09-Aug-2016

The Chemours Co. (CC)

Q2 2016 Earnings Call

CORPORATE PARTICIPANTS

Alisha Bellezza
Director-Investor Relations

Mark P. Vergnano
President, Chief Executive Officer & Director

Mark E. Newman
Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

Eric B. Petrie
Citigroup Global Markets, Inc. (Broker)

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Brian J. Lalli
Barclays Capital, Inc.

Robert Andrew Koort
Goldman Sachs & Co.

Edlain Rodriguez
UBS Securities LLC

Chris Silvio Perrella
Bloomberg LP (Research)

Bill Hoffmann
RBC Capital Markets LLC

Roger Neil Spitz
Bank of America Merrill Lynch

Don Carson
Susquehanna Financial Group LLLP

James P. Finnerty
Citigroup Global Markets, Inc. (Broker)

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Dan and I will be your conference operator today. At this time, I would like to welcome everyone to The Chemours Company Second Quarter Earnings 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. As a reminder, please limit yourself to one question and one follow-up question.

Alisha Bellezza, you may begin your conference.

Alisha Bellezza
Director-Investor Relations

Thank you and good morning, everyone. I'd like to welcome you to The Chemours Company 2016 second quarter 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. Mark Vergnano will begin our discussion with some highlights of the quarter and then Mark Newman will review the company's financial performance for the second quarter. He will turn the call back to Mark Vergnano to discuss additional details on each segment, provide an update on our Transformation Plan, and discuss our 2016 outlook.

Before we begin, let me remind you that comments on this call, as well as the supplemental information provided in our presentation and on our website, will 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. Historical results prior to July 1, 2015, are presented on a standalone basis from DuPont's historical results and are subject to certain adjustments and assumptions as indicated and may not be an indicator of future performance. A reconciliation of non-GAAP terms and adjustments are included in our release and at the end of the presentation that accompanies our remarks.

I'll now turn the call over to Mark Vergnano.

Mark P. Vergnano

President, Chief Executive Officer & Director

Thanks, Alisha, and good morning, everyone. Thank you, all, for joining us today. I'd like to begin today's discussion by acknowledging the tremendous work of the entire Chemours team and the significant progress that's been made on our Five-Point Transformation Plan. We continue to take action on all aspects of the plan as evidenced by this quarter's performance and accomplishments.

Our cost reduction programs contributed approximately $100 million of year-over-year savings through the first half of 2016, on track to reach the $200 million target for the entire year. During the quarter, we completed our review of the Chemical Solutions business, an important milestone in optimizing our portfolio. We closed the sale of our Sulfur Products business and expect to close the Clean and Disinfect business sale to LANXESS later this year.

During the second quarter, we continue to work closely with our customers to implement our pricing strategies. As a result, we saw TiO_2 average price increase 5% sequentially beginning to offset the $200 per ton headwind from the start of the year versus last year's average price. We remain committed to achieving profitability levels that ensure we can deliver long-term quality supply aligned to our customers' needs. We are also pleased that we have successfully commenced commercial production on our new Altamira TiO_2 line this quarter, which over time will add significant low cost capacity for out Titanium Technologies business.

On the liquidity front, we saw strong free cash flow improvement, $230 million higher than the same period in 2015 and ended the period with a cash balance of $383 million, even after interest payments and debt reduction in the quarter. Beginning in the second quarter and through the beginning of July, we reduced our long-term debt position by $100 million and began modestly improving our balance sheet.

So, with that overview of our quarter highlights, let me turn the call over to our CFO, Mark Newman.

Mark E. Newman

Chief Financial Officer & Senior Vice President

Thanks, Mark. Turning to slide three, we generated nearly $1.4 billion of revenue, down from last year, but up sequentially. Adjusted EBITDA in the second quarter was $187 million, up approximately $60 million both on a year-over-year and sequential basis. We reported a GAAP net loss of $18 million, which included impairment charges of $63 million, primarily related to our Sulfur business, interest expense of $50 million and restructuring costs of $9 million.

Currency movements and TiO2 prices unfavorably impacted our results year-over-year. Sequentially, these factors proved favorable contributing to higher top and bottom-line results versus the first quarter of 2016. As Mark mentioned, we are pleased with the performance we achieved this quarter, especially the improved working capital and free cash flow where we also saw a $156 million improvement in free cash flow versus the prior year period.

