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The Chemours Co. (CC)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to The Chemours Company Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

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

Jonathan S. Lock

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

Good morning and welcome to The Chemours Company's full-year 2019 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 the 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 our CEO, Mark Vergnano, who will review the highlights from the quarter and the year. Mark?

Mark P. Vergnano

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

Thank you, Jonathan and thank you everyone for joining us on this Valentine's Day 2020. As I look back on 2019 I'm encouraged by the results we delivered in the fourth quarter and proud of the resilience we showed as a business throughout the year. These past 12 months have been among the most challenging we've had as a young company. However, as we have done in the past my fellow colleagues at Chemours pulled together to deliver a solid set of results consistent with our updated guidance of the full year.

I'd like to recognize our commercial teams, operations staff functions, as well as our support teams around the world for making the best of a challenging year. On chart 3 for the full year 2019, we delivered adjusted EBITDA of $1.02 billion. Free cash flow conversion was better than anticipated leading to a full year free cash flow of $169 million. We had a strong fourth quarter, leading to free cash flow significantly higher than our updated guidance.

Our results reflect the ability of Chemours to generate strong free cash flow despite significant market and operating headwinds.

The cost in working capital actions we implemented in 2019 begin to have an impact late in the year and point the way to better results as the cycle turns. We've come a long way since our spin in 2015. I believe this resolve is somewhat unappreciated by the market and I know that we will continue to demonstrate our ability to deliver solid results in the face of changing market conditions. Across the business in 2019, we achieved a number of commercial wins which I wanted to highlight. It starts with hitting our 50% volume target for AVA contracts in our Titanium Technologies segment. We transitioned from a difficult first half, characterized by heavy de-stocking to a stronger second half as we fully utilized all three of our sales channels, AVA contracts, Flex and distribution to work with customers and begin restoring our share position. I'm happy to report another quarter of stable volumes, stable sequential pricing and share regains in our TT segment.

You'll also recall that last quarter we announced the launch of a new pigment product for ink grades. We are excited to be bringing that product to the market and increasing our participation in specialty TiO_2 in the coming years. On the Fluoroproducts side, Opteon continues to displace high GWP legacy refrigerants in automobiles. As you know Europe fully converted to HFOs in 2017. We expect to reach a 100% penetration with automotive OEMs in the US by 2021 and in Japan by 2023.

On the stationary front, we are increasing our investment in countermeasures to control the flow of illegal imports into Europe, which are depriving the world of the environmental benefits of HFO technology. We strongly believe that our Opteon blends are the refrigerant of the future for stationary applications worldwide.

In 2019, we also delivered on three large-scale engineering programs, designed to set the foundation for our future growth. First, we completed the start-up and commissioning of our Corpus Christi Opteon site. It's a world-class, world-scale facility appropriately built in the great state of Texas.

Second, we completed work on the thermal oxidizer at our facility in Fayetteville, North Carolina. It's another unique facility designed to control air emissions of fluorinated compounds at the site. We are confident that the plant will succeed in its mission to allow Chemours to lead on the issue of fluorinated emissions.

Finally, we completed work on our new Chemours Discovery Hub at the University of Delaware STAR campus. Our new R&D lab is a great story, not just for Chemours but for the State of Delaware. We are committed to reinvesting in our home state and keeping these great R&D jobs close to home.

Last but not least, 2019 was a year in which we continued our efforts to refresh the portfolio. In 2019, we acquired Southern Ionics Minerals, a leading mineral sand operator in Georgia. In December, we completed the sale of our Methylamines and Methylamides business to the Cornerstone Chemical Company. While modest in size, these deals demonstrate our commitment to taking action to strengthen the business and drive greater profitability across the portfolio.

As you've just heard, we have positives to build on and we're forging ahead to improve our performance on many fronts. I'll be back at the end of our call to discuss how we're thinking about the year and provide our full 2020 guidance.

Right now, I'll turn things over to Sameer to go over our financial results.

Sameer Ralhan

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

Thanks, Mark. I'll begin my comments on slide 4.

Full year net sales of $5.5 billion were down $1.1 billion versus 2018, reflecting volume and price headwinds across the businesses. GAAP net income was negative $52 million, while adjusted net income was $419 million, GAAP earnings per share was negative $0.32, while adjusted earnings per share was $2.51.

