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The Chemours Co. (CC)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company Fourth Quarter 2021 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Jonathan Lock, Senior Vice President and Chief Development Officer, you may begin your conference.

Jonathan S. Lock

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

Good morning and welcome to The Chemours Company's fourth quarter and full year 2021 earnings conference call. I'm joined today by Mark Newman, President and Chief Executive Officer; and Sameer Ralhan, 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 our website, contains forward-looking statements that involve risks and uncertainties, including the impact of COVID-19 on our business and operations, and the other 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 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 this presentation.

With that, I'll turn the call over to our CEO, Mark Newman, who will cover the highlights from the past quarter and full year. Mark?

Mark E. Newman

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

Thank you, Jonathan, and thank you for joining us this morning. I will begin my remarks on chart 3. 2021 was a year where The Chemours team pulled together to deliver strong results quarter after quarter despite being a year full of challenges. Our performance reflects strong customer demand for our products and our commitment to customer service and supply chain reliability through the toughest conditions. All underpinned by our company-wide commitment to the holistic safety and health of our workforce. Revenue was up 28% year-over-year to $6.3 billion. Adjusted EBITDA rose 49% to $1.3 billion and we generated $543 million of free cash flow, consistent with our focus on sustainable growth and high quality earnings across our businesses with strong free cash flow conversion.

2021 was truly a team effort across the entire business. In our TT segment, we built what we believe is the strongest book of contracted business ever with strategic customers who appreciate our value proposition and with whom we can grow over time. In TSS, we delivered strong sales and margin performance despite all the OEM headwinds and look forward to the growth we can achieve under the US AIM Act. And in APM, we achieved record setting results on both the top and bottom line in a business, which is being driven by several exciting secular growth trends. Finally, in Chemical Solutions, we completed the sale of our Mining Solutions business, which will give us greater bandwidth to focus on our industry-leading TT, TSS and APM businesses. I'm proud of the results we're reporting today and proud of the entire Chemours team that delivered them. I would also like to thank our customers for their trust and confidence in Chemours.

But 2021 wasn't just about the financial results. We made significant contributions to the planet, our people and the communities in which we operate through progress on our Corporate Responsibility Commitments. Chemours believes that together with our employees, customers, suppliers and communities, we will create a better world for the power of our chemistry. Our chemistry is essential to so much of our daily lives today and is also key to a more sustainable infrastructure, clean energy, and advanced electronics. In fact, we are integral to the US semiconductor industry supply chain. And we are making significant investments to manufacture this chemistry responsibly with the latest abatement technology, all part of our commitment to reduce emissions of fluor-organic compounds by 99% and greenhouse gas emissions by 60% by 2030.

Additionally, we continue to focus on our remediation commitments at our key sites, including the barrier wall project at our Fayetteville, North Carolina plant. Finally with the DuPont, Corteva, Chemours MOU behind us, we are actively working to address, manage and resolve risks to the company related to legacy PFAS liabilities. A good example of this is the resolution of legacy natural resources damages claims in the past year with the State of Delaware. As we look forward to 2022, our guidance reflects our confidence in Chemours, and our intent to drive consistent performance through the cycle, while generating significant free cash flow. We continue to invest behind key secular growth drivers, especially in clean energy and advanced electronics and behind innovative and responsible chemistry that enables sustainable products of the future, from advanced coatings to low GWP thermal solutions to fuel cells and beyond, all while strengthening our balance sheet and returning the majority of our free cash flow to shareholders.

Turning to the next chart, I'd like to highlight more of the good work we're doing across Chemours through our Corporate Responsibility Commitment programs. Last quarter, we discussed our Evolved Portfolio pillar and how the AIM Act will help drive Opteon low GWP refrigerant adoption across the US. Today, I'd like to cover our Inspired People pillar. The Inspired People pillar has been one where we have consistently delivered outstanding progress through all three platforms: safety excellence, vibrant communities and employee empowerment. In the fourth quarter, we launched a new program we called ChemFEST, short for the Chemours Future of Engineering, Science, Trades and Technology.

ChemFEST helps bring STEM education to under-resourced middle schools in communities, in which we operate. This year with an initial investment of $4.3 million, we're bringing improved access to early STEM education to schools around our Wilmington headquarters, our New Johnsonville site and our Chambers Works site. This program is a natural feeder to our FOSSI program, which targets high school seniors pursuing STEM education at the college level.

In total, Chemours has committed over $15 million to our Inspired People initiative, an investment which will pay back many times over in the lives we change and the impact we have on the communities in which we operate. I'm proud of this work, which reflects our company's strong commitment to purpose and people, and we'd like to thank Alvenia Scarborough, our Chief Brand Officer and her entire team for leading the charge over the last several years.

With that, I'll turn things over to Sameer to review the financial results for the fourth quarter. I'll be back to talk about our guidance before turning to Q&A. Sameer?

Sameer Ralhan

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

Thanks, Mark, and thanks, everyone for joining us today. Before I begin my remarks, I would also like to recognize all our employees for their outstanding effort over the course of 2021. Your energy and determination were instrumental in delivering the outstanding financial results, which Mark and I have a privilege to report.