Turning to slide four, adjusted EBITDA increased by $60 million on a year-on-year basis. Currency movement resulted in a headwind to adjusted EBITDA of approximately $9 million, most of which was in the Fluoroproducts segment. Pricing in the quarter reduced adjusted EBITDA by $67 million. Of that, lower average selling prices in Titanium Technologies were about $35 million and the impact of pass-through pricing of lower raw materials in the Chemical Solutions segment reduced adjusted EBITDA by about $25 million.

This was partially offset by higher volumes of Opteon and TiO2. The improvement in adjusted EBITDA was driven by significantly lower controllable fixed cost, reduced raw material pricing and improved operations and utilization. I would like to highlight that in the quarter approximately [ph] $60 million (07:12) of lower controllable fixed cost came from initiatives we implemented as part of our Transformation Plan.

We are definitely seeing the benefits from the actions taken in 2015, the facility shutdown, our streamlined organization and better purchasing activities. We're continuing to focus on reducing controllable costs and complexity across the organization. And we expect this trend will continue to grow consistent with our Transformation Plan goals.

Turning to slide five, on a sequential basis, adjusted EBITDA improved by $59 million versus the first quarter. Currency movement was a moderate benefit during the second quarter. We saw an $11 million benefit from pricing, driven by a 5% increase in average TiO2 prices, partially offset by unfavorable fluoropolymers pricing and lower pass-through pricing in the Chemical Solutions segment.

We saw a nearly $30 million benefit from seasonally stronger TiO2 and refrigerant volumes. Continued growth in Opteon demand and in fluoropolymers from industrial applications were also favorable to our results. Finally, we realized additional benefits from Transformation Plan initiatives in the quarter. However, the timing of certain corporate costs and higher litigation expense partially reduced the savings impact. Before I review the liquidity position, let me briefly touch on recent PFOA litigation activities.

As you saw in our 8-K issued in early July, the six bellwether PFOA cases in the multi-district litigation have now been tried, resolved, settled or otherwise addressed. We believe that there are substantial grounds for appeal of the two cases, where the jury trial resulted in plaintiff judgments. The Bartlett appeal is already underway through DuPont. And we expect to begin the Freeman appeal shortly. We, through DuPont, will continue to defend against these cases in court and work through the mediation process.

We also retained defenses against claims to Chemours, where applicable. In late July, the judge presiding over the multi-district litigation pulled forward two cases to November 2016 and January 2017. We have begun to prepare for these, as well as other potential cases. As a result, we now expect additional litigation expenses will be reflected in our Corporate and Other segment and believe that the second half 2016 Corporate and Other expense will now range between $30 million and $40 million per quarter versus our prior outlook of $20 million to $30 million per quarter.

Now turning to slide six, let me review our liquidity position. You see that we ended the quarter with $383 million in cash balance which reflected approximately $90 million of cash used to reduce debt and $79 million to support capital expenditures. We continue to have full access to our revolver with a total liquidity position of about $1.1 billion at the end of the quarter. Since quarter-end, we closed the sale of our Sulfur assets to Veolia with further benefit to our liquidity.

Net operating cash flow of $90 million was $85 million higher than last year in spite of $90 million of additional interest paid in the quarter versus the prior year quarter. Free cash flow of $11 million in the quarter represented $156 million improvement versus the same period last year, primarily driven by strong working capital improvement across the company. In fact, we now believe that Transformation initiatives allowed a release of cash from working capital in the quarter despite typical seasonal cash requirements.

We continue to expect that working capital initiatives will enhance productivity and lead to approximately $200 million of cash release through 2017, much of that anticipated to be released in 2016. Year-to-date capital expenditures were $168 million, $119 million lower than 2015, mostly related to the completion of Altamira and the lack of separation-related spending. Today, we are investing in several high-return projects to support and enhance our core business. We believe we're tracking to spend slightly below $400 million in CapEx in 2016.

In light of the delay in the cyanide capacity project and the desire to add flexibility to our Corpus Christi site, we now expect 2017 spending to be similar to our anticipated 2016 CapEx spending levels. The lower year-over-year capital spending, along with the improved operating cash flow, is still expected to generate positive free cash flow in 2016. Overall, we remain confident that our cash generation profile and liquidity positions will continue to improve, supporting our business and/or Transformation Plan.

I'll now turn the call back to Mark.

Mark P. Vergnano

President, Chief Executive Officer & Director

Thanks, Mark. On slide seven, you can see that we generated $596 million in revenue and $111 million in adjusted EBITDA from the Titanium Technologies segment. In the second quarter, we saw volumes aligned with seasonal patterns. That said, we continue to experience stronger than expected demand, particularly in North America and Europe.

