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The Chemours Co. (CC)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Dan, and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company First Quarter Earnings Call. [Operator Instructions] Thank you.

I would now like to turn the call over to Ms. Alisha Bellezza. Please go ahead

Alisha Bellezza
Treasurer and Director of Investor Relations, The Chemours Co.

Thank you, and good morning, everyone. Welcome to The Chemours Company 2017 first quarter earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer, who will begin the call with the highlights of our first quarter; and Mark Newman, Senior Vice President and Chief Financial Officer, who will review our financial performance and liquidity position. Mark Vergnano will then review our business results and conclude the call with our updated outlook.

Before we begin, let me remind you that comments on this call as well as the supplemental information provided in our presentation and on our website contain forward-looking statements that involve risks and uncertainties, included those 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 this call, 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 the presentation that accompanies our remarks.

I'll now turn the call over to Mark Vergnano.

Mark P. Vergnano

President, Chief Executive Officer & Director, The Chemours Co.

Thanks, Alisha, and good morning, everyone. Thank you for joining us today. As you saw in our release yesterday, 2017 is off to a great start with all segments reporting increased profitability from one year ago. In fact, year-over-year, we reported meaningful improvements in all key financial metrics – sales, net income, adjusted EBITDA, EPS and free cash flow. These results would not be possible without the diligence of our workforce. Our employees are the backbone of our company, and their commitment to the execution of our transformation plan has made a huge impact on our businesses.

Over the last year, our Titanium Technologies team has worked with our customers to implement announced price increases towards levels that we believe will be more sustainable, resulting in improved year-over-year pricing in the quarter. The segment also benefited from earlier than anticipated demand for Ti-Pure titanium dioxide.

In Fluoroproducts, European and North American adoption of lower global warming products is driving demand for our Opteon refrigerants. We are encouraged by the growth in the quarter and expect to see it continue as adoption picks up in other geographies. Our base refrigerant business also performed well in the quarter on improved pricing and earlier than normal demand. Additionally, our fluoropolymer business appears to be stabilizing with less price degradation than in previous quarters.

Lastly, I am pleased to announce that we have achieved our target net leverage of at or below 3 times, a key commitment we made in announcing the transformation plan in August of 2015. Our trialing 12-month net leverage now stands at approximately 2.7 times as of March 31.

I will now turn the call over to our CFO, Mark Newman.

Mark E. Newman

Chief Financial Officer & Senior Vice President, The Chemours Co.

Thanks, Mark. Turning to slide 3. We generated over $1.4 billion of revenue and 11% year-over-year increase. We reported GAAP net income of a $150 million and adjusted net income of $142 million or $0.75 per diluted share. Adjusted EBITDA in the first quarter was $285 million, up $157 million from the prior-year quarter, translating to a doubling of our adjusted EBITDA margin to 20%. These results were primarily from demand growth in our Titanium Technologies and Fluoroproducts segments, as well as price increases in the Titanium Technologies segment.

We experienced a normal seasonal use of cash for working capital during the quarter, although more muted than in previous years given our secular reduction in working capital to-date. As a result, free cash flow was a use of $28 million, which was about $25 million better than the prior-year quarter. However, excluding the benefit of the DuPont prepayment from last year's first quarter, free cash flow improved over $190 million.

As we continue our transformation journey, we see notable improvements on our return. In fact, from last year's first quarter to today, our pre-tax return on invested capital has increased from 7% to 21%. We will continue to focus on improving profitability of existing assets, while investing in high-return projects to enhance ROIC.

Turning to slide 4. As I said, adjusted EBITDA improved $157 million on a year-over-year basis. We experienced minimal currency headwinds in the quarter, which were more than offset by meaningful price and volume improvement.

Higher average selling prices in Titanium Technologies and prices of our base refrigerants increased adjusted EBITDA by over $80 million in the quarter. This was partially offset by a 3% price decline in prices in fluoropolymer products. Adoption of Opteon refrigerants and demand for TiO2 was stronger and earlier than expected. This drove a more than $100 million increase to adjusted EBITDA.

