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The Chemours Co. (CC)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to The Chemours Company Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to hand the conference over to your speaker today, Jonathan Lock, Vice President of Corporate Development and Investor Relations. Please go ahead.

Jonathan S. Lock

Vice President, Corporate Development and Investor Relations, The Chemours Co.

Good morning and welcome to The Chemours Company's second quarter 2020 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer; Mark Newman, Senior Vice President and Chief Operating 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 contain 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.

I will now turn the call over to our CEO, Mark Vergnano, who will review the highlights from the second quarter. Mark?

Mark P. Vergnano

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

Thank you, Jonathan, and thank you everyone for joining us today. We are living in unprecedented times and the last three months have been some of the most challenging I can remember. It started with COVID-19 first in Asia, then in Europe and the Americas. We have witnessed the incredible resilience of the human spirit in our collective response. In late May, we saw social justice take center stage and a societal awakening of tremendous proportions. I am extremely proud of this company's response to both of these dramatic events in the first half of 2020. We have acted quickly on a global scale to face these challenges head on and we'll emerge stronger and more united as a result.

Regarding COVID-19, as I said in our first quarter call, our response was swift and strong. Early safety measures implemented across all our sites have proven effective and we have maintained operational continuity across all our global footprint. We continue to manage through the current surge of cases in the United States with our

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internal health and epidemiology team fully engaged. As a leadership team, we have had to make many timely, yet tough decisions as pandemic has worn on. Through it all, we've maintained our true north of putting our people and customers first. As a company, we remain committed to coming out of this pandemic stronger and more competitive.

Turning to social justice, the murder of George Floyd on May 25 set up a firestorm of protests and civil unrest not seen in a generation. His unfortunate death put into focus many of the deep-seated issues our society has and has caused all of us, including this leadership team, to rethink and reframe our behavioral norms and practices. We have taken the opportunity to reflect and strengthen a number of our own internal practices in regards to inclusion and diversity of the company. This includes a zero tolerance policy towards any type of discrimination, including racism, and expansion of our safety obsession value to include the holistic elements of emotional and psychological safety, and expanded training and education programs across the entire company.

These types of actions are not new to Chemours. They along with our 10/30 corporate responsibility commitments form the basis of why we think of Chemours as a new kind of chemistry company, a company that is working to inspire our 7,000 employees to create a better world that is better for all of us. I would like to invite those interested in learning more about our commitments and programs to visit our website for more information.

Moving on to the results; the COVID-19-driven weakness which started in the first quarter extended well into the second and impacted nearly every end market which we serve. While the global macro was severely impacted by COVID-19, our second quarter cash flow proved resilient, reflecting the solid execution of our COVID-19 response plan. COVID-19-related headwinds resulted in a sharp drop in second quarter revenue with adjusted EBITDA of $166 million.

Margins were impacted by low production rates, as we manage working capital by idling several facilities across the company. As I said on the first quarter call, we are focused on maximizing cash generation through this demand trough. In the second quarter, our team jumped into action with swift cost cutting and cash conservation actions and helped to offset some of the headwinds in the quarter.

As a result, we were able to generate $50 million of free cash flow in the second quarter. This was an improvement of $167 million versus the second quarter of 2019. We still have significant work ahead of us as we turn our focus to revenue growth. But I'd like to applaud each of our team members around the world for their contribution to this excellent result.

Our balance sheet remains solid with ample liquidity of [ph] $1.4 billion (00:06:38). At the end of the second quarter, we maintained a cautionary $300 million draw on our revolving credit facility. Looking ahead, we remain limited in our ability to forecast beyond the coming weeks. And while we're hopeful of an ongoing recovery, the view from our customers is not consistently clear.

Barring a large second wave of the virus, we believe the global economy bottomed in mid-May. Since then, order patterns have begun to stabilize with improvements each week in June and into July. While a positive sign, we do not yet have enough data to project the shape and trajectory of the recovery. As a result and consistent with our first quarter practice, we do not believe it is prudent to provide quantitative guidance for the second half.

Before I turn things over to Sameer to review the financial results in detail, I'd like to quickly cover the commitments we made last quarter and our proactive response to COVID-19. We covered some of these items earlier, but I wanted to use this chart to reinforce to all our investors that we have acted quickly and with purpose to create significant financial and strategic flexibility for the company. It starts with putting our employees and our

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customers first. We have not backed down on our PPE and health requirements at our sites and continue to use procedures, social distancing and masks to help limit the spread of the disease.

We have been fortunate to be in a position to help our customers and supply chain partners with advice, PPE and other supplies during this pandemic and will continue to help those in need across the communities in which we operate. We took early proactive measures to bolster our balance sheet by eliminating discretionary spending, temporarily reducing salaries and scaling down CapEx to conserve cash. These programs remain on track. As we move cautiously off the bottom, we will continue to be vigilant from a cost perspective, mindful of the need to invest into the recovery and maintain momentum in key markets.

