Q3 2023 Earnings Prepared Remarks

Brandon Ontjes, VP, Financial Planning & Analysis and Investor Relations

Welcome to The Chemours Company's Third Quarter 2023 earnings presentation. I'm joined today by Mark Newman, President and Chief Executive Officer, and Jonathan Lock, Senior Vice President and Chief Financial Officer.

Before we start, I'd like to remind you that comments made on this call, as well as the supplemental information provided in our presentation and on the investor relations section of our website, contain forward-looking statements that involve risks and uncertainties described in the documents Chemours has filed with the SEC. These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ, and Chemours undertakes no duty to update any forward-looking statements as a result of future developments or new information.

During the course of these prepared remarks, management will refer to certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of our presentation.

As a reminder, our prepared remarks, a full transcript, plus our earnings deck have been posted to the investor relations section of our website alongside our earnings release.

With that, I'll turn things over to our President and CEO Mark Newman who will review the highlights from the Third quarter - Mark?

Mark Newman, The Chemours Company, President and Chief Executive Officer

<u>Chart 4: Third Quarter 2023 Highlights</u>

Thank you, Brandon, and thank you for joining us.

I'd like to start by expressing my gratitude to the entire Chemours team. Your collective efforts in the face of challenging market conditions exemplify your dedication, focus and unwavering determination.

Before we delve into the quarterly highlights, let me share my perspective on Chemours and its longer-term outlook. Our businesses, with leading market positions underpinned by strong secular growth trends are

increasingly relevant in a world which is for innovating solutions to difficult problems. Whether its hydrogen, vehicle electrification, semiconductors or the immense potential of AI, Chemours products are critical to sustainable solutions and technologies of the future. And as a leader in responsible manufacturing we are leading the way to a more sustainable future for the rest of the chemical sector.

Now, let us delve into the highlights of this quarter on chart 4.

Consistent with our ongoing commitment to reshape our TT business, we are launching the TT Transformation Plan. This initiative represents a significant set of actions aligned with our strategic priority to improve the earnings quality of the TT segment.

Starting with the closure of the Kuan Yin facility which we announced earlier in the year, the TT team is working on a host of measures to improve the business which includes driving yield and efficiency, reducing costs and improving all aspects of our end to end operations. These actions are designed to create a more resilient TT franchise and set up this segment for improved earnings as the cycle recovers. Jonathan will provide further details on this comprehensive initiative a little later.

In our TSS segment, we continue to drive secular growth with the continued adoption of our low GWP solutions across the portfolio and delivered record Net Sales in the third quarter.

In addition, we recently announced the development of Opteon 2P50 as a sustainable solution developed to transform the way we cool data centers. The rapid growth in AI, edge computing, and next-gen servers, has resulted in a substantial increase in power and water consumption needs within data centers. As a result, we are seeing denser configurations and an elevated need for thermal management. While air cooling has made notable strides, it faces practical limitations. In response to these challenges, we've developed Opteon™ 2P50, a specialized fluid designed for two-phase immersion cooling (2PIC) in data centers.

Subject to regulatory approvals, our plan is to bring this innovative cooling solution to the market by 2025. This technology offers several benefits for our customers. It reduces the space needed for data centers by 60%, simplifies infrastructure by eliminating the need for chillers and other cooling systems, leading to a 33% reduction in upfront costs. It also lowers operating costs by cutting energy consumption by 40%. This innovative solution exemplifies our unwavering commitment to drive sustainability-led growth in TSS by significantly reducing carbon emissions and nearly eliminating water usage, which is essential for large data centers today. We are very excited about the prospects of Opteon™ 2P50 and look forward to sharing more on this innovation in the near future.

