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The Chemours Co. (CC)

Q3 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's Third Quarter Earnings Conference 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]

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

Jonathan S. Lock

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

Good morning, and welcome to The Chemours Company's third 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 operation 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 Vergnano, who will review the highlights from the third quarter. Mark?

Mark P. Vergnano

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

Thank you, Jonathan, and thank you, everyone, for joining us this morning. As I can imagine, many of you were up late last night monitoring the presidential election here in the United States. In spite of continued global macroeconomic weakness and uncertainty, we continued to deliver solid financial results on the back of strong execution in the third quarter. I am proud of this company's continued resilience and determination through this unprecedented period of economic and social disruption.

The tough measures we took earlier in the year to address the COVID-19 pandemic have paid dividends across the business. As we move into the early stages of a recovery, we feel well positioned in all of our end markets. Our true north remains the health of our people and support of our customers and communities. It has served us well through the beginning of the pandemic and will continue to be our guide as we forge ahead.

Looking now to the results, the global economy continued to stabilize in the third quarter, and in many sectors, we began to find some footing for recovery. It has certainly not been a synchronized bounce off the bottom, but demand has started to pick up in a way which suggests some momentum headed into 2021. This will, obviously, be impacted by the course of the COVID-19 pandemic, and we continue to actively monitor regional and national actions taken in response to increasing cases in different parts of the world.

I'm happy to report that we delivered $210 million of adjusted EBITDA in the quarter, up from $166 million in Q2 and slightly down from $248 million in the prior year. More importantly, we continue to see the benefits of our cash-focused strategy and delivered $252 million of free cash flow in the quarter. This represents an increase of $92 million from the same period in 2019. Our continued strong cash generation was driven by CapEx tightening, cost discipline, and improved operating performance across the portfolio.

We remain on track to deliver on our $160 million cost savings target and $125 million reduction in CapEx for the full year. As we move into the early phases of the recovery, we continue to maintain flexibility across the supply chain. This gives us the ability to find growth where demand has returned, while managing inventory levels for the total enterprise.

The strength of our balance sheet continues to shine through with liquidity of $1.7 billion at the end of Q3. We also repaid the cautionary $300 million draw on our revolver in the third quarter. Finally, we published our third annual Corporate Responsibility Commitment or CRC report in September. I'm extremely proud of this year's report. If you haven't had a chance to review our report in detail, please see the Investor Relations section of our website.

Let's turn to the next chart and I will take you through our CRC and our goals in more detail. Our CRC represents our commitment to responsible chemistry. It's our collective promise to the world and lays out 10 goals. We call these our 10 x 2030 goals and they cover three distinct pillars: Inspired People, Shared Planet, and Evolved Portfolio. Each goal speaks to a specific area where Chemours will make an impact on the world and contains specific benchmarks we're working toward. We have mapped each commitment to specific UN sustainable development goals to help our stakeholders understand our contribution to the ideals of the global community. Make no mistake, we have set the bar high relative to our peers and we are committed to transparency.

As you read these goals, I hope that you share my sense of optimism and purpose in our CRC. I also hope you agree that these goals are the hallmark of responsible chemistry and something that everyone in our industry should aspire to.

Turning to the next chart. So, what progress did we make in 2019? I'd like to share six of our achievements here across our three pillars, which I think speak to the type of change we're trying to drive over time, starting with our Inspired People pillar. In 2019, Chemours US and Mexico were both certified for the second consecutive year by Great Places to Work with Chemours Mexico ranking in the top 50.

In addition, 12 Chemours' facilities were recognized by the American Chemistry Council for outstanding achievements in safety, a testament to those teams who are living our holistic safety value. Ensuring that we have a strong culture and are a magnet for talent in the chemical sector is a very high priority for me, as I think about the long-term vision for Chemours. The Inspired People pillar is critical to ensuring that we continue to attract and retain the best talent we can as a company.

Moving to our Shared Planet pillar, Chemours developed Opteon to reduce global warming potential of refrigerants. In 2019, Opteon adoption helped avoid the equivalent of 27 million metric tons of CO_2 emissions, about the same as taking 5.8 million cars off the road. I'm also proud to say that 48% of our products were sold in recyclable packaging, an achievement both our customers and supply chain partners have been excited to partner on. Our commitment to responsible chemistry is a promise to not only reduce our overall environmental footprint and impact, but to invent products which can contribute to a healthier world.