GAAP figures include two one-time charges in the quarter. First, a non-cash charge of $380 million. It is related to the transfer of the non-active portion of our Netherlands Pension Plan obligations to a third-party asset manager. This transfer represents the settlement and de-risking of our largest pension obligations from the spin. It results in our ability to move divested, non-active portion of our Netherlands plan and associated liabilities off the balance sheet.

As a result of the transaction, we will also recognize ongoing savings from reduced pension administration costs. This was a big win for Chemours and plan participants. We were excited to be able to take advantage of the surplus in the plan to decrease this liability.

Second, a $132 million charge related to on-site remediation at our Fayetteville site. This accrual includes potential costs to address legacy groundwater remediation at the site, along with a provision for long-term operating expenses to be spent over 20 years. These projects are the basis of further work we are doing connected to the consent order with the State of North Carolina and are therefore subject to change.

Adjusted EBITDA of $1.02 billion resulted in EBITDA margin of 18%. Free cash flow generation of $169 million was higher than our updated guidance from the second quarter. This result was driven by stronger operating cash flow in the fourth quarter as a result of improved working capital management.

Let's move to slide 5 to review our fourth quarter results.Net sales of over $1.4 billion compared to $1.5 billion in last year's fourth quarter. The drop in revenue was driven by lower volumes and prices of refrigerants and lower Ti-Pure pigment sales.

Fourth quarter GAAP net income of negative $317 million and GAAP earnings per share of negative $1.94 reflect the charges discussed previously. Adjusted net income came in at $92 million, resulting in adjusted earnings per share of $0.56. Adjusted EBITDA of $227 million was impacted by lower margins across the two main segments.

Free cash flow was a bright spot in the quarter, coming in at $304 million compared to $105 million from the fourth quarter of last year. This was driven by solid cash flow from operations of $400 million and CapEx of $96 million.

Turning the page, fourth quarter adjusted EBITDA was $227 million compared to $341 million from the same period a year ago. Results were driven by lower global refrigerant prices and lower contractual pass-through prices in some Chemical Solutions products.

TiO2 prices declined modestly in the fourth quarter relative to the fourth quarter of 2018, mostly due to channel, customer and product mix. Lower volume accounted for additional $16 million headwind in the quarter. This was primarily due to lower volumes in our Titanium Technologies segment on a year-over-year basis.

Cost and other was a $30 million headwind in the quarter, impacted by three main factors. First, fixed cost under-absorption Titanium Technologies due to lower volumes produced during the year. Second, continued impact from lost F-Gas quota sales due to HFC illegal imports into the EU; and third, increased cost and inventory related to the operational issues in Fluoroproducts as communicated in the previous quarter. These effects were partially offset by increased productivity from the successful ramp up of the new Corpus Christi Opteon site.

Now onto liquidity on the next slide, Chemours continues to maintain a strong balance sheet with solid liquidity. We have managed cash and working capital well in the fourth quarter and over the course of 2019. I believe we are well positioned as we move out of the bottom of the business cycle. Cash at the end of 2019 was $943 million, up $249 million on the third quarter of 2019 the business generated $400 million of operating cash flow in the quarter, a combination of seasonal working capital unwind, normalizing TiO2 volumes and strong overall working capital management.

CapEx was $96 million primarily related to the completion of the thermal oxidizer project at Fayetteville and the lab at the STAR campus. Free cash flow for the year was $169 billion. Net leverage remains stable at 3.2 times adjusted EBITDA on a trailing basis. Debt net of cash stood at $3.3 billion at the end of the year. I continue to have confidence in our balance sheet with well-spaced and longer dated maturities. I believe we are well-positioned heading into 2020, having weathered the tough conditions here in 2019.

I'll now turn things over to Mark Newman to cover segment performance.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

Thanks, Sameer. I'd like to start with Fluoroproducts on the next slide. As we move through the fourth quarter, we continued to experience the negative impact of illegal HFC imports into the EU. While there have been significant ongoing efforts, this continues to be a strong headwind working against the adoption of our Opteon stationary blends in Europe. As we approach the 2021 quarter step down, we are working with the EU member states to help accelerate the implementation of mechanisms and enforcement actions to stop illegal imports. This includes stepping up on the ground investigation and enforcement, as well as raising public awareness of this very serious issue. I hope that as the year moves on we can report positive progress.

Moving onto the results, net sales in the fourth quarter and full year were $614 million and $2.6 billion respectively. Relative to the full year pricing and volume were 2% and 4% headwinds respectively as HFC illegal imports slowed Opteon stationary blend adoption and impacted global refrigerant prices. Adjusted EBITDA for the fourth quarter and full year were $117 million and $578 million respectively. In the fourth quarter, the benefit from the ramp up of the production of Opteon at our Corpus Christi site was offset by the impact of operating issues at other sites, which occurred in prior periods.