Finally, this quarter, higher legal expenses, other elevated corporate costs and portfolio changes from last year were headwinds to adjusted EBITDA. These factors were somewhat mitigated by approximately $20 million of lower cost in our Titanium Technologies and Chemical Solutions businesses.

Our transformation plan cost reductions continue to be a driving force in our business. However, we now believe that it will take us into 2018 to realize $150 million of cost reduction initially targeted for 2017. We're committed to achieving the full target with about half to be realized this year, in addition to the $300 million of cost reductions already achieved since we became a public company.

As we look forward, 2017 marks the first year of clean year-over-year comparison for Chemours. Beginning this quarter, we will primarily focus on year-over-year performance. While sequential performance comparisons were helpful to investors to see our early progress since spin, we now believe our year-over-year performance is the more relevant comparison going forward.

Let me now provide a brief liquidity update on slide 5. Cash from operations was $41 million, with $176 million of seasonal working capital usage. Capital expenditures in the quarter were $69 million, resulting in a free cash flow use of $28 million. Again, excluding the net $166 million benefit of the DuPont prepayment from the first quarter of 2016, free cash flow improved $191 million versus the same period last year.

Our gross consolidated debt as of March 31 was $3.6 billion. Net of cash, net debt was $2.7 billion. As Mark mentioned, we have reached our goal of reducing our net leverage ratio to be at or below 3 times on a trailing 12-month basis. We are proud of the progress we've made to reduce our net leverage, which you may recall was north of 6 times at spin. We continue to take actions to enhance our liquidity and add flexibility to our business.

In April, we re-priced our existing Term Loan B, shifting a portion of the U.S. dollar loan into a new class of Euro Term Loan B and lowering our interest rate spreads. As a result, we expect to save approximately $8 million annually.

With the final agreement of the key terms and conditions in place between DuPont and the Ohio MDL plaintiffs, we now expect to pay out about $335 million, our portion of the settlement, towards the end of this quarter or early in third quarter. We see this as a conclusion to the uncertainty of a long-term contingent liability. Although we have been able to sustain strong cash position, about two-thirds of our global cash remains overseas. Given the long-term nature of the liability we're settling and our current U.S. cash position, we're evaluating options of funding this settlement with debt depending on market conditions and other factors.

With the increase in our forecasted 2017 adjusted EBITDA outlook that Mark will cover later in the call, we expect to remain at or below 3 times levered after funding our portion of the MDL settlement.

And now, I will turn the call back to Mark.

Mark P. Vergnano

President, Chief Executive Officer & Director, The Chemours Co.

Thanks, Mark. On slide 6, you can see that we generated $646 million in revenue and $159 million in adjusted EBITDA from the Titanium Technologies segment in the first quarter, a considerable improvement versus last year. Both price and volume were up low-double digits year-over-year. As you may recall, we announced several regional price increases over the last year and versus a year ago, prices in every region improved.

Our global average TiO2 price was up 12% and sequentially up 2%. We are working with our customers to reach a more sustainable price for Ti-Pure, especially in this period of increased demand. Coupled with the increased TiO2 prices, overall volume strength from last quarter has continued, which is somewhat atypical for the first quarter and resulted in a volume increase of 11% over the prior year. We believe this was related to customer-specific demand pull and tighter supply conditions.

As a result of this continued volume strength, our lead order times remained extended. Customers view Chemours as a committed high-quality TiO2 producer. We are seeing strong demand globally and are utilizing all our TiO2 plants at their full capability. We anticipate that longer lead times will remain with us throughout the first half.

In more recent news, some of you may be aware that we declared a force majeure in April in the Europe and Middle East, Africa region. This was due to shipping delays resulting from severe weather in the Atlantic and a labor disruption at the Port of Antwerp. While the strike is over, we are navigating through a backlog of approximately three weeks from the date of force majeure declaration and working closely with affected customers to manage supply to them with minimal disruption. As of now, we do not expect these delays to have any material impact on our full year results.