The start-up of Altamira also represented an important milestone for this segment. The ramp-up to 200,000 metric tons is progressing as expected. While we're not yet at full capacity, the capacity that is online is fully booked and committed. As I mentioned earlier, we have realized sequentially higher prices as we work with customers and implemented our announced price increases.

As part of a broad review of our customer portfolio, we determined that additional price increases were appropriate for customers in both Europe and Latin America. As a result, last week, we communicated $150 per ton increase to these customers. We believe our Ti-Pure products are undervalued in the select geographies, applications and accounts. We will begin working with our European and Latin America customers to implement this latest change and ensure we meet customer needs with our high quality products.

This month, we expect global average pricing to exceed the average from a year ago, lessening the headwind that we have faced all year. Ongoing execution against our Transformation Plan resulted in operating efficiencies and a working capital reduction for the segment during the quarter. The better than expected demands stretched our supply chain during the second quarter. And we see that situation continuing to at least the third quarter. We continue to work with our customers through another quarter of extended lead times to meet their needs.

Moving to slide eight, our Fluoroproducts segment generated $573 million in revenue and $105 million in adjusted EBITDA in the second quarter. Market adoption of our Opteon product was much stronger than we initially anticipated. We supported our OEM customers in meeting their regulatory requirements in Europe as they have moved quickly to adopt this low global warming potential refrigerant.

We have also seen North American customers take advantage of carbon tax credits via CAFE standards by using Opteon. We are confident about the potential of this product in these regions and anticipate a steep growth trajectory during the second half and through 2017. In fact, we now believe that the Opteon growth along with the benefits of our Altamira TiO_2 expansion will provide all of the $150 million target EBITDA growth for our Transformation Plan.

With this in mind, we also have made the decision to invest in additional flexibility at our Corpus Christi plant to support the Opteon capacity expansion. We mentioned last quarter that this new capacity will triple our total capacity allowing us to supply automotive and commercial refrigeration market demand in 2018 and beyond. This additional flexibility provides us more certainty on delivering our capacity to our customers as the market for Opteon grows.

In this quarter, Opteon growth was partially offset by an unfavorable mix of fluoropolymer products versus the prior year quarter. We have offset some of the impact of reduced fluoropolymer demand in consumer electronic applications with additional volume participation in industrial applications. That trade-off comes with an unfavorable mix. We expect that these trends could continue through the second half of the year.

We benefited from Transformation Plan cost reductions and more consistent manufacturing operations in the second quarter versus the previous year and the previous quarter. We expect this trend to continue to support margin improvement in the second half.

Let me now review the Chemical Solutions segment on slide nine. Sales for the quarter were $214 million, a decline from the prior year period. This was primarily driven by pass-through of lower raw material costs and the portfolio impact from the sale of the Beaumont aniline facility. Adjusted EBITDA rose $7 million year-over-year. The Transformation Plan initiatives are really taking hold and leading to more efficient, lower cost operations and higher margins in every business line of this segment.

Before I talk about the tremendous progress we made on the strategic review, let me provide a quick update on our cyanide plans. We have a solid business with great customers supported by our Memphis site. Last year, we announced our intention to expand capacity by 50%. We've been working on that project developing the engineering plans for quick construction.

But, unfortunately, we recently encountered permitting delays that we believe will set back start-up until 2018. As a result, we now expect the timing of those expenditures to be heavily weighted toward 2017 and completed in 2018. As Mark mentioned, this changes our CapEx profile moderately, but still keeps us on a path toward $350 million of annual spend after we complete the Opteon and cyanide expansions.

Turning to slide 10, I'm very pleased to report the completion of the Chemical Solutions strategic review. In less than one year, we announced the sale of three businesses, the shutdown of one and the decision to retain and improve the others. In March of 2016, we completed the sale of the Beaumont aniline facility to Dow for approximately $140 million. Last week, we closed the $325 million Sulfur transaction with Veolia. And we remain on track to complete the divestiture of our Clean and Disinfect business to LANXESS for $230 million during the second half of 2016.

Total gross proceeds from these three divestitures will be approximately $695 million, reflecting a 10 times to 12 times EBITDA multiple on those businesses. Despite the loss of EBITDA from those divestitures, we expect a minimal impact to free cash flow given the high capital intensity that these businesses required. As we finalize the transition of the assets, we are working to drive out stranded cost in coordination with our overall Transformation Plan initiative.