We will drive better operational discipline and execution in 2020. As we look ahead, we continue to build momentum with stationary equipment OEMs. These partnerships are important to enable the full conversion of the stationary market to HFOs. We will continue our drive for adoption across the mobile air conditioning sector with a focus on moving the US and Japan to full adoption over the coming years.

Finally, in polymers, we are focusing application development around 5G and membrane technologies, where we have proprietary intellectual property and unique materials to help enable new market development.

On chart 9, let's review the results from our Chemical Solutions business. On the Q3 call, I said we were looking to close the year strong in Chemical Solutions and the team really stepped up in Q4. We delivered record profitability in the fourth quarter and for the full-year 2019 on the back of strong commercial and operating performance from the business. This came despite some top-line erosion due to lower contractual pass-through pricing in our Performance Chemicals and Intermediates business.

Fourth quarter and full-year revenue were $129 million and $533 million respectively. The drop-off in these figures from 2018 was primarily due to lower pass-through pricing in the Performance Chemicals and Intermediates business as raw material costs came down in 2019. This change was earnings neutral to the business. As such, adjusted EBITDA for the full-year was a record $80 million, up 25% from last year. Fourth quarter adjusted EBITDA was $25 million up 79% from the prior year period. Adjusted EBITDA margin was 19% in the fourth quarter, moving up toward portfolio average and in line with our expectations for the segment. We remain very well positioned with our Mining Solutions business in North America. Our world class sodium cyanide technology enables us to efficiently and safely serve customers across the Americas and we continue to see strong demand across the region. Gold prices which have moved up over the past year provide an additional tailwind as our customers look to serve rising demand.

I'm proud of the investments Ed and the team have made in the business over the past several years, spending capital wisely to improve productivity and asset quality. Finally, in the quarter we sold our MAP business to an affiliate of Cornerstone Chemical Company. This was a positive transaction for both sides, as Chemours found a great operating partner for the business with significant synergies, while both parties were able to work with the state of West Virginia to save 60 jobs.

My sincere thanks to Jonathan, Ed and the entire team for forging ahead through the holidays, to get this deal over the finish line.

On chart 10, I'll cover our Titanium Technologies segment. Net sales in the fourth quarter and full year were $610 million and $2.3 billion respectively. The team has skillfully leveraged all our channels including the Flex portal to begin the process of regaining share with our plastics customers. Revenue was stable on a sequential basis with price and volume remaining in line with third quarter. Annual prices for 2019 on a year-over-year basis were down approximately 1%, a product of our TVS strategy and recognition of the value in use of our Ti-Pure pigment. While we don't have all the data to finish the analysis at this point, we believe we have regained additional share globally as we exit 2019.

On a regional basis, volume and buying patterns were stable across most of the globe. Europe showed some improvement after a very slow start to the year. Adjusted EBITDA in the fourth quarter and full-year came in at $115 million and $505 million respectively. The fourth quarter was down 42% from 2018. Margins of 19% reflect the impact of low fixed cost absorption across the circuit due to low production volumes and raw material inflation. However, we expect these will begin to normalize into the mid-20s as production volumes increase across our circuit.

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

Mark P. Vergnano

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

Thanks Mark. Turning to chart 11,as I said at the beginning of the call, we are moving forward in 2020 with some pockets of momentum and looking to build on the results we achieved in the fourth quarter.

Starting at the top of the chart, we expect to generate between $1.05 billion and $1.25 billion of adjusted EBITDA in 2020. At the midpoint, this represents a 13% improvement over our 2019 result and in our estimation reflects a good mid-line case for our combined business given the current global market context.

CapEx will come down from 2019 level to $400 million. As a result, we project that free cash flow for 2020 will more than double from 2019 levels to greater than $350 million. Our discipline of steady return of free cash flow to shareholders will continue. The majority of our free cash flow will go back to shareholders in the form of a stable dividend and via share repurchases. As Sameer said earlier, we believe that our leverage remains prudent based on our projections.

Turning to chart 12, as I mentioned on the last chart, our CapEx in 2020 will decline by roughly 20% from 2019 levels as we move past some sustainability and one-time work. Our CapEx for 2020 starts with the base capital required to run and maintain our assets of about $200 million. We will also spend $75 million on regulatory and sustainability projects.