On the operational side, our Altamira asset is making great progress, and we continue to be ahead of our ramp-up plan. When we first contemplated the additional line at Altamira, we intended to produce only two product grades. However, we've been able to add more products to the line, providing tremendous flexibility to our overall circuit. While this affects the specific tons of output produced from Altamira, it will not affect our global nameplate capacity. We remain focused on optimizing our manufacturing capabilities to drive our low-cost position, while meeting our customer needs around the world.

With some of the recent TiO2 supply disruptions, we now expect Titanium Technologies' full year volume growth to be slightly above GDP. We are positioned to meet our customer supply needs, and our teams are engaged with our customers to implement previously announced price increases. Given that, we expect to realize further benefits as the year progresses.

Moving to slide 7. In the first quarter, our Fluoroproducts segment generated $652 million of revenue and $155 million of adjusted EBITDA with margins improving considerably year-over-year. Higher than anticipated volume of our Opteon refrigerants was the main driver of our growth. We continue to see strong adoption in both the EU and the U.S., as this new low global warming refrigerant becomes the standard in the automotive air-conditioning space.

In fact, Opteon sales grew over 175% year-over-year. We also saw increased demand for our base refrigerants earlier than in previous years. We were pleased to see the recent anti-dumping ruling. During the quarter, the U.S. International Trade Commission finalized an import tariff ranging from 149% to 167% on China-based imported refrigerants. This determination could lead to more favorable pricing for our base refrigerants in the coming quarters.

Fluoropolymer products also contributed to the significant volume improvement in the quarter, this in part related to our increased participation in industrial applications that began in the second half of last year. We also believe that certain environmental actions in China have resulted in the closure or restriction of capacity from some competitors, which seems to have tightened supply conditions. While we did continue to experience lower year-over-year prices, we are starting to see the trend abate, particularly in the U.S. and in the Latin American markets.

In February, we announced price increases for our fluoropolymers products effective March 1. We have implemented these increases in several of our product lines, and we continue to work with our customers as contracts allow. With our strong first quarter and earlier than expected seasonal demand of base refrigerants, we now expect first half results in this segment to be stronger than the second half. Opteon sales are expected to remain the biggest growth driver of the segment, while we continue our efforts in fluoropolymers.

Let me now review the Chemical Solutions segment on slide 8. We are seeing the benefits of actions taken last year to streamline this portfolio. Despite the loss of revenue related to the divestitures and the site closures that took place during 2016, we realized an adjusted EBITDA improvement of $2 million.

We mentioned in the last quarter that our Belle, West Virginia facility had reached a break-even position. We now expect the performance chemicals and intermediates product lines to be modestly positive to Chemical Solutions' results for the year, in addition to the contributions of Mining Solutions.

Let me provide a quick update on our new Mining Solutions facility. We have completed the [ph] citing (17:33) process in Mexico and have successfully advanced the permitting process with a very receptive government and engaged community. Our new plant site will located in the Laguna region in the State of Durango, Mexico. We expect to obtain all necessary permits in the month of May. Once we have those in hand, we expect to be ready to break ground by the end of this quarter. The location of this new site, which is near many of our gold mining customers, will greatly enhance our sodium cyanide manufacturing capability, increasing our capacity by 50% with advanced process technology. We expect the facility to be complete by the end of next year, positioning us to meet the growing market needs by early 2019 and beyond.

Turning to slide 9. As we consider our strong first quarter performance and look forward to year end, we have increased our 2017 outlook. For the full year, we now expect to deliver adjusted EBITDA within a range of $1.15 billion to $1.25 billion and generate positive free cash flow, excluding the expected payment for the PFOA MDL settlement. We've seen earlier than anticipated demand for some of our products and, as a result, expect first half and second half earnings to be more balanced than we saw in 2016.

Our updated outlook for the remainder of 2017 implies adjusted EBITDA improvement of approximately 40% to 50% versus the prior year. The five-point transformation plan continues to be our roadmap, guiding us to further profitability and strengthening us as a total company. We are very proud of the progress demonstrated so far. And although it will take us into 2018 to complete our cost reductions, we remain absolutely committed to delivering the full benefits from the plan.

