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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Jessa, and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company First Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. Jonathan Lock, Vice President, Corporate Development and Investor Relations, you may begin your conference.

Jonathan S. Lock

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

Good morning. Welcome to The Chemours Company's first quarter 2019 earnings conference call. I'm joined today by Mark Vergnano, President and Chief Executive Officer; and Mark Newman, 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 those described in the documents Chemours has filed with the SEC. These forward-looking statements are not guarantees of future performance and are based on certain assumptions and expectations of future events that may not be realized. Actual results may differ and Chemours undertakes no duty to update any forward-looking statements as a result of future developments or new information.

During the course of this call, management will refer to certain non-GAAP financial measures that we believe are useful to investors evaluating the company's performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of this presentation.

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

Mark P. Vergnano

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

Thanks, Jonathan. Good morning, everyone, and thank you for joining us today. Our results in the first quarter of 2019 were consistent with our anticipated softer start to the year. Unfortunately, expected weak TiO_2 demand was compounded by a number of one-off operating issues, primarily in our Fluoroproducts segment, which negatively impacted our performance. Our year-over-year financial results declined from a record Q1 of 2018 despite solid performance in both Opteon and Fluoropolymers.

In the quarter, we celebrated the global launch of our Flex Portal, a completely reimagined Internet-based buying experience for Ti-Pure pigment. We are now live in 100 countries in nine different languages. And we believe that our Flex channel now provides customers with an easy way to buy from Chemours and gives them supply chain options to complement our AVA contracts.

Opteon volume remains strong overall, led by continued growth in mobile air-conditioning applications, primarily due to continued growth in the U.S. This was somewhat offset by weakness related to illegal imports of legacy refrigerants, circumventing EU F-gas rules and slowing down adoption of Opteon blends in European stationary applications. We continue to see results come through our Fluoropolymers application development and pipeline, and look forward to sharing more about these throughout the year.

Unfortunately, we had more than our fair share of unanticipated operating issues, including unplanned downtime at our Louisville facility due to an operating error and startup issues related to Corpus Christi in the first quarter. At Chemours, we have prided ourselves on our operational execution, which makes these issues disappointing for us. I'll speak more to these issues and how we're responding to them as I review the segment results.

During the first quarter, we completed $261 million of share repurchases as we opportunistically executed our recently increased share repurchase authorization. Since the beginning of our share repurchase program in 2017, Chemours has repurchased over $1 billion worth of shares, representing 13% of shares outstanding since spin.

Looking ahead to the full-year, I am glad to have the unseasonably weak quarter one behind us. We continue to monitor trade and economic macros, but having spent significant time recently with our customers, I have seen greenshoots across the globe. We continue to believe that 2019 will be a tale of two halves. As our market share returns in Titanium Technologies on the strength of tighter markets for chloride TiO2, and we put our operating issues behind us in Fluoroproducts.

Each and every day, our teams are diligently executing against our strategies to deliver TVS hand-in-hand with our Ti-Pure customers, continuing to grow Opteon on the back of its unique market position, and drive application development for our world-class Fluoropolymers. Together, these strategies are designed to maximize the value of our class-leading chemicals franchises; and when combined with a disciplined approach to capital allocation, increase the value of Chemours overall.

With that, I'll now turn the call over to Mark Newman to cover our first quarter financial results in more detail. I'll be back to discuss our segment results prior to opening the call for Q&A.

Mark E. Newman

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

Thanks, Mark. I'll start my remarks on slide 4. As Mark mentioned, our results in the first quarter reflects some expected and unexpected challenges across our business. Sales declined 20% from the prior-year period, reflecting the significant impact of lower volumes of Ti-Pure TiO2 pigment.

GAAP net income declined to $94 million in Q1 of 2019, with adjusted net income of $109 million. GAAP EPS of $0.55 per share and adjusted EPS of $0.63 per share reflected lower earnings, offset by a reduced share count. Adjusted EBITDA of $262 million reflects the impact of lower fixed cost absorption across Titanium Technologies, given lower Ti-Pure pigment volume, and cost related to operating and startup issues at two of our Fluoroproducts plants. Our adjusted EBITDA margin in the first quarter was 19%.

Free cash flow was negative in the quarter, driven by weak Q1 Ti-Pure pigment sales. Our pre-tax ROIC was above 30% for the quarter; and despite the near-term weakness, we continue to see attractive opportunities across the portfolio including our investments in TVS which we believe will generate long-term excess returns.

Turning to the next slide, we delivered $262 million of adjusted EBITDA in the quarter versus $468 million in the prior-year quarter. Stable to higher global average selling prices across all businesses in the first quarter resulted in a modest gain versus the prior-year period. Lower Ti-Pure pigment volumes and lower refrigerant sales, which we believe are attributable to illegal EU imports of legacy refrigerants, resulted in a $184 million decrease in adjusted EBITDA in the quarter.

Currency was a modest headwind. We expect currency to be a sustained headwind for the business throughout the balance of 2019 as we lap a strong year for the U.S. dollar.