Finally, on our first quarter call, I spoke about the resilience of Chemours, the grit and determination which has defined our short history. That resilience was on full display here in the second quarter and I have no doubt we are well prepared for whatever else comes our way. I want to recognize the entire Chemours team for their effort this past quarter, the shared sacrifice, long hours and late nights. I know we will get through this together.

With that, I'll hand things over to Sameer to review the financial results.

Sameer Ralhan

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

Thanks, Mark. I'll begin my comments on slide 5. Second quarter revenue was $1.1 billion, as COVID-19 impacted demand across most global end markets. Lower volumes and high production costs across our two principal segments, Fluoroproducts and Titanium Technologies, resulted in lower margins versus 2019.

GAAP net income was $24 million, while adjusted net income was $30 million. GAAP earnings per share came in at $0.15 per share, while adjusted earnings per share was $0.18 per share. Free cash flow was $50 million, an improvement of $167 million from the same quarter in 2019. Strong cash flow from operations, driven by working capital management, combined with lower CapEx in the quarter, contributed to the strong free cash flow result. Finally, our Board of Directors approved a Q3 dividend of $0.25 per share. This is unchanged from the prior quarter and will be payable to shareholders of record as of August 17.

Turning to chart 6; second quarter 2020 adjusted EBITDA was $166 million, down from $283 million in second quarter 2019. Lower volumes due to COVID-19 impacted all three of our segments. We also experienced lower average selling prices due to customer and product mix, as well as the timing of contractual price down commitments in some product lines.

The improved operating performance and efficiency gains in Fluoroproducts and cost reduction efforts across the company more than offset idle production charges and lower F-Gas quota sales in Fluoroproducts and high unit costs in Titanium Technologies due to lower operating rates. In total, cost and other were a $43 million improvement versus the same period a year ago.

Moving to the next chart, our liquidity position remains strong. Our cash balance at the end of the second quarter was approximately $1 billion, including $642 million of US cash. In the quarter, we spent $61 million on CapEx and returned $41 million to shareholders in the form of dividends. As Mark mentioned earlier, we maintained a cautionary $300 million draw on our revolving credit facility. The strong execution of our COVID-19 response plan provides a significant financial flexibility to respond quickly to any market disruptions.

Turning to the next chart, you will recall we used this chart on our Q1 call to help lay out our current balance sheet, liquidity and leverage position. We continue to believe our balance sheet is a source of strength and we

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have ample liquidity considering current market conditions. In total, we have approximately $1.4 billion of liquidity with just over $1 billion of global cash, including $300 million revolver draw.

We maintain approximately $400 million of remaining revolver capacity. Our current senior secured net leverage ratio of approximately 1 times is well below the 2 times maintenance covenant level. Our maturity towers are well balanced and spaced with our nearest maturity in 2023. Of course, we will always look for new opportunities to improve our financial flexibility, but today I believe we are well positioned, given the conservative actions we took earlier in the year.

I'll now turn the call over to Mark Newman to cover our segment results.

Mark E. Newman

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

Thanks, Sameer. Before I cover our segments, let me just underscore some of Mark's earlier comments. The Chemours team sprang into action around COVID-19 and we kept our people safe, our plants running, and met our customer needs, all while cutting costs and preserving cash.

We also stepped up our efforts on inclusion and diversity, all part of our commitment of being a new kind of chemistry company. Our focus from this point is on profitable revenue growth in an uneven and potential gradual recovery. The team is fully engaged and we are not daunted by the challenges ahead of us.

With that, let's move to the results in the second quarter, beginning with Fluoroproducts on chart 9. Second quarter Fluoroproducts sales reflect lower volumes across a number of fluorochemical and fluoropolymer product lines, as COVID-19 impacted end market demand. Order demand was particularly weak in the quarter, with most plants in Europe and North America shut down for extended periods of time. As a Tier 1 supplier of Opteon HFO refrigerants to auto OEMs, we felt this demand impact almost immediately in our fluorochemicals business.

Demand in fluoropolymers was less severely impacted by a reduced demand for automotive components and from industrial end markets in the second quarter. However, given where we sit in the automotive and other value chains on polymers, we expect demand weakness in Q3. Price was a 3% headwind in the quarter, impacted by product and customer mix, as legacy refrigerant pricing bottomed in the first half.

In total, adjusted EBITDA for the second quarter came in at $97 million, with margins of 19%. Our adjusted EBITDA in the quarter reflects limited F-Gas quota sales and the impact of shutdowns and production line idling, primarily on the fluorochemicals side of the business. These factors more than offset improved productivity and cost efficiency efforts across our sites.

