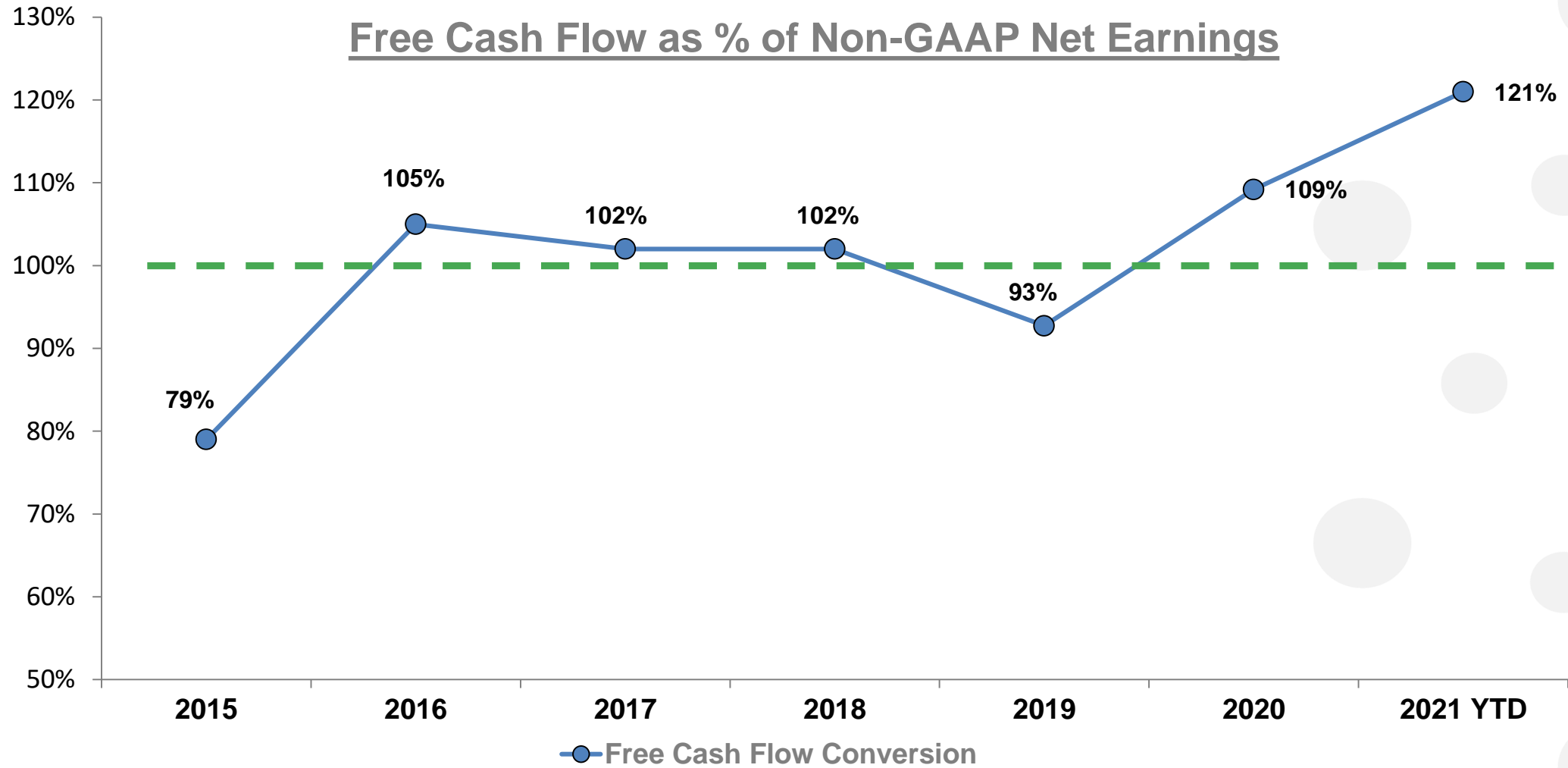
Maintain Disciplined Capital Allocation Strategy