Finally, our Evolved Portfolio pillar. In 2019, the Society of the Chemical Industry, Americas Group (sic) [Society of Chemical Industry, America Group] (00:08:26), or SCI, presented Chemours with the Moore Medal, named for the Founder of Intel, Gordon Moore. The award was presented to John Sworen, one of our technical fellows, for his work on Teflon EcoElite, a plant-based durable water repellent finish.

We also made significant progress in 2019 baselining our supply chain's sustainability performance, increasing by nine-fold our coverage to about 40% of suppliers by spend. Our progress here helps us to ensure that one day we can stand behind not just the sustainability of our products, but the ingredients and supply chains that are used to create them.

I am proud of the progress we are making. We are proving that big challenges can be solved by creativity, team work and overall hard work. It's still early in our journey, but we're off to a solid start. During our next few earnings call, I will share specific projects we have in the works to help us deliver on our 10 x 2030 promise.

Before turning things over to Sameer, I'd like to close my introductory remarks with a quick recap of our COVID-19 response plan that we outlined earlier in the year. The core elements of this plan are: one, putting our employees, customers and communities first; two, maintaining a strong balance sheet and liquidity position; and three, focusing on cash generation in 2020.

As a company, we have been focused on executing against all the elements of this plan. And as you can see, we remain on-track headed into the fourth quarter. The success of this plan has required difficult choices, hard work and shared sacrifice from all corners of Chemours. So, I would like to acknowledge all our team members for their contributions thus far in the year.

With that, I'll turn things over to Sameer to go over the results from the third quarter. Sameer?

Sameer Ralhan

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

Thanks, Mark. I'll begin my comments on chart 7. Second quarter revenue was $1.2 billion, down 11% from 2019. Adjusted EBITDA declined $38 million to $210 million. Margins declined slightly on a year-over-year basis to 17%. This decline in margins is primarily driven by lower margins in Titanium Technologies and Chemical Solutions, partially offset by higher margins in Fluoroproducts. GAAP net income was $76 million, while adjusted net income was $78 million.

This resulted in GAAP earnings of $0.46 per share, flat relative to last year; and adjusted earnings of $0.47 per share. Free cash flow was $252 million, an improvement of $92 million from the same quarter in 2019. Our strong cash flow reflects the impact of our cost control measures, working capital discipline and CapEx management, which we announced earlier in the year.

Given the current uncertainty in the global macroeconomic environment, we intend to continue on our strategy of running the business for cash through the fourth quarter. Finally, our board of directors approved a fourth quarter dividend of $0.25 per share. It is unchanged from the prior quarter and will be payable to shareholders of record as of November 16.

Turning to chart 8. Third quarter 2020 adjusted EBITDA was $210 million, down from $248 million in the third quarter of 2019. Price was a headwind for all three segments in the quarter on a year-over-year basis. Also, one a year-over-year basis, volume was down in Fluoroproducts and Chemical Solutions, more than offsetting higher volume in Titanium Technologies, currently with a small benefit in the third quarter, primarily driven by a stronger euro versus the US dollar.

Lower cost across the company and stronger operating performance in Fluoroproducts combined for a $66 million benefit in the quarter. Before we leave this chart, I do want to highlight that sales volume in all three segments experienced very strong sequential improvements with the most significant being a 26% sequential improvement in Titanium Technologies. This strong sequential demand resulted in an improvement in both adjusted EBITDA and margins.

I'll cover liquidity [ph] study (00:13:11) on the next chart. As Mark said in his opening remarks, our liquidity position remains strong. We ended the quarter with $956 million of cash on hand after using $300 million to repay our cautionary revolver draw from earlier in the year. Third quarter operating cash flow was $299 million, while CapEx was $47 million. $41 million was returned to shareholders in the form of dividends. Free cash was $252 million, a $92 million improvement in comparison to the same period last year.

This is the third best free cash flow quarter since spin-off, really highlighting the hard work and focus of everyone in the company to drive free cash flow under tough and volatile macroeconomic conditions. We ended the quarter with net debt of $3.2 billion. We continue to believe that our balance sheet provides us ample flexibility to navigate these uncertain times and I'm pleased with our cash flow generation thus far in 2020.

Turning to chart 10, our leverage profile, maturity towers, and covenant headroom continue to be sources of strength for Chemours even in these uncertain times. In total, we have approximately $1.7 billion of liquidity, including $956 million of global cash and $306 million in the US. Our now undrawn revolver has availability of $702 million, net of outstanding letters of credit. Our senior secured net leverage ratio is 0.8 times and continues to be well below the 2 times maintenance covenant level. Our maturity towers are well-balanced and spaced with our nearest maturity in 2023.