Finally, we have earmarked $125 million for several high return growth projects focused on Titanium Technologies and Fluoroproducts. We believe that this mix of projects strikes the right balance between returns and growth, as well as investment in the near and long-term. As a management team, we remain focused on efficient capital spend with transparency to our investors on priority uses of capital across the portfolio.

Turning to the last chart, I'd like to end our prepared remarks with a quick summary of our priorities for 2020, which I previewed with you on our last call. In 2020, we are going to renew our focus and discipline here at Chemours. In addition to growing our top line, we must double-down on all the things that are under our control, operating uptime, costs, supply chain inventory and working capital management.

Free cash flow conversion will be the number one priority as we look to highlight the power of our portfolio to generate cash through any cycle. We are actively engaging on the regulatory issues we face at our sites in the US and with the governments in Europe who are leading the way on climate change and the phase-out of legacy refrigerants.

Finally, we will work diligently to ensure we continue to make progress against our 2030 corporate responsibility commitments. Our investment here is a cornerstone of Chemours and critical to the long-term success of this company.

2019 was a difficult year, but we are working hard to make 2020 a better one for Chemours. I have challenged and will continue to challenge everyone across the company to dig deep this year to find ways we can get better at everything we do. The three of us and the entire leadership team have clear targets and are focused on executing this plan. We will make 2020 a great year for the company.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today comes from the line of Duffy Fischer from Barclays. Your line is open.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Yes. Good morning, guys. First question is.......

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

A

Hey, Duffy.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

... just around the PFAS charge that you took down in North Carolina. One, can you talk about what's in there? What's been spent on? What's still to be spent? And then, can we use that to extrapolate, again, with a wide range, what might need to happen at other plants?

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

A

Yeah. Sure, Duffy, it's Mark. If you go back and think about the consent order we have with the North Carolina DEQ, there are really four elements of that at Fayetteville. One was for process water emissions; the second was air emissions; the third was offsite residential water treatment; and the fourth was onsite remediation, think of that as primarily ground water.

We already had dealt with the process water emission. So, obviously, we have a charge that we have to keep water from going into the Cape Fear River. Air emissions is our TO, our thermal oxidizer that we put in place at the end of December. That was $100 million we spent on CapEx to do that. So that's been taken care of. The offsite residential water treatment was a charge we did earlier in the year in 2019 and that is handled. And the last leg of this was really this onsite remediation.

So think of this charge as really pump and treat primarily, operate and maintain. So this is a charge that is for 20 years of operating and maintenance costs. So it's not a single charge. You're not going to see that cash flow out in a single bucket. It's going to be over a 20-year period as we operate that facility.

To the second part of your question, so this really covers everything that we have in the current consent agreement with the state. Other sites, we already have this already in place at all our other sites. So we already are in compliance with all our other sites. I will say that, as you've seen in our CapEx that we're spending, the $75 million on our – what we call, our Corporate Responsibility Commitment spend is really well beyond compliance. That is the area that we've said we want to eliminate 99% of our air and water emissions of our Fluoro operations across the world. That's well beyond compliance because we think that's the right thing to do. But this charge, number one, we believe sorts out everything we have in the consent order with the state. And two, it's not any charges you're going to have to see at the rest of our sites because we're already in compliance.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. And then maybe one just on the Fluoro gases, primarily in Europe, when you talk to distributors over there, there doesn't seem to be any reduction so far in the Chinese HFC that's making its way in. I mean, what's the prognosis for that this year? What are the mile markers we should look for in a year from now? Are we still going to be talking about this as a headwind or will we see an inflection point sometime this year do you believe?

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

A

Hi, Duffy. It's Mark Newman. So there's a very concerted effort with an industry consortium of refrigerant manufacturers really on raising the game around enforcement and building public awareness on what is really a very negative environmental impact. We are starting to see some indication of traction on enforcement. I think last week there was a fairly large seizure in Italy by the anti-fraud agency OLAF. And for 2020 our assumption is relatively stable performance in terms of the underlying fundamentals of Opteon blends. On the basis that there's not enough enforcement yet to really change the ground game, remember though that there will be a fairly significant step down in quotas as we go into 2021.

