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The Chemours Co. (CC)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to The Chemours Company's First Quarter 2021 Earnings Call. At this time, 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, VP, Corporate Development and Investor Relations. Please go ahead, sir.

Jonathan S. Lock

Vice President-Corporate Development & Investor Relations, The Chemours Co.

Good morning, and welcome to The Chemours Company first quarter 2021 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 term 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 first quarter. Mark?

Mark P. Vergnano

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

Thank you, Jonathan, and thank you, everyone, for joining us today. I'll begin my commentary with the first quarter highlights on chart 3. It is hard to believe, but it has now been more than one full year since the beginning of the COVID-19 pandemic. Throughout that time, I had continually been impressed by the company's focus on our North Star, the safety of our people and their families while supporting our customers and the communities in which we operate. That bedrock commitment has allowed us to serve our customers safely and respond quickly as the recovery has gained momentum.

I would like to recognize the efforts of our entire global employee base over what has been a difficult period, your focus, diligence and resilience is truly amazing. Looking at the Q1 results, demand remained strong as the world moves through what we hope are the final few months of the pandemic. Net sales rose 10% to $1.4 billion, with adjusted EBITDA up 4% to $268 million despite weather challenges we encountered in the quarter.

In our Titanium Technologies segment, we continue to see a rising tide of coatings, plastics and laminate demand into the second quarter. Contractor and renovation and remodel demand have been strong thus far in 2021, building on the strong DIY momentum from 2020. Our customers continue to see the value proposition of our long-term AVA contracts and we continue to add new customers across all segments to the TVS family.

In our Thermal & Specialized Solutions segment, demand for Opteon remains strong despite constrained automotive build rates. We continue to see Opteon blend adoption in stationary applications and growth in the automotive aftermarket. In the US, we expect the EPA to implement a framework to transition to lower global warming refrigerants under the AIM Act later this year and believe a unified global transition toward HFO technology is underway.

Demand in our Advanced Performance Materials segment has rebounded strongly across the majority of our end markets. Q1 was a solid proof point in our ability to increase margins across the portfolio in APM as demand normalizes. Commercial activity across most end markets has been robust as supply chains restock and overall demand has increased, creating tightening supply conditions around the world. In addition, we continue to make progress against our key growth programs in semicon, 5G and the hydrogen economy.

While demand has been strong across the board, winter storm Uri affected our profitability in the quarter. Our concentration of operating assets in the southern US region has affected results across all our segments, with the largest impact in our TSS segment with two key plant sites in Texas. Sameer and Mark will discuss this in more detail, but I am proud of the way our teams quickly responded to minimize the impact on our people, facilities and customers.

Looking ahead, we continue to gain confidence in our outlook despite the winter storm headwinds of the first quarter. As a result, we are raising our 2021 full-year guidance by $100 million on both the low and high end of the range. We now project full-year adjusted EBITDA of between $1.1 billion and $1.25 billion. We also are raising our free cash flow guidance by $100 million to greater than $450 million. Mark Newman will take you through our higher guidance targets later in the presentation.

Moving beyond financials, in March we announced the strategic review of our Mining Solutions business. As you all know, we have significantly improved the performance of our Chemical Solutions segment since then, investing behind the most attractive portions of the business, improving operating efficiency and driving stronger commercial focus with an eye to maximizing shareholder value. We are in the early days of our review, but hope to have some news to share later in the year.

Turning to chart 4, since the launch of our first corporate responsibility report in 2018, we have been pursuing a set of 10 ambitious goals designed around inspired people, our shared planet and evolved portfolio. These goals were always designed to lead and push ourselves and the chemical industry to a higher standard. Last month, we announced an updated climate goal. In doing so, we extended our leadership on climate related issues in the chemical industry.

Chemours will achieve a 60% absolute reduction in Scope 1 and Scope 2 carbon emissions from our operations by 2030 on our way to achieving net zero by 2050. This commitment does not include the profound impact our products will have on climate. From Opteon refrigerants to Nafion membranes, our products are fundamental to helping the world achieve the aims of the Paris Agreement. Our commitment to all our stakeholders shines through in our CRC program, and I know these commitments will serve as the guiding light for Chemours long into the future.

With that, I will turn things over to Sameer for a more detailed look at our results. Sameer?

Sameer Ralhan

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

Thanks, Mark. Turning to chart 5, results in the first quarter were solid as demand continued to improve steadily from Q4. Q1 net sales of $1.4 billion was up 10% year-over-year and grew nearly $100 million or 7% on a sequential basis. Demand was strong across both segments and end markets. GAAP EPS came in at $0.57 per share with adjusted EPS of $0.71 per share. Adjusted EBITDA in the first quarter rose to $268 million compared to $257 million in the prior year quarter. Adjusted EBITDA was negatively impacted by $9 million due to fixed costs under absorption related to operational disruptions created by winter storm Uri. As a result, margins in the quarter were 19%, 1 percentage point lower as compared to the prior year quarter. We expect storm related cost headwinds to ease to the second quarter. I'll cover these in more detail in the subsequent charts.