Finally, we experienced operating issues in our Fluoroproducts segment, which increased costs by approximately $33 million. These were partially offset by quota sales reflected in other income in the quarter. The majority of the operating headwinds relate to the startup of our Corpus Christi facility and an unplanned outage at our Louisville facility, which is a key monomer supply source for our Fluoropolymers circuit.

Moving to the adjusted EPS bridge on slide 6. Consistent with the lower earnings from the previous chart, adjusted EPS declined to $0.63 per share in the first quarter of 2019 from $1.41 per share in the first quarter of 2018. This decline was driven by lower adjusted net income of $0.83 per share, offset by a lower share count driven by our share repurchase program.

Our adjusted effective tax rate in the quarter was 19% versus 23% for last year's first quarter, reflecting our geographic mix of earnings. The impact of our share repurchases was approximately $0.05 per share and we believe that this will increase in future quarters based on our recent share repurchase activity.

Turning to the next chart where we discuss liquidity. With a strong balance sheet heading into 2019, we were able to opportunistically execute on our share repurchase program, fund the working capital needs of the business, and execute strategic investments despite the slow start in our TiO2 and refrigerants business.

Our cash at the end of the first quarter was approximately $700 million. This includes the use of $44 million for operating purposes and $133 million of CapEx investment across the portfolio. We returned $297 million to shareholders in the form of share repurchases and dividends in the quarter. This included our regular cash dividend of $0.25 per common share and $255 million of cash used to repurchase shares. As a reminder, our use of cash in the quarter is slightly different than our share repurchase activity of $261 million as some share repurchases late in the quarter settled in the subsequent quarter.

In addition, after the close of the quarter through May 1, we have repurchased an additional $53 million of shares, resulting in a total year-to-date repurchase amount of $314 million, and leaving approximately $435 million under our current repurchase authorization.

Our net debt at the end of the first quarter stood at approximately $3.3 billion, which translates into a net leverage ratio of approximately 2.1 times on a trailing 12-month basis. After the close of the first quarter, we executed a $75 million draw on our $800 million revolving credit facility for general corporate purposes. In total, we feel comfortable with our liquidity position and our overall capital structure.

Before turning things over to Mark, I'd like to briefly recap our share repurchase activity to-date, a track record, as CFO, which I am proud of. In total, including April, we have repurchased approximately 25 million shares since spin, representing a 14% reduction in shares originally issued or 10% when taking into account shares issued on the stock-based compensation programs.

We remain fully committed to returning the majority of our free cash flow to shareholders and believe that a prudent capital allocation strategy is the best means of creating long-term shareholder value.

I will now turn things over to Mark to discuss our segment results in more detail.

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

Thanks, Mark. Turning to our Fluoroproducts segment on the next slide, we generated $687 million of sales in the quarter, down 6% year-over-year. Pricing across this segment was flat with a 2% headwind from currency. Lower volumes in the quarter were driven primarily by illegal imports of legacy refrigerants into the EU, impacting Opteon stationary refrigerant sales.

We also experienced lower base refrigerant sales in North America in the first quarter on weak market conditions. We are working with public and private parties in Europe to address enforcement of the quota system. We are also actively coordinating country-specific activities to curtail illegal imports and deter future illicit trade in refrigerants.

Our first quarter adjusted EBITDA decreased by $47 million when compared to last year. We experienced increased cost related to operating issues including the startup of our new Opteon refrigerants facility in Corpus Christi. While startup issues are not uncommon for a large and complex chemical plant such as this, we are pushing ourselves hard to find solutions and get the plant on the right ramp-up trajectory for the balance of the year.

In addition to the issues at Corpus Christi, we had an unplanned outage at our Louisville, Kentucky facility in March, which was caused by an operating error. We corrected the issue, took the proper disciplinary actions, and the plant is now back up and running. I am relieved to report that there were no safety issues related to this event.

Adoption of Opteon refrigerants for mobile applications continues to be a bright spot in Fluoroproducts. U.S. adoption drove year-over-year growth despite the slowdown in global auto builds. We continue to see new automotive platform conversions in the U.S. and anticipate the current CAFE standards will drive the U.S. mobile market to full conversion by the end of 2021. We are starting to see some adoption in Asia as well and expect this to become more pronounced as we move ahead.

As we look ahead to the rest of 2019, we expect results to improve in the second half as we leave behind the slow start of the year. We expect to see continued adoption of Opteon refrigerants in both mobile and stationary applications, Fluoropolymers growth driven by application development, and the end to the operating challenges we have faced here in the first quarter.

We are mindful of macroeconomic conditions, including trade, but believe that secular tailwinds such as 5G, alternative energy and global demand for low GWP refrigerants provide the right conditions for sustained growth in Fluoroproducts.

Turning to our Chemical Solutions segment on the next slide. Sales in the first quarter were $134 million. Volumes were lower year-over-year, driven by reduced contractual sales in Performance Chemicals and Intermediates, slightly offset by higher sales in Mining Solutions. The segment generated $15 million of adjusted EBITDA in the quarter, up 36% from the first quarter of 2018, reflecting the impact of previously communicated price increases.