So, our view is you know a stable year in terms of the underlying business, a year in which in 2020, there would be limited quota sales, which is different than what we had in 2019. But as we go into 2021, our view is, if there's enough progress in 2020, we'll start to see the inflection point towards the end of this year and as we move into the 2021. Obviously, this is a setback to our Opteon franchise, but we still see this as a decade long growth play here both on the mobile air conditioning side, in the US and Japan in the next few years. And then, there's a lot of work going on with the stationary OEMs around using our blends in their future product. So, we're encouraged by the long game here. Obviously, we're also encouraged by some of the tracking that we're seeing on enforcement and we're going to continue to build public awareness for what is the equivalent of four coal fired plants in Europe with all these imported illegal refrigerants.

Duffy Fischer
Analyst, Barclays Capital, Inc.

Q

Great. Thank you, guys.

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

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

Q

Yeah. Good morning. Thanks for taking my question. So with regard to the TiO2 markets, it looks like things are settling down a little bit, you know we're actually even starting to see some price hike announcements in North America. I guess, with that, can you speak to the demand that you're seeing for contracts or for customers looking to use your values – your AVA position and locking in long-term contracts. Is that – has the demand for that part of your portfolio, has it started to pick-up in a noticeable way yet?

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

A

So John, Mark Newman again, we really like where we are on TVS. And from a market perspective, our long-term indicators have been positive – in the positive territory for several months now, and we're starting to see more of that across multiple geographies. So I would say, we're feeling really positive about the year from a demand perspective. Obviously, a lot of the work we did in the second half of 2019 was around regaining share, recall our Q3 volumes were up 10% and our Q4 volumes are up slightly in a core that is usually seasonally down.

So we're really encouraged by the market signs that we're seeing, and we're really encouraged by the response of our customers to our TVS offering, both in terms of our AVA contracts, which represent 50% or more of our volume, as well as our Flex volumes and response to different programs that we've introduced, being the only producer today with a really great e-commerce channel. So overall, I think we're feeling really positive about where we are.

Mark P. Vergnano

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

A

Yeah. And John, this is Mark, just to add to Mark's comment, we had said before that, we had a lot of traction with our quoting customers around AVA contracts, which continues to be the case. But we now getting traction with the plastic and laminate customer, where you're seeing us get our market share back with our Flex portal, that portal is really working for them. And we're extremely encouraged by the share gain that we believe we'll be able to demonstrate in the fourth quarter and as we go into 2020.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Great, thanks for the color on that. And then just with regard to the cash flows. So you clearly unlocked a decent amount of working capital in the fourth quarter. I guess as you look to 2020 how much more improvement do you expect to see, is there a way to quantify how much more free cash will can be unlocked out of working capital as we look through 2020?

Sameer Ralhan

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

A

Yeah, John. This is Sameer. I'll take this one. Clearly, as you saw in Q4, right. As we kind of went through a lot of the payables, as the volumes came down, we took the payables hit in Q3 and Q2 last year and really started unwinding on the inventory in the receivables side in Q4. So from our point of view, we fully intend to maintain the same kind of working capital operating discipline as we look into our 2020. And you're going to see strong performance from us on the cash flow side and that's really reflected in the guide that Mark talked about.

Mark E. Newman

Chief Operating Officer, The Chemours Co.

A

Perhaps on – from an operational perspective you know the biggest area that we've talked about on prior calls is our focus on some of our old inventory. So maybe that probably is another area we'll remain focused as we go through the year.

John P. McNulty

Analyst, BMO Capital Markets (United States)

Q

Got it. Thanks very much for the color.

Operator: And our next question comes from the line of Don Carson from Susquehanna Financial. Your line is open.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Yes, thank you. You know with customer destocking apparently coming to a close in TiO2, how do you see the year-over-year shipment comparisons evolving in Q1 and the rest of 2020 and once you eat through your higher cost, finished goods inventory, do you see margins getting back to that 30% plus level in the second half of the year?

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

A

Yeah, Don. As we look at the year, I think we're going to see normal seasonality – I think we're going to see normal seasonality across the company, but especially in TiO2. I think we're back to the normal seasonality kind of a look. I will say that the first quarter will probably be our weakest quarter primarily because we still have some high cost inventory flowing through. So remember our rates were not very high as we finished 2019 so that cost is going to be carried through, but that will pass through in the first quarter and I think you'll see us returning to mid-20s as the year progresses and eventually beyond that going forward. So yeah, we see ourselves heading to our higher margin area, but probably mid-20s by the middle of the year.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

And then, just given the situation in China are you seeing any issues in exporters getting TiO2 out of China and into Europe in particular and could that tighten up the market as we get into Q2?