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

Mark E. Newman

Chief Operating Officer, The Chemours Co.

Thanks, Sameer. I'll [ph] commence (00:15:09) my remarks on chart 11, but let me start by recognizing the Chemours team that since the first days of this pandemic have been focused on executing our response plan. I'm very proud of the team and the solid results delivered in a challenging market environment. We are encouraged by the significant sequential improvement in all regions and most of the segments. We recognize that we continue living in volatile times with tremendous opportunity ahead. We remain focused and confident in our ability to create shareholder value over the long term.

Moving to the businesses, the results in the Fluoroproducts segment reflect the uneven pace of the recovery from COVID-19, a stronger-than-expected recovery in auto production rates in the quarter resulted in increased demand for Opteon refrigerants in mobile applications. This was more than offset by weaker polymers demand due to our position further back in the supply chain and a delayed demand recovery in other polymer segments.

Fluoroproducts net sales in the third quarter were $533 million, down 16% from the third quarter of 2019. Pricing in the segment was a 5% headwind driven by mix and contractual price adjustments. Adjusted EBITDA came in at

$112 million with margins of 21%, reflecting a 200 basis point margin improvement from the prior year, Adjusted EBITDA in the quarter reflects a 15% sequential improvement, but an 8% headwind in comparison with the same period last year. The lower net sales were partially offset by significant improvements in operating performance, the ramp-up of Opteon production at our Corpus Christi site, and cost reduction efforts across the business.

Given the current state of the global pandemic, our Fluoroproducts demand outlook remains mixed. Opteon sales are dependent on a sustained recovery in automotive build rates globally, which we believe is on the way. We will continue our efforts to combat illegal imports of legacy refrigerants into the EU and believe that our efforts here will continue to drive long-term stationary adoption.

In 2020, we expanded our market access in the fast-growing auto aftermarket in the US by working with top retailers, including AutoZone and O'Reilly. In the auto OEMs, we are focused on maintaining profitability that allows us to continue to reinvest in this class-leading franchise. Our recovery in polymers will be slower to develop, given our position in most supply chains. But we remain well-positioned and are actively managing our supply chains to adjust to changing customer needs quickly.

We continue to see real long-term potential in the growth of fluoropolymers tied to the hydrogen economy and 5G through our venture activities. As Mark mentioned earlier, we continue to be laser-focused on delivering solid operational performance, alongside productivity gains to bolster margins in our fluoro businesses.

Moving on to our Chemical Solutions segment on chart 12, sales in the third quarter were $88 million, down 37%, reflecting the lower revenue from our sale of our MAP business last year and lower demand in mining solutions. Customer mine shutdowns, driven primarily by COVID-19, which started in the second quarter, continued to impact mining solution results in the third quarter. Adjusted EBITDA was $12 million and segment margins of 14% declined 200 basis points from 16% in the prior year. This result reflects licensing income recognized in the same period of last year, partially offset by our cost saving efforts.

As we move forward, demand should 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, we remain on track to shut down our aniline business at the end of this year. I'll cover our Titanium Technologies on the next chart.

Third quarter sales came in at $612 million, almost equal to that of last year. Volumes were 4% higher on a year-over-year basis in the quarter. However, volumes were up 26% on a sequential basis as we move past the Q2 bottom on the back of a stronger coatings, plastics, and laminate demand. Price was stable on a sequential basis, a product of our Ti-Pure value stabilization strategy and AVA contract structure.

Despite the improving results, we continue to experience demand headwinds related to COVID-19 across some end markets and segments. We are working with our customers in real-time to adjust to changing demand patterns and fully utilizing all three of our key TVS channels. Beyond our AVA contracts, the Flex platform allowed us to serve non-contracted customers as they experienced supply chain needs.

Meanwhile, distributors allowed us to reach additional customers and territories to supplement demand during the COVID-19 recovery. Segment adjusted EBITDA of $129 million resulted in margins of 21%. This 200 basis point sequential improvement reflects the benefit of improve circuit utilization and higher volumes, partially offset by choices to improve cash flow in 2020 and ready our circuits for higher utilization in 2021.

Looking ahead, we continue to believe we're in the beginning stages of a broader market recovery. As Mark mentioned, this could be impacted by the course of the COVID-19 pandemic that we are actively monitoring. We will continue to manage our inventory levels to support our customer needs through the recovery, while optimizing our net working capital.