Last November, we announced our decision to close our Reactive Metals business at the Niagara, New York site. This work is very much underway and we anticipate to cease commercial operations by the end of this year. Finally, we are retaining our site in Belle, West Virginia, which is the location of our methylamines, glycolic acid and Vazo product lines. Cost improvement efforts at this facility are ongoing and significant. Over time, we expect to get this site to at least a breakeven position.

In aggregate, we are well on a path to achieve and deliver an optimized portfolio that allows us to focus our investments in our core businesses and growth opportunities. We are gaining momentum this year from the success of our Transformation Plan, including cost reductions, portfolio optimization, the ramp-up of Opteon products and our expansion at Altamira.

On slide 11, you can see that we continue to make progress in cost reductions totaling $200 million cumulative we are realizing benefits from actions taken in 2015 such as the site shutdowns, a streamlined organization and a different approach to purchasing. We expect to reach our target of $300 million in cumulative savings by the end of this year on our way to an additional $150 million in 2017.

The completion of the strategic review of the Chemical Solutions business was a notable accomplishment for our team as we executed on our Five-Point Transformation Plan. We also continue to grow our market positions. The market adoption of Opteon has been significant. And we will be increasingly well-equipped to meet increasing demand through our investment at our Corpus Christi site.

We expect these initiatives, along with our TiO2 price increases, to deliver full year adjusted EBITDA greater than 2015 and generate modestly positive free cash flow. On slide 12, we are reaffirming that outlook for 2016 in spite of additional litigation cost headwinds and the impact of portfolio actions. We anticipate further improvements in Titanium Technologies as we realize higher average prices and reduce controllable costs.

Fluoroproducts performance will continue to be driven by increasing Opteon adoption and our savings initiatives. We remain focused on our Transformation Plan and on delivering the $500 million of improvement to EBITDA in 2017 over 2015, while significantly improving our free cash flow, reducing our net leverage to about three times. We thank our teams for the relentless dedication in moving us toward reaching these targets.

So, now, we will open the call for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of P.J. Juvekar from Citi. Please go ahead.

Eric B. Petrie
Citigroup Global Markets, Inc. (Broker)
Q

Hi. Good morning, Mark. This is Eric Petrie on for P.J.

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

Hi, Eric.

Eric B. Petrie
Citigroup Global Markets, Inc. (Broker)
Q

How much of the $60 million of cost reduction was split between Titanium Technologies, Fluoroproducts as well as Chemical Solutions?

Mark E. Newman
Chief Financial Officer & Senior Vice President
A

This is Mark Newman. We don't break that out. What I would say is we saw cost reduction in all of our segments with the obvious exception of Corporate and Other where our costs were up year-over-year for a variety of reasons. And I'd say across all businesses, we see a combination of both fixed cost reduction driven by the Transformation, as well as cost reduction related to variable cost improvements. The one call-out maybe I'll make also on our Fluoro business, recall we had an outage last year at Corpus, so that's also reflected in our improved cost performance in the quarter on a year-over-year basis.

Eric B. Petrie
Citigroup Global Markets, Inc. (Broker)
Q

Okay. And then, in TiO2, how would you describe underlying market trends? Are you seeing any competitive pressures? And I think through June year-to-date, China exports are up nearly 30% year-over-year, so any comments there.

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

Yes. So, I mean, if you look at the markets, we saw a very strong North America coating season. And that's something that, I think, everyone benefited from. We were happy to see an uptick in Europe. So, Europe has been strong for us from a market perspective. We continue to have strong performance in China on the high end of the market where we participate. And Asia was fairly strong. I'd say the only weak region we saw was Latin America, which continues to be weak, primarily off of Brazil.

So, overall, we see the market being a very good market from a standpoint of TiO2 volume. Now, if you look at the – as you point out, exports to China, were up by, I think, somewhere in the – just under 25% from the data we have. When we look at that, we see a couple things happening there. First of all, you can't draw a trend from a point, right, because last quarter was very low exports out of China. This quarter was a bit higher. Our data shows that a lot of this was headed toward India and Southeast Asia primarily.

We think some inventory was probably built somewhere in the channel. And there is an initiative going on with the G20 coming into China, the blue skies initiative, which shuts down a lot of production for about 30 days as emissions are tried to be reduced during that timeframe. So, I think, there's a lot of factors there. I think third quarter will play out a little better in terms of how things are playing out of China export. But, right now, we don't see anything that concerns us. And you can't really draw a trend from one point.