We anticipate demand in Mining Solutions will remain strong throughout 2019 as our customers continue to see tremendous value in our product offerings. Our current Mining Solutions facility remains sold out, with tight market conditions in the Americas. At this time, we do not believe that construction at our Laguna Mining Solutions facility will be restarted in time to produce commercially-ready product in 2019. We will, of course, provide an update when our outlook for the Laguna facility changes. Long-term, we are confident that our Chemical Solutions segment can continue to be a source of growth and value for Chemours as we optimize the overall footprint.

Moving to slide 10 to review our Titanium Technologies segment. Sales of $555 million were below last year's record first quarter performance. Pricing was stable on both a year-over-year and a sequential basis. Pricing stability was more than offset by lower volume, but consistent with our Ti-Pure value stabilization framework. Lower volume in the quarter was driven by unseasonably weak demand particularly in Europe, which served to amplify the share loss which we had spoken to on our last earnings call.

We expect the trend of lower volumes will persist through the first half of the year, before recovering in the second half. Given the softer demand experienced in the quarter, we reduced production and finished product inventory. We remain focused on inventory management to align production with customer demand.

In the first quarter, adjusted EBITDA of approximately $126 million translated into an adjusted EBITDA margin of 23%. As I mentioned in my opening remarks, we celebrated the global launch of our Ti-Pure Flex Portal in the first quarter. The Flex Portal is a totally reimagined Internet-based buying experience for our TT customers. On Ti-Pure Flex, customers can fill their Ti-Pure TIO2 needs up to six months in advance with locked-in prices. The Ti-Pure Flex Portals is now live in 100 countries and 9 languages and available 24/7.

Despite the slower start to the year, as we look to the second half of 2019, we anticipate demand for Ti-Pure pigment to return to more normalized levels, based on improving underlying market conditions. We are confident that we will see improved demand for our industry-leading products as more customers see value in the supply commitment and predictable pricing of our contract structure and become familiar with our Ti-Pure Flex Portal. We believe that our recent share loss will begin to reverse as the supply-demand balance tightens over the coming quarters.

We remain committed to installing our Ti-Pure value stabilization framework across our entire customer base. We believe that this strategy is the best way for us to support our customers and their growth over the long-term.

Turning to the next chart, our results in the first quarter do not diminish our drive and determination to deliver superior profitability over the next three quarters and to finish the year on a stronger note. We have made significant progress as a company since spin, and are moving ahead with strategies which we believe will create long-term value. We firmly believe that across our businesses, the second half will be much stronger than the first.

In Fluoroproducts, we will continue to drive Opteon adoption and convert more of our Fluoropolymer application development pipeline into high return sales dollars. We will fix the operating issues which have impacted profitability here in the first quarter to ensure the full ramp-up of our Opteon facility in Corpus Christi, Texas, and to ensure the availability of high-value Fluoropolymers.

In Titanium Technologies, we will continue to bring customers into our AVA contract structure and those customers will benefit from supply certainty and stable pricing as the market tightens. Ti-Pure Flex will enable us to serve additional customers and give us new insight into customer needs over time. Across the company, we continue to look for ways to enhance our productivity both in our operations and across all our functions. We can and will do all we can to maximize the profitability of Chemours.

At the start of the year, we provided a wide range of guidance; and despite the weak first quarter, believed that we will still be within the range outlined by the end of the year. Our financial results in the first quarter certainly do not reflect our full potential; but through the year, I believe that they will. As we have demonstrated over the last three years, this leadership team is fully engaged on the critical items within our control and is working hard to improve the overall financial performance of Chemours.

With that, operator, please go ahead and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Duffy Fischer from Barclays. Please go ahead.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yeah. Good morning, guys. Question just on the F-gas quota and the illegal imports. There was a report by the EIA, I don't know if you guys participated in that, but have you guys had a chance to look at it? Their statement was, they thought about 20% of the product going into Europe under quota was the illegal product. Is that a fair number? And if it is, will that eventually lead to price down if you can't force it out from legal avenues quickly?

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

A

Yeah, Duffy. That's probably in the ballpark. It's hard for us to assess exactly how much is coming in. And, in fact, if you look at the performance of our base refrigerant business through the quarter, it's not just in Europe, it's in the U.S., because they sort of connect to each other. So, as Chinese HFCs come in to Europe, it obviously brings the price down in Europe, number one. Number two, it keeps people from driving to adoption over to stationary Opteon use faster. And at the same time, the volume that would have been in Europe by Western producers under a normal scenario starts flowing over to the U.S. and brings price and volume down there.

So, it's a connected issue here. So, from that standpoint, I think we've put a full-court press on this. We are very, very focused on getting these illegal imports to stop. We're working with the EU. We're working with the individual countries. We're not alone. We have – obviously, there is other producers who also have quota in Europe who are just as diligent as we are on this, so we're working together around this, working with trade bodies and industry groups, working with regulators. And I think we got the awareness very high in the EU, and I think they're trying to work toward enforcement as quickly as they can.