Let me go to chart 5, to cover the full year results. Our 2021 full year results were driven by strong demand across all three of our primary businesses, with a significant rebound in demand from 2020. Full year net sales rose $1.4 billion to $6.3 billion. Volume and pricing across the portfolio, backed by solid operational performance, drove the strong results. GAAP EPS more than doubled to $3.60 per share in 2021 from $1.32 per share in 2020. Adjusted EPS was $4 per share in 2021; also more than double the $1.98 per share we owned in 2020.

Our full year 2021 adjusted EBITDA was $1.313 billion, up $434 million, or 49% from the prior year. This resulted in adjusted EBITDA margins of 21% for the full year, up 300 basis points from 2020. Free cash flow continues to be a strong point for the company. In 2021, we generated $543 million of free cash flow. This is despite the shift to networking capital consumption in 2021 based on improved customer demand and inventory levels. Our performance on free cash flow reflects the power of the business to generate significant cash through any part of the economic cycle and reflects the collective effort to improve the earnings quality of the business [ph] in spin (00:11:12).

Turing to chart 6 and our fourth quarter results. Fourth quarter net sales of $1.6 billion were up 18% from the fourth quarter 2020. Price gains were strong across the breadth of the portfolio, while volume was up across most of our segments. Adjusted EBITDA rose 25% in the fourth quarter to $307 million, resulting in slight margin expansion to 19% versus 18% in last year's fourth quarter. Free cash flow was $131 million due to higher working capital needed to support increased sales and the impact of certain tax items in the quarter.

Turn to chart 7, let's review the adjusted EBITDA bridge for the fourth quarter. Fourth quarter 2021 adjusted EBITDA was $307 million, up $61 million from the same period in 2020. Price was a large contributor to the improved results, but pricing gains across the entire portfolio. However, the impact of volume gains across most of our segments was more than offset by demand headwinds from automotive OEMs, primarily related to the impact of semiconductor shortages on auto builds. Our net price versus cost contribution continues to be positive despite the inflationary environment we are in.

As I said in the last quarter, we continue to be diligent across our businesses to ensure that we stay ahead of inflation.

Turning now to chart 8, our cash position, liquidity and balance sheet remained strong, as they have throughout the year. Our cash balance at the end of the year was $1.45 billion, up from $1 billion in the prior quarter. In the fourth quarter, we generated $214 million of operating cash flow and CapEx was $83 million. We returned $134 million of cash to shareholders through dividends and share repurchases. We reduced our debt by $70 million and proceeds from the Mining Solutions sale were also recognized in the fourth quarter. We ended the year with gross debt of $3.8 billion. Our net leverage ratio improved to 1.8 times on trailing 12-month basis, down from 2.3 times in the prior quarter. Total liquidity stands at approximately $2.3 billion including revolver availability of approximately $800 million.

Turning to chart 9, as we continue to strengthen the cash generation, we also continue to execute on our disciplined approach to capital allocation. In 2021, we invested $277 million in CapEx to maintain our assets, meet our CRC commitments and grow the business long-term. Timing of our capital expenditures in 2021 was impacted by labor and material issues, which shifted several projects from 2021 into 2022. From a credit profile perspective, we reduced debt by $204 million in 2021, and we also contributed $100 million earlier in the year into the escrow account as per the MOU agreement with DuPont and Corteva. This amount is reflected as restricted cash on a balance sheet. Last, but not least, we continue to return the majority of our free cash flow to our shareholders with $164 million returned via dividends and $173 million through share repurchases in 2021. Since then, we have retired more than 10% of our total shares outstanding, going from approximately 181 million shares to approximately 161 million shares at year-end 2021.

Let's now turn to chart 10, where I'll cover the results and outlook for our Titanium Technologies segment. Our Titanium Technologies segment continued to deliver in 2021 with strong performance over the course of the entire year, despite global logistic issues and feedstock disruptions. Ti-Pure pigment demand was strong across all regions and all end markets as the global economy recovered from the low levels we saw in 2020. Our TVS strategy continues to deliver with strong traction across all three sales channels. Customers continued to see the value of a long-term relationship with Chemours as a reliable, high-quality supplier has enabled them to succeed despite other supply chain issues. As a result, our contracted customer base has never been stronger, and we have welcomed many new customers on our Flex portal who want to buy Ti-Pure from Chemours.

Turning to the results, fourth quarter net sales rose 25% to $865 million versus the prior-year quarter. Price rose 19%, while volume rose 6% on a year-over-year basis. Fourth quarter adjusted EBITDA of $198 million improved 33% versus the prior-year quarter. Segment margins were a healthy 23% despite ongoing ore and logistics constraints. Sequential price of 5% more than offset increased costs in the quarter. For the full year 2021, net sales were $3.4 billion, up 40% from $2.4 billion in 2020. Price rose 10% and volume was up 28% as demand returned from pandemic-induced lows in 2020.

Adjusted EBITDA rose 59% to $809 million from $510 million in 2020. Full year margins came in at 24%. We exited 2021 having regained all of the share loss on installation of our TVS strategy and then some. I stayed ahead of rising costs throughout the year despite inflationary environment with higher costs required to support our production. Looking ahead, we anticipate strong demand for Ti-Pure pigment to continue in all geographies and end markets. At the same time, ore constraints are likely to continue into the first part of the year, but will moderate over time. As Mark said earlier, we have never felt better about the customer book we have built and look forward to continuing to serve them with the highest quality Ti-Pure pigment available in the market today.