CapEx for the quarter was $60 million. Our use of cash was just [ph] $21 million (00:09:17), up $41 million from the prior year period. First quarter is typically a heavy cash usage quarter for Chemours as we build inventory in anticipation of both [ph] coating (00:09:28) season and cooling season in our core markets. Consistent with the past several quarters, we have put a strong focus on cash and the results speak to our ability to execute against that strategy, and we continue to believe that we are well positioned to serve our customers in the spring and summer months.

On April 29, our board of directors approved a second quarter 2021 dividend of $0.25 per share. This is unchanged from the prior quarter and will be tabled to shareholders of record as of May 17, 2021. We continue to deliver consistent and stable dividends to our shareholders. This quarter marks the 12th consecutive quarter of dividends at the current level, a stable return of cash to shareholders through all parts of the economic cycle.

Turning to chart 6, let's review the adjusted EBITDA bridge for the first quarter. First quarter 2021 adjusted EBITDA was $268 million, up 4% from the prior year period. Customer mix and contractual price downs were a headwind on a year-over-year basis but were more than offset by stronger volumes in the first quarter. Currency [ph] made a (00:10:35) small benefit in the first quarter as the euro-US dollar exchange rate continue to move in our favor. Higher costs were a big story here in the first quarter and masked some of the top line strength across the company. Higher legacy environmental and remediation costs [ph] were it had been (00:10:50) primarily related to $12 million additional remediation expense at Fayetteville Works. The reminder of the costs incurred in the quarter were related to winter storm Uri, both operational and supply chain that I'll cover in the next chart.

Turning now to chart 7, our results in Q1 were impacted by a number of one-off issues related to the winter storm Uri. While we are by no means unique in our [ph] experience (00:11:14) here, we wanted to be very transparent as to the scope of the issues for our investors. The deep freeze across Texas and much of the southwest from winter storm Uri created unprecedented supply chain disruptions and operational challenges at several Chemours locations.

Extended freezing conditions burst pipes, damaged buildings, cut access to power and other critical utilities, and stranded employees due to unsafe work conditions. Working tirelessly around the clock, our teams leaned into their safety obsession and expedited the safe repair of hundreds of [ph] water and steam lakes (00:11:50). Preventive maintenance schedules were promptly pulled forward, critical raw materials were qualified as new source materials and creative logistics solutions were deployed to minimize distraction from countless utility and supplier force majeures.

I'm proud of how our team responded in this dynamic situation to quickly return service to our customers and safely ramp our site back to full operational capability. As a result of the storm, we incurred first quarter expenses of $16 million from plant repairs and higher than normal utility charges. These items are excluded from adjusted EBITDA. However, $9 million of expenses related to under absorption of plant fixed costs primarily stemming from operational disruptions in the TSS segment are included in the first quarter adjusted EBITDA.

Let's turn to chart 8 where I'll cover liquidity. Our cash position, liquidity and balance sheet remain strong. Our cash balance at the end of the first quarter was $1 billion, operating cash flow was $39 million, while CapEx was $60 million in the first quarter. We returned $41 million to shareholders in the form of dividends. We ended the first quarter of 2021 with $4 billion of gross debt. Debt net of cash was $3 billion, resulting in trailing net leverage ratio of approximately 3.4 times. We continue to be well-positioned from a balance sheet and liquidity perspective as the recovery continues and have positioned ourselves well to benefit from demand towards the balance of the year.

With that, I'll turn things over to Mark Newman, our Chief Operating Officer. Mark?

Mark E. Newman

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

Thanks, Sameer. Good morning, everyone. I hope you're all safe and well. On chart 9, I'll cover the results and outlook of our Titanium Technologies segment. Titanium Technologies continues to experience improving pigment demand as the economic recovery gains speed, Ti-Pure demand across all end markets, product categories and geographies remain strong, a sign that the momentum from Q4 has carried into the first part of 2021.

As you heard from Sameer, global logistics issues and winter storm Uri were both headwinds in the quarter, but our operations, supply chain, and logistics teams have rallied in their support of our customers. We have prioritized product availability for our long-term AVA contract customers, consistent with our TVS strategy. I am very proud of our ability to deliver high quality Ti-Pure pigment around the world at a time when some of our competitors have struggled.

Activity on our Flex portal has been robust and spans all regions and product grades. Price continues to inflect upward, reflecting stronger demand conditions. As a result of these tighter market dynamics, we continue to sign up new AVA customers who are drawn to the combination of supply reliability, service and quality that only Chemours can provide. These new long-term contracts demonstrate the value of TVS and are the foundation for deep long-term relationships with these customers.

Turning to the numbers, first quarter net sales rose 18% to $723 million. Volume increased 16% versus the prior year. Adjusted EBITDA for the segment rose 22% to $169 million despite the headwinds from the winter storm and logistics issues around the globe. Price was up slightly on a sequential basis despite some customer and product mix drag.

As we look ahead, a return to more normalized order patterns and AVA growth in Q1 leads us to believe volumes will be strong throughout the balance of the year. We believe that renovation and remodel trends are strong, with stimulus and infrastructure potentially providing longer term tailwinds. Over the coming months, we intend to make steady market share gains with the goal of returning to our capacity share by year-end. Margins should improve as production continues to ramp up across the next several quarters.