So, I think this is a significant issue, but I also believe that the commission and the individual states now believe it's a significant issue. And now it's about really trying to drive it out of the EU and also the effect that it's having on the U.S.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Okay. And then, maybe just two quick ones around TiO2. One, we got your sales volume numbers down 35%. Roughly how would that compare to your production numbers in Q1?

And then, the second one, in your losing market share, is it that customers are basically cutting how much they're buying from you or is it that you're actually losing full customers that may be harder to get back eventually?

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

A

Yeah. So, in terms of the share, I think we're – if you look at our volume drop, I think it's most significant in Europe and China. So, that's where we're seeing it the most. It's a little bit hard for us to parse share versus market weakness right now, to be very blunt about it. But I would say, where we can see share from customer change, it's less coming from the customer than they're not buying anything at all. So, I'd say it's a percentage down versus they are dropping us altogether.

And then, to your first question which was around the volumes down, it's about the same percentage in terms of our production. So, we're trying to match our production down with what our volumes are. We're trying to work through, as you heard from Mark, trying to get the inventories right as well – the finish inventories, correct, and obviously you do that based on production. So, I would say, they're in the same ballpark, production down versus production down.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thanks, guys.

Operator: Your next question comes from the line of John McNulty from BMO Capital Markets. Please go ahead.

John P. McNulty
Analyst, BMO Capital Markets (United States)

Q

Yeah. Good morning. Thanks for taking my question. So, with your production levels down in TiO_2 about 35%, I mean, it kind of implies you took down single-handedly global operating rates down by 3 percentage points to 5 percentage points in total. So, I guess, with that as kind of the math behind it, like, how should we think about where the inventory is in terms of the destock and the progression toward getting back to more normal levels for the whole industry?

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

A

Yeah. So, from that, I think the way we're looking at it, John, is, one, it's hard for us to say that this is purely a destocking event. Obviously, it's a weaker market at the same time. So, what we believe is that, that's why we said we truly believe the second half is going to be a lot stronger than the first half, because I think you're going to start seeing this recovery coming out of the second quarter into the second half for those exact reasons.

We don't believe that there's enough volume out there that's going to be able to fulfill the needs and the demand that we are predicating into the second half. So, we think that's why we have confidence that the second half is going to be stronger for us than our first half was.

John P. McNulty
Analyst, BMO Capital Markets (United States)

Q

Fair enough. And then, on the refrigerant side, so we've been hearing on the HFC side that pricing at least in the U.S. in the last month has almost doubled or roughly doubled. Can you kind of speak to what's driving that and how we should be thinking about how that may impact your earnings as we progress through the year?

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

A

Yeah, I'll tell you, John, I don't think we're seeing that. So, as I mentioned, what we've been seeing is a lot of price down in Europe and it's sort of flowing over to the U.S. as well. So, we have not seen much higher prices in the U.S. So, that's a disconnect from what we're seeing right now.

John P. McNulty
Analyst, BMO Capital Markets (United States)

Q

Got it. Okay. And then, just with regard to the cost impact that you had in terms of the operating issues, how much of that was tied to – exclusively tied to the Louisville issue, so that we – because I – it sounds like that's pretty much behind as the Corpus stuff may still dragging into 2Q.

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

A

Yeah. So, maybe to give you a little bit more color around that. As you all probably know, our supply chain is all linked together, right? So, we start from the very beginning with fluorspar, you make HF, and you make R-22, and then that goes to different places whether they're on their chemical side or a polymer side.

So, an aberration somewhere inside of that supply chain can affect other pieces. The Louisville piece primarily was an issue that was going to feed into our polymer side. So, the best way to say it is, between Louisville and a bit of the Corpus issue is about, as Mark said, $33 million of impact. We're probably going to see a little bit more of that impact in the second quarter as it flows through inventory. So, I would assume about $20 million of impact into the second quarter and then we have flushed it through.

We sorted out the Louisville issue. The problem is, when we had Louisville down for that period of time, we also had to buy materials to be able to fuel our Fluoropolymers side. So, that's part of that $33 million that was in there.

The Corpus side is a little bit different. These are – I would call these very typical startup issues. You have failure of pumps, you have issues that you're working through. We've worked through most of those. And I'd say, we're feeling more confident around that. Think of that as just your typical normal ramp-up issues that you sort of get through. And I believe that those will be behind us as our team keeps working those through. But the Louisville issue was the one that probably gave us the consternation around supplying our Fluoropolymers business and having to buy other materials. So, $33 million in the first quarter, $20 million impact is going to be in the second quarter.

John P. McNulty
Analyst, BMO Capital Markets (United States)

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 Laurence Alexander from Jefferies. Please go ahead.

Laurence Alexander
Analyst, Jefferies LLC

Q

Hi, there. Two quick ones. First, in terms of the turn that you – or the greenshoots, can you sort of be a little bit clearer on terms of, are you actually seeing a turn in order momentum already? Or is it more that you are seeing just an end to the destock?

And secondly on the refrigerant side, is there a change in enforcement practices already happening in Europe that you can point to or is it more that there needs to be a change in the policy regime?