Turning to chart 11, Thermal & Specialized Solutions delivered a strong fourth quarter and full year 2021, driven by improved demand despite headwinds from automotive OEMs related to semiconductor shortages. Our execution throughout the year was solid, and we continue to execute on pricing initiatives to stay ahead of rising raw material costs. The breadth of our portfolio across stationary, aftermarket and non-refrigerant applications enabled us to deliver solid financial performance, despite the drag of automotive OEM demand headwinds and contractual price downs.

Looking more closely at the results, fourth quarter net sales improved 8% from the prior-year fourth quarter. Strong price contribution in the quarter of 19% more than offset the impact of the 11% more volumes. As a reminder, the fourth quarter of 2020 was an exceptional quarter from an auto OEM demand perspective, but builds have been down across 2021 due to semiconductor shortages. As a result of these headwinds, adjusted EBITDA declined 8% to $97 million in the quarter. For the full year, net sales rose 14% to $1.3 billion, the result of stronger volumes and price that rose 9% and 4% respectively. Full year adjusted EBITDA was $412 million, up 16% from $354 million in 2020. Adjusted EBITDA margins improved from 32% to 33%, demonstrating the earnings power of the segment.

We delivered solid growth in both legacy refrigerants and low GWP Opteon refrigerants across both end markets. As we look ahead, we expect a continued market recovery in 2022 with a recovery in automotive OEM build rates from the semiconductor-related shortages of 2021. The US AIM Act and additional F-Gas enforcement in Europe will drive continued conversion to Opteon low global warming potential solutions. At the same time, we continue to enter new markets with innovative products, including Opteon 1150, our newest low GWP foam blowing agent. Chemours remains well-positioned to [ph] be very (00:20:51) sustainable from a management provider of choice by our customers.

Let's now turn to chart 12 for our Advanced Performance Materials segment. The APM segment has delivered outstanding results throughout 2021 and exceeded our own expectations for profitability throughout the year. As the businesses continued its turnaround, the power of our chemistry continues to shine. From polymers to membranes, the portfolio contains class leading products, which are key to unlocking the future potential of high growth end markets in clean energy and advanced electronics. Sales at an all-time record of $346 million in the fourth quarter, up 24% from $279 million in the prior-year fourth quarter. Strong demand drove 10% price and 15% volume gains on a year-over-year basis with strong demand underpinning growth across the breadth of the portfolio.

Adjusted EBITDA rose 160% to $65 million as price actions and productivity more than offset sharply by energy and logistics costs in the quarter. For the full year 2021, we delivered record net sales and adjusted EBITDA of $1.4 billion and $261 million, respectively. The top line grew 27% from 2020 levels, with 20% volume growth reflecting strong demand across all product lines. Price growth and currency contributed 4% and 3%, respectively, to the top line growth. We continued to experience a favorable price cost dynamic across a diverse product portfolio of the segment. And as a result, margins expanded to 19% in 2021 from 11% in 2020. This achievement was exceptional, given the logistics and weather-related challenges we experienced during the year.

Looking ahead, we believe that strong underlying demand will continue into 2022. We anticipate headwinds from raw material costs, energy and logistics will moderate over the course of the year. In total, we continue to target top line growth in excess of GDP. We are also targeting adjusted EBITDA margins in the low 20% with operating discipline and efficient plant operations helping to offset rising input costs. We see significant market momentum building in clean energy and advanced electronics, where our technology is uniquely suited to drive higher levels of performance, whether it's our Nafion membranes in hydrogen or Teflon PFA in semiconductor fabs, our Viton elastomers in electric vehicles, APM is playing a leading role in enabling the technologies that will help shape the future.

Turning to chart 13, we continued to focus the overall portfolio of Chemours and completed the sale of our Mining Solutions business in the fourth quarter. Comparability of results in the fourth quarter and full year for Chemical Solutions segment was impacted by these portfolio actions. That said, the underlying business performance in PC&I and Mining Solutions was solid throughout the year. Fourth quarter net sales were $69 million as the impact of price and volume gains of 8% and 14% respectively was more than offset by portfolio changes. Adjusted EBITDA was $8 million in the fourth quarter of 2021, again reflecting the impact of portfolio changes in the quarter.

For the full year, net sales were $336 million, while the full year adjusted EBITDA was $51 million. Strong demand and pricing gains across the most end markets and key product lines contributed to the solid results. Looking ahead, the segment is now focused on the world class Glycolic Acid asset franchise. We anticipate solid growth in 2022 across what's technical and high purity grades of product along with continued expansion into new markets such as clean and disinfect and electronics.

With that, I'll turn things back over to our CEO, Mark Newman, to cover our 2022 guidance. Mark?

Mark E. Newman

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

Thanks, Sameer. I'll continue my remarks on chart 14. Our business results have continued to improve steadily and are now well above pre-pandemic levels reported in 2019, a result of the hard work of our employees and execution of our focus strategies. As we look ahead to 2022, we believe our results will continue to improve with another year of solid earnings and cash flow growth. Our full year adjusted EBITDA is projected to be between $1.3 billion and $1.425 billion, up 8% at the midpoint after accounting for the divestiture of our Mining Solutions business at the end of last year. We project adjusted EPS of between $4.07 and $4.70.