I am very proud of the resilience the business has shown over the course of the first year of the COVID-19 pandemic and our ability to quickly pivot and adapt to the ever changing market conditions. Through it all, we have demonstrated the quality and differentiation of the Ti-Pure franchise, setting the stage for significant value creation in the coming years.

Moving to chart 10, in the Thermal & Specialized Solutions, demand signals continue to strengthen in the first quarter, with order patterns reflecting pre-pandemic seasonality. Opteon adoption in the automotive and stationary applications continue as the world recognizes the importance that low global warming refrigerants will play in combating climate change.

Looking more closely at the results, Q1 net sales were $304 million, nearly flat from Q1 2020 but up 12% on a sequential basis. Improved adoption rates of Opteon blends in stationary applications were offset by a decline in volumes related to the expected regulatory phase out of legacy-based refrigerants. While overall demand for Opteon is strong, semiconductor shortages slowed the automotive build rates in Q1, leading to modest adjustments in customer order patterns. At present, we anticipate a continuation of constrained automotive build rates in Q2 and through year-end.

Segment adjusted EBITDA rose 6% to $93 million in the first quarter. This was the result of improved operating rates at our Corpus Christi facility which more than offset the $7 million of under absorbed fixed costs from winter storm Uri plant downtime. Looking ahead, I'm confident that we will put the onetime issues from Q1 behind us and are well-positioned for a strong Q2 and Q3 as the cooling season gets underway.

Auto aftermarket adoption and the market for Opteon stationary blends continues to grow as equipment conversions start to take hold. In Europe, we see a steady cadence of illegal HFC refrigerant seizures through continued enforcement and awareness campaigns behind the F-gas regulation. In the US, we applaud the efforts of the EPA and engaged industry stakeholders who have been working with such an aggressive timeline to codify standards for HFC transitions. We expect this will accelerate the transition in the stationary market to HFOs behind the recently passed AIM Act. We are mindful of the impact lower automotive build rates could have on demand for mobile Opteon refrigerants and continue to manage our supply chain in close coordination with our customers.

Turning to chart 11, I'll cover our Advanced Performance Materials segment. The rebound which started in Q4 2020 continued in Q1 2021. Net sales improved 14% to $333 million and March was a record month for APM as underlying demand accelerated late in the quarter. The recovery has been broad based with demand rising across the breadth of our product mix and across all geographies.

Segment adjusted EBITDA was $51 million, flat to last year's first quarter. Margins sequentially rose to 15%, weighed down by higher accruals for incentive compensation in the quarter as well as the impact of fixed costs under absorption versus Q1 2020 due to supply chain issues related to winter storm Uri. As we said on the fourth quarter call, we have significant operating leverage across the segment. Our results in the first quarter illustrate this potential. On a sequential basis revenue was up $54 million, resulting in an earnings lift of $26 million.

Looking out across the rest of 2021, the outlook remains strong. We remain focused on top line recovery and growth while executing on productivity and cost improvement actions to enhance returns. We believe margins in this business will return to the high teens starting in the second quarter. APM is prepared to seize the moment. We have already made great strides delivering on our 2020 performance improvement plan, with a rapid return to pre-pandemic quarterly sales, reliable plant operations and realizing significant progress towards our high-teens dividend margin target.

Despite this notable improvement, we recognize the importance of defining our post recovery strategy and better communicating our enthusiasm for the opportunity in this segment. With this in mind, we are planning to host an investor deep dive later this year to unpack the APM segment in a greater level of detail.

Moving ahead to our Chemical Solutions segment on chart 12, first quarter net sales were $76 million. Excluding the portfolio impact of the shutdown of our aniline business last year, Chemical Solutions sales increased 2% on a year-over-year basis, driven by improving demand for sodium cyanide and continued strong demand for performance chemicals and intermediate products.

Adjusted EBITDA was $10 million for the first quarter of 2021, including $2 million impact from freezing conditions at our Memphis facility in February. We anticipate continued momentum in Mining Solutions driven by robust demand as conditions in gold mining continue to improve. Glycolic acid demand remained strong and we anticipate a return to more normal adjusted EBITDA margins across the business over the course of 2021.

Turning to the next chart, the strength of our Q1 results and the momentum we are seeing in both volume and price across our core markets give us confidence that our 2021 results will be higher than we communicated in our Q4 call. As a result, we are raising our adjusted EBITDA guidance by $100 million to between $1.1 billion and $1.25 billion. Our revised guidance is now up 34% from 2020 levels at the midpoint of $1.175 billion. We continue to drive a disciplined approach to CapEx in 2021, with no change to that metric at approximately $350 million. As a result, our free cash flow guidance is now greater than $450 million, up $100 million from our prior guidance.

Our focus on our North Star and cash generation has not waned with a recovery under way. We remain fully committed to generating significant earnings and free cash flow through the cycle and maximizing the value of Chemours long-term.

With that, I'll turn things back over to Mark Vergnano for some closing thoughts.