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

A

Yeah. On the first one, Laurence, I think what we're seeing is, Europe was really bottomed and I think we're starting to see more positive activity on the European side on the TiO2 piece of it. So, that's the piece we're seeing. We're hopeful that the stimulus going into China is going to be helpful from the Chinese side. I can't tell you we've seen a lot there yet, but I believe with all that stimulus that's starting to go in, we're going to see that coming up in the second half. But we are seeing some positive signs including on our order book from the European piece.

On the refrigerant side, we have been working, as I mentioned, hand-in-hand with the EU. We are seeing more enforcement issues. In fact, they crackdown on – in Poland. There was a specific article about how they have been able to stop some of that leakage in Poland. I believe this – as we talk to the EU, this is almost a country-by-country, state-by-state issue you have to work through. So, I think the enforcement is going in. I think we've got the right attention at the right place. We continue to do it privately as well of investigating ourselves, of trying to be able to find where this is coming in and then pointing the authorities there as well. So, I would say, this is all encompassed. We have this very high in our radar screen and we brought it to the front of the line with the EU as well. So, I believe they are now engaging with enforcement.

Laurence Alexander
Analyst, Jefferies LLC

Q

And then, given how sharp your volumes came down, how much of your business is on value – in TiO2 is on value stabilization contracts? And how much is through the [ph] Flex Portal site (00:33:27)?

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

A

Yeah. So, from our standpoint, we are – I've always said we want the majority of our volume to be on AVA contracts. We're very close to that. So, we're approaching those targets that we had set for AVA. And I believe by the end of the year we'll be there.

Flex is just kicking in, and I think it's a new distribution channel for our customers. They're learning about it, they're trying to understand it a little bit better. We see that being picked up every day. And so, we have confidence that that is going to start flowing in, but it is in – we have to understand it is a new experience for our customers that we're trying to walk them through that and make sure they understand it. So, if – other than a small amount of our product that flows through distribution, if you don't have an AVA contract, the way you have to buy is through Flex, there's no other choice, and they're just learning how to do that and I think getting more comfortable each day around it.

Laurence Alexander
Analyst, Jefferies LLC

Q

Thank you.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

Yes. Good morning.

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

A

Hi, Arun.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

Q

I'm just trying to understand a little bit of the bridge, I guess, over the next couple quarters, when you think about TiO2, obviously you've been going through destocking for a couple quarters, maybe there's been some share loss. Are you guys kind of expecting price increases to start sticking? And if so, how much you think that could add? And then, similarly, on the volume side, do you expect kind of full recovery of the volumes that you've lost over the last three quarters or so, or, I mean, what is that going to depend on? Thanks.

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

A

Yeah. Well, our price is fairly well stable. So, in our AVA contracts, we have a price stability inside of that. So, really where we have the ability to move price outside of that is going to in our Flex Portal. And we're going to evaluate the market. That's the beauty of this portal. We can evaluate the market and decide what we need to do from that standpoint. We have – we believe we've lost some share. We had anticipated some of that as we went into this. I don't think we will regain 100% of our share by the end of the year. But over the next 18 months, we are very confident that we're going to be able to regain that share.

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

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Could you just talk a little bit about, in Fluoro, it sounds like you're not expecting maybe a little bit of improvement in enforcement in the second quarter, but maybe more in the back half. So, what's really baked into your expectations there as we think about our models for Fluoro for the rest of the year?

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

A

Yeah. I think the way you need to think about Fluoro is – so, let's start just with the first quarter, to give you a sense. In our expectations, we had a very, very strong first quarter last year. So, we anticipated, at least from an EBITDA standpoint, we were going to have about an equal quarter. Quarter one of this year was going to be about equal to the quarter one of last year in terms of EBITDA. So, if you look at the gap that we created in our first quarter versus that, a little bit more than $30 million was from the cost perspective. And I'd say, the rest probably was from the HFC side, whether it's because of the illegal imports or just where price was from that standpoint.

But on everything else, Opteon volume is up in the quarter. Our Fluoropolymers revenue is up in the quarter despite a weaker automotive industry. We're still being able to well offset that with our new adoptions from our pipeline of new applications. So, we feel confident about the year in Fluoroproducts going forward. And what we now have to offset is – because we got these operating issues behind us, we're going to have a little bit of a tail on that in the second quarter. We've got to offset anything to do with these illegal imports within the business, and that's what we're focused on doing, is offsetting that.

So, hopefully, that will subside as these enforcements go into play. But we're not just waiting for that, we're trying to find ways to offset that at the same time.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, just to follow up on TiO2 in the second quarter, again sort of sounds like you're expecting some sequential improvement really more coming out in the back half of the year. So, should we be assuming a volume decline in 2Q, maybe not as bad as 1Q, but still pretty substantial, 25%-plus, or how should – can you maybe frame in the range of outcomes for us?

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

A

Yeah, I think you said it exactly right. I think we're going to see a volume decline year-on-year in the second quarter, probably not as steep as you saw in the first quarter, and our recovery is going to be more in the second half.