With that, we'll now open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Duffy Fischer with Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Yes. Good morning, folks.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Hey, Duffy.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Question, first, on the Fluoro segment – or maybe two questions. One, the anti-dumping ruling that you got, roughly, how impactful do you think that will be to your business?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

So, there is an impact on it, Duffy. I mean, obviously, as that part of our business phases down, it's probably not as big as it would have been in the past with the quota system. But I would say it's going to be – it will be meaningful.

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Okay. And then on the PFOA settlement, do you get a tax benefit from the $335 million you have to pay? And then, is that settlement fully agreed or do we have to get, kind of, the signoff of certain levels of judges and stuff like that before that will take effect?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Yes. So, question number one, the settlement will be tax deductible and it will be structured that way. As you recall, we're indemnifying DuPont. So, that payment will be tax deductible against our U.S. taxes.

On the second, DuPont has reached an agreement with the plaintiffs as of the end of March. We're still going through a process to gain acceptance of the settlement with the actual plaintiffs. Once that process is run, there will be a period after which the payment will need to be made. Just based on where we stand today, Duffy, our expectation is that will take us into late Q2 or early Q3.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, fellas.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Sure. Thanks.

Operator: Your next question comes from the line of Robert Koort with Goldman Sachs. Please go ahead.

Robert Andrew Koort
Analyst, Goldman Sachs & Co.

Q

Thanks. A couple of quick ones, if I could. First, the pull-forward of the heavy order activity in the first half, is that a function of customers getting ahead of pricing, or why wouldn't that flow through the second half? And then could you talk a little bit about what's going on on the feed stock side. I guess – or maybe you did a little bigger margin bump with the pricing in the first quarter in TiO2, so there are some sort of period expenses there that have been increasing as well?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Bob, I assume the first part of your question was on TiO2 as well. I'd say our volume is a little bit surprisingly strong. So, we saw strong volume from most of our customers across the board. I'd say, in regions of the world, Asia was the strongest for us from a volume perspective. Again, some of that, anticipated; some of that, just demand pull that we're seeing just stronger demand in those areas.

We're not seeing a whole bunch of change on the feedstock side. I'd say it's fairly flat from our perspective, at least, on the chloride side of things. And as you look at our margin, I would say that – if you remember, we had our price increases – a lot of our price increases go in effect at the beginning of March. So, you'll see a lot of that flow into the second quarter. You didn't see the full impact in the first quarter because of that – probably the biggest impact to margin.

Robert Andrew Koort
Analyst, Goldman Sachs & Co.

Q

Great. Thanks very much.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah.

Operator: Your next question comes from the line of Don Carson with Susquehanna Financial. Please go ahead.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Just wanted to follow up on two things. One, on the pre-buy, you said customers are pre-buying. There are some people out there thinking that maybe there is inventory accumulation by customers and that could affect second half demand. Just want to get your feeling for that.

And then, secondly, you talked about Chinese environmental impact on fluoropolymers. Are you seeing that continue on the TiO2 side as well, specifically restrictions on sulfate pigment production over there?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So, Don, we're really not seeing significant pre-buy. So, if I alluded to that, that was a mistake by me. We're not seeing significant pre-buy. We're seeing a tiny bit. But I would say, for the most part, there's not a lot of inventory in the system, whether that's at the pigment producer side or at our customers. So, we don't believe there is significant pre-buy going on. We really think it's pure demand that's driving things.

In terms of what we're seeing in China, I would say, on the fluoro side, we are seeing some restrictions coming out of a lot of our competitors. I'd say these are mostly the smaller to mid-sized competitors that are being halted or shut down for environmental purposes. We continue to see some of that on the TiO2 side as well, maybe not as much as we saw earlier last – or at the end of last year, but we think that's still continuing from that standpoint as well. So, there is definitely more regulation policing, if you will, from an environmental standpoint in China and we're seeing it on both of our business segments.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

Operator: Your next question comes from the line of Laurence Alexander with Jefferies. Please go ahead.