Mark P. Vergnano

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

Thanks, Mark. Turning to the last chart, I can say without hesitation that I have never felt as positive about the future of Chemours as I do today. To start, our foundation is strong. We continue to safely navigate the impact of the COVID-19 pandemic and have demonstrated our resilience as a company. Our balance sheet continues to be a source of strength even through the sharpest economic disruption since the financial crisis, and we have gained alignment with DuPont and Corteva on our legacy PFAS liabilities with a solid framework to reduce our risk and move forward.

Secondly, the recovery across all our end markets is well underway. TiO2 dynamics continue to improve, driven by end market demand across the globe. Opteon growth continues to gain steam as the world embraces climate-friendly, low global warming potential HFO technology as the future of refrigeration and air conditioning. And APM demand continues to grow as industrial demand picks up and advanced technology raises the bar for material performance.

Finally, we are executing our new capacity and product development to fuel our future growth. In semicon, we are expanding our PFA capacity in order to meet increasing demand for semiconductor infrastructure. We are well positioned to provide strategic capacity in markets, including the US, where significant new fab capacity will come online over the coming decade.

In 5G, we are working on the next generation laminate structures to provide chipset solutions necessary to deliver the fastest implementations of 5G at frequencies above 24 gigahertz. In hydrogen, we are continuing our work on the fundamental electrochemistry of Nafion membranes to rapidly improve durability, efficiency and lifecycle cost. Our work is critical to enabling low cost hydrogen electrolysis and reaching diesel parity in heavy duty transport to help decarbonize the global economy. By 2030, we believe the total addressable market in hydrogen membranes could be $2 billion to $3 billion.

From the strength of the near-term recovery to the long-term potential of the portfolio, I believe the future is bright for Chemours. To our 6,500 employees, I'm so proud of your grit, determination and excellence. To our customers, you are the reason we are here. We will continue to bring the best products, services and values to help you win in the marketplace. And finally, to our investors, we appreciate your trust in us and your shared belief in the long-term value potential of Chemours.

With that, operator, let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] 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 and congratulations on a solid set of results despite a really difficult headwind. My first question was just on the Uri impact and supply chain impact on the Titanium Tech business. Specifically, I'd love to understand how that might have nicked the volumes in that business and what you could have delivered if it hadn't been for those disruptions.

And then also, I guess my assumption would be since those volumes might have been directed more to the portal customers, that might have also had a negative impact on pricing for you in the quarter. And I guess, how would that have maybe played out differently if we hadn't seen the impact from Uri and the supply chain hit that business?

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

A

Yeah. Good morning, John, and great question and your hypothesis was right on. The storm affected DeLisle, it affected our Johnsonville facility, and because of natural gas issues, affected Altamira as well. So we had some supply issues through that storm. We prioritized our AVA contract customers, so we made sure that they got the supplies that they needed. We actually had customers come to us who were not AVA contract customers looking for supply, because we weren't the only ones that were difficult in supplying, and again, as – prioritizing our AVA contract customers, but also we added new AVA long-term contract customers during that period as well.

So your hypothesis is right. We probably had less business through the portal than we normally would, which probably skewed price a little bit from that standpoint. At the same time, because we have some of those disruptions, our ore blend was a little bit higher than normal to be able to get as much production out as possible, so our variable margin was a little bit higher as well because of that. So, yeah. So it could have been a stronger quarter without that winter storm, both on a, I'd say, supply standpoint, both on a cost standpoint as well as price. Still a solid quarter, the team did a great job of getting us back up, made sure we took care of all our AVA customers the right way, but it could have been a little bit stronger.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Got it. No, that's helpful. And then maybe just a follow-up on TT business. As we look throughout the rest of this year, I mean 1Q was obviously a kind of an odd one for a whole host of reasons. I guess, how are you thinking about the normal seasonal pattern for the TiO2 business? And also, I guess compounded by that, how should I think about your ability to meet the capacity out there versus what seems to be a pretty tight market where maybe others can? I guess, how should we be thinking about that?

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

A

Yeah. I'd say it is a tight market, we continue to operate all our facilities very strongly, almost full from that standpoint. We believe we have the capacity to be able to service our customers going forward. As we've talked about in the past, we have some incremental capacity work that we can do across the fleet of our facilities that would come onboard in the 2022, 2023 kind of timeframe. But in the meantime we feel like we have adequate capacity to be able to handle that.

Just as you said, what you're seeing is a very different dynamic here, which is, you're not seeing a lot of inventory build in the channel, you're seeing prices being thoughtful in terms of how they're being – going into the market from that standpoint. So I believe – and as we look at the portal, we have a portal that people are putting in orders even six months out, and those prices are different than what they would be now. So I think we can service our customers going forward. I just don't think there is excess inventory anywhere in the channel right now.

John P. McNulty
Analyst, BMO Capital Markets Corp.

Q

Got it. Helpful color. Thanks very much.

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

A

Sure thing.

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

Matthew Skowronski
Analyst, UBS Securities LLC

Q

Thank you. Good morning. This is Matt Skowronski on for Josh. Can you provide some details on what is baked in the guidance regarding production costs, such as energy or other inputs?