Vincent Stephen Andrews
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you very much.

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

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much, good morning. Mark, I was wondering, on the AVA approach, do you worry maybe from a gain theory standpoint that it's really more beneficial from your competitors as you sort of take down production levels and inventories to keep the market reasonably balanced, and then, maybe when things tighten, they get some of the upside as they raise price? Or how do you worry about maybe benefiting your tough competitors in the short run more than yourselves?

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

A

Yeah, Bob, I would say that this is, and as we've said before, we really are focused on how this really helps our customers from that standpoint. To your point, in a short-term, yes, it can benefit our competitors. In the long-term, we think the benefit flows to us and our customers from that standpoint. But I think if you just look at this in a three-, four-quarter period, you could make the argument that there is a benefit to the competitive set to us. But I think, overall, this will be a benefit to Chemours and our customer base.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

And can you give us any help on what your customers you've converted, sort of assess what the risk is, finishing those conversions. And then, I mean, it sounds like you're playing the long game here. How long do you think it will take until the value of those contracts is fully appreciated by your customer base and your market share goes back to maybe what's [ph] rightfully yours (00:40:21)?

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

A

Yeah. I would say that we're close to being at our target of the majority of the volume going in these AVA contracts. I'd say that it is, for sure, a value proposition that is more acceptable to our quoting customers. It seems to fit their – them a little bit better. And now we're working through with the other segments to make it work for them as well. But I'd say, in the coding segment, it's very much a – very understood and it actually fits the way they think about things.

So, I would say, as we get toward the end of the year, we'll be in that majority side. And I think that it's going to probably take us through the middle of next year before we're fully through all this and feel confident that we have the shares coming back and the volumes that we want within AVA contracts.

Robert Koort
Analyst, Goldman Sachs & Co. LLC

Q

Perfect. Thanks very much.

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

A

Sure.

Operator: Next question comes from the line of Jim Sheehan from SunTrust. Please go ahead.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning. Given the headwinds that you've seen in Fluoro, do you expect that business – that segment to grow earnings in 2019?

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

A

Yeah. That is our expectation. That's how we have laid it out from the beginning of the year, and that continues to be our expectation for the year. As I mentioned, we're working on things to offset some of these things that hit us in the first quarter, but absolutely our expectation.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay, great. And in terms of what you're seeing in China, there's been some safety inspections ramping up because of the accident in Jiangsu, and there's been some reductions in VAT taxes on pigment. How do you see the market shaping up in China? Is it getting stronger or weaker at the moment?

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

Yeah. I was over there about 10 days ago. I spent a week there. And I would say that the economy is not robust. I think that the government is trying to put some incentives into to restart that. But your point is a very good one. We saw a lot – what it has not slowed down and feels like it's sort of ramped up is the environmental drive that's going on in the country, the inspections that are going on. In fact, we've been pulled in by the government to try to help in certain areas where we have some expertise from that standpoint. So, we feel that that is going on. And as demand starts to pull up within the country, we think we're in a fairly good position to be able to participate in that demand. But that's really going to be the key here, is will demand start to move up inside the country. Because I think on the supply side, you hit it right on the head, these environmental crackdowns continue, and then I think are actually accelerating, especially when you had a significant safety issue that occurred in the country.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you. And on Fluoroproducts again, how much of a step-up do you think you'd get in 2020 from the lapping of the Corpus Christi startup costs as well as new F-gas implementation?

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

Yeah. Well, what we've said is, we anticipate to get our benefit of the lower cost out of Corpus Christi in 2020. That's when you're going to start seeing it. So, absolutely, we believe we'll have the benefit there that should help us with margins. And I'm sorry, the second – you asked me the second piece of that and I've just left my brain...

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

F-gas regulatory implementation.

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

Yeah, the next step-down is 2021.

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

Yeah.

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

So, we anticipate 2020 to be another year of positive as people get ready for that. So, we're not happy obviously about these illegal imports, but we – and it's really the biggest issue for us is it's slowed down some of the conversion into Opteon in the stationary piece. But that conversion can't be avoided because you have this step-down that's going to happen in 2021. So, people have to get onboard with that. And we anticipate that, as we get through this enforcement piece in 2019, but also in 2020, you're going to see more adoption of Opteon.

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

This is Mark Newman. If I could just add a couple of points. First of all, we've dealt with grey market issues before on transitions from HFCs. So, I think this is something that we have some organizational capability around. In our prior experience, it did take a little while to get it done, but our view is, this is something we will get done.

Additionally, we see quite a bit of cost headwind in the current quarter. But what you should remember is that Corpus is a low-cost Opteon facility. And as that ramps up, what is the headwind in the quota from startup issues actually becomes a tailwind on the cost side. So, our view is, this is a long game as it relates to Corpus, but it's certainly one that we think will be really profitable as it starts to chip in.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Very helpful. Thanks a lot.

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

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

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

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

Hey, Eric.

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

Mark, what do you estimate underlying TiO_2 demand was in first quarter? And are you expecting restocking in second half, or are your customers operating at a new lower level of inventory given supply security from their longer-term contracts?