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning, just a few odds and ends. Can you – given the settlement, can you update your thinking around where your tax rate will settle over the next, call it, three, four years? Secondly, on the TIO2 comments about volumes being slightly above GDP, given how strong Q1 is, do you think your volumes will actually be negative year-over-year in the back half? And third, can you speak a little bit to, sort of, the – your current thinking on working capital and your ability to shave days over the next couple of years?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Sure, Laurence. I'll start, first, on the tax question. Our guidance for this year is cash taxes in the mid- to high-teens. Our expectation is we will be around that level for a couple of years, at least. Obviously, we're going to benefit from the deduction related to the PFOA settlement, as I had mentioned earlier. But I would say, today, our expectation is, if we kept rolling the clock forward, we'd probably get ourselves to the mid-20s over time, but – so below U.S. statutory tax rates. So, we're starting today in the mid-teens, mid- to high-teens. And then, I would say we will evolve over time to the low-20s.

On the working capital, I think, as we said earlier in the year, we think there is slightly more to be had here. Obviously, if you look at our first quarter performance going back over the last three years, while we had a slight use of cash this quarter, a significant improvement in the last two years in terms of a Q1 cash uses. So, I'd say our expectation as we go through the year is that we will have a small working capital benefit. Obviously, that will be affected by seasonal demand patterns as we move through the year.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

And, Laurence, to your point about the volumes on TiO2, for sure, we had a very strong first quarter on TiO2 volume. As we look at the whole year, we still think we'll be slightly above GDP rates for the whole year. So, the second half will still be positive. We don't think it will be negative to GDP. But we do think that you're going to see a difference in the year for us that, normally, we have a – you see the difference quarter-to-quarter significantly.

We think you're going to see more of a balance first and second half, when all is said and done for the whole company; and then, TiO2 would sort of play into that as well. But just to maybe connect your question with something Bob asked before, one of the things we continue to work hard at and we're committed to is working through on the TiO2 side, working very closely with our customers for announced and any future price increases, just to ensure with them that they can get these price increases through. That is something we've been working very hard at.

I think it's something that our customers have respected from how we've been dealing with them, and it's very important for us to have this go very smoothly. So, again, we think volumes overall for us will be above GDP by the end of the year.

Laurence Alexander
Analyst, Jefferies LLC

Q

And then, so just to clarify, when you say that each – that the quarters will be positive to GDP, do you mean that, each quarter, the volume will be above GDP, not just the full year?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

I would say for the half, it's for sure, right? So, if we...

Laurence Alexander
Analyst, Jefferies LLC

Q

Perfect.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Look at the second half, absolutely.

Laurence Alexander
Analyst, Jefferies LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of P.J. Juvekar with Citi. Please go ahead.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. This is Eric Petrie on for P.J. Mark, what are your expectations on the mix of Opteon and base refrigerants, and does that mean the EBITDA margins are sustainable, kind of, in this mid-20% range?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

Yeah. Definitely, the – Eric, we see that Opteon is the driver for growth, for sure, on the fluorochemical side. No question about that. We do see some uplift on margins on the base refrigerants, primarily in North America, based on the – one, based on the anti-dumping ruling. But also, as you see phase outs occur, you'll see that. But, yes, I think we're talking about sustainable 20% level margins primarily driven by Opteon.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks. And then, you noted earlier that volume growth was attributed to stronger Asia export, so I'm guessing that's due to China alumina prices and TiO2 pigment prices increasing. As iron ore production increases and you see a decline in these stocks and TiO2 prices decline, would you expect demand to also follow through?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

No. I guess, the comment I made was our TiO2 business seems to be stronger in Asia. I would say that, that's primarily – again, remember that's primarily driven by the quality products that are being made there at the time. So, both China and Asia-Pacific in general, we have seen an increase in quality of the products being produced there, which sort of pull our products through – our pigments through from that standpoint. So, I would say it's more of that happening.

You're seeing some recovery in those markets, but you're also seeing it move to higher quality in those markets through our segmentation work that we've done. We are one of the largest players in China from a multi-national point of view. And so, as China grows, we're just benefiting from that at the same time.