With that, I'll turn things back over to Mark.

Mark P. Vergnano

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

Thanks, Mark. Turning to the last chart, I'd like to end the prepared portion of our remarks today with a few thoughts on the shape of the recovery and the outlook more broadly. This year has certainly been a challenge on a number of fronts from COVID-19 to social justice to the unusually strong hurricane season. However, the people of Chemours have risen to each and every challenge with incredible determination. It has been inspiring to see this team undeterred by the events of 2020 and continuing to press forward on behalf of our customers.

Chemours is adapting in real-time, and we have used the pandemic as an opportunity to further streamline our ways of working. We've been able to maintain and, in many cases, actually improve our productivity over the course of the last several months. I expect that many of these changes will become permanent and will increase the clock speed of Chemours going forward.

Looking ahead, my view is that we continue to be in the early stages of a recovery. We believe that the second quarter was the low point of the pandemic across most end markets. Our order books have stabilized and, in many cases, are improving. As a company, we remain focus on the things we can control including operational excellence, working capital and inventory management, and supplying our customers with what they need.

These efforts are directed at maximizing cash generation, which gives us strategic flexibility and staying power through these uncertain times. While the balance sheet provides flexibility and staying power, we must never lose sight of what gives us our true strength. We have the best people, technology, products of anyone in the industry. We continue to drive for low cost, invent new and exciting products, and bring to life our vision of responsible chemistry. These attributes are foundational to the company and give me confidence that our future is bright, and the best is yet to come.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question here comes from the line of John McNulty from BMO Capital Markets. Please go ahead. Your line is now open.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Yeah. Good morning. Thanks for taking my question. So maybe the first one with regard to the price/mix in Titanium Technologies, was down about 5%, which seemed actually a little bit lower than what we would have expected. So, can you speak to the dynamics that are driving that right now? And also, how we should be thinking about that going forward? And if there's any kind of light at the end of the tunnel in terms of maybe starting to see that turn up as well?

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

A

Yeah. Good morning, John. I guess the best way to look at that, first, is look at it sequentially, right? So if you look at from second quarter to third quarter, you got to strip out, everything in our prices, both minerals as well TiO2 pigment. So when you strip out minerals, which is primarily zircon, you're more in the range of about a 1% delta second quarter to the third quarter. And if you dig into that one more time, what you'll see is that's primarily all product mix. So if you go account by account by account, we didn't really change price at all. It's all product mix from that standpoint.

The 5% you're talking about is really year-on-year. That was all from the end of last year. If you remember, we really tried to drive market share specifically in the plastics market where we lost a lot of share and that really occurred at the end of 2019. So, you're not seeing any delta in price going on right now.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. That's helpful. And then just maybe as a follow up, like in the Titanium Technologies area, look, you had some really impressive volumes in the quarter and it looks like there's a lot of puts and takes going on right now. I mean, it certainly looks like inventories are low, you've got relatively strong demand, but you've got COVID resurging. I guess, can you give us your thoughts on how to think about whether we're going to see the usual seasonal dip in the fourth quarter and maybe early thoughts on 2021 when you're thinking about volume growth in this segment?

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

A

Yeah. I'd say the volume across TiO2 for us has been really demand related. So, you still continue to have strong coatings demand. DIY continue to be strong in third quarter. Contractor coatings have been picking up. We saw a significant laminate improvement. So, a lot of our laminate customers with furniture and flooring really picked up. That's more Europe and Asia, but that was a big pickup for us at the same time.

So, we're seeing demand pull through being very strong. When you look at it from a regional perspective, John, to a double-digit growth across every region, whether it's North America, Asia including China, Europe, and Latin America. So, we're seeing very strong pickup from a volume across all the segments, across all the regions that we think is going to continue. And because of that, we do not feel at this point in time that we're going to see a seasonal drop in the fourth quarter.

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 the line of Duffy Fischer from Barclays. Please go ahead. Your line is now open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning, fellas. A couple of questions around Opteon. So, first one is just relative to before COVID in the mobile market, how close are we back to the same levels of volume?