Eric B. Petrie
Citigroup Global Markets, Inc. (Broker)
Q

Thank you.

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

Jeffrey J. Zekauskas
JPMorgan Securities LLC
Q

Thanks very much. So, just some accounting things quickly. Why was there pension income of $7 million? And of the $9 million in restructuring charges, how would you allocate that to SG&A or to cost of goods sold?

Mark E. Newman
Chief Financial Officer & Senior Vice President
A

Jeff, the pension income question – it's Mark again – really relates to the funding status of our pension plan in the Netherlands on a year-over-year basis.

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

Jeff, what was the second half of your question? Sorry.

Jeffrey J. Zekauskas
JPMorgan Securities LLC
Q

The second half was you had a restructuring charge of $9 million. Was that reflected in cost of goods sold or in SG&A or a combination of both?

Mark E. Newman
Chief Financial Officer & Senior Vice President
A

It's a combination of both. And that really relates to our shutdown of our Edge Moor facility. As we had told everyone last year, the cost really to cleaning up that site really will be incurred as we go forward. And so, we're expensing it as incurred. And so we just had $9 million in the quarter.

Jeffrey J. Zekauskas
JPMorgan Securities LLC
Q

Okay. And then for my follow-up. How big is Europe and Latin America to your TiO2 business in very rough terms? And then on your slide four, where you show your adjusted EBITDA bridge year-over-year, what you show is very little benefit from volume growth, but $131 million benefit from lower cost. So, is the meaning of that that in the Fluoroproducts all of the EBITDA growth is – or effectively all of the EBITDA growth is costs related or is it more subtle than that?

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

Yes. So, Jeff, I'd say, for the first part, Europe is a lot more significant for us than Latin America from a TiO2 volume point of view. We haven't really broken out that by percentages. But I would say that Europe is a lot more significant for us than Latin America.

Jeffrey J. Zekauskas
JPMorgan Securities LLC Q

Is it 20% of the company or 10% or 15% or 30%? Like, what's the order of magnitude?

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

On a revenue basis, it's a little bit more than 20%.

Jeffrey J. Zekauskas
JPMorgan Securities LLC Q

Okay.

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

On the EBITDA bridge you referenced in chart four -

Jeffrey J. Zekauskas
JPMorgan Securities LLC Q

Sure.

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

You're right. There's a combination. When you look at Fluoro, there's a combination of what's going on there. So, you have three things happening. You have the significant growth we're seeing in Opteon, which is bringing in volume, higher margin, so, obviously, earnings at the same time. And you're also seeing the cost reductions that are happening in the segment. But what you're also seeing is a negative mix happening on our fluoropolymer side.

So, all those three things are playing out there. So, when you look at that volume number, yes, Opteon is higher. But, remember, the base refrigerant side is going through a lot of regulatory downturn right now. So, you're seeing volume drop-off even though margins are increasing. And our fluoropolymers business, I'd say, is semi-flat on a volume basis, but the mix is negative from that standpoint. So, those things are all mixed up in those two charts or that one chart in those two bars.

From the fluoropolymer side, from our standpoint, we've got some work to do on that. We have a new President in that business, Paul Kirsch. Paul is in place and one of Paul's focus areas are to improve the profitability specifically on the fluoropolymers side of the house.

Jeffrey J. Zekauskas
JPMorgan Securities LLC

Q

Okay. Great. Thank you so much.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes.

Operator: Your next question comes from the line of Brian Lalli from Barclays. Please go ahead. Brian Lalli?

Brian J. Lalli
Barclays Capital, Inc.

Q

Hi. Yes. Sorry about that. Can you hear me?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. We got you, Brian.

Brian J. Lalli
Barclays Capital, Inc.

Q

Hey. Thanks, guys. I guess, first, on the market side, TiO2. One of your peers last week was talking about upwards of 400 kt of supply reductions in China due to some policy changes. I guess are you seeing similar things from your side? I guess any comments on that would be helpful.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. For sure, we're seeing or anticipating and seeing that there's going to be some level of reduction of volume coming out of China, primarily on the small producers and primarily based on some of these new regulations that are flowing through China. You continue to see consolidation happening. I think the Lomon-Billions merger is an indication of that that there's a sentiment to try to drive consolidation in the industry. We think that's going to play some volume down as well. So, we've seen numbers anywhere from 200,000 tons to 400,000 tons from that standpoint. And I think that's right in line with what others are saying as well.

Brian J. Lalli
Barclays Capital, Inc.