Going forward, the demand outlook remains mixed. While there has been some recovery in auto OEM volumes starting here in July, we have yet to see a sustained cross-industry recovery in demand. We believe that volumes likely bottomed in May and we are on a path to recovery over the coming quarters. As we move more fully into recovery, we expect fluorochemicals demand and margin to rebound more quickly, given our auto OEM exposure as a Tier 1 supplier.

On the other hand, we expect fluoropolymers to lag, given that we're further back in the supply chain and the unevenness in recovery of other polymer markets. Longer term, we continue to have confidence in growth potential of our polymers, which will be essentially in areas such as next-generation 5G networks, fuel cells and hydrogen infrastructure.

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Let's turn to our Chemical Solutions segment on the next chart. Sales in the second quarter were $82 million, down 37%, reflecting the lower revenue from the sale of our MAP business and customer mine shutdowns across the Americas, which impacted mining solutions. Adjusted EBITDA in the quarter rose nearly 20% to $19 million from $16 million in the second quarter of 2019.

Adjusted EBITDA margin was 23%, reflecting an 1,100 basis point improvement in margins from 12% in the prior year. This improvement reflects timing of cost reduction efforts and portfolio management actions. For the balance of the year, we expect demand to normalize as customer mines return to full operation. We continue to focus on our full year cost reduction actions, cash generation and operational readiness. Finally, as part of our efforts to continuously improve our operating efficiencies and manage our portfolio, we made the decision to shut down our aniline business effective at the end of the year.

Let's move ahead to our Titanium Technologies segment on chart 11. Our sales in the quarter of $488 million were down 14% compared to last year. The decline was driven primarily by lower volumes due to soft demand in Europe, Latin America and Asia-Pacific.

North America has been relatively stable, as the DIY trend has helped bolster end market demand. Overall, volumes were down 20% on a sequential basis, consistent with the low end of our expectations headed into the quarter. Despite this decline, price was flat on a sequential basis and down 5% on a year-over-year basis, a testament to the resilience of our TVS strategy, the benefits of our Flex e-commerce channel, and the value our customers see in their partnership with Chemours.

While the quarter as a whole reflected significant demand headwinds related to COVID-19, we experienced a modest recovery as we exited June with weekly sales trending more favorably than the first two months of the quarter. In the second quarter, we continued to add AVA contract customers, as TiO_2 buyers were attracted to the value of supply certainty and market share-based contracting offered through TVS.

Adjusted EBITDA of $94 million was down 26% from the second quarter of 2019. Margins of 19% reflect the impact of lower fixed cost absorption due to our low production levels. Looking ahead, we believe we are in the early stages of a market recovery with regional differences emerging based on patterns of disease around the world.

Downstream, architectural coatings, plastics and laminates demand will follow the path of their regional end markets, ahead of a more coordinated global recovery. We continue to believe that we are well positioned with our broad portfolio of AVA contracts, Ti-Pure Flex, and distribution customers. We will continue to help our customers meet their pigment needs through this incredibly dynamic period.

I'll now turn things back over to Mark.

Mark P. Vergnano

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

Thanks, Mark. I'd like to close my prepared remarks with a few observations on what we've seen early here in the third quarter and also some thoughts on the global recovery. Our order book patterns and conversations with customers indicate that Q2 marked the bottom of the pandemic-related demand downturn. We have yet to see a synchronized global recovery, but are hopeful that the regional and sector-specific recoveries we are experiencing continue to gain strength over the back half of the year.

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We do believe the trajectory from here will be positive, barring a major second wave of closures across major segments of the economy. One critical area will be the impact of stimulus, in particular infrastructure stimulus, which we believe will play a meaningful role in restoring growth. The recent stimulus announcements in Europe and prospects for additional measures in the US are welcome news in many of the markets in which we participate.

Until then, we will continue to run the business to maximize cash flow, while doing everything we can to support our people and our customers. This strategy will allow us to emerge from this period stronger and well positioned for growth in our core markets.

With that, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Your first question comes from John McNulty from BMO Capital Markets. Your line is open.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Thanks for taking my question. So, I guess the first would be on the AVA contract, it sounds like you had a decent uptick in signings this past quarter. I guess when you think about the tone of the discussions around those signings, would you say it's more about your ability to consistently deliver on the supply side? Or do you think it's more about concerns on price hikes coming as we look to 2021, and as the market maybe gets to a more stable footing? How would you characterize all that?

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

A

Hey. Good morning, John. I would say we continue to see steady increase in our AVA contracts, but you got to remember, AVA contracts play extremely well in a period like this. We don't require commitments to volume, we require commitments to market share, and so that allows this flex to occur when you have an economy like we're seeing right now.