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

Yeah. So, Opteon recovery was quite significant sequentially. We probably see a doubling of volume sequentially as the automotive plants came back on, Duffy. But when you look at global auto demand year-over-year, we're still down about 5%. The results in the quarter were aided by some of the good work we've done in the aftermarket space, particularly here in the US. But on an auto OEM basis, we continue to be surprised to the upside in terms of builds. But obviously something we watch very closely here as we go through Q4 with respect to COVID-19 and the impacts, say, in Europe. But so far have been very encouraged by strong auto, especially in the US and Western Europe. But we're still down in the quarter year-over-year.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then with the step down coming in Europe, the first step down we had was very beneficial for you guys, but we didn't have the illegal import issue at that time. With that overlaying it, do the illegal imports, do you think, get most of the benefit of a step down or do you think you guys will still see a big bump in the HFO from that step down next year?

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

Yeah. I would say we're encouraged by the fact that the step down is coming and the efforts continue to ramp up around illegal imports. As we said in prior calls, we think this is going to take some time to bear fruit. And obviously, there's still illegal product in the market in spite of the step down. So, my sense is, Duffy, this is going to take more than one or two quarters and we certainly don't see any further deterioration in terms of year-over-year performance related to illegals. And so, with the step down and the work we're doing on illegals, we would expect to see continued strengthening. But it's going to be a slower recovery there.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then maybe sneak in one last one. DuPont CEO on their call said that they've had recent conversations with you guys about potential deal. So, from your side, can you just frame what you think the likelihood is and kind of what the framework of a deal might look like?

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

A

Yeah, Duffy, it's Mark. We continue to have conversations. Ed and I continue to talk. We talked this week. So, from that standpoint, we're trying to make progress there. As I've always said, the key for us is to make sure that we have – if we come up with an agreement that it's something that our shareholders will embrace, right? So, it's going to be shareholder-friendly for us. And I know Ed feels the same way. It's got to be shareholder-friendly for him.

So, to us, that's the bellwether for us. This is going to be something that our shareholders would look at and say, this is something that works for them. And so, these are complicated and they take time, and we keep working through issues. And I think we have less issues now than the first time we had talked to you guys about this. So, I'm optimistic we can get there, but it's always hard work from that standpoint. But, yeah, we continue to talk and our goal is to get this thing done only if it could be good for our shareholders.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

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

A

Yeah.

Operator: Your next question comes from the line of Josh Spector with UBS. Please go ahead. Your line is now open.

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey, guys. Thanks for taking my question. Just wondering within fluoropolymers, can you give us some granularity around how much the automotive exposed polymers were down maybe relative to the rest of the polymers segment? And how you're thinking about that developing over the next quarter in terms of a lagged recovery based on where you are in the supply chain? Is that something you see getting better next quarter or is that still a longer-term recovery there? Thanks.

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

Yeah. I would say, auto represents probably close to 25% to 30% of our polymer business, so it's a meaningful portion. And obviously, within the polymer space, we tend to be at a tier 3 level in the supply chain, so further back. Within the quarter, while we were down sequentially on polymers, we did see continued strengthening in the quarter in Q3. So, as we look to Q4, we would expect to see continued strengthening there.

Joshua Spector
Analyst, UBS Securities LLC

Q

Okay. Thanks. And shifting gears in terms of your CRC goals, I thought the sustainability offering target was kind of interesting. You're aiming to get around 50% of sales meeting UN sustainability goals. From your earlier report, you're around 10% or so, I think. That's a pretty big gap. I'm assuming Opteon growth [ph] and the mix (00:34:08) is a factor in closing that gap. But I'm wondering outside of that, what do you guys do to get there?

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

A

Yeah. And so, Josh, from our – I sit on top of that team, in terms of every month we go through our progress there, and we have interim goals to get to our 2030 goals. We are on track on all our interim goals. I feel very confident we're going to get to 50%. Yeah, Opteon is going to be a big play in that. We have a lot of offerings both on the TT side as well as in the fluoropolymer side that are going to be additive to this.

So, this is something we keep in front of us all the time and our new product development, which we're going to really drive forward. Don't forget, we are the leader in membranes in the hydrogen economy. Our Nafion membrane is sort of the bellwether, if you will, both on fuel cells as well as on hydrogen generation. So, that's sort of going to be a key part of our growth as well.

Operator: Your next question comes from the line of Bob Koort with Goldman Sachs. Please go ahead. Your line is now open.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thanks very much. I was hoping maybe you could help me dimensionalize the upside in Titanium Technologies. I know you've gone through the stabilization process and proved that you can keep prices at a pretty healthy level even when demand disappears. Just curious, how do you think about the up-cycle and demand comes back, obviously, you guys get a disproportionate amount of the volume benefit. But is it an issue where you can get back into those sorts of mid-40s EBITDA levels? Or because there won't be as strong of a price component to an up-cycle, should we think about something more moderated?