Eric B. Petrie
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Jeff Zekauskas with JPMorgan. Please go ahead.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. I see that your cost of goods sold was $10.79 billion in the quarter. And last year, it was $10.95 billion. So, you are down, I don't know, $16 million and your revenues are up, I don't know, $140 million. So, how did you do that? How did cost of goods sold go down and revenues go up so much and your volumes were stronger?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

You're right. So, Jeff, It's Mark Newman. There's a combination here of factors. The first obviously is the significant portion of the fixed cost reduction that we've achieved since spin. $300 million or so is coming through plant fixed cost. So, that's our biggest single source of cost other than corporate overhead or SG&A cost. So, a significant piece of the year-over-year cost reduction is coming through those initiatives.

As part of our transformation plan, we're also focused on the variable cost side of the equation. So, as you know, when we brought Altamira on, that really helped to drive rationalization of our ore plant as opposed to producing higher volume. And then, obviously, we have variable cost initiatives in place across the board on a whole range of issues including logistics. So, I'd say it's a combination of significant plant fixed cost as well as other initiatives around our variable spend as well.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC **Q**

So, it's not that exactly that your raw materials went down, it's that you're sort of the – kind of raw materials you bought went down?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co. **A**

No Correct. And don't underestimate, Jeff, the work we've done on our plant fixed cost because that was significant. As Mark said, that was a key part of our transformation plan. We want to be the low cost player, and to do that, we've got to work hard at all our sites to make sure that we're the most efficient possible. So, for sure, the fixed cost side of things, I would say, were significant in that reduction of – that you're seeing in terms of cost of goods sold.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC **Q**

Okay. In Opteon, you obviously sold a tremendous amount of products versus last year. Can you produce any more than you're producing now? Or, like, is this the maximum you can ship in a quarter, or what's your utilization rate in Opteon? Sort of, where do we stands in terms of how much you're actually able to produce and sell?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co. **A**

Yeah. So, we have more capability and more capacity than what we've shipped. One of the beauties – put it that way. One of the beauties of working with large OEMs is very clear forecasting that we get from them. So, we can plan out extremely well when you're working with these folks by plant, by location, by timing. That's a challenge on one side because you have to be exact when you're working with large car OEMs. But on the other side, it helps you on your planning perspective.

So, from that standpoint, we can plan our capacity extremely well. We know when we have to inventory a little bit more in advance to be able to meet those peaks when they happen. So, we feel very confident that we have the capacity as this product line grows. And as you've seen, obviously, significantly in Europe, but also in the U.S. and we're also seeing a mix of vehicles change this a little bit as well. So, that's something that is put in our forecasting as well. Obviously, larger vehicles are going to be using more refrigerant. And so, as that mix changes, we try to keep very, very close with our OEM customers to ensure that we have the right capacity, but really the right inventory and volumes to be able to meet their needs.

So, a long way of saying that, we have more capacity available to us, Jeff, and we work very closely with our customers to make sure they get what they need.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

You have 25% more capacity or 30% more capacity, can you ballpark it?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah. So, we really aren't going to ballpark it for you, but I will say that we have more – we have enough capacity that we foresee in the next year to be able to handle everything that we think is coming at us.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you so much.

Operator: Your next question comes from the line of John Roberts with UBS. Please go ahead.

John Roberts
Analyst, UBS Securities LLC
Q

Thanks, and congrats on a good quarter.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Thanks John.

John Roberts
Analyst, UBS Securities LLC
Q

In Fluoroproducts, I assume that you had significant mix change effects between Opteon, the older refrigerants, and Fluoroproducts or fluoropolymers. I'm surprised, price only moved a little. I think mix would have been a bigger effect here. So, could you talk about the relative price levels between those three areas. Are they all about the same, so that we don't get much mix effect on price?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah. If you look at it purely as a fluorochemical versus fluoropolymer side, you'd see more of the mix effect on the fluorochemical side. Fluoropolymers pulled that down a bit. So, what you're seeing in the total price piece is that you're still seeing a little bit of a drag from the fluoropolymer side in the total mix. We talked about it being a bit – the drop being abated. We're seeing less of that drop than we had seen in the previous four quarters. A lot of that has to do with the work the team has done, one. Two, we're seeing some demand pull in some of our higher end polymers. And, three, the team has gone out with price increases effective March 1 that they're implementing segment-by-segment.