Q

Got it. That's helpful. And then, I guess, my follow-up just on the balance sheet side. You guys did some debt repurchases this quarter and into July. I mean, housekeeping-wise first, could you maybe talk about what bonds you bought back? I appreciate that your Senior Notes are paired with one another. And then, secondly, as we go into the future, your cash balance, I would say, is set to move higher second half free cash flow. Asset sale proceeds helped you weigh future bond buybacks and maybe lay out how you made the decision in the second quarter. Mark, if you could, I think, that'd be helpful for the group. Thanks.

Mark E. Newman
Chief Financial Officer & Senior Vice President

A

Sure. So, this is Mark Newman. I'll start first with the housekeeping question. We bought back the 2023 Notes. You'll recall that as part of the spin-off, the 2025 Notes have some restrictions related to the tax-free separation from DuPont. So that's where our focus has been so far. Mark and I have been very consistent that our focus is on getting the company to be 3 times leveraged in 2017. And that we believe that would come through some combination of EBITDA improvement, really driven by the Transformation Plan and some actual debt reduction which we achieved in the quarter. So, I think, as we move forward in time, our focus will be on delivering on our leverage target, again, through really looking at – primarily through driving EBITDA higher. But as our liquidity improves, we'll continue to evaluate further debt repurchases if we think those are prudent.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

And, Brian, just to follow up with Mark, just a reminder to you and everyone on the call. We did buy back $50 million of bonds, but we also bought back $50 million of Term Loan B as well. So, it was a balance between the two.

Brian J. Lalli
Barclays Capital, Inc.

Q

Sure. Thanks for the time. I'll turn it over.

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

Robert Andrew Koort
Goldman Sachs & Co.

Q

Thanks very much. Mark, so I was wondering if you could give us some appraisal of how Altamira is progressing and what the relative feedstock costs are doing. If there's been any change in your input slate there, if you anticipate any change. Thanks.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Sure, Bob. So, as everyone probably remembers, Altamira has a capacity of 200,000 tons. We will get to that level in the next couple years. It usually takes a while to ramp up. But we started that up really well. I'm very impressed. And I would just say, I think, there's a very few players in the world that could start up that complex of a chloride facility on the timeframe we did and able to get it up and running with the capacity we've been able to get out of that so far.

So, we're at or ahead of schedule in terms of being able to get production out of that. As I mentioned in the comments to start the call, we are fully booked out of that facility right now. So, everything that we make is going into the marketplace right now. And because it does allow us to use lower cost and lower grade ore, it brings down the total ore blend for the whole circuit down as well.

So, as we look forward on – as we're looking now and looking forward at our ore costs, we're looking pretty much flat because from that standpoint, we're able to benefit from the lower ore blends. We have a good set of contracts in place, a good balance of spot versus contracted business in place. So, we're forecasting fairly flat ore costs for the rest of the year.

Robert Andrew Koort
Goldman Sachs & Co.

Q

And could I ask on the cadence of your price hikes? I know you mentioned you're still working through that first round you implemented earlier in the year and now you've got a new one in a couple of markets. Should we expect there to be a gradual climb in your realized pricing then as we go through the end of this year and then maybe another step up as the paint season gets underway next year? Is that the right way to think about it?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. I think, as you look at the rest of the year, you'll see a cadence up in our price as you look at third quarter. And then the effect of this recent price increase that'll play up primarily in the fourth quarter. So, you should see that cadence continue. If you just look at it from a year-on-year basis, remember when we laid out the Transformation Plan and when we started the year, we said net average price entering into 2016 was about $200 a ton lower than the average price of last year. And our Transformation Plan through 2017 basically states that we have to be at parity of that for this all to work. As we're in August now, we're basically at parity now. So we feel good about where we are on the price side. And I think you'll see continued movements because of the execution of these price increases for the rest of the year.

Robert Andrew Koort
Goldman Sachs & Co.

Q

Thanks very much.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Sure.

Operator: Your next question comes from the line of Edlain Rodriguez. Please go ahead.

Edlain Rodriguez
UBS Securities LLC

Q

Thank you. Good morning, guys. Quick question on TiO2. I mean, Mark, you've talked about stronger than expected volume growth in North America and Europe. And, one, like, what's driving that? And can inventory buildup be playing a role in that and could that play a role in volume in 2017 like year-over-year?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. Our sense is there's not inventory buildup going on. There was a good, solid coating season in North America. I mean the coating producers probably have the best view on that. But it was a very solid North America coatings season, much better than it was the year prior. And in Europe, it was just coming off of a real low base. So, last year was not a good year in Europe and we're starting to see some nice pickup. So, our intelligence and our conversations with customers would say this is demand-driven in both those regions. And we're just not seeing a big buildup in the inventory anywhere.