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

A

That's a real hard one for us to call right now. I'd say that it's hard for us to see that specifically obviously from our perspective. We're not necessarily seeing customers getting nervous about that so far, but we are seeing some solid volume coming into the books right now. So I can't tell you it's related to that, but we are very happy with the order book that we're seeing in the first quarter.

Don Carson
Analyst, Susquehanna Financial Group LLLP

Q

Thank you.

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

Daniel Rizzo
Analyst, Jefferies LLC

Q

Hi guys. This is Dan Rizzo on for Lawrence. I just wanted to know within Titanium Technologies if the rebound you're expecting is predicated upon a rebound in macro trends particularly in Europe? Are we expecting the environment the rebound you're expecting or is predicated upon a rebound in macro trends, particularly in Europe, are we expecting the environment to get better to kind of hit this target?

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

A

Yeah. It's Mark Newman again. As I said earlier, I think the indicators that we look at are both have been positive for a while and are more widespread. And we did feel like Europe started in 2019 a lot weaker than it finished the year. So I'd say in particular we're encouraged there.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. And then you mentioned before that they've stepped down in Opteon in 2021. I'm sorry, could you just provide a little color on what you're referring to. You said it was going to reflect at the end of the year and then grow from there, but I was just wondering what you meant by stepped down, I'm sorry for the confusion?

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

A

Yeah. There's an F-Gas quota arrangement in Europe, and then next quota step down takes effect in calendar year 2021.

Daniel Rizzo
Analyst, Jefferies LLC

Q

All right. Thank you for -

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

A

And it's about a 20% step down, so a fairly meaningful step down in terms of from a CO2 quota perspective.

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

A

And Dan, just to give you the color around that a little bit, is that the mechanism that the F-Gas regulation has as it moves down quotas – HFC quotas, if you will, at periods of time the next step down being the beginning of 2021, as Mark mentioned, and that sort of drives perhaps faster adoption of HFO technology. So that's just the mechanism that the European Union uses in their F-Gas regulation.

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

A

Yeah. And I said it wrong, it's a 30% step down in 2021, not 20%.

Daniel Rizzo
Analyst, Jefferies LLC

Q

Okay. Thank you for that. Appreciate it.

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

Arun Viswanathan
Analyst, RBC Capital Markets LLC

A

Great. Thanks. Good morning. I'm just curious, there has been some announcements on the TiO2 side of price increases. Maybe if you can just characterize what you're seeing on the inventory side from both from your perspective and your customers' perspective, do you think we've reached a bottom? And then also, could you highlight the Asian export situation as well. Has there been any disruption in exports out of China post coronavirus? I guess, we've been reading that exports out of China were elevated going into – at the beginning of the year. So I just wanted to get your thoughts on that? Thanks.

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

A

Yeah. I think as we've said before you know we – we think that the de-stocking side obviously is over with our customers. Obviously, we – I'd say inventories are fairly low levels or to normal levels. Remember the whole pulling of our AVA contracts was for our customers not to have to worry about de-stocking, restocking, right. That's one of the value propositions of our AVA contracts, is to give them surety from that standpoint. But we would expect that an uptick in the market will create a pull that probably is a little bit higher than the normal growth that you're seeing in the marketplace.

In terms of the Asia side, again from a corporate point of view, about 10% of our revenue is in China. Most of our production is really – in China is really for Fluoropolymer production, that is used for China. So that production is used in country. So, we're not seeing a whole lot of disruption in our supply chains from that standpoint. And again, our TiO_2 production that goes into China is primarily coming out of Taiwan. So from that standpoint, we feel that we're insulated, if you will, from that in some ways. So we're not seeing any disruption as a Chemours company and it's hard for us to see anything else from others, to be honest with you. We just don't have that kind of visibility at this point.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

A

Okay, great. And then just, maybe if I can get your thoughts on auto. Has there been any impact from the production slowdown in automotive or maybe what's been the impact there on your Fluoro business? Thanks.

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

A

Yeah. And Mark can add any color to this, but, yeah, we've seen – I'd say on our fluoropolymers business, we are off to a bit of a slow start that continued from the end of 2019 in two major segments, automotive as well as semicon. Those are the two areas – two large areas for us from a marketplace standpoint. Automotive continues to be weak. We expect semicon to pick up as we come out of the first quarter, but, right now, I'd say those markets are definitely weak, both of them.

Arun Viswanathan
Analyst, RBC Capital Markets LLC

A

Thanks.