Moving ahead, on October 13th the Biden administration and U.S. Department of Energy announced $7 billion in funding to launch seven regional clean hydrogen hubs through the Bipartisan Infrastructure Bill. This funding represents the start of a strategic endeavor aimed at accelerating the deployment of cost-effective, commercial-scale clean hydrogen throughout the United States. We are proud to be a key member of the ARCH2 team to bring clean hydrogen, powered through our Nafion™ membranes, to our Washington Works and Belle manufacturing sites in West Virginia while supporting the growing hydrogen economy. The collective investment in hydrogen hubs, comprising both public and private resources, now totals nearly $50 billion, with approximately two-thirds of these investments associated with green, proton exchange membrane (PEM) electrolysis methods used for hydrogen production within the hubs, where our Nafion membranes play a critical role. I was excited to meet with President Biden here in Philadelphia to celebrate our selection and look forward to working together to drive the hydrogen economy.

Moving on, we have recently completed the sale of our Glycolic Acid business, executed at a low double-digit multiple. This strategic move, aligned with our portfolio simplification efforts, has not only bolstered our liquidity by adding $138 million in cash proceeds but also enables us to maintain a laser focus on our three industry-leading businesses. I would like to thank the team at Chemours for their efforts to enable a seamless transition and wish the Glycolic Acid team luck as they embark on the next phase of their journey.

Finally, given our third quarter results and a weaker demand outlook through year-end, we are revising our full-year 2023 Adjusted EBITDA guidance range to between $1.025 billion and $1.075 billion, which is down (8%) at the midpoint, and we now expect our Adjusted Free Cash Flow to be greater than $225 million.

Our dedication to our strategic priorities remains unwavering, focusing on what is within our control as we position ourselves for sustained long-term growth.

With that I'll turn things over Jonathan.

Jonathan Lock, Senior Vice President and Chief Financial Officer

Chart 5: Third Quarter 2023 Financial Summary

Thanks Mark. I would like to add my thanks to the entire Chemours family as we head into the final quarter of the year. I'd also like to remind every one of our global team members of the need to focus on safety while finishing the year strong.

Let me begin on chart 5.

In the third quarter, our Net Sales were $1.5 billion, a decrease of ($290) million compared to the previous year. This 16% decline was primarily related to reduced volumes in our TT segment, as well as declines in the Advanced Materials portfolio within APM, partially offset by a record third quarter in TSS.

Our earnings per share (EPS) for the third quarter decreased to thirteen cents per share ($0.13) from one dollar and fifty-two cents per share in the third quarter of 2022 ($1.52). Adjusted EPS was sixty-three cents per share ($0.63), down from the one dollar and twenty-four cents ($1.24) per share we earned in the third quarter of 2022.

Q3 Adjusted EBITDA of $247 million, decreased ($116) million from the previous year's third quarter. This resulted in an Adjusted EBITDA Margin of 17% for the quarter, reflecting a (300) basis point decline compared to the third quarter of 2022. The decline in Adjusted EBITDA Margin was primarily due to lower volumes, the impact of inflation on raw material costs, and lower fixed cost absorption in TSS and APM.

Starting in the third quarter of 2023, we are introducing “Adjusted Free Cash Flow” as a new non-GAAP financial metric, which excludes PFAS-related litigation settlements and related legal fees from Free Cash Flow. We believe that, paired with Free Cash Flow, this additional non-GAAP view will provide a clearer picture of Chemours underlying cash flow generation absent these litigation related matters.

For the third quarter, our Adjusted Free Cash Flow was $81 million, reflecting $37 million of adjustments for legacy PFAS-related litigation settlements and fees incurred in the third quarter. Our adjusted free cash flow performance was primarily influenced by lower earnings and higher Net Working Capital consumption compared to the prior year's third quarter.

Finally, on October 26th, our Board of Directors approved a fourth-quarter 2023 dividend of $0.25 per share.

Chart 6: Adjusted EBITDA Bridge: 3Q23 vs. 3Q22

Turning to Chart 6.

In the third quarter of 2023, our Adjusted EBITDA stood at $247 million, reflecting a decrease from $363 million in the same period of 2022.

The price declines primarily reflect lower pricing in market exposed channels in our TT segment. Compared to the prior year's quarter, our costs declined, as a result of moderating input costs and operational improvements in our TT segment.

Volume declines were primarily driven by weaker demand in our TT segment, and the more economically sensitive Advanced Materials portfolio in our APM segment.