# Recent Acquisitions

	<u>Rationale</u>	<u>Key Offering</u>
<b>Zumbro River Brand</b> December 2019	Market consolidation and expanded product offering	High protein extrusion and agglomeration
<b>Chemogas</b> May 2019	Adds leadership position in Europe to already existing U.S. leadership	Ethylene Oxide re-packaging and distribution
<b>Bioscreen</b> August 2018	Microencapsulation manufacturing in Europe	Microencapsulation and Fermentation
<b>IFP</b> June 2017	Market consolidation and processing technology and capability	Microencapsulation and Agglomeration
<b>Chol-Mix</b> March 2017	Geographic reach into Eastern Europe	Dry Choline Chloride
<b>Albion</b> February 2016	Adjacent product offering	Chelated Magnesium, Iron, Calcium, Zinc, and others

Augmenting Organic Growth With Targeted Acquisitions Close To Core

# Free Cash Flow Conversion

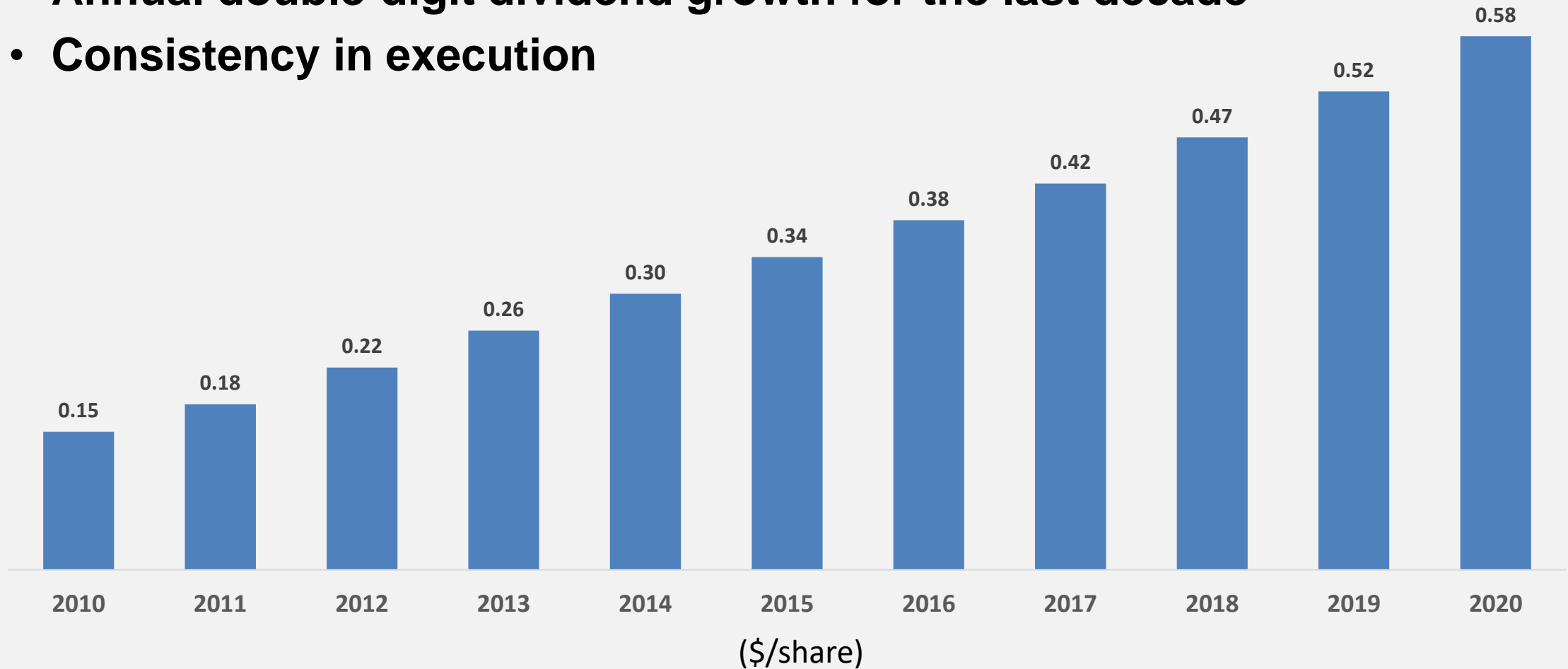


Solid Free Cash Flow Conversion, Turning Profits Into Cash



# Dividends

- Annual double-digit dividend growth for the last decade
- Consistency in execution



Consistent Dividend Policy

# Our Sustainability Framework

## Our Sustainability Framework



## 1.4 Billion People Reached in 2020

The total number of people impacted is calculated by the annual consumption of protein and the daily recommended doses of minerals, essential nutrients, and vitamins.