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

A

Yeah. And I'll let Sameer give you a little bit more detail, but maybe just from a standpoint of how we're looking at guidance, we see strong demand across all our segments right now. Our guidance reflects probably a level of conservatism, which is really based on macroeconomic issues, things we're keeping an eye on in the pandemic. From a standpoint of India and Brazil, still have some issues, our hearts and thoughts go out to our colleagues in India and Brazil who are still struggling through the pandemic maybe more than anywhere else in the world. And we're keeping our eye on auto OEM builds across the world as the chip shortage is getting in the way of that right now.

So those are the things that are probably driving our conservatism from that standpoint. But outside of that, we expect very strong demand. We're operating our facilities extremely well. We don't see any – foresee any other issues. Sameer, anything you'd want to add to that?

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

A

No, I think Mark you summarized it well, and the only other thing I would say is on the cost side of the question, look, as you said earlier, we [ph] live in our contracts (00:33:07) pretty nicely, so given the contracts that we have in place for [indiscernible] (00:33:13) we feel we're in a very good position and the nature of those contracts were already reflected in the guide.

Matthew Skowronski
Analyst, UBS Securities LLC
Q

Thank you. And then for my follow-up, the release mentioned that the percent of customers on long-term agreements increased during the quarter. Were these new contracts materially different in terms of pricing than the previous contracts?

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

Well, I'll let Mark dive in that for you, but just to sort of level set for everyone, we've said on the TiO2 side that we want our balance of AVA contracts to be somewhere between 60% to 70% of our total volume and we're going to stay in that range. I think the perturbation that we saw from winter storm Uri proves that you want to be in that range to be able to support your AVA customers going forward. So we're going to sit sort of in that range. As we go into new contracts or with new customers in AVA contracts, prices are set at where they are today, they're not set at some previous level. But Mark, do you want to go in any more detail on that?

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

Mark, we don't comment on price by channel but I'd just emphasize the point you raised which is, when we enter into new contracts, the reference point for pricing is where pricing is today and not where it was previously. So that's the benchmark rate. And then maybe I'll just emphasize also that we're leveraging this very tight demand situation on TiO2 to improve the quality of our business and to layer in more business that's on long-term contracts and which we think is desirable as we improve the TiO2 business going forward and we continue to regain market share across our product segments.

Matthew Skowronski
Analyst, UBS Securities LLC
Q

Very helpful. Thank you.

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

Tom Glinski
Analyst, Goldman Sachs & Co. LLC
Q

Good morning. This is Tom Glinski on for Bob. First question, just on TT business, how should we think about what you've baked into the full year guide from pricing standpoint? I'd think based on your earlier comments that the sequential improvement in the second quarter should likely exceed the sequential improvement that you realized in the first quarter or so. Just some commentary there would be helpful.

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

Sure, Tom. Mark, why don't you [indiscernible] (00:35:47)?

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

Yeah. I think as we indicated in our call, we have seen an inflection in price. We see good market momentum. So our expectation going forward is that the market remains strong and will certainly have a good mix of both AVA and Flex business. I'd also mention that since winter storm Uri, our plants have run very well. So our plants ran well in March, our plants have run well in April. So our ability to serve all of our channels remains very favorable. And clearly, as you would expect, the Flex channel is where, when markets are tight, you can take the most price. So I'd say we factored certainly that into our outlook. And as Mark mentioned, some of our guidance philosophy has been somewhat conservative given some of the broader macroeconomic factors that we're watching.

Tom Glinski
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Okay. That's helpful. And then on the TSS business, you called out additional seizures of illegal refrigerants, I'm assuming in Europe. So this reads positively, but I'm just wondering if this could potentially signal that we've seen a pick-up in the absolute level of illegal imports, so just naturally there are some more seizures being associated with those. I guess, are there more illegal imports coming into the region than there were maybe three, six, nine months ago or is it just purely that enforcement is improving?

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

Yeah. I'll let Mark answer that and – because I think that's real important for everyone to understand what we're seeing in Europe. But maybe just to give a little bit of context, Tom, from that standpoint, we're very positive about what we're seeing with Opteon right now, all across the world and with the EPA coming out with their initial draft rules just yesterday, I think you see built into that, that they're going to move forward. We applaud the Biden administration for being as aggressive as they are in getting back in the Kigali kind of level here. But at the same time, I think the US has learned a lot from Europe in terms of how they're putting in protections against illegal imports as well. But Mark, why don't you explain what we're seeing in Europe at the same time?

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

Yeah. Thanks, Mark. Overall I'd say we're very encouraged by the tone of the market in Europe in refrigerants, especially stationary refrigerants, both legacy and HFO blends. It's a combination of continued improvement on the enforcement side. You'll recall earlier this year we had a step down in the quarter, and of course we're starting to see some early stages of recovery in terms of commercial buildings needing refrigerants as we come into the cooling season and we come out of COVID-19 as we start to emerge from that in Europe.