The reduction in Other Income is primarily attributed to lower earnings from our equity affiliates and a decline in other income within the TSS segment.

Currency was a headwind of ($5) million, primarily driven by a stronger US dollar.

Chart 7: Liquidity

Turning now to chart 7.

At the close of the quarter, our unrestricted cash balance was $852 million, an increase of $114 million from the previous quarter's $738 million. In addition to the $852 million of unrestricted cash, we have $595 million in restricted cash and cash equivalents in escrow, related to the US Water District Settlement. In total, our cash position, combining both restricted and unrestricted cash and cash equivalents, approaches approximately $1.4 billion.

During the third quarter, we generated $130 million in Operating Cash Flow, while our CAPEX spend was $86 million.

We returned $55 million to our shareholders, consisting of $37 million in dividends and $18 million in share repurchases during the quarter.

In the quarter, we amended, extended, and upsized both our Euro and US Dollar Term Loan B facilities, yielding proceeds of $367 million, net of OID and associated bank fees totaling $32 million. We also completed the sale of our Glycolic Acid business to PureTech Scientific Inc., for $138 million in net cash proceeds.

Finally, we received preliminary approval for a PFAS settlement involving a specific class of US water utilities on August 22nd. To meet our 50% commitment for this settlement, we funded $592 million into the water district settlement fund on September 6th using cash proceeds from the issuance of the new term loans, funds available under the MOU escrow account and available cash.

As we wrapped up the quarter, our Gross debt stood at $4.0 billion, and our net leverage ratio was approximately 3.2 times on a trailing twelve-month basis. Our total liquidity amounted to roughly $1.7 billion, which includes our unrestricted cash balance of $852 million and undrawn revolver capacity of approximately $801 million. These cash balances do not include the $595 million of current restricted cash and cash equivalents in the water district settlement fund.

Chart 9: Titanium Technologies

Let's shift our focus to Chart 9, where I'll walk you through the results of our business segments, beginning with TT.

The global TiO2 market recovery has been progressing at a slower pace than we initially anticipated – with destocking having started in the third quarter of 2022. Demand remains soft across most markets and regions, but we believe that we are starting to see the bottom of the current cycle in terms of volumes.

In the third quarter, our Net sales decreased (21)% year-over-year to $690 million.

Price declined (3)% compared to the prior year, primarily driven by declines in market-exposed channels, partially offset by contractual price increases.

Volumes declined (18)%, primarily due to lower market demand across all regions.

Segment Adjusted EBITDA was $69 million, resulting in a 10% Adjusted EBITDA Margin. The declines in TT Adjusted EBITDA and Adjusted EBITDA Margin, in comparison to the previous year, were primarily driven by the reduction in both sales volume and price.

On a sequential basis, Net Sales decreased by (2)%, while price declined (3)%, due to lower pricing, primarily in market-exposed channels. Price declines were partially offset by higher volumes, which rose 1%.

Looking ahead, we anticipate fourth-quarter demand will follow the typical seasonal trend and decrease sequentially. At the same time, costs are expected to improve, taking into account the anticipated benefits resulting from the closure of the Kuan Yin facility.

Chart 10: Titanium Technologies Transformation Plan

Turning to chart 10, I'll cover the TT Transformation Plan.

In response to weaker demand, we have launched the TT Transformation Plan comprised of proactive measures to step up TT's earnings as the cycle recovers. This plan aligns with our priority to improve the earnings quality of the TT segment through cost and operational productivity measures. We expect these actions to drive approximately $100 million of savings in 2024, with $15 million in the fourth quarter of this year. The Kuan Yin site closure marked the first step of our comprehensive strategy, and we are proactively implementing additional measures to streamline our operations, reduce overhead and optimize our end-to-end operations.

As we progress with the TT Transformation Plan in the coming years, we foresee a range of additional opportunities for earnings improvement associated with the measures highlighted above. We will provide updated information on our progress in future periods.