Finally, we forecast free cash flow of greater than $500 million in 2022, inclusive of CapEx of approximately $400 million. Taken together, these results reflect the higher quality business we are driving across Chemours and our ability to improve earnings through the cycle. From a capital allocation perspective, we remain committed to returning greater than 50% of that free cash flow to our shareholders in the form of dividends and share repurchases.

To that end, we expect to complete the remaining portion of our $1 billion share repurchase authorization by mid-2022. With the momentum we have built in 2021, we believe 2022 will be another excellent year for Chemours and for all our stakeholders.

I would like to close with some thoughts on the next chapter of Chemours. At spin, we set out to create a new kind of chemistry company, one which would have the courage to make difficult decisions and lead the industry forward. The foundation which has been laid is strong. As we look to the future, the next chapter of Chemours, Chemours 2.0 as we call it, will refocus our efforts to create a better world through the power of our chemistry. This vision will be underpinned by four key elements: agile innovation and sustainable solutions, environmental leadership, community impact, and making Chemours the greatest place to work for every employee.

To that end, I have challenged every Chemours employee to ensure their work helps to contribute to these goals. I truly believe the spirit of this vision owned collectively by our 6,400 employees can take the company to new heights and it will reward our customers, our planet, our team, and of course our shareholders. I'm excited to be leading Chemours on this leg of the journey and look forward to engaging with all of you in the coming year.

With that, operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of John (sic) [Josh] (00:29:11) Silverstein from Wolfe Research. Your line is open.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Hey, good morning guys. For 2022, for TiO2 you're still factoring in continued ore constraints and supply chain issues and raw material inflation. Are you factoring in to get worse relative to the fourth quarter versus – or improvement throughout course of the year. And then if there continues to be ore constraints, what are the supply alternatives for them?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Hey. Good morning, John (sic) [Josh] (00:29:43), Mark here. Our guide really assumes that we continue to build momentum in all three of our industry-leading businesses. And on TiO2 in particular, we were down sequentially in the quarter, in line with expectations from a volume perspective on very strong demand. But as we had indicated in our Q3 call, we were ore constrained. We expect that ore constraint to relieve itself in the first half of the year. So, we start the year with ore constraint, while our expectation is volumes will be relatively flat from Q4 to Q1. But will then mirror more of the seasonal patterns beyond that, as the ore situation resolves itself. So, great, great – good quarter on a great year. But I just want to share with you that we see real good momentum in all of our businesses, especially from a demand and a pricing perspective, which we expect to continue.

Josh Silverstein
Analyst, Wolfe Research LLC

Q

Thanks for that. And then just on pricing under the TVS model, you pushed through another 5% increase this quarter on top of 6% increase in the third quarter, with inflation indicators continuing to push higher and higher, is the expectation for you guys to keep being able to push through higher prices in 2022? Thanks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, the short answer is yes. And as you'll see in our EBITDA bridge, we are continuing to be able to take price across our entire businesses in excess of cost. Clearly, you're going to have some lumpiness as you move through time. So, it's not always perfect timing in terms of how those two move together. But recall that we have three go-to-market approaches on the TVS, which provide us real price latitude. Maybe I'll ask Sameer to comment on that because that's something that we watch very carefully.

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

Thanks, Mark. John (sic) [Josh] (00:32:00), look you touched on the AVA contracts at the same time in Flex and Distribution as Mark talked about. There's an opportunity to push prices even faster than the AVA contracts, right? So, all in all, we feel pretty good about where the supply demand is and what our opportunity is to pass the prices.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

And, Josh, bottom line, I would say, our expectation is to have our TiO_2 businesses – for the full year, we were at a 24% EBITDA margin. Our expectation on this business is to be in the mid-20s going forward. Clearly, you had a quarter in which we had lower volumes related to ore and as that relieves itself, our expectation is through both price as well as volume, we would return this business to mid-20s going forward.

Josh Silverstein
Analyst, Wolfe Research LLC
Q

Okay. Thanks, guys.

Operator: Your next question comes from the line of John McNulty from BMO. Your line is open.

John McNulty
Analyst, BMO Capital Markets Corp.
Q

Yeah. Thanks very much for taking my question. So, a question on the TSS business. Just in terms of how you're thinking about how 2022 plays out. I know we had some of the issues around autos being a little bit weaker in the back half of the year. I assume that there's an assumption in your guide for a recovery there. You also had some really strong pricing as well. So, I guess, can you speak to how you're thinking about how that business progresses in terms of earnings trajectory through 2022?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah, John, thanks for the question. TSS had a good year despite the auto OEM headwinds, and of course, we had the Winter Storm Uri that impacted our Corpus Christi plant early in the year. So, when you look at the year of being up 14%, but greater than 30% margins with all those headwinds, really great job by the team. When we look at IHS forecasts for auto builds, we expect that that to be in line with those projections. Clearly, we're focused on both the OEM and aftermarket growth in Opteon. And so, we feel quite encouraged by that. And our guide reflects the continuing improvement of the auto as we go through the year.