Edlain Rodriguez
UBS Securities LLC

Q

Okay. Just a quick follow-up. So, you've announced another price increase in Latin America and Europe but not in North America. Is there something different in those markets like seasonally like why is enterprise increase be applicable for North America?

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

We're always looking at the value and use for our Ti-Pure products. You've got a currency effect happening also in those two regions. That's not happening anywhere else. So, as we look at our full portfolio, we looked at those two regions as having, one, opportunity for price increase and, two, really getting our value across the world in the right place. So, that's why we aimed at those two.

Edlain Rodriguez
UBS Securities LLC
Q

Okay. Thank you very much.

Operator: Your next question comes from the line of Christopher Perrella. Please go ahead.

Chris Silvio Perrella
Bloomberg LP (Research)
Q

Good morning, guys. Question on the divestitures. What's the estimated net cash proceeds of the three asset sales?

Mark E. Newman
Chief Financial Officer & Senior Vice President
A

So, we've announced the gross proceeds of – if you add all three this year it's $695 million. What we've also said is when you take the impact of the proceeds with our operating results, we expect our cash tax rate this year to be in the high-teens. So, that should give you a good sense of where we'll come out on net proceeds.

Chris Silvio Perrella
Bloomberg LP (Research)
Q

All right. Thank you. And then a follow-up on the PFOA litigation and settlement talks. Are you party to those talks or are you just handed the final bill by DuPont?

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

Yes. So, obviously, DuPont is the litigant of record. We are conversing with DuPont. So, we are aligned in terms of discussing with them, but they are the party here.

Chris Silvio Perrella
Bloomberg LP (Research)
Q

And any additional environmental liabilities that would come out of the groundwater in West Virginia and Ohio? How does that factor in any of the existing agreements you have with DuPont?

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

Yes. So, the only thing that's changed has been the EPA decree that that had an effect on the Vienna water system, which we have stated that we put in filtration capability in that water district for a cost of about $4 million. That's the only addition that's happened.

Chris Silvio Perrella
Bloomberg LP (Research)

Q

Okay. Thank you very much.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Sure.

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

Bill Hoffmann
RBC Capital Markets LLC

Q

Yes. Thanks. Good morning. Mark, I wonder if you could just talk a little bit more about the Altamira, maybe give us some thoughts on what operating rates you're up to here by the third quarter and/or what kind of contribution it provided in the second?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. So, we haven't been vocal about exactly what our rates are there. I will tell you that they have moved up very quickly. And it takes us a couple years to get to full capacity rates. And I wouldn't say that's a straight-line but it does take us a couple years to get there. But we're at or above our expectations. We just haven't specifically talked through with anybody because of competitive reasons, exactly where we are at that facility as well as what the contribution is. What I will say is we've always said that the benefit of Altamira will be at least $20 million of EBITDA benefit and we're seeing at least that.

Bill Hoffmann
RBC Capital Markets LLC

Q

Great. Thank you. And then just a follow-up on that. Any thoughts on – I mean, as you bring this into the market, trying to keep things balanced, you obviously are going to have to dial back production at some of the other plants. Any thoughts on what the drag from cost absorption might be as you ramp this thing up and then when it might go away? Obviously, when you get over 90%, most of it goes away.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

So, we're tasked pretty full across our entire circuit right now. So, we are seeing an increase of capacity across that circuit as well. But, remember, the way we get our volume out the door is based on our ore blends. So, we have this very unique ability to dial down our ore blends, which cuts our cost, but also puts less out the backdoor. So, we have that flexibility constantly. It's not something you turn on a dime because you have to plan for this in terms of the ores that you have in place in your inventory. But we think – we're very thoughtful about that in terms of how we do that. So, we feel very confident that we can maintain very high utilization rates for our circuit going forward independent of what we need going out the backdoor.

Bill Hoffmann
RBC Capital Markets LLC

Q

Great. Thank you.

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

Roger Neil Spitz
Bank of America Merrill Lynch

Q

Thank you. Good morning. In mobile refrigerants, has Chinese import pressure increased this spring as we've indirectly heard from other companies?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. I think that China continues to be an issue on the non-Opteon grades, the traditional grade. Now what we see as a benefit of that is the anti-dumping rulings that have been going on. And we think that's going to be helpful to us as those get implemented in the rest of the year. But there is some price pressure based on Chinese exports.