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

Joshua Spector
Analyst, UBS Securities LLC

Q

Yeah. Hey guys. Just a couple of questions on some of the puts and takes in Fluoro going into first-half next year. So, I mean, I imagine there's still a headwind from the quota sales. And if I look at first half of 2020, it was maybe a $40 million benefit. Do you assume that all goes away in 2020? And kind of an offsetting factor, Opteon ramp, was that around a $20 million benefit in the quarter that maybe offset some of those quota sales? How do you think about those as you look at 2020?

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

So it's Mark Newman again. Obviously, quota sales are easy to track because we report them in our other income, so they're fully disclosed and they're episodic. And so, yes, I would say that's a headwind for the full year, and based on the timing, will be a headwind in a particular quarter. We don't sort of give guidance of our individual product lines. But the way I think about our F-Chem business is Opteon will continue to grow on a volume basis. We do have committed price downs, and we are also in a very weak F-Chem market on both blends, as well as our base F-Chem business as a result of illegal imports, which we will have all year.

On the plus side of the ledger, as we go through the year, obviously, we had some operational issues last year that we don't plan to repeat this year. And then, we'll have the ramp up of our Corpus Christi facility, which will provide a real benefit from a cost perspective this year, but a lot of that benefit is really being offset by weaker F-Chem prices across the portfolio.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks. Yeah. That's helpful. And just coming back to the TiO2 volume side, I mean, you talked about normal seasonality. Where would you say your current operating rates are at? Are they kind of in the mid-70% range? And I guess if that's right, are you kind of happy with that level into 2020 or do you expect that to tick up more over the next couple of years?

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

Yeah. We've had – yeah, as we said, we were operating at – obviously, we don't disclose our rates specifically, but we are operating at lower rates as we ended 2019. Those will ramp up throughout the year. We're very confident that as we get into the first quarter here and the second quarter, we'll see the ramp up in our rates. That'll make a very significant difference on our cost.

I think that's one of the things that people were a little bit surprised at last year is, when we were down in terms of our rates, how much that really added to the cost of the business. So these assets are made to run at higher rates and we're going to get them back there as we move through the year.

Joshua Spector
Analyst, UBS Securities LLC
Q

Okay. Thanks.

Operator: Our next question comes from the line of Jeff Zekauskas from JPMorgan. Your line is open.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC
Q

Thanks very much. Did your Opteon volumes or sales grow about 5% in 2019 or did they grow more or less or how do you do?

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

A

So, Jeff, I think we've always said that our Opteon YF, the mobile air conditioning part of our business is growing at double-digit rates from a volume perspective. With the automotive OEMs, obviously, we've alluded to it before, we have price downs, contractual price downs. And as we've said, the overall tone of the market with the illegals is depressing price on the blend side. So I'd say the way you ought to think about it is, volume is growing double-digit or certainly was in 2019. That will start to taper down lower as we get fuller saturation in the mobile market and price is probably mid-single digits headwind in the year.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay, great. And in -you've made progress in getting 50% of your titanium dioxide volume over AVA contracts. So my understanding of the theory of the contracts is that you get some kind of normal positive inflationary pricing. So why aren't your average prices going up if you've signed so many contracts. Is it that the 50% of your portfolio is going up 2% and the other 50% is going down 5%, or is there a turning point, do we see positive pricing in 2020, because of the nature of the contracts?

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

A

Yeah. I think it's a combination Jeff, This is Mark again, a combination of one, we have twice a year when the AVA contract pricing gets reset based on PPI and then you're also seeing on the other side, our Flex pricing, right, which has been counter to that. So I think as you go through the year you'll see probably a net price improvement going forward. But remember these price resets happen at very specific times twice a year on AVA contracts and then the Flex pricing moves daily, right in terms of what we see the market look like at the time.

Jeffrey J. Zekauskas
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thank you so much.

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

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

[indiscernible] (00:48:30-00:48:42)

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

A

Hey, Vincent.

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

A

You're breaking up, Vincent. We can't really hear the question, I'm sorry.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Oh. Hi, this is Steve on for Vincent. Can you hear me better know?

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

A

A little better, yeah.

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

A

Yeah, if you're on speaker you might want to jump off.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. I'm on my headset. But anyway, so there was on the cash side of things you had a receivables securitization facility that you entered into the third quarter. So, I just wanted to clarify on the working capital side is this benefiting your working capital at all? And then, are you expecting any further benefit in 2020 in your cash bridge from this facility?