So, I think that's the biggest draw here is, one, you get the price stability; two, you get the surety of supply to your point, but you also aren't asking somebody to commit to volumes when things turn down in an economy, because it's relationship to how we do the market share calculation. So, I think it all plays in a positive way to our customers, whether it's price, whether it's surety of supply, or whether it's the way we frame contracts from a volume standpoint.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. No, that's helpful. Oh, go ahead.

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

A

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Mark, if I could just add here a bit, having the Flex and the AVA channels are very complementary. So, we build a relationship in the Flex channel and from that people, as Mark said, move to AVA. So, we're adding a few contracts in that way. I think what's also very important is a number of folks had cynically predicted that in a stress market, we would see people walking away from AVA contracts, and I'd say just the opposite.

This is what our AVA contracts were designed to allow our customers to modulate volumes in these markets. So, I think the wisdom of our TVS strategy is playing out. And the proof is here and folks are seeing the benefit of both the flexibility of our Flex portal where they can begin a relationship with Chemours, as well as the wisdom in the AVA contract designed. So, I think we're very encouraged by what we saw in the quarter.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. No, that absolutely makes sense. And then I guess on the second question, you indicated you had a number of plants idled throughout the quarter. I guess, can you quantify somewhat what that financial impact was in 2Q? And then can you give us an update as to proportionately have you brought many of those plants back on, like how should we be thinking about how that headwind around the cost side may be dipping as we look to the third quarter?

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

Yeah, John, I think when we assumed what the second quarter was going to look like or play like, what we said was that we were going to probably have some idling of facilities and the thought was it would be across the whole network of fluoro, it turns out it was mostly the fluorochem side because refrigerants were way down primarily because of the automotive downturn. So, that's why you probably saw the margins a little bit higher than what we had anticipated in Fluoro.

I would say as we go into the third quarter, you're going to continue to see those margins about the same level ,because we're now going to be shifting to probably idling some of our fluoropolymer assets versus our refrigerant assets. And really because of Mark's comments from before, we have a lag in our fluoropolymer chain to our customers where we're probably three months out in terms of seeing the effect of the upturn that we've seen in automotive that is immediate because of Tier 1 supplier in refrigerants, it's going to be a lag in the fluoropolymer side. So, you'll probably see some of our idle production in fluoropolymers. Today, we haven't had much more idle production anywhere else.

John P. McNulty
Analyst, BMO Capital Markets Corp.
Q

Got it. Thanks very much for the color.

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

Sure.

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

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

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Yes, good morning. Three questions just on the Fluoro side. First, did I hear you right that you said that HFC pricing in Europe has turned up. And if so, kind of how much and what's driving that? And then has HFC weakness in pricing in Europe over the last year impacted HFO pricing at all as you would look at it?

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

A

Yeah, Duffy, we haven't seen any relationship with HFC and HFO pricing from that standpoint. Again, most of the HFO sales are contractual and they're contractual with the automotive industry. And then the blends which really are going into the stationary side, we haven't seen an effect from a pricing perspective. I wouldn't say we've seen HFC prices turned up. I would say, I think we've seen a bottom and I think we've seen less imports from China at the end of the quarter from that standpoint. So, we haven't seen a significant uptick in HFC pricing, but we have felt that we've probably seen the bottom of that pricing.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then could you dig in a little deeper? I wasn't quite clear what you were trying to communicate around auto ramp and what that's going to do for volumes in your fluoropolymers versus volumes in your fluorochems. The lead/lag there is that inventory that needs to be worked down as they start to ramp back up. Could you just flesh out how we should think about your volumes ramping back up in both those parts of Fluoro vis-à-vis an auto ramp?

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

A

Sure. So, first of all, on the fluorochem side, we are a Tier 1 supplier, so you see that immediate impact as facilities start coming up. On the fluoropolymer side, probably roughly 20% of our volume is in automotive. So, you're in automotive, you're in industrial, wire and cable, electronics, there's a bunch of areas that we're in.

In the automotive side of our fluoropolymer side, it's primarily – we're just way back in the chain. So, yes, there's probably inventory in there that has to flush through, one; but, two, as that order pattern start to get stronger, as production starts to happen, we usually see that delay. But think of it as primarily inventory that's already in the channel that has to work its way through.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Terrific. Thank you, guys.

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

A

Sure.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Good morning, guys.

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

A

Hey, Bob.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Hey, Mark. One question I sometimes get from clients when they think about an investment in Chemours is whether the price stabilization strategy might take away some of the upside relative to playing other cyclical companies. So, can you talk a little bit about how you see the trajectory of incremental margins as you start to regain volume and then what kind of price response you might expect in the future, if the world does start to tighten up again for you relative to maybe what the market would do?