So overall, I'd say we're encouraged and I think it's all three factors. But seizures, the level of seizures and the level of what we call Internet takedowns, which is product being marketed on the Internet, have improved year-over-year and we're encouraged by what we're seeing in Europe. And we're also encouraged, as Mark said, by the recent action by the EPA to form regs on the AIM Act. So, overall, this is the next stage of Opteon growth on the stationary side, both in Europe and the USA and the team is ready to service that demand.

Tom Glinski
Analyst, Goldman Sachs & Co. LLC
Q

That's helpful. Thank you, guys.

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

Thank you.

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

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Good morning, guys.

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

A

Hi, Hassan.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Hi, there. Question around titanium dioxide volumes, obviously your volumes are quite strong on a year-over-year basis, but sequentially up around 2%. So, when I sort of sit there and sort of compare and contrast that to other large competitors, sequentially they seem to have had a larger bump up in volumes, so I'm just trying to sort of reconcile the sequential sort of uptake in your volumes relative to the commentary that you gave about sort of still being able to regain lost market share through the course of the year.

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

A

Right. No, it's a good question, Hassan. I'd say, you've got to remember last year, so if you look at quarter-to-quarter, year-on-year if you will, year-on-year we had a very strong first quarter last year, with things really starting to ramp-up in our opinion, things are significantly starting to ramp-up from the standpoint of the TiO_2 industry. And then obviously we saw COVID hit us which made a big difference. But, from the standpoint of comparison, I think you've got to think of it from that standpoint.

And also, as we've talked about, we had some disruptions from the winter storm from that standpoint. I think you're going to see us continually gain in volume through the rest of the year as well as we anticipate gaining share for the rest of the year going forward. But you just had to – I'd say a strong year-on-year – not as strong a year-on-year comparison because of the quarter last year. But I think, as going forward now, going into the second quarter and beyond, you're going to see a lot more strength from the volume perspective.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC

Q

Understood. Understood. And now switching gears to the feedstock side. Again, sticking to Titanium Technologies, it seems that ore availability was tight last quarter, it seems to have only gotten tighter this quarter, particularly from what I'm hearing out in China. And then you have companies like [indiscernible] (00:41:54) coming out and reporting sort of production declines. So, a two-part question, one, what are you guys seeing in terms of ore cost inflation and how are you handling that? And part and parcel with that, what are you guys seeing in terms of cost curves? Where do you see the high end of the cost curve currently with the sort of ore price inflation that we're seeing?

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

A

Yeah. I'd start with – we have long-term contracts in our ore, so we are not seeing ore inflation at this time from that standpoint, we have plenty of supply of ore from that perspective as well. So from an ore side, we feel very comfortable where we are throughout the rest of the year. I think you are seeing some issues in sulfate ilmenite in China, which is a little bit tighter. Obviously, that's not us. Our big players, as everyone knows, is chloride ilmenite, where we have ample supply to be able to support us going forward from that standpoint.

So from the standpoint of pricing, obviously we don't talk about pricing directly, but our whole concept of bringing TVS to our customers was to give them predictable pricing and to give them predictable supply. And I think the past several months have proven the value of that strategy not just for us but for our customers, which is the reason we installed it.

So I think that the right things are happening for our customers in the marketplace. They know where they can get product, they know they can get it from us. They know what their price is going to be going forward. They know the mechanisms, how that's going to change. And because of that, I think for the first time in a long time, you're not seeing the spikes that normally occur in, I'd say hoarding if you will, where people are bringing in lots of inventory because they just don't need to do that.

So I think you're seeing a very different dynamic in this TiO2 market which I would say is going to be more of a steady growth versus driving to a peak that then crashes. I think you're going to see steady growth here that's going to benefit everyone. And Mark, I don't know if you want to add anything to that, but I think it's a different dynamic than what we've seen before in this marketplace.

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

Yeah. Mark, I'd just maybe make three points to Hassan. One is we're well supplied on ore, we continue to focus on – in our plants on being able to run more ilmenite and reduce our dependency on high grade ore but remain well supplied. Obviously, in Q1, given the strength of the market and some of the disruption we had with Uri, we didn't optimize our ore brand in order to meet customer demand.

And then the other point I'd make, which goes back to where you started, sequentially we had a much stronger Q4 than some of our competitors, so the sequential comparison doesn't look as good. It's impacted by Uri, but it's also impacted by a relatively strong Q4. So, overall, as we look forward, which I think is where you should be focused, is our ability to supply based on our nameplate capacity and how well our plants is running is good, and we're taking advantage of the strong market conditions despite some of the disruption we had in Q1.

Hassan I. Ahmed
Analyst, Alembic Global Advisors LLC
Q

Very helpful. Thank you so much, guys.

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

Thank you.

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

Duffy Fischer
Analyst, Barclays Capital, Inc.
Q

Yeah. Good morning, fellows. Question on TiO2, what's possible from a volume side? So, if demand continues and we use Q1 as the baseline, obviously you had some issues and disruptions, but I guess you probably also sold a little bit out of inventory that you carried over. So when we think about that sales level from Q1, going forward the rest of this year, if demand is there, can net volume move up 5%, 10%? How much more room on a quarterly basis do you have to grow off Q1? And then when we get into 2022, when do those [ph] debottlenecked go through (00:46:18) that we can see even more [ph] depend on (00:46:22) volume?