Every day, Balchem is delivering trusted solutions that enhance health and well-being through science.

The two objectives of our sustainability strategy directly support our vision of making the world a healthier place:

- providing innovative solutions for the health and nutritional needs of the world
- and operating with excellence as strong stewards of our employees, customers, shareholders, and communities

One of our proud accomplishments is Balchem's impact on 1.4 billion people each year

Making The World A Healthier Place

# Our 2030 ESG Goals

## EMISSIONS REDUCTION

Balchem commits to reduce our GHG emissions by

25% 

### OPPORTUNITY EXAMPLES



Process improvements in spray drying by increasing feed solids



Reduce drying with product design (e.g., ReaShure<sup>®</sup>-XC)



Major consumer efficiency improvements (e.g., modernized boilers)



Use of renewable energy sources (e.g., Grimbergen solar project)

## WATER CONSERVATION

Balchem commits to reduce our global water use by

25% 

### OPPORTUNITY EXAMPLES



Eliminate “once through” cooling water systems in Marano and Verona sites
























Reduce water use in clean in place (CIP) systems with improved utilization and change to dry clean options



Condensate recovery systems

Committed To 2030 Goals

# Measuring Our Progress

 People	 Planet	 Profit
 1.4 billion – number of people reached per year	 10.8 billion – number of animals reached per year	 28.2% – revenue from products developed in the past five years
 1.04 – total recordable injury rate (TRIR)	 3.75 GJ/ton – energy intensity (GJ of energy per ton of product produced) 76,802 (CO <sub>2</sub> e metric tons) – scope 1 and scope 2 greenhouse gas emissions (CO <sub>2</sub> e metric tons)	 \$703.6M – total revenue
 26% – hourly employee turnover 7% – salary employee turnover	 12.57 CBM – water intensity (cubic meters of water withdrawal per metric ton of product produced) 0.06% – water withdrawal from regions with high or extremely high baseline water stress	 \$174.2M – adjusted EBITDA
 77% males, 23% females – employee diversity	 99% – hazardous waste reused or recycled 75% – hazardous material suppliers audited in the last 3 years	 \$84.6M – GAAP net earnings \$2.60 – GAAP earnings per share
 75% – R&D focused on health and nutrition	 100% – of palm oil sourced certified through RSPO 37% – raw materials from renewable resources	 138% – free cash flow conversion
 100% – manufacturing sites with local community engagement efforts	 0 – product recalls	 15.7% – 5-year total shareholder return (TSR) vs Russell 2000 Index

People, Planet, Profit

# What Makes Balchem Unique?

## Proven Track Record Of Growth

- ✓ Proven ability to grow in in all economic conditions
- ✓ Steady and thoughtful capital allocation
- ✓ Continued innovation

## Technologies

- ✓ Delivery Systems
  - Microencapsulation
  - Systems (Powders, Flavors)
- ✓ Chelation
- ✓ Choline

## Protected Positions

- ✓ Consolidated position in Choline
- ✓ Premium branded products and patent portfolio
- ✓ EPA Registrations for EO and PO

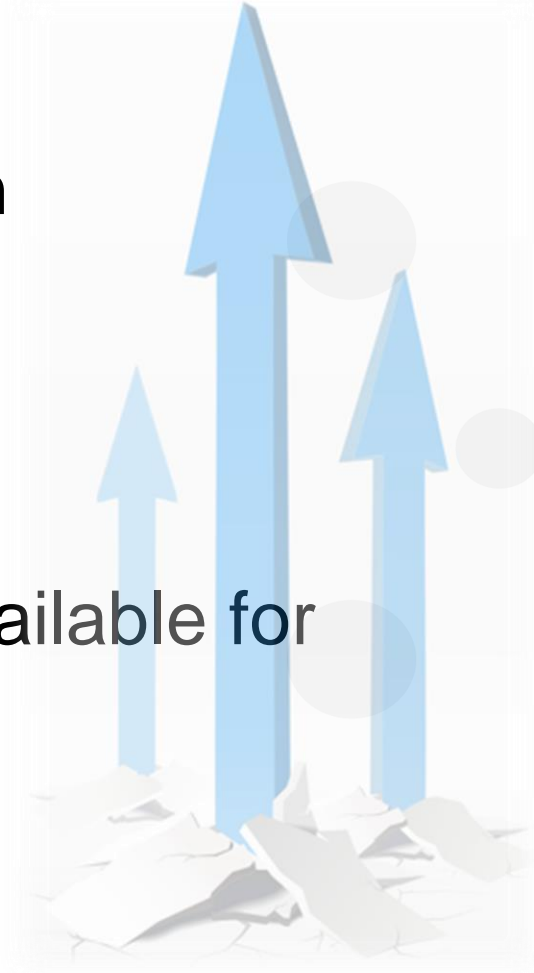
## Future Upside

- ✓ Organic growth platforms and earnings power
  - Market Penetration
  - New Product Development
  - Geographic expansion
- ✓ Strategic M&A
- ✓ Curemark®