On the pricing side, we're seeing a better market in the stationary, mainly here in North America, but also in Europe. And as we get through this next COVID wave, our expectation is we'll see a lot more folks returning to offices, business travel picking up, we'll see a lot more sort of a normal recovery in the commercial aspects of the refrigerant demand across the spectrum. So quite encouraged by early indications in the year, but clearly, we have a cautious note in our guidance until the auto OEM situation clears itself.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Got it. That's helpful. And then maybe just as a follow-up to kind of a broader question. So when I look at the guidance that you provided, it's a pretty wide range, admittedly, and look, it's a crazy year to start. So, maybe that's part of the rationale. But when I look at the low end of the range, I mean, it's basically pointing to when you adjust for the Chem Sol sale, about 1.5% to 2% EBITDA growth, which given kind of the outlook that you laid out for TiO2, the outlook that you laid out for TSS. And what I would think is going to be continued decent demand growth in the APM segment. Candidly I can't figure out what could get you to that low end of the range. So, can you kind of help us to at least frame the risks or the potential or the things that could go wrong that maybe put you toward that low end of the range? Or is it just, hey, look, it's early and we don't want to get – we don't want to set the bar too high type of thing, like...

[indiscernible] (00:36:08)

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

John, I'd say it's early and we're starting the year, obviously with a number of uncertainties. We did mention being – ore constrained in TiO2. We're seeing – we're not through the semicon issue with auto. There has been some auto disruptions even in the quarter and unrelated to semicon. And so, I think it's just starting the year with a lot of uncertainty and having some caution in our guidance. But I would not factor anything more into that and this – being thoughtful early on in the year.

John McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Thanks very much for the color.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: Your next question comes from the line of Bob Koort from Goldman Sachs. Your line is open.

Emily Kech
Analyst, Goldman Sachs & Co. LLC

Q

Hey, this is Emily Kech on for Bob. So, looking again at the 2022 outlook, it reflects a continued economic recovery, and you guys mentioned the expected supply chain normalization in early 2022. So, just kind of across the businesses, what trends have you seen that give you confidence in that normalization?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah, so, Emily. Great question. I would start by saying that demand remains strong in all key markets and all key product lines. And in fact, in many cases we are – we remain sold out. And pricing power is in our favor. Obviously, we are working carefully with our customers to make sure we're not doing anything that's disruptive.

But as I look at it, clearly demand is strong at the outset. But we're somewhat constrained, especially in TiO2 as we start the year. So, I think our guidance really reflects growth – top line growth in all of our businesses this year. Clearly, if I go through the businesses, we're – outside of TiO2, we would be looking at the impact – starting the impact of the AIM Act in our TSS business, where we're going to start to see more traction on some of our blends businesses in refrigerants. Our expectation around our APM business is that's a GDP plus growth from this point on because of all the secular trends related to both semicon and EVs that are driving our portfolio.

Emily Kech
Analyst, Goldman Sachs & Co. LLC

Q

Okay, great. And then just one more, can you provide more color on the new strategic partnerships you mentioned in the TNSS business?

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

A

Yeah, Emily, this is Sameer. Let me just jump in. It's – these are the strategic partnerships we have with auto – sorry, with the HVAC OEMs. Some of these are public and some are, of course, not in the public domain, but across a broad spectrum of OEM suppliers, we have been working and as they transition to the new equipment, right, as the AIM regulation comes in. Yes, it will be initially the blends portfolio. But all the OEMs are working through their models and upgrading how they will work with the new refrigerants. So there's a great exciting opportunities to be working with our key customers and to help them transition into the new product lines.

Emily Kech
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Arun Viswanathan from RBC Capital Markets. Your line is open.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions. I guess, first off, just real quickly on the cash usage, maybe you can just kind of go through and order your priority uses of cash. It looks like you do have quite a bit of cash on the balance sheet there and about close to $1.5 billion, $1.45 billion. But it sounds like your buyback plans are for about $250 million in the first half. How do you plan to spend the remainder of the cash there? Thanks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So, Arun, great question. I'll start and ask Sameer to follow on as well. So, clearly, when you look at our free cash flow generation in 2021 and the guide that we've given for this year, this will be the third year of free cash flow greater than $0.5 billion. So what we want investors to understand is, this is a franchise, which has improving earnings quality across all three businesses and significant cash conversion.

This is a management team with support from our board that believes in returning the majority of free cash flow to our investors. And in 2021, coming out of COVID-19, we thought a more balanced approach with that in mind, made sense. And so you see we made really good gains in terms of improving the strength of our balance sheet and our leverage ratios, as well as returning the majority of free cash flow.

We actually stepped up the cash flow to shareholders more so in the second half of last year as we got more confident on the full year outlook and we're coming into the new year and stepping that up again. So we have $250 million remaining on our current share buyback authorization and our commitment is to have that completed in the first half of this year consistent with the cash generation of the business going forward. Maybe, Sameer I don't know if you have any other thoughts.

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

A

Thanks, Mark. Arun, just I will just go back to how we kind of talked about the cash usage in the past, right. But we as a manufacturer, our first priority in terms of investing in cash just to make sure we have safe and reliable operations. As you know, we have a responsibility commitment that we have to ensure we can cut down on the emissions and there're some pretty attractive growth opportunities as well as Mark kind of talked about with AIM Act and all the stuff that's happening around semiconductor onshoring. It's great exciting opportunities for us on the – both on the APM, TSS and TT franchises.