For the period ending on September 30, 2023, we recorded pre-tax charges totaling $147 million related primarily to the Kuan Yin facility shutdown and additional workforce reductions in our TT segment. This included approximately $78 million in non-cash charges related to asset impairments, $28 million for the write-off of certain raw materials inventory, and $10 million in other charges. Additionally, there were cash charges of approximately $31 million related to severance, contract termination, and decommissioning.

Looking ahead, we anticipate incurring additional charges ranging between $20 million and $30 million for expenses related to decommissioning, dismantling, and removal costs at the Kuan Yin site over the next several years.

Chart 11: Thermal and Specialized Solutions

Moving to Chart 11

We closed another impressive quarter in TSS, achieving an all-time high in third-quarter Net Sales, and matching a record in Q3 Adjusted EBITDA set just last year. Our Adjusted EBITDA Margin was 37%. This business has proven to be resilient across the most recent economic downturn. We remain committed to its long-term growth, including our ongoing investments to unlock capacity at our Corpus Christi facility. I'm pleased to report that the project is on track for mechanical completion by the end of 2024 with projected startup in early 2025.

Looking into the quarter's results, the TSS team delivered a 5% year-over-year increase in Net Sales, resulting in a third-quarter record $436 million. While prices declined by (1%), we saw a 5% year-over-year increase in volumes. Price declines in automotive end-markets were partially offset by value-based pricing growth within our Refrigerants and Foam, Propellants, and Other Products portfolios compared to the prior-year period. The volume increase can be attributed to the continued adoption of Opteon™ products by stationary and automotive original equipment manufacturers.

Segment Adjusted EBITDA for this quarter was level with last year's 3Q record, at $162 million. This was driven by increased sales and lower raw material costs, mitigating the impact of lower equity affiliate earnings and other income, lower fixed cost absorption, and our ongoing investments in research and development, focused on low GWP solutions to meet future market needs. In total we achieved a 37% Adjusted EBITDA Margin.

On a sequential basis, Net Sales declined by (17%), with price and volume declining by (5%) and (12%), respectively, mirroring seasonal trends in refrigerant demand.

In TSS, our outlook anticipates the continued adoption of Opteon™ in mobile and stationary applications ahead of the EU and US HFC step-downs in 2024. This expectation is coupled with some uncertainty regarding the pace of recovery in automotive and construction end-market demand.

Chart 12: Advanced Performance Materials

Moving on to chart 12, where I'll cover our APM segment.

In 2023, we are experiencing a performance divergence across the AM and PS portfolios. Our Performance Solutions portfolio remains strong, with an impressive 11% year-to-date growth in Net Sales. This growth aligns with the overarching megatrends in clean energy and advanced electronics, painting a promising picture for the future.

In contrast, our Advanced Materials portfolio has encountered significant global headwinds, primarily stemming from value-chain destocking across multiple sectors such as general industrial, automotive, and construction.

Let's dive deeper into the numbers.

In the third quarter, we reported Net Sales of $343 million, reflecting a (24%) year-over-year decline. When compared with the prior-year quarter, there was a 2% increase in price, a (26%) decrease in volume, and relatively stable currency. The price increase was driven by sales in high-value end-markets within the Performance Solutions portfolio, (particularly in advanced electronics and clean energy) and pricing actions taken to counteract higher raw material costs in our Advanced Materials portfolio.

The (26%) volume decline on a year-over-year basis was primarily due to softer demand within the Advanced Materials portfolio, which is linked to more economically sensitive end-markets and to a lesser extent, certain product lines in the Performance Solutions portfolio. It's essential to note that overall demand in Performance Solutions remains robust, as product lines including Nafion™ membranes and semicon-linked Teflon™ PFA continue to be sold out.

In total, the Performance Solutions portfolio recorded a (3%) year-over-year decline in Net Sales, whereas the Advanced Materials portfolio faced a more substantial (32%) reduction in Net Sales.

Segment Adjusted EBITDA was $68 million, a ($44) million decrease from the prior year's third quarter. Segment Adjusted EBITDA Margin of 20% was a (500)-basis-point decline compared to the previous year. This decline in segment Adjusted EBITDA and Adjusted EBITDA Margin for the quarter was primarily a result of the

aforementioned volume declines, resulting in lower fixed cost absorption as well as higher raw material costs and the persistent effects of inflation on other expenses.