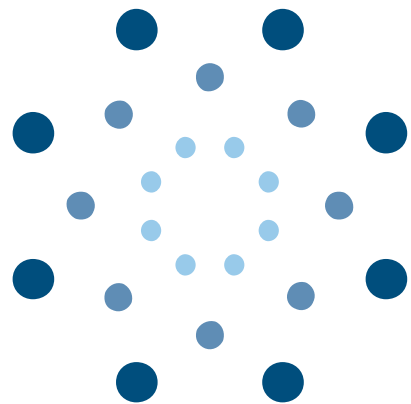
Well Positioned For The Future

## Summary / Wrap Up

- Leading Positions in Attractive Markets
- Creating New Demand Through Innovation
- Delivering Healthy Margins
- Generating Cash Flow from Operations Available for Reinvestment
- Proven Track Record



Reasons To Invest



**balchem**<sup>®</sup>

Solve Today. Shape Tomorrow.

# Appendix

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# Non-GAAP Financial Information

## **Non-GAAP Financial Information**

In addition to disclosing financial results in accordance with United States (U.S.) generally accepted accounting principles (GAAP), this earnings release contains non-GAAP financial measures that we believe are helpful in understanding and comparing our past financial performance and our future results. The non-GAAP financial measures disclosed by the company exclude certain business combination accounting adjustments and certain other items related to acquisitions, certain unallocated equity compensation, and certain one-time or unusual transactions. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations from these results should be carefully evaluated. Management believes that these non-GAAP measures provide useful information about the Company's core operating results and thus are appropriate to enhance the overall understanding of the Company's past financial performance and its prospects for the future. The non-GAAP financial measures in this press release include adjusted gross margin, adjusted earnings from operations, adjusted net earnings and the related adjusted per diluted share amounts, EBITDA, adjusted EBITDA, adjusted income tax expense, and free cash flow. EBITDA is defined as earnings before interest, other expense/income, taxes, depreciation and amortization. Adjusted EBITDA is defined as earnings before interest, other expense/income, taxes, depreciation, amortization, stock-based compensation, transaction and integration costs, indemnification settlements, legal settlements, ERP implementation costs, unallocated legal fees, the fair valuation of acquired inventory, and restructuring costs. Adjusted income tax expense is defined as income tax expense adjusted for the impact of ASU 2016-09. Free cash flow is defined as net cash provided by operating activities less capital expenditures and capitalized ERP implementation costs.

# Non-GAAP Financial Information - Continued

**Table 1**

**Reconciliation of Non-GAAP Measures to GAAP**  
*(Dollars in thousands, except per share data)*  
 (unaudited)

	Three Months Ended March 31,	
	2021	2020
<b>Reconciliation of adjusted gross margin</b>		
GAAP gross margin	\$ 58,727	\$ 55,331
Inventory valuation adjustment <sup>(2)</sup>	—	208
Amortization of intangible assets and finance lease <sup>(3)</sup>	489	724
Adjusted gross margin	<u>\$ 59,216</u>	<u>\$ 56,263</u>
<b>Reconciliation of adjusted earnings from operations</b>		
GAAP earnings from operations	\$ 30,575	\$ 26,278
Inventory valuation adjustment <sup>(2)</sup>	—	208
Amortization of intangible assets and finance lease <sup>(3)</sup>	6,536	6,979
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>	234	1,272
Adjusted earnings from operations	<u>\$ 37,345</u>	<u>\$ 34,737</u>
<b>Reconciliation of adjusted net earnings</b>		
GAAP net earnings	\$ 23,411	\$ 19,768
Inventory valuation adjustment <sup>(2)</sup>	—	208
Amortization of intangible assets and finance lease <sup>(3)</sup>	6,607	7,049
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>	234	1,272
Income tax adjustment <sup>(5)</sup>	(1,805)	(1,856)
Adjusted net earnings	<u>\$ 28,447</u>	<u>\$ 26,441</u>
Adjusted net earnings per common share - diluted	<u>\$ 0.87</u>	<u>\$ 0.81</u>