So, we – first – our first priority is to make sure we do the right CapEx and that's why you're seeing in the guide roughly $400 million of CapEx. And our – the way I would look at CapEx, Arun is, as I said in my remarks is number of projects moved from 2021 into 2022. So combined that – the 2021 and 2022 is roughly $350 million of CapEx. And after that, as Mark said, we'll do a little bit of debt reduction. We are committed to our $3.5 billion gross debt target. We made pretty significant improvement in that. We'll continue to – our march forward on that.

And then, last is our commitment stays that we will return majority of free cash flow to shareholders. So, if you look at our comments around that we expect to finish the remaining commitment on the buyback program in the first half, that's roughly $250 million of cash coming back to the shareholders via repurchases just in the first half of the year, so that's how you should think about our cash usage, investment, credit profile enhancement and majority cash coming back to shareholders.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay. Thanks for that. And just as a follow-up, just I wanted to understand the high end of the guidance. I know there's about a $60 million difference between the midpoint versus the high end. So would you characterize that as mostly possible that $60 million in APM and TSS that there's quicker resolution on chip shortage issues or supply chain? Is that the right way to think about it? Thanks.

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

A

Yeah. Arun, there are lots of puts and takes, but I would say it's pretty balanced. Look, I mean, there are growth opportunities across all three businesses, right, if ore situation is resolved I think on the TiO2 side, as Mark said earlier, the demand remains really strong. So there's an opportunity from there, from the midpoint to the high end and on the TSS, you hit the nail on the head, if the auto OEM market recovers, I think that provides us some pretty interesting, exciting opportunities. F-Gas regulation – Mark mentioned about AIM Act, but at the same time as the enforcement increases in Europe on the F-Gas, that provides us an opportunity as well. And similarly, on the APM side, I mean, as we talked about the margin improvement as the efficient – efficiency of the operation improves, getting into the margins in the low 20% that provides us a great opportunity as well. So this is an opportunity rich environment across all our three businesses, so on the high end I would keep it pretty balanced.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Arun, as I said, we really love the momentum we have in all of our businesses. Obviously, we're being very thoughtful on our guide early in the year. But when I look at TiO2, we have the best book of business that we've ever had and we can grow with our customers. We're working to unlock, debottleneck capacity to achieve that growth.

When I look at TSS, we have the recovery of auto plus the growing impact of AIM over time, as well as just more commercial refrigeration as things go back to normal post-COVID. And then in APM, we're working on so many exciting opportunities from semicon to hydrogen to EVs to advanced electronics, where our fluoropolymers really are the only answer to sort of solving the world's most difficult issues. So I'm very excited about the potential of these three businesses and the focus we have of our leadership team and our employees to keep driving forward.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thanks.

Operator: Your next question comes from the line of Duffy Fischer from Barclays. Your line is open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning. First question is just around your free cash flow. So, last year, you guys did about 41% conversion from EBITDA to free cash flow, at the midpoint this year that would give you $564 million of free cash flow, which is a pretty big distance – I mean, it's within the guidance, but it's much higher than the $500 million. Is that conversion ratio still good in your mind, or are you likely to convert less EBITDA to free cash flow this year than last year?

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

A

No, Duffy. This is Sameer, let me just take that one. As you kind of look at the 2022 versus 2021, I think one of the biggest drivers is CapEx, right, as we kind of move from this year to next. As I said, just to Arun, CapEx is going up, it's just a transition given how some of the projects got delayed. And also, I think from the working capital perspective, this is a year in which we will be more seasonal in terms of the working capital consumption and release of the working capital. So that's going to have a little bit of impact as well. 2019-2022 inventories have been pretty light across the chain and that applies to us as well. So as we kind of move into 2022, you're going to see some of the working capital stuff as well. So, all-in-all I would say – combination of the two years given the CapEx movement kind of makes more sense the way you look at it.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Fair enough. And a couple of quick ones just on TiO2. One, as you exited last year, what percent of your TiO2 was on the AVA contracts? And then two, if you look at the tons you produced last year where is that relative to your capacity, so we can kind of build in if we think things are going to grow? How many more tons we're going to be able to add over the next couple of years to your revenue line?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. So Duffy, we've guided to about 70% of our book of business is contracted and the rest is either our distributor business or our Flex portal. And we oscillate around that, from quarter to quarter, but that's a pretty good guide. What I'd tell you is in 2021, our mix of contracted business really improved, we used the market tightness as a way to enhance both product and customer mix throughout the year to where we can now say, this is – we're supplying the best of the strategic customers with the best contracts that we've had in our history. So, I'm really encouraged by that. Clearly the impact of ore as it relates to capacity had an impact on our Q4 volumes and we're starting the year that way. So, we would expect our volumes to be relatively flat from Q4 to Q1. But beyond that, we would expect to be able to show volume growth as well given our capacity.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Terrific. Thank you, guys.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks, Duffy.

Operator: Your next question comes from the line of Vincent Andrews from Morgan Stanley. Your line is open.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, and good morning, everyone. Could you just give us a sense of the visibility you have on the ore supply improving for – after the first half? And I just ask rhetorically, the situation has gotten more challenging over the last three months. So, I'd just like to get a better sense of how much comfort you have in that view on ore?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Yeah. I would say that the main thing that we're watching currently is ore supply to TiO2, that – Vincent, that related to some force majeure activity in Q3 of last year, which we see improving as we move forward in time. Clearly, even though things at the mine phase are improved, you still have the impact of a pretty congested logistics.