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

A

Sure. Let me start there and maybe Mark Newman can add in a second, but I'd say as we look at the third quarter right now, we're seeing volumes start to increase, I'd say low- to mid-teen volume increase. We've seen price stability from that standpoint and that's going to help margins just because we're now going to have more utilization on our assets. So, we're at a place where you want to have more utilization on your assets to really get your margins up, independent of price from that standpoint.

As we move forward, obviously, our AVA contract customers which is the majority, but still not – somewhere in the 50% to 60% range today, maybe goes up to 70% at the very max. We'll have price protection and PPI will be driving that from a standpoint of what price happens. But we have the Flex channel, right, and the Flex channel allows us to move price wherever it needs to be based on what the market conditions are. So, we can participate in a price move up at that time. But we also – part of our value proposition of our customers is to give them – those around the AVA contracts to give them some level of price stability. But don't forget the effect of utilization on our assets in terms of margin. I'd say in the midterm that probably has as much impact as anything from a margin perspective.

Mark, I don't know if you have anything else you want to add on that.

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

A

Yeah, Mark, I would just reecho the points then. The big – obviously we have a lot of room to grow to meet future demand based on our utilization today and that has significant operating leverage. We continue to have a significant ore advantage as we run our plants across the circuit and with both Flex and distribution channels, we can take price as it becomes available in the market.

So, Bob, I like our options here from this point as we move forward and believe that we have significant volume and the ability to take price in several of our channels. Obviously, there is real merit to our customers in the AVA agreements and those provide real stability to both us and our customers.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for that. Mark. You mentioned lower costs. I know there's a little skirmish with one of your suppliers. Can you tell us what you've done in this downturn in terms of the mix of your ore supply? I guess traditionally we would expect you to go to lower grade, cheaper ores when demand wasn't as high. But you've also done some

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acquisitions to bolster your own supply. Can you just give us a sense of how that has changed that ore slate over the last year and then in an upturn if it would change some more?

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

A

Yeah.

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

A

Yeah.

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

A

Our job – go ahead, Mark.

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

A

Go ahead, Mark. No, no. Go ahead, Mark. Sorry.

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

A

I was going to say, Bob, obviously chloride ilmenite is our advantage and we try to utilize that advantage all the time from that standpoint. So, we're going to utilize as much chloride ilmenite in our network as we can. We can operate at much lower ore levels than others can. So, we want to be able to do that all the time, especially in a time like this. So, that for sure is a key strategy for us is, how do you take advantage of our ability to utilize chloride ilmenite and obviously we have a process that basically beneficiates in process from that standpoint.

So, we're always going to be looking at ways to be able to do that. Yes, we're having an issue with one of our suppliers right now, but we feel that that's a contractual issue that is very straightforward from our standpoint, something that the contract allows us to do. So, there's nothing – don't read anything into that, except just normal way of how we operate our business day to day.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks for the help.

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

A

And, Mark, the only thing I would add is, we made a great investment in Southern Ionics down in Georgia. That continues to go very well and has the potential to increase our internal supply with further investment up to about 20% of our requirements.

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

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Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah, hey, everyone. Good morning. Thanks for taking my question. Just back on fluoro, I was wondering if it's possible to get quantitative in terms of the volume declines in the quarter by chemicals versus polymers, just so if you can kind of frame the sequential improvement in those segments as well.

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

A

Mark, do you want to talk [ph] about that (00:36:17)?

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

A

Yeah, I didn't hear the first part of the question. I'm sorry.

Joshua Spector
Analyst, UBS Securities LLC

Q

Sorry, I was just asking about if you could break down what the volume declines were year-over-year by fluorochemicals and fluoropolymers.

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

A

Yeah. So, overall, year-over-year, our volumes are down closer to 23%. I would say the way you should think about that is, we talked about auto being down really significantly – I think 40% to 50% auto volumes being down, again the impact directly as a Tier 1 supplier and then polymers being down more in line with the industrial demand being down year-over-year kind of in that 10% to 15% range or 10% to 20% range depending on the product line you're in. So, think of this as a tale of two very different businesses.

Auto is down both in North America and Europe significantly, 40% to 50% based on the outages we saw in Q2. That snap-back in July and, in fact, we see auto being revised upwards as we come into this quarter. Polymers, on the other hand, is down in line with industrial, kind of mid-teens. We expect, as Mark said earlier, the recovery in polymers to demonstrate a one-quarter lag, so we'd actually see some decline in polymers as we go into Q3. Overall, our Fluoro business will be up slightly in Q3. But it will be a very different mix of businesses. And then our expectation will be with continued economic recovery, we would see polymers starting to show strength or a recovery starting in Q4. So, it's kind of just a one-quarter lag on the polymer situation.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks. That's helpful. And just on Chemical Solutions, I mean obviously pretty good performance in this quarter. Just wondering as mining kind of demand improves, do you see margins holding where they were? Or was there anything unique in this quarter, be it licensing income or anything else that would have drove margins significantly higher this quarter?