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

A

Yeah. I think, Bob, you're going to have to think about our business being more like the mid- to upper-20s in terms of EBITDA margins. That's the more logical place for us to be. As we put these AVA contracts in place for our customers; number one, it gives them stability. It also gives them the ability not to add inventory when they don't need to. So, we think the benefit of sort of cutting down this by stock/destock kind of cycle is worth that sacrifice from that standpoint.

So, these will be very healthy margins, but they'll be more like in the mid-20s to upper-20s as we're going forward. And as you see, we are seeing the volumes start to build. So, building with our customers, most of this volume increases happening with our AVA contract customers, right? So, picking the right customers and working with them is really what's going to benefit us.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And Mark Newman, I think you said something about your situation in the fluoropolymers, where your position is in the supply chain means a slower recovery. Can you explain maybe a little bit more specifically what you mean there?

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

Yeah. I just mean we are supplying to folks who make parts for the auto industry. So, we're not direct. So, Opteon, we supply directly to auto OEMs. In the polymer space, as it relates to auto, we're supplying to folks who are making components for auto OEMs. So, we're further back in the supply chain. And my only point there, Bob, is that the recovery is a phased delay, because we're further back in the supply chain. So when you look at Q2 polymers, they weren't as impacted by the disruption with COVID-19 as, say, Opteon was. Opteon came roaring back in Q3 and polymers is seeing a lagged recovery. So, I'd say, as it relates to auto, expect to see more of a lag there.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

And should it be a whipping effect then when it kicks back in? There should be that same sort of surge that you've seen in Opteon or no?

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

We would expect that the volumes go up from here, yes, from Q3, for sure. Yes.

Robert Koort
Analyst, Goldman Sachs & Co. LLC
Q

Got you. Okay. Thanks, guys.

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

Yeah.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. If I think about Chemours in some historical terms, maybe your TiO_2 volumes peaked in 2017 and maybe they're 20% to 30% lower today. In the old days, people used to describe the titanium dioxide industry as growing at about a 3% rate. Do you think the industry has grown at a 3% rate since 2017? Or if it hasn't, what rate do you think it's grown at? And how has the industry changed over time in [ph] replacement (00:39:10)?

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

Well, for sure, this is a GDP growth industry, Jeff. So, from that standpoint, we're always going to be right around GDP as an industry. Some years, it's a little bit above; some years, it's a little bit below. And again, one of the concepts we had with value stabilization was to stop the destocking/restocking phenomenon, which would drive volumes way above GDP some years and way below GDP other years.

So, I think the best way to look at this industry is GDP growth. That's at least how we look at it, from that standpoint. And our goal is going to be, can we, at minimum, be at that kind of growth rate and where we can gain market share because we have better products or better service or the customer mix that we have is going to be growing faster. That's how we're going to be above GDP going forward. But I think, as an industry, overall, that's the best way to think about it.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And in your negotiation with DuPont, is it fair to say that your objective is to have some kind of cap on liabilities? Is that what you're trying to achieve or you're trying to achieve something else?

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

A

Yeah. Again, I'm not going to go through the details of the negotiation. But we're looking for some level of sharing between the two, because as you know today we have – those liabilities are heading toward us. And so, from that standpoint, what's most important to us is a level of sharing. And I think that's high on the list for us.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thank you and good morning, everyone. Now, just as we sit here in November, you're probably starting your 2021 planning process. I wonder if you could just give us sort of some dimension around how you're thinking about both the costs you took out this year as well as the CapEx that came out this year. How much of that you might be able to keep out permanently versus bringing back in 2021? And then, to tie that into titanium, when do you think you'll get back to the plan you were on coming into the year, which was to focus on really getting that market share back? Thanks.

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

A

Yeah. Maybe just to get started on that, and then I'll ask Sameer to sort of add some – a little bit of color from that standpoint on the cost. You're right. We're no different than everyone else. We're starting to do our planning. Sort of hard to do perfect planning when you're in the middle of a pandemic. But we do see the recovery happening. We see that continuing here in the fourth quarter, which I think is going to give us confidence going into 2021.