So, that's really playing into sort of our near-term performance. But again, our view is we see that resolving itself here in the first half, and we'd expect to have more to say at the end of Q1.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And just as a follow-up. If I look at your historical balance sheet and the cash balances at the end of the year, the lowest number I see is 2015's $366 million. Is that – for walking around assumption, is that sort of an amount that you could comfortably finish the year with on an ongoing basis, or would you need more than that?

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

A

Yeah. Vincent, this is Sameer. Look, I mean, it really depends on the needs of the businesses and what kind of investments you're looking at, the US versus non-US cash. What I would say is the balance sheet cash, you should really look in the context of where we are spending. Our view is we'll continue to make investments in the businesses, both on the run and maintain reliability perspective, and make – continue to make progress on our CRC commitments, get our balance sheet debt back to $3.5 billion kind of a range. So, we are committed to that.

And then go back to returning majority of the free cash flow to shareholders. So, look, I mean, that's how I would look at it. The exact balance sheet cash, as you know, can move around based on where the needs are and also really importantly, how we generate the cash into US versus non-US and making sure we have enough US cash.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks very much.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thank you.

Operator: Your next question comes from the line of Josh Spector from UBS. Your line is open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. Thanks for taking my question. Just a couple ones to kind of ore again. Just as [ph] ore limits supply (00:52:28), I guess, is it fair for me to think about most of your North America sales to be on AVAs already, so they get perhaps first dibs at North America's supply and does that mean that Europe gets a bit shorted in the near-term in the next couple of quarters, and just on your 2Q seasonal ramp comment, I assume for you to meet that you need the ore for 2Q already on the water and shipped now, is that in place to get a 2Q seasonal ramp?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

So I'd say, as I said earlier, the issue at the mine has largely been resolved. We're seeing improvements there and shipments are on the water, so yes. The last question – so the short answer is yes. Obviously, it's something we keep monitoring. Clearly, we are very focused on meeting our contracted book of business and their customer needs first.

And when I look at our growth in 2021 we grew in all markets, so there's no sort of North America versus Europe versus AP tradeoff here. The tradeoff is, hey, you make sure you deliver first and protect your contracted book of business, and that's candidly part of the value prop that so many customers have flocked to are being contracted with Chemours. So in the short term it will put a little bit more volume as a percentage on our AVA book. But again, this is just a matter of a couple of quarters here where we're somewhat ore constrained.

Joshua Spector
Analyst, UBS Securities LLC

Q

And maybe another way to ask that then is, is your Flex portal distribution significantly different than your average? I mean, I guess, I would think maybe AP perhaps has more of the spot market activity. Is that a fair way to think about it?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Our Flex portal is available to our global customers. So customers around the world in different markets. The availability on Flex is somewhat reduced when you're constrained and then that usually results in prices on Flex, which reflect the spot market being significantly higher. So that's – we always want to have volume available for Flex and Distribution because of the opportunity it brings in a tight market like we have. And that's why we've made this sort of rule of thumb that we would constrain our contracted book of business to about 70% of our volumes.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thank you.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

You're welcome.

Operator: Your next question comes from the line of Matthew DeYoe from Bank of America. Your line is open.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

Good morning. Thanks. Few quick ones on the TSS volumes, so if the business was down like 11%, does that mean Opteon was down closer to 18% to 20%. And why did it take until 4Q to see that headwind given what we've kind of saw transpiring even into 3Q? I know you mentioned comps from last year, is that the case? And what should we see is type of – this type of – like should we see this kind of volume print consistently until we get to the back half of next year, do things ease up a little bit

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

No. So I'll start and maybe ask Sameer to comment a little bit further. Recall Q4 of last year was a very robust recovery for auto. So it's just a tough year-over-year comp on auto volumes vis-à-vis the semicon constrained build and Omicron constrained build in Q4. So, the way you should read that is just a year-over-year comp. Our expectation and I think if you look at IHS outlook, they're projecting auto volumes this year to be up around 10%. And so, we're using IHS as the guide, clearly we're focused on both OEM and aftermarket opportunities as the Opteon car park continues to build.

Matthew DeYoe
Analyst, BofA Securities, Inc.
Q

Okay. And then a quick one on PFOA, so DuPont made some comments about making progress on settlement work and really going into a lot of detail on the call, maybe that's on purpose. But there's kind of this outstanding South Carolina MDL and perhaps other cases. I'm just kind of wondering through what the cadence of any kind of announcements we might get through the year, what you're looking at and how you frame that liabilities versus perhaps risk to setting precedents?

Mark E. Newman A
President, Chief Executive Officer & Director, The Chemours Co.

So Josh (sic) [Matt] (00:57:34), I wouldn't speculate on cadence, but I'd make two comments here. First is, DuPont, Corteva and Chemours continue to work well together under the MOU framework. And you saw that this year with the Delaware settlement that we announced last year.

Secondly, as a leadership team, we're always open to potential for settlements that reduce the risk to the company, but are done in a way that we believe create value to our shareholders. And so we will continue to have that mindset, I'm very encouraged by the fact that in my discussions with DuPont and Corteva, we have a shared view of using the MOU to work through issues that relate to our legacy path. So stay tuned, but nothing more to say at this time.