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

A

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Yeah, I think the way you should think of Chemical Solutions is, we have guided to this being a roughly 20% EBITDA business. We're obviously better in this quarter. I think that relates both to the actions we took on our MAP business from a portfolio perspective as well as the timing of some cost actions we took in the quarter.

Last year when we announced the closure of our methylamines business, we did get some second half sales that were helpful that we won't get this year. But I would say, the offsetting impact as we think of the second half this year is we expect mining solutions to start to recover. I would say when you sort of net everything out, you should think of this as being somewhat close to a 20% EBITDA margin business and we'll have quarters where we're slightly above and quarters where we're slightly below.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Your next question comes from Laurence Alexander from Jefferies. Your line is open.

Laurence Alexander
Analyst, Jefferies LLC

Q

Good morning. Can you put in context sort of the total net headwind you've had from the illegal refrigerants to give us a sense for if there were effective regulation, what the step-up in that business area would be?

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

A

Hey, Lawrence. Last year, I think we were very clear that it was probably about a $125 million EBITDA headwind for the year. So, I think that's a good gauge for you to see what that really is, that negative would be from that standpoint. That's probably the best way I can explain it. So, obviously, there is an uptick and an uplift for us going forward.

Laurence Alexander
Analyst, Jefferies LLC

Q

And when volumes start to recover in TiO2 for the industry, how much of the industry volume growth does Chemours expect to capture, given the way that the stabilization strategy has played out and the way that customers have navigated this?

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

A

Well, we've been very clear and open that we want to gain back our – or at least to get to our rightful market share. So, we believe we will gain a lion's share of that growth. So, maybe a little bit more than what the industry grows at. We also recognize that as things were looking like in the second quarter, we weren't going to be driving that market share recovery during a period where we would create instability.

So, now that we see our volume growth is coming back, as I said in the third quarter we're anticipating somewhere in the range of low to mid-teen kind of volume increase with price stability. I think coming from that we should start to be able to gain market share again as we end the year. So, we will continue to go down our path to smartly and [ph] turgidly (00:42:08) go aftermarket share at the same time.

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Laurence Alexander
Analyst, Jefferies LLC
Q

And then lastly is there a charge associated with shutting down the aniline facility?

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

There is. Sameer can you give the number. It's fairly small. Just to put it in context for those who have been with us for a while, if you remember, back in 2016 we basically sold the aniline business to Dow. This was the last asset that couldn't be part of that sale for complicated reasons of the spin. So, it's a very small charge. Sameer, I think it's in the range of $7 million, but you can answer that better.

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

Yeah. Laurence, it's roughly $12 million of charge that's tied to Pascagoula shutdown. Majority of that is essentially tied to the asset piece and a couple of million tied to severance.

Laurence Alexander
Analyst, Jefferies LLC
Q

Okay. Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great, thanks. Good morning. Just wondering about the inventory situation in TiO2, maybe could you comment on what you're seeing, I guess, across geographies as well as maybe the export situation out of China. Yeah, maybe you can just help us on those two items. Thanks.

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

Yeah. Why don't I kick it off and, Mark, add to anything you want to add to here. Arun, I would say that if you sort of walk through the regions around the TiO2 business for us, North America continues to hold up fairly well. That's been driven primarily by the coatings side and DIY, but now we're starting to see a shift over to contract type of painting. So, I think that's starting to resume.

Asia is improving. We've seen Europe and Latin America improving, and Latin America maybe a little surprising that that's improving. So, coatings overall seems to be on an improving trend across. Plastics has been slower in recovery. We play in the packaging play on polyolefin masterbatch as well as PVC. Packaging has held up PVC and construction has lagged.

So, hopefully, that will start the infrastructure and any stimulus driving infrastructure could help that. Laminates has been probably the most sluggish segment of the three. So, as you think about that from a segment and a region point of view, China obviously is starting to get the most positive region from an economic direction. Remember, China is the largest user of TiO2 at the same time.

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So, I think a lot of excess capacity that was coming out of China from exports is now starting to get consumed in-country. So, I think you're going to see less China exports because of that, that's at least our thought. So, I would say we don't see a big inventory build occurring anywhere in our channels and with our customer channels. And as things improve, we think that's why we're seeing some improvement in our third quarter volumes. I think you're going to see that immediately start passing through.

Mark, anything you want to add there?

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

A

Yeah, Mark, I'd say some comparisons have been made to the global financial crisis and I would say the difference, one of the principal differences is last year, we had a lot of destocking in the industry. So, we are coming into this with, I think, different inventory levels than were experienced in the global financial crisis.