Roger Neil Spitz
Bank of America Merrill Lynch

Q

Okay. And what are your expectations for chloride ilmenite price moves going forward? And have you been building your chloride ilmenite inventories ahead of your current requirements as a general matter or perhaps you did a one-time-ish build just for the new Altamira line? Thank you.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. We've been very careful about our working capital. And as you could see in our free cash flow numbers, we've had a very, very positive effect of working capital on free cash flow. And that's really by taking down inventories in some places where we just felt like we didn't need to have those high level of inventories. So, we are not stocking up anywhere. We feel very confident about our ilmenite buys for the rest of the year. Our contracts are in place. So that's why we feel confident saying that we think that's going to be flat going forward. And we don't see anything different than that. And we don't feel like we have to go take in a bunch of inventory to be able to secure that. We have our contracts in place to be able to do that.

Roger Neil Spitz
Bank of America Merrill Lynch

Q

Thank you.

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

Don Carson
Susquehanna Financial Group LLLP

Q

Yes. Mark, a question on inventory levels both yours and the industry. We've heard that inventory levels were down to 40 days to 50 days or about half of what they were a year ago. What would your assessment be?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Don, you're specific on TiO2, right?

Don Carson
Susquehanna Financial Group LLLP

Q

Yes.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. I think that's about right. We're seeing inventory levels in that range.

Don Carson
Susquehanna Financial Group LLLP

Q

Okay. Then, a follow-up on your litigation strategy. Obviously, there's two types of damages, compensatory versus punitive. Are you responsible for punitive in terms of your indemnification of DuPont or only for compensatory damages in any PFOA litigation?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. Don, we're preserving all our defenses around that. So, there is – it's written in the indemnification. I think DuPont has been real clear what they've said in the indemnification, but on our side we're keeping open all our defenses around them.

Don Carson
Susquehanna Financial Group LLLP

Q

Okay. Okay. Thank you.

Operator: Your next question comes from the line of James Finnerty from Citi. Please go ahead.

James P. Finnerty
Citigroup Global Markets, Inc. (Broker)

Q

Good morning.

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Hi, James.

James P. Finnerty
Citigroup Global Markets, Inc. (Broker)

Q

Just a quick follow-up on the ores. You've mentioned the contracts that you have in place. What's the tenure of those contracts? My understanding was they are short-term contracts, yes?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

Yes. We have laddered contracts on purpose. So, we have – our contracts all overlap in time. And then, we keep some volume open for spot as well. And these contracts are different on the ilmenite side than they are on the rutile side. But we have a very, very good – and I'm very proud of our team because we have a very good team doing this. We have very good set of contracts around when they are open, what overlaps where and what we want to keep open for spot purchases. So that's why I have the confidence that we're going to be able to manage through any perturbations in the ore market.

James P. Finnerty
Citigroup Global Markets, Inc. (Broker)

Q

Okay. And then, with regard to your mineral sands mining operation in Florida, what's the useful life there and what's the plans for that facility?

Mark P. Vergnano
President, Chief Executive Officer & Director

A

So, we've – I'm trying to figure out off the top of my head, James. I don't know if we've got – we have multiple years of life. In fact, we'd expanded that only a couple years ago to be able to take on more land down there. So, that's less than 10% of our total take. But it does give us a source of really good ilmenite but also gives us a source of competitive advantages we're dealing with suppliers because we understand exactly how – the cost of that. But we could always follow up with that. I don't know off the top of my head, but we have multiple years of life on that mine.

James P. Finnerty
Citigroup Global Markets, Inc. (Broker)

Q

Great. Thank you.

Operator: And we have no further questions at this time. I will turn the call back over to Mark Vergnano.

Mark P. Vergnano
President, Chief Executive Officer & Director

Thanks, Dan. Well, thanks, everyone. And in closing, I just want to reiterate we remain confident that we have the capabilities to realize Chemours' potential as a higher value chemistry company. We're also investing as you've heard in other high return capital projects that will enhance our opportunities in our core businesses.

We have full confidence in our ability to realize our Transformation Plan goals of delivering the $350 million of cost reduction and the $150 million in adjusted EBITDA which is really associated with our Opteon and Altamira facilities through 2017 over the 2015 period. We believe that we are increasingly well positioned to continue to strengthen our balance sheet and enhance our market leadership as we move forward. So, thank you all for your time on the call and thank you all for you continued interest in Chemours.

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