We will continue to look at opportunities to gain market share on TT side, as we've said. We did not want to be disruptive when the markets were sort of in flux, as they've been. But I think we're getting to a point now where we're seeing things get a little bit more stable. As you can see from our volumes this quarter, I think we're going to be able to show some level of market share gains without having to do anything with price, basically by driving with our customers that we're working with as well as seeing some recovery in some of the markets where we have some advantage, like laminates.

As from a cost perspective, maybe I'll ask Sameer to talk a little bit about the cost and the CapEx side at least of how we're thinking of that right now.

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

Sure. Thanks, Mark. Hi, Vincent. And if you look at the actions that we took this year on the cost side, roughly $160 million worth of cost out, I would say, 80% is delivered by Q3. And as you kind of start looking at 2021, we expect to retain at least 20% of that next year. Still, we're working on things to see what – how we can increase. But at least 20% we feel pretty comfortable and confident that we can retain in 2021. And then as you're going to look at the CapEx side, we reduced the CapEx by $125 million this year from the initial guide that we had given of $400 million.

For CapEx, the way you should think about this and for us, as we have told in the past, [ph] running to (00:43:34) maintain roughly $225 million kind of a range and have another $50 million tied to the Corporate Responsibility Commitments that we have made. And then we do have some growth initiatives that we want to bring along. But as we give the 2021 guide, we'll be a lot more transparent and give you guys the building blocks. But that's how you should roughly think about these things. $225 million roughly, [ph] going to (00:43:55) maintain $50 million, in that kind of ZIP code. It really is a year-by-year, but that's a Corporate Responsibility Commitment capital. And then we do have some really high return growth stuff that we want to bring back.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC Q

Okay. Thank you very much, guys.

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

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

Hi. Good morning, Mark. It's Eric Petrie on for P.J.

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

Good morning.

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

On the noted Opteon expansion into AutoZone and O'Reilly, what is the addressable market opportunity there and what kind of growth rate should we expect? Is that retail exposure a drag or benefit to current margins?

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

Yeah. So, that's a big opportunity for us, and I don't know, if Mark wants to add anything to the tail end of this one, but that's a huge opportunity for us. And remember, still early innings on the aftermarket, right, because it's only been just a few years since Opteon has been at the OEM level. So, you can look at this as a nice growth rate. They're very solid margins. So, these are plus margins above what you would have at the OEM level. And the market is going to continue to grow as you have more and more vehicles out there that have Opteon in them.

So, having this direct channel, if you will, to these two very, very key players is extremely important for our future growth. And I don't know, Mark, if you want to add anything to that.

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

Yeah. Mark, the only thing I would add is, obviously, you know the SAAR rates here in the US and Europe. So, think of that, all of the US by 2021 being on HFO technology and then think of that car park growing every year in terms of HFO, including Opteon usage. So, significant car park already in the US and Europe, and growing every year at US SAAR. So, pretty significant growth near term and this is good business for us.

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

Helpful. Thank you. And then, secondly, on TiO2, do you expect continued margin expansion in the fourth quarter similar to competitor [ph] their current order books (00:46:15)

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

We had our margins – you saw our margins improve from, obviously, last quarter to this quarter. I think our margins will be similar as we're going into the fourth quarter. Where you're going to see the change in margin in terms of how that starts moving up is as we get more utilization on our facilities. So as volumes come into Chemours, that's where you're going to see the margin expansion. We believe that will be more in line with 2021 than you'll see in the fourth quarter.

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

And Mark, the only other thing I would add is we continue to focus on running the business for cash. So, we make those tradeoffs as we look at margin versus cash as we go into the end of the year.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC
Q

Great. Thanks for taking my question. I just wanted to get your thoughts on maybe some of the consultant outlooks in TiO2. It looks like maybe they have a small increase on price next year in the back half, maybe $50 a ton or 2%. And then they also have maybe a larger decrease in feedstock assumptions, maybe $100 a ton or so. And, I guess, are you seeing that kind of trends in both, in pricing as well as costs, over the next year? Is that something that you think could happen or could we see a larger increase in the back half of next year in pricing? Thanks.

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

So, I'd say, from a pricing perspective, we did see some nominal increases on our Flex channel in the quarter. So, we're seeing – Flex is a portal that we can use as market tightness goes forward. So, my – Mark commented right at the beginning that, on an account-level basis, prices were stable sequentially. But we are starting to see some indications in the Flex channel that we could take price over time. As it relates to ore, we remain well supplied on ore and we see ore as quite stable in the current environment. So, I wouldn't comment just early on in terms of what we would expect for ore. But I'd like to say that the market seems quite stable to us today.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

And then, just as a follow-up, could you also maybe provide some color on where you think inventories are in different regions as well as exports? It appears that, the industry has gone through a couple of years of pretty sizable destocking yet, maybe there's some skewness in these days sales measures, because demand is down. So, would you say actual inventories are kind of normal or high or low, or how would you kind of characterize the inventory picture out there? Thanks.