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

A

Yeah. So maybe I'll start up here then Mark go into any more detail. But we have – we expect demand will continue to strengthen throughout the year. We have the capacity to be able to meet that going forward. And we have a variety of ways to increase our capacity even before we do all the debottlenecking work. As you know, ore blend is one aspect of that. But we're operating our facilities now.

These facilities take a little bit of time to ramp up to full capacity. We're in the midst of that right now. But we feel very, very confident that we can supply the needs for this year and we do anticipate the demand to continue to be strong for the rest of the year going forward. And Mark, I don't know if you want to add anything to that.

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

A

Yeah. Mark, the only thing I'd emphasize for Duffy is, you need to separate our ability to supply in a ramp-up mode with pretty strong demand coming out of Q4 into Q1 and winter storm Uri versus our nameplate and our ability to supply going forward. So certainly, I wouldn't want you to gear our Q1 ability to – our ability to supply based on our Q1 volumes because of winter storm Uri and our continued focus on running all of our plants at their capability.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. And then maybe just to follow-up on Mark's earlier point with the EPA rule that came out yesterday. Obviously, a lot of the headlines were pretty [ph] forceful (00:48:06), it's a big step. Relative to what you've been working with them over the past several years, where does this all [ph] end (00:48:15)? When we think of Europe as a template, there was kind of one year that ended up being a big step change for HFO driving – drove up HFC pricing actually, that first year you had a step down. The way you read the text of what came out yesterday, what year is going to be the big move in the US market if this gets implemented as they wrote it yesterday?

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

A

Yeah. So, like you said, Duffy, we are very supportive of the aggressiveness with the administration in trying to get this – and trying to get a final rule in September, which we think is going to be very helpful. Obviously, this is the first draft rule so we'll have our comments that we'll be working with them on. The baseline that's been set up of 2011 to 2013, we think it's a solid baseline. How they now figure out the quota off of that, I think is going to be interesting. But they pretty much are lining this up with Kigali.

So the big step down based on Kigali would occur 40% step down, which is huge, in 2024. So, I think you're going to see 2022 and 2023 be positively affected to get in front of that from a standpoint of – remember, we're one of only two players who have the HFO technology that's going to be able to drive the new adoptions. And if the big OEMs move quickly to be able to get their equipment in place, that's going to play well.

So, you have the benefit, as you said, of the quota and the HFC prices that should move in accordance with that. But we have the bigger advantage which is we get HFOs in the marketplace as well which we think is going to be even a bigger advantage for us going forward. So, I'd say we're still early days of us looking at it. We just looked at it last night because it just came out. But I'd say the framework is there and we'll give our comments to the EPA from their draft rule to make sure that they understand that the two big players here are US manufacturers who invented this technology and we believe that we should have some advantage because of that.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, guys.

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

A

Yeah.

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 wanted to ask a question I guess on Titanium Technologies. So could you just describe the inflationary environment there? I know that you've gone through some supply chain disruptions, but obviously you may also not be as exposed around [ph] pure (00:51:05) inflation just given your flexibility. But, what are you seeing there? And if there is inflation that your competitors face, do you view that as a slight positive?

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

A

Yeah. I'll let Mark give you a little bit more color here, but as I said, we have long-term contracts in place with both our ore and other raw materials like chlorine, so we feel very confident from a standpoint of supply around those for the remainder of the year. And in a lot of those cases, those are multi-year contracts from that standpoint as well. So we're very, very solid in terms of from that standpoint.

And again, we – the whole concept of our AVA contracts in TVS are really about making sure that we're giving predictable pricing to our customers going through this. And so lining up our supply situation in a way that allows us to be able to have our solid margins and not have to pass all that on to our AVA contract holders is very important. But Mark, I don't know if you want to add any more to that?

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

A

Mark, the only thing I'd add is clearly we're protected with our multi-year contracts and we're very careful in terms of how we layer our contracts and to avoid significant duration exposure. I'd also remind everyone that – Arun, that we, with our ability to run chloride and ilmenite in lower grades of ore, we're advantaged versus our competition in an environment if there would be more ore inflation going forward.

And then the third point is clearly in Q1, to meet customer demand with winter storm Uri, we didn't optimize our ore blend but that is something we'll continue to focus on as we go forward which would improve our variable cost structure as we move out several quarters.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Great. Thanks. And as a quick follow-up, it seemed like the recovery started in China, maybe there's been a little bit of moderation there recently, is that accurate, I guess? And then, I guess I'm referring to TiO2. And then, similarly, do you expect kind of North America and Europe to kind of follow in the next say year or so and pick up some of that slack if China is stabilizing? Or how would you kind of characterize the regional dynamics?

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

A

Mark, do you want to [ph] answer that (00:53:51)?