# Non-GAAP Financial Information - Continued

<sup>(2)</sup> Inventory valuation adjustment: Business combination accounting principles require us to measure acquired inventory at fair value. The fair value of inventory reflects the acquired company's cost of manufacturing plus a portion of the expected profit margin. The non-GAAP adjustment to our cost of sales excludes the expected profit margin component that is recorded under business combination accounting principles. We believe the adjustment is useful to investors as an additional means to reflect cost of sales and gross margin trends of our business.

<sup>(3)</sup> Amortization of intangible assets and finance lease: Amortization of intangible assets and finance lease consists of amortization of customer relationships, trademarks and trade names, developed technology, regulatory registration costs, patents and trade secrets, capitalized loan issuance costs, other intangibles acquired primarily in connection with business combinations, an intangible asset in connection with a company-wide ERP system implementation, and one finance lease. We record expense relating to the amortization of these intangibles and finance lease in our GAAP financial statements. Amortization expenses for our intangible assets and finance lease are inconsistent in amount and are significantly impacted by the timing and valuation of an acquisition. Consequently, our non-GAAP adjustments exclude these expenses to facilitate an evaluation of our current operating performance and comparisons to our past operating performance.

<sup>(4)</sup> Transaction and integration costs, ERP implementation costs and unallocated legal fees: Transaction and integration costs related to acquisitions and divestitures are expensed in our GAAP financial statements. ERP implementation costs related to a company-wide ERP system implementation are expensed in our GAAP financial statements. Unallocated legal fees for transaction-related non-compete agreement disputes are expensed in our GAAP financial statements. Management excludes these items for the purposes of calculating Adjusted EBITDA and other non-GAAP financial measures. We believe that excluding these items from our non-GAAP financial measures is useful to investors because these are items associated with each transaction and are inconsistent in amount and frequency causing comparison of current and historical financial results to be difficult.

<sup>(5)</sup> Income tax adjustment: For purposes of calculating adjusted net earnings and adjusted diluted earnings per share, we adjust the provision for (benefit from) income taxes to tax effect the taxable and deductible non-GAAP adjustments described above as they have a significant impact on our income tax (benefit) provision. Additionally, the income tax adjustment is adjusted for the impact of adopting ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" and uses our non-GAAP effective rate applied to both our GAAP earnings before income tax expense and non-GAAP adjustments described above. See Table 3 for the calculation of our non-GAAP effective tax rate.

<sup>(6)</sup> Impact of ASU 2016-09: The primary impact of ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), was the recognition during the three months ended March 31, 2021 and 2020, of excess tax benefits as a reduction to the provision for income taxes and the classification of these excess tax benefits in operating activities in the consolidated statement of cash flows instead of financing activities.

# Non-GAAP Financial Information - Continued

**Table 2**  
(unaudited)

	Three Months Ended March 31,	
	2021	2020
Net income - as reported	\$ 23,411	\$ 19,768
Add back:		
Provision for income taxes	6,572	4,722
Other expense	592	1,788
Depreciation and amortization	12,293	12,479
EBITDA	42,868	38,757
Add back certain items:		
Non-cash compensation expense related to equity awards	2,622	2,134
Inventory valuation adjustment <sup>(2)</sup>	—	208
Transaction and integration costs, ERP implementation costs, and unallocated legal fees <sup>(4)</sup>	234	1,272
Adjusted EBITDA	\$ 45,724	\$ 42,371

# Non-GAAP Financial Information - Continued

**Table 3**  
(unaudited)

	Three Months Ended March 31,			
	2021	Effective Tax Rate	2020	Effective Tax Rate
GAAP Income Tax Expense	\$ 6,572	21.9 %	\$ 4,722	19.3 %
Impact of ASU 2016-09 <sup>(6)</sup>	249		157	
Adjusted Income Tax Expense	\$ 6,821	22.7 %	\$ 4,879	19.9 %

**Table 4**  
(unaudited)

	Three Months Ended March 31,	
	2021	2020
Net cash provided by operating activities	\$ 40,607	\$ 22,565
Capital expenditures and capitalized ERP implementation costs	(6,175)	(5,152)
Free cash flow	\$ 34,432	\$ 17,413