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

Yeah. No, it's a good question. I would – for sure, we'd absolutely believe that demand was lower as well as destocking occurring, right. So, you sort of had two – a double phenomenon going on there. We believe that there is going to have to be some level of replenishment of inventory in the second half. But one of our value propositions of TVS is that our customers don't have to speculate on where pricing is going to go. So, from that standpoint, they don't have to stock up for concerns about where the price is going to go. Their stocking will be because of what their demand picture looks like. That's our big value proposition to our customers.

So, I think what we're trying to get rid of is this giant cycle of stock-destock that is speculative and get back so that our customers can now plan their business based on their demand signal and know that our supply is going to be there for them at the prices that they've contracted through the AVA contracts.

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

Q

Okay. Secondly, we've heard of the Chinese government approving or grandfathering in existing sulphate plant expansions in China. Have you heard the same and how does that impact supply/demand in the country?

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

A

Yeah. We don't think it affects supply/demand too much. I think what they're talking about is, these plants still have to meet some stringent environmental regulations. So, they might be grandfathering the ability for these plants to operate, but under the environmental conditions that they pose. So, that means that there's going to be cost in play there that they have to put in. That also means that there's some of these sites that aren't going to be able to meet those stringent regulations going forward. So, we don't believe that's going to play significantly in the supply/demand side.

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

Q

Helpful. Thank you.

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

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Yes, Mark. On your TiO2 margin decline, how much was volume-driven versus what sort of change did you see in unit variable cost? Specifically, what's, in outline, the trend in ore cost both in the quarter, for the rest of the year, and into 2020?

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

A

Yeah, Don. By far, it was volume-related, and volume-related in two aspects. One is, obviously, our demand volume was down, but also, fixed cost coverage of our facilities, right. So, yes, we can ramp down our facilities. Yes, we have ability to do it a little bit better than a lot of our competitors because of the way we operate with the ore blends we do. But you still have a fixed cost coverage of these sites operating. So, by far, that was the biggest impact. Obviously, price wasn't an impact. Volume and fixed cost coverage of that volume was the biggest. Ore costs are fairly stable for us. So, we don't see that as an issue. There are some variable costs that were a little bit higher, chlorine and coke were a little bit higher. But, by far, this was a volume-related margin squeeze.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

And then, you reiterated your EBITDA guidance of $1.35 billion to $1.6 billion. I mean, that's a pretty wide range. At the low-end, would that mean no recovery in the second half or just a limited recovery in the second half? And what needs to happen to get to the high end of that guidance range?

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

A

Yeah. What we had said from the beginning and we're still in the same place is, the real significant part of that range was what would happen on the TiO2 side, right. And so, I would say, that's still the biggest variable for us as we look at the year. So, we would have to see a very sharp recovery in the second half, which is possible. As we've talked before, when these recoveries happen in these cycles, they can happen very quickly, they can happen very sharply. So, that would be sort of lending itself to the top of that range and a weaker recovery in the second half would lend itself to the bottom of the range.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

And then, finally, as you know, there are some greenshoots out there, European TiO2 [ph] prices seem to have rolled over into (00:50:34) Q2. Do you think that stabilization could make customers more open to looking at value stabilization arrangements, because, presumably, they didn't want to lock in prices when they saw prices falling?

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

A

Yeah, absolutely, Don. We think that's exactly the way this will play for the rest of the year, exactly.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

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

John Roberts
Analyst, UBS Securities LLC

Q

Thank you. The EPA has some new studies coming for PFAS in water. Are they broad studies and include PFOA and other fluoro products or is it narrow, and longer term, would you expect any possible relief or additional costs depending on the outcome?

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

A

Yeah. John, what we do know is that the EPA came out with guidance in late April around PFAS which is really with a targeted PFOA and PFOS, and those guidances were limits. I think they brought up 70 parts per trillion. We had already been operating our facilities, obviously, we don't make PFOA or we don't use PFOA anymore. But as we did any work on water, we've always been well below those limits. So, those don't really affect us, if you will, from that standpoint. Beyond that, we continue to work with the EPA and work with government agencies in terms of giving – sharing our expertise around that whole subject. But we haven't seen anything else at this point in time. That's anything specific other than what we saw with PFOS and PFOA.

John Roberts
Analyst, UBS Securities LLC

Q

And then, I apologize if I missed that earlier, but your global network expansion of 10% that you've had underway for some time now, given the volume trends, have you maybe trimmed the endpoint of that and you don't finish all 10% or slowed it down in anyway?

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

A

No, not at all. In fact, we are convinced we're going to need that volume and that capacity as this completes in 2021. So, we haven't slowed it down one bit. We're continuing to work on it, and we will get it done in the timeframe we talked about.

John Roberts
Analyst, UBS Securities LLC

Q

Okay. Thank you.

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

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Mark, do you think Opteon volumes will grow at least 10% in 2019? And in 2020, do you plan to produce all of your Opteon at Corpus Christi?