On a sequential basis, Net Sales decreased by (11%), with a (1%) decline in price and a (10%) drop in volume, while currency remained relatively steady. From a portfolio perspective, Net Sales declined by (13%) in Advanced Materials, and (8%) in Performance Solutions.

As we look ahead, we anticipate continued demand weakness for products in the Advanced Materials portfolio that serve economically sensitive end-markets. This challenge is compounded by persistently elevated input costs. To drive growth, as part of our commitment to meeting future demand, we continue to plan on investing in the expansion of Nafion capacity at our VSP facility in France and enhancing PFA production capabilities for semicon.

Now, I'll hand things over to Mark to discuss our revised 2023 guidance.

Mark Newman

Chart 13: 2023 Guidance Revised

Thanks Jonathan. Let's turn to Chart 12.

As I mentioned earlier, we've updated our full-year Adjusted EBITDA guidance, to between $1.025 and $1.075 billion. We also expect Adjusted Free Cash Flow will be greater than $225 million. As you just heard from Jonathan, this change reflects the ongoing global demand challenges impacting products in both our TT segment and APM's Advanced Materials portfolio. As mentioned previously, our guidance for capex spend is unchanged at $400 million, as we remain committed to driving long-term sustainability-led growth in TSS and APM through the business cycle.

Over the past two quarters, we've proactively implemented robust cost-saving measures across all our business segments, placing a particular emphasis on TT through our TT Transformation Plan. We eagerly anticipate sharing the upcoming phases of this plan, as well as additional color on our outlook for 2024, with you in the near future.

Chart 14: Our Priorities for Creating Shareholder Value

Turning to chart 14.

In closing, I want to reiterate our key priorities for fostering long-term shareholder value and the substantial progress that we have against these priorities in 2023.

Our first priority is to improve the earnings quality in TT while continuing to meet global customer demand. Our strategy for achieving this vision is anchored in our TT Transformation Plan which Jonathan outlined earlier in the presentation. We believe this plan will drive run rate earnings improvement of $100 million in 2024, with the potential for further savings as we continue to implement our transformation initiatives.

Our second priority revolves around driving sustainability-led growth in TSS through our market-leading low GWP refrigerants and specialized solutions, backed by market-driven innovation. We've delivered yet another record quarter, with remarkable results propelled by the ongoing adoption of our Opteon product portfolio. Earlier, I discussed our investments in immersion cooling products, particularly in the data center space. The entire TSS team is working hard to enable commercialization of our 2P50 product by 2025. Our expansion into immersion cooling is just one example of how TSS's journey extends far beyond refrigerants, and we eagerly anticipate sharing more about our ongoing advancements.

Our third priority centers on driving sustainable growth in APM through investments in clean energy and advanced electronics, all while upholding our leadership in responsible manufacturing. We're making strategic investments in our Performance Solutions portfolio to fuel its growth from Nafion™ membranes, a critical component of the hydrogen economy to Teflon™ PFA for semiconductor infrastructure, our products are at the heart of some of the most advanced technologies in the world.

Our fourth priority is to effectively manage and resolve legacy liabilities in alignment with our MOU framework, in partnership with DuPont and Corteva. We've made significant progress in this realm, including the preliminary approval of a comprehensive PFAS settlement with a specific class of U.S. public water systems in August. Additionally, we've fulfilled our pro rata contribution to the water district settlement fund and anticipate sharing more updates on our progress towards finalizing this settlement in the upcoming quarters.

Finally, our fifth priority involves prudent capital allocation to unlock shareholder value. During the third quarter, we returned $55 million in cash to shareholders, while maintaining strong liquidity and Balance Sheet strength through a difficult economic environment.

While challenges may lie ahead in an increasingly dynamic world, I'm confident that we are positioning the company to capitalize on market opportunities as demand returns. Your continued support and interest in Chemours are deeply valued.