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

A

Yeah. No, I'd say our business in China is very strong. And in fact, where we participate in the market in the high grade ore space, as we said in the call, our volumes are up across the board in every region, in every product line so we certainly see this as being in the very early innings of a good recovery. And we believe the strength that we're seeing from consumer demand around the world is going to last certainly for some time to come. And then the strength that we see coming behind that with infrastructure spending could extend that significantly. So we certainly believe we're in the early innings of a very good recovery. And as Mark alluded to earlier, structurally, we like some of the things that we're doing in terms of our participation in the TiO2 market which should give us a good run here.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

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

Q

Hey, Mark. This is 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

You noted sales opportunities from hydrogen membranes of $2 billion to $3 billion by 2030, how much share could you capture? And then, did your Nafion volumes increase this quarter?

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

Yeah. So I would say we continue to see improvement in our Nafion business. It goes in a variety of places obviously, fuel cells as well. So yes, we continue to see strength in the Nafion business from ourselves. And we are the membrane, if you will, for this going forward. So I think our share is going to be really dependent on the developments that we can do to make this membrane, to continue this membrane to be the standard in the industry.

I am convinced that the membrane is going to be the driver of efficiency and cost reduction for hydrogen, which is why it's going to be successful going forward. But as Mark alluded to in his comments, we're going to do a deep dive on this segment for all of you because we get a lot of questions on that. So hopefully in the next few months, we'll get that on the calendar for everyone.

And we'll go through a lot more detail on why we have so much confidence in this space and why we believe this membrane is really the standard in the industry, especially for heavy-duty diesel, as well as for electrolysis going forward and fuel cells in general. So again, we feel that we should be able to capture a significant portion of that market if we can continue to drive the developments that we're driving right now.

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

Helpful. And then secondly, you noted the recovery in your end markets, so a question on free cash flow to buybacks potentially later this year and 2022.

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

Yeah. So Sameer, why don't you talk a little bit about how we're thinking about our use of cash right now?

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

Yeah. Thanks, Mark. Eric, if you look at this, Mark highlighted some of the interesting kind of growth opportunities, you see the investments from the PFA side. So we're pretty excited about some of the things that we see from a organic growth perspective and we're going to continue to support that. We can do that [ph] as well as on the (00:57:28) CapEx guide that we've given this year in those kind of levels moving forward. But overall, [indiscernible] (00:57:37) from our board with respect to share buybacks and we'll be looking at that. And overall, the other thing I would say is, from a leverage perspective, Eric, we are looking at growth leverage kind of reduction over the next three years as well, trying to get the debt down to a $3 billion, $3.5 billion type of range. So you're going to see us using some of the free cash flow to reduce the gross debt as well. So we're pretty balanced as we kind of move forward.

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

Thank you.

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

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is Steve Haynes on for Vincent. Thanks for taking my question. Just on coming back to TiO2 margins pretty quick. I think last quarter you made a comment that for the full year, your [ph] second (00:58:24) margins to be in a kind of mid-20% range. Is that kind of still what you're looking for given that there's some incremental costs or should it be a little bit lower now?

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

A

You mean on the TiO2 side?

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Correct.

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

A

Yeah. I'd say as we look forward, mid to high-20s is where we should be aiming the margin. So we don't see a negative effect on margin going forward, I'd say we see a positive effect. As Mark said, we had a first quarter that we did not break the way we normally would, because we had ramped up production pretty quickly, we had to get product out because of the downtime from the storm, so we didn't optimize our ore blend. So as we go forward, I think you'll see us optimizing our ore blends. There's going to be a little bit of a positive price impact as well. So I would say margins should go up from the first quarter and should be in that mid to upper 20s range.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you. And then really quick on cash flow. I think in receivables you had a big [indiscernible] (00:59:34) this quarter. Is that kind of expected to reverse? What are your general working capital assumptions and the free cash flow guidance [ph] for 2025 (00:59:43)?

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

A

Yeah. I'll let Sameer give you the detail there, but do remember that we had a big revenue quarter. So there is a reason for receivables to go up at a big revenue quarter. But Sameer, do you want to add anything?

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

A

No, I think Mark you'd said it. It's a pick-up in the revenue and also the timing, given where it happened in the quarter. So I wouldn't read too much into it. The [ph] DSO (01:00:05) levels are pretty consistent with what we would see [indiscernible] (01:00:08) in the business, right? [indiscernible] (01:00:09) timing, we started seeing the pick-up in the sales in our coolants and the cool – the refrigerants market, so [ph] this is (01:00:18) pretty consistent with what we would typically have at this kind of a season.

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

A

Yeah. Maybe the only thing I'd remind everyone is, whenever you have sales backend loaded in the quarter because of winter storm Uri in February, it tends to drive slightly higher receivables than you might otherwise see. So nothing unusual there.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: There are no further questions. I will now turn the call over to Mark Vergnano for closing remarks.

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

Thanks, Jacklyn. And listen, I just want to reiterate how I close my remarks, we feel very, very positive about where we are right now as a company, but really, about the future as well. So, you probably heard it in our tone, but as we go through the year, we hope to give you a little bit more insight into why we feel really good about the segments that we have and how we're growing them going forward. So again, thank you as always for your interest in the company and thanks for your support.

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