So, I think you're going to see that improve from a pricing perspective as we go over the next couple of quarters. But all-in-all, the polymer side in the mix scenario is what's affecting that price. If you've looked at it purely on fluorochemicals, you'd see Opteon pulling that up.

John Roberts
Analyst, UBS Securities LLC
Q

And then your earlier comment about the March 1 implementation of TiO2 price increases. Would you expect the 2% sequential improvement that we saw this quarter to accelerate because of the March 1 implementation period, or do we decelerate because the comps become a little bit more challenging on price from a higher level or do we stay about the same?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

No. We should see an acceleration in the second quarter.

John Roberts
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Operator: Your next question comes from the line of Roger Spitz with Bank of America Merrill Lynch. Please go ahead.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you. Good morning. I don't know if you want to do this. But would it be possible to bridge the Fluoroproducts year-over-year EBITDA increase of $85 million, looking at price volume clusters, clearly, a lot of interest in how that all worked out?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.
A

Yeah. We're not going to separately bridge it. So, what I'd say is, as we said on the call, most of the volume in the quarter is coming from fluoro, I'd say the great majority of the $100 million. And then, as we said, most of the price is really coming from TiO2 in the quarter.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

But, Roger, to your point, I would say that – I think you're saying, do you want to – do we want to drill down inside of fluoro. Is that what you're asking?

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

I was requesting it, yes?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah. So, again, as Mark said, I think we're not going – we're not probably going to give you that bridge that deeply. But I will say that, to Mark's point, Opteon is a big driver there and that's good news for us. But it also is – you will see the fluoropolymer side improving over time as the team is implementing their strategies on that piece.

So, right now, I think that it's a heavy Opteon story and I think you're going to see it's going to be more actors in that story as we go forward.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

And just on the fluropolymers, the volumes were higher year-over-year, the prices were down 3%. Did you take prices down 3% to gain share, or prices were down because other people were bringing prices down and now you're just trying to get prices back up?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

That's correct. So, as you may recall, last year, we made a strategic move to improve volumes through more industrial applications. We expect in this area some more competitive pressure, which we saw in the quarter. I think, as we announced the price increase on March 1, our expectation is we will see improvements from this point.

Net-net, revenues are up on fluoropolymers with higher volumes and slightly lower price. So, we did see an improved revenue year-over-year. And so, part of the fluoro story is higher volume and slightly lower price. As Mark said earlier, when you include the mix effect of fluoropolymers, that's what's driving slightly negative price for the segment overall.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So, Roger, we – for sure, they weren't dropped in price, as Mark said. And I just want to remind everyone, when we were driving more volume in that fluoropolymer segment, as Mark said, we went to the industrial side to pull that. That just inherently had low price points – lower price points than where we were before. So, it's not that we dropped price to go in there. That's just where the market is. The other thing you have to remember is a lot of our competition is European or Japanese based. So, from that standpoint, that puts a little bit of pressure on price as well.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: Your next question comes from the line of Laurence Alexander with Jefferies. Please go ahead.

Laurence Alexander
Analyst, Jefferies LLC

Q

Hi. There. Sorry, just one quick clarification. The $34 million of other income, can you provide some details as to what that is and how you think that line will be for the rest of the year?

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

We're thinking through that – and, Laurence, sorry. I'm trying to think what the largest piece of that was.

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

So, we had some licensing revenue in the quarter in Chem Solutions. And obviously, we have some joint venture income as well coming from our joint venture with MDF in the quarter. So, I would say those two probably speak to most of the delta. We also have an entity in China, where we do have some other income as well associated with higher volumes that we saw there. But I'll work with Alisha to get you a better breakout of that.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. And, Laurence, to your point, I think we will see a stronger first – the first quarter was strong because of the licensing side of things. The royalty side plays out as the JV operates throughout the year. But the licensing piece was probably more front-end loaded than normal.

Laurence Alexander
Analyst, Jefferies LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Robert Koort with Goldman Sachs. Please go ahead.