Matthew DeYoe Q
Analyst, BofA Securities, Inc.

Understood. Thanks.

Operator: Your next question comes from the line of Eric Petrie from Citi. Your line is open.

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

Hi, good morning, Mark and Sameer.

Mark E. Newman A
President, Chief Executive Officer & Director, The Chemours Co.

Hi, Eric.

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

I saw your second patent infringement case in Japan, and it's a good example of enforcement. But I was wondering, could you give an overview of your patented state and when could we expect a competitor to produce an HFO for the auto air conditioning market?

Mark E. Newman A
President, Chief Executive Officer & Director, The Chemours Co.

Hey, we continue to view our patented state as going well towards the end of this current decade, and we will vigorously defend our IP estate globally. And so I'd just say we continue to innovate around our Opteon franchise, bring new IP to market that makes the product better for our customers. And we would expect to continue to have significant IP defenses through later half of this decade.

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

Okay. And then secondly on TiO2, given the shipping and logistics constraints, did you have to reroute any of your TiO2 volumes? I know [ph] Altamira (01:00:10) is a big exporter of TiO2. So any changes in trade routes?

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

A

Hey, Eric, this is Sameer. Nothing of significance, look there's always supply chain teams making some adjustments here and there based on the port availability and the vendors that we use, but nothing material.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Eric. I'd just say, this year, our operations teams worked hand in glove with procurement and logistics, and our customer service organization to ensure minimal disruption to our customers. And you don't build a book of business like we have by not really taking seriously your value prop to your customers.

So, I really – it was a year where we had collaboration across all aspects of the organization. But a big shout out to our ops teams who despite three waves of COVID, run their plants really well and worked with our logistics team to make sure our customers had minimal disruptions.

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

Q

Thank you.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks.

Operator: Your next question comes from the line of Hassan Ahmed from Alembic Global. Your line is open.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Morning, Mark.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

How are you doing? Question...

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Great.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

...around titanium technologies. Look, sequentially, your volumes were down 10%. And I obviously understand the seasonality of things. I understand the sort of supply chain constraints considerations and the like. But one of your sort of larger competitors, back in November had guided to volume decline sequentially in the mid-single-digits.

So I'm just trying to understand, did you guys lose some market share in Q4 or was that just the way the market was and part and parcel with that, on a go-forward basis in 2022, now that you guys stated that you've regained your lost market share, how should we think about your volumes in TiO2 year-on-year, will you grow with the market or will you continue to try to regain market share as you consider debottlenecks and the like?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

Yeah. Hassan, it's a great question. And clearly, among competitors, you will have variation quarter-to-quarter. But when you look at our overall volumes for the year, TiO2 revenue up 40%, it's hard to argue with the result that we had in the year. As Sameer said in his remarks, we regained the market share we lost with TVS and then some.

So our focus here is to really maintain our market share, maintain/grow our market share and but by doing the – by growing with our customers first. We have really – a really good strategic book of business. And our focus now is how do we grow as our key strategic customers grow.

As it relates to sort of a volume outlook for the year, clearly we're starting the year ore constrained. And as I said earlier we expect that to alleviate itself as we move through the first half. And our expectation is based on the strength of the market we're seeing and how light inventories are throughout the whole system that we should have another great year in terms of revenue growth in this business.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Understood. And as a follow-up just sticking to TiO2 again, as you sort of sit there and look at where the cost curves are today which you rightly pointed ore constraints obviously or pricings – the prices going up, but also sort of the chlorine side of things, Olin out there sort of shuttering as much as 15% of their capacity. Could 2022 be a year where you see major differences between the integrated TiO2 producers versus the non-integrated ones?

And again, I'm thinking about the flexibility that you guys have in sort of toggling between a whole range of ores. So could this be a year where the non-integrated, feast or famine, relative to whether you are integrated or not?

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.
A

So, listen, we like our book of business, we like our supply on all of our raws. We continue to work across both chlorine and ore to be well supplied through time. So I'd just say – and then we like our cost curve, where we are on the cost curve. And as we debottleneck capacity, we're seeing opportunities to do that at some of our lower cost plants as well. So overall, Hassan, I'm really very encouraged about where we are in our TiO2 journey. Clearly, we're starting the year slightly ore constrained, and that's something we'll work our way through.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful.

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

A

Yeah. The only other thing Hassan I would add is, look, I mean, if you look at the quality of our operations, the technology in TiO2, I wouldn't exchange that for anything else. At the end of the day, what matters is return on capital, and with our technology we believe we have very attractive return on capital in the broader scheme of things. So we take a lot of pride in that.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Perfect. Thank you so much.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

A

Thanks.

Operator: And there are no further questions at this time. Mr. Mark Newman, I turn the call back over to you for some closing remarks.

Mark E. Newman
President, Chief Executive Officer & Director, The Chemours Co.

Yes. Thank you. And listen, we are very excited about the momentum we have in all of our businesses. We are starting the year with very strong customer demand, and our focus this year will be continue to grow earnings and to throw a significant free cash flow as we grow revenue and earnings going forward.

So thank you for your continued interest and look forward to speaking to many of you today.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.