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

A

Yeah. No, our AR securitization facility is on balance sheet. So it does not impact the free cash flow the way you'd traditionally look like. I think – I just want to make a distinction right. Off balance sheet would do it, but our AR securitization facility is on balance sheet facility.

Steven Haynes
Analyst, Morgan Stanley & Co. LLC

Q

Okay. All right. Thank you guys.

Operator: And our next question comes from the line of P.J. Juvekar from Citi. Your line is open.

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

Q

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

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

A

Good morning.

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

A

Hi Eric.

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

Q

You earmarked the $125 million for growth CapEx. Of that – does that include expenses for your 10% circuit expansion in TiO2 as well as any additional pigment grades that you intend to introduce to market?

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

A

Yeah. If you look at the growth CapEx that we have just a couple features around that. One is it's a good balance between Fluoroproducts and TT. It's a good balance between top line growth opportunities, as well as improving cost position and all of these projects are well above 20% IRR. So they are all good projects and yes, they do include some of the capacity work that we've talked about in the past moving that along so that is part of the portfolio of capital projects we have within the TT side.

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

Q

Helpful. And for my follow up question earlier this year, you announced that you were going to halt a few grades of high GWP refrigerants. Of those customers that were impacted in the EU, how many of those have converted to Opteon substitutes?

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

A

Yeah. Well, obviously, that was the intent there. That's – I mean this was a very small product line from that standpoint. It was the highest GWP product line we have in the portfolio. So most of those customers have already made the bridge over to Opteon and HFO's going forward. So I don't believe this is going to hurt anyone from that standpoint. And obviously it's just part of the pruning we continue to do on our portfolio as high GWP refrigerants become dinosaurs and move out of the portfolio.

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

Q

Great. Thank you.

Operator: And our final question today will come from the line of Jim Sheehan from SunTrust. Your line is open.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning. Could you please provide an update on the litigation with DuPont, is the process going as expected? And any sense of timing for when that might be resolved?

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

A

Yeah. So Jim obviously we don't comment a whole lot on legal issues. I will say we did have our time with the magistrate. We thought we'd presented a very strong point of view and strong case and that is now in his hands and we are hopeful that in the next couple of months, we'll hear back from him.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. And on Chemical Solutions, you really executed well in 2019. Your margins have moved up. You obviously had record performance. How sustainable is your second half in your fourth quarter margin level? What kind of margins do you expect to generate in 2020?

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

Yeah, we've been working to really get this business back to closer to our portfolio of business. And Ed and his team have really done a nice job there. And we expect to stay with a double-digit EBITDA margins as we ended the year, as we go into 2019 really on the basis of our continued growth in our Mining Solutions business as we approach the year.

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

And you know I just want to remind you and everyone that you know when we spun, we talked about this portfolio and we said that with hard work, focusing on the growth of Mining Solutions and really looking at the other parts of the portfolio that weren't additive in terms of margin that we would get this segment to be up to the average of the rest of company and we booked a 20% EBITDA margin you saw in the fourth quarter, we think that's the right margin for this business going forward. Lots of hard work to do that and the sale of the Methylamines business was part of that, that was not additive to us from an EBITDA perspective and so that helps there. So the pruning of the portfolio and the focus on growing the Mining Solutions play really is something we've talked about for the last several years and now you see the results of a lot of hard work by that team.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Great. If I could ask one more thing about there's a competitor that's talked about rationalizing some sulfate TiO_2 capacity in Europe at the end of the year. What kind of impact do you think that might have on supply demand in the region?

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

Yeah. Hard for us to give a sense. Obviously, there's certain of those end users we intercept and some of those we don't. Obviously less capacity in the – anywhere is going to probably make the market condition a little bit tighter, but really we haven't seen any impact prudently around that.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you so much.

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

Maybe I'll just add, we really like the market where we see it this year and you know as we said earlier I think we fully intend to continue to regain our capacity share, as we see market conditions improve. So we're really encouraged with what we see here.

James Sheehan
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Thank you.

Operator: I would now like to turn the call back over to Mark Vergnano, President and CEO of Chemours.

Mark P. Vergnano

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

Well, thank you, Lisa, and to everyone as I mentioned throughout the call, we're all very encouraged by our progress as we ended 2019. Our leadership team is fully dedicated to deliver the commitments that we've set for 2020. So for all of you, Happy Valentine's Day and as always, thank you all for your interest in Chemours.

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