Christopher Evans
Analyst, Goldman Sachs & Co.

Q

Good morning, everyone. This is Chris Evans on for Bob. You guys hit your leverage targets and have a pretty strong cash balance in a week – seasonally weak working capital quarter. Can you talk about strategically what you plan to do with your cash reserves that you have right now? And should we expect buybacks, bolt-ons? How should we expect you guys deploy that cash in the future?

Mark E. Newman
Chief Financial Officer & Senior Vice President, The Chemours Co.

A

So, I'd say, today, Chris, our view is we want to stay – we want to keep balance sheet flexibility, especially as we go through the next two years of fairly high elevated levels of CapEx. As we said on the call, our U.S. cash – our total cash balance is around $900 million, but greater than 2/3 of that is overseas. And so, I think our view today is we want to keep as much flexibility on our balance sheet as possible.

And as we move through the year. And certainly, as we get through the transformation plan, we'll continue to work with the board on our capital allocation plan. I think, as of today, there is really no plan to do more than what we're currently doing in terms of return of capital to shareholders. But that's certainly something that we've committed to once we get to our leverage target and once we get beyond funding or paying for the PFOA settlement.

So, I think this is something that we will work on with our board more diligently as we go into the second half and, certainly, as we get beyond the PFOA settlement.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

A

And, Chris, to add to Mark's point, we do have a gating period here where we want to get to this PFOA payment. That's very important to us. So, that's one. And so, that – we don't want to spook anyone out there at all around the fact that, as we look at opportunities, they would have to be incredibly accretive, very strategic for us to think about bolt-on opportunities at this point. We don't put that as a no. We would just have to – we have a high bar in terms of what those would have to be for us.

Christopher Evans
Analyst, Goldman Sachs & Co.

Q

Great. And just – maybe could you just remind me, you've been talking about this a bit on the call just – I think I might have missed it. But again, your comment about the 1H strength for Fluroproducts versus the second half, could you just go through that again maybe in a little more detail, what's actually driving that? But I thought Opteon was going to contribute maybe around $100 million or so incrementally year-over-year in 2017. Just kind of I want to know where we are related to the first quarter here?

<A – [06GY5F-E Mark Vergnano Yeah. So, I would say Opteon has been very strong. I'd say it's a little bit stronger than our expectations in the first half primarily because we're seeing a different mix of vehicles – larger vehicles being sold versus what we had in the original plan, and that's just data coming right from our OEM customers.

That – so, Opteon, a little bit stronger than what we had anticipated. The base refrigerants have been stronger in the first half. I'd say that's probably two fold. One is – and that's mostly North America driven. That's coming from we're having a warmer season. So, you see that normally happen as you see a warmer season in the spring heading to the summer. And I think there are some folks who are getting in front of some of these anti-dumping rulings as well. So, that's why I think we're seeing a little bit more push in the first half than in the second.

Polymers is strong right now from a volume perspective. I'm not sure that's going to be that different first half, the second half because the pull we're seeing there is primarily in the electronics industry, where people really need these high-power dielectric properties that the fluoro – our [ph] melt (46:25) products really deliver. So, I'd say it's primarily driven off of the fluorochemical side, strong Opteon because of vehicle mix and base refrigerants because of seasonality as well as the anti-dumping ruling.

Christopher Evans
Analyst, Goldman Sachs & Co.

Q

Thanks, guys.

Operator: And we have no further questions in the queue at this time. I would now like to turn the call back over to Mark Vergnano for closing remarks.

Mark P. Vergnano
President, Chief Executive Officer & Director, The Chemours Co.

Well. Thanks, Dan. In closing, I just want to say we are very encouraged by the progress that we're making. Obviously, that's very evident in our first quarter results, and we expect 2017 to be a great year for Chemours. Our focus continues to be on our transformation plan initiatives to really drive our earnings growth, and that's what our team continually focuses on for the rest of this year. So, again, thanks for your time this morning, and thank you for your continued interest in Chemours. Have a great day.

Operator: Thank you to everyone. This will conclude today's conference call, and you may now disconnect.