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

A

Yeah. So, we do believe we're going to have double-digit growth, Jeff, in 2019. So, yeah. So, we feel confident on the volume growth, double-digit. So, that is beyond 10%. So, yes. And we probably will have the majority of our volume coming out of Corpus. The only reason I say we wouldn't do it all even though it's a lower cost is, because there might be some logistic issues we want to operate with our production out of Asia, that just makes sense to keep it in Asia. But for the most part, it'll be out of Corpus.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay. And then, can you talk about what your TiO2 volume growth was in the U.S. this quarter? And in China, do you think that extra production out of billions was what led to some of your volume weakness? Or do you think it came from a different source?

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

A

Yeah. We don't think it came from Chinese produced product. If you look at where a lot of that product went to, it probably – over time, it came into – if you think about it, I know [ph] Pori (00:54:28) was way back in time, but a lot of that volume went into the specialty products, so – which is a place we don't intercept any way.

So, no, we don't think it came there. We had volume drops all across the globe. So, we didn't have volume increase anywhere, but much less in North America than it was in rest of the geographies. I would say that if we lost – if – we can't exactly calculate, but we're assuming we had share loss and I would say that share loss probably occurred via our Western competitors, not our Chinese competitors.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

So, the U.S. paint and coatings market is kind of flat to up, why aren't your volumes kind of flat to up in the U.S.?

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

Well, I think because we lost a bit of share, right, so from that standpoint. But I just saying that the volume loss there is much, much lower than the volume losses in the rest of the geographies. So – but I think we lost a little bit of share, Jeff, just to be very straight about it.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Okay, great. Thank you so much, Mark.

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

Laurence Alexander
Analyst, Jefferies LLC
Q

Hi, there, just a quick follow-on. At current prices, do you believe that competitors are using the older technologies, can build plants that would hit a standard WACC or would the ROIC [Technical Difficulty] (00:56:01).

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

We don't think that there's a lot of reinvestment economics out there. And I think you're talking about TiO2, Laurence. We don't think there is a lot of reinvestment economics out there around the TiO2 industry right now. And we can't – obviously, we don't know intimately each of the players' financials, but I would say that a very low percentage of people will have any reinvestment economics right now, is our – at least our assumption.

Operator: your next question comes from the line of Roger Spitz from Bank of America. Please go ahead.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Thank you very much. And, I guess, I'm a little harping on this. But since you said you only lost some TiO2 share, does that mean the market including customer destocking was down only a bit less than 35% going into the paint season?

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

Jeez, I don't know how to answer that. I think you have – for us, you have three things that sort of play here. And so, it's not entirely – it's not easy for us to sort of separate them all. But you have destocking, I think you have a little bit weaker demand, so I think you have a lower demand market at the same time, and we had share loss. So, it's hard for us to parse that perfectly without knowing where everyone else is, to just be very blunt about it. So, I'm not sure I can give you a really good answer on that one.

Roger Spitz
Analyst, Bank of America Merrill Lynch
Q

Okay. Regarding your revolver, I think you said you drew your revolver $75 million since the quarter-end. Your revolver has always been undrawn or looks like it's always been undrawn at every quarter-end. How atypical is drawing your revolver here, and is this a change in the thinking that you might more often have your revolver slightly drawn going forward here? Thank you.

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

A

Yes, Roger. It's Mark Newman. I don't think this – this is not normal for us to draw on our revolver although we have used it previously probably within the quarter. And then, what I'd say is, we really look at our global liquidity including our U.S. cash. So, while today we have $700 million in cash globally, we have somewhat less here in the U.S. So, this is really just managing near-term liquidity. And as we plan for the full-year, my expectation is, we wouldn't have the revolver drawn as we move into the second half of the year.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thanks. And lastly, and I'm just putting this together or maybe you said it directly, in Fluoropolymers, the key monomer produced at Louisville, I'm thinking about R-22, but is the higher class that you referred to, the fact that you had to buy monomer on the merchant market since via the operating comments you weren't able to produce yourself and that was the headwind. It was a buy versus produce?

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

A

Yeah. That was part of it. Yeah. So, we had obviously down time there, but we also had to buy monomer on the open market, absolutely, and that's behind us from that standpoint. And the reason we had to do that is because we still have a very robust Fluoropolymer business. We've always talked about the 5G drive, the battery drive, you guys probably saw we invested in a flow battery company in the quarter because we really believe in those areas, and those are growing for us. So, we have really good demand on our Fluoropolymer side and that's why we had to go in and buy in the merchant market the monomer to be able to produce.

Roger Spitz
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

Operator: There are no further questions at this time. I'll turn the call back over to management for closing remarks.

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

Thanks, Jessa. So, again, thanks. Thanks for dialing in the call. Thanks for your trust in us. We had a first quarter that wasn't meeting our expectations and I know wasn't meeting the expectations of our investors, but I want to tell you we are absolutely focused on the year. We're focused on improving off of that and we will get it done. We have the right team, we have the right attitude and we have the right way to get this done. So, again, thanks for your time this morning and thank you for your continued interest in Chemours.

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