As we look at markets globally, I think North America and China are showing resilience or strength. AP ex China was quite weak, but again starting to show strength in places now like India. And Latin America continues to be weak, but is a relatively small market for us. So, we're very encouraged by the signs that we see across both our channels, our product mix and geographies and that really drives the volume increase that we talked about going into Q3.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

And I guess, how do you think about pricing in those regions? I guess given what you just said, I mean is it possible that you see increases potentially in North America, but not in Asia or Europe or how do you think about that?

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

A

Yeah, what I would say is certainly pricing fell pretty dramatically in China in Q2 and we're seeing that start to reverse as market demand picks up there. So, we think that globally is a good phenomenon. As you saw in our Q2 results, sequentially our price was stable in the quarter. And our outlook even with the volume increases that we're seeing going forward is for prices to remain stable. As demand picks up, could there be more pricing pressure? Sure. But I think as we sit here today, our view is prices globally remain stable other than the fact that in China that I talked about where prices had fallen pretty dramatically in the quarter and are now starting to rebound.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Okay, thanks. I'll turn it over.

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

A

Thank you.

Operator: Your next question comes from P.J. Juvekar from Citi. Your line is open.

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P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Yes. Good morning, everyone.

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

A

Good morning, P.J.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

And, Mark, you mentioned about demand for refrigerants in 5G and hydrogen fuel cells. Can you take a minute and just tell us exactly where the refrigerants are used maybe for heat management? What kind of discussions are you having with customers? And have you actually seen any orders yet? Thank you.

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

A

Yeah. So, it's fluoropolymers, not refrigerants. So, remember we have very high-end melt polymers, or primarily our PFA polymer line that goes into the electronics industry and semicon. It goes into two big areas in semicon. One is, most of the tubing, most of the liners, most of the equipment when you make a semicon fab uses our polymer to fabricate those, because that's very, very important to reduce contamination.

So, when a new fab is built, we have those orders directly. So, we've had that for years and we continue to have that. And the potential upsurgence in North America in the semicon industry is a huge positive for us. So, we're looking forward to being able to work with our customers there from that standpoint.

It also goes into materials as well. So, as you go to 5G and you have to have the high level of frequency that 5G requires, traditional polymers like liquid crystal polymers don't work, right? So, you have to use fluoropolymers. So, that's the area of application development that we sell in today and we think we'll have high growth potential in front of us.

The hydrogen side is really about membranes, so think of our Nafion membranes that we have. Nafion is the membrane of choice for fuel cells and for hydrogen generation. So, we sell today to many of our customers. We think that's a huge growth area for us in the future.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you for that color. And just talking about Ohio MDL update and your lawsuit with DuPont, I guess my question is, is there a way to collaboratively work with DuPont to come up with a solution? And have you had any discussions regarding that, and can you just give us an update?

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

A

So, P.J., making sure I just – collaborate on what part with DuPont, I just want to make sure I'm...

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

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Well, collaboratively come up with a solution, potentially a trust fund or something like that in the future to address these issues.

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

A

Yeah. We continue to work with them. And I'm convinced that we will come up with something that makes sense for our shareholders and theirs. As I've always said, whether we go through arbitration or whether we go through litigation, the endpoint is probably going to be a settlement between the two companies. We continue to talk. This is a hard – it's hard to get the right answer for both sets of shareholders, but I believe we will find a way to do that.

P.J. Juvekar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Your next question comes from Jim Sheehan from SunTrust. Your line is open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning. Could you talk about why you're confident that legacy of refrigerant prices in Europe have bottomed? You say imports are down. Is that due to recession or is it due more to enforcement?

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

A

Yeah, it's probably a combination of the two, to be honest. We continue to work very, very closely with the regulators in Europe and they are stepping in to try to help us, because remember they had a step-down in quota that has to happen at the end of the year, and they recognize that this is very important for them to get their hands on so. So, enforcement, I would say, is probably the primary driver here. Again, we're just seeing prices have a slight uptick toward the end of the quarter. I wouldn't call victory yet, but it's slightly promising.

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

A

Mark, if I would just add, obviously, during the height of COVID-19 in Europe with many facilities shut down, offices, retail facilities, there was quite a softness in the market. So, both here in North America with the hot summer we're having as well as in Europe, as facilities reopen and there's more – things getting back to sort of a new normal, we are seeing the bottoming of refrigerant prices.

From an enforcement perspective, we continue to work in Europe on this issue and expect that to continue to move in the right direction in the second half. Obviously, during the height of COVID-19, the amount of work we could do on the ground or in the field from an investigatory perspective was lessened, but those efforts are regaining strength as we move into the second half.