Mark E. Newman
Chief Operating Officer, The Chemours Co.

A

Yeah. I'd say, sitting here today, we think inventory levels are pretty normal. Obviously, there was quite a bit of destocking last year. So, we certainly are not dealing with a significant inventory overhang in our view. And obviously, you saw the robust nature of sales improvement sequentially. And as that continues, inventory, from a days' perspective, will continue to come down. So, our sense is we're in the early stages of a recovery and we see volume to the upside from where we sit today in the market.

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

A

And Arun, it's Mark. Just to add to that, remember, the value proposition that we have in our AVA contracts is that customers don't have to add inventory. So, they don't have to stock up, right? There's no logic for them to have to do that. They're not having to get in front of a price increase. So, again, we believe that our customers, their volume is really demand related. And if we look across all the regions, we look across all the segments, we really believe that this is demand related, not inventory related.

That said, as we start seeing – and as I mentioned early on, we see a fourth quarter that is not your typical fourth quarter of seasonality. It appears to be continued strength in volume in the fourth quarter. We expect that, hopefully, to continue into the first quarter, assuming that there's no issues with COVID-19 going forward. Our job is to make sure we have the inventory in our side available to our customers for their growth.

So, as we look at how to manage cash for the rest of the year, Mark said it really well, we are managing for cash. But at the same time, we want to make sure we have the inventory our customers need as they grow into the next quarter. So, we're always looking at that. But inventory in the channel, I think, is very normal. In fact, I'd say, is not anticipated, if you will, inventory builds as you would normally see in a typical cycle, because of the nature of our AVA contracts.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks.

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

Yeah.

Operator: Your next question comes from the line of Roger Spitz with Bank of America. Please go ahead. Your line is now open.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you and good morning. How much zircon are you producing and selling in metric tons? Is that most all from the [ph] folks (00:52:16) in Georgia mine or is it also from the old Starke, Florida mine?

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

Yes. It's from both. It's from our mines down in Florida and Georgia. We don't break that out right now, Roger, from that standpoint. But all the zircon that we produce is out of both Florida and Georgia.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Got it. And in terms of this Nafion membranes, can you give any sense of what percent of [ph] four (00:52:43) products sales that is? I mean, is it a couple of percent or less meaningful or more meaningful?

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

We...

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

It's – go ahead, Mark.

Mark E. Newman
Chief Operating Officer, The Chemours Co.
A

Yeah. I would say, we don't break out the product line usage, but it would be a more meaningful percent than what you quoted.

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

Yeah. And I'd say, Roger, Nafion, from a membrane standpoint, is something that we're probably going to bring forward early next year to everybody and talk a little bit more about, because it's always been a product line that we've had. It's been increasing around the fuel cell side. But really, where we see the biggest opportunity is going to be in hydrogen generation. So, we'll probably break that out to you guys in maybe a very specific way to share where we see the growth opportunities on Nafion sometime in the first half of next year.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Okay. So it's not just used in chlor-alkali membrane cells right now. You're saying it's also used in some fuel cells as well, at the moment?

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

A

Yeah. It's used in all three, right? It's used in chlor-alkali, which is the traditional place for it. It's used in fuel cells. Remember, DuPont was one of the originators of fuel cell technology, so it's used in fuel cells. And it's used in hydrogen membranes, all three today.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

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

A

Yeah.

Operator: And there are no further questions at this time. I will turn the call back over to Mark Vergnano, CEO, for any closing comments.

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

Great. Well, thank you all. Thanks for taking the time this morning. I know we're in some strange times. I don't know if it can get any stranger after going through what was a wild night from the presidential election, and I have a feeling it's going to be a wild few days.

But I do want to just reinforce, we feel very good about the quarter we just had. We feel very good about where things are leading toward the next quarter. And hopefully, our goal is continually to be managing this business for cash, making sure that we're delivering everything that our customers need and making sure all our employees are safe as we get through this pandemic. So, all I'd say is thank you all very much for your time. Thanks for your interest. Please stay safe and stay well.

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