And then the third point I'd just remind folks is, when you look at our Fluoro results year-over-year, you're seeing the impact of lower quota sales in the quarter, which we've called out approximately a $12 million delta year-over-year. So, I would say setting the quarter issue aside, we don't really see this issue around illegals as being worse. And, in fact, the efforts that we're taking as we move into the second half should continue to improve that result as we move forward.

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

A

Yeah. And just to make sure we're speaking clearly with you, we're seeing volume start to come back. Demand and volumes start to come back in our base refrigerant business. Usually, prices will follow that, so you got to get the demand back first which we're starting to see happen.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. And then TiO2, could you give us a flavor for your July demand? How much is demand in July 2020 relative to July 2019?

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

A

Yeah. Well, for sure, June was stronger than May, July has been stronger than June, and the order book in August is looking solid from that standpoint. So, I would say that we feel very good about where the volume trajectory is going right now from that standpoint. That's why we think that the sequential quarter is going to be positive, third quarter versus second quarter, by somewhere in that low to mid-teens kind of an idea from that standpoint. I don't think I can give you a definitive yet about the month year-on-year, but sequentially we're seeing a nice improvement occurring.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you very much.

Operator: Your next question comes from Roger Spitz from Bank of America. Your line is open.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you. Good morning. I don't think you said other than your TiO2 plants, but if not it's probably operating about at lower rates. Can you comment on your average operating rates in Q2?

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

A

Yeah. We don't talk openly about what those rates are. They are fairly low and they are different across the circuit depending on customer demand, the products that are being requested in parts of the world. And as I had mentioned earlier, when we get our utilization rates up is when you'll see real positive effect on our margin from that standpoint. So, it is very – as I've mentioned in the past, it's very difficult to idle a TiO2 facility for a shorter period of time.

So, you really have to – if you're going to idle a TiO2 facility, you usually decide to do that for a longer period of time because you have the ability to move things around to other assets. So, I'd say right now they are at fairly low utilization versus normal. But as we get our demand signals coming through and volume comes through, that's going to be additive as we move. So, I would say steady progress on that.

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Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Got it. And you've mentioned that you're gaining back, you're making progress in gaining back some of the market share you lost last year. Can you give us a sense of sort of where you are, like have you gained back 10%, 25%, 30% of the market share you lost – I recognize, in Q2, it's very hard to regain a lot of market share?

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

A

Yeah. We probably stalled our – if you go back third quarter, fourth quarter and the first quarter, we talked about gaining share during those periods. Second quarter, that was not an intent for us to try to gain share. We felt that it was not the right time to be able to do that. But we're working our way back to what we believe is the rightful capacity share that we should have, and I think that's the way you should think about it is, what's the rightful capacity share that Chemours should have versus the industry. That's what our goal is to get to that kind of a level.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: And your last question comes from Vincent Andrews from Morgan Stanley. Your line is open.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you. Just a couple for me. First, normally we think of 4Q as being a seasonally weaker quarter than 3Q. Do you think that's going to happen this year or just because this is sort of a very peculiar year with COVID and customer inventory levels are already quite low that 4Q won't have that typical fall-off? Or how are you thinking about it at this point?

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

A

Yeah, that's the magic question. And really what keeps us from being able to give guidance is 4Q because I think we're getting a fairly good picture now of 3Q. 4Q still is not a clear picture for us. As you said, normally that would be a weaker quarter. But we think that 2Q could be the weakest quarter of the year, depending on how the demand shapes up.

So, I would say all bets are off. I'm thinking about the normality of a fourth quarter right now, because I think there's so much potential from a demand standpoint. And I go back to one of the earlier points we've made around stimulus. I think stimulus, especially stimulus into infrastructure could change that dynamic significantly. So, very hard right now for us to call fourth quarter because I think there's a lot of dimensions there. You also have the other side of this which is, are people going to be trying to conserve cash for the year at the same time. So, a lot of factors here, I think we'll learn more in the next few weeks. But right now, something we can't call. All I would say is I don't think you should think of it as a normal fourth quarter.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And there's nothing very normal right now anywhere, so [ph] appreciate your comment, though (00:59:30).

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

A

I know, I know. I know that wasn't super helpful as well, but it is cloudy for us at this point.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Believe me, I understand. Thank you for the comments. I appreciate it.

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

A

Sure.

Operator: There are no further questions. I'll turn the call back over to Mark Vergnano for closing remarks.

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

Thanks and thank you all for joining today. The grit and the resilience of this team hopefully show through. We made some difficult calls, but I think we had a positive result in our quarter because of the actions we took very early around this. And I think we're starting to see some demand coming back to us in the third quarter and we are poised and ready to be able to respond to that as revenue comes our way. So, again, thank you for your support of the company. And we appreciate all our investors support during this time. Please stay safe and stay well. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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